HP FY07 Global Citizenship Report
Web Content

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Letter from Mark Hurd
Chairman, Chief Executive Officer and President

HP's employees delivered an impressive performance in 2007, and it showed in our results. We surpassed $100 billion in revenue — a first for a technology company. We grew non-GAAP operating profit dollars 30 percent. And we delivered advanced products and services that helped make our customers — from consumers to the largest global companies — more cost efficient, more energy efficient and more productive.

As much progress as we've made, we still have work to do. We're not satisfied to be a world class company. We want to be the world leader — not only in our market and financial performance but in our global citizenship activities as well. HP is keenly aware of our responsibilities as a global citizen. We do business across most countries and markets in the world, and we know that our policies and practices — from our ethics and governance to energy and the environment — have an impact far outside the confines of our business. To us, global citizenship is not just an important business initiative; it is a statement of our values, a measure of our commitment to society and the planet we all share, and the foundation for responsible leadership in an increasingly interdependent world. To that end, HP continues to support the UN Global Compact, the world's largest, global corporate citizenship initiative.

Our three global citizenship priorities — supply chain responsibility, climate and energy, and product reuse and recycling — are more critical than ever to our business success. These are the areas that reflect growing customer demands and where we can make the greatest contribution.

Supply chain responsibility
We work closely with our suppliers in one of the largest global supply chains in the IT industry to promote improved social and environmental practices, touching the lives of more than 400,000 workers around the world. We ask our suppliers to uphold the same rigorous standards to which we hold ourselves. To support greater accountability and transparency, HP this year is disclosing our list of top tier suppliers. We believe we are the first in our industry to do so.

Climate and energy
Climate change represents one of the most daunting challenges facing our planet. HP is at the forefront of providing products and solutions for an increasingly energy-efficient, low-carbon world. That starts with reducing our own impact on the environment as well as the impact of our products. For example, we are expanding our use of renewable energy, including solar power for our San Diego facility and wind power for several of our facilities in Ireland. And we are designing carbon reduction and energy efficiency into our products and solutions, from the data center to the desktop, mobile devices and digital printing. HP solutions such as Dynamic Smart Cooling can save up to 40% in data center cooling costs.

We are more than two years ahead of schedule in meeting our commitment to cut the combined energy consumption and associated greenhouse gas emissions of HP operations and products to 20 percent below 2005 levels by 2010 — so we've raised our goal to 25 percent. We're also researching the development of low-carbon solutions that will help reduce climate impact in other parts of the economy and collaborating with other companies, policy makers and non-governmental organizations to develop effective responses to combat climate change.

Product reuse and recycling
HP has long been a leader in helping companies, organizations and consumers responsibly dispose of IT products and supplies — part of our effort to enable a simplified technology experience. We are continually working to make our products easier to reuse and recycle, and to incorporate greater volumes of recycled materials in our products. We exceeded the goal that we set for ourselves of recycling a cumulative one billion pounds of electronic products and supplies by the end of 2007. We plan to recover an additional one billion pounds of electronic products and supplies by the end of 2010.
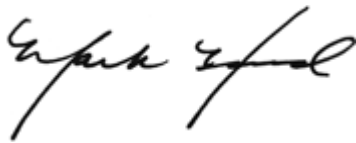
In addition to these priorities, we continue to address other global citizenship areas vital to our business. With the growing challenge to privacy from emerging technologies, HP is pioneering an approach to the protection and responsible use of personal information. This effort goes beyond compliance with the law and our codes of conduct to take into account our values, customer expectations and a range of potential risks.

At the same time, we're investing in programs that enrich the communities where we work and live around the world. In 2008, we will further align our investments with education, focusing on student achievement and entrepreneurship.

None of our global citizenship success in 2007 would have been possible without the contributions of our 172,000 employees, who provide an endless source of ideas, energy and inspiration. In addition to leading our global citizenship initiatives across the country, their contributions of time, expertise and money (as well as the volunteerism of HP retirees) enrich their local communities.

With our presence around the world and our history of responsible citizenship, HP is in a rare position to help address some of the planet's most critical challenges — not alone but in partnership with governments, organizations, companies and individuals. I am confident we will meet these challenges the way we have met others — with focus, resolve and ingenuity — to become the global corporate citizen that we aspire to be.

Sincerely,

Mark Hurd
Chairman, CEO and President
HP

HP profile

HP is a leading technology company that applies new thinking and ideas to create simple, valuable and trusted experiences with technology. We provide products and services to help improve the lives and work of hundreds of millions of customers worldwide.

We are focused on delivering a portfolio of products and services that help our customers do what they want to do, wherever they are. We are guided by our long-established values and our seven company-wide objectives, which include a commitment to global citizenship.

Our offerings span printing, personal computing, software, services and IT infrastructure. Our three core business areas are:

- **Personal Systems.** HP has a leading portfolio of business and consumer PCs, high-performance workstations, displays, handheld devices, digital entertainment systems and related accessories, software and services to empower customers with simple, mobile computing experiences at work, home or on the go.
- **Imaging and Printing.** In our imaging and printing business, we help commercial customers and individual consumers more rapidly achieve the benefits of digital printing and publishing with advances in printing supplies, digital imaging, and graphics and imaging technologies.
- **Technology Solutions.** Our enterprise business helps our customers run their companies more effectively and manage their IT infrastructures more efficiently. We offer a world-class portfolio of servers, storage and software, and we deliver support, consulting, integration and outsourcing services.

HP is a Fortune 14 company that does business across most countries and markets in the world. We have 172,000[1] employees, 145,000 sales partners, 70,000 service partners and 88,000 retail locations. We have seven research laboratories around the world, and we invested $3.6 billion in R&D in each of our last two fiscal years. HP earned revenues of $104.3 billion in fiscal year 2007, up $12.6 billion or 14 percent year over year.
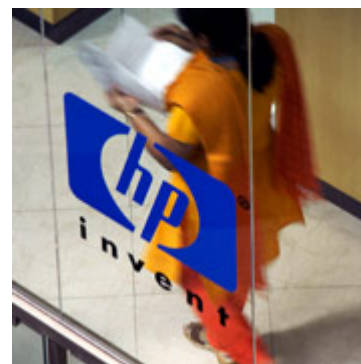
Revenue by segment, fiscal year 2007

Segment	%
Personal Systems Group	35%
Imaging & Printing Group	27%
Enterprise Storage & Servers	18%
HP Services	16%
Software & Other	2%
HP Financial Services	2%
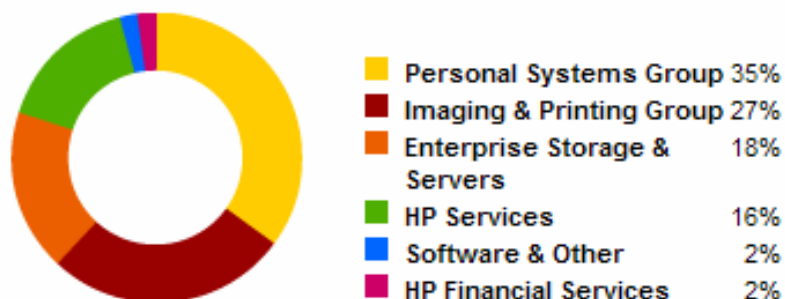
Revenue by region, fiscal year 2007

■ Americas (Canada/Latin America 9%, United States 33%)	42%
■ Europe, Middle East and Africa	41%
■ Asia Pacific and Japan	17%
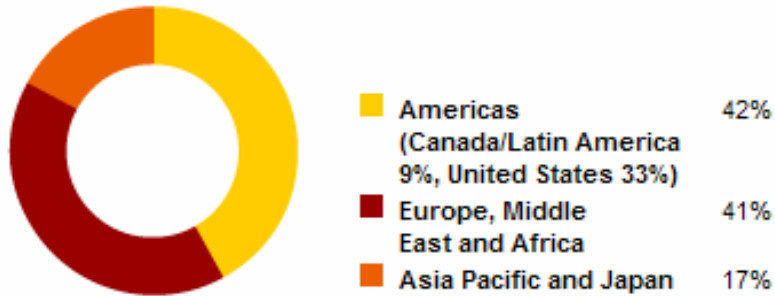
Our goal is to be the world's leading technology company. We will achieve this by:

- Creating better ways to use technology solutions
- 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 experiences
    - Ubiquitous digital printing and imaging

We are pursuing our goal through a strategic framework that includes 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 172,000[1]

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, 2007, there were approximately 142,000 stockholders of record.

Headquarters: Palo Alto, California, United States

Regional headquarters:

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

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[1] As of October 31, 2007.

Priorities and goals

Global citizenship at HP encompasses a broad spectrum of issues that, taken together, demonstrate our goal to best benefit society and the environment. To be an exemplary global citizen, we strive for leadership by addressing the areas most critical to our stakeholders and our business. In 2007, we continued to build on the past successes of our global citizenship programs in all areas—placing particular emphasis on our three priorities: supply chain responsibility, climate and energy, and product reuse and recycling. We have selected these issues based on their strategic importance to our business, stakeholder concerns and our ability to make a positive impact.

» Supply chain responsibility

The size of HP's supply chain enables us to make an impact on the labor, human rights, health, safety, environmental and ethical standards and behavior in factories employing a total of more than 400,000 people around the world. We recognize that our many stakeholders hold us accountable for the social and environmental performance of the companies that make up our supply chain. We require and help our suppliers to meet high standards, and we are continually bolstering our assessment, monitoring and capability building programs to improve performance. In 2007, in the interest of increased transparency and responsiveness to our stakeholders, HP has disclosed a comprehensive list of its suppliers.

2007 goal: Audit 95% of high-risk product materials, component and manufacturing supplier sites
Progress: Audited more than 95 percent of targeted supplier sites by number and by spend.

2008 goal: Conduct new and follow-up verification audits at 100 sites, including joint industry and external verification, to educate suppliers about our requirements and verify corrective actions.

» Climate and energy

Climate change is one of the greatest environmental and economic challenges facing the world today. It threatens to impact societies all over the world and may jeopardize economic prosperity because of the costs of adaptation and disruption to markets. We are working to minimize the risks while capitalizing on the opportunities that climate change presents to our company and stakeholders. Key to our climate strategy is the reduction of our own greenhouse gas emissions and those of our products and services, largely through decreasing energy use. Our approach also includes innovating and bringing to market solutions that reduce emissions in the rest of the economy, and collaborating with others organizations to develop strong climate change policies and advance industry standards for energy-efficiency and reduced product carbon footprints.

2010 goal: Reduce the combined energy consumption of HP operations and products 20 percent below 2005 levels by 2010 (see Goals for detail)
Progress: We nearly met this goal by the end of October 2007—three years ahead of schedule—and have increased the target to 25 percent below 2005 levels.

HP has made great strides in increasing the volume of our products recovered for reuse and recycling.[1] But much more progress remains to be made for the information technology (IT) industry. The number of PCs, servers, print cartridges and other electronics reaching the end of their usable life is growing rapidly. It is critical to manage the disposal of this equipment responsibly to protect users' privacy, minimize environmental impacts and conserve resources. We are

responding to this growing challenge by designing products that enable easier recycling, providing effective and responsible take-back systems worldwide, and working with others to develop sound regulatory approaches.

2007 goal: Recycle 1 billion pounds of electronic products and supplies by the end of 2007
Progress: As of the end of 2007, HP has recycled 1,170 million pounds since 1987.

2010 goal: Recover 1 billion pounds (450,000 tonnes) of electronic products (for reuse and recycling) and supplies (for recycling) in the three years up to and including 2010.

[1] Throughout this report, product "reuse" or "remarketing" 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.

Economic impacts

Many of HP's global citizenship issues stem from the impacts of our products and operations on society and the environment. Each of these, and many other aspects of our day-to-day business, can also have an economic impact on our stakeholders.

All companies have direct economic impacts[1] on stakeholders through their financial transactions. For example, HP impacts its:

- Suppliers through the prices we pay for goods and services and the timeliness with which we pay for them
- Employees through wages paid
- Customers through sales and product pricing
- Governments through tax payments
- Communities through our social investment programs
- Investors through our share price and dividends paid

As the money from these transactions circulates through the economy, HP's activities continue to have an indirect economic impact. In addition, HP products and services increase productivity, boosting companies' profitability and strengthening the wider economy.

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 on each group we affect. See the Data dashboard for key data, and our financial statements for more detailed information.

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 2007 on products, materials, components and services.	Our supply chain spending creates jobs in supplier companies. These companies and their workers pay taxes and support their local economies. Suppliers may also 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, which increases employees' skills and expands their opportunities.	Employees pay taxes, and their private spending generates economic activity and supports their local communities.
Customers	Customers paid HP $104.3 billion in 2007 for our products and services.	The products and services we sell to customers improve their productivity. This may increase their economic contribution to society through business expansion and more taxes paid.
Local, state and national governments	Local, state and national governments benefit from taxes paid by HP and our employees.	Taxes paid enable government spending to carry out policy commitments.
Local, regional and national communities	Philanthropic investments ($47.1 million in 2007), support for nongovernmental organizations, and employee giving and volunteering all directly benefit communities.	HP social investments 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 dividends and 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 PDF, page 13.

The socioeconomic value of IT

Although difficult to quantify, the information technology (IT) sector in which HP participates has wide-ranging benefits for individuals, companies and societies worldwide. Below we describe some of the socioeconomic advantages IT has contributed in recent years.

- IT is giving people in parts of the developing world access to electronic communications for the first time. This can make it easier to find, use and share valuable and previously unavailable information, creating opportunities to improve health, welfare and economic prosperity.
- IT supports flexible working by enabling people to work from different locations and join meetings by video or conference calls. This can reduce the cost of travel and its associated environmental impacts, and help employees to better balance work with their personal lives and commitments.
- Businesses can use radio frequency identification technology to automatically track items continuously, securely and wirelessly from the warehouse to the checkout, improving efficiency, security and customer service.
- The Internet and mobile technologies support democracy and expression by giving voice to people who could not otherwise make their views and experiences public on a broad scale.

Many of these services require personal data such as bank account, credit card and contact details to be entered and transmitted online and stored in databases. This requires robust procedures to keep data secure. It is essential to protect users from inappropriate or unwanted uses of their data. Read more about how HP protects customer privacy.

We must also consider the energy costs and environmental impacts of the infrastructure required to provide these services. See Energy efficiency for more on HP's efforts to reduce the energy used for data storage. These examples are typical of the tensions that can arise between different global citizenship issues and the needs of different stakeholders, and HP strives to find the right balance.

Performance

The interactive data dashboard summarizes HP's economic value performance in recent years. See HP's financial statements for more detail.

Compared to FY06, HP's revenue increased by 14 percent in FY07 to $104.3 billion. Non-GAAP diluted earnings per share (EPS) increased 23 percent[1] to $2.93. On a GAAP basis, diluted EPS increased 23 percent to $2.68.[2]

HP's interactive stock chart includes information about the company's share performance.

Please visit our annual report and 10K to view HP revenue by business segment and by region.

[1] Excluding a favorable tax settlement in the second quarter of FY06, year-on-year EPS growth was 32 percent.
[2] A reconciliation of Non-GAAP EPS to GAAP EPS is included in the GAAP to non-GAAP slides that appear as part of the Q4 FY07 earnings presentation located on the HP Investor Relations website at http://media.corporate-ir.net/media_files/irol/71/71087/presentations/4Q07EarningsPresentation.pdf. A description of HP's use of non-GAAP information is provided on slide 3 of that presentation under "Use of non-GAAP Financial Information."

Global citizenship at HP

To be considered a leader in today's increasingly interdependent world, a company must be an exemplary global citizen. Our global citizenship strategy supports our business goals and drives us to be at the forefront of responding to stakeholder expectations, minimizing our environmental impacts and being a force of positive and lasting change.

IN THIS SECTION:
» Managing global citizenship
» Timeline
» Stakeholder engagement
» Business case
» Public policy

» See Video:
Designing for the environment

To be counted among the world's leaders, a company must do more than deliver innovative, market-leading products and services and generate exceptional value for its shareholders. It must also be an exemplary global citizen.

For HP, that means our products and services and how we produce them must solve problems, not create new problems. Our decisions and actions must be in harmony with the communities in which we work. And our business standards and practices must uphold the values on which HP was founded. If we continually hold ourselves to higher standards of integrity, transparency and accountability, we will succeed in our goal to be the leading information technology company in the world.

Global citizenship is a companywide objective at HP, and each of our businesses and functions integrates it into their strategy. As the graphic below illustrates, our three overarching global citizenship priorities are supply chain responsibility, climate and energy, and product reuse and recycling. Other core programs include accessibility, Design for Environment, employee diversity, ethics and compliance, health, safety and wellness, labor practices, logistics, the environmental impacts of our operations, privacy, public policy, and social investment.

Managing global citizenship

Effectively managing global citizenship across an organization as diverse and dispersed as HP requires vision, commitment, skill and trust.

First, global citizenship must have the support of leadership. Global citizenship is one of HP's seven companywide objectives. It is not simply an ideal to strive for, but a source of opportunity and growth. Many of the world's most urgent issues—climate change, growing energy needs, improving education and protecting human rights, for example—offer HP new areas for innovation and leadership.

Second, it must be embraced by employees. Global citizenship is embedded in our company values that help guide our employees' actions. We must motivate our people and harness their innovative ideas and talents to meet our global citizenship commitments.

And third, it must be present in our daily work. By acknowledging the impact of our global citizenship programs on individuals, businesses and communities, each of us at HP can better recognize our contributions to improving how people live, work, learn and share. This helps make global citizenship integral to our company's planning, operations and business.

Forces affecting global citizenship at HP

As part of our business strategy, HP is capitalizing on significant trends in our industry. These include the proliferation of digital information and content; the intensifying demand for technology that empowers creating, processing, managing, storing, viewing, sharing and printing content; the dramatic increase in the number of computer and Internet users in emerging markets; and the growing volume of discarded technology products that must be disposed of.

These trends raise concerns among our stakeholders. HP recognizes we must address these concerns by helping to protect companies' and consumers' online data and privacy; by ensuring our products and services are accessible to people worldwide; and by meeting the growing demand for products that use less energy, contain fewer materials of concern and are easily reused or recycled. To learn more about how HP prioritizes these issues, visit Managing global citizenship.

Of these concerns, energy efficiency ranks as most important with many of our stakeholders. Our products and services must not only meet our customers' needs for simple, valuable and trusted technology, but also save energy, reduce related greenhouse gas emissions and lower operating costs (see Climate and energy—products). These requirements all represent opportunities to differentiate our product and service offerings and are central to the business case for global citizenship.

"Being environmentally responsible is not just a trend. It's not just good to do. It's good for business."
—Mark Hurd, Chairman, Chief Executive Officer and President

Our global citizenship activities are also affected by internal forces, including our values, employees and business objectives. HP has long recognized that a company has responsibilities beyond making a profit for its investors. We strive to be an economic, intellectual and social asset to each country and community in which we do business. This timeline identifies important global citizenship achievements in HP's history and demonstrates how established some of our initiatives presented in this report are.

We focus our global citizenship strategy on three priorities. We believe these are most critical to our business and stakeholders and offer us the greatest potential to differentiate the HP brand. Last revised in 2006, they are:

- Supply chain responsibility
- Climate and energy
- Product reuse and recycling

HP strives to lead the way in global citizenship. Beyond creating opportunities for growth, it helps set us apart from competitors while affording us greater opportunities to develop valuable relationships with partners.

We periodically review our global citizenship strategy to confirm it supports our business goals while addressing customer needs, industry trends, and the evolving interests and concerns of stakeholders and society. We consider:

- Customer perceptions and expectations, which we gain through surveys, requests for proposals, industry analysts and other resources
- External standards and regulations, such as the Electronic Industry Code of Conduct, the UN Global Compact and emerging environmental legislation in countries around the world
- Input from stakeholders, such as nongovernmental organizations (NGOs) and our Stakeholder Advisory Council (SAC), which we formed in 2007 to encourage dialogue, solicit feedback and gather suggestions
- Employee input, including ideas for new programs and improvements to existing initiatives
- Risks and opportunities associated with our supply chain responsibilities, social investments and public policy priorities, among other areas (see table below for more information)
- Media coverage, which provides insight into how large societal issues are affecting the perceptions and priorities of consumers and companies

Governance

HP's Executive Council (EC) has overall responsibility for global citizenship as part of our business strategy. The EC is advised by HP executives responsible for managing our global citizenship programs and initiatives.

Leadership for our global citizenship strategy sits within the HP Office of Technology and Strategy, which works with our business units and other relevant functions to manage and measure performance against clear goals. Regularly monitoring our core programs is important because it:

- Drives overall performance improvement
- Identifies successful programs as well as those needing review
- Supports transparent reporting to stakeholders
- Allows comparison with others in our industry

In 2007, we formed our Stakeholder Advisory Council (SAC) comprising respected experts from a variety of nongovernmental organizations. The SAC serves as an interactive forum to discuss and advance HP's global citizenship strategy and performance.

We also maintain councils focused on key issues such as diversity, the environment, ethics, privacy and our supply chain. These councils are made up of employees from our business units, regional organizations and functions with expertise in relevant areas. Each council meets periodically to make sure HP's global citizenship strategies are being effectively implemented and to establish goals and measure progress.

Managing risks and creating opportunities

Though there are great opportunities in how we implement our global citizenship strategy, there are risks, too. We must regularly monitor, manage and measure our activities, making sure we are taking into account continuously evolving market conditions, legislation and regulations, customer and stakeholder needs, and other forces. he table below summarizes examples of potential opportunities associated with our activities.

Core program	Main opportunities
Public policy	• Contribute to public policy debate, new guidelines and legislation
Ethics and compliance	• Ensure legal/regulatory compliance • Promote transparent and accountable practices • Support brand/reputation
Supply chain responsibility	• Support brand/reputation • Enhance customer and consumer trust and loyalty • Ensure legal/regulatory compliance • Decrease environmental footprint
Products (such as Design for Environment, accessibility)	• Differentiate products • Decrease product environmental footprint • Maintain access to markets • Support brand/reputation • Ensure legal/regulatory compliance
Operations (such as energy use emissions to air, water use, waste and recycling)	• Ensure legal/regulatory compliance • Reduce operating costs • Promote strong community relations
Privacy	• Enhance customer and employee trust and loyalty • Ensure legal/regulatory compliance • Transparent and accountable practices • Support brand/reputation
Employees (such as labor relations, diversity, health and safety)	• Attract/retain best employees • Enhance employee productivity • Support brand/reputation • Ensure legal/regulatory compliance
Social investment	• Promote strong community relations • Support brand/reputation • Play an active role in helping address social problems

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

Climate and energy

HP minimizes the impact of our operations and supply chain on climate change while innovating to develop products and solutions for an energy- and carbon-constrained world

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

HP
Leading technology solutions provider to consumers, businesses and institutions globally, $104.3 billion in revenue

SUPPLIERS
HP spends approximately $50 billion annually on materials, components, manufacturing and distribution services for our products

EMPLOYEES
172,000 employees worldwide

CUSTOMERS
Millions of people around the world use HP technology every day

SOCIETY
Society provides the backdrop for our business and global citizenship activities

Social investment
HP supports communities wherever we operate, focusing on educational achievement, economic development and environmental sustainability

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
Using an accountability approach to privacy, HP reviews decisions not only for compliance with the law and our privacy policies, but also against our values and potential risks

Products
HP designs products and packaging to make the best use of resources 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 continue to expand our governance, ethics and compliance efforts to demonstrate our commitment to uncompromising integrity.

Stakeholder engagement

HP's goal is to be the information technology company that stakeholders most trust and respect for fulfilling its social and environmental responsibilities. To meet this goal, we must build strong relationships with customers, employees, investors and suppliers, as well as communities, industry analysts, media, nongovernmental organizations (NGOs), legislators and regulators. Engaging effectively with these groups offers a range of important benefits to HP:

- Deeper understanding of global citizenship trends, issues and opportunities
- Greater insight into stakeholder expectations of our operations, products and services
- Stronger trust of HP among groups that previously may have been wary of working with large corporations
- More opportunities to educate customers and other stakeholders about the need to respond to global citizenship issues
- Valuable inputs into our strategic planning processes
- Increased value of our brand

We focus our engagements on our global citizenship priorities to ensure we receive input where it is most valuable. Our strategy has been to develop a companywide stakeholder plan that moves beyond ad hoc engagement toward strategic alliances with key groups. We identify appropriate stakeholders by assessing their expertise, their willingness to collaborate, their reputation, their location and their sphere of influence.

HP's Stakeholder Advisory Council (SAC) and our climate collaboration with the environmental organization World Wildlife Fund (WWF) demonstrate how we applied this approach in 2007. HP also belongs to several membership organizations that address global citizenship issues. We are committed to transparency and to reporting the activities and outcomes of our stakeholder alliances, both within HP and externally.

HP uses knowledge management systems to record our stakeholder engagement activities and share the results internally. For example, members of our Environmental Strategies Network use GreenBase, an online database, to communicate their engagement activities. Using the same tool, HP employees worldwide share information on the latest environmental trends, product information, policies and legislation.

Engagement in 2007

Highlights of our stakeholder engagements in 2007 include:

- Completed a successful first year of our climate change joint initiative with WWF (see Energy efficiency-Collaboration)
- Commissioned an independent survey to gather systematic feedback on our FY06 Global Citizenship Report from external stakeholders in Asia, Europe and the United States (see About this report)
- Held the first two meetings of our newly formed SAC
- Engaged with numerous NGOs on social and environmental issues pertaining to our supply chain

These and other engagements confirmed that HP's environmental impacts and supply chain responsibilities remain our stakeholders' chief concerns.

For example, the network of NGOs called the GoodElectronics Network (GEN) launched a campaign focused on working conditions in the supply chain for information technology products. Of the many IT manufacturers targeted by the campaign, HP received the most favorable rating for the working conditions of its suppliers by the GEN member NGO Bread for All. The feedback we received from GEN helped us strengthen our supply chain responsibility programs. The following are examples of our engagement with stakeholders dedicated to this area:

- Convened stakeholder forums in Asia attended by NGOs and HP suppliers
- Attended public events in March 2007 run by the GoodElectronics Network NGOs
- Invited NGOs to tour supplier factories in southern China
- Provided the NGO SOMO (Centre for Research on Multinational Corporations) with feedback on reports they produced

In early 2007, we also collaborated with CSR Asia, a provider of information, training, research and consultancy services on sustainable business practices in Asia, to gather feedback on HP's global citizenship efforts from stakeholders in China. Twenty-eight representatives from environmental, labor rights, community investment and employee welfare groups were interviewed, and 11 of these later took part in focus groups. Recommendations based on the feedback include producing China-specific global citizenship communications in the Chinese language and training HP's Chinese employees in global citizenship.

The following table lists our main stakeholder groups and how we engage with each about global citizenship issues. Feedback from key stakeholders is included on the Perspectives pages throughout this report. Sometimes it acknowledges our progress, and sometimes it challenges us to reach for even higher goals. We respond to some of the perspectives included in last year's Global Citizenship Report below.

Group	How we engage	Benefits to HP of engagement	Example from 2007
Communities	- Employee volunteering - Philanthropy - Tours of facilities	- Enhanced reputation - Improved relationships with neighboring communities - Better understanding of community concerns	Through our volunteering program, HP employees worldwide engaged with local organizations and communities.
Customers	- Product information on hp.com - Periodic customer loyalty surveys - Call centers and other support - Inquiries and responses regarding customer requests for proposals - Customer education	- Better understanding of customer requirements - Increased competitive advantage	HP communicated with customers at major events such as the Consumer Electronics Show (CES) in the United States and HP Technology@Work in Berlin, Germany.

Employees	• @hp web portal • Annual employee surveys • Networking groups • Open Door policy • Regular briefings, meetings and annual performance reviews	• Higher levels of employee education and engagement on global citizenship • Improved employee performance	In 2007, more than 132,000 employees (81 percent of the total workforce) participated in our Voice of the Workforce survey. [1] This was available online in 25 languages and confidentiality of individual results is strictly protected.
Investors	• Statutory and other disclosures and reporting • Annual meeting of stockholders • Regular meetings and briefings	• Increased understanding of our strategy and global citizenship activities among investors • Positive impact on HP's performance in ratings • Increased investment	HP held four live audio webcasts to announce its quarterly earnings. The webcasts were hosted by Mark Hurd, Chairman and CEO, and Cathie Lesjak, executive vice president and CFO.
Legislators and regulators	• Public engagement program • Regular meetings and briefings • Membership in trade associations and business organizations	• Influence on public policy issues • Ability to cooperate with regulators to resolve issues	We continued to work with governments and industry to support the implementation of suitable regulations, policies and standards for managing electronic waste.
Industry analysts/media	• Direct engagement on topics of interest • Interviews, meetings and briefings regarding global citizenship • Partnership on articles and books regarding global citizenship	• Increased understanding of how global citizenship issues are perceived by customers • Analysts more able to advise their clients on the environmental benefits of HP products	HP facilitated sessions on the environmental features of our products at an industry analyst conference in the Asia-Pacific and Japan region.

Non-governmental organizations	- Meetings and conferences - Alliances - Direct engagement on topics of interest - Stakeholder Advisory Council	- Ability to form alliances, learn from NGOs and better address issues - Increased understanding among NGOs of HP's strategy and programs - Enhanced reputation	HP provided feedback to the GoodElectronics Network on their report on working conditions in the IT supply chain and attended a public event run by the organization.
Suppliers	- Supply Chain Social and Environmental Responsibility Program - Procurement Management Process	- Improved supply chain performance - Reduced risks - Enhanced reputation	Through the Focused Improvement Supplier Initiative (FISI), we provided monthly social and environmental management training sessions for 30 of our Chinese suppliers.

Building on the progress we made last year, in 2008 we will convene two daylong, face-to-face meetings with HP's Stakeholder Advisory Council, which includes five NGOs, to gather feedback and engage in productive dialogue about our global citizenship priority areas. The first, scheduled for April, will focus on product reuse and recycling. We will also continue our efforts with GoodElectronics NGOs to improve working conditions throughout our supply chain and extend our work with the WWF on our joint climate initiative.

[1]This percentage is based on active employees at the time of survey administration.

Responding to perspectives

Each year for our Global Citizenship Report, we invite experts to offer their perspectives on an issue of interest and HP's programs and performance related to that issue. Here we respond to their feedback included in the FY06 report.

Global citizenship at HP

Kellie McElhaney, adjunct professor, Haas School of Business and executive director, Center for Responsible Business, University of California–Berkeley

Ms. McElhaney challenged us to "articulate bold, straightforward goals, both internally and externally, in each of the three global citizenship priorities." She also noted that "companies have made their corporate social responsibility commitments part of their competitive advantage and are integrating it into their brand," but that HP has yet to do so.

At HP, we challenge ourselves to meet ambitious yet attainable goals. Ambitious goals help inspire and drive innovation throughout our company, but they must also be achievable to have meaningful impact. The global citizenship goals we've set for 2008 are consistent with this approach. They commit us to making important progress against our three global citizenship priorities: supply chain responsibility, climate and energy, and product reuse and recycling. They also represent promises we've made to our many stakeholders—promises we intend to keep. These goals are integrated into virtually every aspect of our business and vital to the strength of the HP brand. In meeting them, we will realize greater competitive advantages and be successful in our overall objective for HP to be the leading information technology company in the world.

Ethics and Compliance

Kirk O. Hanson, University Professor of Organizations and Society and executive director, Markkula Center for Applied Ethics, Santa Clara University

We acknowledge the points Mr. Hanson raised, and we have acted swiftly to reinforce or strengthen our ethics and governance systems and procedures. We continue to promote and foster our company values with HP employees worldwide. See Ethics and compliance for more.

Energy efficiency

Noah Horowitz, senior scientist, Natural Resources Defense Council

We thank Mr. Horowitz for acknowledging our leadership role in adopting higher standards of energy efficiency for external power supplies. We continue to increase the efficiency of the power supplies sold with our products. See Energy efficiency for more.

Product reuse and recycling

Elizabeth McGeveran, vice president, Governance & Sustainable Investment, F&C Asset Management plc

Ms. McGeveran recommended that HP establish a long-term partnership with a large electronics retailer or other national organization to give consumers the option to drop off used equipment easily for safe disposal. In 2007, we introduced a new recycling service in China for consumers and small and medium-size businesses. Customers can now drop off HP-branded equipment at HP service centers in 31 major cities in China, free of charge. We plan to extend the program beyond the initial 31 cities and to increase the number of drop-off points in those cities.

Ms. McGeveran also expressed the need for HP and its peers to align their targets and metrics, to enable investors to identify the race leader in end-of-life solutions. The standardization of targets and metrics would require a large, multi-stakeholder initiative, which the industry has not undertaken at this time.

Employees

Deborah Merrill-Sands, PhD, dean of Simmons School of Management at Simmons College and Kristin Engvig, founder and CEO of W.I.N. (Women's International Networking)

We appreciate that both experts acknowledged HP's leadership in diversity and inclusion and will continue to work hard to increase the diversity of our workforce. Our goal is for women to make up 30 percent of participants in our leadership development programs, and we continue to promote work-life balance programs for our employees.

Stakeholder Advisory Council

HP's Stakeholder Advisory Council (SAC) comprises NGO representatives and senior HP executives from our business units. The SAC provides HP with advice on current and emerging global citizenship issues. Its members' feedback helps us to better anticipate and respond to business risks and leadership opportunities.

NGOs were carefully selected for the SAC based on their expertise and influence on environmental and social issues, their willingness to collaborate with HP, their geographic locations, and their reputation with government bodies and other stakeholders. NGO representatives on the SAC are:

From top left: Stephen Frost, David Schilling, Ted Smith, Suzanne Apple, Peter Madden

- David Schilling, Interfaith Center on Corporate Responsibility (ICCR)
- Peter Madden, Forum for the Future (FftF)
- Stephen Frost, CSR Asia
- Suzanne Apple, World Wildlife Fund (WWF)
- Ted Smith, Electronics TakeBack Coalition (ETC)

The SAC meets twice a year. Its initial meetings were held in January and October 2007. The NGO members helped HP identify and prepare for potential business risks and provided advice on our leadership strategy for global citizenship.

At the meeting in January, the SAC focused on energy use and climate change. Recommendations included that HP position our work on energy efficiency as benefiting climate change more than simply saving energy, and that we begin to measure and reduce the climate impact of our supply chain.

In October, the group concentrated on supply chain responsibility. As a result of that meeting, we have increased transparency about our suppliers by disclosing a list of our top suppliers.

Interview with HP's Stakeholder Advisory Council

In late 2007, we interviewed the five external members of HP's SAC. We asked them to comment on HP's approach to global citizenship and on our performance in the three priority areas we've identified: supply chain responsibility, climate and energy, and product reuse and recycling. The text below summarizes their responses.

HP's approach to global citizenship

Do you believe that global citizenship is integral to HP's business strategy and creates value for the business?

The SAC members agreed that global citizenship is becoming more central to HP's business and that there is a lot of activity in this area within the company.

"HP really has stepped out and done genuine stakeholder engagement, which helps formulate its global citizenship strategy." —David Schilling (ICCR)

Participants noted that HP's strategy is based on the belief that global citizenship creates financial value rather than simply satisfying charitable commitments. Members discussed how HP can better highlight evidence of this value in our report, perhaps by noting contracts in which environmental requirements were a factor or promoting the cost benefits of environmental stewardship. One member commented that HP does not effectively promote the environmental benefits of its products, and several members mentioned the opportunity for HP to take a greater leadership role in this area.

"We'd all like to see more visible leadership from Hewlett-Packard on this agenda. Only companies that really take this as a business agenda and get on top of it will prosper in the future." -Peter Madden (FftF)

Do you believe HP has taken the lead in global citizenship, or that it has simply reacted to pressure from customers and other stakeholders?

There was general agreement that HP has been a pioneer in its industry in many areas of global citizenship, and this has not been due to pressure from stakeholders alone.

"I would set the tone as not so much reacting to pressure, but responding to customer and other stakeholder expectations. I think that's really where HP is a leader." -David Schilling (ICCR)

"It has been impressive to work with the team specifically charged with global citizenship in the company. I see them pioneering in a lot of areas of their business." -Suzanne Apple (WWF)

SAC members said they regard HP as a leader across industries in some areas, such as its well-developed global citizenship strategy and programs, its stakeholder engagement and responsiveness, and its global citizenship reporting. There was agreement that HP's progress in managing its supply chain responsibilities is less advanced than that of the apparel sector but at the forefront of the electronics industry. There was also a general sense that, while HP once led the industry in demonstrating producer responsibility and facilitating product take-back, it is now being challenged by competitors that are making progress in these areas.

"HP clearly was the leader in the United States until quite recently, but that leadership has slipped somewhat." -Ted Smith (ETC)

One member pointed out that use of language such as "leadership" should be supported with evidence of HP's relative performance.

"My sense is that HP is in the leadership pack, but I wouldn't use the word leader. I'd like to see systematic benchmarking of HP and other players in the sector." -Peter Madden (FftF)

What opportunities and risks do you think global citizenship issues present for HP?

Several SAC members agreed that HP should better integrate global citizenship into its brand.

"There are lots of opportunities in terms of getting ahead of regulation and staying up with consumer demand to be a better brand than competitors." -Peter Madden (FftF)

Building HP's brand in Asia was highlighted as a particular opportunity, because participants believed that demonstrating a commitment to those communities through stakeholder engagement will foster brand loyalty.

"There's an enormous opportunity to really build brand and demonstrate a commitment to Asian communities that would flow through to product loyalty. The risk is that HP's global citizenship is still very much focused on its U.S. stakeholders." -Stephen Frost (CSR Asia)

Members also raised the potential risk of making significant public commitments, raising stakeholder expectations and then being seen as not "walking the talk."

"Companies not saying anything are not going to be held accountable to those pronouncements. In taking the lead, HP does put itself out there. If it doesn't follow through on messages in the United States and Europe into emerging markets, there's a risk of losing trust and commitment from people." -Stephen Frost (CSR Asia)

"The more a company puts forth that it really takes global citizenship seriously and wants to be a leader, it also raises stakeholder expectations." -David Schilling (ICCR)

Some members suggested that HP manages these risks well but does not communicate its efforts externally.

"I don't think over-promising and under-performing is a huge risk for HP because there are pieces being put in place to address that." -David Schilling (ICCR)

"HP is probably one of three or four companies that has taken a proactive stand on a really hot issue in China-discrimination against people with hepatitis B-and could get strong recognition for that. But I felt there was resistance in the company to saying anything about its work in this area." -Stephen Frost (CSR Asia)

The SAC advised HP to find the right balance between being realistic and stretching our commitments. This would enable stakeholders to appreciate our efforts while minimizing the risk of setting expectations too high and damaging HP's reputation if some goals are not fully met.

What will it take to show leadership in this area in the future?

Participants offered a range of insights regarding what leadership in global citizenship will require moving forward.

"Working with others in ways that are visible." -Ted Smith (ETC)

"There's real potential to start thinking about how computer products and services contribute to the well-being of the world and the ability to make money from that." -Peter Madden (FftF)

"The vision developed at headquarters [needs to be] rolled out down through branch offices. I don't think any company is doing that particularly well at the moment, in Asia in particular. If you were to do this well, it would really set you apart." -Stephen Frost (CSR Asia)

"How do you get further down a supply chain and get ownership of the process? That is going to be a key leadership question for HP-to really flesh out what it means for a first-tier supplier to educate and train a second-tier supplier and so on down the chain." -David Schilling (ICCR)

HP's global citizenship priorities

The SAC members expressed their belief that HP is becoming more fully engaged with its stakeholders on supply chain issues. Several members mentioned that HP advocates change across the industry through the Electronics Industry Code of Conduct and engages with key stakeholders—including critics—to fully understand its supply chain responsibilities.

But members agreed that while HP leads the information technology industry in this area, several apparel companies have many more experienced people on site in key sourcing countries. Some apparel companies employ auditors with five to ten years of experience with factory issues. HP has strong leadership at the top of its supply chain program but little presence at the country level. Members also advised HP to build greater capacity within its wider supply chain:

"The toy and apparel companies compete against each other in the market but work together on corporate responsibility. Now is the time for HP to step up and play a role in building capability not just in its own supply chain, but also other stakeholders in the supply chain." -Stephen Frost (CSR Asia)

"The gap from where you are to where you need to be is enormous-there needs to be a massive training program for suppliers' employees and managers to ensure commitments are carried out on factory floors around the world. HP seems to be moving in that direction." -Ted Smith (ETC)

"We have made lots of comparisons with apparel and shoes and so on. But I think the complexity of HP's supply chain is an order of magnitude greater." -Peter Madden (FftF)

Climate and energy

Members acknowledged that HP has clear programs addressing the energy use of its products and operations and is working to meet its targets. But they said there is much more the company can do and encouraged us to be bold when talking about climate change.

"HP is being very deliberate in how it addresses energy efficiency, both in its own use and how its products use energy. There is a need to expand this to HP's supply chain, because that's where there is a huge footprint." -Suzanne Apple (WWF)

"HP has an incredible resource in its Labs to not only reduce energy consumption in the macro world of servers, but also in individual laptops." -Ted Smith (ETC)

Product reuse and recycling

There was agreement that other companies are making significant progress in this area and are closing the leadership gap HP created. HP made great early progress in establishing effective product reuse and recycling programs and maintains challenging goals in this area but, like the rest of the industry, has more to do.

"There is some debate about whether these are real initiatives at some of the other companies and whether HP is still in the lead, but HP is being outdone in the PR world." -Ted Smith (ETC)

"As long as the average PC has a lifetime of three years, we are going to generate enormous problems. HP has got to put some of its innovation into thinking about how to provide information and computing technology services in ways that do not have this kind of frantic product obsolescence going on." -Peter Madden (FftF)

The business case for global citizenship

"We have now reached a tipping point where global citizenship no longer simply complements business—it is an essential component of it."

–Mark Hurd, Chairman, CEO and President

The principles of good global citizenship are evident in HP's founding values and integral to our goal to be the world's leading information technology company. They guide our commitment to balance our business goals with our impacts on society and the planet while responding to our stakeholders' expectations for greater transparency.

Being a good global citizen also strengthens our business. It helps differentiate HP from competitors and contributes to our success in anticipating and meeting customer expectations. Increasingly, customers are emphasizing issues such as energy efficiency and responsible product recycling in their purchasing decisions. Responding to these growing market opportunities drives innovation within HP and helps us improve performance or reduce costs in areas ranging from how we design products and manage our supply chain to how we run our operations and build partnerships.

For example, when complete and fully optimized we anticipate yearly cost savings related to energy reduction through HP's data center consolidation efforts of up to $25 million per year. Additionally, we expect annual savings of up to $7.7 million from using HP Web Jetadmin and Universal Print Driver, which will help us to achieve our goal for 80 percent of general office printing and copying to be double-sided by the end of 2008.

Global citizenship is vital to compete successfully in the world economy. Our preparation for emerging legislation and regulations, as demonstrated by our track record of environmental compliance and leadership, enables us to maintain access to markets. Demonstrating good global citizenship is also critical to attracting and retaining top talent in a highly competitive employment environment.

Investors and global citizenship

Socially responsible and mainstream investors are seeking more information about opportunities and risks related to global citizenship activities. Responding to their needs supports the value of HP stock and demonstrates to investors and lenders that HP is a strong long-term investment, increasing our access to capital.

Analysts from socially responsible investment (SRI) firms and other investment-focused organizations provide important feedback on and benchmarking of HP's performance. HP ranked highly with SRI analysts in 2007, as shown in the table below.

Organization	Ranking or rating
Corporate Knights & Innovest – 2007 Global 100 Most Sustainable Corporations in the World	HP was listed as one of the 100 most sustainable corporations for the third year.
Covalence (Europe)	HP was ranked 1st for Best EthicalQuote Score in the technology hardware sector in the Covalence Ethical Ranking 2007. Across all sectors, HP was ranked 4th for Best Ethical Score.
Dow Jones Sustainability Index (DJSI)	HP was listed on the DJSI for the fifth consecutive year.
FTSE4Good	HP was included in all FTSE4Good indices for the fifth consecutive year.
Carbon Disclosure Project	HP achieved a perfect score of 100 on climate change in the Carbon Disclosure Project's 2007 survey.
Carbon Disclosure Leadership Index	HP was included in a list of FT500 companies showing distinction in their responses to the Carbon Disclosure Project Survey, compiled by industry research firm Innovest.
Portfolio 21	HP ranked 9th in the top 10 financial performers of the 88 "green" companies the group invests in.

Customers and global citizenship

Companies, governments and consumers are all placing greater emphasis on globalcitizenship when considering and evaluating leading information technology companies such as HP.

Many enterprise and public sector customers seek suppliers that can help them improve their own global citizenship performance. HP is responding in a number of ways, including by:

- Helping to reduce the costs and climate impact of their IT infrastructures by providing energy-efficient products and solutions
- Raising social, environmental and ethical standards in our supply chain
- Implementing a variety of take-back programs to help ensure customers worldwide are able to dispose of products responsibly

Our global citizenship programs are also increasingly important to HP's access and ability to compete in markets around the world. For example, public sector and governmental agencies in several countries (such as Australia, Austria, Denmark, Germany, the Netherlands, Sweden, the UK and the United States) consider environmental criteria, most notably energy use, in procurement decisions. In the United States, many public sector customers seek products that conform to recognized standards such as EPEAT™ and ENERGY STAR®.

In addition to companies, consumers are becoming more attuned to the environmental impacts of IT products. According to a consumer opinion survey across seven countries conducted for HP in 2007 by GlobeScan, a global public opinion and stakeholder research firm, environmental issues were the greatest global citizenship–related concern people had about IT companies.

Research suggests that consumers are increasingly factoring social and environmental concerns into their purchasing decisions, and we anticipate this trend will continue. GlobeScan's 2007 CSR Monitor showed significant growth in the "Mainstream Activist"[1] consumer segment, especially across North American and Europe, but also in China and South Korea. Between 2001 and 2007, this segment of consumers who are most likely to reward and punish companies for social and environmental performance has grown from 23 percent to 35 percent of the population in Europe and North America.

Consumers are also increasingly interested in where and how products are manufactured. GlobeScan's 2007 CSR Monitor reported that 64 percent of people across 18 countries hold companies responsible for ensuring that all materials used to make their products have been produced in a socially and environmentally responsible manner. As information about a product's material content or energy consumption costs become more readily available, we believe attitudes will continue to shift. HP intends to be on the leading edge of providing information about the environmental impacts of IT products to help consumers make more informed choices.

Insight and education

For HP to be successful in our global citizenship activities, we recognize we must continually invest in deepening our understanding of the global citizenship issues most important to stakeholders. In 2007, we did this by:

- Monitoring customer inquiries on global citizenship issues, including requests for proposals (RFPs) from public sector and enterprise customers as well as inquiries from consumers (see graphs below)
- Engaging with industry analysts who advise enterprise customers on their purchasing decisions

- Analyzing results from public opinion surveys as well as syndicated and customized research
- Assessing traffic on HP.com to determine global citizenship issues of highest interest

We are also committed to educating customers and consumers about HP's global citizenship programs and the environmental benefits of our products. Recent areas of focus include:

- Ensuring industry analysts have a full understanding of our global citizenship programs and environmental product offerings
- Sponsoring and offering sales promotions at major customer events to raise awareness of our environmental services
- Offering an online Global Citizenship News Bulletin for our Europe, Middle East and Africa region
- Maintaining a blog focused on a variety of global citizenship issues important to our customers in the Europe, Middle East and Africa regions that cover various global citizenship issues
- Collaborating with the World Wildlife Fund on its "Greening Your Footprint" marketing campaign, which was launched in early 2008
- Producing a version of this Global Citizenship Report customized for customers

Customer global citizenship requirements in requests for proposals (RFPs), 2005-2007[2]

	2005	2006	2007
Recycling[3]	53%	25%	19%
Eco-labels and declarations	22%	30%	18%
Product design	19%	26%	28%
Environmental management	17%	19%	24%
Materials use	12%	27%	33%
Social responsibility	6%	3%	6%
Supplies	5%	5%	8%
Packaging	5%	5%	3%
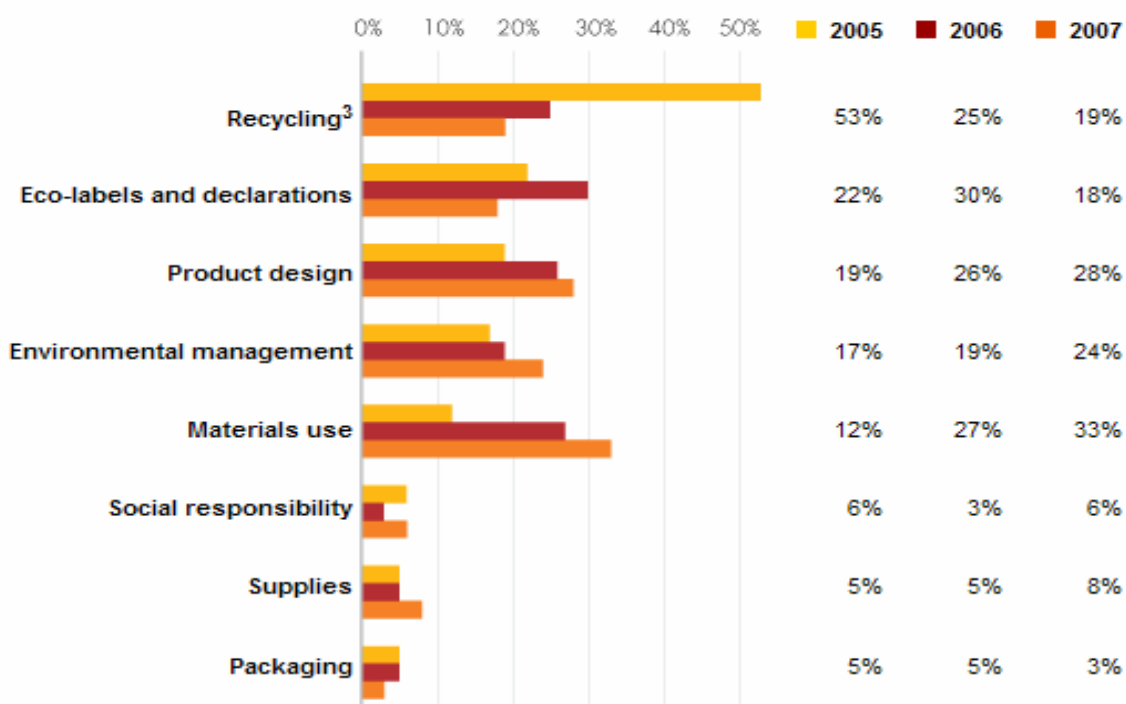
[1] Mainstream Activists have higher expectations of companies' operational (as opposed to citizenship) responsibilities than typical consumers. They are critical of industries and as ethically active as consumers, that is, they have a tendency to reward and punish companies based on perceived social performance.
[2] This graph represents only data tracked by HP environmental experts and excludes RFPs for which environmental questions were addressed directly by customers or our sales force.
[3] Data in this category in 2005 includes a type of information that was not included in 2006 and 2007.

Public policy

Engaging with governments and regulatory bodies is an important and appropriate part of doing business and a natural extension of our core values. Because lawmakers at all levels of government make public policy decisions that affect HP, we seek opportunities to make HP's views known and to influence policy in our areas of expertise.

We build relationships with governments and regulators in the countries and regions where we operate to increase support for our business and global citizenship objectives. We meet regularly with government officials and other key stakeholders to discuss emerging issues and the potential impacts on their region, to understand their thinking, and to describe our own positions.

HP is committed to ensuring that our participation in public policy debate is appropriate and always compliant with applicable laws and our Standards of Business Conduct.

Many areas of public policy are highly relevant to global citizenship. In recent years, numerous laws have been introduced that affect our global citizenship priorities and the ways we address them. Examples include the Waste Electrical and Electronic Equipment (WEEE) directive in the European Union and similar legislation on electronics recycling introduced in several U.S. states.

Before taking a position on a public policy issue, we consider the potential impacts, intentional or unintentional, on all key stakeholders. We strive to ensure that the positions we take do not conflict with our global citizenship objectives in other areas. For example, HP plans to increase business in emerging economies through open trade. Yet there is often little infrastructure in these countries to recycle or safely dispose of end-of-life equipment. We work with governments and industry to support the implementation of suitable regulations, policies and standards in emerging markets. We also adapt our own return and recycling programs to address these countries' needs.

Policy initiatives in 2007

Our public policy work focuses on the three priority areas summarized below. More detailed information on HP's positions and actions are available in our global issue briefs.

Innovation and competitiveness. We want to continue to develop technology that improves people's lives and work while creating high-quality employment worldwide. To fulfill these goals, HP must remain innovative and competitive. We have global public policies for the following issues:

- **Competitiveness**. We support policies that encourage entrepreneurship and sustainable growth; promote consumer choice; provide incentives for innovation, research and development; increase investment in education and training; strengthen the Rule of Law[1] in developing countries; and support rather than prevent global competition.
- **Intellectual property rights.** We believe society is best served by a patent system that encourages rather than obstructs knowledge-based economies, encouraging innovation intended to benefit society.
- **Education.** We believe technologists, policymakers and educators must collaborate to empower students globally and ensure an appropriate education. We work with educators to create country-led programs that meet students' current and future needs.

Market access. With more than 65 percent of HP's revenues coming from sales outside the United States, open trade policies are vital to our growth and success. We support comprehensive and progressive bilateral and regional trade agreements that include commitments to liberalization and transparency in government procurement, services and standards.

Environment. HP recognizes the environmental impacts of our products, services and operations. We support policies that promote energy-efficient technologies and responsible recycling.

- **Climate change.** HP believes that companies, governments and people around the world need to work together to address climate change. We support standardized and cost-effective actions by governments in this area, as well as voluntary efforts by the private sector consistent with HP's leadership.
- **Energy efficiency.** Energy security and costs increasingly affect society and the global economy. We are working to improve the energy efficiency of our products and operations.
- **Electronics recycling.** Because of rapidly improving technology, electronic equipment is frequently replaced, creating a growing surplus of unwanted electronics. HP accepts the principle that all manufacturers share with governments and customers the responsibility to treat electronic products responsibly at the end of their useful life. We support the concept of individual producer responsibility (IPR), which holds producers responsible for recycling their own products once they have been collected.

Industry coalitions and association memberships

We often communicate our positions on public policies through industry associations to which we belong in our major markets and locations. These organizations give us a collective voice with our industry partners, enabling us to reach government officials more efficiently. We list the major associations of which we are members on our Government Affairs website.

We also participate in standards bodies and industry coalitions to advance our business and global citizenship objectives. For example, we are collaborating to develop industry standards in areas such as energy efficiency and supply chain responsibility that will create fair competition and 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. In the United States, we encourage members to express their views to their elected officials when important legislation is pending.

In 2007, HP contributed $888,416 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 voluntary donations to the HP Political Action Committee (HP PAC). The HP PAC is a separate legal entity that contributes to bipartisan campaigns for congressional candidates who share our policy views. In 2007, the HP PAC contributed $225,300.

HP does not make political contributions outside the United States.

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 doing so
- A list of the candidates who received HP corporate or HP PAC contributions in 2007
- A list of the section 527 organizations[2] that received contributions from HP in 2007

[1]HP's definition of the "Rule of Law" is the governance structure based on a country's laws that are in accordance with 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

The first principle of global citizenship is acting with integrity in everything we do. To HP, that means being open and direct and cultivating a culture of trust. Strong governance, together with a commitment to compliance and accountability, guides our decisions and ensures HP is among the most respected and admired companies in the world.

IN THIS SECTION:
» Approach
» Seeking guidance
» Perspective

We believe the first requirement of good global citizenship is integrity. It is essential to earning the confidence and support of our employees, investors, customers and other stakeholders around the world.

Our integrity depends on being open, honest and direct in all our dealings. We work to create a culture of integrity built on trust, respect and dignity for all. This is as true today as it was when HP was founded in 1939. We maintain our integrity by adhering to global laws and regulations, as well as HP's internal standards, policies and processes, while pursuing our business strategies and objectives.

In 2007, we took immediate action to regain our standing following HP's investigation in 2006 into leaks of confidential information from the board of directors.

- We hired a chief ethics and compliance officer, who reports directly to the general counsel and to the board's Audit Committee on HP's investigative practices and ethics and compliance program.
- The board of directors and members of senior management received training on handling conflicts of interest, hiring independent counsel and conducting investigations.
- We expanded and strengthened our ethics and compliance training program and adopted a new code of conduct and guidelines for external investigative firms.

We have confidence in the renewed strength of our governance. More than merely protecting HP's reputation, our goal is to be a recognized leader in ethics and compliance. We know that "ethics" and "compliance" are not the same, and recognize that while a particular course of action may be within the law, that does not automatically mean it is the right thing to do. HP's shared values and objectives remain the foundation for building and sustaining a strong culture of integrity and accountability. We expect that all employees at all levels understand our company's values and demonstrate them through their behavior every day.

It requires constant effort and the utmost diligence to maintain a consistent ethical culture in a global company. The constant stream of new employees joining HP presents an ongoing challenge, and we must consider many different legal requirements as well as varying cultural and societal norms in protecting our integrity. The Approach page describes the progress we made in 2007 in developing a model ethics and compliance program.

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 underpin our commitment to conducting 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, including board members. The SBC covers relationships with employees, the community, suppliers, partners, customers and competitors, and addresses issues such as conflicts of interest and sensitive information. In early 2008, we updated the SBC with more straightforward language and linked it more closely to our company values and objectives.

We strive to foster a culture of ethics and compliance that is recognized and respected around the world. Our objectives for 2007 were to:

- Raise awareness of the importance of ethics and compliance
- Mitigate ethics and compliance risks by improving ethics and compliance processes, providing training in key risk areas, conducting investigations and taking corrective action
- Improve collaboration between corporate, business and regional teams
- Ensure ethics and compliance processes are transparent
- Revise the ethics and compliance governance structure

Below we describe our organizational structure supporting our ethics and compliance objectives as well as the key measures we have taken to achieve our objectives.

Board responsibilities

The board of directors is charged with five primary responsibilities relating to ethics and compliance:

- Provide oversight of ethics and compliance at HP
- Set and enforce the "tone at the top"
- Encourage a company culture of ethical conduct and compliance
- Establish procedures and a forum for review of significant ethical complaints
- Help implement the agreement made with the California attorney general following the events of September 2006

The board has ten members, with Mark Hurd serving as chairman, chief executive officer and president as of September 22, 2006. The other nine members are "independent directors," as defined by the listing standards of the New York Stock Exchange and HP's Corporate Governance Guidelines. John Joyce and Joel Hyatt were elected to HP's board in May 2007.

The Audit Committee of the board serves as a guide to HP's ethics and compliance program and as a direct resource for the chief ethics and compliance officer. Richard Hackborn serves as the lead independent director. Additionally, G. Kennedy Thompson serves as the independent director responsible for reviewing and reporting to the board on HP's compliance with legal and ethical requirements related to the conduct of investigations.

See also information regarding HP's director independence, board committees and composition, corporate governance guidelines, and director compensation.

Chief ethics and compliance officer and organization structure

HP's chief ethics and compliance officer, Jon Hoak, oversees our ethics and compliance program. He reports directly to the general counsel, the independent director responsible for HP's compliance with legal and ethical requirements related to the conduct of investigations, and to the board's Audit Committee on HP's investigative practices and ethics and compliance program.

The chief ethics and compliance officer also chairs the Ethics and Compliance Committee, which comprises senior HP executives and guides the design and implementation of HP's ethics and compliance program. Its objective is to ensure that the company is committed to the SBC, our core value of uncompromising integrity, and the development of an ethical and compliance-based culture.

External review

HP appointed Bart M. Schwartz, a former U.S. prosecutor, to assess our current ethics and compliance practices and develop future best practices. Based on his review and HP's internal assessments, we have implemented changes to our investigative policies, processes and reporting structures. HP has committed to implement all of Mr. Schwartz's recommendations, including a new Integrated Investigator Procurement program. This will cover areas such as investigative consultants' qualifications, accountability, oversight and supervision, performance assessments and training to ensure investigations are conducted lawfully and ethically.

Risk assessment

In 2007, we began a global review of risks arising in our business with public sector customers. This review involves an internal audit process, with assistance from experienced external third parties. Its objective is to ensure our exemplary management of ethics and compliance, which we believe will enhance our competitive position in this sector. We plan to implement a more general ethics and compliance risk assessment process in 2008. This will ensure that we prioritize the most critical risks, understand fully the current state of our risk and compliance processes, and develop effective plans for controlling risks. We will report the risk assessment results to all levels, from the Compliance Council up to the board of directors.

Communication and training

Our ethics program emphasizes that every person at HP can be an ethical leader, regardless of title or job responsibilities. Every year, we provide SBC training to all employees, including new employees and those of newly acquired companies, and this training is cited as good practice by the American Society for Training and Development. In 2007, 96 percent of employees received SBC training, slightly more than the 95 percent in 2006. We expanded ethics and compliance training across individual businesses and regions, with specialized training in key areas such as privacy and data protection, public sector sales, global trade and procurement, conflict of interest, and the U.S. Foreign Corrupt Practices Act.

We introduced new elements to our ethics training program in 2007, including a course on ethical leadership and specific training for new employees, and we developed a contingent worker code of conduct. We trained country managers worldwide in conflicts of interest, the U.S. Foreign and Corrupt Practices Act, contra-revenue marketing (such as discounts), procurement practices, and handling confidential competitive information. Country managers are also issued an SBC Reference Guide, which they can refer to if unsure of the best course of action on key ethics and compliance topics. We have also introduced a quarterly ethics bulletin containing real-life case studies for managers to use in discussions with their teams.

We include questions on ethics and compliance in our annual employee survey. In 2007, 93 percent of employees surveyed said they seek guidance from management, other HP resources or our Ethics and Compliance Office when unsure of the appropriate legal or ethical action to take. And 90 percent expressed they believe their manager is open, honest and ethical in their dealings on behalf of HP.

n January 2007, the board of directors and members of senior management were trained on how to handle conflicts of interest that may arise when external attorneys represent the board or any of its committees as well as HP. The board also received training on hiring independent counsel and conducting investigations. The Ethical Leadership Group, a Chicago-based consultancy, helped HP prepare and deliver the training.

Also in 2007, HP adopted a new code of conduct and guidelines for external investigative firms. As a result, we have expanded our ethics and compliance training to include not only HP employees performing investigations, but also employees of firms retained to conduct investigations on our behalf.

Seeking guidance

Employees may use several mechanisms to raise ethical or values-based concerns. We encourage employees to follow HP's Open Door Policy and talk first to their manager or the next level of management if issues arise. Alternatively, employees can submit concerns to ethics and compliance experts or their regional or business ethics and compliance liaisons.

HP's Global Standards of Business Conduct team manages formal, confidential communication channels for employees and other stakeholders to report potential violations of law, company policy or the SBC. Reporting can be anonymous, if preferred. Communication channels include:
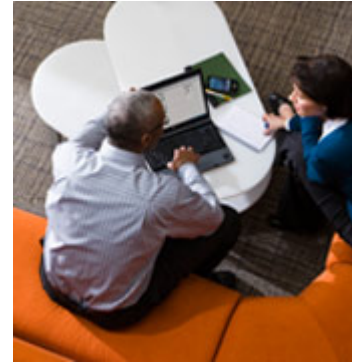
Telephone: A confidential 24-hour phone line, called The GuideLine, is available globally. In the United States, contact +1 800 424 2965. International dialing instructions can be found on our business ethics website.

E-mail: Use an online form or write directly to corporate.compliance@hp.com.

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

Within four business days, the person submitting a concern relating to the SBC will receive a response that explains how their concern will be handled or informs them that their concern is not covered by the SBC.

HP promptly investigates all allegations of SBC violations and takes appropriate action. Investigation teams may be local, regional or corporate, depending on the allegation. The Global SBC team oversees all investigations, and teams may also include members from the human resources, legal, IT security, global security and internal audit functions, depending on the expertise needed. In most cases, the investigation team shares its findings with the manager of the employee in question and agrees upon the appropriate disciplinary action. The details and results of all investigations are confidential.

In 2007, 1,069 inquiries and allegations were received 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.

As a result, we warned, demoted or terminated the contracts of employment of 531 employees during the year.

Items reported to the Global SBC Team or other compliance functions, 2007[1]

HR/retaliation/harassment	38%
Misuse of assets	20%
Fraud	12%
Channel	7%
Conflicts of interest	7%
Confidentiality	4%
Other	11%
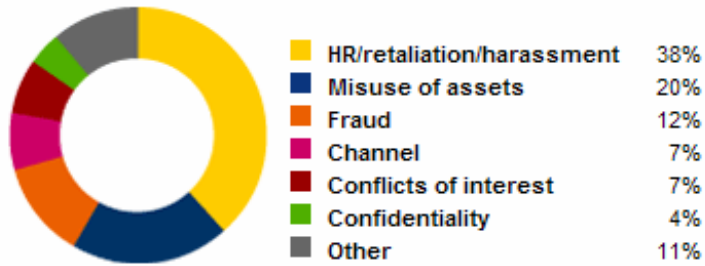
[1] Total is less than 100% due to rounding

Perspective

Patricia J. Harned, PhD
President
Ethics Resource Center

It is a tenuous position to judge from the outside what is happening inside an organization. Nevertheless, HP appears more motivated than ever to learn from the past in order to take a leading role in corporate ethics and compliance in the future. Indeed, there are some very positive signs; HP has made substantial changes to the structure of its ethics and compliance program, and senior leaders have been transparent about mistakes made, lessons learned and new steps taken. In terms of its program, the high-level placement of its chief ethics and compliance officer, an Ethics and Compliance Committee that works in concert with a new Compliance Council of experts, and the strengthening of its cross-functional Global SBC team are all promising developments. HP has made significant strides toward creating a comprehensive program that can help accomplish the stated goal of "uncompromising integrity."

The Ethics Resource Center's 2007 National Business Ethics Survey, sponsored in part by HP, revealed that well-implemented ethics and compliance programs are effective at increasing the extent to which management is aware of wrongdoing taking place, but they are insufficient in actually reducing the amount of misconduct happening in the first place. The best programs increase employee reporting, but it is the culture of the organization that becomes the real accelerant to the mitigation of ethics risk. It is clear from public statements of its leadership that strengthening the ethical culture of HP, while respecting international differences in its global operations, is a high priority for the company. HP's next set of immediate challenges will be to ensure that its new systems foster a strong ethical culture, to figure out how to measure this progress, and to share this complex information with all stakeholders—employees, managers, shareholders and external interest groups—in a comprehensible manner.

In the past year, I have been present several times when HP leaders have taken a public stage and talked openly about the ethics challenges of their past. I suspected this effort was primarily driven by a desire of its leadership to regain public and peer trust. I believe that HP is doing just that, with an added benefit. HP has begun to emerge as a practice leader and educator in the ethics and compliance field; many corporate leaders have benefited from HP's lessons learned. It is my hope that this trend will continue. Even further, I envision an HP, as a global corporation with capabilities to help meet many of the world's social and economic needs, that sets the pace for what is just now beginning to emerge as a conception of global corporate citizenship. I hope that HP shares that vision, and that the company will seize the opportunity before it.

Disclosure: HP is a paying member of the Ethics Resource Center.

Supply chain responsibility

As the world's largest IT company, we are advancing social and environmental practices throughout our global supply chain. This year, we are disclosing our top tier suppliers, and believe we are first in our industry to do so. We think greater transparency will deepen our engagement with stakeholders and further our goal to promote positive and lasting change.

IN THIS SECTION:

» Performance
» Audit results
» About HP's supply chain
» Approach
» Standards
» Assessing conformance

» Collaboration
» Third-party audits
» Goals
» Perspective
» Supplier diversity

As the world's largest information technology (IT) company, HP has the industry's largest supply chain. We have a responsibility to lead in this area that we take very seriously. It is consistent with our core values to be a force for positive change in the communities where we work and live. We ask our suppliers to make the same commitment and work closely with them to help them succeed.

We are committed to achieving sustained improvement throughout our supply chain by building our suppliers' social and environmental capabilities. Through our social and environmental responsibility (SER) program we are actively:

- Integrating social and environmental requirements into our sourcing operations
- Protecting workers' rights
- Engaging large and small suppliers on-site at their factories representing 95 percent of our spending on product materials, components and manufacturing
- Improving suppliers' working conditions and health and safety
- Working to reduce suppliers' environmental footprint
- Collaborating with NGOs and other stakeholders to inform, improve and validate our efforts

Strengthening the social and environmental performance of our suppliers yields significant benefits for HP. It protects our reputation and keeps our lines of supply open. As our case studies illustrate, it also can create efficiencies, decrease costs and strengthen partnerships.

In this report, we have disclosed our list of suppliers, which reflects our commitment to provide greater transparency to our stakeholders. We believe HP is the first in our industry to take this step.

HP global supply chain key statistics:

- Approximately $50 billion
- Over 400 contracted manufacturing suppliers
- More than 400,000 workers at audited sites that produce HP products
- Over 1 million print cartridges, 110,000 printers, 75,000 PC systems and 3,500 servers shipped daily

Performance

Auditing is central to our supply chain social and environmental responsibility (SER) program. Since 2004, we have conducted 410 audits, including 252 initial and 158 follow-up inspections, at sites employing more than 400,000 workers.

Through these audits, we examine suppliers' management processes and identify nonconformances with our SER program. Our goal is to drive continuous improvement by providing our suppliers with training and support to build their internal capabilities. From our experience, this requires participation at all levels in a manufacturing facility, including factory owners, senior management, product line and midlevel factory floor managers, and workers.

For this report, we have enhanced the way we report supplier performance and our efforts to improve working conditions throughout our supply chain. Key information is reported through an interactive tool and can be viewed globally or by region. The tool aggregates the results of HP's audits and outlines the major causes of nonconformance. It also describes improvements our suppliers have made and links to case studies highlighting specific ways we've helped strengthen their capabilities.

In 2007, HP conducted 150 supplier audits. Of these, 92 were follow-ups to verify progress against open nonconformances found during the initial review. These verification audits focused on our key strategic suppliers with the highest procurement spending, the most nonconformances and the largest workforce. Although the verification audits demonstrated that suppliers are addressing nonconformances, some remain open because we consider the corrective actions taken insufficient or because the root cause of the issue is systemic and challenging to correct. In addition, as our auditors gain sophistication in the Electronic Industry Code of Conduct audit protocols, they are detecting new nonconformances during follow-up audits.

Total major nonconformances by EICC section for global audits of high-risk suppliers, 2005-2007 [% by section]

Health and safety	30%
Labor	25%
Labor management system	16%
Environment	12%
EHS management system	9%
General	5%
Ethics	3%
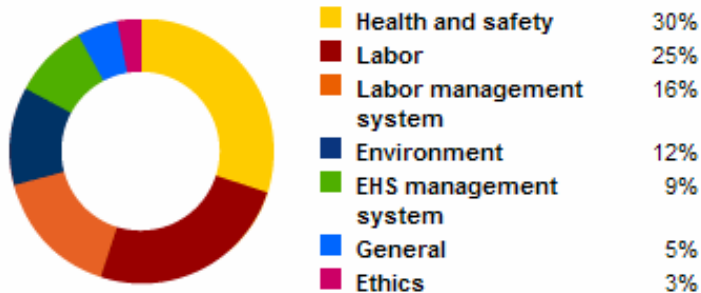
The following chart represents the top ten provisions with major nonconformances in initial audits from 97 of our key supplier sites and the improvements measured through subsequent verification audits at those sites. The data include only sites for which verification audits were conducted; these sites tend to have higher initial levels of nonconformance than other audited sites.

Percentage improvement of major nonconformances, 2005-2007
[based on verification audits of 97 sites]

See more detail in the interactive tool.

[1] Includes labor/ethics risk assessment and management

Audit results

Overall findings

Auditing is central to our SER program. Since 2004, we have conducted 410 audits, including 252 initial and 158 follow-up inspections, at sites employing more than 400,000 workers.

Through these audits, we examine suppliers' management processes and identify nonconformances with our SER program. Our goal is to drive continuous improvement by providing our suppliers with training and support to build their internal capabilities. From our experience, this requires participation at all levels in a manufacturing facility, including factory owners, senior management, product line and midlevel factory floor managers, and workers.

EICC provisions	Nonconformances[1]		
General	Major	Minor	Trend[2]
EICC awareness	◎	◎	↘
Legal compliance fines	∘	◎	—
Supplier mgmt. program	◎	◎	↘
Labor	Major	Minor	Trend[2]
Freely chosen employment	◎	◎	↗
Child labor avoidance and protection of young workers (ages 16-18)	◎	◎	↗
Working hours	◎	◎	↘
Wages and benefits	◎	◎	↗
Humane treatment	◎	◎	↘
Nondiscrimination	◎	◎	↘
Freedom of association	◎	◎	↗
Labor management system	Major	Minor	Trend[2]

EICC provisions	Nonconformances[1]		
Environmental	Major	Minor	Trend[2]
Environmental permits and reporting	◎	◎	↘
Pollution prevention and resource reduction	∘	◎	↘
Hazardous substances	◎	◎	↘
Wastewater and solid waste	◎	◎	↗
Air emissions	◎	◎	↘
Product content	Note[3]	Note[3]	Note[3]
EHS management system	Major	Minor	Trend[2]
Management system elements	◎	◎	↘
Ethics	Major	Minor	Trend[2]
Business integrity	◎	◎	↘
No improper advantage	◎	◎	↘
Disclosure of information	∘	◎	—
Intellectual property	◎	◎	↗

	Major	Minor	Trend[2]
Management system elements	◎	◎	↘
Health and safety	**Major**	**Minor**	**Trend[2]**
Occupational safety	◎	◎	↗
Emergency preparedness	◎	◎	↘
Occupational injury and illness	◎	◎	↗
Industrial hygiene	◎	◎	↗
Physically demanding work	◎	◎	↗
Machine safeguarding	◎	◎	↗
Dormitories and canteens	◎	◎	↘

	Major	Minor	Trend
Fair business, advertising and competition	◎	◎	↘
Protection of identity (whistleblower)	◎	◎	↘
Community engagement	◎	◎	—

Legend

	0%	1-10%	11-25%	26-50%	51-75%	More	Fewer	No change
	○	◎	◎	◎	◎	↗	↘	—

[1]These data reflect the results of HP's last site audit; they exclude completed supplier corrective actions that have not yet been validated by HP through a verification audit.
[2]A down arrow indicates an improvement and reduction in nonconformances in the last year. Increases are generally caused by auditing additional suppliers or facilities.
[3]See Materials section.

Americas
20% of total spend

Europe, Middle East and Africa
5% of total spend

Asia Pacific
75% of total spend

● Locations with audits
○ Locations without audits

Asia Pacific findings

In 2007, the supply chain social and environmental responsibility team in HP's Asia Pacific and Japan region audited a total of 30 sites in Indonesia, Malaysia, the Philippines, Singapore and Thailand. These companies supply various components and materials such as hard-disk drives, power supplies and plastics to HP. The major issues identified during audits included occupational safety, excessive working hours, emergency preparedness, lack of labor risk assessments, and discrimination.

EICC provisions	Nonconformances[1]		
General	**Major**	**Minor**	**Trend[2]**
EICC awareness	◎	◎	↘
Legal compliance fines	○	◎	—
Supplier mgmt. program	◎	◎	↘
Labor	**Major**	**Minor**	**Trend[2]**
Freely chosen employment	◎	◎	↘
Child labor avoidance and protection of young workers (ages 16-18)	○	◎	—
Working hours	◎	◎	—
Wages and benefits	◎	◎	↗
Humane treatment	◎	◎	↘
Nondiscrimination	◎	◎	—
Freedom of association	○	◎	—
Labor management system	**Major**	**Minor**	**Trend[2]**
Management system elements	◎	◎	↘

Location	Initial audits	Follow-up audits	Workers at sites audited
India	3	0	350
Indonesia	6	0	5,000
Korea	5	0	1,500
Malaysia	15	6	21,000
Philippines	5	1	9,500
Singapore	20	5	11,000
Thailand	10	7	39,500

EICC provisions	Nonconformances[1]		
Environmental	**Major**	**Minor**	**Trend[2]**
Environmental permits and reporting	◎	◎	—
Pollution prevention and resource reduction	○	◎	↘
Hazardous substances	◎	◎	↘
Wastewater and solid waste	◎	◎	—
Air emissions	○	◎	—
Product content	Note[3]	Note[3]	Note[3]
EHS management system	**Major**	**Minor**	**Trend[2]**
Management system elements	◎	◎	↘
Ethics	**Major**	**Minor**	**Trend[2]**

Health and safety	Major	Minor	Trend[2]		Business integrity			
Occupational safety	◎	◎	↗ (More)		Business integrity	◎	◎	— (No change)
Emergency preparedness	◎	◎	↘ (Fewer)		No improper advantage	◎	◎	— (No change)
Occupational injury and illness	◎	◎	— (No change)		Disclosure of information	○	○	— (No change)
Industrial hygiene	◎	◎	↘ (Fewer)		Intellectual property	○	○	— (No change)
Physically demanding work	◎	◎	↘ (Fewer)		Fair business, advertising and competition	◎	◎	— (No change)
Machine safeguarding	◎	◎	— (No change)		Protection of identity (whistleblower)	◎	◎	— (No change)
Dormitories and canteens	◎	◎	— (No change)		Community engagement	○	◎	— (No change)

Legend: 0% = ○ | 1-10% | 11-25% | 26-50% | 51-75% | More = ↗ | Fewer = ↘ | No change = —

[1]These data reflect the results of HP's last site audit; they exclude completed supplier corrective actions that have not yet been validated by HP through a verification audit.
[2]A down arrow indicates an improvement and reduction in nonconformances in the last year. Increases are generally caused by auditing additional suppliers or facilities.
[3]See Materials section.

Asia Pacific challenges

In Thailand, mandatory overtime results largely from a 12-hour shift system that automatically imposes daily overtime of three to four hours. Thai law allows workers to work an 84-hour week, whereas HP's code requires a maximum of 60 hours. There have been local reports of reprisals against workers for refusing overtime.

Audit results revealed that discrimination against pregnant women is common in the region. In Thailand, some factory management believe incorrectly that the manufacturing processes for hard-disk drives could harm pregnant women, and therefore factories commonly conduct pregnancy tests. The test results are sometimes used as a reason not to hire a woman rather than to ensure safe placement in an appropriate job.

HP's response

When a report by the NGO SOMO (Centre for Research on Multinational Corporations) found poor working conditions in hard-disk drive supplier factories in Thailand and the Philippines, HP collaborated with SOMO to organize a supplier forum.

Held in Bangkok in May 2007, the forum brought together suppliers and the local NGOs that helped SOMO conduct the research. Participants listened to each other's point of view and worked together to plan a path forward. At the end of the forum, HP asked the suppliers to engage third-party auditors and to report the audit findings and corrective action plans to HP and SOMO. As a result, suppliers have now provided their audit reports and have corrective action plans in place to address nonconformances.

Following the forum, several suppliers asked their trade association, the International Disk Drive Equipment and Materials Association (IDEMA), to help shape the dialogue and a training curriculum to address Electronic Industry Code of Conduct (EICC) conformance in the region. HP is collaborating with IDEMA on an educational program to support compliance with the EICC. In January 2008, HP attended a launch event in Bangkok for training activities on critical social and environmental issues. Suppliers from several parts of Southeast Asia participated in the launch and plan to take part in the training program to promote better working conditions and safe and sustainable supply chains.

Greater China

Greater China findings

In 2007, the main nonconformances identified in 85 site audits in China and Taiwan concerned working hours, wages and benefits, emergency preparedness, the handling and control of hazardous substances, and industrial hygiene.

Although many nonconformances with Electronic Industry Code of Conduct requirements remain in China, we see indications of a more open and receptive climate for change. Improvements to date have not been universal, but progress is apparent in the following areas:

- EICC awareness: Suppliers are working to integrate the code requirements into their overall management systems and factory operations.
- Humane treatment: Suppliers are eliminating disciplinary wage deductions.
- Labor and ethics management system: suppliers have established labor commitment statements and performance objectives, are training workers on benefits and pay, and are developing ethics standards.
- Environmental health and safety: Suppliers are strengthening elements of their EHS management systems and improved conditions in their dormitories and canteens.
- Environment: Suppliers have obtained the necessary permits and are establishing pollution prevention and resource- and energy-efficiency programs.

Location	Initial audits	Follow-up audits	Workers at sites audited
China	111	98	266,500
Taiwan	11	2	15,000

	Major	Minor	Trend[2]
Wages and benefits	◎	◎	↗ More
Humane treatment	◎	◎	↘ Fewer
Nondiscrimination	◎	◎	↘ Fewer
Freedom of association	◎	◎	↗ More
Labor management system	Major	Minor	Trend[2]
Management system elements	◎	◎	↘ Fewer
Health and safety	Major	Minor	Trend[2]
Occupational safety	◎	◎	↗ More
Emergency preparedness	◎	◎	↘ Fewer
Occupational injury and illness	◎	◎	↗ More
Industrial hygiene	◎	◎	↗ More
Physically demanding work	◎	◎	↗ More
Machine safeguarding	◎	◎	↗ More
Dormitories and canteens	◎	◎	↘ Fewer

	Major	Minor	Trend[2]
Air emissions	◎	◎	↘ Fewer
Product content	Note[3]	Note[3]	Note[3]
EHS management system	Major	Minor	Trend[2]
Management system elements	◎	◎	↘ Fewer
Ethics	Major	Minor	Trend[2]
Business integrity	◎	◎	↘ Fewer
No improper advantage	◎	◎	↘ Fewer
Disclosure of information	○	◎	— No change
Intellectual property	◎	◎	↗ More
Fair business, advertising and competition	◎	◎	↘ Fewer
Protection of identity (whistleblower)	◎	◎	↘ Fewer
Community engagement	○	◎	— No change

Legend

	0%	1-10%	11-25%	26-50%	51-75%	More	Fewer	No change
	○	◎	◎	◎	◎	↗	↘	—

[1]These data reflect the results of HP's last site audit; they exclude completed supplier corrective actions that have not yet been validated by HP through a verification audit.
[2]A down arrow indicates an improvement and reduction in nonconformances in the last year. Increases are generally caused by auditing additional suppliers or facilities.
[3]See Materials section.

Greater China challenges

Employee overtime and wages are the two biggest challenges in this region. They are complex system issues, and many stakeholders must be involved to resolve them. Consistent requirements among customers such as HP encourage suppliers to strengthen their labor management systems, and corporate sourcing strategies can help by rewarding responsible social performance by suppliers. In addition, suppliers must be presented with a clear business case demonstrating that paying workers a higher wage and requiring less overtime leads to higher productivity through reduced turnover, training costs, and injuries and illnesses.

In 2007, NGOs published reports alleging social and environmental violations at HP´s supplier facilities (and suppliers to our suppliers) in China and other Asia-Pacific countries. These are the first reports we are aware of in which HP and several of our competitors are being held accountable for the performance of sub-tier suppliers. These reports highlight the new and significant challenges we face in tracing our supply chain and training our first-tier suppliers to operate their own supplier programs. HP seeks to encourage improvement in all tiers of our manufacturing supply chain.

HP's response

Our efforts in China focus on improving our suppliers´ capabilities to manage social and environmental responsibility issues and to achieve better understanding between the parties involved.

In 2007, we had three key initiatives:

- HP collaborated with Business for Social Responsibility's China Training Institute and Foxconn to launch the Focused Improvement Supplier Initiative (FISI) in China. FISI employs a multi-stakeholder partnership approach to building suppliers' capabilities and is unique in providing monthly ongoing support.
- Suppliers and NGOs often have an adversarial relationship. HP has capitalized on its good relations with both parties to bring about progressive collaboration.
- HP is working through a multi-stakeholder partnership on a capability-building strategy for the electronics sector in southern China. See more detail.

Central Europe

Central Europe findings

In 2007, we conducted 12 follow-up audits in the Czech Republic, Hungary and Poland and observed many improvements at all supplier sites. However, major nonconformances remain in supplier management processes, emergency preparedness, physically demanding work, the handling and control of hazardous substances, and lack of management system elements (risk assessment, objectives, audits and worker feedback).

EICC provisions — Nonconformances[1]

General	Major	Minor	Trend[2]
EICC awareness	◎	◎	↘
Legal compliance fines	○	○	—
Supplier mgmt. program	◎	◎	↘
Labor	**Major**	**Minor**	**Trend[2]**

Location	Initial audits	Follow-up audits	Workers at sites audited
Czech Republic	18	10	9,500
Hungary	13	4	12,000
Poland	4	1	400

EICC provisions — Nonconformances[1]

Environmental	Major	Minor	Trend
Environmental permits and reporting	○	○	—

Labor	Major	Minor	Trend[2]
Freely chosen employment	○	○	—
Child labor avoidance and protection of young workers (ages 16-18)	○	◉	—
Working hours	○	◉	↘
Wages and benefits	○	◉	↘
Humane treatment	○	◉	—
Nondiscrimination	○	○	—
Freedom of association	○	◉	—
Labor management system	**Major**	**Minor**	**Trend[2]**
Management system elements	◉	◉	↗
Health and safety	**Major**	**Minor**	**Trend[2]**
Occupational safety	◉	◉	—
Emergency preparedness	◉	◉	↗
Occupational injury and illness	○	◉	—
Industrial hygiene	○	◉	—
Physically demanding work	◉	◉	↗
Machine safeguarding	○	◉	—
Dormitories and canteens	○	○	—

Environment	Major	Minor	Trend
Pollution prevention and resource reduction	◉	◉	—
Hazardous substances	◉	◉	↗
Wastewater and solid waste	○	◉	—
Air emissions	○	○	—
Product content	Note[3]	Note[3]	Note[3]
EHS management system	**Major**	**Minor**	**Trend[2]**
Management system elements	◉	◉	↗
Ethics	**Major**	**Minor**	**Trend[2]**
Business integrity	○	◉	—
No improper advantage	○	○	—
Disclosure of information	○	○	—
Intellectual property	○	○	—
Fair business, advertising and competition	○	○	—
Protection of identity (whistleblower)	○	◉	—
Community engagement	○	◉	—

Legend   0%   1-10%   11-25%   26-50%   51-75%   More   Fewer   No change

[1] These data reflect the results of HP's last site audit; they exclude completed supplier corrective actions that have not yet been validated by HP through a verification audit.
[2] A down arrow indicates an improvement and reduction in nonconformances in the last year. Increases are generally caused by auditing additional suppliers or facilities.
[3] See Materials section.

Central Europe challenges

The trend of using foreign workers hired through labor agencies, especially in the Czech Republic and Hungary, is impacting our suppliers, as they are not well equipped to manage these workers and the labor agencies that hire them. The migrant workers are mainly from Bulgaria, Mongolia, Romania, Russia, Slovakia, Ukraine and Vietnam. Workers and suppliers alike are challenged to overcome language barriers and cultural differences. Suppliers need to work harder to educate migrant workers about their rights and entitlement to benefits and to monitor practices of the labor agencies that hire these workers.

HP's response

HP is adopting a collaboration model to leverage our efforts in Central Europe. The Partnership for Sustainable Competitiveness is a joint initiative between HP, The Copenhagen Centre for Corporate Responsibility (TCC) (now the Danish Centre for CSR in the Danish Commerce and Companies Agency) and Copenhagen Business School, in which major suppliers are enrolled to recruit their own suppliers to the SER process.

In a second collaboration, as a member of CSR Europe, HP was invited to participate in their Supply Chain Laboratory. HP joined the lab in early 2007 and is one of the three laboratory leaders. CSR Europe facilitates the process, and several governmental entities participate actively, including the Danish Commerce and Companies Agency and the Dutch Ministry of Economic Affairs.

The lab is developing a European Portal for Responsible Supply Chain Management. The Internet site will provide a user-friendly map of the key international standards and principles relevant to the different areas of supply chain management. It will also contain training material for large companies to improve their management systems and for suppliers to proactively approach social and environmental responsibility management. The portal will facilitate ongoing discussion and experience sharing.

The findings of our audits in 2007 are encouraging, showing that several suppliers are making strong progress.

Latin America

Latin America findings

In 2007, we conducted 13 audits at supplier sites in Mexico and Brazil. The chief nonconformances were occupational safety, physically demanding work, emergency preparedness, the handling and control of hazardous substances, and lack of labor management system elements (risk assessment, objectives, audits and worker feedback). In Mexico, our auditing system has matured and, in addition to monitoring, we concentrate on resolving the root causes of problems. The major issues we will address in 2008 are discrimination during hiring by recruiters and agencies, the use and abuse of flexible work contracts, worker communications, grievance management, and conflict resolution processes.

EICC provisions	Nonconformances[1]		
General	Major	Minor	Trend[2]
EICC awareness	◎	◎	↘
Legal compliance fines	○	◎	—
Supplier mgmt. program	◎	◎	↘
Labor	Major	Minor	Trend[2]
Freely chosen employment	○	◎	—
Child labor avoidance and protection of young workers (ages 16-18)	○	◎	—
Working hours	◎	◎	↘
Wages and benefits	○	◎	—
Humane treatment	○	◎	—
Nondiscrimination	◎	◎	↘
Freedom of association	○	◎	—
Labor management system	Major	Minor	Trend[2]
Management system elements	◎	◎	—
Health and safety	Major	Minor	Trend[2]
Occupational safety	◎	◎	—
Emergency preparedness	◎	◎	↘

Location	Initial audits	Follow-up audits	Workers at sites audited
Brazil	9	3	7,000
Mexico	22	21	18,000

EICC provisions	Nonconformances[1]		
Environmental	Major	Minor	Trend[2]
Environmental permits and reporting	◎	◎	↘
Pollution prevention and resource reduction	○	◎	—
Hazardous substances	◎	◎	—
Wastewater and solid waste	◎	◎	—
Air emissions	◎	◎	—
Product content	Note[3]	Note[3]	Note[3]
EHS management system	Major	Minor	Trend[2]
Management system elements	◎	◎	↗
Ethics	Major	Minor	Trend[2]
Business integrity	◎	◎	↘
No improper advantage	◎	○	—
Disclosure of information	◎	○	—
Intellectual property	○	◎	—
Fair business, advertising and competition	◎	◎	—

Occupational injury and illness	◎	◎	↗ (More)	Protection of identity (whistleblower)	◎	◎	— (No change)
Industrial hygiene	◎	◎	↘ (Fewer)	Community engagement	◎	◎	— (No change)
Physically demanding work	◎	◎	↘ (Fewer)				
Machine safeguarding	◎	◎	↘ (Fewer)				
Dormitories and canteens	○	◎	↘ (Fewer)				

Legend

0%	1-10%	11-25%	26-50%	51-75%	More	Fewer	No change
○	◎	◎	◎	◎	↗	↘	—

[1]These data reflect the results of HP's last site audit; they exclude completed supplier corrective actions that have not yet been validated by HP through a verification audit.
[2]A down arrow indicates an improvement and reduction in nonconformances in the last year. Increases are generally caused by auditing additional suppliers or facilities.
[3]See Materials section.

Latin America challenges

The Centro de Reflexión y Acción Laboral (CEREAL) report on working conditions in the electronics sector in Mexico, published in October 2007, highlighted several issues the electronics sector still must address. CEREAL´s research found that the root cause of the most prevalent of these issues is the reliance on labor agencies that frequently have inadequate or discriminatory hiring practices and the use (and abuse) of flexible work contracts. Deeply ingrained cultural norms and patterns will take additional time and commitment to change. The fierce competition and need for manufacturing flexibility discourages long-term hiring and creates a challenging environment for communicating with workers about their rights.

HP's response

We are working with members of the National Chamber of the Electronics, Telecommunications and Informatics Industry (CANIETI) and CEREAL to help suppliers and their labor agencies conform to the Electronic Industry Code of Conduct. We are jointly developing training courses, a third-party social responsibility certification system for agencies and their recruiters, and forums to share best practices. We are looking for ways to minimize the use of month-to-month flexible contracts and to establish better communications and grievance systems for workers to express their opinions to management.

To address the specific issues identified by CEREAL regarding labor agencies' hiring practices, HP and the EICC members held a forum with CEREAL and selected labor agencies and agreed on several activities for 2008 to advance improvements:

- Conduct a working session with the agencies regarding issues of concern
- Increase worker education opportunities and distribute the code in an easily accessible form
- Increase focus on preventive action, such as more roundtables targeting specific issues
- Our efforts in the region are beginning to achieve results. One example is our supplier, Pegatron Mexico, which has designed and implemented a new management system following our engagement.

About HP's supply chain

As the world's largest information technology (IT) company, HP has the industry's largest supply chain. The suppliers from whom we purchase the materials, components, manufacturing and distribution services for our products collectively represent more than 1,000 locations around the world (see map).

HP's suppliers are grouped into two main categories:

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

Our supply chain social and environmental responsibility (SER) program focuses primarily on the first category, because HP believes that it is where the most significant labor and environmental issues reside. We are beginning to engage goods and services suppliers in the SER program as appropriate based on our risk criteria and strategy.

Approach

We are working to implement systems to achieve long-lasting improvements throughout our supply chain. We ask our suppliers to conform to the same rigorous ethical, social and environmental standards that we hold ourselves to.

We are also working closely with our suppliers to quantify the energy they consume in manufacturing our products and associated greenhouse gas (GHG) emissions that contribute to climate change. We estimate these GHG emissions are on the same order of magnitude as the emissions associated with the energy used by our products during customer use (see Climate and energy), and next year we plan to report the energy use and associated GHG emissions in HP's first tier suppliers representing more than 70 percent of our materials, components and manufacturing supplier spend. HP joined the Carbon Disclosure Project Supply Chain Leadership Collaboration project (see press release) in late 2007 to help develop a consistent and appropriate methodology for disclosing energy use and GHG emissions throughout the supply chain.

Risk-based program

We employ a risk-based approach to prioritize implementation of our social and environmental responsibility (SER) program with our first-tier suppliers-those with whom we have a direct contractual relationship (see diagram). These suppliers select and manage their own suppliers, also known as second- or sub-tier suppliers or subcontractors.

Risk-based approach to supply chain social and environmental responsibility

- 436 **low-risk** suppliers engaged and assessed (no audits necessary)
- 15 **high-risk** new suppliers to be audited at 15 sites in 2008
- 160 **high-risk** suppliers audited at 252 sites through 2007 (will re-audit 75 sites in 2008)
- 25 suppliers **to be assessed**

First-tier suppliers

Second-tier suppliers
HP will train first-tier suppliers to audit second-tier suppliers

Third-tier suppliers
HP and our first-tier suppliers will train second-tier suppliers to manage their suppliers

The risk factors we use to prioritize suppliers are:

- Location: Risk is higher in some geographies and 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 contracts with new suppliers.
- Company information: Information from previous audits, press articles, incidents or accidents may impact our assessment of supplier risk.

Collaboration

We take an open, collaborative and proactive approach to implementing SER in our supply chain (see Collaboration). Our experience is that communication and collaboration often lead to innovation and rapid improvement and constitute a far more effective approach than policing and enforcing.

For example, HP and our suppliers operate as collaborators when working on joint assessments and improvement planning. We engage both the HP commodity manager and the supplier to ensure they understand the expectations of the SER program and to identify gaps and develop plans. We also engage with NGOs and third-party audit firms to gain insight, expertise and quick follow-through. Suppliers often question whether they can meet HP's SER standards and cost requirements simultaneously. We believe that our sourcing needs should not require nonconformances such as excessive working hours or violations of the law, and that higher labor and environmental standards ultimately lead to higher quality products.

In 2007, we completed the first session of the Focused Improvement Supplier Initiative (FISI) training program with 30 suppliers in China to help them understand how raising their SER standards and practices can benefit their business (see case study). Systemic change requires time however, as suppliers must first build their management capability and, in some cases, challenge the prevailing culture.

We began implementing our SER program five years ago, and after hundreds of audits worldwide, we have a solid understanding of the main issues in the regions where we source. In the future, we will increasingly focus on addressing the root causes of specific issues through innovative training programs and partnerships.

Governance

HP integrates social and environmental considerations into its 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 the HP Executive Council. See more information.

Supply chain SER program governance structure
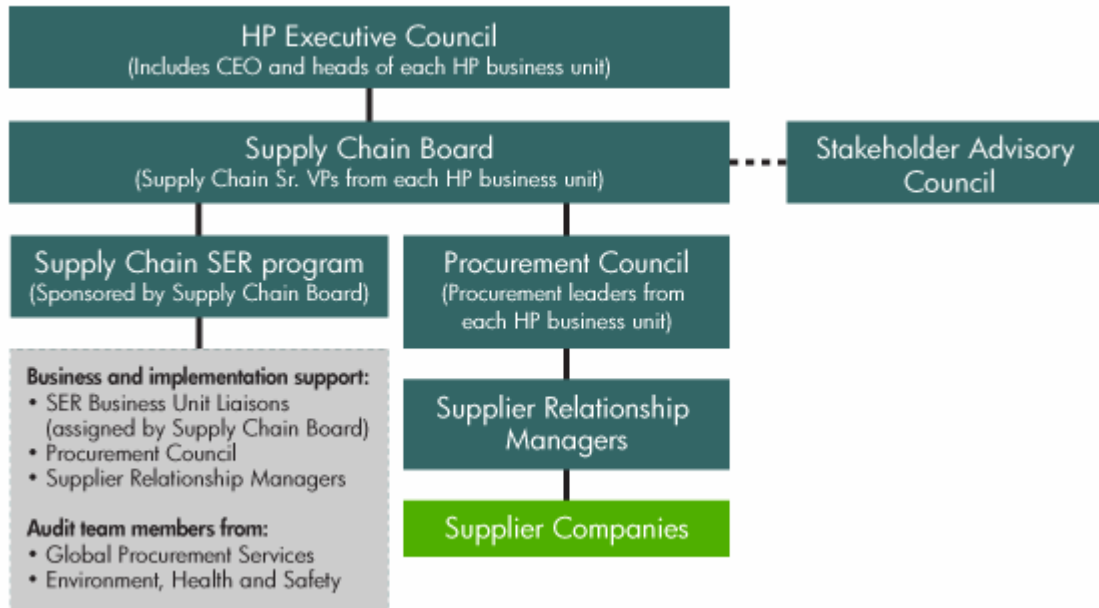
Sourcing

Integrating supplier SER into HP's sourcing function

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

HP's Procurement Management Process (PMP) defines how our procurement organizations worldwide manage suppliers. The PMP's business objective is to identify and assess suppliers for their ability to meet HP's needs by evaluating risk and applying HP's sourcing strategy consistently.

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

We use a High-Performance Supplier Scorecard to evaluate and improve overall supplier performance. The scorecard has five equally weighted performance categories, including Business, which has an SER sub-category. The other categories are Cost, Quality, Supply and Technology. The scorecard rating system supports HP's commitment to continual improvement toward full conformance with the Electronic Industry Code of Conduct by ranking a supplier's management capacity as well as specific conformance issues. Scorecards are reviewed regularly to identify issues or trends to prioritize. HP also has a reverse scorecard process, where the supplier rates us as a customer on our order and supplier management process.

Standards

Strong and appropriate standards are essential to improving conditions in our industry's supply chain. When major electronics companies set consistent standards, we send a stronger message and enable our suppliers to implement the standards more efficiently.

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, ethics, the environment, health and safety across the electronics industry's global supply chain. See a summary of the EICC.

The provision on freedom of association continues to receive the most comment from various stakeholder groups. To address their concerns, HP made changes to the provision in 2005.

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 ethical, social and environmental responsibility standards for suppliers.

Human rights

The concept of human rights holds that every individual has universal rights and status, regardless of legal jurisdiction. These include the right to life and liberty, freedom of thought and expression, and equality before the law.

The United Nations (UN) Universal Declaration of Human Rights, established in 1948, provides the basis for human rights standards. Other sources include:

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

HP's Human Rights policy and our supply chain social and environmental responsibility (SER) program reflect these international conventions, as does 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. We expect our 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. The chair is Mary Robinson, president of Realizing Rights: The Ethical Globalization Initiative. She is the former president of Ireland and former UN high commissioner for human rights.

BLIHR strives to find "practical ways of applying the aspirations of the Universal Declaration of Human Rights within a business context and to inspire other businesses to do likewise." HP is committed to sharing our tools and experiences not only within the group but with all interested companies.

Assessing conformance

Our social and environmental responsibility (SER) program follows four phases that promote continual improvement in supplier companies (see table). HP has developed a network of local internal auditing teams backed by independent verification in the regions where we purchase. We do not rely solely on supplier certification to external standards such as ISO 14000, OHSAS 18000 and SA 8000 because we have observed that standards can vary among certified companies and that suppliers without certification can have equally rigorous SER management systems. In 2007, we increased our work to achieve continual improvement, focusing on training programs and partnerships (see Collaboration).

Supply chain SER management system

Performance measurement		Continuous improvement	
Stakeholders: brands; supplier owners, managers and workers; auditors; NGOs; governments; consumers			
Phase 1: Introduction	**Phase 2: Assessment**	**Phase 3: Validation**	**Phase 4: Continual improvement**
HP conducts preliminary risk assessment of suppliers. For risk factors see: Risk-based program. Suppliers identified as potential SER risks are prioritized for introduction to HP's SER requirements.	SER requirements are confirmed in the HP Supplier contract. 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. HP determines if the supplier is a priority for an onsite audit.	HP conducts on-site audits of selected sites. When audits reveal nonconformance with code provisions, we work with the supplier to establish a corrective action plan. After implementation, we re-audit (several times if needed) and verify that the nonconformance and its causes have been addressed.	We work with several organizations to identify key education areas, and we help suppliers build capability by acquiring the necessary skills, tools and expertise to continually improve. HP collaborates with NGOs throughout the world (China, Thailand, India, Eastern EU and Mexico) to work directly with workers and management on root causes of nonconformance.
Progress 2007			
611 suppliers (911 sites) were risk assessed and engaged.	460 suppliers (697 sites) completed self-assessments.	HP conducted more than 150 initial and follow-up site audits of 106 suppliers in 2007. HP audited 160 suppliers (including sub-tier) at 252 sites. 242 corrective action plans are in progress between supplier and HP.	In China and Central Europe, HP completed training courses for more than 50 first- and second-tier suppliers. HP held supplier forums in China, India, Mexico and Thailand with more than 150 supplier representatives.

How we assess potential new suppliers

HP integrates new suppliers into the supply chain by following the Procurement Management Process. This requires suppliers to complete the SER agreement and the self-assessments. Suppliers then pass into our supply chain SER program for further assessment and continual improvement.

How we assess conformance

In assessing conformance with our Supplier Code of Conduct, we seek long-lasting change. A supplier monitored for specific areas of nonconformance may correct those particular issues but allow a new problem to occur. As a result, we believe in combining monitoring for specific areas of nonconformance with the development of management systems.

How we respond to nonconformance

As part of our supplier SER program, HP employees conduct supplier audits. An external organization verifies a sample of these audits. Nonconformances to our Supplier Code of Conduct are categorized as "major," "minor" and "observation." HP ranks noncomformances using the standard ISO guidelines:

- **Major nonconformance:** A significant failure in the management system that affects the ability of the system to ensure that conditions conform to the HP Supplier Code of Conduct or General Specification for Environment.

  Major nonconformances include any "zero tolerance" items identified, such as underage child workers (below the legal age for work or apprenticeship), forced labor, health and safety issues posing immediate danger to life or serious injury, and violation of environmental laws posing serious and immediate harm to the community. Although not common, the auditor must report any zero tolerance violation immediately to the supplier, the Supply Chain SER Program Office and the HP Supplier Relationship Manager. The supplier must correct zero tolerance items in a short and agreed-upon timeframe, depending on the nature of the problem.

- **Minor nonconformance:** Not a systemic problem and typically an isolated finding, such as an overdue corrective action from an internal audit or a procedure that has not been revised to reflect a change in regulations.

- **Observation:** An observation is not considered to be a nonconformance to the code. It is typically recognition that there may be a better way to monitor a process or document a procedure.

HP requires suppliers to provide a written corrective action plan within 30 days of receipt of the site audit report. The plan must detail how the supplier will correct all identified nonconformances.

When a major nonconformance is identified, the supplier has up to 180 days to correct it, depending on the severity. Suppliers have 180 to 360 days to address minor nonconformances.

The HP supplier relationship manager and the audit team monitor supplier progress closely to ensure that the supplier resolves all major nonconformances within the specified time. We believe that remaining engaged with suppliers and providing support and tools is the best way to help them improve their performance. If a supplier rejects this approach, HP makes it clear that we will not tolerate serious or repeated violations of our code and will terminate the relationship. Because terminating a contract can have negative consequences, including the loss of jobs for workers, we prefer to collaborate with suppliers to improve conditions at their factories.

Collaboration

HP works through alliances to extend our impact and multiply our efforts. In collaborating with others, we strive to share responsibility for social and environmental responsibility (SER) improvements and to be a catalyst for multi-stakeholder commitment and action.

Working with NGOs and other initiatives

To better understand local context, we frequently undertake capability-building initiatives in collaboration with local NGOs and other organizations. HP strives to bring all parties to the table and lead an open discussion to prevent a relationship from becoming adversarial. By engaging with NGOs, we have learned how to improve our programs and address key challenges in each region. One of our key collaborations is a multi-stakeholder capability-building initiative with the Foreign Investment Advisory Service, which aims to raise standards in the electronic sector concentrated in the southern region of China (see China region for details).

Working with governments

HP engages with governments to raise standards in our supply chain and work toward consistent application of local labor and environmental laws.

Working with our industry

Collaboration within our industry leverages the efforts of many individual organizations and companies to raise supply chain standards. Through industry groups, participants can share knowledge and resources, standardize tools and processes, minimize duplication of effort, and develop consistent approaches to the industry's most difficult issues. When a supplier receives a consistent message from its various corporate customers in the same sector, it is more likely to pay attention. The Electronic Industry Citizenship Coalition envisions that each company will act independently, using a common standard and tools, to ensure conformance with their suppliers.

EICC and GeSI

Two of the most significant supply chain collaborations are organized by the Electronic Industry Citizenship Coalition (EICC) and the Global e-Sustainability Initiative (GeSI). EICC and GeSI are collaborating to develop and deploy tools and processes to monitor supply chain social and environmental responsibility performance across the information and communications technology sector. HP has contributed significant resources and leadership to both efforts over the last three years.

In 2004, we helped to form the Electronic Industry Citizenship Coalition and have served on its steering committee since 2004. We have accomplished our initial goals of establishing a common code and tools to ensure that suppliers receive a consistent set of standards and measures from their major customers.

HP has been active in several EICC and GeSI initiatives:

Summary of EICC and GeSI Industry initiatives co-led by HP

Initiative	Status
EICC	
Develop EICC Code of Conduct	• Common set of provisions published in 2004
Develop common industry SER self-assessment questionnaire and supplier risk criteria	• Questionnaire and risk criteria developed and in use by EICC members
Communications and stakeholder engagement activities	• Participates actively in the strategy, development and delivery of communications, stakeholder forums and EICC presentations
Develop training for supplier relationship managers and suppliers	• Two EICC training solutions, one for supplier managers and one for suppliers, developed and hosted through HP's learning management system • Implemented third-party hosting service for use by EICC members to facilitate a consistent industry approach
Metals extractive mining proposal and study	• Study in progress to review SER practices as they relate to metal extractives, mining and the use of metals in electronics
Launch and pilot joint industry audits	• Audit protocols developed • Selected and qualified third-party audit firms • Piloted joint audits of common suppliers to test the process
GeSI	
Develop web-based tool	• Launched the Electronics Tool for Accountable Supply Chains (E-TASC) to house suppliers' self-assessment questionnaires, gap analysis reports and best practice guidance

Third-party monitoring standards

Third-party monitoring is a valuable component of our program, providing independent oversight of our own supplier auditing. The quality of third-party monitoring is critical. The consensus among Electronic Industry Citizenship Coalition (EICC) members is that standards vary among third-party monitoring companies and that the monitoring industry requires support to develop its abilities and achieve a consistently high standard.

The EICC is currently developing a formal auditor certification process for third-party monitors, which will be administered by a recognized auditor accreditation body. When available in mid-2008, all third-party auditors will need this certification before auditing suppliers on behalf of EICC member companies. This will help to ensure accurate and consistent results from third-party auditors.

Many publications, CSR events and conferences in 2007 emphasized the need to go beyond basic auditing if supply chains are to achieve sustainable change. HP believes that baseline auditing will always remain a critical part of the overall supplier engagement process and model and therefore warrants improvement rather than elimination.

The principles of strategic auditing are:

- The **philosophy** of the audit is a joint and collaborative effort between the supplier and the audit team.
- The **purpose** of the audit is to identify the level of conformance with relevant codes of conduct.
- The **objective** of the audit is to identify areas for continuous improvement over time and to focus efforts where the maximum positive difference can be made.

Third-party audits

From May through September 2007, HP engaged Environmental Resources Management (ERM) and Verité to conduct verification audits of 18 suppliers in China and Thailand, including those suppliers identified in NGO reports as having poor standards. Each facility was audited for compliance with HP, Electronic Industry Code of Conduct (EICC), Verité, ERM, ISO, OHSAS and ILO standards. Policies, procedures, systems, and implementation were evaluated pertaining to labor rights, compensation and hours, health and safety, and the environment. Verité and ERM analyzed the NGO report findings alongside their own audit findings and issued comprehensive audit reports for each facility. HP utilizes third-party auditors to confirm HP's internal audit findings as part of our continual improvement process. The results of the third-party audits correspond to what HP's internal auditors typically find in audits.

The most prevalent nonconformances found by Verité and ERM are also the most common issues identified by HP internal auditors. These include:

- Excessive, and often mandatory, overtime hours in violation of the EICC code and local and/or national labor laws
- Discrimination on the basis of pregnancy and age
- Lack of systems to manage and control health and safety in the factories in China
- EICC code awareness and alignment at the management level but not adequately communicated to the workers

In two factories, HP tested a new approach to taking corrective action. Verité conducted Management Action Planning sessions with these suppliers, working with the supplier's management to identify the root cause of nonconformances found during the audit and to establish sustainable corrective actions to fix the issue. Both of these suppliers have made improvements in their systems and have a deeper understanding of how to identify the root cause of issues and develop sustainable corrective actions.

In 2006, we engaged ERM to provide an independent review our supply chain social and environmental responsibility program. ERM assessed our policies, procedures, tools, resources, audit model and auditor qualifications. In 2007, we continued to work on the recommendations provided by ERM as part of its review, and we plan to have another independent review conducted in 2008. See a copy of ERM's unedited report.

Case studies

Focused Improvement Supplier Initiative

The Focused Improvement Supplier Initiative (FISI) employed organizations experienced in conducting training in China to provide monthly social and environmental management training sessions for 30 of our suppliers. The training organizations, ENSR, Environmental Resources Management, GED, Verité and WSP Group, delivered a total of 40 days of training to approximately 70 participants in Shenzhen and Kunshan. Participants included factory managers as well as managers in quality, human resources and environment, and health and safety. After the training, suppliers forward HP monthly progress reports to measure its impact.

Benefits of training

FISI connects suppliers with resources, skills and a network of experts to facilitate systematic improvement in SER management. The FISI training sessions covered a wide range of issues, such as productivity, working hours, wages and benefits, worker communications, management systems, root cause analysis, Chinese laws and regulations, the environment, health and safety, and the European Union's Restriction of Hazardous Substances and Waste Electrical and Electronic Equipment directives. The training also introduced new subjects such as supplier scorecards and NGO campaigns.

FISI demonstrates HP's commitment to raising awareness of SER management and strengthening our suppliers' capabilities. Last year, the program tested curriculum design methods and training resources while promoting dialogue among buyers and suppliers. Participants were encouraged to share best practices and take part in training exercises modeled on real situations. For example, in a production line simulation, participants assumed the roles of workers, buyers and managers and adjusted key production factors, such as inventory, overtime, delivery time and materials, and then tracked progress and analyzed the reasons for higher and lower productivity levels.

Opportunities for improvement in future FISI training

Participants in 2007 agreed that future FISI training would be improved by increasing the focus on SER metrics and providing additional opportunities for buyer-supplier interactions. Although it was originally assumed that trainees would feel more comfortable if buyers were not present, FISI was found to be an ideal platform for buyers and suppliers to talk to each other.

Facilitating dialogue between our suppliers and an NGO

In 2007, the NGO Students and Scholars Against Corporate Misbehavior (SACOM) reported that certain HP suppliers had failed to achieve labor and environmental standards.

Because of our extensive engagement with suppliers and NGOs, we were able to bring the parties together. As a result, SACOM is working on improvements with specific suppliers in their factories. In addition, they are participating in the Foreign Investment Advisory Service (FIAS) pilot program to conduct worker rights training in the factory. SACOM is visiting factories and interviewing workers, and the findings will form the basis for participating suppliers and SACOM to establish a remediation plan. Improvements made by the suppliers will be judged by the third-party NGO. The level of openness and cooperation between the suppliers and SACOM is rare and encouraging and provides an excellent model for improved collaboration and dialogue across our China supply base.

Foreign Investment Advisory Service multi-stakeholder capability building

HP is participating in a multi-stakeholder capability-building initiative to raise standards in the electronic sector in southern China. The initiative is led by FIAS, a part of the World Bank that advises the governments of developing countries about improving their investment climate for domestic and foreign investors.

This initiative engaged government, civil society, supplier industry associations and companies. The participants included FIAS, Business for Social Responsibility, Shenzhen Electronics Industries Association, Electronic Industry Citizenship Coalition Group and Global e-Sustainability Initiative (GeSI). A broader group of stakeholders, including suppliers, NGOs and leading companies in other sectors, also provided input.

The group published a final report based on the research gathered from all stakeholders in the project's first phase. Recommendations included piloting worker hotlines in supplier factories, providing worker rights training, and establishing environmental, health and safety committees. Two HP suppliers are participating in these pilots.

Central Europe region

The Partnership for Sustainable Competitiveness

The Partnership for Sustainable Competitiveness is funded by the European Commission's program for Mainstreaming Corporate Social Responsibility among SMEs (small and medium-size enterprises—those with 250 or fewer employees). Five major HP suppliers nominated 15 of their suppliers from the Czech Republic, Hungary and Poland to participate.

HP worked with a group of first- and second-tier suppliers over 18 months ending in January 2008 to help small suppliers develop social and environmental responsibility expertise and understand the connection between improved standards and business efficiency. The project also helped our first-tier suppliers learn how to manage and build capabilities in their next-tier suppliers. The project achieved its main goals of auditing participating suppliers and then training them based on the audit results. A final report was published with guidelines for multinational companies on how to promote social and environmental responsibility among their suppliers, focusing on small and medium businesses. By following these guidelines, multinationals will be able to better equip their suppliers to effectively compete in the global market while maintaining and improving their social and environmental standards. The report also highlights the crucial role that multinationals' first-tier suppliers can play in promoting corporate responsibility to SMEs further along the supply chain.

During assessments performed by HP auditors and observers from TCC (now the Danish Centre for CSR in the Danish Commerce and Companies Agency) and HP's first-tier suppliers, the main nonconformances that were identified related to emergency preparedness, physically demanding work, machine safeguarding, the handling and control of hazardous substances (although the amount of chemicals used is relatively small), and a lack of management systems for both labor and environment, health and safety (EHS).

Accordingly, the first training session focused on management systems and best practices in EHS. Subsequent training sessions were interactive workshops to share results and best practices and answer specific supplier questions.

A supplier survey at the end of the training found the program highly beneficial. The survey identified three major issues:

- HP needs to provide better training to our sourcing managers on how to communicate or train suppliers about our concerns.
- The first-tier contract manufacturers need to engage in social and environmental sustainability in a much deeper way to train their next tier.
- The smaller suppliers need support, tools and assistance to succeed in SER.

Joska Andorka Gal, director, Wolters Hungaria KFT, said at the closing meeting:

"As a result of the engagement in the social and environmental responsibility program and the trainings we have received during the last year, our employees are satisfied and provide positive feedback; we had no significant injuries or illness; the awareness of risks is much better now and we had no penalties from the Hungarian authorities; our revenue and profit went up significantly; and we received very positive feedback from our clients."

Improving suppliers in Central Europe

Following our initial social and environmental responsibility (SER) audits in 2006, which identified significant shortcomings in Central Europe, we have been encouraged by the proactive approach adopted by key suppliers in the Czech Republic. Below are three examples of their progress identified during our 2007 audits.

In the first case, our audit in early 2006 revealed that a supplier's purchasing organization lacked awareness of the Electronic Industry Code of Conduct (EICC). As a result, the company did not have a management process to enforce the requirements of the code with its suppliers. HP requested corrective actions.

During our follow-up audit in late 2007, we verified that the company had introduced a management program that includes supplier assessments, annual evaluations and audits. Driven by a clear commitment from senior management and ownership, the program has had widespread impact. The company's key suppliers have signed an agreement letter to follow the EICC. Its contracts with its labor agency and other service suppliers now include EICC requirements. In addition, the general terms and conditions of its purchase order form specify EICC conformance and prohibit conducting business with banned suppliers.

In the second case, our initial audit found another supplier had poor awareness of EICC requirements. In part, this may have been because the company had established its site shortly before the audit and was still developing SER management systems.

Our follow-up audit in 2007 found that the supplier had developed policies and management systems and processes to meet EICC requirements. Representatives from the company's other sites in the Netherlands and Ireland were present during the follow-up audit, and the supplier is now proactively implementing the EICC consistently at all its factories. It has also branded its program internally, making a clear companywide commitment to labor and environmental standards.

The third example from the Czech Republic also involved noncompliance with EICC requirements. When we first audited this supplier's assembly site in early 2006, we discovered that the company did not fully understand some of the code's provisions and had inadequate management systems addressing labor and health and safety standards.

In our follow-up audit at the supplier's new site last year, we confirmed that all but one of our initial findings had been addressed. Importantly, the company had deployed SER management systems to sustain the improvements it had made.

Latin America region

Collaboration between employment agencies and NGOs

In a groundbreaking collaboration in 2006, National Chamber of the Electronics, Telecommunications and Informatics Industry (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 serves as a liaison and grievance management organization for workers to raise concerns to several factory management teams.

A representative from HP Mexico, who is the facilitator and spokesperson for CANIETI, facilitated the collaboration by establishing communication channels between CEREAL and the electronics companies. Every two months CANIETI meets with CEREAL to resolve issues and define worker response strategies. Communications are working so well that in most cases, CEREAL raises issues directly with the electronics companies and without the need for CANIETI to mediate. Instead, the CANIETI team acts mainly as an escalation body to which issues the parties cannot resolve directly can be referred for resolution.

In 2007, HP Mexico also participated in the Electronic Industry Citizenship Coalition-CEREAL meeting to encourage a constructive response to the CEREAL report on working conditions in the Mexican electronics industry (See "Electronics multinationals and labor rights in Mexico").

Pegatron Mexico, SERASUS Management System

Following HP's assessments, audits and training, Pegatron Mexico has designed and implemented its own SERASUS Management System, based on the international standards ISO 14001, OHSAS 18001 and the EICC. The management system aims to meet customers' requirements on environmental protection, labor, and health and safety.

Notable features of the SERASUS Management System include zero tolerance of sexual harassment, an open door policy for all employees, a dedicated area for social workers and education for employees about the environment.

Pegatron believes that focusing on social and environmental responsibility issues has helped reduce employee turnover and improve product quality. The improved labor system has reduced the number of accidents and injuries and lowered insurance costs. A systematic approach to managing environmental issues has helped to ensure environmental compliance.

"We are convinced that the best way to achieve our objectives and targets is through communication and participation of all our employees. We have seen decreased turnover rates and decreased accident rates since implementing the SERASUS program."
-Julian Hernandez, EHS & OHS Manager, Pegatron

Goals
Goals for 2007

Supply chain social and environmental responsibility (SER)

Training

- Complete initial training programs in China (FISI) and Central Europe (CESR)
  Progress: Twelve-month FISI training completed in China; CESR completed 18 months training
- 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
  Progress: FISI advanced training developed and being delivered; hard disk drive supplier training launched in Thailand; trip undertaken to Vietnam in October to meet with suppliers
- 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
  Progress: Foreign Investment Advisory Service (FIAS) pilot launched; final report completed; suppliers selected for pilot worker hotlines, worker rights training, health and safety committees, and management system integration

Integration

- Engage and assess 95 percent of product materials, components, manufacturing and transportation suppliers by number and by spend
- Audit 95 percent 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
  Progress: (for the four targets above): Engaged, assessed and audited more than 95 percent of targeted suppliers by number and by spend, including assessing 45 new suppliers; conducted 150 site audits.
- Integrate recommendations from 2006 third-party auditing process review and continue external verification model
  Progress: We revised business models, focused more on corrective actions, participated in joint industry audits, engaged with third-party auditors, reviewed audit and business models, and increased auditor training.

Collaboration

- Transition HP suppliers to use industrywide automated systems for self-assessment
  Progress: The EICC Group launched E-TASC in August 2007, and HP is inviting suppliers to participate.
- Launch standardized risk and supplier assessment tools with EICC and GeSI electronic industry groups and integrate into HP's processes
  Progress: Self-assessment and risk assessments have been finalized and uploaded into E-TASC.
- Test third-party monitors that have been qualified by EICC and communicate benefits of improved worldwide monitoring standards to larger CSR community
  Progress: Third-party audit firms and auditors have been selected and trained, and we are conducting joint industry audits.
- Pilot industrywide reporting format and tools for communicating progress to stakeholder community
  Progress: This project has been delayed by the industry, and the tools have not been fully developed.

Innovation

- Design strategy for determining environmental footprint of HP's supply chain
  Progress: We started to develop strategy and plan for launch in 2008. HP also joined the Carbon Disclosure Project Supply Chain Leadership Collaboration project in late 2007 to help develop a consistent and appropriate methodology for disclosing energy use and greenhouse gas emissions throughout the supply chain.

Supplier diversity

- Award $3.1 billion of U.S. purchases to U.S.-based small businesses
  Progress: Achieved-$3.106 billion
- Award $1.0 billion of U.S. purchases to U.S.-based minority-owned small businesses
  Progress: Not achieved-our spending was $0.67 billion.
- Award $400 million of U.S. purchases to U.S.-based woman-owned small businesses
  Progress: Achieved-$440 million
- Establish goals for diverse supplier spending in Europe
  Progress: We are still working toward this goal.

Goals for 2008

Supply chain SER

Training

- Implement best-in-class supplier training programs, including programs aimed at second-tier suppliers
  - o FISI China advanced training and FISI intro training for new set of suppliers
  - o ASK, India supplier, government and NGO research project, assessments and training
  - o Thailand and Southeast Asia hard-disk drive supplier training
  - o Mexico recruiter certification, worker communication, and Electronic Industry Code of Conduct (EICC) awareness training

Integration

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

Collaboration

- Support industrywide reporting format and tools and begin aggregate reporting
- Complete pilot project and participate in industrywide training efforts based on FIAS capability-building strategy prepared in 2007

Climate and energy

- Report energy use and associated greenhouse gas emissions in HP's first tier suppliers representing more than 70 percent of our materials, components and manufacturing supplier spend

Supplier diversity

- Award 13 percent of qualified U.S. purchases to U.S.-based small diverse businesses.
- Award 7 percent of qualified U.S. purchases to U.S.-based woman-owned small businesses
- Complete mentor-protégé supplier development rotations with three diverse HP suppliers
- Conduct two HP Connect 2008 events to match diverse suppliers with HP procurement buyers and create potential contract opportunities
- Institute an enhanced second tier diversity spend program to systematically aggregate and report the diverse spend of HP's top suppliers

Goals for 2009

Training

- Implement world-class worker communication and EICC awareness training
- Auditors trained and accredited to new EICC monitoring standards

Integration

- Conduct new and follow-up verification audits at 100 sites, including joint industry and external verification; focus on biggest challenges / root cause by region
- Conduct SER audits of high-priority goods and services suppliers to HP's operations

Collaboration

- Participate in cross-industry and NGO training efforts

Perspective

Jenny Chan
Chief Coordinator
Students & Scholars against Corporate Misbehavior (SACOM)

HP is committed to facilitating workplace improvement and working with the EICC and GeSI members to achieve higher standards in the electronics industry. For example, it participated in the FIAS pilot project to promote corporate social responsibility at four select factories in China. In another example, since January 2007, HP coordinated with SACOM to investigate allegations of labor abuses and to monitor the implementation of corrective actions at several of its suppliers in Guangdong province, southern China. HP acknowledged and supported suppliers that took positive steps.
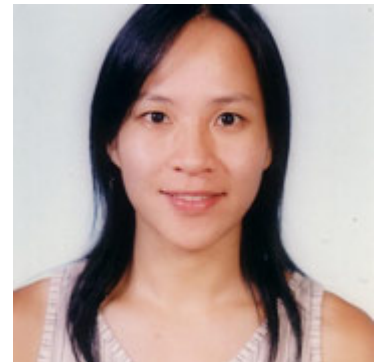
Throughout the year, HP managers also communicated clearly its supply chain SER approach to SACOM by e-mails, phone conferences and face-to-face meetings. Importantly, HP respects Chinese workers' rights to develop mechanisms of worker representation at all HP outsourced suppliers. By the end of 2007, HP and SACOM started planning in more concrete terms, a worker rights training program at two HP suppliers. In the long run, we expect that such joint training initiatives will result in sustainable code compliance and democratic worker participation at the workplace level in China.

Suggestions for continuous improvement:

HP should promote harmonious labor relations in China by:

- Bringing credible trainers[1] into capacity-building projects
- Tailoring the training curriculum to managers as well as workers
- Responding to complaints regarding rights violations and other nonconformances at HP suppliers
- Engaging in dialogue with supplier factory managers, worker representatives, civil society organizations, electronics associations, the All-China Federation of Trade Unions (ACFTU), and other government organizations at all levels

HP should advocate responsible global sourcing practices by:

- Increasing order prices to reflect labor costs
- Evaluating production scheduling and delivery policies
- Building long-term partnerships with existing suppliers to secure long-term employment

HP should achieve greater supply chain transparency by posting the full list of its outsourcing suppliers on its website for public scrutiny.

HP should advance humane globalization by working continuously with the ILO and other global institutes toward building a better community.

[1]Experienced nongovernmental organizations and academic groups that are involved in in-factory workers' rights trainings include notably the Chinese Working Women Network (CWWN), Labor Education and Service Network (LESN), China Labor Support Network (CLSN), and the Peking U- HK PolyU China Social Work Research Centre.

Supplier diversity

Our supplier diversity program offers suppliers that would not typically approach HP the opportunity to join our global supply chain. We promote diversity among our suppliers because they bring fresh ideas, offer innovative products and processes, and contribute to the economic strength of their communities.

Reflecting the diversity in our customer base also presents an opportunity to gain a competitive advantage and supports our global citizenship efforts. In 2007, we estimate more than $10 billion in revenue came from customers requiring HP to demonstrate diversity in its supply chain.

Large enterprise customers increasingly have their own citizenship policies and expect HP to demonstrate a commitment to diversity. For example, many public bids for the 2012 Olympics in London require evidence of supplier diversity. Evidence of diversity may be required in requests for proposals as well as in ongoing communication with existing customers. Some companies even request that diversity be included in quarterly reports.

Supplier diversity is mandatory for fulfilling contracts with the U.S. government and with most U.S. states and municipalities. In the United States, the main categories of businesses our supplier diversity program supports are minority-owned, woman-owned and veteran-owned. 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.
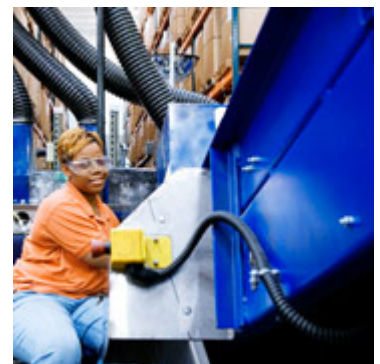
Global supplier diversity

In South Africa, our supplier diversity program is part of our strategy to comply with Black Economic Empowerment regulations. In 2007, HP South Africa announced plans to set up the HP Business Institute (HPBI). Through HPBI, HP will make substantial investments in the skills development of black employees as well as new graduates seeking to enter the information and communications technology industry. The institute will train 1,800 people within seven years and will boost HP's overall investments in broad-based black empowerment to more than R150m (more than $21 million). Training black graduates who are joining or setting up their own small and medium-size businesses helps provide those companies with the talent needed to succeed and grow.

We continue to expand our supplier diversity program in Canada and Europe, and we are working with governments and others to establish appropriate regional definitions of diversity that reflect local society and culture. In 2007, we continued our financial sponsorship of the Canadian Aboriginal Minority Supplier Council (CAMSC), Supplier Diversity Europe (SDE) and Minority Supplier Development-UK (MSD-UK). We sponsored and actively participated in sourcing events aimed at educating minority businesses about opportunities to do business with HP and at creating a pipeline of qualified potential HP suppliers.

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 encourages its supplier relationships to recruit small and medium-size companies in Central and Eastern Europe into the program.

Additionally, HP makes philanthropic grants to nonprofit agencies devoted to supporting microenterprises in underserved communities. Building on the success of community investment programs in the United States and Europe, the Middle East and Africa (EMEA), the HP Microenterprise Development Program supports the growth of small businesses in underserved communities around the world. See the Economic development section for detail.

Diverse supplier events

HP hosts events with local business councils and participates in national events that introduce diverse suppliers to potential customers. In 2007, HP procurement professionals participated in more than 20 such events in Canada, Puerto Rico, the United States and Eastern Europe.

In the United States, HP collaborates with SCORE (Service Corps of Retired Executives) to sponsor the multi-city Business Matchmaking Program. Business Matchmaking offers small businesses the opportunity to participate in governmental and major corporate procurement opportunities. In 2007, HP sponsored and participated in Business Matchmaking sessions in Atlanta, Chicago, Dallas and Little Rock.

In 2007, these events facilitated more than 15,000 meetings, including 300 between potential suppliers and HP. Since its inception in 2003, the Business Matchmaking program has been responsible for more than $800 million in contracts, with more in negotiation. To date, the program has facilitated more than 50,000 face-to-face meetings between small business owners and procurement representatives through a series of regional events, the National Online Network and the Gulf States Business Matchmaking initiative.

HP Connect

HP launched its HP Connect Supplier Diversity Summits in August 2007. These events, to be held twice annually on HP campuses, help open doors for potential qualified suppliers, informing them about opportunities on the horizon.

The summits provide a forum for face-to-face dialogue with HP buyers. In 2007, 120 prescreened minority and woman business owners were selected for 15-minute one-on-one matchmaking sessions with HP commodity managers and HP Tier One suppliers. HP Connect 2007 sessions were held in Houston, Texas, and Aguadilla, Puerto Rico.

Diverse resellers

In addition to promoting diversity in our supply chain, we advance diversity among our resellers through mutually beneficial relationships. Though our HP PartnerONE Diversity network, we provided marketing and sales support to more than 350 diverse resellers in 2007.

Performance

U.S. supplier diversity

In 2007, our total U.S. spending with minority- and woman-owned businesses declined, reflecting an overall reduction in total U.S.-based manufacturing procurement spending as well as ownership status changes for several HP suppliers that were previously minority-owned. Despite this overall decline, we exceeded our targets for total spending with small businesses and woman-owned small businesses (see Goals).
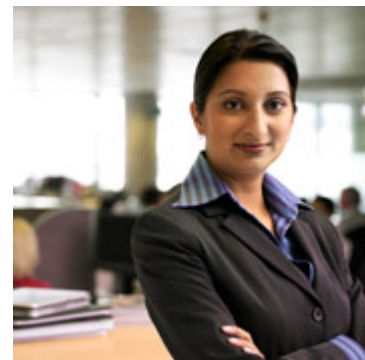
U.S. supplier diversity purchasing results[1,2]
[millions $U.S.]

Category	2004	2005	2006	2007
Total small businesses	$3,040	$3,011	$3,510	$3,106
Minority-owned small businesses	$909	$1,052	$1,150	$670
Women-owned small businesses	$362	$407	$380	$440

[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.

Climate and energy

HP believes governments, companies, organizations and individuals must come together to address the growing challenges presented by climate change. For our part, we have reduced our operation's environmental footprint and increased the energy efficiency of our products and services. We are also developing solutions to reduce greenhouse gas emissions throughout the global economy and collaborating with NGOs and others to advance public policies that help turn debate into action.

IN THIS SECTION:

» Operations   » Collaboration
» Products   » Case studies
» Logistics   » Goals
» Business opportunities » Perspective

» See Video:
HP joins WWF Climate
Savers Program

Our planet's climate is changing, and greenhouse gases (GHG)[1] are the main culprit. The IPCC Fourth Assessment Report, published in 2007, shows that unmitigated climate change would likely trigger a range of environmental problems that would impact agriculture, natural habitats and many communities in low-lying coastal areas. The Stern Review on the Economics of Climate Change, published in 2006, also finds that the potential costs of responding and adapting to unmitigated climate change could rise up to between 5 percent and 20 percent of global gross domestic product (GDP) each year, putting global economic growth and development at risk. The report also estimates mitigating climate change would cost around 1 percent of global GDP each year.

Our business could be impacted by increased natural disasters attributed to climate change. For example, power shortages and blackouts could interrupt our operations or those of our suppliers, distributors and customers.

But we believe climate change also presents significant opportunities for HP. Rising energy prices, growing concerns about energy security and stricter regulations on consumption are heightening demand for energy-efficient and low-carbon products and services.

We are responding with a comprehensive strategy to minimize the impact of climate change associated with our operations and supply chain while innovating products and solutions for an energy- and carbon-constrained world. Our strategy includes four areas of emphasis:

- Cutting GHG emissions from our internal operations
- Reducing GHG emissions associated with our products and services throughout their life cycles
- Innovating to reduce GHG emissions in other parts of the economy
- Collaborating with others to combat climate change and influence public policy to devise and implement an effective response

Taking action

Reducing energy use in our operations is important to our climate and energy strategy. Over the past year, we made good progress in our companywide initiative to consolidate HP facilities and install energy-efficient technologies. Our goal is to reduce energy consumption and the resulting GHG emissions from HP-owned and HP-leased facilities worldwide to 16 percent below 2005 levels, by 2010.[2]

Our products represent our greatest energy impact, well exceeding our operations (see Overview of climate impact graphic). We estimate the energy consumed by the products we sell in one year could be up to an order of magnitude greater than the energy we use in our internal operations annually.

The design stage offers the best opportunity to increase a product's energy efficiency, a focus that has been core to our Design for Environment program since its inception in 1992 (see Product innovation). By adding energy-saving features to our products and services, we are helping customers reduce their GHG emissions and save money. We see the most potential to decrease product energy use through advanced power management and more efficient chipsets, power supplies and data center cooling. Last year, we set a goal to reduce the energy consumption of HP operations and products sold each year and their associated carbon dioxide equivalent (CO_2e) emissions to 20 percent below 2005 levels by 2010. We nearly met this goal by the end of October 2007—three years ahead of schedule—and have increased the target to 25 percent below 2005 levels (see Goals).

We are making strides in reducing the impact of product transport, as well. Where practicable, we are switching to more energy-efficient modes of transport, such as from air to ocean and road to rail. We are also increasing the number of products that can be loaded per pallet and utilizing lighter plastic pallets for shipping.

We are also working closely with our suppliers to quantify the energy they consume in manufacturing our products and the associated GHG emissions (see Supply chain — Approach). We estimate these GHG emissions are on the same order of magnitude as the emissions associated with the energy used by our products during customer use.

Additionally, HP is pursuing business opportunities to create new IT solutions that can help minimize the release of GHGs into the atmosphere. We are innovating to reduce the GHG emissions of existing products and services, substitute carbon-intensive activities with low-carbon alternatives and help to facilitate the world's transition to a low-carbon economy.

Above all, we believe successfully addressing climate change requires broad collaboration between industries, governments and non-governmental organizations, as well as action by individual companies and consumers. HP participates in several energy standards and public policy initiatives and supports scientific research on climate change through our philanthropic investments. This broader approach enables us to amplify the impact of our efforts far beyond our own business.

Improving our climate impact...

HP operations energy use	HP's operations produced 1.5 million tonnes of CO2e in 2007, a decrease of 5 percent from 2006 and a 17 percent reduction per unit revenue
HP product energy use	We estimate that our customers consume roughly an order of magnitude more energy while using the products we sell in a year as we do running our operations
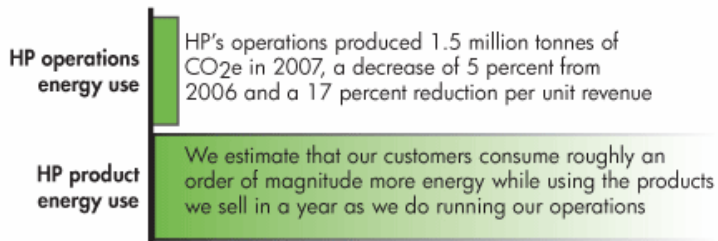
...and extending our greenhouse gas accounting

Supply chain	We estimate that overall supplier GHG emissions related to producing HP products[3] are of similar scale to the emissions related to customer use of those products over the life time
Product transport (logistics)	Transporting our products produces roughly 2 million tonnes of CO2e emissions a year
Product recycling	We avoided an estimated 210,000 tonnes of CO2e through our recycling of electronic products and supplies[4]

[1] Throughout this report, "greenhouse gas" or "GHG" refers to all greenhouse gases emitted by human activities, and "CO2e" refers to "carbon dioxide equivalent," the unit used to measure greenhouse gases. CO2 is the main, but not the only, man-made greenhouse gas.
[2] HP has revised the baseline year of our operations energy goal to 2005 from 2006 to align with our other energy goals. This is not a change in substance of the goal since we remain committed to the same 2010 energy use target; it is only a change in the baseline year. As HP operations energy use was approximately 1% higher in 2005 compared to 2006, this increases the goal's percentage reduction to 16% below 2005 by 2010
[3] Emissions from manufacturing vary widely by type of product.
[4] According to the U.S. Environmental Protection Agency's WARM Tool.

Operations

HP made solid progress in 2007 against our commitment to make our global operations more energy efficient and reduce our climate impact. We improved our use of space, installed more efficient technology and equipment, and greatly increased our purchases of renewable energy and decreased our climate impacts from HP manufacturing facilities.

All these measures support HP's climate and energy strategy by decreasing our greenhouse gas (GHG) emissions while lowering costs. Though our number of employees increased 10 percent last year, our global GHG emissions from operations decreased 5 percent in absolute terms and 17 percent per unit of revenue.
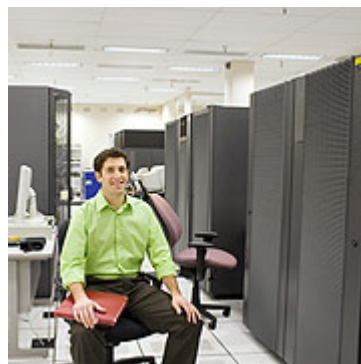
Energy use

Energy represents one of the largest costs of operating our facilities, and we continually work to reduce consumption. In 2007, our total energy use decreased approximately 4 percent, while HP's overall expenditure on energy increased 8 percent. Our sources of energy were electricity (88 percent) and natural gas (12 percent).

Energy use accounts for 98 percent of the GHG emissions generated by our operations, with the remaining 2 percent of emissions generated by refrigeration equipment and HP manufacturing processes. GHG emissions from employee business travel are reported separately in Business travel. (Product transport and employee commuting are not included.)

HP Workplace Transformation

Launched in 2006, HP Workplace Transformation (HPWT) is a phased global initiative to improve employee productivity and use our facilities more efficiently. We are consolidating our operational locations to fewer core sites, improving space utilization and upgrading building infrastructure to support employee mobility and higher density. Our goal is to reduce energy consumption and the resulting GHG emissions from HP-owned and HP-leased facilities worldwide to 16 percent below 2005 levels, by 2010.[1]

Sites upgraded in HPWT are equipped with the latest energy-efficient HP technology. For example, we are replacing cathode ray tube monitors with flat panel displays and relying more on notebook PCs in temporary office spaces. Over time, we expect the more energy-efficient monitors and notebooks to reduce energy use by more than 4 million kilowatt hours (kWh) per year, saving approximately 2,000 tonnes of carbon dioxide equivalent (CO_2e) and about $320,000.

We are continuing to reduce paper waste in our facilities. After analysis showed that duplexing (double-sided printing) could reduce office paper waste by 25 percent, HP adopted it as its internal printing standard in 2007. We are implementing this standard across the company using HP Web Jetadmin and Universal Print Driver to configure printers. This technology is helping us achieve our goal for 80 percent of general office printing and copying to be double-sided by the end of 2008, saving up to 726 tonnes of paper a year and $7.7 million. We have started or completed network printer installations in 70 sites across 25 countries.

We also began to replace carpet at HP sites with carbon-neutral carpet tiles. The GHG emissions created through the entire life cycle of the new carpet is offset by emission reduction credits. In addition, the old carpet will be recycled into new products and diverted from landfills.

With the aid of technology, our employees are able to work flexibly and with greater mobility than ever before. As a result, they need less office space, enabling us to decommission the surplus. HP now owns and leases less space than we did a year ago, even as our business grew. We decommissioned 179 sites around the world in 2007, yielding a net reduction of 2.9 million square feet (269,400 square meters), or 5.7 percent of our total space.

Major HPWT projects in 2007 were completed at our Bangalore, Barcelona, Cupertino, Houston, Monterrey, San Diego, Sofia and Taiwan facilities. In Bangalore, we built a new 43,850-square-meter facility. The 18-acre HP-owned campus can accommodate 2,500 employees. As leases from eight facilities in the Bangalore area are terminated, we relocate employees to the new campus.

We also completed development of a Workplace Standards Manual and trained 500 Real Estate and Workplace Services employees globally to support HPWT.

Data center consolidation

Data center consolidation provides the opportunity to decrease the environmental impact of our facilities while reducing costs, eliminating older technologies and improving service levels. Over three years ending in 2008, we are consolidating 85 HP IT and HP-hosted customer data centers worldwide (not including data centers that are part of HP Labs) into just six locations in three U.S. cities. At these sites, we're implementing the latest energy-saving features in our second generation of Smart Cooling technology, HP Dynamic Smart Cooling, which enables real-time changes to air conditioners, fans, vents and computing equipment. Dynamic and Static Smart Cooling principles typically yield energy savings of 20 percent to 40 percent over legacy HP data centers. We plan to complete implementation of this technology in most of these locations by the end of 2008.

Our consolidated data centers collectively occupy more than 38,000 square meters in Atlanta, Austin and Houston, approximately 35 percent less space than the original sites. In each city, two sites are located within 25 miles of each other, sharing network connectivity and providing improved availability, business continuity and disaster recovery. When the initiative is complete and fully optimized, we estimate yearly energy savings from data center consolidation of up to 350 million kWh and annual cost savings of up to $25 million.

In addition, we implemented our Dynamic Smart Cooling program at our HP Labs data center in Bangalore. We estimate it will significantly improve its efficiency compared with legacy HP data centers. (See case study.)
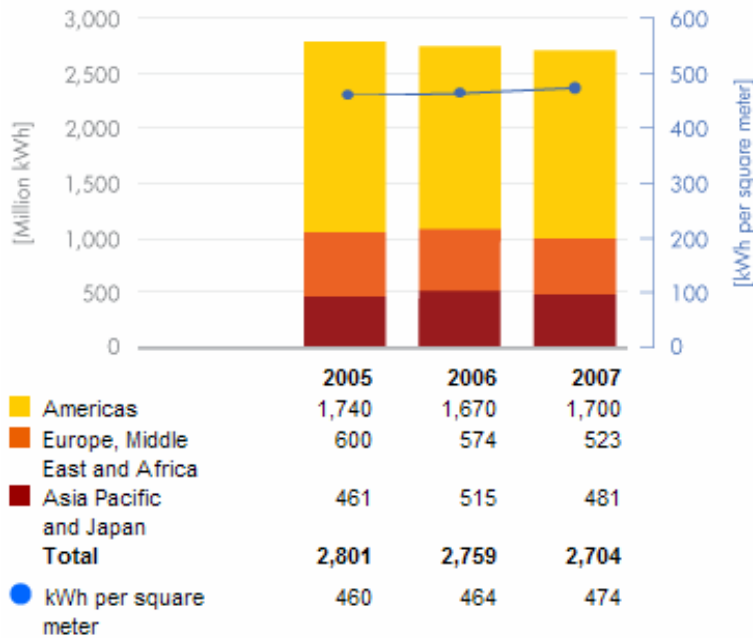
2007 energy audits

In 2007, our energy audits focused on lighting systems and identified several projects, primarily in the United States, where we could reduce energy consumption by more than 20 million kWh per year. For example, several of our large product centers can be upgraded from traditional high-bay metal halide lighting to high-output T5 fluorescent fixtures. These projects were studied in late 2007 and are undergoing financial review in early 2008.

Electricity use

HP measures electricity consumption two ways: in absolute use (million kWh) and normalized per unit of floor space (kWh/square meter). Our electricity use in 2007 decreased by 2 percent compared with 2006. Despite business mergers and acquisitions that added 80,000 square meters, our overall real estate footprint decreased in 2007. Facilities acquired through mergers and acquisitions consumed electricity equal to an additional 1.4 percent compared to 2006. Without these activities, our electricity use would have decreased by approximately 3.5 percent.

Other investments we made in 2007 to cut our consumption include transitioning research and development labs into newer and more efficient space, expanding our computerized control technology, deploying Dynamic Smart Cooling in data centers and labs and utilizing variable-flow fans and pumps in retrofits and new construction. We believe the impact of data center consolidation (see above) will be more evident in upcoming years as legacy data centers are closed.

Electricity use, 2005-2007 [million kWh]

	2005	2006	2007
Americas	1,740	1,670	1,700
Europe, Middle East and Africa	600	574	523
Asia Pacific and Japan	461	515	481
Total	**2,801**	**2,759**	**2,704**
kWh per square meter	460	464	474

Natural gas use

Natural gas represented about 12 percent of HP's energy consumption from operations in 2007. We use natural gas primarily for heating water and buildings and for food service in HP cafeterias.

Our consumption of natural gas decreased by 81 million kWh, or 18 percent. Without the mergers and acquisitions mentioned above, the total would have decreased by an additional 1 percent. Our HPWT initiative and aggressive energy conservation efforts were largely responsible for the substantial drop.

Natural gas use, 2005-2007 [million kWh]

	2005	2006	2007
Americas	243.0	241.0	234.5
Europe, Middle East and Africa	173.0	171.0	107.6
Asia Pacific and Japan	14.4	25.7	14.5
Total	**430.4**	**437.7**	**356.6**
kWh per square meter	71.0	74.0	62.5
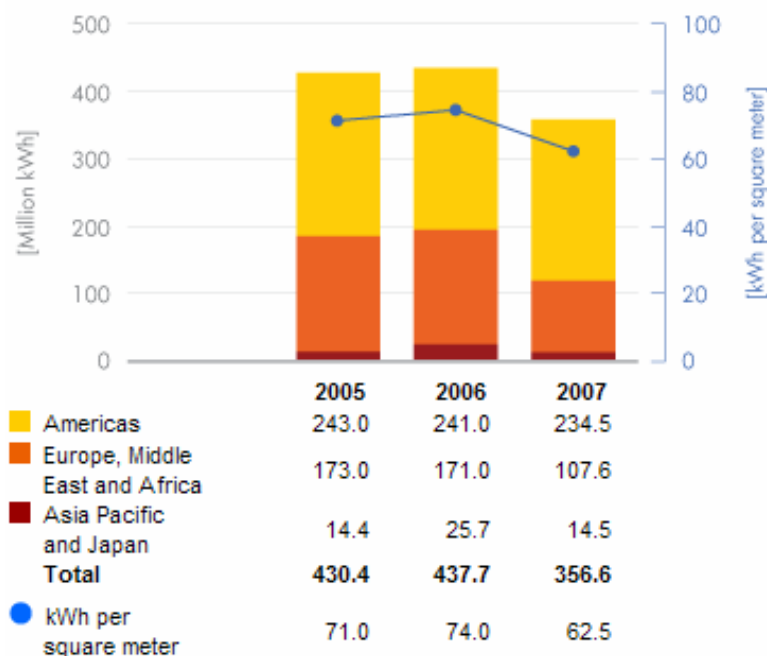
We look for opportunities to conserve energy and use alternative energy sources where they are available and economically viable. We are exploring such options as renewable generation at HP sites and purchasing electricity from third-party renewable generators.

In December 2006, HP joined the U.S. Environmental Protection Agency (EPA) Green Power Purchase program. In response to the EPA's challenge to Fortune 500 companies to double their purchases of renewable energy by the end of 2007, we committed to increase our renewable energy purchases by more than 350 percent during 2007. We achieved this goal by purchasing 50 million kWh of renewable energy credits in the United States, representing approximately 2 percent of HP's worldwide energy consumption. The premium we paid supports the growth of the renewable energy market. We purchased and used an additional 2.6 million kWh of actual renewable energy for our Roseville site—4 percent of the site's energy consumption. These commitments augmented the 8.8 million kWh of renewable energy already purchased at various HP sites.

As part of our strategy to reduce our global carbon footprint, HP recently announced relationships with two renewable energy providers, SunPower Corp. in the United States and Airtricity in Ireland. In 2008, 80 million kWh, or nearly 90 percent of the electricity provided to our operations in Ireland will be generated by wind turbines in that country. The Airtricity contract will save around 40,000 tonnes of CO_2e per year.

In a major new on-site generation project scheduled for 2008, Sun Power Corporation will install and operate 5,000 solar panels on the roofs of five buildings at our San Diego site, generating an estimated 1.7 million kWh of electricity. HP has contracted to buy this power for 15 years, saving 454 tonnes of CO_2e emissions each year and increasing the percentage of renewable power in our portfolio. With this project, HP is taking advantage of incentives under the California Public Utilities Commission's California Solar Initiative, which aims to increase solar energy use statewide. HP will see net savings beginning in the first year of the agreement, without making an initial capital expenditure. HP and Sun Power Corporation are also offering incentives to U.S. HP employees to install solar panels on their homes.

Renewable energy purchasing, 2006–2007

Site	Amount of energy and renewable energy credits (million kWh)	
	2006	2007
Boise, Idaho	2.4	2.4
Corvallis, Oregon	4.3	4.3
Fort Collins, Colorado	0.5	0.5
Palo Alto, California	0.9	0.9
Roseville, California	0.0[2]	2.6
Vancouver, Washington	0.7	0.7
Renewable energy credits		50.0
Total	**11.4**	**61.4**

[1] HP has revised the baseline year of our operations energy goal to 2005 from 2006 to align with our other energy goals. This is not a change in substance of the goal since we remain committed to the same 2010 energy use target; it is only a change in the baseline year. As HP operations energy use was approximately 1% higher in 2005 compared to 2006, this increases the goal's percentage reduction to 16% below 2005 by 2010.
[2] Restated from FY06.

Greenhouse gas emissions

HP is working to reduce our greenhouse gas (GHG) emissions by cutting our energy consumption from operations worldwide by 16 percent by 2010, compared with 2005[1]. We report our GHG emissions according to the GHG Protocol of the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI).
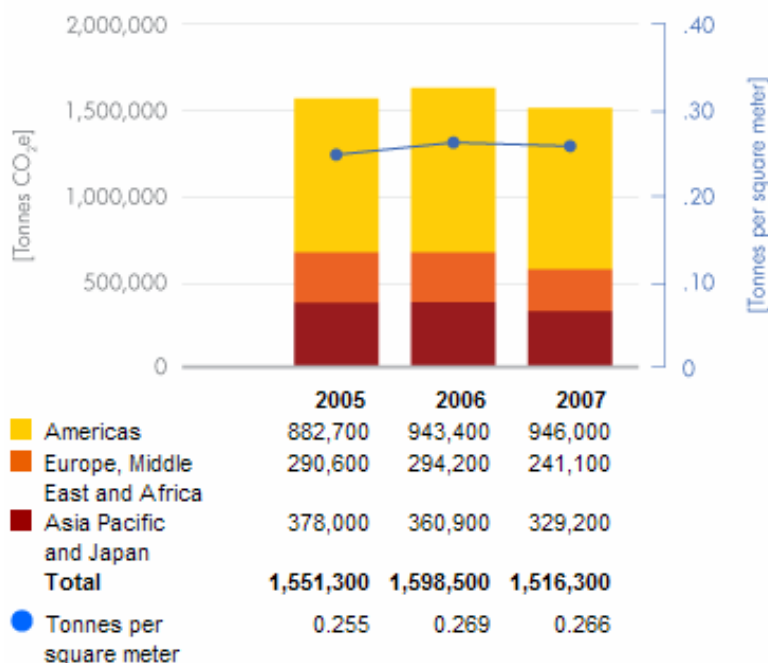
Performance

HP's global GHG emissions from operations (not including employee business travel) decreased 5 percent in 2007, representing 82,160 tonnes of carbon dioxide equivalent (CO_2e). This was due to the dramatic drop in our natural gas use, a decrease in our electricity consumption and changes in manufacturing.

Emissions per unit of floor space remained the same in 2007 compared with 2006, and emissions per unit revenue, a measure of overall efficiency, decreased by 17 percent.

The sources of GHG emissions from HP operations in 2007 were:

- Electricity, 93.4 percent
- Natural gas, 4.2 percent
- Manufacturing emissions, 1.0 percent
- Refrigerant emissions, 1.4 percent

Greenhouse gas emissions, 2005-2007 [tonnes CO_2e]

	2005	2006	2007
Americas	882,700	943,400	946,000
Europe, Middle East and Africa	290,600	294,200	241,100
Asia Pacific and Japan	378,000	360,900	329,200
Total	1,551,300	1,598,500	1,516,300
Tonnes per square meter	0.255	0.269	0.266

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

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 that of CO_2.

HP's PFC emissions account for approximately 1 percent of our total GHG emissions. 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 percent from 1995 levels by the end of 2010.[1] HP achieved this target worldwide in 2006. In 2007, HP continued to reduce PFC emissions to less than 13,700 tonnes CO_2e, a 48 percent reduction from the 1995 baseline.

See the breakdown by type of PFC in the interactive data dashboard.

[1] The EPA program goal was to reduce the annual absolute PFC emissions of the participating companies collectively by 10 percent on a tonne carbon equivalent (MTCE) basis below the 1995 baseline PFC emissions. We report the emissions in tonnes CO_2e for consistency with the rest of the report. To convert to MTCE, divide by 3.67.

Reporting and verification

Reliable and verifiable data are essential to managing greenhouse gas (GHG) emissions from our operations. We measure, verify and publicly report annual GHG emissions from HP-owned and HP-leased facilities worldwide. We also report our California emissions to the California Climate Action Registry (CCAR). During this process, we correct any data errors in HP's tracking system, investigate any change in performance greater than 5 percent, and conduct a root cause analysis if we discover a systemic error. For electricity we purchase from utility companies, we adjust conversion factors 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 2006 California GHG emissions using the protocols from the CCAR.[1] We will commission a review of our 2007 GHG emissions data.
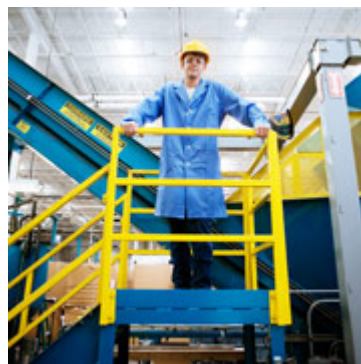
See details regarding the WEF and CCAR verification of our 2006 data online. HP also submitted a recent response to the Carbon Disclosure Project.

"In summary, I had a high degree of confidence that the greenhouse gas information reported was generally accurate. There were some minor errors in reporting data noted during the verification; however, these discrepancies were minor in relation to the amount of data reviewed. I have observed improvements in the data collection methodology and tool accuracy since previous GHG verifications, and I was impressed with the HP management's attention to detail and dedication to continually improving their methodology and accuracy of data collection and reporting."

—Carol Osgood, Auditor, Bureau Veritas Certification

[1] Because of the timing required for the verification process, the data verified lags the report year by one year.

Travel

In 2007, HP employee travel, which includes business commercial air travel, the HP air fleet and company cars, was responsible for approximately 464,000 tonnes of carbon dioxide equivalent (CO_2e) emissions. Our emissions from business travel have remained constant despite our growth, but we recognize their climate impact and are working to minimize them.

HP maintains a small number of aircraft and a fleet of company cars for sales and services employees. We expanded data collection to include our auto fleet in Asia Pacific and Japan in 2007. We continue to seek ways to improve our data collection and emissions estimates for our auto fleet.

Our Green Fleet initiative is an example of our work to reduce greenhouse gas (GHG) emissions in Europe, the Middle East and Africa (EMEA). Beginning in 2008, all new cars that HP purchases in several of the countries in that region must meet stricter CO_2e emission limits that will decrease each year. The goal is to ultimately eliminate high-fuel-consumption cars from our fleet in favor of those that require less fuel, including hybrids, or use alternative fuels. In certain countries, we are also offering training and incentives to employees to promote more environmentally responsible driving and the use of alternative transportation. In addition to benefiting the environment, this program will help HP avoid higher taxes on cars that have high GHG emissions or fuel consumption while supporting our overall goal to decrease our carbon footprint.

We encourage employees to use teleconferencing whenever possible to reduce GHG emissions from transportation and to lower travel costs. We provide several solutions, including the HP Virtual Room and the HP Halo Telepresence Solutions. Halo takes video conferencing and collaboration to a new level, allowing colleagues and teams dispersed across the globe to meet virtually while still feeling as if they are in the same room. Halo also includes energy-saving features, such as displays and lights that automatically turn off when not in use.

HP currently has 34 Halo studios in 14 countries and plans to nearly quadruple that number by the end of 2009. This effort is expected to significantly reduce HP travel and save at least 32,000 tonnes of CO_2e per year.

Based on our internal study, the average roundtrip business flight generates more than 0.91 tonnes of CO_2e emissions per person for the air travel portion only. We estimate that each internal Halo studio at HP currently eliminates at least one roundtrip flight per business day, which amounts to a savings of more than 237 tonnes of CO_2e per studio per year. When employees request travel arrangements to and from destinations with Halo Studios through HP's travel system, they are now prompted to consider booking a Halo Studio instead.

Greenhouse gas emissions from employee business travel, 2005–2007 [Tonnes CO_2]

	2005	2006	2007
Business commercial air travel	279,000	289,000	289,000
HP air fleet	NA	NA	14,300
Auto fleet			
United States and Canada	86,600	89,400	87,200
Europe, Middle East and Africa	70,600	85,400	71,400[2]
Asia Pacific and Japan[1]	NA	NA	2,500
Total	436,200	463,800	464,400

While GHG emissions from employee commuting are not directly within HP's control, we have programs designed to reduce them. For example, our global Telework program allows employees to work from home whenever business needs accommodate it.

We currently have nearly 13,000 employees worldwide who work exclusively from home offices. While some are sales representatives who use their cars for customer visits, the HP Telework program saves many roundtrip commutes to the office, reducing road travel and associated GHG emissions. In addition, many HP employees divide their work time between an HP site and their home office, further reducing travel and emissions.

We also offer a program in the United States that enables HP employees to purchase public transit and vanpool services through a payroll deduction. The deduction offers tax benefits, reducing the overall cost of commuting. We also encourage ways to reduce the number of single-occupied vehicle trips into HP offices, including bicycling, compressed work schedules and carpooling. Carpoolers often can park in designated parking spots that are closer to the front entrance. Most of the sites with bicyclists offer showers and bike locks and storage at no charge.

[1] Includes data from Hong Kong, Korea, Japan and Taiwan.
[2] Emissions calculations in EMEA were completed using different fleet information than in past years. Data from 2007 is subject to revision.

Products

While HP has a leading portfolio of energy-efficient products and solutions, in aggregate computers, servers, printers, mobile devices and other IT equipment require large amounts of energy, making them contributors to greenhouse gas (GHG) emissions. As an example, the energy required to power and in some cases cool HP products is greater than the energy we use to run our facilities. Overall, the information and communications technology industry creates about 2 percent of global GHG emissions.[1]

At HP, we believe we, along with customers and power utilities, share responsibility for the energy used by our products From the computer chip to the data center, we are constantly looking for ways to improve product energy efficiency and are working to educate customers about the effects of their power consumption.
We are also taking steps to reduce the energy required for manufacturing and distributing our products, as well as that used in our own operations.
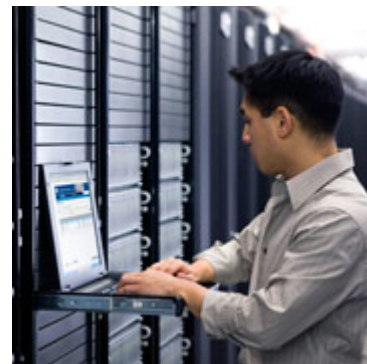
We see great potential to make a large impact by improving the energy efficiency of our products. For example, the Climate Savers Computing Initiative estimates that the average PC wastes about half of the energy it is supplied because the level of energy provided does not adjust to the computer's varying needs. By addressing this problem, HP can help reduce GHG emissions and lower our customers' energy costs.

Servers represent another area to improve energy efficiency. The rapid growth in server installations is creating significant energy and cost implications, as the following data illustrate:

- In 2005, $26 billion was spent to power and cool the worldwide installed base of servers. This is more than double the cost in 1995 and is forecast to grow by an additional 70 percent by 2010.[2]
- HP calculates that the total power costs of a data center with 70,000 square feet of floor space can exceed $7 million a year, and this number is increasing.
- Power and associated cooling expenses are forecast to grow four times as fast as the cost of servers, and will represent 70 percent of the expenses related to new servers in 2010.[3]

HP has focused on improving product energy efficiency since 1992, when we launched our Design for Environment program. In 1996, HP Labs established a Power and Cooling Team, and we now hold many patents in this area.

HP has implemented a corporate strategy to reduce the carbon footprint of our operations and deliver energy-efficient products and services through innovative design, effective collaborations and advanced research. One of our goals is to reduce the energy consumption and associated GHG emissions of HP operations and products to 25 percent below 2005 levels by 2010. In 2007, we added a new 2010 goal for PC energy efficiency, committing to reduce energy consumption of volume desktop and notebook PC families by 25 percent, compared with 2005 (see Goals for further details). By meeting our goals, we estimate that HP will prevent 6 million tonnes of carbon dioxide equivalent (CO_2e) a year from entering the atmosphere between 2005 and 2010, equivalent to removing 1.1 million cars from the road for a year.[4]

[1] Gartner: Conceptualizing 'Green' IT and Data Center Power and Cooling Issues, September 2007.
[2] IDC: Worldwide Server Power and Cooling Expense 2006-2010 Forecast, September 2006.
[3] IDC, as above.
[4] See http://www.epa.gov/cleanenergy/energy-resources/calculator.html.

Examples

Innovation from the chip to the data center

HP integrates energy-saving innovations across the spectrum of our products and services to help customers reduce their energy costs and greenhouse gas (GHG) emissions. We focus on improving the efficiency of products that use relatively little energy—such as PCs and printers—because in aggregate they consume large amounts of energy worldwide each day. We also focus on products such as servers and data centers that consume large amounts of energy and whose footprints are growing quickly because of the growth of the Internet and digital content.

Many of our products qualify for ENERGY STAR, strict energy-efficiency guidelines set by the U.S. Environmental Protection Agency and the Department of Energy, but we do not limit our goals to voluntary standards. In addition, HP offers over a thousand PCs, notebooks, monitors, and printing and imaging products that meet key eco-label programs. These include Electronic Products Environmental Assessment Tool (EPEAT), Germany's Blue Angel, TCO (Sweden), China's Energy Conservation Program, Japan's Green Mark and Korea's Ecolabel.

See the Performance page for summary data on the energy efficiency of HP products.

Computer chips

Computer chips or processors often dominate the power usage in most computing systems, from handhelds to servers. The emergence of multi-core processors, in which multiple, simpler cores are stacked on one processor, represents a key opportunity to address energy efficiency in the next generation of microprocessors.

- Some HP notebook PCs use Intel SpeedStep®, and all AMD mobile processor-based notebooks use AMD PowerNow! These technologies enable the processor to adjust its speed depending on the application in use and required processing power.
- We use the low-power Intel® Core™ 2 Duo processor and a low-power chipset in approximately 67 percent of notebook PCs shipped, reducing overall system heat and power consumption.
- Many HP consumer desktop PCs use Intel SpeedStep and AMD Cool 'n' Quiet technology, which manage the performance required to optimize power levels.

Printers

Improving the efficiency of printers while they are in standby mode is a leading opportunity to reduce their energy usage. Enabling more efficient use of paper can also decrease the energy usage and GHG emissions associated with the production, transport and disposal of paper.

- HP LaserJet printers with Instant-on Technology[1] save energy when the machine is in idle mode. From our monochrome LaserJet products alone, the total energy saved from 1993 through 2006 by using Instant-on Technology represents over 5.3 million tonnes of carbon dioxide equivalent (CO_2e) emissions, equivalent to removing 960,000 cars from the road for one year.
- Using Universal Print Driver and HP Web Jetadmin to configure printers for duplexing may save HP up to 726 tonnes of paper a year, at an annual savings of $7.7 million.
- HP LaserJet printers and new HP inkjet printers automatically reduce power consumption after a designated period of inactivity, and most require no more than one watt of power in off mode.

Notebook PCs

Notebooks are the fastest-growing category of PCs. Although they are much more energy efficient than desktops, they offer opportunities for improvement.

- All HP business notebook PCs used with an HP Smart AC Adapter are voluntarily compliant with the European Union Code of Conduct on Efficiency of External Power Supplies. As a result, our notebooks' external power supplies are at least 84 percent efficient and use less than half a watt when plugged into a power outlet and disconnected from the device itself.
- All HP business notebook PCs are delivered with power management enabled. These features save energy by automatically switching the PC into a standby, low-power mode after a period of inactivity. HP business notebook PCs meet the stringent new ENERGY STAR standards. An ENERGY STAR-qualified notebook uses 70 percent less electricity than notebooks without power management features enabled. Based on EPA estimates, the power management features can save up to 84 kWh per notebook PC each year.[2]
- In mobile products, screens account for a significant portion of total system energy consumption. 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-resolution or smaller displays. The mercury-free HP Illumi-Lite LED displays are thinner, lighter and more energy-efficient, providing up to 90 minutes of increased battery life.[3]
- New notebook PCs include an ambient light sensor, which will dim the screen in low-light conditions, decreasing the power required from the battery. This provides up to an hour of additional run time in most average office-light conditions.

Desktop PCs and workstations

The configurability of desktop and workstation PCs presents significant design challenges to ensure that basic configurations are energy efficient and also allow for the power needed to drive "fully loaded" configurations. HP design engineers balance these requirements to provide customers with both energy efficiency and performance.

- The HP rp5700 Business Desktop PC, launched in June 2007, is the first product in the industry to receive a gold rating from the Electronic Products Environmental Assessment Tool (EPEAT). In its maximum energy-efficient configuration, and paired with an HP flat panel monitor, the HP rp5700 Business Desktop PC may save customers as much as 80 percent in power consumption compared with previous-generation systems using cathode ray tube (CRT) monitors (see the case study).
- HP power management features on new HP 5000 and HP 7000 series Desktop PCs can save up to 481 kWh or about 240 kg of CO_2e per year. Enabling 24 PCs with these features reduces about the same amount of CO_2e emissions as removing a car from the road.

- HP business desktops were the first in the industry to meet the recently announced ENERGY STAR requirements—months before the new guidelines took effect.
- All HP workstations released after October 2007 meet the new ENERGY STAR requirements, with standard 80 percent efficient power supplies, compared with 70 percent efficiency in prior HP models.
- HP thin clients[4] use less energy than standard PCs, offering up to 80 percent savings in power usage.

Displays

The shift from PCs to notebooks and from cathode ray tube (CRT) monitors to flat panel displays saves significant energy. A flat panel requires approximately 60 percent less energy than a CRT to use and also weighs less, which saves energy in transport.

- All HP LCD consumer PC displays are now meet ENERGY STAR requirements and feature low-power active consumption when on. The unique HP LiteSaver utility increases monitor life and saves energy.
- All HP commercial LCD displays meet stringent TCO03 eco-label requirements in the categories of energy, ecology, emissions and ergonomics.

Servers

Fewer servers are sold than other major IT product categories, but servers require relatively large amounts of electricity and run continuously, so efficiency improvements in this area are particularly important.

- HP server virtualization and consolidation technologies produce significant savings in cost, energy, GHG emissions and materials use. Virtualization allows a single physical server to appear as multiple servers to services using it. Consolidation collapses several servers into a more compact space. Both technologies result in a need for fewer but more efficient servers. At HP, this technology reduced server power consumption from 5 million kWh to 1.8 million kWh in one application alone.
- HP ProLiant and Integrity Blade Servers and c-Class BladeSystem enclosures with embedded thermal logic (launched in 2006) reduce energy consumption by 33 percent compared with conventional rack-mounted servers. These servers save energy through innovative power management, monitoring and cooling technologies.
- HP's new and enhanced disk storage systems and tape drives help customers reduce storage power and cooling costs by as much as 50 percent.
- SURVEYOR is an easy-to-use software utility from HP that enables customers to measure, manage and reduce their network's energy consumption, saving money and lowering the total cost of ownership.
- HP's ProLiant 360 G5 server uses 28 percent less energy than its G4 predecessor, while delivering three times more processing power.

Data centers

In typical data centers, for every watt of computing power required, more than one watt goes into cooling, demonstrating the need to manage both data center and server energy efficiency. The growing computing density in data centers creates challenges in terms of energy availability and reliability, as energy demands can reach grid limitations at peak load.

- HP offers expert, customizable assessment and site-planning services to help customers evaluate their data centers and develop more effective and efficient power and cooling strategies.
- In October 2007, we launched our Dynamic Smart Cooling (DSC) service to help substantially reduce the energy needed for cooling data centers, which can represent 40 percent to 50 percent of their total power needs. DSC uses multiple rack level temperature inputs to adjust cooling to the needs of the servers, rather than continually cooling the data center at maximum

capacity regardless of the heat generated. DSC can reduce energy consumption related to cooling by up to 40 percent compared with legacy data centers (depending on the cooling system and power and cooling best practices deployed in the data center). For a 20,000-square-foot data center, this may represent about 480 tonnes of avoided CO_2e emissions per year.

We are consolidating 85 of HP's data centers worldwide into just six locations in three U.S. cities by the end of 2008, and plan to apply DSC technology in those centers by the end of 2009. We have already achieved 20 percent energy savings compared with legacy data centers at an HP Labs site in Bangalore and expect these gains to rise to 40 percent as the data center is further built out (see the case study).

In February 2008, HP acquired EYP Mission Critical Facilities (MCF), a consulting company specializing in planning, design and operations support for large-scale data centers, with particular expertise in energy efficiency. EYP MCF will enhance our ability to help customers optimize energy efficiency.

See an interview about DSC with Chandrakant Patel, HP Fellow at HP Labs.

HP Halo Telepresence Solutions make it possible for colleagues to collaborate and interact while avoiding GHG emissions related to travel. Halo takes video conferencing and collaboration to a new level that brings people from across the globe into an environment that looks, sounds and feels as if they are just across the table. On just one project, one HP team improved time-to-market by six months and eliminated 44 international trips. Cumulatively, using Halo on this project saved more than 143 tonnes of CO_2e from being released into the atmosphere, the equivalent of removing 26 cars from the road for one year. Halo also includes energy-saving displays and lighting features that result in a 40 percent reduction in energy use when the room is in standby mode.[5]

[1]Instant-on fusing technology allows printers to respond to jobs instantly without using energy to keep the print mechanism constantly warm, producing the first page faster when a printer is coming out of powersave mode (see Performance).
[2]Calculations based on energy calculator on the EPA website. Use the 8510w as a basis with an active power of 15.7 watts and a sleep power of .56 watts.
[3]When compared with standard cold cathode fluorescent lamp (CCFL) display technology.
[4]A thin client is a device that typically only connects to a network and starts up a dedicated web browser, using a server for processing and storage.
[5]Applies to the latest model studio.

Performance

HP's IT ECO Declarations provide energy data for individual products. Because of our diverse range of products and configurations, it is not feasible to calculate the energy consumption for HP's entire product portfolio. However, we do measure performance and set goals for several of our high-volume products.

Product performance relative to energy use has increased substantially over the last 15 years through improvements in processing power and energy-efficiency innovations. We made huge strides in energy efficiency during the 1990s, when the capability of equipment advanced rapidly without commensurate growth in energy needs. Progress has continued into the current decade, though less dramatically.

Monochrome LaserJet workgroup printer savings from instant-on fusing, 1993-2006

[Tonnes] [Cars]

Cumulative savings 1993–2006:
- 5.3 million tonnes CO_2e
- Equivalent to 960,000 cars removed from the road for one year

■ Tonnes CO_2e reduction
→ Cars equivalent removed from road for one year
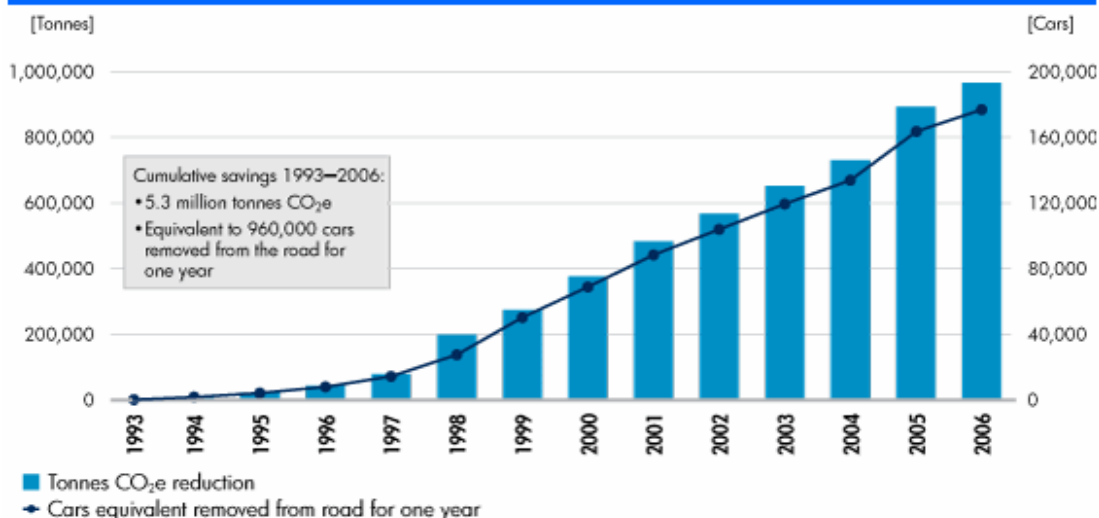
Logistics

Shipping over a million HP products around the world each day requires large amounts of fossil fuels. We aim to make significant strides in cutting energy use and reducing greenhouse gas (GHG) and other air emissions by shifting product transport to more efficient methods, optimizing our distribution network, and improving the utilization of individual pallets, containers and trucks.

Most of our computer and imaging products are assembled in Asia, while a large portion of sales are in Europe and the Americas. We transport these products by air and ocean from Asia to regional distribution centers, and then by truck or rail to their final destinations. In some cases, we bypass our distribution centers and ship directly to our customers. To reduce cost, we are continually converting shipments from air to ocean throughout our global supply chain.
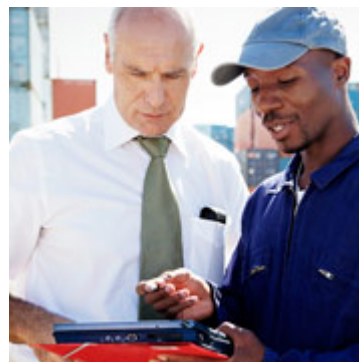
We are currently unable to measure logistics GHG emissions directly because we rely on third parties rather than having our own transport fleet, but we are working with our service providers to develop an accurate understanding of their impact.

We estimate that transporting HP's products creates roughly 2 million tonnes of carbon dioxide equivalent (CO_2e) emissions a year, which exceeds the emissions related to operating our facilities. Most of these emissions are from international air freight, while roughly 25 percent is from road transport and parcel freight. Although we use ocean transport extensively, we estimate it produces less than 5 percent of our total emissions from logistics, because of its excellent energy efficiency. In fact, each tonne of freight transported by ocean produces only about 1/50th of the CO_2e from air freight.[1]

Modal shift

Our strategy to reduce GHG emissions from logistics focuses on "modal shifts" from air to ocean and road to rail, and on improving loading efficiency. Other initiatives include:

- Optimizing our distribution network to decrease the distance from distribution centers to our resellers.
- Converting to plastic pallets that are less than a quarter the weight of wood pallets, which lowers the energy to transport them. This move resulted in saving 7,000 tonnes of CO_2e associated with notebook and camera shipments from Asia to Europe in 2007.

HP has been shifting notebook PC transport from air to ocean freight. Each notebook PC shipped by ocean instead of air reduces GHG emissions by about 6 kg of CO_2e. This means that each cargo container saves the equivalent of the emissions of an average car driving 100,000 km. HP shifted more than 250 containers of notebook computers last year, saving approximately 4,000 tonnes of CO_2e.[2]

In the United States, we're increasing the use of rail to deliver products from our distribution centers to resellers, reducing both GHG emissions and costs. We estimate this switch reduced emissions by 3,500 tonnes CO_2e in 2007. Our goal is to use rail for 21 percent of the total transportation for our imaging and printing products in North America in 2008, an increase from 17 percent today.

Improving loading efficiency

Through our Design for Logistics program, we develop more energy-efficient methods to transport our products, such as improving the utilization of individual pallets, containers and trucks.

In 2007, we completed a project to increase the utilization of pallets of notebook PCs air-shipped from China. We reduced the size and weight of each notebook box by decreasing internal packaging and reference materials. Improved design also reduced the weight and size of the product. We've reduced the weight of each boxed product 8 percent which enables us to fit 25 percent more on each pallet. These changes will eliminate 29,000 tonnes of CO_2e annually from this one project alone, while reducing costs.

See Packaging for more examples of improvement in this area.

SmartWay

In May 2007, HP joined the SmartWay[SM] program, a voluntary partnership between the U.S. Environmental Protection Agency (EPA) and the U.S. freight industry that targets reductions in fuel consumption, GHG emissions and other air emissions. By 2010, the EPA expects to remove at least 33 million tonnes of CO_2e emissions a year via this program. HP is encouraging all of its logistics service providers in the United States to join SmartWay. As of February 2008, 77 percent have joined—our goal is to have 85 percent of our service providers signed up by October 2008.

Performance

We estimate that the projects in 2007 described above reduced GHG emissions by more than 36,000 tonnes. We anticipate that GHG savings will accelerate in the future as additional projects are developed and implemented.

In 2008, HP will continue to convert shipments to more cost effective modes of transportation with lower environmental impact, implement strategic distribution hubs to reduce distance traveled, utilize enhanced packaging and palletization processes, and collaborate with our major global service providers to report on the GHG emissions for the freight they transport on HP's behalf.

[1]According to the World Resources Institute GHG Protocol.
[2] Based on Bilan Carbon Method – a French translation of the GHG Protocol.

Business opportunities

HP is developing new IT solutions that can help minimize the release of greenhouse gases (GHG) such as carbon dioxide into the atmosphere. These low-carbon solutions fall into three broad areas:

Reduce

The first area focuses on improving the efficiency of existing products and services. Advances in information technology (IT) are enabling energy-intelligent appliances and systems that require less energy. As an example, HP recently introduced Dynamic Smart Cooling, a comprehensive approach to reducing the power needed to cool data centers. We are also researching large-scale sensor networks to improve energy efficiency in broader areas such as construction and agriculture.

Advanced modeling tools are making it easier to develop more energy-efficient products, as well. For example, powerful servers and workstations enable the design of aircraft, automobiles, appliances, and industrial equipment that use energy more efficiently and generate fewer GHG emissions than the versions they are replacing.

New technologies can also prompt important shifts in consumer behavior. Solutions providing real-time energy monitoring and reporting make consumption more transparent. By seeing the impact of their energy use—in terms of both its cost and its associated GHG emissions—consumers can make more informed choices when using household appliances and devices, heating and cooling their homes, and purchasing new products.

Our approach to improving energy efficiency takes a broad view across the entire product life cycle. HP Labs is collaborating with the University of California at Berkeley to develop the Lifetime Exergy Advisor.[1] Designers will employ this tool to assess a product's total environmental impact (including energy use and GHG emissions). It can then help determine the environmental benefits gained from using alternative kinds and combinations of materials and processes across every phase of the product life cycle, including materials extraction, manufacturing, shipping, use and recycling.

Substitute

The second area of opportunity is in replacing carbon-intensive activities with low-carbon alternatives. For example, our HP Halo Telepresence Solutions reduces the need for business travel, a significant source of GHG emissions, by replicating the meeting environment virtually.

In addition, the web services and client devices we are developing to help power the Internet economy and replace physical processes are making commerce and information sharing increasingly more efficient. Shifting purchases online, for instance, lessens the need for complex logistics and store infrastructure to serve customers, and in doing so, conserves energy and limits GHG emissions.

We are also researching electronic displays to replace printed materials that are typically used just once, such as newspapers. This technology has the potential to reduce waste, which in turn would decrease energy use and associated GHG emissions from manufacturing and distributing paper.

Facilitating the world's transition to a low-carbon economy is a third area of opportunity for HP. This shift will require technologies to support emerging carbon markets, and sophisticated monitoring and reporting of carbon emissions. We are investigating software and services to help assess, manage and

report energy use and GHG emissions generated by our customers' businesses, including their supply chains.

We are also helping automate workflows, enabling companies to adopt digital processes that can save significant amounts of energy and resources. For example, HP Web JetAdmin makes it easy to remotely configure, monitor and manage fleets of printers to save power. Other HP technologies help reduce paper waste. By streamlining the delivery of documents, HP Output Server can decrease an organization's printed pages by up to 70 percent. Plus, businesses that use print on demand solutions like HP Retail Marketing Automation can reduce excess signage and printed marketing materials by up to 90 percent.

These opportunities are not limited to developed economies. In fact, a key to creating a low-carbon future is developing IT solutions that enable smarter growth in emerging and developing economies. As countries build their infrastructure from the ground up, we have an opportunity to help them bypass more energy-intensive approaches in favor of solutions such as web services and electronic commerce with a lower greenhouse gas impact. We are working to capitalize on these opportunities and intend for HP to be a leader in providing the technological solutions that give countries, businesses and individuals an advantage in a low-carbon world.

[1]"Exergy" refers to the energy available within a system to do work.

Collaboration

In collaboration with governments, NGOs and other technology companies, HP is focused on developing strong climate change policies, advancing industry standards for energy-efficiency and reducing greenhouse gases emissions throughout the global economy.

Public policy work

HP supports coordinated and cost-effective actions by governments to help businesses and individuals address climate change. We encourage the development and the promotion of effective climate change policies through participation in global and local organizations such as:

- World Wildlife Fund (WWF) (see below)
- Combat Climate Change
- The International Climate Change Partnership
- Pew Center on Global Climate Change

With support from HP, WWF is working to analyze and address climate change around the world, including forest conservation and management in Oaxaca, Mexico.

In late 2007, we signed the Bali Communique, endorsed by 150 global business leaders calling for a comprehensive, legally binding United Nations framework to tackle climate change.

Guiding principles

HP believes these principles should guide strategy for climate change mitigation:

- Policy frameworks that use market-based mechanisms to set clear, transparent and consistent price signals over the long term offer the best hope for unleashing innovation and competition.
- Developing countries have a legitimate aspiration to development, which global policies must take into account. HP supports approaches that create incentives and encourage actions by all countries, including large emitting economies in the developing world, to implement GHG emission reduction strategies.
- IT solutions can help all countries, and particularly developing economies which are building their infrastructure from the ground up, achieve rapid economic development with a lower dependency on fossil fuels.
- Climate change mitigation must not be viewed in isolation from other highly important challenges, such as ensuring access to energy, expanding availability of clean water, alleviating poverty and achieving growth in the global economy.
- Undertaking a system wide, integrated approach to tackling climate change will identify the greatest opportunities to reduce impact throughout the product life cycle.

World Wildlife Fund collaboration

In November 2006, HP entered into a relationship with the conservation organization WWF to combat climate change and began working with WWF to set ambitious targets to reduce greenhouse gas emissions. We furthered our commitment in February 2008 by joining the WWF Climate Savers program and setting new leadership goals.

As an important element of our collaboration with WWF, research is under way to identify information and communications technology (ICT) solutions, such as teleworking, intelligent heating and cooling, and more efficient use of office space, which could reduce carbon dioxide equivalent (CO_2e) emissions by a billion tonnes annually when applied globally. That represents 2 to 3 percent of current emissions from human activities around the world.[1] To be released in May 2008, the report is a collaboration among thought leaders in the fields of ICT, climate change, innovation and urban planning that will present recommendations for the consideration of the ICT industry, regulators, and our current and future customers.

HP also provides technology for specific WWF projects designed to advance scientific understanding of climate change in specific locales. For example, the Advanced Climate Change Science and Solutions Initiative is a $2 million program addressing the causes and the consequences of climate change. (See Social investment)

Industry collaboration

We work closely with other information technology companies to advance energy efficiency. For example, HP is a founding board member of The Green Grid Association, a nonprofit global consortium focused on improving data center energy efficiency. In September 2007, Green Grid and the U.S. Department of Energy established a goal of making U.S. data centers 10 percent more energy efficient by 2011. Data centers are among the fastest-growing consumers of energy in the United States. They used an estimated 1.5 percent of U.S. electricity in 2006, and consumption is projected to grow 12 percent a year to 2011. Achieving the 10 percent target would reduce CO_2e by approximately 6.5 million tonnes a year[2], equivalent to permanently removing about 1.2 million cars from the road.

HP is also a board member of Climate Savers Computing Initiative (CSCI), which brings together businesses, consumers and conservation organizations. Launched in June 2007, CSCI works to make new PCs and servers more energy efficient and to promote power management to minimize energy consumption when computers are inactive. HP and other computer suppliers, including component manufacturers, have committed to creating products that meet specified power-efficiency targets. CSCI seeks to reduce computers' power consumption by 50 percent by 2010, lowering global CO_2e emissions by 54 million tonnes per year—equivalent to the annual emissions of 9.9 million cars.

Through the Global e-Sustainability Initiative (GeSI), HP provides input to the European Commission's policymaking and promotion for sustainable energy. As part of the commission's Sustainable Energy Week, HP worked with Intel and Sun Microsystems to organize the GeSI EU ICT Sustainability Forum. The forum convened commission officials, members of the European Parliament, NGOs, media and business executives to understand how ICT can foster sustainable energy policy objectives.

We also sponsored a landmark study, released in September 2007, that examines the overall impact of ICT on energy consumption and how the high-tech sector can help the EU achieve its goal of reducing energy consumption by 20 percent by 2020. The report, produced by the American Council for an Energy-Efficient Economy (ACEEE) and AeA Europe, an industry organization, calls for urgent action by high-tech industries to do everything they can to tackle climate change.

HP also joined the Carbon Disclosure Project Supply Chain Leadership Collaboration in late 2007 to help develop a consistent and appropriate methodology for disclosing energy use and GHG emissions throughout the supply chain.

[1] IPCC AR4 Synthesis Report Summary for Policy Makers, page 4: 49, GtCO$_2$e in 2004, http://www.ipcc.ch/pdf/assessment-report/ar4/syr/ar4_syr_spm.pdf.
[2] http://www.energy.gov/news/5504.htm

Case studies

HP rp5700 Desktop PC

The HP rp5700 Desktop PC saves energy, is easier to recycle at the end of its life, and is also available with an optional solar energy source as an alternative power choice. Some of these features are now incorporated in other new HP models.

This product has an expected life of five years, even in rigorous environments like a distribution center or manufacturing floor. This is the longest life of any HP business PC and helps save energy and materials because customers need to replace the computer less frequently.
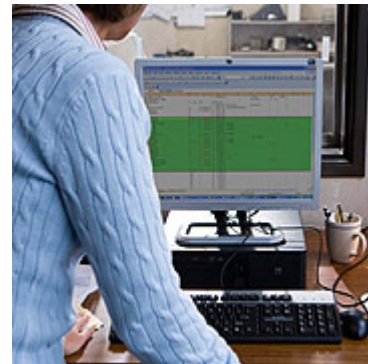
The HP rp5700 Desktop PC uses the low-power Intel Core 2 Duo processor and HP technology that helps manage power and sleep settings more efficiently. The 80 PLUS power supply is up to 15 percent more efficient than previous-generation HP power supplies. This helps reduce overall energy use and associated costs, as well as the amount of waste heat generated.

The HP rp5700 Desktop PC is the first product to meet the stringent requirements for a gold rating with the Electronic Products Environmental Assessment Tool (EPEAT). It also meets several other environmental standards, such as the European Union's RoHS requirements. It joins the HP portfolio of business desktops introduced in January 2007 that meets the energy-efficiency specifications to earn the ENERGY STAR and 80 PLUS. In its maximum energy-efficient configuration, and paired with an HP flat panel monitor, the HP rp5700 PC may help customers save as much as 80 percent in power consumption over previous-generation HP systems using cathode ray tube monitors.

We also designed the HP rp5700 desktop PC for easier recycling at the end of its usable life. It is built with 95 percent recyclable components and has a tool-less chassis designed for quick and easy hand disassembly.

"Customers increasingly value environmental aspects of products," said Jeff Omelchuck, executive director of the Green Electronics Council, which manages the EPEAT program. "HP is clearly differentiating itself by integrating such features into their products, as evidenced by the HP rp5700 Desktop PC."

See more information about the HP rp5700 Desktop PC. See more information about HP's ENERGY STAR-qualified products.

Bangalore data center consolidation using Dynamic Smart Cooling

In 2007, HP Labs began building a 70,000–square-foot data center in Bangalore, India, combining the computing power of 14 existing facilities under one roof.

The site uses HP Dynamic Smart Cooling (DSC), which reduces energy and costs by adjusting cooling to the needs of the servers, rather than continually cooling throughout the data center. The Bangalore center has 7,500 sensors that monitor equipment environment temperatures and adjust the air conditioning accordingly. Through this design, HP achieved initial savings of 20 percent of cooling costs compared with legacy data centers, and we expect those savings to reach 40 percent once the system is optimized.

We anticipate that the new center will save 7,500 MWh annually, equal to 7,500 tonnes of carbon dioxide equivalent emissions(CO_2e). It represents the largest implementation of DSC to date and demonstrates that the savings achieved in smaller data centers are possible in much larger facilities.

Goals

Goals for 2007

Operations

- Increase purchases of renewable energy in the United States to 50 million kWh/year from the 2006 level of 11 million kWh/year
  Progress: In 2007, HP purchased 61.4 million kWh of renewable energy and renewable energy credits in the United States.

Logistics

- Increase capacity utilization in truck transport in the United States to at least 85 percent (from approximately 80 percent in 2006)
  Progress: There was no change from 2006. HP had a large transition of outbound freight movements from the East Coast to the West Coast that inhibited our trailer-capacity utilization numbers.
- Conduct risk assessment and extend supply chain social and environmental responsibility (SER) policy and program to high-priority logistics suppliers
  Progress: 80 percent of our top global service providers have signed HP's SER agreement.
- Investigate benefits and requirements for joining the U.S. Environmental Protection Agency's SmartWay Transportation Program, to determine feasibility of becoming a partner
  Progress: Achieved. We joined the SmartWay program in May 2007.

Goals for 2008

Logistics

- Use rail for 21 percent of transport miles for our imaging and printing products in North America
- Increase accuracy of GHG emissions data for HP product transportation by collaborating with logistics service providers to obtain data for freight they transport on HP's behalf
- Implement the use of plastic pallets for 100 percent of notebook shipments from Asia to the Americas by May 2008
- Implement idling restrictions and dwell-time reductions at more than 50 percent of HP's U.S. and Canadian distribution centers by August 2008

- Participate in U.S. Environmental Protection Agency SmartWay Transportation Program
  - Increase use of SmartWay surface transportation carriers to 85 percent in the United States by December 2008
  - Ship 100 percent of North America consumer desktops and monitors using only SmartWay surface transportation carriers, beginning July 2008

Supply chain

- Report energy use and associated greenhouse gas emissions (GHG) in HP's first-tier suppliers, representing more than 70 percent of our materials, components and manufacturing supplier spend

Goals for 2010

Operations and products

In 2007, we added a new 2010 goal for PCs. Our goals are now as follows:

HP will reduce the combined energy consumption and associated GHG emissions of HP operations and products to 25 percent below 2005 levels[1] by achieving the following:

- Operations: HP will reduce energy consumption and the resulting GHG emissions from HP-owned and HP-leased facilities worldwide to 16 percent below 2005 levels.[2]
- Products: HP will reduce the energy consumption of HP products[3] and associated GHG emissions through specific goals for representative product categories, including the following goals for HP's high-volume printer, server, and desktop and notebook PC families:
  - Improve energy efficiency for high-volume printer families by 30 percent, relative to 2005[4]
  - Improve energy efficiency for high-volume server families by 50 percent, relative to 2005[5]
  - Reduce the energy consumption of high-volume desktop and notebook PC families by 25 percent, relative to 2005[6]
    Progress: We reached 19.2 percent reduction in our combined operations and products energy use at the end of October 2007, the end of HP's reporting year. We are confident that we surpassed the 20 percent mark by February 2008, more than two and a half years early.

[1]Updated goal: Based on current progress and leadership commitments, HP increased its combined operations and products energy reduction goal from the original 20 percent to 25 percent by 2010.
[2] HP has revised the baseline year of our operations energy goal to 2005 from 2006 to align with our other energy goals. This is not a change in substance of the goal since we remain committed to the same 2010 energy use target; it is only a change in the baseline year. As HP operations energy use was approximately 1% higher in 2005 compared to 2006, this increases the goal's percentage reduction to 16% below 2005 by 2010.
[3]Average energy efficiency per unit shipped using IDC-reported figures for 2005, across identified high-volume product families, using industry standard measurement benchmarks. Identified product families include notebook and desktop computers, inkjet and LaserJet printers, and industry-standard servers.
[4] Efficiency is defined in terms of kWh (using the Total Electrical Consumption method)/pages per minute. Goal applies to printers referenced in footnote 3. These families represent more than 35 percent of inkjet printers and more than 45 percent of LaserJet printers shipped in 2005.
[5] 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 3. These families currently represent 50 percent of sales volume in this category.
[6] Energy consumption is defined as watts consumed in idle mode (using the US EPA ENERGY STAR; test protocol). Idle mode represents over 75 percent of total energy consumption. The improvement will be calculated by averaging the energy consumption of desktop and notebook platforms across shipped volume.

Perspective

John Davies
Vice President
Green Technology Research

Hewlett Packard's ultimate contribution to mitigating climate change will come from the leadership it exhibits in bringing its upstream suppliers along, and in the energy efficiency HP provides to its customers with innovative products, solutions and services. HP's role in establishing the Electronics Industry Code of Conduct (EICC) will help raise the standard for all of the suppliers it does business with and will further ripple upstream to influence its extended supply chain. It's uniquely positioned to capitalize on the opportunities across the entire IT domain and develop technologies that can help address the carbon intensity of the overall economy, even outside the IT domain.

HP has set aggressive but realistic climate change and energy goals. With direct emissions almost completely accounted for by electricity use, HP is complementing internal energy efficiency initiatives with investments in renewable energy. Internally, its data center consolidation efforts reduce its footprint and demonstrate what can be achieved with the right motivation. HP's investments in renewable energy, such as its new solar installation in San Diego, is further complemented by an internal incentive plan to foster employee adoption of the technology.

To move forward, HP needs to do the following: First, invest in additional energy efficiency and intelligence solutions to help customers lower their electricity-related emissions. And second, continue its pursuit of innovative ideas through its Design for Environment strategy to deliver products such as the HP HALO telepresence solution, which cuts down on the energy consumed by business-related travel. Most importantly, HP needs to move beyond just leading by example and communicate directly with other companies and consumers about how we all can have an immediate impact in mitigating climate change.

Product reuse and recycling

HP was among the first in our industry to offer a product reuse and recycling program. We met our target to recycle 1 billion pounds of electronic products and supplies by 2007 and have set a new goal to recover another billion pounds for reuse and recycling by 2010. Our ongoing commitment is to design products to be both more recyclable and easier to return at the end of their usable life.

IN THIS SECTION:
» Approach   » Goals
» Programs   » Perspective
» Performance   » External verification
» Case studies

HP has made great strides in increasing the volume of our products recovered for reuse and recycling.[1] But much more progress remains to be made for the information technology (IT) industry. The number of PCs, servers, print cartridges and other electronics reaching the end of their usable life is growing rapidly.

Managing this increasing volume of discarded equipment conserves natural resources by reducing the need for raw materials and energy to manufacture new products. As such, our commitment to responsible product reuse and recycling is integral to meeting our energy efficiency objectives.

Product reuse and recycling offers other benefits as well. Remarketing used equipment is profitable for HP, and businesses and consumers are increasingly seeking out manufacturers that offer responsible reuse and recycling options for used equipment. Plus, many governments have passed legislation, such as the European Union's Waste Electrical and Electronic Equipment (WEEE) Directive, requiring that discarded electronic equipment be recycled. Our proactive approach to product reuse and recycling helps us meet legal requirements, maintain access to markets and win business.

Our progress

HP began remarketing used equipment in 1981 and recycling in 1987. This year, we exceeded our goal to recycle 1 billion pounds (450,000 metric tonnes) of electronic products and supplies by the end of 2007. We have set an aggressive new goal to recover an additional 1 billion pounds for reuse and recycling by the end of 2010.

Beyond that major milestone, our efforts in 2007 yielded significant progress. Specifically, we:

- Increased our annual recycling volume by more than 50 percent over 2006 to 113,000 tonnes (250 million pounds)
- Collected approximately 3 million hardware units weighing 28,500 tonnes (63 million pounds) for reuse and remarketing, an increase of more than 31 percent compared to 2006
- Increased the volume recovered for reuse and recycling as a proportion of relevant sales from 10 percent in 2006 to 15 percent (see calculation methodology in footnote 1 on Performance page)
- Introduced recycling programs in seven countries: Bulgaria, Colombia, Indonesia, Malta, Philippines, Romania and Turkey.
- Introduced several products that use recycled materials and include features to facilitate recyclability (see Products)

We offer a range of take-back services for both companies and consumers, illustrated in the graphic below. Responsible take-back is core to our leasing and reuse services, and saves customers time and expense managing old equipment. Free return and recycling is available for print cartridges in 47 countries or territories. We make arrangements with commercial customers depending on the equipment involved and the specific circumstances. Consumer recycling services vary from country to country, depending partly on local regulations. The graphic below summarizes HP's reuse and recycling offerings. For more information, see product return options.

In all cases, it is important to manage the disposal of returned equipment to protect data security. We have safeguards in place for all products we take back, whether by trade-in, via donation or through our recycling services.

Product reuse and recycling at HP
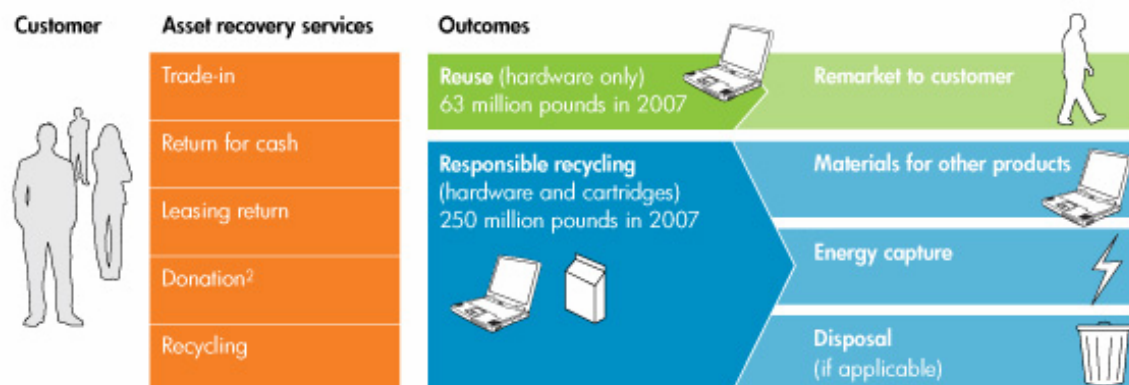
[1] Throughout this report, product "reuse" or "remarketing" refers to the return to use of complete electronic products. "Recycling" refers to the processing of waste electronic devices and consumable items for recovery of materials or energy.
[2] The relationship is directly between the customer and the charity.

Approach

HP offers a range of product recovery services around the world, including recycling services in 52 countries or territories worldwide. (See Programs) We focus on solutions designed to achieve continued growth in recovered volumes.

Our hardware return and recycling approach includes both product reuse and recycling. Reuse extends the life of equipment that satisfies our high quality and reliability standards and meets our customers' needs. But eventually all IT equipment reaches the end of its useful life, and recycling services are then essential for responsible end-of-life management.

Our commitment is guided by these key principles:

- Accept our individual responsibility for product recovery
- Offer customers a choice of take-back options
- Provide global access to reuse and recycling services
- Follow a reuse-recycle-disposal hierarchy that prioritizes reuse and generates as much recycled material as possible when reuse is not a viable option
- Ensure compliance with HP reuse and recycling processes and standards
- Transparently report our progress

Individual producer responsibility

HP believes all manufacturers share with governments and customers the responsibility for treating IT products responsibly at the end of their useful life. We support the concept of individual producer responsibility (IPR) and holding producers responsible for recycling their own products after they have been collected.

Our print cartridge recycling program demonstrates the advantages of IPR in practice. We design HP print cartridges for easier recycling and provide a take-back program that ensures recycled materials meet our performance specifications for use in new cartridges. However, this is not always possible for all products. It is particularly difficult with hardware collection programs, which often take back various brands and types of equipment and require complicated sorting. In these cases, we support an approach to IPR that is based on producers accepting the financial responsibility for recycling their share of products in the recovery stream.

HP engages with governments to develop responsible legislation and directives for proper end-of-life management of products. HP has supported an IPR approach in the development of the European Union's Waste Electrical and Electronic Equipment (WEEE) Directive as well as legislation in countries in North America and Asia.

The recycling hierarchy

We employ a hierarchy of reuse and recycling options that maximize value while minimizing environmental impact:

- Reuse of hardware products by others, including 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 recovery—using the heat generated by burning materials that cannot be reused or recycled directly
- Responsible disposal

Recycling processes and standards

HP-approved recycling vendors process obsolete IT equipment and exhausted print cartridges that customers have returned through our take-back programs. The recyclers dismantle the recovered equipment and process components and materials to extract as much value as possible.

We require recycling vendors to meet our specific global recycling standards and policies as well as our general Supplier Code of Conduct. These standards and policies require vendors to store, handle and process equipment in ways that prevent the release of harmful substances and prohibit export of whole equipment or recovered materials without our approval. We monitor compliance through site audits.

Transparent reporting

HP is committed to transparent reporting of our performance with product recovery. We believe the most meaningful measure is the total volume of equipment diverted from landfills through our programs. That volume includes products returned for reuse and recycling, including both hardware and print cartridges. But since reuse is only a temporary measure, it is important to identify reuse and recycling volumes separately.
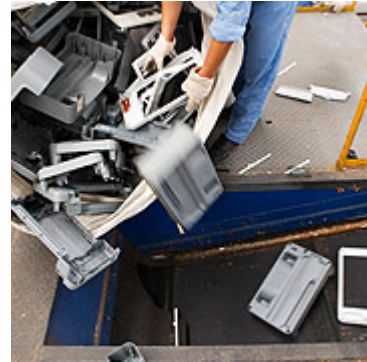
Programs

Reuse programs enable customers to buy pre-owned HP products, which include lease, trade-in or buy-back returns; demonstration equipment; and canceled orders. Products are refurbished or remanufactured as needed, reboxed and then resold, often with an HP warranty. We offer remarketed products for most HP product lines including printers, PCs and monitors. We have even remarketed entire data centers.

In all cases, we follow strict processes to protect user data and confidentiality. Our worldwide asset recovery services help commercial customers retire older or obsolete IT equipment in a way that helps safeguard their proprietary information and complies with applicable environmental laws.

Some products returned to us under buy-back, trade-in and leasing arrangements are not suitable for reuse. These enter our recycling programs, along with equipment returned in consumer take-back programs.

In Europe, HP worked with Braun, Electrolux and Sony to set up the European Recycling Platform (ERP) in 2002, in response to the European Union's WEEE Directive. The ERP sets standards and conditions for recycling contractors and conducts audits to ensure that high standards are applied. Experience with ERP confirms that competition among contractors decreases costs. Lower costs are important to increasing recycling volumes as well as offering savings to HP.

In 2007, ERP treated about 24,500 tonnes of equipment on behalf of HP. Overall, ERP treated a total of nearly 150,000 tonnes of equipment from more than 750 producers in nine major countries of the EU.

In 2007, we took steps to address the growing problem of product disposal in two fast-growing regions. In Africa, we joined a collaboration that is working to identify sustainable recycling processes for electronics in developing countries. In China, in addition to an existing consumer print cartridge take-back program, we introduced HP service centers in 31 major cities where consumers and small- and medium-size businesses can drop off HP-branded hardware for recycling.

These service centers accept, free of charge, any HP printer, scanner, fax machine, notebook or desktop computer, monitor, handheld device, camera, and associated external components such as cables, mice and keyboards. We consolidate and sort the products for recycling in China, and we plan to extend the program to include more cities and more drop-offs within the current cities. See details of the hardware recycling program.

Print cartridges

HP does not offer reused print cartridges because they do not meet our quality and reliability standards. Instead, we provide free recycling for HP print cartridges in 47 countries or territories. We offer commercial customers a bulk return option and provide consumers with return envelopes, labels or instructions.

We design HP print cartridges to meet the needs of our recycling system and incorporate recycled material. Since we take back only our own cartridges, we can be certain about the material content, making it easier to process exhausted cartridges and reuse the material to manufacture new ones.

We have engineered HP print cartridges that use recycled plastic to meet our rigorous standards for quality and reliability. Since 2005, we have incorporated post-consumer recycled plastic as raw material in more than 200 million newly molded original HP inkjet print cartridges. HP also uses post-consumer recycled plastic recovered through our return and recycling program in the manufacture of original HP LaserJet print cartridges. This recycled plastic can represent as much as 25 percent, by weight, of the newly molded LaserJet cartridge housing.[1]

We used 5 million pounds (2,300 tonnes) of recycled plastic in original HP inkjet cartridges in 2007. Cartridges returned through our recycling programs contributed half of that total. (See Materials for more information.)

The following table describes the range of our reuse and recycling programs.

Return option	Description	Availability	Charge or credit to customer[2]
Trade-in	We accept any manufacturer's equipment when customers are upgrading to new HP products. We may pay a trade-in allowance for the returned hardware.	See list	Credit
Return for cash	We issue a cash credit, revenue share or credit for new purchase for used equipment.	Worldwide	Credit amount depends on program selected
Leasing return	We take back equipment leased by HP at the end of the lease period.	Worldwide	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	May be costs associated with shipping
Recycling – hardware	Includes equipment sent directly to recycling center for materials recovery, and some equipment taken back under the programs above but not suitable for reuse	See list	See website
Recycling – printing supplies	We provide return postage and recycling for most original HP print cartridges.	See list	No charge
Recycling – batteries	We offer battery recycling for certain rechargeable batteries.	United States	No charge

[1] Percent of recycled plastic varies by model and over time, based on availability of recycled plastic that meets HP's product quality and cost requirements.
[2] Refers to whether option is at cost to the customer and whether the customer receives credit.

Performance

The increase in the volume of recovered HP products accelerated in 2007, largely due to the implementation of the WEEE Directive in Europe. Volumes also grew in the Americas and Asia Pacific and Japan. The volume of recycled print cartridges was higher than in previous years, and the proportion of the materials recycled into new products also continued to rise. HP collected approximately 3 million hardware units weighing 28,500 tonnes (63 million pounds) for reuse and remarketing.

HP offers recycling services in 52 countries or territories, including seven added last year: Bulgaria, Colombia, Indonesia, Malta, Philippines, Romania and Turkey. Overall, we collected about 113,000 tonnes (250 million pounds) of products through those services, bringing the cumulative total of products HP has recycled since 1987 to more than 530,000 tonnes (1,170 million pounds). This exceeds our goal to recycle 1 billion pounds (450,000 tonnes) by the end of 2007. We have set a new recovery goal to double that total to 2 billion pounds by the end of 2010.

We also recovered more than 4,700 tonnes (10.4 million pounds) of plastics for recycling, some of which we used to make new print cartridges. In total, we used more than 2,300 tonnes (5 million pounds) of recycled plastic in our original HP inkjet cartridges in 2007, two-thirds more than in 2006. See the Materials section of this report for more information.

Including remarketed equipment, we achieved a total reuse and recycling rate in 2007 of 15 percent of relevant hardware sales.[1] While this metric attempts to account for the time difference between when HP products are sold and returned, we recognize the difficulty of matching returned product to the appropriate sales period, which will affect the accuracy of the calculation. We prefer to focus on total volumes recovered, providing transparency of both recycling and reuse volumes.

Mixing recycling and reuse volumes also presents a challenge. Reused products and components have not yet reached the end of their useful lives, so including them can exaggerate the apparent impact of end-of-life programs.

The lighter weight of new products can be another source of confusion. If the volume of older recovered products is compared to the sales of new products designed with fewer and lighter materials, the ratio can suggest that a company's recycling rate is increasing.

We continue to believe direct comparisons of recycling volumes between companies provide the most meaningful measure of performance in this area.

Total cumulative recycling [Million pounds]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	305	395	495	615	755	920	1,170	—	—	—
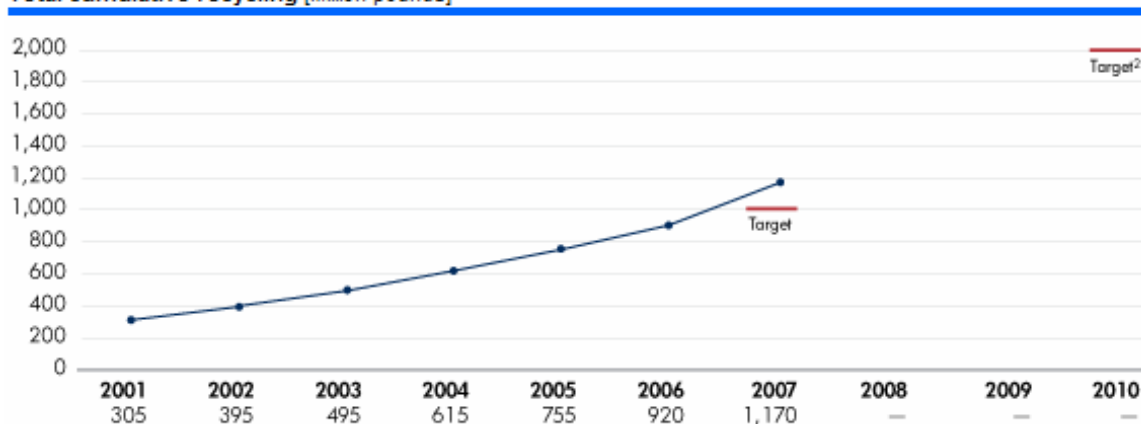
[1]The recovery sales percentage is based on the following methodology:

- We calculate a ratio of the weights of hardware products returned for recycling against the weights of our product sales from seven years ago.
- We calculate a ratio of the weights of hardware products returned for reuse against the weights of our product sales from three years ago.
- The recycling and hardware refurbishment ratios are combined to provide an overall comparison to our product sales.
- Beginning this year, we have decided not to include recycled consumables in our recovery sales percentage, since our stakeholders are primarily concerned about the rate for hardware. We do not expect that this change will have a material impact on the results. We have also made changes to our calculation methodology to be more consistent with others in our industry.

[2] Data for 2008-2010 will include reuse and recycling.

Case studies

In September 2007, HP launched a one-year pilot project in Africa to identify sustainable recycling processes for electronics in developing countries.

HP is collaborating with the Global Digital Solidarity Fund, an international organization that works to reduce the digital divide—i.e., the gap between people who have access to information technology and those who do not—and the Swiss Institute for Materials Science and Technology (Empa). These organizations include industry-leading experts that have experience with similar projects in several Asian countries.

The project's main objectives are to test processes and practices to make electronics recycling safer, improve the recycling infrastructure and increase recycling rates. It also has a strong social element and an environmental focus, with a goal to help create jobs while improving working conditions in the informal waste recycling sector. This effort is being conducted in cooperation with local communities and the informal recycling sector that exists in many African countries.

"We are looking to develop effective methods of dealing with waste that will allow the informal sector to flourish in a safe and sustainable manner," said Dr. Mathias Schluep, Empa's project manager for Sustainable Technology Cooperation.

The initial phase includes analysis of existing practices in Kenya and Morocco and a pilot project in South Africa, which will be launched in January 2008. HP anticipates the initiative will provide a stepping stone for developing a large-scale, public-private partnership for recycling electronics across Africa and in developing markets elsewhere.

Reuse in the United States

In 2007, HP's Trade-In program helped the Florida Highway Patrol (FHP) dispose of IT equipment from 2,000 patrol cars and provided funds to help finance new printers. After FHP installed new HP notebooks and printers, it used the empty boxes to package the old equipment for return to HP. We collected the equipment for reuse and issued FHP a credit to offset the cost of the new products.

Goals
Goals for 2007

- Recycle 1 billion pounds (450,000 tonnes) of electronic products and supplies by the end of 2007
  Progress: HP has recycled 1,170 million pounds since 1987.
- Simplify the Asset Recovery Services offering in the Americas and Europe, Middle East and Africa (EMEA) regions to provide a single point of contact for our commercial customers
  Progress: Achieved our goal in EMEA; did not meet our goal in the Americas. (This single point of contact already exists in the Asia Pacific and Japan region.)
- Commission a third-party provider to conduct external verification of HP reuse and recycling performance data collection processes
  Progress: Environmental Resources Management (ERM) assessed our performance data collection processes. See more detail.
- Develop new recovery goal that integrates reuse and recycling
  Progress: See below.

Goal for 2008

- Conduct annual verification against HP Recycling Standards through three tiers of recycling vendor base, including on-site audits of all first-tier vendors

Goal for 2010

- Recover 1 billion pounds (450,000 tonnes) of electronic products (for reuse and recycling) and supplies (for recycling) in the three years up to and including 2010.

Perspective

David Daoud
Research Manager and Analyst
IDC

HP has made significant strides in design for recycling. Its engineering and design teams have taken into account the concerns of refurbishers and recyclers by creating products that can easily be repaired, refurbished, disassembled or recycled. Such enhancement in product design has been augmented by the company's assistance to recyclers, making available to them guidelines that greatly simplify the recycling process.

Among the latest of the company's techniques in the area of design for recycling is the concept of modular design, which combined with the use of the proper "environmentally-friendly" materials help HP to increasingly establish itself as a leading "green" IT supplier. HP further pushed to reduce its products' environmental impact by incorporating more easily recyclable plastics, reducing the number of different plastic types in a single product and replacing coating and paint with molded-in colors. Furthermore, reuse, as a way to extend the life of a system, has been facilitated by HP's modular design approach, enabling simple component swapping during the refurbishing process.

With the environment in the minds of HP product engineers and designers, the company boasts today EPEAT's number one rated desktop in the market in terms of environmental standards. The company's HP rp5700 Business Desktop PC has gathered EPEAT's highest Gold rating of 20 points, a desktop that is ahead of the competition in "green" IT compliance. In the notebook space, HP also boasts one of the "greenest" portable PCs, the Compaq 2710p notebook, also rated Gold at 21 points.

The steps forward made by HP in the areas of environmental stewardship are significant. However, the company needs to expand its "green" product initiative from a select number of commercial systems to a broader commercial and consumer lineup of products.

In terms of environmental services, HP's voluntary programs are broad in scope and well structured to address the needs of both consumers and commercial PC users. Incentives are well determined and intelligently designed to incorporate choices such as HP Asset Recovery programs, which can provide value for qualified used commercial equipment, or HP trade-in programs for consumer and commercial customers, which provides credit toward the purchase of HP products for qualified used equipment. HP also provides environmentally responsible recycling if the product can no longer be used. Although these offerings are broad based, geographically spread and with efficient incentives, a more massive educational campaign must be implemented by HP to make its customers and consumers in general more aware of its offerings. This means that HP has to work with its partners in the channels, in particular retailers and resellers, to make its offerings more visible to users wherever they shop for their PCs and general IT and electronics needs. Short of a comprehensive and proactive campaign, consumers could be ill-informed about the potential to recycle their

hardware.

Regardless, HP has been one of the few IT companies that managed to establish a comprehensive "green" strategy and an ambitious roadmap to further reduce its own environmental footprint and that of its clients through innovative products, new technologies and comprehensive business processes. Its environmental strategy is cohesive, transparent and sustainable, making it among the very top, if not the number one most efficient IT vendor in environmental stewardship.

External verification

ERM-West, Inc. (ERM) was contracted by Hewlett-Packard Company (HP) to conduct an independent review and verification of the reuse and recycling metrics published in the company's Global Citizenship Report (GCR), the observations and conclusions of which are summarized below.

The HP recycling and reuse programs cover all major geographic market regions and the majority of product categories, and demonstrate continued growth and expansion. The systems and processes in place to track and report data from these programs for input into the GCR appear systematic, repeatable and rigorous. Clear distinction is made between reuse and recycling data to avoid double counting, and there is internal awareness of actual and potential sources and margins of error[1] in the data. On this basis, the metrics reported in the Global Citizenship Report are credible and defensible. Providing verification, per se, of the metrics is, however, a challenge at present for the following reasons:

- Limited visibility into the final disposition of recycled material (visibility ends at the first-tier vendors), a foundational requirement for verifying reported recycling data. This should be remedied as an issue by improvements planned for the recycling Vendor Assessment Program.
- Limited visibility into data collection processes prior to 2003/2004 (with the exception of Supplies) due to historical mergers and acquisitions, and employee turnover, coupled with the relatively informal nature of the reporting network. Documenting the existing reporting organization and the respective processes for tracking and reporting the data, and keeping this information up to date, would provide a basis for future internal or external evaluation and verification purposes.
- Margins of error, most notably in EMEA, which reports the largest recycling volume, together with the highest margin of expected error. Recycling vendors in the European Union do not furnish producer brands like HP with tonnage of material recycled by brand, and information from various vendors is a mix of calendar and fiscal year. As a result HP must rely on several extrapolations and projections to estimate HP recycling metrics for the EU. These may diminish as issues with further implementation of the European Recycling Platform across the region, from which partner brands should be able to extract more timely and detailed information, and as recyclers respond to pressures from producers to provide more granular information.

Beyond data verification challenges, a consideration may be to exclude products that are returned within 30 to 90 days of initial sale from the reported reuse figures in order to avoid potential challenges from parties who perceive "reuse" to be equated with products at the end of their useful life.

Finally, a subset of the interviews conducted for the purposes of this review uncovered possible gaps in internal HP recycling programs that, if confirmed, may represent opportunities for improving the extent of material recycled from the company's own facilities and offices. Specific concerns raised by interviewees referred to: possible awareness gaps among some HP employees of the company's recycling policies and processes, a few of the smaller HP sites not being included in the company's system for tracking electronic waste recycled, and the exclusion of some of the more remote premises from the recycling program due to logistical challenges.

[It is noted that the majority of issues summarized above confirm HP's own observations made independently of this review].

Note: The independent review was carried out between January and April, 2007. This statement also appeared in HP's GCR for FY06.

[1] A margin of error is anticipated as inherent to reported metrics, especially in a program of this nature, scale and complexity. Sources of error include calibration errors and projection errors. Calibration errors are usually small, routine elements of any data collection and reporting processes that rely on weight data from multiple sources (logistics providers and recycling vendors, in this case). Projection errors can also comprise routine elements of reported figures that rely on forecasting.

Product innovation

Products represent the largest share of HP's environmental footprint. We strive to reduce their impact at every stage of their life cycle, from design and manufacturing to use and disposal. We focus on greater energy efficiency, using fewer and lighter materials, and easy recyclability. In concert with making products accessible to people with physical limitations, our approach to product innovation responds to evolving customer needs and expectations.

IN THIS SECTION:

» Research and development
» Industry standards
» Materials
» Packaging
» Accessibility
» Goals

Tens of millions of HP products are used each day around the world. Collectively, they represent our company's greatest environmental impact, from the materials they use and how they are manufactured to the energy they consume and how they are disposed of. At HP, we continually challenge ourselves to reduce those impacts while continuing to innovative market-leading products that help simplify and improve how people work and live.

We established our Design for Environment (DfE) program in 1992, and it remains central to our business strategy today. Our approach to DfE encompasses the entire product life cycle. By integrating the environment into our thinking every step of the way, we are able to respond to increasing preferences from customers for information technology products and packaging that use materials with a lower environmental impact, conserve energy and are easy to recycle. This approach is reflected in our DfE priorities, which are product energy efficiency, materials innovation and design for recyclability.

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 our supply chain, operations and other corporate functions. Our global network of environmental product stewards works with design and development teams to incorporate environmental innovations into our products and measure performance.

In 2007, our DfE efforts yielded numerous advances, including:

- Introducing products such as the HP rp5700 Business Desktop PC (see case study) and the HP Compaq 2710p notebook PC with energy-saving features and materials innovations
- Increasing by two-thirds the amount of recycled plastic used in our original HP inkjet cartridges
- Using light emitting diodes in place of mercury lamps in some notebook PC displays
- Eliminating polyvinyl chloride (PVC) from all HP packaging.

In addition, HP offers over a thousand PCs, notebooks, monitors, and printing and imaging products that meet key eco-label programs. These include Electronic Products Environmental Assessment Tool (EPEAT), ENERGY STAR, Germany's Blue Angel, TCO (Sweden), China's Energy Conservation Program, Japan's Green Mark and Korea's Ecolabel.

We design HP products to be more easily recycled, using common fasteners and snap-in features and avoiding the use of glues, adhesives and welds where feasible. This makes it easier to dismantle products and to separate and identify different plastics.

The materials we choose can also enhance recyclability. For example, in 2007 we introduced several notebook PC models with LED technology, eliminating mercury fluorescent tubes and making the display screens easier to manage at end-of-life.

Overall, HP notebook PC products are now more than 90 percent recyclable or recoverable by weight.[1]

Our printing and imaging products are typically 70 percent to 85 percent recyclable or recoverable by weight. And as of 2007, we require all materials used in our packaging to be recyclable.

Our use of recycled materials is also on the rise. HP used more than 5 million pounds (2,300 tonnes) of recycled plastic in its original HP inkjet cartridges in 2007, and the company is committed to using twice as much in 2008.

Reducing environmental impacts across the product life cycle

Design

- Conformance to DfE standards allows products to meet regulatory requirements
- Eco-labels demonstrate conformance with international environmental expectations and green procurement criteria
- DfE increases materials and energy efficiency
- Recycled content is used, where feasible
- Design for Recyclability (DfR) features facilitate disassembly and recycling

Raw materials

- Materials reduction and use of recycled materials decrease virgin materials use
- Reduction in the number of different material types used in a single product potentially adds value at end-of-life
- Reduction in product size uses fewer resources
- Recycled materials are used in some new products
- Restricted substances are reduced or eliminated

Manufacturing

- Supplier Code of Conduct helps suppliers address key HP environmental requirements including General Specification for the Environment (GSE)
- DfR features typically enable easier product assembly
- Efficient operations reduce emissions and waste from our operations
- Global ISO 14001 certification helps in establishing effective environmental management processes

Distribution

- Smaller, lighter products decrease greenhouse gas emissions and transportation impacts and costs
- Improved packaging designs increase the number of products per pallet, reducing product transport environmental burden
- Transportation by sea allows for more efficient shipments with lower environmental impact
- HP participates in several organizations that promote industrywide reduction in environmental impacts from product transport

Use

- Efficient product design, longer battery life and enhanced power management decrease energy consumption and reduce climate impact
- Multi-function products reduce energy and materials use
- Environmental product features reduce total cost of ownership
- Server center optimization reduces system energy use
- HP printing products are efficient and reliable, reducing paper waste and cartridge use
- Products designed for reliability and upgradeability extend functional lifetime, saving IT rollover costs and reducing waste

End-of-life

- HP offers a variety of take-back options, including asset recovery, donation, leasing, remarketing/refurbishment, trade-in and recycling
- Materials selection and identification increase value at end-of-life and facilitate recycling
- Design features increase ease of disassembly, recycling and material reuse

Accessibility

Another important consideration influencing our approach to product innovation is accessibility. We believe everyone should be able to access information technology regardless of disabilities or age-related limitations. We integrate accessibility into our design process to improve the user experience and to ensure the broadest usability of HP products and services.

[1] Per the definition used in the European Union WEEE regulations.

Research and development

Rising energy costs, soaring demand for computing and the growing urgency of climate change are reshaping the IT industry. Our research and development (R&D) functions are charged with innovating the next generation of technology products and services that meet shifting customer needs while protecting the environment, safeguarding personal information and privacy, and addressing the disposal challenge posed by the increasing volume of electronics entering the waste stream.

We conduct R&D to support HP's business strategy in our three core areas: personal systems, imaging and printing, and enterprise storage and servers. This work includes research into areas related to global citizenship, such as accessibility, privacy, material use, data center energy use, and the energy efficiency and recyclability of our products. We also focus resources on improving services such as computer modeling for IT integration and economic forecasting. Last year, HP invested $3.6 billion in R&D.

HP Labs, our central research organization, has made numerous advances in energy-aware computing since the early 1990s. It developed innovative solutions for data centers, including Dynamic Smart Cooling and Data Center Thermal Assessment Services, as well as energy-adaptive displays, better ways to keep chips cool and HP Halo Telepresence Solutions video conferencing that reduces the need for business travel by replicating the feel of a face-to-face meeting.

We continually review emerging technologies and consider their potential use in our products. The most notable example is nanotechnology, which HP has been researching since 1995. Nanotechnology is the application of science and technology using materials between one ten-thousandth and one millionth of a millimeter in size. It has the potential to transform computing and other technologies. Possible applications in IT include low-power nano-scale electronics, inexpensive and efficient solar cells, and optical conduits that could replace metal wires. Other potential uses include new types of sensors for use in environmental monitoring, health care, and security functions such as checking for explosives and biological agents, and privacy assurance using biometric identification.

Below are two additional examples of HP innovation related to our global citizenship activities.

- In many emerging markets, television is more widespread than the Internet. HP Labs India has developed technology that will allow television broadcasters to transmit printable information as well as television programs through their existing networks. Users will need a printer connected to a television or Internet-connected computer, if available. The technology is being tested for broadcasting information such as distance learning materials, public health information, farming techniques and instructions during emergency situations. This could increase access and usage of these vital community resources.
- In September 2007, HP Labs and HP Government Affairs hosted an annual HP technology day in Brussels,"Software and Society: Cyber-warfare, Environmental Footprinting, Mediascapes." We presented our approach to helping society address data protection and privacy issues, how modeling tools can aid understanding of the environmental impact of complex systems, and how HP is bringing location-based experiences (called "mediascapes") to market.

Visit HP Labs for additional information about innovation for the environment.

Industry standards

Industry standards can play an important role in helping companies jointly determine how best to meet environmental regulations with their products. They also encourage innovation, promote consistent quality and help educate buyers about making environmentally responsible purchasing decisions.

For example, HP was instrumental in the multi-stakeholder process that developed the environmental performance standard IEEE 1680, published in 2006. This standard is the basis for the Electronic Products Environmental Assessment Tool for computers. It integrates a wide variety of existing regulations and standards, including U.S. ENERGY STAR and the European Union Restriction of Hazardous Substances and Waste Electrical and Electronic Equipment directives.

Today, we are participating in the standard-development process and IEEE working-group forums that are developing the next set of standards for product types such as image equipment, televisions, servers and cell phones.

HP also supported Ecma International work to develop IT Eco Declarations, which were introduced in 1996. The declarations offer a comprehensive source of standardized, comparable product information covering areas such as regulatory compliance, manufacturing practices, material selection and recycling programs. We have issued more than 1,000 of these documents, providing customers with objective information to make informed, environmentally aware purchasing decisions.

In March 2007, ECMA published the IT Eco Declaration for Print Supplies, which defines relevant characteristics for print cartridges. The voluntary declaration combines criteria from eco labels such as German Blue Angel and Nordic Swan as well as others in Japan, Korea and Taiwan. The declaration addresses more than 30 self-reported environmental characteristics, including cartridge weight, hazardous substances and whether the manufacturer offers a recycling program.

Materials

Our choices of materials in designing products represent opportunities to improve HP's environmental performance. HP has a long history of working to improve the use of materials in our products and enhance their environmental and safety performance during production, manufacturing, distribution and ultimately, disposal (see the timeline).

We are focused on:

- Being transparent about product material content and working to eliminate materials shown to, or likely to, pose an environmental, health or safety risk
- Developing products that are smaller and lighter, requiring less material
- Innovating to use new materials
- Using recycled materials
- Using materials that will be easier to recycle

These actions benefit HP, our customers and our employees. Using less material saves energy during manufacturing and distribution while reducing costs, including the disposal cost of products at the end of their lives. Avoiding substances of concern can remove risks to workers manufacturing our products and to recyclers who manage the proper disposal of products at end of life. We are dedicated to being compliant with measures such as the European Union's REACH (Registration, Evaluation, Authorisation and Restriction of Chemical substances) regulation.

Material content

At minimum, our products comply with regulations regarding materials use, but customers increasingly want to know more about substances in products, even those that aren't restricted by regulation. We're responding by moving from emphasizing the substances excluded from our products to being able to report specific materials that are included. We're developing a materials tracking system that will allow us to provide customers with materials declarations for new HP products (see Goals).

Substances of concern

We take a proactive approach to evaluating materials and eliminating those that pose an environmental, health or safety risk. We may replace or eliminate substances because of customer or legal requirements or because we believe it is appropriate based on a precautionary approach. We strive to replace even legally permitted materials when scientific data has established a potential health or environmental risk and when less risky, commercially viable alternatives are available.

Virtually all HP-branded products fully meet the requirements of the European Union Restriction of Hazardous Substances (RoHS) directive, which restricts the use of lead, mercury, cadmium, hexavalent chromium, PBB and PBDE flame retardants. HP was one of the first companies to set and achieve a voluntary goal to comply with EU RoHS materials restrictions worldwide. We promote harmonization of material restrictions across different countries because we believe this enables faster adoption to achieve the desired environmental benefits.

HP is also taking steps to comply with the European Union REACH regulation of December 2006, which places greater responsibility on industry to communicate and manage chemical-related risks. The regulation introduces a plan for assessing the safety of new chemicals while providing data for about 100,000 existing chemicals. REACH also offers a mechanism for identifying substances of very high concern and for eventual substitution of these substances as suitable alternatives are identified.

We expect that the vast majority of these substances of concern (sometimes referred to as "candidate list" substances) are not typically used in electronic products. But HP supports the overall REACH objective of improving the protection of human health and the environment and believes it will help customers be more informed about the substances found in products. HP will meet all REACH requirements and is committed to providing our customers with required information about the chemicals in our products. We are working with industry and government to achieve a workable system that fulfills the goals of REACH and with our suppliers to ensure that HP products comply.

We continued to make progress in 2007 in removing substances of concern. For example, we introduced the HP Compaq 2710p Notebook PC and the HP Compaq 2510p Notebook PC, which use light-emitting diodes (LEDs) instead of mercury lamps as a light source. The use of LEDs lowers energy consumption, extends battery life and avoids the use of mercury.
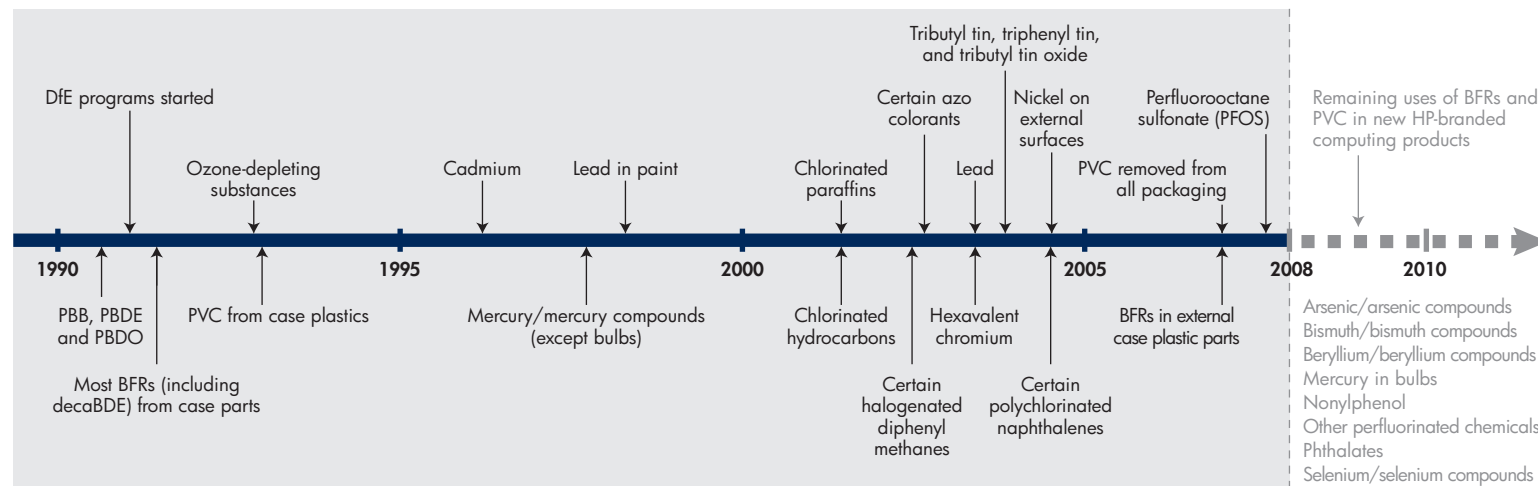
Brominated flame retardants (BFRs) and PVC have proved difficult to substitute entirely because of the lack of suitable alternatives for some uses. Over the last ten years, HP has proactively eliminated most uses of these materials from our products, with limited exceptions. For example, we still use certain BFRs in printed-circuit boards because suitable alternatives are not yet available. Our goal is to eliminate all remaining uses of BFRs and PVC from new computing products as technologically feasible alternatives become readily available. To be accepted, alternatives also must not compromise product performance or quality or adversely impact health or the environment. We expect to achieve this goal for new computing products launched in 2009.

An important component of HP's materials substitution efforts is determining that replacement substances have a lower environmental and health impact than the substances identified for possible phaseout. Many potential replacement materials are still being evaluated for environmental and health impacts. Unfortunately, standard methods to perform these evaluations do not exist, and as a result differing conclusions are sometimes drawn from the same study. To address this concern, HP engages with government agencies, such as the United States Environmental Protection Agency (U.S. EPA), and nongovernmental organizations, such as Clean Production Action, to develop standard methods for evaluating the environmental and health impacts of new substances.

The timeline shows when specific substances were restricted by HP and identifies substances that HP is considering for restriction.

HP product materials restriction/substitution timeline[1]

Tributyl tin, triphenyl tin, and tributyl tin oxide

DfE programs started

Certain azo colorants

Nickel on external surfaces

Perfluorooctane sulfonate (PFOS)

Remaining uses of BFRs and PVC in new HP-branded computing products

Ozone-depleting substances

Cadmium

Lead in paint

Chlorinated paraffins

Lead

PVC removed from all packaging

1990 — 1995 — 2000 — 2005 — 2008 — 2010

PBB, PBDE and PBDO

PVC from case plastics

Mercury/mercury compounds (except bulbs)

Chlorinated hydrocarbons

Hexavalent chromium

BFRs in external case plastic parts

Arsenic/arsenic compounds
Bismuth/bismuth compounds
Beryllium/beryllium compounds
Mercury in bulbs
Nonylphenol
Other perfluorinated chemicals
Phthalates
Selenium/selenium compounds

Most BFRs (including decaBDE) from case parts

Certain halogenated diphenyl methanes

Certain polychlorinated naphthalenes

[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.

Implementation

We've developed control processes for product design and manufacturing to ensure that our products use compliant materials and meet HP's specifications. 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, the third-party products that HP may sell as part of an integrated solution, 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.

We use "active verification" to manage the restriction of materials in our products. This includes risk-based data sampling and chemical analysis as required. Supplier corrective action processes are used as needed to resolve any issues that arise.

Dematerialization

HP strives to use less material in products through improvements in product design and technological advances. An example of dematerialization is the shift from PCs to notebooks and from cathode ray tube (CRT) monitors to flat panel displays. A typical flat panel display uses slightly more than half the amount of material in a conventional CRT screen and requires approximately 60 percent less energy to use. The weight difference between PCs and notebooks is even more dramatic—typically an 80 percent reduction. Combined, a notebook with an additional flat screen display weighs just one-third as much as a PC with a CRT. This shift also saves roughly a third of the packaging and decreases energy consumption in transport to customers.

Other examples include:

- The smaller size of the HP Consumer Slimline PC saved enough metal over 12 months (8,500 tonnes) to build another Eiffel Tower.
- HP's LaserJet P1005 printer series and the HP LaserJet P1505 printer, which began shipping in November 2007 and have the most compact design to date of any HP LaserJet printer, consume less material and less energy than previous models. The new compact cartridge design uses 10 percent less plastic (by weight) than previous generations, and the precise toner placement of the new printing system uses 9 percent less toner per page without compromising output quality. The new toner formulation requires 15 percent less energy to reach its melting point than the conventional toner. These factors contribute to the energy efficiency of the HP LaserJet P1505 printer, which uses almost 25 percent less energy to print a page than its predecessor.
- The HP Compaq 2710p Notebook PC is just 2.82 cm (1.11 inch) thick and weighs 1.63 kilograms (3.6 pounds). This is made possible by the HP Illumi-Lite Light Emitting Diode (LED) displays, which are thinner and lighter than traditional screens. The Illumi-Lite display also requires less energy and does not use mercury. The case is built using lightweight and durable magnesium, which is easily recyclable. The smaller notebook packaging allows HP to transport 60 units on a pallet instead of 48, which saves energy in transportation.
- HP's Smart Web Printing saves paper by enabling simple, predictable printing of web pages. Users can combine portions of numerous web pages onto one page and avoid extra pages printed with just a few lines of text. Using HP Web Jetadmin and Universal Print Driver to configure printers for duplexing (double-sided printing) also saves paper. For example, this technology is helping us to achieve our goal for 80 percent of general office printing and copying to be double-sided by the end of 2008, saving HP up to 726 tonnes of paper a year and $7.7 million. The potential for customers to save paper is even higher.
- HP has reduced the amount of paper shipped from Shanghai to Europe by 1,800 tonnes a year by consolidating user documentation for notebook products and printing it on lighter paper. In Asia Pacific and Japan, we have consolidated documentation from eight languages to single-language versions. Together, these measures saved HP more than $12 million a year.

Innovative materials

HP works with suppliers to identify cost-effective materials that have lower total environmental and health impacts than those they replace. However, it takes time to confirm claims for new materials, and new materials also take time to become available in sufficient volumes. For example, thermoplastic rubber/elastomer (TPR/TPE) and polyethylene-derived hybrids are emerging replacements for PVC in wires and cables, but these materials are not sufficiently developed for wide-scale use. We are engaging with both materials and cable suppliers to ensure our technical and environmental requirements are met.

HP invests in the research and development of safer manufacturing materials to help reduce environmental impact throughout the technology industry. We explore the use of alternative materials such as bioplastics made from vegetable sources. For example, an HP project in 2001 led to the creation of 100 prototype printer cases made from corn-based bioplastics. While research determined that corn is not a sufficiently durable material for this use, ongoing industry research in alternative materials, including recycled plastics, is critical to finding more efficient materials with lower environmental impacts.

We believe nanotechnology holds promise for electronics in the long term and have researched this area since 1995. In 2000, HP received a patent for its molecular crossbar memory technology that is now the de facto standard for nanoelectronics research worldwide. Nanomaterials are controversial because some believe nanoscale particles or wires could cause health or environmental problems. We do not currently use these nanomaterials in our products and recognize that health and safety issues must be integral to any research program that seeks to bring such materials to market. Our Quantum Science Research group at HP Labs in Palo Alto, California, has been a leader in both research and public policy discussions related to this issue. Additionally, HP is involved in standards committees to define appropriate working procedures for nanomaterials.

We work with the electronics industry and our suppliers to identify new materials for potential use. For example, HP chairs an industry consortium project that is evaluating lead-free alloys and participates in another focused on lead-free solutions for high-reliability products, as we work to eliminate one of our last significant uses of lead, for solder in servers. We are also jointly funding the U.S. Environmental Protection Agency's study on flame retardants in printed-circuit boards.

Recycled materials

We also made great progress in incorporating recycling materials into our products by engineering print cartridges that use recycled plastic without compromising quality or reliability. More than 200 million cartridges have been manufactured using the process through 2007. HP used more than 5 million pounds (2,300 tonnes) of recycled plastic in its original HP inkjet cartridges in 2007, and the company has committed to using twice as much in 2008.

On average, HP notebook products are up to 90 percent recyclable/recoverable by weight[2], and our printing and imaging products are typically up to 70 to 85 percent recyclable/recoverable.

In 2007, we introduced a speaker module made from 100 percent post-consumer recycled plastics in all HP Compaq 6500 and 6700 series Notebook PCs.

We strive to use recycled plastics in our products, but their potential is limited for several reasons:

- Most recycled plastics contain substances such as BFRs, which we have eliminated from the external cases of our current products.
- Mixed plastics do not have the mechanical properties necessary for use in new IT products.
- It is difficult to separate dissimilar plastics during recycling to produce a homogenous material.

Although not a material selection issue per se, we feel it is important to address the subject of printer emissions. In 2007, a report published out of an Australian University raised concerns about ultrafine Although not a material selection issue per se, we feel it is important to address the subject of printer emissions. In 2007, a report published out of an Australian University raised concerns about ultrafine particle emissions from laser office printers. HP remains confident in the safety of our products. Based on our comprehensive research and development efforts, quality testing procedures and current scientific expertise, no health risk specific to HP toners or emissions from HP laser printing systems is to be expected when used as intended.

HP laser printing systems—printer, original HP print cartridges and paper—are tested for particle emissions according to international standard procedures under high-use operating conditions in controlled environmental test chambers. The devices' contribution to commonly present indoor air particle concentrations lies well below recognized U.S. and German occupational exposure limits.

Since the physical properties and chemical composition of ultrafine particles from laser printing systems are as yet unknown, HP is actively engaged in research and cooperates with one of the world's leading independent authorities on this subject, the Wilhelm-Klauditz Institute (WKI) in Germany. It is one of HP's goals to define state-of-the-science methods to further characterize such emissions—to make sure we maintain the high level of user safety typical for HP laser printing systems. See news release.

[2] Per the definition used in the European Union WEEE regulations.

Packaging

We design our packaging to reliably and cost-effectively protect our products while decreasing impact on the environment in areas such as waste and greenhouse gas emissions. The size and intensity of the impact depends largely on the quantity, type and recyclability of materials used, as well as on how the packaged product is transported. Our packaging initiatives address each of these areas.

Balancing these different factors is complex and often involves tradeoffs. For example, expanded polystyrene is light, which saves transport energy, but its use can increase package size, requiring more box material and decreasing the number of units per pallet. It is easily recycled in some regions, but the needed infrastructure does not exist in others. HP's packaging engineers use our packaging guidelines and other tools to balance these factors and optimize the overall impact. In addition to materials, we consider total costs and other variables, including impacts related to transport and disposal.

With our Design for Logistics program, we've improved transport efficiency and decreased energy use per kilogram of product transported. The program ensures that we consider the broad logistical implications of new product packaging and transport, including issues such as pallet and truck loading.

Highlights from 2007 include the following:

- We entirely eliminated PVC from our packaging.
- We engineered the use of polyethylene terephthalate (PET) materials from 100% percent recycled content, which is now used for all inkjet cartridge blister packs.
- When appropriate, we continued to replace expanded polystyrene with molded pulp made from recycled paper, which has become suitable for heavier products due to technical improvements (10 kg maximum weight compared with 5.4 kg). All HP camera products now use paper-based packaging.

- We have begun using biopolymers, which are biodegradable materials made from crops such as sugar beet and corn.
- HP LaserJet toner cartridge packaging now uses 45 percent less packaging material (by weight) than previous designs. This means that 30 percent more cartridges can be shipped on one pallet, and 1,500 more cartridges can ship in one ocean container.

We redesigned HP print cartridge packaging for North America to reduce total weight and increase the proportion of post-consumer recycled material. This saved an estimated 16,800 tonnes of carbon dioxide in 2007 and eliminated more than 3,000 tonnes of PVC (See the case study).

Performance

In 2005, HP began tracking packaging material use by product line. Accurate data is currently available only in Europe, and these figures have been extrapolated to provide the worldwide estimates below. The tables show that the average weight of packaging per product continued to fall, although the average plastic weight rose slightly in 2007.

The averages reflect product mix changes and the increased size of some products, particularly televisions and PC screens. Trends such as replacing separate printers, faxes and copiers with all-in-one products also increase packaging per product, but require less packaging in total, helping to make the overall product impact much lower.

The total weights of packaging reflect HP's growing sales volume, which to some extent offsets our achievements in reducing the average weight of packaging per product. Despite higher sales, we used slightly less paper packaging than in 2006 and maintained the total weight of packaging at roughly the same level.

Packaging per product sold globally, 2005-2007
[average grams]

	2005	2006	2007[1]
Paper	290	273	255
Plastic	48	53	55
Total	338	326	310

Total weight used
[thousand tonnes]

	2005	2006	2007[1]
Paper	139	187	184
Plastic	23	36	40
Total	162	223	224

[1] Projected

Case study

In 2007, we announced the results of packaging improvements for LaserJet and inkjet print cartridges in North America. Removing PVC made the packaging more easily disposable and also reduced its weight, saving energy and transport costs.

HP inkjet cartridge photo value packs sold in the Americas are now packaged completely in recycled content paperboard. We replaced PVC with recycled plastic in packaging for inkjet multi-packs, which typically contain three cartridges, sold in North America "club" stores such as Wal-Mart.

In North America, we now use 100 percent post-consumer recycled content paperboard in external inkjet print cartridge packaging, with a few exceptions such as larger photo value packs that need some virgin material to meet strength requirements. Exterior corrugated cardboard cartons for HP LaserJet cartridges are made from 30–85 percent post-consumer recycled content. The more compact LaserJet package also contains an innovative multi-chamber air bag that protects the cartridge from damage in transit without adding weight.

We estimate that the redesigned packaging eliminated the use of about 6,800 tonnes of materials in 2007, including more than 1,300 tonnes of corrugated cardboard. The redesign also eliminated the use of more than 3,000 tonnes of PVC and has reduced greenhouse gas emissions by an estimated 16,800 tonnes CO_2e—the equivalent of taking more than 3,000 cars off the road for one year .[1]

Since 2003, HP has reduced overall package weight for inkjet cartridge multi-packs by 80 percent and quadrupled the number of packages that can be carried in a single truckload.

[1]Greenhouse gas emissions reductions calculated based on anticipated 2007 unit sales in United States and Canada, using packaging configurations before and after recent improvements. Environmental impacts modeled with SimaPro 7 (PRé Consultants, The Netherlands, 2006) lifecycle inventory software. Carbon equivalency factors from U.S. Climate Technology Cooperation Gateway. Source for conversion to cars removed from road is http://www.epa.gov/cleanenergyresources/calculator.html.

Accessibility

HP makes great efforts to ensure our products and services are accessible to everyone. This commitment is reflected in our product and website design process, partnerships with assistive technology vendors,[1] commitment to educating employees about the latest accessibility regulations and best practices, and participation in ongoing efforts to update accessibility standards around the world.

Accessibility is important because a significant and growing percentage of the global population is elderly or disabled. For example, more than 20 percent of the population in developed countries is now over 60.[2] More than 50 percent of working-age computer users in the United States are affected by mild to severe visual, hearing, dexterity, speech or cognitive impairments.[3] In the European Union, there are now 69 million people aged 50 years and older who have some degree of disability that needs to be considered in the design of information and communications technology (ICT) products and services. By 2050, there will be 94 million.[4]
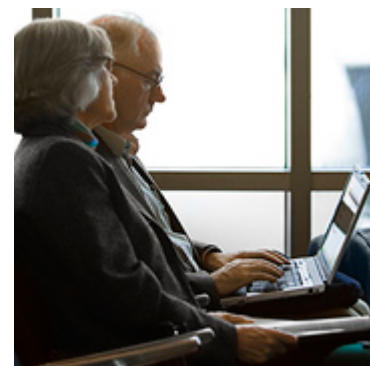
For people with disabilities or seniors with age-related limitations, using ICT and the Internet can be challenging. Displays can prove difficult to read for people with impaired vision, while keyboards and mice can pose challenges for people with limited dexterity.

Reflecting these trends, many countries have introduced or are planning accessibility regulations and standards. In Australia, Canada, the European Union, Japan, parts of Latin America and the United States, government agencies have requirements to purchase accessible ICT and make websites accessible.

Approach

We integrate accessibility into our HP products and website development process to improve the user experience. This approach benefits HP by helping us meet customer requirements and expanding the potential market for our products and services. In the United States, for example, HP had public sector sales of more than $5.5 billion in 2007, which generally include requirements related to accessibility.

Accessibility features on HP products include buttons identifiable by touch, ports and 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 the compatibility of HP's products 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.

HP advocates for consistent accessibility standards through our membership in the Information Technology Industry Council (ITI), the Information Technology Association of America (ITAA), the Accessibility Interoperability Alliance (AIA) and through our participation in the Joint Technical Committee 1 (JTC1) Special Working Group on Accessibility (SWG-A).

The U.S. Access Board (a government agency) is updating its standards for electronic and information technology purchased by the federal government. It has sought international collaboration with the European Union, Japan, Canada and Australia, among others. HP is working with the U.S. Access Board to contribute to this ongoing activity.

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

Product accessibility

HP documents the accessibility features of products offered to public sector customers through a detailed voluntary product accessibility template (VPAT). In 2007, this included information for 80 percent of applicable HP products (compared with 67 percent in 2006 and 72 percent in 2005).

We partner with more than 50 assistive technology vendors worldwide to ensure compatibility with their specialized products. They receive free membership in our Developer and Solution Partner Program, enabling them to use HP technologies and products and to benefit from technical, sales and marketing support.

Our product design teams are exploring ways to enhance accessibility, productivity and user comfort. For example, our newly announced L1950 19-inch and L1750 17-inch LCD Dual-Hinge Monitors feature a range of height adjustments that enables placement close to the desktop to benefit bifocal, trifocal and progressive lens wearers.

In 2007, we collaborated with Microsoft to incorporate accessibility into Vista software tools and to support the Microsoft Accessibility Resource Centers.

We also launched HP photo kiosks, designed to meet American Disability Act requirements.

HP's website (www.hp.com) reflects Worldwide Web Consortium (W3C) Web Content Accessibility Guidelines and the U.S. Section 508 web accessibility standards. For example, we add alternate text to all images. The National Federation of the Blind in the U.S. recertified HP as an e-business leader for web accessibility in 2007 for the fifth consecutive year.

Individual HP country organizations also address accessibility issues relevant to their markets. For example, in Ireland HP developed a Web Governance Services Team to help customers in areas of accessibility, privacy and security.

[1] Assistive technology vendors develop hardware and software products (i.e., screen reader or screen magnification software) that provide access to information or technology for people with disabilities or age-related limitations.
[2] World Population Ageing, United Nations, 2007.
[3] 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.
[4] Assessment of the Status of eAccessibility in Europe.

Goals
Goals for 2007

Materials

- 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: Achieved with the exception of a single low-volume product due to a materials qualification and production delays.
- Eliminate the remaining uses of BFRs and polyvinyl chloride (PVC) in HP brand products as acceptable alternatives are identified that will not compromise product performance and will lower product health and environmental impacts
  Progress: In 2007, HP set a goal to eliminate all remaining uses of BFRs and PVC from new HP-branded computing products launched in 2009 as technologically feasible alternatives become readily available that will not compromise product performance or quality and will not adversely impact health or the environment. 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.

Accessibility

- Update VPAT documentation process and Accessibility Toolkit to address new standards, including Section 508 and Section 255 refresh
  Progress: Achieved
- Expand membership of our Developer and Solution Partner Program to 72 assistive technology vendors, including 15 from outside the United States
  Progress: Not achieved. As of the end of FY07, we had 50 members in the program.
- Launch accessibility training for HP's web development team
  Progress: Achieved
- Conduct accessibility awareness training for all Global Business Units
  Progress: Achieved
- Develop VPATs for 90 percent of all applicable products
  Progress: Not achieved—reached 80 percent

Goals for 2008

Materials

- Establish a system for tracking and reporting the presence of substances of very high concern (SVHC) in our products[1]
- Double the use of recycled plastic in print cartridges in 2008 compared to 2007, to 4,500 tonnes (10 million pounds)

Accessibility

- Develop VPATs for 95 percent of all applicable products
- Expand support for Microsoft Accessibility Resource Centers to Canada and Europe
- Define implications of Section 508 refresh for each product group

Goal for 2009

Materials

- Eliminate the remaining uses of BFRs and PVC from new computing products launched in 2009 as technologically feasible alternatives become readily available that will not compromise product performance or quality and will not adversely impact health or the environment

Goals for 2010

Accessibility

- Expand support for Microsoft Accessibility Resource Centers to Asia Pacific and Latin America
- Address EU Mandate 376 eAccessibility requirements and other worldwide legislation, regulations and standards for accessible ICT

[1]This goal replaces the following goal stated last year, to conform to REACH and other similar legislation anticipated in the future: Provide customers, on request, with declarations for the materials listed in the GSE for all new HP products or as required by law.

Operations

As a global company, our operations can have significant impact on the environment. Our initiative to transform HP facilities worldwide to be a model for smart space utilization and greater energy efficiency is well underway. In the process, we are reducing the greenhouse gas emissions and waste we generate while protecting the health and safety of our employees.

IN THIS SECTION:

» Management system
» Sustainable building design
» Waste and recycling
» Ozone depleting substances
» Water
» Emissions to air
» Environmental compliance
» Remediation
» Goals

We use our environmental, health and safety (EHS) management system to accommodate regular changes in our operations and ensure ongoing compliance with regulations and company standards across all HP facilities. Through this system, we implement controls, assess and report on our performance, and set improvement goals. These activities also create substantial cost savings for HP. For example, in 2007, our U.S. waste diversion strategy achieved savings in landfill and incineration costs totaling $7.5 million.

See a list of major operations where data was collected for this report.

[1]As of October 31, 2007
[2]HP has updated the baseline year of its operations energy goal from 2006 to 2005 to align with its other energy goals. This is not a change in substance of the goal since HP remains committed to the same 2010 target energy use; it is only a change in the baseline year. As HP operations energy use was approximately 1% higher in 2005 compared to 2006, this increases the goal's percentage reduction to 16% from 2005 by 2010.

Management system

The core of HP's environmental, heath and safety (EHS) management system is our EHS Policy. We use our EHS management system to help achieve EHS objectives at all sites. Our system incorporates risk assessment, objectives and targets, roles and responsibilities, training, operational control, emergency preparedness and response, monitoring and measurement, audits and assessments, and management of corrective and preventive action. We obtain independent certification of our manufacturing operations worldwide to ISO 14001, the accepted international standard for environmental management systems. HP's EHS management system is introduced to newly acquired companies as part of the business integration process.

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.

An example of HP's EHS management system in action is Indigo, a leading manufacturer of digital presses headquartered in Israel and acquired by HP in 2002. At that time, Indigo had not performed an overall EHS risk assessment and did not have an EHS management system or improvement processes. HP EHS staff from Europe and the United States helped assess baseline risk, evaluate regulatory

compliance and establish improvement goals. The division then hired local EHS staff, implemented basic programs and established a formal EHS management system that has been examined by internal and external audits. The HP Digital Press Division is now part of HP's global ISO 14001 registration, is a leader in EHS performance among companies in Israel and was ranked among the top companies in Israel by the 2007 Maala Index for Social Responsibility.

Sustainable building design

The HP Workplace Transformation program (HPWT), launched a year ago, is advancing our commitment to minimize the space HP occupies and design our facilities for greater energy efficiency. HPWT is described in the Operations—Energy use section of this report.

Consolidating our data centers is a key component of our effort to reduce facility costs and environmental impacts while improving service levels. Our three-year program will consolidate 85 data centers worldwide into just six locations in three U.S. cities by the end of 2008. HP's Data Center Consolidation Program is also described in Operations—Energy use.

In 2007, HP's Real Estate and Workplace Services launched an initiative to align real estate functions in working toward sustainable building design. The aim is to improve progress reporting, increase awareness of sustainability issues and foster greater personal commitment to environmental goals.

A recent example of our progress in sustainable building is HP Global Delivery India Center's flagship location in Bangalore's prestigious Electronics City area. The campus houses state-of-the-art technology development centers with a seating capacity of 4,600 and 180 conference rooms.

The Bangalore development focuses on conserving the local ecology, protecting the environment and saving energy. Only 30 percent of the site has been used for construction, while the remaining landscape has been left in its natural state. Eucalyptus and casuarina trees help reduce noise pollution and soften the campus appearance. Energy-saving fluorescent lamps light campus roads, waste is minimized and reservoirs collect rainwater for recycling. Inside, a completely networked and ergonomically designed environment ensures employees have an efficient and attractive place to work.

We also upgraded numerous HP facilities in 2007. Two are described below.

The HP site in Chennai HP Towers, India, installed energy-efficient light fixtures, reduced the number of fixtures required to meet office lighting standards and increased use of natural light. We expect to decrease yearly energy use by about 88,000 kWh, saving $10,000 annually. The investment payback period is approximately five months.

Our site in Christchurch, New Zealand, maximizes natural light while incorporating extensive energy-efficient features, including gas-filled double-glazed windows with low solar gain and low-energy lighting with automatic dimming in areas adjacent to windows. It also includes extensive insulation, low-friction motors for elevators, air conditioning that uses inverter heat pump technology for heating and cooling, and extensive tree planting to provide shade.

Waste and recycling

We are committed to reducing the waste generated by our operations at the source. When this is not feasible, we strive to divert waste to beneficial uses. HP's waste comprises 91 percent nonhazardous and 9 percent hazardous materials. When disposal is necessary, HP ensures wastes are managed in an environmentally responsible manner.
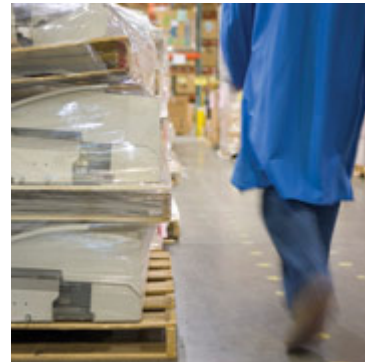

Nonhazardous waste

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

We continue to improve the separation of waste materials at our largest sites and to pursue markets for reuse and recycling. Total nonhazardous waste decreased by approximately 16 percent during 2007, primarily due to reduction in paper use. The global landfill diversion rate was 88 percent in 2006 and remained steady in 2007. Our target is to maintain at least an 87 percent landfill diversion rate globally through the end of 2008.

Our nonhazardous waste program saved $7.5 million in 2007. Approximately 60 percent was derived from reusing items and avoiding landfill costs, while approximately 40 percent was revenue generated by selling materials to recyclers.

HP facilities globally sponsor e-waste collection efforts. In 2007, 100 sites in Canada, Latin America and the United States celebrated Earth Day and World Environment Day, which included employee home computer take-back campaigns at 70 sites. Employees recycled approximately 59 metric tonnes of personal IT equipment through these events.

The highest-volume waste streams at HP sites were paper and pallets, making up over 51 percent of the total waste we generated. These waste streams are also the largest waste streams diverted from landfills.

Nonhazardous waste, 2005-2007[1] [tonnes]

	2005	2006	2007
Americas	60,358	62,713	52,948
Europe, Middle East and Africa	20,365	23,291	20,104
Asia Pacific and Japan	21,844	20,488	16,223
Total	**102,567**	**106,492**	**89,275**
Global landfill diversion rate	87.8%	88.2%	88.4%
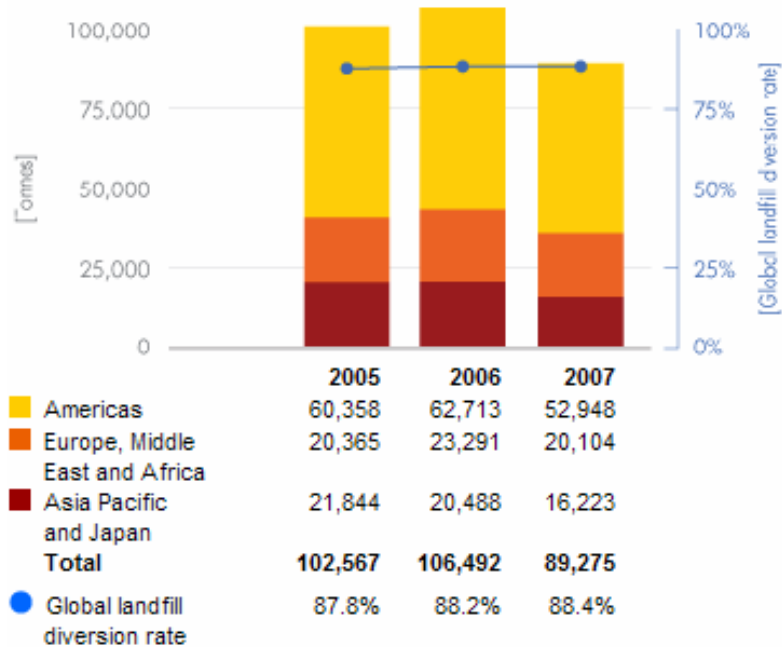
[1] Data restated for 2005 and 2006.

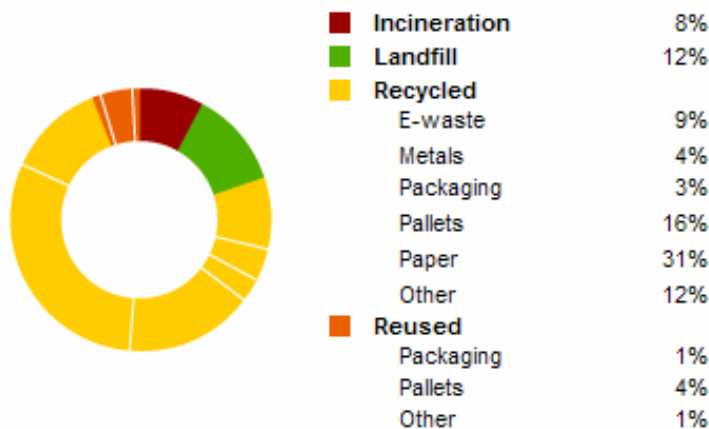See the regional landfill diversion rate data in the data dashboard.

Global nonhazardous waste disposition, 2007[2] [% of total]

Incineration	8%
Landfill	12%
Recycled	
E-waste	9%
Metals	4%
Packaging	3%
Pallets	16%
Paper	31%
Other	12%
Reused	
Packaging	1%
Pallets	4%
Other	1%

[2] Total is greater than 100% due to rounding.

Hazardous waste

In 2007, total hazardous waste disposed of by HP site operations increased 6 percent compared with 2006.[3] Our largest volume of hazardous waste is derived from the manufacturing and recycling of dilute ink waste, which grew as a result of increased production. The second-largest category of hazardous waste material is solvents used in manufacturing, including n-methyl pyrrolidone, which we recycle. We also send off-specification inkjet cartridges to recyclers.

The amount of hazardous waste we incinerated increased by 29 percent to 4,333 tonnes in 2007 compared to 2006. This was due to increased volumes of waste generated at HP's recycling facilities, the result of greater customer demand for recycling services and the associated use of HP's facilities.
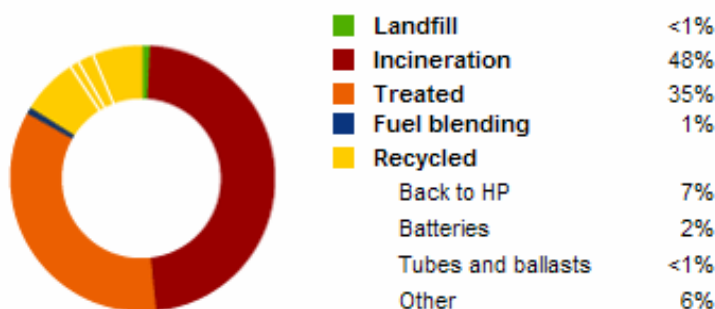
Our Boise, Idaho, manufacturing site eliminated an annual 27 metric tonnes of waste containing nickel that previously would have been designated for incineration. The nickel-recovery process removes the ore onto copper pellets, which are sent off-site for recycling.

Overall, the volume of hazardous waste we sent to landfill continued to be less than 1 percent of our total hazardous waste.

Hazardous waste, 2005-2007 [tonnes]

	2005	2006	2007
Americas	2,159	2,192	2,465
Europe, Middle East and Africa	1,474	1,824	1,593
Asia Pacific and Japan	3,368	4,622	4,877
Total	**7,001**	**8,638**	**8,936**
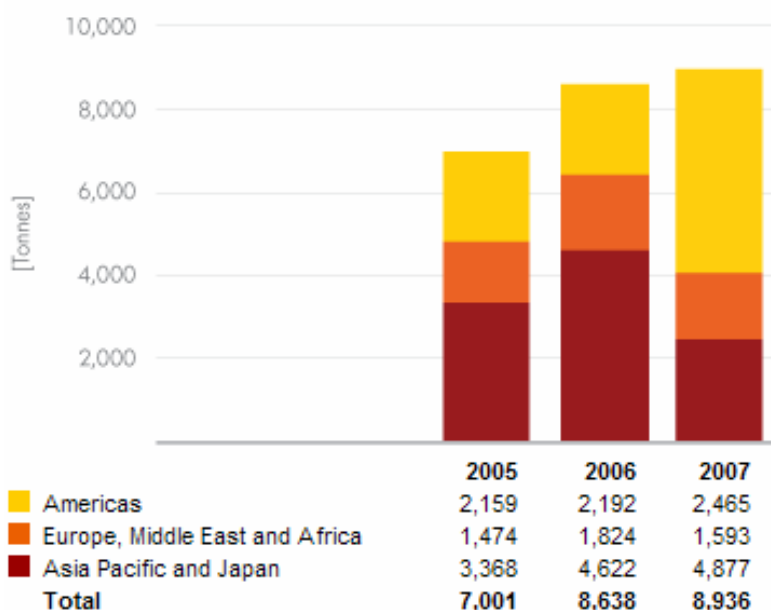
Hazardous waste disposition, 2007 [% of total]

Landfill	<1%
Incineration	48%
Treated	35%
Fuel blending	1%
Recycled	
Back to HP	7%
Batteries	2%
Tubes and ballasts	<1%
Other	6%

Recycling programs

HP operates recycling programs at its facilities worldwide. Two are highlighted below for their success in 2007.

Four sites in EMEA (Erksine, Scotland; Brussels, Belgium; Bristol, England; and Bracknell, England) joined Dublin, Ireland, in transforming their waste recycling and segregation program by adopting a binless approach within the workplace. These facilities have established central recycling points for all waste materials generated, eliminating desk-side receptacles and improving their landfill diversion rate.

Following an extensive recycling market search in 2007, our Houston, Texas, campus diverted an additional 240 metric tonnes of shrink wrap, polyethylene and polyurethane foam from the landfill, increasing the site's landfill diversion rate from 69 percent to 79 percent.

Paper and paper products represent a significant solid waste stream at HP. The Horizontal Print Transformation team works to increase our use of paper made from recycled materials and reduce paper waste. In addition, HP sources pulp only from sustainable forests to mitigate the environmental impact of manufacturing paper.

In collaboration with 11 large enterprise paper consumers, in 2007, HP launched the Environmental Paper Assessment Tool (EPAT), a web-based resource that helps paper buyers and suppliers evaluate and report on the environmental properties of different papers. HP uses EPAT across our global businesses to increase use of environmentally preferable papers.

HP is continuing to reduce paper waste in our office printing environment. After analysis showed that duplexing (double-sided printing) could reduce office paper waste by 25 percent, HP officially adopted duplexing as its internal printing standard in 2007. We're currently implementing this standard across the company, using HP Web Jetadmin and Universal Print Driver to configure printers. This technology is helping us to achieve our goal for 80 percent of general office printing and copying to be double-sided by the end of 2008, which may save HP up to 726 metric tonnes of paper a year and $7.7 million.

Live Green is another HP environmental initiative that will have impact on our operations in 2008. One of the educational campaign's initiatives will focus on reducing the amount of paper consumables and cafeteria disposables our employees use.

[3] Hazardous waste classification varies by country. HP data includes some wastes not considered hazardous in the country where it is generated.

Ozone-depleting substances

Since eliminating ozone-depleting substances (ODS) from HP manufacturing in 1993, we use ODS at HP facilities only in cooling and air conditioning systems. Although these systems are sealed, leaks during operation and maintenance can result in 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 increased in 2007 compared with 2006. We have improved the accuracy of our ODS calculations through enhanced reporting methods.

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

Water

Although HP's operations are not water intensive, we recognize that water consumption is a growing concern, particularly in water-stressed regions. HP's three main uses of water are domestic use in buildings, landscape irrigation and cooling. HP is addressing all components of our water consumption. Depending on the climate and local operations, irrigation water can account for approximately two-thirds of HP's consumption, while domestic and cooling uses can make up the other third.

In 2007, water consumption was reduced in all regions, with an overall reduction globally of approximately 12 percent.

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

In 2007, one of our focus areas was the water used in cooling systems. We are installing advanced water-saving cooling systems that are chemical free yet still provide scale, corrosion and microbial control. This technology saves significant operational costs and, by eliminating ongoing chemical treatment systems, avoids potentially hazardous emissions. Currently there are 12 such systems serving HP's Roseville, Palo Alto, Cupertino and Corvallis sites.

Wastewater is not a material environmental issue for HP operations. The effluents we do create are treated on-site or discharged to municipal sewage treatment.

We have set a goal of reducing water consumption to 5 percent below 2007 levels by 2010.

Emissions to air

HP's emissions to air from our facility operations are relatively small, and we have equipment and processes in place to control those that do occur. In prior years, we reported estimated emissions from our seven largest manufacturing sites for several conventional air quality parameters. We have since concluded that the scope and nature of these reported emissions are not significant from a companywide viewpoint, and we have not included an update in this report. Local reporting to authorities of these and other indicators will continue where required.

Toxics release inventory

The U.S. Environmental Protection Agency Toxics Release Inventory (TRI) is a mandatory annual report on specified chemicals used in our operations in the United States. HP's operations, primarily in the manufacture of our imaging and printing products, require the use of several TRI chemicals. Because we have long considered this to be an important measure, we extend TRI reporting criteria to the seven manufacturing sites worldwide that account for the vast majority of HP's TRI emissions.

Overall, HP's TRI emissions decreased 3 percent between 2005 and 2006, primarily because of lower use of our largest production solvent, n-methyl pyrrolidone, and reductions in nitric acid and its treatment byproducts, nitrates. Production ramp-up at one of our facilities was responsible for an increase in our use and emissions of xylene.

Disposition by type of TRI material, 2004-2006[1] [Tonnes]

Chemical	Emitted to Air			Discharged to Water (to sewer/off-site treatment facility)			Shipped Off-Site for Recycle/Energy Recovery			Shipped Off-Site for Treatment or Disposal			Total		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
N-methyl pyrrolidone	0.1	0.1	0.1	0.0	0.0	0.0	657.2	618.8	605.4	4.2	4.6	4.2	661.5	623.5	609.7
Ethylene glycol	0.4	0.4	0.7	0.0	0.2	0.0	0.0	0.0	0.0	67.8	67.5	62.7	68.2	67.8	63.4
Nitrates	0.0	0.0	0.0	31.0	42.4	32.6	6.0	0.0	0.0	0.4	0.0	0.0	37.4	42.4	32.6
Lead	0.0	0.0	0.0	0.0	0.0	0.0	19.0	14.3	10.1	0.0	0.0	0.0	19.0	14.3	10.1
Xylene	0.0	0.1	5.2	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.6	5.9	0.4	0.7	11.1
Ethylene glycol	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.7	1.9	3.2	4.7	1.9	3.2
All others	0.3	0.6	0.4	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.6	0.3	0.7	1.1
Total	0.8	1.1	6.4	31.1	42.7	32.7	682.1	633.1	615.5	77.4	74.6	76.7	791.4	751.3	731.3

[1] The substances with global totals greater than 1 tonne are shown. TRI reports are due July 1 each year, so the most recently completed reporting year is 2006.
[2] 2004 and 2005 data for nitric acid discharged to water are restated (previous table did not account for on- treatment process).

Environmental compliance

Full legal compliance is HP's minimum requirement for environment, health and safety (EHS). Our EHS management system ensures 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. HP had no significant spills in 2007.

In 2007, HP incurred a fine of $1,360, the result of a contractor failing to comply with the specific maintenance requirements for the engines of three emergency generators at the San Diego site. HP incurred fines of $1,160 in 2006, $8,054 in 2005, and $0 in 2004.[1]

[1] Restated to provide most accurate information at this time

Remediation

HP is involved in 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 responsibility with other companies.

HP is committed to addressing chemical releases from historical site operations. We apply our EHS management system with companywide standards to prevent and respond to chemical spills at HP facilities. 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 with traditional methods. We've used innovations such as in situ oxidation, biostimulation, iron filings and high-vacuum systems in addition to traditional remedial measures.

In 2007, HP successfully completed remediation work at four sites and reduced risks from contamination at another three sites to the point that only monitoring is required.

Concern about vapor intrusion into buildings from volatile chemicals has increased in recent years. New regulations and guidance are being developed to address these concerns. HP evaluates its remediation projects for potential vapor intrusion risks and compliance with developing regulations. Where concerns have been raised, HP has worked with regulatory agencies to evaluate and resolve vapor intrusion risks.

Historically, HP built operations in undeveloped locations. This allowed HP to develop in desirable areas to attract employees, prevented HP from acquiring land with industrial contamination and created a buffer between HP and surrounding developed areas. However, this practice resulted in the loss of open space and ultimately led to further expansion by others into previously undeveloped areas.

Today, HP actively pursues property that has been previously developed and has purchased former industrial sites that may have environmental concerns. This change in policy helps to reduce expansion into undeveloped areas. Further, with site consolidation efforts, the space HP vacates is now available for others to use, buy or rent, reducing the need for expansion into open space.

Biodiversity

HP does not have a material impact on biodiversity, and our policy of using land that has previously been developed means that our impact on natural habitats will continue to be small.

Goals

HP's energy goals are included in the Climate and energy section.

Goal for 2007

- Continue to divert 87 percent of solid (nonhazardous) waste from landfill globally through the end of 2007
  Progress: Achieved. The global landfill diversion rate was 88 percent in 2007.
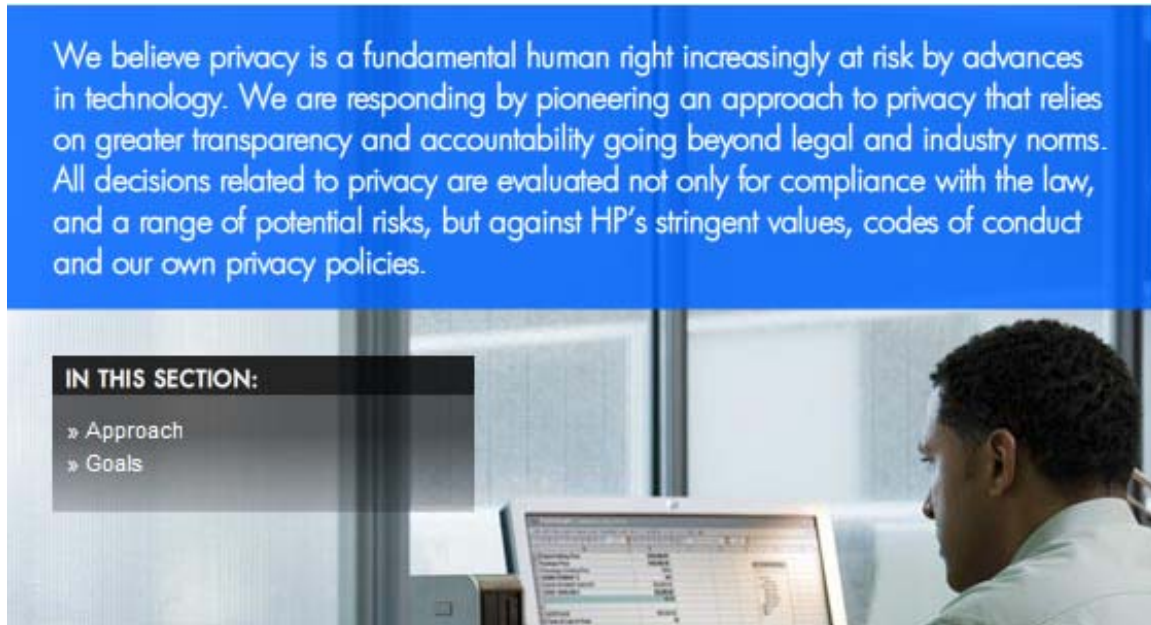
Goals for 2008

- Continue to divert at least 87 percent of solid (nonhazardous) waste from landfill globally through the end of 2008
- Eighty percent of general office printing and copying to be double-sided by the end of 2008

Goal for 2010

- Reduce water consumption by 5 percent, compared with 2007

Privacy

We believe privacy is a fundamental human right increasingly at risk by advances in technology. We are responding by pioneering an approach to privacy that relies on greater transparency and accountability going beyond legal and industry norms. All decisions related to privacy are evaluated not only for compliance with the law, and a range of potential risks, but against HP's stringent values, codes of conduct and our own privacy policies.

IN THIS SECTION:

» Approach
» Goals

Sophisticated technologies are transforming how organizations gather, compile, combine, store and apply personal and behavioral data, providing individuals better-targeted information but creating increasing risks to the fundamental human right to privacy. An activity that seems anonymous today, such as visiting a website without logging in, may be captured and later associated with an individual. Virtually anything can be recorded, including someone's current and recent whereabouts, Internet searches, purchases and e-mail. While personal and behavioral data is a powerful resource for tailoring and marketing products and services, it could be misused if it's not protected.

The movement of sensitive data across international borders presents another challenge. Information entered into a website in England may be stored in a database in the United States and used by call centers in India, Mexico and Spain, depending on the time of day. This constant flow of information allows companies to deliver products, services and support 24 hours a day, seven days a week. However, the concept of privacy and its regulation in the country where data originates may differ dramatically from its destination.

These developments challenge traditional notions of how best to preserve people's privacy and require fresh thinking about how to protect personal information.

HP products and services play an important role in keeping personal information secure, and we are pioneering an approach that goes beyond legal and industry norms. We hold ourselves to act accountable in all decisions related to privacy, reviewing them not only for compliance with the law, codes of conduct and our own privacy policies, but against our values, customer desires and expectations, and a range of potential risks in order to reach balanced results.

We believe that on its own, our strict commitment to privacy is not enough to guarantee that the rigorous standards to which we adhere will be consistently met. Responsible data handling in a global environment requires cooperation among companies and governments across borders. We work to educate government officials and other stakeholders about the implications of technological advances on privacy. We advocate that companies establish more rigorous standards and use greater accountability in decision-making to ensure that the way they obtain, use and safeguard sensitive information will meet individual expectations. We also believe that governments must find improved ways to enforce laws against data breach, misuse and fraud, and help consumers pursue those who mishandle their personal information. At the same time, these governments must do so in ways that respect the privacy interests of those they seek to protect.

HP was named the **Most Trusted Company for Privacy** for 2007 in America by TRUSTe, the leading Internet privacy seal-of-approval organization, in conjunction with the Ponemon Institute, an independent research group. The award recognizes companies that take active measures to protect and inform their consumers about privacy issues and to encourage a safer and more secure online ecosystem.

Approach

Accountability approach to privacy

We demonstrate our commitment internally in our privacy policies and procedures, comprehensive standards for implementing these policies, assurance and audit reviews, and employee training and communication programs. We have developed a Privacy Accountability Model that aims to ensure that we make responsible decisions affecting people's personal information. We also have formed a Privacy and Data Protection Board to ensure the relevant corporate businesses and functions share responsibility for making those decisions and implementing them in their business processes systemically.

To hold ourselves accountable when implementing our privacy policies, we review decisions not only for compliance with the law, codes of conduct and our own privacy policies, but also in light of our company values, customer desires and expectations, and a range of potential risks.

The model begins by ensuring we comply with all applicable laws and regulations where we operate. We then make certain that we operate in accordance with major industry codes of conduct, contractual agreements and international programs like Safe Harbor. These actions are the core of a traditional liability-based model. Our model goes beyond legal and industry norms to make decisions consistent with our own commitments to privacy and data protection.

In 2007, we added an evaluation of decisions against the values articulated in our Standards of Business Conduct and against six types of risks. Our values include integrity, transparency and respect for the individual. The risks we consider are those that could affect reputation, investment and business continuity, among others. HP managers use this model when making decisions affecting privacy and data protection.

We developed the model with the Center for Information Policy Leadership and have been collaborating with this global think tank and engaging with government regulators to encourage wider adoption of this approach across the private sector.

"The capacity of new technologies to aggregate sensitive information has increased privacy concerns among companies, policymakers and consumers alike. HP was one of the first companies to embrace the idea of a comprehensive U.S. privacy law and has shown that it can build meaningful protection into its products. The challenge for the future will be whether HP can use the same technology to actually provide consumers with more control over their information, rather than less or equal."

—Ari Schwartz, Deputy Director of the Center for Democracy and Technology

Privacy and Data Protection Governance Board

We formed a Privacy and Data Protection Governance Board to address the growing complexity of data protection. Departments throughout the company have a stake in managing privacy and data protection. If we are to meet our commitment to be fully accountable and to address the new challenges facing privacy, integrated information governance is critical. The board facilitates shared responsibility among the Privacy Office, Legal Department, Security Division, Human Resources, Government Affairs, and the business and corporate functions.

The board's charter is to:

- Develop privacy and data protection policies, practices, procedures and training
- Monitor and audit compliance with laws, codes of conduct and policies
- Provide a process for issue resolution
- Facilitate shared decision-making and seamless interaction among the HP functions supporting privacy

The board is staffed with key company leaders and is fully operational.

Training, monitoring and compliance

HP requires all employees to take annual privacy training. In 2007, 140,118 employees (81 percent) completed our yearly Standards of Excellence Data Privacy training. This number exceeded our goal of 80 percent completion.

HP monitors compliance with its policies through:

- Customer and employee feedback submitted online, by post or by phone
- HP privacy team compliance reviews and assessments
- Privacy audits conducted within HP and with our suppliers

By contract, all suppliers and third-party vendors worldwide who handle HP customer and employee personal data must do so in accordance with applicable portions of HP's privacy policies and contractual requirements supporting those policies.

Privacy and our products and services

HP's Design for Privacy program provides guidance in incorporating privacy features into products to build trust with consumers and help corporate customers comply with privacy regulations. For example, our Privacy Office and product research and development groups have collaborated to evaluate impacts and implementation of technologies such as RFID (radio frequency identification) in high-volume consumer products such as cameras or printers. The collaboration resulted in product design and supply chain management that ensures a user's privacy. Our new companywide privacy product development standard will be deployed by April 2008.

External policy development

In 2007, HP was involved in several areas of public policy relating to privacy and data protection:

- We worked to advance the development of unified U.S. privacy law through the Consumer Privacy Legislative Forum.
- We actively participated in the Asia Pacific Economic Cooperative's (APEC) Electronic Commerce Steering Group to help advance accountability and create a framework for developing cross-border privacy rules relevant to the Asia Pacific and Japan region.
- We were invited by the Chinese Academy of Social Science's Institute of Law to participate in a series of symposia that may help to develop the Chinese government's personal data legislation. We plan to continue our participation.
- We worked closely with the Center for Information Policy Leadership to help influence emerging privacy policy in key markets.
- We actively participated in numerous industry forums, including RFID and anti-spyware coalitions.
- We met with government officials and regulators in all regions to understand their concerns and initiatives and to help them fully appreciate the potential implications for privacy of new technologies, including behavioral targeting, RFID, spyware and emerging technologies like our Memory Spot chip. This tiny device makes it possible to attach digital information to almost any surface.

Goals

Goals for 2007

- Achieve 80 percent completion by HP workforce of updated Standards of Excellence Data Privacy training
  Progress: Approximately 81 percent of employees completed the privacy training in 2007.
- Further embed HP privacy standards in business processes, IT systems and supplier selection
  Progress: We formed a new Privacy and Data Protection Governance Board to provide oversight and leadership for HP businesses and functions entrusted with protecting privacy and personal data. Our accountability-based privacy model strengthens decision-making in all business processes.
- Implement improved privacy guidelines for investigations
  Progress: We assessed monitoring technologies and reviewed and improved our online statement and practices.
- Establish an online tool for employees that incorporates all privacy implementation standards
  Progress: We converted our implementation standards from a static document to a fully searchable web-based tool with user-friendly language.
- Advocate for stronger U.S. federal privacy legislation and industrywide adoption of an accountability-based privacy model
  Progress: We participated in the Consumer Privacy Legislative Forum to advocate simplified U.S. privacy legislation, and we collaborated with the Center for Information Policy Leadership to encourage the industry to adopt an accountability-based privacy model. We presented this model to the European Commission and the data protection authorities in major countries in Europe, Asia Pacific, Latin America, Canada and the United States. It was well received throughout.
- Roll out Design for Privacy training for technical and product development employees
  Progress: Several research and development teams partnered with the Privacy team to ensure timely and efficient design and implementation of privacy measures. We have completed new, more comprehensive standards for privacy in our products.
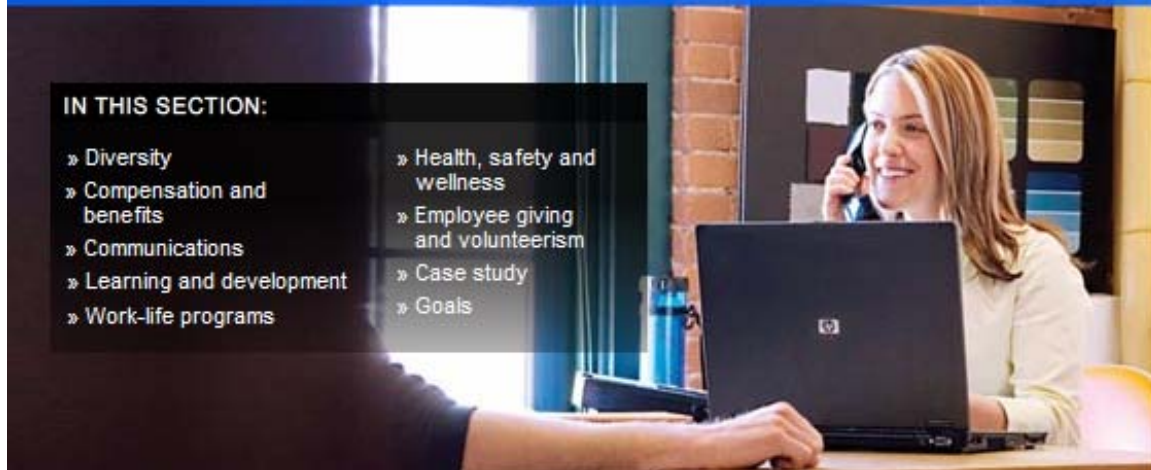
Goals for 2008

- Achieve 85 percent completion by HP workforce of updated Standards of Excellence Data Privacy training
- Effectively oversee the Privacy and Data Protection Board to manage cross-organizational risks
- Integrate all internal privacy tools in an end-to-end, knowledge-based system, and deploy a new self-certification assurance monitoring model
- Roll out a straightforward and accessible "layered" privacy statement globally to improve transparency and understanding of privacy among HP customers
- Participate in the Pathfinder project of the Asia Pacific Economic Cooperative's (APEC) Electronic Commerce Steering Group, to establish a test bed for cross-border privacy rules, similar to the Safe Harbor framework developed by the United States and European Union
- Through leadership of the Consumer Privacy Legislative Forum, provide education and draft language to a transitional administration for unifying federal legislation in the United States
- Through presentations at external forums, demonstrate how companies can shift their mindset from liability to accountability in decisions about privacy and data protection
- Provide a 24-hour response to internal inquiries and 48-hour response to external inquiries regarding privacy issues.

Employees

The success of global citizenship at HP depends entirely on our employees. Without their commitment and contributions, achieving our social and environmental goals would not be possible. We foster an inclusive work environment where diversity and collaboration flourish, and health and safety is an unwavering priority.

IN THIS SECTION:
» Diversity
» Compensation and benefits
» Communications
» Learning and development
» Work-life programs
» Health, safety and wellness
» Employee giving and volunteerism
» Case study
» Goals

The foundation of exemplary global citizenship is creating a workplace where trust, pride and collaboration flourish. HP's efforts to reduce our impact on the environment, to promote social and environmental improvements throughout our supply chain, and to strengthen the communities in which we work and live would not be possible without the dedication and contributions of our employees.

We strive to make HP a great place to work by attracting and retaining a diverse and talented workforce and by fostering a healthy and inclusive environment for all employees, one where different ideas are valued and implemented. We offer competitive compensation and benefits, reward employees for high performance and provide valuable professional development opportunities. We also encourage employees to donate time and money to their communities, which can strengthen their personal connections, deepen their understanding of local needs and help develop new skills.

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 fair treatment of all employees wherever 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 that we expect employees to meet in order to contribute to a positive, productive work environment.

We provide anonymous channels that can be used to report policy violations, and we fully investigate all issues raised.

Diversity

Our workforce is divided almost evenly among three regions: the Americas; Europe, the Middle East and Africa (EMEA); and Asia Pacific and Japan (APJ). With most of our employment growth outside the United States, a diverse workforce is essential, as it promotes creativity and innovation while helping HP reflect the values and demographics of customers wherever we do business.

We concentrate worldwide on increasing the representation of women at HP, and in the United States we also focus on ethnicity. In many countries, the needs of an aging workforce also require us to emphasize new models for employee retention and flexible work arrangements.

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, gender identity expression or sexual orientation. We comply with local and national diversity laws as basic minimum requirements, and our policies often set a higher standard.

We encourage employees to report suspected discrimination or harassment by contacting their local employee relations representative or through our confidential and anonymous 24-hour GuideLine. In the United States and Canada the GuideLine number is 1-800-424-2965. We publish the numbers for countries outside North America on our intranet.

Our approach

Our approach to diversity focuses on three main goals:

- Recruiting a diverse range of people and developing them as leaders
- Building an inclusive work environment to ensure that HP is a great place to work for everyone
- Reinforcing positive attitudes toward diversity by encouraging employee involvement in community activity

The table below includes examples of our activities in 2007 that supported our areas of focus.

Priority/components	Approach/examples
Expand workforce diversity	
Attract a wider range of recruits	• Use specialist search firms. • Attend and sponsor conferences and career fairs that target female students interested in technical careers, such as the Women's International Networking Summit in Italy, the Women's Forum in France and Women at Work in Japan. • Offer the HP Scholar program, which provides funding for underrepresented minority (African-American, Latino or Native American) students in the United States to pursue university degrees in computer science, computer engineering or electrical engineering. Scholars are eligible for three paid summer internships at HP during their undergraduate years. In 2007, 22 out of 46 scholars went on to become full-time employees at HP. • Work with organizations that promote employment for people with disabilities at HP through company programs such as SEED in Japan and ABLE in Brazil.
Develop diverse talent	• Provide leadership development programs. Our goals for 2008 are for 30 percent of program participants to be women and 20 percent to be non-white.
Build an inclusive work environment	
Expand dialogue and involvement	• Hold Diversity Dialogue sessions to bring together employees to discuss diversity topics. We held three sessions in 2007. • Enable Employee Resource Groups to bring together employees with common interests and backgrounds. HP supports 81 of these groups worldwide. • Provide equipment and services for employees with disabilities; for example, notebook PCs for single-handed operation and closed captioning for the hearing impaired. • Support internal blogs to promote informal discussion on a wide range of issues. • Offer a job rotation program that allows employees to move between roles and countries, giving them experience with new cultures.
Promote flexible work arrangements	• Promote flexible work arrangements through our website and through special seminars. More than 80 percent of employees take advantage of flexible work options.
Extend employees' diversity experience	
Support community activity	• Support outreach activities such as Disability Mentoring Day, when HP employees spend time with students with disabilities. In 2007, we held these events in eight countries in Europe and the Americas.

Employee Resource Groups

Employee Resource Groups (ERGs) are forums that represent diverse employee segments within the company. They are a key point of contact for employees to discuss workplace issues and share strategies for career development. They also serve as a forum to coordinate diversity-related community activities. For example, in 2007 the Lesbian, Gay, Bisexual and Transgender (LGBT) ERG coordinated HP's participation in 17 LGBT events and sponsorship of an additional 13. HP has 81 ERGs in the Americas, APJ and EMEA, representing many aspects of diversity including gender, ethnicity or national origin, sexual orientation, age, and disability. ERGs are a key part of our strategy to engage employees in diversity and to build an inclusive workplace at HP.

Our ERG Advisory Council, comprising corporate and business diversity directors and ERG representatives, serves as a communication channel to HP's senior leadership.

Performance

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, 2005–2007
[women as a percentage of total employees]

Region	2005	2006	2007
Americas–employees	31.8%	31.4%	31.0%
Americas–managers	26.6%	26.0%	25.3%
Asia Pacific and Japan–employees	29.6%	29.6%	30.0%
Asia Pacific and Japan–managers	18.3%	18.4%	18.6%
Europe, the Middle East and Africa–employees	27.4%	27.7%	28.4%
Europe, the Middle East and Africa–managers	16.5%	17.0%	17.6%
Worldwide–employees	29.9%	29.9%	30.0%
Worldwide–managers	21.7%	21.7%	21.5%

2007 U.S. workforce demographics

	Male	Female	White	All minorities	Black	Hispanic	Asian	Native American	Total
Officials and managers	5,067	1,802	5,718	1,151	206	371	554	20	6,869
Professionals	26,676	11,576	28,789	9,463	1,732	2,081	5,516	134	38,252
Technicians	3,769	465	3,222	1,012	360	290	338	24	4,234
Sales workers	493	266	641	118	41	50	22	5	759
Office and clerical	310	1,727	1,543	494	181	193	117	3	2,037
Craft workers (skilled)	17	1	15	3	3	0	0	0	18
Operatives (semi-skilled)	160	79	137	102	30	38	32	2	239
Laborers	609	502	676	435	116	162	154	3	1111
Total	37,101	16,418	40,741	12,778	2,669	3,185	6,733	191	53,519
% of total	69.32%	30.68%	76.12%	23.88%	4.99%	5.95%	12.58%	0.36%	100%

Compensation and benefits

We offer our employees competitive compensation and benefits. We believe that recognizing and rewarding employees for excellent performance is the best way to motivate them.

Our pay and benefits philosophy, known as Total Rewards, states that:

- Company success depends on rewarding talented employees who can achieve exceptional results.
- HP uses variable pay programs to reward strong and consistent company and individual performance.
- We expect managers to differentiate rewards based on results.
- HP provides opportunities for employees to be shareowners (such as through stock purchase programs).
- Total Rewards are competitive within relevant markets and can be differentiated by business, function and job classification.

In addition to base and performance-related pay, we offer a number of benefits everywhere we operate. These may include:

- Health plans
- Income protection (insurance to protect income in case of injury or illness)
- Retirement and savings packages

We are making strategic changes to compensation programs to support our Total Rewards philosophy. In 2007, we replaced the company performance bonus (CPB) with a variable performance bonus. Under this new plan, individual bonuses will vary by business unit results and individual performance rather than overall company performance. We also changed our sales compensation incentives to provide simpler performance measures, global consistency and increased rewards for top achievers. For more information, including benefits by country, see our website.

In 2007, we adjusted our severance package to better align it with the industry norm. Employees leaving HP as the result of workforce restructuring may receive severance benefits in amounts ranging from one month to twelve months of pay, depending on business group and length of service. In addition, HP provides employees with support and assistance in looking for alternative employment as we've offered in the past.

Communications

Strong internal communication between management and employees is fundamental to HP's open and honest culture. Keeping employees informed about our business motivates them and illustrates how their work contributes to HP's success. We strive to provide a work environment where everyone's voice is heard and where all issues raised are resolved promptly. We encourage employees to discuss any concerns directly with managers, human resources (HR) staff or the Ethics and Compliance Office. HR staff work with employees and managers to address these issues.
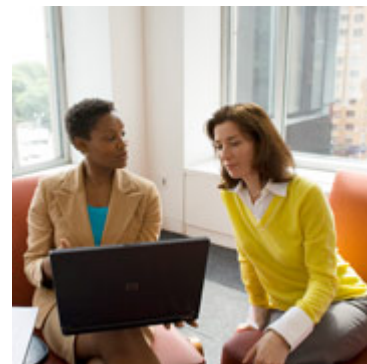
Meetings and day-to-day interactions are the primary ways managers communicate with employees.

Other communications channels include:

- Company intranet
- Company news website
- Regular e-newsletters
- Quarterly all-employee meetings and webcasts
- Regular communication sessions with the CEO and other senior leaders
- Management blogs on www.hp.com-in 2007 these generated more than 30,000 page views per month
- Idea Central, a website for employees to submit business ideas

In 2007, HP Chairman and Chief Executive Officer Mark Hurd held 22 communication sessions at locations around the world. These included open dialogues about issues raised in the employee survey and answers to employee questions during the live events. In total, 10,000 employees attended the communication sessions. Senior managers also hold similar events.

Every quarter, our CEO holds all-manager and all-employee meetings where he provides an update on company performance, recognizes outstanding contributors and answers employee questions. Webcast replays, transcripts and written summaries of all major employee events are posted on our company intranet for employees to access. Each meeting in 2007 reached an average of 4,500 managers and 15,000 employees.

Retiree engagement

We continue to communicate with employees after they have retired from the company. We recognize that HP retirees represent a significant force for raising the profile of HP's brand, and we host a website to keep them up to date about HP. We want to recognize them for their contributions to HP's success and allow them access to many benefits and services, such as product discounts, enjoyed by current employees. We organize and sponsor events and encourage retirees to continue to represent HP through community volunteerism. For more information, see Employee giving and volunteerism.

Voice of the Workforce employee survey

We seek formal feedback from our employees through the annual Voice of the Workforce global survey (see below) as well as regular "pulse surveys" on specific issues. Employees can also ask questions to HP business group and function leaders at any time through the Ask HP service.

In 2007, more than 132,000 employees (81 percent of the total workforce) participated in the Voice of the Workforce.[1] The survey was available online in 25 languages, and confidentiality of individual results is strictly protected.

The results help us gauge employee satisfaction and provide input to business planning, management decision-making and company strategy development. They also offer us insight into how HP's core values are being embraced throughout the company. Our CEO and Executive Council personally read employees' anonymous written comments. Senior managers assess the data to gauge progress and identify issues requiring further attention. Targets are then set at the business group level. Results and next steps are shared with employees at the work group level.

The table below includes representative questions to summarize areas of strength and opportunities for improvement identified in the 2005, 2006 and 2007 Voice of the Workforce surveys.

HP Voice of the Workforce survey highlights — how we are doing in living our shared values

	Percent favorable			
Voice of the Workforce question	**2005**	**2006**	**2007**	**Comments**
Passion for Customers I understand how my work impacts the customer experience	96%	96%	97%	We are pleased that we continue to score well in this area.
Results through Teamwork My work group cooperates with other workgroups to achieve business objectives	87%	87%	87%	The consistently high score in this area demonstrates a core strength of the HP culture-cross-functional collaboration and cooperation to resolve business problems. The 2007 score is three points higher than the industry average.[2]
Employee Engagement I am proud to work for HP	77%	77%	81%	We're pleased that we are continuing to improve in this area. We attribute this to many efforts, including our Site Leadership Councils, which bring together senior leaders to find ways to create an engaging workplace at a local level.
Speed & Agility I am appropriately involved in decisions	68%	68%	70%	We are pleased that the score has improved in this area, and we will continue to look for ways to create a work environment where everyone's voice is heard. The 2007 score is five points higher than the industry average.[2]
Meaningful Innovation HP is making necessary changes to compete effectively	50%	70%	73%	We rely on our ability to innovate and produce cutting-edge products. We're pleased that we are continuing to improve in this area. The 2007 score is 17 points higher than the industry average.[2]
Uncompromising Integrity I have felt no pressure to compromise HP's Standards of Business Conduct	89%	89%	89%	The consistently high score in this area shows that employees are aware of our ethics policies and procedures and feel they have the support they need to do the right thing.

Employee communications on global citizenship

To raise awareness and engage employees in our global citizenship programs, we publish monthly global and regional newsletters. Our internal global and regional citizenship websites cover areas such as the environment, philanthropy, ethics and privacy. These resources also provide tips on subjects such as saving energy and helping local schools apply for HP educational grants.

We encourage employees to participate in global citizenship events. For example, HP celebrates Earth Day in the United States and Canada and the United Nations World Environment Day in other countries. In 2007, thousands of employees at more than 150 sites in 40 countries took part in computer recycling programs, environmental product fairs, lectures and volunteer events such as tree planting. Energy-saving light bulbs, reusable coffee mugs and cloth shopping bags were distributed during many of the events.

We also launched a project with the World Wildlife Fund (WWF) to engage employees from our Europe, Middle East and Africa region with HP's efforts to address climate change. Experts from the WWF traveled to HP sites in Germany, France, the Netherlands, Poland, Spain, Sweden and the UK to encourage employees to develop ideas about how to use information and communications technology (ICT) to reduce greenhouse gas emissions. We created an intranet site, the Sustainable Innovation Zone, where employees submitted their suggestions. The most innovative ideas will be published in a report for customers in 2008. For more information on our partnership with WWF, see Social investment-Environmental sustainability and Climate and energy - Collaboration.

In 2008, we launched the Live Green campaign to educate employees about the environment and encourage them to reduce their impact at work and at home. We will hold awareness events and will publish online environmental tips throughout the year.

We also encourage employees to support local communities through giving and volunteerism.

[1]This percentage is based on active employees at the time of survey administration.
[2] HP participates in benchmarking against companies that are part of ITSG (Information Technology Survey Group). To receive benchmarking results we must choose at least 18 questions (out of a total of 60 ITSG questions) that we include in the Voice of the Workforce employee survey. HP results exceed ITSG norms on 14 out of the 18 benchmarked questions. The ITSG companies that HP benchmarks against are: Agilent Technologies, Cisco, Dell, EDS, EMC, Google, IBM, Intel, Microsoft, SAP, Sun Microsystems and Xerox. Where we don't include benchmark information in this table, data is unavailable.

Learning and development

We are committed to providing employees with the training and development opportunities they need to reach their full potential and to deliver on HP's business objectives. Our global training program aligns individual learning with business group and function needs in support of HP's overall business strategy. Each employee creates a development plan with his or her manager as part of the annual performance review. We want our employees to be able to advance their careers at HP, and we aim to fill vacancies with internal candidates before we advertise the position externally.

Our Grow@hp Resource Center enables employees to search for and enroll in 13,000 classroom and e-learning courses. Offerings range from project management and professional business skills to technical and sales training.

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 (which includes training on nondiscrimination and harassment). All employees are required to take Standards of Excellence training at least annually.

We survey all participants after completing courses. Participant feedback improved during 2007. For the fourth quarter, 84 percent of participating employees rated their course "excellent."

In 2007, we launched our Career Development Framework, which equips managers with the knowledge and skills they need to deliver on HP's core values and strategic objectives. It also helps them receive the most from their career development discussions with team members and provides information on how to set appropriate personal objectives. The framework includes:

- Core learning that clarifies the values we expect from our leaders and how they contribute to company strategy
- Personal learning that focuses on individual effectiveness and leadership
- Group learning that equips managers with the skills needed to get the best from their team

We also support employees in pursuing external educational opportunities such as conferences, seminars and technical certifications, as well as training at accredited institutions.

Leadership development

We offer leadership development training for employees at all levels. In 2007, we redesigned our leadership program for all HP managers and our five key talent programs for selected high-potential leaders. We also updated our orientation program so that leadership development begins the moment employees join HP.

Leading for Results, our leadership program for HP managers, has 10 modules based on HP's operating framework. Its focus is to help improve manager performance and promote best practices. In 2007, 28 percent of HP managers (nearly 4,000 people, including 250 executives and Mark Hurd, HP Chairman, CEO and President) participated in the program. Our goal is for all managers to participate in the Leading for Results program by the end of 2008.

Approximately 150 HP high-potential leaders took part in our key talent programs in 2007. These included a community service day where HP vice presidents learned new leadership skills while giving back to local communities.

Our new Director Rotation Program teaches the skills needed to perform new business functions to managers working at the director level (typically a level that reports to HP vice presidents). This increases opportunities to move between functions, businesses and regions. Fourteen directors began the two-year program in 2007. In 2008, our goal is for an additional 25 directors to join the program.

Other leadership training we conducted in 2007 included Stepping up to Management and New Manager Excellence at HP, two programs for new managers, and courses on leading across cultures.

Performance

In 2007, our investment in training and development decreased compared with the year before. This reflects an increased focus on e-learning and on-the-job training, which are less costly than classroom based training.

The number of training sessions increased in 2007. We delivered more than 179,000 instructor-led and 1,261,000 e-learning sessions online and through our virtual classrooms and HP Virtual Labs (live sites used to achieve certified training). Employees attended an average of 8.5 classes each. Approximately 28 percent of managers (4,000 people) participated in leadership training.

See more on our Training and Development site.

Goal for 2008

- One hundred percent of managers to complete Leading for Results training
  Progress: In 2007, 28 percent participated, and we aim for the remaining 72 percent to participate in 2008.
- 2,500 new managers to participate in our New Manager Excellence at HP program

Work-life programs

We offer flexible work options to help our employees balance work and personal commitments. We believe this approach increases employee productivity and helps us attract and retain a high-caliber, diverse workforce.

We support the following flexible arrangements:

- Flex-time—working a normal eight-hour workday, but adjusting start and departure times to accommodate personal schedules and needs. Approximately 80 percent of our workforce takes advantage of this option.
- Part-time—working reduced hours on an ongoing or temporary basis. More than 3,330 employees work part time.
- Job share—sharing the tasks and responsibilities of one full-time position between two employees with part-time status. Around 68 employees participate in a job share.
- Telework—working full-time from home rather than at an HP site, when this meets customer and business needs. Nearly 14,700 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.

See our Work-life website for more information.

Health, safety and wellness

Protecting the health, safety and wellness (HSW) of our employees is a natural extension of our commitment to making HP among the best places to work in the world. We have a responsibility to provide a safe working environment for our people, and we recognize that employees are most productive when they are healthy.

Because we believe work-related injuries and illnesses are preventable, we take a proactive, systemic approach to reduce the risk of occurrence. Our wellness programs raise awareness of health issues such as ergonomics and infectious diseases and encourage employees to adopt healthy lifestyles. Our safety programs are designed to minimize hazards and are tailored to specific work environments.

We implement our HSW programs as part of a comprehensive environmental, health and safety (EHS) management system that meets or exceeds applicable regulatory requirements globally. The system is aligned with the internationally recognized Occupational Health and Safety Assessment Series standard OHSAS 18001 as well as the ANSI Z10 (American National Standard), OSHA VPP (U.S. Dept of Labor) and ILO-OSH 2001 standards. Four HP sites in Ireland, Scotland, Singapore and the United States are registered to OHSAS 18001.

Health and wellness

HP raises awareness of health and wellness issues through web-based educational materials, travel health advice and various health-promotion activities. We provide on-site fitness centers at many large locations. Employees without access to an HP fitness center receive discounts of up to 60 percent at their local gym, small subsidies for fitness center membership, or "flexi-credits" that can be used for a variety of benefits that may include health assessments, depending on the country.

We offer U.S. employees health assessments with follow-up by a personal health advisor, and we reward participation with a $300 credit toward health insurance premiums. About 82 percent of U.S. employees took advantage of this in 2007. Our long-term goal is to use the aggregated results of these assessments for targeted health education programs.

HP provides Employee Assistance Programs in 18 countries across the Americas, Asia and Europe. These programs offer counseling and referrals to employees and their dependents who are experiencing personal or family problems.

Health, safety and wellness training and communications

We include basic HSW information in new employee orientation. All employees are required to take an annual online refresher course, and completion is included as an objective in employee development plans. We also provide training tailored to an employee's specific job-related hazards. All HSW training is provided in local languages.

We offer an online ergonomics training program to reduce the risk of related injuries and illnesses related to workplace design (see below).

Our environment, health and safety intranet site includes resources and key information for employees, including:

- **Self-audits.** This set of tools helps sites to assess how well employees are managing the health and safety risks in relation to the EHS standards.
- **Chemical management.** This system enables employees to search for material safety data sheets that provide information about how to handle chemicals safely.
- **Emergency preparedness.** We provide information on planning, prevention, response and recovery for emergencies and disasters.

Infectious diseases

HP recognizes that infectious diseases present a serious risk to our employees in some countries. We provide medical benefits so that our employees can have adequate protection against infectious diseases.

We also raise awareness among our employees so that they can take necessary precautions. For example, in 2007 we created an intranet health advisory on MRSA infections (a bacterial infection sometimes referred to as a "superbug"). This advisory emphasizes the importance of hand hygiene in preventing infection.

We have also created an employee intranet advisory about hepatitis B, which addresses modes of transmission, preventive measures and vaccination recommendations. We now include a hepatitis B policy statement in our nondiscrimination policy. Health checks are never conducted as a condition of employment.

For employees traveling to high-risk countries, we give advice regarding necessary immunizations.

Pandemic flu preparedness

Since 2005, HP has taken the threat of a flu pandemic seriously. We've conducted simulations to assess how an outbreak of flu or other infectious diseases could affect HP, and we've developed contingency plans to protect HP employees and minimize business disruption. Our employee communication programs stress the importance of hygiene in preventing virus transmission, and our Company Preparedness and Resiliency, and Avian Flu internal websites are designed to raise employee awareness. In 2007 we launched online training on flu preparedness in eight languages.

As new developments arise and we obtain new information, we regularly assess our contingency plans.

Performance

Health, safety and wellness training and communications

More than 128,000 employees (74 percent of the workforce) took the annual online health, safety and wellness (HSW) refresher class in 2007.
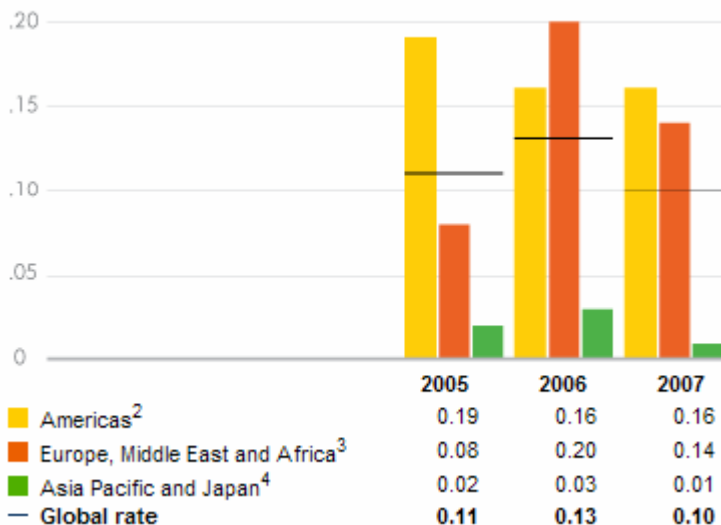
We conduct quarterly global employee surveys to measure HSW program effectiveness. In 2007, 87 percent of employees surveyed indicated that health and wellness services were meeting or exceeding their expectations, with 23 percent of these employees indicating this was of high importance or impacts their ability to do their job. In addition, 95 percent of employees rated workplace and job safety as meeting or exceeding expectations, with 68 percent indicating this was of high importance.

We assessed our emergency response plans and drills for our largest 210 sites and rolled out a two-year preparedness initiative targeted at our top 50 global sites. This initiative includes additional training and exercises for site incident management and leadership teams.

Health and safety metrics

We record and investigate work-related injuries and illnesses to identify and eliminate their root causes and to assess the effectiveness of our management systems. Our primary measure is the lost workday case rate (the number of work-related injuries that result in time away from work per 100 employees working a full year). To record work-related injuries and illnesses, we use an electronic incident management system that reflects the International Labour Organization Code of Practice on Recording and Notification of Occupational Accidents and Diseases. We also measure recordable injuries and illnesses-incidents requiring medical attention beyond first aid. These include incidents both with and without lost time.

Lost workday case rate[1], 2005-2007

	2005	2006	2007
Americas[2]	0.19	0.16	0.16
Europe, Middle East and Africa[3]	0.08	0.20	0.14
Asia Pacific and Japan[4]	0.02	0.03	0.01
— Global rate	**0.11**	**0.13**	**0.10**

In 2007, our global lost workday case rate decreased to 0.10 from 0.13 in 2006. In 2006, we improved the accuracy of HSW reporting in Europe, the Middle East and Africa (EMEA) and Asia-Pacific and Japan (APJ) through training. We continued this training in 2007 to further improve accuracy in all regions.

Leading causes of lost workdays in 2007

Slips, trips and falls	31%
Materials handling	19%
Automobile accidents	12%
Struck by/against	10%
Manufacturing	7%
Caught in/between	5%
Office environment	4%
Other	9%

We are more confident this year in our ability to report global and regional recordable case rates, which include less severe injuries. This is due to our continued focus over the past year on training and raising awareness in EMEA and APJ regarding how to accurately report health and safety incidents.

HP recordable incident rates, 2007 (lost-time and no-lost-time cases requiring more than first aid)

Americas[5]	0.75
Europe, Middle East and Africa[6]	0.30
Asia-Pacific and Japan[7]	0.04
Global rate	**0.38**

We have tracked the recordable incident rate in the Americas for a number of years. It has continued to decline since 2004, partly due to a reduction in office ergonomics injuries, which decreased by 21 percent in 2007 alone.

This is the first year we are reporting recordable incident data in the EMEA and APJ regions. We recognize that it will take time for employees in these regions to report recordable incidents with the same degree of accuracy as in the Americas. As we conduct training and raise awareness in these regions, we anticipate that their recordable incident rates will increase.

Leading causes of recordable cases without lost time in 2007

Office environment	38%
Slips, trips and falls	18%
Ergonomic—materials handling	12%
Struck by/against	10%
Automobile accidents	8%

Select health and safety metrics, 2005-2007

	2005	2006	2007
Fines ($U.S.)	$0	$0	$0
Work-related fatalities	0	2	0
Percentage of employees completing the online office ergonomics self-assessment and training (cumulative)	56%	63%	64%

In 2007, there were no HSW violations with penalties from regulatory agencies worldwide.

Slips, trips and falls

In 2007, we conducted an in-depth analysis of the causes of slips, trips and falls. We found that 32 percent of these incidents involved the use of stairs, 12 percent occurred in hallways and 10 percent occurred on icy surfaces, particularly parking lots. Fourteen percent of the slips, trips and falls occurred during team-building and social events, and 12 percent occurred while on business travel or at customer sites.

HP publishes newsletters and distributes e-mails to raise awareness about the risks of slips, trips and falls, particularly at sites prone to snow and ice. We also conduct regular inspections to identify potential causes of slips, trips and falls and use preventative measures in day-to-day housekeeping, such as cleaning up spills and displaying signage when washing floors. We will apply the results of our in-depth analysis to focus our awareness and prevention activities in 2008.

Ergonomics

Better workplace design, known as ergonomics, is key to reducing injuries and illnesses from handling materials and from day-to-day office work (such as repetitive strain injury). In 2007, ergonomic issues in the office environment were the leading cause of recordable cases without lost time, although they only accounted for 4 percent of injuries and illnesses resulting in time away from work.

Our online office ergonomics training and risk-reduction program, available in 10 languages, helps employees identify and lower risks related to workplace design on the job, stay healthy and increase productivity. The program includes self-assessments that we use to target employees who are most at risk. Each region also develops plans to target high-risk issues.

In 2007, 27,000 people completed the ergonomics program. Sixty-four percent of employees have completed the training, exceeding our cumulative target of 60 percent. Ninety-two percent of participants reported that the HP office ergonomics process "meets or exceeds their expectations." In 2007, more than 200,000 ergonomic and behavioral issues were identified and resolved through follow-up actions, including automated e-mail correspondence, acquisition of ergonomic accessories and modifications in the office environment.

In total, over 113,000 HP employees have used the process since it was introduced. This commitment to resolving ergonomic issues has produced a 63 percent reduction, from the time of its inception through the end of 2007, in the number of employees who identified themselves as in the high-risk category.

We are changing our ergonomics goal for 2008. In previous years, the target related to the percentage of employees completing the program since it began. Our new goal is for at least 50 percent of HP employees to retake the program within three years of the date of previous completion.

Goal for 2008

- At least 50 percent of HP employees to retake the ergonomics program within three years of previous completion

[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.
[2] Includes data from Canada, Costa Rica, Ecuador, Mexico, Puerto Rico and the United States.
[3]Includes data from Belgium, France, Germany, Ireland, Israel, Italy, Portugal, Spain and the United Kingdom.
[4] Includes data from China and Singapore.
[5]Includes data from Brazil, Canada, Costa Rica, Ecuador, Mexico, Peru, Puerto Rico and the United States
[6]Includes data from Belgium, Bulgaria, France, Germany, Ireland, Israel, Italy, Poland, Portugal, South Africa, Spain and the United Kingdom
[7]Includes data from Australia, China, Japan and Singapore

Employee giving and volunteerism

When we challenge ourselves to be an exemplary global citizen, it's a call to action that extends beyond our policies and processes and to each of HP's employees. We encourage employees to volunteer their time and donate money and HP products to benefit good causes. Supporting community organizations improves morale, develops new skills and makes employees more productive. Beyond that, supporting worthy causes increases awareness of the HP brand and strengthens HP's reputation and relationships with local communities and other important stakeholders.

Approach

In many countries, local HP offices inform employees about opportunities to make donations and volunteer their time. We encourage employees to choose projects that complement their professional skills in order to bring the most benefit to the organizations.

To maximize the benefit for these organizations and for HP, we have increased coordination of employee involvement activities with our social investment programs. We now offer employee engagement opportunities for some local social investment programs (see Social investment), and we link product donations to volunteerism by giving to organizations where HP employees volunteer. For example, employees who volunteer in Germany can enter *HP vor Ort*, a prize drawing to win HP equipment for the organization they support. In 2007, local German charities received 75 HP notebooks and printers through this program.

We also offer employee involvement activities aligned with our global citizenship priorities. For example, we have invited employees to contribute energy efficiency ideas to the Sustainable Innovation Zone (SIZ), an internal website developed in collaboration with World Wildlife Fund.

Our largest giving and volunteerism programs are in the United States. As part of an annual campaign, HP offers one-to-one cash matching for employee gifts to qualified nonprofit organizations, up to $1,000 per employee per fiscal year. Throughout the year, U.S. employees may also donate designated HP technology to qualified charitable organizations or schools. Employees contribute 25 percent of the list price up to $5,000, and HP contributes the remaining 75 percent.

We also encourage employee involvement in their communities by allowing them to volunteer on company time. Employees based in the United States and Canada may volunteer up to four hours per month, at their manager's discretion. In other countries, programs vary according to local labor laws.

We are exploring how to expand volunteerism programs to all regions in which HP operates and further engage employees in our strategic giving efforts.

Retiree volunteering

Retirees are a sizeable group of brand champions, and we encourage employees to get involved in the community even after they retire from HP. HP Retiree Clubs—seven in the United States and at least six in other countries—regularly organize local events and community projects. For example, HP retirees volunteered their time in a mini HP photo lab after the 2007 San Diego wildfires, copying photographs victims had lost but borrowed from relatives or friends.

Performance

In 2007, nearly 6,000 employees participated in the U.S. Employee Giving Program. Together with HP matching resources, employees contributed more than $13.4 million in cash and products to more than 3,500 community organizations and schools.

Employee giving in the United States, 2005-2007

	2005	2006	2007
Employees participating in our U.S. Employee Giving Program	10,300	7,700	5,700
Value of cash and products donated including HP matched funds [Million $U.S.]	$16.9	$12.6	$13.4

We are working to increase employee volunteerism outside the United States and to improve data collection.

Goals for 2007

Worldwide

- Improve data collection and further recognize volunteerism worldwide
  Progress: In early 2008, we launched a new volunteer sourcing and reporting tool in Canada, Costa Rica, Puerto Rico and the United States.

Europe, the Middle East and Africa

- Establish employee engagement opportunities for all local social investment programs
  Progress: Volunteering opportunities are in place for local social investment programs in 20 countries.

United States

- Increase the number of employees who donate products to schools and charities through employee giving programs in the United States by 10 percent over 2006
  Progress: In 2007, the number of employees who donated products to schools and charities through employee giving programs in the United States rose 56 percent, from 1,467 employees in 2006 to 2,290.
- Increase the number of employees and retirees who volunteer through HP-sponsored programs in the United States by 5 percent over 2006
  Progress: Did not implement the system to track this data until early 2008.

Goals for 2008

Worldwide

- Improve data collection and further recognize volunteerism worldwide
- Pilot volunteer incentive programs in all regions
- Expand retiree volunteerism both inside and outside the United States

Europe, the Middle East and Africa

- Incorporate employee engagement opportunities into key local social investment programs
- Expand existing employee engagement programs to at least two additional countries

United States

- Increase volunteerism among HP employees and retirees, particularly in the area of education

Volunteerism examples

Global

In 2007, HP Credit launched HP Credit Cares, a program to enable HP Credit and Collections employees to spend time volunteering with local organizations. In the program's first year, more than 150 employees participated in 11 HP-organized projects around the world in countries such as China, Costa Rica, Romania, Malaysia and the United States.

Over 334 employees around the world volunteered a total of 1,500 hours in employee-organized volunteer activities to commemorate Earth Day and Environment Day. For example, in Santa Fe, Mexico, 61 employees planted 600 trees as part of Reforestation Villa del Carbon Forest. In Roseville, California, employees planted 50 trees and cared for an additional 410 native oaks.

Americas

Brazil. HP sponsored a campaign in which 230 HP volunteers collected more than 2,000 coats and blankets to help impoverished Brazilians; almost half the donations were made by HP Brazil employees.

Canada and Mexico. In 2007, HP employees in Canada and Mexico volunteered for Junior Achievement, a nonprofit organization that helps students understand the economics of life. About 90 employees in Canada spoke to eighth grade students in 10 schools in the Greater Toronto area to encourage them to stay in school to gain the skills they need to succeed later in life. The employees discussed topics such as planning expenses associated with living independently and preparing for a first job interview.

In Mexico, more than 60 HP volunteers used their own professional experiences to help students learn about career opportunities, the skills needed for specific jobs and how to save money.

Volunteers from both countries acted as positive role models for the students. Studies have shown that students who participate in Junior Achievement programs are more likely to attend post-secondary education and have higher self-esteem.

HP provided over $23,000 of funding for the project in Canada and over $8,000 to IMPLUSA, a subsidiary of Junior Achievement, in Mexico.

HP is collaborating with Junior Achievement Young Enterprise (JA-YE), an organization promoting youth enterprise and education. JA-YE helps students learn business skills by setting up their own companies. The students can enter their companies into the European HP Responsible Business Competition, which rewards businesses that show strong financial performance as well as high standards of social responsibility, environmental excellence and innovation.

In 2007, more than 50 HP employees volunteered in nine countries to help students integrate responsible business practices into their student companies. An HP employee in Russia was named JA-YE's Volunteer Champion after visiting six schools and mentoring 255 JA-YE students in three months.

HP also offers several other volunteering opportunities to employees in collaboration with JA-YE, including teaching business skills in schools in Portugal and mentoring students on work placements at HP.

To date, HP employees have volunteered more than 1,700 hours of their time to support JA-YE programs benefiting 20,000 students in Europe, the Middle East and Africa. For more information see www.responsible-business.org.

Asia Pacific and Japan

More than 3,000 HP employees volunteered for good causes in Asia Pacific and Japan in 2007. In Singapore alone, 2,000 employees supported charities during the year.

India. Each year, about 700 members of The Community Service Club, HP's employee volunteerism organization in India, help improve the lives of disadvantaged people in the communities around HP sites. Along with volunteering their time, Service Club members assess requests from community organizations and raise money for good causes. For example, HP graphics team volunteers helped set up a drawing competition to identify potential commercial graphic artists of the future. More than 1,500 students from local schools took part in the competition, and the 50 winning students attended a 45-day summer arts camp.

Case study

Marisol Ibarra
Costa Rica External Relations and Employee
Engagement Manager

In 2007, HP hosted its first Latin America Women's Summit, following the success of the 2006 summit in India. The three-day event brought together 90 female managers and employees from throughout the region to meet in Costa Rica to learn new skills and share knowledge and talents. At HP in Latin America, women constitute 35 percent of senior management. The summit focused on how to increase this figure and make HP a leading IT employer for women in the region. Topics at the summit included:

- Career development
- Diversity and inclusion
- Mentoring
- Work-life choices
- Collaboration
- Multicultural awareness of women leaders

"For three days, I had the opportunity to meet and interact with women from all over Latin America. It was an amazing experience. The networking sessions opened up different doors to knowledge. For instance, I met Marisol Sanchez, the controller for Chile. She shared an excellent lesson on how important it is to achieve a healthy work-life balance. We all, as professional women, have many roles to play and key decisions to make throughout our lives. We are part of a big company that totally supports us as women. I was very proud to be at the summit and am very proud to be part of HP."

Goals

Goals for 2007

Diversity

- Thirty percent of employees participating in our leadership development programs to be women
  Progress: 52 percent of leadership development program participants were women in 2007
- Twenty percent of employees participating in our leadership development programs to be non-white, with a particular focus on Latinos and African-Americans
  Progress: 37 percent of leadership development program were non-white in 2007

Goals for 2008

Diversity

- Thirty percent of employees participating in our leadership development programs to be women
- Twenty percent of employees participating in our leadership development programs to be non-white, with a particular focus on Latinos and African-Americans

Social investment

Bill Hewlett and Dave Packard created HP with the intent to be a force for positive change in communities where we work and live. In 2007, we continued their commitment to social investment by addressing global challenges and serving local needs in three areas: educational achievement, economic development and environmental sustainability. Our ongoing objective is investing in the growth and prosperity of people around the world in concert with our long-term business success.

IN THIS SECTION:
» Educational achievement
» Economic development
» Environmental sustainability
» Performance
» Measuring impact
» Goals

Through social investment, a company can have a meaningful and lasting impact on the lives and livelihood of people around the world. It can also receive significant benefits in return, including stronger relationships and enhanced reputation with stakeholders, heightened visibility of its brand, and deeper engagement and satisfaction of employees.

HP has a long history of enriching the communities where we work and live. We donate money, technology and time to underserved communities with pressing needs as well as to global and local initiatives relevant to our business and the expertise of our employees.

We continually refocus our strategy to align our social investment more closely with our business objectives as they evolve. In 2007, our programs addressed three main areas:

- Educational achievement—helping educators use technology to improve teaching and enhance learning, and increasing access to technology in education from kindergarten to the university level
- Economic development—accelerating economic development in underserved communities, particularly through training and technology support for microenterprise development
- Environmental sustainability—supporting projects that benefit the environment and complement our global citizenship priorities

Moving forward, we will further align our investments with education, focusing on student achievement and entrepreneur success.

Summary of HP's social investment

In 2007, we invested $47.1 million in educational, economic development and environmental projects and other local community investments around the world, representing 0.51 percent of our pre-tax profits (see Performance). In the last five years, the value of our social investment totaled more than $262 million.

HP also made donations to support disaster relief efforts around the world. And, HP employees contributed their own funds toward disaster relief to aid victims of the 2007 wildfires in Southern California and also support the American Red Cross Disaster Relief Fund. The employee contributions were augmented by a cash matching program funded by the HP Company Foundation, an independent charitable organization that makes cash grants to support non-profit organizations and educational institutions. During 2007 the HP Company Foundation made donations to support several disaster relief efforts, including a $2 million contribution to the American Red Cross California Wildfires Relief Fund.

In 2007, we also demonstrated our commitment to social investment by:

- Increasing the consistency of our programs across regions and improving how we measure and evaluate program results (see Measuring impact).
- Launching new projects in countries around the world, including Brazil, China, India and Russia, important emerging economies for HP
- Extending our learning communities (online networking and information resources) for grant recipients in all regions

Read about employee giving and volunteerism in our Employees section.

The map below shows the global reach of our social investment programs.

Partial list of social investment locations during fiscal year 2007[1]

- Economic development
- Educational achievement
- Environmental sustainability
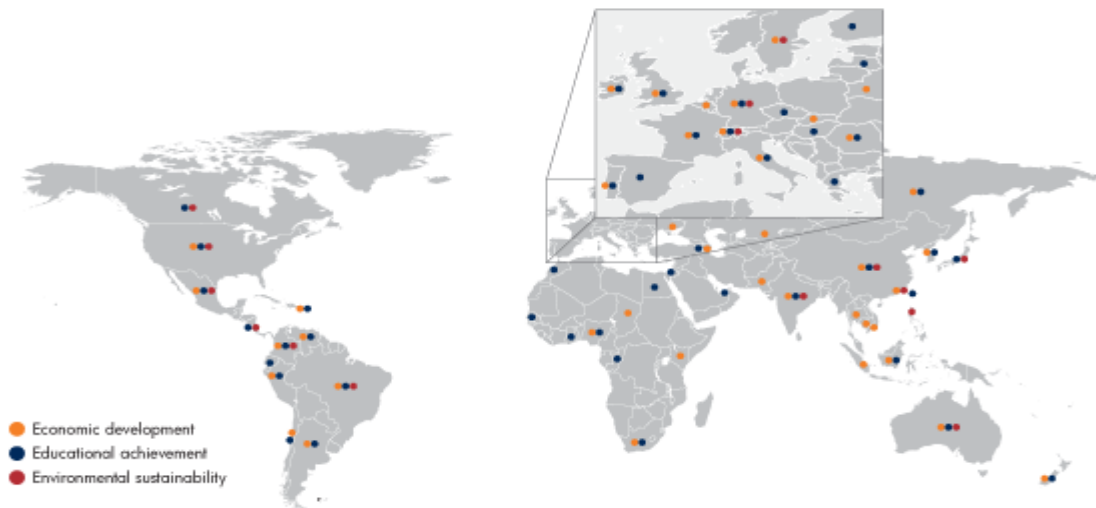
[1] Dots represent programs (could be multiple locations) in that country.

Educational achievement

Education is essential to economic development and to creating 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 in educational institutions. HP has supported education projects for 65 years and has invested nearly $240 million in education since 2000. In addition to donating equipment, we also tap our expertise to help teachers and policymakers use technology to best benefit students.
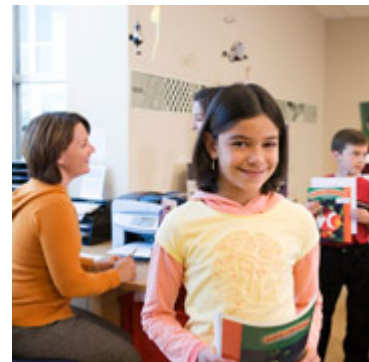
Target areas include math, science and engineering and assisting educational institutions in underserved communities. As the largest IT company in the world, we help educators understand the skills that employers—particularly technology organizations—look for, now and for the future. We engage with education policymakers to encourage them to invest in education that will maintain a well-trained and competitive workforce.

For example, HP is part of the eSkills Leadership Initiative, a European Commission-backed business collaboration working to increase investment in the IT skills of European workers. These efforts also benefit us by fostering a stronger, more qualified candidate pool to draw from. In 2007, we became the leading sponsor of the Clinton Global Initiative's education program. This effort aims to place more than 350,000 out-of-school children into educational programs and improve learning for an additional 650,000 students. HP will employ its expertise in mobile technology to bring classroom learning to students living in remote areas.

Worldwide education programs

HP Technology for Teaching

HP's Technology for Teaching program, now in its fourth year, provides funding to bring technology into classrooms to improve teaching and make lessons more exciting and engaging. The program is run in collaboration with the nonprofit organization International Society for Technology in Education (ISTE).

Each selected school, college or university receives HP products such as Tablet PCs, multimedia projectors, digital cameras and printers. We work with ISTE to offer customized professional development and mentoring for K–12 teachers in the United States and Canada. In addition, we encourage higher education grant recipients to share good ideas, successes and challenges through online communities, conferences and online speaker sessions.

In 2007, we donated $12.2 million in cash and HP products through the program to 237 schools and universities in 36 countries in the Americas; Europe, the Middle East and Africa (EMEA); and Asia Pacific and Japan. We have made HP Technology for Teaching grants of nearly $50 million to 840 educational institutions in 36 countries since the program began in 2004.

Grant recipients who demonstrate a positive impact on student achievement may receive reinvestment Leadership Grants. These grants enable recipients to share the technology benefits with their entire school or university department. In 2007, HP provided reinvestment grants of $2.5 million to schools and universities worldwide.

In 2007, 23 current and past recipients of HP's Technology for Teaching grants from 16 countries in EMEA gathered in London for the first European Higher Education Forum, an opportunity for grant recipients to join a community to share best practices and benefit from each other's experiences.

One of our success stories from the United States spotlights teachers at Culver Elementary School in Oregon who recognized the value of using technology in teaching but whose classrooms had only out-of-date equipment unable to run current software. The school received an HP Technology for Teaching grant that enabled it to upgrade its resources with HP Tablet PCs, digital projectors and digital cameras. The grant also paid for teachers to receive training from ISTE on how to use the equipment to best benefit students.

The teachers now use HP projectors to lead lessons and present online materials. The HP Tablet PCs allow students to create web content, write reports and develop PowerPoint presentations as well as access the Internet to conduct research and take virtual field trips. The digital cameras are used to document scientific experiments and capture images for projects.

The introduction of technology into the classroom improved student enthusiasm, participation and achievement. According to the grant recipient, among fifth graders:

- The average number of specific facts cited in projects increased from 13 to 85.
- The average number of factual errors in project assignments decreased from six to one.
- The number of students who said they were interested in their subject matter rose from 73.1 percent to 89.5 percent.

After seeing the impact of the first grant, HP awarded a second that provided the school with more equipment and the opportunity for two more teachers to receive training.

"HP Technology for Teaching is a powerful program that provides educators with valuable technology tools and the professional development and support needed to incorporate that technology effectively to improve teaching and learning. The program has a proven track record of fostering positive change in classrooms, and ISTE is proud to partner with HP in providing this valuable service to educators in the United States and abroad."
—Bob Choquette
Director, Professional Development Services International Society for Technology in Education

See HP's blog related to teaching, learning and technology in higher education.

Local education programs

HP offices worldwide also support country- and region-specific education programs that address local needs. Following are a few examples from 2007.

Americas

In 2007, HP donated equipment worth $100,000 to help train the next generation of doctors at The University Health Network, one of Canada's largest health science centers. The equipment is being used to record patient-doctor meetings, operations and clinical examinations of patients. The recordings are then played back to students to promote discussions about particular cases. Before the equipment was installed, only five or six students could watch a patient examination from an observation room; now up to 100 students can watch on laptops and plasma TVs.

Asia Pacific and Japan

The number of students enrolled in higher education institutions in China has rapidly increased in recent years, putting significant pressure on resources. Many of these students come from poor backgrounds. In 2007, HP continued to support Pathways to Higher Education, an initiative to improve higher education for disadvantaged students in China. In 2006, we donated HP products valued at $525,000 to equip learning centers in 16 colleges. Equipment included PCs, laptops, printers and projectors. In 2007 we built on these efforts and launched a platform for those participating colleges to share their ideas and best practices.

Europe, the Middle East and Africa

HP is helping to improve learning in Africa through its support for the New Partnership for Africa's Development (NEPAD), a pan-African development organization. NEPAD, with the help of HP and other technology companies, is enhancing student science and IT skills by equipping schools with the latest digital technology.

The NEPAD e-school initiative aims to connect 600,000 primary and secondary schools in Africa to the Internet by 2015. HP and other technology companies are supporting 21 schools in six countries— Egypt, Burkina Faso, Mozambique, Nigeria, South Africa and Uganda—during an initial demonstration phase.

In 2007, NEPAD launched its sixth e-school, the Al Hadeen secondary school in El-Behira, Egypt. HP donated equipment worth more than $275,000 to stock a computer lab and an audiovisual room with servers, PCs, printers, scanners, copiers, digital cameras and projectors. Wireless broadband connects the school to the outside world. We also provided training for the students in basic computer skills and for teachers in the use of equipment in the classroom.

HP also supported the Oprah Winfrey Leadership Academy for Girls in South Africa with a donation of $500,000 in 2007. The academy helps academically talented girls from economically disadvantaged backgrounds develop intellectual and social skills for leadership.

Economic development

HP believes that information technology (IT) has a critical role in accelerating economic development. It gives people skills needed to succeed in business and helps individuals and businesses access information and customers. It also saves businesses time and improves efficiency.

We donate money, time and products to enhance professional skills and increase entrepreneurship opportunities in underserved communities. Small businesses are key to stimulating economic development, so we focus our support on micro-enterprises.

In 2007, we donated $5 million in cash and HP products to support economic development through microenterprise development.

Working with the London Benchmarking Group, we launched an initiative to assess the impact of our microenterprise programs in Asia Pacific and Japan(APJ).

Microenterprise development programs

Below are examples of HP's support for micro-enterprise development around the world in 2007.

Americas

In 2007, we awarded 40 grant packages totaling $2.3 million in the United States and Puerto Rico and 24 grant packages worth a total of $480,000 to 14 organizations throughout Latin America.

As an example, HP collaborates with Pro Mujer Mexico, an organization that provides financial services and training to improve the lives of poor Mexican women. In 2007 we donated over $100,000 in equipment and cash to enable Pro Mujer learning centers in five states, where women can earn diplomas in basic computing skills. The qualification covers the skills needed for day-to-day business activities such as contacting suppliers by e-mail and developing and printing promotional materials. The course is helping the women improve their businesses as well as their personal financial situations, and we estimate 2,000 women will graduate in the next year.

Asia Pacific and Japan

In 2007, HP provided 18 grants worth up to $80,000 to support micro-enterprise programs in nine countries in Asia Pacific and Japan (APJ). As part of the micro-enterprise development program, HP APJ hosted two Train the Trainer sessions for the HP micro-enterprise curriculum. Thirty participants attended the training.

In 2007, we provided grants to the Association of Southeast Asian Nations, which supports small businesses in the region. The organization is using the funding to provide information and communications technology training to small business owners, including entrepreneurs in clothing manufacturing, mobile phone supplies, and video and photography services in Java, Indonesia. The training will enable participants to diversify how they promote their goods, rather than having to rely on word of mouth and walk-by trade. The business owners are also being taught the skills needed to start exporting their goods—using computers to manage staff, customers and orders.

Europe, the Middle East and Africa

Many young people in Europe, the Middle East and Africa (EMEA) lack the business and IT skills and training opportunities they need to find work. In 2006 in the EU alone, 5 million people under the age of 25 could not find jobs after graduating from secondary schools and universities. That represents 18 percent of the age group and more than twice the unemployment rate for the general population.[1]

In 2007, HP launched Graduate Entrepreneurship Training through IT (GET-IT), a program to help graduates and people under 25 years of age in 17 countries across EMEA find work or start their own businesses. The program teaches business IT skills in areas such as finance, marketing, and general and technology management. GET-IT is being integrated with established job creation and entrepreneurship programs run by local nonprofit organizations in EMEA. We provide IT equipment, including student laptops, PCs for the trainers, printers, cartridges, and software and training material in local languages. We also offer the trainers guidance on course content and technical and facilitation skills. In collaboration with the Micro-Enterprise Acceleration Institute, HP held three guidance courses in Russia, South Africa and Switzerland to teach trainers from local organizations how to teach GET-IT courses to students in their countries.

Thirty-five nonprofit training organizations in 17 countries provided GET-IT training. The program is aimed at reaching 6,000 young people in its first year (by May 2008). To measure the program's effectiveness, we have asked grant recipients to report back on the number of students trained, course evaluations, and feedback from participants and trainers.

[1]Source: Eurostat news release "Young Europeans through statistics," 23 March 2007.

Environmental sustainability

HP expanded its social investment strategy in 2007 to focus on the environment, extending our commitment to environmental responsibility. We donated more than $4 million in cash and HP products to support global and local environmental projects.

Below are a few examples.

World Wildlife Fund partnership

In 2007, we broadened our business relationship with the World Wildlife Fund (WWF) to include philanthropic grants of cash and equipment worth $2 million to support several WWF projects that address the causes and consequences of climate change:

- The EpiCenter for Climate Conservation project will develop strategies to help communities adapt to climate change.
- The Climate Witness project will raise awareness of the consequences of climate change by gathering and sharing online stories of communities that have been affected worldwide.
- The Information and Communication Technology Innovation as a Driver of Climate Change Solutions project in Europe, the Middle East and Africa will identify ways to use information and communications technology to reduce global carbon dioxide emissions by one billion tonnes.
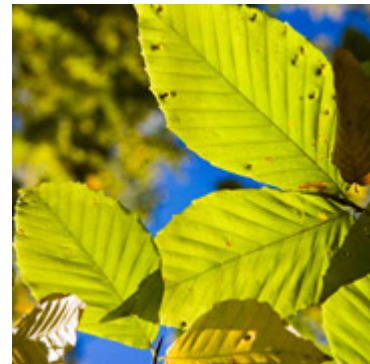
HP experts and technology will play a key role in the projects. For example, in 2007 we donated laptops, digital cameras and printers to scientists in Brazil, China, Costa Rica and Peru to measure patterns in climate change.

See Collaboration for more information on our work with WWF.

Other efforts

HP launched a one-year pilot project in Africa in 2007 to identify sustainable recycling processes for electronic waste (e-waste) in developing countries.

Promoting recycling in U.S. schools

HP launched Get in the Technology Loop, an educational program to help create the next generation of environmentally conscious citizens. Developed in collaboration with Scholastic, a leading children's publishing company, the program raises awareness of the environmental impacts of technology over its life cycle and what students and their families can do to help protect the environment. It contains lesson plans covering four topics:

- What is technology, and how does it benefit us?
- How electronics are made—design, resources and manufacturing
- How electronics come to us—distribution and use
- When electronics are no longer useful to us—responsible disposal

During 2007, a program pack was sent to every public elementary school in the United States, totaling 132,000 in all. We estimate that the materials will reach millions of children and their family members.

Sustainability resources for Canadian schools

In 2007, HP collaborated with the nonprofit organization Learning for a Sustainable Future (LSF), to create Resources for Rethinking, an online multimedia database of more than 800 environmental educational resources. The database includes topics such as how to minimize waste or make the schoolyard nature-friendly. HP's contribution of $100,000 was used to prepare and launch the database, to provide technical support, and to pay for a professional review of the resources. HP and LSF co-developed a localized environmental curriculum called Discover the Technology Loop, which is now part of the database and is available online.

Performance

In 2007, the value of our social investment increased slightly. While the amount we have donated over the last three years has remained roughly constant, the percentage of profits this represents has decreased as HP has become more profitable. However, during this period HP contributed $45 million to the HP Company Foundation, representing the largest level of funding since the inception of the Foundation in 1979.

Social investment, 2005-2007[1] [Million $U.S.]

	2005	2006	2007
Overall			
Total	$45.3	$45.6	$47.1
Percentage of pre-tax profits	1.3%	0.63%	0.51%
Type			
Cash	$18.0	$17.5	$20.6
Products and services[2]	$27.3	$28.1	$26.5

Social investment by region[3] [million $U.S.]

	United States	$30.3
	Americas (not including the United States)	$5.0
	Europe, Middle East and Africa	$7.2
	Asia Pacific and Japan	$4.5

[1]Data excludes contributions to the HP Company Foundation and employee donations but includes HP's match contributions.
[2] 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.
[3] Subtotals do not add up to total noted above due to rounding.

Measuring impact

When applying for a grant, HP applicants commit to providing 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.

Ninety percent of education grant recipients reported that HP products they received have a positive impact on teaching and learning, as measured against goals they set for their projects. This is below our target of 100 percent.

Accurately measuring program impact is a challenge, requiring significant resources and coordination across many countries. Project outcomes are often hard to quantify, since many factors are involved. We have launched a number of programs to try to overcome these difficulties, including the examples below.

United States

In the United States, we hold focus groups of grantees and their clients to gather feedback and to document successes and failures.

The International Society for Technology in Education is helping us review the impacts of our HP Technology for Teaching grants. Each year their research has concluded that most 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.

Higher education benefits include a change in teaching methodology—when they know what students know, in real time, as they teach, a professor's role can shift from lecturer to facilitator. Specific benefits for K–12 schools include higher student achievement on classroom, school, district or state assessments when compared with similar groups in classrooms untouched by the HP grant. At all education levels, we've found a positive impact on student learning, as evidenced by increased student engagement, participation and academic achievement. Tablet technology makes it easier for teachers to work through mathematical problems. The technology is also making classrooms more student-centered and is encouraging students to be more engaged and work more collaboratively, particularly in science.

Asia Pacific and Japan

In Asia Pacific and Japan (APJ), HP belongs to the London Benchmarking Group (LBG), an organization whose members commit to measuring and benchmarking their corporate community investment contributions using the LBG methodology. During 2007, we participated in a review conducted by LBG managers that confirmed we are correctly and consistently applying the LBG valuation principles to our community investment programs in the region.

Additionally, in 2007 we launched an initiative in collaboration with the Australia National University to assess the impact of our microenterprise development program in APJ. Post-graduate applied anthropology students from the university are assessing how the program translates into social and economic benefits for entrepreneurs who have received support from HP. Researchers are visiting grant recipients and use questionnaires based on established anthropological research methods to evaluate their social and economic status before and after they received funding. The students will use HP technology and custom software to record and analyze data during a 20-month period. The project is being overseen by a professor of anthropology at the university.

The researchers have completed the first round of visits to sites in Cambodia, China, India, Indonesia and Thailand. Selected results from the review included the following:

- 849 entrepreneurs from across the region have completed HP Microenterprise Development training through the 2007 grants program.
- Eight Social Ventures Australia trainees started a social enterprise, which generated 100 jobs.

Europe, the Middle East and Africa

In 2007, we conducted about 200 education programs in Europe, the Middle East and Africa, reaching more than 50,000 students. We review the progress of the programs every six to 12 months to evaluate the impact of our donations.

Goals
Goal for 2007

- One hundred percent of education grant recipients reporting that HP products received have a positive impact on teaching and learning, as measured against goals they set for their projects **Progress:** In 2006-2007, 99 percent of K–12 recipients reported that the program had a positive impact on their instructional practice and 100 percent reported that the program had a positive impact on student learning. Teachers in 57 percent of the schools stated that their students showed improved achievement on tests relative to a comparison group of students who did not participate in the grant activities.

Goals for 2008

- One hundred percent of K–12 education grant recipients reporting that donated HP products have a positive impact on teaching and learning, as measured against project goals
- Ninety percent of higher education grant recipients report donated HP products have a positive impact on teaching and learning, as measured against project goals

About this report

This report describes HP's global citizenship policies, programs and performance in the fiscal year 2007 (which ended October 31, 2007).

Reporting is a fundamental aspect of our global citizenship activities and an important form of communication with many stakeholders. The process of producing the report, the report itself and feedback from readers all help to increase awareness of global citizenship issues and promote continual improvement within HP.

We update our report based on changes to our business, emerging issues, stakeholder feedback, evolution in external standards such as the Global Reporting Initiative, plus analysis and research that include benchmarking of industry reports and assessment of cross-industry leadership reporting trends.

We want our reporting to demonstrate leadership, address stakeholder needs and anticipate trends. The format and focus may change over time to reflect this, but we plan to continue producing a detailed Global Citizenship Report and versions targeted at different audiences. We may also produce other global citizenship communications as the needs arise.

Report versions

This comprehensive web report is our primary means of communicating to stakeholders who want in-depth information about our global citizenship efforts. These stakeholders include industry analysts, socially responsible investors, nongovernmental organizations, employees and corporate responsibility specialists. It covers a broad range of global citizenship issues, led by our three priority areas: supply chain responsibility, energy efficiency and 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 have also produced a shorter, customer-focused PDF version, 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, and provides targeted regional content plus relevant links to the full report. This will be localized and translated for 23 countries and regions.

This is HP's seventh annual Global Citizenship Report. Previous reports are available from the Downloads page.

External reporting standards and commitments

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.

We are also a participant of the United Nations Global Compact, a voluntary UN initiative relating to human rights, labor, the environment and anti-corruption. HP's chairman, chief executive officer and president, Mark Hurd, references the company's support of the Global Compact in his executive letter.

Feedback on FY06 report

The consulting firm SustainAbility carried out a detailed benchmark of HP's FY06 Global Citizenship Report (GCR) and interviewed 14 external stakeholders in Asia, Europe and the United States to gather feedback. Stakeholders included companies, NGOs, government agencies, investors and industry analysts. The combined results indicate that:

- The report is well structured, and readers can easily access information.
- The combination of the web and customer reports works well.
- The report identifies and covers priorities well.
- HP's explanation of the business case for global citizenship has improved, although a summary would be useful.
- The corrective action HP took following its investigation into information leaks from its board of directors in 2006 is well described, although the issue itself could be better explained.
- The report provides good performance disclosure and interpretive commentary.
- There are extensive references to industry standards and collaboration.
- Graphics are used well.
- HP's approach to assurance has improved.

Key feedback on the FY06 GCR	Our response
Look for more opportunities to reduce length	Although we reduced word count by about 20 percent last year, we continue to seek opportunities to be more concise without losing key information or the level of detail that many of our stakeholders expect.
Provide a greater sense of executive commitment to global citizenship	We have added a description of global citizenship governance and organization at HP.
Make more explicit HP's global citizenship vision and strategy, and how they connect with the company's overall business vision and strategy	Global citizenship at HP contains a clearer and more concise description of how global citizenship contributes to our business strategy than in previous years. We have also included several examples illustrating the business case for global citizenship.

Incorporate more challenges	We aim to improve the transparency of our reporting each year. This year, we highlighted challenges in the supply chain, health, safety and wellness and privacy sections, among others. We have encouraged our Stakeholder Advisory Council to challenge our approach and performance.
Include more examples of how HP's products and services help solve societal problems	The sections on our three priorities each describe the benefits our products bring to society, such as increasing energy efficiency to help address climate change and making it easier to recycle our products. We also discuss the socio-economic benefits of our products in Economic impacts.
Make the report more palatable to mainstream investors	We have summarized the business case for global citizenship and the connection to overall business strategy on a single page.

Your feedback

HP takes stakeholder feedback seriously. We welcome it, whether it is positive or negative, and consider the feedback we receive when reviewing policy and strategy and updating our reports. We invite all readers to offer feedback on this report and on our 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) and Verité conducted verification audits of 18 suppliers in China and Thailand. See more detail.
- **Greenhouse gas (GHG) emissions** Independent auditor Bureau Veritas Certification verified our 2006 GHG emissions measurements and reporting from operations under the protocols of the World Economic Forum's Global Greenhouse Gas Registry. Bureau Veritas Certification also verified our 2006 California CO_2 emissions using the protocols from the California Climate Action Registry. We plan to repeat this verification for 2007 data. See more detail.
- **Product reuse and recycling** ERM also reviewed our reuse and recycling program, assessing our performance data collection processes. See more detail.

Those sections include further detail about the verification providers, processes and findings.

We have decided to not pursue external verification of our full 2007 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:

- **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 Management Systems. 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 2007 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, privacy and environment, health and safety may be evaluated depending on the nature of the operation being audited.