

2006 Global Citizenship Report

Vital Responsible Ethical **Global** Governance
Integrity Technology Product Innovative Reliable
Operations Speed Agility Supply Expert Privacy
Trustworthy Safety Collaborative Employee
Citizenship Diversity Engaging Customer
Relationship Accessible Social Meaningful
Profitable Public Leadership Optimistic Forward
Growth Inventive Essential **Report**



About this report

Scope

This report describes HP's global citizenship activities worldwide. It charts HP's progress in fiscal year 2005.

Reporting year

All data are for HP's fiscal year 2005 (ending October 31, 2005), unless otherwise noted.

Currency and measurement

All \$ references in this document are U.S. dollars, unless otherwise noted.

Measures used in the report are metric, except where stated. Throughout this report, "tonnes" refers to metric tonnes.

Joint ventures

Joint venture company data are excluded from this report.

GRI guidelines

Where appropriate, HP uses the Global Reporting Initiative (GRI) guidelines as a basis for reporting. The GRI index provides an easy reference of GRI items.

Previous reports

HP published its 2005 Global Citizenship Report (which covered 2004 data) in February 2005. Past global citizenship reports are available on the Downloads page.

*References to the Global Reporting Initiative (GRI) indicators. See <http://www.globalreporting.org/guidelines/2002.asp>. Some are fully reported, some partially. For a comprehensive list, see <http://www.hp.com/go/report>.

Key:

EC – economic indicator

EN – environmental

LA – labor practices

HR – human rights

SO – society

PR – product responsibility

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Introduction

HP's global citizenship priorities

Global citizenship at HP encompasses a wide range of issues, illustrated by the contents of this report. We focus on three priorities that reflect stakeholder interests and HP's unique capabilities.

- Reducing product environmental impacts
- Raising standards in HP's global supply chain
- Increasing access to information technology

Reducing product environmental impacts. HP's greatest impact on the environment is through our products. We seek to minimize that impact by designing our products with the environment in mind. We do this by reducing the amount and impact of the materials that we use, reducing the amount of energy used by our products, and designing our products to be recycled more effectively at the end of their life. More than 1 billion computers have been sold worldwide, and that number is expected to double by 2010. This poses a significant challenge and opportunity for the industry to reduce our impact on the environment. When customers no longer have a use for hardware products, HP offers several end-of-life options. HP offers product and HP print cartridge recycling services as well as hardware donation, reuse and asset recovery services. Available end-of-life services vary based on geographical region. In 2005, we made progress towards our goal of recycling 1 billion pounds of electronic products and supplies by the end of 2007, by recycling 140 million pounds, nearly 17% more than in 2004. For more information, including goals, see Product environmental impacts.

Raising standards in HP's global supply chain. In 2005, HP spent \$53 billion in its product materials, manufacturing and transportation supply chain. With the largest supply chain in the information technology industry, we have

significant opportunities to take responsibility for extending our social and environmental standards throughout our product supply chain. HP's top 500 suppliers represent 99% of the total amount that HP spends on product materials. These 500 suppliers are the focus of HP's Supply Chain Social and Environmental Responsibility (SER) Program. We facilitate sustainable improvement by encouraging suppliers to develop the capacity to manage the issues effectively themselves. In 2005, HP held three supplier capacity-building events, one in China and two in Mexico. HP's Supplier Code of Conduct provides an important foundation for our ongoing efforts to ensure compliance with our Supply Chain Social and Environmental Responsibility (SER) Policy and to build continuous improvement into manufacturing facilities throughout our industry. To monitor conformance to the Code, in 2005 we audited 54 suppliers at 85 sites in Mexico, China, Thailand, Malaysia, the Philippines, Indonesia, Korea, Czech Republic, Poland and Hungary. For more information, including performance targets, see Supply chain.

Increasing access to information technology. Fewer than 1 billion of the world's population of 6.4 billion people have access to a personal computer and the benefits associated with access to the Internet. We have learned that increasing access to information and communications technology (ICT) can help address social and economic inequality in underserved communities and developing countries. In 2005, we had e-inclusion and education projects under way in more than 40 countries across six continents, touching hundreds of communities that may have otherwise been excluded from the benefits of the information revolution. Together with key government agencies, non-governmental organizations, schools and community-based nonprofit groups, we deployed ICT solutions to assist individuals in areas including math, science and engineering education, healthcare, microfinance and microenterprise business development. For more information, including specific project accomplishments, see Social investment.

Letter from Mark Hurd

Chief Executive Officer and President

HP is committed to being a leader on matters of global citizenship. First, we will continue to do our best to protect the environment. Second, we will run our business with the utmost integrity. And third, we will work to improve the lives of the people in the communities in which we operate. In 2005, HP made some company-wide changes to improve our ability to grow and scale profitably. Keeping HP financially healthy is a fundamental prerequisite to being a valuable global citizen.

In support of protecting the environment, today HP offers recycling programs in over 40 countries. HP has recycled more than 750 million pounds of products and supplies since our recycling program began in 1987. And, the momentum for these programs is accelerating. In 2005, our overall recycling rate increased by 17 percent over 2004.

HP prides itself on conducting business with integrity. This is core to our company values, because it's not just what we do that is important, but also how we do it. We take our standards of business conduct policies seriously, and we expect all HP employees to adhere to them. Furthermore, we expect the same ethics, labor practices and operational integrity from every partner and contractor with whom we work around the world.

In the wake of some unprecedented natural disasters, HP employees showed their compassion for their fellow citizens. For example, immediately after the Asian Tsunami and Hurricane Katrina, many Hewlett-Packard employees physically traveled to provide aid; volunteered their time and expertise to get these communities back up and running; and also donated and raised money for relief. HP matched employee contributions dollar for dollar, offered paid time off for volunteering, and donated services and equipment.



As mentioned in 2005, we made some company-wide changes to improve our operations. While these changes are never easy, we have done our best to conduct them with care, integrity and respect. We streamlined HP's operating model by consolidating some core functions such as human resources, IT, and finance. We announced a reduction of our global workforce by approximately 15,300 people. We folded our commercial sales organization and responsibility for each respective customer segment, directly into the most appropriate business group. We moved accountability for regional operations closer to our customers in each geography. Our overall objective is to create a more focused company, with clearer accountability and greater financial success.

We at Hewlett-Packard are proud of our global citizenship efforts in 2005 and of our commitment to this important work. And, we will continue to expend every ounce of effort to make sure that we live up to every one of our commitments to our customers, our partners, our employees, our stockholders and the communities in which we operate.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Hurd'.

Mark Hurd
Chief Executive Officer and President

Global citizenship timeline

1939 HP founded	1959 Bill Hewlett and local community business and labor leaders create the Santa Clara County United Fund	1987 Product recycling launched internally	1994 First packaging management system created	1999 Accessibility Program Office created
1940 HP records its first charitable donation: \$5 to local charities	1961 HP Core Values established	1991 HP Planet Partners LaserJet print cartridge return and recycling program started	Telecommuting policies are formalized, making HP one of the first companies worldwide to encourage telecommuting	Better Business Bureau Online's Privacy Seal Program initiated, with HP as a founding sponsor
1955 Matching gift program started for cash donations by employees to four-year colleges and universities. HP matched employee amount up to \$2,000 per year, per school	1976 HP starts company-sponsored vanpool program	First environmental report published	1995 Employee Privacy Policy updated	2000 Accessibility Policy published
1957 Citizenship objective established by William Hewlett and David Packard	1979 Launch of HP Standards of Business Conduct	1992 Launch of Design for Environment program	1997 HP Planet Partners inkjet print cartridge return and recycling program launched	e-inclusion program launched
	The Hewlett-Packard Company Foundation is founded	1993 Domestic partner benefits introduced	1998 First online privacy statement published	First Digital Village founded in East Palo Alto, CA
				2001 HP self-certified to EU Safe Harbor Privacy Principles



HP profile

HP is a leading technology solutions provider to consumers, businesses and institutions worldwide. Millions of people around the world use HP technology every day. In 2005, consumers used HP technologies to save and share 140 billion digital images. HP software identifies more than 100 million cell phone subscribers when they turn on their phones and allows them to place calls. HP powers 100 of the world's stock and commodity exchanges, including the New York Stock Exchange and 14 of the world's largest trading markets.

Our offerings span information technology (IT) infrastructure, personal computing and access devices, global services, and imaging and printing. We are the world's largest consumer IT company, the largest IT company for small and medium-size businesses, and a leading enterprise IT company. We are focused on creating simpler, more valuable and trusted technology experiences that continually improve the way our customers live and work.

In a world where technology is becoming increasingly complex, we are making the necessary investments to accelerate progress in a simple, manageable way for our customers. HP is changing the way people take photographs, how governments serve and protect citizens, how large organizations keep teams of dispersed employees connected and productive, and how disadvantaged communities pursue economic development.

Corporate summary

Chief Executive Officer and President:
Mark Hurd

Employees:
Approximately 150,000¹

Ownership:
HP is incorporated in Delaware, United States. HP is listed on the New York Stock Exchange, NASDAQ and the Pacific Exchange with the ticker symbol HPQ. As of November 30, 2005, there were approximately 159,834 stockholders of record.

Countries of operation:
More than 170

Headquarters:
Palo Alto, California, United States

Regional Headquarters:

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

HP's core values

HP's values have shaped the company's history and will continue to define our future aspirations. Our values are central, enduring and a reminder that how we do things is as important as what we do:

- We are passionate about customers.
- We have trust and respect for individuals.
- We perform at a high level of achievement and contribution.
- We achieve our results through teamwork.
- We act with speed and agility.
- We deliver meaningful innovation.
- We conduct our business with uncompromising integrity.

Corporate objectives

HP's corporate objectives were adopted in 1957, and the inclusion of global citizenship was an innovation at the time. Together with our core values, HP's corporate objectives were written to serve as a day-to-day guide for management decisions. These objectives have remained essentially unchanged for nearly 50 years.

Our corporate objectives include:

Customer loyalty. To provide products, services and solutions of the highest quality and the greatest possible value to our customers, thereby gaining and holding their respect and loyalty.

Profit. To achieve sufficient profit to finance company growth, create value for our shareholders and provide the resources we need to achieve our other corporate objectives.

Market leadership. To grow by continually providing useful and significant products, services and solutions to markets we already serve and to expand into new areas that build on our technologies, competencies and customer interests.

Growth. To view change in the market as an opportunity to grow, and to use our profits and our ability to develop and produce innovative products, services and solutions that satisfy emerging customer needs.

¹ As of October 31, 2005.

2002

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

2003

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

2004

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

2005

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

Select HP goals:

2006

Eliminate lead, mercury, cadmium and hexavalent chromium in 100% of electronic products sold worldwide, as defined by the EU's RoHS Directive
Reduce HP's on site greenhouse gas emissions by 18% from 2005 levels
Continue to divert 87% of solid (non-hazardous) waste from landfill globally
Conduct supply chain SER audits at 90 sites
Conduct auditor training and supplier forums in India, Mexico, Eastern Europe and China

2007

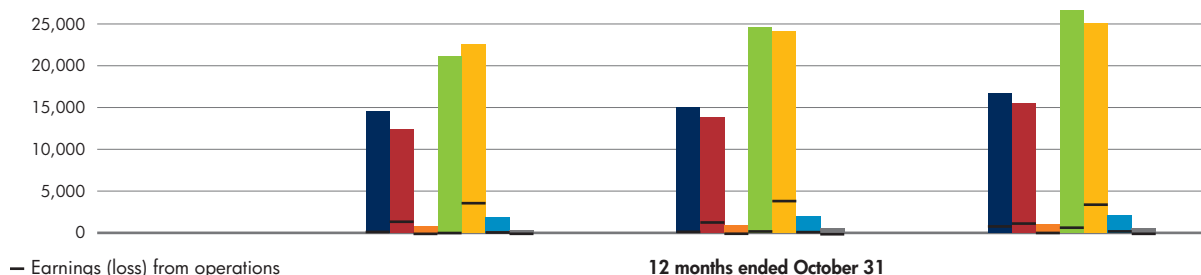
Eliminate the use of Brominated Flame Retardants (BFR) in the external case parts of all new HP brand products
Recycle 1 billion pounds of electronic products and supplies
Expand supply chain SER program to 60 indirect operations, services and logistics suppliers

Revenue and earnings (loss) from operations by segment

(As reported in the 2005 Annual Report on Form 10K) [Million \$U.S.]

Revenue overview by region

[% of total, fiscal year 2005]



	2003		2004		2005	
	Net revenue	Earnings (loss) from operations	Net revenue	Earnings (loss) from operations	Net revenue	Earnings (loss) from operations
Enterprise Storage and Servers	\$14,540	\$146	\$15,074	\$161	\$16,701	\$810
HP Services	12,402	1,369	13,848	1,282	15,536	1,151
Software	781	(206)	933	(156)	1,077	(59)
Technology Solutions Group	27,723	1,309	29,855	1,287	33,314	1,902
Personal Systems Group	21,210	18	24,622	205	26,741	657
Imaging and Printing Group	22,569	3,591	24,199	3,843	25,155	3,413
HP Financial Services	1,921	79	1,895	125	2,102	213
Corporate Investments	345	(161)	449	(179)	523	(174)
Segment total	73,768	4,836	81,020	5,281	87,835	6,011
Elimination of intersegment net revenue and other	(707)	—	(1,115)	—	(1,139)	—
Corporate and unallocated cost, non-operating income and expense and eliminations	—	(1,948)	—	(1,085)	—	(2,468)
Total HP consolidated before taxes	\$73,061	\$2,888	79,905	\$4,196	\$86,696	\$3,543



United States	35%
Americas (excluding United States)	7%
Europe/Middle East/Africa	42%
Asia Pacific	16%

Innovation awards

Global

HP's Neerja Raman was selected for Women in Technology International's Hall of Fame.

United States

HP ranked No. 3 on the U.S. Patent and Trademark Office's list of patents awarded in 2005. HP was awarded 1,797 patents in 2005.

HP Labs was named Business Leader in the 2005 Scientific American 50, Scientific American Magazine.

HP Labs was Runner-up, Wall Street Journal Global Technology Innovation Award, in the semiconductor category for molecular electronics research.

Employee commitment. To help HP employees share in the company's success that they make possible, we provide people with employment opportunities based on performance. We create with them a safe, exciting and inclusive work environment that values diversity and recognizes individual contributions.

Leadership capability. To develop leaders at every level who are accountable for achieving business results and exemplifying our values.

Global citizenship. Good citizenship is good business. We live up to our responsibility to society by being an economic, intellectual and social asset to each country and community in which we do business.

Operational structure

HP strives for industry leadership in three core technology areas:

- The Personal Systems Group brings to market HP's business and consumer PCs, mobile computing devices and workstations.
- The Imaging and Printing Group applies its expertise to inkjet, LaserJet and commercial printing, printing supplies, digital photography and entertainment.
- The Technology Solutions Group provides a portfolio of business products including storage and servers, managed services and software.

HP corporate functions include Corporate Affairs, Finance and Administration, Global Operations, Human Resources, Information Technology, Legal, Marketing, the Office of Strategy and Technology/HP Labs, and Real Estate and Workplace Services.

Research and innovation

HP has a long heritage of innovation. We engineer new technologies, solutions, business models and processes to help customers have simpler, more manageable experiences in their lives and in their work. We innovate in areas such as imaging and printing, management software, storage management, mobility and security to address emerging customer needs and deliver valuable experiences for customers. We invest in areas where we can make a meaningful contribution and create value for our customers. In 2005, we invested \$3.5 billion on research and development.

HP's Chief Strategy and Technology Officer convenes quarterly meetings of the company's senior technologists to discuss a breadth of issues ranging from patent strategy to new business creation. Two external R&D boards also advise on strategic questions. The Board of Directors' Technology Committee provides strategic guidance for technology investments and related business decisions. The Customer Technology Advisory Board, including representatives from several of HP's largest customers, provides high-level customer feedback on issues ranging from current technology to future direction.

Each year we invite our top innovators and business leaders to an internal technical conference. HP Tech Con '05 brought together 800 employees to recognize technologists' work, encourage collaboration across business organizations and geographies, and strengthen the technical community. technology staff members.

Letter from Diana Bell

Senior Vice President, Corporate Affairs and
Total Customer Experience & Quality

I am proud to present HP's Global Citizenship Report for 2005. It represents the efforts of many committed HP employees whose activities span all areas of the business in regions worldwide. As you read the report, you will note that we were able to meet or exceed many of our goals. As well, you will learn about some of the challenges and obstacles that occasionally impeded our progress. We take pride in our progress even as we acknowledge the work that lies ahead.

In our last report, we announced HP's Microenterprise Acceleration Program (MAP), designed to increase access to information and communications technology for microenterprise businesses. Since then, we have established 38 HP MAP Learning Centers in 12 countries where microenterprises can access the latest HP equipment and receive training to use technology to build business.

The HP MAP program is one example of our commitment to social investments that stimulate learning and economic growth. We also successfully completed some of our e-inclusion programs and, in some cases, transitioned them to local communities. South African President Thabo Mbeki recognized HP's e-inclusion program in Mogalakwena for leading the country in ICT development.

Environmental issues are increasingly important to our employees, customers and stakeholders. In 2005, HP helped establish an industry-wide certification program to raise the environmental knowledge of packaging professionals. We also minimized the amount and cost of materials used for HP products, reducing packaging materials by 20 percent per unit for one PC category and decreasing the energy required to ship each unit by 40 percent.

In this report, case studies detail how HP's spirit of innovation is making energy efficiency an easier goal for our commercial customers. HP Labs have created Smart Cooling for data centers, which automatically directs cooling precisely where and when it is needed as temperatures change. Smart Cooling not only dramatically reduces energy use, but also saves enterprise users millions of dollars annually. This report also highlights HP's Halo



Conferencing Technology which makes remote meetings more productive while saving time, money and energy otherwise dedicated to business travel.

While these new technologies demonstrate our commitment to the environment, we did not deliver on all of the goals that were set. For example, we were unable to use as much recycled material in new products as targeted because of difficulties with the supply of these materials. And, we did not meet our goal to decrease PFC emissions by 10%, largely due to production increases. In both cases, HP is committed to improvements in 2006.

Each element of HP's global citizenship deserves unique attention, as the scope of the issues covered in this report makes clear. In the coming years, we will pursue improvement in all areas with a special focus on three priorities: to reduce the environmental impact of our products, raise standards in our global supply chain and increase access to information technology.

In order to increase the effectiveness of our Global Citizenship Report, we need your feedback. Please let us know what you think about HP's programs, policies and performance by completing our Global Citizenship Report survey online.

I look forward to reporting HP's progress and continuing this dialogue next year.

Sincerely,

A handwritten signature in dark ink that reads "Diana Bell".

Diana Bell
Senior Vice President
Corporate Affairs and Total Customer Experience & Quality



Global citizenship

For more than 66 years, HP has combined ingenuity and engineering prowess to help people worldwide apply technology in meaningful ways to their businesses, personal lives and communities. We apply new thinking and ideas to make technology simple and manageable to help people do what they want to do.

Contribution is as fundamental to HP as the technology we've based the company on. We lead collaboration across the industry and with governments and non-governmental organizations (NGOs) to address important world issues such as economic development, environmental sustainability and labor and human rights.

HP strives to be an economic, intellectual and social asset to each country and community in which we do business. We believe the highest standards of honesty and integrity are critical to developing loyalty. The betterment of our society is not a job to be left to a few, but it is a responsibility to be shared by all.

Corporate objectives

- Customer loyalty
- Profit
- Market leadership
- Growth
- Employee commitment
- Leadership capability
- Global citizenship

Good citizenship is good business.

We live up to our responsibility to society by being an economic, intellectual and social asset to each country and community in which we do business.

A corporate objective

As we pursue customer loyalty, profit, market leadership and growth, we are focused equally on dedication to our people, our standards and values, and the reach and depth of our commitment to global citizenship.

HP delivers on our commitment to global citizenship by:

- Conducting business with uncompromising integrity
- Engaging with a variety of external stakeholders

- Providing resources to improve access to technology and educational opportunities
- Developing products and services that are environmentally sustainable
- Protecting the privacy of our customers, partners and employees

HP's goal is to connect our corporate commitment to global citizenship with the day-to-day conduct of the HP business. To accomplish this, we have chosen to align our global citizenship strategy and priorities with our business strategy to maximize the impact of our investments.

We have identified three strategic focus areas for HP's global citizenship agenda, based on the importance to our business, the technology industry and society – environmental sustainability, privacy and social investment. Each focus area has specific objectives and programs that teams across HP execute every day to ensure compliance and market access for products, meet customer demands and expand access to information technology.

In addition, we establish priorities (see HP's global citizenship priorities) based on stakeholder concern, strategic importance to HP's business and our ability to have an impact. This raises visibility of the issues internally and externally and heightens focus across the company. We reevaluate these priorities yearly to assess progress. As new issues emerge or current priorities are effectively addressed, we may decide to shift our focus. Our current priorities are reducing the environmental impact of our products, raising social and environmental standards in our global supply chain, and increasing access to information technology.

Strategy and planning

HP's yearly strategic business planning involves assessing customer needs and trends, benchmarking our performance against other companies and realigning priorities and resources, as appropriate. We apply this same rigor to developing our global citizenship strategic plan. We present this plan to HP's Executive Council as part of the company's overall business planning and review process, and relevant aspects of the global citizenship strategy are then presented as part of the business plans for the business groups and functions.

The Corporate Affairs organization, business units and corporate functions work together to create strategic business plans based on our global citizenship strategy and priorities. Representatives from the business organizations and key corporate functions implement aspects of each plan.

Global citizenship issues management (Arrows indicate flow of information)



Awards

Canada

HP ranked number one in the technology industry as a world leader in corporate social responsibility by 'Report on Business Magazine' in both 2004 and 2005.

HP included in the 'Global 100 Most Sustainable Corporations in the World' by Corporate Knights Inc.

Mexico

HP received the CEMEPI (The Mexican Center for Philanthropy's 'Socially Responsible Company' award) for 5th consecutive year.

HP received its third consecutive Best Practices in Social Responsibility from AliaRSE (Alliance for Social Responsibility in Business).

Issues management

HP has programs and policies across our business system (see Global citizenship policies page in online version) to address global citizenship issues, as the graphic illustrates.

The Corporate Affairs organization provides company-wide leadership on global citizenship issues management. Governance structures link the business organizations with the Corporate Affairs team and are essential to executing the strategy on a day-to-day basis, monitoring current trends and key stakeholders' perspectives and raising issues to the next level of executive management when needed.

For example, our Environmental Strategies and Sustainability Council is comprised of representatives from each business unit, each geography and relevant corporate functions such as supply chain and operations. The Council applies customer research regarding environmental attributes into new product planning, considers marketing techniques related to environmental performance and works with employees in HP Labs to understand future technologies and how they can be made more environmentally sustainable.

Similar councils or teams exist for privacy, ethics, and social and environmental responsibility in HP's supply chain. These councils and teams establish goals, ensure integration of the strategy into the business and measure our progress.

Global citizenship challenges

HP faces various challenges in implementing global citizenship policies and programs, including the following:

- **Performance measurement.** Global citizenship performance can be difficult to measure, due to lack of

standards in many areas, the inherently qualitative nature of some issues and lack of established channels within the company to collect data.

- **Demonstrating business value.** HP takes business value into account when determining which global citizenship issues to address. However, it can be difficult to assess the impact of global citizenship on factors such as revenue or risk, since multiple factors are usually involved and the timeframe may be long-term.
- **Emerging legislation.** Many countries worldwide are passing legislation related to global citizenship issues. Examples include product recycling, privacy and product and information accessibility. Tracking these complex and potentially conflicting regulations is time-intensive.

Measurement and reporting

Measuring and communicating global citizenship performance is fundamental to continuous improvement and transparency. This report contains extensive metrics across HP's global citizenship program areas (see summary data table), and more than 60 performance goals (see summary list) that chart our future direction.

HP's Global Citizenship Report is our primary means to communicate our nonfinancial policies, programs and performance to stakeholders. Our comprehensive web and downloadable PDF versions include a wide range of issues of importance to HP and its stakeholders. Our printed Abridged Global Citizenship Report focuses on our "priority" issues. Each year, we re-assess the issues we report upon and consider additional issues for inclusion.

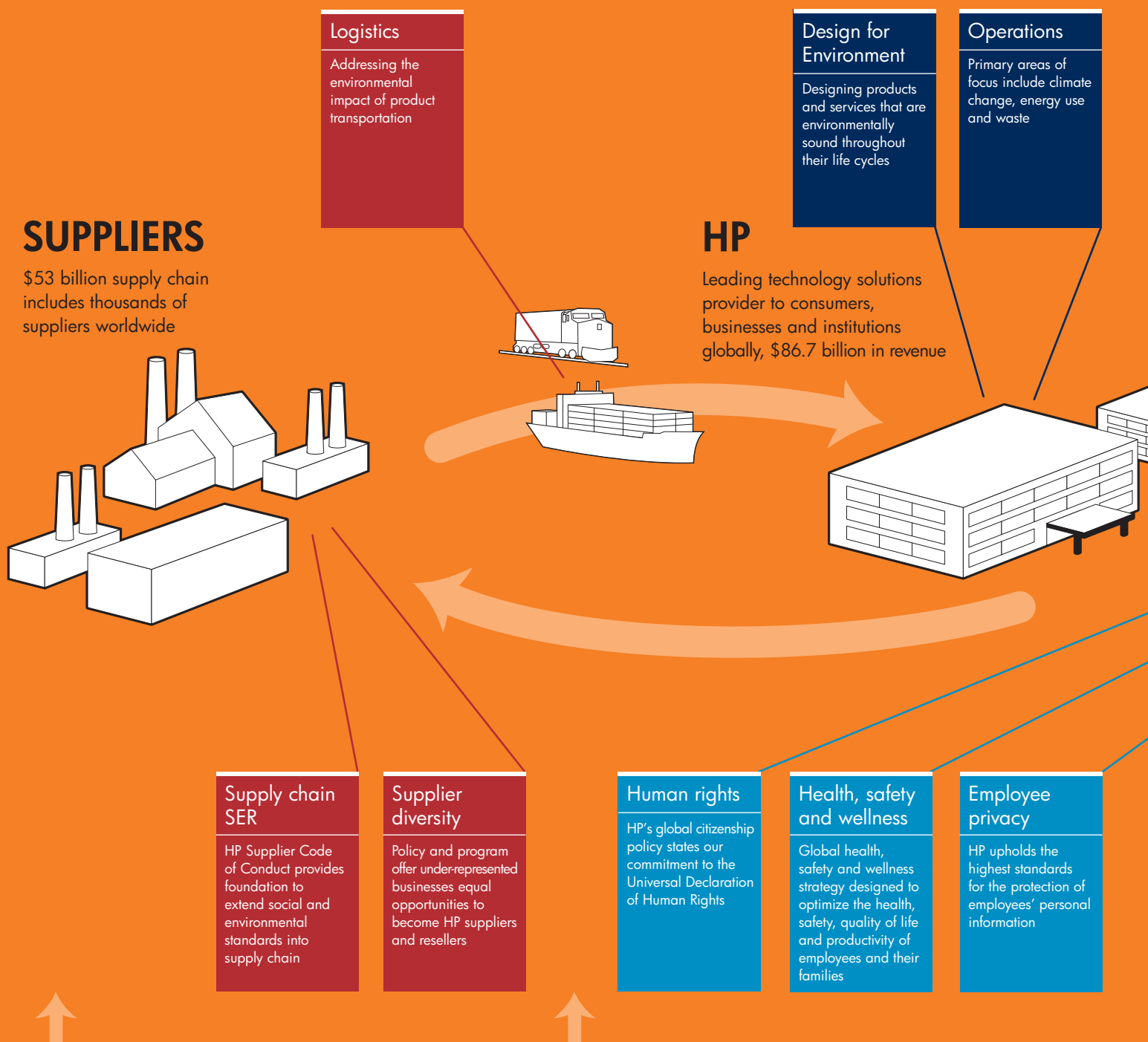
Creating this report is a cross-company effort that involves more than 100 people globally for content collection and review.

HP refers to Global Reporting Initiative (GRI) Sustainability Report Guidelines in its Global Citizenship Report (see the full GRI index online). We believe these guidelines play a helpful role in assisting companies to select report contents and increase report comparability. HP serves as a GRI Organizational Stakeholder, has participated in GRI working groups and hosted a GRI "G3" Guidelines preview meeting in California in February 2006.

Additionally, we use the London Stock Exchange – Corporate Reporting Exchange service that provides our social, environmental and ethical performance to the SRI benchmarking and investment communities.

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.



SOCIETY

Society provides the backdrop for our business and global citizenship activities

Public policy

HP strives to shape a broad array of policies that impact the digital economy and support competitiveness, global citizenship and innovation

Social investment

HP invested \$45.3 million across more than 40 countries in 2005 to increase access to information technology and promote education

Stakeholder engagement

HP engages with customers, employees, NGOs and other stakeholder groups to understand the issues we face

Packaging

Packaging engineers strive to minimize the environmental impacts of packaging cost-effectively

Customer privacy

HP upholds the highest standards for the protection of customers' personal information

Accessibility

We strive to make products and information accessible, including to people with disabilities or the elderly

Customers and global citizenship

HP conducts research and analysis to better understand customer views on global citizenship

CUSTOMERS

Millions of people around the world use HP technology every day

EMPLOYEES

150,000 employees at more than 940 sites in over 170 countries worldwide

Employees in the community

Employees worldwide contribute time, expertise, and products and money (more than \$16.6 million in 2005 with HP matching resources) to support local communities

Diversity

Policies and programs integrate diversity into the fabric of HP

Labor practices

HP strives to attract and retain the best talent and to help employees fulfill their potential

Product reuse and recycling

HP offers a wide range of responsible reuse and recycling options to customers worldwide



Economic value

A company's economic impact extends beyond the transactions reflected in conventional financial statements. For example, we not only employ approximately 150,000 people directly, but we also help to create jobs in other companies through our purchasing, provide income for investors, enable customers to increase productivity through the use of our products and support communities through taxes and social investment.

HP's financial statements are available at www.hp.com/hpinfo/investor/financials/quarters/. Although rules for recording financial data 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. Our economic impacts can be categorized according to the affected groups (see Economic value summary table).

Our most immediate economic impacts are through the salaries and benefits paid to employees and the money paid to suppliers. Our impact is also felt through the benefits our products and services bring to customers, which increases their productivity. Communities benefit directly from our social investment and indirectly through spending by our employees and our suppliers. We also pay taxes to local, state and national governments, as do our employees, suppliers and customers.

Employees

Wages and benefits to employees represent a significant proportion of HP's overall expenses. We also invest in training, which increases employees' skills and competencies. Our employees' private spending generates economic activity and supports employment in a wide range of sectors. Economists call this the "multiplier effect." A study by the Sacramento Regional Research Institute found that 2.3 jobs were created in the local economy for every employee recruited by HP.

In 2005, HP announced a program to reduce its global workforce by 15,300 employees, or about 10 percent of regular full-time staff, over an 18-month period. The program was designed to simplify the company's structure, reduce costs, drive growth and improve business performance. See the Labor practices section for further details.

Suppliers

Our purchases of product materials, components and services fuel employment in our suppliers' businesses, in the businesses of those who support our suppliers, and so on throughout the supply chain. Workers in the supply chain pay taxes and support local economies when they spend their income. Suppliers also pay taxes to governments and pay dividends to their investors.

Customers

The equipment and services we sell to customers helps them to be more productive, which increases their economic contribution to society. Although extensive research has been conducted regarding the impact of information technology on productivity, this effect is difficult to quantify.

Communities

HP contributes to local communities directly through philanthropic investments, employee giving and volunteering. HP employees apply their skills and talents to help solve issues facing communities – for example, by serving on the boards of community organizations and acting as mentors. Our social investment is aimed specifically at education and increasing access to information technology. See Social investment for more details.

Government

Public services are funded through taxes. In most countries in which HP is located, we pay taxes on our income, pay-rolls and properties and on goods purchased in the course of business. Customers in many areas pay sales taxes, while suppliers, employees and the many businesses that support the employees in their daily lives pay taxes as well. These indirect taxes may exceed HP's direct tax contribution, increasing our overall economic impact significantly.

Investors

Owners of HP stock receive dividends and may benefit from growth in the value of their shares. In 2005, HP paid dividends of \$926 million and repurchased shares worth \$3.5 billion. The following charts show an analysis of the investment style of shareholders and the total shareholder return to HP investors during fiscal year 2005, compared to returns from the S&P 500 index and S&P 500 Info Tech index.

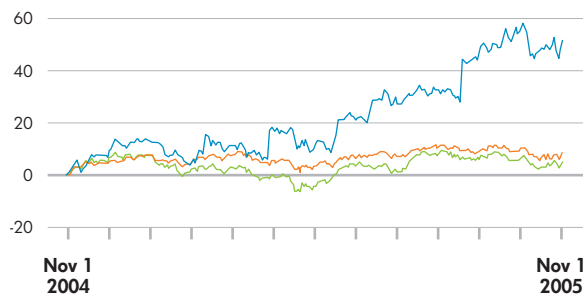
HP share ownership investment style²

[% of institutional shares, as of September 30, 2005]



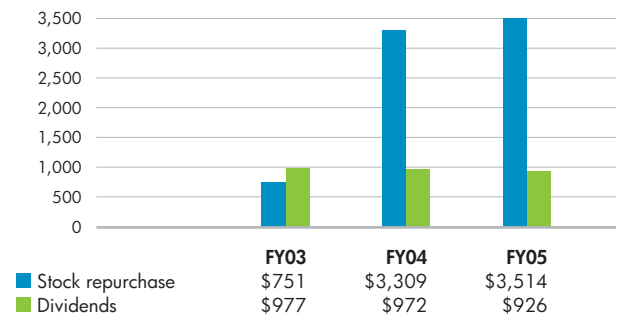
HP total shareholder return

[% change during fiscal year 2005]



HP stock repurchase and dividends, fiscal year 2003-2005³

[Million \$U.S.]



Share prices are heavily influenced in the short term by financial performance and prospects. But long-term investors also take account of less tangible aspects. Many of these “intangible assets,” as they are known, are related to global citizenship investment such as human capital and HP’s reputation; these may not be fully visible in financial statements. Intellectual property is an area that is recognized in financial statements through research and development expenses recorded on the income statement and purchased intangible assets recorded on the balance sheet.

Brand is another important intangible value driver and is influenced by global citizenship activity (see below). We also make financial investments to support HP’s brand, for

example, by spending \$1.1 billion on advertising in 2005. Interbrand, an international brand consultancy, assessed the value of HP’s brand, ranked 13th in the world, at \$18.9 billion in 2005⁴.

Securities analyst meeting

HP held its meeting with securities analysts in New York on December 13, 2005. The audio webcast was hosted by Mark Hurd, HP Chief Executive Officer and President, and included presentations by members of the HP executive team. To view presentations and access webcast replay, please see www.hp.com/hpinfo/investor/sam/index.html.

Brand value and global citizenship

Brands and brand management are strategically and financially important for all companies, including HP. Brands are frequently acknowledged for their contribution to creating differentiation, employee and customer loyalty and growth.

The impact of brands can be quantified in terms of their direct (economic) contribution to shifting customer demand, driving market value and profitable growth, attracting and retaining employees and capital. When brands are managed as strategic and financial assets, they drive demand for products and consideration for services and provide above-average share growth in strong markets and protection against market downturns.

We measure and track the value of the HP brand – and assess our performance in a competitive context as well as we link it back to our own financial results.

We have committed significant time and resources to

improve our understanding of the specific relationship brands have to financial and nonfinancial performance. In the IT industry, we know from our own work that brand is a key driver of Shareholder Value Creation, accounting for up to 40% of what drives Shareholder Value. All things being equal, a strong brand will outperform a weaker brand by as much as 40%. We have found this relationship holds true in categories outside the technology businesses, as well.

Many factors contribute to brand performance and financial performance. Factors that directly and indirectly contribute to the strength of HP’s brand include innovation, corporate reputation, community and culture and human capital. Although we cannot yet quantify the impact that global citizenship has on HP’s brand, and vice-versa, we can infer that it plays a role through factors such as corporate reputation and community and culture.

² Source: Thomson Financial.

³ \$3.4 billion remaining authorization as of October 31, 2005.

⁴ As reported in BusinessWeek, August 1, 2005.



Economic value summary table

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

	2003	2004	2005
HP			
Net revenue (see HP profile for more detail)	\$73,061	\$79,905	\$86,696
GAAP earnings from operations	\$2,896	\$4,227	\$3,473
Non-GAAP earnings from operations ⁵	\$4,540	\$5,035	\$5,582
GAAP EPS	\$0.83	\$1.15	\$0.82
Non-GAAP EPS ⁵	\$1.16	\$1.33	\$1.62
Operating cash flow	\$6,057	\$5,088	\$8,028
Net investment in property, plant and equipment	\$1,642	\$1,679	\$1,453
Research and development spending	\$3,686	\$3,563	\$3,490
Number of patents	21,000	25,000	30,000
Suppliers			
Supplier spend (approximate)	\$52,000	\$52,000	\$53,000
Supplier diversity See Supplier diversity section for detail.			
Employees			
401(k) expense	\$377	\$405	\$422
Pension and other post-retirement funding	\$1,200	\$613	\$1,760
Option grants (Millions of options granted)	71	72	64
Employees with stock options	133,000	135,000	127,000
Eligible participants in employee stock purchase plan	127,000	143,000	140,000
Participants in employee stock purchase plan	61,000	62,000	57,000
Total employee training spend	\$259	\$279	\$275
Customers			
Advertising	\$1,100	\$1,200	\$1,100
Government			
Tax provision (benefit) (U.S.)	\$(381)	\$141	\$548
Tax provision (non-U.S.)	\$692	\$703	\$579
State provision (benefit)	\$38	\$(145)	\$18
Cash taxes paid	\$464	\$609	\$884
Repatriation of foreign income (cash repatriated)	\$-	\$-	\$14,500
Communities			
Worldwide giving, total	\$62.4	\$61.6	\$45.3
Investors⁶			
Cash dividends declared per share	\$0.32	\$0.32	\$0.32
Total dividend payments	\$977	\$972	\$926
Share repurchases	\$751	\$3,309	\$3,514

Technology innovation: OurGrid

HP is contributing to the development of software that will expand access to "grid computing," combining the power of many small machines to address complex problems. OurGrid, developed by the University of Campina Grande in Brazil with funding and research contributions from HP, is software that allows anyone with an Internet-connected Linux computer to make their computer's resources available to others and to access resources from other people using the software. It can

be applied to problems that are divisible into discrete tasks running independently of each other, such as data mining or computer imaging. Members of the new grid community are already producing results in medical and scientific research. A project in Rio de Janeiro has used OurGrid to screen drugs for an HIV variant that is common in Brazil. Other scientists are using the grid to create an enhanced model for predicting drought cycles in the Sertão area of Northeast Brazil.

⁵ For use of Non-GAAP measures and reconciliation of GAAP to Non-GAAP, please see www.hp.com/hpinfo/investor/sam/supplemental_051213.pdf.

⁶ See paragraph on page 13 on HP's securities analyst meeting.



Governance and ethics



Awards

Europe

HP ranked #1 in Technology Sector by Covalence on its 2005 ethical ranking.

United States

HP ranked 7th by Business Ethics magazine on its 2005 list of 100 Best Corporate Citizens, making the top 10 list all six years of the list's publication.

A company cannot be a good global citizen without running its daily business responsibly. This involves making a commitment to good corporate governance and business ethics and putting that commitment into practice.

Corporate governance

Oversight and management

Board of Directors

Our corporate governance standards as well as our ethics and compliance programs are set at the highest level, starting with the Board of Directors.

The Board's role is to govern HP for the benefit of shareholders. It also considers other stakeholders, including employees, customers, suppliers and the communities in which we work and live.

The Board has 10 members¹, with Patricia Dunn serving as the non-executive Chairman. Mark Hurd became Chief Executive Officer and President of HP on April 1, 2005, at which time he also joined the Board. Robert P. Wayman, member of the Board since February 2005, also serves as Chief Financial Officer. The remaining seven members, in addition to our Board Chair, have no material relationship with HP under our director independence standards, which incorporate the standards established by the U.S. Securities & Exchange Commission and those of the New York Stock Exchange and NASDAQ, where HP shares are traded. The independent directors meet at least three times a year.

The Board believes that communication is critical to successful corporate governance. HP provides an online form that allows all stakeholders to communicate directly with the Board through bod@hp.com about any concern they would like directors to address. In 2005, we received more than 1,200 communications in this manner. The top three subjects concerned sales policy and warranties, technical issues and mis-set expectations.

Board committees, each led by an independent director,

are responsible for the review and oversight of company strategy and practices. Committees include: Acquisitions, Audit, Human Resources and Compensation, Nominating and Governance and Technology.

The Audit Committee is the highest-level governing authority for ethics and compliance at HP and is responsible for overseeing program implementation and effectiveness. The Committee receives a summary report on ethics case activity and trends twice a year and provides input on cases as needed.

Ethics Committee

The Ethics Committee consists of Senior and Executive Vice Presidents from Human Resources, Legal, Finance, Controllershship and Corporate Affairs. It receives monthly ethics-related case activity reports and provides summary reports directly to the Audit Committee twice a year. The Ethics Committee oversees the development and enforcement of the company's ethical guidelines, known as the Standards of Business Conduct (SBC), and reviews allegations of major violations of the SBC.

Executive Team

Our Executive Team consists of 13 members. They include Senior and Executive Vice Presidents from our business divisions and the heads of Finance, Controllershship, HP Labs, Human Resources, Investor Relations, Global Operations, IT, Legal, Global Marketing and the Office of Strategy and Technology. In addition to other responsibilities, the Executive Team is responsible for ensuring that HP's culture of ethics and compliance is encouraged across the company.

Internal Audit

The Internal Audit group provides regular reports directly to the Board Audit Committee. Its primary role is to assess risks throughout the company and to evaluate, monitor and improve the effectiveness of controls and governance processes that support corporate objectives. Internal Audit performs financial and operational reviews across the company and, where appropriate, of third parties doing business with HP. Audits are conducted in all regions where HP operates and include aspects of the SBC and ethical business practices.

¹ As of February 1, 2006.



Horizontal approach to ethics and compliance management at HP

Board of Directors (Audit Committee)

Ethics Committee

- Finance and Controllershship
- Legal (Chair)
- Corporate Affairs
- Human Resources

Global Standards of Business Conduct Group

- Internal Audit
- Legal
- Global SBC Team
- Security
- IT Security
- Human Resources
- Business Liaisons and Regional Leads
 - Technology Solution Group
 - Imaging and Printing Group
 - Personal Systems Group
 - Corporate functions
 - Americas
 - Asia Pacific
 - Europe/Middle East/Africa

HP successfully completed its first Sarbanes-Oxley 404 assessment in 2005, addressing the adequacy and effectiveness of HP's internal control over financial reporting. While primarily focusing on financial controls the assessment incorporated other related business and governance controls. Our review and assessment of the financial control environment showed that HP has a robust entity-level control framework including Standards of Business Conduct processes, lending to a positive atmosphere for the overall control environment and the other elements of the control framework within it.

Business ethics

HP has historically emphasized ethics and uncompromising integrity, keeping these integral to the way we conduct business.

We believe it is essential to promote an open culture in which employees feel free to raise concerns without fear of retaliation. This open culture is vital to ensuring that employees understand that no one acting on HP's behalf may use bribes, kickbacks or other corrupt practices in conducting HP's business – even if the practice is assumed to be culturally appropriate.

It can be difficult to achieve consistency while conducting business in over 170 countries that have diverse cultural norms, customs and local regulations. We use SBC Liaisons and Regional SBC networks (see Monitoring) to seek local input on training and provide communications to help address this challenge.

HP's ethics program has focused on a main theme each year in training and communications, such as awareness of the SBC, specific ethical practices and ethics decision-making tools. Starting in 2005, we focused on ethical leadership, emphasizing that every person at HP can be an ethical leader regardless of title or job responsibilities.

Standards of Business Conduct

Consistent with HP's longstanding values and standards, all directors, officers and employees are expected to display the highest standards of ethical behavior. Our SBC (key elements of which are shown in the box below) guide us in our actions, behaviors and decisions. The SBC is reviewed annually and updated as appropriate. The Standards apply globally and are available in more than 13 languages.

Specific policies and guidelines, including our global HR Policies, complement the SBC.

Standards of Business Conduct—key elements

Embodying HP standards. Every member of the HP community (including directors, executives, managers, employees and business partners) must adhere to the highest standards of business ethics and comply with all applicable laws.

Conducting HP business. While working for the best interests of HP, we must be ethical and lawful in our dealings with customers, partners, suppliers, competitors and fellow employees.

Serving HP customers. We must deal fairly and truthfully with our customers.

Working with channel partners. We select and manage channel partners in accordance with the law and HP channel policies.

Relating to our competitors. Our interactions with HP competitors must be fair and respect the law.

Dealing with suppliers. When buying products and services, we interact with suppliers fairly and in compliance with applicable laws and HP policies.

Avoiding conflict of interest. Employees must avoid situations in which their interests conflict with HP's.

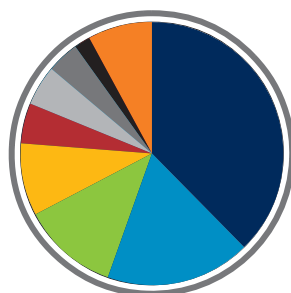
Handling sensitive information. HP safeguards its business and technical information, and that of others, and uses it exclusively for HP business purposes.

Safeguarding HP assets. We must use HP assets, tangible and intangible, only for legitimate business purposes and protect those assets from loss and unlawful, improper or unauthorized use. Safeguarding assets includes behavior regarding expense recognition, political contributions and use of assets for personal gain.

Respecting HP colleagues and the community. HP is committed to creating and maintaining a diverse and inclusive work environment based on respect for the individual and to being a leading corporate citizen everywhere we conduct business.



Items reported to the Global SBC Team, 2005²



Customer	38%
Human resources	18%
Personal benefit	12%
Conflicts of interest	9%
Confidentiality	5%
Fraud	5%
Reporting	4%
Channel	2%
Other	8%
Total number of issues	573

Implementing our standards

Training and resources

Regular ethics training is designed to ensure that our employees understand and comply with our SBC.

All employees and managers have access to interactive, web-based training and are required to take our business ethics training classes. Managers are expected to conduct regular discussions about the SBC with their teams, while we provide Vice Presidents with ethical leadership materials to use in discussions with their staffs. HP aims to provide all employees with ethics training every year. In 2005 we achieved more than 90% participation.

In 2005, we included ethics for the first time in the executive leadership program, Winning Edge, and will continue to address ethics in future leadership development programs.

We conduct employee focus groups and surveys to determine awareness of ethics resources and program effectiveness. An annual all-employee survey is used as one of a series of indicators in assessing the company's ethics and compliance performance. The most recent survey results reflect a positive commitment to the Standards of Business Conduct among teams and organizations. In 2005 we launched an ethics survey to probe deeper into potential ethical issues within the business. This survey will be repeated periodically in 2006.

These activities, and analyses of alleged ethics infractions, help to shape the direction of future ethics programs.

Reporting and seeking guidance

Employees have several mechanisms by which to raise ethical concerns. We encourage use of the Open Door Policy (see Labor practices) for employees to talk with their manager or the next level of management. Alternatively, employees can submit concerns to compliance experts or SBC Liaisons.

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

Telephone. A confidential 24-hour resource line, called The Guideline, is available globally. In the United States, contact 1-800-424-2965.

E-mail. www.hp.com/hpinfo/globalcitizenship/ethics/contactus.html

Postal mail.

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

HP's Audit Committee also has a policy and procedures for complaints about questionable accounting, internal accounting controls and auditing matters, as required by the Sarbanes-Oxley Act and other regulations. If the employee requests, the submitted issues may be addressed directly to the Board.

In 2005, 573 separate inquiry and allegation items were reported through the formal reporting mechanisms managed by the Global SBC team or escalated through other compliance reporting mechanisms that meet a certain threshold. (see pie chart). All items were reviewed and addressed. HP is committed to investigating all allegations related to SBC violations promptly and properly and ensuring that appropriate action is taken.

In 2005 we terminated, warned or demoted 81 employees as a result of escalated ethics violations.

Monitoring

The SBC Compliance Team, a cross-functional team of senior representatives from the compliance functions, oversees and monitors complaints or investigations of significant concerns on an independent and objective basis. This team focuses on measures to address any systemic issues that may arise during these investigations and ensures that remedial actions are consistently and appropriately applied across HP. Regular reports are provided to the Ethics Committee and the Audit Committee.

Standards of Business Conduct Liaisons and Regional Networks

The SBC Liaisons and Regional SBC networks consist of senior individuals in each of the business groups and regions who champion the SBC and provide another interface to employees on SBC-related issues. SBC Liaisons help identify and monitor key concerns, allegations or complaints, and key learning experiences. They engage with senior regional and business management teams to improve communication, recommend action plans, and work with compliance functions to ensure that issues are identified and addressed.

² Note: the basis for these numbers is different from that of previous years. This report includes inquiries and allegations received through the Global SBC team or escalated through other compliance reporting mechanisms that meet a certain threshold. Items raised directly to the Board (see bod@hp.com above) or to other functions such as HR, are not included here. The total is more than 100% due to rounding.



Product environmental impacts

As one of the world's largest IT companies, HP's greatest impact on the environment is through our products. HP is committed to providing products and services that are environmentally sound throughout their life cycles. This chapter describes our efforts in product design, packaging, reuse and recycling.

Environmental impacts occur at every stage of the product life cycle: from product design, through manufacturing and transport, to use by customers and, finally, disposal at the end of a product's life.

Managing these impacts is a complex challenge as well as an opportunity. We apply design expertise to create innovative products and services with reduced environmental impact. This aligns with our customers' expectations of high performance, low cost and minimum environmental impact, and provides HP a potential source of competitive advantage. For example, flat panel displays, notebooks, multi-function handhelds and all-in-one printers use less material and are more energy-efficient than the desktop PCs and individual scan, fax, copy and print devices they replace for many customers. These newer products help reduce energy consumption, CO₂ emissions and space used in transport, all of which result in lower environmental impact. HP ensures environmental design does not compromise other product requirements such as quality, reliability and price.

Design for Environment

Our Environmental, Health and Safety Policy commits us to provide products and services that are environmentally sound throughout their life cycles. It states that we will "design and manufacture our products to be safe to use and to minimize their environmental impact." We integrate environmental design practices throughout the product design stage.

To meet the objectives of our Environmental, Health and Safety Policy, HP established its Design for Environment (DfE) program in 1992, with three priorities. These priorities still apply today:

- Energy efficiency – reduce the energy needed to manufacture and use products
- Materials innovation – reduce the amount of materials used in our products and develop materials that have less environmental impact and more value at end-of-life
- Design for Recyclability – design equipment that is easier to upgrade and/or recycle

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 supply chain, operations and other corporate functions. The Environmental Strategies Council establishes environmental design standards to incorporate into new products.

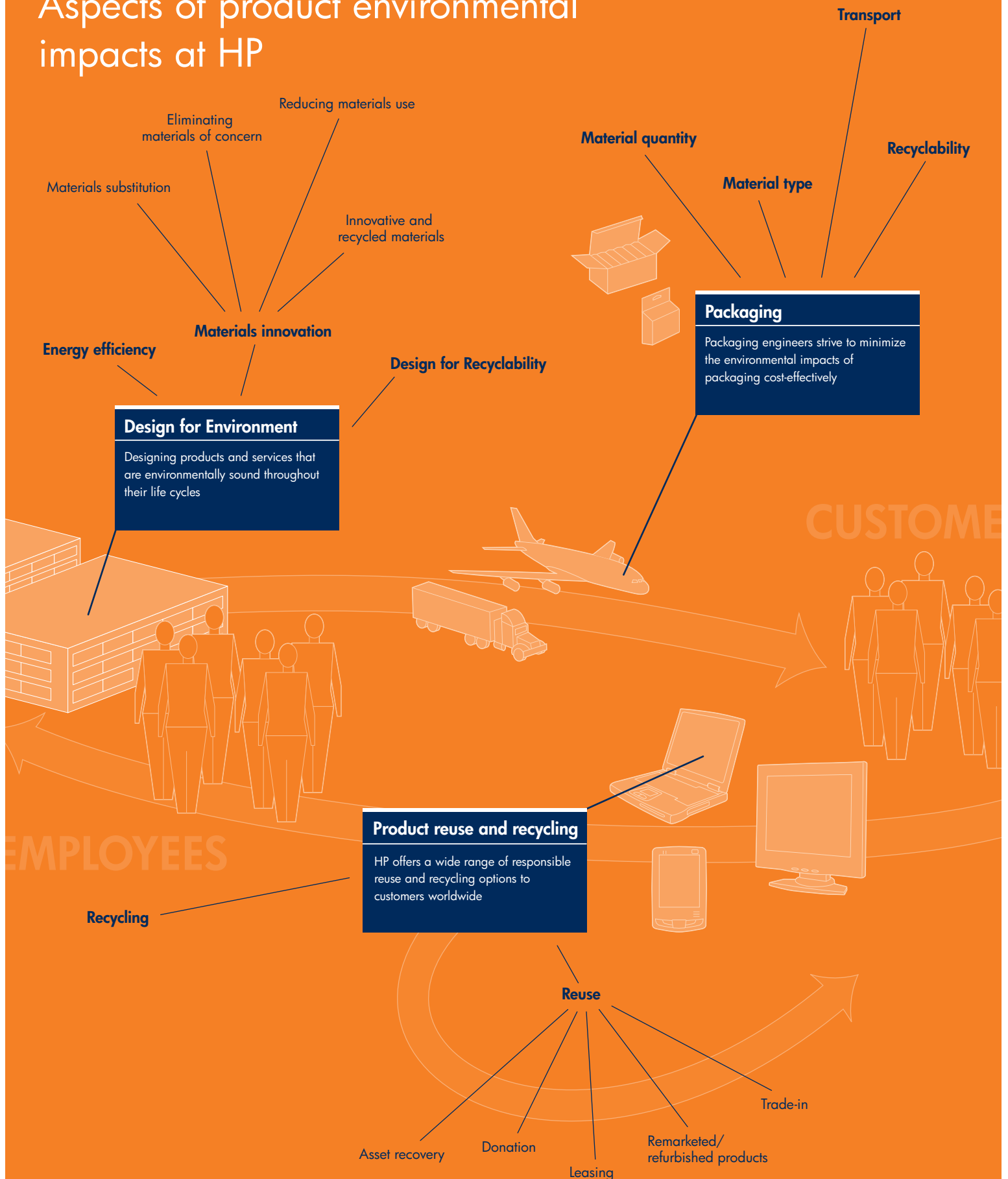
HP's DfE initiatives are incorporated into product development by a network of product stewards that are integrated into design and development teams to identify, prioritize and recommend environmental innovations. These standards address design requirements that encompass the entire product life cycle.

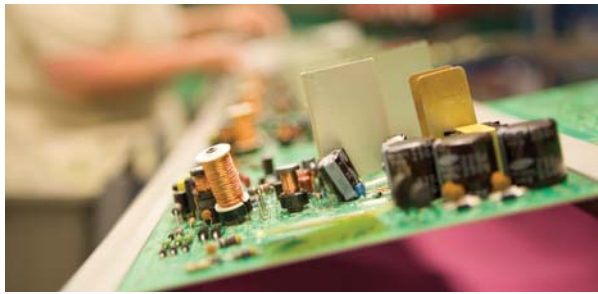
Global support teams address major initiatives that have broader implications for HP. Examples include the End-of-Life team that addresses product reuse and recycling (see Product reuse and recycling) and the Restricted Materials team that focuses on requirements for reducing or eliminating restricted materials from HP products (see Materials innovation).

Product environmental information tracking

Tracking and analyzing environmental performance across HP's product portfolio presents a complex challenge. To address this, HP introduced a Product Environmental Tracking (PET) database in 2005 which can store product

Aspects of product environmental impacts at HP





environmental data. PET helps us respond to customer inquiries, manage product reporting requirements and track product environmental characteristics.

PET can accommodate changing environmental reporting requirements by recording product attributes such as material and energy use. The tool can then generate reports either tailored to specific inquiries or designed for ongoing needs, such as for eco-labels and declarations including the IT-ECO Declaration, Blue Angel, ENERGY STAR® and the Taiwan Green Mark (see Customer requirements, below).

Customer requirements

Environmental criteria are increasingly important to consumers, businesses and public sector customers. Product characteristics such as reliability and quality are the primary customer requirements, but many customers also want to know that equipment can easily be recycled and does not contain materials with adverse environmental or health impacts (see Customers section).

Businesses and public sector organizations increasingly include environmental criteria in their formal purchasing processes, especially in Europe and Asia Pacific. Every year HP responds to several billion dollars worth of sales opportunities that include requests for detailed environmental information beyond what is routinely covered in our product information. Recycling was the area most frequently requested in 2005, but these inquiries also often referred to eco-labels and other environmental aspects.

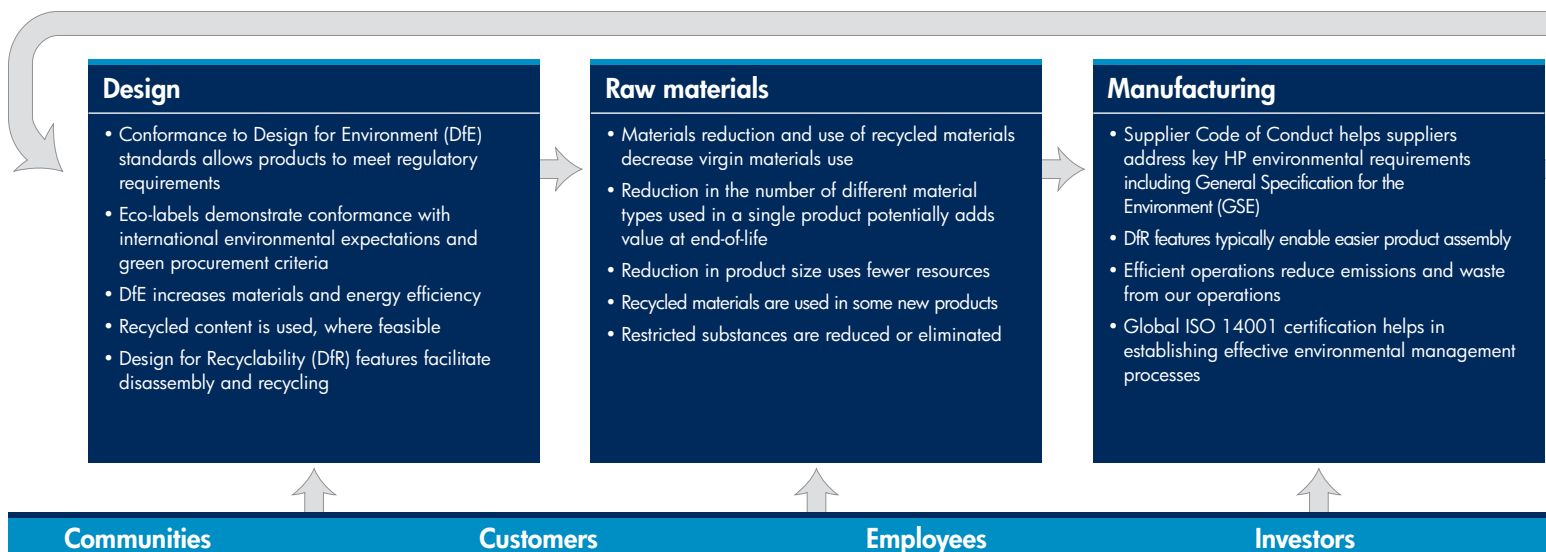
Eco-labels help customers choose products that meet or exceed certain environmental criteria. HP certifies products to selected eco-labels that span multiple jurisdictions and supports voluntary, consensus-based, harmonized international standards that meet customer expectations. Eco-labels are intended to facilitate customer choice, promote competition and encourage innovation. We believe that new standards should complement existing standards, be recognized broadly and be self-certifying. Many HP products carry one or more of the following eco-labels:

Blue Angel. A German eco-label based on product design, energy consumption, chemical emissions, acoustics, recyclability and take-back programs. More than 20 product families of HP printing systems and two HP PC product families are currently qualified to the Blue Angel eco-label.

Canada Environmental Choice. LaserJet printers, multifunction devices and copiers qualifying for the Environmental Choice Program must be energy efficient, not use CFCs in their manufacturing processes, and have low air emissions for dust and ozone during operation. More than 90 HP products are qualified.

China Energy Conservation Program (CECP). This voluntary energy efficiency program aims to stimulate production of more resource-efficient products. In 2005, a total of 48 HP products, including the majority of our business PC products, were certified under CECP.

Reducing environmental impacts and engaging with stakeholders across the product life cycle



Awards

United States

analogZONE 2004 - Best Green Computing Product (awarded to HP Deskjet 6540 printer and HP Deskjet 3740 color inkjet printer).

ENERGY STAR. A voluntary energy efficiency program sponsored by the U.S. Environmental Protection Agency (EPA) and adopted by Australia, the European Union, Japan and Korea. Approximately 1,000 HP products are ENERGY STAR qualified.

IT Eco Declaration. A voluntary Nordic-based declaration that incorporates environmentally conscious design, energy efficiency, material use, emissions, ergonomics and packaging. IT Eco Declarations are available for almost 700 HP products.

PC Green Label. This Japanese eco-label was established by the Japan Electronics and Information Technology Industries Association (JEITA) to identify products that incorporate environmentally conscious product design, manufacturing and end-of-life disposal. HP currently offers more than 600 products qualified by the PC Green Label.

Taiwan Green Mark. A Taiwanese eco-label to promote recycling, pollution reduction and resource conservation. HP was the first foreign IT company to receive the Green Mark certificate and approximately 90 HP products now qualify for this label.

TCO. A Swedish eco-label for visual displays with criteria on electromagnetic fields, visual ergonomics, energy consumption, recyclability and take-back programs. More than 20 HP commercial displays are certified for this eco-label.

Erin Gately, Environmental Product Steward

Erin Gately is one of dozens of HP environmental product stewards who work to improve product environmental characteristics. Her focus is building environmental design into Deskjet printers. This involves helping to design energy efficient and easily recyclable products and monitoring emerging regulations and eco-labels such as Blue Angel and ENERGY STAR.

The Deskjet 6540 illustrates how DfE raises environmental standards in HP products. Erin worked with designers and the marketing team to ensure this printer would meet the requirements of the German Blue Angel eco-label as well as the European Union WEEE Directive. The initial product specification included painted plastic, which is difficult to recycle. "People were coming at it from different directions," Erin explained. "I was saying: 'We need to make changes to have a Blue Angel product.' The designers were saying: 'We can do something different that looks cool.'" The team used a metal case instead of plastic, and the DJ6540 won awards for industrial as well as environmental design. Even more important, it also won accolades for being a great printer.

Energy efficiency is an emerging challenge, with the prospect of the European Union's upcoming Energy-using Products (EuP) rules and the revisions to ENERGY STAR requirements. "The Deskjet team will have two products that will meet the upcoming revised ENERGY STAR requirements, but it has been very challenging", Erin said. "It has meant changes to the electronics. But we got a group of all the electronics people together to take a systemic view, and that has helped us to meet the new requirements."

Distribution

- Smaller, lighter products decrease CO₂ 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 participation in Clean Cargo and Green Freight Groups promotes industry-wide reduction in environmental impact

Use

- Efficient product design, longer battery life and enhanced power management decrease energy consumption
- 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

Legislators/regulators

Non-governmental organizations

Suppliers

Media



Energy efficiency

As part of our focus on reducing environmental impacts throughout the product life cycle, HP develops products that use energy efficiently, saving customers money and lowering energy consumption.

In 2005, we created a Product Energy Efficiency Team consisting of experts in customer requirements, legislation and technology from different regions and product groups. The team's ultimate goal is to increase the energy efficiency of HP products through the energy-saving technologies that HP Labs and others develop. We are fostering greater collaboration between HP Labs and the product design teams to speed the adoption of new and promising technologies. The team is also engaged with industry and governmental groups to promote and contribute to energy saving programs and to drive the development of fair and consistent global standards, measurements and practices.

HP's product energy record

HP products already achieve high energy efficiency. For example, all of our commercial displays, consumer PCs, business desktop and business notebook PCs meet ENERGY STAR requirements when configured with the Microsoft Windows® operating system. In addition, virtually all of our imaging and printing products meet ENERGY STAR requirements. Almost all of our LaserJet products require no more than 1 watt power in OFF mode. All PC and printing and imaging products with an external power supply are compliant with the EU Code of Conduct.

Blade servers

A blade server is a compact, high-density server that has its own CPU and memory but shares networking cables, switches, power and storage with other blade servers in a specially designed enclosure. The servers, the enclosure and all the components of the integrated rack work together seamlessly, increasing efficiency and reducing costs by eliminating many of the overlapping resources often required to run stacks of individual rack servers.

Case study: Smart Cooling for data centers

Data centers consume large amounts of energy and generate a lot of heat. HP Labs has found that data center cooling equipment consumes up to one watt for every watt of power used by the computer hardware¹. HP offers a portfolio of energy-saving technologies to manage power in both hardware and cooling equipment.

Smart Cooling, which is already in operation, uses computer modeling and processing demand management to optimize the layout of equipment, decrease cooling demand and control air conditioning. Dynamic Smart Cooling, which is under development, will incorporate distributed sensing and control systems to adapt the air conditioning system to changing conditions.

Smart Cooling is estimated to decrease data center energy consumption by 25%. Dynamic Smart Cooling could double that.

HP introduced a Dynamic Power Saver feature for blade servers in 2005, which further increases energy efficiency. This technology continuously monitors power consumption and places selected power supplies on standby when consumption is low, yet can instantly provide capacity when required. Blade servers operate at up to 90% efficiency compared to a maximum 75% in conventional server power supplies.

HP LaserJet products

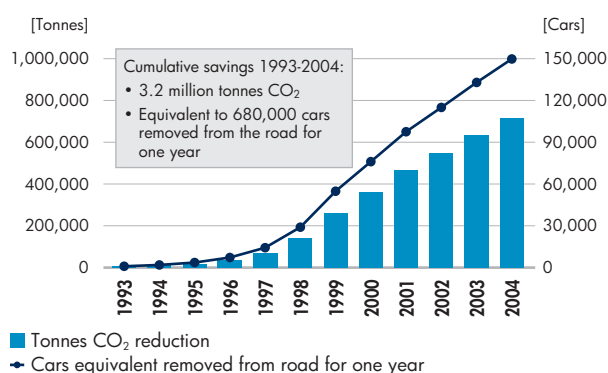
Like other toners, HP's LaserJet toner requires heat from a fuser to adhere properly to paper. HP introduced "instant on fusing" in 1993 in our consumer LaserJet products and in 1997 in our Workgroup LaserJets. This technology saves energy because the fuser heats up quickly and avoids the need to maintain power when the machine is idle. We have introduced more than 160 imaging products with this technology, and continue to improve energy efficiency even as printing speeds have increased.

¹ Cost Model for Planning, Development and Operation of a Data Center, Chandrakant Patel, et. al, HP Laboratories Technical Report, June 9 2005.



We estimate that since 1993 these increases in “instant on fusing” energy efficiency have avoided a total of 3.2 million tonnes of CO₂ emissions. This is equivalent to a year’s emissions for approximately 680,000 cars.

Monochrome LaserJet printer savings from instant on fusing, 1993-2004



Challenge: Power management features

Many HP products are sold with power management features that can save energy by automatically switching the PC or monitor into a standby, low power mode after a predetermined period of inactivity. Many customers disable these features because they misunderstand their effect, and as a result they use more energy than necessary. We support efforts through industry associations to educate customers about power management features.

We estimate that enabling power management features may save up to 381 kWh for a monitor and 294 kWh for a desktop PC per year². This means that for every 12 consumers who enable power management on their monitors and PC, CO₂ emissions equivalent to removing one average automobile from the road will be saved.

² See <http://pmdb.cadmusdev.com/powermanagement/quickCalc.html#calculatorTop>.

³ Assuming an average cost of eight cents/kWh.

Case study: Halo conferencing technology

HP has developed video conferencing technology that makes remote meetings more productive while saving time, money and energy otherwise expended on business travel.

The Halo Virtual Collaboration System (VCS) simulates a face-to-face meeting. It offers high definition video without speech delay, providing users the impression that they are looking through a window into the meeting room.

The Halo VCS, launched in December 2005 in partnership with DreamWorks, was piloted at 12 HP locations in 2005. There are now 13 studios worldwide in the company. HP’s Imaging and Printing business achieved an 8% reduction in travel in 2005 by using the Halo studios, thereby avoiding 350 tonnes of CO₂ emissions. Use of the rooms has grown by 25% in one year.



Our own experience within HP demonstrates the potential for energy savings from effective power management. HP inspected the settings of 183,000 monitors worldwide and found that almost a third were not set to take advantage of the energy saving features. They were reset to enable energy savings after 20 minutes of inactivity. Virtually no users complained and the change saved 7.8 million kWh of electricity in 2005, equal to more than \$600,000³ in energy costs and more than 4,000 tonnes of CO₂. (For more information about energy saving at HP sites, see Operations.)



Materials innovation

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

- Substituting materials when there are concerns due to their potential effects on people and the environment
- Eliminating materials of concern from our products
- Lowering product weight and size to decrease resource use and reduce environmental impacts throughout the product life cycle
- Using innovative and recycled materials to reduce product environmental impacts and to facilitate recycling

Materials substitution

Three factors influence our replacement of certain materials: customer requirements, legislation and a precautionary approach.

- Customers sometimes encourage us to replace materials in our products. An example is the flame retardant

Tetrabromobisphenol A (TBBPA). Although the World Health Organization (WHO) concluded after a full scientific assessment that TBBPA poses no significant risk to the general population and has little potential for bio-accumulation, many HP customers requested that we use alternative flame retardants. As a result, HP removed TBBPA from case plastics in a majority of our products more than ten years ago. We have a goal to remove the remaining brominated flame retardants (BFRs), including TBBPA, from external case parts in all new HP products introduced after December 31, 2006.

- Legislation such as the EU RoHS Directive (Restriction of Hazardous Substances) has also prompted us to substitute materials (see below).
- When scientific data has satisfactorily established a potential health or environmental risk from the use of a substance in our products, even if its use is permitted by legislation, we strive to replace it across all products with an alternative that meets our product quality and cost requirements and has a lower environmental impact. Thus, HP supports a precautionary approach to materials used in our products.

The European Union RoHS Directive and HP's response

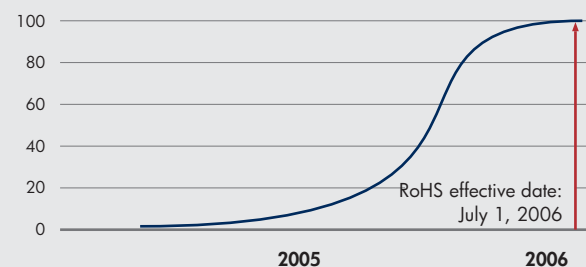
The RoHS Directive restricts the use of certain substances (lead, mercury, cadmium, hexavalent chromium and two flame retardants - PBB and PBDE) in electrical and electronic products sold in the European Union after July 1, 2006. Similar restrictions are being introduced elsewhere in the world, such as in China. HP had already restricted four of the substances prior to 1999 and is actively ensuring that all substances regulated by RoHS are restricted in every HP hardware product to comply with RoHS. One flame retardant (decaBDE) was initially restricted by RoHS, but was subsequently removed from the RoHS restrictions. HP eliminated the use of decaBDE many years ago and has no plans to reinstate its use.

Implementing materials restrictions for our products has required cooperation across the supply chain. We work with industry partners through several consortia, including iNEMI (International Electronics Manufacturing Initiative) and HDPUG (High Density Packaging User Group). We co-chaired a three-year iNEMI Lead-Free Assembly and Rework Project to develop and demonstrate alternatives to using restricted materials. HP has also been heavily involved

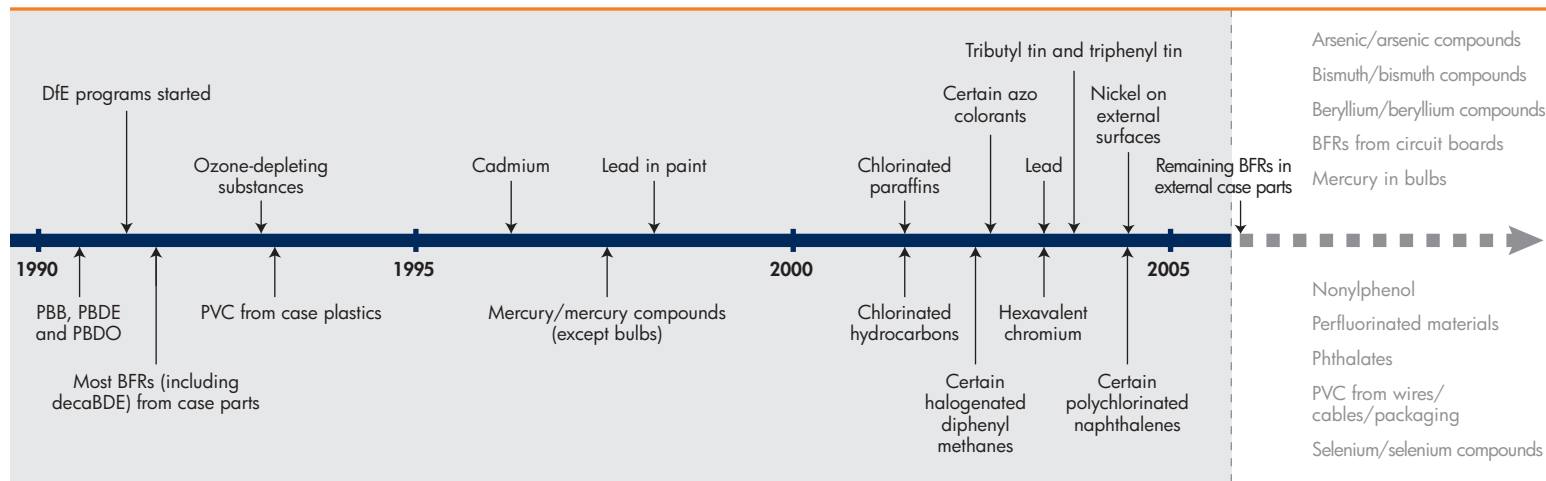
with international industry standards efforts that support the implementation of the RoHS directive through the development of part specifications, testing standards, material declaration protocols and other activities.

Our goal in 2006 is to exceed RoHS compliance obligations by meeting the requirements of the RoHS Directive worldwide. We have focused on converting families of component parts rather than single products or platforms. We shipped our first fully RoHS-compliant products in early 2005.

Estimated HP product compliance with EU RoHS legislation [%]



HP product materials restriction/substitution timeline⁴



Where alternative materials do not currently exist for specific applications, HP works with the electronics industry and our suppliers to find and introduce materials with lower environmental impact. (See below.) For example, we continue to investigate alternatives to PVC-coated wires and cables as well as replacements for TBBPA on printed-wiring boards (PWBs).

Eliminating materials of concern

We communicate materials restrictions to our design teams and suppliers through our General Specification for the Environment (GSE), which prohibits or restricts the use of certain substances in HP products and in manufacturing processes. The GSE is integrated into our product development process and into supplier contracts as part of our Supplier Code of Conduct.

HP's GSE restrictions sometimes exceed legal requirements for regulated and reportable substances (see table for history of materials elimination at HP). GSE restrictions include 'List A' (regulated) substances and several 'List B' (materials of concern) substances from the global Joint Industry Guide (JIG) Material Composition Declaration for Electronic Products, developed by industry associations in Europe, Japan and the United States. HP is working towards the capability to provide customer declarations for the materials listed in the JIG for new HP products as the required data become available from our supply chain (see Goals).

Suppliers are accountable for shipping materials, components, parts and products to HP that comply with the GSE as specified in our contracts, hardware drawings, specifications and HP's RoHS specification. We require our suppliers to provide a signed verification statement of RoHS compliance. For HP to measure and verify the stated RoHS compliance of our suppliers, we developed an "active verification" program to help manage the restriction of certain materials from our products. This process includes validation of compliance declarations through data sampling and conducting chemical analysis of components and materials on both a programmed and random basis. If we encounter an issue, we work to resolve it with

the supplier through corrective action. Our approach is based on the philosophy that HP and our suppliers must have effective control processes for both design and manufacturing as well as for compliant materials to guarantee a compliant product.

HP had no fines or penalties in 2005 related to existing substance restrictions legislation.

This timeline lists substances for which HP established materials restrictions and identifies substances that stakeholders have identified as potential materials of concern and that HP is considering for possible future materials restrictions.

Reducing material use

HP strives to use less material in products through improved product design and technological advances.

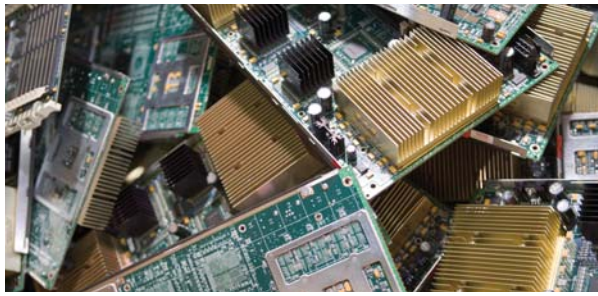
For example, as the balance of products HP sells has shifted from PCs to notebooks and from cathode ray tube (CRT) monitors to flat panel displays, material use per unit has decreased. A typical flat panel display uses little more than half the weight of materials and less than 3% the amount of lead as a conventional CRT screen, as well as requiring approximately 60% less energy in use. The weight difference between PCs and notebooks is even more dramatic – typically an 80% reduction. Combined, a notebook with an additional flat screen display represents only a third of the weight of a PC with a CRT. This smaller size saves roughly a third of the packaging weight and decreases energy consumption in transport to customers.

Innovative and recycled materials

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

HP currently uses recycled polyethylene (RPET), recovered from inkjet cartridges and drinking bottles, as a replacement for polycarbonate in the carriage cover of some scanner products. As the acceptance of this material and availability increase, we expect to find other uses for this post-consumer material.

⁴ Dates refer to when the materials restrictions were adopted by HP. Materials in gray have been identified by stakeholders as potential materials of concern. Future possible restrictions of those materials depends, in part, on the qualification of acceptable alternative materials.



Goals for 2005

Triple the use of recycled plastic (RPET) in scanner models, compared to 2004.

Progress: This goal has not been achieved – difficulty in obtaining suitable supplies has led our manufacturers to use less RPET than expected. We continue to work to identify additional qualified sources of this material for future products.

Eliminate lead, mercury, cadmium and hexavalent chromium in 50% of electronic products sold worldwide, as defined by the EU's RoHS Directive (PBB and PBDE are not used in HP products).

Progress: In 2005, we found that some RoHS compliant components were not yet available. Although we did not meet our goal for 2005, significant progress (see graph, page 24) was made in transitioning HP's product lines to RoHS compliance. Our goal for 2006 remains unchanged.

Goal for 2006

Eliminate lead, mercury, cadmium and hexavalent chromium in 100% of electronic products sold worldwide, as defined by the EU's RoHS Directive.

Goals for 2007

Eliminate the use of Brominated Flame Retardants (BFR) in the external case parts of all new HP brand products introduced after Dec. 31, 2006 (to be accomplished while still meeting stringent international fire safety standards).

Eliminate the remaining uses of BFRs and PVCs in HP brand products as acceptable alternatives are identified that will not compromise product performance and will lower product health and environmental impacts.

Goal for 2008

Provide customers, on request, with declarations for the materials listed in the Joint Industry Guide (JIG) to Material Composition Declaration for Electronic Products for all new HP products.

HP has investigated the use of bioplastics – made from polylactic acid derived from vegetables. We developed a prototype printer in 2001 that was made with a 100% bioplastic shell. This award-winning printer illustrated some of the current limitations of bioplastics, including poor heat resistance and brittleness. Addressing these limitations, such as including the use of petroleum-based additives, negates most of the environmental advantages of the plastic. We continue to monitor innovations in the bioplastics industry, aiming eventually to use these materials in HP products.

Challenge

HP faces several materials innovation challenges, including the following:

Identifying alternative materials

Over the last several years, HP has removed PVC from all products, except cables and wiring, and from almost all packaging, due to customer preferences. Acceptable alternatives are not yet available for PVC-coated cables and wiring, but we are committed to using alternative materials when they become available.

Potential alternatives to PVC for wires and cables are emerging, such as Thermoplastic rubber/elastomer (TPR/TPE) and polyethylene-derived hybrids. But these materials are not yet sufficiently developed for wide-scale use and an assessment of long-term environmental impacts and safety approval has yet to be finalized. We evaluate the total life cycle, environmental impact, and cost of any new material. PVC alternatives currently cost approximately 30% more than PVC, which may be partially offset by lower recycling costs.

Driving materials substitution throughout the supply chain

We expect our suppliers, including original material and substance providers, to manage their own supply chains to meet our environmental requirements. Communicating these requirements down the many tiers of our supply chain is challenging, especially given language and cultural differences. HP works with suppliers to ensure they understand and have the necessary environmental management processes to implement these requirements. To meet RoHS requirements, HP started working with suppliers in early 2003 and has maintained ongoing communications. For example, in July 2005, HP held a forum in China with regional suppliers to review and discuss HP's social and environmental responsibility (SER) and RoHS requirements.

Our suppliers have responded to HP's requirements by providing RoHS-compliant components, improving incoming

inspection processes and improving their supplier quality management processes. In the few cases where restricted substances have been discovered in products, suppliers have quickly determined how this occurred and have implemented process improvements to correct the problem.

For example, we found PBDE in the recycled plastic used in one component of a prototype product. HP encourages the use of recycled materials, but all materials used in our products must meet our GSE. Therefore, it may not be possible to use some sources of recycled materials.

As part of HP's RoHS management process, we have developed a materials tracking system. As we shift from managing and reporting what is not in our products (restricted materials such as those of RoHS) to managing what is in our products, materials declarations will require even more robust tracking, management and reporting systems in the supply chain.

Design for Recyclability

The appropriate disposal of used computers and other electronic equipment is an increasing global concern. HP has worked for many years to design products that are easier to recycle. We operate several recycling facilities, which allows us to determine the most effective design features to facilitate product recycling.

This experience has resulted in the development of our Design for Recycling (DfR) standards to improve the ability of products to be recycled. These design features include:

- Using modular design to allow components to be removed, upgraded or replaced
- Eliminating glues and adhesives by using, for example, snap-in features
- Marking plastic parts weighing more than 25g according to ISO 11469 international standards, to speed up materials identification during recycling
- Reducing the number and types of materials used
- Using single plastic polymers
- Using molded-in colors and finishes instead of paint, coatings or plating

HP's DfR standards integrate clear design guidelines and checklists into every product's design process to assess and improve a product's recyclability. This allows HP to develop products that are easier to recycle.

Packaging

Packaging provides essential protection during transit for millions of HP products that are transported around the world each year. As well as ensuring that products arrive in working condition, we also strive to minimize the environmental impacts of packaging in a cost-effective manner.

Material quantity and type, transport mode, and recyclability influence the environmental impact of HP packaging. Our packaging engineers address these factors by following these guidelines:

- Design to reduce packaging material use while protecting products.
- Eliminate the use of restricted materials such as lead, chromium, mercury and cadmium in packaging.
- Eliminate the use of ozone-depleting substances (ODS) in packaging materials.
- Design packaging components for ease of disassembly by the end-user.
- Maximize the use of post-consumer recycled content in packaging materials.
- Use readily recyclable packaging materials such as pulp, paper and corrugated materials.
- Reduce packaging size and weight to improve transportation fuel efficiency.

Industry standards

HP has worked with the Bren School of Environmental Science and Management at the University of California, Santa Barbara, to establish an industry-wide certification program that will raise the environmental knowledge of packaging professionals in the computer and electronics industries.

In 2005, we published a study guide for our designers and engineers. The Institute of Packaging Professionals (IoPP) has accepted this program as the basis for a certification exam, which will be available in 2006.

HP packaging design team members will become certified during 2006. Certification will also be required for packaging suppliers and makers of HP-branded products.

Packaging design and information tools

In 2005, HP developed the ROSe (Robust Orientation Size effect) calculator to help engineers develop packaging designs that minimize the amount and cost of materials used. ROSe also optimizes packaging for more efficient loading on pallets and trucks, based on product size, weight, the required protection level and the arrangement of the pack contents. For example, we reduced the quantity of packaging materials by 20% per unit for one category of PCs shipped from China, while increasing the number of PCs per pallet from 28 units to 40 units. The energy required to ship each unit fell by 40%.

Total HP packaging materials in Europe by type, 2004-2005 [Tonnes]

Material type	2004	2005
Paper	65,500	56,000
Plastic	10,664	9,250
Wood	1,310	1,000
Metal	135	97

Goals for 2006

Use molded pulp for 10 million printers, replacing 1.75 million pounds of expanded polystyrene (EPS) foam.

Switch packaging material from EPS to molded pulp for the small form factor business PC in Europe/Middle East/Africa.

Certify HP packaging design team members through the IoPP exam by October 2006.

Case study: HP Photosmart M22

Through design and material changes, we reduced the weight of packaging from 396 grams per unit for the 2003 HP Photosmart 735 to 253 grams per unit for the 2005 HP Photosmart M22 (see photos), a 36% decrease. These changes impacted both the product package and the shipping container. Packaging material costs fell by more than 50%, from \$0.69 to \$0.32 per unit.

The smaller package size allowed us to increase units per shipping pallet from 200 to 340, decreasing pallet use and CO₂ emissions from transport per unit by 41% and reducing shipping costs per unit from \$1.58 to \$1.01.



HP Photosmart 735



HP Photosmart M22

Case study: Molded pulp

HP has historically used expanded polystyrene (EPS) to protect products during distribution. Where possible, we are now moving to "molded pulp" – waste paper (usually newsprint) that has been cleaned, compressed and molded to create packaging or protective casing.

Molded pulp reuses consumer waste and is easily recyclable after use. It can also be stacked efficiently, requiring only a third of the transport space of EPS packaging when shipped from the manufacturer.

We have used molded pulp for lightweight printers since 2001 and we began using it for heavier models in 2005. We are now investigating using molded pulp for packaging in many other products, including cameras, scanners, laser printers and PCs.

We use our packaging and battery database tool to track the packaging volume for products we sell in Europe, as required by law. The table at left compares total packaging in Europe by material type for 2004 and 2005, during which time revenue in the Europe/Middle East/Africa region increased by 10%.



Product reuse and recycling

Businesses, governments, customers and the public are increasingly interested in responsible reuse and disposal of used electronics. Products that are no longer required by their original users can sometimes be reused by others. When there is no further use for the product, materials may be recycled for use in other products. Materials that are not recycled must be disposed of properly.

Product design is important, since design affects the ability to reuse or recycle products economically at end-of-life (see Design for Environment).

Many customers are concerned that product reuse and recycling are conducted in a manner that protects users' personal information, conserves resources and minimizes environmental impacts. We strive to address these concerns in our reuse and recycling options, and we apply the same standards and policies wherever we do business, ensuring responsible recycling⁵ or disposal wherever it occurs.

HP has recycled computer and printer hardware since 1987. Our end-of-life programs benefit our customers and the environment as well as our business. In addition to the millions of products that we recycle, we collect approximately 2.5 million hardware products each year that are refurbished, resold or donated.

Many countries are adopting or proposing legislation requiring responsible end-of-life product management, including the United States, Canada, Mexico, China, Taiwan, Japan, and Korea. Implementation of the European Union Waste Electrical and Electronic Equipment (WEEE) Directive began in 2005, requiring manufacturers to ensure that customers can recycle electronic products at the end of the products' useful lives. The variety of legislative approaches presents a considerable challenge. We participate in the legislative processes through our public policy activities to support laws and regulations that promote cost-effective end-of-life programs globally (see Public policy: Electronics recycling).

Take-back options for hardware

Customers are increasingly asking for a variety of options to help them manage their unwanted computer hardware. HP offers several options for customers to return hardware equipment when they no longer have a use for it.

Asset recovery. As one of the world's top IT leasing companies, HP handles the disposition of hundreds of thousands of hardware devices yearly for companies of every size. Commercial and public sector customers can either sell working equipment for a fixed price or return it to HP for auditing, testing, refurbishment and resale or for recycling, as appropriate. HP shares the proceeds with the customer. Data security is a major concern for companies disposing of their equipment, and HP has extensive experience in this area. HP ensures the secure removal of customers' data and removes identifying information such as labels and tags. The process also includes destroying any customer documentation, paperwork, CDs and floppy disks that may have been inadvertently included in the returned equipment. Any faulty drives from which data cannot be removed are sealed, inventoried, and sent to an approved HP facility for destruction. Customers receive a certificate of destruction by asset serial number.

Donation. Customers in the United States can donate working computer equipment through the HP Donate option. In partnership with the National Cristina Foundation (NCF), any manufacturer's hardware with marketable value is eligible for donation. NCF provides computer technology to people with disabilities, students at risk and people who are economically disadvantaged. We also offer customers the option to donate hardware through Computers for Schools, a nonprofit organization that provides low cost technology to schools and charities.

Leasing. HP's Leasing Program offers customers an alternative to owning and managing used equipment at the end of its useful life. Customers simply return their leased equipment to HP at the end of the lease period and HP manages safe and responsible reuse or recycling.

Remarketed/refurbished products. HP helps extend the life of computer hardware through our repair and refurbishment programs. These programs reduce environmental impacts and make IT equipment accessible to more people. Our refurbished hardware product programs enable customers who do not need the latest technology to purchase returned equipment, which may include current generation products or older products that meet customer requirements.

Refurbished products come from various sources, including customer returns and cancelled orders, products damaged during shipping, overstocks, demonstration and trial units, asset recovery, and lease returns. These products are carefully inspected, refurbished or remanufactured, re-boxed and re-sold with an HP warranty. HP offers remarketed

⁵ In this section, "recycling" refers to the processing of waste electronic devices and consumable items for recovery of materials. The return to use of complete electronic products is described as "reuse."

Product take-back metric (% of sales)

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

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

1. Hardware products returned for refurbishment and reuse tend to be two to four years old. HP calculates a

ratio of the weights of hardware products returned for refurbishment against our product sales for the yearly average of the preceding three years.

2. Hardware products from HP's recycling programs tend to be five to nine years old, with a small percentage being younger than five years and some exceeding 10 years and older. HP calculates a ratio of the weights of recycled hardware products returned against our product sales for the yearly average of the previous five through nine years.
3. Consumable items tend to be one year old or less. HP calculates a ratio of the weights of recycled consumables against our consumable sales for a representative 12-month period.
4. The recycling and hardware refurbishment ratios are combined to provide an overall comparison to our product sales.

HP's combined recycling and reuse rate for fiscal year 2005, calculated according to the above methodology, was 10.3% of sales. Due to the complexity of this calculation, our metric may not be comparable with those of other companies.

products on most product lines, including printers, personal computers, monitors and even entire data centers.

Remarketed products offer a high quality, low cost solution with an HP warranty. For some applications, the latest technology is needed. But in other cases, a business may simply need to maintain or extend a proven, stable environment. Some organizations, for example software developers and schools, may require equipment temporarily. In these situations, remarketed products may be the most cost-effective solution.

Trade-in. HP provides customers with the option of trading in used equipment from any manufacturer when they upgrade to new HP technology. Customers receive credit for the value of their old products and the used equipment is either sold on the secondary market or recycled through our environmentally responsible recycling processes. We accommodate customer needs for data removal and provide an inventory for their asset management reporting. Program details vary by country and region. See the website identified below for information on the programs in various countries.

We also partner with eBay on the Rethink Initiative, which provides information, tools and solutions for selling, donating, or recycling used computers and electronics.

Find information on all product return options at: <http://www.hp.com/go/reuse-recycle/>.

Why HP exclusively sells original print cartridges

HP produces print cartridges intended for single-use. Our R&D teams have determined that due to the highly technical and sensitive nature of cartridge parts, remanufactured cartridges do not deliver the quality and reliability customers expect from HP products.

Testing conducted by QualityLogic, one of the world's largest independent quality assurance organizations, has demonstrated the benefit of HP products compared to remanufactured cartridges across an array of factors such as premature failure, consistent page yields and print quality.

HP considers environmental factors as well as product performance. A life cycle assessment performed by First Environment, an independent environmental management services provider, determined that an original HP LaserJet print cartridge recycled through HP Planet Partners has no greater total environmental impact than a remanufactured cartridge.

HP supports the rights of third-party remanufacturers to compete in the marketplace. We recognize that they occupy a distinct market niche and we do not design print cartridges to prevent remanufacturing. We believe, however, that all remanufacturers should take responsibility for end-of-life management of the cartridges they collect.



Recycling

HP has been recycling since 1987. Today, recycling services are available in more than 40 countries, regions and territories.

In 2005, HP collected and recycled more than 140 million pounds (approximately 64,000 tonnes) of used products. This brings the cumulative total since 1987 to more than 750 million pounds (340,000 tonnes), which brings us closer to our goal to recycle a billion pounds (450,000 tonnes) by 2007.

Global recycling standards

HP's global recycling standards and policies require recycling vendors to respect high environmental and employment standards. Vendors are also expected to conform to our Supplier Code of Conduct.

Our recycling standards and policies require our vendors to reuse, recover or recycle materials and components to the extent practicable. Materials that cannot be recycled are recovered for energy when possible or incinerated to minimize materials sent to landfill. We require vendors to store, handle and process materials in ways that prevent releases to the environment and we prohibit the export of materials without our approval. HP conducts regular site visits and assessments of our vendors. See our Hardware Recycling Standards and Printing Supplies Recycling Policy in the report online.

Vendor assessment

We assess vendors to verify that they recycle products in an environmentally acceptable manner.

We require recycling vendors to follow environmental, health, safety, social responsibility and business conduct standards, as identified in our Hardware Recycling standards, the Electronic Industry Code of Conduct and the HP Printing Supplies Recycling Policy.

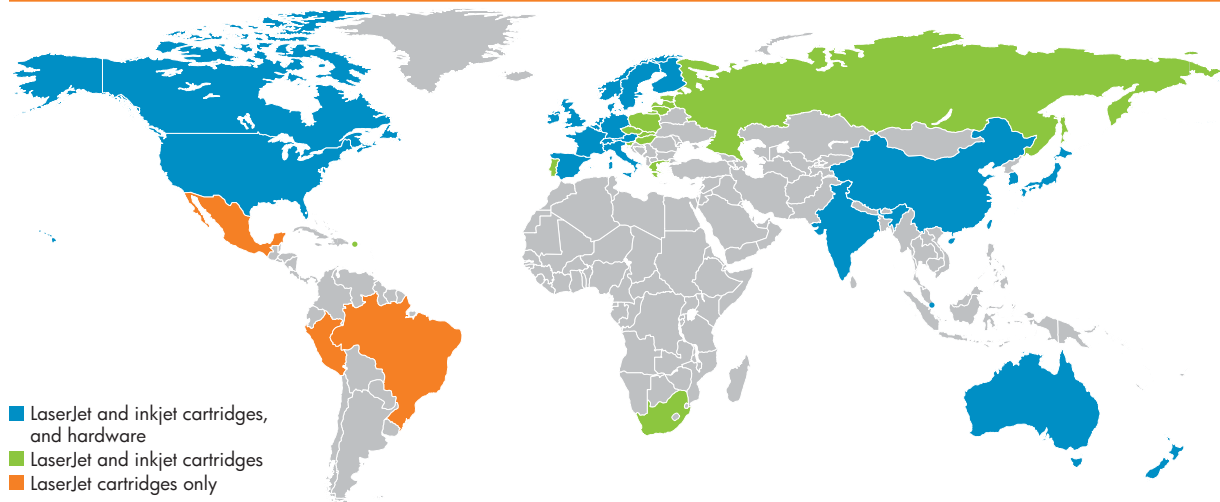
We conduct supplier site inspections, including interviews with management and employees, and review:

- Records and program documentation
- Shipping documents and identification of the next vendors downstream
- Management programs, goals and governance processes
- Regulatory inspections, notifications and notices
- Site security and protection of HP and customer assets
- Site environmental, health and safety programs

Hardware recycling

In 2005, we recycled approximately 32,000 tonnes (70 million pounds) of hardware in Europe, 1,700 tonnes (nearly four million pounds) in Asia and 18,000 tonnes (40 million pounds) in the Americas.

Availability of HP return and recycling programs⁶



⁶ As of January 31, 2006.

Print cartridge recycling

HP's Planet Partners program offers free return and recycling programs for HP LaserJet and inkjet print cartridges, covering 87% and 80% respectively of the worldwide market for those products. Customers can easily return used HP print cartridges for recycling by following instructions in the packaging, on our website – www.hp.com/recycle – or by phone. They can use a range of methods to return cartridges, including our postage-paid envelopes, labels and bulk collection boxes. The map shows where these services are available.

In 2005, more than 11,500 tonnes (25.5 million pounds) of HP LaserJet and inkjet print cartridges were returned and recycled through Planet Partners. More than 112 million HP LaserJet and inkjet cartridges have been returned since the program began, representing more than 103,900 tonnes (229 million pounds).

Planet Partners cartridge recycling statistics [Worldwide]

	LaserJet	Inkjet
% of market covered by Planet Partners	87%	80%
Tonnes returned and recycled in 2005	11,130	442
Tonnes of plastic recovered in 2005	3,326	250
Number of cartridges recycled since program inception	92 million	20 million

WEEE and the European Recycling Platform

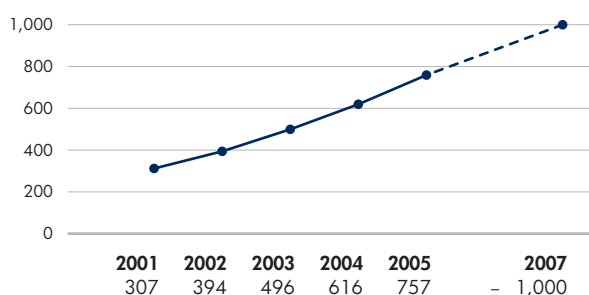
The European Union's Directive for Waste Electrical and Electronic Equipment (WEEE) is currently being introduced into national law. Anticipating the need for a competitive, effective, pan-European recycling market, HP established the European Recycling Platform (ERP) with Braun, Electrolux and Sony in 2004. The ERP sets standards and contract conditions and conducts audits to ensure conditions are applied.

By the end of 2005, ERP had more than 40 members across Europe and had been approved by several countries as a 'collective compliance scheme.' Its contractors were already operating a take-back service in two countries (Ireland and Austria). ERP is currently expanding services to more countries across the EU (France, Germany, Italy, Poland, Portugal, Spain and the UK) as these countries implement the WEEE Directive.

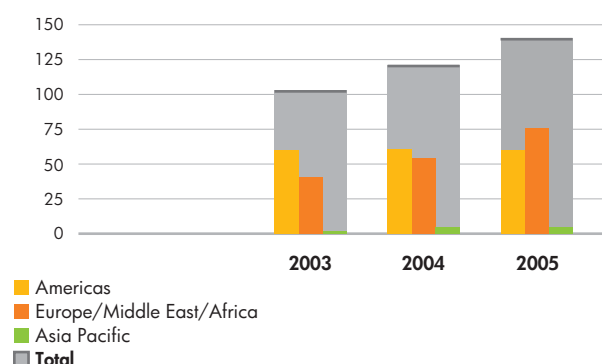
Case study: HP Australia partners with local and state government in a consumer hardware recycling program

In July 2005, HP Australia launched a free computer recycling pilot in the state of Victoria. The project, known as Byteback, was officially opened by the Minister for Environment, John Thwaites. It aims to divert end-of-life computer equipment from landfills to environmentally responsible recycling. All metal, plastic and components are recovered and recycled, and any components requiring special treatment are handled appropriately. In the first four months, Byteback collected 78 tonnes of computer equipment for recycling. Mr. Thwaites commended HP for its leadership: "Hewlett-Packard has shown other manufacturers of computer equipment that they can take action to provide cost-effective avenues for responsible disposal for the benefit of the public and the environment."

Total cumulative recycling [Million pounds]



Total recycling – computer and hardware and supplies combined⁷ [Million pounds]



⁷ Hardware recycling data from Europe/Middle East/Africa and HP LaserJet recycling data are calendar year. The remaining data is based on the HP fiscal year.



Goal for 2007

Recycle 1 billion pounds of electronic products and supplies by 2007.
Progress: To date, HP has recycled more than 750 million pounds since 1987.

Awards

Canada

HP awarded Recycling Council of Alberta's 2005 Corporate Leadership Award.

HP awarded Recycling Council of Ontario's 2005 Platinum Waste Minimization Award.

China

HP in China awarded the title of 'Best Corporate Citizen' by the organization 21st Century, due to its efforts in environmental protection including product recycling.

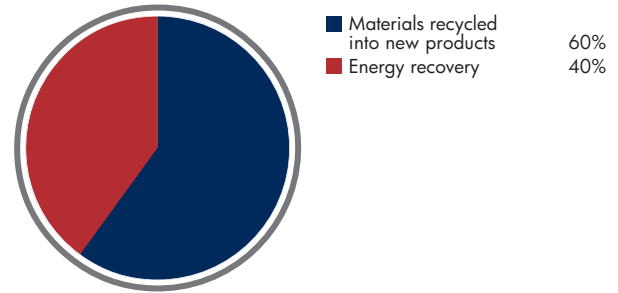
No HP print cartridges returned through Planet Partners are sent to landfills. They are put through a recycling operation that recovers a majority of the cartridge plastics and metals for processing into materials used in new products. All remaining materials are incinerated, with energy recovery when possible.

More than 3,500 tonnes (7.8 million pounds) of plastics were recovered and recycled into material that has been used to make new HP products as well as plastic trays, clothes hangers, shoe soles and wire spools. A new application using recycled cartridge plastics to make roof tiles was introduced in the European market in 2005.

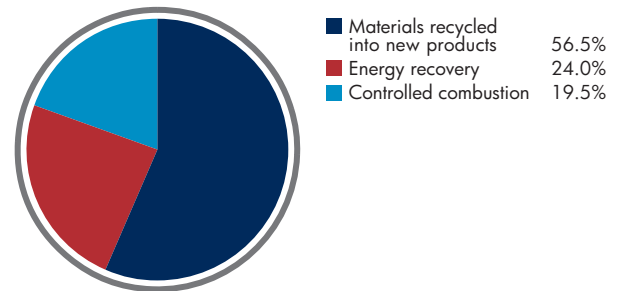
Case study: HP partnership to increase recycling awareness

In China, HP has joined forces with two non-governmental organizations – Global Village of Beijing and the Jane Goodall Institute – Roots and Shoots Shanghai and Beijing – in a print cartridge recycling program called 'Cartridges for Dragon Recycling'. The initiative, launched in 2005, provides communities in Beijing and Shanghai a simple, convenient and environmentally responsible way to return end-of-life printer cartridges free of charge. The program aims to prevent inappropriate disposal that may have an impact on the environment.

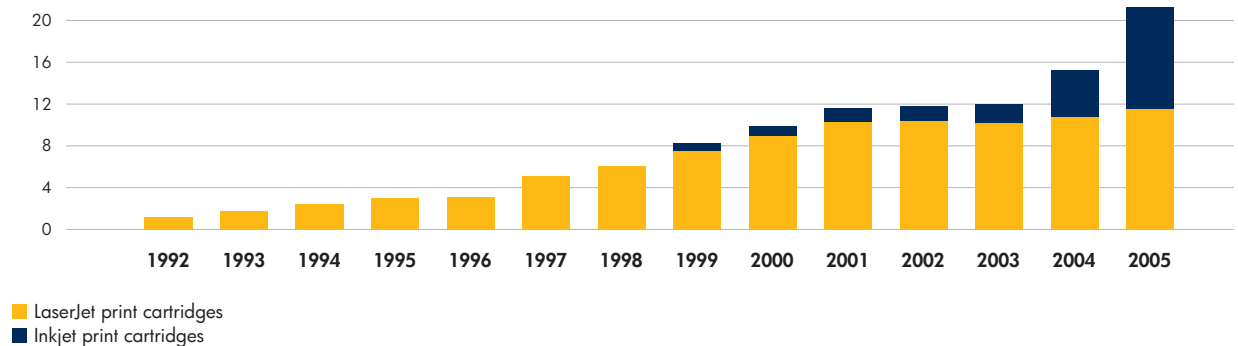
HP LaserJet print cartridge recycling, 2005



HP inkjet print cartridge recycling, 2005^a



Number of HP print cartridges returned and recycled worldwide, 1992-2005^a [Millions]



^a Energy recovery refers to a process that recovers heat for a useful purpose (external to the incinerator), such as power generation or central heating. Controlled combustion refers to a rotary kiln incinerator with a high temperature combustion chamber for the contained destruction of chemical compounds.

^a Includes cartridges returned by customers and cartridges from HP internally. 2005 figures are based on year-end estimates.



Operations

Note on operations data

Data is based on our fiscal year (ending October 31).

In 2005, HP expanded data collection to 102 of our largest sites, which includes 65% of our floor space, or approximately 4 million square meters. We consider all sites larger than 9,300 square meters (100,000 square feet) for inclusion. HP tracks only those sites it manages. This represents all manufacturing sites and the largest office, warehouse and distribution sites. We extrapolate data from comparable facilities for the remaining 35% of floor space, which is primarily leased small office space.

In 2005, we updated our estimation model, included data from our unoccupied facilities and adjusted the 2003 and 2004 data accordingly.

Worldwide, approximately 150,000¹ people work for HP at more than 940 sites in over 170 countries. They undertake diverse activities including designing products, supporting customers, conducting research, manufacturing and shipping products, providing data services, consulting and marketing. It is challenging to provide facilities and support for such a wide scope of activities, while minimizing their environmental impact. The primary areas of environmental impact arising from HP's wide-ranging operations are climate change, energy use and waste.

HP uses an environmental, health and safety (EHS) management system to identify, measure, control, manage and reduce our environmental impacts. In addition to meeting legal requirements, HP's worldwide operations must satisfy or exceed company standards and pursue continual improvement.

HP is continually developing new products and services to provide customers with innovative solutions in a dynamic marketplace. Our EHS management system is equally

dynamic, and enables us to continually reduce environmental impacts in an ever-changing operational environment.

We made progress in many areas in 2005 compared to 2004. For example, we reduced solid waste volumes by 7%, hazardous waste volumes by 5% and natural gas use by 1.3%.

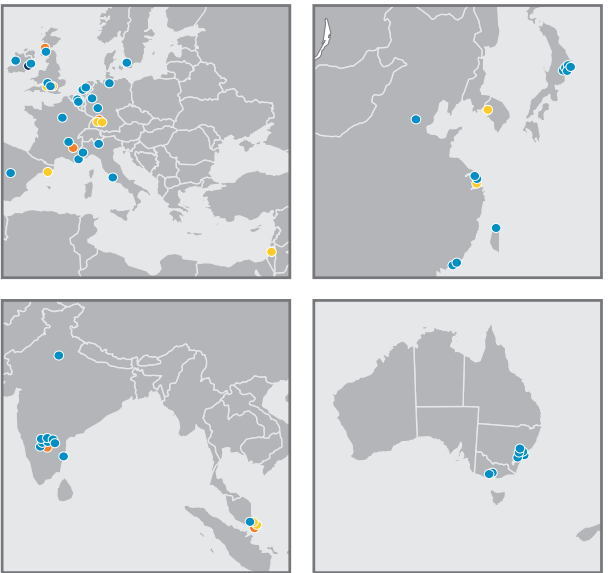
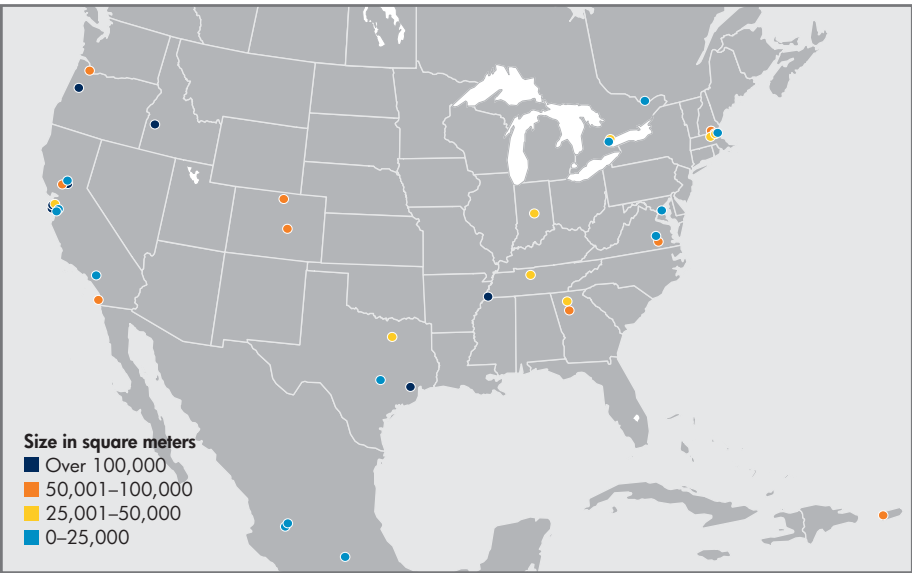
We collect environmental data quarterly to ensure management receives timely information on which to assess and manage performance (see Note on operations data, at left).

Challenge

Energy use continues to be a significant challenge and opportunity for our operations. Our efforts of the last several years have yielded significant benefits. We have implemented energy efficiency projects that have saved more than 100 million kWh of electricity since 2004. At the same time, our energy use has increased 4%. This is a result of the continued expansion of our services, business and data centers. To respond to this expansion, we are

¹ As of October 31, 2005.

Map of major operations





Awards

Belgium

"Ecodynamic Company" seal of approval renewal from Environmental Ministry for Brussels Capital Region.

Brazil

Campinas: Association Agency Brazil de Segurança Award of Environment.

UK

Bracknell, Bristol, Erskine, Worton Grange and Warrington accredited for achievement in energy efficiency through the Energy Efficiency Accreditation Scheme.

UK Award for waste minimization and recycling from Premises Facility Management magazine.

United States

EPA WasteWise Award – Honorable Mention in Large Business Section.

EPA No. 16 on the Best Workplaces for Commuters. (U.S. wide)

Boise, Vancouver, and Corvallis sites (Idaho, Washington, Oregon): EPA Green Power Partners.

Boise, Corvallis, Puerto Rico, San Diego: EPA Performance Track - a voluntary partnership that recognizes leading environmental performance among 370 participating U.S. organizations.

Boise, Idaho: Environmental Excellence Award from Idaho Association of Commerce and Industry.

California facilities: Flex Your Power award for excellence in energy demand response. California's energy efficiency campaign has received national and international recognition, including an ENERGY STAR Award for excellence.

(continued on next page)

using modeling tools to increase data center efficiency. We continue to identify energy as a priority focus for 2006 and will focus our efforts on auditing our largest facilities to identify additional saving opportunities.

Managing environmental impacts and ensuring employee health and safety

HP's Environmental, Health and Safety Policy expresses our longstanding commitment to environmental management and employee safety. The Policy states that our goal is to '...conduct our operations in an environmentally responsible manner, and create health and safety practices and work environments that enable HP employees to work injury-free.' To accomplish this, the Policy specifies that we will:

- Meet or exceed all applicable legal requirements;
- Proactively reduce occupational injury and illness risks, and promote employee health and well-being (for more information see Health, safety and wellness);
- Aggressively pursue pollution prevention, energy conservation and waste reduction in our operations;
- Design and manufacture our products to be safe to use and to minimize their environmental impact;
- Offer our customers environmentally responsible end-of-life management services for HP products; and
- Require our suppliers to conduct their operations in a socially and environmentally responsible manner.

Environmental health and safety management system

To achieve our EHS Policy goals, we implement an environmental, health and safety management system (EHS MS) as an integral part of doing business. It is tailored to HP's business and is implemented globally, regionally and locally.

HP's EHS MS is a structured approach to identifying EHS priorities, meeting HP and external requirements, controlling risk and improving performance. Our global EHS

organization has stewardship of the EHS MS and collaborates with the appropriate HP organizations to recommend performance improvement goals. The EHS MS requires sites to monitor performance, conduct audits and management reviews and to implement corrective and preventive actions.

HP's EHS MS is based on recognized international models including ISO 14001 and OHSAS 18001. HP was one of the first multinational businesses to obtain a single, global ISO 14001 certification for worldwide manufacturing operations.

Audits and assurance

Audits of our EHS MS provide assurance that our EHS policies and standards are implemented worldwide. Audits are conducted by internal qualified professionals and the results are reported to senior management. The frequency of audits is based on site complexity and past performance. These audits complement regulatory compliance evaluations conducted by our region and local EHS staffs and third-party audits conducted by our ISO 14001 and OHSAS 18001 registrars.

We analyze instances of nonconformance to our policies and standards, take corrective action and establish preventive measures to reduce the likelihood of future nonconformance. This system provides a strong basis for continual improvement.

Employee awareness and training

HP provides EHS training for employees in local languages. EHS fundamentals are part of employees' orientation training and are regularly refreshed through an online EHS Policies and Standards training module, employee websites and EHS communications. Additionally, employees receive health and safety training specific to their job (for more information, see Health, safety and wellness).

Standards and guidance

HP EHS performance standards apply to all sites. The management system standard addresses EHS management processes such as risk assessment, objective setting, training and awareness, monitoring and measurement, inspections and auditing, and management responsibilities. Accompanying standards address specific operational controls, including energy management, chemical management, waste minimization, fire and life safety, ergonomics and electrical safety.



Awards (continued)

United States

California facilities: Waste Reduction Awards Program (WRAP) from the California Integrated Waste Management Board:

- Woodland, California (winner for four consecutive years).
- San Diego, California (winner for five consecutive years and 2003 WRAP of the Year).
- Bay Area, California (five locations) (winner for four consecutive years and 1997 WRAP of the Year for our Cupertino, California location).
- Roseville, California (winner for 13 consecutive years and 1996 WRAP of the year).

Corvallis, Oregon: EPA Region X Evergreen award.

San Diego, California: Industrial Environmental Association Environmental Responsibility Award.

San Francisco Bay Area, California: Peninsula Industrial Business Association award for outstanding Organizational Leadership to the Silicon Valley EHS Community.

San Francisco Bay Area and Roseville, California: EPA Commuter Employer of Choice Award.

Vancouver, Washington: Washington State Recycling Association Recycler of the Year.

Emergency preparedness and response

HP's risk-based emergency preparedness and response programs are designed to protect people, property, the environment and continuity of operations. These programs cover planning, prevention, response and recovery. Response plans exist for chemical releases, evacuations, fires, natural disasters, security threats and other emergencies. Response teams are trained and tested in first aid, cardiopulmonary resuscitation, spill response and facility control operations, as appropriate to local working environments. Employees are trained on emergency response procedures and regularly participate in emergency evacuation and other drills.

Climate change

As global efforts to tackle the greenhouse gas (GHG) emissions that are associated with climate change gather momentum, HP continues to collaborate with our customers, governments and investors to address the issue. We support the development and the promotion of climate change policies through our participation in several local and global organizations.

HP measures and verifies the GHG emissions caused by our combustion of fossil fuels and consumption of electricity. We have two 2006 goals to reduce our GHG emissions. The first is to conduct energy audits at 53 of our largest facilities and implement measurable energy efficiency projects at each facility. The second is to reduce HP's on-site GHG emissions by 18%.

In addition to our work to reduce GHG emissions from our worldwide operations, we strive to help customers reduce their GHG emissions by improving the energy efficiency of our products (see Energy efficiency).

GHG emissions

We use the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development and the World Resources Institute to calculate the GHG emissions from our operations and our electricity use. We measure absolute emissions in tonnes of carbon dioxide (CO₂) and emissions normalized to floor space (tonnes CO₂ per square meter). We use this information to monitor our progress, develop our goals and identify additional reduction opportunities.

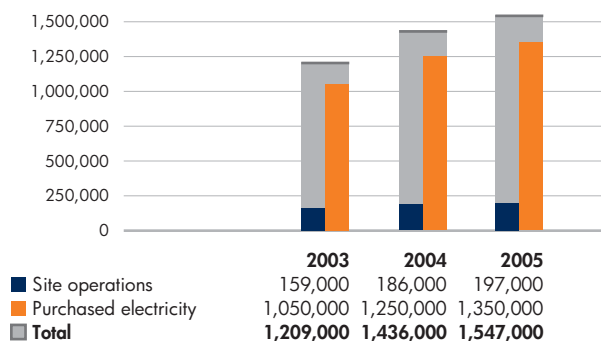
In the Global context, HP's emissions are small, approximately 1.5 million tonnes CO₂ compared with the worldwide emissions of 25,000 million tonnes².

Public greenhouse gas reporting

Performance measurement and transparency are important aspects of the business sector's response to climate change because they lead to greater accountability. In 2003, HP was one of the first companies to commit to the World Economic Forum's (WEF) Global Greenhouse Gas (GHG) Register, whose signatories account for nearly 5% of global GHG emissions.

In December 2005, HP joined the California Climate Action Registry (CCAR). The Registry enables HP to use best-in-class tools to track and manage GHG emissions.

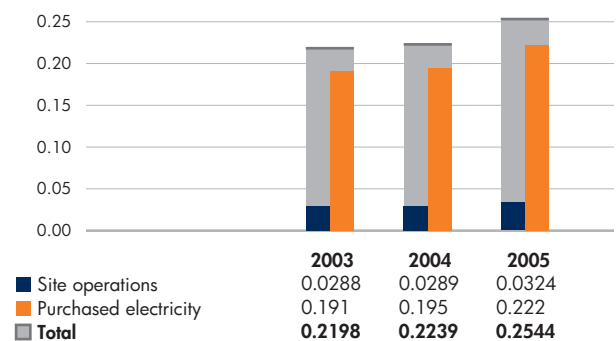
Greenhouse gas emissions, 2003-2005³
[Tonnes carbon dioxide]



² International Energy Annual 2003 Energy Information Administration.

³ In 2005, we updated our estimation model, included data from our unoccupied facilities and adjusted the 2003 and 2004 data accordingly.

Greenhouse gas emissions per unit of floorspace, 2003-2005³
[Tonnes carbon dioxide per meter²]





Climate change partnerships in which HP participates

- Sustainable Silicon Valley (SSV)
- Business Roundtable Climate RESOLVE
- Pew Center on Global Climate Change
- WEF Global GHG Register
- California Climate Change Advisory Committee
- California Climate Action Registry

HP reports its global GHG emissions annually on the public websites of both the WEF and CCAR. Independent verification of emissions data is an important element of these partnerships. In July 2005, HP commissioned independent auditor BVQI to verify our GHG emissions measurements and reporting for the second time. BVQI recommended that we develop an internal audit program to check the accuracy of reported source data. We have implemented this recommendation and are sampling 10% of the data each year.

Comments by independent auditor

"I felt that the HP management team was very committed to improving the accuracy and methodology for the reporting of climate change data. Although some minor discrepancies were noted during the verification, these were addressed and corrected and I felt the HP methodology for reporting the GHG emission data was well done and very comprehensive. HP was also very receptive to any suggestions for improvement during this verification and the previous verification and in fact implemented some of the suggestions during the verification."

Carol Osgood, BVQI auditor

HP's 2005 total GHG emissions increased 8% compared to 2004. Purchased electricity (produced off-site at power plants) is the largest source of our GHG emissions, accounting for 87% of the total. The increase reflects continued data center growth and increased floor space utilization, and would have been significantly larger without our efficiency efforts.

On-site emissions, including those from natural gas consumption and perfluorocarbon (PFC) use, account for 13% of total emissions and increased by 6% in 2005. This was due to increases in manufacturing processes that emit greenhouse gases. We are in the process of implementing several projects targeted to deliver an 18% reduction in GHG emissions for 2006.

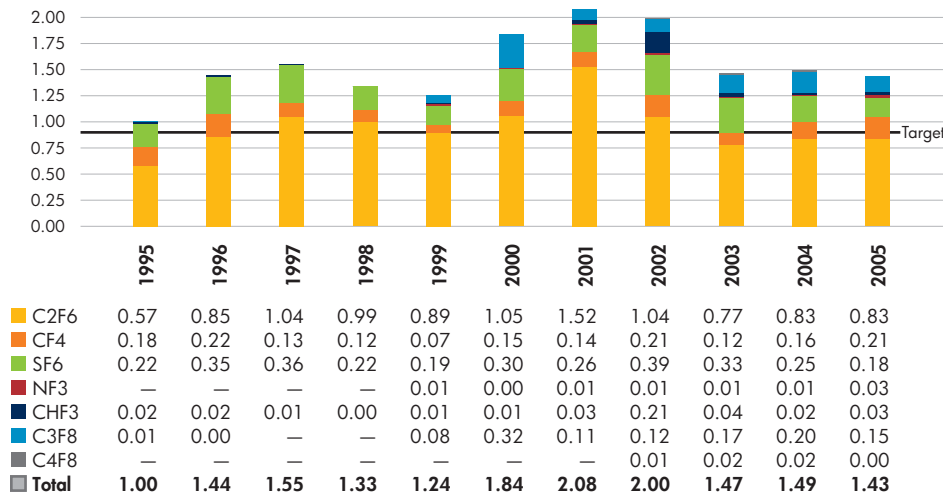
Emissions per unit of floor space increased 14% due to business growth and real estate consolidation that increased facilities utilization. Emissions per unit revenue, a measure of overall efficiency, decreased by 1%.

Perfluorocarbons (PFCs)

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

In the United States, HP participates in the PFC Reduction Climate Partnership, a voluntary initiative with the U.S. Environmental Protection Agency (EPA) to reduce specified

PFC emissions, 1995-2005 [Index = 1.00]



Stakeholder perspective

How is HP doing?

HP has made a solid start in building a robust climate change programme and has undertaken all the right measures to ensure accurate monitoring, verification, and disclosure of GHG emissions. The company has also taken positive steps in setting targets for reductions in CO₂ and PFC emissions, and for energy use. The Climate Group is also delighted to see that HP is expanding its successful Telework programme globally.

How would you like to see HP improve in this area?

The Climate Group is encouraged that HP has increased renewable electricity purchases in 2004 to approximately 8.6 million kWh. However as this represents less than 1% of the company's total consumption, there is significant room for further progress. Also, since electricity use accounts for 87% of HP's climate change impact, the purchase and/or on-site production of additional renewable energy capacity would allow for substantial reductions in GHG emissions.

Dr. Steve Howard, CEO
The Climate Group

Goal for 2005

Reduce emissions of specified PFCs by 10% from 1995 levels

Progress: HP did not achieve this goal during 2005, but installed additional abatement technology at manufacturing plants to reduce PFC emissions and enable us to meet the goal in 2006. At the end of 2005, PFC emissions were 59% above the goal.

Goal for 2006

Reduce HP's on-site greenhouse gas emissions by 18% from 2005 levels.

PFC emissions by 10% from 1995 levels by the end of 2010. HP set an internal goal to achieve these reductions by 2005. HP's PFC emissions increased until 2001, when we reversed the trend. We achieved the majority of reductions through abatement at our semiconductor fabrication plant in Corvallis, Oregon, United States. In 2005, HP's PFC emissions decreased 4% but remained 59% above the 2005 goal. This was largely due to production increases in Singapore. During 2005, HP installed additional abatement technology at manufacturing plants to reduce PFC emissions and to enable us to meet the 2010 EPA goal early (in 2006).

Travel

Business travel

HP recognizes the potential climate impact of air travel and estimates the emissions that result from its business air travel. The numbers indicate that emissions have increased roughly in line with business growth.

Carbon dioxide impact from business travel, 2003-2005
[Tonnes carbon dioxide]

2003	2004	2005
226,000	253,000	279,000

HP encourages employees to use teleconferencing whenever possible, to reduce GHG emissions from transportation and to cut costs. Employees use web-based meetings and conference calls for training and collaboration. We provide several solutions; including the HP Virtual Room and the newly introduced HP Halo Virtual Collaboration System. The Halo system has already reduced travel in our Imaging and Printing business by 8% annually, which is equivalent to eliminating 350 tonnes of CO₂ (see Product environmental impacts: Energy efficiency section).

HP has a small number of aircraft and a fleet of company cars for sales and services employees. The aircraft represent a small portion of our total environmental impact from travel. To reduce the automotive fleet's GHG impact, we added the Ford Escape Hybrid as an option to our 2006 U.S. fleet. We continue to evaluate alternative engine and fuel options for commercial fleets.

Employee commuting

Employee commuting can have significant climate impact. While this is not directly within HP's control, we have programs that support reduction of emissions from commuting.

Our global Telework program allows employees to work from home, whenever consistent with business needs, thereby reducing the commuting impact while increasing productivity.

Worldwide we have 11,400 employees who work exclusively from their home offices. We estimate that in 2005, the Telework program saved over 2 million round-trip commutes in the United States and Canada, avoiding approximately 57 million miles of road travel and reducing GHG emissions by more than 24,000 tonnes of CO₂. While the United States and Canada represents the largest portion of our program, more than 2,300 employees outside of the United States and Canada are telecommuters.

HP ranked number 16 on the U.S. EPA's list of Best Workplaces for Commuters in 2005. The list recognizes Fortune 500 companies that provide the 'highest level of commuting benefits for their employees'. Various services provided by HP include subsidized transit and vanpool passes, shuttles, telework programs, carpool ride matching, compressed work schedules, lockers and showers for bike riders, on-site amenities, and guaranteed ride home programs.



Energy

Goal for 2005

Implement energy efficiency improvements that deliver a 40 million kWh reduction in annualized electricity use by the end of 2005. Progress: We implemented projects delivering more than 43 million kWh in annual electricity savings.

Goal for 2006

Conduct energy audits at 53 of our largest facilities and implement measurable energy efficiency projects at each facility.

Electricity use accounts for 87% of HP's climate change impact. Energy efficiency remains a company-wide priority for HP, and we routinely identify and implement energy saving technology to reduce consumption, operational costs and climate impact.

Business growth and continual refinement in HP's businesses impact our energy baseline and complicate setting quantitative energy goals. Our goals for 2006 focus on driving energy efficiency programs at HP's largest facilities.

Energy management programs

HP's energy management program works to minimize electricity and gas use without adversely affecting business operations. It ensures that energy efficiency is built into facilities to improve the use of lighting, heating, IT, ventilation and cooling systems. Global standards for temperature settings, lighting levels and operation schedules ensure that energy is conserved throughout the facility's operational life.

HP set a goal to implement efficiency projects saving 40 million kWh of energy globally during 2005. Projects undertaken or continued in 2005 yielded more than 43 million kWh. Examples include:

San Francisco Bay Area. HP turned off the boilers at their Bay Area sites during the summer to save natural gas. This simple action saves more than 3.5 million kWh per year.

Bristol, UK and Dublin, Ireland. Fitting magnetic gas economizers in the boiler systems saved 1.3 million kWh in 2005. The units increase the efficiency of combustion and reduce the emissions through the use of applied magnetic fields.

Melbourne, Australia. Alternative HVAC chillers with increased efficiency and variable speed drives on pumps, air handlers and cooling tower fans minimize energy consumption at this office site. Adjusted humidity controls minimize energy requirements.

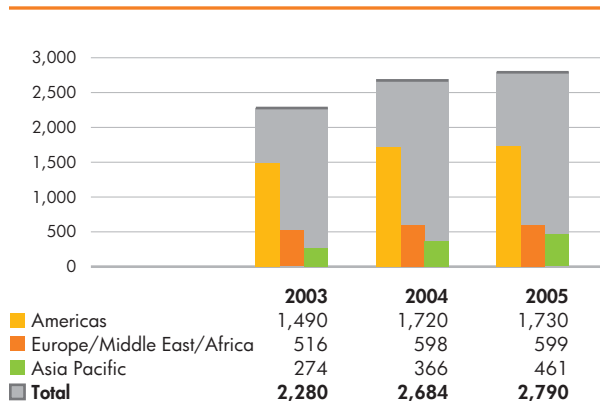
Singapore. Several sites reduced lighting energy consumption by 25% (almost 600 MWh) by installing step-down transformers on lighting systems.

Electricity use

HP measures electricity consumption in absolute use (million kWh) and normalized per unit of floor space (kWh per meter²). Electricity use during 2005 increased by 4% compared to 2004, equivalent to 105 million kWh. Overall electricity use and consumption per square meter increased by 10% compared to 2004, reflecting continued data center business growth and increased utilization of floor space. Without our efficiency efforts, this increase would have been greater.

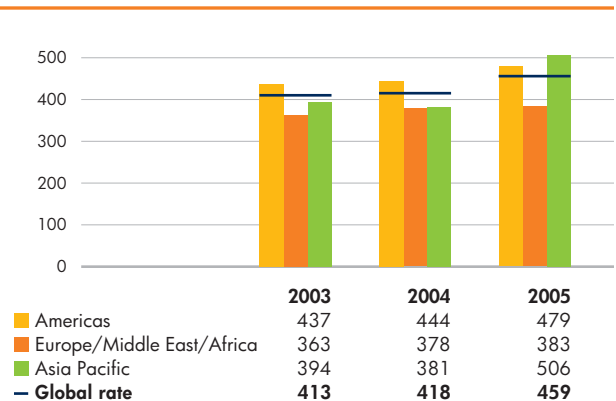
HP increased renewable electricity purchases four-fold in 2004, to approximately 8.6 million kWh, although this remains small at less than 1% of our total consumption. Three U.S. sites are now purchasing 3% of their energy from renewable sources. At 4.2 million kWh, HP's site in Corvallis, Oregon, United States is the leading wind power customer in the region. We will continue evaluating renewable energy purchases as supplies increase.

Electricity use, 2003-2005³ [Million kWh]



³ In 2005, we updated our estimation model, included data from our unoccupied facilities and adjusted the 2003 and 2004 data accordingly.

Electricity use per unit of floorspace, 2003-2005³ [kWh per meter²]



Gas use

From 2004 to 2005, our gas use decreased slightly, by 5.6 million kWh or 1.3%. Conservation measures such as changing building temperature set points and improving heating systems were employed to minimize our electricity and gas consumption.

Sustainable building design

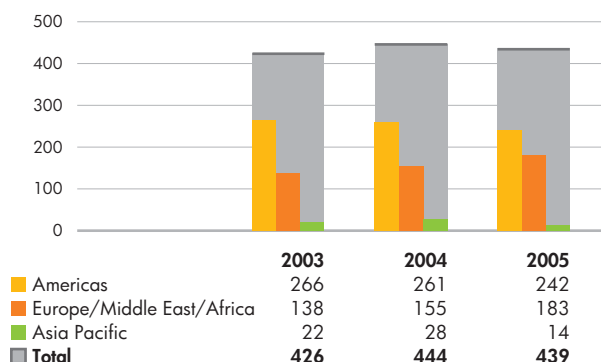
With senior management backing, HP recently established a team to track and encourage more green building projects. The team developed and implemented tools and guidelines to promote sustainable design in remodels, leases, and building design.

HP has worked with architects and general contractors certified by the United States Green Business Council's Leadership in Energy and Environmental Design (LEED) program to implement significant portions of the LEED criteria in building designs around the world. Examples include:

- HP worked with the developer at a new site in Singapore to plan energy saving features, including 20-centimeter thick external walls to reduce cooling costs, dark blue reflective window glass to minimize heat gain and natural lighting in most areas.
- In Adelaide, Australia, HP influenced the design of a new five-star green building, recognized for demonstrating design excellence. Features include external air ventilation and cooling, motion-controlled lighting and a solar energy-supported hot water supply.

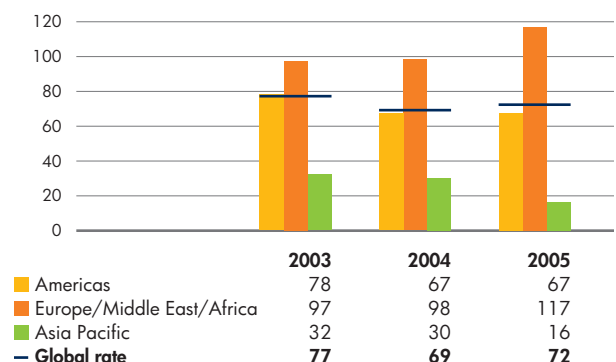
- In Christchurch, New Zealand, HP leases a building with Low-E windows, high efficiency insulation and natural lighting.
- The new Danish Allerød headquarters has many environmental features including natural daylight and individually controlled windows to promote natural ventilation and improve indoor air quality.
- HP practices xeriscaping (drought tolerant landscaping) and drip irrigation at sites in drought-sensitive areas, reducing water demand.
- Several HP sites use sustainable wood products, such as bamboo, for new flooring.
- Many sites use paints, carpets and adhesives with reduced volatile organic compounds (VOCs).

Natural gas, 2003-2005³
[Million kWh]



³ In 2005, we updated our estimation model, included data from our unoccupied facilities and adjusted the 2003 and 2004 data accordingly.

Natural gas per unit of floorspace, 2003-2005³
[kWh per meter²]





Ozone-depleting substances

Since eliminating ozone-depleting substances (ODS) from HP manufacturing in 1993, the remaining use of these substances at HP facilities is in cooling and air conditioning systems. Although these systems are sealed, leaks during operation and maintenance can cause emissions. HP has significantly reduced 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. Estimates decreased 13% in 2005 compared with 2004, due to replacing old air conditioning systems with more efficient units that use more environmentally friendly gases. Increases in Europe reflect improved data collection.

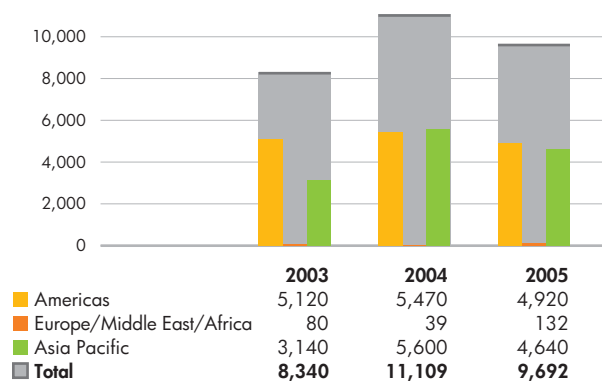
Water

HP global water consumption increased 3% in 2005, compared to 2004. Consumption in the Americas and Europe/Middle East/Africa decreased 9% and 8%, respectively. A portion of this increase is due to the relocation of operations to Asia Pacific, where water use increased by 48% due to business growth.

HP's largest water use is for cooling. We recognize that water consumption is a growing concern, particularly in water-stressed regions. Many of our sites work to reduce water consumption. Examples include:

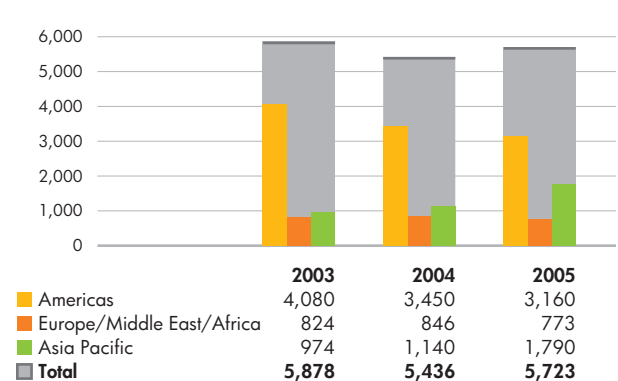
- The Vancouver, Washington site has implemented landscaping changes to use more native plants and reduce water consumption.
- The San Francisco Bay Area and Roseville, California sites are testing new electronic water treatment technologies to cut cooling tower water use by 50% while reducing the use of biocides and corrosion-controlling additives. If successful, plans are to expand this technology to other locations.
- Our Corvallis, Oregon site installed a closed-loop deionized water system. The site plans to reduce water use by approximately 2.1 million liters through equipment upgrades.

Ozone depletion potential of estimated emissions, 2003-2005³ [Kg of CFC11 equivalent]



³ In 2005, we updated our estimation model, included data from our unoccupied facilities and adjusted the 2003 and 2004 data accordingly.

Water consumption, 2003-2005³ [Million liters]





Waste

HP is committed to reducing waste generated by our global operations. Where possible, waste is eliminated at the source. Where this is not feasible, we aim to divert potential waste to beneficial uses. Disposal is a last resort, to be used when other waste management options are not reasonably available. Where disposal is necessary, HP's programs ensure wastes are managed in an environmentally responsible manner.

Hazardous waste

Hazardous waste classification differs globally. HP uses the strictest classification that applies to its operations and therefore includes some wastes not considered hazardous in the country where they are generated. In 2005, total hazardous waste disposal generated by HP site operations decreased 5% compared to 2004 and the amount of waste incinerated decreased 18%. Our 2006 goal is to reduce the amount of waste incinerated by an additional 10%, or 325 tonnes.

The largest volume of hazardous waste comes from the manufacturing and recycling of dilute ink waste. In 2005 we expanded our use of dilute ink evaporation systems at manufacturing locations in Europe and Asia, reducing more than 700 tonnes of incinerated waste. Additional efforts (in the United States) include:

- Boise, Idaho. Worked with our metals reclamation supplier to increase precious metals recovery by 37% to 13 tonnes.
- Corvallis, Oregon. Reduced purchases of a stripper solvent by 50% through process re-engineering, resulting in a reduction of six tonnes of waste.
- San Diego, California. Separated almost 14 tonnes of paper-coating liquids for treatment through a non-hazardous biotreatment process.

Non-hazardous waste

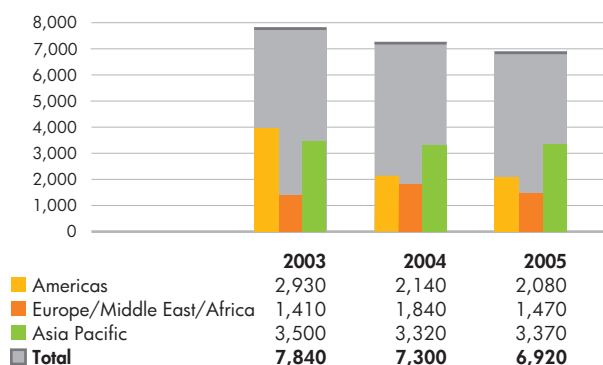
In 2004, HP identified its non-hazardous waste program as a company-wide priority. Reducing non-hazardous waste is central to our employee communication program because employees can help reduce waste volumes.

Our recycling focus continues to show benefits. By pursuing new recycling markets and better segregating materials at our largest sites, we have improved the global landfill diversion rate from 73% in 2002 to 87% in 2005, exceeding our 84% target. That is equivalent to eliminating 16,900 garbage trucks going to landfill. In 2005, we recycled almost 35,000 tonnes of paper – equivalent to 539,000 trees – and avoided using 1.3 billion liters of water and 130 million kWh of electricity.⁵

We continued to increase the number of sites that exceeded our landfill diversion goal from 40 to 54 of the 102 sites. However, as our business model shifts toward operations

Hazardous waste, 2003-2005⁴

[Tonnes]

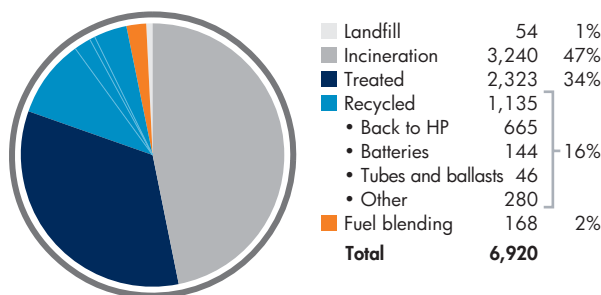


⁴ In 2005, we corrected errors in the data from one of our Europe/Middle East/Africa facilities and added a data category of "Other hazardous waste." We adjusted the 2003 and 2004 data accordingly.

⁵ Based on information at: http://www.recycle.pdx.edu/pr_recycling101_fun_facts.php.

Hazardous waste disposition, 2005

[Tonnes]





Goal for 2005

Sustain our current level of performance and focus on opportunities for continual improvement.

Results: Achieved an 87% solid waste landfill diversion rate, exceeding our goal by 3%.

Goals for 2006

Reduce the amount of waste incinerated by an additional 10% or 325 tonnes.

Continue to divert 87% of solid (non-hazardous) waste from landfill globally by the end of 2006.

that generate less recyclable waste, maintaining our current diversion rate requires significant focus. In addition, finding ways to recycle the remaining 13% of waste is much more difficult and in many cases is not yet technically or economically feasible.

Total non-hazardous waste volumes decreased by 6.9% during 2005. Based on our performance in 2005 and the waste stream volume reduction we accomplished, we plan to sustain our current level of performance and focus on opportunities for continual improvement.

HP facilities globally sponsor collection efforts that reduce non-hazardous waste. In 2005, 110 sites in Canada, Latin America and the United States celebrated Earth Day, which included an employee home computer take-back campaign during April.

In addition, eight sites in Europe and our Singapore site held environmental events for employees with the intention of educating employees on HP's programs and gaining ideas and feedback on ways to improve.

The pie chart illustrates the main categories of non-hazardous waste and end-of-life outcomes. The highest volume waste recycling streams diverted from landfill are

paper and pallets. To reduce paper use during 2004, HP configured multi-function printers at our global sites to print all copies double-sided. We expect this to reduce global paper consumption by 30 million sheets annually – equivalent to about 2,600 trees.

Recycling programs

HP exceeded its 2005 solid waste diversion goal by 3% through company-wide commitment to recycling. Projects and initiatives implemented during 2005 include:

Germany. Diverts 22 tonnes of foam per year to an automobile seat manufacturer. This helps produce approximately 80,000 car seats (blended with materials from other sources).

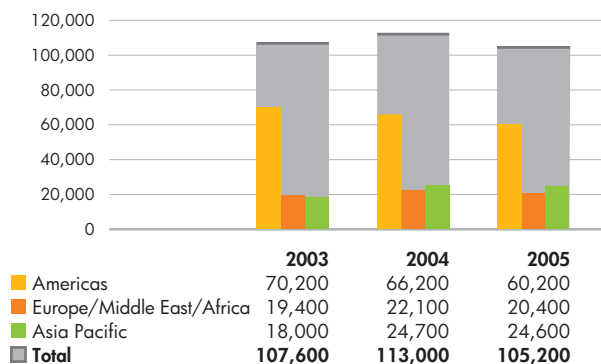
Japan. Our sites in Japan have virtually eliminated sending waste to landfills by increasing the percent of the waste they recycle from 95% to 99%. This equates to avoiding almost 390 garbage truck trips to the landfill annually.

United States. Research uncovered a recycling market for photo paper, eliminating 860 tonnes from landfill.

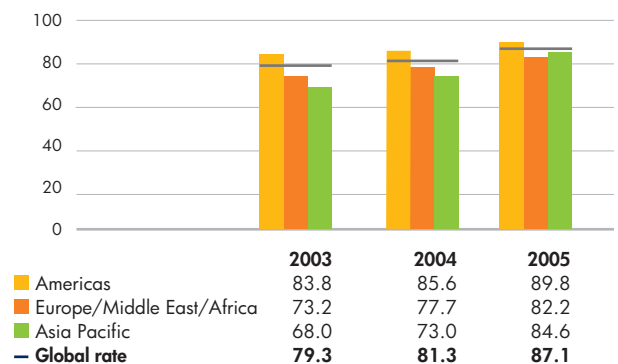
United States. Members of the Sustainable Design Team, involved in the demolition of a 137,000 square foot HP

³ In 2005, we updated our estimation model, included data from our unoccupied facilities and adjusted the 2003 and 2004 data accordingly.

Non-hazardous waste, 2003-2005³
[Tonnes]



Non-hazardous waste diverted from landfill, 2003-2005³
[% of total produced]





building in Cupertino, explored environmentally responsible ways to salvage or dispose of building materials. The team lined up sources to salvage and recycle 11.6 tonnes of material, equating to a 99% landfill diversion rate.

Paper purchase and recycling

Paper and paper products represent the largest percentage by volume of the global solid waste streams from HP site operations. The HP Paper Council, an internal team that consolidates and streamlines paper consumption, works to increase recycled paper use. HP's commitment to sustainable forests assures that more paper is manufactured from sustainable sources. In addition, HP is a founding member of the Paper Working Group, which has the goal to increase the efficient use of raw materials, minimize waste and conserve natural systems.

- All U.S. and Canadian facilities use recycled paper for all internal uses, including printing, copying and faxing.
- In August 2005, HP Office Recycled Paper was launched in Europe. This product is manufactured from 100% post-consumer fibers. HP Office Recycled is accredited with Blue Angel and EU Eco-label certificates.

- We require office paper waste recycling globally; many sites have separate bins for segregating high-grade white paper from mixed paper.

Although the Council works to introduce recycled paper globally, it is not yet available in all countries.

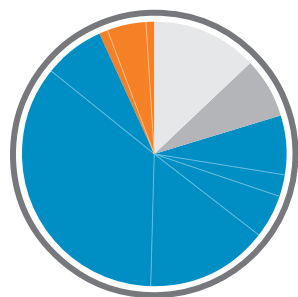
Emissions

Toxic Release Emissions

The Toxics Release Inventory (TRI) is an annual report required by the U.S. EPA on releases of specified chemicals. The inventory was established under the Emergency Planning and Community Right-to-Know Act of 1986 (EPCRA). We extend TRI reporting criteria to all HP manufacturing sites worldwide. Data is for seven manufacturing sites that accounted for the majority of HP's TRI emissions in 2004. TRI reports are due to the U.S. EPA by July 1 of each year. Therefore, 2005 data is not available for this report.

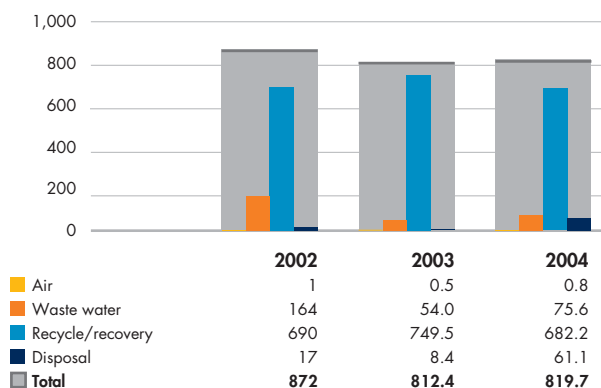
HP TRI emissions increased 1% between 2003 and 2004, primarily due to collecting a nitric acid waste stream for off-site treatment rather than treating the waste on-site. We

Global non-hazardous waste disposition, 2005 [Tonnes]

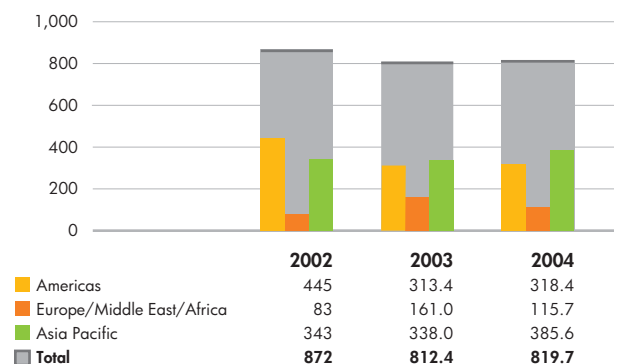


Landfill	13,600	13%
Incineration	7,750	7%
Recycled		
• E-waste	7,610	73%
• Metals	2,800	
• Packaging	5,580	
• Pallets	15,710	
• Paper	37,200	
• Other	7,790	
Reused		
• Packaging	1,110	7%
• Pallets	5,000	
• Other	1,050	
Total	105,200	

Emissions of TRI substances, 2002-2004 [Tonnes]



Emissions of TRI substances by region, 2002-2004 [Tonnes]



have continued to reduce the emissions of our largest production solvent, n-methyl pyrrolidone (NMP), by 11% between 2003 and 2004.

Air Emissions

HP's operations generate very few air emissions, and we have active programs to reduce emissions where they do occur. For example, we voluntarily reduced the volatile organic compound emissions at our Corvallis, Oregon facility by 37% in 2004 by installing abatement equipment. Using sampling data and equipment operating information, we have estimated the emissions from our seven manufacturing sites that account for the majority of our emissions.



Disposition by type of TRI material, 2004 [Tonnes]

Chemical	Air	Shipped off-site for recycling/ energy recovery	Shipped off-site for treatment or disposal	Water (to sewer/off-site treatment facility)	Total
Chloroform	0.0	0.0	0.0	0.0	0.0
Copper	0.0	0.0	0.0	0.0	0.0
Ethylene glycol	0.0	0.0	4.7	0.0	4.7
Glycol ethers	0.0	0.0	0.0	0.0	0.0
Hydrofluoric acid	0.3	0.0	0.0	14.2	14.5
Lead	0.0	19.0	0.0	0.0	19.0
Mercury	0.0	0.0	0.0	0.0	0.0
Methyl ethyl ketone	0.0	0.0	0.0	0.0	0.0
Nitrates	0.0	6.0	0.4	31.0	37.4
Nitric acid	0.4	0.0	51.8	30.4	82.6
NMP	0.1	657.3	4.2	0.0	661.6
Xylene	0.0	0.0	0.4	0.0	0.4
Total	0.8	682.2	61.1	75.6	819.7

Air emissions [Tonnes]

Pollutant	Americas		Europe/MiddleEast/Africa		Asia Pacific	
	2004	2005	2004	2005	2004	2005
CO	38	37	16	16	—	—
NOx	74	71	63	63	— ⁶	0.04
PM10	4.8	4.5	1.6	1.6	—	—
SOx	6.7	5.0	16	16	—	—
VOC	30	24	3.2	3.2	2.3	1.9

⁶ Nitrogen Oxides (NOx) were not measured by our Asia Pacific operations in 2004.



Compliance

Full legal compliance is the minimum requirement within our EHS Management System. We investigate all violations to determine root causes and implement corrective actions to prevent reoccurrence.

HP's regulatory compliance program is fully integrated into our operations. In 2005 we had one violation with a regulatory fine.

Violations resulting in fines [U.S.]

	2003	2004	2005
Total fines	\$3,120	\$2,322	\$7,679

There were two violations in 2003: a self-reported permit excursion at our Palo Alto, California, United States site and mosquitoes breeding in a blocked drain at our Singapore manufacturing facility. We implemented corrective actions in both cases.

All of the fines in 2004 were violations related to paperwork. The largest two fines, accounting for \$1,800, resulted from a boiler inspection fee and diesel generator fee not being paid on time. These fees are now tracked through HP's work-order system to eliminate future violations.

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

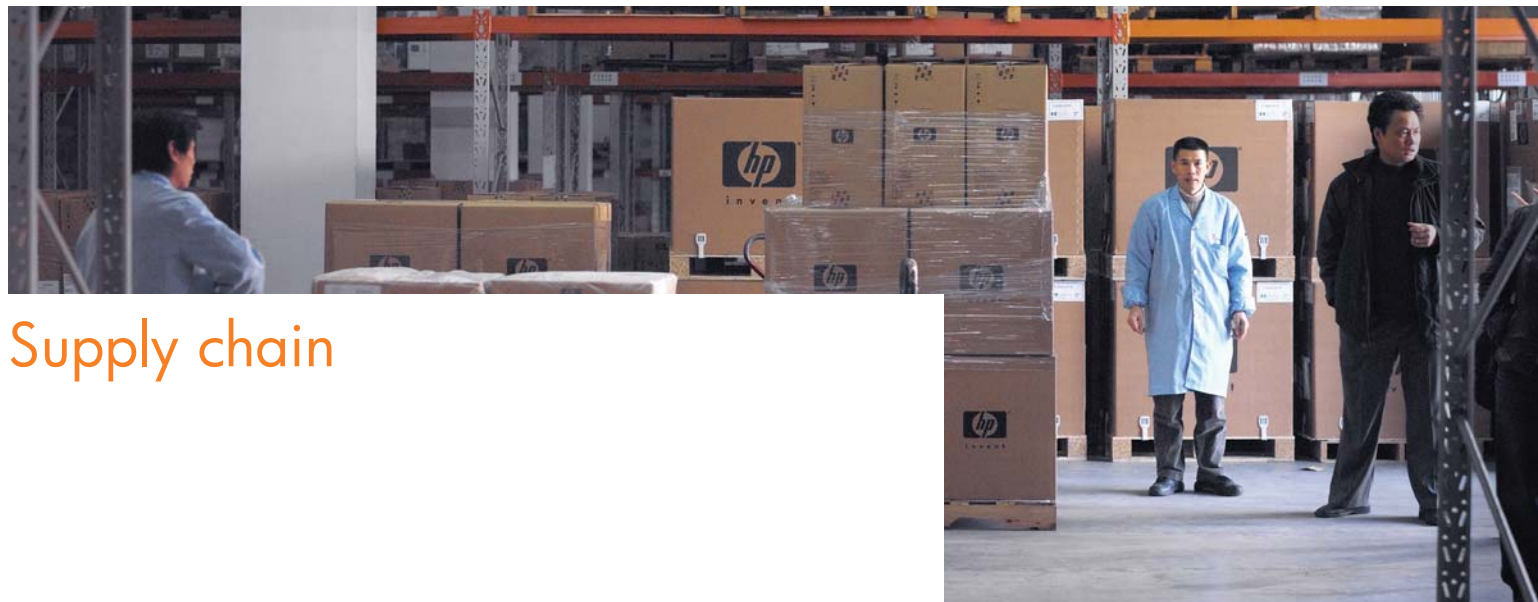
Remediation

Historically, HP has had accidental chemical releases to soil and groundwater at some of our sites. Most releases occurred during the 1970s or early 1980s and, while HP no longer owns many of these sites, we maintain responsibility for the earlier chemical releases. In addition, some of our waste management contractors have had accidental chemical releases at their sites. In 2005, HP had 33 sites under management for soil and groundwater contamination.

HP is committed to addressing chemical releases resulting from historical site operations. We have conducted due diligence assessments of our facilities to identify soil and groundwater affected by chemicals. These have helped us identify and address chemical releases requiring remediation. HP's waste vendor management program includes auditing third-party recycling and disposal facilities to help ensure that we use reliable waste management contractors.

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

In India, HP recently bought a site from an operation that was in bankruptcy. During our due diligence, we discovered the soil was contaminated with acid from previous use as a metal pickling operation. We decided to purchase the property despite the contamination and to remediate it. The site will now have a productive future, since we have neutralized the soil on the site and are in the process of building a new complex.



Supply chain

HP operates the IT industry's largest and most complex supply chain. In 2005, HP purchased approximately \$53 billion of product materials, components and manufacturing, transport and other services (see map, page 48).

HP's size and scale create opportunities to achieve cost and operational efficiencies. HP's supply base is heavily concentrated with a limited number of suppliers. This allows us to develop partnerships and work closely with suppliers to implement systems for achieving long-lasting conformance with social and environmental standards.

As a result of consolidation that has occurred during the last few years, HP's top 500 suppliers represent 99% of the total amount HP spends on product materials. These 500 suppliers are the focus of HP's Supply Chain Social and Environmental Responsibility (SER) program.

HP's approach to supply chain SER

In 2002, HP established and released its Supply Chain Social and Environmental Responsibility (SER) Policy, which built on our own internal Human Rights and Labor Policy. When developing the HP Supplier Code of Conduct in 2002, we benchmarked the codes in the footwear, apparel and telecommunication industries. Our approach is founded on the supplier requirements stated in the HP Supplier Code of Conduct and our General Specification for the Environment (GSE), which address product and operational environmental issues such as restrictions on materials used in HP products.

We are implementing the SER policy and Supplier Code of Conduct using a phased approach. In 2003, we introduced HP's Supplier Code of Conduct to our top 50 suppliers and required them to achieve a new set of SER expectations defined in the Code.

To date, we have introduced the Code to 450 of our high-priority suppliers, addressing a total of 98% of our purchasing expenditure.

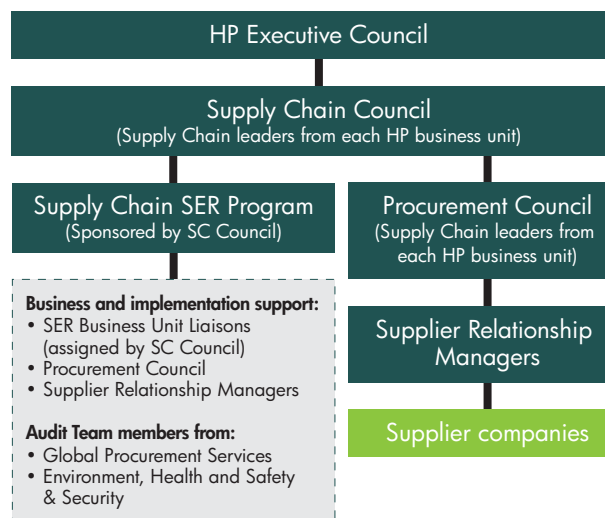
Our supply chain SER program is comprised of five key elements:

- A clearly defined policy, vision and direction, supported by senior management
- Ongoing development and distribution of our policies and standards (Code of Conduct and GSE)
- Conformity assessment and monitoring
- Corrective action planning based on continuous improvement
- Internal and external reporting

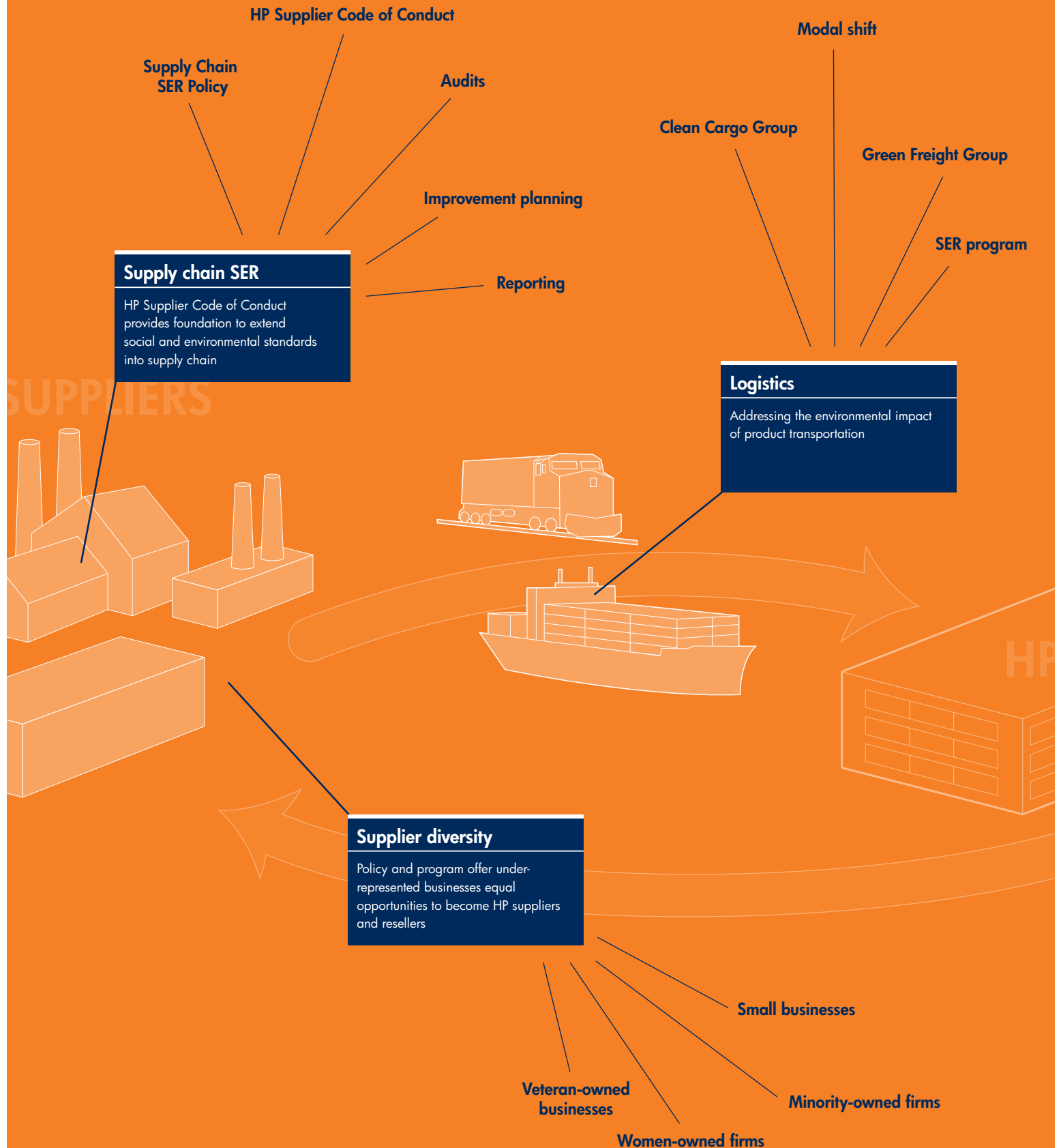
Management commitment and governance structure

HP's Supply Chain Council, which reports directly to HP's Executive Council, is responsible for Supply Chain SER Program implementation. The Supply Chain SER program team reports to the Supply Chain Council and provides regular performance updates to the Procurement Council and Supplier Relationship Managers (SRMs).

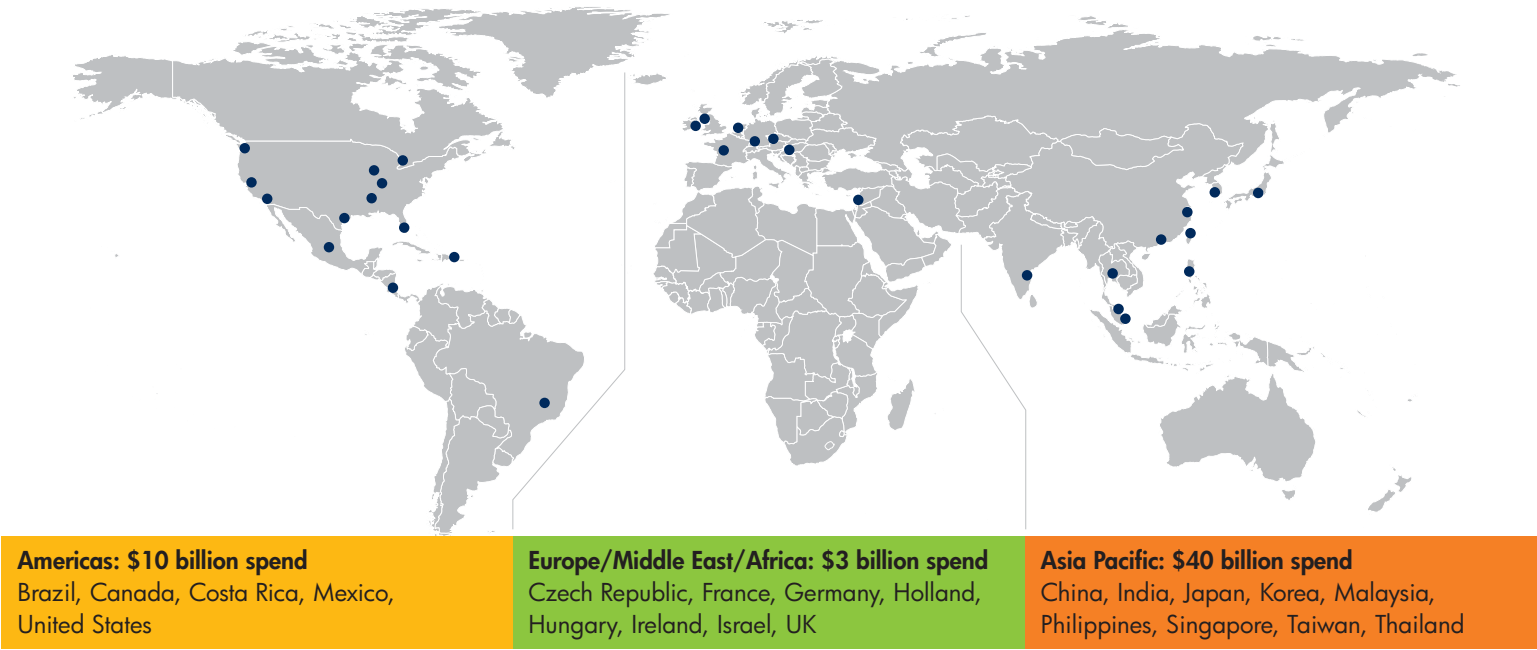
HP Supply Chain SER program governance structure



Aspects of supply chain and global citizenship at HP



Major locations of HP product materials, components and services suppliers¹



Phase of production	1 Semiconductor manufacture	2 Printed circuit board manufacture	3 Printed circuit board assembly	4 Final product assembly
Capital investment²	High	Medium	Low	Low
Labor intensity³	Low	Low	Medium	High
Skill of labor force	High	High	Medium	Medium
Chemical intensity	High	Medium	Medium	Low
Environmental impact	High	High	Medium	Low

Level indication: ■ High ■ Medium ■ Low Note: This is a simplified view of HP's production that does not include all product materials or steps.

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

² High = Billions of \$; Medium = Hundreds of millions of \$; Low = One-Tens of millions of \$.

³ High = 5,000-25,000 workers; Medium = 1,000-5,000 workers; Low = 50-1,000 workers.

Each HP business is represented on the Supply Chain Council and has appointed an SER Business Liaison within each business group. The Council and the SER Business Liaisons provide a cohesive global governance structure for addressing SER issues. Our product supplier management criteria and metrics include SER performance, in addition to technology, quality, cost and responsiveness.

HP's procurement teams were among the first in our industry to integrate SER into their day-to-day business decisions. To make the data collection process easier for both suppliers and our SRMs, we have developed a web-based extranet tool to automate the process and provide real-time information. HP's SRMs are empowered to communicate SER requirements to suppliers and work with them towards conformance. In addition, HP SRMs work with our supply chain SER and business process auditors to measure SER performance and monitor progress. We adopt a collaborative approach, working with our suppliers to develop and monitor performance improvement plans.

Internal training

Integration of the SER program into HP's main business processes is key to successful implementation. Significant resources have been dedicated to training SRMs and to developing tools, process improvements and communications to ensure that SER requirements are part of sourcing decisions.

In 2005, we continued our intensive training sessions with our internal auditors. With 130 onsite SER audits completed, the internal auditors are refining their skills and are looking for innovative ways to approach SER in the supply chain. Several auditors have given presentations on SER expectations and best practices to suppliers to help them improve their audit skills.

We highly value our locally based expert auditors in China, Taiwan, Singapore, Eastern Europe, India, Mexico and Brazil. In 2005, we saw a marked improvement in the quality of their reports. Each year auditors attend a five-day training course that includes a practical audit. Subsequently, they are supervised by management to maintain standards and achieve continuous improvement.



“When the program kicked off, there were a lot of doubts from suppliers and HP employees questioning if HP was enforcing an unrealistic goal and imposing Western standards. After two years of effort, we see changes from the suppliers and HP auditors. They are coming to believe in the global citizenship philosophy. The HR and operations managers and workers in the factory see SER is a good program. Conformance to HP’s Code can help firms hire and retain good employees. Happier employees can make the company more successful, benefiting everyone.”

— Chi-Luen Lee,
HP Global Procurement
Services, Greater China

Standards

Since many electronics industry companies share suppliers, an industry-wide supplier code of conduct allows companies to work more effectively with suppliers to ensure compliance. HP continues to play a significant role in raising the bar for the industry and encouraging common standards. Building consensus takes time and perseverance in the short run but has long-term benefits. Standardizing SER tools and processes throughout the industry reduces confusion, increases efficiency, avoids duplication of supplier surveys and audit fatigue, and increases focus on the core issues.

HP demonstrated its commitment by playing a significant role in the development of the Electronic Industry Code of Conduct (EICC)⁴. The EICC aims to foster responsible management and operational practices in the areas of labor, human rights, environmental, health and safety (EHS), and ethics across the electronics industry’s global supply chain (for more information about the EICC, see Collaboration with external stakeholders and industry groups). In addition, HP requires our suppliers to follow our General Specification for the Environment, which provides details about the materials allowed in our products.

HP also acknowledges its role, together with other companies, to use its influence to oppose bribery, corruption and unethical practices in developing economies. The EICC clearly outlines ethical expectations. We are working to educate our supply base, design effective monitoring techniques and engage relevant stakeholders, including government agencies. We apply the same high standards to worker health and safety and environmental practices, and employ a management systems approach embodied in the International Organization for Standardization (ISO) and Occupation Health and Safety Assessment Series (OHSAS) standards to address these areas.

Freedom of association

Over the last year, HP has had extensive dialogue with internal and external stakeholders regarding EICC provisions. In coordination with the original EICC founders, we incorporated several changes into the EICC. The current (October 2005) version requires open communication and direct engagement between workers and management. Participants are to respect the rights of workers to associate freely, join or not join labor unions,

seek representation, and join or be represented in workers’ councils in accordance with local laws. Workers shall be able to communicate openly with management regarding working conditions without fear of reprisal, intimidation or harassment.

In addition, HP conducted a benchmarking study of 20 multi-nationals to understand how freedom of association requirements are incorporated into supplier codes. As a result, HP has decided to supplement the EICC with additional requirements to ensure workplace and compensation issues are effectively resolved.

Suppliers are to respect the rights of workers as established by local law to associate freely on a voluntary basis, seek representation, join or be represented by Works Councils, and join or not join labor unions and bargain collectively as they choose. As provided by law, employees who become worker representatives shall not be the subject of discrimination and shall have access to management and co-workers in order to carry out their representative functions. Workers shall be able to communicate openly with management regarding working conditions without fear of reprisal, intimidation or harassment. In saying that worker rights are to be respected as established or provided by local law, what HP means is that in countries that have legal systems that support those rights, they are to be understood in the context of the definitions, conditions and procedures that local law provides. However, basic worker rights to open communication, direct engagement and humane and equitable treatment must be respected even in countries where they are not given meaningful legal protection. Where worker representation and collective bargaining are restricted by law, suppliers are to facilitate open communication and direct engagement between workers and management as alternative ways of ensuring that workers’ rights, needs and views are considered and acted upon appropriately and in good faith.

Human rights

Human Rights, or the standards of treatment to which all people are entitled, are a central focus of our SER approach. The most widely recognized definition is the Universal Declaration of Human Rights, adopted by the United Nations in 1948. HP’s Global Citizenship Policy states our commitment to the Universal Declaration of Human Rights and includes specific policies on Human Rights and Labor. HP supports and respects the protection

⁴ HP adopted the EICC as HP’s Supplier Code of Conduct in October, 2004. Throughout the remainder of this document the terms EICC and Code are used interchangeably.



of international human rights within the sphere of our influence and ensures that we are not complicit in human rights abuses. HP believes that its suppliers should observe the same policies.

HP recognizes that human rights issues in our supply base are interconnected with social, economic, political and cultural factors. Making progress on human rights, therefore, requires a multi-stakeholder approach. HP continues to support the principles of the UN Global Compact (UNGC). During 2005, we worked with the North American network of firms that are participants in the UNGC. We are contributing to a 'human rights starter kit' for companies. The kit was developed jointly with the UNGC and issued in draft form at the UNGC meeting in Shanghai in November 2005.

HP is a member of the Business Leaders Initiative on Human Rights (BLIHR), a group of ten global companies working to protect human rights. BLIHR is supported by the former UN High Commissioner for Human Rights, Mary Robinson, who is Honorary Chair. Members have adopted a practical, evidence-driven approach to demonstrate to businesses worldwide how human rights standards can be implemented.

BLIHR members support the 1948 Universal Declaration on Human Rights and welcome the 'UN Norms' as a valuable focus for understanding how business might proceed in relation to human rights. During 2005, the BLIHR member firms wrote a letter providing their perspective to the UN High Commissioner on Human Rights regarding the

'UN Norms.' The letter describes how the Norms could be developed to increase clarity and expand implementation. The full letter is available on www.blihr.org.

Assessing conformity

The core aim of our SER program is to achieve long-term sustainable change by encouraging suppliers to create their own management systems. We have learned from industry sectors with more than a decade of experience in supply chain auditing and concluded that sustainable change will occur only when suppliers make the connection between employment standards and business profitability. Monitoring, although essential, will not alone deliver long-lasting change.

Our SER program follows four phases. The aim is to initiate a continual improvement cycle in supplier companies, supported by a management system.

Improvement planning

HP's program is designed to create sustainable improvements in our suppliers' practices where they fall short of the Code. To achieve this, we aim to build the capacity of suppliers to manage SER issues effectively. We first make the business case to our suppliers' management, backed by a commitment to effective monitoring and a clear expectation for cooperation. We have learned that lasting change in the factory requires participation at all levels: factory owners, senior management, product line and mid-level factory floor managers, and workers.

Supply Chain SER management system

Phase 1: Introduction	Phase 2: Assessment	Phase 3: Validation	Phase 4: Continuous improvement
HP conducts preliminary risk assessment of the supply base to determine priorities. Risk criteria include geographic location, chemical or labor-intensive processes, length of supplier relationship to HP and commitment to global citizenship. Suppliers identified as a potential SER risk are formally introduced to HP's SER requirements and asked to sign a supplier agreement with an SER clause.	Supplier completes bi-annual self-assessment. HP reviews the assessment and provides feedback, which often leads to extensive dialogue. Based on several factors, HP determines if the supplier is a priority for an onsite audit.	HP conducts onsite audits. When audits reveal nonconformance with code provisions, we work with the supplier to establish a corrective action plan. At a minimum, the supplier must submit an improvement plan and schedule for completion. After implementation, we verify that the nonconformance and its causes have been addressed.	We help suppliers acquire the necessary skills, tools and expertise to continually improve. This includes education and capacity building. HP is working with several organizations to identify the most important focus areas for education.



In August 2005, more than 330 supplier participants filled a Shenzhen, China hotel ballroom for two days of lectures and workshops on HP's Code and related expectations and assessment and auditing details.

Stakeholder perspective

How is HP doing?

Hewlett-Packard has taken a leadership role by integrating basic human rights and labor rights norms into its supply chain monitoring so that suppliers producing for the company are encouraged, expected and challenged to improve workplace conditions and respect worker rights. This work has placed HP in a good position to strengthen the Electronic Industry Code of Conduct initiative that has the potential to make a difference in the lives of workers producing for the electronic industry worldwide.

How would you like to see HP improve in this area?

To make sure improvements in working conditions are sustainable, HP needs to double its efforts at capacity building of suppliers, factory managers, supervisors, workers and community groups with expertise in labor rights, health and safety and the environment.

Rev. David M. Schilling
Director, Global Corporate
Accountability Program
Interfaith Center on Corporate
Responsibility
New York, NY

"In collaboration with HP and other electronics companies, we have received broad recognition for the Electronics Industry Code of Conduct. Even prior to the common code, HP and Flextronics partnered to establish clear global citizenship practices that uphold the highest standards across Flextronics' worldwide locations. By meeting HP's requirements, Flextronics knows we are adhering to the industry's best practices as a socially responsible organization."

— Robert D. Towle
VP, Human Resources
Flextronics

Making a business case for SER. Suppliers often question whether they can meet HP's SER and cost requirements at the same time. We outline a clear business case to suppliers that emphasizes reduction in employee turnover, accidents and illnesses, and improvements in productivity and quality that have been observed in other industries. We also reinforce the suppliers' awareness of contractual obligations to follow laws relating to wages, hours, corruption, bribery, health and safety conditions and environmental protection.

Building capacity. In 2005, HP held three supplier capacity-building events, one in China and two in Mexico. Through the events (as well as self-assessments and onsite audits), we taught suppliers a systematic process they could use to sustain change on their own. The events promoted understanding of HP's objectives and expectations and suppliers were encouraged to propose ideas and share best practices. In 2006, we will assess opportunities to work with other companies, academic institutions, governmental entities, NGOs and training firms to provide SER management training directly to suppliers.

In August 2005, more than 330 supplier participants filled a Shenzhen, China hotel ballroom for two days of lectures and workshops on HP's Code and related expectations and assessment and auditing details.

More than 90% of the participants stated in survey responses that they thought the event was excellent and that they achieved all their objectives. They suggested having similar events.

Monitoring effectively. A full understanding of the issues and how to manage them cannot be achieved from a remote corporate office. Therefore, HP has invested in a network of local expert auditing teams in the countries from which we purchase. Our audits focus on management systems to ensure conformance to our Code. HP has decided not to rely solely on certification to external standards such as ISO 14000, OHSAS 18000 and SA 8000, although they can be very effective when correctly implemented. Our audits have shown that standards vary even among certified companies and that some suppliers that are not certified have equally rigorous SER management systems in place.

We focus on management systems because traditional checklist-based compliance audits address a specific issue, but do not necessarily tackle the root cause. HP's

audit process helps the supplier to determine and address the underlying reasons for compliance issues. Wherever possible, to maintain the quality of our audits, we prefer to use HP auditors rather than external organizations. HP auditors have access and authority to meet with key management and to help HP internalize SER information and connect it with our sourcing decisions. In 2006, HP is planning third-party validation to satisfy the need for external verification, where needed, and will use carefully selected third parties to supplement our resources in certain regions and for common audits with the EICC Implementation Group and the Global e-Sustainability Initiative (GeSI) member companies.

Impacting sourcing decisions. HP does not tolerate serious, repeated violations of our Supplier Code of Conduct, and in the event that a supplier is unwilling to change, we are prepared to terminate supplier relationships. We believe we can create positive change most effectively by remaining actively engaged with suppliers as they improve performance. In general, we find that suppliers are responsive and enthusiastic to learn about their challenges. They are eager to improve, often putting comprehensive plans in place and committing capital expenditures following our audit. If cooperation is not evident, HP is prepared to terminate relations with suppliers. In 2005 this sanction was applied to two suppliers in Mexico.

HP has met formally with CEOs of several of our largest suppliers to present our audit findings and draw their attention to the issues. Elevating the dialogue from facility level to corporate level helps ensure remedial programs have adequate resources and management authority. One of our largest suppliers has established a formal SER team at its factories staffed with more than 15 people.

Reporting

HP reports supply chain SER progress and results annually in the Global Citizenship Report and in response to surveys and questions from socially responsible investment (SRI) and asset management firms, non-governmental organizations (NGOs), and the media.

We are aware of the trend in the apparel sector to publish the names and addresses of suppliers. HP has decided not to follow this practice. In making this decision, we have balanced our commitment to transparency with protecting HP's commercial interests. In the electronics sector, suppliers are of strategic importance and a closely

Companies supporting the EICC

Adopted Code in October 2004

Celestica
Dell (Board member)
Flextronics
HP (Board member)
IBM
Jabil
Sanmina-SCI
Solelectron

Joined the initiative during 2005

Cisco
Foxconn
Intel (Board member)
Lucent
Microsoft (Board member)
Seagate
Sony
ST Micro

Global e-Sustainability Initiative (GeSI) work group members

Bell Canada
British Telecom
Cisco
Deutsche Telekom
Ericsson
HP
Microsoft
MM02 (co-chair)
Motorola (co-chair)
Nokia
Panasonic
Vodafone

"Industry collaboration is the most effective way to raise standards in a way that avoids 'first-mover disadvantage...' " said Claudia Kruse, Senior Analyst, Governance & SRI, at F&C Asset Management. "...If the industry can maintain the pace it has set so far on supply chain management, while continuing to engage stakeholders through the website, we will be on the right track."

guarded source of competitive advantage. This differs from the apparel sector where supplier relationships are frequently transient in nature.

Collaboration with external stakeholders and industry groups

EICC and GeSI

We are an active member of the Global e-Sustainability Initiative, play a lead role as the Vice Chair of the Electronic Industry Code of Conduct Implementation Group and are also a member of the EICC steering committee. HP has shared our knowledge, templates and data with industry groups to support the creation of industry-wide, standardized tools and led the development of a common questionnaire that received more than 900 comments from companies, NGOs and socially responsible investment firms. HP led the GeSI/EICC Self-Assessment Workgroup and is participating actively in the Risk Assessment, Common Audit, Web Tool and Communications workgroups.

HP's aim is for all the companies that have adopted the EICC or are GeSI members to use common tools and engage their supply chains with a consistent message. This will ensure that our common suppliers receive the same demands from customers. The website www.eicc.info describes many of the common activities we are working on based on the common code framework.

EICC members represent 32% of the amount HP spends on product materials.

Stakeholders help us refine and target our SER program. During 2005, we participated in quarterly stakeholder forums in coordination with the EICC Group and GeSI. These provided opportunities to engage with a range of organizations including the Catholic Agency for Overseas Development (CAFOD), Center for Labor Reflection and Action (CEREAL), Ethical Trading Initiative, F&C Asset Management, International Labor Organization and World Wildlife Fund. In addition, HP has met regularly with stakeholder groups, including Interfaith Center on Corporate Responsibility, Domini, CAFOD, CEREAL, As You Sow, F&C Asset Management, Hong Kong Christian Industrial Committee and Silicon Valley Toxics Coalition to discuss supply chain activities.



Stakeholders focus on different issues, but the most frequent requests relate to issues involving monitoring, Code clauses and external oversight. For example:

- On monitoring, we have been asked to provide more data, including the identity of suppliers. Unlike some other industry sectors, the identity of our suppliers is competitive information. Electronic manufacturing companies have significant intellectual property and make major capital investments. In many cases, both HP and the supplier make IT and training investments to support our business relationships. HP works with these suppliers to improve their ability to respond to HP's SER requirements rather than terminate relationships with them. Further, when use of a factory is terminated, the workers lose their ability to earn an adequate living. If necessary, HP is prepared to terminate a supplier with appropriate consideration to ensuring our supply of product and protecting intellectual property.
- On our Code we have been asked to emphasize freedom of association and clarify applicable standards. (See Freedom of association.)
- On external oversight, stakeholders have requested that external monitors be used and an advisory group be appointed. HP has retained the services of an external entity to verify auditing tools; processes; auditor qualifications; audit accuracy, completeness and quality; and our corrective action and educational follow-up activities.

Additional detail is provided on several of these areas throughout the chapter.

Global Standards Monitoring Initiative (GSMI)

HP also participates in the GSMI dialogue facilitated by Business for Social Responsibility with Levi Strauss, Disney, McDonalds, Starbucks, Chiquita, Ford Motor Company and Timberland. During 2005, by reviewing the experiences of the GSMI, HP has concluded that traditional factory auditing performed in some sectors for over a decade has not yielded a sustained improvement in factory practices. GSMI is now focusing on a framework for monitoring training, benchmarking other certification processes and promoting higher standards for the monitoring industry. Up to 20 additional brands have pledged to support the initiative, aiming for minimum standards for third-party auditors and an improvement in audit quality.

Goals for 2005

Training

Train HP supplier relationship managers responsible for the 450 suppliers engaged by the program in supply chain SER management processes. Progress: Met. Training in Supply Chain SER Management processes was provided to the Supplier Relationship Managers responsible for the 450 suppliers.

Develop a supplier training program. Progress: Ongoing. Benchmarked existing supplier SER training programs with universities and NGOs in China. HP's SER team developed and held an HP supplier forum in Shenzhen, China with over 350 supplier representatives. HP held two supplier forums in Mexico City and Guadalajara, Mexico with over 40 services suppliers. HP is working with other companies and NGOs to develop an industry supplier forum.

Conduct second phase of the internal auditor training program. Progress: Met. Held auditor training sessions in China, Mexico, Brazil, and India.

Integration

Add Supplier Code of Conduct to all product materials supplier contracts. Progress: Met. The Supplier Code of Conduct/EICC has been added to all product materials supplier contracts.

Audit a minimum of 75 supplier sites. Progress: Met. Fifty-four suppliers (85 sites) audited in FY05. Cumulative total since audit program inception FY04/FY05 = 78 suppliers (130 sites).

Complete self-assessments with an additional 100 suppliers. Progress: Ongoing. One hundred suppliers risk assessed and engaged in program at appropriate level. Fifty-six suppliers (60 sites) completed self-assessments. Eleven low priority suppliers must complete SER agreement only.

Extend SER program to logistics and service suppliers. Progress: Ongoing. The program is being extended to logistics and service suppliers. The EICC IG group is working to modify the tools to be applicable to all suppliers. Held two training sessions with service suppliers in Mexico.

(continued on page 55)

Key lessons for HP from the supply chain initiatives in the footwear, apparel, toy, retail, coffee and agricultural sectors

- Multiple codes, surveys and audits increase costs and result in fatigue and fraud.
- Programs cannot be managed from U.S. corporate headquarters and require a solid understanding of the local context.
- Disagreement within an industry on a small number of issues can outweigh agreement on the vast majority of issues.
- Inspection-only and enforcement-only approaches and lack of focus on management systems fail to create long-term behavioral and sustainable change.
- Approaches must be both top-down and bottom-up and must focus on addressing root causes of issues.
- A balance of internal and external monitoring and verification can provide the most long-term change; external monitors may not be granted equal access to facilities, they may lack influence due to their non-purchasing role and they do not have the same long-term responsibility to create change.
- Standards for monitoring social and ethical compliance need to be formalized.
- It is essential to integrate the SER program into business-sourcing decisions, from qualification through potential termination.
- Capacity-building programs for suppliers are essential to success.

Performance

The table below summarizes HP Supply Chain SER program progress through 2005.

2005 audit results

In 2005, HP audited 54 suppliers at 85 sites in Mexico, China, Thailand, Malaysia, the Philippines, Indonesia, Korea, Czech Republic, Poland and Hungary. The charts (following pages) illustrate aggregated audit results of nonconformances to HP's Supplier Code of Conduct, showing findings by code element and differences between geographic regions.

HP takes every nonconformance seriously and treats it as an opportunity to work with suppliers to improve performance. Several case studies (pages 56 and 57) illustrate how we are working with suppliers to address specific issues identified in their facilities. Some of the problems are deeply rooted and may take several years to resolve as the suppliers more fully integrate SER into their management systems.

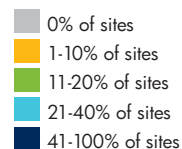
As expected, the audits we performed in 2005 identified a higher rate of Code nonconformances than the audits of our largest suppliers in 2004. This reflects our policy of auditing suppliers based on their high risk profile. The 2005 data summarized in the tables and charts is not, and is not intended to be, representative of HP's supply base as a whole or the bulk of our product materials expenditures.

SER program summary table – cumulative through 2005

Phase 1: Introduction	Phase 2: Assessment	Phase 3: Validation	Phase 4: Continuous improvement
475 suppliers (721 sites) risk assessed and engaged	415 suppliers (595 sites) completed self-assessments	HP audited 78 suppliers (130 sites)	Held HP supplier forum in Shenzhen, China with over 330 supplier representatives
363 suppliers signed SER agreements	HP provided 319 suppliers feedback	21 Corrective Action Plans in progress between supplier and HP	HP held two supplier forums in Mexico City and Guadalajara, Mexico with more than 40 services suppliers
Based on risk level, suppliers may be moved to phase 2	93 suppliers responded with improvements	HP conducted 2-3 rounds of verification to corrective actions	
(28 suppliers are inactive)	224 suppliers are ISO 14001 certified	HP decided not to audit 332 suppliers (547 sites) due to low risk	Held auditor training sessions in China, Mexico, Brazil and India

HP Social and Environmental Responsibility audit conformance summary table, 2005

[% of nonconformance among sites audited]



EICC provisions	Nonconformances		Comments
	Major	Minor	
General			
EICC awareness	11-20%	41-100%	In 2005 HP increased outreach and education through Supplier Forums to help suppliers better understand and incorporate EICC requirements into their operations.
Supplier mgmt program	21-40%	41-100%	HP continues to work with suppliers to develop management processes for suppliers to monitor their own suppliers (including labor contractors) for SER.
Labor			
Freely chosen employment	1-10%	1-10%	Processes are generally in place to ensure that employment is freely chosen.
Child labor avoidance	11-20%	11-20%	Workers below the age of 16 are extremely rare. Nonconformances generally relate to young workers between the ages of 16 and 18 working at night or conducting hazardous work.
Nondiscrimination	21-40%	21-40%	HP continues to work with suppliers to make its expectations clear in this area.
Humane treatment	1-10%	11-20%	Nonconformances generally relate to unclear communications to workers about disciplinary processes and wage deductions.
Wages and benefits	11-20%	1-10%	Nonconformances generally relate to use of deductions, varying accounting procedures, lack of worker understanding of pay calculations, and payment of flat hourly rates or wages despite overtime.
Working hours	41-100%	1-10%	HP continues to work with suppliers on processes for controlling excessive overtime and providing rest days.
Freedom of association	0%	1-10%	Means for communications between management and workers are generally in place.
Labor management system			
Management system elements	1-10%	21-40%	Some suppliers lack basic management system elements (policy statements, management commitment, internal risk assessments, ongoing training for workers beyond new employee orientations, effective corrective action process, communications) for proactively managing risks and ensuring continual improvement in human resources.
Health and safety			
Machine safeguarding	1-10%	21-40%	Nonconformances generally relate to enforcement and monitoring of ongoing use of machine safeguards.
Industrial hygiene	1-10%	41-100%	HP continues to work with suppliers to evaluate and control workplace exposure to controlled materials and to use personal protective equipment (PPE) appropriately.
Occupational safety	11-20%	21-40%	Nonconformances relate to the need for appropriate PPE and enforcement of the use of PPE.
Emergency preparedness	21-40%	21-40%	HP continues to work with suppliers on emergency and fire response procedures, evacuation drills, and equipment.
Occupational injury and illness	1-10%	21-40%	Risk assessment, reporting, tracking and corrective action processes should be improved in some cases.
Physically demanding work	1-10%	41-100%	HP continues to work with suppliers on use of ergonomics programs.
Dormitory and canteen	11-20%	21-40%	Nonconformances generally relate to hygienic conditions and personal space in dormitories and canteens.
Environmental			
Product content restrictions			See "Eliminating materials of concern" in Materials innovation section.
Hazardous substances	21-40%	21-40%	HP continues to work with suppliers regarding on site hazardous materials labeling, handling and storage and monitoring of vendor processes for off site disposal of hazardous wastes.
Wastewater and solid waste	1-10%	11-20%	Nonconformances generally relate to monitoring of water and solid waste treatment processes.
Air emissions	1-10%	1-10%	Exhaust systems for capturing fumes are widely used; air emissions monitoring is widely conducted.
Environmental permits and reporting	1-10%	1-10%	Permits generally available for inspection.
Pollution prevention and resource reduction	1-10%	11-20%	In some cases, reduction goals and performance metrics are not in place or reviewed to ensure that they are met.
EHS management system			
Management system elements	1-10%	21-40%	While ISO 14001 and/or OHSAS 18000 certifications are in place, some suppliers do not perform comprehensive risk assessments.
Ethics			
Business integrity	1-10%	11-20%	Nonconformances generally relate to lack of formal ethics policies or standards of business conduct by suppliers and lack of worker ethics training and awareness of requirements.
Disclosure of information	0%	1-10%	Processes and contracts generally in place.
No improper advantage	1-10%	1-10%	Suppliers generally have policies ensuring that bribes are not accepted by management.
Fair business, advertising & competition	1-10%	11-20%	In some cases, ethics policies do not include fair business and competition statements.
Protection of identity (whistleblower)	1-10%	11-20%	In some cases, suppliers lack processes for workers and external stakeholders to report confidentially ethical concerns.
Community engagement	0%	1-10%	Suppliers generally participate in community activities and provide donations.
Intellectual property	1-10%	1-10%	Processes and contracts generally in place.

Goals for 2005 (continued)

Collaboration

Work with industry partners and competitors on standardized assessment, auditing and training tools. Progress: Met. Involved with industry partners and competitors via EICC and GeSI on standardized assessments, auditing and training tools. A new version of the EICC was released in October 2005. A new industry-wide self-assessment questionnaire was released.

Goals for 2006

Training

Design and conduct research on training in Supply Chain SER.

Expand dialogue with cross-industry, government regulators and NGOs on supplier and worker education and training.

Conduct auditor trainings and supplier forums in India, Mexico, Eastern Europe and China.

Integration

Conduct initial risk assessments with additional 50 major product materials suppliers and obtain self-assessments and agreements from high priority suppliers.

Conduct initial risk assessment and extend Supply Chain SER policy and program to relevant, high priority operations, services and logistics suppliers.

Conduct new and follow-up/verification audits at 90 sites.

Select 3rd party provider to conduct external verification of HP audits.

Redesign HP's internal processes and tools to align with the new common industry templates and e-tool.

Collaboration

Design and implement standardized assessment and auditing tools with electronic industry including EICC and GeSI partners.

Begin work with cross-industry partners and 3rd party auditing firms on improving worldwide monitoring standards.

The main findings and challenges highlighted by our audits and HP's approaches to addressing them are discussed below.

Awareness of expectations and management systems.

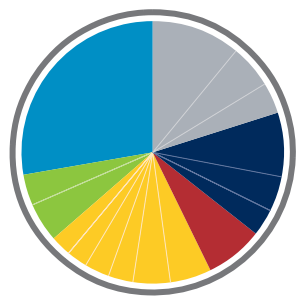
The most prevalent finding for HP is the lack of awareness at the factory level of our expectations. As a result, some suppliers have not integrated our code provisions into their own standards, management systems and worker communications. HP is using several approaches to increasing senior factory manager awareness of HP's supply chain SER program, the Code and our GSE. Since HP's Code is only three years old, we envision that communicating our fundamental requirements will remain a priority for several years, complemented by the efforts of other EICC member companies. Presently, only a few suppliers have integrated these concepts sufficiently into their own systems to reach their suppliers.

Labor conditions. Worker participation in decisions that affect working conditions is essential to achieving sustainable performance improvements. In 2005, a major focus has been on improving communication between management and workers about workers' rights, rules, pay deductions, disciplinary policies and requirements. We look for and ask suppliers to improve documentation, such as accurate pay slips showing wage and pay calculations, materials readily accessible to workers outlining rules and regulations, ethics guidelines, and procedures establishing open communication between workers and management. Our audit findings indicate a strong correlation between good working conditions and effective human resources management systems.

Supplier processes for monitoring and controlling overtime out of line with accepted standards are a particular challenge in the electronic industry supply chain. Experience in the apparel sector suggests that longer lead times and more predictable demand are only part of the answer. We impress on suppliers that fair pay and reasonable hours are linked to reduced injuries and illnesses, improved product quality, and lower worker turnover, hiring and training costs.

Health, safety and environment. Eastern European suppliers had markedly better environmental, health and safety performance than other regions, probably reflecting their strong management systems. The main areas for improvement elsewhere are detailed implementation plans for onsite hazardous materials labeling; correct handling and storage, rigorous monitoring and verification of processes for off-site disposal of hazardous wastes; provision of appropriate personal protective equipment and enforcement of its use; effective emergency and fire response training procedures and equipment; and improved hygiene in canteens and dormitories. We ask suppliers to track injury and illness rates carefully and provide us with detailed corrective action plans to address specific nonconformances and any shortfalls in their overall management systems.

Major nonconformances by type, 2005 [% of total, worldwide]



Labor

- Working hours
- Nondiscrimination
- Wages and benefits

Health and safety

- Emergency preparedness
- Dormitory and canteen
- Occupational safety

Environment

- Hazardous substances

Management systems

- Labor risk assessment/management
- EHS audits and assessments
- Labor company commitment
- EHS risk assessment/management
- Labor audits and assessment
- EHS legal and customer requirements

General

- Supplier management program
- EICC awareness

All other



Goals for 2007

Training

Pilot electronic and cross-industry training program for supplier, auditor, worker and purchasing manager education and training.

Conduct auditor trainings or supplier forums in Eastern Europe, Brazil, Southeast Asia and China.

Integration

Conduct initial risk assessments with indirect operations, services and logistics suppliers (~60) and continue to implement SER supplier engagement model with high priority suppliers.

Conduct new and follow-up verification audits at 75 sites.

Validate and implement a long-term external verification model based on 2006 results.

Collaboration

Complete launch of standardized risk and supplier assessment and auditing tools with EICC Group and GeSI. Begin work on common capacity building and reporting plans and activities.

Assist in communicating benefits of improved worldwide monitoring standards to larger CSR community.

Design and pilot industry-wide reporting format and tools.

Case studies

Occupational health and safety

At a PC manufacturer in Mexico with 1,800 workers, HP used follow-up audits to verify the effectiveness of the manufacturer's corrective action plan that was initiated in response to an HP audit. HP's initial audit identified non-conformances with the Code, including issues concerning the industrial hygiene control system, physically demanding work training, use of personal protective equipment and chemical and hazardous waste storage. Workers were generally unaware of detailed procedures, the programs that exist to protect the workers and HP's Supplier Code of Conduct.

Two follow-up audits by HP verified that the manufacturer's corrective action plan addressed many of these issues. The manufacturer is now conducting industrial hygiene control studies and assessing potential risks. The manufacturer established safety processes, developed a safety manual, installed clear evacuation signs for production areas and began to conduct its own safety audits. The manufacturer made modifications to the production lines and administrative areas to avoid risk of injuries and strains from physically demanding work. In addition, the first tier of the manufacturer's suppliers have received the requirements of the EEIC and signed a declaration statement of intent to conform to the EEIC.

Hearing Protection

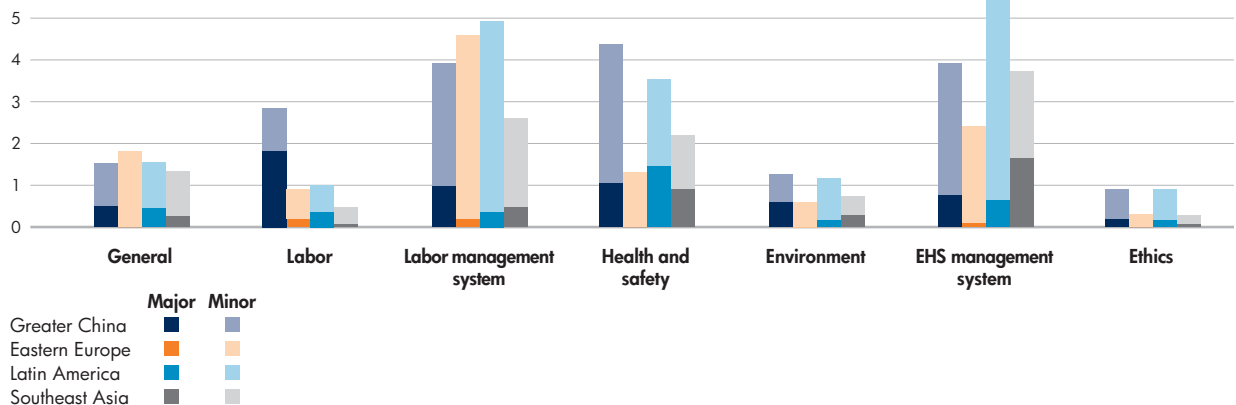
At a facility in China that employs thousands of workers, HP's audit program resulted in substantial improvement in worker hearing protection. The HP auditor initially found high noise levels and lack of hearing protection in a stamping facility. Further investigation by the HP auditor revealed that there were no noise control measures in the facility. Root cause analysis and worker interviews revealed that workers had not been trained in hearing protection, and subsequent discussion with the environmental health and safety manager indicated that there was no hearing conservation program.

The result of this HP audit program was that the facility established a comprehensive work safety program, including worker hearing testing and a program to recommend and implement preventive measures, producing significant and widespread improvements for the facility's workers.

Personnel policies

HP's audit program led to improved personnel policies and guidelines at a major power supply vendor in China which employs 9,000 workers. During an HP initial assessment review, the auditor noted that the supplier lacked adequate policies and guidelines. The supplier had obtained ISO14001 and OHSAS certificates and so our auditors believed that factory management had been exposed to the benefits of management system approaches.

Average number of nonconformances per supplier site audited by region⁵, 2005



Goals for 2008

Training

Implement electronic and cross-industry training program for supplier, auditor, worker and purchasing manager education and training based on 2007 pilots.

Conduct auditor and industry supplier forums/trainings in India, Mexico, Brazil, Southeast Asia and China. Expand invitations to government and civil society groups.

Begin implementation of supplier capacity building model with modules and preliminary successes for factory ownership, management, self auditing, regulatory entities and commodity managers.

Integration

Perform risk assessments with high priority indirect operations, services and logistics suppliers (100) and continue to implement SER with high priority suppliers (700).

Conduct new and progress follow-up/verification audits at 100 sites.

Agree on HP's long-term monitoring and external verification model based on 2007 results.

Complete the transition of supplier data to industry web tools.

Collaboration

Operationalize standardized assessment and auditing tools with EICC and GeSI partners into HP Systems.

Conduct common audits with EICC with agreed upon 3rd party entities.

Release first industry-wide report summarizing progress and challenges.

The HP auditor observed nonconformances with our Code, including excessively high overtime rates, inadequate factory and housing facilities, and high worker turnover.

When we discussed these Code nonconformances with the supplier, it immediately implemented a corrective action plan. Since then, management has conducted a full internal review of EHS policies, processes and plans and has established a personnel policy and labor management system. Wages were reviewed and raised by 20% or more in some cases. Factory and housing facilities have been improved. The HP auditor believes that the underlying problem was a lack of formal systems and that the improved personnel policies and guidelines should establish a system so that these improvements for workers will be sustained.

Labor contractors

At a major PC manufacturer in the Czech Republic, HP used a follow-up audit to verify the maintenance of labor contractor oversight improvements that resulted from a prior HP audit. The HP auditors initially observed that the manufacturer was not managing its labor contractors to ensure that these contractors were in conformance with HP's Code. In particular, the manufacturer lacked policies to ensure that contractor employees were treated fairly and paid in conformance with the Code. Based on extensive HP auditor interviews with workers and labor contractors, there were indications that workers employed by the contractors had been subject to discriminatory treatment that was improper under local law and practice.

When these nonconformances to the Code were highlighted to the manufacturer's management team, a corrective action plan was promptly implemented. The number of labor contractors was reduced and new contracts that include Code requirements were established. The manufacturer provided the Code to labor contractors and each labor contractor signed a declaration statement indicating its intent to conform. The manufacturer also established a program to audit the labor contractors, and audits have been performed. The manufacturer conducted a survey of workers that had been hired through the labor contractors to obtain worker feedback, and weekly meetings between the manufacturer and labor contractor representatives have been initiated. The manufacturer's workers have been informed of the rules and rights that exist to protect them. HP auditors validated these changes during the follow-up audit.





Goal for 2005

Implement the supply chain SER program with 20 of our primary logistics suppliers, representing 80% of our logistics expenditure.

Progress: We implemented the program with 13 logistics suppliers, representing approximately 52% of our logistics expenditure.

Goal for 2006

Conduct risk assessment and extend Supply Chain SER policy and program to relevant, high priority logistics suppliers.

Logistics

In addition to setting expectations for social and environmental responsibility (SER) throughout our network of suppliers, HP works to decrease the environmental impact of product transportation. Transporting millions of products around the world requires a large amount of energy to fuel aircraft, trucks and ships. Our supply chain logistics efforts aim to reduce transport energy consumption by using more energy-efficient means of transport and more space-efficient packaging.

During the last decade, HP has decreased reliance on air cargo while increasing use of ocean freight. This saves considerable energy, since ocean transport is significantly less energy intensive than air transport. By packing products more densely on each pallet, HP fits more products into a shipping container and therefore reduces the number of trips (see Packaging).

Clean Cargo and Green Freight Groups

HP is a member of the Business for Social Responsibility (BSR) Clean Cargo Group (ocean freight) and Green Freight Group (truck transport), which work with shippers and carriers to establish environmental performance criteria and emissions calculators for their respective industries.

In 2005, the Clean Cargo and Green Freight Groups worked to increase the number of organizations that use the industry-standard Environmental Performance Surveys (EPS) and environmental reporting guidelines. In 2006, BSR plans to develop an integrated approach to managing supply chain environmental impact, which will address all modes of freight transport internationally. HP is committed to reducing the impact of our product delivery globally and will participate in the effort to develop industry guidelines for sustainable transport.

Supply Chain SER program

In 2004, we laid the groundwork for expanding our supply chain SER policy to our logistics suppliers by distributing assessment questionnaires and copies of the Electronic Industry Code of Conduct (EICC) to 10 of our major logistics providers. Our goal in 2005 was to implement the supply chain SER program with 20 of our primary logistics suppliers, representing 80% of HP's logistics expenditure.

We encountered challenges to implementing the SER program tools because they were developed for manufacturing suppliers and require tailoring to the conditions and operations of logistics and service suppliers. The EICC Implementation Group is modifying the tools to make them applicable to all suppliers.

Slip sheets

Increasingly, HP uses slip sheets for both inbound and outbound shipments. Slip sheets are sheets of thick plastic that replace traditional wooden pallets and provide multiple environmental and economic benefits. A standard wooden pallet is about six inches tall and weighs between 40 and 60 pounds. At only 0.035 inches thick and weighing just two pounds, slip sheets significantly decrease the space and fuel required for product transport. This reduces emissions and decreases the overall environmental footprint.

Compared to pallets, slip sheets increase the number of printers per shipment by 25%. The slip sheets we use consist of 100% post-consumer recycled plastic made mostly from beverage containers. They are 100% recyclable, whereas pallets contain no recycled content and are often disposed of in landfills.

Case study: PierPASS reducing air pollution in the ports of Los Angeles and Long Beach

Southern California ports comprise the largest container port complex in the United States and have experienced unprecedented growth over the last decade. During the past five years, local port and elected officials have explored solutions to the increasing traffic and air quality impacts on surrounding communities.

PierPASS is a not-for-profit organization created by marine terminal operators to respond to this concern. PierPASS administers a fee for peak hour truck shipments to encourage cargo owners to move cargo in off-peak hours, thereby cutting pollution and alleviating congestion. Although approximately 80% of HP containers are already moved inland by rail, HP is supporting the initiative with the objective of moving at least 50% of truck shipments to non-peak times.



Supplier diversity

Goal for 2005 (in addition to those in the table)

Launch UK supplier diversity program and develop our first supplier diversity expenditure report for the UK and Canada.

Progress: HP developed the infrastructure to create expenditure reports. However, the launch of the UK program has been postponed until 2006.

Goals for 2006

Award \$3.1 billion of U.S. purchases to U.S.-based small businesses.

Award \$1.0 billion of U.S. purchases to U.S.-based minority-owned small businesses.

Award \$400 million of U.S. purchases to U.S.-based women-owned small businesses.

Increase investments in supplier development by 75% over 2004.

Formalize program to introduce diverse suppliers to top HP suppliers.

Expand Supplier Diversity program accountability throughout HP's Top 25 suppliers.

Goal for 2007

Establish goals for diverse supplier spending outside the United States.

Awards

United States

Ranked #1, Top 10 Companies for Supplier Diversity, 2005 by Diversity Inc Magazine.

Spirit of Diversity Award 2005 from U.S. Small Business Administration.

"Special Recognition Award" from the Houston Minority Business Council.

Among suppliers that provide our product materials, 98% of the spend comes from the top 450 suppliers, while among suppliers that support our operations, approximately 80% of our expenditure is with the top 1,000. This concentration of sourcing can lead to a lack of diversity among HP's suppliers. HP promotes diversity in its supply base because it provides access to diverse ideas and contributes to the economic strength of the communities in which we operate.

HP has a global policy and program to ensure that we offer under-represented businesses equal opportunities to become HP suppliers and resellers. This policy ensures that HP meets the diversity requirements of the U.S. Federal Government and the expectations of the public sector, corporate customers and consumers.

In the United States, the main categories of businesses supported by our supplier diversity program are minority-owned, women-owned and veteran-owned businesses. Our categories reflect local society and culture and in other countries include aboriginal, ethnic minority and immigrant-owned businesses.

Diverse businesses provide product materials to support our manufacturing efforts in a range of areas, including computer and electronic products and packaging. Diverse businesses are also an important source of support to our operations by providing services such as real estate administration and fleet vehicle leasing.

HP has maintained a Corporate Multicultural Procurement Program Office for more than 30 years in the United States. We host events with local business councils and participate in national events that introduce diverse suppliers to potential customers. In 2005, HP hosted a forum in Houston, Texas for professional services suppliers and some of our largest suppliers. HP received a special recognition award from the Houston Minority Business Council for our efforts.

In the United States, HP sponsors the U.S. Small Business Administration's multi-city Business Matchmaking Program and Workshops, which match small businesses with government agencies and private companies that are seeking suppliers of products and services. In 2005, more than 14,000 appointments were conducted, resulting in \$36 million in contracts awarded to date. More than half of the participants were small minority-owned businesses and 43% were women-owned small businesses.

Case study: Bobtail Express

Winning HP's business was a turning point for Bobtail Express, a Houston, Texas, courier firm with a regional presence. Bobtail's founder, Bobby Johnson, is an African-American member of the Houston Minority Business Council. Established in 1992, the company has expanded greatly over the last 13 years and has continually met HP's expectations for reliability while cutting HP's shipping costs substantially.

Because of Bobtail's affiliation with HP, many of HP's primary business alliances have turned to Bobtail Express for their transportation needs, and Johnson's company is flourishing. "Without HP, I couldn't have gotten in the door," he said.

HP is a member of more than 20 supplier diversity organizations in the United States, Canada and Europe. We are in the early stages of collaborating with small groups of companies to apply the expertise we have developed in the United States to other markets, including Canada, Germany, South Africa and the UK.

Purchases from minority- and women-owned U.S. businesses exceeded 21% of HP's total qualified procurement spending in the United States during 2005 (see table). In 2006, HP's goal is to maintain these levels against a background of consolidation in HP's supply base and reduction of operating expenses.

In addition to our procurement efforts, we promote and advance reseller diversity through mutually beneficial relationships. Diverse resellers totaled \$2.15 billion in sales of HP products and services in 2005.

U.S. supplier diversity purchasing results^{6,7} [Million \$U.S.]

Category	2004	2005 goals	2005 results
Total small businesses	\$3,040	\$3,100	\$3,011
Minority-owned small businesses	\$909	\$1,000	\$1,052
Women-owned small businesses	\$362	\$400	\$407
Total minority-owned firms	\$1,100		\$1,100
Total women-owned firms	\$397		\$424

⁶ All figures are for U.S. purchases from U.S.-based businesses.

⁷ Figures are for October 1, 2003 to September 30, 2004 and October 1, 2004 to September 30, 2005, respectively.



Privacy

Due to the pervasive use of information technology, many companies obtain and use for business purposes personal information about their customers and employees. HP uses personal data but we act as a responsible steward, respecting privacy, handling data ethically and helping to prevent fraud and identity theft. Strong privacy assurances strengthen customers' and employees' trust in us.

HP holds information such as names, addresses, e-mail addresses, telephone numbers, credit card and other financial details for customers, and in addition, health data and personal identifiers such as social security numbers for employees. Customers and employees have a right to expect that we will honor their choices for communication and sharing data, using it responsibly and protecting it from unauthorized access.

Regulations exist in many countries and regions, including Argentina, Australia, Canada, the European Union (EU), Japan and the United States, to protect individuals from the misuse of their personal data. For example, the EU Data Protection Directive provides rights to the individual and restricts the transfer of some personal data to nations that do not meet European privacy standards. The Safe Harbor framework, a trade agreement between the United States and the EU, provides a self-certification process that enables U.S. companies to comply with the EU Data Protection Directive and receive personal data from entities based in the EU.

Challenges

Protecting employee privacy

Our commitment to responsible data stewardship involves a range of challenges, including conflicting global values, corporate priorities and regulations impacting employees' privacy rights in the workplace. Cultural and regulatory approaches differ significantly between the United States, the EU and other countries. At the same time, companies need to protect intellectual property, prevent harassment and audit for financial control. This compels companies to increase their monitoring of employees' use of company-owned systems.

HP respects employee privacy rights while restricting employees' use of company-owned systems by establishing controls over access to personal employee data, setting standards to meet both privacy and security policy requirements, defining protocols for handling security and code-of-conduct investigations, and creating targeted employee communications that reinforce privacy expectations and HP commitments.

Respecting customer privacy

HP meets and may exceed compliance with privacy laws around the world. Our customers expect us to protect the privacy of their data. Doing this well helps gain their trust, which benefits our business by fostering long-term relationships, good will, and a reputation for integrity.

By including privacy among our values and in our business strategy, we help address the challenges coming from complex regulations, global business requirements, emerging technologies, and growing consumer expectations. At the same time we enable ourselves to develop the full potential of e-business and the information society.



Awards

United States

Ranked #1 in Customer Respect Group's 2005 Online Customer Respect Study of largest computer products and services companies.

Ranked #1 in Customer Respect Group's 2005 Online Customer Respect Study of largest 100 U.S. companies (all industries).

Ranked in top 3 Fortune 100 Privacy Leaders in 2005 by Computerworld Magazine.

Ranked #4 in TRUSTe and the Ponemon Institute's 2005 Consumer Research study on Privacy and Trust in America.

The HP approach

HP privacy policy framework

Protecting our employees' and customers' privacy is a fundamental global citizenship goal grounded in our company values. That commitment is built into our Standards of Business Conduct. High data protection standards are vital in developing and maintaining trusted relationships. We recognize that in many parts of the world, privacy is considered a basic human right.

HP's Global Master Privacy Policy is built upon Safe Harbor privacy principles. It governs the collection, storage, transport and use of customer and employee personal data. Through Safe Harbor, HP has committed to a company-wide privacy training program and requires suppliers to comply with our privacy policies and maintain an audit and compliance program. The Global Master Privacy Policy provides the governance principles for more detailed customer and employee privacy policies.

A key element of HP's policy is that we do not sell, rent or lease customer or employee personal information and will not share this data without permission beyond HP, our affiliates, suppliers and service providers. Our Global Master Privacy Policy also covers how we handle personal data on products returned to HP for refurbishing or recycling.

Managing privacy

HP's Chief Privacy Officer leads a team that manages our integrated privacy program. Our privacy strategy, policy and implementation plans focus on governance, training, IT and product compliance, access controls, compliance tracking and audits.

We use several standards and tools to implement our privacy policies:

- The Design for Privacy program integrates privacy requirements.
- Privacy Impact Assessments help employees implementing new sales and marketing programs to meet legal and HP privacy requirements.

- The online Interactive Rulebook helps employees review privacy rules and function-specific guidelines and templates.
- The IT Application Development Questionnaire assists system developers to assess privacy compliance for all IT systems that handle employee data.

Our contracts require all suppliers and third-party contractors who handle HP customer and employee personal data to comply with our privacy policies, including in countries where the use of personal data is not governed by law. We work with suppliers to ensure they meet HP's privacy policy standards, a requirement of the Safe Harbor program.

HP has self-certified for six consecutive years to the Better Business Bureau's BBBOnline Privacy Seal Program, which sets high standards for protecting the privacy of online shoppers. BBBOnline provides consumer dispute resolution services and Safe Harbor compliance validation services.

Stakeholder perspective

How is HP doing?

HP is definitely one of the companies that inspired Pfizer in its continuous effort to improve and strengthen its corporate privacy strategy. HP's solutions for front-end (e.g., the data collection, privacy statement, notices, choices) and back-end systems (databases, vendor relationship) provide great examples, and helped us to steer the protection of our personal data in better ways. And it also increased our trust in HP in an already trustworthy relationship.

How would you like to see HP improve in this area?

Adding a layered privacy notice to the HP website privacy statement would provide a great finishing touch.

Jean-Paul Hepp, PhD
Privacy Officer
Pfizer

We promote compliance to our policies and privacy laws in the following ways:

- E-mail feedback forms allow customers and employees to submit data privacy questions and concerns.
- In the EU, we notify data protection authorities of employee or customer personal data processing when required by law.
- Privacy staff members conduct assessments within HP.
- We require privacy training for all employees and additional training for those with access to sensitive employee or customer personal data.
- Privacy Audits are incorporated in the internal audit process and extend to suppliers.

Progress in 2005

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

Consumers can raise privacy issues by contacting us using our e-mail address of privacy@hp.com. The number of e-mail messages increased by 34% in 2005, reaching a total of 5,637. The vast majority of e-mail requests concerned routine issues such as opting out of HP marketing announcements, and we received no e-mail messages with serious privacy complaints in 2005.

Suppliers

Data privacy is one of the key terms and conditions within our Master Services Agreement for suppliers. In 2005 we integrated data privacy requirements more fully into procurement processes for operations procurement¹.

We also assessed privacy risk in the contracts of more than 400 suppliers worldwide who handle customer or employee data. As a result of the assessment, we developed the following tools to correct root causes of privacy risk in supplier contracts along with implementation plans for their use:

- Developed contract amendment templates to include the HP Personal Data Protection Agreement clauses in supplier agreements now requiring those protections
- Updated or developed procurement templates to reflect new privacy requirements
- Redesigned risk assessment tools to evaluate privacy risk and increase the weight of privacy risk for supplier ranking and scoping purposes
- Embedded privacy controls in the HP Global Business Controls management system
- Developed a Supplier Privacy Compliance checklist to help business managers implement appropriate supplier engagement requirements
- Developed training and updated tools and resource materials for Indirect Procurement and Legal staff

Our suppliers have been very cooperative in complying with our increased privacy requirements over time, and we have not found the need to terminate any supplier as a result of our processes.

Global compliance

Many business activities, such as processing employee expense reports and managing 24-hour customer support centers, rely on immediate access to employee or customer personal data. In 2005, HP implemented a global process to protect employee and customer personal data as it moves between different HP entities worldwide. This process complies with the HP Global Master Privacy Policy.

¹ Operations procurement denotes those items and services not used in product manufacture, such as data processing services.



Goals for 2005

Complete at least two HP Internal Audit tests for privacy compliance each quarter.

Progress: At least one Internal Audit for privacy compliance was completed each quarter. In two quarters, audit work on Sarbanes-Oxley compliance superseded all other audits.

Conduct second bi-annual privacy policy practice benchmarking.

Progress: Completed. Results were incorporated into HP's 2006 privacy business plan.

80% of HP workforce to complete on-line Standards of Excellence Data Privacy training module.

Progress: More than 76% (111,000) of the HP workforce completed the training.

Collaborate with HP Procurement to broaden the application of privacy standards in supplier selection.

Progress: Achieved. Developed supplier privacy risk rating criteria for supplier selection and evaluation. Embedded criteria into Operations Procurement supplier selection and management processes. Amended Operations Procurement training materials to include privacy standards.

Goals for 2006

Expand compliance assessments to at least two other company audit processes in addition to Internal Audit.

Adopt one new industry best practice, such as "layered" consumer privacy notices.

Update the Standards of Excellence Data Privacy training module to reflect new policy requirements; 60% of HP workforce to complete by 2006 calendar year-end.

Collaborate with Real Estate and Workplace Services Security group to broaden the application of privacy standards in business processes, IT systems and supplier selection.

Industry leadership

HP continues to engage with groups such as the U.S.-based Center for Democracy and Technology (CDT) to discuss privacy issues regarding the use of technology, including Radio Frequency Identification (RFID) tags and "spyware." HP contributed to CDT's Anti-Spyware Coalition (ASC), addressing the growing problem of unwanted and sometimes malicious software programs. In Europe we presented our privacy strategy, policy and practices at several local and international conferences, emphasizing new technology and global compliance methods.

As the importance of privacy protection increases, it is imperative to establish standards for privacy professionals. HP is a founding grantor of the pioneering Certification Program for Information Privacy Professionals (CIPP), launched in 2004. The program includes several hours of training, a code of conduct and a comprehensive exam. During 2005 nine HP privacy staff members earned their CIPP, joining more than 350 individuals from other companies worldwide.

Design for Privacy

HP's Design for Privacy (DfP) initiative is a global effort to incorporate privacy requirements in product design.

In 2005 we applied privacy design concepts to Identity Management Systems, which organizations use to verify personal identity; for example, in managing access to IT systems, buildings and cross-border data flows. Building privacy features into technology helps HP and our customers honor privacy commitments while protecting national and corporate security needs. We are evaluating integrating DfP standards into additional product lines such as Select Access and Select Identity. In 2006 we plan to make DfP a formal, company-wide product development standard.

Research and development of privacy-enhancing technologies

Researchers at HP Labs are developing technology to provide more predictable, verifiable and uniform privacy protection across multiple IT applications and systems. Examples include managing and executing privacy policies by automated means to gain rigor, reliability and cost improvements.

This approach is particularly valuable in controlling access to personal information in databases.

Organizations currently use technology to enforce their information security policies, but this does not always reflect the data subjects' privacy choices. Our new technology integrates preferences about personal information with security-driven policies that support decisions on database access. HP plans to use this technology in upcoming products.

Technology can also help manage personal data held within an organization throughout its life cycle, such as maintaining accuracy, validating the organization's right to retention, controlling data transfer and deleting data after a specified time or event. We have developed a prototype to trigger and execute these obligations automatically, through participation in a four-year, 20-partner project partially funded by the European Union. HP is working to incorporate these features into future commercial offerings.



Employees



HP employs approximately 150,000¹ people at more than 940 sites in more than 170 countries. Our people are the key to our success. Their skills, knowledge, ideas and enthusiasm drive our business.

HP strives to attract and retain the best talent and to help employees fulfill their potential. We do this by treating them well, offering personal development and advancement opportunities and providing competitive salaries and good work-life options.

Our goal is for HP to be among the best places to work. We embed this objective in the design and implementation of all our employee programs.

Labor practices

HP provides employment opportunities based on performance and works with employees to create a safe, exciting and inclusive work environment that values diversity and recognizes individual contributions.

The success of our business depends on motivated employees. We believe that a committed workforce produces superior results and that:

- Trust is fundamental to a high performing workplace.
- All employees, regardless of title, level or tenure, make important contributions.
- An exciting, stimulating work environment is critical to invention.
- A diverse workforce provides competitive advantage.
- Employees are responsible for lifelong learning.

Employment policies

HP's employment policies apply globally. As a minimum, we comply with local laws, but our own policies often set a more demanding standard.

Our Best Work Environment Policy defines the standards we expect from employees, such as treating others with dignity, respect and courtesy; exemplifying HP's values in all interactions and contributing to a positive, productive work environment that is free of discrimination, harassment and offensive behavior.

We operate an Open Door Policy that commits us to creating a workplace where everyone's voice is heard, issues are raised and resolved promptly and communication flows across all levels of the company.

As part of our Human Rights and Labor Policy, HP supports the protection of international human rights within our sphere of influence. This includes freedom of association. We respect employees' rights to organize in labor unions in accordance with local laws and established practice.

Pay and performance

HP provides compensation that is competitive with global and local markets, affordable from a business perspective and aligned with individual, business and company performance. Our aim is to attract and retain a talented and diverse workforce.

Pay is reviewed for all employees during annual Focal Point Reviews. These reviews typically include:

- Performance evaluation and rating
- Recommendations on base pay
- Performance goal-setting
- Development planning

¹ As of October 31, 2005.



HP's executive compensation emphasizes individual responsibility for high achievement and links pay and performance at the individual and company level.

Employee benefits

HP uses market data to design competitive benefit programs. In many countries, employees' domestic partners are eligible for HP's medical, dental and vision programs. They may also be eligible for certain other benefits such as life insurance and accidental death and dismemberment insurance.

We offer flexible benefits that include, as a minimum, the medical, retirement and workers compensation benefits required by law. Additionally, in many countries we offer employee assistance programs to help employees and their dependents address personal issues.

HP encourages employees to use all accrued vacation time each year. We provide for special events such as becoming a parent (see Diversity). We grant a military leave of absence to U.S. employees for the full length of compulsory service and provide ongoing compensation and benefits, offset by military compensation.

In many countries, we provide disability benefits when an employee has an injury or illness that prevents him or her from working. HP helps to provide financial protection in the event of death or a serious injury through life and accidental death and dismemberment insurance in the event of a covered accident.

HP offers retirement programs in many countries that often include pension and retirement savings plans, such as the 401(k) plan offered in the United States. Plans are country-specific and align with local practices, business needs and applicable laws.

HP has modified its U.S. retirement programs to better match industry benchmarks. As of January 1 2006, the company froze the pension and retiree medical program benefits of current employees who do not meet defined criteria based on age and years of company service. Instead, HP will increase its matching contribution to most employees' 401(k) plans to 6 percent from 4 percent. These changes will not affect benefits currently received under such programs by retirees or eligible employees who are longer serving and close to retirement age. Additionally, existing employees will retain the benefits they have already earned.

Workforce reduction

HP launched a program in July 2005 to reduce its workforce by about 10% of regular full-time staff and to modify our U.S. retirement program. We expect 15,300 people to leave HP under this program. All elements of the program were subject to consultation with Works Councils and other employee representatives to the extent required by local law.

The aim of the restructuring was to cut costs, increase emphasis on customer service and to simplify the management structure. Most of the staff reductions were in support functions such as information technology, human resources and finance.

We expect the program to cost \$1.1 billion and to save \$1.9 billion annually, including \$300 million in benefits savings.

We offered a voluntary retirement program to longer-serving staff based in the United States. Employees who would be affected by workforce reduction were provided four weeks to find alternative jobs within HP. At the end of this period they finished working for HP but entered a nine-week Open Job Search on full pay, during which they could search for jobs in HP or with other companies. After nine weeks, we terminated those who had not found a job.



Awards

Austria

Ranked #4 Best Place to Work, HP Austria - Trend magazine, 2005.

Belgium

Ranked #5 Company to Work for in Belgium, HP Belgium - Randstad, 2005.

Canada

One of Canada's Top 100 Employers, HP Canada - MediaCorp Canada, Inc. and featured in Maclean's magazine.

Chile

Ranked #10 in Best Companies to Work for - The Great Place to Work Institute, 2005.

China

Included in "Best Employers in China," Hewitt Associates and 21st Century Economic Herald, 2005.

Czech Republic

Ranked #1 Most Desirable Employer & Best Company for Equal Opportunities, HP Czech Republic - 2005.

European Union

Included in "100 Best Workplaces in EU", HP EMEA - Best Workplaces in Europe, 2005.

Hungary

Voted Best Workplace, HP Hungary - Hungarian Government, 2005.

Ireland

Included in Best Place to Work, HP Ireland - Best Workplaces in Europe, 2005.

Italy

Ranked #8 Best Place to Work - Best Place to Work Institute Europe, 2005.

Netherlands

Voted Employer of the Year, HP Netherlands - In Company 2005.

Singapore

Voted Employer of Choice - Human Resources Management, 2005.

United States

Included in Top 20 Best Workplaces for Commuters - US Environmental Protection Agency (EPA).

Included in the 35 Great Places to Work List for Work-life Balance, Career Advancement and Diversity Programs - ESSENCE Magazine.

Communications

Good internal communications keep employees well informed and provide feedback opportunities. Our major formal feedback exercise is the Voice of the Workforce survey (see below), but during 2005 we also carried out the following communication initiatives:

- "Ask HP," launched in late 2004, enabling employees to query the company on any topic. It received over 2,000 questions through November 2005.
- Employee networks, including web discussion forums and newsletters.
- Twice-weekly global e-mail alerts to provide employees with company-wide news.
- Senior Leaders meetings, providing managers with important updates for their teams, occurring every six weeks.
- Monthly "pulse surveys" to gauge employee attitudes.
- Quarterly business performance review videos from senior management.
- Regional site visits, allowing employees to ask the CEO questions.
- Twice-yearly "state of the company" broadcasts from the CEO to all employees.

Voice of the Workforce (VoW)

HP's annual employee survey, the Voice of the Workforce (VoW), gives employees the opportunity to answer approximately 40 questions about their work environment and provide comments in response to a single open-ended question. The survey provides a baseline for improvements and provides resources for business planning, management decision-making, and developing company strategy. HP's Executive Council uses the VoW results to better understand employees, gauge progress in key areas, and identify issues that employees have said need attention. Employee confidentiality is strictly protected.

This year, almost 111,000 employees, representing 74% of our workforce, took part in the survey which is available online in 20 languages. To ensure that survey

results are acted upon, detailed presentations of the results are made to all executives and customized reports are given to each group manager. Managers are then required to develop 30-, 60- and 90-day action plans for responding to the data. In addition, HP's Board of Directors, Executive Council and CEO Mark Hurd personally share in reading employees' anonymous written comments. In 2005, there were a total of over 87,000 comments containing a wealth of employee insights, feedback and reflections.

To complete the feedback loop, results and next steps are shared with employees after senior management assesses the company-wide data and determines appropriate next steps. Employees can also expect their managers to share work group data and solicit their participation in identifying key issues and creating action plans at the work group level.

Workforce development

HP strives to build the world's most competitive and committed workforce. As part of the annual performance review process, each HP employee creates a development plan with his or her manager. We focus on role development on the job, special projects and task forces, and job rotation. We emphasize "relationship development" using role models, coaching, ongoing feedback and mentoring. We also support employees with external educational opportunities such as technical certifications, undergraduate and graduate degrees, conferences and seminars.

Training enables employees to reach their full potential and develop their careers. A global, company-wide training team aims to align learning with business strategy and company objectives.

Our workforce development systems and processes enable:

- Ongoing review and tracking of performance and development plans
- High quality, localizable e-learning material
- Varied delivery methods (instructor-led and online learning)
- An "always-on" learning environment



In 2005, we emphasized experiential learning and the use of technology while maintaining investments in conventional training approaches. Our learning portal averaged over 124,000 visits daily. Employees accessed tailored services ranging from classroom sessions to immediate on-the-job information and support.

HP invested \$275 million in 2005 on workforce development, similar to 2004. This equated to more than 13,000 training and development courses delivered in classrooms or through self-paced and web-based vehicles, including HP's "virtual classrooms" and online "Virtual Labs." Employees received an average of just over 40 hours of formal training during the year.

Employee training [Approximate total spending, million U.S.]

2003	2004	2005
\$259	\$279	\$275

In 2005, we centralized common resources, creating "centers of expertise" that focus on areas such as leadership to help HP staff meet development needs. We continue to support local needs and our Global Operations Team is responsible for regional delivery strategies as well as group-wide approaches.

HP's Standards of Excellence training helps employees implement company policies, meet high standards of conduct and ensure their behavior reflects company values. The training is available online through a series of one-hour modules, each sponsored by an HP executive. Standards of Excellence topics include customer experience management; environment, health and safety; data privacy; information security; and standards of business and personal conduct. The modules are updated once or twice a year.

We have created an executive leadership program to help high potential employees expand their leadership skills. In total, more than 4,000 employees participated in leadership training programs during 2005.

Key HP leadership program participation, 2004-2005 [Number of employees]

Program	2004	2005
Breakaway Leadership – helping managers develop required leadership skills	1,511	1,588
Leading People for Results – for new first-level managers to learn necessary tools, skills and strategies	1,074	1,542
Leading Business Systems – a four-month training course to help employees learn to manage a business	274	687
Winning Edge – to help senior managers refine executive management skills	181	274



Diversity

HP believes that a diverse workforce encourages creativity and innovation and helps build an exciting, stimulating work environment. A diverse workforce, reflecting the demographics of the many different markets where HP operates, also provides a competitive advantage and helps acquire new business.

In 2005, we focused on the following activities in three priority areas.

Priority 1: Expand the diversity of the workforce

- Attracting diverse talent - HP recruited diverse candidates through specialist search firms as well as conferences, career fairs and events, including the National Society of Black Engineers, the Hispanic Engineer National Achievement Awards Conference, the Out and Equal Summit, and the Global Summit of Women. In several countries HP offers intern programs with intensive mentoring, coaching, networking and career development components. HP's partnership with INROADS allows the company to tap into and develop talented minority youth throughout the Americas Region. The HP Scholar Program in the United States encourages African American, Latino and Native American students to pursue educational degrees in technical fields. Scholarship assistance includes cash, summer internships and HP equipment. Scholars receive mentoring and assistance with resume writing and interview preparation.
 - Developing diverse talent - HP includes diversity in the talent management process and offers accelerated leadership development programs for employees in under-represented ethnic groups, including a five-day training program delivered in partnership with the Society of Hispanic Professional Engineers. We also sponsor numerous professional conferences, including the Simmons Leadership Conference, which about 500 HP women attended in 2005 and the Women's Information Network (WIN) Conference, which nearly 60 HP women from across the Europe, Middle East, and Africa (EMEA) region attended.
- ### Priority 2: Build an inclusive work environment
- Expanding dialogue and involvement - HP conducted 26 diversity dialogue sessions with over 3,100 employees,

and enhanced the "HP Way" website, which received over 58,000 hits after its new release. We also delivered "Values Made Real" workshops, and published Customer Hero and Values-in-Action stories to highlight examples of living the HP Way through the company's values.

- Promoting flexible work arrangements – HP revamped the Flexible Work Arrangements website, and delivered 34 seminars to help employees navigate work-life issues. Currently, over 70% of U.S. employees take advantage of some form of flexible work arrangement (see Work-life programs).

Priority 3: Build on diversity experience

- Expanding a culture of inclusion through community activity – HP globally engaged Employee Resource Groups in community activities and continued to sponsor community outreach activities including Disability Mentoring Day, which allows students with disabilities and HP employees to learn more about each other's experience and needs. Disability Mentoring Day was also a recruiting forum resulting in 11 hires of employees with disabilities in France, Denmark, Spain and Italy.

Diversity policies

It is HP's policy to comply with all applicable national and local laws. We operate to our own global policies wherever their requirements exceed those of local laws. Our key diversity and inclusion policies are:

Best Work Environment Policy

Every employee is responsible for treating people with dignity, respect and courtesy, contributing to a positive, productive work environment, free of discrimination, harassment and offensive behavior.

Nondiscrimination Policy

Discrimination against any employee or applicant for employment based on gender, color, race, ancestry, religion, national origin, age, physical or mental disability, sexual orientation, gender identity/expression or covered veteran status is prohibited.

Harassment-free Work Environment Policy

If harassment is alleged, we will take immediate and appropriate action to investigate, stop inappropriate behaviors and actions, remedy effects, discipline the

Stakeholder perspective

How is HP doing?

Over time, Hewlett-Packard has remained in the vanguard among peers in the technology industry and F500 companies with relatively high percentages of women board directors and corporate officers.

How would you like to see HP improve in this area?

With women comprising nearly half of the labor-force, we encourage Hewlett-Packard to aggressively and systematically support and cultivate women, particularly women of diverse backgrounds, to increase their numbers in senior leadership. Ensuring that women are given high-visibility opportunities, line roles and management responsibilities will propel Hewlett-Packard's vision of creativity, innovation and invention at work.

Ilene H. Lang
President
Catalyst, Inc.

harasser and ensure the person who raised the issue does not suffer retaliation. We encourage employees to report suspected discrimination or harassment, by using the Open Door Policy, by contacting Employee Relations locally or by using HP's confidential and anonymous global phone line.

Diversity programs

Diversity training

In 2005, over 6,000 employees across the world completed online diversity training, an increase of 23% since 2004. Also, over 150 managers completed Managing Inclusion, a face-to-face program to help participants recognize the benefits of inclusion and understand how people can be affected by reactions to differences.

Employee development

Focused Development Program – This year-long leadership program for employees in underrepresented ethnic groups helps grow a new and more diverse generation of leaders. In 2005, 32 high-potential employees participated in the program.

Winning Edge – This senior leadership development program includes a 'Leveraging Diversity' module to help senior managers integrate diversity as a key leadership principle (see Labor practices). In 2005, 75 HP senior leaders completed Winning Edge.

Mentoring for high-potential women – This program is designed to increase the number of women in the leadership team, building on HP's achievements reflected in having four female members in the 13-strong executive team at the end of 2005. Over 90 HP EMEA women participated in a development conference in Europe which included time with members of the leadership team.

Employee resource groups – HP supports 61 groups worldwide, representing several dimensions of diversity, including gender, ethnicity and sexual orientation. The groups foster employee development through workshops, leadership training and events promoting cultural awareness.



Work-life programs

Flexible work arrangements – HP supports flexible work arrangements including:

- **Flex-time** – employees vary the duration and timing of their workday around core business hours.
- **Part-time** – employees work a reduced schedule on an ongoing or temporary basis.
- **Job Share** – two employees share the tasks and responsibilities of one full-time position. Each job share partner has part-time status and the employees share the responsibility for coordinating and accomplishing certain job responsibilities.
- **Telework** – an employee works full-time from home.
- **Flexwork** – employees occasionally fulfill their job responsibilities from home.

Employee resource and referral program (U.S. and Canada) – HP-sponsored LifeWorks, a confidential phone and web service, provides employees and their families with information about child and elder care, financial and legal issues, and everyday challenges such as preparing a student for college.

In other countries, various local services are available to support employee work-life needs.

Maternity/paternity/adoption leave – HP provides time off for new parents, varying by country. For example, in the United States, HP offers three days of full pay and 12 weeks of unpaid time off to new parents, extendable to a year. In China we offer between 12 and 18 weeks leave with full pay, and in the United Kingdom we offer 18 weeks with full pay.

Disability programs

HP works with various organizations, schools and external network groups dedicated to promoting employment for people with disabilities. We support organizations such as Career Opportunities for Students with Disabilities (COSD) and the National Business Disability Council (NBDC), and use e-recruiting sources such as www.projecthired.com and www.hirediversity.com.

HP is also a founding member of the Business and Disability Network, based in Brussels.

Awards

Australia

Employer of Choice for Women - Australia EOWA (Equal Opportunity for Women Assoc.), 2005.

Chile

#5 Best Companies for Working Mothers - Fundacion Chile Unido / Revista Ya, 2005.

United States

100% Corporate Equality Index rating for policies, practices and benefits - Human Rights Campaign, 2005 (3rd consecutive year).

Top supporter of Historically Black Colleges and Universities Engineering Schools - ABET accredited Deans of Engineering, 2005.

#2 Top U.S. Company for Female Executives - National Association for Female Executives (NAFE), 2005.

#3 Company for People with Disabilities - Diversity Inc magazine, 2005.

One of the eight Best Companies for Women of Color - Working Mother magazine, 2005. HP's Aurora Archer featured on the cover of the June 2005 issue.

Top 10 Companies for GLBT (Gay, Lesbian, Bisexual and Transgender) employees - Diversity Inc magazine, 2005.

Top Ten Best Companies for Working Mothers - Working Mother magazine.

Secretary of Labor's New Freedom Initiative Award for employment of people with disabilities.

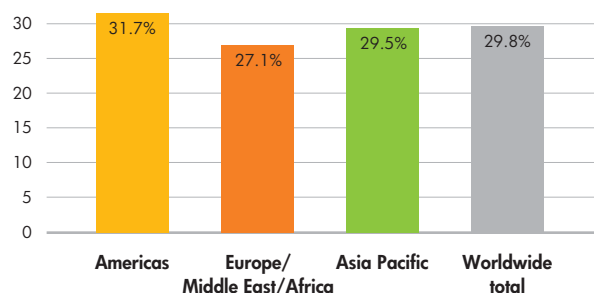
We support employees with disabilities by providing equipment such as screen readers and printers with touch-sensitive displays and notebooks for single-handed operation, while raising awareness of the issues people with disabilities face in the workplace, through internal communications (see Accessibility).

Performance

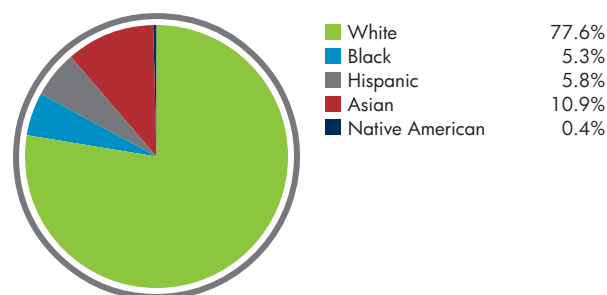
We track ethnic diversity in our HP U.S. workforce and gender diversity globally. The charts below illustrate ethnic diversity in the total U.S. workforce, and gender diversity by region.

Worldwide workforce demographics, 2005

[% female of total in region]



U.S. workforce demographics, 2005



U.S. workforce demographics, 2004

	Male	Female	White	All minorities	Black	Hispanic	Asian	Native American	Total
Officials and managers	6,051	2,261	7,047	1,265	288	402	547	28	8,312
Professionals	29,213	13,219	32,767	9,665	1,955	2,222	5,342	146	42,432
Technicians	4,999	737	4,508	1,228	422	343	420	43	5,736
Sales workers	1,092	389	1,296	185	63	86	31	5	1,481
Office and clerical	639	2,828	2,665	802	328	298	165	11	3,467
Craft workers (skilled)	62	2	58	6	2	1	3	0	64
Operatives (semi-skilled)	457	180	359	278	129	91	51	7	637
Laborers	1,124	785	1,220	689	193	262	221	13	1,909
Service workers	0	0	0	0	0	0	0	0	0
Total	43,637	20,401	49,920	14,118	3,380	3,705	6,780	253	64,038
% of total	68.1%	31.9%	78.0%	22.0%	5.3%	5.8%	10.6%	0.4%	100.0%



Human rights

The most widely recognized definition of human rights is found in the Universal Declaration of Human Rights, adopted by the United Nations in 1948: Human rights are the standards of treatment to which all people are entitled.

Our Global Citizenship Policy states our commitment to the Universal Declaration of Human Rights and includes specific policies on human rights and labor, as well as employee privacy.

HP Human Rights and Labor Policy

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.

Our Human Rights and Labor Policy covers the following areas:

- Freely chosen employment
- No child labor
- Minimum wages
- Working hours
- No discrimination
- No harsh or inhumane treatment
- Freedom of association

The policy commits us to respect our employees' human rights and to ensure fair treatment for all employees in every country where we operate.

HP managers are responsible for ensuring adherence to our global personnel policies and guidelines. We will abide by our policies or local law, whichever sets higher standards.

HP protects human rights by ensuring nondiscrimination and equal opportunities for all employees. Our Equal Opportunity Policy states we will not discriminate against any employee or applicant for employment because of gender, color, race, ancestry, religion, national origin, age, physical or mental disability, sexual orientation, gender identity/expression or covered veteran status (see Diversity). To ensure adherence, we educate employees about the policy and their rights and identify how to report alleged policy violations. We train managers on the policy and their responsibility to respond to employee allegations regarding violations. We provide anonymous channels to report alleged policy violations, which are thoroughly investigated and followed by further action, if necessary.

HP's supply chain is our focus for human rights issues that we work to address through the Electronic Industry Code of Conduct (EICC) we co-developed in 2004. The code provides an important foundation for our ongoing supplier performance discussions, audits and other efforts to assure conformance with our Human Rights Policy.



Health, safety and wellness

HP conducts business in a manner that delivers leading Environmental, Health and Safety (EHS) performance, in accordance with our EHS policy (see Operations). We believe work-related injuries are preventable and aim to foster practices and create work environments that allow employees to work injury-free. We accomplish this by continually reducing occupational injury and illness risks while promoting employee health and well-being.

Additionally, our commitment to health and safety extends to our supply chain. The Electronic Industry Code of Conduct (EICC) that we co-developed in 2004 requires that working conditions at supplier facilities are safe and that appropriate measures are taken to ensure employee health and wellness.

Environmental, Health and Safety Management System

We implement our Health, Safety and Wellness (HSW) programs as part of a comprehensive Environmental, Health and Safety Management System (EHS MS) (see Operations). Managers implement the EHS MS together with employees, including through joint EHS committees that monitor performance, review program status and drive new initiatives.

Our EHS MS meets or exceeds applicable regulatory requirements globally. It reflects the International Labor Organization (ILO) Guidelines on Occupational Safety and Health Management Systems as well as the Occupational Health and Safety Management Systems Specification OHSAS 18001 – the most widely accepted health and safety standard worldwide. Four HP sites are currently registered to OHSAS 18001.

We record and investigate injuries to identify and eliminate root causes, aided by an automated system that reflects the ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases.

In 2005, HP implemented a global Chemical Management System which consolidates regional and local chemical databases. This online system allows employees to view chemical safety and environmental information for chemicals they work with and is searchable by chemical type, manufacturer and use within HP.

Health and wellness

HP's health and wellness strategy is designed to improve the health, quality of life and productivity of our employees and their families. We focus on raising the awareness of health issues and encouraging employees to adopt healthy lifestyles.

We implement this global strategy at the country level to ensure that local health concerns are addressed and that employee programs are sensitive to the local culture. Programs include health screenings and immunizations, stress management workshops, smoking cessation initiatives, defensive driving training and health seminars. Our larger sites have fitness and recreational facilities.

Health programs in Asia Pacific and Japan include health talks, educational fairs and physical activities including sports. In Europe, we offer employees general health consultations, fitness centers, influenza and other immunization programs, and travel and other health advice.

In 2005, we offered U.S. employees individualized health assessments and a personal health coach with a \$300 incentive to encourage participation. We will use the assessment results to improve health educational programs.

We recognize the potential impact of HIV/AIDS on our workforce. We are committed to combating this disease through our programs and policies. HP has an HIV/AIDS policy for our South Africa location and we implemented an HIV/AIDS task force there in 2003. We provide testing and treatment to HP employees and their families in South Africa. All staff members also have access to an online AIDS education program and may receive weekly bulletins on AIDS-related issues.



Goals for 2005

Increase HP employee participation in our office ergonomics self-assessment course by an additional 29,000 employees in 2005. Progress: Exceeded goal by reaching 41,000 additional employees.

Train an additional 31,000 employees in the EHS&S Policies and Standards e-learning class. Progress: Exceeded goal by training an additional 39,500 employees, for a cumulative total of 113,500.

Reduce the percentage of ergonomics self-assessment course participants identified as high-risk to 15% or lower globally. Progress: Achieved 18% globally, 14% in the Americas; 17% in Europe/Middle East/Africa; 26% in Asia Pacific & Japan.

Goals for 2006

Increase HP employee participation in our office ergonomics self-assessment course to at least 60% of employees.

Reduce the percentage of ergonomics self-assessment course participants identified as high-risk to 15% or lower in the Americas, 15% or lower in Europe/Middle East/Africa, and to 20% or lower in Asia Pacific and Japan.

Employee training and communications

HP provides HSW training that is tailored to employees' jobs and available in local languages. Program information is also part of new employee orientation and is refreshed routinely through the EHS&S Policies and Standards training module, employee websites and other HSW communications. To date, 113,500 employees have taken this online course.

The EHS website includes links to external resources such as web-based assessments for health risks, nutrition and fitness information, and education and prevention strategies for specific health concerns.

We provide employees who travel with immunization information, medical alerts, food and water safety precautions, legal and medical referrals, and updates on health care standards. In response to natural disasters in 2005, we provided employees with travel advisories and targeted health and safety information.

To measure HSW program effectiveness, we conduct regular site-focused workplace assessments and global employee surveys. Through 2005, employee responses to health and wellness questions showed an approval rating of 88%, and 95% for safety.

Ergonomics

Our injury rates are among the lowest in our industry, but we continue to seek new ways to protect employees from harm, especially from musculoskeletal disorders associated with working in an office environment. This is the most common type of reported workplace injury at HP. Within the Americas, HP's recorded office ergonomic-related injury cases fell by 21% in 2005.

Our online office ergonomics self-assessment, training and risk reduction program, which helps employees identify and reduce the ergonomic risks associated with their jobs, is available worldwide in ten languages. At the end of the 2005 fiscal year, 56% of HP employees (more than 88,000) completed the program, an increase of 41,000 people compared to 2004, greatly exceeding our target of 29,000. Ninety-one percent of participants reported ergonomic improvements in their workstation configuration or work practices.

We use the employee self-assessments to identify leading ergonomic risk factors and to focus on reducing those risks. We follow up the self-assessments with personalized communications, providing additional information to those employees who have the highest self-identified risk. We plan to increase employee participation to at least 60% in 2006.

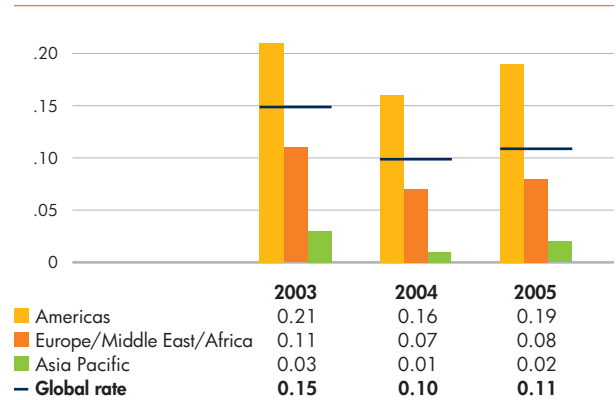
Performance in 2005

We track work-related injuries as well as several other health and safety metrics (see table).

In 2005, the work-related injury rate increased slightly, as the chart illustrates. The top five categories for lost workday cases were slips, trips and falls; ergonomic issues related to manufacturing, assembly or materials handling; ergonomic issues related to the office environment; automobile incidents; and "struck by or against" injuries.

In 2005, there were no work-related fatalities or violations with penalties from governmental regulatory agencies.

Lost workday case rate², 2003-2005



² 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.



Awards

Brazil

Occupational Health and Safety award at the Campinas site for their approach to reducing injuries and illnesses.

Hong Kong SAR

Indoor Air Quality (IAQ) Certification by the IAQ Management Group of the HK SAR Government in 2005.

Ireland

NISO/NISA Occupational Safety Awards 2005, Major Award – Category 2.

Puerto Rico

Safety Achievement Award for the Aguadilla site from the Puerto Rico Manufacturers Association.

Singapore

HEALTH (Helping Employees Achieve Life-Time Health) Platinum Award 2005 (Previous awards in 1999, 2001, 2003, 2004).

Ministry of Manpower Best Practices Award (Ergonomic Solutions) – Excellence Award 2005.

Taiwan

Outstanding Excellence Award for Leading Performance in Workplace Health Promotion, 2005.

United States

Community Service Award for the Vancouver site from the Southwest Washington Blood Program for HP employee donations to Puget Sound Blood Center.

Select health and safety metrics, 2003-2005 [Worldwide]

	2003	2004	2005
Fines [\$U.S.]	\$150	\$0	\$0
Work-related fatalities	0	0	0
Percentage of employees completing the on-line office ergonomics self-assessment and training (cumulative)	10%	35%	56%
Percentage of users completing the online office ergonomics self-assessment at high risk ³	NA	NA	18%
Cumulative total of employees taking the EHS&S Policies and Standards e-Learning class	41,000	74,000	113,500

Health, safety and wellness challenges for 2006

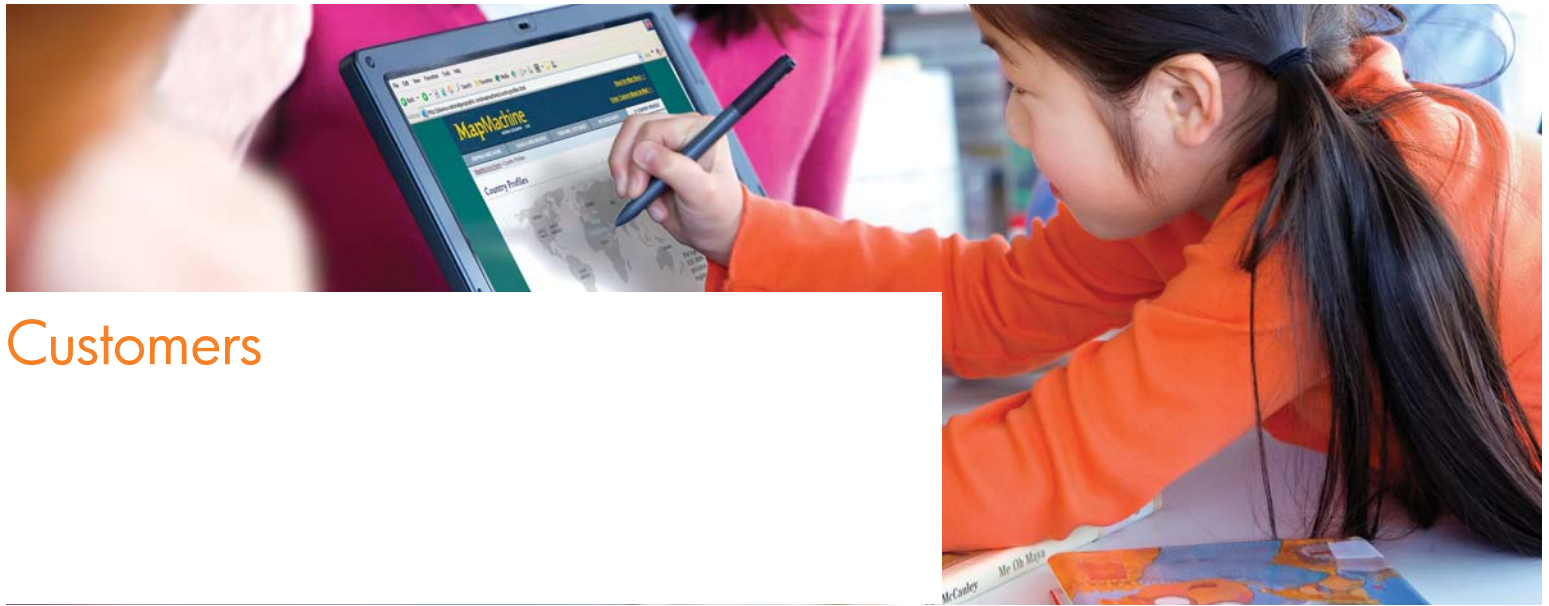
It is difficult to determine when and where avian influenza may strike, so preparation is critical. We are building on our experience with the SARS outbreak in 2003, when we developed plans to help protect employees and maintain business operations throughout a very dynamic situation. In 2005, we formed a multidisciplinary avian flu work team, engaged HP's Crisis Management Teams (CMT), conducted CMT and Senior Management drills, drafted preparedness and business continuity plans and provided online information about avian and seasonal influenza. HP preparedness planning and actions will continue in 2006 in accordance with the WHO Pandemic Preparedness phases.

Our focus next year in the ergonomics arena is to implement various solutions to reduce the percentage of HP employees identified at high ergonomic risk related to the office environment.

In 2006, we anticipate that our workforce outside the United States will increase significantly. Rapid growth presents numerous challenges, including providing timely health and safety orientation and training for all new employees and delivering HSW services. We are working to ensure that our programs can accommodate the expected growth and are available to all our employees.

Another challenge comes as HP deploys more employees at customer locations to deliver consultation services and customer support and to help manage our customers' IT systems. We are seeking ways to partner with our customers to extend key elements of our HSW programs into this work environment.

³ This metric was introduced in 2005.



Customers

HP provides technology products, solutions and services to enable all our customers, from the individual consumer to the largest enterprise, to improve the way they live and work. Our business depends on meeting the needs and expectations of each existing and potential HP customer.

HP offers a comprehensive portfolio of market-leading products, services and solutions. Our portfolio helps us to match the right technology to the different needs of our main customer groups:

Consumers. We deliver simple, manageable technology experiences to millions of consumers worldwide. Products include handhelds, notebooks, printers and digital cameras and accessories.

Small and medium-size businesses. We serve small and mid-sized business customers worldwide by providing specialized advice, technology and services through our Smart Office Portfolio.

Enterprise and public sector customers. We collaborate with large customers to help them manage and transform their IT systems and achieve greater agility, simplicity and value. In addition, HP offers a comprehensive set of business solutions, services and technologies that enable governments, educational institutions, healthcare organizations and others in the public sector to lower their costs, function more efficiently and serve their constituents better.

Issues such as social and environmental performance and accessibility are significant and growing factors in purchasing decisions for many customers. Our global citizenship programs contribute to meeting these customer expectations and providing the best customer experience.

This section covers the following areas:

- Customers and global citizenship – how we assess customer priorities and the importance of environmental and social issues in the marketplace
- Accessibility – how we help people with disabilities use our products

Customers and global citizenship

To better understand customer views on global citizenship issues and whether these views impact purchasing decisions, HP analyzes customer inquiries and requests, conducts research and utilizes third-party research. This information influences our global citizenship strategy and helps us ensure that our products and services meet or exceed customer expectations.

Customer interactions

HP gains valuable knowledge about customer perceptions through the following sources of information:

Customer inquiries. We receive thousands of customer inquiries each year on global citizenship issues such as product recycling, environmental design specifications, packaging, privacy and human rights. HP tracks these inquiries globally to assess what issues are most important to customers.

Customer meetings. Our regional teams work directly with customers to address questions on issues such as the environmental performance of HP products and operations, privacy and accessibility. This dialogue helps us to design products that meet their purchasing criteria.

Requests for proposals (RFPs). Enterprise and public sector customers often send us requests for proposals that include extensive questions regarding HP's global citizenship programs and performance. RFPs provide insights into emerging trends and expectations among these customer groups.

Website. We monitor web traffic to the global citizenship website to see which type of information is most frequently accessed by HP customers.



Market research and surveys

We conduct market research and customer satisfaction surveys to assess what issues are most important to our customers and to measure how customers perceive HP and our competitors. Customer research in 2005 included questions on the following areas: trust, integrity, ethical business practices, privacy and environmentally responsible recycling services.

We also use third-party research (see Globescan, below) to assess the influence of social and environmental factors on customer perceptions and purchasing behavior.

What we have learned

We have found that price, performance and quality are still the most important factors in purchasing decisions for most customers. However, many customers increasingly consider global citizenship issues, particularly recycling, product take-back, eco-labels and product design.

More public sector customers request information on global citizenship factors than any other customer group. Recycling is a critical issue, and our recent research indicates that performance

in that area can be more important in creating customer loyalty among this group than brand or company reputation.

The number of RFPs from enterprise and public sector customers that include global citizenship requirements has increased significantly in the last four years. These RFPs now represent a sizeable amount of HP's business. Recycling, product take-back, eco-labels and product design are the most commonly cited issues. Social issues such as labor standards, privacy, ethics and supplier practices are also included in many RFPs.

Initially, these trends were most prevalent in Europe, but we are now seeing similar trends in the Asia-Pacific region including Japan, and increasingly in the Americas.

We are still trying to understand how global citizenship factors affect individual consumer purchasing decisions. We track and measure consumer inquiries and have found that the most common global citizenship issues raised by individual consumers are recycling, product take-back and privacy. During the last two years, the number of visits to the global citizenship website has increased significantly, but we do not have conclusive data to determine whether global citizenship issues are a factor in consumer purchasing decisions.

GlobeScan and corporate social responsibility (CSR) public opinion research

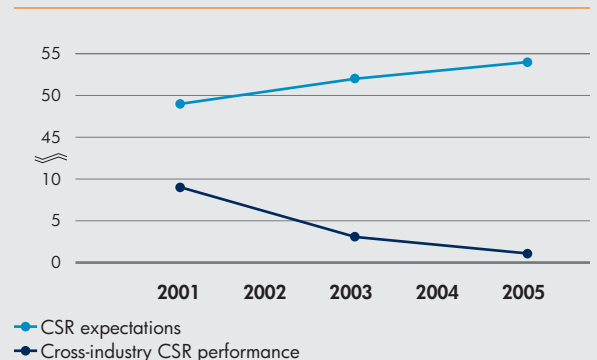
Since 1999, GlobeScan's CSR Monitor public opinion survey has tracked public expectations on CSR in over 20 countries. One of the most important trends GlobeScan has uncovered over the past six years is an increase across the world in the demand for CSR, concurrent with decreases in trust and perceived CSR performance ratings of companies. Indeed, majorities of people expect companies to go beyond their basic economic function, with an average of 54% of people holding companies responsible for a variety of social and environmental actions – an increase of five percentage points since 1999. These findings suggest that CSR will continue to grow as a public expectation, making it a strategic area of focus for global companies.

The low ratings accorded to companies for their CSR performance – and this despite the significant efforts made by leading companies, including HP, in the area of citizenship – illustrate how the general public and many other stakeholders are largely unaware of corporate citizenship initiatives. To raise awareness, HP must continue to focus its activities on areas of interest to its stakeholders, and determine how best to authentically communicate its commitment to CSR.

Clear and effective messaging could respond to consumer anxieties and also attract the interest of CSR thought leaders, particularly if focused on their key areas of concern, such as responsible supply chains and bridging the digital divide.

Femke de Man
Director, CSR Research Program
GlobeScan Incorporated

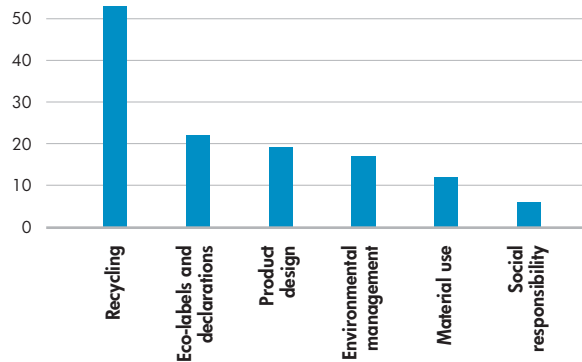
Public expectations of CSR¹ vs. perceived performance², 2001-2005 [%]



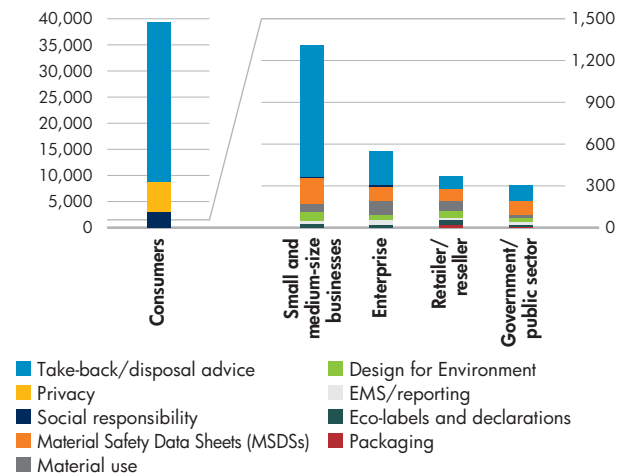
¹ Percentage of 21,000 survey participants across 21 countries that hold companies responsible for 13 social and environmental actions (margin of error +/- 1%).

² Aggregate rating of 11 industries. Number equals difference between percentage rating performance above average and percentage rating performance below average.

Customer global citizenship requirements in requests for proposals (RFPs), 2005³ [% of total requiring such information]



Global citizenship customer inquiries, 2005 [Number]



Awards

Australia

HP voted most trusted company in its category by Reader's Digest.

United States

HP ranked #1 in the Customer Respect Group Study of the largest 100 U.S. firms.

Challenges

One of the challenges we have identified is a perceived conflict between environmental considerations and product performance. For example, our market research indicated that some customers are less likely to buy a product that is made from recycled materials because it is perceived to be of lower quality. We continue to make some of our scanners using plastic recovered and reprocessed from HP recycled print cartridges, but, based on the customer research, we have shifted information about this innovative program away from consumer marketing materials and have integrated it into environmental communications.

Customer Experience Standards

HP interacts with customers in many ways throughout the product life cycle: through our products themselves, through retail channels, marketing materials and websites, as well as through call centers, sales teams and support and recycling services. We focus on improving the customer experience at each of these touch points. Our total customer experience and quality (TCE & Q) framework includes Customer Experience Standards that govern how employees should interact with customers. Examples include:

- We learn and remember customer needs and preferences. We are responsible stewards of their information and always respect their privacy.
- We are environmentally and socially responsible, and are creative in helping our customers achieve their environmental and citizenship goals through technology.

All employees must complete training on our Customer Experience Standards and 95,000 were trained as of February 1, 2006.

³Total is greater than 100% because some customers inquire about multiple items.

Bruno Zago, Country Environmental Steward

HP has more than 20 Country Environmental Stewards located across Europe, Asia Pacific and the Americas, working closely with our sales force to answer environmental inquiries.

The stewards' role is to keep HP employees, customers and other interested parties informed about HP's environmental programs. They also monitor environmental legislation and feedback any local regulations to HP Product Stewards.

"I support our sales teams on large tenders, presenting to customers on HP's Design for Environment program. We receive many questions about HP's environmental credentials and topics such as recycling and the WEEE (Waste Electrical and Electronic Equipment) and RoHS (Restriction of Hazardous Substances) Directives – especially from public sector customers. It's satisfying to tell customers about our latest innovations such as Halo, a real-time video/audio conferencing solution that replaces the need for travel. I also keep up to date with the latest developments in environmental legislation. Environmental factors are having an impact on procurement decisions in the public sector and in other sectors when service, delivery, price and product factors are equal. The environmental stewards program gives HP an advantage over competitors."

Bruno Zago
HP Environmental Steward, UK and Ireland



Goals for 2005

Ensure that 90% of hp.com pages comply with W3C Web Content Accessibility Guidelines and support Section 508 standards.
Progress: Achieved 90% compliance.

Provide VPAT documentation at product launch for 100% of applicable products.

Progress: Provided documentation for 72% of applicable products.

Increase the number of assistive technology vendor partners from 22 to 30.

Progress: Increased number of AT vendor partners to 52.

Develop a web accessibility training program for HP's web development team.

Progress: Completed three of five modules. The remaining two modules are in development and will be launched in 2007.

Partner with Microsoft to help AT vendors migrate their applications and hardware to Longhorn (the next generation Microsoft Windows Operating System).

Progress: Provided HP hardware to selected AT vendors, enabling them to migrate their applications at a reduced cost.

Goals for 2006

Provide VPAT documentation at product launch for 85% of applicable products.

Add VPAT information to the U.S. government's new Buy Accessible Wizard, a tool for enforcing Section 508 requirements.

Ensure that 90% of hp.com pages comply with W3C Web Content Accessibility Guidelines and support Section 508 Standards.

Increase the number of assistive technology vendor partners from 52 to 60.

Develop web-based accessibility training programs for HP web and content developers and update our sales and marketing training.

Document and analyze worldwide accessibility regulations, legislation and standards.

Accessibility

Using Information and Communications Technology (ICT) and accessing the Internet can be difficult for people with disabilities or age-related limitations. These groups make up a significant and growing percentage of the population in many countries. For example, more than 50% of working-age computer users in the United States are affected by mild to severe visual, hearing, dexterity, speech or cognitive impairments that limit their abilities⁴. By 2010, more than 51% of the U.S. population will be over 40, and by 2020, 20% of the U.S. workforce will be 55 or older⁵.

Worldwide, the number of accessibility regulations and standards is rapidly increasing. Many of these require government agencies to purchase accessible ICT equipment and to ensure that websites are accessible to people with disabilities and age-related limitations. HP aims to win public sector contracts with products that meet these requirements.

Accessibility features such as buttons that are identifiable by touch, switches positioned within easy reach and large displays help improve access. In addition, specialized 'assistive technology' (AT) devices, such as screen readers with a synthesized voice, assist people with disabilities or age-related limitations to use technology and the Internet. It is important for ICT products to be compatible with these devices.

HP is committed to further improving our products' accessibility features and compatibility with AT devices and to making our websites more accessible.

The HP approach

The HP Accessibility Program Office coordinates accessibility initiatives and facilitates implementation of our Accessibility Policy. This policy commits us to:

- Develop and implement accessibility guidelines for products and services
- Raise awareness of the importance of accessibility within our company
- Document accessibility features and make information about our products and services publicly available in an accessible form
- Support and contribute to harmonized accessibility standards and guidelines

- Establish relationships with leading suppliers of 'assistive technology' products
- Involve people with disabilities in developing accessibility requirements and in designing and testing products, services and online information

Product accessibility

HP's goal is to integrate accessibility into our product and web development processes. Our web-based Accessibility Toolkit for product designers provides information on accessibility requirements and best practices. We document the accessibility features for our products offered to public sector customers. This information is publicly available online through our voluntary product accessibility template (VPAT) database. The VPAT database helps customers worldwide to comply with accessibility requirements and streamline procurement processes.

In 2005, the database included accessibility information for 72% of applicable HP products (compared with 65% in 2004). The documentation process took longer than expected, so we have adjusted our target for 2006 to 85%.

Accessibility features on HP's products include:

- HP Business PC keyboards that can be adjusted to improve wrist comfort, benefiting people with limited manual dexterity
- Inkjet printers with large, well-spaced buttons identifiable by touch alone for people with impaired vision, and models with concave buttons for easier use with mouth sticks
- Notebook computers that enable easy-to-use single-handed operation and support Microsoft Windows Accessibility features
- Light-sensitive monitors that adjust to the available light, improving readability and reducing eyestrain

In addition, we partner with 52 AT vendors to ensure that our products are compatible with specialized AT products. Through free HP Developer and Solution Partner Program membership, AT vendors can use HP technologies and products to create innovative solutions for people with disabilities and age-related limitations. The program offers technical, sales and marketing support.

⁴ 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>.

⁵ U.S. Bureau of Labor Statistics Monthly Labor Review, November 2001 and May 2002.

Goals for 2007

Update new VPAT documentation process and new Accessibility Toolkit.

Expand AT vendor partners in the Developer and Solutions Partner Program to 72, including 15 outside the United States.

Launch web accessibility training program for HP's web development team

Awards

United States

da Vinci Award from the National Multiple Sclerosis Society, Michigan Chapter for design innovations aimed at helping the disabled overcome barriers.

National Federation of the Blind Non-visual Accessibility (NVA) Web Application Recertification.

Stakeholder perspective

How is HP doing with accessibility?

Lighthouse International has worked with HP products for several years and has seen first-hand how accessible products improve the quality of life for people with impaired vision. Our decision to standardize on HP servers, switches, workstations, monitors and laptops has opened new doors for our clients, enabling them to explore the Internet, communicate with family and friends like never before, and have the freedom to live life to the fullest.

How would you like to see HP improve in the area of accessibility?

The incidence of vision impairment is rising rapidly with our aging population. In the near future, an unprecedented number of people with vision loss will be heavy users of technology at home and at work. Ongoing advances in accessibility will be needed to meet the mounting challenges of this rapidly growing population. We will continue to work with HP to push the boundaries of accessibility forward to benefit all.

Tara A. Cortes, RN, PhD
President and CEO of Lighthouse International

Case Study: Cyrano Communicator software for people with speech impairments

Cyrano Communicator software enables people with speech impairments to communicate using pictures and speech technology.

The software is used on the HP rx3715 iPAQ Mobile Media Companion, a pocket PC. It is the first assistive technology product offered by the company OneWrite and was developed with support from the HP Developer and Solution Partner Program.

Cyrano Communicator is particularly valuable for people with autism or for stroke survivors who have aphasia and are unable to speak or write. Users import photos with the PC's built-in camera to share with colleagues, or simulate speech using photos attached to pre-recorded phrases.

Users also have access to normal speech simulation technology and Pocket PC programs, enabling them to work on documents, spreadsheets and e-mail. The software helps people with speech impairments to be more effective and independent at work.

HP is promoting the Cyrano Communicator at accessibility events such as the International Conference on Technology and Persons with Disabilities, sponsored by California State University Northridge (CSUN) Center on Disabilities in the United States.

Information accessibility

All www.hp.com users can easily access information about HP and our products. The site complies with the Worldwide Web Consortium (W3C) Guidelines and supports Section 508 web standards⁶.

The U.S. National Federation for the Blind recertified HP as an e-business leader for web accessibility in 2005. Its Nonvisual Accessibility (NVA) Web Application Certification recognizes websites used equally well by the blind as by the sighted. We are the only company to earn certification in three consecutive years.

Other activities

In 2005, we developed a computer-based accessibility training course for our customer support organization, to help them assist customers with disabilities or age-related impairments. We also offer computer-based accessibility training programs to our global sales, marketing and web development teams.

HP partners with the American Association of People with Disabilities (AAPD) and supports National Disability Employment Awareness Month and Disability Mentoring Day. In 2005, 12 HP facilities worldwide provided programs or information about employment opportunities at HP to students and job seekers with disabilities. We are proud to count several former program participants among our colleagues.

We support Business & Disability: A European Network, launched in 2004. Business & Disability promotes the rights of people with disabilities, raises awareness of the barriers to technology, employment and services, and helps integrate people with disabilities into business.

Challenge

The greatest challenge HP faces in advancing accessibility is managing the rapid increase in legislation, regulations and standards on accessible ICT. We engage with businesses, governments, policy makers and user or advocacy groups for people with disabilities to help harmonize global standards. In 2005, HP was part of the International Committee for Information Technology Standards' Special Working Group on Accessibility, which assessed user needs and worldwide accessibility standards. We continued our work of advocating for consistent accessibility policies with the European-American Business Council and the Information Technology Industry Council.

⁶ Section 508 web standards are standards for web accessibility based on Section 508 of the U.S. Rehabilitation Act (1998).



Social investment

We use our products, services and skills—in addition to philanthropic cash contributions—to increase access to information technology worldwide. Social investment is the term we use to describe this broad activity.

In 2005, HP made social investments to help schools and local communities worldwide in three primary program areas:

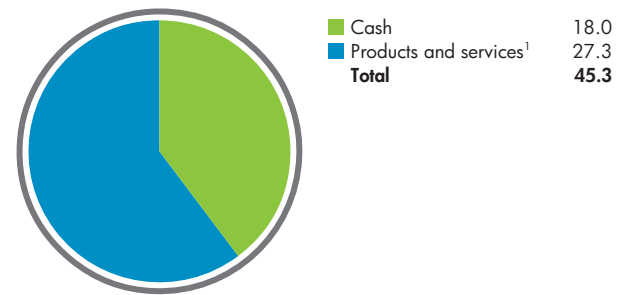
- e-inclusion
- Education
- Employee giving and volunteerism

In addition to our social investments, we also respond to major disasters by making both company and employee matching contributions.

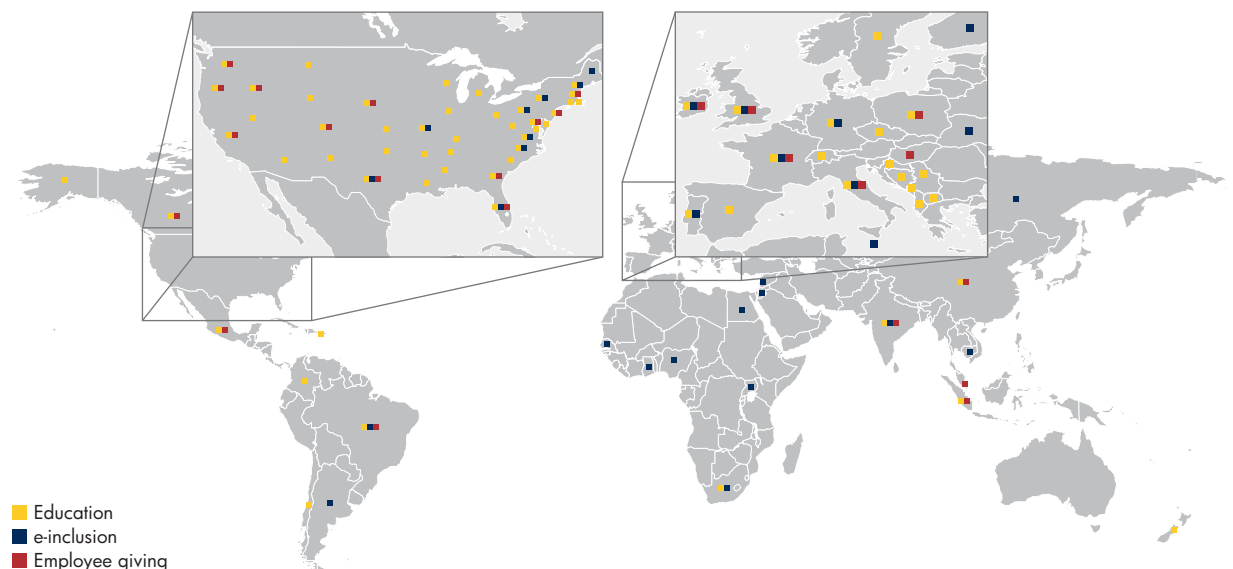
Our approach is to engage closely with the school or community, just as we engage with our customers, to

understand their specific needs and discover how technology can help them achieve their goals. In addition, we encourage our employees to contribute financially and to give their time as volunteers to the nonprofit organization, school or university of their choice.

Worldwide giving by type, 2005
[Million \$U.S.]

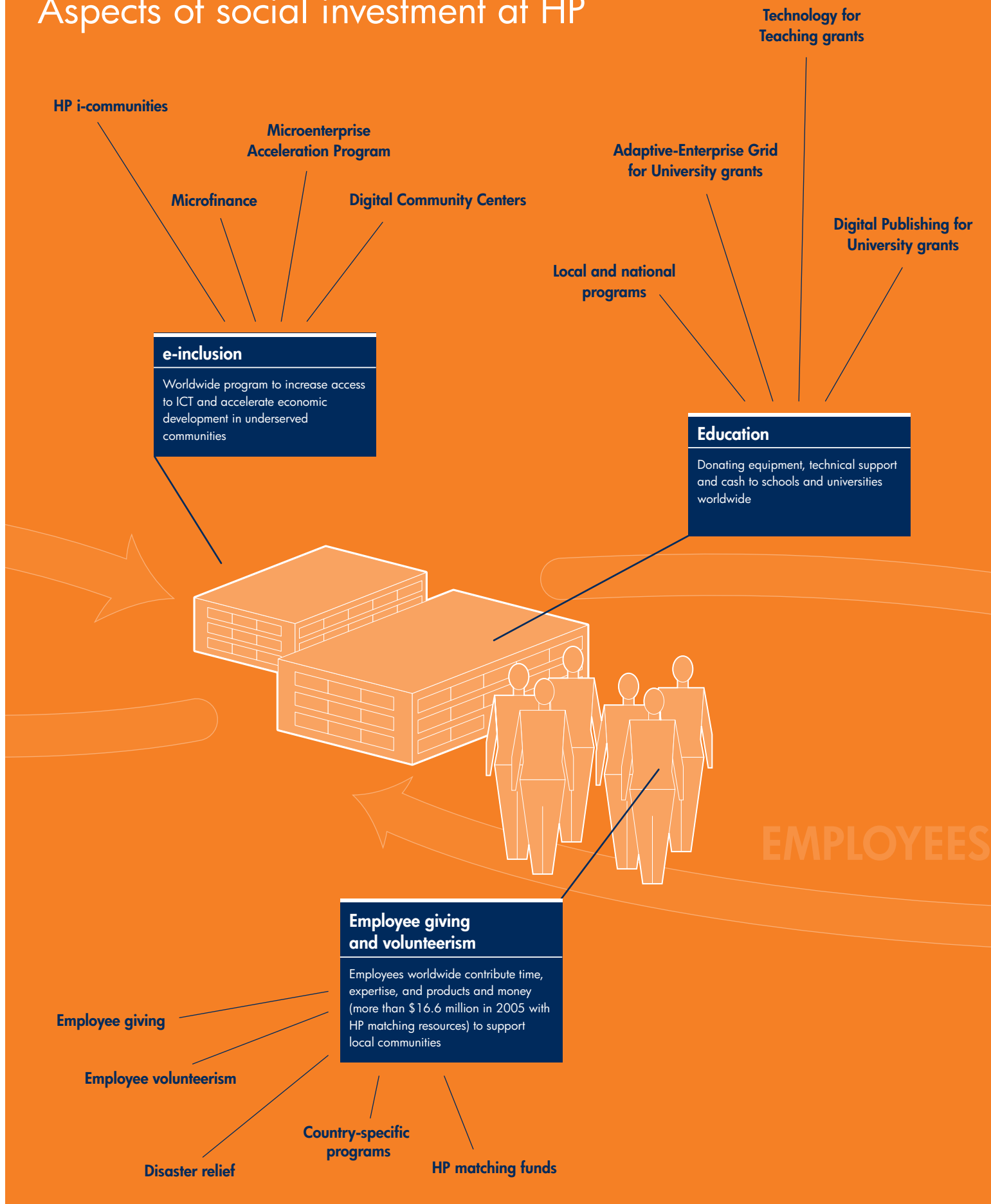


Partial list of social investment locations during fiscal year 2005



¹ HP equipment granted by HP Philanthropy and Education is offered at Internet List Price (ILP) value at the time the grant is processed. ILP is the price that an end customer would pay if purchasing through the HP Direct sales channel on the internet. While product prices may vary on different HP websites, in retail stores and in the reseller channel depending on specials, targeted promotions or discounts, HP granted equipment is not subject to these promotions and/or discounts and will always reflect the ILP value at the time the grant is processed.

Aspects of social investment at HP





The year 2005 was an important milestone for HP, as we transitioned many of our e-inclusion projects to ownership by local and regional organizations. What we have learned from these projects since they were launched in 2000 will have an ongoing influence on our decisions about future social investments. We also launched a Microenterprise Acceleration Program to increase access to technology specifically for microenterprises. Progress in such social investments will continue to be reported as part of our overall philanthropic activities.

HP makes donations in the form of cash, products, services and time. In 2005, HP donated approximately \$45.3 million in cash and equipment worldwide, representing approximately 1.3% of our pre-tax profits.

e-inclusion

Lack of access to computers and the Internet prevents the benefits of information and communication technology (ICT) from reaching billions of people worldwide – benefits that include substantial social and economic development opportunities. For example, in 2005 less than 1 billion out of 6.4 billion people worldwide had Internet access². This technology gap is often referred to as the ‘digital divide.’

HP launched its e-inclusion initiative in 2000 to increase access to ICT and accelerate economic development in underserved communities. This initiative was both a business venture and part of our philanthropic efforts. It included developing new products, services and business models to suit emerging markets, as well as making technology grants in developed and developing countries.

Our e-inclusion initiative was grounded in collaboration with the international development community and governments. Existing products and business models are often not suited to emerging markets because they are too expensive or do not meet local needs. Therefore, we engaged in on-the-ground research and development with communities to explore how ICT can improve their quality of life and then co-invented tailored solutions.

Through these efforts, many communities worldwide benefited from increased access to technology, education and enterprise development resources. At the same time, HP gained valuable experience from operating in emerging markets.

In 2005, HP funded e-inclusion projects in 24 countries worldwide, including the following four programs:

- Microenterprise Acceleration Program
- Digital Community Centers
- Microfinance
- HP i-communities

Microenterprise Acceleration Program Centers

The micro and small business sector plays an important role in stimulating economic development through job creation and innovation. ICT can help micro and small businesses improve their competitiveness and reach new customers.

HP’s Microenterprise Acceleration Program (MAP), launched in 2005, aims to increase access to ICT for microenterprises (companies typically with no more than 10 employees). We developed close relationships with leading training organizations and established 38 HP MAP Learning Centers in 12 countries where microenterprises can access the latest HP equipment and receive practical training on how to use technology to build their business. MAP Centers are located in Egypt, Finland, France, Germany, Ireland, Israel, Italy, Malta, Nigeria, Portugal, Russia and the United States.

The MAP initiative grew out of experiences and lessons learned from HP social investments in economic development worldwide. This included the HP Microenterprise Development Program in the United States, which supported nonprofit microenterprise development agencies in low-income communities to promote economic growth through training, technical assistance and small loans.

MAP Centers are operated in partnership with local NGOs and the public sector, to ensure services are sustainable and meet local needs. HP provided initial funding and technology to create the Centers. In 2006, HP will launch a customized HP MAP Training Curriculum to help local agencies provide training on using ICT to build and grow a business.

Our partners already provide training and education for more than 10,000 microenterprises per year, and MAP will expand their capabilities. For instance, the HP MAP

² See <http://www.internetworldstats.com/stats.htm>.

Stakeholder perspective

How do you think HP performed?

HP's expertise and approach has been vital to tackling social exclusion through innovative communications and technologies, as citizenship tools to transform and develop low-income communities. HP helped us by contributing equipment and also with access and training to its microenterprise acceleration curriculum. The program is excellent and will help us to address unemployment and business and technology training needs for local entrepreneurs.

How would you like to see HP improve this area?

We think that the area of education can be leveraged with HP technology and know-how. Technology can also be used to strengthen civil society organizations as a way to ensure efficiency and quality of services and thus, sustainability in underprivileged communities.

Nazir Sacoar
Chief Executive Officer
Fundação Aga Khan Portugal

Center in Stuttgart, Germany, was launched in partnership with Industrie und Handelskammer (IHK), an organization that provides free finance, public relations and advertising support to entrepreneurs. By partnering with HP, IHK has extended its service offerings to include access to ICT and training.

In Europe/Middle East/Africa and the United States, we will continue working with our partner organizations in 2006 to build the MAP Centers into a network that will encourage the development of microenterprises in these countries. Our goal is that our partner organizations will run the MAP Centers entirely by the end of 2006. Our partners include:

- Egypt – International Trade Center for Egypt, Alexandria Business Association, and the Foreign Trade Training Centre (Cairo)
- Finland – Kouvolan Region Federation of Municipalities
- France – Fondation de France and regional SCOP
- Germany – Industrie und Handelskammer
- Ireland – WestBIC and DublinBIC
- Israel – World ORT
- Italy – Milano Chamber of Commerce
- Malta – MIIT
- Nigeria – Pan African University and Lagos Business School
- Portugal – Aga Khan Foundation
- Russia – World ORT, the Institute of Information Technology of Moscow and the Saint Petersburg Foundation
- United States – Association for Enterprise Opportunity

Digital Community Centers

Digital Community Centers (DCCs) bring ICT infrastructure to underserved communities. They provide local people access to ICT and training courses, helping support education and job creation.

Since 2002, HP has established DCCs in 11 countries: France, Ghana, Hungary, Ireland, Jordan, Portugal, Russia, Senegal, South Africa, the UK and Ukraine. Several DCCs have multiple sites and are based in areas with high unemployment.



Each DCC reflects a high level of partnership between local government, business, public service organizations and HP, and each partner plays a key role by sharing expertise, resources and accountability. For example, the Belfast DCC, launched in 2005, includes four sites in both Protestant and Catholic areas of the city. It is supported by the Irish and UK governments, Belfast City Council, and several other companies and provides ICT training and after-school clubs for local youth. Cross-community projects encourage collaboration between users from Protestant and Catholic areas.

The DCC in Miskolc, Hungary, is a joint venture between HP, Miskolc University, Tigaz (a gas distribution company) and the Eni Enrico Mattei Foundation (a sustainable development research organization). Miskolc University provides environmental education and premises for the DCC with the support of the local council, while Tigaz provides logistics support and helps cover management overhead.

The unrest that swept across France in the autumn of 2005 took place in underserved suburbs like the ones just north of the French capital. Some 85 nationalities and ethnic groups live side by side in these districts. Unemployment among the young residents is between 30% and 40%. Lacking hope of a job, many turn to vandalism, drugs and crime.

It is here, in the Seine Saint-Denis area, that HP created a Digital Community Center in partnership with local communities in four cities. The Villetaneuse University of Technology is leading the project's efforts. The centers offer technology training and award official diplomas – necessary for job applications in France. The main objective is to save young people from delinquency. Since the project began in 2002, more than 3,000 people have been trained and many of them have found jobs at Charles de Gaulle International Airport in nearby Roissy.

Training courses provided at the DCCs have been very successful. For example, more than 1,000 students have enrolled in training courses at the HP DCCs in Russia and the Ukraine since their launch in 2004. Courses range from computer literacy to database programming and network design.

Each DCC will be transitioned to local ownership within three years. More than half the DCCs are now fully supported by their communities.



Stakeholder perspective

How do you think HP performed?

Cooperation between HP and ORT (Organization for Educational Resources and Technological Training) is a brilliant example of real social partnership between business and an NGO. We consider HP's help not just as traditional philanthropy but as an extremely useful example of a businesslike approach to working with local communities in Samara and all over Russia.

How would you like to see HP improve in this area?

Integration is a key word for successful social investment. Combining resources of business, state and "third sector" (NGOs) we can reach common goals such as overcoming the digital divide. We'd like to see HP as a member of a joint team to disseminate experience of the DCC and MAP programs in different regions of the former Soviet Union where we are ready to participate with our network of more than 50 technology training centers.

Alexander Fradkov, Director
Dr. Sergey Gorinskiy, Deputy
Director General
World ORT Representative Office
for the CIS and Baltic States

Microfinance

Microfinance can stimulate economic development and reduce poverty by providing individuals and businesses with small loans and other financial services. A loan as small as \$100 can help people in underserved communities start and grow profitable businesses that create jobs and benefit the local economy. However, extending microfinance services to remote communities can be complex, difficult and expensive. ICT has the potential to address these problems.

In 2005, HP concluded work on a microfinance consortium it led, which started in 2003. The consortium of eight public and private sector organizations was created to co-develop and test an ICT solution for microfinance institutions (MFI). The aim was to catalyze growth in the microfinance sector and gain expertise about emerging markets. The U.S. Agency for International Development partially funded the project.

Together, this cross-sector group developed the Remote Transaction System (RTS), a hardware and software solution that allows financial data to be captured in the field and sent to the head office by cellular network. With RTS, customers can visit a third-party agent and use a smart card to perform financial transactions, eliminating the need to prepare, transport and enter hand-written reports. This reduces costs for rural operations while increasing customer confidence and decreasing fraud.

The RTS helps microfinance businesses to expand by enabling independent agents to function as virtual branches. This is less expensive and more efficient than establishing and running branch offices. Customers in remote areas in turn receive greater access to financial services and can make more frequent payments, reducing the risk of cash being lost or stolen.

Three MFIs tested the RTS in Uganda during 2004 and early 2005. The results suggest that a combination of new technologies, business models and capital sources could expand the scope of microfinance.

On completion of the pilot program, HP and its partners enabled the creation of a nonprofit organization called Sevak Solutions to continue the partnership's mission. Sevak Solutions has been granted the intellectual property rights for RTS and will provide the technology to any microfinance organization through a no-fee open source license.

HP continues to support microfinance as a vehicle for economic development through an investment of \$5 million in the Global Commercial Microfinance Consortium, launched in 2005 by Deutsche Bank. Investors from the private and public sectors have invested \$75 million in the fund that will provide credit for MFIs, enabling them to reach more customers.

HP i-communities

HP i-communities were designed as public-private partnerships in emerging markets and underserved communities in the developed world. We worked with local government, non-governmental and community organizations, using ICT to promote social and economic development. These were not traditional philanthropic initiatives, but rather opportunities for HP to develop and test new products, solutions and business models designed specifically for these markets. HP's commitment to fund i-communities covered three years.

HP i-communities provided local people access to computers and the Internet and the training and support tailored to meet their needs. HP also developed new online resources such as government services directories and job search functions. Benefits include increasing literacy, promoting entrepreneurship and job creation, and providing access to government, healthcare and education services.

We supported i-communities in Kuppam, India and Mogalakwena, South Africa, beginning in 2002. As planned, our three-year funding came to an end in 2005 and we worked closely with public and private organizations to facilitate a smooth transition to full community ownership and accountability. The HP i-community in Houston, Texas, United States, was launched in 2003 and will be transitioned in 2006.

Mogalakwena HP i-community

The Mogalakwena HP i-community in South Africa includes three training centers and 23 Community Access Points in municipal offices, clinics and high schools across Limpopo Province. Since 2002, more than 4,000 residents have been trained in PC literacy and 60 people (including women and pensioners) in business development. Other achievements include the launch of a Digital Culture Centre using multimedia to preserve and extend traditional culture and an Open Source software center to share copyright-free software.

Goal for 2005

Increase HP's e-inclusion presence to 50 countries by the end of 2005.
Progress: By the end of October 2005, HP had an e-inclusion presence in 24 countries.

Goals for 2006

Transition HP's 5th Ward i-community to community ownership.

Connect key MAP Centers into a network and transfer management of those to partner organizations.

Awards

Africa

Africa Economic Developer Award 2005 for outstanding contribution to realizing the objectives of The New Partnership for Africa's Development (NEPAD).

Brazil

2005 II Telemar Digital Inclusion Award (first place in Northeast Brazil) for the Digital Garage Program.

South Africa

Mail & Guardian 'Investing in the Future' Award for the Mogalakwena HP i-Community.

Gold and Silver Stars of Africa community awards from the American Chamber of Commerce (AMCHAM) for the Mogalakwena HP i-Community.

Key Mogalakwena HP i-community projects in 2005 included:

- The Least-Developed Villages program uses ICT to deliver basic services and information to underserved villages in the Mogalakwena district. As part of this program, a Sustainable Livelihoods area was created at the i-community headquarters, showcasing innovative solutions for water access, sanitation, waste management and recycling, food security, indigenous medicinal gardens and alternative energy sources. These efforts are helping attract investment to the area. For example, during 2005, the South African Department of Economic Development selected Diphichi (a local community) as the site for a future commercial bakery, a poultry farm and a Maroela oil essence co-op.
- A one-year ICT skills training program prepares students for work in ICT-related professions or to start their own businesses. Ninety-six students completed the course in 2005 and learned a wide range of skills, including website development, business plan writing and call center techniques. Many of the students will now be employed by the Limpopo province or HP. The course was run in partnership with the South African Information Services, Electronics and Telecommunications Technologies Sector Education Training Authority.

In October 2005, South African President Thabo Mbeki reviewed the achievements of the Mogalakwena HP i-community at a celebration marking the completion of HP's three-year commitment. He expressed his hope that the solutions developed at Mogalakwena will be replicated in villages across South Africa and announced that ownership of the Mogalakwena i-community has transferred to the Limpopo province. The Limpopo Institute of Technology will be established using the i-community as its hub, and the Mogalakwena municipality is integrating the Least Developed Villages program into its existing development initiatives. HP will continue to provide advice and support to the i-community.

Information about the i-community is being widely shared to help others start their own programs.

Kuppam HP i-community

The Kuppam HP i-community, in the state of Andhra Pradesh, India, includes 16 Community Information Centers. In these Centers, local people can access government, education, healthcare, agriculture and small

business information and services, in three languages, using an online community portal. Three Mobile Solution Centers provide health and information services to more than 12,000 people in 150 outlying villages monthly. In addition, services offered by Village Photographers and Entrepreneurs in Residence bring affordable photography and Internet access to remote villages. Since 2002, we estimate that over 100,000 citizens – more than half the population of Kuppam – have used these services.

Key Kuppam HP i-community projects in 2005 included:

- Entrepreneurs in Residence – Fifty young men and women, equipped with HP laptops, act as mobile information centers. People pay a small fee to access online information using the laptop, or to watch movies. This service enables people in remote rural communities to access the Internet while creating jobs for young people outside of traditional industries such as agriculture.
- Digital Rural Theaters – This business grew out of the Entrepreneurs in Residence program. Entertainment services proved so popular that a group of entrepreneurs focused on this activity full-time, visiting local villages to show movies and other entertainment on their laptops. Due to a large demand for entertainment in India and a strong national movie industry, the Digital Rural Theaters attract large audiences. The entrepreneurs represent a potential channel for selling products and services to remote communities that are difficult to reach through normal advertising mediums.

5th Ward-HP (Houston) i-community

The 5th Ward-HP (Houston) i-community is a partnership between HP and the Fifth Ward Community Redevelopment Corporation. It is located in the Fifth Ward, an underserved area of Houston with high unemployment. In July 2005, it celebrated its second anniversary with the launch of a community website – the 5th Ward Community Portal (www.fifthwardhouston.org). The site includes public safety alerts and content for local residents, including a business directory, job boards, health information and listings for local events and community initiatives.

The Community Portal's crisis communication system uses innovative public safety technology developed by Dialogic Communications Corporation. It is used to warn at-risk residents of a crisis or emergency, relay safety information from schools to parents and alert first responders such as



police and fire departments during potentially life-threatening situations. It played an important role during the Hurricane Katrina and Rita relief efforts, supporting communication and coordination among relief agencies, evacuees and local, state and federal governments. The 5th Ward-HP (Houston) i-community and its community partners installed ICT equipment at three facilities housing evacuees, enabling over 6,500 people to register with FEMA for funding and housing support.

The 5th Ward-HP (Houston) i-community will be transitioned to community ownership during 2006.

The Future

Promoting access to technology will continue to be the focus for our social investments, through technology grants for communities, nonprofit organizations, education programs and employee giving and volunteering. The lessons we have learned from e-inclusion will help to determine how we make these investments.

Education

Quality education is essential for economic growth, a diverse and skilled workforce, and prosperous future customers. Investment in schools and universities has a direct and long-lasting impact on the global community.

Information and communication technology (ICT) benefits education by improving access to information and supporting innovative and engaging teaching methods. But many students, particularly those in underserved communities, do not have access to ICT. In addition, not all educators know how to integrate technology effectively into the teaching and learning process.

HP's philanthropic education programs provide professional development and donate equipment, technical support and cash to schools and universities worldwide. We help educators integrate HP products and solutions into their teaching and use them to support learning inside and outside the classroom.

Our education goals are to transform teaching; increase underrepresented students in high-tech careers; and enhance student success in math, science and engineering. This aligns with our broader goal of increasing access to information technology.

HP global education programs

HP Technology for Teaching grants. HP Technology for Teaching program grants provide HP wireless mobile technology to higher education institutions worldwide and additionally to primary and secondary schools in the United States and Canada. Projects focus on innovative ways to integrate technology into core courses. K-12 recipients also receive professional development opportunities. Through this program HP has made grants to 457 educational institutions in 15 countries since 2004. In 2005, HP invested \$10 million in Technology for Teaching grants worldwide.

The Mackay Center School is one of eight K-12 Canadian schools in 2005 to receive an HP Technology for Teaching grant. The grant's package included five HP Tablet PCs, five HP multimedia projectors, five HP digital cameras, an HP Officejet All-in-One, a cash stipend per teacher and a professional development program that included customized learning opportunities, expert mentoring and participation in an online learning community to support teachers' use of technology. Teachers at the Mackay Center are using the HP Tablet PC in combination with interactive whiteboard technology to help improve the math skills of children with language disabilities.

HP Adaptive-Enterprise Grid for University grants. These grants use HP servers and software to increase student access to Grid computing resources. Recipients in 2005 included: Universidade Federal Campina Grande, Brazil; Indian Institute of Technology, Bangalore, India; University of Calgary, Canada; and the University of Illinois at Urbana-Champaign, United States.

HP Digital Publishing for University grants. Through this program, universities are using HP digital printing and imaging products to develop and use Digital Publishing solutions to improve student learning. Purdue University in the United States, the University of Puerto Rico and the University of Nottingham in the United Kingdom received HP Digital Publishing grants in 2005.

Local and national programs

HP offices worldwide support education initiatives on a national and local level. These are just a few examples from 2005.

HP e-learning Model Schools, China. HP and Beijing Smartdot Technology have established computer classrooms across China, including 28 schools in isolated

Awards

United States

The Capital Center MESA (Math, Engineering, Science Achievement) Award given to the HP Roseville, California site.

HP ranked 4th among technology companies for the value of its 2004 corporate donations by Chronicle of Philanthropy.

Education Commission of the States (ECS) Corporate Award.

Boise Chamber of Commerce 2005 Distinguished Corporate Stewardship Award for promoting education and community engagement.

mountain regions where local people have little or no access to ICT. The participating schools can now access online resources from all over the world.

Information Society Partnership for Africa's Development.

HP has invested in nearly 400 education projects in the Europe, Middle East and Africa region. One example is its membership in the Information Society Partnership for Africa's Development (ISPAD). Reflecting its goal to advance the development of ICT across Africa, HP has become a leading member of ISPAD. HP participates in the e-Schools project, which aims to connect all secondary (or equivalent) schools across 20 countries in Africa within a five-year period. The intention is to impart ICT skills to young Africans and improve standards of education.

Science Leadership, United States. These grants fund training for teams of educators from low-income K-8 school districts wishing to adopt an inquiry-based approach to science education. During 2005, HP sent 22 U.S. school district teams to professional development events offered by the National Science Resources Center. Since 1992, HP's Science Leadership Grants have impacted more than 1 million students.

Goal for 2006

Eighty percent of education technology grant recipients report that HP grants had positive impact on teaching and learning as measured against goals they set for their projects.

Increasing the impact of our grants

Professional development

Not every teacher is a technology expert, but we want them and their students to get the most out of a grant from HP.

HP partners with the International Society for Technology in Education (ISTE) to provide training, mentoring, and conferences for U.S. and Canadian K-12 teachers who have received HP Technology for Teaching grants, helping them to integrate technology into their teaching. In addition, HP is the sponsor of the ISTE Institute: Leading with NETS program, which offers professional development to any K-12 educational team seeking to improve the use of technology in their school or district.

Innovative learning models

K-12 teachers in the HP Technology for Teaching program in the United States and Canada can share experiences and learn about new teaching techniques using ICT through an online learning community run by ISTE. HP grant recipients with the most successful technology education projects are showcased at the annual National Educational Computing Conference in the United States, thus sharing outcomes and successful teaching practices with thousands of educators in attendance.

Over the past decade, countries in Southeast Europe affected by conflicts have seen high emigration levels, estimated – in certain cases – at up to 70% of skilled professionals. This 'brain drain' negatively impacts scientific research and university teaching. Many university scientists are also leaving their positions for more lucrative jobs in the private sector. HP is working with UNESCO (United Nations Educational, Scientific and Cultural Organization) to provide universities with grid computing technology – such as the HP products included in Global HP Adaptive-Enterprise Grid grants – and financial support to encourage young scientists to remain in the region. Grid computing allows many users to collaborate on a project through a network of computers. HP donates the technology and provides technical support and training, enabling universities to re-establish links to colleagues and university resources abroad and to identify international partnerships and funding opportunities more easily. In 2005, HP extended the project to two more universities. It now includes universities in Albania, Bosnia Herzegovina, Croatia, Serbia and Montenegro, and the Former Yugoslav Republic of Macedonia.

"Not only has the project strengthened scientific and educational capacities at a national level, but it has also re-established dialogue among young researchers from the region after years of broken communication," states Stamenka Uvalic-Trumbic, Chief, Section for Reform, Innovation and Quality Assurance at the UNESCO Education Sector in Paris.

HP's monthly online speaker series for higher education grant recipients and the annual HP Worldwide Higher Education Technology for Teaching Conference enable university grant recipients to hear from experts, learn about successful projects and share experiences and lessons learned.

Rewarding the best projects

HP Technology for Teaching grant recipients who successfully integrate HP technology into teaching and can demonstrate a positive impact on student achievement may receive reinvestment Leadership grants from HP. These grants enable recipients to expand their programs to benefit their entire school or university department. In 2005, HP provided reinvestment grants to 15 K-12 schools in the United States and Canada and 12 universities and colleges worldwide.

Measuring our progress

We require status updates and final reports from the projects we support. Using this information, we track the impact of our philanthropy investments, identify projects for possible reinvestment and improve our grant programs.



Awards

China

Caring Company Logo 2004/05 Award from the Hong Kong Council of Social Service for community engagement and commitment to corporate citizenship.

India

Certificate of Excellence from Indian Red Cross Society Karnataka for donations to the Red Cross tsunami relief efforts.

United States

Community Caring Award from the United Way of Larimer County, Colorado, in recognition of HP's charitable donations and employee volunteerism.

Recognized for "extraordinary deeds performed by ordinary people." in the USA Today Weekend Make A Difference Day Awards.

Volunteer of the Year award from Star of Hope for volunteer support in software and business skill training.

Employee giving and volunteerism

HP employees have a long history of being social, intellectual and economic assets in communities where they work and live. They demonstrate their commitment to global citizenship by contributing their time, talents and personal financial resources to communities worldwide. Employee giving and volunteering benefit the communities we serve and provide opportunities for teambuilding and professional development.

Our largest employee giving program is in the United States. However, other HP offices worldwide also operate employee giving programs and often match the employee contributions.

Many HP business teams organize teambuilding volunteer projects or annual 'Volunteer Days' to support community organizations. In the United States, HP employees can take up to four hours per month of paid company time, with manager approval, to volunteer in schools.

The following list identifies just a few of the many initiatives supported through employee giving and volunteering during 2005:

Brazil. Employees at HP Brazil launched the HP Social Mentoring Program in 2004 to help disadvantaged youth. The program grew out of HP's Digital Garage project. Each HP volunteer is assigned to a young person as a personal mentor, and works with them for a year to develop their skills, help set career goals and increase their confidence and motivation. The mentorship focuses on job skills such as time management, resume writing, interview techniques, and improving reading and writing. Mentors also broaden the youth's horizons through cultural activities such as museum visits or theater trips. Thirty-five HP employees volunteered in 2005. HP has invested \$65,000 in the initiative, benefiting 55 young people so far. In the first year, half of the participants found employment and 40% were admitted to college or college prep courses.

France. Through the HP France Vous + HP awards, HP employees nominate an organization that supports education, humanitarian relief, individuals with disabilities or disadvantaged groups to receive a cash or HP equipment

award. In 2005, HP donated \$100,000, which was shared among 24 charities.

Mexico. HP employees in Mexico supported Teletón, an annual philanthropic event that benefits disabled children. In 2005, HP employees raised approximately \$12,000 for the Teletón Support Fund. In addition, HP donates ICT equipment to the Teletón Children's Rehabilitation Centers.

Poland. HP employees in Poland have supported The United Way since 1997. HP matches employee contributions and the money raised benefits needy children by providing free meals, rehabilitation and speaking courses for children with hearing and speech impairments. Together, HP and employees contributed more than \$21,000. The United Way recognized HP in Poland as a 'Silver Benefactor' in 2005.

Singapore. In 2005, HP Singapore ran 'V-Challenge', a program enabling employees to work with charities. Approximately 450 employees gave 3,600 hours to help five charities – the Autism Youth Centre, Geylang Senior Citizens Health Care Centre, Metta Hospice Care, St. Andrew Community Hospital and the Spastic Children's Association of Singapore. Events included field trips for autistic children and arts and cooking sessions for hospice patients. Volunteers cleaned wheelchairs and other equipment as well. Employees also raised more than \$330,000 (Singapore dollars). 'V-Challenge' is HP's contribution to the country-wide Singapore 'President's Challenge.'

United States. In 2005, HP offered one-to-one matching for employee gifts to qualifying organizations, to a maximum of \$1,000 per employee per year, within a budgeted maximum set each year for the overall matching program. During 2005, more than 10,300 employees participated in the U.S. Employee Giving Program. Together with HP matching resources, employees contributed more than \$16.6 million in cash and products to more than 5,000 community organizations and schools. Employees can also donate designated HP products to a qualified charitable organization or school of their choice. Employees contribute 25% of the list price and HP contributes the remaining 75%.

Additionally, HP employees in the United States can contribute cash to international organizations through GlobalGiving, a mechanism for global fundraising and giving.



Goals for 2006

Number of employees who donate products to schools and charities through employee giving programs increases by 30% over 2005.

Number of employees who volunteer through HP-sponsored programs increases by 5% over 2005.

Making a difference through disaster relief

During 2005, many HP employees gave time and money as part of humanitarian responses to disasters including the South Asia tsunami and Hurricane Katrina.

Case study: HP South Asia tsunami relief efforts – a first-hand account

The earthquake and tsunami that hit 11 countries on December 26, 2004, prompted corporate, government and individual response on an unprecedented scale. HP, the HP Company Foundation and HP employees donated \$4.4 million in cash and products to tsunami relief efforts. HP employees from several countries volunteered to help with relief efforts, including Lark-Yang Tan, an HP Worldwide Business Development Director based in Singapore.

“Several months after the tsunami I couldn’t stop thinking about the victims and the terrible experiences they had gone through. I wanted to do something to help the survivors and knew that many people were still living in temporary shelters. Helping to rebuild homes and communities was one way I could contribute directly. I applied to the charity Habitat for Humanity, which was calling for volunteers to help rebuild homes in Indonesia. I volunteered in Aceh, the epicenter of the earthquake and hardest hit disaster site. Even six months after the tsunami, the devastation was astonishing – barren land rid of most vegetation and human habitat as far as the eye could see. We worked for six days building the foundations for five houses. I was given one day of paid time off for my volunteering work and took the rest as holiday. The experience was profoundly satisfying. The most rewarding thing was the opportunity to interact with the local villagers despite the language barrier. I really enjoyed the camaraderie with my volunteer team mates. We came together from all walks of life, different backgrounds, ethnicities and religions – but were united by our common cause.”

Case study: Responding to Hurricane Katrina

Hurricane Katrina caused devastation along America’s Gulf Coast in August 2005. Hundreds of people died and many more lost their homes and livelihoods. Together, HP, its employees and the HP Company Foundation contributed \$3.5 million to support hurricane relief efforts.

Hundreds of HP employees helped relocated families by donating essential items such as food, water, baby supplies and clothing. The Houston Donation Center, staffed by employee volunteers, collected and distributed more than 17 tons of donated goods to people who lost their homes. HP’s Atlanta, Georgia, campus and many other sites held similar collection drives. HP offered many employees paid time off to volunteer, while others gave their own time to assist with local relief efforts.

More than 150,000 people were evacuated to Houston, creating many challenges for the city. HP assisted in many ways, for example, by donating computers to the Houston Astrodome, which housed many evacuees. Evacuees and onsite medical staff used the computers to search the Internet for missing family members, register for aid from the Federal Emergency Management Agency (FEMA), and apply for unemployment insurance. HP also supported a FEMA-managed mobile command center truck with 50 HP laptops used to register missing people.

HP also assisted customers in need, identifying more than 150 customers in the affected areas and helping them return to business as quickly as possible. This included providing expedited replacement equipment to numerous firms and helping one organization relocate from Louisiana to Houston.



Public engagement

Our policy and political leadership worldwide is an important component of global citizenship. In this section, we describe how we participate in public policy development and the ways we engage with stakeholders.

Public policy

HP builds relationships with governments and regulators worldwide in order to advance our business objectives. We work in compliance with applicable laws and HP's Standards of Business Conduct. We meet regularly with government officials, community leaders and key business stakeholders to inform them about an issue of interest, discuss how it impacts their region and describe our position.

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

Industry association memberships

We are members of national and regional industry associations in most countries where we have a significant presence. HP's position on a public policy issue is often expressed through these associations. This strengthens our position, and enables us to reach more government officials more efficiently.

Some of the major associations we belong to include, but are not limited to:

- American Chamber of Commerce (Beijing, Brazil, EU, Hong Kong, Japan, Korea, Russia, Shanghai and South Africa)
- Australian Information Industry Association
- BITKOM (Bundesverband Informationswirtschaft, Telekommunikation und neue Medien) (Germany)
- Business Software Alliance

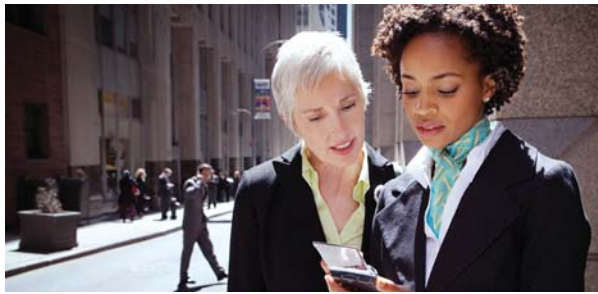
- Brazil Electronics Industry Association
- European Information & Communications Technology Industry Association
- The Federation of Korean Industries
- Information Technology Association of Canada
- Information Technology Industry Council (United States)
- Intellect (UK)
- The Japan Electronics and Information Technology Industries Association
- Manufacturers Association of Information Technology of India
- Mexican Institution on Competitiveness
- Nippon Keidanren (Japan Business Federation)
- Technology CEO Council (United States)
- U.S.-ASEAN (Association of Southeast Asian Nations) Business Council (Singapore)

Political contributions

In the United States, HP makes political contributions to candidates whose campaigns promote innovation, free enterprise and economic growth. In addition, HP also supports local and state ballot measures that have an impact on the company, employees and the quality of life in HP communities. Most U.S. states allow corporate contributions to state and local candidates and ballot measures. In HP fiscal year 2005, HP contributed \$126,589 to state candidates and ballot measure campaigns¹ consistent with our policy positions and corporate political guidelines.

HP does not make political contributions outside the United States.

¹ Local, state or city campaigns.



U.S. law prohibits corporate contributions to federal political candidates. However, eligible employees can make individual donations to the HP Political Action Committee (HP PAC). The HP PAC contributes to bipartisan campaigns for congressional candidates who share our policy views. Contributions to fund the HP PAC, a separate legal entity, are voluntary. In fiscal year 2005, the HP PAC contributed \$113,900.

Policy initiatives

HP strives to shape a broad array of policies that impact the digital economy and support competitiveness, global citizenship and innovation.

Core to our public policy work is the promotion of regulatory frameworks that encourage entrepreneurship and economic growth, advocate consumer choice, provide incentives for innovation and R&D, increase investments in education, promote the "Rule of Law" in developing countries, support access to technology and reward good citizenship practices.

We focus our efforts on three major issues:

- Access to markets
- Privacy and digital rights management
- Electronics recycling

For more information on our policy priorities, visit our Government Affairs website.

Access to markets

HP has operations in more than 170 countries and approximately 65% of company revenues are from sales outside the United States. Open trade policies that provide HP access to non-U.S. markets are therefore vital to HP's growth and success. We support efforts to eliminate trade barriers and reduce or remove tariffs.

Free Trade Agreements (FTAs). We encourage bilateral, regional and multilateral free trade agreements that provide access to markets by eliminating tariffs, increasing transparency in government procurement, liberalizing trade in services and modernizing customs procedures and practices.

For example, HP supports the successful conclusion of the World Trade Organization's Doha Development Round.

The provisions of this Round will benefit both developed and developing countries by supporting the free flow of technology-based products.

Export controls. HP supports a computer export control system that balances national security needs with computer industry competitiveness.

We are asking the U.S. government and its allies to review the outdated MTOPS (million theoretical operations per second) metric and to update the export control system so that it focuses on the "high-end" computing systems of greatest national security concern. We believe that widely available mainstream computing technology should not be subjected to a licensing requirement.

Kyoto Customs Modernization. HP led efforts for U.S. Senate ratification of the Kyoto Customs Modernization Convention. The revised Kyoto Convention is an international instrument to standardize and harmonize customs procedures and policies worldwide.

Inefficient customs procedures and policies are costly, increase cycle time and lead to unpredictability in the clearance process. HP products are sourced in multiple countries, undergo complex supply chain operations, and have short life cycles. To remain competitive, we must get our products to market with speed and certainty.

Privacy and digital rights management

Privacy. Effective privacy regulations increase customer confidence in the Internet and promote the growth of e-commerce.

HP promotes consumer privacy education, and advocates for technologies that protect privacy and empower consumers. We support responsible privacy legislation based on the principles of notice and choice, such as the U.S. Online Privacy Protection Act of 2005. We believe appropriate security practices, along with consideration for data integrity and data access, should be part of the legislative framework. Companies should be legally responsible for keeping a customer's personally identifiable information secure. See the Privacy section for more information.

Digital rights management (DRM). New technologies and services, while creating many opportunities for consumers and businesses, have created concerns that copyrighted



works, such as music and cinema, may be obtained and distributed digitally without compensating copyright holders.

DRM refers to technologies that enforce copyright licenses between content owners and consumers in a flexible manner. DRM technology can protect content delivered across many types of networks to many types of devices.

HP is engaging with consumers, entertainment companies, technology partners, retailers, industry bodies and policy makers on DRM policies. We are committed to three principles for DRM: 1) to preserve rich consumer experience while 2) building reasonable content protection solutions and 3) respecting intellectual property and copyright. HP will leverage its relationships with consumers, entertainment companies, technology partners, retailers, industry bodies and policy makers to help provide a simple, affordable and enjoyable entertainment experience that is supported by a fair business model for content providers.

In Europe, HP has significantly contributed to the ongoing debate around the strengthening of DRM-based intellectual property regimes that will eventually phase out copyright levies. Copyright levies are imposed on several IT devices to compensate content owners for legitimate private copying, as sometimes it is not possible to track the number of copies made. However, Digital Rights Management allows compensation for the precise number of copies made, so levies in many cases are no longer needed. HP opposes the expansion of levies on digital devices such as printers and computers and calls for government encouragement of market-driven DRMs. As a result of our public policy engagement, the European Commission has announced policy initiatives on DRMs and copyright levies in 2006. HP also took part in a high-level working group that advised the European Commission on addressing obstacles to DRM services in Europe.

In the manner that HP approaches all issues of content protection, we also sought to influence the debate on the protection of digital television broadcast content. We engaged in a dialog with the entertainment industry, consumer groups, manufacturers, the U.S. Congress and the U.S. Federal Communications Commission on the broadcast flag rule. HP seeks a resolution that will allow for content to be safeguarded, but which allows for industry flexibility in the implementation and an enhanced consumer experience.

Electronics recycling

Governments are increasingly proposing and adopting legislation to address the disposal of used computers and other electronic products. Some proposed legislation holds manufacturers solely responsible for collection and recycling costs, while other measures impose a fee on new product sales. We believe these approaches can be inefficient and unfair and are not the best way to promote recycling and resource conservation.

HP is committed to designing environmentally sound products and implementing efficient and safe recycling programs. We encourage recycling policies based on:

- Shared responsibility between manufacturers, government, customers, and other stakeholders for collecting, transporting and recycling products
- Individual manufacturer responsibility for funding company take-back programs to encourage ecologically sound product development
- No prescriptive design mandates, such as material bans or special labeling requirements
- Measures to encourage increased product efficiency and innovation
- Sensible recycling standards to assure environmentally sound management of used products
- Reform of existing laws or regulations worldwide that discourage recycling

HP supports regional or national recycling approaches, as opposed to varying provincial or state requirements that can result in inconsistent, inefficient or unfair recycling systems.

In the United States, HP promoted our position at the federal and state levels. In 2005, we worked with the state legislature in Maine to define the country's first state "manufacturer responsibility" electronics recycling law. Similarly, in Maryland, HP supported and helped shape legislation requiring manufacturers to subsidize local government recycling efforts or establish their own recycling programs.

In Europe, HP has been at the forefront of an industry coalition to secure smooth and efficient implementation of eRecycling rules under the provisions of the Waste Electrical and Electronic Equipment (WEEE) Directive. While



these regulations have been put in place in many European countries, HP continues to call for a harmonized approach across the EU, securing individual producer responsibility and a workable implementation model.

Other countries and jurisdictions worldwide – including Australia, Canada, China, Korea and Mexico – are considering proposals on the design or recycling of electronic products. HP is engaged in these discussions to ensure that the resulting policies achieve environmental goals in an economically efficient manner. See Product reuse and recycling section for more information.

Other key issues

HP addresses numerous additional public policy issues, including the following.

U.S. trade relations with China. China is a critically important market to HP and holds tremendous opportunities for our business. HP is very positive about doing business in China and is engaging in open dialogue with local governments, other companies and key stakeholders in a holistic fashion to identify and advocate policies that can help open markets and shape a broad array of policies that impact the digital economy, promote consumer choice, and support competitiveness, global citizenship and innovation.

HP applauds the progress China is making as a full member of the World Trade Organization. HP, through its associations in China, looks forward to working with the Chinese government in maintaining the momentum for continued progress on key policy and business issues. HP promotes the adoption of worldwide standards rather than proprietary standards; we advocate in favor of effective anti-counterfeiting enforcement and the protection of intellectual property. HP has been engaged on the ground in China for over 20 years and the company is a leader on employment practices, supply chain and environmental standards. In the United States, HP is working to temper anti-China rhetoric and opposes unreasonable tariff and other actions directed at China. HP will continue to work with other companies and stakeholders and the Chinese government to find common ground and continue to build upon a positive relationship.

Class Action Reform Act. HP actively lobbied in support of U.S. class action reform, as it reduces the high cost of litigation that has become a significant drain on our

economy and our ability to invest and innovate. This important legislation, signed into U.S. law in 2005, consolidates many class action lawsuits into federal courts and eliminates many of the loopholes that enabled frivolous lawsuits. This legislation puts in place necessary reforms to ensure that Class Actions are heard in the appropriate forums and protect plaintiffs from unfair settlements that discredit our legal system.

U.S. immigration. HP supports comprehensive reform of U.S. immigration law to enable U.S. high-tech companies to recruit and retain highly skilled workers. HP supports legislation that eliminates backlogs in the immigration quota system and expedites the process for U.S. educated foreign nationals to obtain permanent residency.

Patent reform. HP supports prompt action by the U.S. Congress to reform the patent system to curb excessive and abusive litigation, better ensure patent quality and promote international harmonization. HP will continue robust advocacy in Congress to educate members about this issue of critical importance to U.S. innovation.

R&D tax credits. HP and other leading U.S. companies that invest heavily in research and development (R&D) strongly support legislation that would enhance the U.S. R&D Tax Credit. The current credit is the lowest among our major competitor countries and does not adequately reward American companies for increasing their R&D investments. HP does not derive any benefit from the regular R&D credit and receives only a small benefit from the Alternative Incremental Research Credit despite spending over \$3 billion a year on R&D. An enhanced R&D Credit, such as the Alternative Simplified Credit, would provide a significant incentive to HP to make additional R&D investments.

For more information on our policy priorities, visit our Government Affairs website.



Stakeholder engagement

As a global business, HP interacts with a wide range of stakeholders that affect, and are affected by, our products and operations.

These stakeholders include our customers, employees, investors and suppliers, as well as community groups, media, non-governmental organizations (NGOs) and regulators.

Stakeholder engagement is an important part of our global citizenship activity. We seek out engagements with organizations that can provide critical and constructive feedback on our policies, programs and performance. These interactions help us to better understand our markets and customers, develop effective approaches to global citizenship issues and strengthen HP's reputation. Stakeholder feedback on our global citizenship performance and reporting is highlighted in 'Stakeholder Perspective' boxes throughout this report.

Integrating stakeholder engagement throughout HP

HP is integrating stakeholder engagement into our core business practices. To support this, we have a planning tool for stakeholder engagement, an online knowledge management database (featuring best practices, key learnings, and current activities), an employee support center and training programs.

Employees must understand the benefits of stakeholder engagement and know how to approach it. In 2005, we worked with SustainAbility, a consultancy based in the UK, to provide stakeholder engagement training to 40 HP employees who interact with external stakeholders regarding global citizenship. We plan to conduct further training in 2006.

Our online database enables employees across HP to share information on stakeholder engagement. We use it to track organizations and their interests and to monitor the outcome of specific engagements.

Our main stakeholder groups and how we engage

Group	How we engage
Communities	<ul style="list-style-type: none"> Employee volunteering Philanthropy Tours of facilities <i>See Social investment for more details.</i>
Customers	<ul style="list-style-type: none"> Surveys and customer experience management Commercial contacts Inquiries and responses regarding customer Requests for Proposal (RFP) <i>See Customers and Product environmental impacts for more details.</i>
Employees	<ul style="list-style-type: none"> @hp web portal Employee surveys Networking groups Open Door policy Briefings, meetings and appraisals <i>See Employees for more details.</i>
Investors	<ul style="list-style-type: none"> Statutory and other disclosures and reporting Annual general meeting Regular meetings and briefings "SRI tour" <i>See Economic value and below for more details.</i>
Legislators and regulators	<ul style="list-style-type: none"> Public engagement program Regular meetings and briefings Membership in trade associations and business organizations <i>See Public engagement for more details.</i>
Media	<ul style="list-style-type: none"> Direct engagement on topics of interest Interviews, meetings and briefings regarding global citizenship Partnership on articles and books regarding global citizenship
Non-governmental organizations	<ul style="list-style-type: none"> Meetings and conferences Partnerships Direct engagement on topics of interest <i>See Climate change, Human rights, Privacy progress, Accessibility and e-inclusion for more details.</i>
Suppliers	<ul style="list-style-type: none"> Supply Chain Social and Environmental Responsibility Program Supplier Management Process <i>See Supply chain for more details.</i>

In 2006, we will establish a Stakeholder Engagement Council of senior HP managers to manage our relationships with NGOs and other stakeholders. Each Council member will work with a key stakeholder on issues of mutual importance. Council members will meet regularly to share learnings and review our engagements. By working closely with a small group of stakeholders, we can target our resources effectively and ensure that both HP and our stakeholder partners maximize the benefits from our interactions.



Membership in external organizations

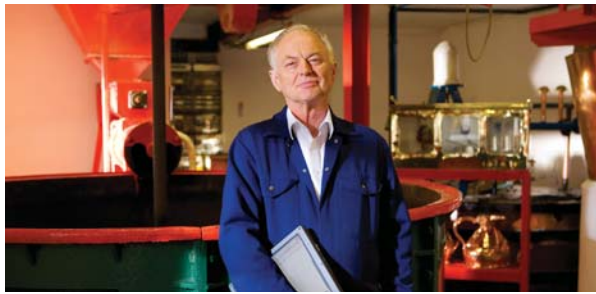
We belong to a large number of organizations that address global citizenship issues. Among these are the following:

- Association for Sustainable and Responsible Investment in Asia (ASrIA)
- Business for Social Responsibility (BSR)
- Business Leader's Initiative on Human Rights (BLIHR)
- Canadian Business for Social Responsibility (CBSR)
- Center for Corporate Citizenship at Boston College (CCC)
- Copenhagen Centre
- CSR Europe
- Ethics Officer Association (EOA)
- Ethics Resource Center
- Ethos Institute
- Global e-Sustainability (GESI)
- Global Environmental Management Initiative (GEMI)
- International Association of Privacy Professionals
- National Association for Environmental Management (NAEM)
- SustainAbility Engaging Stakeholders
- United Nations Global Compact
- United Nations Information and Communication Technologies (UN ICT) Task Force
- World Business Council for Sustainable Development (WBCSD)
- World Economic Forum (WEF)

Case study: Private-public sector sustainability partnership

In 2005, HP Australia and the New South Wales (NSW) Department of Environment and Conservation (DEC) signed a three-year partnership agreement termed a Sustainability Compact. Through the compact HP and DEC will work together to advance sustainability practices across HP's facilities, operations and supply chain, and to seek out and promote IT sustainability opportunities across the NSW Government and community. Sustainability priorities of the partnership include strategic sustainability planning and reporting, IT hardware and printing supplies recycling program development, enhanced environmental performance of HP sites and operations, and staff education and training. As part of a joint commitment to sustainability leadership, DEC and HP also commit to advocating for broad improvement to the sustainability of the IT sector as a whole and supporting informed debate on a range of sustainability issues.

The compact is the first of its kind for the Department as well as for HP worldwide and it represents a new and innovative approach to enhancing environmental performance for both government and industry. "We are extremely happy to see Hewlett-Packard taking this leadership position in the IT industry by making such a bold public commitment to environmental sustainability. This new approach pushes the boundaries of traditional Corporate Environmental Responsibility and I commend HP for their willingness to act as an industry advocate in this area. We look forward to working together with Hewlett-Packard in the coming three years to make a measurable and real contribution to environmental sustainability," said Lisa Corby, Director-General of New South Wales Department of Environment and Conservation. The full version of the compact can be found at <http://www.epa.nsw.gov.au/education/sustaincompacts.htm>.



Engagement with socially responsible investors

HP Investor Relations integrates global citizenship by working directly with socially responsible investment (SRI) firms worldwide. SRI firms and their analysts serve as proxies for other HP stakeholders, including customers, investors, employees and community members. SRI firms provide third-party evaluation and feedback, help educate other investors about HP's social and environmental performance and identify emerging issues.

HP engages with SRI firms through direct discussion, completion of questionnaires and at investor conferences. We hold annual meetings with SRI investors to update them

on our progress and ask their views on our global citizenship and financial performance. This year SRI analysts from 14 fund management and research firms attended. The analysts provided positive feedback on HP's 2005 Global Citizenship Report and welcomed our disclosure on issues such as items reported to the Office of Business Practices (see Governance and ethics). Issues identified for further engagement include our policies on HIV/AIDS in developing countries, employee diversity data, product take-back programs and recycling levels, and third-party assurance.

In 2005, HP's performance was recognized by the SRI indices and benchmarks listed in the chart below.

Name	Published	Measures	HP 2005 score	Comments
Carbon Disclosure Project (global)	September 2005	Greenhouse gas policy and emissions from world's 500 largest companies	n/a	HP disclosed its greenhouse gas emissions to the Carbon Disclosure Project
Corporate Knights & Innovest Sustainable 100 companies (global)	January 2005	Global Sustainable 100 Companies	HP in top 100 global sustainable firms	HP is the only company from the Computer and Peripherals sector included on the list
Dow Jones Sustainability Index (DJSI) (global)	September 2005	Economic, social and environmental responsibility	HP listed on the Dow Jones Sustainability World and North America Indices	HP has been listed on the DJSI since 2003. Our total score was 73 in 2005, compared with an industry average for listed companies of 51
Ethibel/Stock at Stake	September 2005	Social and environmental responsibility	HP is included on the Ethibel Register	
FTSE Group (Global)	September 2005	Social and environmental responsibility	HP on all FTSE4Good Indices	HP has been listed on all FTSE4Good Indices since 2003
KLD Research & Analytics		Social responsibility	HP included in the Domini 400 Social Index, the KLD Select Social Index, the Large Cap Social Index and the Broad Market Social Index	
OEKOM Research (Europe)	January 2005	Social and environmental responsibility	Overall Score: 'B-' Social 'B' Environment 'B'	HP rated 4th of 13 companies in the IT/Computer Sector
Report on Business (Canada)	April 2005	Corporate responsibility	Overall score: 79/100 Community and society: 75 Corporate governance: 66 Customers: 50 Employees: 87 Environment: 90 Human rights: 72	HP Canada ranked #1 in the Technology sector
Reputex (Australia)	August 2005	Corporate responsibility	AA	HP Australia received an AA rating (scale of AAA to D) in the Reputex 2005 Social Responsibility Ratings

Feedback on HP's 2005 Global Citizenship Report

HP was ranked 21st in the 2005 Accountability Rating, a global index of how the 100 largest corporations account for their impact on society and the environment. We are disappointed that we ranked lower than in 2004, but pleased that HP remained the highest rated company in the Computers and Electronics sector.

HP engaged the consulting firm SustainAbility to gather and analyze feedback on our 2005 Global Citizenship Report from 18 external stakeholders in the United States, Europe and Asia. Stakeholders included companies, NGOs, investors and academics.

We received positive feedback in several areas, including:

- Accessibility: respondents found the report well written and easy to read.
- Breadth and depth: most said the report covered the right issues and provided a useful amount of detail.
- Goals and performance indicators: respondents said our performance data and goals were useful and added to report credibility.
- Stakeholder engagement: HP has engaged in significant stakeholder feedback and quotes stakeholder comments throughout the report.

The stakeholders also made recommendations for improving the report:

- Challenges: describe how HP addresses challenges such as competition from low-cost product alternatives and conducting business in emerging economies.
- Business case: discuss the business benefits of global citizenship and how global citizenship strategy is linked to business strategy.
- Senior management input: include an introduction from the CEO or Chairman of the Board.
- Stakeholder engagement: outline HP's stakeholder engagement process.

An invitation to readers

HP takes stakeholder feedback seriously. We are grateful to receive it, regardless of whether it is positive or negative. We invite all readers to offer feedback on this report and on HP's global citizenship activities. Please send feedback using our online form at www.hp.com/go/report.



Moving forward



HP's global citizenship objective is to continue to increase our positive impact through our global citizenship work while responding to changing needs and seeking areas where our investment will be most effective.

We remain focused on three challenges for the coming three to five years: reducing product environmental impacts, raising standards in HP's global supply chain and increasing access to information technology. These are critical issues facing our industry and are areas where we believe we can make a great difference. Although we are pleased with progress to date, much remains to be done.

Reducing product environmental impacts through intelligent product design, materials innovation and leading-edge reuse and recycling systems

HP addresses product environmental impacts in an integrated fashion, recognizing that the issue has dimensions across the entire product life cycle. The following goals map HP's course:

- Eliminate lead, mercury, cadmium and hexavalent chromium in 100% of electronic products sold worldwide by 2006, as defined by the EU's RoHS Directive.
- Eliminate the use of Brominated Flame Retardants (BFR) in the external case parts of all new HP brand products introduced after Dec. 31, 2006.
- Recycle 1 billion pounds of electronic products and supplies by 2007.

Raising standards in HP's global supply chain and developing systems to measure and assess supplier performance

HP's commitment is to expand our Supply Chain Social and Environmental Responsibility (SER) program throughout our supply chain. Our objective is to build continuous learning and improvement with suppliers throughout our industry. Among others, our goals include:

- Conduct initial risk assessments with additional 50 major product materials suppliers and obtain self-assessments and agreements from high priority suppliers, in 2006.
- Conduct new and follow-up/verification audits at 90 sites in 2006 and at 75 sites in each of 2007 and 2008.
- Conduct auditor training and supplier forums in India, Mexico, Eastern Europe and China in 2006.

Increasing access to information technology

Having completed and transitioned many of our e-inclusion projects to ownership by community recipients or regional partners, we will continue to increase access to information technology through technology grants with innovative solutions that will benefit nonprofit organizations and educational institutions in communities where HP does business worldwide. We will also engage employees through volunteer and giving programs to increase access to information technology in their local communities. The lessons we have learned from e-inclusion and engagement with educational institutions will affect how we make these investments.

HP welcomes your comments. Please send feedback using our online form at www.hp.com/go/report.

HP 2006 Global Citizenship Report summary data table

This is a summary of performance data from the report, which includes additional metrics and data. An expanded data table is available online. All data are for HP's fiscal year (ending October 31 of the year indicated), unless otherwise noted.

	2003	2004	2005
HP profile			
Number of employees [Approximate]	142,000	151,000	150,000
Net revenue [Million \$U.S.]	\$73,061	\$79,905	\$86,696
Earnings (loss) before taxes [Million \$U.S.]	\$2,888	\$4,196	\$3,543
Economic value			
Operating cash flow [Million \$U.S.]	\$6,057	\$5,088	\$8,028
Tax provision (benefit) (U.S.) [Million \$U.S.]	(\$381)	\$141	\$548
Tax provision (non-U.S.) [Million \$U.S.]	\$692	\$703	\$579
Total dividend payments [Million \$U.S.]	\$977	\$972	\$926
Research and development spending [Million \$U.S.]	\$3,686	\$3,563	\$3,490
Business ethics			
Items reported to the Global Standards of Business Conduct team [Number] ¹	204	378	573
Employees terminated, warned or demoted due to escalated ethics violations [Number] ²	NA	NA	81
Product recycling³			
Total cumulative recycling [Million pounds]	496	616	757
Number of countries/regions/territories with HP return and recycling programs	35	36	42
HP LaserJet print cartridges returned and recycled worldwide [Millions, approximate] ⁴	10.2	10.8	11.6
Inkjet print cartridges returned and recycled worldwide [Millions, approximate] ⁴	1.8	4.4	9.8
Operations⁵			
Greenhouse gas emissions [Tonnes CO ₂]	1,209,000	1,436,000	1,547,000
Greenhouse gas emissions per unit of floorspace [Tonnes CO ₂ per meter ²]	0.2198	0.2239	0.2544
Carbon dioxide impact from business travel [Tonnes CO ₂]	226,000	253,000	279,000
PFC emissions [Index 1995 = 1.00]	1.47	1.49	1.43
Electricity use [Million kWh]	2,280	2,684	2,790
Electricity use per unit of floorspace [kWh per meter ²]	413	418	459
Natural gas [Million kWh]	426	444	439
Natural gas per unit of floorspace [kWh per meter ²]	77	69	72
Ozone depletion potential of estimated emissions [Kg of CFC11 equivalent]	8,340	11,109	9,692
Water consumption [Million liters]	5,878	5,436	5,723
Hazardous waste [Tonnes]	7,840	7,300	6,920
Non-hazardous waste [Tonnes]	107,600	113,000	105,200
Non-hazardous waste diverted from landfill [% of total produced]	79.3%	81.3%	87.1%
Emissions of TRI substances [Tonnes]	812.4	819.7	NA ⁶
Violations resulting in fines [\$U.S.]	\$3,120 ⁷	\$2,322 ⁸	\$7,679 ⁹
Supply chain social and environmental responsibility¹⁰			
Supplier spend [Million \$U.S., approximate]	\$52,000	\$52,000	\$53,000
Suppliers engaged in SER program [Total, cumulative]	287	363	475
SER documentation completed [Total suppliers, cumulative]	213	263	326
Audited [Total sites, cumulative]	15	45	130
Supplier diversity (purchasing results)¹¹			
Total small businesses [Million \$U.S.]	\$2,108	\$3,040	\$3,011
Total minority-owned firms [Million \$U.S.]	\$688	\$1,100	\$1,100
Total women-owned firms [Million \$U.S.]	\$254	\$397	\$424
Employees			
Employee training [Approximate total spending, million \$U.S.]	\$259	\$279	\$275
U.S. workforce demographics [% of total] ¹²			
White	78.2%	78.0%	77.6%
Black	5.4%	5.3%	5.3%
Hispanic	5.7%	5.8%	5.8%
Asian	10.3%	10.6%	10.9%
Native American	0.4%	0.4%	0.4%
Worldwide workforce demographics [% of total] ¹³			
Female	30.0%	29.7%	29.8%
Male	70.0%	70.3%	70.2%
Health, safety and wellness			
Lost workday case rate ¹⁴	0.15	0.10	0.11
Employees completing on-line office ergonomics self-assessment and training [%, cumulative]	10%	35%	56%
Work-related fatalities [Number]	0	0	0
Social investment			
Worldwide giving, total [Million \$U.S.] ¹⁵	62.4	61.6	45.3
Cash	21.9	16.6	18.0
Products and services	40.5	45.0	27.3
Number of countries/regions/territories with e-inclusion projects	14	19	24

¹ In 2003 and 2004, this was titled "Items reported to the Office of Business Practices". Data for 2003 and 2004 includes inquiries and allegations received through the Office of Business Practices using the formal reporting mechanisms. Items raised to other compliance functions or the Board are not included. 2005 data includes inquiries and allegations received through the Global SBC team or escalated through other compliance reporting mechanisms that meet a certain threshold. Items raised directly to the Board or to other functions such as HR are not included.

² Metric introduced in 2005.

³ Hardware recycling data from Europe/Middle East/Africa and HP LaserJet recycling data are calendar year. The remaining data are based on the HP fiscal year.

⁴ Includes cartridges returned by customers and cartridges from HP internally. 2005 figure is based on year-end estimate.

⁵ In 2005, we updated our estimation model, included data from our unoccupied facilities and adjusted the 2003 and 2004 data accordingly.

⁶ TRI reports are due to the U.S. EPA by July 1 of each year. Therefore, 2005 data are not available for this report.

⁷ There were two violations in 2003: a self-reported permit excursion at our Palo Alto, California, U.S. site and mosquitoes breeding in a blocked drain at our Singapore manufacturing facility. We implemented corrective actions in both cases.

⁸ The two largest fines in 2004 resulted from annual fees not being paid on time. These fees are now tracked through HP's work-order system to eliminate future violations.

⁹ We had one fine in 2005, which came from the improper labeling of hazardous waste drums by a contractor at one of our California sites. The site has since updated several processes and conducted additional training with the contractor.

¹⁰ Data for 2003 are to the end of the first quarter, fiscal year 2004.

¹¹ All figures are for U.S. purchases from U.S.-based businesses. Figures are for October 1 of the previous year to September 30 of the year indicated. Data for 2003 does not include purchases by former Compaq sites.

¹² Includes employees on leave or paid leave. Total for 2004 equals more than 100% due to rounding.

¹³ Includes employees on leave or paid leave. Excludes certain subsidiary employees for which data are not available.

¹⁴ 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.

¹⁵ HP equipment granted by HP Philanthropy and Education is offered at Internet List Price (ILP) value at the time the grant is processed. ILP is the price that an end customer would pay if purchasing through the HP Direct sales channel on the internet. While product prices may vary on different HP websites, in retail stores and in the reseller channel depending on specials, targeted promotions or discounts, HP granted equipment is not subject to these promotions and/or discounts and will always reflect the ILP value at the time the grant is processed.

Glossary

The following are definitions of terms as used in this report.

Accessibility—Provision of products and information for people with disabilities.

ADR—Alternative Dispute Resolution. A nonjudicial process for resolving disputes.

AT—Assisted Technology. Computer equipment and software designed to be accessible by people with disabilities.

Climate change—A change of climate attributed directly or indirectly to human activity that alters the composition of the global atmosphere, beyond natural climate variability observed over comparable time periods.

Corporate governance—Structures and standards designed to promote fairness and transparency in the conduct of corporate activities.

CFCs—Chlorofluorocarbons. Gases formed of chlorine, fluorine and carbon. A group of ozone-depleting gases (see 'Ozone-depleting substances').

CO₂—Carbon dioxide. A greenhouse gas, emitted when fossil fuels such as coal, oil and gas are burned.

Conserve and Preserve—HP's communication program to encourage employees to save energy and reduce, reuse and recycle waste.

Data center—A building that houses a collection of servers to host websites and process network information. Some data centers may have hundreds of individual servers.

DfE—Design for Environment. Specific design features to address product environmental impact. Includes energy efficiency, materials innovations and design for recyclability.

Digital divide—Inequality in access to information and communication technology (ICT).

Diversity—Representation within an organization of people of different backgrounds, including gender, color, race, ancestry, religion, national origin, age, physical or mental disability, sexual orientation, gender identity/expression or covered veteran status.

Eco-label—A standardized symbol or logo used to indicate that the product on which it appears meets certain pre-defined environmental criteria.

e-commerce—Buying and selling products and services over the internet.

EHS—Environment, Health and Safety. HP has a global EHS organization that identifies significant environmental impacts, sets standards, manages audit and assurance programs and recommends targets to management.

EHS MS—Environment, Health and Safety Management System. The HP EHS MS provides the framework for all sites to meet legal obligations and company standards and to achieve continual improvement.

e-inclusion—HP term for increasing access to IT in underserved communities.

Emerging markets—Relatively fast-growing economies, primarily among developing countries.

ENERGY STAR—The U.S. Environmental Protection Agency's voluntary program that sets energy efficiency criteria for IT products.

EPA—The U.S. Environmental Protection Agency.

Equal opportunity—Providing opportunity based on merit, without discriminating on grounds of gender, color, race, ancestry, religion, national origin, age, physical or mental disability, sexual orientation, gender identity/expression or covered veteran status.

Ergonomics—The science of matching jobs and work demands to the capabilities of people.

FWA—Flexible Work Arrangement. Includes flex-time, part-time and teleworking.

Global citizenship—Companies' efforts to make a positive contribution to the global community beyond their commercial role as a business.

Global warming—The gradual rise of the earth's surface temperature.

Greenhouse gas (GHG)—A gas that contributes to the natural greenhouse effect. Greenhouse gases that can be produced by human activities include: carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

GSE—General Specification for the Environment. HP product specification detailing certain substances prohibited or restricted from HP products for environmental reasons.

GRI—Global Reporting Initiative. A multi-stakeholder process and institution that is developing guidelines for corporate reporting on economic, environmental and social issues.

GuideLine—An ethics telephone resource line where employees and others can anonymously and confidentially report issues and address concerns regarding the integrity of HP's business practices.

GWh—Gigawatt hour. One million kilowatt-hours, a measure of energy consumption.

GWP—Global Warming Potential. Measure of the reactive potency of greenhouse gases in the atmosphere relative to carbon dioxide.

HCFCs—Hydrochlorofluorocarbons. Gases formed of hydrogen, chlorine, fluorine and carbon. A group of ozone-depleting gases considered less damaging to the ozone layer than CFCs.

HFCs—Hydrofluorocarbons. Gases formed of hydrogen, fluorine and carbon. A group of gases used to replace ozone-depleting gases. They do not deplete the ozone layer.

HP Labs—HP research and innovation division.

Human rights—Basic human needs seen as essential in a variety of international declarations such as the Universal Declaration of Human Rights, adopted by the United Nations in 1948.

i-community—An HP initiative that uses information and communication technology to promote economic and social development while providing a platform for testing solution innovation for emerging markets.

ICT—Information and communication technology.

IT—Information technology.

ISO 11469—The International Organization for Standardization's standard for identifying and marking plastic products.

ISO 14001—The International Organization for Standardization's standard for environmental management systems.

Landfill diversion rate—A term used in this report to refer to the percentage of waste that does not go to landfill (for example, that is reused, recycled or incinerated).

Lost workday case rate—The number of employee work-related injuries or illnesses resulting in time away from work for every 100 employees working a full year.

Microenterprise—A very small business.

Microfinance—The provision of small loans (from \$25) to low-income clients.

NGO—Non-governmental organization.

Non-renewable resources—Natural resources that are depleted with use, including fossil fuels such as coal, oil and gas.

OHSAS 18001—International guidelines for occupational health and safety management systems.

Ozone layer—A layer of gases in the atmosphere that protects the earth from the sun's harmful ultraviolet radiation.

Ozone-depleting substances—Manmade chemicals that deplete the ozone layer.

PAC—Political Action Committee. A group or committee formed to support candidates for elective office in the United States.

PBB and PBDE—Polybrominated Flame Retardants that have been used to reduce flammability in electronics products.

PFCs—Perfluorocarbons. A group of solvents used in the semiconductor industry for cleaning and etching.

Planet Partners—HP's product recycling program.

Product stewardship—Monitoring and minimizing product environmental impact throughout the life cycle, from design to disposal.

Rehabilitation Act (Section 508)—U.S. legislation requiring federal agencies to make electronic and information technology accessible to people with disabilities.

Remediation—Restoring contaminated land to a usable condition.

Renewable resources—Natural resources that are not depleted when used because they are naturally replenished. These include wind, solar and geothermal power and biomass.

RoHS Directive—Restriction of Hazardous Substances Directive. A European Union directive that will restrict the presence of certain substances in electrical and electronic products placed on the market in the European Union from July 2006 and beyond.

Safe Harbor—As used in this report, an agreement between the U.S. Department of Commerce and the European Commission that allows companies to self-certify to a set of privacy principles based on European standards.

Small, minority- and women-owned business procurement—Policies and practices to ensure small, minority- and women-owned businesses have equal opportunities to be suppliers and resellers.

Social investment—A company's contribution to social goals, including philanthropy, community engagement and business models that combine profit making with social goals.

SRI—Socially Responsible Investment. SRI investors include social, environmental and ethical criteria in their investment decisions.

Stakeholders—Individuals or groups that affect or are affected by the activities of a company.

Standards of Excellence—Online training to help HP employees comply with company policies and meet high standards of conduct in their work.

Sustainability—The ability to meet the needs of present generations without compromising the ability of future generations to meet their own needs.

Telework—The use of information technology to work at home or otherwise away from a traditional office environment.

TRI—Toxics Release Inventory. An annual report required by the U.S. EPA on releases of specified chemicals.

VOCs—Volatile Organic Compounds. VOCs are used as solvents in manufacturing.

VoW—Voice of the Workforce. HP's regular employee satisfaction survey.

WEEE Directive—Waste Electrical and Electronic Equipment Directive. A European Union directive that will place certain responsibilities for recycling end-of-life electronics products on producers (manufacturers, sellers, distributors).



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