

2005 Global Citizenship Report



About this report

Scope

This report describes HP's global citizenship activities worldwide. It charts HP's progress in fiscal year 2004.

Reporting year

All data are for HP's fiscal year 2004 (ending October 31, 2004), 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 online GRI index provides easy reference of GRI items.

Previous reports

HP published its 2004 Global Citizenship Report (which covered 2003 data) in June 2004. Past global citizenship reports are available on the Downloads page on the full report site.

*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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Global citizenship at HP



This report describes the management systems, policies and practices we use to meet our global citizenship objectives and summarizes our performance during 2004.



HP's global citizenship priorities

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

Addressing electronic waste. Customers, governments and the public are paying increasing attention to issues surrounding the disposal of electronic waste. HP addresses these issues throughout the product life cycle. HP's efforts to design for recyclability create products that are easier to upgrade and recycle. The HP Planet Partners take-back program covers the return and recycling of computer hardware and HP print cartridges at the end of those products' useful lives. We made progress towards our goal of recycling 1 billion pounds of electronic products and supplies by the end of 2007. In 2004, we recycled more than 120 million pounds of electronic products and supplies and collaborated with leading retailers and non-governmental organizations (NGOs) to further extend the reach of our programs. Finally, HP's company-wide program to reduce the number of substances and the amount of potentially hazardous materials in our products has progressed significantly. This reduction in turn facilitates recycling and may increase the value of reclaimed materials. For more information, including performance targets, see 'Materials innovation' and 'Product end-of-life alternatives'.

Raising standards in HP's global supply chain. With the largest supply chain in the information technology industry, we have significant opportunities—and take responsibility—to extend our social and environmental standards throughout our product supply chain. In 2004, we co-developed and continue to play a leadership role in the evolution of the Electronic Industry Code of Conduct (EICC). The Code provides an important foundation for HP's 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. For more information, including performance targets, see 'Supply chain'.

Increasing access to information technology. Fewer than 20% of the world's population has access to a personal computer and the benefits associated with access to the Internet. Access to information and communication technology (ICT) can play a role in addressing social and economic inequality in underserved communities and developing countries. In 2004, we had projects under way in 53 countries across six continents, touching hundreds of communities that would otherwise be excluded from the benefits of the information revolution. Together with key partners from the government and community, we are deploying ICT solutions to assist individuals in areas including education, healthcare, microfinance and micro enterprise business development. For more information, including specific project accomplishments, see 'Social investment'.

Letter from Debra Dunn

In his memoirs, Dave Packard recalled an industry conference he was invited to address in the 1940s. He took the opportunity to assert his belief that building long-term shareowner value didn't simply require focusing on making a profit, but making a contribution. That as a business, HP had important responsibilities to its employees, its customers, its suppliers, and to the welfare of society at large, which in turn would help build a stronger company that would help drive financial performance. To his surprise and disappointment, most of the others disagreed with him.

Six and a half decades later, the idea that companies can build shareowner value by striving to make both a profit and a contribution is not just a cornerstone of good corporate citizenship; it is still the foundation of everything we do at HP. Whether it's upholding high standards of transparency and accountability, vigorously managing our performance in environmental sustainability and human rights, or using technology to provide opportunity in underserved markets, it is our goal to build trust by leaving each community in which we do business better for our presence.

Some see this work as charity, philanthropy, or an allocation of resources that could better be donated by shareowners themselves. But to us, it is a vital investment in our future, essential to our top-line and bottom-line business success. What we have learned over time is that the work we are doing around the world to advance social and economic development and environmental sustainability is not separate from our long-term business goals, but fundamental to them. In the 21st Century, global citizenship is not just a corporate responsibility, but also a prime business opportunity to grow our company in new ways.

Last year presented us with many unique opportunities to demonstrate this connection between our long-term business goals and our commitment to global citizenship. This report documents progress against our priorities established in 2004: addressing electronic waste, raising global supply chain standards and increasing access to information technology in underserved markets.

In 2004, we partnered with leading retailers in the United States and Europe to launch the first free, in-store electronics recycling program, which helped us to recycle more than 120 million pounds of electronic products and supplies during the year. These efforts propelled us towards our goal of recycling 1 billion pounds of electronic products and supplies by the end of 2007.



In 2003, we worked with our largest 50 suppliers to improve social and environmental conditions across our global supply chain. In 2004, we completed assessments with 213 suppliers, far exceeding our goal of 100 suppliers. We also realized that raising social and environmental standards and performance is an industry challenge that requires cooperation, not competition. Thus, working together with numerous suppliers and technology companies—including our principal competitors—we championed the Electronic Industry Code of Conduct.

We increased access to technology in 53 countries across six continents through our e-inclusion and education initiatives. In early 2005, we will announce a new e-inclusion program designed to accelerate enterprise and entrepreneurship, and thereby stimulate economic growth.

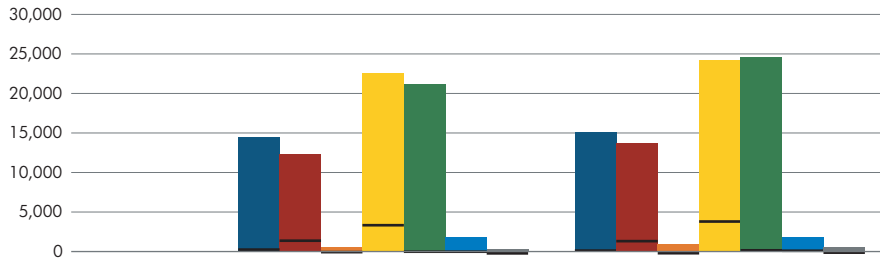
Our long-standing commitment to global citizenship began with our founders and has been reinforced by each CEO that has led the company. We are focused on making progress towards our goals, trying new approaches, and collaborating with others committed to environmental and social responsibility. HP remains committed to making a profit and to making a difference for our shareowners and our global community.

Sincerely,

A handwritten signature in black ink, appearing to read 'Debra F. Dunn'.

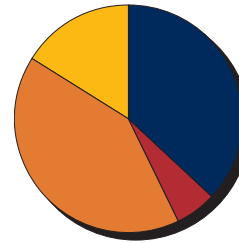
Debra Dunn
Senior Vice President of Corporate Affairs
and Global Citizenship

Revenue and earnings (loss) from operations by segment
 (As reported in the 2004 Annual Report on Form 10K) [Million \$U.S.]



	2003		2004	
	Net revenue	Earnings (loss) from operations	Net revenue	Earnings (loss) from operations
Enterprise Storage and Servers	\$14,593	\$142	\$15,152	\$173
HP Services	12,357	1,362	13,778	1,263
Software	774	(190)	992	(145)
Technology Solutions Group	27,724	1,314	29,852	1,291
Imaging and Printing Group	22,569	3,596	24,199	3,847
Personal Systems Group	21,210	22	24,622	210
HP Financial Services	1,921	79	1,895	125
Corporate Investments	344	(161)	449	(178)
Total segments	73,768	4,850	81,017	5,295
Elimination of intersegment net revenue and other	(707)	-	(1,112)	-
Corporate and unallocated costs, non-operating income and expense and eliminations	-	(1,962)	-	(1,099)
Total HP consolidated before taxes	\$73,061	\$2,888	\$79,905	\$4,196

Revenue overview by region
 [% of total, fiscal year 2004]



- United States 37%
- Americas (excluding US) 6%
- Europe/Middle East/Africa 41%
- Asia Pacific (including Japan) 16%

Additional financial data, fiscal year 2004 [Million \$U.S., except per share amount]

Reinvested in HP
 Investment in property, plant and equipment: \$2,126
 Research and development: \$3,506

Shareholders
 Cash dividends declared per share: \$0.32
 Dividend payments: \$972

Supply chain
 Supplier spend (approximate): \$52,000
 U.S. small, minority- and women-owned businesses: see 'Supplier diversity'

Governments
 Provision for taxes: \$699

Communities
 Philanthropy: \$61.6

Corporate summary

Chief Executive Officer and President, as of April 1, 2005:
 Mark Hurd

Employees: Approximately 151,000

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 December 31, 2004, there were approximately 158,246 stockholders of record.

Countries of operation: 178

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 profile

HP is a leading technology solutions provider to consumers, businesses and institutions globally. Millions of people around the world use HP technology every day—technology that ranges from printers, cameras and handheld PCs to some of the world's largest and most powerful supercomputers. Our offerings span IT infrastructure, personal computing and access devices, global services and imaging and printing. We are the world's largest consumer information technology (IT) company, the largest small- and medium-size business (SMB) IT company and a leading enterprise IT company. We focus on helping people apply technology in meaningful ways to their businesses, personal lives and communities.

In a world where processes and content are becoming increasingly digital, mobile, virtual and personal, we are making the necessary investments to ensure we can accelerate progress in a way that's simple and manageable for our customers. This shift has impacted

the way people take photographs, how governments serve and protect citizens, how large organizations keep teams of widespread employees connected and productive and how disadvantaged communities pursue economic development.

HP's core values

HP's values have shaped the company's history and will continue to define what HP aspires to achieve in the future. HP's 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 more than 45 years.

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.

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's business groups and corporate functions implement our strategy to achieve our objectives.

As of February 2005, HP's business groups are as follows:

- Customer Solutions Group
- Imaging and Personal Systems Group
- Technology Solutions Group

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

Research and innovation

HP has a long history of invention and innovation. We pioneer new technologies, solutions, business models and processes to help people have richer, more personalized experiences in their lives and in their work. By innovating in areas such as mobility, security, rich digital media and management software, we seek to address emerging customer needs and provide opportunities to capitalize on the shift to increasingly digital, mobile, virtual, and personal processes and content.

In 2004, we introduced innovations such as the HP Multi-user 441 Desktop Solution, an inexpensive Linux-based computer that can accommodate four simultaneous users. It was launched in schools in our Mogalakwena i-community in South Africa, but has the potential for wide-reaching application.

We invest in areas where we can have a significant impact and create value for our customers, and we capitalize upon the innovation of our partners for the rest. In 2004, we broadened our research relationships with industry leaders such as DreamWorks, leading universities including MIT and Bristol University in the UK and global scientific consortia such as CERN.

HP invested \$3.5 billion on research and development in fiscal year 2004. We closed the year with over 25,000 patents in force worldwide, up from 21,000 at the end of fiscal year 2003. This equates to approximately 11 new patents each day.



"HP's commitment to global citizenship dates to our company's founding. It has been a constant in the way we operate, from uncompromising business ethics to investing in communities to managing our impact on the environment. This report documents our priorities, efforts and performance in 2004, and complements our recently released financial results. The information contained in this report illustrates our past and future commitment to being a good corporate global citizen."

Bob Wayman
Chief Financial Officer

Global citizenship

As our operations and customers have expanded to over 170 countries worldwide, we recognize that with global reach comes global responsibility. We are deeply aware that we live in a world where close to half the population lives on less than \$2 a day, where 1 billion people cannot read or write, where less than 20% of the world has access to information technology¹ and where 52 of the largest 100 economies in the world are corporations. As a global corporation, we have the responsibility to use our economic power and reach to positively impact the world.

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

We have chosen to align our global citizenship priorities and strategy with our business strategy to maximize the impact of our investments. We are collaborating across our industry and with multilateral organizations, governments and non-governmental organizations (NGOs) to understand how corporations can help solve some of the world's toughest challenges, such as economic development, environmental sustainability and poverty alleviation.

HP is delivering on our commitment to global citizenship by:

- Conducting business with uncompromising integrity
- Engaging with a variety of external stakeholders— from local communities to the United Nations
- 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

¹Sources: ClickZ Network and CIA World Factbook.



Global citizenship timeline

1939

- HP founded

1940

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

1955

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

1957

- Citizenship objective established by William Hewlett and David Packard

1959

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

1961

- HP Core Values established

1976

- HP starts company-sponsored vanpool program

1979

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

1987

- Product recycling launched internally

1991

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

1992

- Launch of Design for Environment program

1993

- Domestic partner benefits introduced

1994

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

1995

- Employee Privacy Policy updated

1997

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

1998

- First online privacy statement published

1999

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

2000

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

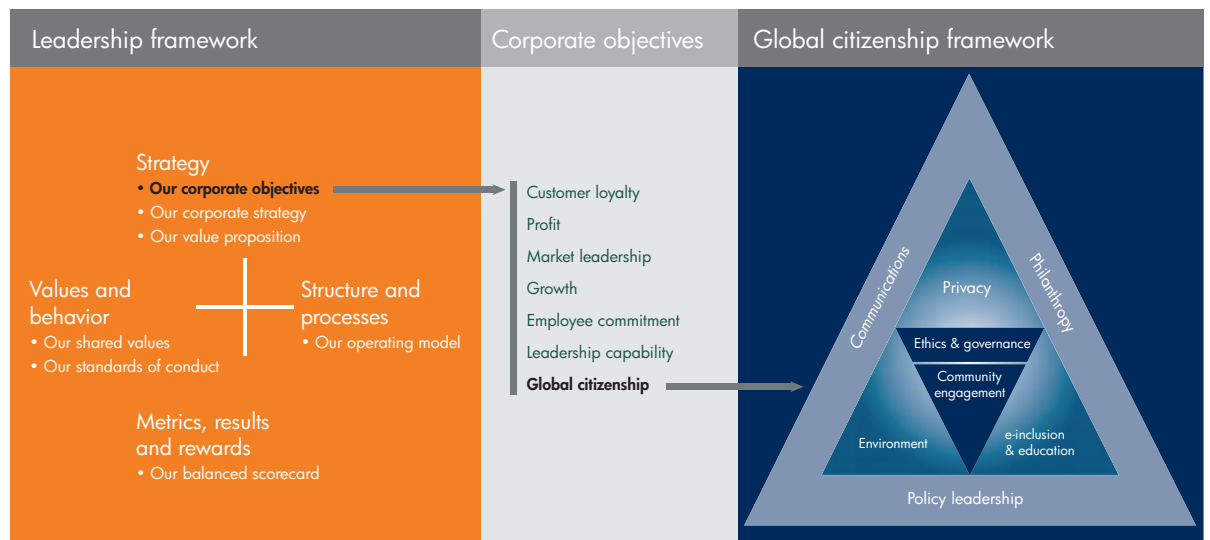
2001

- HP self-certified to EU Safe Harbor Privacy Principles

2002

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

Leadership and global citizenship frameworks



A corporate objective

HP's goal is to connect our corporate commitment to being a good global citizen with the day-to-day running of the HP business. Our strategy is to choose areas where we can make a valuable contribution and support those commitments not only with money, but more importantly, with our people and our products. We have identified strategic focus areas for our global citizenship agenda that are both important to our business and to the technology industry.

To make these connections clear to our employees and other stakeholders, we developed a global citizenship framework to guide our strategic planning and priority setting. This framework is connected to HP's leadership framework through our corporate objectives, as illustrated below.

2003



2005



2010

2003

- Master Privacy Policy published
- HP recycled plastic included in first hardware product
- Supply Chain Social and Environmental Responsibility (SER) program rolled out to top 50 suppliers
- 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
- Baltimore Digital Village and Southern California Tribal Digital Village celebrated third anniversaries
- HP Multi-user 441 Desktop Solution launched

- Electronic Industry Code of Conduct (EICC) co-developed by HP
- Self-assessments with 213 high priority suppliers completed
- Forty-five supplier manufacturing site audits in China, Mexico, Southeast Asia and Eastern Europe completed
- 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

Select HP goals:

2005

- Reduce emissions of specified PFCs by 10% from 1995 levels
- Add Supplier Code of Conduct to all product materials supplier contracts
- Eliminate lead, mercury, cadmium and hexavalent chromium in 50% of electronic products sold worldwide, as defined by the EU's RoHS Directive
- Complete SER self-assessments with 100 additional suppliers
- Audit a minimum of 75 supplier sites
- Increase HP's e-inclusion presence to 50 countries

2006

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

2007

- Recycle 1 billion pounds of electronic products and supplies
- Complete SER self-assessments with a total of 700 suppliers



Leadership and global citizenship frameworks

Core. At the core of our global citizenship framework is our commitment to operate our business with uncompromising integrity and to engage with a variety of communities. These range from local communities where we live and work, to our supply chain, to external stakeholders trying to improve social and economic conditions around the globe. The HP Standards of Business Conduct and Supplier Code of Conduct were created to ensure that our business practices and those of our suppliers are consistent with our values. These documents embody the fundamental principles that govern HP employee and supplier obligations to the company.

Strategic initiatives. HP has chosen to focus our global citizenship agenda on environment, privacy, and e-inclusion and education. We selected these areas based on their strategic importance to our business, the information technology sector and society. Each strategic initiative has specific priorities, objectives and programs that teams across HP execute every day.

Enablers. Philanthropy, public policy and communications play a critical role in supporting and enabling the success of our strategic initiatives.

As our understanding of global citizenship is constantly evolving, based on engagements with stakeholders regarding the role of corporations in society, our framework keeps our company focused to ensure progress is made.

Global citizenship strategy

HP's yearly strategic business planning involves assessing customer needs and trends, benchmarking our performance against other companies, and ultimately realigning priorities and resources based on those factors. This same planning rigor is applied to the development of our global citizenship strategic plan.

Teams from the Corporate Affairs organization, business units and corporate functions create strategic business plans based on our global citizenship framework. Representatives from the business organizations and key corporate functions are responsible for integrating the key aspects of each plan into their respective organizational plans.

The global citizenship strategic plan is presented to the 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 other business groups and functions.

Awards

Worldwide

Rated #8 of G-100 companies, #1 in U.S. and #1 in sector, in the AccountAbility Rating.

Rated #10 globally, #1 in North America and #1 in the Technology Equipment category, in *Risk & Opportunity: Best Practice in Non-Financial Reporting*, a benchmark survey of the world's top 50 sustainability reports conducted by SustainAbility, in partnership with the United Nations Environment Programme and Standard & Poor's.

Implementation

To implement the global citizenship strategy, the Corporate Affairs organization provides leadership across the company. Governance structures link the business organizations with the Corporate Affairs team—and are essential to managing the execution of the strategy on a day-to-day basis, monitoring current trends and key stakeholders' perspectives and escalating 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/teams establish goals, ensure integration of the strategy into the running of the business and measure our progress.

Issues management

HP addresses global citizenship issues using a structured approach (see chart, page 10). Issues are identified through engagement with various stakeholder groups, such as customers, employees, business partners, suppliers, NGOs, communities and governments. HP's business groups may also raise issues. Issues are then addressed by the appropriate HP Issues Management team. Corporate Affairs works with these teams to bring issues to the attention of the Executive Council, to identify opportunities and mitigate risk.

Measurement

HP measures performance using the 'balanced scorecard' method, which expands on traditional financial metrics. The Corporate Affairs balanced scorecard includes goals and metrics in the following categories: customers and stakeholders, finance, employee, and operations. Performance is then tracked against these metrics on a quarterly basis at the company level. Some of our most important performance metrics and goals are included throughout this report.



Economic value

Time-tested formulas enable analysts and accountants to arrive independently at similar figures for a company's financial value. No such formulas exist for measuring a company's overall economic contribution to society. Thus the data listed in the HP profile section of this report offer only part of the story. Other dimensions of HP's economic impact include:

- **Community investment**—HP adds to the capacity of local communities through philanthropic investments, public policy dialogue and employee volunteerism. HP employees apply unique skills and interests to help solve issues facing communities.
- **Job creation**—Job creation extends beyond the number of people a company directly employs. Studies document the 'multiplier effect' in local economies caused by employment at large firms, estimating that more than two new jobs are created for every job at a firm such as HP. This includes additional jobs inside HP as well as service and support jobs in the community.
- **Taxes**—Companies help fund essential government services through taxes. In many jurisdictions, HP pays taxes on its income, payrolls and properties, and on goods purchased in the course of business. HP's 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 taxes, thus increasing our economic impact significantly.

How is HP doing?

We consider HP a leader among its peer group, particularly because of its emphasis on leveraging sustainability to enhance value for the company, its myriad stakeholders and, importantly, HP shareholders. The company's initiatives in a variety of areas—development of stakeholder capital, commercialization of sustainable products and improvement of environmental performance—are all characterized by an understanding that pursuing leadership in these areas can translate into enhanced competitiveness and financial value.

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

Producer responsibility. e-Inclusion. Supply chain risks. These are just a few of the business-critical sustainability issues that the entire Computers & Peripherals sector is grappling with. While HP is leading the way towards early-stage solutions to these problems, the ultimate solutions will most certainly require some quantum leaps forward from current thinking. HP's corporate spirit of innovation should be harnessed to help find these next-generation solutions—not only because it's the right thing to do but also because its shareholders will benefit.

Devin Crago
Senior Research Analyst
Innovest Strategic Value Advisors

Socially responsible investing

HP integrates global citizenship into investor communications. This work contributes to shareholder value, builds our brand and leads to increased revenue and reduced risks.

Socially responsible investment (SRI) analysts and non-governmental organizations (NGOs) are vital to this process. They serve as proxies for other HP stakeholders, including customers, investors, employees, and community members.

Socially responsible investors consider the social, environmental and ethical impacts of a company's practices and products. SRI-managed assets in the United States grew from \$529 billion in 1997 to \$2.15 trillion in 2003², according to the Social Investment Forum.

HP continues to engage with SRI firms through direct discussion, completion of questionnaires and at investor conferences. HP's performance is evaluated regularly and meets the criteria of many SRIs, including:

- Calvert Asset Management Company
- Citigroup Asset Management
- Citizens Securities
- F&C Asset Management (formerly ISIS)
- Green Century Capital Management
- MMA Capital Management
- Morgan Stanley Investment Advisors
- Morley Fund Management
- Progressive Investment Management Corporation
- Trillium Asset Management
- UBS Global Asset Management
- Walden Asset Management

In 2004, HP's performance was recognized by the following SRI indices and benchmarks:

- The Dow Jones Sustainability Index (DJSI) again includes HP in 2004. The DJSI assesses the sustainability performance of the largest 2,500 companies globally and selects the top 10%. Because DJSI standards are increasingly demanding, remaining on the list requires continuous improvement. HP ranks as the leading technology hardware and equipment company.
- The FTSE4Good Index lists HP on all four of its market series (U.S., Global, UK and Europe). FTSE, a leading index provider, uses these indices to rate the performance of companies meeting globally recognized corporate responsibility standards and to facilitate investment in those companies.
- KLD, a leading provider of social research for institutional investors, includes HP in its KLD Select Social Index and the Domini 400 Social Index.
- Innovest Strategic Value Advisors, Inc., a leading independent research firm for the SRI community, ranked HP first of 10 companies in the computer and peripherals industry for intangible value analysis reporting—including governance, human capital and emerging market issues. HP ranked fifth for environmental reporting.
- Core Ratings ranks HP with an A+ for management of investment risks arising from material, environmental, social, employment and ethical impacts.

See the table on the next page for a summary of HP assessment by a number of SRI organizations.

² See www.socialinvest.org/areas/research/trends/sri_trends_report_2003.pdf, page 5.

Case study: Engaging with socially responsible investment (SRI) organizations

HP values our relationships with SRI organizations. These organizations provide third-party evaluation and feedback, help educate investors about HP's social and environmental performance, and identify emerging issues.

In 2004, HP engaged in discussions with 28 leading U.S. and European SRI firms, including ABN AMRO, Barclays, Boston Common Asset Management, Citigroup, Domini, F&C Asset Management (formerly ISIS), Green Century, Henderson Asset Management, HSBC, Innovest, KLD Research & Analytics, State of Connecticut Pension Fund, State Street Global Advisors, Trillium Asset Management, UBS Asset Management, and Walden Asset Management.

HP plans expanded SRI outreach in 2005. Dialogue will focus on our product recycling, e-inclusion and supply chain social and environmental responsibility programs and performance. In addition to deepening current relationships, we will target other groups who track our sector, as well as institutional investors.

This table summarizes HP's recent performance, according to a number of SRI and other organizations.

Name	Published	Measures	HP 2004 Score	Comments
Carbon Disclosure Project (global)	Feb-04	Greenhouse gas policy & emissions from the 500 largest companies in the world	No score provided	HP was reported as having the most complete greenhouse gas program (policy, emission reduction targets, and reporting) in the Computer and Peripherals industry group.
CoreRatings (Europe)	Oct-03	Corporate responsibility	A+	Scale A+ to D.
Corporate Knights & Innovest Sustainable 100 companies (global)	Jan-05	Global Sustainable 100 companies	HP in top 100 global sustainable firms	HP is the only company from the Computer and Peripherals sector.
Dow Jones Sustainability Index (DJSI) (global)	Sep-04	Economics, social and environmental responsibility	HP ranked #1 in technology hardware & equipment industry group	This is second consecutive year HP is on the DJSI and #1 in our industry group. Other companies on index in technology hardware & equipment include Canon, Fujitsu, Ricoh, Dell.
F&C Asset Management (formerly ISIS) (Europe)	Jan-04	Supply chain management	HP listed as a leader for both labor standards and environmental management	Labor standards: leaders were HP and Nokia; Environmental management: leaders were Dell, HP, Nokia, Sharp.
FTSE Group (Global)	Sep-04	Social & environmental responsibility	HP on all FTSE4Good Indices	This is second consecutive year HP is on the FTSE4Good Indices.
GES Investment Services (Europe)	Apr-04	Environmental responsibility and human rights	Environment: A Human rights: A-	Rated HP highly in environment and human rights. HP received an A in environment and an A- in human rights. A is the highest grade, C is the lowest.
OEKOM Research (Europe)	Jan-05	Social & environmental responsibility	Overall Score: B- Social: B Environment: B-	HP rated 4th of 13 companies in IT/Computer Sector.
Report on Business (Canada)	Mar-04	Corporate responsibility	Overall score: 75/100. Other scores include: community & society 69; corporate governance 71; customers 63; employees 77; environment 83; human rights 69	HP Canada ranked #1 in Technology sector.
Reputex (Australia)	Nov-04	Corporate responsibility	AA	HP Australia received an AA rating (scale AAA-D) in the Reputex 2004 Social Responsibility Ratings, placing HP in the top 10 for best practices in corporate governance, workplace practices, environmental and social impact.
SVTC (U.S.)	May-04	Computer hardware environmental responsibility	54.5/100	HP had the highest score. Even though HP was number 1, SVTC remarked "we have a long way to go."

Governance and ethics



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



Corporate governance

Oversight and management

Board of Directors

The Board's role is to govern HP to benefit its shareowners. HP also considers other stakeholders, including employees, customers, suppliers and the communities in which we work and live. Strong corporate governance and ethics are essential to business success.

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

HP's Board of Directors has ten members, with Patricia Dunn serving as the Non-executive Chairman of the Board. Mark Hurd became Chief Executive Officer and President of HP on April 1, 2005 at which time he also joined the company's Board of Directors. Robert P. Wayman, member of the Board since February 2005, also serves as Chief Financial Officer. The remaining eight members have no material relationship with HP under HP's director independence standards, which incorporate the director independence standards established by the U.S. Securities & Exchange Commission and those of the New York Stock Exchange and NASDAQ, on whose exchanges HP's shares are traded.

Executive sessions of independent directors are held at least three times per year.

Board committees, each led by an independent director, are responsible for review and oversight of company strategy and practices. These include: Acquisitions Committee, Audit Committee, Human Resources and Compensation Committee, Nominating and Governance Committee, and Technology Committee.

In early 2004, HP established a mechanism for all stakeholders to communicate directly with the Board using e-mail (bod@hp.com) if they have a concern they would like directors to address.

Ethics Committee

The Ethics Committee consists of Senior and Executive Vice Presidents from Human Resources, Legal, Finance, and Corporate Affairs. It provides regular reports to the Audit Committee and is charged with overseeing the development and enforcement of the company's ethical guidelines, known as the Standards of Business Conduct (SBC), and reviewing major allegations of violations of the Standards of Business Conduct.

Executive Team

Our executive team consists of 16 company officers. They include Senior and Executive Vice Presidents from our business divisions and the heads of Corporate Affairs, Finance, Global Brand and Communications, HP Labs, Human Resources and Workforce Development, Investor Relations, Global Operations and IT, Legal, Global Marketing, and the Office of Strategy and Technology. The Executive Team has the responsibility to ensure that HP's culture of ethics and compliance is encouraged across the company.

Internal Audit

Internal Audit provides regular reports to the Audit Committee of the Board. Internal Audit's primary role is to assess risks throughout the company and to evaluate, monitor and improve the effectiveness of controls and governance processes in support of 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. Aspects of the Standards of Business Conduct and ethical business practices are regularly included in the audit process.

Awards

Australia

AA rating (high) in the Reputex Social Responsibility Rating for 2004, placing HP in the top 10.

Mexico

HP Mexico received the award 'Ethics and Values in the Industry' from the President of Mexico, Vicente Fox. (Confederation of Industrial Chambers of the Mexican United States [CONCAMIN]).

United States

Ranked 8th on Business Ethics magazine's list of 100 Best Corporate Citizens, making the top 10 list all five years of the list's publication.



Business ethics

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

At HP, promoting an open culture in which employees feel free to raise concerns without the fear of retaliation is essential. This open culture is vital to ensuring 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.

Consistency in implementation will always be a challenge, given the global scope of our company. In 2004, following earlier work on promoting greater awareness of the Standards of Business Conduct and specific ethical business practices, HP provided guidance tools to employees to enable them to work through various ethical business decisions. These reflect the different cultural interpretations of certain terms and values.

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. HP's Standards of Business Conduct guide us in our actions, behaviors and decisions. The Standards apply globally and are translated into more than 12 languages. The Standards were enhanced in early 2003 to reflect changing perspectives on ethical behavior and modified slightly in early 2004 to align with changing regulations.

Additional policies and guidelines, including, for example, our Global HR Policies, complement the Standards of Business Conduct.

Implementing our standards

Training and resources

Regular ethics training is designed to ensure our employees understand and comply with our Standards of Business Conduct.

All employees and managers have access to interactive, web-based training and are required to take business ethics training classes. Managers are expected to conduct regular discussions about the Standards of Business Conduct with their teams, while Vice Presidents are provided ethical leadership training and materials to engage in dialogue with staff. In 2004 as well, HP provided training regarding Sarbanes-Oxley reporting requirements to management and employees in relevant roles.

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.

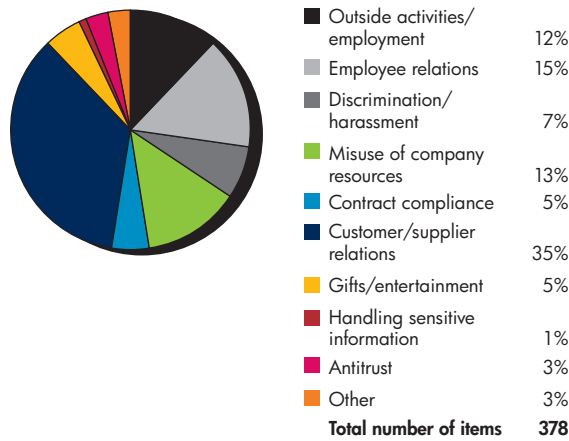
Avoiding conflicts of interest. Employees must avoid situations in which their interests conflict with HP's.

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 Office of Business Practices¹, 2004



¹ Note: these numbers only include 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. Total is less than 100% due to rounding.

HP conducts focus groups and audit surveys with employees to determine their awareness of ethics resources. These activities, and analysis of alleged ethics infractions, help to shape the direction of future ethics programs.

Reporting and seeking guidance

Employees have several mechanisms to raise ethical concerns. HP encourages use of the Open Door Policy (see ‘Labor practices’), for employees to talk with their manager or their manager’s management. Alternatively, employees can submit concerns to compliance experts or SBC Liaisons (see the section on Monitoring).

There are formal, structured communications channels, managed by HP’s Office of Business Practices, for employees and other stakeholders to confidentially and anonymously report potential violations of law, company policy or the Standards of Business Conduct.

These formal vehicles include:

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

E-mail. Corporate.compliance@hp.com

Postal mail.

HP Office of Business Practices
PO Box 692015
Houston, TX 77269-2015
United States

Additionally, in January 2004, HP’s Audit Committee finalized its policy and procedures for complaints of questionable accounting, internal accounting controls and auditing matters, as required by Section 301 of the Sarbanes-Oxley Act of 2002 and Regulation 10A-3(b)(3) of the Securities Exchange Act of 1934.

If the employee requests, issues submitted via any of these mechanisms may be addressed directly to the Board.

In 2004, 378 separate inquiry and allegation items were reported through the formal reporting mechanisms managed by the Office of Business Practices (see pie chart). All items raised are actively reviewed and addressed. HP is committed to promptly and properly investigating all allegations related to SBC violations and ensuring that they are concluded by taking appropriate actions.

Monitoring

HP leverages a cross-functional team of senior representatives from the compliance functions, called the Standards of Business Conduct Compliance Team, to oversee and monitor investigations of significant concerns or complaints on an independent and objective basis. This team focuses on proactive measures to fix systemic issues that may arise from these investigations. The team is charged with ensuring that remedial actions are consistently and appropriately applied across HP, and provides regular reports to the Ethics Committee and the Audit Committee.

The Standards of Business Conduct Liaisons, specifically identified senior individuals in each of the business groups and regions, 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 directly with senior regional and business management teams to improve communication, recommend action plans, and interface with compliance functions to ensure that localized issues are surfaced and addressed.

Product environmental impacts



Environmental impacts can 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.



As one of the world's largest IT companies, HP's largest 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 and recycling.

Environmental impacts can 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.

Minimizing these impacts is a complex challenge, as well as an opportunity. We are applying 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, materials-efficient and energy-efficient laptops are replacing desktop PCs for many customers, and the transition to flat panel displays helps reduce energy consumption. HP ensures environmental design does not compromise other product requirements such as quality, reliability and price.

Challenge

A key element of HP's global citizenship is to design products and services that are socially and environmentally responsible throughout the product's life cycle. We must achieve this while meeting customer needs and maintaining quality and reliability. Delivering value on social, environmental and financial dimensions is challenging for several reasons.

Central to this challenge is managing product design to meet various regulations that affect the design of our products. These regulations can be inconsistent from one jurisdiction to another, may not always be clearly defined, or may not easily accommodate design lead times. HP actively works with governments, industry partners and other stakeholders to attempt to harmonize these regulations and achieve our shared environmental goals in a manner that is consistent with technological innovation.

Another aspect of this challenge is the need to design products with materials that will have value and be easily recycled in the future. This is difficult to predict, and many materials preferred by customers today are not economically feasible to recycle, such as painted plastic bezels and product skins. HP considers multiple recycling scenarios and incorporates basic design rules that make product disassembly and recycling easier, such as reducing the variety of plastics used in products and minimizing the use of paint and adhesives. We are engaging the recycling industry to understand and potentially influence how recycling technologies will evolve over time for increased customer and environmental benefit.

HP strives to deliver environmentally sound products and services while recognizing that many customers are not willing to pay more for such features. A number of the environmental design features described in this section, such as some of our packaging innovations, have resulted in cost savings, while others have increased costs. We continue to work toward a balance between environmentally responsible design, customer needs and cost.

Inkjet printer environmental innovations, 1989–1997

The history of HP's inkjet printer product line illustrates the impact of innovation on the entire product life cycle.

- 1989**
 - Polyvinyl chloride (PVC) removed from all HP inkjet product-packaging materials.
- 1994**
 - First multi-function inkjet product developed, designed to use less power and reduce materials use by 30%.
 - HP inkjet printing process redesigned to allow quality printing on recycled paper.
- 1997**
 - HP inkjet print cartridge recycling program launched in the United States.



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 “seek to design our products to be safe to use, to minimize their use of energy and natural resources, and to enable their end-of-life recycling”. We initiate environmental efforts with innovation during 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 the following three priorities:

- **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

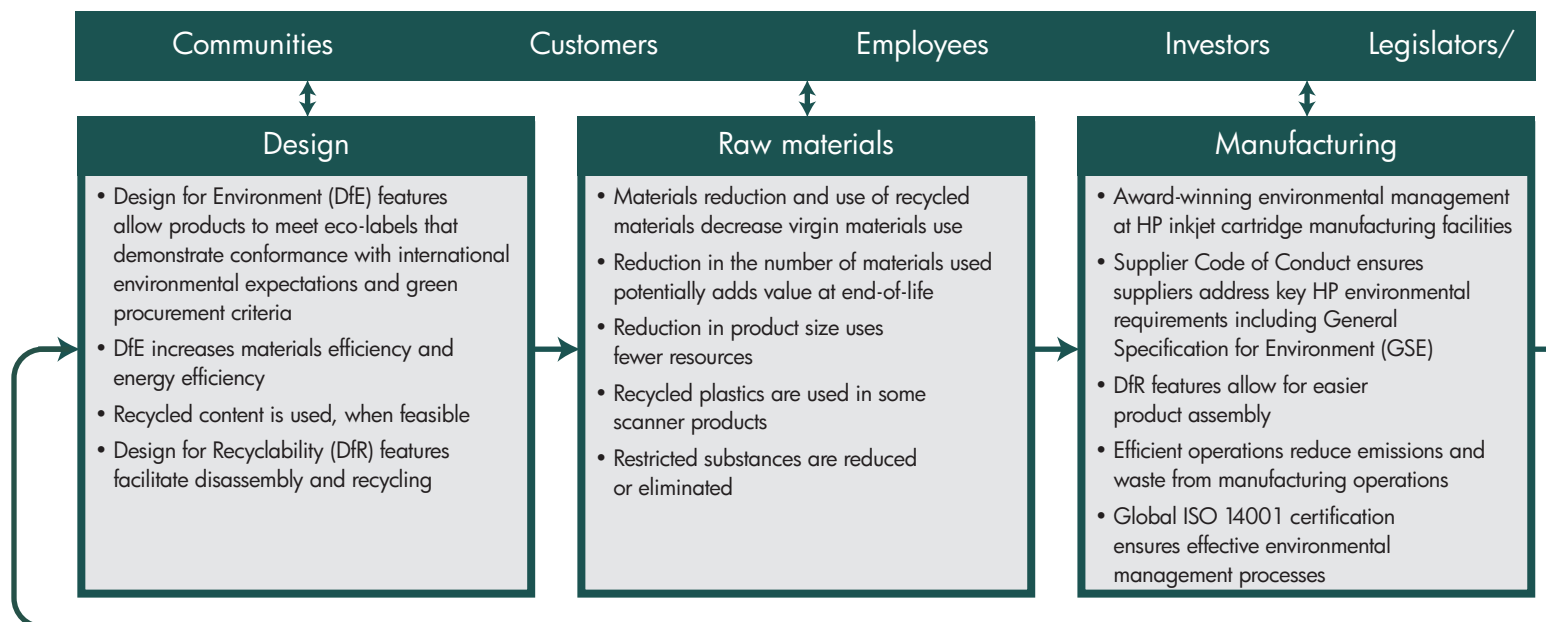
HP's Environmental Strategies and Sustainability (ESS) Council coordinates the implementation of our DfE strategy. This group includes representatives from each global business unit and sales region, as well as supply chain, operations and other corporate functions.

HP's DfE initiatives are incorporated into product development by the Product Stewardship Network that is integrated into design and development teams to identify, prioritize and recommend environmental innovations. The Product Stewardship Network establishes company-wide environmental design standards to incorporate into new products. 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 of these teams include the End-of-Life team that addresses product recycling; the Restricted Materials team that focuses on requirements for reducing or eliminating restricted materials from HP products (see 'Materials restrictions'); and the Product Design Process Improvement team that evaluates and optimizes current DfE processes.

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

Our products have environmental impacts throughout the product life cycle and our programs are designed to improve environmental performance at each stage, from design through end-of-life.



1999

- HP DeskJet 970c became the first inkjet printer on the market to receive Blue Angel qualification (see 'Eco-labels').
- First HP inkjet printer with two-sided printing capability developed, reducing paper consumption.

2001

- Award-winning thermoformed clamshell packaging used for HP inkjet printer products, cutting waste and reducing costs.

2003

- Postage paid return-for-recycling envelopes included with many new inkjet print cartridges in the United States and parts of Europe (see 'Product end-of-life alternatives').

2004

- Nearly 12 million HP inkjet print cartridges returned and recycled globally since 1997.

Eco-labels

Increasingly, customers include environmental criteria in their purchasing decisions. In 2004, we received more than \$6 billion in requests for quotations (RFQs) that required information on HP's commitment to social and environmental responsibility—an increase of 95% compared to 2003 and 660% compared to 2002.

This increase in customer interest has led us to evaluate the environmental features of our products against recognized standards for environmental performance. Eco-labels help customers choose products that meet or exceed certain criteria that are indicative of positive environmental performance. HP advocates selective ecolabels that span multiple jurisdictions, and supports harmonized, international, voluntary and consensus-based standards. Eco-labels are intended to facilitate customer choice, promote competition and encourage innovation. We believe they should complement existing standards, be recognized broadly and be self-certifying. Many HP products carry eco-labels, the most common of which include:

Blue Angel. A German eco-label based on product design, energy consumption, chemical emissions, acoustics, recyclability and take-back programs. More than 30 series of HP printing systems and three HP PCs are currently qualified by Blue Angel.

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. More than 1,000 HP products are ENERGY STAR qualified.

Environmental Choice. HP has more than 90 printers that qualify for this Canadian eco-label, based on energy efficiency, lack of chlorofluorocarbons (CFC) used in manufacturing, and low air emissions.

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 approximately 550 existing HP products.

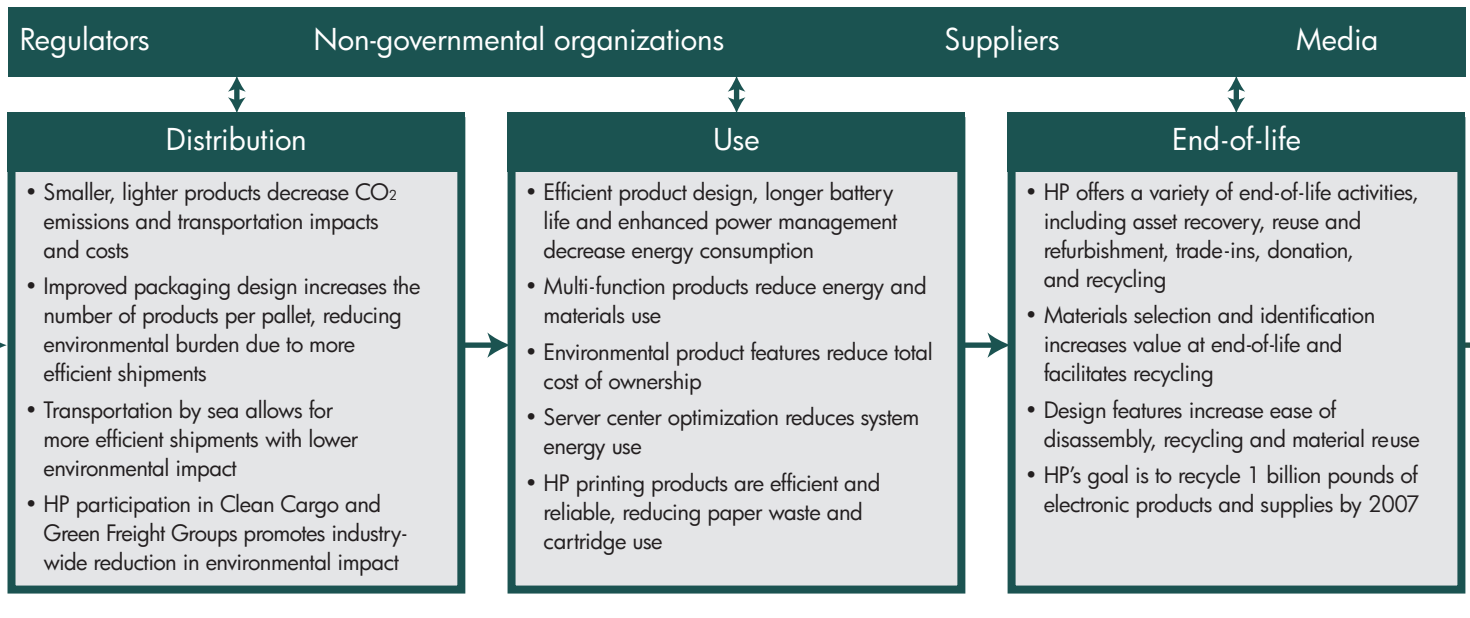
Taiwan Green Mark. A Taiwanese eco-label to promote recycling, pollution reduction and resource conservation. HP was the first foreign IT company to receive the Green Mark certificate and 117 HP products now qualify for this label.

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

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 483 products qualified by the PC Green Label.

As the market requires, we may pursue other eco-labels like the Nordic Swan and EU Flower for our products.

¹ ENERGY STAR is a U.S. registered mark of the United States Environmental Protection Agency.





Energy efficiency

As part of our focus on reducing environmental impacts throughout the product life cycle, HP develops products that use energy more efficiently. These products help customers save money while reducing their environmental impact. One example is our Blade PCs, which use low-voltage processors that are ten times more energy efficient than a typical desktop PC.

ENERGY STAR

Since 1992, HP has participated in the U.S. Environmental Protection Agency's ENERGY STAR voluntary energy efficiency program. More than 1,000 HP products are ENERGY STAR qualified. Over 94% of eligible products from our Personal Systems Group and 98.5% of eligible products from our Imaging and Printing Group meet ENERGY STAR criteria.

The ENERGY STAR performance criteria are currently being updated to ensure the program remains the worldwide energy efficiency benchmark. HP advocates the harmonization of environmental standards and supports the EPA in this effort. We are committed to ensuring continued ENERGY STAR qualification of HP products in all applicable product categories.

Energy efficiency of HP laptops

HP laptops are more energy efficient than their predecessors. They automatically reduce power consumption after a designated period of inactivity. When in low power mode, HP laptops use less than one watt of power, well below the 15 watts required by ENERGY STAR. Qualifying notebook PC external power supplies are compliant with the EU Code of Conduct for energy efficiency, using less than 0.75 watts when in no-load power state.

Servers and energy use

HP servers and data centers are increasingly important to our customers—and a source of significant energy consumption. HP works to reduce this energy consumption both at the server level and at the data center level (see case study). We have made significant advances that allow customers to use resources more efficiently, reducing cost and environmental impact.

The following design changes implemented by HP improve server energy efficiency.

AC/DC conversion

Many servers require that electricity be converted from alternating current (AC) to direct current (DC) power as it enters the server, resulting in power loss. HP works with suppliers to develop servers to receive dc power directly, thus increasing energy efficiency in servers and data centers.

Processor clock throttling

Server energy consumption is related to processor speed. HP has developed tools to remotely switch processors to slower clock speeds when server demand is low, thus saving energy. This feature, known as 'processor clock throttling', is implemented automatically.

Case study: Smart Cooling for data centers

Data centers consume large amounts of energy and generate a lot of heat. HP's 'Cool Team' is working to reduce energy usage in data center cooling. The team uses three-dimensional models of temperature distribution to determine the optimum layout of computer and air conditioning equipment in customers' data centers. In 2004, the Cool Team developed a Smart Cooling approach to identify unexpected areas of high heat, and then direct vents and blowers for cooling at the optimum temperature. The data collected in the process can help plan workload redistribution within the data center or across a network of data centers to reduce overall energy consumption. HP's Smart Cooling may reduce energy costs for cooling by 25%, saving about \$1 million a year for a data center producing 10 MW of heat. Additional products and services that enable the dynamic allocation of cooling and computational resources are forthcoming.

Technology innovation: inkjet printer contributions to solar energy

HP's Imaging and Printing Group (IPG) is helping scientists enhance solar energy technology. An important aspect of harnessing solar energy lies in compounds that effectively photo-electrolyze water into oxygen and hydrogen. Working with scientists from Colorado State University, HP's IPG engineers use inkjet technology to 'print' metallic compounds on glass, to quickly and cheaply test different oxide combinations for these photo-electrolytic properties, to determine which compounds may be most effective.



Materials innovation

Materials reduction and innovation are keys to HP's product environmental priorities and allow us to reduce materials costs, decrease a product's environmental footprint, meet customer demands for smaller and more efficient products, and reduce recycling and disposal costs. Innovative product design and technological advances are helping to reduce the amount of materials in new products, such as the HP All-in-One that combines a printer, scanner, copier and fax machine into a single unit and so can reduce materials use by up to 40% compared to stand-alone devices.

In addition, we work to identify design features that improve materials efficiency. For example, HP NonStop servers have become significantly more materials efficient since 1989, delivering more than 80 times the performance per unit of mass.

Following are examples of HP's product materials innovation initiatives:

Recycled glass in cathode ray tube (CRT) monitors.

CRT monitor glass can be difficult to reuse for other applications, due to its level of lead. HP uses recycled glass from discarded CRT monitors in the manufacture of new monitors, reducing virgin materials use. Up to 40% of glass in new HP CRT monitors is recycled glass from discarded CRT monitors.

Recycled plastic in HP products. As part of HP's DfE program, we have identified ways we can use recycled plastic in HP products. In 2003, HP qualified a process to replace virgin plastic in certain products with a material called recycled polyethylene terephthalate (RPET), which contains plastic from recycled HP print cartridges and post-consumer recycled plastic drinking bottles. In 2004, three HP scanner products used a total of 40.6 tonnes of RPET. In 2005, our use of RPET increased to five scanner models and we expect to triple our use of this material.

Materials efficiency of LaserJet print cartridges. HP has steadily increased the materials efficiency of LaserJet print cartridges. Since 1990, the average number of pages printed per weight of cartridge has more than doubled, extending cartridge life and reducing packaging and transportation related impact.

Materials restrictions

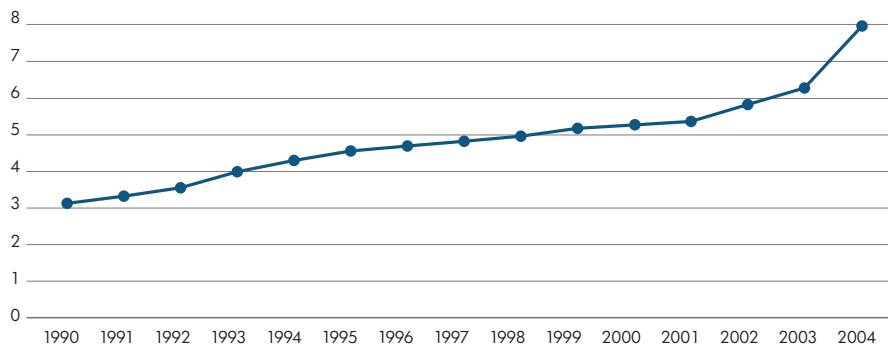
HP restricts the presence of specific substances in our products through our General Specification for Environment (GSE). The GSE prohibits or restricts certain substances from use in HP products or in the manufacturing of HP products. The specification, which in many cases exceeds legal requirements, is integrated into our product development process and used by our designers and suppliers. The GSE is integrated into supplier contracts.

In 2004, we updated the GSE to include the regulated substances listed in the Materials Composition Declaration Guide for Electronic Products, also known as the Joint Industry Guide (JIG), adopted industry-wide by the EIA (United States), EICTA (Europe) and JGPSSI (Japan). In addition, we added an Interim RoHS Compliance Specification for the substances restricted by the EU Restriction of Hazardous Substances Directive (RoHS).

Goal for 2005

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

Average pages printed per gram weight of LaserJet cartridge, 1990–2004
[Increased by 139%]



The EU RoHS Directive restricts the presence of certain substances, including lead (Pb), mercury, cadmium, hexavalent chromium, and two halide-containing flame retardants, PBB (polybrominated biphenyls) and PBDE (polybrominated diphenyl ethers), in electrical and electronic products offered for sale in the European Union as of July 1, 2006. China is soon to adopt similar legislation.

Some of these restricted substances are not used in HP products. Our efforts to reduce the use of the remaining substances involve every hardware product line and most major functions, including our in-house design, manufacturing and support teams, as well as our suppliers.

To accelerate the industry-wide transition to alternatives for the restricted substances, HP works with industry partners through several consortia including iNEMI (International Electronics Manufacturing Initiative) and HDPUG (High Density Packaging User Group). In addition, we work with manufacturers to provide feedback on the implementation process to the EU RoHS Technical Adaptation Committee (TAC) and the China Ministry of Information Industry.

HP's approach to RoHS compliance

HP is committed to compliance with all applicable laws and regulations, including the European Union Restriction of Hazardous Substances (RoHS) Directive. HP's goal is to exceed compliance obligations by meeting the requirements of the RoHS Directive on a worldwide basis. Our company-wide RoHS Team, which includes representatives from all affected HP businesses and organizational functions, leads our global transition efforts. After completing extensive compliance planning and development work in 2003, the RoHS Team continued to work with suppliers in 2004 to guarantee a smooth global transition.

In 2004, we shipped our first HP products containing RoHS-compliant components. To speed our overall transition efforts, we focused on converting families of component parts as opposed to single products or platforms. We will continue to ship numerous products with a majority of compliant components while complete product lines are being transitioned. Our first fully RoHS-compliant products, the HP PhotoSmart R717, HP PhotoSmart M417 and HP PhotoSmart M22 digital cameras, will ship in early 2005. Figure 3 summarizes our global transition to full compliance of all of our products with the requirements of the RoHS Directive by the RoHS deadline of July 1, 2006.

Impact of materials restrictions on the supply chain

As originally written, the EU RoHS Directive did not clearly define how to measure acceptable levels of restricted materials. Hexavalent chromium (Cr-VI), a RoHS-restricted compound (0.1% by weight allowed) that is commonly used as a protective coating for metals, presents one example of the implications.

HP took a conservative approach and assumed that use of this compound in coatings and platings on electronic parts would be subject to RoHS. However, many suppliers assumed that the acceptable level would be measured instead as a percentage of the weight of the coated component, allowing the use of restricted materials in thin coatings. These differing views created confusion, and consequently many suppliers delayed making changes to comply with RoHS. In 2004, legislators clarified that RoHS-restricted materials would be evaluated at the material level (e.g., coatings and platings).

A related challenge is that legislation is not harmonized across industries. For example, since the auto industry is the largest user of steel, many steel suppliers are working towards compliance with the EU End-of-Life Vehicle (ELV) Directive that requires Cr-VI elimination in auto manufacturing as of July 1, 2007—one year after the RoHS compliance date. The electronics industry buys a small fraction of the total coated steel produced and therefore has little leverage with suppliers to drive an earlier transition. In an attempt to harmonize legislation across industries, HP worked with others in the industry to request a one-year exemption from the restriction of Cr-VI for electronics manufacturers. HP is working with the industry to find practical alternatives to Cr-VI coatings by sharing test results and establishing common specifications.

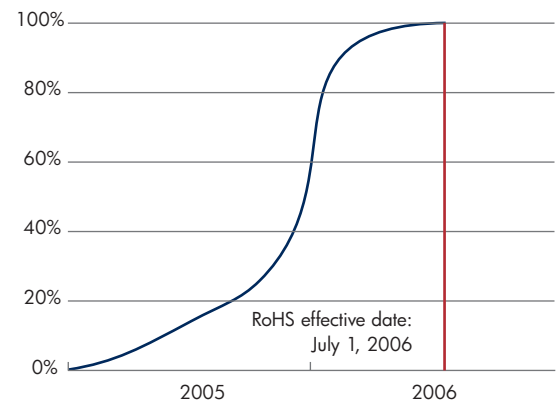
Goal for 2005

- 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).

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.

Estimated HP product compliance with EU RoHS legislation [%]





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. HP operates 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:

- Modular design to allow components to be removed, upgraded or replaced
- Eliminating glues and adhesives, for example, by using 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
- Relying on modular designs for ease of disassembly of dissimilar recyclable materials

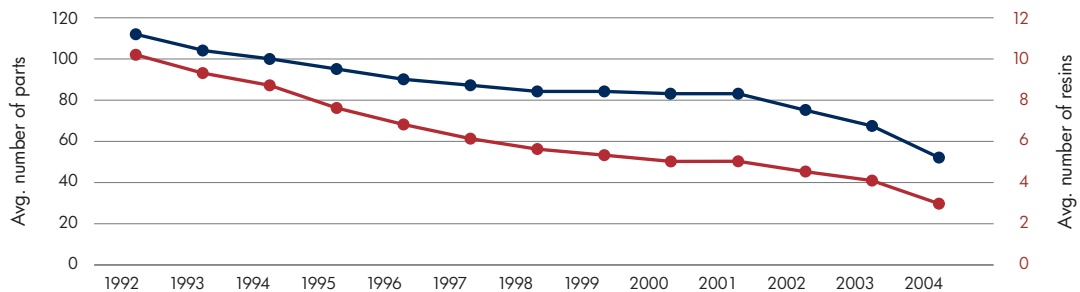
HP's DfR standards include clear design guidelines and checklists that can be used to assess a product's recyclability. This allows HP to develop more easily recyclable products.

In 2004, HP developed a tool to help our worldwide product designers assess product recyclability at the design stage and help track product line improvements. This tool was integrated into our DfR standards.

Deskjet printer recyclability features. Many HP Deskjet printers are designed without paint, plating and flame retardants, do not adhere dissimilar materials, and use a snap-fit design with a limited number of similar screws, for easy disassembly and recycling at end-of-life. Examples of these products include the Deskjet 6540 and the Deskjet 3740 printers. The Deskjet 6540 printer also has modular upgrades to extend functionality and printer life and optional accessories that allow the product to serve multiple needs. The Deskjet 3740 is an entry-level printer and weighs 4.5 pounds. It is one of a series of printers developed on a single platform and sharing common parts. This printer platform is projected to reduce materials use by more than 26,000 tonnes in its first product over a four-year period, compared to the previous printer platform.

Increasing recyclability of LaserJet print cartridges. Through ongoing design innovation since 1992, the average number of parts in monochrome HP LaserJet print cartridges has been reduced by more than half and the average number of plastic resins by more than two-thirds. These improvements simplify the recycling process and enhance recyclability.

Parts and resins in monochrome LaserJet print cartridges, 1992–2004





Packaging

Millions of HP products are transported around the world each year. Packaging is essential to protect those products during transit.

The main materials used in packaging are paper (corrugated and paperboard) and plastic (foam and film). The manufacturing of HP product packaging affects the environment through the use of raw materials and energy. During distribution, the weight and volume of product packaging impacts fuel efficiency. When discarded, packaging can add to the burden on waste disposal systems.

The HP approach

Packaging guidelines

Our packaging engineers use the following guidelines to decrease the environmental impact of our packaging:

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

Standards

HP is working to reduce the environmental impact of packaging in the computer and electronics industries. We are working toward a common system to use in the marking of packaging materials to facilitate international, national and regional recycling programs. With the Bren School of Environmental Science and Management at the University of California, Santa Barbara, HP aims to establish an industry-wide environmental guideline and education program for packaging designers.

Packaging innovation examples

Molded foam cushions conserve natural resources

HP's system of packaging PCs in EMEA, started in 2004, uses molded foam cushions with built-in accessory trays to protect products during shipment and to conserve natural resources. This development reduced the number of packaging components from four to three; reduced the weight of packaging material by 15%, and the cost of packaging material by approximately 28%; and increased the number of PCs shipped per pallet by 33%, ultimately conserving fuel energy and reducing vehicle emissions.

Recycled material in new inkjet cartridge packaging

HP received customer feedback that opening our 'clamshell' style packages for some inkjet printer cartridges was difficult. HP developed new packaging to address these customer needs and reduce the environmental impact of the packaging. Our new inkjet cartridge packages are easy to open, are made of 30% recycled materials and are recyclable. Since July 2004, this innovation has resulted in 10,000 fewer tonnes of materials used in our inkjet packages.

Reducing unused space in product packaging

Using a new packaging system that utilizes high-density polyethylene for some of our digital camera models worldwide, HP reduced unused space inside the camera package by 25%, thereby increasing the quantity shipped per pallet by 50% while decreasing packaging materials use by half. As a result, in 2004 HP saved an estimated \$1 million in packaging costs while reducing transportation impacts. We are exploring ways to implement these packaging features for other digital camera models.

Bulk pack system reduces material use

In 2004, HP developed new bulk packaging systems for our scanner sub-assembly units, reducing packaging and providing significant cost savings. We redesigned our corrugated cardboard packaging globally to allow the layer at the top of each unit to secure and protect the unit stacked above it. In 2004, this improvement reduced the amount of packaging material used to ship HP scanners by 40 tonnes.



Product end-of-life alternatives

Governments, customers and the public are increasingly interested in the proper disposal or reuse of used electronics. Product donation, reuse and recycling divert waste from landfills and can result in recovered materials being recycled into other products. Product design is critical, since design choices affect the ability to reuse or recycle used products efficiently and economically at end-of-life.

Many countries are adopting or proposing legislation requiring responsible end-of-life product management. In Europe, the Waste Electrical and Electronic Equipment (WEEE) Directive requires manufacturers to ensure that electronic products disposed of by customers in the EU are recycled. The WEEE Directive is scheduled to be implemented in 2005. Other regulations affecting the recycling and disposal of electronic waste, or 'e-waste', are emerging globally, including in the United States, Canada, Mexico, China, Taiwan and Korea. The variety of legislative approaches presents a considerable challenge for HP. Meeting differing requirements around the world affects our choices as we develop efficient, cost-effective, and compliant end-of-life programs for our products. HP participates in the legislative process to facilitate the development of effective legislative solutions. For HP's public policy positions regarding Electronics recycling, see 'Public policy: Electronics recycling'.

The HP approach

HP has recycled computer and printer hardware since 1987. HP offers our customers worldwide easy-to-use and environmentally responsible end-of-life management services for HP products. Our product end-of-life programs, integral to our business strategy, benefit HP's business, customers and the global environment. Creative return and recycling strategies can extend product life, each year returning 2.5 million refurbished hardware products to use.

Many options exist for handling a product at the end of its useful life. Based on the age and working condition of used products, customers may select any of the following options, in addition to return and recycling. Find information on all product return options at: www.hp.com/hpinfo/globalcitizenship/environment/return.

Donation

HP provides customers the opportunity to donate working computer hardware to charitable organizations through the National Cristina Foundation (NCF). NCF provides computer technology to people with disabilities, students at risk and economically disadvantaged persons. HP and NCF accept most models of any manufacturers' hardware for donation. Customers in the United States and Canada can also donate used equipment through Computers for Schools, a non-profit dedicated to providing low cost technology to schools.

Trade-in

In partnership with Market Velocity, Inc., HP offers customers in North America and Europe the opportunity to trade in their used hardware and upgrade to new HP products, while receiving credit for the value of the used equipment. Used equipment collected through the trade-in program is sold on the secondary market or recycled through our environmentally responsible recycling process.

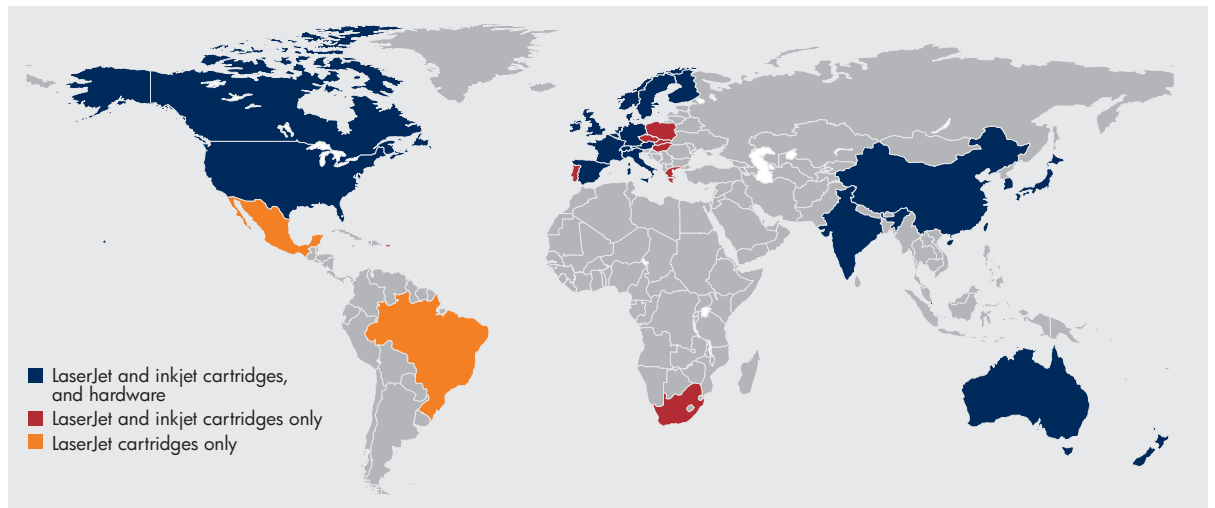
HP Equipment Management and Remarketing offers a similar program to customers in Australia. We expect to expand this service to New Zealand and other countries in the Asia Pacific region in 2005.

Asset recovery

HP's asset recovery program provides enterprise, public sector and large commercial customers worldwide with cash or credit for qualifying used equipment. HP removes the company identification, deletes proprietary data from hard drives, and removes and transports used equipment for proper recycling or reuse.

Leasing

HP offers customers around the globe competitive financial solutions to acquire and retire leased IT products in a cost-effective and environmentally responsible manner. At the end of the lease term, customers return equipment to HP for refurbishment and resale or recycling following HP's recycling standards.



Goal for 2007

- Recycle 1 billion pounds of electronic products and supplies by 2007.
- Progress: To date, HP has recycled 616 million pounds since 1987.

Return and recycling

Global recycling standards

HP's global recycling standards for computer hardware products are intended to ensure HP vendors manage product recycling consistently and to set a high expectation regarding how vendors should manage their workforce.

HP's hardware recycling standards require our recycling vendors to:

- Reuse, recover or recycle materials and components
- Prohibit export of materials unless approved by HP
- Store and process materials in a way that prevents releases to the environment
- Provide accounting of materials processed
- Conform to HP's Supplier Code of Conduct
- Permit HP to conduct assessments to ensure compliance with recycling standards

Similarly, HP's printing supplies recycling policy requires that:

- All recyclable materials from HP original print supplies are recycled to recover their material values and to maximize recovery rates
- All materials that cannot be recycled are recovered for energy or incinerated to minimize materials to landfill

- All recycling services are conducted only at HP-approved recycling facilities that comply with all applicable laws and regulations
- All HP-authorized recycling facilities track and report on cartridges processed in our recycling program

HP works with its suppliers, customers, and other stakeholders to help improve our recycling performance and to share relevant information. HP also contributes to the development of sound public policy and business initiatives concerning computer and printing equipment recycling and end-of-life management.

Vendor assessment

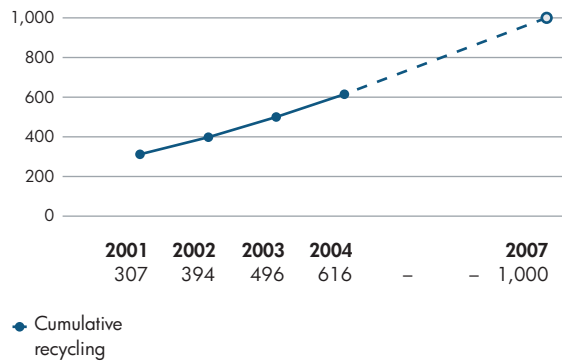
HP conducts vendor assessments to identify third-party organizations eligible to recycle products collected by HP as part of our Planet Partners program. HP recycling vendors must meet HP's Hardware Recycling Standards (see left) and our Supplier Code of Conduct.

Planet Partners

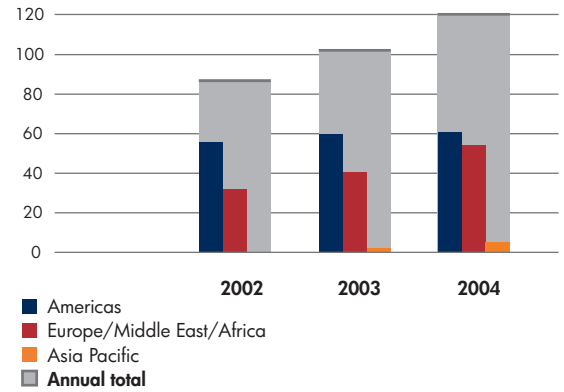
HP's computer hardware return and recycling program began in 1987. Our Planet Partners return and recycling program was officially launched in 1991 to recycle HP LaserJet print cartridges. The program was expanded to include HP inkjet print cartridges in 1997. The program's objective is to reduce the environmental footprint of products, minimize waste to landfill and provide customers a convenient and environmentally sound product end-of-life solution.

In 2003, Planet Partners expanded its recycling program in Asia Pacific and Europe, and now operates in 36 countries, regions and territories. In 2004, Planet Partners collected and recycled approximately 55,000 tonnes (more than 120 million pounds) of used products.

Total cumulative recycling
[Million pounds]



Total recycling—computer and printer hardware and supplies combined²
[Million pounds]



Computer and printer hardware recycling

HP's computer and printer hardware recycling programs work with specialist vendors who collect and recycle computer products. HP helped develop the technology deployed by our North American recycling vendor at three locations in the United States and Canada. In Europe, we work with more than 10 recycling vendors, and in Asia Pacific we work with a pan-Asian recycling vendor and local vendors. In 2004, HP recycled approximately 22,000 tonnes (48 million pounds) of hardware in Europe, 1,700 tonnes (nearly four million pounds) in Asia and 18,000 tonnes (40 million pounds) of hardware in the Americas.

European Recycling Platform

In 2004, HP, Braun, Electrolux and Sony established the first pan-European take-back and compliance system for used electronic products. The European Recycling Platform (ERP) will enable member companies to fulfill product take-back obligations mandated by the WEEE Directive at a competitive cost, benefiting customers and the environment. Initially, the ERP will focus on Austria, France, Germany, Italy, Poland, Spain and the UK.

² Hardware recycling data from Europe/Middle East/Africa and HP LaserJet recycling data are calendar year. The remaining data are fiscal year.

Case study: Recycling in Asia Pacific

HP collected and processed approximately 2,400 tonnes (more than five million pounds) of computer hardware and printing products for recycling in Asia Pacific in 2004, more than twice the volume in 2003. In 2004, we implemented a variety of strategies with governments, non-governmental organizations (NGOs) and corporate partners to address electronics recycling in the region. Examples include:

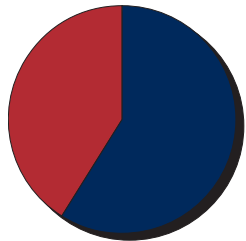
Australia

In 2004, HP continued its partnership with other print cartridge manufacturers and Planet Ark, an Australian NGO, to develop a multi-vendor program to collect and recycle print cartridges in Australia. We plan to expand this program to New Zealand in 2005.

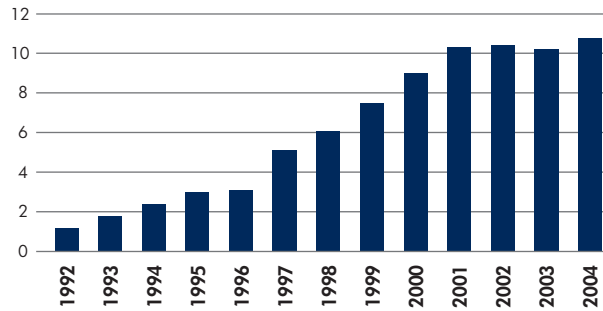
Singapore

In 2004, HP worked with the National Environmental Agency (NEA) of Singapore, Enterprise Promotion Centre (EPC), a local NGO, and the North West District Community Development Councils (CDC) of Singapore to promote consumer e-waste collection in the North West district. HP, together with Nokia and a few other partners, provided operational and financial support for the four-month project that supplied recycling bins to 30 schools and 14 community centers to collect HP and non-HP products for recycling. The initiative reached more than 500,000 district residents.

HP LaserJet print cartridge recycling, 2004



Number of HP LaserJet print cartridges returned and recycled worldwide³, 1992–2004
[Millions]



³ Includes cartridges returned by customers and cartridges used internally by HP offices.

LaserJet print cartridge recycling

We offer free return and recycling programs for HP LaserJet print cartridges in Africa, Asia Pacific, Europe and the Americas, covering 85% of our global market for LaserJet print cartridges. Customers can use a range of return methods, including our postage-paid labels, to recycle LaserJet print cartridges.

Since the program began in 1991, more than 81 million HP LaserJet print cartridges have been recovered (see chart). In 2004, 100% of the materials in returned HP LaserJet print cartridges were recycled or recovered for energy, and more than 2,500 tonnes (5.5 million pounds) of plastics were recycled into material that has been used to make new HP products as well as plastic trays, clothes hangers, shoe soles and wire spools. HP's Design for Environment team is identifying additional uses for recycled print cartridges in new HP products (see 'Materials innovation').

Stakeholder perspective

How is HP doing?

We appreciate that HP communicates its position on electronics recycling policies and that it has set hardware recycling standards for its recycling vendors. Setting a quantitative target for the amount of recycled e-waste allows measuring HP's performance in this area. Initiatives such as the e-coupon and the [eBay] Rethink Initiative are crucial as they make recycling more accessible to end-consumers.

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

We hope HP will continue with approaches which make recycling cheap and accessible for end-consumers. We would also like to see data which tracks recycled products as a percentage of products sold. To find a long-term solution to the problem of electronic waste, we think that the throughput of electronic applications has to be reduced. We would thus appreciate that HP strengthened the integration of life cycle thinking in product development by designing products which have a long-life, modular design and are easily upgradeable.

Laura Würtenberger
UBS Global Asset Management
Socially Responsible Investments

eBay Rethink Initiative

HP is partnering with eBay on the Rethink Initiative. The Rethink Initiative offers a fresh perspective on electronics recycling, with information, tools and solutions that make it easy to sell, donate, or recycle used electronics.

Print cartridge recycling

In 2004, approximately 163 tonnes (almost 360,000 pounds) of inkjet print cartridges and approximately 12,300 tonnes (27 million pounds) of HP LaserJet print cartridges were returned and recycled through Planet Partners.

More than 92,000 tonnes (more than 203 million pounds) of HP LaserJet and inkjet print cartridges have been returned and recycled worldwide since the program started in 1991.

Customers can easily return used HP print cartridges for recycling by following instructions in the packaging, on our Web site—www.hp.com/recycle—or by phone. In addition, we have implemented programs to facilitate returns worldwide over the next several years.

Inkjet print cartridge recycling

HP provides inkjet print cartridge recycling free of charge to customers, covering more than 80% of our global market for inkjet print cartridges.

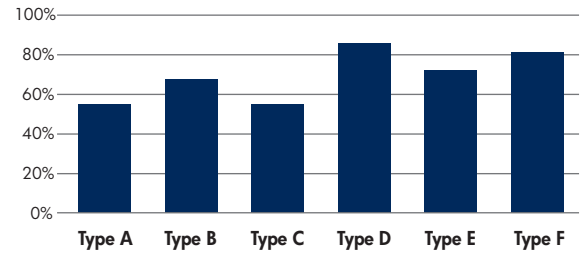
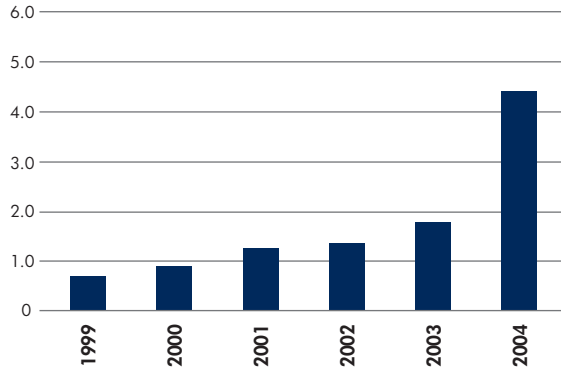
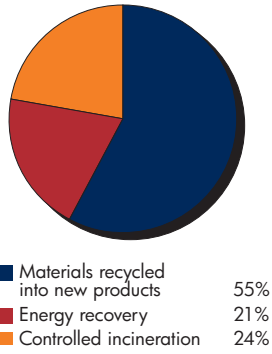
Since the program began in 1997, approximately 10.5 million HP inkjet print cartridges have been returned and recycled. In 2004, more than 95% of materials in returned HP inkjet print cartridges were diverted from landfill⁴. The total number of inkjet print cartridges collected increased by more than 125% compared to 2003 (see chart, page 31), due in part to pre-paid in-box return envelopes enclosed with many cartridges in the return envelopes enclosed with many cartridges in the United States and Europe. More than 150 tonnes (330,000 pounds) of material were recycled or recovered for energy in 2004.

Recycled plastic recovered from HP inkjet print cartridges is being used to mold some new scanner parts (see 'Materials innovation').

⁴ Ash from energy recovery and incineration—approximately 5% of total materials weight—is sent to landfill.

Case study: United States: Electronics recycling pilot program with Office Depot

In 2004, HP and Office Depot, one of the world's largest office products retailers, offered the first free nationwide in-store electronics recycling program in the United States. For a seven-week period, customers could drop off their used or unwanted computer hardware and consumer electronics at any of Office Depot's nearly 900 U.S. locations for free recycling. More than 4,700 tonnes (more than 10.5 million pounds) of products were collected from more than 200,000 participating customers. Products collected were transported to one of HP's two U.S. recycling facilities for recycling. We are working with a number of retailers to design similar ongoing programs that benefit the companies as well as our customers and the environment. These initiatives will increase awareness of HP's return and recycling programs and make recycling easier for customers.



⁴ Ash from energy recovery and incineration—approximately 5% of total materials weight—is sent to landfill.

⁵ Includes cartridges returned by customers and cartridges used internally by HP offices. 2004 figure is based on year-end estimates.

Awards

United States

2004 PC World Clean Closet Award for HP's extensive recycling programs.

Postage-paid envelopes for inkjet print cartridge return and recycling

In 2003, we began enclosing postage-paid return envelopes in many new inkjet print cartridge boxes sold in the United States and parts of Europe, to provide customers a new means of recycling. In 2004, we extended the 'envelope-in-the-box' program to additional inkjet cartridge products and 13 countries throughout Europe.

These increased return levels have led to advances in using recycled plastic resin from inkjet print cartridges and accelerated our efforts to 'close the loop' between manufacturing, use and recycling (see 'Materials innovation').

Challenge: Efficiency of inkjet print cartridge recycling

In 1995, HP began developing a unique inkjet print cartridge recycling technology. Employing HP patented technology, this recycling process has since been used in the United States and Germany, with a similar process in Australia. Recycling facilities receive and sort cartridges, separate materials in the cartridges, and transport recoverable materials to third parties for further processing and resale. Achieving maximum material recovery is an ongoing program goal.

To meet our customers' printing needs, HP has developed cartridges with a variety of sizes, weights and configurations. Reliable and efficient separation and recovery of materials from different HP cartridge products presents a technical challenge. Originally, we designed the recycling lines to accommodate a limited number of cartridge types, with specified weights, dimensions and component materials. As the number of cartridge types has increased, recycling processes have been adapted to accommodate new products. Still, the recycle process is better suited for some cartridges than others and efficiency varies. HP has made excellent progress with operation of the recycle lines and improvements are made continuously.

HP continues to invest in new recycling technology and methods, both to improve efficiency and to accommodate new products.

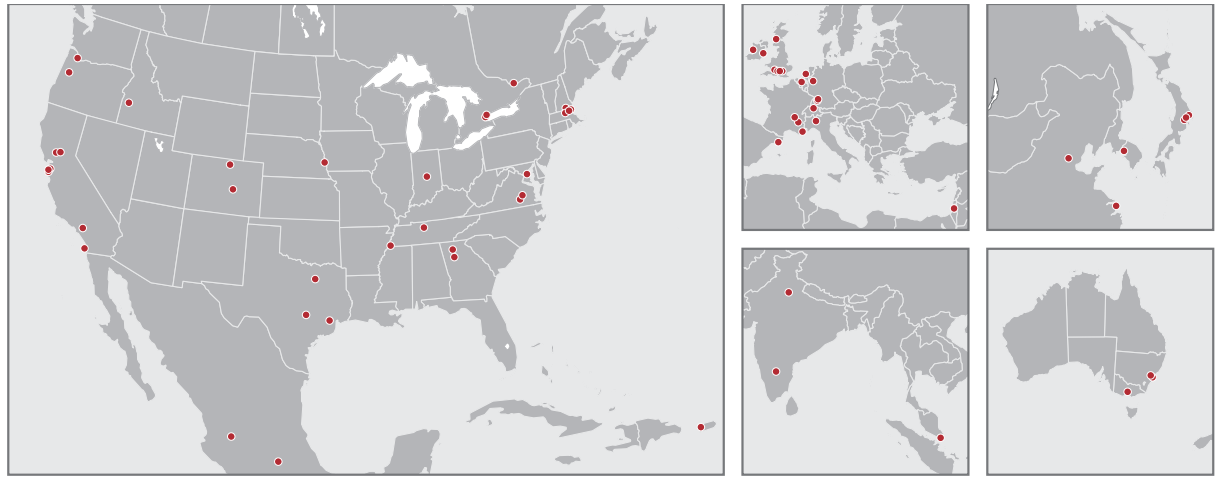
Case study: Germany: HP partners with leading retailer to pilot new channel for consumer electronics recycling

In 2004, HP and German electronics retailer Media-Markt offered customers the opportunity to return any used or unwanted IT products and receive a discount toward the purchase of any new HP product. More than 2,300 people dropped off equipment for free recycling during the week-long program. HP is exploring the possibility of conducting similar events with other retailers in Europe.



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

Map of major operations



Awards

United States

Boise 'EnviroGuard' Pollution Prevention Award (HP Boise, Idaho).

Boise, Vancouver, and Corvallis sites (Idaho, Washington, Oregon) named Green Power Partners by U.S. Environmental Protection Agency.

EPA Commuter Choice Award.

EPA No. 11 on the Best Workplaces for Commuters.

EPA Environmental Quality Award (HP Puerto Rico).

EPA Region 10 Evergreen Award for Pollution Prevention (HP Corvallis, Oregon).

EPA Waste Minimization Partnership Recognition Program Award (HP Puerto Rico).

Environmental Protection Magazine, Facilities of the Year list for environmental excellence (HP Puerto Rico).

NAEP National Environmental Excellence Award in the 'Best Available Environmental Technology' category (HP Puerto Rico).

PacifiCorp 'Visionary' award for HP Corvallis, Oregon.

2004 Quest Excellence—Environmental Initiatives Award (HP Puerto Rico).

WRAP (California's Waste Reduction Awards Program)

Awards:

Woodland, California (winner for three consecutive years).

San Diego, California (winner for four consecutive years and 2003 WRAP of the Year).

Bay Area, California (five locations) (winner for three consecutive years and 1997 WRAP of the Year for our Cupertino, California location).

Roseville, California (winner for 12 consecutive years and 1996 WRAP of the year).

Worldwide, approximately 151,000 people, at more than 430 sites, in 178 countries work for HP. They design products, support customers, conduct research, manufacture and ship products, provide data services and consulting, and work in R&D, sales, and dozens of other areas. It is challenging to provide facilities and support for such a wide scope of activities, while decreasing environmental impact. HP's largest areas of environmental impact from HP's 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. Aside from meeting legal requirements, HP's worldwide operations must satisfy or exceed company standards and pursue continual improvement.

We made progress in 2004, reducing natural gas use by 12%, solid waste volumes by 3%, water use by 7%, and hazardous waste volumes by 20%, normalized to square meters and compared to 2003. At the same time, our total real estate increased by 3% from 2003 to 2004.

We emphasize employee awareness and involvement by engaging and educating employees in our environmental programs. In April 2004, we introduced 'Conserve and Preserve', our global environmental communications program. Since program launch, employees have actively provided feedback to improve HP's performance.

HP's business is very dynamic, and is rapidly developing new products and services to maintain competitiveness in the marketplace. Our EHS Management System is equally dynamic, and allows us to continually reduce environmental impacts in this ever-changing operational environment.

Refining our data collection systems improves our understanding of our environmental performance. We increased data collection to cover the majority of HP's real estate portfolio, 3.83 million square meters, while we increased data collection frequency to quarterly to better monitor and adjust performance. We extrapolate this data to provide estimates for sites outside our data collection system.

Challenges

We continue to expand our services business, which includes operation of other companies' data centers. We counter these changes, which increase energy use, through operational improvements, efficiency projects, and employee involvement. Although we continue to investigate and assess operational and technological opportunities, energy reduction remains challenging as HP's energy-intensive businesses grow.

Though we maintain a long-term goal of decreasing our environmental impact and set yearly improvement metrics, we have not established a long-term metric for greenhouse gas (GHG) reduction. The majority of our GHG emissions are indirectly emitted through our use of energy, and we have numerous programs in place to conserve and reduce energy usage. We have considered normalizing metrics to revenue, headcount and floor space, but have not established a clear relationship between those metrics and environmental program success. We will continue to focus our efforts on annual goals for individual environmental programs.

Note on operations data

- 2003 and 2004 data is based on our fiscal year (ending October 31). Data prior to 2003 is based on the calendar year.
- In 2004, HP expanded data collection to 79 of our largest sites, 68% of floor space. We consider all sites larger than 9,300 square meters for inclusion. HP tracks only those sites it controls. This represents all manufacturing sites and the largest office, warehouse and distribution sites. We extrapolate data from comparable facilities for the remaining 32% of floor space, which is primarily leased small office space.
- In 2005, we plan to expand data collection efforts to approximately 100 sites and will track data quarterly.



Managing environmental impacts and ensuring employee safety

HP Environmental, Health and Safety Policy

HP's Environmental, Health and Safety Policy expresses our longstanding commitment to environmental management and employee safety. As stated in the Policy, our goals are 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." In order to accomplish this, we will:

- Meet or exceed all applicable EHS regulatory requirements;
- Strive to proactively reduce occupational injury and illness risks, and promote employee health and well-being (see 'Health, safety and wellness');
- Aggressively pursue pollution prevention, energy conservation and waste reduction in our operations; and
- Seek to design our products to be safe to use, to minimize their use of energy and natural resources, and to enable their end-of-life recycling.

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. HP's EHS MS is a structured approach to identifying EHS priorities, meeting HP and external requirements, controlling risk and improving performance. It reflects HP's business model and is implemented globally, regionally and locally.

Our global EHS organization identifies significant environmental impacts and health and safety risks, sets worldwide EHS standards, manages audit and assurance programs, and collaborates with the appropriate functions to recommend performance improvement goals.

The regional EHS organization provides support to local site operations on environmental, health and safety issues, development of goals and the development and implementation of improvement plans. The EHS MS requires sites to conduct performance monitoring, 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.

In 2004, we strengthened our performance measurement systems and introduced web-based data collection. This is more convenient for site employees and facilitates in-depth analysis and program management on a quarterly basis.

Audits and assurance

HP recognizes that EHS excellence requires a strong foundation of company values and corporate governance. The key elements of our approach are clear EHS expectations set by company management and comprehensive, objective auditing against those expectations.

Audits of our EHS MS provide assurance that our EHS policies and standards are implemented worldwide. The global audit program is based on decades of HP audit experience and covers our major operations at least once every three years.

An internal team of qualified professionals conducts audits with a frequency based on site complexity and past performance and reports the results to senior management. These audits complement self-assessments and regulatory compliance evaluations conducted by our region and local EHS staffs and third-party audits conducted by our ISO 14001 registrar.

It is an HP priority to keep our professionals current on auditing and inspection standards, practices and techniques. All internal auditors must participate in HP's ongoing auditor training program to qualify for the audit team.

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 in local languages to employees. EHS fundamentals are part of employees' orientation training and are regularly refreshed through the on-line 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. One standard addresses EHS management processes such as risk assessment, objective setting, training and awareness, monitoring and measurement, inspections and auditing, and management responsibilities. The remaining standards address specific operations including energy management, chemical management, waste minimization, fire and life safety, ergonomics and electrical safety.

Emergency response

HP's risk-based emergency 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 train on emergency response procedures and regularly participate in emergency evacuation and other drills.



Climate change

Climate change is an issue of global concern requiring collaboration between companies, governments and citizens. HP measures our climate impact and we have numerous strategies to reduce that impact. Our 2005 goals are to reduce company-wide PFC emissions 10% from 1995 levels, to eliminate hydrofluorocarbon emissions from our processes, and to implement energy efficiency improvements that will result in a 40 GWh annual reduction in electricity use. We participate in several local and global organizations that promote policies and programs addressing climate change. We report our emissions annually through the World Economic Forum's Global Greenhouse Gas Register. In 2004, our ISO 14001 auditor, BVQI, independently verified those emissions.

HP is working to reduce GHG emissions from worldwide operations. We strive to improve our products' energy efficiency, which helps customers reduce their own GHG emissions (see 'Energy efficiency').

How we measure GHG emissions

We use the Greenhouse Gas Protocol published by the World Business Council on Sustainable Development and the World Resources Institute to calculate GHG emissions from operations. This categorizes emissions under several scopes. We focus on the two most significant to HP:

Scope 1: Direct emissions from site operations (including gas usage and halogenated chemical emissions)

Scope 2: Indirect emissions from electricity use

GHG emissions

Carbon dioxide (CO₂) emissions from fossil fuel combustion are the main source of manmade GHG emissions.

We measure absolute emissions in metric tonnes of carbon equivalent (MTCE)* and emissions normalized to floor space (MTCE per square meter).

*To convert carbon equivalent to CO₂ equivalent, multiply by 3.67.

Climate change partnerships in which HP participates

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

Global Greenhouse Gas Register

Quantifying performance and increasing transparency are important aspects of responding to climate change. In December 2003, the World Economic Forum launched the Global Greenhouse Gas (GHG) Register for companies to report GHG emissions and reduction targets. HP was one of the first eight companies to commit to the Register, whose signatories account for nearly 5% of global GHG emissions.

Developed in partnership with leading businesses and environmental organizations, the Register promotes disclosure and stimulates voluntary corporate action to reduce GHG emissions. The Register provides a standardized GHG emissions reporting framework, enabling investors and other stakeholders to compare signatory companies.

As a signatory, HP reports its global GHG emissions annually, using the Register's public website. Independent verification of emissions data is an important element of the initiative. In May 2004, an independent auditor verified our GHG emissions, and in August, HP was the first signatory to have emissions data accepted by the World Economic Forum.

Comments by independent auditor

"Overall, I felt that HP did a very thorough job of reporting their GHG emissions. An opportunity for improvement would be to implement an internal audit program to regularly check the accuracy of the data which is used in the calculations, as well as the actual calculations. I had a high degree of confidence that the greenhouse gas related information reviewed was accurate."

– Carol Osgood, BVQI auditor

Since the audit, HP has integrated a verification program into our environmental management system. We will perform a detailed emissions data analysis for major sites, audited at least once every three years.

HP's 2004 GHG emissions increased 4% compared to 2003. Purchased electricity (produced off-site at power plants) is the largest source of our operational GHG emissions, accounting for 86% of the total. Purchased electricity emissions increased 3% in 2004, reflecting continued data center growth and increased floor space utilization. This increase would have been significantly larger without efficiency efforts.

Goal for 2005

- Reduce emissions of specified PFCs by 10% from 1995 levels.
 - Progress: Despite a global increase of 1% in 2004, we are still committed to achieving our target.
-

On-site emissions, including those from natural gas consumption and PFC use, account for 14% of total emissions, and increased by 10% in 2004. This was due to using a new manufacturing process that emits a hydrofluorocarbon gas (see below) and to a 25% growth in HP facilities in Asia Pacific, which increased estimated emissions from cooling and air conditioning systems.

Emissions per unit of floor space increased 2% due to business growth and acquisition of energy-intense operations in the Americas. Additionally, our real estate consolidation program increased facilities utilization.

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.

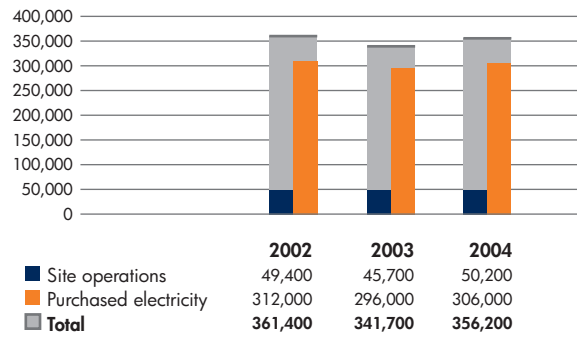
In the United States, HP participates in the PFC Reduction Climate Partnership, a voluntary initiative with the U.S. Environmental Protection Agency (EPA) to reduce specified PFC emissions by 10% from 1995 levels by the end of 2010. HP intends to reach this goal by 2005 in all operations worldwide.

HP's PFC emissions doubled between 1995 and 2002 due to increased production and more complex, demanding product specifications. In 2003, we reversed the trend, cutting emissions by 26% compared to 2002. We achieved the majority of reductions through abatement at our semiconductor fabrication plant in Corvallis, Oregon, United States. In 2004, worldwide PFC emissions increased 1% largely due to production increases in Singapore. The site is installing abatement systems to reduce emissions in the first half of 2005.

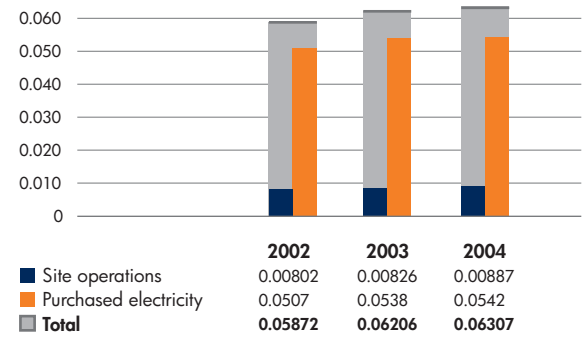
Other direct emissions

In 2003, HP introduced a manufacturing process that emits a hydrofluorocarbon gas representing 20% of emissions from site operations, and increasing our overall GHG emissions by 2% in 2004. This past year we implemented process changes at one plant to eliminate these emissions and plan to do so at other facilities in 2005.

Greenhouse gas emissions, 2002–2004
[Metric Tonnes carbon equivalent, MTCE]



Greenhouse gas emissions per unit of floorspace, 2002–2004
[MTCE per meter²]



Stakeholder perspective

How is HP doing?

In response to California’s electricity crisis, HP established an exemplary record in improving the energy efficiency of its operations, which has been documented in two recent NRDC reports (coauthored with the Silicon Valley Manufacturing Group). The Company’s success reflects both aggressive investment in energy-efficient operating systems and careful management of its facilities and equipment.

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

To its credit, HP has consistently supported expanded California utilities’ investment in cost-effective energy efficiency, which will improve environmental quality by helping many other companies and households follow HP’s good example. In its role as a national (and international) enterprise, we encourage HP to join NRDC in urging ALL electric and natural gas utilities to invest aggressively in cost-effective energy savings at all customers’ facilities.

Ralph Cavanagh
Energy Program Co-Director
Natural Resources Defense Council (NRDC)

Travel

Business travel

HP encourages employees to use teleconferencing whenever possible, to reduce GHG emissions from transportation. Employees use web-based meetings and conference calls for training and collaboration. We provide several web-based systems; one often used is the HP Virtual Classroom.

HP has a small number of aircraft and a fleet of company cars for sales and services employees. The aircraft have relatively little environmental impact. To reduce the automotive fleet’s GHG impact, we are evaluating alternative engine and fuel options for commercial fleets and will begin to include them in our 2006 U.S. fleet.

Employee commuting

Employees consume considerable energy commuting. While this is not directly within HP’s control, we have programs to help reduce these emissions.

Our global Telework program allows employees to work from home, whenever consistent with business needs, reducing commuting impact while potentially increasing productivity and optimizing employee performance.

We estimate that in 2004, the Telework program saved approximately 2 million round-trip commutes in the United States and Canada, avoiding approximately 50 million miles of road travel and reducing GHG emissions by 6,000 MTCE. This program was recently expanded globally.

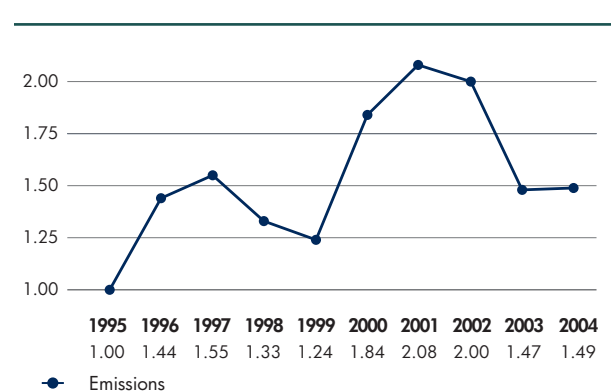
HP ranked number 11 on the U.S. EPA’s inaugural list of Best Workplaces for Commuters in 2004. The list recognizes Fortune 500 companies that provide the “highest level of commuting benefits for their employees,” including subsidized transit and vanpool passes, telework programs and shuttles.

Examples of our programs designed to raise employee awareness about the environmental impacts of commuting include:

San Francisco Bay Area. Each year, approximately 300 employees participate in Bike to Work Day. HP provides booths while volunteers offer bikers information and snacks.

Atlanta, Georgia. Collaborating with the Perimeter Transportation Coalition, HP offers a ‘Commuter Reward Program’ to promote smart commuting and provide employees who carpool gift certificates to a nearby mall.

PFC emissions 1995–2004
[Index = 1.00]





Energy

Electricity use accounts for 86% 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.

Growth and changes in HP's businesses affect our energy baseline and complicate energy target setting. For example, energy consumption increases as we assume responsibility for customers' data centers, while real estate consolidation reduces energy use.

Energy management programs

HP's energy management program minimizes electricity and gas use without adversely affecting business operations. It builds energy efficiency into facilities and improves use of lighting, heating, IT, ventilation and cooling systems. Global standards for temperature settings, lighting levels and operation schedules maintain optimal conservation levels.

In 2003, HP set a goal to achieve a 50 GWh reduction in annualized electricity use globally during 2004—the equivalent of powering the Eiffel Tower for almost seven years¹. As of November 2004, we exceeded our goal by delivering greater than 60 GWh in annual energy savings. Maintenance and operational improvements, efficiency projects and employee involvement generated these savings.

Efficiency projects undertaken in 2004 yielded more than 21 GWh in annual savings in the Americas alone. Replacing old lighting saved more than 2 GWh on a yearly basis and upgrading building controls saved nearly 6 GWh. In the UK, several facilities are pursuing similar projects. For example, lighting and air conditioning upgrades at our Erskine, Scotland facility yielded almost 3 GWh in annualized savings. Other examples include:

Global. We have implemented a PC monitor setting on all computers worldwide, which automatically shuts off employee monitors after 20 minutes of inactivity. This is expected to save 7.8 GWh annually. HP is a member of the U.S. EPA's Energy Star Million Monitor Drive to demonstrate how individual work habits can affect energy conservation.

Corvallis. HP optimized data center air handler efficiency at this manufacturing site, utilizing customized fans to reduce fan energy requirements more than 40%.

Houston. New lighting controls automate off-hours shutdown at this office site, recovering investment costs within six months and reducing energy consumption.

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

Electricity use

HP measures electricity consumption in absolute use (GWh) and normalized per unit of floor space (KWh per meter²). Electricity use during 2004 increased by 4% compared to 2003, equivalent to 84 GWh. Overall electricity use and consumption per square meter increased in 2004, reflecting continued data center business growth and increased utilization of floor space. Without our efficiency efforts, this increase would have been greater. Although real estate in Asia Pacific increased by 25%, electricity use there increased by only 18%.

HP increased renewable electricity purchases four-fold in 2004, to approximately 8.6 GWh, representing less than 1% of total consumption². Three U.S. sites are now purchasing 3% of their energy from renewable sources. At 4.2 GWh, HP's site in Corvallis, Oregon, United States is the leading wind power customer in an electrical utility's six-state Pacific Northwest territory. We will continue evaluating renewable energy purchases as supplies increase.

Gas use

At HP, gas is the second leading source of energy consumption, at 14% of total use. From 2003 to 2004, our gas use declined by 46 GWh, or 10%, in part due to conservation projects and real estate portfolio consolidation. Conservation measures such as changing building temperature set points and improving heating systems reduce our electricity and gas consumption.

Goals for 2004

- Reduce electricity consumption by 25% of 2002 total estimated usage by the end of 2004 (through the elimination of underutilized real estate).

Progress: Achieved Goal. HP eliminated approximately 1.7 million square meters of real estate. This equates to approximately 665 GWh of energy not consumed. However, business growth through mergers and acquisitions has offset this reduction. Real estate increased 3% between 2003 and 2004. A significant portion of this is in energy intensive businesses, such as data centers.

- Implement energy efficiency improvements that deliver a 50 GWh reduction in annualized electricity use by the end of 2004.

Progress: Realized more than 60 GWh in annualized savings in 2004.

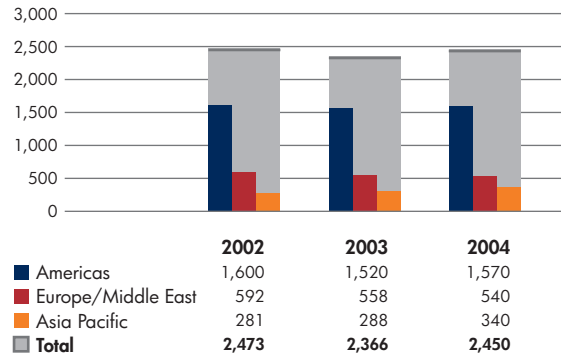
Goal for 2005

- Implement energy efficiency improvements that deliver a 40 GWh reduction in annualized electricity use by the end of 2005.
-

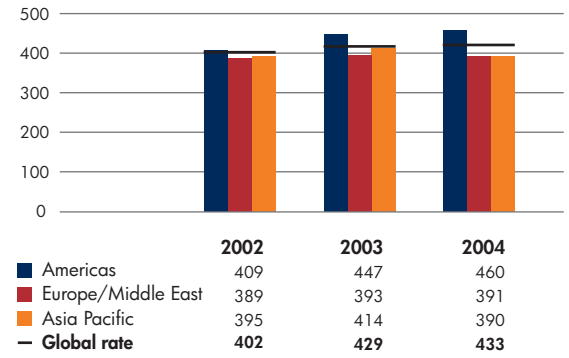
¹ Source: www.tour-eiffel.fr/teiffel/uk/documentation/chiffres/page/usine.html.

² In HP's 2004 Global Citizenship Report, we reported purchasing 50 GWh of renewable energy. Through our verification process, we learned that 47 GWh was combined heat and power energy purchases. While a clean form of energy, it is not classified as renewable.

Electricity use, 2002–2004
[GWh]



Electricity use per unit of floorspace, 2002–2004
[KWh per meter²]



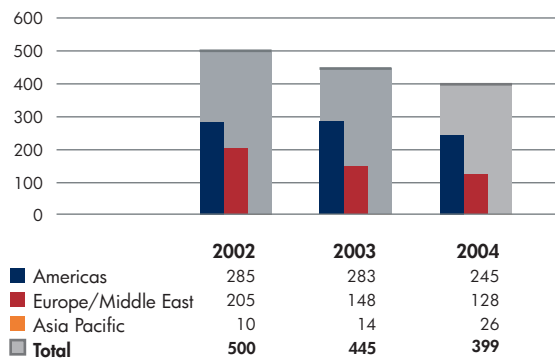
Building design and construction

HP continues to investigate ways to improve building environmental performance. Our real estate organization evaluates and implements sustainable building design and construction practices, including:

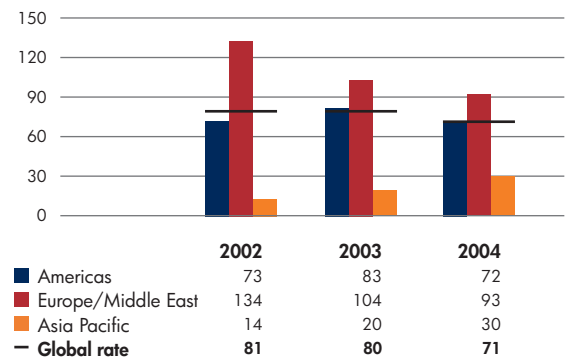
- Green building design capabilities in our architect and engineer selection process.
- Designs accommodating alternative employee transportation, such as bicycles.
- Specification of drought-tolerant landscaping and efficient irrigation to reduce water consumption.
- Renewable products and materials evaluation (for example, recycled carpeting and bamboo flooring).
- Recycling demolition materials when possible.

- HP worked with the developer at a new site in Singapore and planned energy- and water-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 solar energy supported hot water supply.

Natural gas, 2002–2004
[GWh]



Natural gas per unit of floorspace, 2002–2004
[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 considered greenhouse gases.

We do not measure ODS emissions, but make estimates using information from the Third Assessment Report published by the Intergovernmental Panel on Climate Change. Estimates decreased 2% in 2004 compared with 2003, due to replacing old air conditioning systems with more efficient units that use more environmentally friendly gases. Increases in Asia Pacific result from real estate growth.

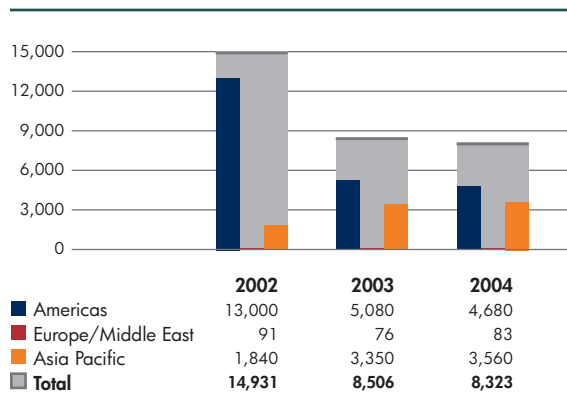
Water

HP global water consumption decreased 5% in 2004, compared to 2003. However, water use in Asia Pacific increased by 10% due to real estate growth.

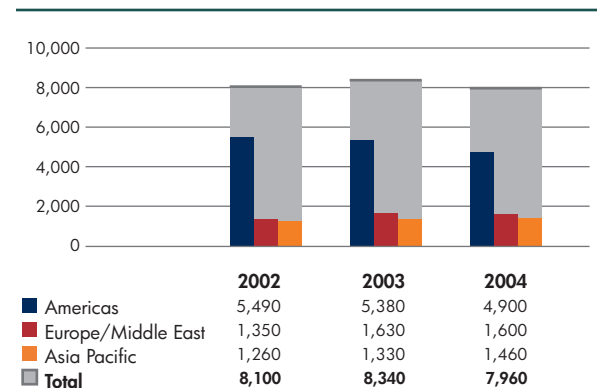
HP's largest water use is for cooling. We recognize that water consumption is a growing concern, particularly in water-stressed regions. Many of our sites work to reduce water consumption. Examples include:

- Our Roseville, California site is considering using city reclaimed water for landscape irrigation.
- The Vancouver, Washington site is implementing landscaping changes to use more native plants and reduce water consumption.
- The entire Americas region is investigating new technologies to cut cooling water use by 50% while reducing the use of biocides and corrosion-controlling additives.
- 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, 2002-2004
[Kg of CFC11 equivalent]



Water consumption, 2002-2004
[Million liters]





Waste

HP is committed to reducing waste generated by our global operations. Where possible, waste is eliminated at the source. Where elimination is not feasible, we attempt 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 and therefore includes some wastes not considered hazardous in the country where they are generated. In 2004, total hazardous waste disposal generated from HP site operations decreased 2% compared to 2003. This reduction was due to installing dilute ink waste evaporation systems at two sites, which reduced waste volumes at these sites by 44%. We plan to investigate implementing similar technologies at other sites and establishing reduction goals for 2006. Decreases in the Americas were offset by increases in EMEA, due to production increases at a product manufacturing plant.

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 'Conserve and Preserve' 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 84% in 2004, exceeding our 80% target. That is equivalent to eliminating 18,400 garbage trucks going to landfill. In 2004, we recycled 37,000 tonnes of paper—equivalent to 560,000 trees and avoiding use of 1 billion liters of water and 170 GWh of electricity.

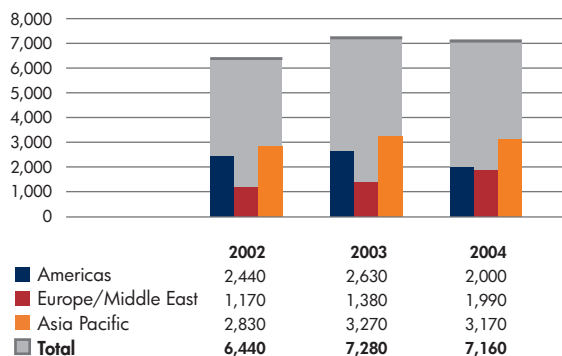
Forty of the 75 sites in our reporting system met or exceeded an 80% landfill diversion rate in 2004. However, as our business model shifts towards operations that generate less recyclable waste, maintaining our current diversion rate requires significant focus.

Although total non-hazardous waste volumes decreased by 1% during 2004, our performance varied by region. In the Americas, volumes decreased by 11% due to outsourcing manufacturing. Business growth in Asia Pacific and Europe saw volumes increase by 30% and 4%, respectively. Based on our performance in 2004 and waste stream volume reduction, we plan to sustain our current level of performance and focus on opportunities for continual improvement.

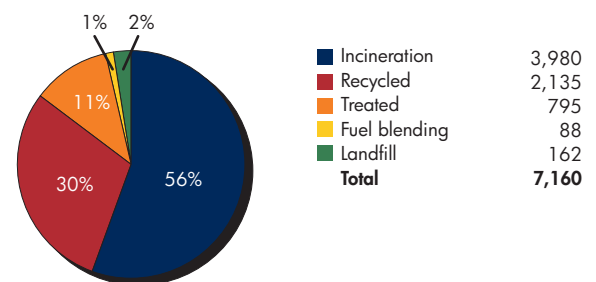
HP facilities globally sponsor collection efforts that reduce non-hazardous waste. In 2004, 31 U.S. sites celebrated Earth Day, which included an employee home computer take-back campaign during April. Almost 1,800 employees participated, returning more than 38 tonnes of used equipment. In November, six UK sites sponsored a similar awareness campaign for Environment Day, collecting approximately 50 pallets of equipment.

The pie chart illustrates the main categories of non-hazardous waste and end-of-life outcomes. The highest volume waste streams diverted from landfill and recycled are for paper and pallets. To reduce paper use during 2004, HP configured multi-function printers at sites globally 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.

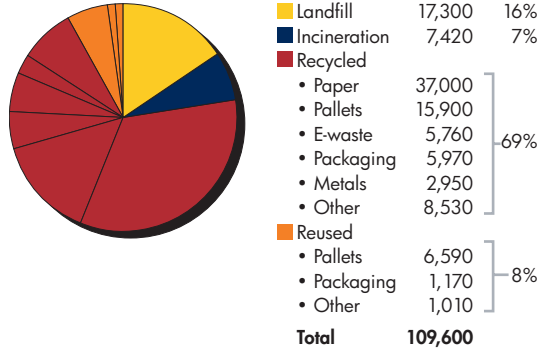
Hazardous waste, 2002-2004
[Tonnes]



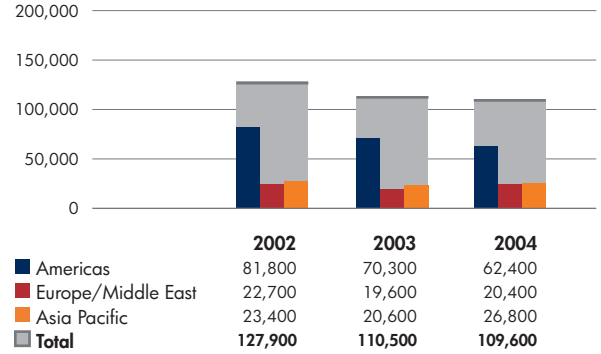
Hazardous waste disposition, 2004
[Tonnes]



Global non-hazardous waste disposition, 2004
[Tonnes]



Non-hazardous waste, 2002-2004
[Tonnes]



Goal for 2004

- Divert 80% of solid (non-hazardous) waste from landfill globally by the end of 2004.
Results: Achieved an 84% solid waste landfill diversion rate.

Goal for 2005

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

Recycling programs

HP exceeded our 2004 solid waste diversion goal by 4% through company-wide commitment to recycling and by allocating additional resources to this effort. Projects and initiatives implemented during 2004 include:

Spain. HP's Barcelona site diverted organic waste from the facility cafeteria to the recently opened compost plant owned by the City of Sant Cugat. An estimated 23 tonnes per year of organic cafeteria waste will be recycled, diverted from landfills.

Ireland. HP's Dublin facility has recently implemented a site-wide 'Binless Office' program, removing and replacing all under-the-desk bins with recycling trays. All waste is segregated by type at central recycling points. Paper recycling is projected to increase by 60% and beverage containers recycling by 85%.

Japan. HP changed to a wood pallet recycling process, eliminating 120 tonnes of waste from incineration. The Ogikubo site eliminated paper towels in restrooms, replaced by electrical dryers in customer restrooms and reducing waste generation by six tonnes annually.

United States. HP implemented a communication campaign across roughly 150 U.S. sites (that consume 10 million disposable cups yearly), encouraging employees to use reusable coffee and tea cups. Installing new paper napkin dispensers in the cafeterias reduced paper napkin use by 24%. A coffee grounds recycling program in Roseville, California, the Bay Area, California, and Corvallis, Oregon diverts approximately 60 tonnes of grounds annually, used to nourish on-site landscaping or as a donation to a local community compost operation.

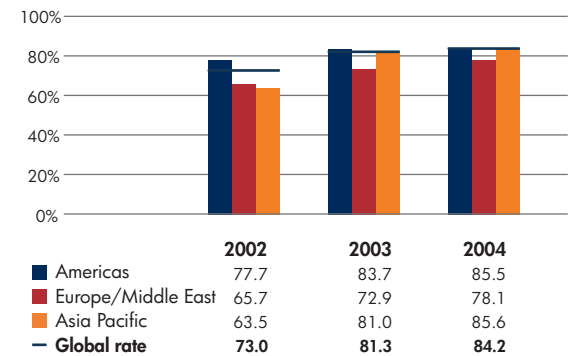
Paper purchase and recycling

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.

- All U.S. and Canadian facilities use recycled paper for all internal uses, including printing, copying and faxing.
- Recycled paper is being implemented at sites in Europe/Middle East and Asia Pacific in the upcoming year.
- 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 available in all countries. 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.

Non-hazardous waste diverted from landfill, 2002-2004
[% of total produced]





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 six manufacturing sites that accounted for the majority of HP's TRI emissions in 2003. TRI reports are due to the U.S. EPA by July 1 of each year. Therefore, 2004 data are not available for this report.

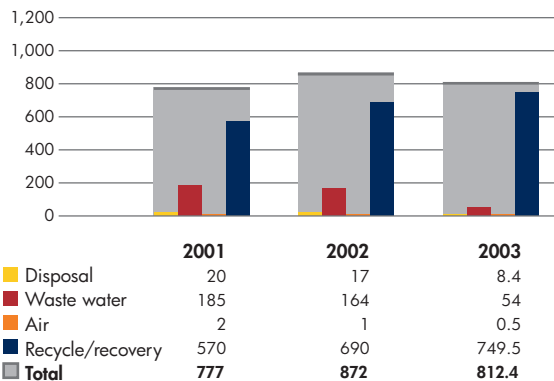
HP achieved a 7% reduction in TRI emissions between 2002 and 2003, primarily due to the U.S. EPA removing phosphoric acid from the TRI reporting list. Excluding this change, emissions increased less than 1%. TRI emissions in every category other than recycle and recovery have decreased since 2001 as a result of our pollution prevention programs. Our largest production solvent, n-methyl pyrrolidone (NMP), accounts for all of this change. Recycling of NMP increased 7% in 2003.

We reduced the amount of NMP sent off-site for disposal from 88 tonnes in 2000 to 5 tonnes in 2003, primarily due to implementing closed-loop recycling processes at manufacturing facilities. The material that cannot be recycled on-site is sent to an off-site recycling facility and returned to HP.

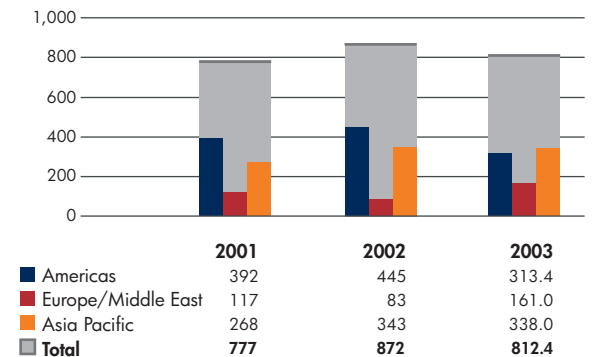
Air emissions

HP's operations generate very few air emissions, and we have active programs to reduce emissions where they do occur. For example, we reduced the volatile organic compound emissions at our Corvallis, Oregon facility by 37% in 2004 through the installation of voluntary abatement equipment.

Emissions of TRI substances, 2001–2003
[Tonnes]



Emissions of TRI substances by region, 2001–2003
[Tonnes]





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. Our seven violations in 2004 were minor administrative violations.

Violations resulting in fines

Fines [\$U.S.]	2002	2003	2004
	\$15,000 ¹	\$3,120 ²	\$2,322 ³

¹ In 2002, HP self-reported a permit violation from our Andover, Massachusetts, U.S. operation. We discovered that a backup emergency generator had been installed without a permit.

² 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.

³ The largest two 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.

Disposition by type of TRI material, 2003

[Tonnes]

Chemical	Air	Water (to sewer/off-site treatment facility)	Shipped off-site for recycling/ energy recovery	Shipped off-site for treatment or disposal	Total
NMP	0.3	0.0	734.0	5.0	739.3
Glycol ethers	0.0	0.0	0.0	0.0	0.0
Ethylene glycol	0.0	0.0	0.0	3.4	3.4
Nitrates	0.0	54.0	1.5	0.0	55.5
Hydrofluoric acid	0.0	0.0	0.0	0.0	0.0
Nitric acid	0.2	0.0	0.0	0.0	0.2
Phosphoric acid	No longer reported	No longer reported	No longer reported	No longer reported	No longer reported
Copper	0.0	0.0	0.0	0.0	0.0
Lead	0.0	0.0	14.0	0.0	14.0
Mercury	0.0	0.0	0.0	0.0	0.0
Total	0.5	54.0	749.5	8.4	812.4



Remediation

Historically, HP has had accidental chemical releases to soil and groundwater at some of our sites. In most cases, HP no longer uses these chemicals. Most releases occurred during the 1970s or early 1980s and, while HP no longer owns many of these sites, we maintain responsibility for the chemical releases. In addition, some of our waste management contractors have had accidental chemical releases at their sites. In 2004, 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, which has 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.

Examples of remediation projects

HP has conducted pilot studies of new technologies for removing volatile organic compounds (VOCs). These innovative technologies have the potential to replace traditional 'pump-and-treat' remediation technology.

- HP is using potassium permanganate to oxidize and break down VOCs in groundwater at a former manufacturing site in California, United States. The potassium permanganate is injected into the groundwater through wells on the site. The initial study was very successful and suggests this is an effective way to reduce VOC levels. A second phase to the study is now under way.
- An innovative remediation technology called Enhanced Insitu Bioremediation (EISB) is being used at a former Palo Alto, California, U.S. facility. The EISB technology stimulates naturally occurring microbes in groundwater that break down and destroy VOCs more quickly and cost effectively than conventional methods. The remediation work is being completed in partnership with the State of California's Regional Water Quality Control Board.

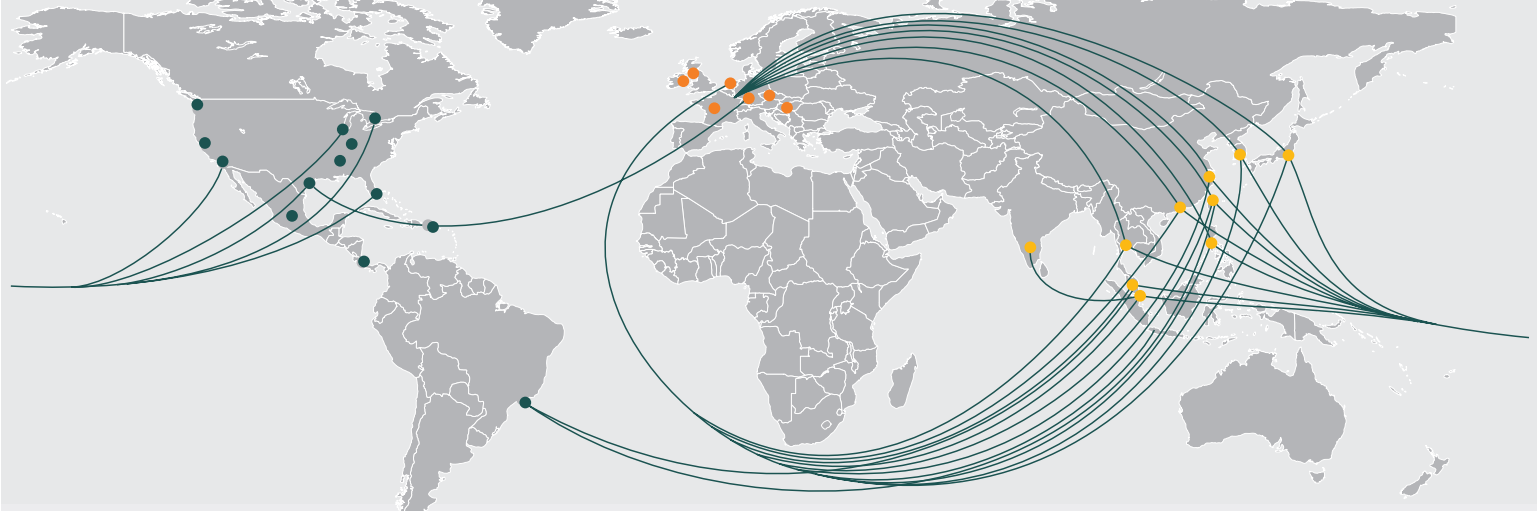
Supply chain



HP's Global Citizenship Policy sets expectations for human rights, labor practices, ethics, occupational health and safety, and environmental impacts. We recognize the need to extend these expectations into our global supplier network.

Major locations of HP product materials, components and services suppliers and key logistics routes¹

HP's suppliers of product materials, components and services



North, Central and South America

Canada, Mexico, United States, Costa Rica, Brazil—\$9 billion
contract design and manufacturing, software, semiconductors, storage, interconnect, power supplies, packaging materials

Western and Eastern Europe

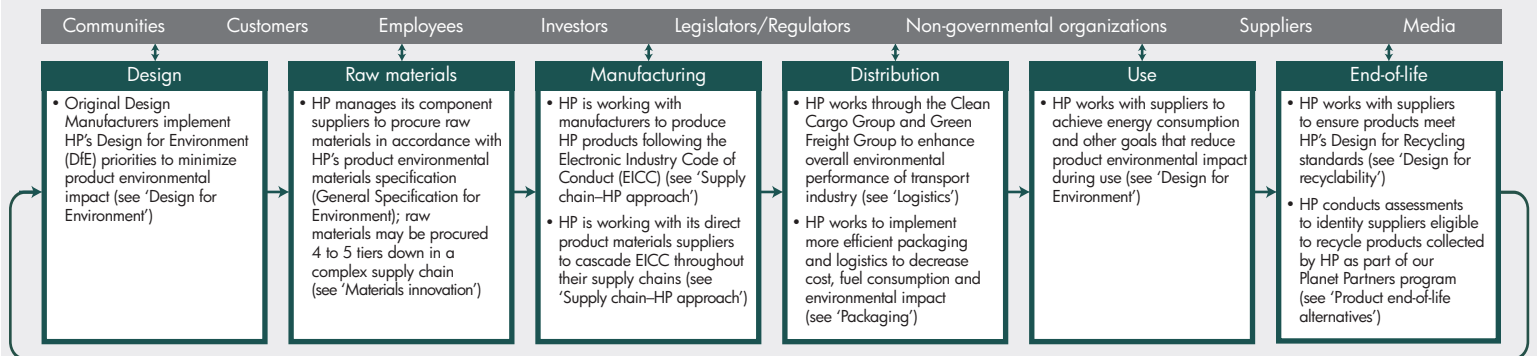
Austria, France, Germany, Italy, Netherlands, Scotland, Switzerland, UK, Czech Republic, Hungary, Romania—\$5 billion
contract design and manufacturing, semiconductors, media, packaging materials

Asia Pacific

China, India, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand—\$37 billion
contract design and manufacturing, semiconductors, displays, storage, interconnect, power supplies, media, packaging materials

NOTE: Expenditures estimated for HP FY2004 total approximately \$52 billion. Total in this chart is different than \$52 billion due to rounding and uncategorized spending. Locations subject to frequent change.

Social and environmental responsibility expectations for HP suppliers across the HP product life cycle



¹Sites and transportation routes 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').

Extending our social and environmental standards throughout our supplier network is challenging, as HP operates the IT industry's largest and most complex supply chain. In 2004, HP purchased approximately \$52 billion of product materials, components and manufacturing, transport and other services from approximately 7,000 suppliers globally (see map above).

HP's size and scale create opportunities to achieve cost and operational efficiencies. As a result of consolidation that has occurred during the last few years, HP's supply base is heavily concentrated on a limited number of suppliers. Of the approximately 7,000 suppliers mentioned above, 700 represent 99% of the amount HP spends on product materials. These 700 suppliers are the focus of HP's Supply Chain Social and Environmental Responsibility (SER) program.

"[The EICC] is an important precedent for the electronics industry and for other industries that rely on global supply chains. Manufacturer insistence on strong code compliance is an efficient and effective way to drive social performance improvements. We look forward to strong stakeholder engagement and to working with these companies to assure compliance with the code."

Conrad MacKerron
As You Sow

Essential to HP's approach are our Supply Chain Social and Environmental Responsibility Policy and our Supplier Code of Conduct, both launched in 2002, which commit us to work with suppliers to ensure they operate in a socially and environmentally responsible manner. Recognizing the advantages of consistently addressing these issues industry-wide, in 2004 we led the development of the Electronic Industry Code of Conduct (EICC) to foster responsible labor, human rights, environmental, health and safety (EHS), and ethics practices across the electronic industry's global supply chain.

Beyond product manufacturing, social and environmental impacts also occur during the transport of our products throughout our supply chain. To minimize environmental impact, HP increases transportation efficiency through techniques such as 'bulk-packing' and 'slip sheets' (see 'Logistics'). We influence transport providers through cross-industry efforts such as Clean Cargo and Green Freight. Additionally, we're now requiring our primary logistics suppliers to abide by our supplier code of conduct.

To counterbalance potential disadvantages associated with sourcing primarily from large global suppliers, in the United States, HP sets sourcing goals from small businesses and companies owned by historically under-represented groups. Our supplier diversity program helps us meet public sector and corporate customer expectations, obtain access to diverse ideas and contribute to the economic strength of the communities where we operate. In 2004, HP purchased 22% of U.S. procurement (more than \$3 billion) from small, minority and women-owned businesses. Recently, we've extended our supplier diversity program into Canada and the UK.

Aligning HP's supply chain management with our global citizenship commitment minimizes supply chain risks while forging a clear connection to our corporate values. As our industry matures and we consolidate on lower cost suppliers, managing SER risks becomes even more important to ensure quality and supply. In keeping with our strategy, we are managing this through our Supply Chain Council. We have made considerable investments in recent years to establish partnerships, develop processes and build systems, enabling us to mitigate these risks, affect change, and realize tangible business benefits. Through these efforts, which are described in this section, we strive to ensure that HP's global citizenship standards are upheld by the companies that build and deliver our products.



The HP approach to supply chain social and environmental responsibility

HP established its Supply Chain Social and Environmental Responsibility Policy and released its Supplier Code of Conduct in 2002. We initially focused on our top 50 suppliers who account for more than 85% of our product procurement expenditures. We also have now introduced the Code of Conduct to another 313 of our high priority suppliers, addressing a total of 98% of our purchasing expenditures. Our approach expands on long-standing supplier requirements as stated in our HP Supplier Code of Conduct and our General Specification for Environment (GSE), which addresses product environmental issues such as restrictions on materials used in HP products.

Electronic Industry Code of Conduct

In 2004, building on our HP Supplier Code of Conduct, we drove the development of the Electronic Industry Code of Conduct (EICC). The Code comprises five sections addressing labor practices, health and safety, the environment, management systems required to ensure conformity, and business ethics. The Code outlines standards for safe working conditions, treatment of workers with respect and dignity, and environmentally responsible manufacturing processes.

HP, Dell, IBM and the electronics manufacturing service providers Solectron, Sanmina-SCI, Flextronics, Jabil and Celestica were the first companies to adopt the Code, in October 2004. In November 2004, Cisco, Intel and Microsoft endorsed the Code. HP collaborated with these firms to benchmark supplier SER models in other industries and share best practices, and this group is working to launch a common assessment and auditing tools initiative. In December, Technology Forecasters Inc., representing 75 electronic component suppliers, endorsed the Code. We are concurrently working with the Global e-sustainability Initiative (GESI), a network of leading telecommunications suppliers and service providers, on benchmarking and exploring common supply chain assessment tools.

Goals for 2004

- Complete supplier audits and develop improvement plans for more than 30 sites.
Progress: Completed 45 factory site audits in China, Mexico, Southeast Asia and Eastern Europe.
- Complete assessments with 100 high priority suppliers.
Progress: Completed assessments with 213 high priority suppliers.
- Introduce electronic SER management tools to simplify processes for suppliers and supplier relationship managers.
Progress: Completed development of web-based tool and populated it with data for our top 50 suppliers (85% of product procurement expenditure).
- Assess effectiveness of feedback and supplier improvement plans in improving performance.
Progress: This is an ongoing improvement process. HP completed as many as two to three rounds of dialogue with top suppliers on improvement plans, resulting in commitments from suppliers to implement plans in the next one to two years.

An industry-wide supplier code of conduct allows companies to more effectively work with suppliers to ensure compliance. The Code will be updated annually. EICC partners commit to continued dialogue with other firms, interested parties and stakeholder groups regarding opportunities to advance supply chain social and environmental responsibility, including Code revisions.

The Code provides an important foundation for our ongoing supplier audits and other efforts to ensure conformance with our Supply Chain SER Policy. Most importantly, it will make supplier performance easier to audit, verify and report. When renegotiating or establishing supplier contracts, all suppliers must agree they understand HP's expectations and will work toward conformity with the EICC. HP has replaced its previous Supplier Code of Conduct with the EICC.

View the complete Electronic Industry Code of Conduct (EICC) and HP's Supply Chain Social and Environmental Responsibility (SER) Policy at www.hp.com/go/supplierE.

Governance structure

HP's Supply Chain Council, which reports directly to HP's Executive Council, is responsible for Supply Chain SER program implementation. Each HP business is represented on the Supply Chain Council. The SER program is integrated into our product procurement structure. In 2004, we redesigned our supplier management criteria and metrics to include SER performance, in addition to technology, quality, cost and responsiveness. Our supplier scorecard addresses these factors, where SER performance comprises up to 20% of a supplier's total rating.

HP's supply chain and procurement supplier relationship managers communicate SER requirements to suppliers and work with them towards conformance. In addition, they 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.

Working with suppliers

Given the size of HP's supply chain, it is not possible to work simultaneously with every supplier. By 2004 we engaged a total of 363 suppliers, who represent 98% of the amount HP spends on product materials. We continue to work with about 100 of these companies to complete their self-assessments. HP provides detailed feedback to every supplier on the completed self-assessment.

In 2005, we plan to have an additional 100 suppliers in high priority categories complete the supplier self-assessment.

Our goal is to add the Electronic Industry Code of Conduct to all HP product materials supplier contracts by the end of 2005, making conformance with the Code integral to doing business with HP. We plan to apply

the Code to our operations procurement¹ and services suppliers, and have begun rolling-out the Code to our logistics suppliers.

Training

In 2003, HP introduced training programs for our supplier relationship managers to increase supplier SER awareness and improve supplier performance. In 2004, we completed the first phase of our auditor training program, providing an intensive training session for approximately 40 regionally based HP SER, ISO and business process auditors. In addition, we trained supplier relationship managers responsible for the top 50 and high priority suppliers on the SER program. We are assessing opportunities to work with academic institutions, governmental entities, NGOs and training firms to provide SER management training directly to suppliers.

Assessments and audits

The first step for suppliers in HP's supplier SER program is the required annual self-assessment completed by each supplier. We use these assessments to increase the supplier's understanding of our expectations and to undertake an initial review of the supplier's conformance with HP's Supplier Code of Conduct. We verify the assessments and provide feedback.

HP procurement and auditing professionals conduct supplier SER audits and site visits. In addition, selected SER questions are included in routine non-SER supplier audits. We are learning a great deal about our suppliers' practices and communicating our expectations to them.

HP focuses our supplier SER audits on supplier processes—ensuring that a supplier has mechanisms and management systems in place to address the requirements of our Code—rather than attempting to assess compliance with specific laws or requirements. Based on our benchmarking of other industries, we believe this approach is most likely to create sustainable change.

In 2005, we plan to expand the scope and reach of our audits and the granularity with which we report findings, such as by region. As the process evolves, it may include establishing a new reporting structure to better address our expanded scope. In 2005, HP along with industry partners will qualify third-party auditors for select factory practices and work with the electronics industry to develop common assessment and auditing approaches.

Our initial audits suggest there can be inconsistencies between a supplier's performance and their self-assessment. Several case studies (below) illustrate issues we have discovered through the audit process. We have recently revised our self-assessment tools to reflect the elements of the EICC, and are exploring ways to help suppliers increase the accuracy of their self-assessment.

¹Operations procurement¹ denotes those items and services not used in product manufacture, such as office supplies.

Goals for 2004 (continued)

- Continue to benchmark our program with suppliers and other industry groups.
Progress: Conducted benchmarking exercises with leading suppliers and business networks in the technology, telecommunications and consumer electronics sectors. We are actively soliciting other industries to identify lessons learned and are partnering with colleagues in other industries on training and creative approaches in China.
- Work with global NGOs, local nonprofit organizations and suppliers to review and improve our Code of Conduct and assessment and audit approaches.
Progress: Partnered with local nonprofits to provide suppliers with SER training and capacity building.
- Train 25% of HP supplier relationship managers in Supply Chain SER management processes.
Progress: Supplier relationship managers responsible for the top 50 and high priority suppliers received this training in 2004. Released three web-based training programs: Introduction to SER (completed by 240 supplier relationship managers), HP's Ten Step Process for Supplier Relationship Management (completed by 175 supplier relationship managers) and How to Review Supplier SER Self-Assessments (completed by 81 supplier relationship managers).
- Hold quarterly SER review meetings with six top suppliers.
Progress: Met with top suppliers on a quarterly basis and negotiated the EICC, benefiting all the top suppliers.

Goals for 2005

- Train supplier relationship managers responsible for the 450 suppliers engaged by the program in Supply Chain SER management processes.
- Complete self-assessments with an additional 100 suppliers.
- Develop a supplier training program for SER management processes in cooperation with universities and NGOs in China.
- Add Supplier Code of Conduct to all product materials supplier contracts.
- Conduct second phase of HP SER Supply Chain auditor training with revised tools based on the EICC.
- Audit a minimum of 75 supplier sites.
- Work with industry partners and competitors on standardized assessment, auditing and training tools based on the EICC.
- Extend program to logistics and services suppliers.

Goals for 2006

- Complete self-assessments with an additional 150 suppliers.
- Extend Supply Chain SER policy to relevant, high priority, indirect procurement suppliers.
- Develop standardized assessment, auditing, training and reporting tools with EICC partners.
- Design and conduct research on training in Supply Chain SER.
- Expand activities with NGOs and local nonprofits on Supply Chain SER education and training.

Goals for 2007

- Complete self-assessments with an additional 100 suppliers, bringing the total assessments since 2002 to 700.
- Develop standardized reporting framework for Supply Chain SER.
- Launch standardized assessment, auditing, training and reporting tools with EICC partners.
- Expand outreach to local and regional government agencies on policies that support the EICC.
- Develop a customer education program to raise awareness of electronics consumers' role in the global supply chain.

Conformance

We seek to be proactive and preventive in working with suppliers. Our experience has been that suppliers want to implement needed changes and improvements, but some lack the required skills, tools, support and expertise. To address this, we are investing in education and capacity building in these areas.

When our audits reveal that suppliers are not in conformance with code provisions, we work with them to establish and implement a corrective action plan. At a minimum, we require the supplier to submit recommendations for improvement; in some cases, we require a schedule for completion of specific improvements, which may range from one week to a year, depending on the significance of the nonconformity. Once suppliers implement improvement plans, we verify that the nonconformance and its cause have been addressed. We work closely with the supplier throughout the process.

HP does not tolerate serious violations of our Supplier Code of Conduct, and in the event that a supplier is unresponsive we are prepared to terminate supplier relationships. At the same time we are committed to helping suppliers meet our expectations. This commitment is central to HP's supply chain management philosophy. We believe we can most effectively create positive change by remaining actively engaged with suppliers as they improve performance.

For further information, including conformity assessment questionnaires, see our program website at www.hp.com/go/supplierE.



Progress in 2004

The table below summarizes HP Supply Chain SER program progress through fiscal year 2004.

2004 audit results

In 2004, HP audited 45 sites in Mexico, China, Thailand, Malaysia, Philippines, Indonesia, Korea, Czech Republic and Hungary. The table on the following page illustrates aggregated results of nonconformance to HP's Supplier Code of Conduct, based on those audits.

HP takes every nonconformance seriously and treats it as an opportunity to work with suppliers to improve performance. Several case studies (below and page 52) illustrate specific problems we have found in our suppliers' facilities, and how we are working with those suppliers to address those issues. Some of the issues are systemic and may take several years to fully resolve.

Progress summary—through fiscal year 2004

	Top suppliers	Top supplier sites	High priority suppliers ¹	Total suppliers	% of product materials expenditures
Engaged	50	175	313	363	98%
Documentation completed	50	175	213	263	85%
Audited	23	42	3	45 ²	55%

¹ High priority suppliers are defined by the following criteria: monetary spend, geographic location, chemical or labor-intensive manufacturing, HP-branded products, preferred or new supplier.

² Total number of supplier sites audited.

Case study: Eastern Europe

HP has worked with suppliers in Eastern Europe for more than 10 years. During our audits, we found it was rare for workers to question authority, proactively insist on their rights, or raise concerns about labor conditions and health and safety. Through worker interviews, we learned that many workers spend only four or six months per year in a given factory, and few find value in raising issues or concerns.

HP is addressing the lack of employee input and feedback in numerous ways. We have prioritized worker-employer communication in our audits and meetings with suppliers. We inspect information provided to workers regarding hours, pay and benefits and make sure this information is adequately transmitted in a timely manner. In addition, during audits and inspections we emphasize our environment, health and safety (EHS) standards and the use of worker committees, to facilitate working conditions that meet or exceed our minimum requirements.

HP Social and Environmental Responsibility audit nonconformance summary table

Supplier Code of Conduct provisions	Major nonconformances ¹	Minor nonconformances ²	Comments
Supplier Code of Conduct awareness/processes			
			Code of Conduct expectations are new; suppliers have not yet integrated it into their systems and expect to in the next year.
Supplier management program/processes			
			Suppliers focused on building up their own programs and expect to begin communicating and managing their own suppliers for SER in the next year.
Labor/human rights management processes			
Freely chosen employment			Processes generally in place, random worker interviews confirm employment is freely chosen.
Child labor			Suppliers regularly checking ID. Some suppliers require more rigorous verification methods with local and regional law enforcement entities.
Discrimination			Differences in understanding and behavior exist in this area. HP is making expectations clear.
Harsh or inhumane treatment			Disciplinary processes should be communicated clearly to workers.
Minimum wages			Further review and clarification on use of deductions and supplier accounting and payment practices including timeliness should be improved.
Working hours			Suppliers' processes for monitoring and controlling wage and overtime should be improved.
Freedom of association			Issues management and communications between management and workers should be developed further, translated and clearly conveyed to all workers.
Labor management system			Future plans, metrics, verification and corrective action processes and communications should be established on an ongoing basis and continuously improved.
Health and safety management processes			
Machine safeguarding			Ensure supplier processes enforce the use of machine safeguards.
Industrial hygiene			Processes to identify, evaluate and control workplace exposure to controlled materials should be improved.
Safety			It is suggested that suppliers ensure that their use of personal protective equipment (i.e., gloves, glasses, hearing protection) is consistent, measure training effectiveness and implement more rigorous corrective action plans.
Emergency preparedness			Infrequent emergency fire drills and training noted at many supplier facilities.
Occupational injury and illness			Reporting, tracking and follow-up processes should be improved.
Physically demanding work			Limited or no ergonomics programs.
Dormitory/canteen			Lax oversight by management noted in some facilities; processes for managing third-party dormitories/canteen facilities providers should be enhanced.
Health and safety management system			OHSAS certification covers minimum. Performance objectives and internal audit processes lacking.
Environment management processes			
Product content restrictions			Data reflects factory knowledge of processes only. Does not reflect central procurement inputs. Current audit process for product content under review—does not correspond to results of overall compliance monitoring.
Chemical/hazardous materials			Processes not well developed for on-site hazardous materials labeling, handling and proper storage. Vendor processes for disposal should be clarified.
Wastewater and solid waste			
Air emissions			
Environmental permits and reporting			
Environmental management system			ISO 14001 certification covers minimum. Performance objectives and internal audit processes lacking.
Key Nonconformance in 0% of sites audited Nonconformance in 1–10% of sites audited Nonconformance in 11–20% of sites audited Nonconformance in 21–40% of sites audited Nonconformance in 41–100% of sites audited			

¹ A major nonconformance is a significant failure in the management system that affects the ability of the system to produce the desired results. It is typically a failure to address one of the requirements of the HP Supplier Code of Conduct or General Specification for Environment. It may be caused by failure to implement an established process or procedure or if the process or procedure is totally ineffective. A major nonconformance can also result from multiple minor nonconformances in the same element of the management system.

² A minor nonconformance is typically an isolated or random incident, and doesn't by itself indicate a systemic problem with the management system. Examples include an internal audit with an overdue corrective action request or a procedure that has not been revised to reflect a change in regulations.

Stakeholder perspective

How is HP doing?

Hewlett-Packard has played a vital role in driving the development of a supplier code of conduct for the electronics industry. This is a real achievement. But it is even more encouraging that the company recognises a code is only a first step to improving working conditions. Through its work with suppliers, Hewlett-Packard is getting to grips with the practicalities and problems of effective implementation.

What would you like HP to improve in this area?

There is still room to strengthen the industry code so that it reflects all four ILO core labour standards, including the right to freedom of association and collective bargaining. I hope HP will press for continual improvement rather than just settling for legal compliance.

Anne Lindsay
Private Sector Policy Analyst
Catholic Agency for Overseas
Development (CAFOD)

Case study: Mexico

Driven by 'back-to-school' and holiday purchasing cycles, consumer electronics is a highly seasonal business. To meet fluctuating demand for employees, many of HP's suppliers maintain relationships with recruitment agencies, allowing them to adjust staffing quickly and efficiently. HP communicates its clear expectations around product quality and the need for flexibility to its supply base.

In Mexico, HP learned that some of these agencies were not upholding our standards regarding workers' rights and that our suppliers neglected to use contractual conditions and oversight mechanisms that identify code violations. Among the issues we discovered was discrimination against married and pregnant women. Certain non-governmental organizations cited similar discriminatory practices.

In response, HP met with our major suppliers and extended partners, reviewed their recruitment agency contracts and required immediate improvement plans and modifications to labor agency contracts. Our suppliers have overhauled their recruitment processes, instituted a nondiscrimination clause in agency contracts and trained supervisors and managers in labor law, discrimination, and contractor guidelines. In addition to HP's ongoing audits and random facility inspections, our suppliers established additional monitoring programs to ensure compliance.

During 2004, at least three major companies improved practices and enacted specific policy changes following HP requests.

Case study: China

The swift growth in technology manufacturing in China has presented challenges to the multinational customers of the industry. HP audits of some suppliers in China uncovered inadequacies in basic EHS procedures, such as the use of fire drills and protective equipment and the handling of hazardous materials. This is unacceptable to HP. In many cases, suppliers have not assigned key managers to effectively design, implement and monitor EHS system improvements.

Working with the factory management of our China-based suppliers, we discovered that nearly all were eager to enact changes and develop policies. HP has stressed with these suppliers the importance of EHS management systems. The Electronic Industry Code of Conduct mandates minimum guidelines for occupational health and safety, with a major emphasis on management systems. Helping suppliers improve their management systems is a top priority for HP for 2005 and beyond.

Also in 2004, we brought a local NGO, the Hong Kong Christian Industrial Committee, into our auditor training to highlight key findings from worker interviews of employees from 30 electronics companies in the electronics industry. Beginning in 2005, we plan to introduce that organization and other academic institutions and NGOs to our suppliers to build EHS management capacity.

Case study: Malaysia

Throughout Asia, workers are recruited to travel to the region's technology manufacturing centers. In Malaysia, many employees working for HP's suppliers have migrated from Indonesia and Vietnam. Labor brokers help facilitate this process and for a negotiated period of time, remain largely responsible for the welfare of the workers whose jobs they have secured, providing housing, meals, transportation and medical care in addition to wages.

Observers in the region have found that some labor brokers have restricted the personal freedoms of the workers they contracted by limiting their travel and withholding passports. This is prohibited under HP's Supplier Code of Conduct to which labor brokers working in HP's supply chain must adhere. We are working to address concerns we uncovered, and we will closely monitor progress. We will terminate relationships with any supplier unable or unwilling to comply with HP's Supplier Code of Conduct.



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 in our supply chain through our supply chain logistics efforts. Transporting millions of products around the world requires a large amount of energy in the form of fuel for aircraft, trucks and ships. HP makes continual efforts to reduce transport energy consumption by using more space-efficient packaging and more energy-efficient means of transport.

During the last decade, HP has decreased reliance on air cargo while increasing our use of ocean freight. This saves considerable amounts of energy, since ocean transport is many times less energy intensive than air transport. By packing products more densely on each shipping pallet, or 'bulk-packing', HP can fit more products into a shipping container, and therefore reduce the total 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 jointly establish environmental performance criteria and emissions calculators for their respective industries.

In 2004, the Clean Cargo and Green Freight Groups implemented the industry-standard Environmental Performance Surveys (EPS) that include environmental reporting guidelines. In 2005, BSR plans to develop an integrated approach to supply chain management that 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 criteria for sustainable transport.

In 2004, we laid the groundwork for expanding our supply chain SER policy to our logistics suppliers. Assessment questionnaires and copies of the Electronics Industry Code of Conduct (EICC) were distributed to 10 of our major logistics providers. Our goal in 2005 is to implement the Supply Chain SER Program with 20 of our primary logistics suppliers, who represent 80% of HP's logistics expenditure.

In 2004, we increased our use of 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 amount of space and fuel required to store and transport our products. This translates into lower emissions and a decreased overall environmental footprint.

For example, due to their smaller size compared to pallets, slip sheets allow us to 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. These sheets are 100% recyclable, whereas pallets contain no recycled content and are often disposed of in landfills after minimal use.

Goal for 2005

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



Human rights

Human rights, the standards of treatment to which all people are entitled, are a central focus of our Supply Chain Social and Environmental Responsibility (SER) Program. The most widely recognized definition is the Universal Declaration of Human Rights, adopted by the United Nations in 1948.

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 the sphere of our 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.

Our biggest challenge is to apply our Human Rights Policy in our supply chain, where we do not have direct control. One way we are working to address this is through the Electronic Industry Code of Conduct (EICC), which we co-developed in 2004. The Code provides an important foundation for our ongoing supplier audits and other efforts to ensure compliance with our Human Rights Policy. Most importantly, it will make supplier performance easier to audit and verify.

In 2004, the Business & Human Rights Resource Centre recognized HP's reporting on our human rights policies and commitment. As we continue implementing a process to assess, verify and audit supplier performance to the Code of Conduct, we will continue to prioritize reporting and transparency.

United Nations Global Compact

HP continues to actively support the UN Global Compact. During 2004, we voiced support for the adoption of a tenth principle addressing corruption, continued to lead the North American Learning Forum of the Global Compact with Pfizer and Novartis America, and worked to address human rights, labor, environmental and ethical issues in our supply chain through leadership in developing a common Electronic Industry Code of Conduct. Our work with the Business Leaders Initiative on Human Rights (see section below) provided a forum to share and receive feedback on this work from other leading global companies and human rights experts.

HP was an active participant in the UN Global Compact Leaders Summit, convened by the Secretary General of the UN, Kofi Annan, in June 2004 to assess progress in support of the Global Compact principles and to articulate a strategy for the future of the Global Compact.

Stakeholder perspective

How is HP doing?

Our annual review of ethical supply chain performance found HP to have among the most rigorous requirements of the 150+ multi-nationals surveyed. HP's efforts to uphold human rights amongst suppliers—by checking performance and working together to achieve compliance with its Supplier Code of Conduct—make it one of the most responsible and rigorous companies in its sector.

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

We would like to see HP develop this work further by: (1) obtaining independent expert commentary on its ethical supply chain program; (2) cascading human rights requirements to secondary and tertiary suppliers; (3) implementing an audit program linked to culture-specific supplier training; and, (4) sharing experiences with other companies in its sector.

**Professor Alyson Warhurst
Dr. Kevin Franklin
Warwick Business School**

Case study: Business Leaders Initiative on Human Rights (BLIHR)

In 2004, HP joined the Business Leaders Initiative on Human Rights (BLIHR), a group of ten global companies working to protect human rights in their spheres of influence. Our work focused on assessing our human rights responsibilities in our supply chain relationships, and identifying how to address those responsibilities in our Supplier Code of Conduct. Working with other leading firms provided insights about how corporations can impact the human rights of their employees, those in the communities in which they operate, and for society in general.

BLIHR's annual report is available at www.blihr.org. The group uses the *UN Global Compact* and the *United Nations Norms of the Responsibilities of Trans-national Corporations and Other Business Enterprises with Regard to Human Rights* as guides, assessing how these norms apply in a business context.



Supplier diversity

HP works with approximately 7,000 product materials suppliers worldwide. However, 700 suppliers account for 99% of the amount HP spends on product materials.

To offset some of the potential disadvantages of this concentrated sourcing approach, HP has a global policy and program to ensure that we offer underrepresented businesses equal opportunities to become HP suppliers and resellers. In the United States, these businesses include small, minority-owned, women-owned, and veteran-owned and service-disabled veteran-owned businesses. In other countries, they include aboriginal, ethnic minority- and immigrant-owned businesses.

HP has maintained a Corporate Multicultural Procurement Program Office for more than 30 years, a practice we continue to expand beyond the United States into other markets. These efforts help us meet the expectations of public sector and corporate customers and consumers, gain access to diverse ideas and contribute to the economic strength of the communities in which we operate.

Purchases from minority- and women-owned businesses comprised 22.1% of HP's total qualified procurement spending in the United States during 2004. We exceeded all of our targets for awards in 2004, in particular to women-owned small businesses. We utilized these firms to provide logistics services, technical software development, and computer and electronic manufacturing services. We exceeded our target for awards to small minority-owned businesses through increased use of these firms for the repair, replacement and warehousing of HP products, and for providing temporary personnel. We have increased our goals for 2005, even though our qualified procurement spending may remain constant.

Goals for 2005

- 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.
- Launch UK supplier diversity program and develop first supplier diversity expenditure report for the United Kingdom and Canada.

Goals for 2006

- Increase investments in supplier development by 75%.
- Formalize program to introduce diversity suppliers to top HP suppliers.
- Expand Supplier Diversity program accountability throughout HP's Top 75 suppliers.

Awards

United States

Certificate of Achievement for 'Outstanding' Small Business Program, Defense Contract Management Agency, U.S. Department of Defense.

Small Business Procurement Award, U.S. Small Business Administration.

Prime Supplier of the Year Award, Houston Minority Business Council.

Top 50 Corporations for Minority Business Opportunities, Diversity.com.

Top 100 Primes Doing Business with Small Businesses, U.S. Department of Health and Human Services.

Small Business Diversity Advocate of the Year Award, Indo American Chamber of Commerce of Greater Houston.

Sequoyah Award, Cherokee Nation Native American Achievement Center.

In addition to our procurement efforts, we promote and advance supplier and reseller diversity in a number of ways. Our minority reseller program provides an opportunity to strengthen our relationships with minority resellers and customers and to exchange information and ideas on how we can work together to meet customer needs. HP's Micro Enterprise Development Program focuses largely on stimulating economic growth in low-income U.S. communities. Similarly, our work in microfinance and e-inclusion provides support to small, minority-owned and women-owned businesses worldwide. Finally, we actively mentor our suppliers and host events with local business councils that introduce diverse suppliers to potential customers.

Highlights from 2004

Europe and Canada. HP was elected to the Board of Directors of the European Supplier Diversity Business Forum, headquartered in Brussels, Belgium and the Canadian Aboriginal and Minority Supplier Council, headquartered in Toronto, Canada. We developed a supplier diversity program and supplier registration process for ethnic minority and immigrant-owned businesses headquartered in the United Kingdom. HP's UK supplier diversity program launches in the third quarter of 2005.

United States. HP sponsored a multi-city Business Matchmaking Program and Small Business Workshops in partnership with the U.S. Small Business Administration. This program matches small businesses with government agencies and private companies that are seeking suppliers of products and services. More than 23,000 appointments were conducted, resulting in \$22 million in contracts awarded to date. More than half of the participants were small minority-owned businesses and 47% were women-owned small businesses.

Purchasing results^{1,2} [Million \$U.S.]

Category	2004 goals	2004 results
Total small businesses	\$1,600	\$3,040
Minority-owned small businesses	\$ 400	\$ 909
Women-owned small businesses	\$ 140	\$ 362
Total minority-owned firms		\$ 1,100
Total women-owned firms		\$ 397

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

² Figures are for October 1, 2003 to September 30, 2004.



Customers and employees require assurances that their personal data is used responsibly. These assurances respect customer preferences for communication and data sharing and help prevent fraud and identity theft. In addition, privacy assurances strengthen trust between employees and employers.



Challenges

Our commitment to strict privacy standards creates a range of challenges, as practices vary globally:

- New technologies, such as spyware, RFID tags and biometrics are developed at a faster rate than the privacy policies that protect customers and employees.
- New business processes establish practices that may conflict with privacy standards.
- Company and cultural values vary, as do customer and employee perceptions of trust.

To address these challenges, HP requires that suppliers who handle employee and customer data abide by our privacy standards. All suppliers must agree to a contract with personal data protection terms and demonstrate compliance through their implementation or their participation in Safe Harbor. When privacy issues emerge with suppliers, we work collaboratively with them to establish and implement a corrective action plan to assure compliance.

In today's global digital marketplace, companies possess important personal information about their customers and employees. Customer data typically includes names, addresses, e-mail addresses, credit card numbers and information on purchasing trends and preferences. Companies analyze data to understand customer needs, provide desirable products and improved services, and tailor marketing and customer loyalty programs. Employee data may include personal information, such as job performance data, and sensitive information, such as medical data.

Customers and employees require assurances that their personal data is used responsibly. These assurances respect customer preferences for communication and data sharing and help prevent fraud and identity theft. In addition, privacy assurances strengthen trust between employees and employers.

Regulations exist in many countries, including the European Union (EU), United States, Canada, Argentina, Australia and New Zealand, to protect individuals from misuse of their personal data. For example, the EU Data Protection Directive 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 EU-based entities.

Awards

United States

Ranked #1 in TRUSTe and the Ponemon Institute's *Most Trusted Company in America* Award.

Ranked #1 in 2004 Peppers and Rogers Group's 1to1[®] Impact Award.

Ranked #1 in Customer Respect Group's 2004 Online Customer Respect Study of largest computer products and services companies.

Ranked #2 in Customer Respect Group's 2004 Online Customer Respect Study of largest 100 U.S. companies (all industries).



HP approach

HP respects customer and employee privacy and is committed to high data protection standards. Protecting our employees' and customers' privacy is a fundamental global citizenship goal. It is vital in developing and maintaining trusted relationships. We recognize that in many parts of the world, privacy is considered a basic human right.

HP privacy policies

HP's Global Master Privacy Policy governs the collection, storage, transport and use of customer and employee information. It commits us to protecting personal data and allowing customers direct access to review or correct their personal information.

HP does not sell, rent or lease customer or employee personal information and will not share this data beyond HP, its affiliates, and its suppliers and service providers without permission. Our Global Master Privacy Policy covers data on products returned to HP for refurbishing or recycling. Drives and disks not returned to the customer are processed for data destruction.

Our Global Employee Data Privacy Policy provides further guidance on the protection of personal information we hold regarding employees, former employees and job applicants.

All suppliers and third-party contractors processing or handling HP data are contractually required to comply with our privacy policies. In countries where no national laws govern the use of personal data, we work with suppliers to ensure they meet HP's privacy standards, those of the Safe Harbor program, or more stringent applicable standards.

Stakeholder perspective

How is HP doing?

HP is a clear marketplace leader in privacy. The company was the founding grantor for the industry's first broad-based privacy certification, the Certified Information Privacy Professional program. And through their support of the International Association of Privacy Professionals, HP has helped to create the leading privacy award in the marketplace, the Privacy Innovation Award. But privacy at HP is much more than external activities. The company is widely respected for comprehensive and innovative efforts to ensure customer expectations are respected and trust in the HP brand protected.

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

While HP is a marketplace leader in privacy, their leadership has not been effectively voiced in public policy discussions. Whether in DC or elsewhere, the broader public policy debate on privacy would be enriched by the perspective of HP.

J. Trevor Hughes
Executive Director
International Association
of Privacy Professionals

External standards

In addition to self-certification with Safe Harbor and compliance with the EU Data Protection Directive, HP is a member of the Better Business Bureau's BBBOnline Privacy Seal Program and recently contributed actively to privacy standards for Radio Frequency Identification (RFID) tags.

Managing privacy

The HP Chief Privacy Office consists of a Chief Privacy Officer who leads an integrated global privacy program and Customer and Employee Data Privacy groups. Our global privacy strategy, policy and integrated Plan of Record (POR) focus on governance, implementation, training, compliance tracking and assessments, and technology design standards.

HP's privacy team uses various methods to help promote compliance with our policies and laws governing data protection:

- E-mail feedback forms allow customers and employees to submit data privacy questions and concerns to HP's Chief Privacy Office.
- In the EU, HP notifies data protection authorities of employee or customer personal data processing as required by law.
- HP provides compulsory privacy training for all employees and additional training for those who have access to confidential or sensitive employee or customer data.

Tools

HP uses company-wide tools to implement our privacy policies:

Privacy Impact Assessments (PIAs): PIAs help employees implementing new sales and marketing programs to meet legal and HP privacy requirements.

Interactive Rulebook: This web-based tool enables employees to easily review privacy rules, function-specific guidelines and templates to implement HP's privacy policies.

IT Application Development Questionnaire: HP system developers use this questionnaire to assess privacy compliance for all IT systems used in handling employee data.

Privacy Audits: HP auditors incorporate privacy reviews into the internal audit process worldwide, including supplier and managed services audits.



Goals for 2004

- All employees to complete on-line Standards of Excellence Data Privacy training.

Progress: Between May and December 2004, more than 67,800 employees took this training. This represents 45% of HP employees.

- HP Internal Audit to test privacy compliance in two business units per quarter.

Progress: Completed two privacy compliance tests each quarter, covering a variety of business units, corporate functions and regions. No major issues were uncovered.

- Impact analysis of emerging privacy regulations to be completed in Argentina, Australia, Brazil, India, Japan, Mexico and South Korea.

Progress: Completed impact analyses in all planned countries except Australia and Brazil.

Goals for 2005

- Complete at least two HP Internal Audit tests for privacy compliance each quarter.
- Conduct second bi-annual privacy policy practice benchmarking.
- 80% of HP workforce to complete on-line Standards of Excellence Data Privacy training module.
- Collaborate with Procurement group to broaden the application of privacy standards in vendor selection.

Progress in 2004

Data access

In 2004, we expanded our Access Governance program, a human resources application that defines and limits access to employee data, to cover all HR applications containing employee data. In 2005, we will apply access standards to additional applications outside of human resources, such as the travel management system, and will reduce the number of databases containing customer data.

International compliance

During 2004, the privacy team and the HP Business Process Outsourcing (BPO) group conducted privacy impact assessments and provided consultation to apply employee privacy standards to HR processes consistently, company-wide.

Industry leadership

HP continues to engage with groups such as the Center for Democracy and Technology to discuss privacy issues and help establish U.S. regulatory privacy principles that include significant federal legislative proposals on spyware and Radio Frequency Identification tags. In addition, HP is a contributor to the Asia Pacific Economic Cooperation (APEC) Privacy Principles. HP remains involved with local privacy organizations around the world, such as the European Privacy Officers Network (EPON), and maintains close contact with Government Data Protection agencies, including in the United Kingdom, France and Germany.

In Europe, HP was solicited by governments at several local and international conferences to present HP's privacy vision and practices, especially regarding new technology and implementation tools.

To recognize other organizations that implement innovative privacy programs, HP and the International Association of Privacy Professionals established the global HP/IAPP Privacy Innovation Award. In 2004, the annual award was presented to Microsoft in the commercial category and the United States Postal Service in the government/not-for-profit category.

Design for Privacy

HP's Design for Privacy (DfP) initiative is a global effort within HP to incorporate privacy requirements in product design. The DfP team identifies technologies and products that require privacy design assessment. For example, software programs for certain HP products were evaluated based on HP's privacy standards throughout development and before product release. These privacy standards include limiting data items collected, making data anonymous where possible, and providing relevant notice and choice about data collection. The DfP team has created a 'top ten' list of best practices in privacy design, gathered HP Labs research material on design practices and referenced case studies for designers.

In 2004, HP expanded its DfP initiative from a single HP product line to include design standards in the product life cycle process of many applicable product lines. We are evaluating integrating DfP standards into additional product lines in 2005.

Employees



HP employs approximately 151,000 people at more than 430 sites in 178 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 work with employees to help them fulfill their potential. We do this by treating them well, offering opportunities for personal development and advancement, and providing competitive salaries and a good work-life balance.

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

Labor practices

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

Our business performance depends on motivated employees. A committed workforce will produce superior results. We believe 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 gives us a competitive advantage.
- Employees are responsible for lifelong learning.

Employment policies

HP's employment policies apply globally. When they differ from local law, HP abides by the more demanding standard. Our policies include:

Best Work Environment Policy

HP's Best Work Environment Policy sets out 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, free of discrimination, harassment and offensive behavior.

The policy incorporates other HP business policies, including our Standards of Business Conduct, Nondiscrimination Policy, Harassment-Free Work Environment Policy, Misconduct Policy, and Global Employee Privacy Policy.

Open Door Policy

Our Open Door Policy commits us to create a workplace where everyone's voice is heard, issues are promptly raised and resolved, and communication flows across all levels of the company. Managers are responsible for creating a work environment where employees' input is welcomed and issues are addressed early and candidly shared.

Labor unions

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 the rights of employees to organize in labor unions in accordance with local laws and established practice.

Performance review

HP is committed to providing compensation that is competitive with the global and local markets, affordable from a business perspective and aligned with individual, business and company performance.

Total Rewards is HP's pay-and-benefits package, which provides competitive compensation and benefits that enable us 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
- Setting performance goals
- Development planning

Executive compensation

HP's executive compensation is based on a pay-for-results model that emphasizes individual responsibility for high achievement and provides a strong link between pay and performance at the individual and company level. This approach keeps innovation alive in our company while differentiating us from our competition. Our philosophy is structured to attract and retain the most innovative, competitive workforce possible.

Employee benefits

HP provides benefits to help attract and retain a competitive workforce. We use market data to devise competitive programs. While benefit programs vary by country, we comply with government regulations in each jurisdiction where we operate.

We provide employees benefits that assist employees in meeting their healthcare needs and preparing for their retirement.

HP offers a healthcare benefits program that is as flexible as possible and competitive in every region of the world where we operate. Program plans and specifics vary from country to country depending on availability of specific services, but at a minimum, we offer the medical, retirement and workers compensation benefits required by law. Additionally, in many countries we offer employees and their dependents access to resources to help them deal with personal issues through employee assistance programs.

In many countries, we provide disability benefits when an employee has an injury or illness that prevents them 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.

Retirement programs

HP offers retirement programs in many countries that often include pension and retirement savings plans (such as the 401K plan offered in the United States). All plans are country-specific and closely aligned with local practices, business needs and relevant legal considerations.

Time-off programs

At a minimum, HP provides holiday and vacation benefits as dictated by country legislation or regulations. It is recommended and encouraged that each employee use all accrued vacation annually.

Military leave

In recognition of military service or training requirements of HP employees, we grant a military leave of absence to U.S. employees. The leave will be granted for the full length of the compulsory service. Ongoing compensation and benefits will be provided, offset by any military compensation and benefits received. To help support HP employees on military leave, we implemented changes to our U.S. Military Leave Policy. In 2004, we extended eligibility for pay differentials, healthcare, and retirement benefits for the full duration of an employee's active-duty leave, up to five years.

Voice of the Workforce (VoW)

Regular employee satisfaction surveys provide feedback on company programs and help identify areas for improvement. HP's VoW survey is available online to all employees in 17 languages. In 2004, more than 105,000 employees—77% of HP's workforce—completed the 2004 VoW survey. This completion rate, which includes 53,350 write-in comments, surpasses participation in 2003 by 10%.

Survey data revealed the following strengths:

- Most employees now understand the company-wide strategy.
- HP has an open, collaborative environment with strong communication.
- HP managers are committed, responsive and available.
- HP is committed to diversity in the workplace, marketplace and community.

Prioritized improvements include:

- Recognition and celebration of employee achievements
- Empowerment of managers and employees
- Performance management processes and Total Rewards, HP's compensation and benefits package
- Simplification of systems and processes, including workstation updates, office moves and business travel

To ensure feedback is implemented appropriately, organization level results are shared with all managers. Managers are required to engage their teams in regular discussions on the feedback and create improvement plans for each focus area.

Workforce development

Training enables employees to reach their full potential and develop their careers. Regular performance reviews ensure that development plans are created and implemented.

In 2004, HP invested \$279 million on learning solutions and programs, a 9% increase compared to 2003. In addition, HP supports employees in pursuing many external educational opportunities such as certificates, diplomas and degrees.

HP supports learning in many areas, including products and services, sales and technology. In 2004, HP continued the post-merger emphasis on learning to support our company values, corporate objectives and business goals. This includes our Standards of Excellence courses and our leadership training programs.

Awards

Austria

TREND magazine, #8 among the Country's Top 25 Best Companies to Work For.

Belgium

#5 Company to Work for in Belgium—Randstad HR Awards, 2004.

China

Robert Mundell World Executive HR Award, HP China, 2004.

Most Respected Companies in China—Peking University and the Economic Observer for corporate citizenship.

Czech Republic

#1 Most Desirable Employer—Czech Republic, 2004.

#1 Most Admired IT company—Czech Republic, 2004 (Second consecutive year).

Ireland

Plan magazine, 2004 IEI Company of the Year Award.

Singapore

2004 HRM Award, Best Change Management Practice.

2004 HRM Award, Best Training, Learning and Development Practice.

Corporate Citizen Award, HP Singapore—National Volunteerism and Philanthropy Centre, 2004.

Human Resources Management Award, HP Singapore, 2004.

United States

American Society for Training & Development (ASTD), 2004 BEST Award.

Massachusetts Innovation & Technology Exchange (MITX), 2004 Training & Support/Corporate Award.

Society of Technical Communications, 2004 Division Development Office Website, STC Merit Award.

Society of Technical Communications, 2004 Excellence Award for the AlphaServer Removal and Replacement Training; 2004 Excellence Award for the HP Windows/Exchange 2003 Academies Training.

Houston's Choice Award for positively impacting the city of Houston, TX—Greater Houston Partnership & Chamber of Commerce, 2004.

Commitment to workforce development

The mission of HP's Workforce Development Organization is to build the most competitive and committed workforce in the world, as determined by our customers, shareowners and employees. We ensure that each of our employees develops a personal development plan with their manager and then uses that plan to accelerate personal and business success. In 2004, employees benefited from an average of 40 hours of formal learning linked to business objectives and performance.

A global team of training professionals, distributed across every function and business in the company, ensures learning is aligned with business strategy and company objectives for growth and success.

Our workforce development systems and processes enable:

- Ongoing review and tracking of performance and development plans
- High-quality e-learning solutions that can be localized for employees
- Varied delivery methods (instructor-led and online learning)
- An 'always on' learning environment to support our employees around the world

Standards of Excellence training

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

The training is available on-line through a series of one-hour modules, each sponsored by an HP executive. It covers: customer experience management; environment, health and safety; data privacy; information security; and our standards of business and personal conduct.

The following training modules, which are updated annually or bi-annually, are offered to all employees and available online:

- Standards of Business Conduct
- Environment, Health, Safety and Security (introduced late 2004)
- Putting Customers First (introduced mid-2004)
- Standards of Personal Conduct (introduced mid-2004)

Leadership training

Senior executives identified core leadership competencies that are needed at HP and created a new executive leadership program for all employees. These programs identify high potential employees and assist them to expand their leadership skills. Each course includes a diversity participation component. In total, 3,160 employees participated in leadership training programs during 2004.

Key leadership programs include:

Breakaway Leadership. In 2004, 1,511 employees completed this course designed to help managers build the critical skills needed to create strategies and plans, collaborate, lead teams and build decision-making and accountability processes.

Leading People for Results. During 2004, 1,074 new managers completed this leadership program for new first-level managers. Participants learned the tools, skills and strategies needed to manage others for peak performance.

Leading Business Systems. In 2004, 274 managers participated in this four-month training course, designed to help employees make the transition to managing a business.

Winning Edge. In 2004, 181 senior managers and executives participated in HP's Winning Edge training programs to help them refine their executive management skills.

Our leadership training goal for 2005 is to engage more than 5,200 participants.

Employee communications

Good internal communications keep employees well-informed and involved in company activities and provide opportunities for them to give feedback. During 2004, communication initiatives included:

- A twice-yearly broadcast from the CEO to all employees
- Employee networks including web discussion forums and newsletters
- Frequent e-mail updates to all employees
- Quarterly business performance review videos
- Monthly Senior Leaders meetings, providing managers with important updates to share with their teams
- Regional 'coffee talks' giving employees the chance to question the CEO
- Regular employee satisfaction surveys (see 'Voice of the Workforce', prior page)
- Various regional and local management communications vehicles



Diversity

A diverse workforce encourages creativity and innovation. It helps build an exciting, stimulating work environment, critical for invention. HP believes that a diverse workforce reflecting our many different markets provides competitive advantage and helps us acquire new business.

HP's Diversity and Inclusion Leadership Committee (DILC), made up of senior business leaders and Diversity Directors from around the world, integrates diversity into the fabric of HP. The DILC works collaboratively with the Global Inclusion and Diversity Organization to provide strategic direction on company-wide diversity, inclusion and work-life programs. The DILC meets regularly and reviews HP's progress on corporate, business and community diversity and inclusion initiatives.

In 2004, continuing its focus and support of long-established global diversity and inclusion priorities, HP launched country, regional and company-wide goals to further support attraction, development and retention of diverse talent. Building upon previous accomplishments within these priorities, HP launched an overarching initiative to globally increase diversity in our employee representation and leadership.

Diversity policies

HP's diversity policies apply globally. When they differ from local law, HP abides by the more demanding standard. Our policies include:

Best work environment

Our new Best Work Environment Policy gives all employees responsibility for contributing to a positive, productive work environment, free of discrimination, harassment and offensive behavior.

Equal opportunity and nondiscrimination

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. As a minimum, it commits us to comply with all nondiscrimination and equal-opportunity laws worldwide.

Harassment-free work environment

Harassment is a form of discrimination. It includes offensive verbal, physical or visual behavior directed toward an individual, based on gender, color, race, ancestry, religion, national origin, age, physical or mental disability, sexual orientation, gender identity/expression or covered veteran status.

Our Harassment-free Work Environment Policy represents a strong commitment to ensuring customers, employees, suppliers, business partners, visitors and shareowners are treated with dignity, respect and courtesy.

Complaints

We encourage employees to report any suspected cases of discrimination or harassment, either by using our Open Door Policy or by contacting our Employee Relations organization. Employees can raise concerns with their local human resources manager or use HP's confidential and anonymous global phone line, GuideLine. All allegations are investigated promptly and appropriate action is taken.

Awards

Singapore

Singapore Business Times Family Friendly Employer Award, HP Singapore, 2004.

United States

#2 Top U.S. Company for Female Executives—National Association for Female Executives (NAFE).

100 Best Companies for Working Mothers—*Working Mother* magazine, 2004, 2002.

Corporate 100 List—*Hispanic Magazine*, 2004.

Significant Achievement Award for GLBT (Gay, Lesbian, Bisexual and Transgender) equality in the workplace—*Out and Equal Workplace Advocates*, 2004.

#17 Top 50 Companies for Diversity—*DiversityInc* magazine, 2004.

#1 Pacesetter's Award—Professional Business Women of California (2nd consecutive year).

100% Corporate Equality Index rating for policies, practices and benefits—Human Rights Campaign, 2004 (2nd consecutive year).

#6 Corporate Award for Diversity & Women—Diversity Best Practices and Business Women's Network, 2004.

#7 among Top 50 Companies—*Workforce Diversity* magazine, 2004.

#11 among Top 50 Companies—*Minority Engineer* magazine, 2004.

#19 among Top 50 Companies—*Women Engineer* magazine, 2004.

#22 among Top 50 Companies—*Careers and the Disabled* magazine, 2004.

#29 among Top 50 Companies—*Equal Opportunity* magazine, 2004.

#3 Top Supporter of Hispanic University Engineering programs—Career Communications Group, 2004.

#5 Top Companies for GLBT (Gay, Lesbian, Bisexual and Transgender) employees—*DiversityInc* magazine, 2004.

Diversity programs

We have various programs to promote diversity and inclusion as well as diversity in our leadership. These include:

Work-life programs. Pressure to perform can lead to long work hours. Our work-life programs help employees balance their commitments at home and work.

Where feasible in relation to business needs and local law, HP offers flexible work arrangements, including:

- **Flex-time**—In most countries, employees may start an eight-hour workday any time between 6:00am and 8:30am.
- **Part-time work**—Employees can work a schedule of 20 to 40 hours a week, with salary and benefits pro-rated; hours can be clustered in a few days or spread over the week.
- **Job sharing**—Two or more employees can divide the tasks and responsibilities of one full-time position.
- **Telework**—Employees can work full-time from home for business or personal reasons.
- **Flexwork**—Allows employees to occasionally fulfill their job responsibilities from their home.

In 2004, approximately 11,600 HP employees participated in the Telework program while approximately 70% of the U.S. workforce participated in the Flexwork program.

HP has a range of programs, which vary by country, to help employees deal with life-changing events. Examples include dependent care; education assistance; adoption assistance; new parent, family, personal and medical leave; and a disability plan.

HP supports employees through health and wellness programs (see 'Health, safety and wellness').

LifeWorks. A confidential phone and web service in Canada and the United States offers professional advice and referrals on parenting and child care, education, retirement planning, disabilities, caring for elderly dependents, and basic legal and financial matters.

In 2004, the web site received 17,084 unique requests, up from 13,202 in 2003. These included 6,121 requests for help on parenting and childcare and 3,006 for information on care for the elderly.

Maternity/paternity/adoption leave. HP provides time off for new parents around the globe. These programs vary; they comply with and sometimes exceed the requirements of national laws. For example, in the United States, we offer 12 weeks of unpaid time off to employees who become parents, either through childbirth or adoption, and the opportunity to extend this to one year. In China, the HP maternity program offers between 12 and 18 weeks leave with full pay and in the United Kingdom, the HP maternity program provides 18 weeks of fully paid time off.

Focus Development Program (FDP). A year-long leadership program to improve diversity among HP senior managers. It prepares high potential individuals to move into senior roles.

Winning Edge. Our new senior leadership development program includes a 'Leveraging Diversity' module to help managers integrate diversity as a key leadership principle that contributes to high performance (see 'Labor practices').

On-line diversity training. This global on-line training helps employees understand diversity policies, guidelines and the importance of diversity at HP. In 2004, 4,872 employees completed the training, exceeding our goal for the year.

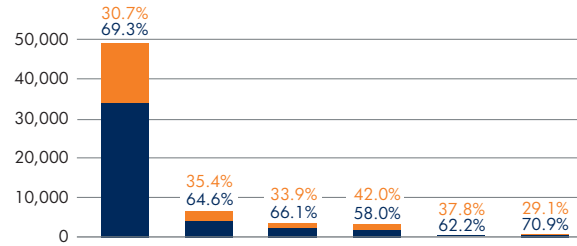
Mentoring for high-potential women. HP supports a mentoring program with a strong emphasis on improving leadership diversity, specifically increasing the percentage of women in the Asia Pacific region. In 2004, approximately 50 women participated in the program.

Workplace mentors. In the UK, HP employees volunteer through this program to demonstrate the responsibilities of their job and to offer students career guidance. In 2004, HP UK worked with 16 students between the ages of 16 and 25, including those who participated in Disability Mentoring Day.

Employee resource groups. HP supports employee resource groups that represent dimensions of diversity, such as gender, ethnicity and sexual orientation. Activities include professional development workshops, speakers and panels, leadership training and events to promote cultural awareness.

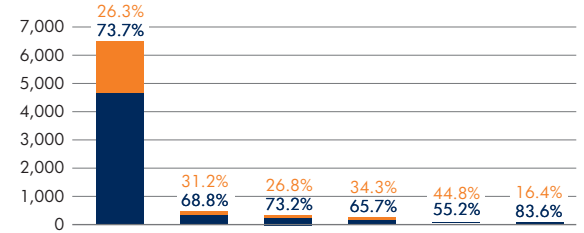
Benefits for domestic partners. In many countries, our employees' same or opposite sex domestic partners are generally eligible for HP's medical, dental and vision programs. They may also be eligible for certain other benefits, such as life insurance and accidental, death and dismemberment insurance.

U.S. workforce ethnic diversity¹, 2004
[Employees]



	White	Asian	Hispanic	Black	Native American	Unknown
Female	14,622	2,319	1,185	1,319	91	150
Male	33,004	4,228	2,314	1,821	150	366
Total	47,626	6,547	3,499	3,140	241	516

U.S. management ethnic diversity¹, 2004
[Officers and managers]



	White	Asian	Hispanic	Black	Native American	Unknown
Female	1,654	155	99	87	13	10
Male	4,632	342	270	167	16	51
Total	6,286	497	369	254	29	61

Employment programs for people with disabilities

Handicap@HP

An ongoing program developed by HP France, Handicap@HP helps integrate the disabled into the business, prevents exclusion, improves work-life quality, and helps with employment outside the company. In 2004, 17 disabled youth participated in 'open house' day in France.

Asia Pacific disability programs

In the Asia Pacific region, we have programs to mentor and employ people with disabilities.

Australia: We launched a 6-month disability mentoring program and participated in Disability Mentoring Day.

India: We formed *Make a Difference at HP*, an employee group that works with several organizations to support and mentor the disabled in our community.

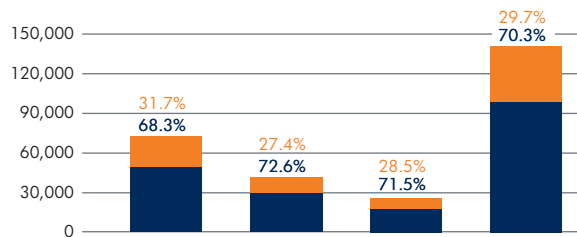
Japan: We participated in Disability Mentoring Day and provided internships for people with disabilities.

Performance in 2004

We track gender diversity globally and ethnic diversity in our HP U.S. workforce. The charts illustrate ethnic diversity in the total U.S. workforce and in management, and gender and age diversity by region.

Although diversity is a high priority across management levels at HP, we will not be satisfied until our workforce demographics mirror the marketplaces we serve. In particular, we're focused on using recruiting, succession planning, leadership development and retention programs to increase representation of women in Europe/Middle East/Africa and Asia Pacific consistent with local law and to increase representation of minorities in the United States consistent with Affirmative Action requirements.

Gender diversity by region², 2004
[Employees]



	Americas	Europe/ Middle East/ Africa	Asia Pacific	Worldwide
Female	22,563	11,351	9,917	43,831
Male	48,634	30,082	24,925	103,641
Total	71,197	41,433	34,842	147,472

¹ Includes employees on leave or paid leave.

² Includes employees on leave or paid leave; excludes certain subsidiary employees for which data is not available.



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 which we work to address through the Electronics 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.

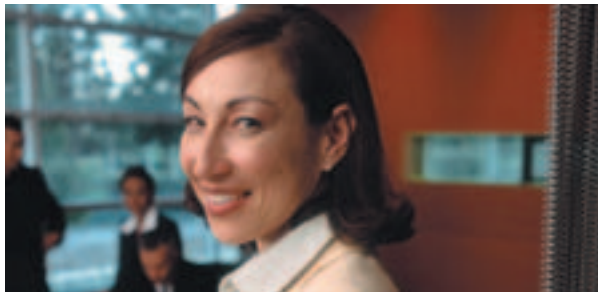
Awards

United Kingdom

UK Business & Human Rights Resource Centre, top human rights reports by companies, 2004.

United States

Human Rights Campaign, scored 100% in the third annual report card for the treatment of gay, lesbian, bisexual and transgender employees in 2004.



Health, safety and wellness

HP is committed to conducting business in a manner that delivers leading-edge Environmental, Health and Safety (EHS) performance. This commitment is consistent with our global citizenship objective to be an economic, intellectual, and social asset to each country and community where we do business.

We believe work-related injuries are preventable. Our goal is to foster practices and create work environments that allow employees to work injury-free. We will accomplish this by continually reducing occupational injury and illness risks while promoting employee health and well-being. This commitment is articulated in our EHS Policy.

Environmental, Health and Safety Management System

At HP, we implement our Health, Safety and Wellness (HSW) programs as part of a comprehensive Environmental, Health and Safety Management System (EHS MS). Our EHS MS provides the management structure, risk management, measurement and assurance required to meet our goals. Our management teams use the management system to identify issues, set goals and implement improvement plans.

Managers and employees together implement the EHS MS. In many locations, joint EHS committees monitor performance, review program status and implement new initiatives.

HP's EHS MS meets or exceeds applicable EHS regulatory requirements globally. It reflects International Labor Organization (ILO) Guidelines on Occupational Safety and Health Management Systems. We record and investigate injuries to identify and eliminate root causes. This process is aided by an automated system which reflects the *ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases*.

Several HP sites are currently registered to the Occupational Health and Safety Management Systems Specification—OHSAS 18001. We routinely evaluate our HSW programs as part of the EHS MS Audits and Assurance process.

Health and wellness

HP's global health and wellness strategy is designed to optimize the health, quality of life, and productivity of our employees and their families. The strategy focuses on raising awareness and encouraging employees to manage their well-being and adopt a healthy lifestyle.

While the strategy is global, it is implemented at the country or regional level to ensure local health concerns are addressed and that programs are sensitive to the local culture. Examples of programs include health screenings and immunizations, risk assessments, stress management workshops, periodic medical examinations, smoking cessation programs, and health seminars. On-site fitness and recreational facilities are available at our larger sites, with fitness center discounts, and outreach programs offered to those employees at smaller sites.

Stakeholder perspective

How is HP doing?

HP has won the prestigious Singapore HEALTH Award (Gold) from Health Promotion Board for 4 years. It has a well-positioned and highly organised workplace health promotion programme. Together with good planning and evaluation of outcomes, the HP Health and Wellness programme is highly comprehensive, including ergonomics, weight management, cholesterol management programmes as key focus areas.

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

HP has been continuously striving to improve their workplace health programmes. While results are clearly emerging from this programme, HP could tighten the planning and tracking processes. This would include examining how employee health practices directly feed into lowered health risks and subsequently, how these lowered risks contribute to contained health costs and decreased medical leave.

Fiona Soh
Workplace Health
Singapore Health Promotion Board



Awards

Australia

Reputex's 2004 Social Responsibility Ratings, AA Rating.

Ireland

NISO/NISA Occupational Safety Awards 2004, Major Award—Category 2.

Mexico

The Guadalajara site received the Occupational Health and Safety Continuous Improvement Program, Level Three.

Singapore

HEALTH (Helping Employees Achieve Life-Time Health) Award for the fourth time (1999, 2001, 2003, 2004).

On-line resources include web-based assessments for health risks, nutrition and fitness, as well as education and prevention strategies for specific health concerns such as HIV/AIDS, SARS, influenza, and mosquito-borne diseases. In 2004, we added nutritional information to raise employee awareness about nutritional choices that may reduce the incidence of cancer and cardiovascular disease or help individuals who have been diagnosed with these diseases.

At HP, we recognize the potential impact of HIV/AIDS on our workforce, particularly in emerging markets. We are committed to combating this disease through programs and policies, and through our work as a founding member of the Global Business Coalition on HIV/AIDS. In South Africa, we provide testing and treatment for HP employees and their families.

To keep our global workforce healthy when traveling, we provide employees immunization information, along with medical alerts, precautions regarding food and water, and updates on standards of health care. Employees have access to legal and medical referrals and other emergency assistance while traveling on HP business anywhere worldwide.

Our commitment to health and wellness extends to HP's supply chain. The Electronic Industry Code of Conduct (EICC) that we co-developed in 2004 ensures that working conditions at supplier facilities are safe and that appropriate measures ensure employee health and wellness.

Ergonomics

Although HP's injury rates are among the lowest in our industry, we seek new ways to protect employees from work-related injuries. Musculoskeletal injuries from work in an office environment are the most common type of employee workplace injury at HP.

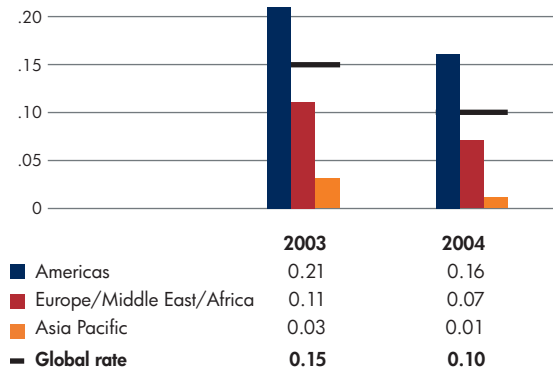
HP's on-line office ergonomics self-assessment, training and improvement course helps reduce the frequency and severity of office musculoskeletal injuries. Available worldwide in ten languages, this course helps employees identify and reduce the ergonomic risks associated with their jobs.

Through 2004, 35% of HP employees—more than 54,000 individuals—completed the program. The vast majority reported ergonomic improvements in their workstation setup or work practices. Our risk-reduction efforts, including personalized communication and follow-up, focus on employees with the highest self-identified risk. Using the results of the on-line employee self-assessments, we identified the ergonomic risk factors of greatest concern and are concentrating our efforts on reducing those risks. We plan to increase employee participation in the office ergonomics self-assessment course by an additional 29,000 employees in 2005.

Employee awareness and training

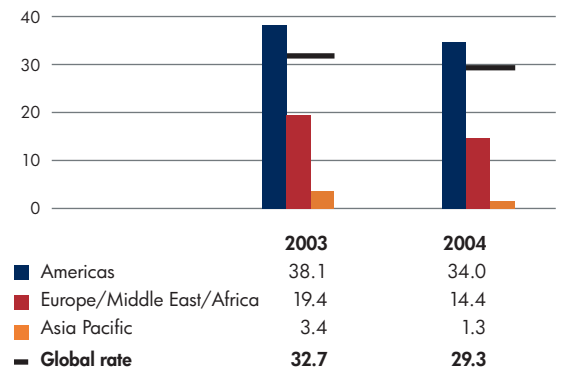
Health, Safety and Wellness (HSW) training is provided for HP employees in their local language. HSW program information is part of orientation for new employees and is routinely refreshed through the EHS&S Policies and Standards training module, employee web sites, and other HSW communications. Additionally, employees receive health and safety training specific to the job they perform.

Lost workday case rate⁴, 2003–2004



⁴Lost workday case rate is the number of work-related injuries that result in time away from work per 100 employees working a full year.

Average number of workdays lost⁵, 2003–2004



⁵For employees that had a work-related injury resulting in time away from work, this number represents the average number of days they were away from work. Metric calculation method was changed for 2003 to meet global reporting standards. 2004 results were calculated based on data available as of 12/1/2004.

Performance against 2004 goals

- Achieve a year-to-year reduction in the lost workday case rate.

Progress: Lost workday case rate decreased from 0.15 to 0.10 from 2003 to 2004—a 33% reduction.

- Achieve a year-to-year reduction in average number of lost workdays.

Progress: Average number of lost workdays was reduced by 10.5% in 2004.

- Increase participation in our office ergonomics self-assessment course to 35% of HP employees by the end of 2004.

Progress: Successfully increased the employee participation rate from 10% in 2003 to 35% by the end of 2004.

Performance in 2004

HP uses three measures to track employee injuries globally. Two ‘lagging’ indicators, lost workday case rate and average number of lost workdays, describe past performance. A ‘leading’ indicator, the percentage of HP staff completing the office ergonomics self-assessment, training and improvement course, describes efforts to improve future performance.

HP operations worldwide are subject to periodic governmental regulatory agency inspections. We received no HSW-related regulatory violations with monetary penalties in fiscal year 2004.

HP’s global injury trends show a continued decrease in lost workday case rate (LWCR) in 2004. We realized a 33% reduction compared to 2003, thus achieving our 2004 goal. Since 2001, we have achieved a 56% reduction in LWCR. As in previous years, the most common office employee injuries are musculoskeletal. Our risk reduction efforts remain focused in those areas.

**Violations resulting in fines
[\$U.S.]**

	2003	2004
Fines	\$150 ³	\$0

³In 2003, during a safety inspection conducted by the Singapore Ministry of Manpower, a chain hoist was observed without the required approval certificate displayed. The device belonged to a vendor who kept the approval certificate off-site. A fine of \$150 was issued.

**Select health and safety metrics, 2001–2004
[Worldwide]**

	2001	2002	2003	2004
Percentage of employees completing the on-line office ⁶ ergonomics self-assessment and training (cumulative)	—	—	10%	35%
Work-related fatalities	0	0	0	0

⁶This metric was introduced in 2003.



Goals for 2005

- Increase HP employee participation in our office ergonomics self-assessment course by an additional 29,000 employees in 2005.
 - Train an additional 31,000 employees in the EHS&S Policies and Standards e-Learning class.
-

Health, safety and wellness challenges for 2005

In 2005–2006, we anticipate that our workforce outside the United States will increase significantly. Rapid growth presents a number of HSW challenges, including providing timely HSW orientation and training for all new employees, and delivering HSW and facilities services. We are working aggressively to ensure our HSW programs can accommodate this growth.

An additional challenge is managing employee safety as our employees are increasingly working at customer sites, providing consultation, customer support, or managing customers' IT systems. We are implementing programs that help identify and eliminate employee health and safety risks related to these activities.

Customer engagement



HP provides customers the technology products, solutions and services they need, whether at work, at home or on the move.

Everything we do as a company, including our global citizenship efforts, must focus on providing the best customer experience. Global citizenship issues such as accessibility and environmental performance are often important factors in customer purchasing decisions.

We serve four distinct sets of customers:

Consumers. We serve millions of consumers with products and solutions through 119,000 retail outlets in more than 170 countries. Our goal is to simplify and enhance the customer experience.

Small and medium-size businesses. Working with local reseller partners, we provide specialized expertise, a complete portfolio of products, solutions and services, and simplified technology so customers can focus on business.

Enterprise customers. We partner with large businesses to help them leverage people, processes and technology to achieve more simplicity, agility and value across their enterprise.

Public sector customers. HP provides a comprehensive set of business solutions, services and technologies that enable governments, educational institutions, healthcare organizations and others in the public interest to lower their costs, function more efficiently and better serve their constituents. HP recognizes the need to address public sector constituents in emerging markets and the significant growth opportunities they represent. Our e-inclusion program and emerging market product development efforts provide solutions to serve these public sector customers' needs.

Our business depends on meeting the needs and expectations of our many, varied types of customers with the same level of commitment. This section covers the following areas:

- **Customer experience management**—how we integrate global citizenship into customer experience
- **Accessibility**—how we help people with disabilities use our products

Case study: HP Services helps hurricane victims

HP Services offers business continuity services worldwide to provide customers with assistance in the event of a disaster. HP works with customers to rehearse contingency plans to prepare for potential business disruptions. This was particularly important to customers in Florida who faced a disruptive hurricane season in 2004. The HP Business Continuity team monitored weather reports and alerted customers of pending storms. Once a clear threat was identified, HP proactively contacted at-risk customers to ensure they followed proper procedures to limit business disruption.

In August, Ned Davis Research, Inc., an independent investment firm in Venice, Florida and Atlanta, Georgia, officially declared a disaster. Within one hour, HP assisted them in moving their operations, including a number of their employees' family members, to an HP Recovery Center in Atlanta. The Center was equipped with uninterruptible power supplies and diesel generators to achieve maximum efficiency during the disaster.

Technology innovation: Improving healthcare quality at lower costs

HP Labs in Cambridge, Massachusetts seeks to improve the overall quality of healthcare while lowering cost through a variety of projects. One research project involves developing a monitoring system that allows patients normally confined to a hospital to spend more time recuperating in the comfort of their own homes. The system uses sensors worn by the patient to relay critical health data to a central hospital database. The sensors detect changes in the patient's condition, such as a change in heart rhythm in a patient with a heart condition. The project is currently focused on building the architecture that will collect the data gathered by the monitoring systems.



Customer experience management

HP has a goal to earn and keep our customers' trust and loyalty and to enable them to successfully apply technology to meet their business and personal needs. To help us meet our loyalty objectives, we established and implemented a total customer experience and quality (TCE&Q) leadership framework.

The leadership framework is used by our employees and businesses around the world to implement our TCE&Q policy: "to provide products, services and solutions of the highest quality and greatest possible value to our customers, thereby gaining and holding their respect and loyalty."

HP's global citizenship values play an important role in TCE&Q. We believe customers should not have to choose between high citizenship standards and leading product performance and customer service.

Customer Experience Standards

HP interacts with customers in many ways: through our products, retail channels, marketing materials and web sites as well as call centers, sales teams, support and even recycling services. At each of these touch points we focus on improving the customer experience.

The TCE&Q framework includes Customer Experience Standards, developed in 2003/04, 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."

The Customer Experience Standards and a related training solution have been implemented. All employees are required to complete the training by the end of fiscal year 2005. To date, more than 25,000 employees have completed the training.

Case study: Global citizenship and brand

Good global citizenship is the expectation for major companies today. Corporate social responsibility can contribute to building a stronger brand in two ways. From a capital markets perspective, many analysts and investors believe that a company's brand can be a key growth driver, and that firms with a commitment to global citizenship may have advantages in that regard.

From a consumer perspective, research suggests that social responsibility is a primary way public impressions of companies are formed¹. These impressions can drive purchasing behavior. Studies demonstrate a large and growing market for the products and services of companies perceived to be socially responsible. One study found that 36% of Americans consider corporate citizenship an important factor in purchasing decisions² and in another, 84% say they would likely switch brands to one associated with a good cause if price and quality were similar³.

¹ Environics International CSR Monitor Survey (2001).

² Hill & Knowlton/Harris Interactive Poll (2001).

³ Cone Corporate Citizenship Study (2002).



Customer inquiries

HP monitors and responds to customer inquiries, comments and complaints to ensure we provide the best possible service and information. As we receive them, customer inquiries, comments, and complaints are organized by issue and routed to the appropriate resource for timely response and resolution. We track the volume and nature of these issues and the customer satisfaction with our responses. These metrics are reported monthly to senior management.

One of HP's primary feedback systems is our Voice of the Customer (VOC) program. The VOC tool enables all employees to easily log customer complaints and compliments on-line and to inform the appropriate group.

We receive several hundred customer inquiries each month on global citizenship issues such as product recycling, environmental specifications, packaging and human rights. In addition to responding to inquiries, we provide clear product labeling, consistent with our Product Description Policy (updated in 2004). Environmental specifications for many HP products are provided online.

Our Environmental Business Management Team in Europe, Middle East and Africa works directly with customers to address HP product environmental performance questions and to ensure that HP fully understands customer needs and expectations.

HP uses a global reporting tool to track customer inquiries on global citizenship issues. This helps us better understand customer priorities and the importance of environmental and social issues in the marketplace. The data influences company strategy and can help product developers adapt products to meet customer needs.

Market research and surveys

Market research and customer satisfaction surveys that assess how customers perceive HP are critical.

HP's 2004 customer research included questions testing customer perception of selected HP values: Trust, Integrity, Ethical Business Practices, and the Provision of Environmentally Responsible Recycling Services. We gauge performance on the percentage of customers who select the highest score on each of the questions, using that information to establish a baseline and set improvement goals for each customer segment by region.

Although the detailed results of our customer satisfaction and loyalty surveys are confidential, the most recent results show improvement by HP in all customer segments. This is the cumulative result of executing TCE and Quality initiatives in every business. Focusing on a common company-wide set of fundamental operational metrics tightly linked to improving customer loyalty contributed to improved survey results.



Accessibility

Using information technology products and accessing the Internet can be difficult for people with disabilities. Using information and communication technology (ICT) products can also be especially challenging for the elderly or aging population, which is growing significantly in many parts of the world. More than 50% of U.S. working-age computer users are affected by mild to severe visual, hearing, dexterity, speech or cognitive impairments that limit their abilities⁴.

Worldwide, the number of regulations requiring government agencies to purchase accessible IT equipment and to ensure that web sites are accessible to people with disabilities and age-related impairments is rapidly increasing. HP will work to win public sector contracts with products that meet these accessibility requirements.

Accessibility features, such as buttons, that are identifiable by touch, switches positioned within easy reach, and large displays help increase users' access. In addition, specialized 'assistive technology' devices, such as screen readers with a synthesized voice, assist people with disabilities or age-related impairments to use technology and the Internet. It is important for IT products to be compatible with these devices.

HP is committed to further improving our products' accessibility features and compatibility with assistive technology devices.

⁴Based on a research report commissioned by Microsoft Corporation and conducted by Forrester Research, Inc., in 2003. See www.microsoft.com/enable/research/workingage.aspx.

Goals for 2004

- Ninety percent of hp.com pages comply with Worldwide Web Consortium (W3C) Web Content Accessibility Guidelines (WCAG) and support Section 508 Standards.

Progress: Achieved 90% compliance.

- Provide Voluntary Product Accessibility Template (VPAT) documentation at product launch for 90% of products for which this documentation is available.

Progress: Provided documentation for 65% of products for which this documentation is available.

Goals for 2005

- Ensure that 90% of hp.com pages comply with W3C Web Content Accessibility Guidelines and support Section 508 Standards.
- Provide VPAT documentation at product launch for 100% of applicable products.
- Increase the number of assistive technology vendor partners from 22 to 30.
- Develop a web accessibility training program for HP's web development team.
- Partner with Microsoft to assist AT vendors to port applications and hardware to Longhorn (next generation Microsoft Windows Operating System).

Goals for 2006

- Document and analyze worldwide accessibility regulations, legislation and standards.
- Develop web-based training programs for web and content developers.
- Expand AT vendor partners in the Developer and Solutions Partner Program from 30 to 40.

The HP approach

HP is committed to developing products, services and information that are accessible to everyone, including people with disabilities or age-related impairments.

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 accessibility issues within our company.
- Document accessibility features and make information about our products and services publicly available in an accessible form.
- Support and contribute to industry accessibility standards and guidelines.
- Establish relationships with leading suppliers of 'assistive technology' products that help people with disabilities use IT.
- Involve people with disabilities in developing accessibility requirements and in designing and testing products and services.
- Support assistive technology research.

Product accessibility

HP's goal is to integrate accessibility into our product development processes. Our web-based Accessibility Toolkit for product designers provides information on accessibility requirements, legislation and best practices for accessible design. Additionally, we document the accessibility features for HP computers, and imaging and printing products offered to public sector customers. This information is publicly available on-line by using our voluntary product accessibility template (VPAT) database. The VPAT database helps our public sector customers around the world comply with relevant accessibility requirements and streamline their procurement processes.

Case study: Maestro—the first handheld PC for the blind

In 2004, HP and partner VisuAide (now HumanWare Canada) launched the first pocket PC for the blind and visually impaired. Maestro uses VisuAide's leading-edge assistive technology and the HP iPAQ Pocket PC as a platform. Maestro features text-to-speech technology and a tactile keyboard membrane over its touch screen, allowing people with visual impairments to use information-access and communication applications without a stylus. The system can be operated with or without an external keyboard (Braille or standard) and connects to wireless communication platforms such as Bluetooth.

At its introduction, Maestro was the most affordable personal digital assistant available for individuals who are blind or have limited vision.

Awards

United States

Secretary of Labor's New Freedom Initiative Award, recognizing exemplary and innovative efforts to train, recruit, and hire people with disabilities and to incorporate the principles of the New Freedom Initiative (NFI).

New Freedom Foundation's New Ability Award: Best New Ability Organization in a Supporting Role for the HP Pocket PC.

National Federation of the Blind Non-visual Accessibility (NVA) Web Application Recertification.

In 2004, the database included accessibility information for 65% of applicable HP products. Accessibility features on HP's products include:

- Desktop PCs that support special keystrokes, color and contrast settings, assistive technology devices and Microsoft Windows Accessibility features.
- Inkjet printers with large, well-spaced buttons that can be identified by persons with impaired vision by touch alone, and some models with concave buttons for easier use with mouth sticks.
- LaserJet printers that have on/off switches on the front or side, within reach of wheelchair users.
- Notebook computers that employ easy-to-use single-handed operation and support Microsoft Windows Accessibility features.

In addition, we partner with 22 assistive technology (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. The program offers technical, sales and marketing support.

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 standards⁵.

The U.S. National Federation for the Blind recertified HP as an e-business leader for web accessibility in 2004. Its Nonvisual Accessibility (NVA) Web Application Certification recognizes web sites used equally well by the blind as by the sighted. We are the only company to earn certification in two consecutive years.

In 2004, to help keep HP's global sales force aware of product accessibility issues, we developed a computer-based accessibility training program especially for them. The program addresses accessible information technology legislation, regulations and standards and overviews HP's products and solutions.

Also in 2004, HP maintained our partnership with the American Association of People with Disabilities (AAPD) and our broad support for National Disability Employment Awareness Month and Disability Mentoring Day. Through our international presence, we transformed what had been a U.S.-only initiative into a global program. In our offices and facilities worldwide, we exposed students and job seekers with disabilities to employment opportunities within HP. We are proud to count many former program participants among our colleagues.

HP is a founding member of Business & Disability: A European Network, focusing on accessibility, eAccessibility, and employment. Launched in 2004, the network arose from the Corporate Partners Group of the European Year of People with Disabilities. 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.

Challenges

The greatest challenge HP faces in advancing product and information accessibility is managing the multiplicity of global legislation, regulations and standards. We work to harmonize global legislation, regulations and standards by engaging with global businesses, governments, policy-making bodies and user or advocacy groups for people with disabilities. In 2004, HP worked with the European-American Business Council (EABC) and the Information Technology Industry Council (ITI) to advocate for sound and consistent accessibility policies.

Stakeholder perspective

How is HP doing?

HP's commitment to accessibility and to inclusion of people with disabilities as part of its diversity strategy is evident from the global leadership role it plays in many industry organizations and in its creative partnerships with disability organizations like the American Association of People with Disabilities (AAPD). Thanks to the work of HP's Accessibility Office and the unique partnerships it has formed, HP has helped to lead the technology community in promoting accessible design and disability awareness.

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

I would like to see HP leverage its leadership role on disability issues with a more coordinated strategy emanating from top management that encompasses accessible products and services, hiring, marketing, philanthropy, and public policy advocacy. My hope would be that HP's brand, which is so well-regarded around the world, would become synonymous with its commitment to people with disabilities and their families. HP could also help educate other industry leaders and its vendors on the business case for its disability strategy.

Andrew Imparato
President and CEO
American Association of People
with Disabilities

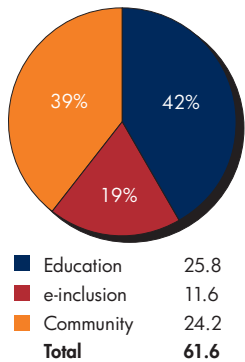
⁵ Section 508 web standards are standards for web accessibility based on Section 508 of the Rehabilitation Act (1998).

Social investment

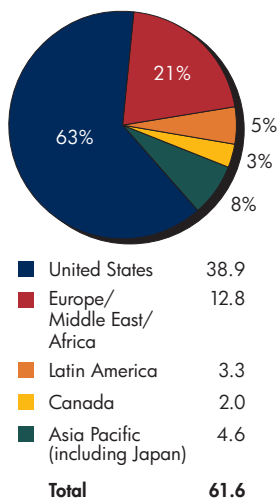


HP has moved beyond traditional philanthropy and has strengthened the link between our philanthropic investments and our long-term business objectives.

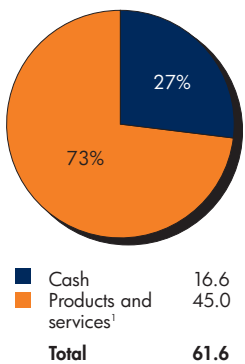
Worldwide giving by category, 2004
[Million \$U.S.]



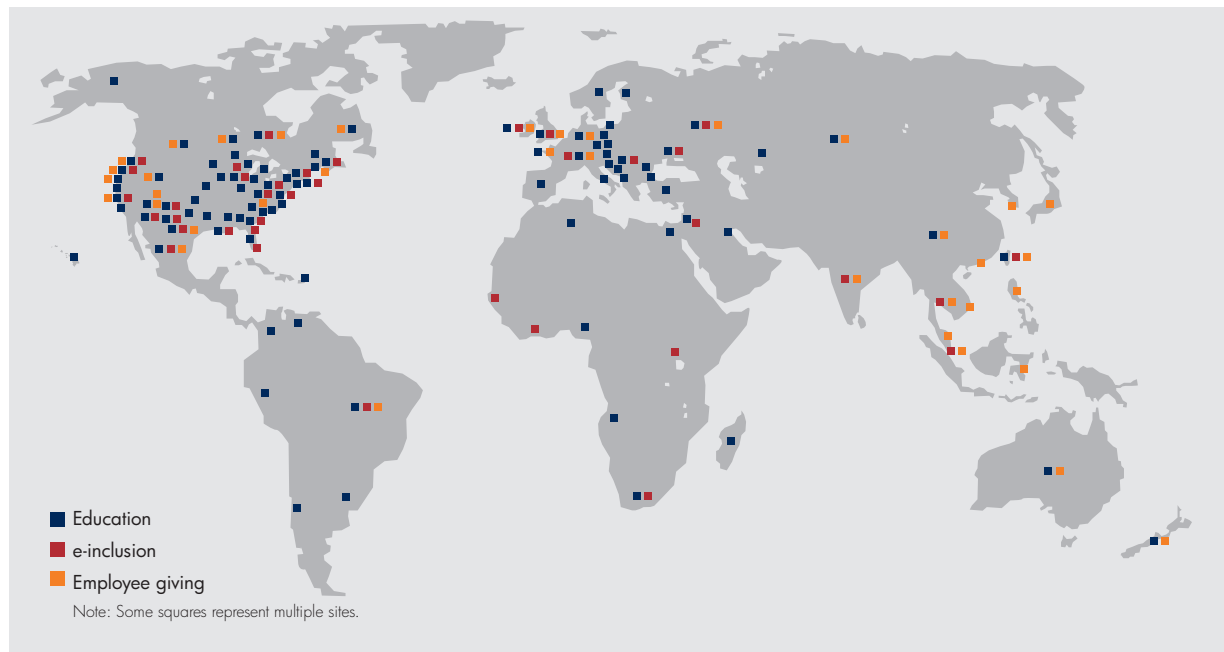
Worldwide giving by region, 2004
[Million \$U.S.]



Worldwide giving by type, 2004
[Million \$U.S.]



Partial list of social investments during fiscal year 2004



We are finding ways to use our products, services and skills—not just philanthropic cash contributions—to address social challenges such as poverty and inequality. *Social investment* is the term used to describe this broad activity.

HP makes social investments in three primary program areas:

- e-inclusion
- Education
- Community engagement and employee giving

Each program uses HP technologies and capabilities to help schools, local communities and technology-excluded communities around the globe, while identifying possible new business opportunities for HP.

HP's approach is to engage closely with the school or community, just as we engage with our customers, to understand the specific needs and issues they would like technology to help solve.

HP makes donations in the form of cash, products, services and time. In 2004, HP donated approximately \$61.6 million in cash and equipment worldwide, representing approximately 1.5% of our pre-tax profits. Of this, nearly \$26 million went to schools—from kindergartens through universities. Approximately 37% of total investment was given to organizations based outside the United States.

While we increasingly measure the impact and effectiveness of these social investments on the targeted communities, we are still refining our metrics to measure their business value to HP.

We encourage our employees to contribute financially to the nonprofit, school or university of their choice and to be active volunteers with nonprofit organizations and educational institutions in their communities.

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.



e-inclusion

Lack of access to computers and Internet connectivity prevents the many benefits of information and communication technology (ICT) from reaching more than 4 billion people worldwide—benefits that include substantial social and economic development opportunities. Looking ahead to the next decade, many of HP's new markets and customers will come from the 80–90% of people currently excluded from these opportunities.

HP is committed to increasing access to ICT worldwide and closing what is referred to as the 'digital divide.' We pursue this through an initiative called 'e-inclusion.' HP's e-inclusion initiative seeks to empower individuals and communities and to apply technology to accelerate economic development. Our experience has proven that HP's technology products and solutions can accelerate the development of societies and economies when applied to areas such as medicine, entrepreneurship, agriculture, banking, distance learning, commerce, and cultural preservation.

Structuring our e-inclusion work to advance social and economic development also accelerates the achievement of our long-term business goals. By empowering people in developing communities, we enhance our own competitiveness—creating innovations we would not have thought of otherwise, discovering talent we never would have found, and spurring revenue growth as we devise new solutions and business models to serve emerging markets.

HP's e-inclusion efforts have evolved over the last four years as we have recognized that aligning e-inclusion to HP's business objectives allows us to have an even greater impact. What began as a broad effort to apply technology to closing the digital divide, has become focused largely on using ICT to accelerate enterprise and entrepreneurship, and thereby stimulate economic growth.

Our e-inclusion strategy is grounded in collaboration with the international development community and governments to realize the power of ICT to stimulate economic growth. We also engage in on-the-ground

research and development with communities to explore how ICT can improve their lives, and we co-invent solutions to address their needs. With an understanding of how the private sector can stimulate economic growth and knowledge gained through interaction with these communities, we are pursuing projects worldwide to incubate new products, solutions and business models for underserved communities. Ultimately, our goal is to leverage what we've learned from each of these projects to scale and replicate specific programs globally that will have the greatest impact on social and economic development.

Engage and co-invent

Global collaboration. HP believes that the private sector has a role to play in poverty alleviation and economic growth in underserved communities. Thus, collaborating with multilateral organizations like the United Nations, governments and development agencies is a key foundation of our e-inclusion work. HP participated actively in the United Nations ICT Task Force to assess and explore the role technology might play to improve the effectiveness and impact of economic development efforts globally. HP also led a working group on business enterprise and entrepreneurship.

This working group launched or supported the continued development of three organizations—the Microfinance Development Team, Enablis and GlobalGiving. See the 'Innovate and assess' section for additional details.

HP also participated in the United Nations Development Programme's Commission on the Private Sector and Development and with the creation of the report—*Unleashing Entrepreneurship: Making Business Work for the Poor*. The conclusions drawn from this report influenced HP's decision to scale and replicate a program focused on accelerating entrepreneurship and enterprise development through technology.

Local research and development. To understand how technology can impact individuals' daily lives, HP works deeply with a few communities that have limited exposure to technology to create new products and solutions specifically for their needs. These engagements last at least three years, allowing HP to listen, experiment and learn. We apply a myriad of business techniques to understand the critical issues within the community and gain agreement across multiple constituencies to prioritize and develop solutions to meet those needs. These projects provide an invaluable foundation of knowledge for the company and function as test beds for new products and solutions that may be leveraged to assist additional communities. HP has two signature programs in this area, Digital Villages and i-communities.



Digital Villages are HP's first major e-inclusion projects. They are designed to help underserved U.S. communities use technology for learning, working and community building. There are three U.S. Digital Village projects: East Baltimore, Maryland; East Palo Alto, California; and the Southern California Tribal Community. In 2004, HP and its program partners celebrated the third anniversaries of the Baltimore Digital Village and Southern California Tribal Digital Village. Building on a foundation of committed leadership, solid infrastructure, and networks of dedicated private and public partners, HP's Digital Villages are positioned to continue as sustainable ventures after our initial support ends.

- **Baltimore Digital Village**—To date, more than 5,000 residents have used HP-sponsored community technology centers to learn computer skills and receive job training. Through the program, 185 Baltimore teachers have integrated technology into their classrooms, and students now have access to 400 new computers, increasing their achievements in social studies, science and math. Three hundred residents have received home computers through the program, helping parents stay connected to their children's schools and helping citizens access health and city service information.
- **Southern California Tribal Digital Village**—HP's Tribal Digital Village connects thousands of Native Americans across Southern California using more than 1,000 new computers in over 50 sites, including 20 computer labs. Tribal members created audio and video materials for projects related to education, history, language and culture, and use Internet-based video conferencing for distance learning. The Tribal Digital Village launched two technology businesses that provide jobs for Native Americans throughout the region and generate income for the 18 community tribes affiliated with the Digital Village. A portion of profits will fund ongoing tribal community development.

- **East Palo Alto Digital Village**—In Northern California, this Digital Village demonstrates the sustainability of HP's approach to technology integration in an underserved community. The program has secured more than \$500,000 in additional investments since the HP funding relationship concluded nearly two years ago, supporting new technology training programs and broadband access for community nonprofit organizations.

HP i-communities are development initiatives in emerging markets led in partnership with local government, non-governmental and community organizations. HP i-communities use ICT to promote sustainable social and economic development. Specific ICT solutions focus on increasing literacy, promoting entrepreneurship and job creation, and providing access to government, healthcare and education services.

Targeted communities benefit and develop economically and HP learns to compete in these markets. As an example, HP introduced a multi-user desktop solution that enables more productivity with a limited budget (see 'Case study: Classroom computing at lower costs,' next page).

HP currently supports i-communities in Kuppam, India, in Mogalakwena, South Africa, and in Houston, Texas. During our three-year commitment, HP has worked closely with public and private organizations to create relevant, sustainable initiatives and to ensure a smooth transition to community ownership in 2005–2006.

The Kuppam HP i-community in Andhra Pradesh, India marked its second anniversary in 2004. With expanded products and services offered at 13 Community Information Centers, more than 15,000 citizens have accessed e-government, education, healthcare, agriculture or small-business information and services by using an on-line community portal. This i-community also launched a new class of women entrepreneurs known as Village Photographers (see below).

In 2004, HP deployed two additional Mobile Solution Centers. These vans provide health and information services to more than 12,000 people in 150 outlying villages each month. Among the services delivered, farmers received help to identify and address crop problems and citizens gained access to vision testing and remote access to medical practitioners.

The Kuppam i-community expanded its Literacy Testing Solution to assist with the regional government's 100% literacy goal. This software tool uses a voice and graphical interface to rapidly assess and improve literacy levels. The Government of Andhra Pradesh is exploring replicating this solution statewide.

The Mogalakwena HP i-community in South Africa celebrated its second anniversary in 2004. Since its founding in a government-donated college building in the province of Mokopane, HP and key government and private partners have established three training centers and 23 Community Access Points across Limpopo Province. To date, more than 54,000 households have benefited directly or indirectly from i-community programs and services and more than 3,500 residents have been trained in programs ranging from PC literacy to advanced technology and entrepreneurship skills.

HP expanded the Community Computer Camps (C3) program in 2004, offering week-long basic computer skills training to more than 800 students—ages 13 to 74—at 13 public venues. In 2004, 100 local students entered a year-long ICT skills training program in partnership with the Information Services, Electronics and Telecommunications Technologies Sector Education Training Authority (ISETT SETA). Participants will receive nationally recognized qualifications and can expect improved job prospects upon graduation in February 2005.

Other 2004 highlights include the launch of an Open Source Center offering the world's first International Computer Driver's License (ICDL) for Linux, the establishment of a fully functioning ICT support call center staffed by local students, and the creation of a Digital Culture Center where local talent can become 'Digital Stars'.



Innovate and assess

As a result of our participation in global development discussions and our learning from local research and development, HP is currently piloting several programs around the world. Our goal is to increase access to technology, education and enterprise development resources while expanding our understanding of how ICT can improve the effectiveness and impact of economic development. Through this process we gain valuable experience in transferring knowledge and skills across country boundaries and learn which solutions have the greatest impact. As there is no single roadmap for economic development, we are pursuing multiple approaches through our UNICT initiatives, our Micro Enterprise Development Program, various information access and skills-building projects and through new products, solutions and business models that are piloted in these projects and our i-communities.

Microfinance Development Initiative. A challenge that the financial services industry faces today is how to aggressively scale microfinance. In 2003, a team of eight public and private sector organizations, convened and led by HP and funded primarily by the US Agency for International Development, began addressing the following questions:

- What would scale for microfinance look like?
- How can technology help achieve that level of scale?
- How can lessons from our work inform a vision for the financial future of the poor?

Case study: Classroom computing at lower costs

HP's most significant response in 2004 to access and pricing demands in emerging markets is the HP Multi-user 441 Desktop Solution. The HP 441 —'four users for one PC'—includes one Linux-based CPU with four keyboards, four monitors, four mice and four graphics and audio cards. The solution accommodates four simultaneous, independent users and includes a bundle of more than 70 Open Source, educational and office software applications, as well as HP support services. The unique configuration allows for a cost savings of 30% to 50% on acquisition, and up to 60% on total cost of ownership—a significant savings for schools and small businesses in emerging markets.

Designed to meet the needs of the education and small business markets in South Africa, the HP 441 was piloted at the Mogalakwena i-community and was officially launched there in March, 2004. By committing resources to deep engagements like the i-communities and by developing solutions like the HP 441 that meet the access and price concerns of emerging market customers, HP aspires to better understand customers and ultimately to grow these markets by delivering community-relevant ICT solutions.

Stakeholder perspective

How is HP doing?

HP has shown real leadership in bringing innovation to micro enterprise programs for the world's poor. 'Convener', 'honest broker', 'solution provider', 'development partner'—these are all roles that HP has played so well in the Uganda pilot activity. Leading with people, technology and passion, their most valuable assets, is what has made the difference.

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

Lasting change requires sustained commitment. HP has made an important initial investment in stepping up to this challenge. Staying power is needed to scale up, mainstream and really make a difference.

Holly Wise

Director, Global Development Alliance Secretariat
US Agency for International Development

The result of our inquiry was the development and deployment of a Remote Transaction System (RTS). This combination of off-the-shelf hardware and a newly developed software application was tested and implemented in three microfinance institutions in Uganda. The RTS provides individuals improved access to financial services. It is expected to lower transaction costs for microfinance institutions and to help them reach more rural clients. The pilot, which started in January 2004, is scheduled to conclude in 2005.

HP's goal is to help catalyze the industry and deepen our understanding of the services and delivery systems required to reach the rural poor in a sustainable way. When this project concludes in 2005, HP and its partners will share this knowledge and help the microfinance industry to access and deploy the RTS more broadly.

Enablis. In 2002, as members of the G8 Digital Opportunities Task Force, HP, Accenture, and Telesystem proposed the creation of Enablis, which was subsequently launched through a Can\$10 million grant from the Government of Canada.

Enablis is a commercial, nonprofit organization created to drive measurable economic development and to build self-sustaining small and medium-sized enterprises (SMEs). The organization is based on the belief that the intelligent application of ICT enables entrepreneurs to develop stronger, more sustainable business models that benefit the local economy.

Enablis provides solutions to hasten the adoption of ICT and realize SMEs' ICT-based business models. It provides loan financing, business and technical support and policy advisory services directly or through a network that includes large corporations, governments, non-governmental organizations, financial institutions, enterprise support organizations, development experts and other entrepreneurs.

HP, Accenture, and Telesystem continue to provide resources, skills and guidance to Enablis, and after successfully piloting Enablis in South Africa, we hope to expand its work to other countries.

GlobalGiving. In 2001, HP provided seed money to GlobalGiving, an on-line marketplace for international philanthropy. GlobalGiving enables individual donors to connect to grassroots social, economic development, and environmental projects around the world. To grow its donor base, GlobalGiving is partnering with corporations and other institutions to enable their employees and customers to give directly to projects of interest. Projects are vetted and posted by a reputable group of organizations dedicated to supporting the efforts of social entrepreneurs.

Since launch, more than 2,599 donations have been made to 443 projects, providing \$1,159,257 in funding to social entrepreneurs worldwide, creating a new source of funding for the remarkable individuals working to change their communities and the world for the better.

Micro Enterprise Development Program. More than half of all new jobs are created in the small business sector, and this number is much higher in developing countries.² Technology can play a crucial role in stimulating economic growth in underserved communities and helping low-income individuals, families, and micro businesses realize economic self-sufficiency.

Building on our key learnings from the Digital Villages, HP launched the HP Micro Enterprise Development Program in 2002. This program supports U.S. nonprofit micro enterprise development agencies in low-income communities to promote economic growth through training, technical assistance and small loans.

In 2003, HP granted \$2.5 million to nine U.S. micro enterprise development organizations. These organizations served more than 3,200 entrepreneurs, roughly half of whom were at or below the poverty level, using technology provided by HP. In 2004, we granted \$3.5 million to 17 U.S. micro enterprise development organizations. Overall, HP currently supports micro enterprise development in 25 cities in 19 states.

Micro enterprise clients of grantees are increasingly demonstrating the value of technology to very small businesses—from the caterer who now uses an online inventory control system to reduce food waste to the print shop owner who advanced his business using a new HP large format printer. Clients have cut costs and increased revenue, allowing them to hire additional employees.

As a result of HP's support, micro enterprise development organizations reported increased staff productivity and morale, improved data management and communications, and expanded outreach capacity.

² See International Labor Organization's *World Employment Report 1998-1999* (www.ilo.org/public/english/bureau/inf/magazine/27/crisis.htm).



Information access and skills building. These capacity-building projects invest in technology infrastructure and skills development to catalyze economic and social development in underserved communities. Based on the success of ICT job skill training, entrepreneurial development and K–18 education programs in the Digital Villages and i-communities, similar targeted projects were launched in other communities to expand our impact. Integral to project success is strong leadership and capacity building of the hosting organization to ensure long-term sustainability.

Digital Community Centers provide ICT infrastructure to underserved communities. Each center reflects a high level of partnership between government, business, public service organizations and HP, and each partner plays a key role by sharing expertise, resources, and accountability. Our goal is to build leadership and information technology capabilities within underserved communities and to pilot sustainable models for economic growth.

HP has ten Digital Community Centers: Ghana, South Africa, France, Ireland, Hungary, Russia, Ukraine, Jordan, Northern Ireland, and Senegal. In 2004, the Centers in Russia, Ukraine and Jordan were officially opened by community leaders.

HP's Digital Garage in São Paulo, Brazil, merges technology and music to help underprivileged youth develop creativity, tolerance, work skills and responsibility through technology. In a facility equipped with computers, servers, printers, scanners and software provided by HP, local youths aged 14 to 24—accompanied by a team of teachers, a sound engineer, webmaster, video-maker, psychologist and volunteer workers—develop their own projects. More than 90 young people participated in the Digital Garage program in 2004, and more than 400 since the program was launched.

Magic Johnson/HP Inventor Centers are a partnership between HP and the Magic Johnson Foundation to offer training, skills development and access to on-line services. Twenty centers in 17 cities in 13 states and Washington, DC are based at nonprofit organizations and housing developments in urban communities across the United States. With grants totaling nearly \$1.4 million, the centers have provided training and services to more than 32,000 youth, adults and seniors.

HP's Cisco Networking Academy Sponsorship is a partnership between Cisco Systems and educational, business, government and community organizations. The initiative prepares students for the 21st century workplace with courses on the latest in information technology. Courses are taught at more than 10,000 locations in 159 countries and more than 500,000 high school and college students have enrolled. HP sponsors the HP IT Essentials I (PC hardware and software) and HP IT Essentials II (network operating systems) curricula. These HP courses are currently offered in more than 2,000 academy locations with an enrollment of more than 26,000 students.

New products and solutions. Less than 20% of the global population can afford to buy our products; we have an opportunity to develop products and services with business models targeted to the rest of the world. HP recognizes the potential of emerging markets, both for business growth and for the benefit of all people who are eager to embrace and leverage the opportunities of the digital age. A critical aspect of our work in the India and South Africa i-communities and HP Labs India is to co-invent new products, solutions and business models specifically for these emerging markets. Once piloted, these products and solutions undergo a vigorous business case analysis to determine feasibility and potential for commercialization.

- **Mobile Photo Studio Solution.** HP developed a solar-powered mobile photography kit in Kuppam, India. The solution and associated ownership models are currently being piloted and evaluated for the ability to replicate in other emerging markets (see 'Case study: Entrepreneurial women take their profession to the next level,' next page).
- **HP Multi-user 441 Desktop Solution.** HP developed the Linux-powered HP Multi-user 441 Desktop Solution, designed to provide increased access to technology at minimum cost for developing countries. The solution is currently being piloted in South Africa in the education and small business market and we are evaluating product demand in other emerging markets (see 'Case study: Classroom computing at lower costs').

Goal for 2005

- Increase HP's e-inclusion presence to 50 countries by the end of 2005.

Awards

United States

'Stars of Africa' Award from AMCHAM (American Chamber of Commerce); Gold Award for 'Education and Training' Category; Silver Award for 'Community Development'.

Worldwide

World Business Award from the International Chamber of Commerce (ICC), in association with the UNDP; for unique contribution to alleviating poverty and stimulating development, in line with the United Nations Millennium Development Goals.

- **Mobile Entertainment Program.** HP launched a 'mobile entertainment' program in Kuppam, India that allows a local entrepreneur to rent or purchase locally produced movies and movie screening equipment from HP to provide entertainment to the community for a small fee. The business model allows the entrepreneur to quickly cover expenses and generate profit.
- **The Digital Stars of Mokopane (D-Naledi t'sa Mokkalies).** In South Africa, aspiring musicians, poets and writers pay a small fee to make digital audio and video recordings of their performances. Their recordings are linked to a web site that provides contestants a chance to be selected as one of the region's top pop idols. These digital culture programs feature a pay-per-use pricing model that will make multimedia solutions more accessible to emerging market customers.
- **Remote Transaction System.** This product combines off-the-shelf hardware and a newly developed software application to improve individuals' access to financial services. It is expected to lower the transaction costs for microfinance institutions and to help them reach more rural clients. Three microfinance institutions in Uganda are currently piloting the product, which will be evaluated for broader use by microfinance institutions worldwide.
- **Other innovations.** HP Labs India has developed extremely low-cost fingerprint authentication technology, voice-based technologies that allow illiterate people to access public services by phone, and a low-cost appliance that sends handwritten e-mail.



Scale and replicate

HP's goal for our e-inclusion work is to leverage what we've learned and globally replicate those programs, products and solutions that will have the greatest impact on social and economic development.

Based on what we've learned from our Digital Villages, i-communities, Microfinance initiative, U.S. Micro Enterprise Development Program, the Digital Community Centers, and UNDP task force involvement, we will focus our next major global program on entrepreneurship and the acceleration of micro enterprise growth.

Through this new initiative, HP will seek to advance the use of technology in micro enterprise development programs to improve the efficiency, effectiveness and sustainability of micro enterprises in underserved communities worldwide. HP will focus not only on providing technology to micro enterprises, but also on training micro enterprises to use technology to build and grow their businesses.

Case study: Entrepreneurial women take their profession to the next level

In 2004, HP expanded its Mobile Photo Studio project in Kuppam, India. Introduced in 2002, the project provides local women with a lightweight solar-powered digital camera and printer to take government ID photos. The women rent the equipment from HP and in many cases have doubled their family's monthly income.

The women, known as 'Village Photographers', took advantage of additional HP training to expand their businesses. One photographed a dangerous intersection and sold the story to a local newspaper, prompting the government to pave the road and add covered bus shelters. Others capture social events, such as weddings and community celebrations, charging a small price for mementos and family portraits. Another Village Photographer uses photos of finished saris as a marketing tool for her door-to-door clothing business.

There are now 18 Village Photographers in Kuppam. The group is establishing a fund that other young women can draw on to launch their own small businesses.



Education

Information and communication technology (ICT) has great potential to positively affect education through innovative and effective uses of technology in the classroom.

Good education is essential for economic prosperity, a diverse and skilled workforce, and prosperous future customers. Investments in educational institutions have a direct and long-lasting impact on the global community.

HP donates equipment, technical support and services to schools and universities worldwide, but many of our U.S. educational grants target institutions serving low-income and ethnically diverse students.

In 2004, HP donated nearly \$26 million in cash and equipment to educational institutions—from elementary schools to universities—through a wide range of grant programs. In this section, we describe a small sampling.

Strategic partnerships

In 2004, HP invested in partnerships with national and large regional nonprofit organizations, to bring grant recipients additional resources and to increase the overall success of these partner organizations in their work with educators. Examples include:

U.S. Math, Engineering, Science Achievement (MESA). HP has supported MESA for more than 30 years. In 2004, HP awarded \$695,000 in cash and equipment to MESA to establish Diversity in Engineering centers at six community colleges in the United States. The centers support the retention and transfer of disadvantaged engineering and computer science students to four-year institutions through the use of HP wireless mobile technology.

U.S. National Science Resources Center (NSRC). Since 1992, HP has supported 70 U.S. school districts and more than 1 million students through the NSRC. Through the HP Science Leadership Grant initiative, in 2004 HP awarded \$220,000 in cash and equipment grants to 20 teams of educator leaders from school districts that are engaged in improving science education for all students. The participating school districts serve low-income students. Nine K–6th grade teams of teachers and administrators attended NSRC Strategic Planning Institutes, where they learned to implement an inquiry-based approach to science education in elementary school. Eleven teams attended the NSRC's National Middle School Science Leadership Symposium to develop new approaches to teaching science in middle schools. Grant recipients will use HP technology to plan and communicate their school's science reform strategy and progress and to enhance teacher training.

U.S. International Society for Technology in Education (ISTE). Last year, HP partnered with ISTE to implement the professional development program included in the K–12 component of the Technology for Teaching grant program (see next page). The ISTE professional development program provides teachers customized learning opportunities, expert mentoring and on-line learning community participation to support teachers' use of technology.

Technology innovation: Improved educational opportunities in southeastern Europe

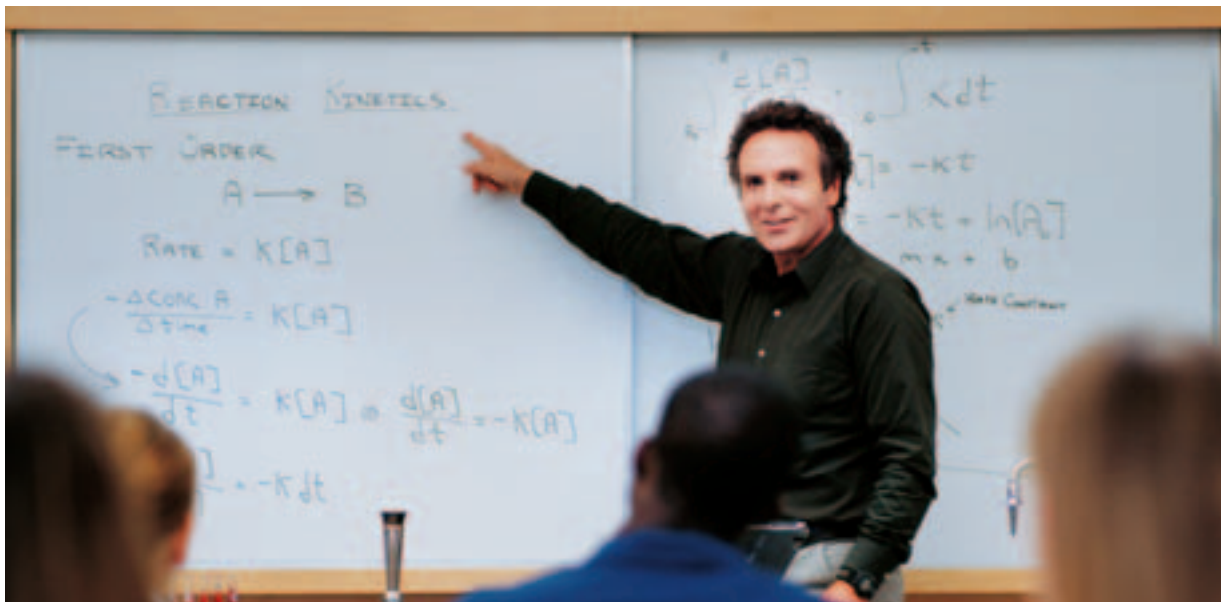
HP's University Relations and Philanthropy and Education program is participating in a two-year initiative to enable four universities in southeastern Europe to harness the power of grid computing. Grid computing allows the resources of many computers in a network to be applied to a single problem so that users may collaborate on complex projects. HP donated and installed Itanium-based HP Integrity servers and additional grid computing technologies in each of the four participating universities. HP personnel provide ongoing technical support and project development assistance, including on-site program implementation, training, and seminars to maximize participating students' experience with the system.

Awards

United States

Ranked fifth in corporate giving among computer companies by *The Chronicle of Philanthropy*.

Thurgood Marshall Scholarship Fund Corporate Leadership Award.



Case study: Technology for Teaching grant program

HP's Technology for Teaching (TfT) grant supports our goal of transforming math, science and engineering education through creative technology integration inside and outside the traditional classroom. In 2004, HP awarded TfT cash and equipment grants worth \$2.2 million to 19 universities in Asia Pacific, Europe and Latin America, \$280,000 to eight K–12 schools in Canada and \$8 million to 197 U.S. educational institutions at all levels.

Schools serving low-income students and projects with a math or science component were our priorities for K–12 U.S. TfT grants. Grantees received HP wireless mobile technology solutions and K–12 educators received professional development and on-line resources administered by the International Society for Technology in Education (ISTE). Successful recipient programs may apply for additional technology awards in 2005 through a special TfT grant program worth a total of \$2 million.

The following examples highlight how students and teachers will use the TfT grants.

- Canutillo Elementary School in Canutillo, TX—Sixth-grade students will document the people and environment of Mexican-American border communities.
- East Lincoln Elementary School in Tullahoma, TN—Students will support the school's Garden Club Project, a hands-on experience for students that encompasses math, science, economics and publishing.
- Marquette University in Milwaukee, WI—Professors will pioneer mobile teaching techniques for science courses, to address the growing demand for health science professionals and engineers in southern Wisconsin.
- Technical Community College in Springfield, MA—Professors and students will improve critical and quantitative analyses and increase opportunities for web-based and in-field biology experiments.
- National University of Ireland in Galway—An engineering professor will create a campus-wide software development project, providing students with real-world career development experience.
- Tamkang University in Taipei, Taiwan—HP mobile technology will be used to establish a digital classroom and support the university's e-Guide Dog research project, using hand-held devices with Global Positioning Systems to help blind students identify their location on campus.

To increase the worldwide impact of our TfT grant program, we convened nearly 100 TfT university level grant recipients from around the world in Monterey, CA for the 2004 HP Higher Education Technology for Teaching Conference. Students and professors shared examples of how they are incorporating HP technology in their classrooms.



Employee giving and community engagement

HP employees have a long history of being social, intellectual, and economic assets in communities where they work. They continue with that commitment by contributing time, talent, HP products and personal financial resources to communities around the world. We sponsor and participate in events that benefit our nonprofit partners and we encourage employees to contribute time, talent, HP products and personal resources. Employee giving and community engagement are not only beneficial to the communities we serve, but they provide teambuilding activities and professional development opportunities to build new or strengthen existing skills.

Employee charitable giving

In response to significant needs, HP employees around the world embrace the opportunity to give back to their communities. In some locations, HP employees can participate in employee giving programs that are organized by the company at the country level and offer corporate matching resources for personal contributions.

Canada. HP Canada's 2004 United Way campaign was the largest employee giving effort in Canada last year. During a four-week period, more than 1,000 HP employees raised Can\$535,000 for United Way agencies across the country. Employees participated in a wide variety of fundraising activities including a dance-a-thon, dieting (raising money for every pound they shed), bake sales and cleaning services.

France. For the past 13 years, HP France's 'Vous Parrainez, Nous Sponsorison' program provides selected employees with HP product grants to donate to a charity of their choice. In 2004, the company received 75 applications and selected 16 projects that received \$80,000 worth of HP products.

Mexico. In 2004, HP was an official sponsor of Teletón, an annual philanthropic event in Mexico that benefits disabled children. HP employees raised approximately \$50,000 for donation to the Teletón Support Fund.

Case study: HP tsunami relief efforts

The devastating earthquake and tsunami that hit 11 Asia Pacific and African nations on December 26, 2004, prompted corporate, government and individual responses on a level the world had never before seen. HP responded immediately, supporting relief efforts with financial assistance, technology provisions, and employee volunteerism. With the help of a global employee matching program, employees across 52 countries, the HP Company Foundation, product donations and our corporate and country philanthropy programs, we donated \$4.4 million dollars to major global aid organizations including the Red Cross/Red Crescent Societies, WorldVision, and Care International. Some employees in Asia opted to contribute a day's salary to selected local disaster relief agencies, and an HP Voluntary Efforts Task Force identified agencies and locations where employees could assist in rehabilitation work. Where there were specific needs for volunteers, HP employees in the region were given paid days off to assist with relief efforts. HP employees worldwide contributed in various ways to the relief effort, through the HP provided avenues and on their own.

Our regional offices quickly came to the aid of local organizations mobilizing to provide immediate assistance to the victims of the tragedy. HP provided laptops, desktops and iPAQs to various organizations to assist in the field, for an immunization campaign, and for logging and tracking relief-related programs and activities.

As reconstruction efforts continue in 2005, we are working closely with government, corporate, and non-profit groups to address mid and long-term needs. Specifically, we are focusing on health, education, personal identity, early notification systems, micro enterprise development and other areas where technology can accelerate rebuilding the infrastructure of impacted countries.

Awards

Canada

Gold, Platinum and Quantum Leap Awards for highest rates of workplace participation in United Way campaign.

Life-to-Date Award for donating \$1 million to United Way's York region.

United Way's Spirit Award for significant increase in year-over-year donations.

China

Leading Contributor to Public Welfare Award, China Children & Teenager's Foundation.

Japan

Gold Medal for Merit, Japanese Red Cross Society (JRA).

Singapore

2004 National Volunteerism & Philanthropy 'Corporate Citizen' Award recognizing HP Singapore's exemplary corporate giving program.

Spain

Recognized by Fundacion Tierra de Hombres as the IT company with the highest commitment to philanthropic programs in Spain.

Case study: HP Brazil youth mentoring

HP employees in Brazil created and launched the Social Mentoring program in Sao Paulo in early 2004. Employees determined admission criteria and reviewed applications from 55 youth and more than 48 HP employees who wanted to serve as mentors. Twenty youths and 20 HP employee mentors were selected and matched in pairs based on personality, experience and interests. The pairs meet in person twice monthly and communicate by phone, e-mail, instant message, fax or letter as needed.

Since the Social Mentoring program launched, 45% of the youths found employment and 40% attend university preparatory classes. Additionally, three were accepted to private universities, one attends a preparatory course for the University of Sao Paulo, and one is enrolled in an English language class. In 2005, HP Brazil will engage an additional 35 youths and mentors in Sao Paulo and Campinas.

Singapore. HP contributed to the Singapore President's Challenge 2004 by participating in the 'Jungalthon' competition, raising a company-best \$233,000. During 'Jungalthon', HP and other corporations competed in jungle-themed activities, including coconut husking, a scavenger hunt and an agility test with sea lions. In total, 'Jungalthon' raised nearly \$620,000 to benefit eight organizations devoted to helping underprivileged citizens.

Switzerland. Employees involved with a non-governmental organization or school may present IT projects for grant consideration by a local donation committee. Approximately 15 projects were funded locally in 2004.

United Kingdom. HP's Money Match for Charity Scheme encourages employee involvement in charitable activities that contribute to personal health and well-being. In return the company makes grants of up to £250 to charities supported by HP employees. In 2004, more than 150 employees participated in fundraising activities such as the Race for Life, the London to Brighton Bike Ride and a community car wash. More than £30,000 in cash donations was contributed to charities including the British Heart Foundation, Cancer Research, Henshaws Society for the Blind, and Tearfund Water Resource fresh water wells projects.

United States. During 2004, more than 13,200 employees participated in the U.S. Employee Giving Program, an increase of 19% over 2003. Together with HP matching resources, employees contributed more than \$13.9 million in cash donations, an increase of 34%, and more than \$4.6 million in HP technology to qualified nonprofit organizations and schools. Together, U.S. employees and HP contributed more than \$18.5 million in cash and products to more than 6,000 community organizations and schools, a 62% increase over 2003. HP's U.S. Employee Giving Program matches employee cash contributions at a 1:1 ratio and matches product gifts 3:1. For product gift matches, employees contribute 25% of the list price of designated HP products and may donate to a qualified charitable organization or school of their choice.

HP employees in the United States can contribute personal cash donations to international organizations through the company's association with GlobalGiving, a mechanism for global fundraising and giving.

Employee volunteering

HP supports U.S. employees' volunteering activities in K-12 schools with up to four hours per month of paid company time, with manager approval. HP encourages community volunteerism through programs such as annual 'Volunteer Days' in the United States that offer site-based volunteer activities. Worldwide, many business teams organize team-building volunteer projects to support deserving community organizations. Examples of volunteer activities HP employees participated in during 2004 include:

- **Ireland.** HP employees participate in Junior Achievement programs, to help teach youth the value of work, education and enterprise. Last year, volunteers taught various courses including 'The Economics of Staying in School' and 'Our City', in which students built a model city and examined functions of city management and operations.
- **Ireland and United States.** HP Ireland and HP Houston employees volunteered with Junior Achievement to coordinate the 'HP Global Business Challenge', in which more than 1,000 students competed from around the world to manufacture and market a new cyber product. HP volunteers helped students assume the role of corporate managers, making decisions on R&D, production, marketing and price. HP Houston hosted the final competition in August 2004.
- **United States.** In 2004, HP Corvallis launched 'Community Connections' to encourage employees to participate in local volunteer programs. Employees established a leadership team to streamline the placement of employee volunteers in local K-12 schools. 'Community Connections' also promotes certain local programs such as SOLV, an environmental stewardship organization that conducts beach and river cleanup initiatives in Oregon.

Public engagement



An important component of global citizenship is participating in open dialogue in countries and communities where we operate. In this section, we describe how we participate in public policy development and the ways we engage with stakeholders.

Public policy

HP's global Government and Public Affairs team builds relationships with key officials, influences legislation and regulation, and advances HP's objectives in government and public affairs worldwide. We work in compliance with applicable laws and HP's Standards of Business Conduct.

We are members of national and regional trade and industry associations in virtually every country where we have a significant presence. HP's position on a public policy issue is often expressed through these associations. Some of the major associations we belong to include:

- American Chamber of Commerce in China
- American Chamber of Commerce in Japan
- Business Software Alliance
- Canadian Chamber of Commerce
- Clean Cargo
- Computer Systems Policy Project
- Confederation of Indian Industry (CII)
- Emergency Committee on American Trade (ECAT)
- European Information Communications and Consumer Electronics Technology Industry Association (EICTA)
- Federation of Korean Industries
- Information Technology Association of Canada (ITAC)
- Information Technology Industry Council
- The Japan Electronics and Information Technology Industries Association (JEITA)
- Manufacturers Association of Information Technology of India
- National Association of Software and Services Companies of India
- Nippon Keidanren (Japan Business Federation)
- Public Policy Forum (Canada)
- U.S.-ASEAN (Association of Southeast Asian Nations) Business Council
- U.S.-China Business Council
- U.S.-Russia Business Council
- U.S. Business Roundtable

Policy initiatives

The Government and Public Affairs team works to shape a broad array of policies on the digital economy worldwide. What follows is a summary of our policy positions on four major issues:

- Access to markets
- e-commerce and digital rights management
- Electronics recycling
- Competitiveness, global citizenship and innovation

More information is available on our Government and Public Affairs website:

www.hp.com/hpinfo/abouthp/government/

Access to markets

With operations in more than 170 countries and approximately 60% of company revenue resulting from sales outside the United States, HP considers open trade policies vital to our growth and success. We support continued efforts to lower trade barriers and rationalize tariffs.

Free Trade Agreements (FTAs). In pursuit of opening markets for HP products and services, we encourage bilateral, regional and multilateral agreements worldwide that feature such principles as the elimination of tariffs, procurement transparency, the liberalization of services and the modernization of customs procedures and practices.

HP supports the successful conclusion of the World Trade Organization Doha Development Round. The provisions of this Round will benefit both developed and developing countries by supporting the free flow of technology-based products.

In this context, HP supported the approval of FTAs between the United States and Australia, Morocco and Singapore. We also supported the negotiation of regional agreements including the Free Trade Area of the Americas (FTAA) and bilateral agreements including the Bahrain, Central American, Thailand, and Andean initiatives. We continue to work toward other FTAs and the evolution of Regional Free Trade Zones like ASEAN (Association of Southeast Asian Nations) and SAARC (South Asian Association for Regional Cooperation).

Export controls. HP is committed to the development of an effective computer export control system that balances national security needs and nonproliferation interests with those of computer industry competitiveness. Currently in the United States, changes to export control thresholds related to performance advances require a 60-day congressional review, which can place U.S. producers at a significant disadvantage. A first step will be the repeal of this National Defense Authorization Act provision. As HP seeks further increases in the export control threshold to keep pace with technological change, we will pursue our objectives both in the United States and through international consensus in accord with the Wassenaar Arrangement on export controls.

e-commerce and digital rights management

Internet taxation. While HP recognizes that internet transactions cannot be tax-free permanently, we believe internet tax policy should be guided by the principles of simplicity and neutrality. Discriminatory internet taxes and internet access taxes will deter some users from conducting on-line transactions, stifling the growth of e-commerce. In the United States, HP supported an extension of the Internet tax moratorium to facilitate the

development of more uniform policies across a broad range of jurisdictions. Globally, we are members of organizations such as the eEurope Steering Group, which advises the European Commission on the implementation of the eEurope Action Plan. The plan was designed to build a competitive, knowledge-based economy throughout Europe.

Digital rights management. New technologies and services have given rise to concerns that copyrighted works, such as music and movies, may be obtained and distributed without copyright protection.

HP is committed to helping address piracy problems. We seek a balance between protecting digital content and ensuring the best customer experience, while avoiding unnecessary mandates on high-tech products.

In 2004, HP continued to influence the digital rights debate in both the United States and Europe by collaborating with the film and recording industries. In the United States, we successfully opposed proposed copyright legislation that could have restricted the development and use of new technologies, and we continued to play a constructive role in shaping the U.S. Federal Communications Commission's broadcast flag rule (intended to protect television content delivered over digital broadcasts).

In the European Union, Canada and Mexico, we promote digital rights management (DRM) as a better model for addressing copyrights in the digital environment, instead of compensating copyright owners through private copying levies. In Europe, HP is taking an active part in a DRM high-level group organized by the European Commission to develop a transition model to move away from the application of copyright levies on digital devices to a DRM-based model.

In India in 2004, HP partnered with other companies and the Confederation of Indian Industry to create a National Broadband Policy framework. The government of India and the Telecom Regulation Authority of India have accepted this framework for phased implementation. It covers several policy areas, including DRM, and enables increased opening of the IT and telecom services markets in India.

Electronics recycling

HP is committed to designing environmentally sound products and implementing efficient and safe recycling programs.

Governments, the media and the public are paying increasing attention to the disposal of used computers and other electronic products. As a result, governments are adopting and proposing legislation to address the issue.

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 encourages recycling policies based on:

- Shared responsibility between manufacturers, government, customers, and other stakeholders
- Flexible implementation to encourage increased efficiency and innovation
- Reform of existing laws or regulations that can discourage recycling

HP prefers harmonized regional or national recycling approaches, as opposed to varying provincial or state requirements that can result in inconsistent and inefficient recycling systems. In any jurisdiction that pursues legislative approaches to electronics recycling, HP advocates the following principles:

- Shared responsibility 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
- Flexible implementation and reasonable administration
- Sensible recycling standards to assure environmentally sound management of used products

In Europe, HP worked on the Waste Electrical and Electronic Equipment (WEEE) Directive and the Restriction of Hazardous Substances (RoHS) Directive. For more information about HP's efforts in these areas, see 'Product end-of-life alternatives' and 'Materials restrictions'. In the United States, HP participated in the National Electronics Product Stewardship Initiative (NEPSI), a collaboration of manufacturers, government agencies, environmental groups, recyclers and other stakeholders. Other countries and jurisdictions around the world—including China, Australia, Korea, Canada and Mexico—are now considering proposals concerning 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.

In Canada, HP is sharing technical expertise to help establish sustainable solutions for hardware packaging and take-back in multiple provinces. We are a leading member of Electronics Product Stewardship Canada, an industry coalition formed to design, promote and implement sustainable solutions for electronics recycling.

Competitiveness, global citizenship and innovation

HP has long been a global company. In countries around the world, we advocate public-private partnerships among governments, the business community, academia and other sectors of the economy. To create value through such collaboration, HP promotes the following three-point plan:

Competitiveness: We believe nations can fuel the growth of the global economy and stay competitive by investing in advanced research and development projects, increasing the skills of the workforce and ensuring the stability of the underlying technology foundation required in a global marketplace. We support increased investments in accessible, broad-based education, with a focus on math and science.

- **Specific public policy positions:** We promote regulatory and business environments that encourage entrepreneurship and economic growth; reduce regulatory burdens for small, emerging businesses; promote the 'Rule of Law' in developing countries; support international and U.S. broadband policy to encourage affordable, high-speed access across wireless and wireline platforms; encourage governments to provide R&D funding for physical sciences and have a strong R&D development plan, including tax credits and incentives; and increase investments in education.

Global citizenship: Multinational corporations have a responsibility, and a business need, to impact the world in a positive way. HP engages in responsible business practices to improve the quality of life for communities around the world. We stress environmentally sustainable development, access to technology for all, business ethics and codes of conduct, and the protection of privacy. With regard to internet privacy, consumer confidence remains a key issue as more people across the globe conduct transactions using the world wide web.

- **Specific public policy positions:** We support government action, policies and partnerships that promote innovation, economic growth and equal access to government services in underserved communities throughout the world.

We believe that consumers' rights to privacy must be respected and enforced. There remains a delicate balance between this right (an essential civil liberty) and ongoing international efforts to fight terrorism.

Innovation: In a world where every process is moving toward the digital, mobile, virtual, and personal, we must apply technology in meaningful ways to make more things possible than ever before for both developed and developing economies. HP advocates open architectures and global standards for new technologies. We also support investment by government, business and academia in such emerging areas as nanotechnology and color science.

- **Specific public policy positions:** We will continue to drive global technology standards; promote the availability and protection of digital content, and advocate increased investment in emerging technologies.

Finally, HP believes that the United States and other nations must avoid economic isolationism and must work together for greater economic growth and prosperity. In the United States, government and the private sector must partner to address the inevitable dislocations caused by increasing productivity and improve programs to offer training and life-long learning opportunities to our nation's workforce.

Other key issues

HP addresses numerous additional public policy issues, including:

Accessibility. HP supports government efforts to make mainstream technology accessible to people with disabilities.

Employment nondiscrimination and affirmative action. In the United States, at both the federal and state levels, HP supports legislation banning discrimination in private employment based on sexual orientation and gender identity or expression.

e-government. HP works with industry partners and governments worldwide to promote the increased use of information technology by government agencies. e-government can increase citizen access to services and reduce costs.

Political donations

In the United States, political giving is one way we support political speech that advances HP's points of view on public policy. Most states allow corporate contributions to state and local candidates. HP makes limited political contributions to candidates and ballot measure campaigns, consistent with our policy agenda. In 2004, we contributed \$806,125.

U.S. law prohibits corporate donations to federal political candidates. However, our eligible employees can make individual donations to the HP Political Action Committee (HP PAC), which contributes on a bipartisan basis to the campaigns of congressional candidates who share our public policy views. Contributions to fund the HP PAC, a separate legal entity, are voluntary. In 2004, the HP PAC contributed \$121,750.

These figures represent a significant increase over our 2003 contribution. The increase reflects the biennial elections held in the United States in even-numbered years.

HP's policy is to make no political contributions outside the United States.



Stakeholder engagement

As a global business, HP interacts with a wide range of communities and 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.

Regular dialogue with stakeholders is mutually beneficial. It enables stakeholders to ask questions and present their views to HP. Through this interaction, we more clearly understand our markets and customers, develop approaches to key issues, and build credibility with stakeholders. Throughout this report, we have asked interested parties to provide their views on our global citizenship performance. These are highlighted in 'Stakeholder perspective' boxes in the sidebar.

In 2004, HP worked with a number of leading NGOs and socially responsible investment (SRI) firms on issues of shared interest and concern. Areas of focus for 2005 include:

- Supply chain social and environmental responsibility
- Product take-back and recycling
- Disclosure, transparency and reporting metrics standardization

Stakeholder engagement evaluation at HP

In 2004, we consulted with numerous organizations, including SustainAbility, Business for Social Responsibility (BSR) and Future 500 about our worldwide stakeholder engagement process. We also developed a planning tool for stakeholder engagement, an on-line knowledge management database (featuring best practices, key learnings, and activities underway) and an employee support center.

In 2005, we will continue to develop and implement stakeholder engagement, expand our staff-training program, and increase the number and depth of engagements.

Membership in external organizations

We belong to several 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)
- Center for Corporate Citizenship at Boston College (CCC)
- CSR Europe
- Ethics Officer Association (EOA)
- Ethics Resource Center
- Global Business Coalition on HIV/AIDS
- 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)

Feedback on HP's 2004 Global Citizenship Report

In 2004, HP received feedback on our Global Citizenship Report from AccountAbility, an international non-profit that promotes accountability for sustainable development. HP was the only U.S. company to appear in the top 10 of the group's 2004 Accountability Rating, a global index of how the 100 largest corporations account for their impact on society and the environment. In recognizing HP, AccountAbility highlighted our work in stakeholder engagement, performance management and public disclosure.

HP was rated #10 globally, #1 in North America and #1 in the Technology Equipment category, in *Risk & Opportunity: Best Practice in Non-Financial Reporting*, a benchmark survey of the world's top 50 sustainability reports conducted by SustainAbility, in partnership with the United Nations Environment Programme and Standard & Poor's.

Additionally, HP engaged SustainAbility, a consultancy based in the United Kingdom, to gather and analyze feedback on HP's 2004 Global Citizenship Report from a diverse range of external stakeholders.

The analysis team interviewed 24 stakeholders from around the world, including customers, NGOs, multilateral organizations, investors and academics. To encourage frank and honest feedback, interviewees were offered anonymity; most asked that any direct quotes passed on to HP be done so without attribution (see quotes).

This feedback was helpful as we planned this 2005 Global Citizenship Report. For example, we have tried to be more open about some of our challenges. We also sought feedback from others, including SRI firms, NGOs and a graduate-level CSR business class at the Haas School of Business at UC Berkeley.

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 comments to hp.globalcitizenship@hp.com.**

Stakeholder quotes on 2004 Global Citizenship Report

"The report is both broad and deep, open to self-analysis, invites dialog and addresses the issues honestly. HP doesn't do themselves justice—they could brag a bit more about their efforts."

"I think the report addresses the challenges HP is facing that it has a handle on, but not the ones that it doesn't. It gives the sense they are just coming to grips with how to handle the issues."

"Environmental data is low hanging fruit because it is easy to measure and connect to value. But in the game of CSR the environment is a given. I would like to see more data on the social side."

"I would have liked to see more humility and a commitment to talk about failures. It looks too perfect and nice for me."

"Supply chain is the linchpin for me of how a company is performing. I am not very impressed with their discussion around monitoring and enforcement of their code of conduct."

"It would have made the report top notch if HP could give a clearer sense of how core global citizenship is to its day to day operations and to what extent it is mainstreamed. This needs to be brought out more to show the ways it is a leader in the field."

Our main stakeholder groups and how we engage

Group	How we engage	
Communities	<ul style="list-style-type: none"> e-inclusion programs Employee volunteering Philanthropy Tours of facilities 	See 'Social investment' for more details.
Customers	<ul style="list-style-type: none"> Surveys and customer experience management Commercial contacts Inquiries and responses regarding customer Requests for Quote (RFQ) and Requests for Proposal (RFP) 	See 'Customer engagement' for more details.
Employees	<ul style="list-style-type: none"> @hp web portal Employee surveys Networking groups Open door policy Briefings, meetings and appraisals 	See 'Employees' for more details.
Investors	<ul style="list-style-type: none"> Statutory and other disclosures and reporting Annual general meeting Regular meetings and briefings 	See 'Economic value' for more details.
Legislators and regulators	<ul style="list-style-type: none"> Public engagement program Regular meetings and briefings Membership in trade associations and business organizations 	See 'Public engagement' for more details.
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 	See 'Climate change', 'Human rights', 'Privacy progress', 'Accessibility' and 'e-inclusion' for more details.
Suppliers	<ul style="list-style-type: none"> Supply Chain Social and Environmental Responsibility Program Supplier Management Process 	See 'Supply chain' for more details.

Moving forward



The world's economic, social and environmental problems are so extensive that challenges will undoubtedly remain for the foreseeable future.

HP's objective is to continually increase our positive impact through our global citizenship work, while responding to changing needs and seeking areas where our investment is most effective.

We are focused on three challenges for the coming three to five years: addressing electronic waste, raising standards in HP's global supply chain and increasing access to information technology. These are critical issues facing our industry, and we are committed to making a positive contribution. Although we are pleased with progress to date, much remains to be done.

Focus	Moving forward
<p>Addressing electronic waste through intelligent product design, materials innovation and leading-edge recycling systems</p>	<p>HP addresses electronic waste in an integrated fashion, recognizing that the issue has dimensions across the entire product life cycle. The following goals map HP's course:</p> <ul style="list-style-type: none"> • Eliminate lead, mercury, cadmium and hexavalent chromium in 100% of electronic products sold worldwide by 2006, as defined by the EU's RoHS Directive. • Recycle 1 billion pounds of electronic products and supplies by 2007.
<p>Raising standards in HP's global supply chain and developing systems to measure and assess supplier performance</p>	<p>HP's commitment is to further expand our Supply Chain Social and Environmental Responsibility (SER) program further throughout our supply chain. Our objective is to build continuous learning and improvement with suppliers throughout our industry. Goals include:</p> <ul style="list-style-type: none"> • Complete SER self-assessments with 100 additional suppliers in 2005, 150 in 2006 and another 100 in 2007. At that time, our total will be 700 suppliers, which represent 99% of our product purchasing expenditures. • Add the Supplier Code of Conduct to all product materials supplier contracts by 2005. • Audit a minimum of 75 supplier sites in 2005. • Develop a supplier training program for SER management processes in cooperation with universities and NGOs in China in 2005.
<p>Increasing access to information technology</p>	<p>Having launched a myriad of projects in 19 countries and having demonstrated that the effective use of information and communication technology (ICT) can improve global social and economic equality, HP is at an inflection point. During the past few years, our engagements with diverse global communities have shown how ICT can accelerate economic development and improve pressing social conditions in underserved communities and developing countries. Our challenge for 2005 and beyond is to use what we've learned from these projects to create a broader economic and social impact around the globe.</p>

HP 2005 Global Citizenship Report summary data table

This is a summary of performance data from the full report, which includes additional metrics and data.

	2002	2003	2004
HP profile			
Net revenue [Million \$U.S.]	\$56,588 ¹	\$73,061	\$79,905
Earnings (loss) before taxes [Million \$U.S.]	\$(1,021) ¹	\$2,888	\$4,196
Number of employees [Approximate]	141,000	142,000	151,000
Business ethics			
Items reported to the Office of Business Practices ²	174	204	378
Product recycling³			
Total cumulative recycling [Million pounds]	394	496	616
Number of countries/regions/territories with Planet Partners program	33	35	36
Number of HP LaserJet print cartridges returned and recycled worldwide [Millions, approximate] ⁴	10.3	10.2	10.8
Number of HP inkjet print cartridges returned and recycled worldwide [Millions, approximate] ⁵	1.4	1.8	4.4
Operations			
Greenhouse gas emissions [Metric tonnes carbon equivalent, MTCE]	361,400	341,700	356,200
Greenhouse gas emissions per unit of floorspace [MTCE per square meter]	0.05872	0.06206	0.06307
PFC emissions [Index 1995 = 1.00]	2.00	1.47	1.49
Electricity use [GWh]	2,473	2,366	2,450
Electricity use per unit of floorspace [KWh per square meter]	402	429	433
Natural gas [GWh]	500	445	399
Natural gas per unit of floorspace [KWh per square meter]	81	80	71
Ozone depletion potential of estimated emissions [Kg of CFC11 equivalent]	14,931	8,506	8,323
Water consumption [Million liters]	8,100	8,340	7,960
Hazardous waste [Tonnes]	6,440	7,280	7,160
Non-hazardous waste [Tonnes]	127,900	110,500	109,600
Non-hazardous waste diverted from landfill [% of total produced]	73.0	81.3	84.2
Emissions of TRI substances [Tonnes]	872	812.4	NA ⁶
Violations resulting in fines [\$U.S.]	\$15,000 ⁷	\$3,120 ⁸	\$2,322 ⁹
Supply chain social and environmental responsibility¹⁰			
Suppliers engaged [Total, cumulative]	50	287	363
SER documentation completed [Total suppliers, cumulative]	21	213	263
Audited [Total sites, cumulative]	0	15	45
Supplier diversity (purchasing results)¹¹			
Total small businesses [Million \$U.S.]	\$1,672	\$2,108	\$3,040
Total minority-owned firms [Million \$U.S.]	\$544	\$688	\$1,100
Total women-owned firms [Million \$U.S.]	\$161	\$254	\$397
Employees			
Employee training [Approximate total spending, million \$U.S.]	NA	\$259	\$279
U.S. workforce ethnic diversity ¹²			
White	52,541	49,037	47,626
Asian	6,964	6,605	6,547
Hispanic	3,871	3,549	3,499
Black	3,718	3,307	3,140
Native American	258	241	241
Unknown	NA	969	516
Gender diversity by region ¹³			
Worldwide [% female]	29.8%	30.0%	29.7%
Worldwide [% male]	70.2%	70.0%	70.3%
Health, safety and wellness			
Lost workday case rate ¹⁴	0.20	0.15	0.10
Average number of workdays lost ¹⁵	NA	32.7	29.3
Percentage of employees completing the online office ergonomics self-assessment and training [Cumulative] ¹⁶	NA	10%	35%
Work-related fatalities	0	0	0
Social investment			
Worldwide giving, total [Million \$U.S.]	\$62.2	\$62.4	\$61.6
Worldwide giving by category [Million \$U.S.]			
Education	\$32.1	\$33.7	\$25.8
e-inclusion ¹⁷	\$16.5	\$15.6	\$11.6
Community	\$13.6	\$13.1	\$24.2
Worldwide giving by region [Million \$U.S.]			
United States	\$47.2	\$41.6	\$38.9
Europe/Middle East/Africa	\$9.6	\$12.6	\$12.8
Latin America	\$1.0	\$2.7	\$3.3
Canada	\$1.0	\$1.6	\$2.0
Asia Pacific (including Japan)	\$3.4	\$3.9	\$4.6
Number of countries/regions/territories with e-inclusion projects	9	14	19

¹ HP's Consolidated Financial Statements and notes thereto reflect the acquisition of Compaq, which occurred on May 3, 2002. The occurrence of the acquisition in the middle of fiscal 2002 affects the comparability of fiscal 2004 and 2003 financial information to prior fiscal years.

² These numbers only include 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.

³ Hardware recycling data from Europe/Middle East/Africa and HP LaserJet recycling data are calendar year. The remaining recycling data are fiscal year.

⁴ Includes cartridges returned by customers and cartridges used internally by HP offices.

⁵ Includes cartridges returned by customers and cartridges used internally by HP offices. 2004 figure is based on year-end estimates.

⁶ TRI reports are due to the US EPA by July 1 of each year. Therefore, 2004 data are not available for this report.

⁷ In 2002, HP self-reported a permit violation from our Andover, Massachusetts, U.S. operation. We discovered that a backup emergency generator had been installed without a permit.

⁸ 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.

⁹ 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.

¹⁰ Data for 2002 are to the end of the second quarter, fiscal year 2003. 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 2002 and 2003 does not include purchases by former Compaq sites.

¹² Includes employees on leave or paid leave.

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 For employees that had a work-related injury resulting in time away from work, this number represents the average number of days they were away from work. Metric calculation method was changed for 2003 to meet global reporting standards. 2004 results were calculated based on data available as of December 1, 2004.

¹⁶ This metric was introduced in 2003.

¹⁷ Some e-inclusion projects are not included in this data.

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).

Digital Village—An HP initiative in which HP invests IT products and skills in selected underserved communities, to increase economic and social development.

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 US Environmental Protection Agency's voluntary program that sets energy efficiency criteria for IT products.

EPA—The US 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.

ESG—Enterprise Systems Group. One of four HP business groups. ESG provides IT infrastructure for businesses.

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 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.

HPS—HP Services. One of four HP business groups. HPS is our global IT services team.

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.

IPG—Imaging and Printing Group. One of four HP business groups. IPG provides printing and imaging products and solutions for businesses and consumers.

IT—Information technology.

ISO 11469—The International Standards Organization’s standard for identifying and marking plastic products.

ISO 14001—The International Standards Organization’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.

MTCE—Metric Tonnes of Carbon Equivalent. Measure used to quantify greenhouse gas emissions.

NGO—Non-governmental organization.

Non-renewable resources—Natural resources that are depleted with use, including fossil fuels such as coal, oil and gas.

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.

PSG—Personal Systems Group. One of four HP business groups. PSG provides personal computing solutions and devices for home and business use.

Rehabilitation Act (Section 508)—US 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 US 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.

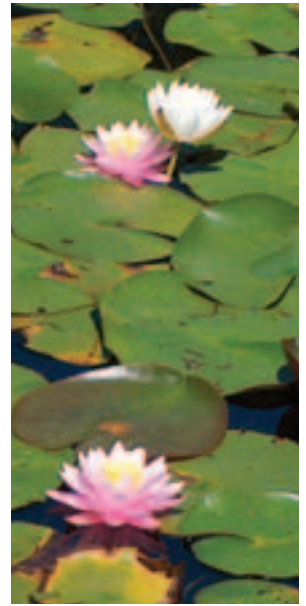
TRI—Toxic Release Inventory. An annual report required by the US EPA on releases of specified chemicals.

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 Electronic and Electrical Equipment Directive. A European Union directive that will place certain responsibilities for recycling end-of-life electronics products on producers (manufacturers, sellers, distributors).

WorkWell—HP’s global ergonomics self-assessment and training program to help employees reduce musculoskeletal injuries at work.



Please send comments to hp.globalcitizenship@hp.com.
You can find this report online at www.hp.com/go/report.

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