



Global Supply Chain Management

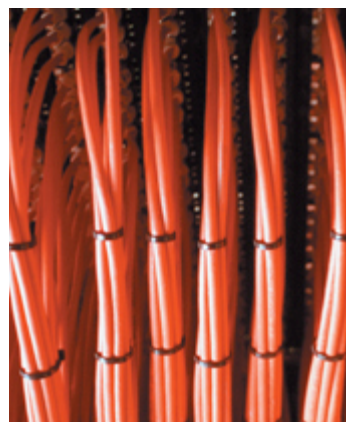
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Environmental Strategies and Sustainability
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- 51 of the largest economies in the world are now corporations, only 49 are nation states
- HP does business in 178 countries, including some that are under-developed, creating leverage points some governments do not have
- With global reach and influence comes global responsibility





"... many assume, wrongly, that a company exists simply to make money... the real reason HP exists is to make a contribution"

Dave Packard





HP Today

personal systems group



\$24B access devices business

imaging & printing group



\$25B imaging and printing franchise

enterprise systems group



\$15B IT infrastructure business, encompassing servers, storage & software

hp services



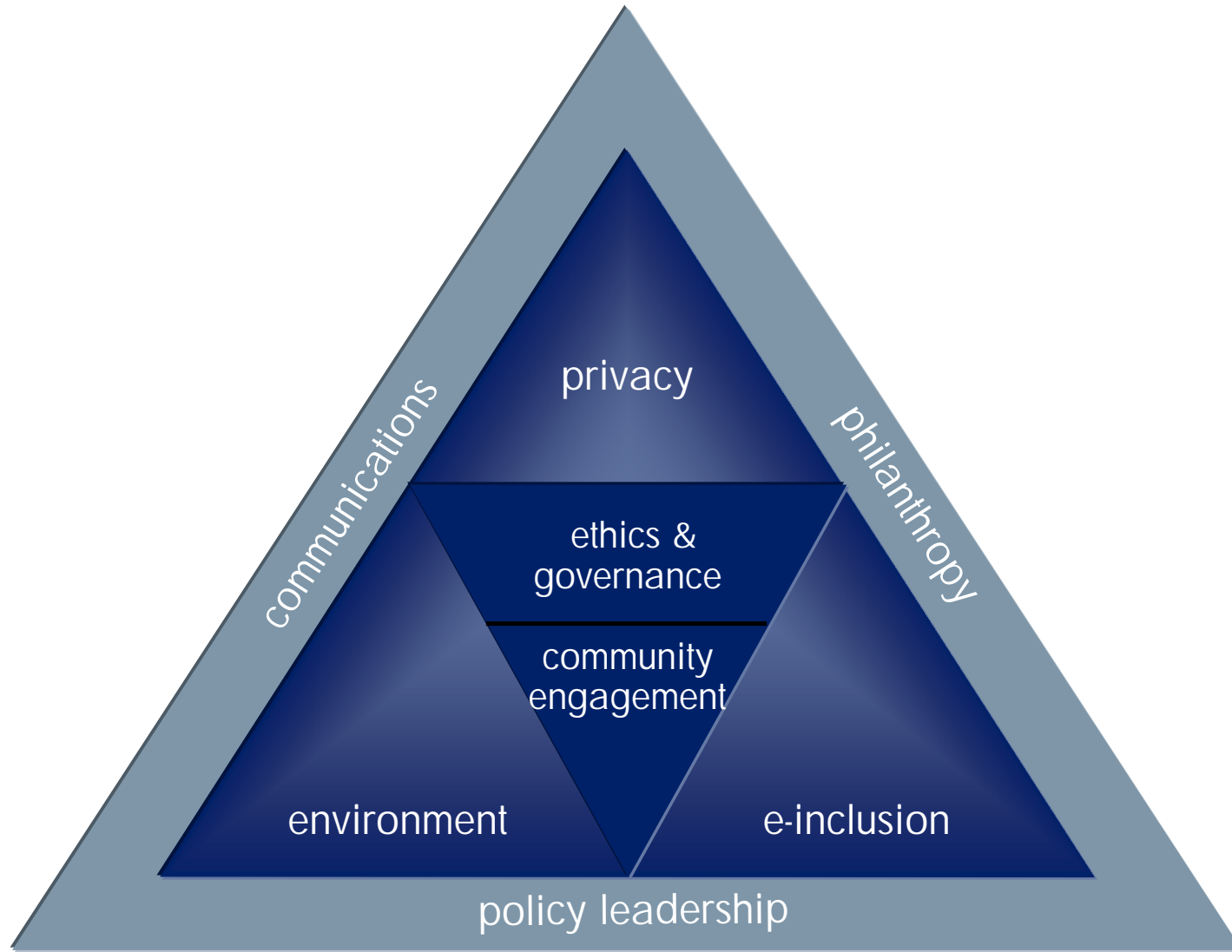
\$14B services business; consulting, support & outsourcing

HP at a glance:

Founded	1939
Headquarters	Palo Alto, CA
Revenues	US\$80B ('04)
Employees	150,000
Countries	178
Supply Chain	\$45B



HP Global Citizenship Framework



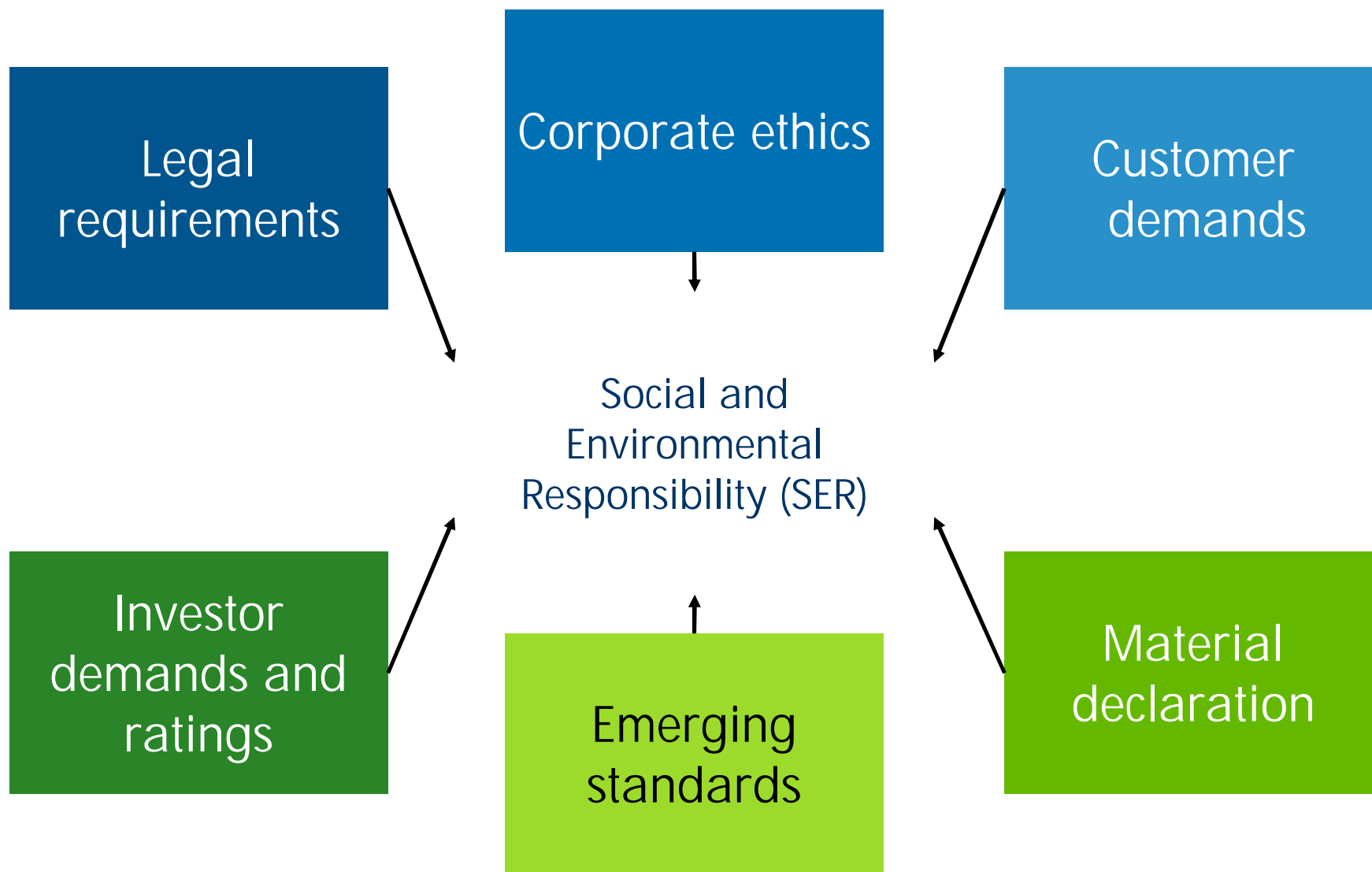


Business value for HP



- Brand Equity
- Innovative new technology/engagement solutions
- Access to new markets
- Opportunity for development of our leaders
- Key elements of sustainable business

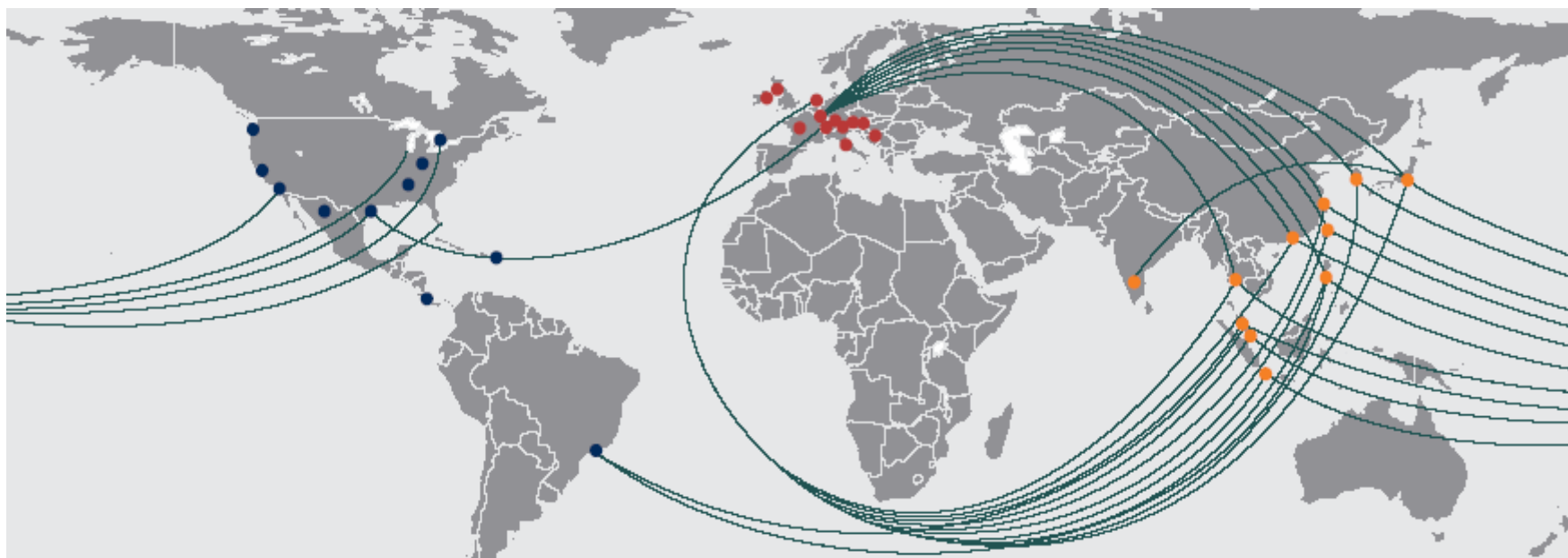
External drivers





Manufacturing

Major locations of HP product materials, components and services suppliers

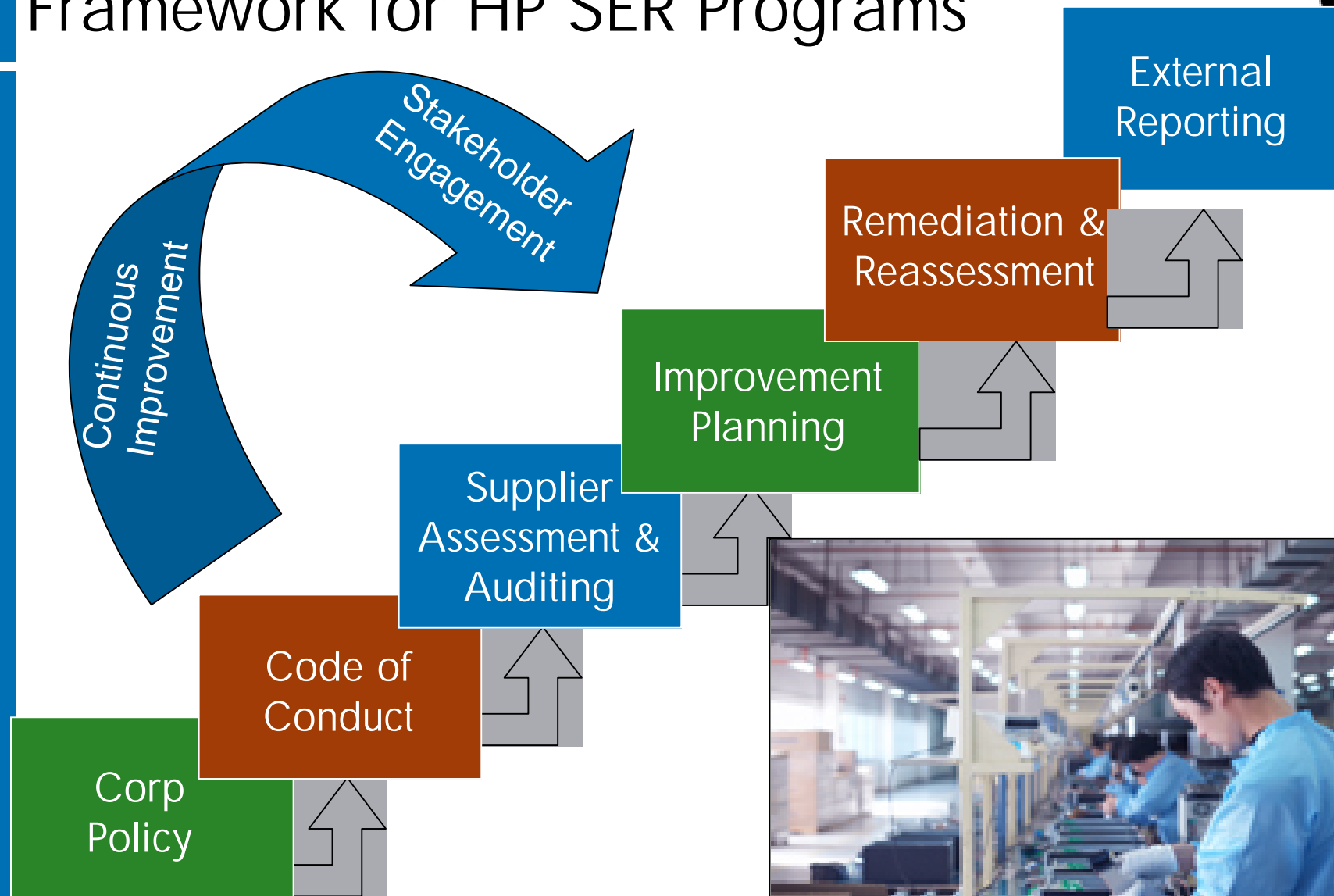


HP's suppliers of product materials, components and services

Americas	Europe & Middle East	Asia Pacific & Japan	
Canada, Puerto Rico, United States—software, semiconductors, hard drives, cabling & power supplies, packaging materials Brazil, Costa Rica, Mexico—microprocessors, contract manufacturing	Eastern Europe: Czech Republic, Hungary, Romania—contract design and manufacturing W. Europe: Austria, France, Germany, Italy, Holland, Scotland, Switzerland & UK—semiconductors, media, packaging materials	China—semiconductors, monitors, power supplies Japan—hard drives, media, optical disk drives, semiconductors, lenses Malaysia- semiconductors, hard drives	Korea-notebook displays, semiconductors, optical disk drives, hard drives Singapore—hard drives, microprocessors India, Indonesia, Philippines, Thailand—microprocessors, packaging materials Taiwan—semiconductors, cabling & connectors, monitors, notebook displays, power supplies



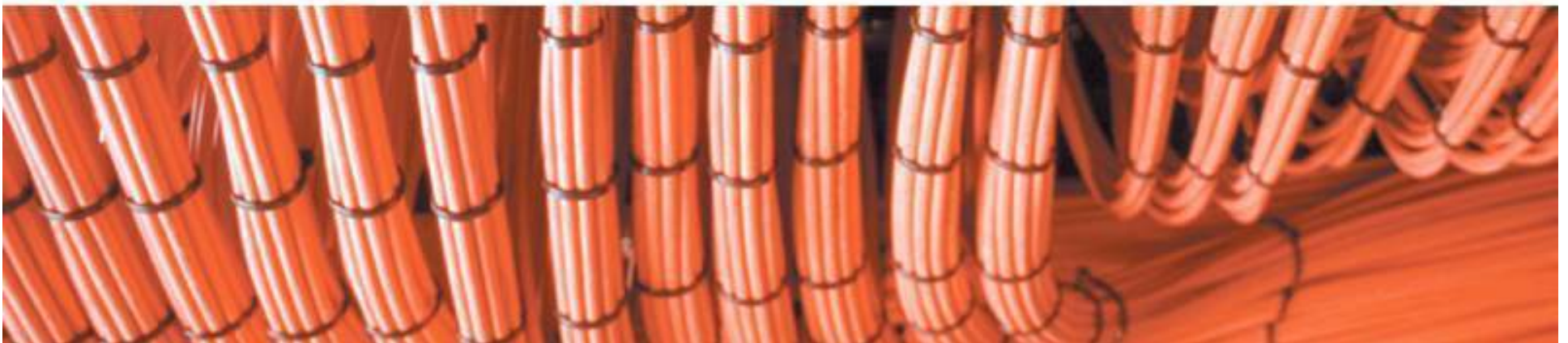
Framework for HP SER Programs



Supply Chain SER Policy



- Sets clear supplier expectations
 - Consistent long term management support
 - Committed to codes and standards above law
 - Continual improvement & transparency
- Open and collaborative approach
- Focused on building partnerships





Supply Chain SER Policy

Multi Cultural Procurement	Product Content	Supplier SER program	Product Take-back
Sourcing	Product Content	Supplier Code of conduct	Recycling
<ul style="list-style-type: none">• Qualified minority suppliers• Strategic sourcing• International	<ul style="list-style-type: none">• Materials substitution• Energy efficiency• Product safety	<ul style="list-style-type: none">• Environmental Practices• Labor• Health and Safety• Electronics Industry Consortium	<ul style="list-style-type: none">• Design for recycling• Electronic waste compliance• HP recycling programs



Supply Chain SER

The challenge...

Supply Chain Size/Complexity

- 1,500 major material suppliers
- 385 logistic partners

Overwhelm, Confusion, Costs and Duplication for Suppliers

- Multiple standards
- Multiple surveys
- Multiple audits

Not Integrated with Procurement

- Commodity Managers focused only on price and delivery
- Suppliers unaware of SER expectations

The transformation...

Supply Chain Consolidation

- 700 suppliers
- 119 logistic partners

Raising the Industry Bar

- Partner vs compete on factory worker conditions
- Teamed with major competitors (IBM & Dell) and major suppliers

Sourcing with SER

- Trained hundreds of internal supplier managers/auditors
- High Performance Supplier Scorecard integrates SER

The results...

Supply Chain Rationalization

- Currently engaged 450+ suppliers on SC SER
- Audit 150 by end of FY05
- Majority in China and SE Asia

HP Took the Lead to Move Industry Forward

- Industry-wide Code
- Common risk assessment, questionnaire, web-tool & auditing framework underway

World Class Leading SER

- Program for Many Sectors
- SER integrated w/business decisions
- Suppliers know HP reqmts.

Standardizing a common Electronic Industry Code of Conduct



- Risk mgmt business need
 - Proliferation of codes creates confusion, overwhelm and costly process fixes for suppliers
- HP's contribution
 - Obtained quick results with diverse group of competing companies
 - Facilitated agreement and endorsement on standard common code approach
- Value delivered
 - Eliminating duplication, minimizing inefficiencies & saving supply chain costs
 - Proportionate risk mgmt among industry



Electronic Industry Code of Conduct Chronology



1999-2001	Early internal & external pressures (employees, Secrets of Silicon Valley, San Jose Mercury News)
2001-2002	After extensive benchmarking HP released Code and began 3 - 5 year program to reach 700 suppliers
January 2004	CAFOD Released First Report targeting IBM/Dell/HP
Winter & Spring 2004	In response to CAFOD Dell released Code Q1/Q2 & IBM released Principles & Guidelines in Q2/Q3
Winter & Spring 2004	5 EMS Providers (Flextronics, Sanmina SCI, Solectron, Celestica and Jabil) conducted benchmarking & proposed their own code/principles
Spring 2004	HP recognized "code proliferation" impact on common supplier base - extended Common Code invitation
April & May 2004	Conducted baseline comparison among Codes and leading Standards and met on June 1, 2004
July 2004	CAFOD released mid-term report in July 2004
October 2004	Released Common EICC

Electronic Industry Code Highlights



Referenced
Leading
Standards

Legal Advisors
Present to Avoid
Anti-Trust Issues

Widespread
Agreement on
Common Purpose

CODE FUNDAMENTALS

Global expectations for employment practices, health & safety and environmental

Meet, track, and assess regulatory/legislative requirements (non-negotiable)

Added content on ethical standards including anti-corruption and bribery

Management Systems framework critical for sustained success

Suppliers must cascade requirements throughout supply chains

Environmental Practices

Environmental Management System

Health & Safety

Evaluate and control exposure to chemical & physical risk

Labor

Treat employees with fairness, dignity and respect

Management Systems

Ethics & References



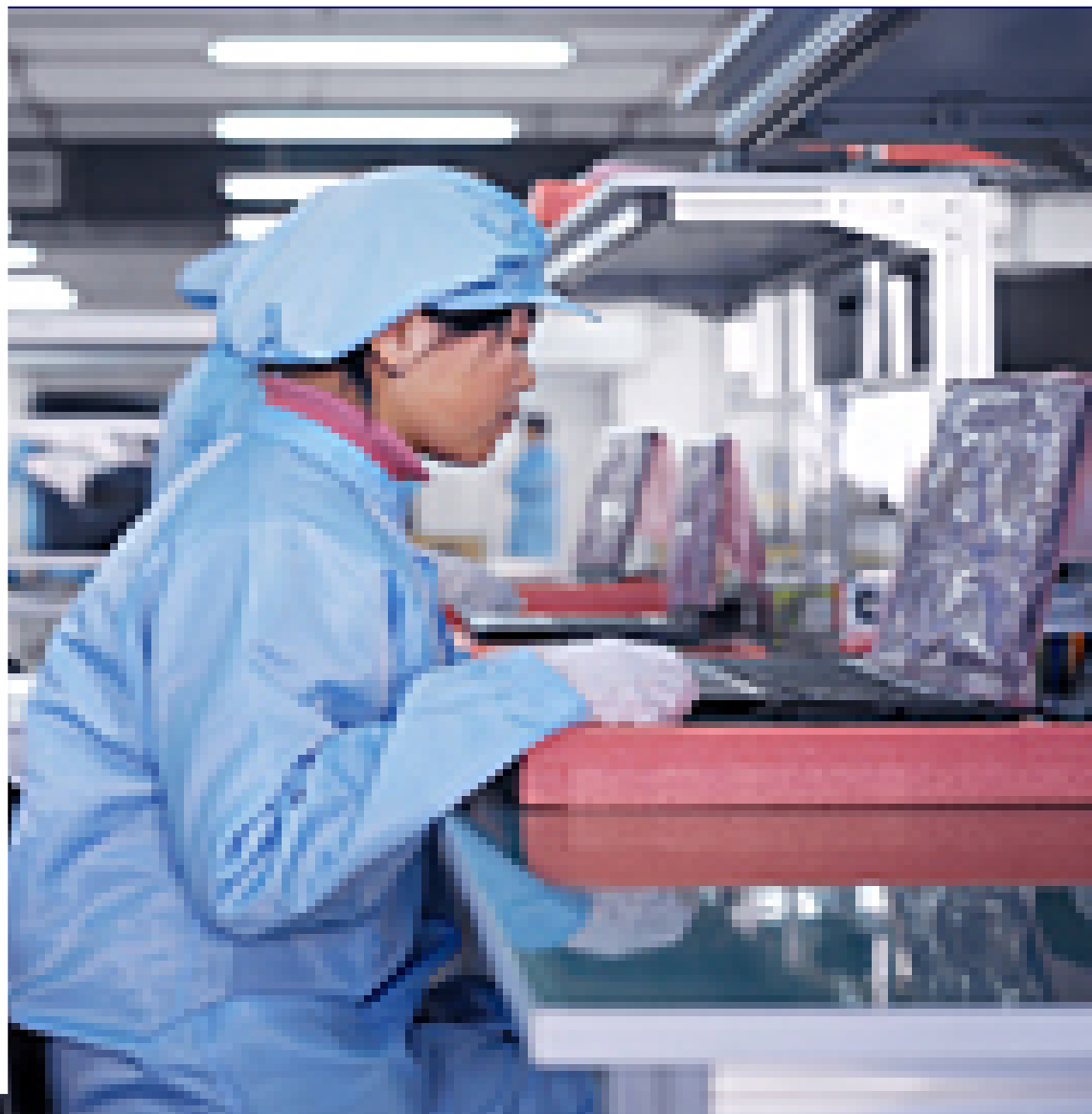
ADOPTED

COLLABORATING

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EICC Implementation

- Identify interest in adopting
- Obtain management commitment
- Train internal staff
- Establish, communicate, and promote standard internally and externally
- Conduct a baseline assessment of your conformance
- Integrate into procurement practices
- Extend to supply base including assessments, monitoring and verification system
- Integrate into metrics and determine consequences for non-conformance
- Drive continuous improvement





Supply Chain Assurance

The intent of the conformity assessment process is to assure HP and its stakeholders that supplier's are adhering to the social and environmental requirements set out in [Electronic Industry Code of Conduct](#).

Suppliers are expected to:

- Work with Commodity managers to read and understand [HP's Supply Chain Social and Environmental Responsibility Policy](#)
- Read and agree to the [Electronic Industry Code of Conduct](#)
- Review and sign [HP's Supplier Social and Environmental Responsibility Agreement](#)
- Follow HP's product content environmental specifications in [HP's General Specification for Environment](#)
- Complete and submit the [HP Supplier SER Performance Assessment Questionnaires](#) for each site that manufactures products for HP
- Obtain HP's review and feedback of SER questionnaires and create an improvement plan with defined timeline and metrics
- Participate in periodic onsite audits and make on site – long term improvements
- Build capacity internally and with supply chain

Supply Chain SER Audit

Conformity Assessment & Audit Process



The purpose of the on-location evaluation is to gather objective evidence to confirm that SER practices are fully defined, implemented and effective.

The SER audit is conducted in accordance with the following operating principles:

- Every audit is a joint and collaborative effort between the supplier and the HP audit team.
- Every audit has the objective of fostering improvement.
- The main purpose is to confirm conformance to HP's SER standards (HP's Supplier Code of Conduct and the GSE)
- The Supply-Chain SER Self-Assessment Questionnaires guide the HP audit team in the focused evaluation.
- SER audit is primarily conducted through interviews, detailed area tours, record and document reviews, and collaboration between the HP auditors and local supplier management and staff.

Supply Chain SER Audit

Electronic Industry Code of Conduct Details



Basic Requirements of HP's Supplier Code of Conduct (SCoC)

- Supplier Company-level Management Representative
- Supplier SER Management System
- Compliance with Laws and Regulations
- Company's Policies and Program Documentation
- Company Management System for E, OHS, L & E
- Any Company Violation/Ban under E, OHS, L & E
- Company Violation Corrective Action System

Labor and Ethics

- Labor and Employment Policy / Standards
- Freely Chosen Employment, Child Labor
- Discrimination, Humane Treatment
- Min. Wages, Working Hours
- Freedom of Association
- No Bribery, Corruption and Improper Advantages
- No Disclosure of Information and Protection of IP
- Fair Business, Whistleblowers, Engage Community
- Labor and Employment Management Systems

Health and Safety

- Machine Safeguarding
- Industrial Hygiene
- Safety
- Emergency Preparedness and Response
- Occupational Injury and Illness
- Physical Demanding Work
- Dormitory and Canteen
- Health and Safety Management System

Environmental

- HP's General Specification for the Environment (HP's Product Content Restrictions)
- Chemical and Hazardous Materials
- Wastewater and Solid Waste
- Air Emissions
- Environmental Permits and Reporting
- Pollution Prevention and Resource Reduction
- Environmental Management System

4 Key Considerations



Commit

Create
Awareness

Communicate
&
Collaborate

Partner
for
Success



SER Audit results

<http://www.hp.com/hpinfo/globalcitizenship/gcreport/pdf/Audit.pdf>

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 3rd-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

- Reported in Global Citizenship Report
- Indicates concerns
- Creates visibility
- Meets EICC commitments

What has actually changed in the HP Supply Chain as a result of SER?

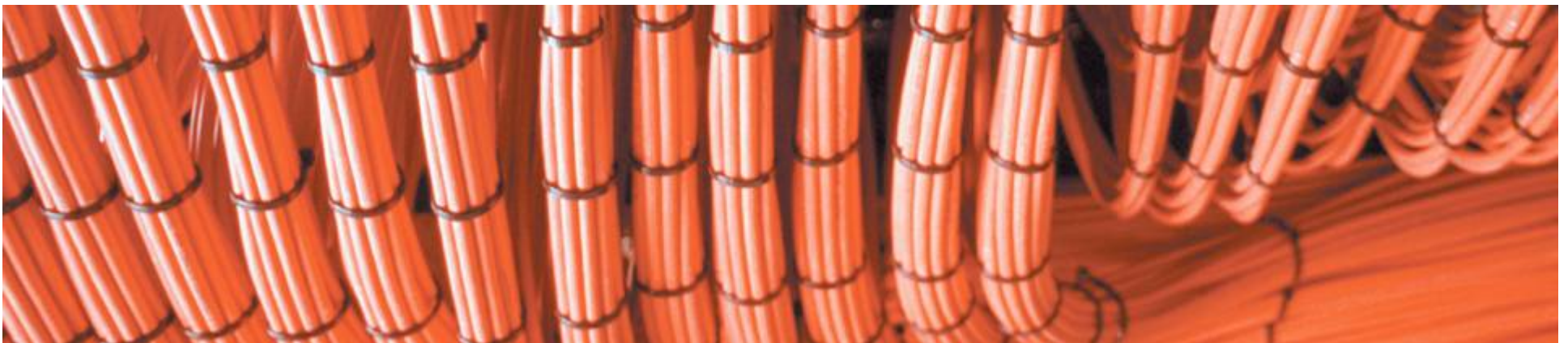


- Top 6 Major Contract Manufacturers (totaling 50+%age of spend) are working closely with HP to address key issues in supply chain including:
 - Audited most manufacturing sites in China, Mexico, E. EU and S.E. Asia
 - Discrimination, hours and pay, worker participation
 - Health & safety Issues in the factory including fire protection, use of personal protective equipment and chemical handling and storage
 - Inclusion of training and management systems
- Suppliers relationships with labor agencies in Mexico has improved based on pressure from HP
 - Contracts have been strengthened
 - Expectations regarding worker contracts and conditions are clarified
 - Discrimination in hiring, training and promotion is being eliminated
- Largest supplier in China has hired 15 full time staff to address SER issues
 - Global SER management team, structure, processes and metrics in place
 - Audited all sites in China with active improvement plans underway
 - Printed and distributed code of conduct in Chinese to all workers

Summary

- HP recognizes the importance of emerging global citizenship issues.
- We are committed to leadership and will reach our goals through:
 - Commitment of highest levels of the organization
 - Engagement and action of employees
 - Willingness to experiment & learn
 - Innovation of our products and solutions
 - Partnerships with key alliances and stakeholders

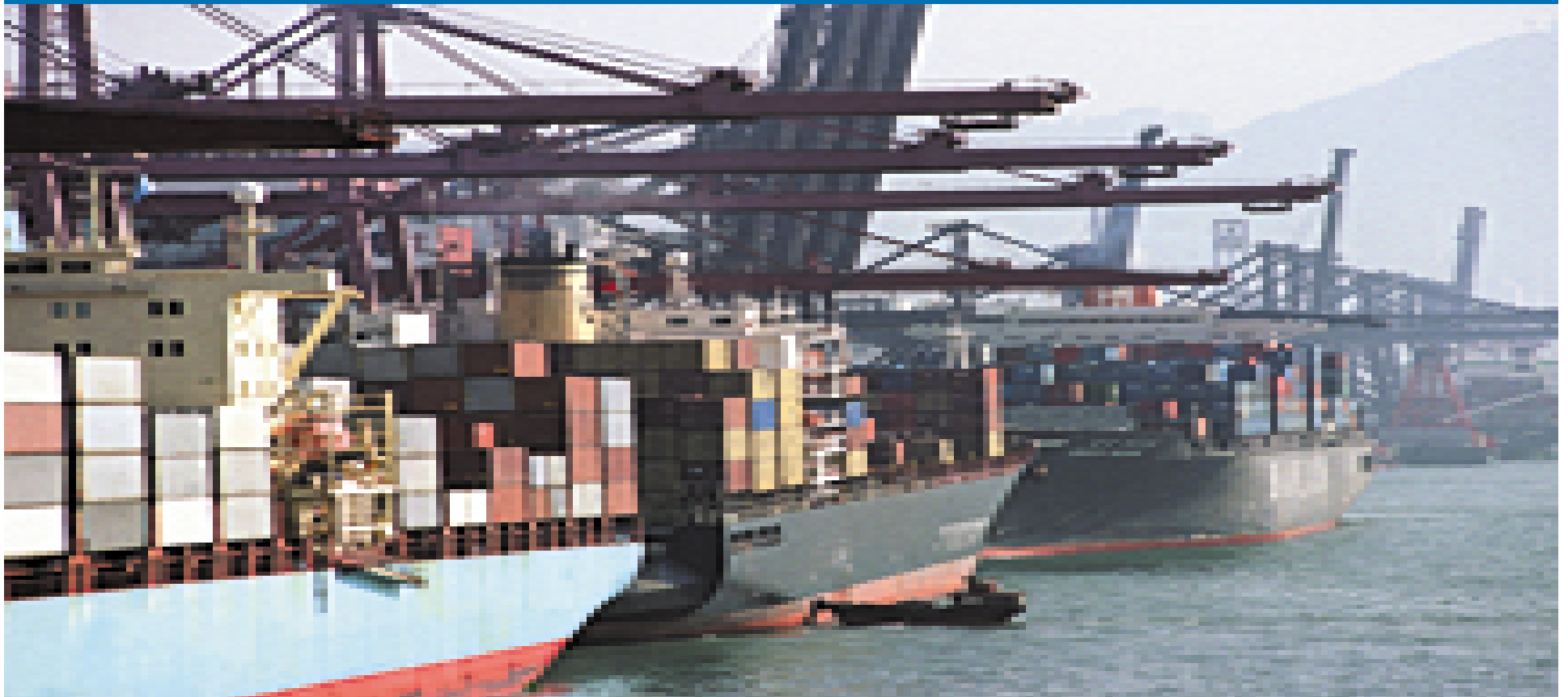
Result: a sustainable business enterprise.



“Start the journey. Don't wait until every piece is together, don't worry that your company doesn't have every single policy or written value statement. Just start the journey, and keep going.”



Mike Fawkes,
Senior VP,
IPG Operations



Thank-you

