Supply chain responsibility

HP supports human, economic, and environmental progress throughout one of the most extensive supply chains in the information technology (IT) industry. Our Supply Chain Responsibility program enhances the lives and protects the rights of the workers who make and deliver our products and services and extends to responsible sourcing of minerals at the very beginning of our supply chain. We have also expanded the reach of our program to many nonproduction suppliers.

HP’s social and environmental responsibility (SER) expectations are grounded in our advanced policies and standards, which we develop through a disciplined approach and review and update regularly. Through our 14-year history of working on supplier responsibility, we have refined systems for collecting and analyzing information from many sources to identify new and emerging risks. Once an issue is on our radar, we determine the most effective ways to address it, emphasizing a management systems approach. We build the capabilities of our suppliers by focusing on workers, investing in their development, and empowering them to be involved in improving SER at their sites.

HP’s supply chain is vast and ever-changing, spanning six continents, hundreds of production suppliers, and tens of thousands of nonproduction suppliers. Our Supply Chain Responsibility program enhances the lives of the hundreds of thousands of people who work in our supply chain. That’s our ultimate commitment and we strive to be transparent about our successes and our challenges along the way. Our efforts also address environmental impacts in our supply chain, help HP meet customer and regulatory requirements, and have other business benefits as well.

Progress in 2014

Advancing policies and systems
- Advanced foreign migrant worker protections by introducing industry-leading standards. HP now requires direct employment of foreign migrant workers, along with other strict requirements, to further reduce the risk of exploitative labor practices and forced labor. We are supporting this change with capability-building events and monitoring.
- Researched the human health and environmental impacts of manufacturing process substances. We used the research to introduce new requirements in our General Specification for the Environment in 2015, including adding restrictions on benzene and n-hexane.
- Achieved 15% improvement in Social Accountability International’s Social Fingerprint benchmark, placing HP in the top tier of companies assessed.
- Conducted 200 audits and assessments throughout our supply chain, our largest annual total yet.
Protecting workers in the supply chain
- Confirmed that student workers represent less than 20% of the total HP production workforce at 94% of final assembly sites with student workers.
- Completed and closed corrective action plans for 74% of student worker nonconformances identified since beginning student worker assessments in 2013.
- Achieved 84% of workers related to HP production at final assembly sites working fewer than 60 hours per week on average, with fewer than 4% working more than 72 hours per week.
- Reduced overall global emergency preparedness major nonconformances by 10 percentage points since 2013.
- Found no zero-tolerance violations related to core labor rights in Electronic Industry Citizenship Coalition (EICC) code-based audits.
- Expanded the number of countries where we engage with nonproduction suppliers on SER issues from 7 in 2013, to 11 in 2014.
- Seventy-six percent of smelters reported by HP’s supply chain are Conflict-Free Smelter Program compliant or in process to become compliant.

Protecting communities and the environment
- Reduced supply chain greenhouse gas (GHG) emissions intensity by 18% from 2010 levels.
- Since 2010, helped suppliers prevent nearly 600,000 tonnes carbon dioxide equivalent (CO₂e) of GHG emissions, equaling 30% of our 2 million tonnes target by 2020.
- Since 2012, assessed more than 1,000 of our sub-tier suppliers in China against the Institute of Public and Environmental Affairs’ list of environmental violations and required corrective action plans for all findings.

Supply chain responsibility dashboard
Our dashboard—first published in 2013—is a high-level snapshot of our suppliers’ SER performance. The dashboard highlights a range of indicators representing significant labor, health and safety, and environmental impacts in our supply chain. In 2014, we achieved modest improvement in most dashboard indicators, despite bringing on additional sites to accommodate business needs. We continue working with suppliers to make further incremental progress through our systematic approach and efforts tailored to addressing persistent issues.

<table>
<thead>
<tr>
<th>Supply chain responsibility dashboard*</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working hours</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers’ employees working less than 60 hours per week on average** [%]</td>
<td>83%</td>
<td>84%</td>
</tr>
<tr>
<td>Suppliers’ employees receiving at least one day of rest each seven-day workweek** [%]</td>
<td>89%</td>
<td>91%</td>
</tr>
<tr>
<td>Student workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers in China with student workers representing 20% or less of total employees** [%]</td>
<td>96%</td>
<td>94%</td>
</tr>
<tr>
<td>Core labor rights</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zero-tolerance audit findings related to the ILO Declaration of Fundamental Principles of Rights at Work: freedom of association; forced, bonded, or indentured labor; child labor; or discrimination</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Critical health and safety issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zero-tolerance audit findings related to occupational safety, emergency preparedness, or industrial hygiene***</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Greenhouse gas emissions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production supplier Scope 1 and Scope 2 GHG emissions****,†† [tonnes CO₂e]</td>
<td>4,500,000</td>
<td>3,900,000</td>
</tr>
</tbody>
</table>

* This table includes both company-level and facility-specific data obtained during 2013 and 2014 relating to HP’s first-tier production suppliers. Findings from our 2013 and 2014 audits are limited to those facilities audited during the year and are not representative of all facilities in our supply chain.

** Based on production-line workers at final assembly and select commodity sites participating in the HP KPI program and audit results. We continue to expand the list of suppliers in the KPI program based on business risk, country risk, and identified nonconformances.

*** 2014 findings relate to emergency preparedness and industrial hygiene. See section.

**** Suppliers represent 99% of HP’s production supplier spend. 2012 is the latest year for which data is available for use in the 2013 reporting year. 2013 is the latest year for which data is available for use in the 2014 reporting year.

† The World Resources Institute defines Scope 1, 2, and 3 GHG emissions in its Greenhouse Gas Protocol; see http://www.ghgprotocol.org/calculation-tools/faq

†† 2013 figure is revised from previous reporting. It now includes revised estimated data from one of our suppliers and extrapolation to 100% of first-tier production suppliers. 2014 figure is also extrapolated.

View full data for Supply chain responsibility.

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3 Based on production-line workers at final assembly and select commodity sites participating in the HP KPI program and audit results. We continue to expand the list of suppliers in the KPI program based on business risk, country risk, and identified nonconformances.
Our approach

Business and consumer demand for electronics products and services is evolving rapidly, and HP is there with an adaptive supply chain to support delivery of world-class products and services to meet and exceed customer expectations. From tablets and inkjet printers to servers, storage, and the supporting implementation services, our broad portfolio requires a vast range of supplier capabilities—each with a unique sourcing profile.

As HP moves into new markets, we on-board new suppliers, ensuring they understand our SER standards and management system and meet prescribed performance levels for new suppliers. New sourcing countries have varying SER risks, and new suppliers sometimes have limited familiarity with SER management. By integrating our SER standards into sourcing, HP motivates suppliers from the start of our business relationship.

Our complex and dynamic supply chain underpins our business success and HP’s Supply Chain Responsibility program helps ensure the continuity of our supply lines and quality of our products by identifying and addressing supply chain risks.

Our Supply Chain Responsibility management system begins with industry leading policies, standards, and practices, founded on our commitment to transparency and desire to support workers, tackle environmental impacts, and benefit HP and our customers. We start with extensive risk sensing to keep us up to date with SER issues, region by region and supplier by supplier. This informs our program design, which we tailor to address specific risks and reflect regional characteristics. Our Supply Chain Responsibility program is illustrated in the graphic. For more detailed information on the elements of our program, please see Supply chain responsibility: Our approach, a separate document on our website.

Sensing risk
We work continuously to identify emerging risks in our supply chain at global, regional, and local levels. We analyze information from our supplier-monitoring program, worker engagement, our extensive stakeholder network, and other external sources. For example, our engagement in Southeast Asia enabled us to understand the evolving risk of forced labor in foreign migrant worker populations and take action as early as 2008. In 2014, we determined that we needed to evolve our approach to this issue to continue to protect this vulnerable worker group against forced labor conditions. Our advanced risk-sensing capabilities enable us to identify and react to emerging risks, so we often lead the industry in developing proactive approaches to emerging issues.

HP Supply Chain Responsibility program

Mission

- Protect and empower workers as rights holders
- Reduce global and community environmental impact
- Benefit HP and customers

Sensing risk

- Stakeholder engagement
- Supplier risk profiling
- External data
- Performance monitoring:
  - Comprehensive audits
  - Targeted assessments
  - KPI collection

Addressing risk

- Multi-industry collaboration
- Remediation
- Capability building
- Business integration:
  - On-boarding
  - SER scorecard
  - Integrated SER and procurement goals

Transparency through reporting and public dialogue

HP’s advanced supplier performance monitoring

HP uses three types of monitoring to understand and influence supplier SER performance:

- **Audits** We perform annual audits against the HP Supplier Code of Conduct and undertake follow-up audits when nonconformances are found. We also encourage suppliers to commission independent audits.

- **Assessments** We conduct targeted assessments to supplement our comprehensive audits, focusing on specific risk areas including:
  - Vulnerable workers, such as student, dispatch, and foreign migrant workers
  - Health and safety, including fire safety and emergency preparedness
  - Supplier SER management system maturity
  - Supplier environmental performance

- **KPI program** We require our final assembly suppliers to provide data on working hours, vulnerable workers, and GHG emissions. Suppliers track data on a weekly basis, and submit to us monthly. Such frequent monitoring helps us to quickly identify and correct problems.
Addressing risk
When we identify risks to workers or the environment in our supply chain we develop mitigation strategies. For example, when we identified the increased risk of forced labor among foreign migrant workers in Southeast Asia, we launched an industry-leading policy as well as strengthened our monitoring and capability-building program. See Workers’ rights for details. Investing in capability building, to improve the skills and awareness of both workers and supplier management, is critical to achieving lasting solutions to labor issues (see Supporting workers).

Our process for remediating issues also addresses risks identified through supplier monitoring and industry collaboration.

Business integration
The impact of our social responsibility program is increased by integration with our procurement decisions. HP has long considered suppliers’ SER performance when awarding business. In 2014, we made two enhancements to emphasize our preference for suppliers that meet or exceed our SER standards.

We expanded on-site assessments to cover the on-boarding of all major strategic final assembly suppliers and key commodity suppliers. Of the 14 new suppliers considered in 2014, 11 were accepted after completing corrective actions, and one was rejected due to poor SER performance. (Two more were assessed but rejected for reasons other than SER performance.) Beginning in 2015, we will conduct on-boarding at all new major strategic final assembly and commodity suppliers.

We also expanded our SER scorecard to include all types of final assembly suppliers and also strategic commodity suppliers. The SER scorecard rates suppliers’ SER performance on a five-tier scale and acts as a modifier to the general supplier management score. Suppliers with strong SER performance improve their opportunities for new or expanded business. Suppliers with poor SER performance risk a reduction in the business they are awarded.

SER scorecard distribution, 2014
[percentage of suppliers]*

<table>
<thead>
<tr>
<th>Scorecard includes final assembly suppliers and suppliers of strategic commodities.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective or exceptional</td>
</tr>
<tr>
<td>Concern or warning</td>
</tr>
<tr>
<td>Unacceptable</td>
</tr>
</tbody>
</table>

Benefits of supply chain responsibility
HP’s supply chain responsibility objective is to continuously improve our suppliers’ SER performance. Strong performance not only helps a supplier secure contracts with HP but also benefits their business by increasing worker productivity, engagement, and retention, as illustrated by the following examples:

- Launched in 2007, BSR’s HERproject—of which HP is a participant—links multinational companies and their supplier factories to local nongovernmental organizations (NGOs) to raise awareness of women’s health issues among workers. The project has generated significant business benefits, measurably reducing worker absenteeism and early leave requests, staff attrition, and mistakes assembling products.4

- In collaboration with Social Accountability International (SAI), The Rapid Results Institute, and Labor Link, HP conducted a 100-day program at three supplier sites in Brazil to reduce worker injuries from physically demanding work. Our supplier, Flextronics, reduced absenteeism due to injuries from 8% to 4.8% over the course of the program, producing tangible cost savings. Given this success, we plan to expand the program to China with a focus on emergency preparedness.

On-boarding program inspires changes at supplier
Although our on-boarding program sometimes requires us to reject a potential new supplier, more often it motivates suppliers to collaborate with us to address issues at their sites. New suppliers cannot do business with us until they correct the highest priority nonconformances and demonstrate adequate corrective action plans for the remainder.

For example, our initial on-boarding assessment of one potential final assembly supplier revealed issues requiring immediate attention, including locked dormitory emergency exits, lack of fire-detection systems in key locations, and failure to pay workers for overtime and holidays and to provide social insurance. The supplier made significant investments to address the issues we uncovered, and in six months we observed improvements at the site. Fire exits were cleared, payroll issues resolved, and a fire-detection system installed. As a result, we selected the supplier and continued to build its capabilities and improve conditions for its workers.

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4 http://herproject.org/downloads/HERproject_Health Enables_Returns_The_Business_Returns_from_Womens_Health_Programs_081511.pdf
HP also believes that ethical business practices provide a competitive advantage. A 2015 World Economic Forum (WEF) publication reported that those companies adopting 31 proven supply chain sustainability practices can increase revenue by up to 20% for responsible products, reduce supply chain costs from 9% to 16% and increase brand value by 15% to 30%. HP’s Energy Efficiency Program supports production suppliers to track and reduce GHG emissions through knowledge building and factory-based energy efficiency initiatives. Participating suppliers have reported estimated savings of $50 million since the start of the program.

Additionally, our customers frequently ask for information about our Supply Chain Responsibility program in requests for proposals, and our response is factored into appraisal of bids. For example, in 2014 our responses influenced contract awards worth approximately $127 million with a European public procurement agency and $65 million with an American multinational corporation. Other benefits to HP include reduced supply chain disruption and improved product quality.

Transparency
We are committed to transparency about the composition of our supply chain and its SER performance. HP was the first IT company to publish a list of suppliers in our 2007 Global Citizenship Report. We continue to publish the list and have added details such as names, addresses, information about sustainability programs, and more. In 2014, we published an interactive map of our final assembly suppliers, showing the number of reported hourly employees dedicated to the production of HP products at each final assembly supplier facility.

We share information about our supply chain performance in our Supply Chain Responsibility dashboard and publish detailed results of supplier audits and summary information about our capability-building programs on our website.

Supporting workers
Our central aim is to improve the lives of workers who are the focus of our capability building. We invest in worker skills development and empower workers to improve SER performance. We are targeted in our approach to capability building and willing to innovate with new methods and partnerships. See capability-building data.

In 2014, we conducted worker-empowerment programs at 18 sites in China, South America, and Southeast Asia, exceeding our goal of 15 for the year and reaching more than 87,000 workers and managers. Highlights include:

- **Migrant worker parent training** In response to the increasing number of migrant workers in China, we partnered with the Chinese NGO Inno to develop and pilot a training program on parenting at two supplier sites in Guangzhou, China. The program was designed for parents working far from home and focuses on improving work-life balance, dealing with family-related stress, and improving communication with children. The participants reported high overall satisfaction with the trainings and success using new communication techniques. We will work with the Center for Child Rights and Corporate Social Responsibility to expand the program to Chongqing in 2015.

- **Health education through HERproject** BSR’s Health Enables Returns (HER) Project provides basic personal health training to female workers. We have brought health awareness programs using the HERproject methodology to 27 suppliers across China, Malaysia, Thailand, and Mexico since the program’s inception in 2007. We have reached more than 55,000 female migrant workers, empowering them to take ownership of their health, and selected peer-educators so that future workers may also enjoy the benefits.

- **Financial literacy through HERfinance** In 2014, building on the success of HERproject, HP and BSR launched a HERfinance pilot project to strengthen the financial capabilities of workers at our supplier Flextronics in Brazil. See the case study.

- **Occupational health and safety (OHS) training** We partnered with experts, including Dr. Kazutaka Kogi, President of the International Commission on Occupational Health and professional industrial hygienists from the Hong Kong Worker’s Health Centre, to train management from 16 suppliers on worker stress capabilities of workers at our supplier Flextronics in Kogi, President of the International Commission on Occupational Health and professional industrial hygienists from the Hong Kong Worker’s Health Centre, to train management from 16 suppliers on worker stress

HERfinance
Worldwide, 2.5 billion adults do not use formal financial services to save or borrow money. HERfinance, a BSR program, improves financial inclusion and literacy by connecting workers to financial services and uses peer-training modules to reach a larger, broader group of factory workers. As a longtime participant in BSR’s women’s health education program, HERproject, HP has embraced the opportunity to pilot HERfinance at a Flextronics factory in Brazil. The program launched in August 2014 with a financial needs assessment to measure the baseline financial knowledge of workers. With a reach of 1,500 women and men, the program is tailored to the specific financial inclusion needs of the Brazilian workforce and covers topics such as responsible consumption, reducing debt, and planning for unexpected expenses and retirement.
prevention, mental health awareness, combustible dust prevention, and Participatory Occupational Safety and Health Intervention (POSHI). POSHI is an on-site program that engages workers and management in the process of identifying and solving OHS issues. We also conducted POSHI events focusing on topics such as ergonomics and machine safety. At a recent event, 90% of participants reported the training enhanced communication between workers and management.

For additional information about our capability-building programs, please see our website.

**Management system**

HP has developed and refined a strong management system for achieving continual improvement in our supply chain SER performance. Our supply chain management system is assessed every two years by Social Accountability International (SAI), against their rigorous, world-class Social Fingerprint benchmark. In 2014, we achieved a 15% improvement in our results compared to 2012. Our score of 3.8 put HP among the highest-scoring SAI corporate members. The improvement reflects investments in our Supply Chain Responsibility management system over the last two years, including further integration of SER into our procurement operations.

The SAI assessment validated our efforts and also highlighted areas for further improvement:

- Business integration, including the continued evolution of our SER scorecard and five-tier rating system to ensure communication of and accountability for SER goals in HP business groups
- Development of suppliers’ social management systems, emphasizing implementation, not just documentation
- Risk sensing, including advanced data collection and analysis to uncover trends in supplier performance

HP is committed to ongoing development of our management systems and transparency about the results.

“HP demonstrates a deep commitment to continually improving its supply chain, often taking a leadership position that encourages other companies as well. It targets complex challenges and works transparently and systematically to improve its management system. Even among the leading companies that we work with, HP is a clear stand-out.”

— Alice Tepper Marlin, CEO, Social Accountability International

**Workers’ rights**

Shifting socioeconomic and labor trends require us to be alert to new risks and innovative in our approach to managing them. Political and economic pressures as well as demographic shifts in some sourcing countries have led to higher costs and growing labor shortages, putting pressure on workers and companies. Also, in developing countries, weaker rule of law, opaque recruiting practices, and less institutional experience with SER may create additional risks.

In order to protect workers’ rights, we continually refine our Supply Chain Responsibility program. We remain focused on protecting vulnerable workers, reducing excessive working hours and improving health and safety in the workplace. We view workers as “rights holders” and believe that the most effective solutions will be found by involving them directly such as through worker interviews and surveys during supplier monitoring, and by designing our capability-building events to empower workers to be part of the solution. See Supporting workers. We also collaborate to raise standards across our industry.

**Vulnerable worker groups**

Seeking additional sources of labor, suppliers in some countries have turned to students, dispatch workers, young workers (16- and 17-year olds where legally permitted), and foreign migrant workers—groups that have distinct vulnerabilities to potential abuse. HP is committed to protecting all workers in our supply chain, but we recognize that certain worker groups need special protection. We introduced enhanced standards, more focused monitoring, targeted capability building, and key performance indicators (KPIs) tracking to provide additional protection for these groups.

**Foreign migrant workers**

In 2014, HP became the first IT company to require direct employment of foreign migrant workers in our supply chain through the HP Foreign Migrant Worker Standard. In addition to requiring direct employment, the standard reinforced the rights of workers to retain their passports and personal documentation and prohibited worker-paid recruitment fees. We developed the new standard in consultation with Verité, an international nonprofit that promotes safe, fair, and legal working conditions.

The standard marks a major step forward in the protection of foreign migrant workers in our supply chain and we are now focused on ensuring that the new protections are realized. Specialized forced labor assessments and regular monitoring will confirm supplier conformance. Suppliers that do not meet our requirements must correct their practices with urgency or risk losing our business.
Student workers

In 2013, to address the significant increase in the use of student and dispatch workers in China, we introduced the HP Student and Dispatch Worker Standard for Supplier Facilities in the People’s Republic of China, the first such standard in our industry. We believe that student work should complement the individual’s education, so we are currently focused on ensuring that all student work is voluntary, local regulations on student workers are met, only limited numbers of student workers are used for HP production (less than 20% of the total workforce), and students are employed in roles that further their education.

We monitor progress through KPI tracking of student, dispatch, and young workers, which Chinese suppliers report to us monthly. KPI data shows that 94% of suppliers maintained student worker levels at less than 20% of the total workforce related to HP production, a threshold we set last year. This tracking is separate from auditing and provides more frequent oversight of supplier progress. We also undertake specific, on-site student worker assessments and require corrective actions for any nonconformances. In 2013 and 2014, we assessed 90% of high-risk supplier sites in China where we identified the use of student workers. Of the two remaining sites, one was assessed in 2015, and the other was identified late in 2014 as using student workers and is scheduled for assessment. Of nonconformances with our student worker requirements found through 2014, 74% have been resolved—with the remaining cases under supplier corrective action in close collaboration with our procurement teams.

Despite the significant progress made over the past two years, we still face challenges protecting student workers, especially to eliminate overtime and nightshift work. We are committed to:

- Modifying our working hours KPI program to identify and act on instances of student or young workers working nights or overtime, creating faster corrective action and solutions
- Rolling out the EICC-sponsored student worker management toolkit, “Responsible Management of Student Workers: From Compliance to Best Practice,” designed for electronics manufacturing facilities in mainland China
- Collaborating with the Labour Education and Service Network to train Chongqing-based suppliers on the use of the EICC toolkit in spring 2015

Working hours

HP’s Supplier Code of Conduct states that weekly working hours must not exceed the maximum amount set by local law and should not exceed 60 hours, including overtime, except in emergency or unusual situations. Yet, the risk of excessive working hours remains high, particularly in China where there is an increasing labor shortage and where a large portion of IT industry production takes place. Excessive working hours remains a top audit finding for us, and we continue to work with our suppliers and industry partners to achieve lasting improvements in this area.

KPI program

Since 2009, we have monitored suppliers at risk of working hours and day-of-rest nonconformances through our KPI program. By frequently monitoring conformance, we have created modest improvements in supplier performance even though we have added new suppliers to our supply chain each year. Our KPI program also fosters accountability and action in our business by maintaining focus on these important issues. The program requires high-risk suppliers to report weekly KPI results, which we share with HP procurement managers monthly and senior managers quarterly. If an issue is detected, it’s escalated to top management so we can quickly resolve it. In 2014, we saw modest improvements in the percentage of workers working 60 hours or less per week. We also saw only a very small percentage working more than 72 hours per week. The percentage of workers receiving at least one day of rest per week also increased. See Supply Chain Responsibility dashboard.

EICC Working Hours Taskforce

In 2014, we participated in the newly formed EICC Working Hours Taskforce, which is developing a phased approach to supplier conformance with working hours requirements in the EICC Code of Conduct. The taskforce acknowledges that achieving the 60 hours per week standard will take time and asks buyers and suppliers to commit to steady progress. HP’s involvement in the taskforce builds upon our work as co-chair of the EICC working group on excessive working hours in 2013, which established a common industry approach to capturing and reporting working hours KPI data.

Health and safety

Workers have the right to a healthy and safe workplace, which is why we address these issues with high-risk facilities before we begin our commercial relationship and require them to demonstrate a safe workplace before production commences. The risks to workers are elevated where law enforcement is weak and health and safety regulations are lacking or inadequate. Conformance with emergency preparedness requirements remains a critical ongoing issue, and we continue to expand our efforts in this area. We also monitor new areas of potential risk such as combustible dust and look to address these through targeted training.

Emergency preparedness

Rigorous attention to emergency preparedness helps prevent injury and loss of life as well as interruptions to production. To measure conformance and drive improvements, we developed a specialized emergency preparedness assessment. In 2014, focusing on facilities in China, we conducted 22 assessments to evaluate emergency preparedness management, evacuation routes and equipment, fire suppression equipment, and other key elements. We also increased the frequency of assessments for select suppliers to a quarterly (rather than annual) basis. We plan to conduct quarterly fire-safety checks at major suppliers in Southeast Asia in 2015. We believe these expanded efforts have
contributed to reducing rates of emergency preparedness nonconformance in China from 69% in 2013 to 48% in 2014. For more information, see audit results.

**Occupational health and safety (OHS)**

HP takes occupational health issues seriously and in 2014 addressed the topic of combustible dust. Fine particles of dust from operations such as metal polishing can present a combustion hazard if not properly handled. We provided training on prevention of combustible dust explosions and fire safety for 151 managers from 88 suppliers, including those working in metal fabrication several tiers deep in our supply chain. Participants also discussed best practices such as reducing dust through wet processing and ventilation in polishing areas.

**Manufacturing process substances**

HP has worked for many years to eliminate worker exposure to hazardous substances in manufacturing. Our HP Supplier Code of Conduct and auditing program require suppliers to have proper management systems to evaluate substances, eliminate or manage hazardous substances, and provide appropriate personal protective equipment and training to workers. In addition, HP provides health and safety capability building, focused on worker involvement in maintaining safe work environments.

Recognizing that regulated substances and acceptable limits of hazardous substances vary by country, in 2015 we set clear requirements for suppliers by publishing a list of manufacturing process substance restrictions, reflected in the updated version of HP’s General Specification for the Environment.

We take a science-based approach to assessing the potential impact to human health or the environment of process substances and have restricted use of specific high-risk substances, including benzene and n-hexane, across our supply chain. We work closely with our suppliers to ensure new restrictions are followed and suitable alternatives are available through our alternative materials program. For more information, see Materials.

HP seeks to shape the industry’s approach to manufacturing process substances and is participating in a task force formed by the EICC to improve the identification, tracking, management, and elimination of harmful substances in the electronics supply chain.

Additionally, we support workers’ right to know about working with and around hazardous substances. Our involvement with the EICC contributed to expansion of the EICC Code of Conduct, which now requires that factories provide educational materials and appropriate training about such hazards. These efforts build on existing requirements that material safety data sheets be available to workers. Our supplier audits verify conformance with these new and existing requirements, including through worker interviews that encourage input on hazardous materials handling practices and training in the workplace.

**Raising industry standards**

Many of the issues we face are large and complex and beyond the scope of any single company to solve. Because the electronics industry supply base is broadly shared—such as with suppliers of optical disk drives, memory, power supplies, and other commodities—collaborating with others in our industry sends a powerful and consistent message to suppliers.

While we believe a common and high set of standards across our industry provides the greatest protection for workers in our supply chain, when we see gaps in guidance to suppliers on pressing SER issues HP often implements policies, standards, and programs ahead of industry standards. We then share our experience when advocating to raise industry standards in line with our own.

For example, HP has long recognized the right of workers to bargain collectively, and we advocated for that right to be added to the EICC Code of Conduct. In 2014, we worked closely with EICC staff, its Board of Directors, and stakeholders on revised code language for freedom of association, including the right to collective bargaining, which passed the membership vote and became effective in 2015.

Over the past 11 years, we have actively worked to revise and strengthen other EICC Code of Conduct requirements. Most recently, we promoted stronger language for protection of vulnerable worker groups, nondiscrimination, manufacturing process substances, and ethics provisions. We also participated in working groups looking to revise code provisions on freely chosen employment, GHG emissions tracking and reporting, wage equality, and reasonable accommodation for religious practices.

**Audit results**

We monitor the SER performance of suppliers in a variety of ways. While supplier audits alone do not deliver sustained SER improvement, they are an important tool. Audits provide the broadest measurement of conformance with HP’s Supplier Code of Conduct and establish whether the supplier has systems in place to maintain and improve performance. In 2014, we conducted 200 audits and assessments, the largest number in our program’s history. We continue to expand our audit program and intend to conduct audits or assessments at all high-risk supplier sites annually. For an explanation of how HP determines “high-risk” suppliers see Supply chain responsibility: Our approach, a separate document on the HP website.

Since our first pilot SER audits in 2004, we have conducted or commissioned 1,294 audits and assessments of production and nonproduction supplier facilities.
Over the last several years, we have progressively transferred audit responsibility to our suppliers, as experience shows that suppliers perform better and are more invested when they commission their own audits and take ownership of their performance, especially when progress is rewarded through procurement incentives. In 2014, we exceeded our goal to increase the proportion of independent supplier EICC Validated Audit Process (VAP) audits to 50% of our total of 128 audits, achieving 52%. The EICC VAP program uses external auditors, and includes separate, third-party quality control of audits for added credibility. We aim to increase the number of supplier commissioned audits conducted under the EICC.

Results also show that the longer suppliers participate in our program, the better they perform on audits (see graph). They also demonstrate that suppliers with high levels of involvement—such as participation in capability-building programs—tend to have stronger SER performance. We focus our capability-building programs on specific audit items, worker engagement, and management systems. This approach is designed to foster broader, longer lasting SER improvement, leading to better audit performance overall.

Expanding HP’s SER standards to nonproduction suppliers

IT industry SER engagement has historically focused on production suppliers that manufacture materials, components, and completed products. HP continued raising the standards in our industry several years ago by extending our SER approach to nonproduction suppliers that support our products post-release and provide services associated with our brand. HP nonproduction suppliers far outnumber production suppliers, employing a very large number of workers around the globe.

Our risk sensing led to our focus on high-risk industries—including call centers, contract labor agencies, outsourced technology services, reuse and recycling, branded merchandise, and facilities management—as well as pointing to geographical risk factors. By engaging with our nonproduction suppliers, we influence social and environmental business behavior across many industries beyond manufacturing, improving working conditions and protecting HP’s reputation and brand. In 2014, we expanded our nonproduction supplier engagement to 11 countries from 7 in 2013. The program now operates in Argentina, Brazil, China, Colombia, India, Malaysia, Mexico, Philippines, Poland, South Africa, and Turkey.

Since EICC members share many nonproduction suppliers, HP proposed to the EICC that it expand the scope of its work beyond production suppliers. In 2014, the EICC created the Indirect Spend Taskforce—with HP as a lead member—to explore the potential of an industry-wide approach and cross-industry collaboration.
**Key findings**

Our multiyear plan involves auditing all high-risk suppliers annually as well as conducting targeted assessments in special circumstances such as supplier on-boarding or where a specific risk requires deeper investigation. In recent years, we began expanding the scope of auditing to capture some suppliers not previously covered, such as nonproduction suppliers and suppliers deeper in our supply chain. Many of these may not have mature SER management systems.

We have observed an increase in nonconformances in some areas as suppliers new to our audits respond to the requirements and previously audited suppliers adjust to a tightening of our standards with new requirements, additional required proof of conformance, and more rigorous scoring criteria.

The most significant audit findings in 2014 are described here. See audit findings online for a breakdown of audit results by region, and HP supply chain SER milestones for information about the number of workers at sites audited.

**Distribution of major nonconformances by section of HP Supplier Code of Conduct, 2014** [percentage of total]

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and safety</td>
<td>31%</td>
</tr>
<tr>
<td>Labor</td>
<td>24%</td>
</tr>
<tr>
<td>Management system</td>
<td>22%</td>
</tr>
<tr>
<td>Environmental</td>
<td>14%</td>
</tr>
<tr>
<td>Ethics</td>
<td>9%</td>
</tr>
</tbody>
</table>

*Data excludes minor nonconformances that do not indicate a systemic problem but typically represent an isolated finding. Data is from audits; data from assessments is not included. Data is from production supplier audits only, as operations of nonproduction suppliers are not comparable. Year-over-year data does not necessarily represent audits of the same supplier sites.*

**Health and safety**

(rates of major nonconformance of sites audited)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupational safety</td>
<td>42%</td>
</tr>
<tr>
<td>Emergency preparedness</td>
<td>45%</td>
</tr>
<tr>
<td>Occupational injury and illness</td>
<td>21%</td>
</tr>
<tr>
<td>Industrial hygiene</td>
<td>26%</td>
</tr>
<tr>
<td>Physically demanding work</td>
<td>14%</td>
</tr>
<tr>
<td>Machine safeguarding</td>
<td>21%</td>
</tr>
<tr>
<td>Dormitory and canteen</td>
<td>32%</td>
</tr>
</tbody>
</table>

In the area of health and safety, emergency preparedness remains a key issue and we continue to evaluate ways to achieve further improvements. In 2013, we began a multiyear effort focused on improving supplier emergency preparedness through additional capability-building programs and more frequent targeted assessments. This process identified and resolved many emergency preparedness issues, resulting in a decrease in the global nonconformance rate from 55% in 2013 to 45% in 2014.

In 2014, occupational safety audit findings remained fairly consistent with 2013 levels with a 42% nonconformance rate (compared to 40% in 2013). Issues identified included permits and test reports, control of potential safety hazards (such as electrical and other energy sources, fire, vehicles, and fall hazards), and the use of personal protective equipment. The majority of nonconformances were at commodity supplier facilities, including many new to our SER program. As we expand our assurance program deeper into our supply chain, we expect higher rates of nonconformance and are committed to improving conditions for workers in these facilities.

Our supplier capability-building programs in 2014 included efforts to improve worker involvement in identifying and solving health and safety issues. We expect this to yield improvements in this area.

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* Each provision of the EICC audit protocol includes a number of audit questions, each with a potential for no finding, risk of nonconformance, minor nonconformance, or major nonconformance. HP identifies the most significant nonconformance found in each provision and aggregates those results across all audits, which helps us to develop initiatives to address, and externally report, those provisions with the most frequent occurrence of major nonconformance.
Labor (rates of major nonconformance of sites audited)

<table>
<thead>
<tr>
<th>Category</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freely chosen employment management systems</td>
<td>24%</td>
</tr>
<tr>
<td>Presence of forced labor</td>
<td>0%</td>
</tr>
<tr>
<td>Young worker protection-management systems</td>
<td>18%</td>
</tr>
<tr>
<td>Presence of child labor</td>
<td>0%</td>
</tr>
<tr>
<td>Working hours</td>
<td>64%</td>
</tr>
<tr>
<td>Wages and benefits</td>
<td>24%</td>
</tr>
<tr>
<td>Humane treatment</td>
<td>3%</td>
</tr>
<tr>
<td>Nondiscrimination management systems</td>
<td>2%</td>
</tr>
<tr>
<td>Presence of discriminatory practices</td>
<td>8%</td>
</tr>
<tr>
<td>Freedom of association</td>
<td>12%</td>
</tr>
</tbody>
</table>

Our 2014 audits found no zero-tolerance violations of core labor rights, which include observed violations related to the ILO Declaration on Fundamental Principles and Rights at Work: freedom of association; forced, bonded, or indentured labor; child labor; and discrimination. The majority of findings in the area of core labor rights were observations of inadequate management systems to prevent violations. We continue to strengthen our standards and audit tools to protect workers, and in 2015 HP is introducing new requirements and monitoring techniques to protect foreign migrant and young workers.

We have seen modest improvements in the percentage of workers meeting our 60-hour week and day-of-rest requirements (see Supply Chain Responsibility dashboard). However, working hours remain a persistent issue, particularly in China. We continue to track supplier conformance through our Labor KPI Program and engage suppliers with ongoing problems through HP’s procurement personnel to drive improvement. We also developed new tools to help suppliers understand the root causes behind working hours nonconformance and to identify actionable improvements. We continue working with suppliers and other industry partners through the EICC on additional ways to drive improvements in working hours performance.

After working consistently with suppliers on wage issues over the past few years, we’ve seen a decrease in wage-related audit findings in 2014. The majority of wage findings during the year related to ongoing challenges with full conformance with social insurance requirements in China. We continue to work with suppliers to achieve full conformance and track improvement through corrective action plans.

In 2014, our audits uncovered six instances of discriminatory practices. HP required corrective action by suppliers and conducted on-site follow-up audits to ensure these facilities amended the practices, improved management systems, and provided appropriate training for factory personnel to prevent future cases of discrimination.

Management system (rates of major nonconformance of sites audited)

<table>
<thead>
<tr>
<th>Category</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company commitment</td>
<td>5%</td>
</tr>
<tr>
<td>Management accountability and responsibility</td>
<td>12%</td>
</tr>
<tr>
<td>Legal and customer requirements</td>
<td>17%</td>
</tr>
<tr>
<td>Risk assessment and risk management</td>
<td>24%</td>
</tr>
<tr>
<td>Performance objectives with implementation plan and measures</td>
<td>18%</td>
</tr>
<tr>
<td>Training</td>
<td>3%</td>
</tr>
<tr>
<td>Communication</td>
<td>9%</td>
</tr>
<tr>
<td>Worker feedback and participation</td>
<td>5%</td>
</tr>
<tr>
<td>Audits and assessments</td>
<td>15%</td>
</tr>
<tr>
<td>Corrective action process</td>
<td>6%</td>
</tr>
<tr>
<td>Documentation and records</td>
<td>6%</td>
</tr>
<tr>
<td>Supplier responsibility</td>
<td>23%</td>
</tr>
</tbody>
</table>

Management system nonconformances remained low in 2014 indicating relatively good implementation of SER systems and controls. HP continues to work with suppliers and external partners such as SAI to improve SER management systems. Learn more.

Environmental (rates of major nonconformance of sites audited)

<table>
<thead>
<tr>
<th>Category</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental permits and reporting</td>
<td>20%</td>
</tr>
<tr>
<td>Pollution prevention and resource reduction</td>
<td>14%</td>
</tr>
<tr>
<td>Hazardous substances</td>
<td>41%</td>
</tr>
<tr>
<td>Wastewater and solid waste</td>
<td>3%</td>
</tr>
<tr>
<td>Air emissions</td>
<td>5%</td>
</tr>
</tbody>
</table>

In 2014, the environmental audit provision with the highest rate of nonconformance was hazardous substances, followed by environmental permits and reporting. Nonconformances related to hazardous substances remained high, at 41% due in part to our expanded expectations regarding management in this area. In 2013, HP reclassified insufficient worker training on hazardous materials and inadequate hazardous material transport procedures as major nonconformances.

The increase in the rate of nonconformances related to environmental permits and reporting from 13% in 2013 to 20% in 2014, was primarily due to the large number of audits performed on new suppliers, who are working to improve implementation of relevant EICC standards.

Read more in Supply chain environmental impact.
In 2013, we refined our audit standards regarding ethics to verify the presence of policies, procedures, record keeping, and training. We observed a reduction in ethics provision findings from 2013 to 2014 as suppliers implemented our expectations.

Zero-tolerance items
Zero-tolerance items are the most serious type of non-conformance. They include child labor, forced labor, severe forms of discrimination, health and safety issues posing immediate danger to life or risk of serious injury, and perceived violation of environmental laws posing serious and immediate harm to the community. Our zero-tolerance policy requires auditors to escalate such items immediately. Suppliers must cease any zero-tolerance practices and report their corrective action to HP no later than 30 days after the original audit. HP will then re-examine the finding through a site visit to confirm resolution. Zero-tolerance items result in suppliers being downgraded on our SER scorecard. HP’s SER policy requires all suppliers to disclose a fatality, debilitating injury or any other HP Supplier Code of Conduct zero-tolerance item related to manufacturing an HP product. See HP’s SER policy for details.

In 2014, we found no zero-tolerance violations related to core labor rights in our audits. We did find five zero-tolerance items related to health and safety issues at four commodity-supplier sites. Most zero-tolerance findings were at new supplier sites that have not benefited from sustained engagement with HP’s Supply Chain Responsibility program.

• Four of the findings related to emergency preparedness including lack of adequate fire detection/suppression systems, lack of appropriate evacuation drills, locked/blocked emergency exits, blocked fire extinguishers, and inadequate emergency evacuation preparedness.

• The other zero-tolerance item related to industrial hygiene involving inadequate machine safeguarding.

As always, we work vigorously with our suppliers to correct all zero-tolerance findings, including visual verification of closure. We expect to see our work with these suppliers lead to long-term improvement in working conditions and overall SER performance.

Conflict minerals
The exploitation of natural resources in the Democratic Republic of Congo (DRC) to fund groups engaged in extreme violence and human rights atrocities has resulted in international concern and calls for action. Activity of particular concern has been linked to the extraction of natural resources that are mineral precursors of the metals tantalum, tin, tungsten, and gold (3TG)—known as “conflict minerals.”

The possibility that the manufacture of our products might be connected to the funding of armed conflict is unacceptable to HP. We continue to work toward ensuring 3TG used in our supply chain is not associated with conflict in the DRC.

Addressing a problem that has persisted for almost two decades requires a fresh approach and dedicated resources. Beginning in 2010, as a part of the company’s broader Supply Chain Responsibility program, HP assembled a team of internal experts to develop and manage a comprehensive program to collect and evaluate information on the use of conflict minerals across our diverse supply chain and to encourage responsible mineral sourcing. Since then, we have made strong progress.

A multistage supply chain
3TG metals are found in relatively small amounts in virtually all HP electronic products. While electronics are a significant user of tantalum compared to other sectors, the information and communications technology (ICT) industry is a relatively small user of the other 3TG metals. The 3TG supply chain has many stages from mine to product and spans the globe:

Extraction: Conflict mineral sources from the DRC and adjoining countries (Covered Countries) represent a small fraction of the world’s overall mineral deposits. In the DRC, the minerals are mainly extracted from small artisanal mines with low levels of investment and mechanization, making the work hard and often dangerous. Some mines are controlled by armed groups that extort money from the miners. The minerals are consolidated, traded, and sold for export by a chain of middlemen. These steps are also vulnerable to interference by armed groups. Multi-stakeholder collaborations created “closed pipe” solutions to isolate and source minerals from mines that have been validated as conflict free pursuant to an in-region program such as Solutions for Hope.
Processing: Minerals are transported to smelters and refiners (referred to in this section as “smelters”) located around the world for chemical processing. They accept minerals from multiple sources and historically have mixed mineral sources with recycled and scrap materials to produce 3TG metals. The Conflict-Free Sourcing Initiative (CFSI) validates smelters as “conflict free” when they comply with the program protocols including undertaking due diligence, developing appropriate policies and processes, and obtaining relevant information from the mineral supply chain when sourcing in conflict-affected areas.

Manufacturing: The metals are purchased by component manufacturers who produce parts that contribute to the final product after multiple development stages in the supply chain. This process results in many entities in the supply chain to survey. CFSI developed and maintains the Conflict Minerals Reporting Template (Template), which gives companies a common data exchange format to share information about 3TG sources with business partners and suppliers up and down their supply chain.

Eliminating the risks associated with conflict from our supply chain

Our objective is to have a supply chain that is sourcing 3TG only from smelters validated to be compliant with CFSI’s Conflict-Free Smelter Program (CFSP). The ICT industry has the most leverage and has achieved the most progress related to tantalum, because it is a significant user of that metal—about 15% of the world’s consumption. The ICT industry is a much smaller user of tin (about 0.1%), tungsten (about 2%), and gold (about 3%).

Multi-industry collaboration is needed to achieve significant progress with those metals.

HP’s goal is for a majority of our 3TG production procurement spend to be DRC conflict free by the end of 2016. Starting in 2015, we required HP suppliers to source tantalum only from smelters compliant with the CFSP. We track progress by measuring the percent of smelters in our supply chain on the Conflict-Free Smelter Program list.

We exert influence with our supply chain by:

- Engaging with our production suppliers of products containing 3TG
- Encouraging smelters that purchase and process mineral ores to be validated to be compliant with conflict free by a credible industry group
- Supporting multi-stakeholder collaboration to establish secure conflict free sources of 3TG ores from the DRC

Suppliers

HP has set clear expectations with our production suppliers regarding conflict minerals. HP first communicated its conflict minerals policy in 2011 by addressing the issue in our Supply Chain Social and Environmental Responsibility Policy, and we continue to reinforce this message annually. We communicate further expectations in HP’s General Specification for the Environment and HP’s Supplier Code of Conduct.

In 2014, we identified the production suppliers that could be supplying HP with products containing 3TG and require those suppliers to:

- Adopt a conflict minerals policy, due diligence framework, and management system, and require the same from their suppliers
- Conduct due diligence on their supply chain by engaging their 3TG suppliers using the Template to identify smelters in their supply chain producing necessary 3TG used in HP products
- Aggregate the results of due diligence conducted on their supply chain
- Submit a completed Template to HP identifying the unique smelters associated with their supply chain for HP products (however most Templates continue to represent the supplier’s entire supply chain)
- Transition to validated conflict free smelters of 3TG (smelters on the CFSP list) or encourage the smelters to participate in the CFSP

HP supported production 3TG suppliers with training materials for completing the CFSI Template and reviewed each Template received against HP’s expectations. During calendar year 2014, HP obtained responses from 3TG production suppliers estimated to represent more than 95% of our 3TG production procurement spend.

HP offers a cloud-based software solution, which we also use ourselves, to help other companies with their supply chain engagement and compliance in this area. Visit www.cdxsystem.com to learn more.

Smelters

HP’s journey toward DRC conflict free minerals depends on growing the number of validated conflict free smelters in our supply base. Working with our production suppliers, HP has identified smelters used in our supply chain and engaged some smelters directly, requesting that they participate in the CFSP. Smelter’s decision to participate in an assessment program to become validated as conflict free is influenced by demand from its customers. It is very challenging for HP to influence a smelter’s decision because they are several manufacturing steps removed from us and are not our direct supplier.

HP made progress on our journey, by more than doubling the number of relevant 3TG smelters that are compliant on the CFSP list from 60 to 152. Additionally, HP believes that 22 of these CFSP compliant smelters may have sourced from the Covered Countries, providing important revenue.

to the region. All of the tantalum smelters reported to be in HP’s supply chain, whether or not they are sourcing from the Covered Countries, are compliant with the CFSP.

HP identified the smelters and refiners on our list by a survey of HP suppliers conducted between January 2014 and December 2014 as a part of HP’s conflict minerals compliance program. The suppliers we surveyed contribute material, components, or manufacturing to HP products containing 3TG. Each smelter or refiner reported was identified in at least one of the Templates received from an HP supplier.

HP’s 2015 conflict minerals disclosure includes a list of all smelters reported to us regardless of whether or not they source from the DRC and adjoining countries. This disclosure continues our legacy of supply chain transparency, highlights the smelters that are validated as compliant with the CFSP, and applies pressure to smelters that have unknown 3TG sourcing.

**Multi-stakeholder collaboration**

HP collaborates with other businesses, nongovernmental organizations (NGOs), government agencies, and our extensive network of production suppliers to advance the use of responsibly sourced minerals. Our work began in 2008 when we helped establish the working group that was the precursor to the CFSI. In 2014, we continued to actively participate in CFSI (member ID HPQQ), providing leadership through working groups focused on CFSI-identified 3TG smelter list expansion, publicly available white papers and FAQs development, audit protocol improvement, and external speaking engagements.

Additionally we engaged and contributed through industry and multi-stakeholder groups, as well as in-region sourcing projects including the Kemet Partnership for Social and Economic Sustainability, the former Conflict-Free Tin Initiative, the International Tin Research Institute’s Tin Supply Chain Initiative, IDH’s Indonesian Tin Working Group, Public-Private Alliance for Responsible Minerals Trade, Responsible Sourcing Network’s Multi-Stakeholder Group, and the Solutions for Hope project, which establishes secure conflict free tantalum sources from the DRC.

**Goals**

**Supply chain responsibility**

<table>
<thead>
<tr>
<th>2014 goals</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conduct worker-empowerment programs at 15 supplier sites in China, South America, and Southeast Asia.</td>
<td>HP conducted worker-empowerment programs at 18 supplier sites in China, South America, and Southeast Asia in 2014.</td>
</tr>
<tr>
<td>Increase the proportion of independent supplier audits to 50%.</td>
<td>52% of supplier audits in 2014 were independent audits.</td>
</tr>
</tbody>
</table>