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**TO/** HP Storage Customers and Partners  
**FROM/** Tom Joyce, Vice President, Marketing, Strategy & Operations, HP Storage  
**DATE/** November 21, 2011  
**SUBJECT/** Hard Disk Drive Industry Disruptions Due To Flooding in Thailand

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To Our Customers and Partners,

As you have seen in recent news reports, widespread flooding throughout Thailand has caused an unprecedented amount of damage, severely impacting the people of that country. This tragedy is also having a significant economic impact. In particular, operations at many hard disk drive (HDD) factories in Thailand have been disrupted. According to IDC, Thailand accounted for 40-45% of worldwide HDD production during the first half of 2011. Many factories have been flooded, and in others production has been impacted due to power outages and work stoppages. Approximately half of Thailand's HDD production capacity has been impacted by the flooding.

The magnitude and duration of the disruption will not be clear until the floodwaters subside, but the industry is already experiencing severe shortages of certain HDD components. In particular, large-capacity SAS and SATA drives are in short supply. HP is working closely with our suppliers to maximize our access to these HDDs. We have a significant advantage in this environment due to our world-class supply chain; however, worldwide output will clearly be much lower than worldwide demand.

This reduction in available supply is causing immediate and significant increases in the prices that HP and all other vendors pay for hard disk drives. Component prices have already increased approximately 20%. In this context HP will be forced to increase the prices that we charge for certain disk drives. In the ordinary course of business, we often adjust prices we charge for components based upon market conditions, and this situation

is no exception. What is different now is that some of these component prices may rise significantly, and for an indeterminate period of time.

We are hopeful that this crisis will come to an end soon. We are doing everything in our power to gain access to sufficient HDD supply so that we can help you fulfill your requirements. We are also prepared to engage with you to explore alternate solutions where appropriate.

Regards,

Tom

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