

Financial update

Cathie Lesjak
Executive Vice President and
Chief Financial Officer
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Agenda

- FY07 review
- Efficiency
- Capital strategy
- FY08 outlook
- FY09 financial model

FY07 review

Non-GAAP financial information⁽¹⁾

In billions, except EPS	FY07		FY06		\$ Growth Y/Y
	\$	% of rev	\$	% of rev	
Revenue	\$104.3		\$91.7		14%
Gross profit	\$25.4	24.4%	\$22.2	24.3%	14%
Total OPEX	\$15.8	15.2%	\$14.9	16.2%	7%
Operating profit	\$9.6	9.2%	\$7.4	8.0%	30%
Net income	\$8.0	7.6%	\$6.8	7.4%	17%
EPS	\$2.93		\$2.38 ⁽²⁾		23%

1. All non-GAAP numbers have been adjusted to exclude certain items. A reconciliation of specific adjustments to GAAP results along with a description of HP's use of non-GAAP information is provided in the supplemental slides at <http://www.hp.com/investor/sam2008>

2. Includes tax settlement of approximately \$0.15 in Q206

Segment operating profit trends

PSG



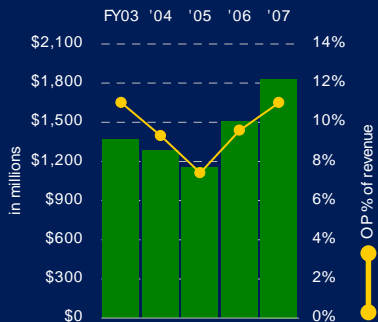
IPG



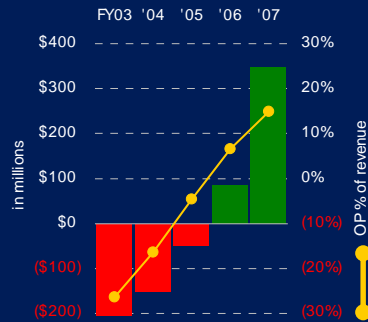
ESS



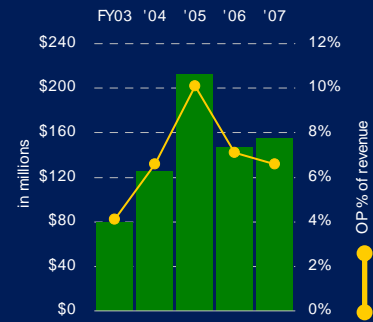
HP Services



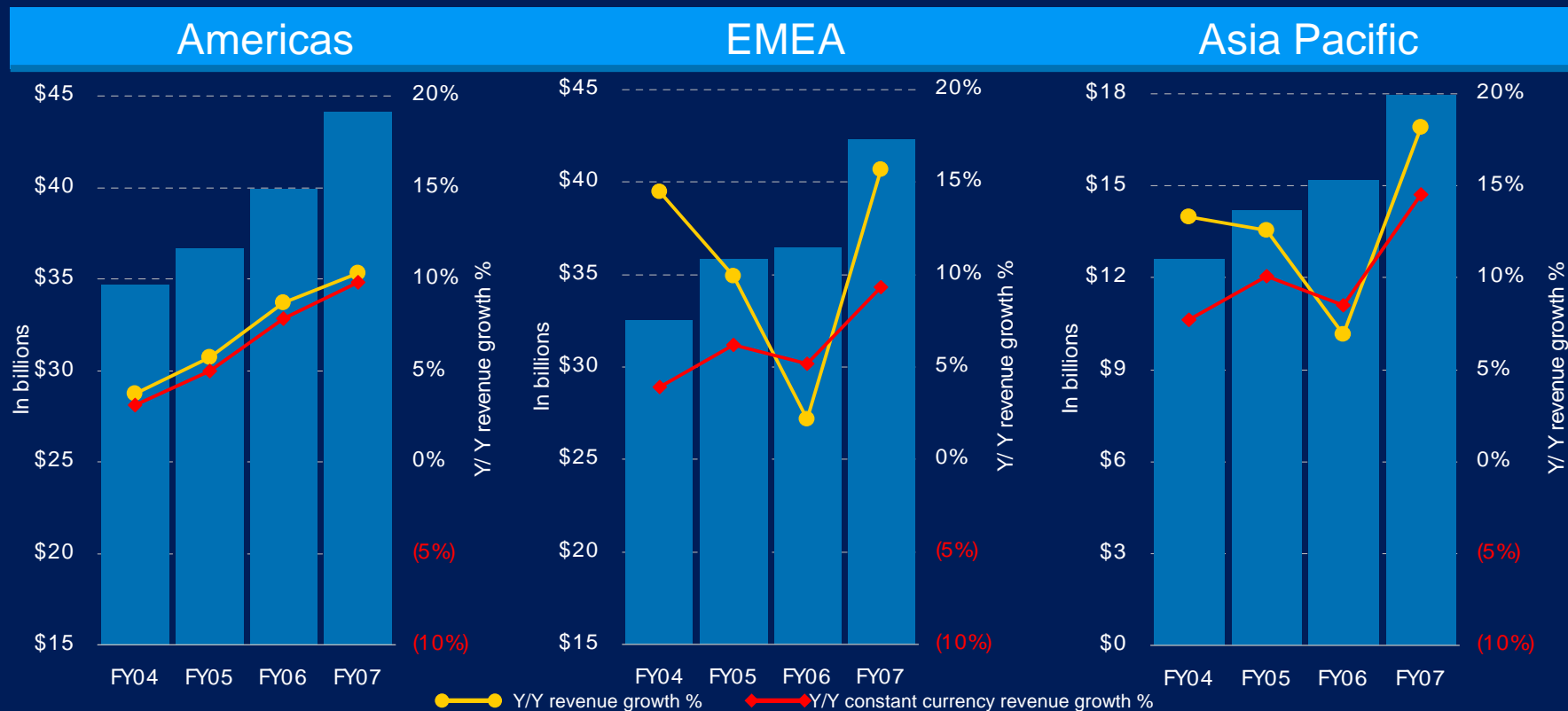
HP Software



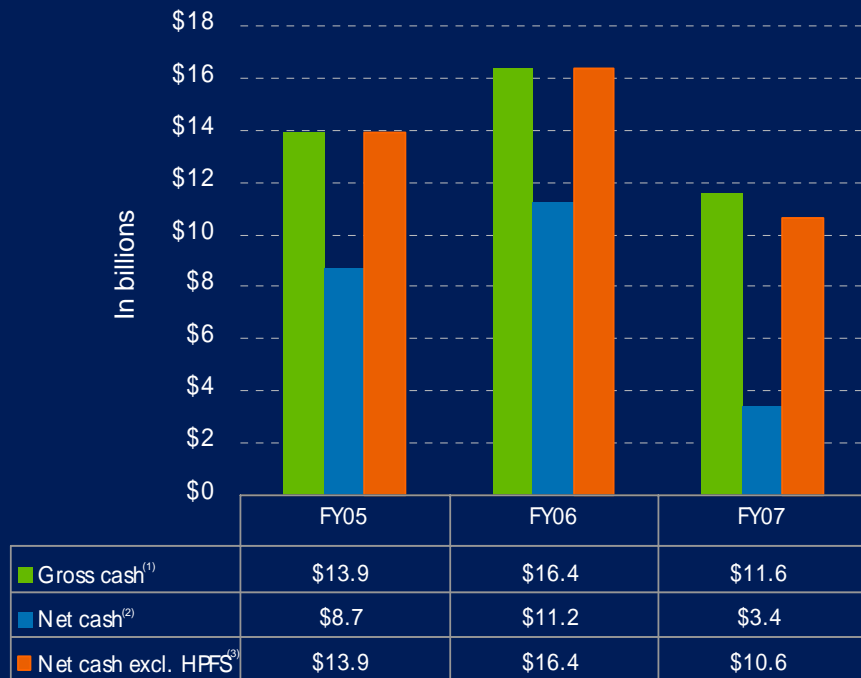
HPFS



Regional revenue trends



Gross and net cash



1. Includes cash and cash equivalents, short-term investments, and certain liquid long-term investments

2. Net cash is defined as gross cash less total debt

3. Net cash excluding HPFS debt is calculated as net cash + the lower of HP total company debt or HPFS debt

Considerations for debt

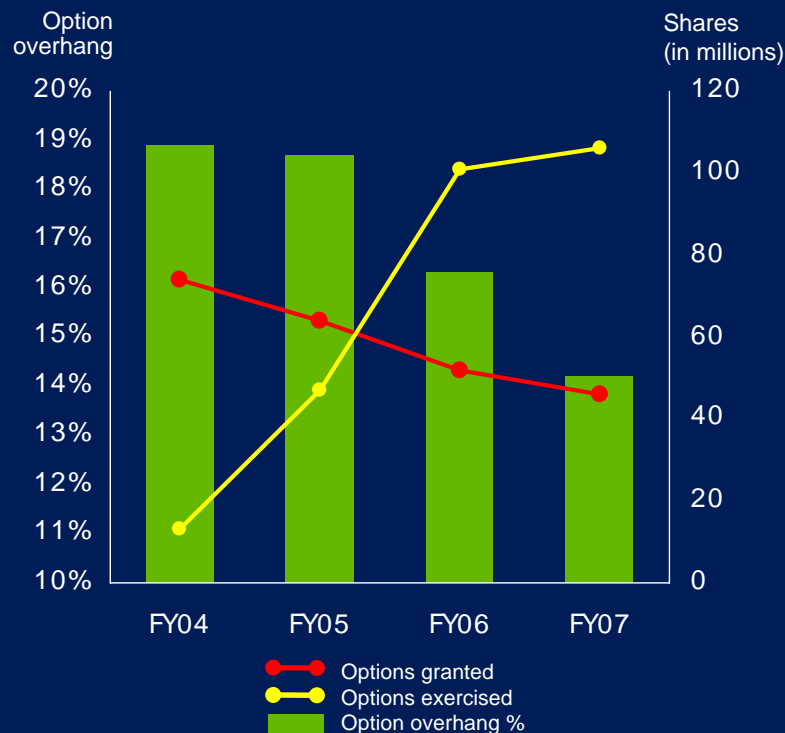
- Align with HP Financial Services
 - HPFS net portfolio assets approximately \$8.3B
 - Target HPFS debt to equity ratio of 6:1
- Support of HP's tax strategy
 - Cash balances are largely outside U.S.
 - Debt is primarily owed by U.S. parent
- Retain substantial investment capacity
 - In the U.S., through higher debt balances
 - Outside the U.S., using existing cash balances

Share count and stock options

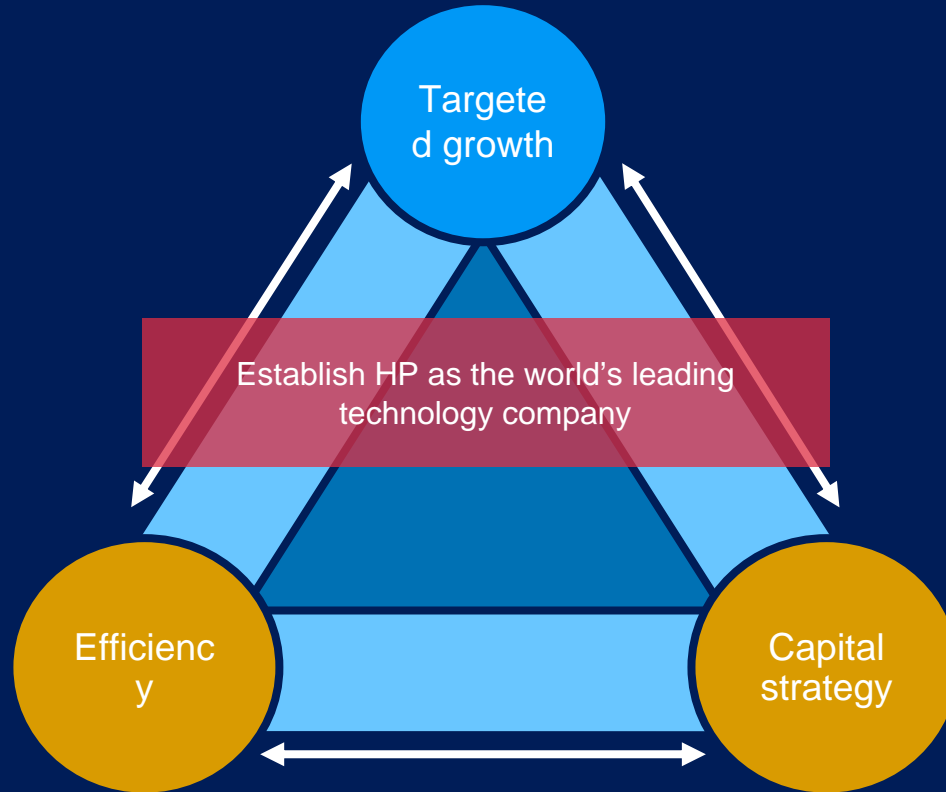
Improving option overhang

(In millions)	FY04	FY05	FY06	FY07
Avg. basic shares outstanding	3,024	2,879	2,782	2,630
Common stock equivalents (CSEs) ⁽¹⁾	23	30	62	78
Convertible debt	8	8	8	8
Avg. Diluted shares outstanding	3,055	2,917	2,852	2,716
Shares outstanding – ending	2,911	2,837	2,732	2,580
Options outstanding @ year end	550	531	446	367
Option overhang % ⁽²⁾	18.9%	18.7%	16.3%	14.2%

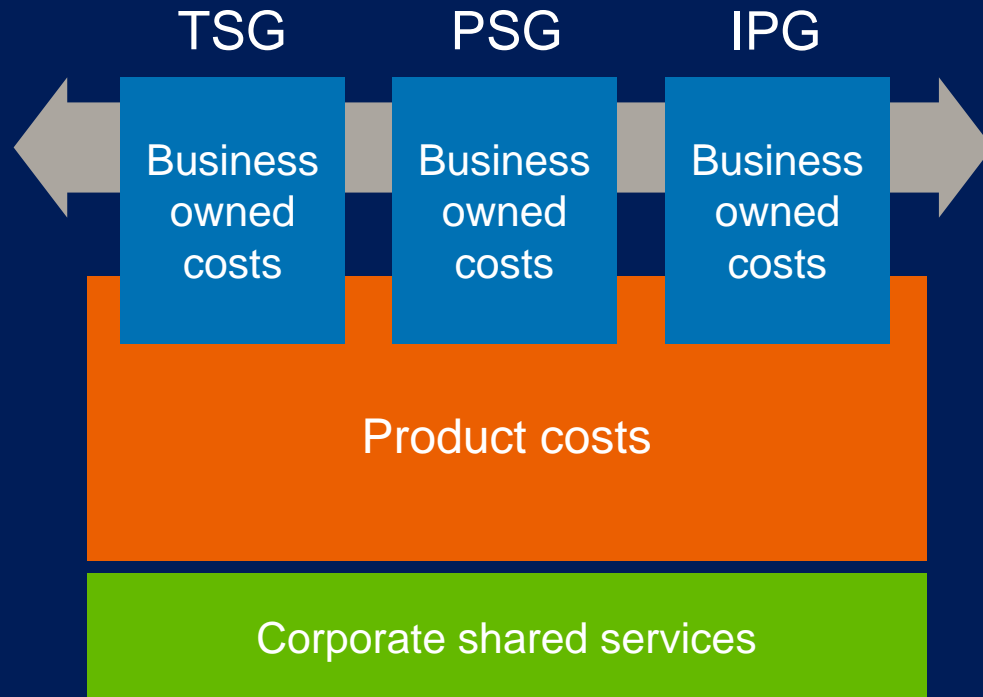
1. Common stock equivalents represent the effect from potential issuance of common stock, such as stock issuable pursuant to the exercise of stock options, as calculated under the treasury stock method. Convertible debt represents the effect of the assumed conversion of convertible notes.
2. Defined as options outstanding/total shares outstanding.



Operating framework



Efficiency



EXAMPLES

- Improve service delivery
- Optimize supply chain models
- Drive OPEX efficiency

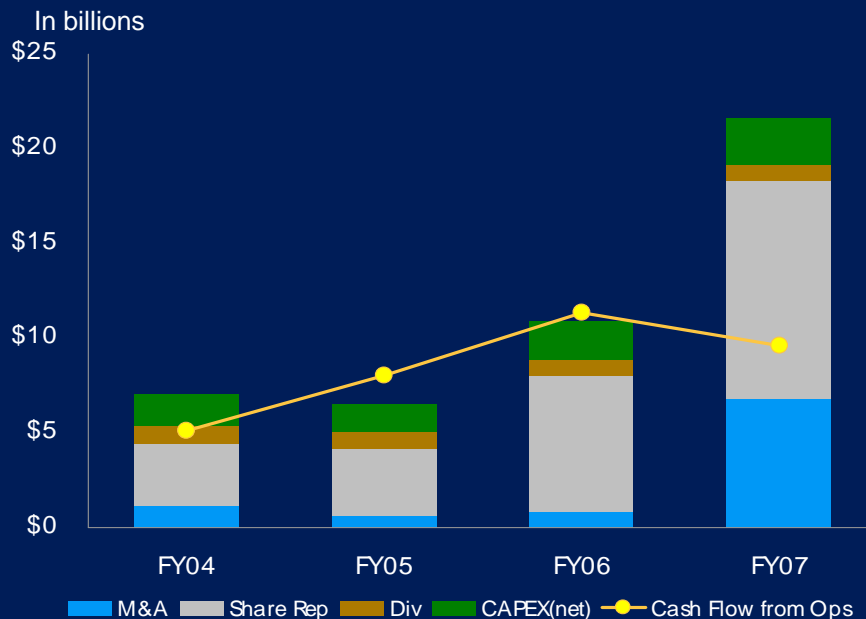
- Leverage scale with suppliers

- Execute our IT transformation
- Drive real estate consolidation

Capital strategy



Return cash to stockholders while continuing to invest in the business



Invest in the business

- Invest to grow
 - R&D and go-to-market investments
 - CAPEX to support services and financing business
 - M&A: Strategic fit, financial justification, manageable integration
- Invest to save
 - CAPEX investment to enable IT and real estate run-rate efficiency improvements

Return to shareholders

- Share repurchases
 - Offset dilution
 - Opportunistically reduce share count
- Dividends
 - Maintain dividend per share and evaluate periodically

Full year FY08 guidance

Revenue	Approximately \$111.5 billion
GAAP EPS	\$3.12 – \$3.17
Non-GAAP EPS ⁽¹⁾	\$3.32 – \$3.37

1. Full year FY08 non-GAAP diluted earnings per share estimates exclude after-tax costs of approximately \$0.20 per share, related primarily to the amortization of purchased intangible assets.

Cash flow

(In millions)	FY05	FY06	FY07	FY08E
Operating cash flow	\$8,028	\$11,353	\$9,615	Approx. \$11,000
Net capital expenditures	\$1,453	\$1,980	\$2,472	Approx. \$3,000
Free cash flow	\$6,575	\$9,373	\$7,143	Approx. \$8,000

Working capital metrics				
Days inventory	35	38	34	Supply chain optimization Continued strategic buys
Days receivable	39	40	43	Optimize extended payments and cash discounts
Days payable	53	59	50	Optimize extended payments and cash discounts
Cash conversion cycle ⁽¹⁾	22	19	27	Make appropriate tradeoffs to drive stockholder value

Select operating cash flow item	
Annual bonus	Payout in Q108 ⁽²⁾

1. Defined as Days inventory + Days receivables – Days payable

2. During FY07 HP accrued bonus expense in the P&L in each quarter. Cash payout in Q108 will not have an impact on the operating profit within the P&L

FY09 financial model⁽¹⁾

	FY09
Revenue Growth ⁽²⁾	5% – 6%
Implied revenue (billions) ⁽³⁾	\$117.1 – \$118.2
Implied operating margin %	10.0% – 10.4%
OI&E (millions)	Approx. \$550
Tax rate	21% – 22%
Weighted average shares (millions)	Approx. 2,600
Non-GAAP EPS	\$3.74 – \$3.84

1. All non-GAAP numbers have been adjusted to exclude certain items. A description of HP's use of non-GAAP information is provided in the supplemental slides at <http://www.hp.com/investor/sam2008>

2. Revenue assumes currency is neutral from FY08 to FY09 (i.e. zero impact from currency). Total company revenue growth reflects approximately (\$500-600) million in eliminations and Corporate and other revenue

3. Calculated using HP FY08 revenue guidance of approximately \$111.5 billion

FY09 financial model – segment detail

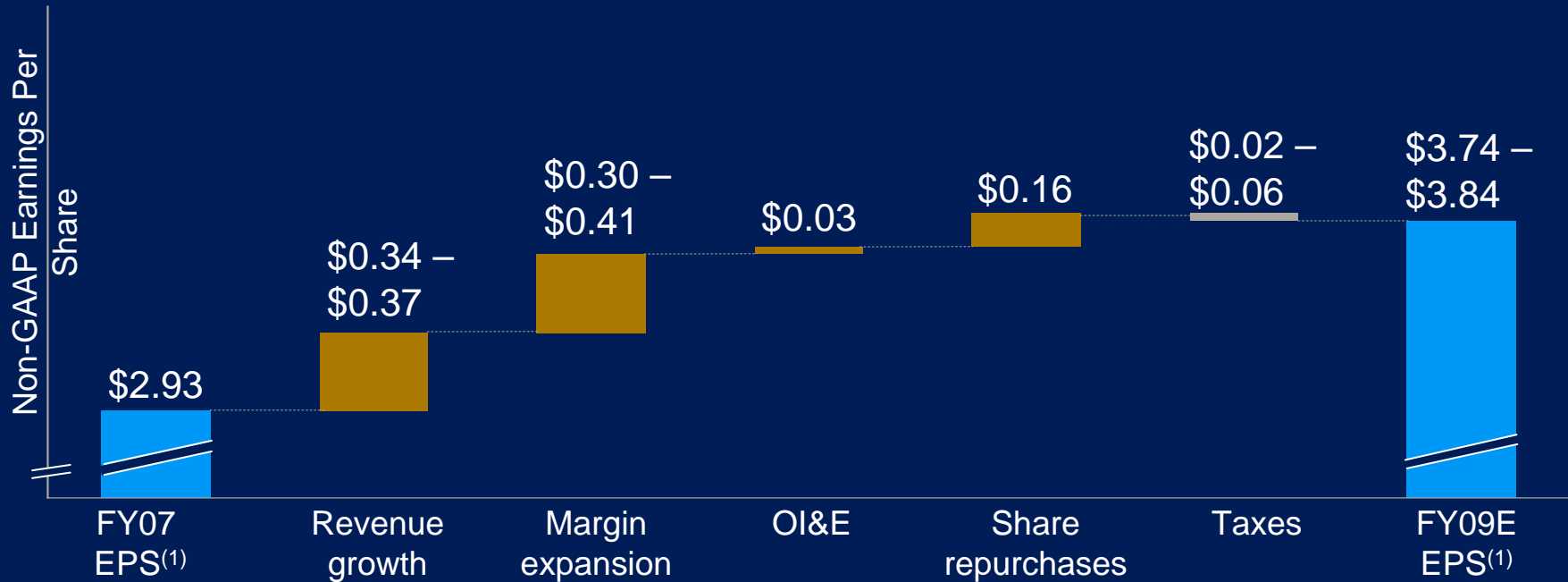
Segments	Y/Y revenue growth ⁽¹⁾	Operating margin ⁽²⁾
Personal Systems Group	5% – 7%	5% – 5.5%
Imaging and Printing Group	4% – 6%	14.5% – 15.5%
Enterprise Storage and Servers	4% – 6%	11% – 12%
HP Services	4% – 6%	13% – 14%
HP Software	15% – 20%	20% – 22%
HP Financial Services	6% – 8%	6% – 8%

1. Revenue assumes currency is neutral from FY08 to FY09 (i.e., zero impact from currency). Total company revenue growth reflects approximately (\$500-600) million in eliminations and Corporate and other revenue

2. Segment operating margin excludes stock based compensation

Balanced revenue and cost initiatives

FY07 vs. FY09 non-GAAP EPS expansion model



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Summary

- Solid revenue and EPS growth with healthy recurring revenue
- Improved balance across all businesses and geographies
- Well diversified across customer segments, regions and products
- Significant cash flow and cash position with substantial investment capacity
- Executing on cost initiatives
- Returning value to shareholders through share price appreciation, share repurchase and dividends

