



Financial update

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Chief Financial Officer
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Agenda

- FY05 review
- Revenue and operating profit trends
- FY06 outlook
- FY07 operating model
- Balance sheet and cash flow
- Capital allocation

FY05 review

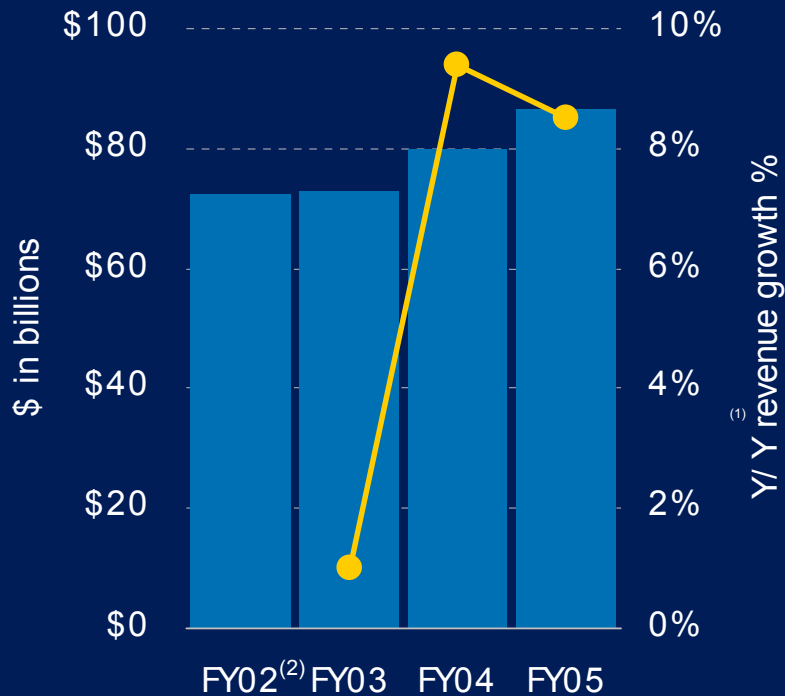
Non-GAAP P&L⁽¹⁾

	FY05		FY04		Y/Y % change
	\$	% of revenue	\$	% of revenue	
Revenue	\$86.7		\$79.9		8%
Gross Profit	\$20.3	23.4%	\$19.1	23.9%	6%
Total Op-ex	\$14.7	17.0%	\$14.1	17.6%	4%
Operating profit	\$5.6	6.4%	\$5.0	6.3%	11%
Net income	\$4.7	5.4%	\$4.1	5.1%	16%
EPS	\$1.62		\$1.33		22%

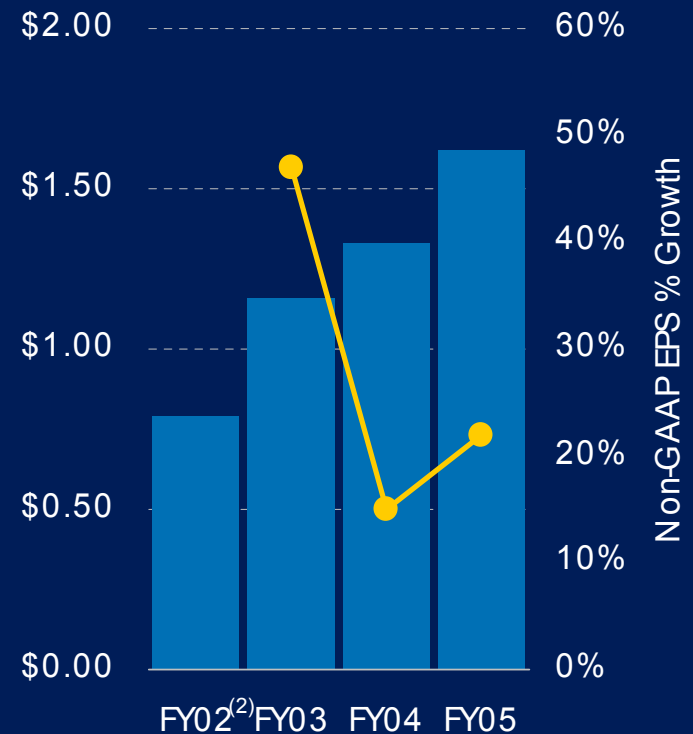
1. All non-GAAP numbers have been adjusted to exclude certain items. A reconciliation of specific adjustments to GAAP results for this quarter and prior periods is included in the GAAP to non-GAAP slides, included in supplemental slides of this presentation. A description of HP's use of non-GAAP information is provided in the supplemental slides. See supplemental slides at <http://www.hp.com/hpinfo/investor/sam/index.html>.

HP revenue and non-GAAP EPS

Revenue



Non-GAAP EPS⁽¹⁾

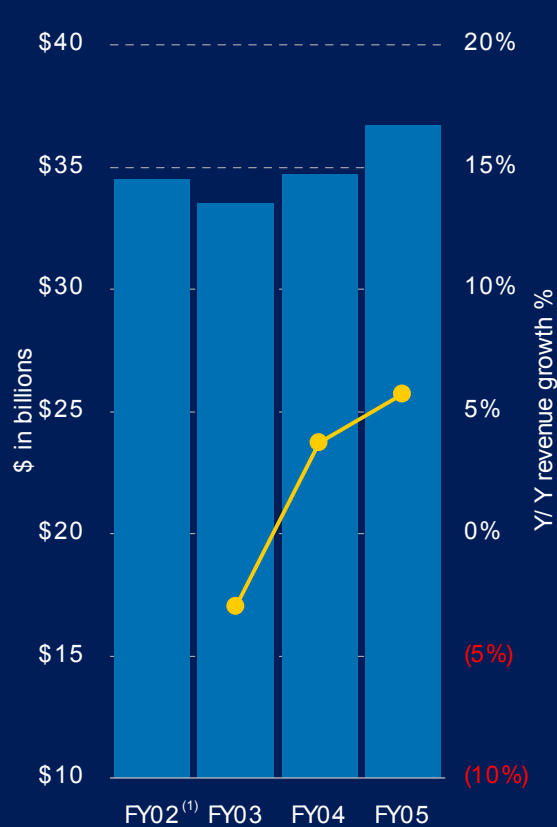


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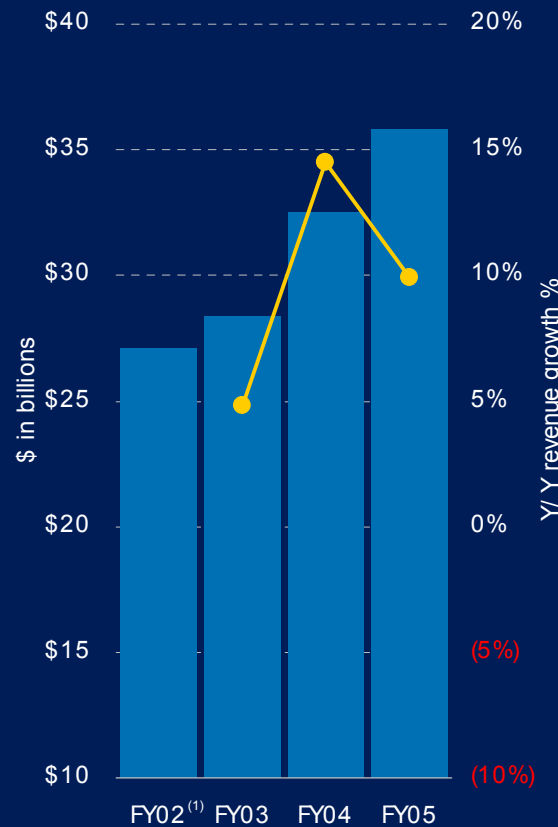
2. Based on Combined Company data. See supplemental slides at <http://www.hp.com/hpinfo/investor/sam/index.html> for a description of periods used for combined company information.

Regional revenue trends

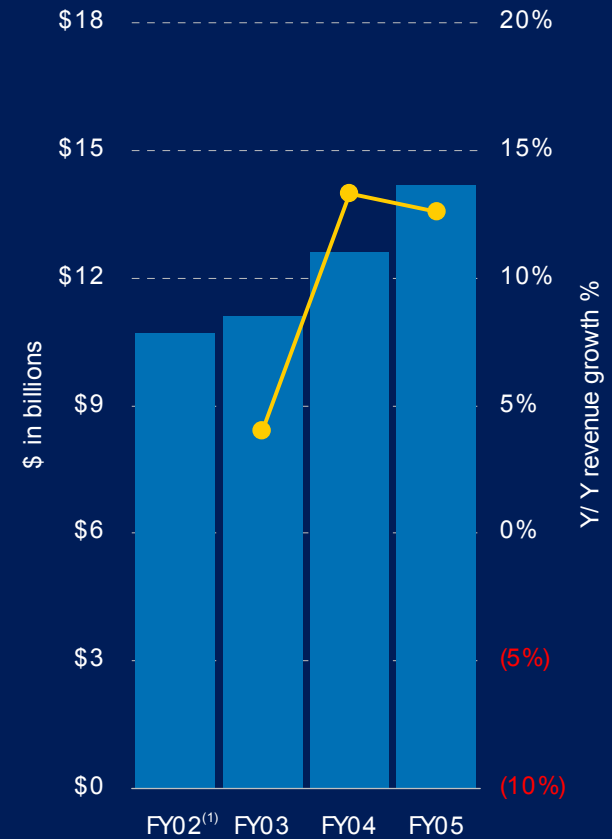
Americas



EMEA

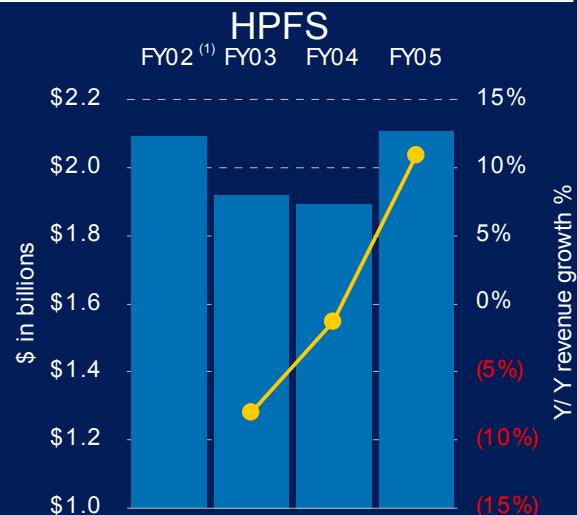
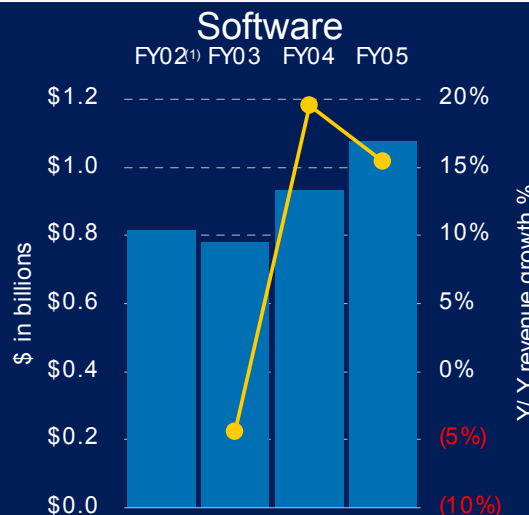
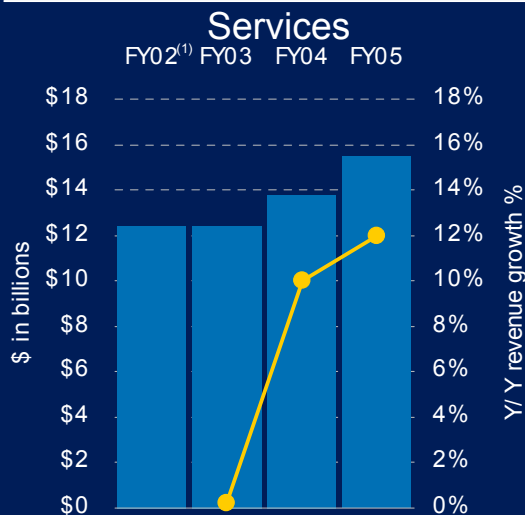
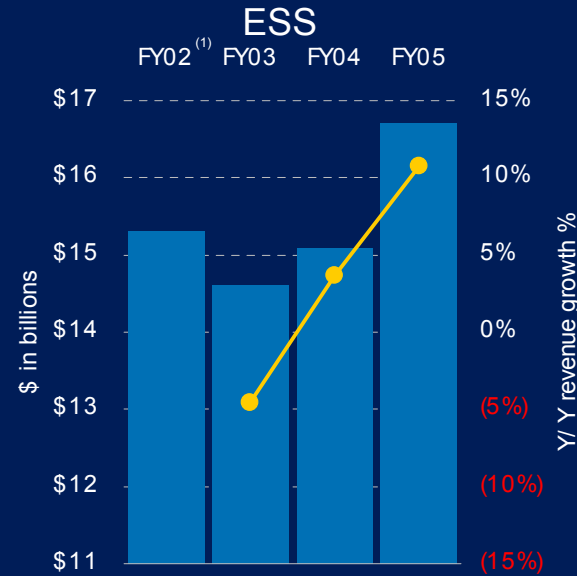
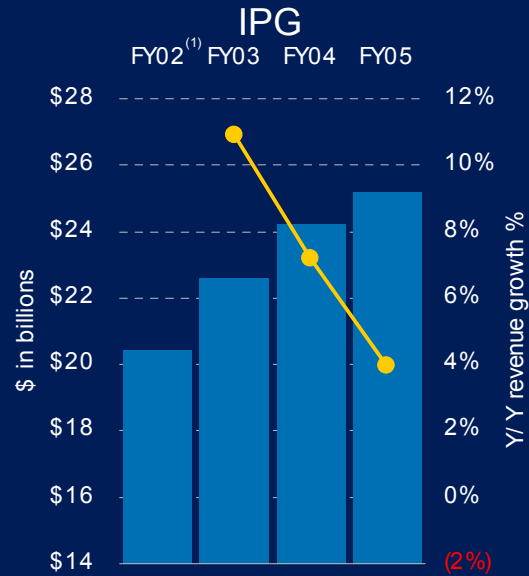
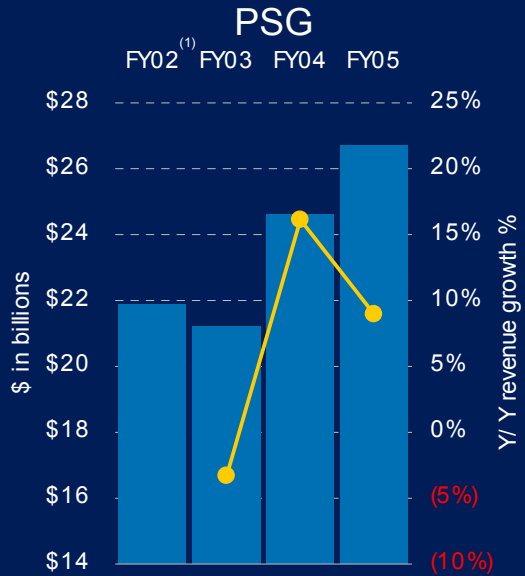


Asia Pacific



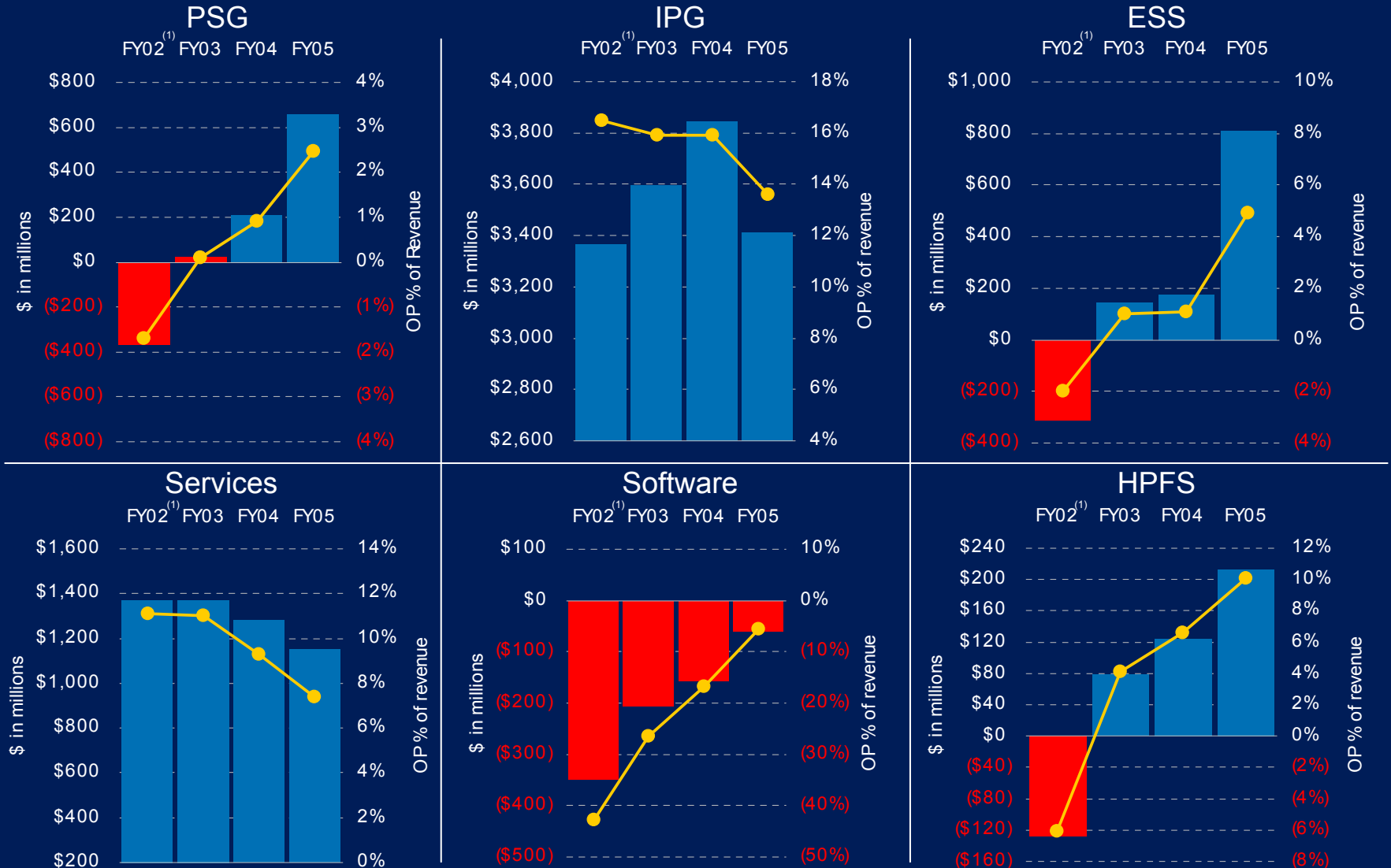
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Segment revenue trends



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Segment operating profit trends



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Recurring revenue as a % of total

	FY03	FY04	FY05
Supplies	16.4%	16.5%	16.2%
Support & MS	13.6%	14.2%	14.6%
HPFS	2.6%	2.3%	2.4%
Total recurring	32.7%	33.0%	33.2%

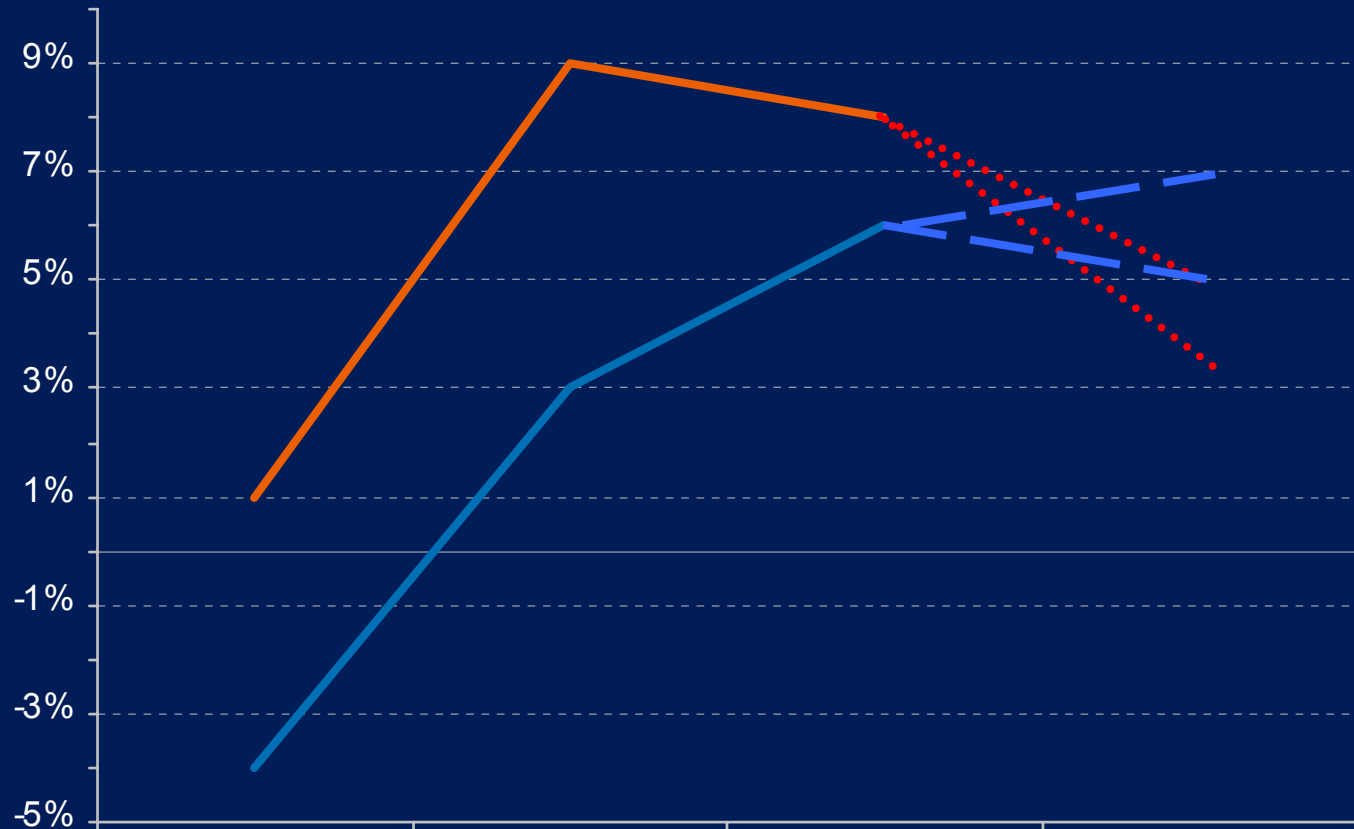
Outlook

Full year FY06:

Revenue	\$89.5B to \$91.0B
Non-GAAP EPS ⁽¹⁾	\$1.88 – \$1.95 pre stock-based compensation
	\$1.75 – \$1.82 post stock-based compensation

1. For the fiscal year, this excludes after-tax costs of approximately \$0.14 per share, primarily related to the amortization of purchased intangible assets.

Y/Y revenue growth



	FY03	FY04	FY05	FY06 (E)
Constant Currency	-4%	3%	6%	5% - 7%
As Reported	1%	9%	8%	3% - 5%

Restructuring

- Announced in July 2005
- Estimated terminations of 15,300
 - Approximately 4,700 employees left the company in Q405, including 3,200 early retirees
- Changes to the U.S. pension plans
- Total estimated restructuring cost of \$1.6 billion, of which \$1.565 billion was recorded in Q405
- Total gross savings of \$2.05 billion in FY07, half of which are estimated to fall through to operating profit
- Approximately 40% of the savings relate to cost of sales and 60% to operating expenses

FY07 operating model

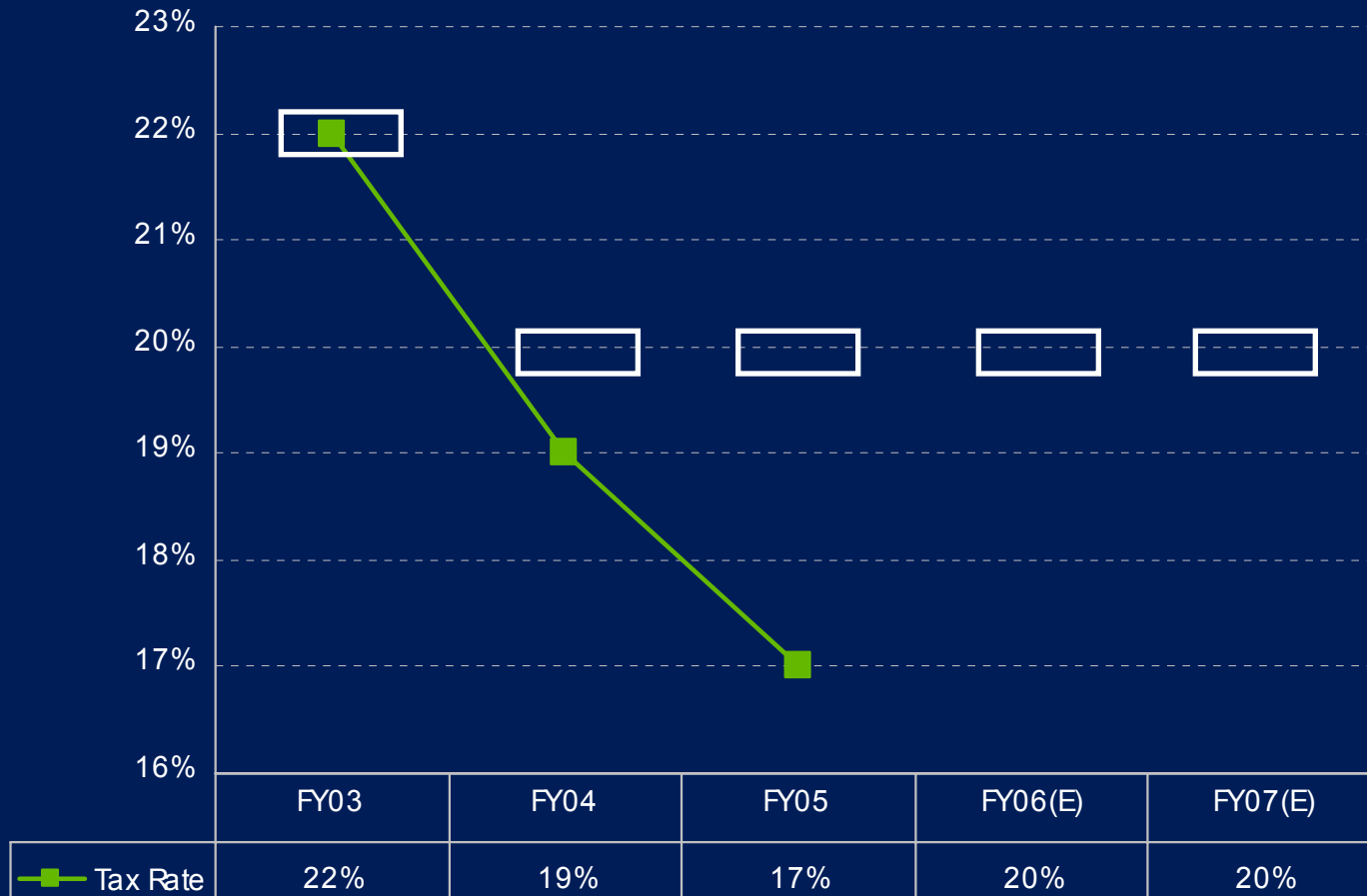
	Y/Y revenue growth ⁽¹⁾	Operating Margin ⁽²⁾
Segments		
PSG	4% – 6%	3% – 4%
IPG	4% – 6%	13% – 15%
ESS	4% – 6%	6% – 8%
HPS	4% – 6%	8% – 10%
SW	10% – 15%	10% – 15%
HPFS	3% – 5%	6% – 8%
Total company	4% – 6%	7.5% – 8% ⁽³⁾
OI&E (millions)		\$300 – \$400
Tax rate		20%
Shares (millions)		2,900

(1) Revenue assumes currency is neutral from FY06 to FY07 (i.e. zero impact from currency). Total company revenue growth reflects approximately \$(400 - 500) million in Eliminations and Corporate and other revenue

(2) Total company operating margin reflects approximately \$(550 - 600) million in Corporate and unallocated costs, eliminations & other and Corporate Investment operating losses

(3) Includes the impact of stock-based compensation.

Non-GAAP tax rate progress¹



Projected FY tax rate

¹See bridge slides for reconciliation of non-GAAP to GAAP financial information at <http://www.hp.com/hpinfo/investor/sam/index.html>

Stock-based compensation trend

EPS impact: ⁽²⁾	FY04	FY05 ⁽¹⁾	FY06 (E)	FY07 (E)
Included in EPS	\$0.01	\$0.03	\$0.13	\$0.12 – \$0.14
Excluded from EPS	\$0.22	\$0.16	–	–
Total stock-comp	\$0.23	\$0.19	\$0.13	\$0.12 – \$0.14

(1) FY05 is estimated and may differ from amounts reported in HP's fiscal 2005 form 10-K.

(2) FY04 and FY05 are shown for comparability purposes and were calculated in accordance with FAS123. FY06 and FY07 estimates calculated using FAS123R. Had FY04 and FY05 amounts been calculated using FAS123R, amounts may differ from those shown. Amounts shown may differ from previously filed form 10-Qs and 10-Ks due to rounding. All amounts shown do not include stock-based compensation included in restructuring charges.

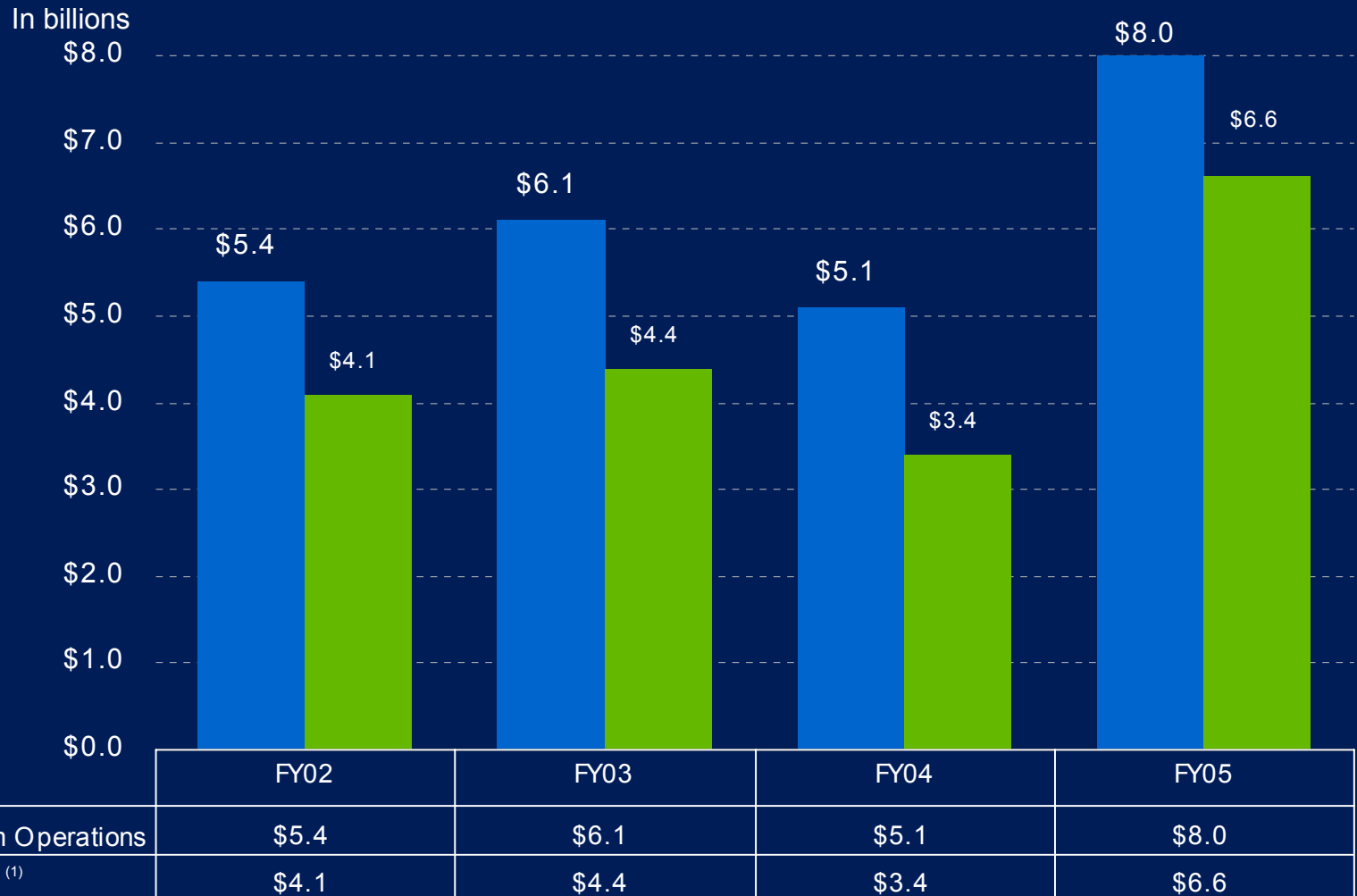
Share count

(In millions)	FY03	FY04	FY05
Shares outstanding			
Shares outstanding – beginning	3,044	3,043	2,911
Share repurchase	(40)	(172)	(150)
Issuances/other	39	40	76
Shares outstanding – ending	3,043	2,911	2,837
Non-GAAP weighted average share count			
Basic average shares O/S	3,047	3,024	2,879
Common stock equivalents (CSEs)	16	23	30
Convertible debt	8	8	8
Dilutive share O/S	3,071	3,055	2,917
In the money options @ year end	152	124	298

FY05 CSEs	
Q105	20
Q205	23
Q305	34
Q405	58

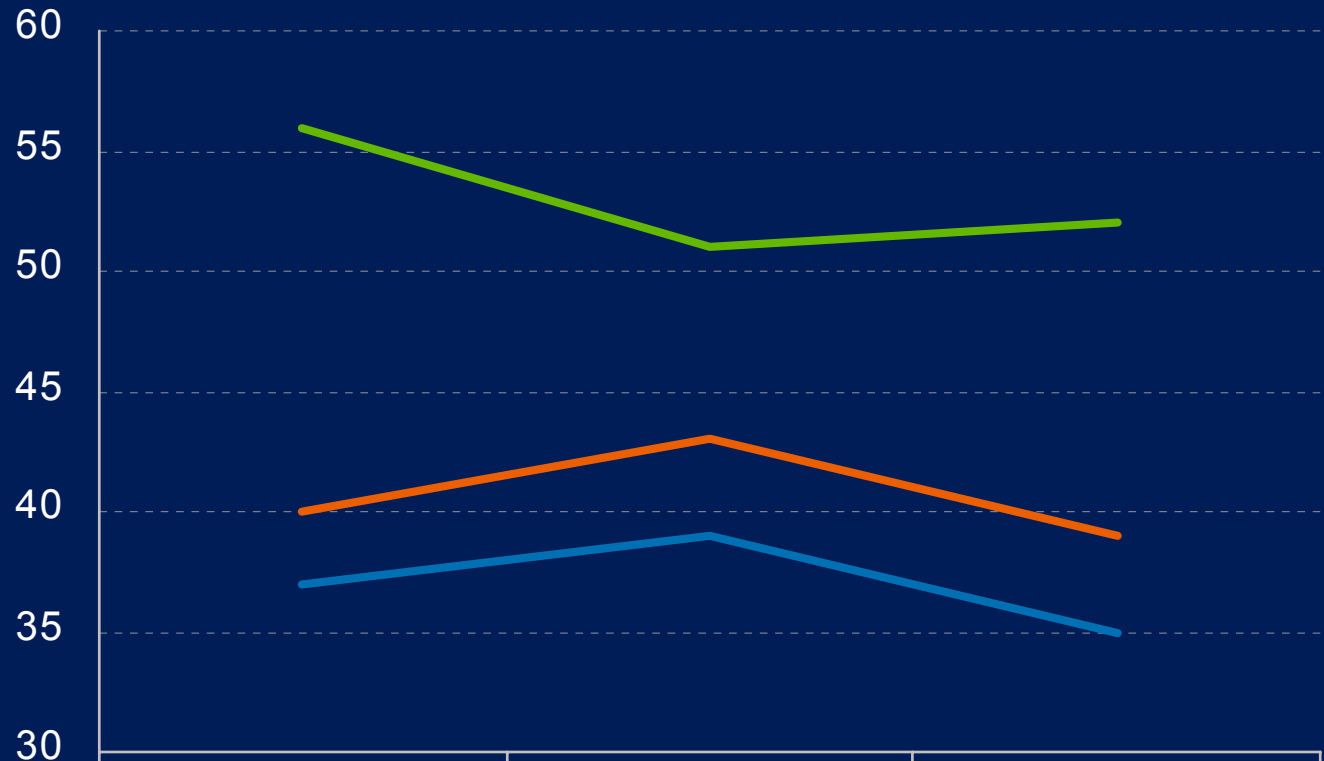
Note: Common stock equivalents represent the effect from potential issuance of common stock, such as stock issuable pursuant to the exercise of stock options as calculated under the treasury stock method. Convertible debt represents the effect of the assumed conversion of convertible notes.

Cash flow



1. Free cash flow = cash flow from operations – net capital expenditures

Working capital metrics

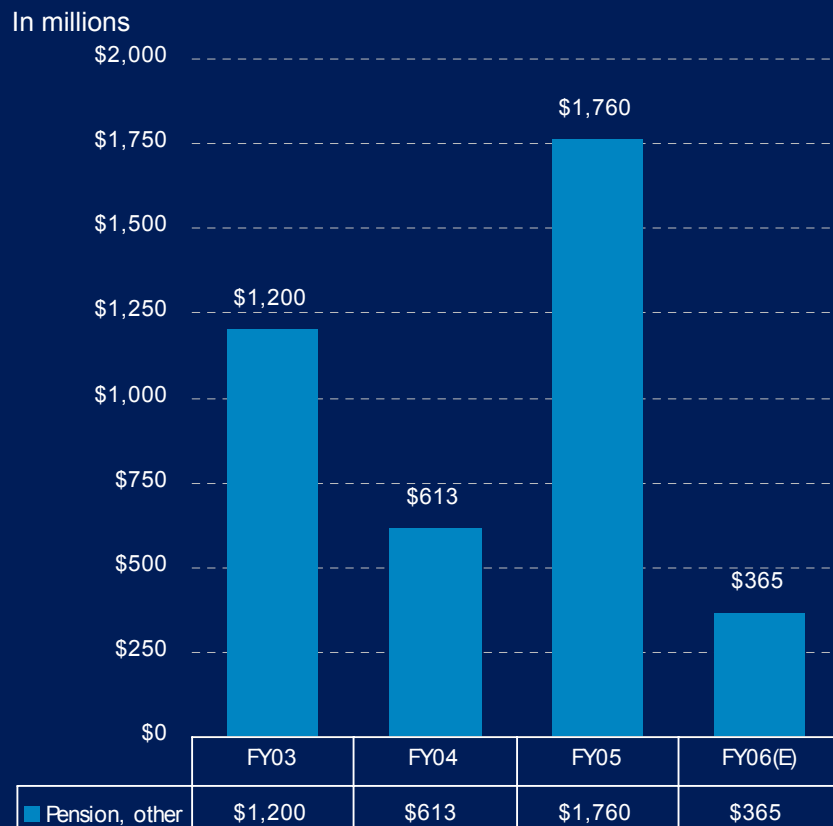


	FY03	FY04	FY05
Days Inventory	37	39	35
Days Receivables	40	43	39
Days Payable	56	51	52

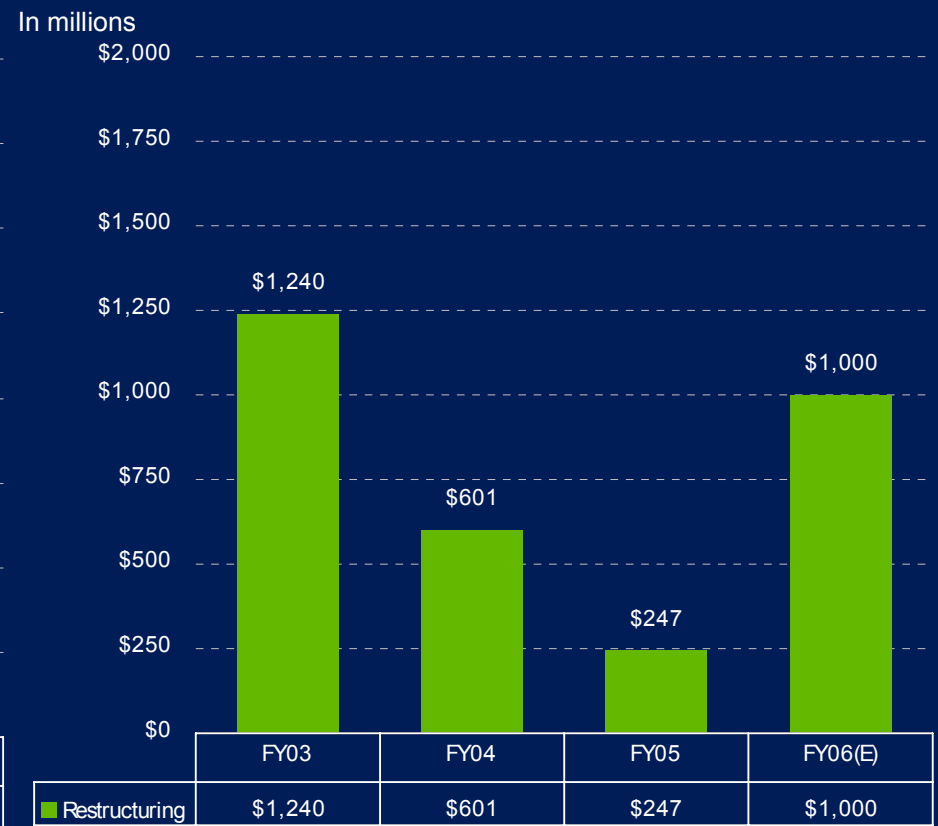
Pension and other post-retirement and restructuring payments



Pension and other post-retirement

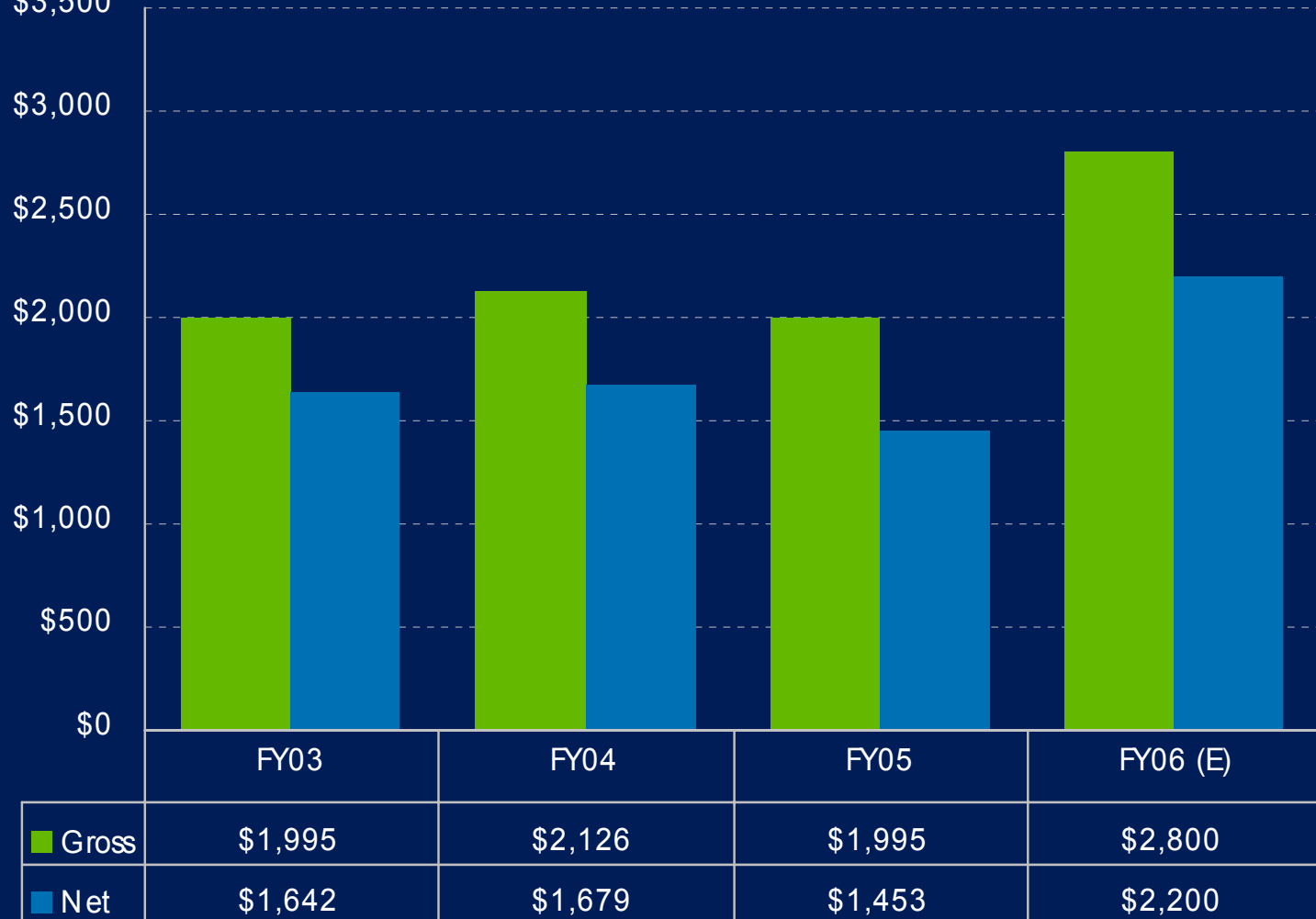


Restructuring



Capital expenditures

In millions \$3,500



Note: Net capital expenditures = Gross Capital expenditures less proceeds from sales of property, plant and equipment

Cash Flow

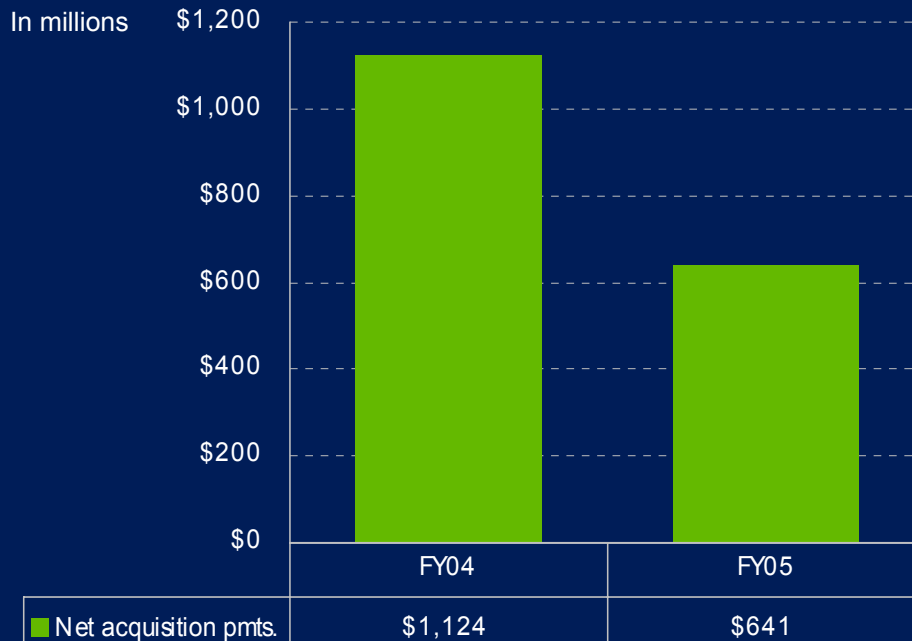
(in millions)	FY03	FY04	FY05	FY06 (E)
Operating Cash Flow	\$6,057	\$5,088	\$8,028	\$7,500 – \$8,500
Gross capital expenditures	\$(1,995)	\$(2,126)	\$(1,995)	\$(2,800)
Proceeds	\$353	\$447	\$542	\$600
Net capital expenditures	\$(1,642)	\$(1,679)	\$(1,453)	\$(2,200)
Free cash flow	\$4,415	\$3,409	\$6,575	\$5,300 – \$6,300

Included in operating outflows:

Pension contributions	\$(1,200)	\$(613)	\$(1,760)	\$(365)
Restructuring	\$(1,240)	\$(601)	\$(247)	\$(1,000)

Acquisitions

Net cash paid for acquisitions



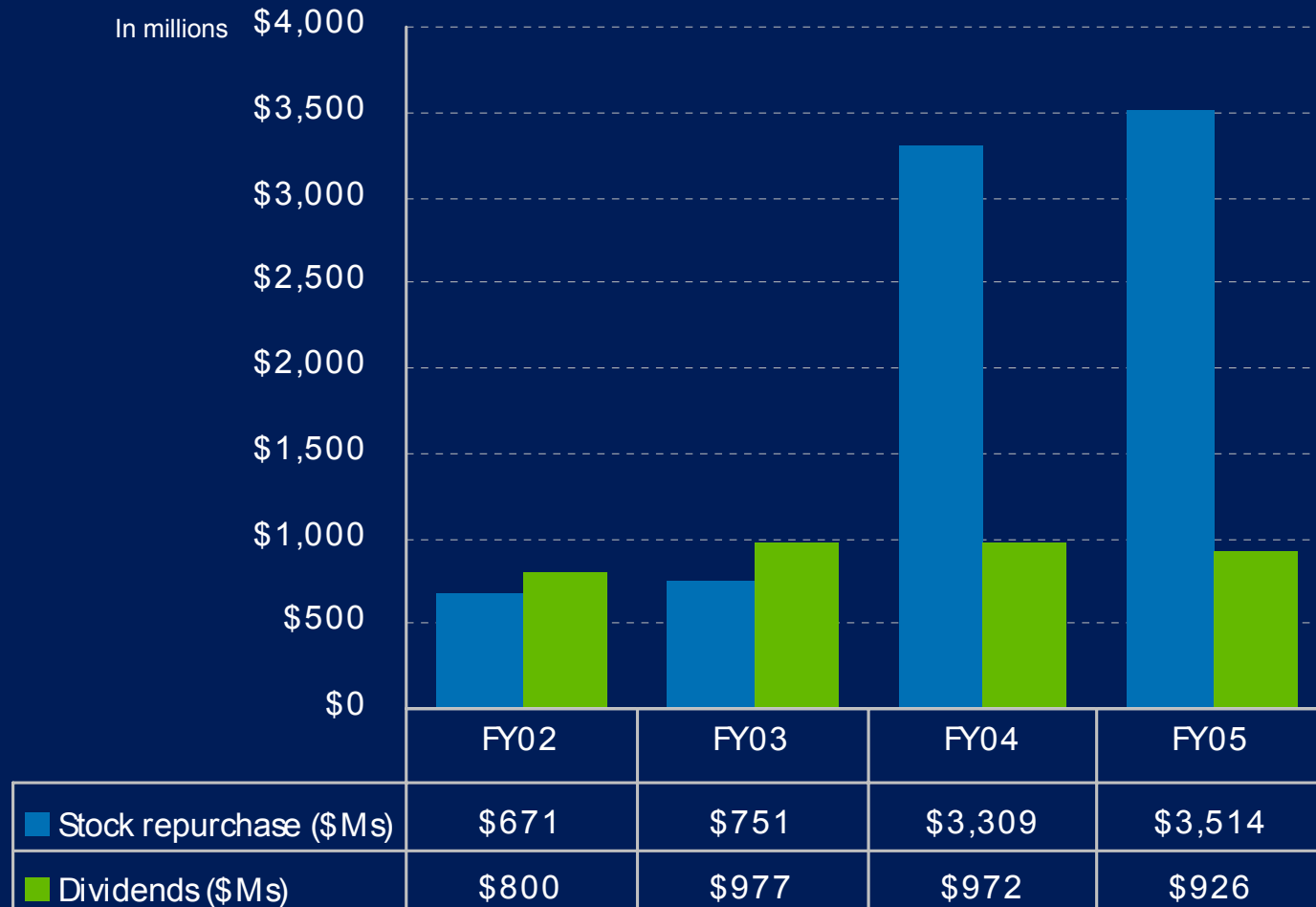
FY05 revenue growth

	As reported	Ex acquisitions
ESS	11%	11%
Services	12%	8%
Software	15%	12%
PSG	9%	9%
IPG	4%	4%
HPFS	11%	11%
Total HP	8%	8%

- FY04 acquisitions were primarily in HPS and Software, with the largest payments being Triaton (\$464M) and Synstar (\$343M) – both HPS acquisitions in Europe
- FY05 acquisitions were primarily in IPG (Snapfish) and ESS (AppIQ and RLX)
- FY06 acquisitions to date include Scitex (IPG) for \$230M, which closed on November 1, 2005, and the pending acquisition of Peregrine (Software) for \$425M

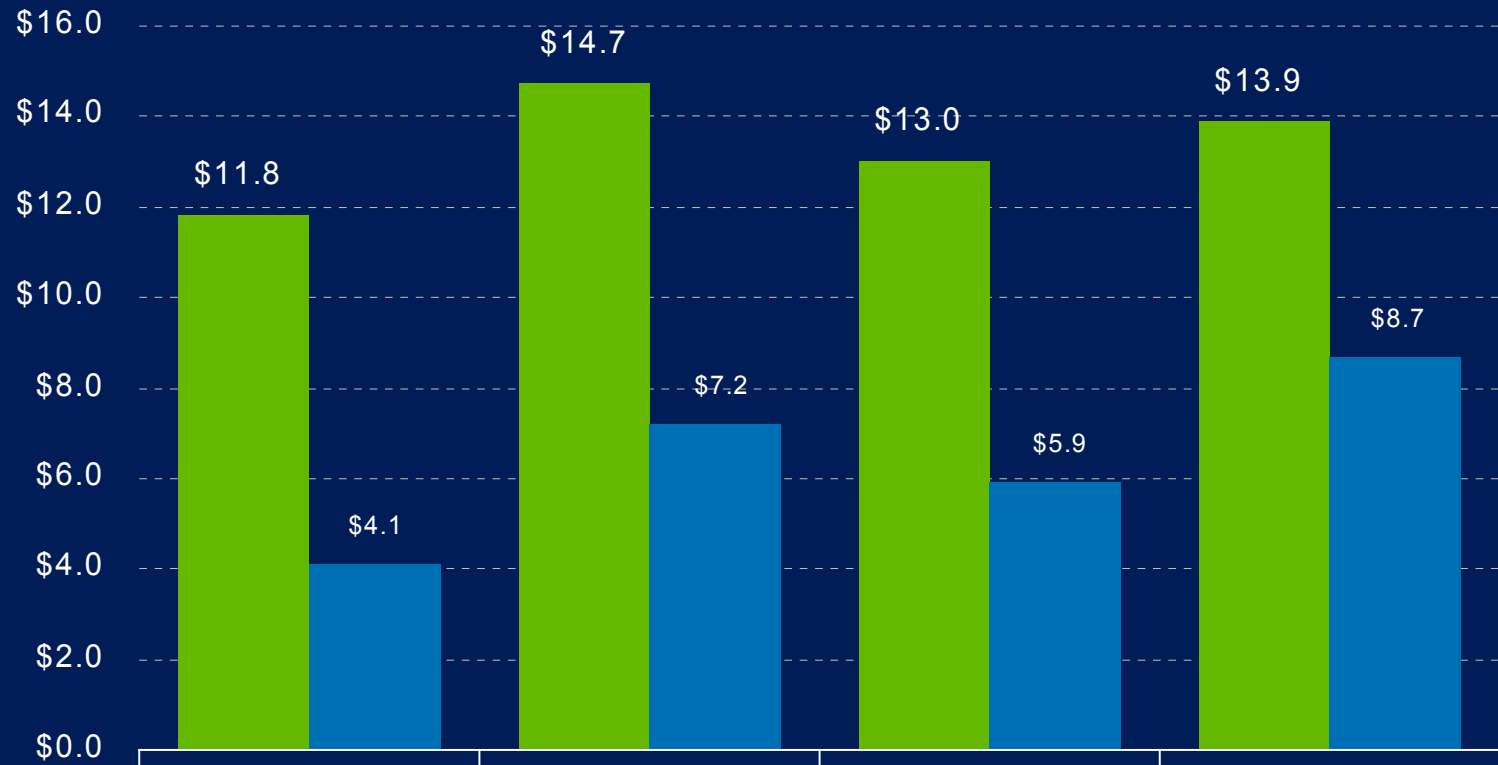
Stock repurchase & dividends

\$3.4B remaining authorization at October 31, 2005



Gross and net cash

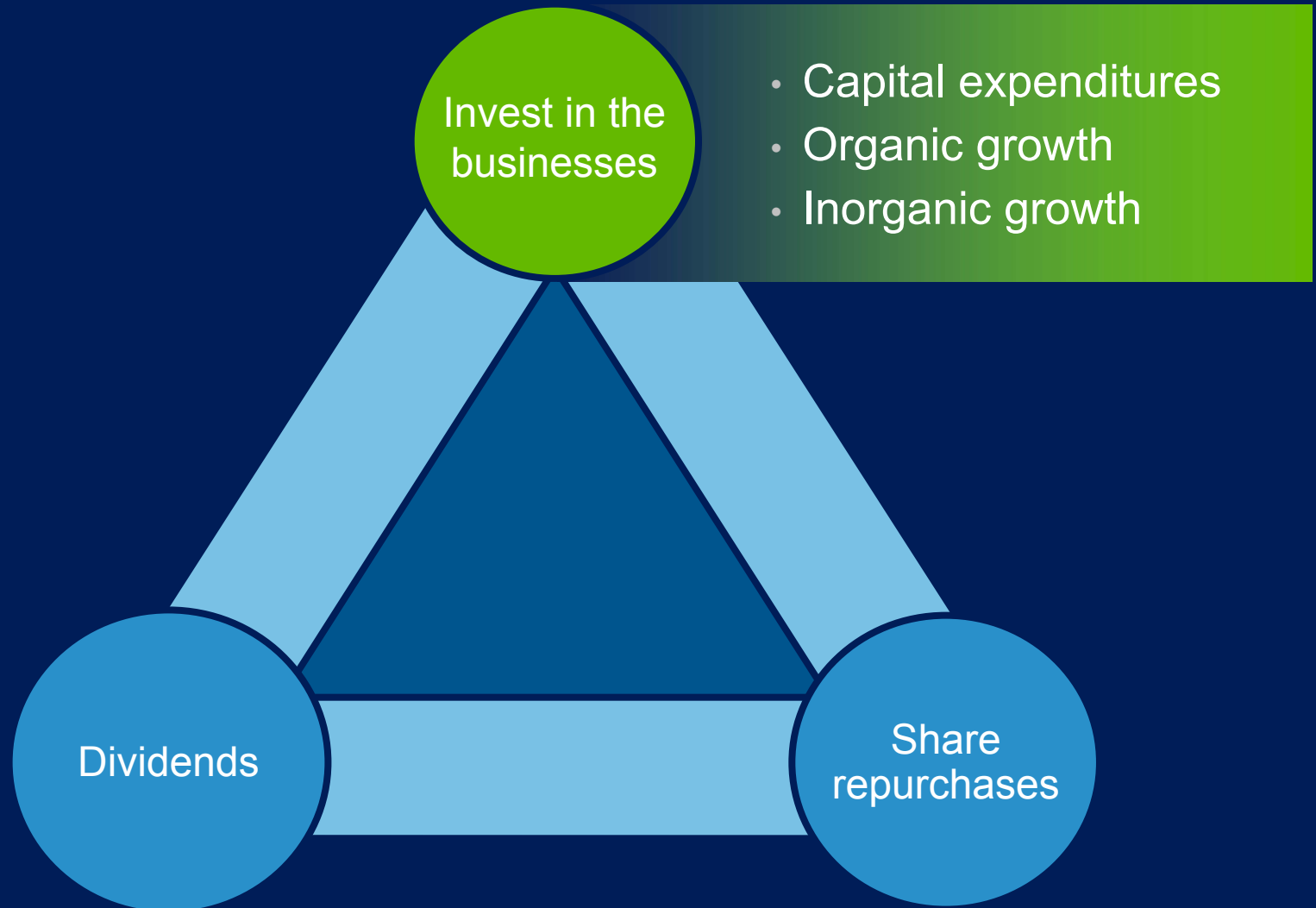
In billions



	FY02	FY03	FY04	FY05
■ Gross cash and inv. ⁽¹⁾	\$11.8	\$14.7	\$13.0	\$13.9
■ Net cash ⁽²⁾	\$4.1	\$7.2	\$5.9	\$8.7

1. Includes cash and cash equivalents, short-term investments, and certain liquid long-term investments
 2. Net cash is defined as gross cash and investments less total debt

Capital allocation



Summary

- Strong constant currency revenue growth
- Healthy recurring revenue
- Improved margins in key businesses
- Strong EPS growth
- Significant cash flow and cash position
- Investing capital to drive growth and shareholder returns
- Returning value to shareholders through share repurchase and dividends



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