




# Q2 FY07 Earnings Announcement

**May 16, 2007**



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# Forward looking statements

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# Use of non-GAAP financial information

HP has included non-GAAP financial measures in this presentation to supplement HP's consolidated condensed financial statements presented on a GAAP basis. Definitions of these non-GAAP financial measures and reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are included elsewhere in this presentation.

HP's management uses non-GAAP operating expense, non-GAAP OI&E, non-GAAP operating profit, non-GAAP net earnings, non-GAAP diluted earnings per share, and HP's non-GAAP tax rate to evaluate and forecast HP's performance before gains, losses or other charges that are considered by HP's management to be outside of HP's core business segment operating results. Gross cash, net cash and free cash flow are liquidity measures that provide useful information to management about the amount of cash available for investment in HP's businesses, funding strategic acquisitions, repurchasing stock and other purposes.

These non-GAAP financial measures may have limitations as analytical tools, and these measures should not be considered in isolation or as a substitute for analysis of HP's results as reported under GAAP. For example, items such as restructuring charges that are excluded from non-GAAP operating expense, non-GAAP operating profit, non-GAAP net earnings, non-GAAP diluted earnings per share and HP's non-GAAP tax rate and items such as gains or losses on investments that are excluded from non-GAAP net earnings and non-GAAP diluted earnings per share can have a material impact on cash flows. HP may not be able to liquidate the long-term investments included in gross cash immediately, which may limit the usefulness of gross cash as a liquidity measure. In addition, free cash flow does not represent the total increase or decrease in the cash balance for the period. The non-GAAP financial information that we provide also may differ from the non-GAAP information provided by other companies.

We compensate for the limitations on our use of these non-GAAP financial measures by relying primarily on our GAAP financial statements and using non-GAAP financial measures only supplementally. We also provide robust and detailed reconciliations of each non-GAAP financial measure to the most directly comparable GAAP measure, and we encourage investors to review carefully those reconciliations.

We believe that providing these non-GAAP financial measures in addition to the related GAAP measures provides investors with greater transparency to the information used by HP's management in its financial and operational decision-making and allows investors to see HP's results "through the eyes" of management. We further believe that providing this information better enables investors to understand HP's operating performance and to evaluate the efficacy of the methodology and information used by management to evaluate and measure such performance.



# Q2 FY07 results overview

## Financial Summary

- Net revenue of \$25.5B, growth of \$3.0B, up 13% Y/Y; or 10% in constant currency
- Non-GAAP<sup>(1)</sup> diluted EPS of \$0.70; up 30% Y/Y excluding the \$0.15 tax settlement gain in Q2FY06
- GAAP diluted EPS of \$0.65; up 27% Y/Y excluding the \$0.15 tax settlement gain in Q2FY06
- Cash flow from operations of \$4.2B
- \$4.2B<sup>(2)</sup> in share repurchases, and \$213M in dividends

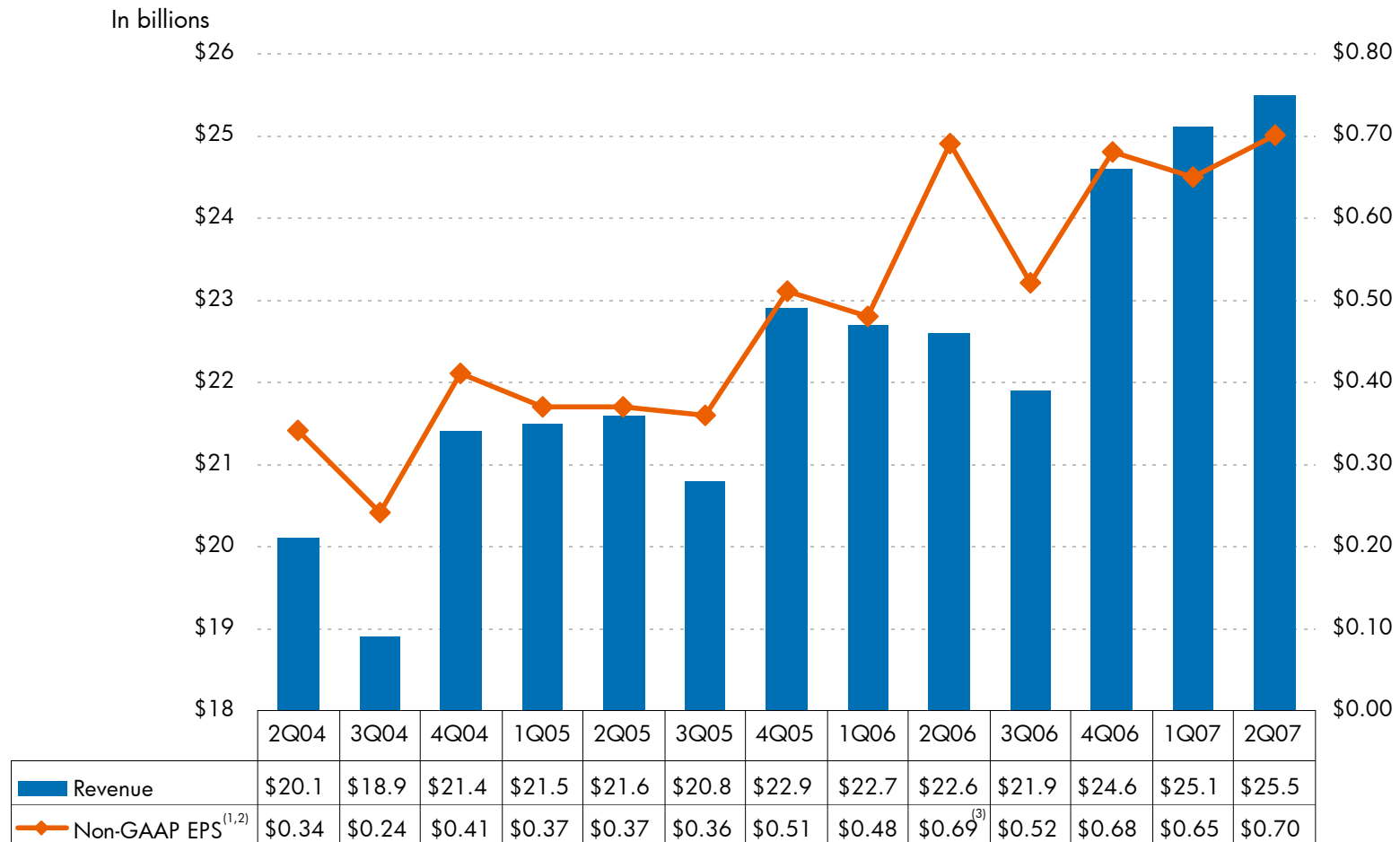
\$ in millions	Q2 Revenue	Growth Y/Y%	OP \$	OP % of rev	OP \$ Y/Y	OP % Y/Y
Imaging and Printing Group	\$7,161	6%	\$1,167	16.3%	\$126	0.8 pts
Personal Systems Group	\$8,663	24%	\$417	4.8%	\$169	1.2 pts
Enterprise Storage and Servers	\$4,619	8%	\$407	8.8%	\$85	1.3 pts
HP Software	\$523	58%	\$42	8.0%	\$39	7.1 pts
Services	\$4,145	7%	\$459	11.1%	\$114	2.2 pts
HP Financial Services	\$550	6%	\$36	6.5%	(\$3)	(1.0 pts)
<b>Total HP</b>	<b>\$25,534</b>	<b>13%</b>	<b>\$2,304<sup>(1)</sup></b>	<b>9.0%</b>	<b>\$508<sup>(1)</sup></b>	<b>1.0 pts</b>

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 on slide 17 and in the GAAP to non-GAAP slides that appear as part of the supplemental slides of this presentation. A description of HP's use of non-GAAP information is provided on slide 3 under "Use of non-GAAP Financial Information."

2. Q2 FY07 share repurchases totaled \$4.0 billion. An additional 6 million shares were received under the Q1 FY06 Prepaid Variable Share Purchase Program for an approximate value of \$199 million.



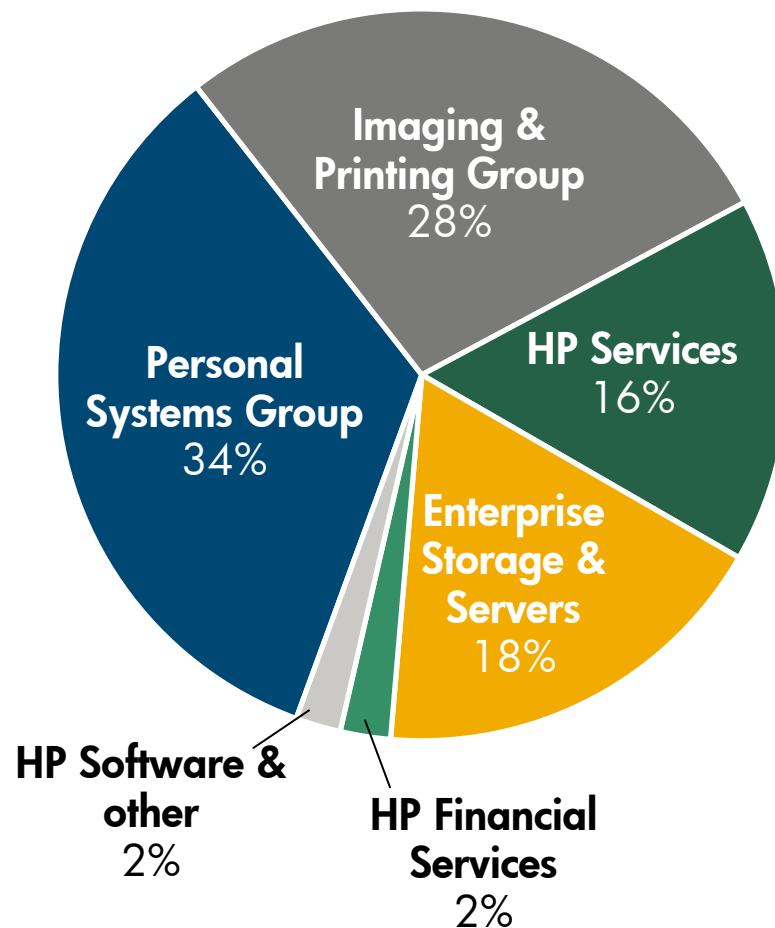
# Revenue & EPS performance



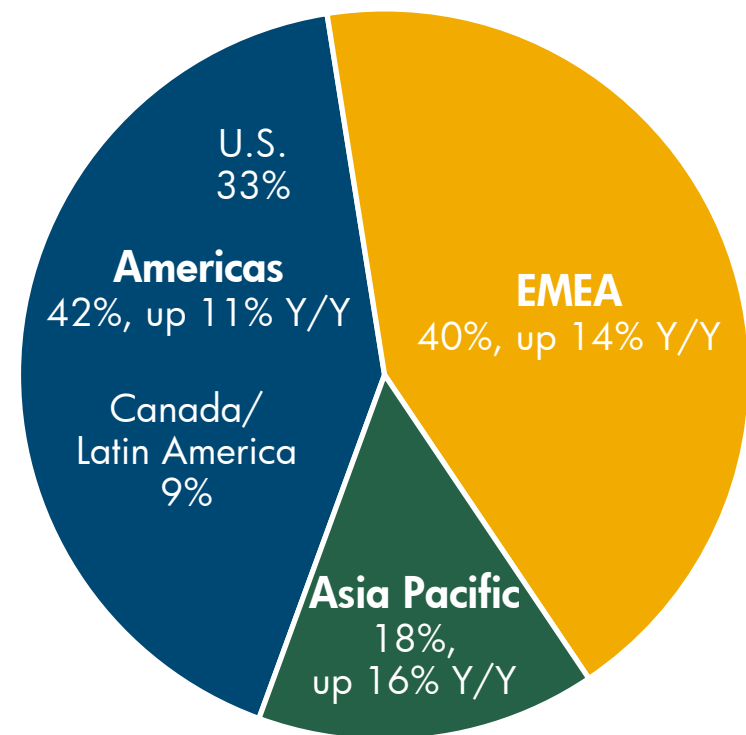
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2. FY04 and FY05 results do not include the effects of stock-based compensation, which are included in FY06 and beyond.
3. On June 6, 2006, HP upwardly revised Q2 FY06 earnings following the signing of a settlement agreement by the Internal Revenue Service resolving federal income tax matters for HP's 1996 through 1998 tax years. Non-GAAP EPS for Q2 FY06 was previously reported as \$0.54. Notification from the IRS on June 1 prior to the filing of HP's Q2 FY06 Form 10-Q required this revision to HP's reported Q2 FY06 results.

# Q2 FY07 revenue

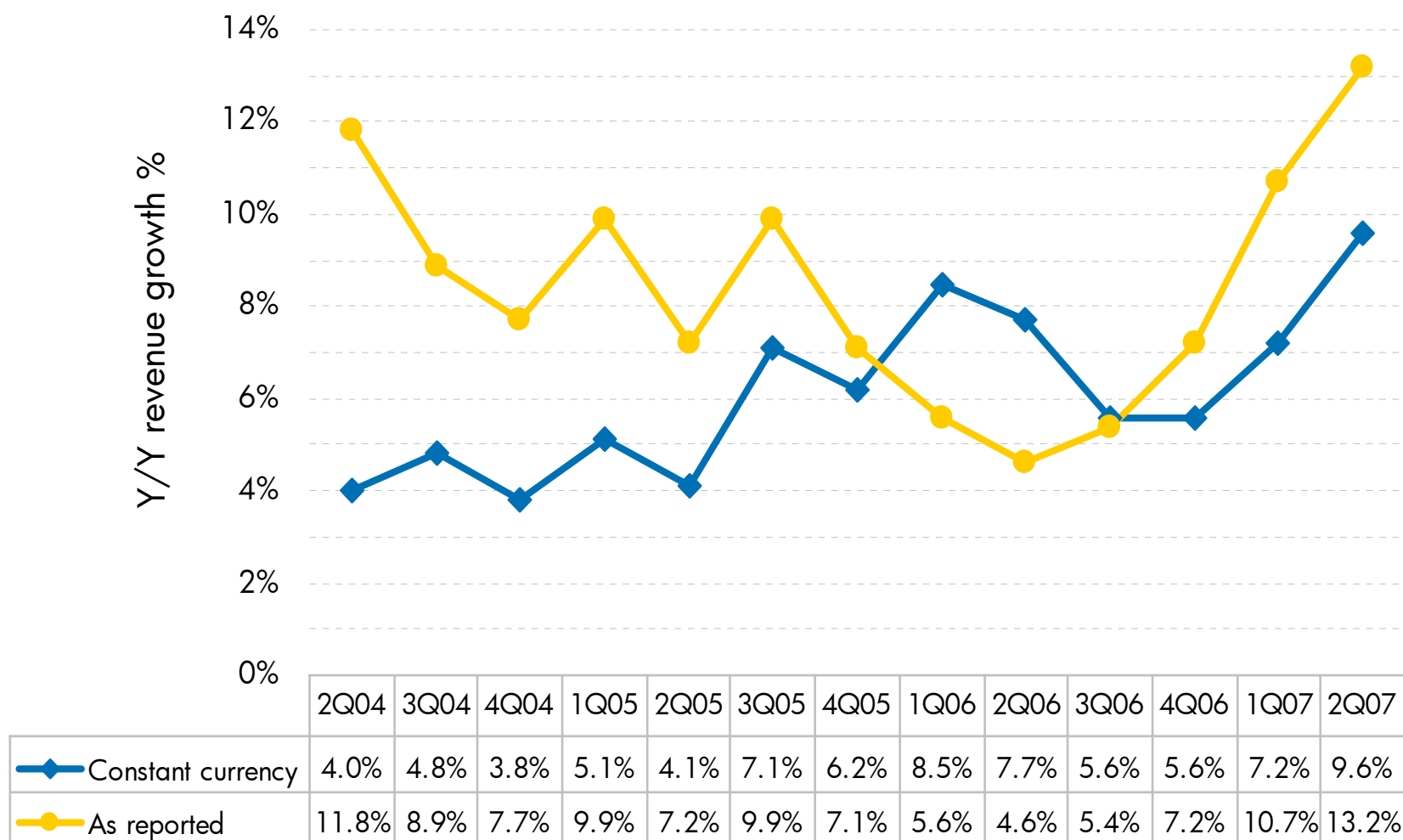
By segment



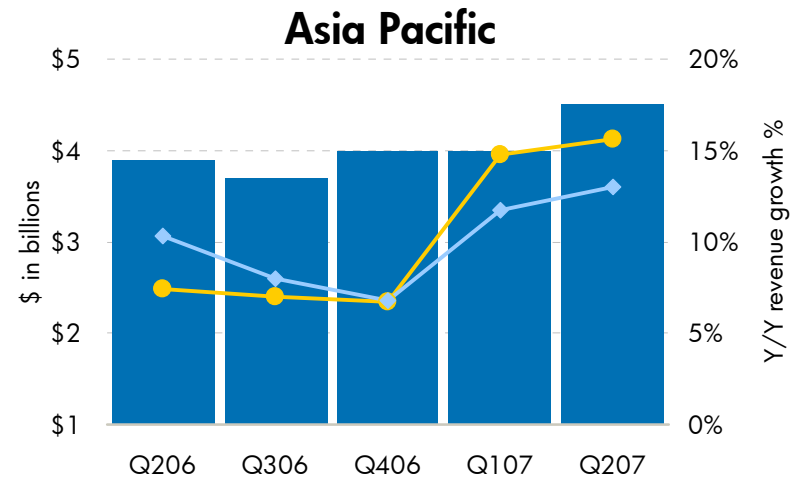
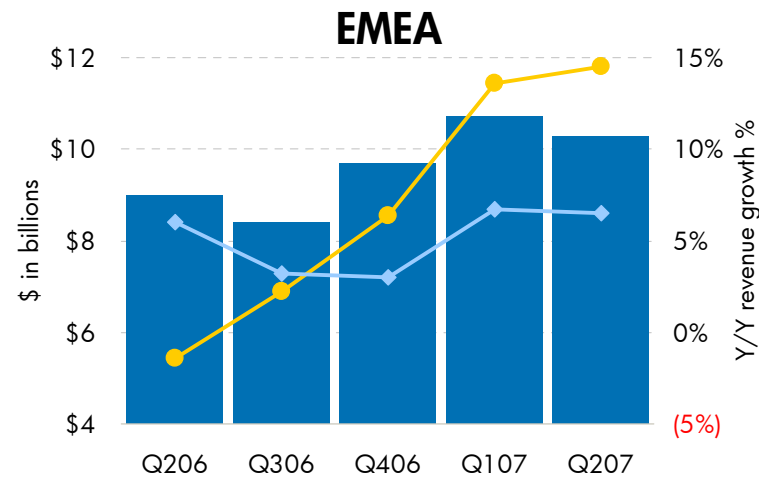
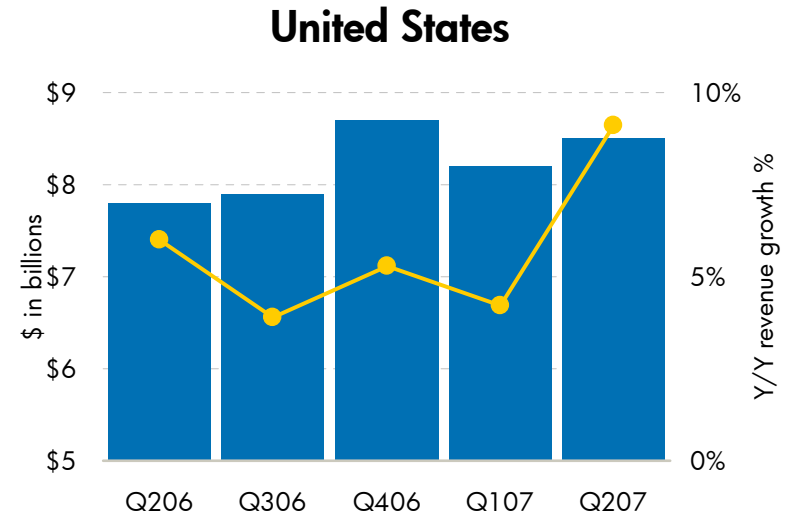
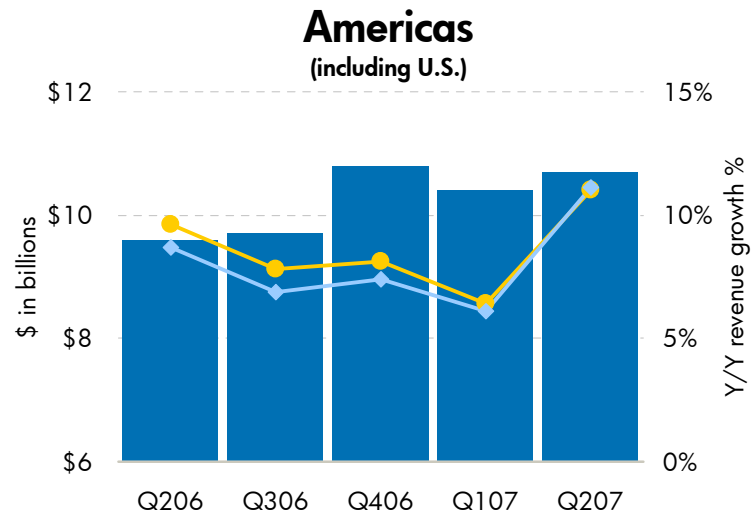
By region



# Revenue growth



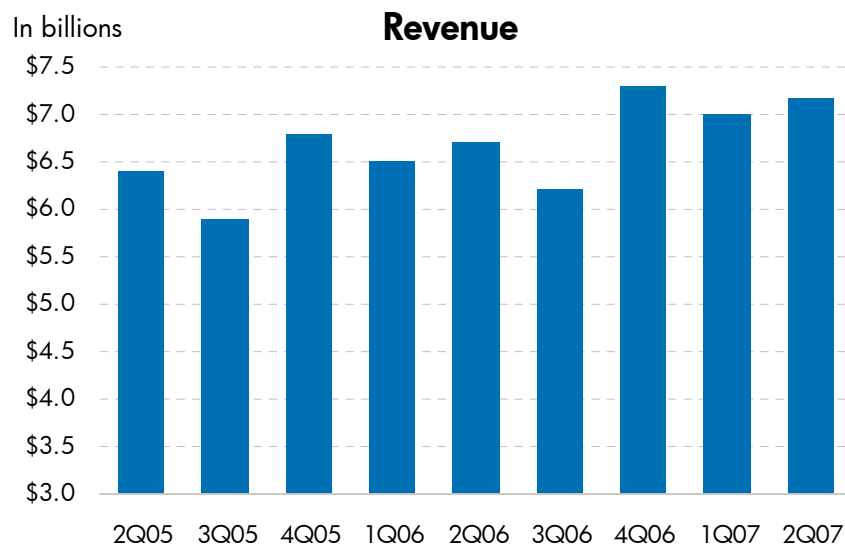
# Regional revenue trends



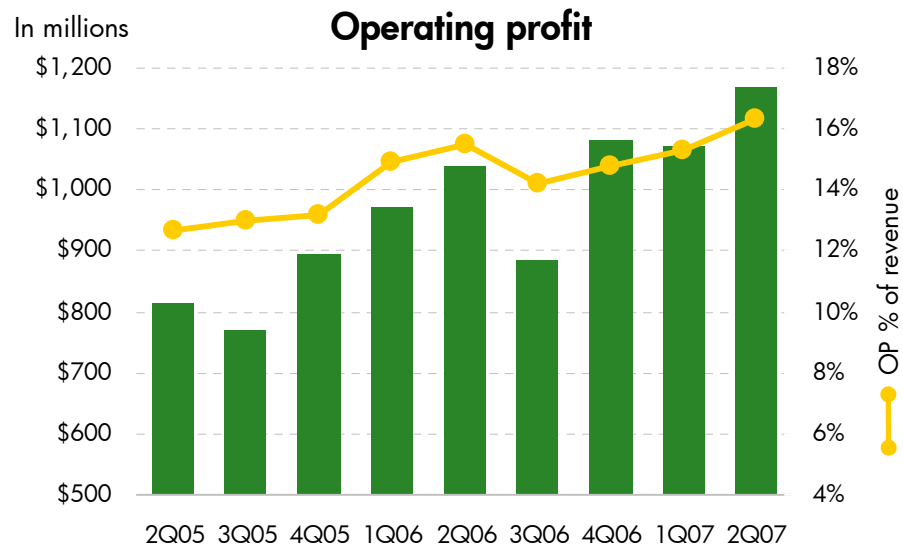
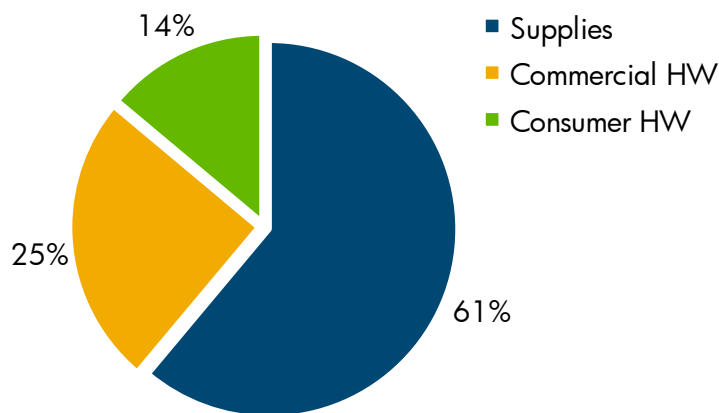
—●— Y/Y revenue growth %  
—◆— Y/Y constant currency revenue growth %



# Imaging and Printing Group (IPG)



**Q2 FY07 revenue by business**

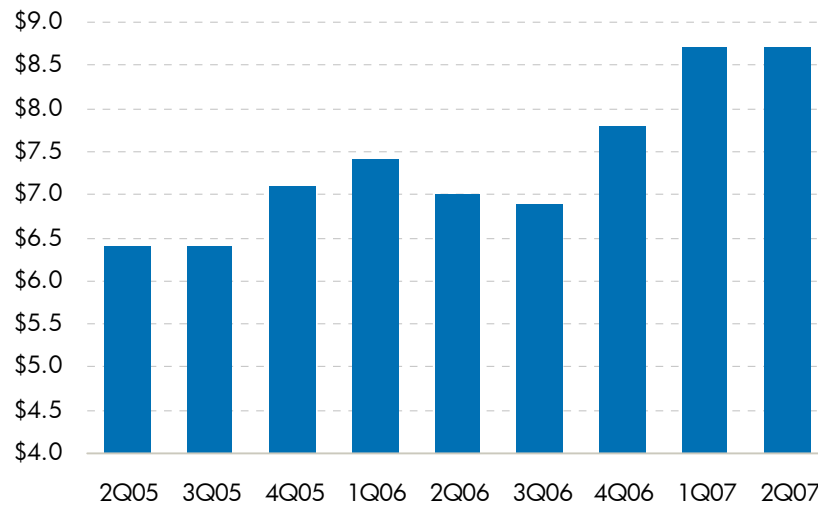


- IPG revenue of \$7.2B; up 6% Y/Y
- Operating profit of \$1.2B; 16.3% of revenue
- Total printer hardware units up 11% Y/Y;  
Consumer printer hardware units up 7%;  
Commercial printer hardware units up 21%
- Color LaserJet units up 19% Y/Y
- Printer-based MFPs units up 40% Y/Y
- Indigo digital press page volume up 43% Y/Y
- Supplies revenue up 10% Y/Y

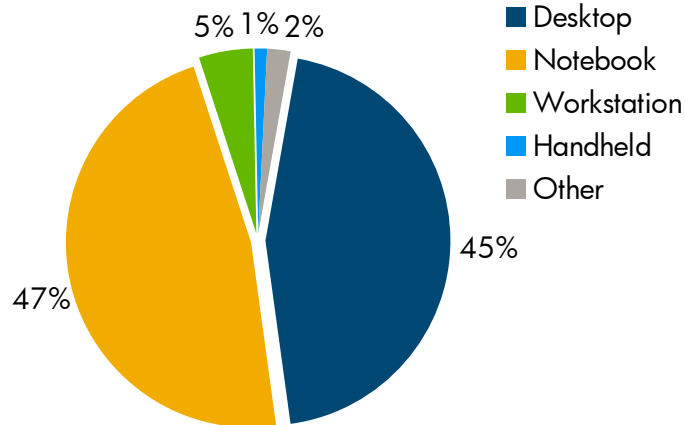
# Personal Systems Group (PSG)

In billions

## Revenue

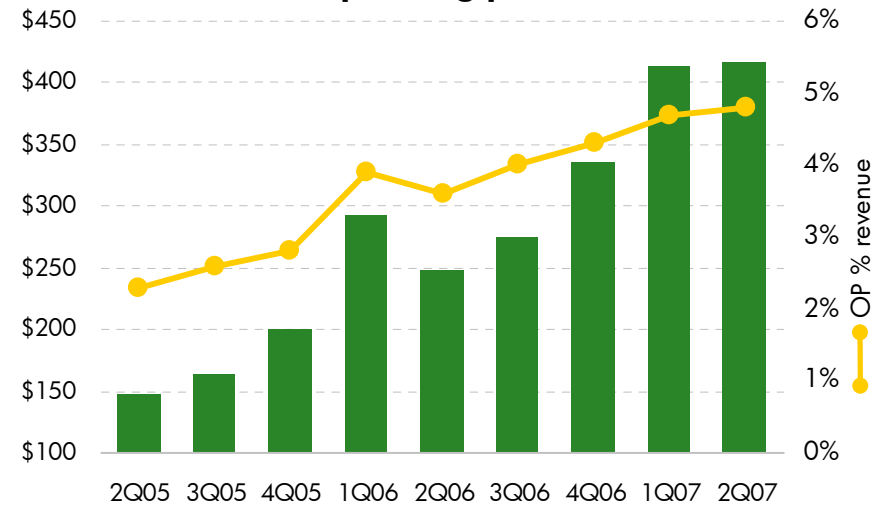


## Q2 FY07 revenue by business



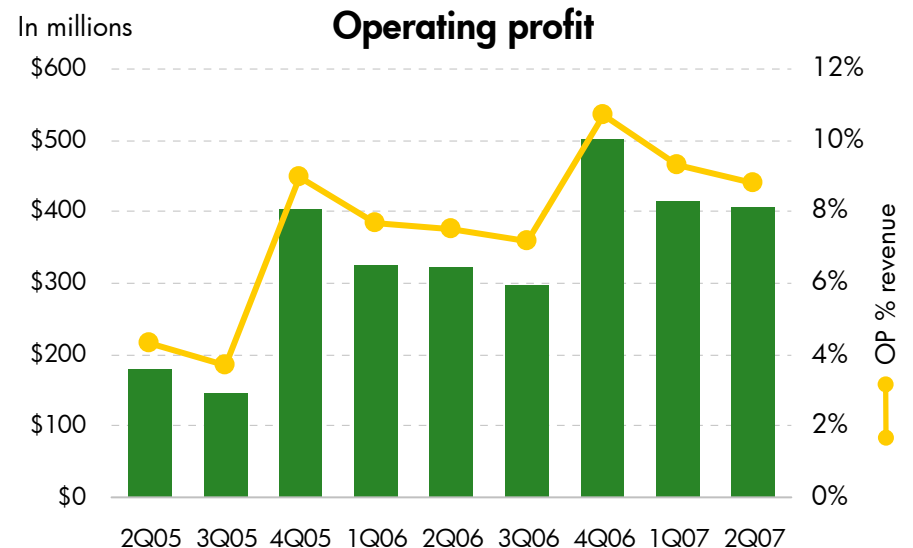
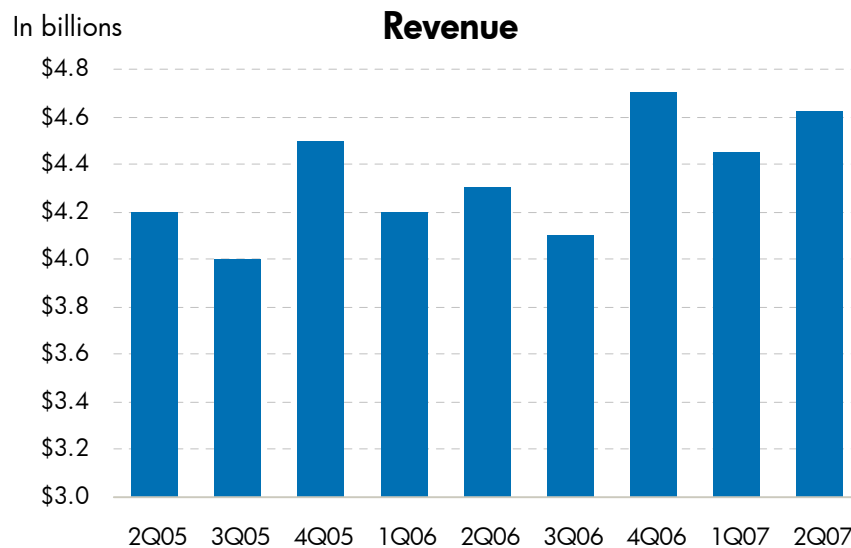
In millions

## Operating profit

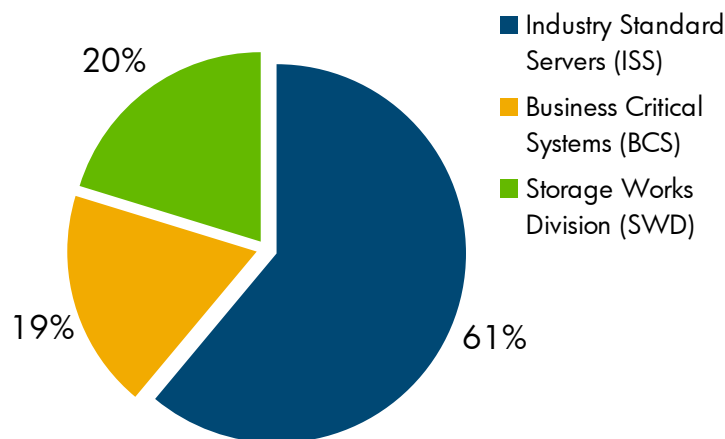


- PSG revenue of \$8.7B; up 24% Y/Y
- Operating profit of \$417M; 4.8% of revenue
- Total units up 30% Y/Y
- Notebook revenue up 45% Y/Y; units up 61%; Desktop revenue up 9% Y/Y; units up 15%
- Consumer client revenue up 41% Y/Y; Commercial client revenue up 13% Y/Y

# Enterprise Storage and Servers (ESS)

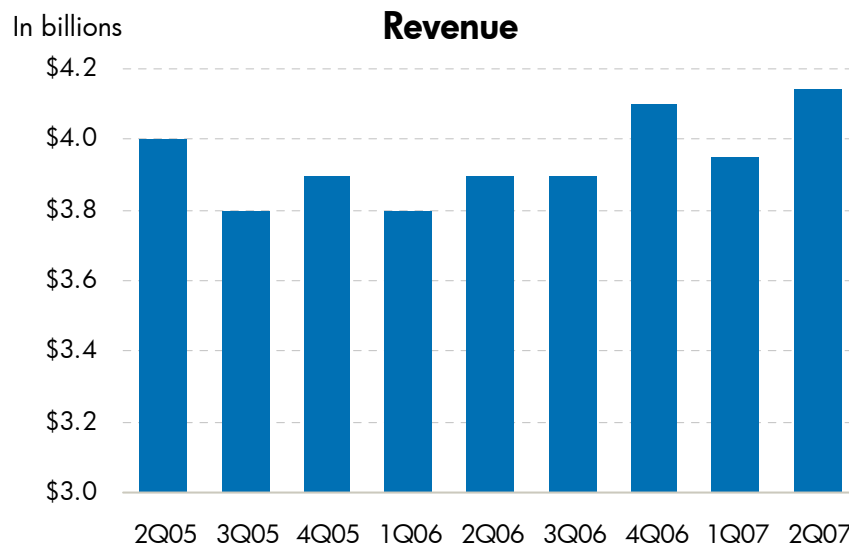


**Q2 FY07 revenue by business**

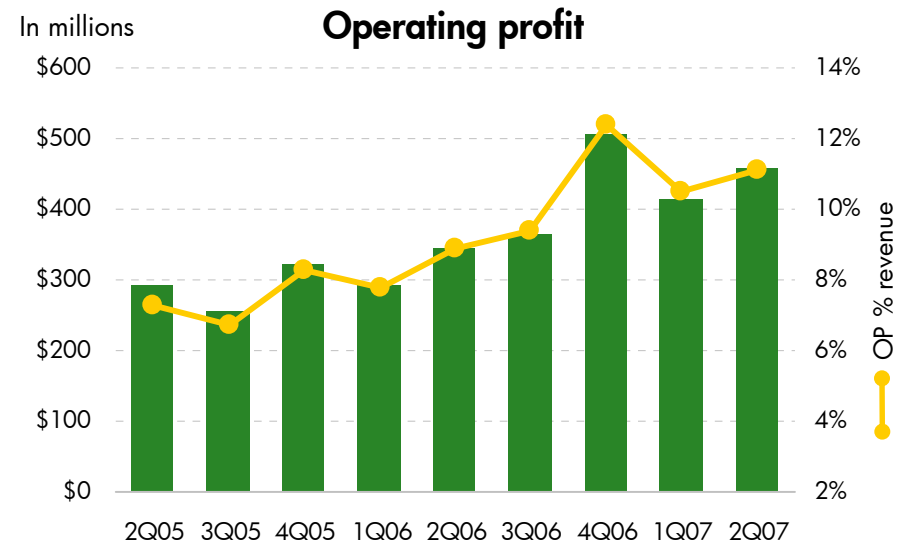
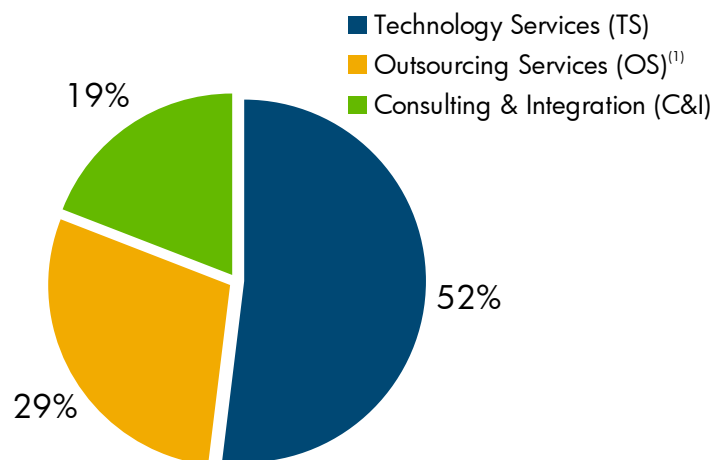


- ESS revenue of \$4.6B, up 8% Y/Y
- Operating profit of \$407M; 8.8% of revenue
- ISS revenue up 17% Y/Y; blade revenue up 58% Y/Y
- BCS revenue down 6% Y/Y; Integrity revenue up 60% Y/Y; 61% of BCS revenue
- Storage revenue up 1% Y/Y; mid-range storage arrays (EVA) up 10% offset by declines in high-end storage (XP) and tape

# HP Services (HPS)

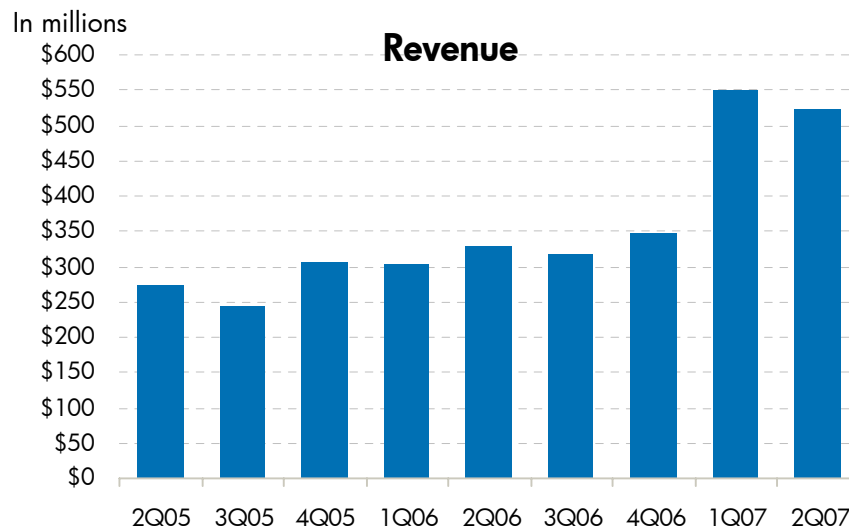


**Q2 FY07 revenue by business**

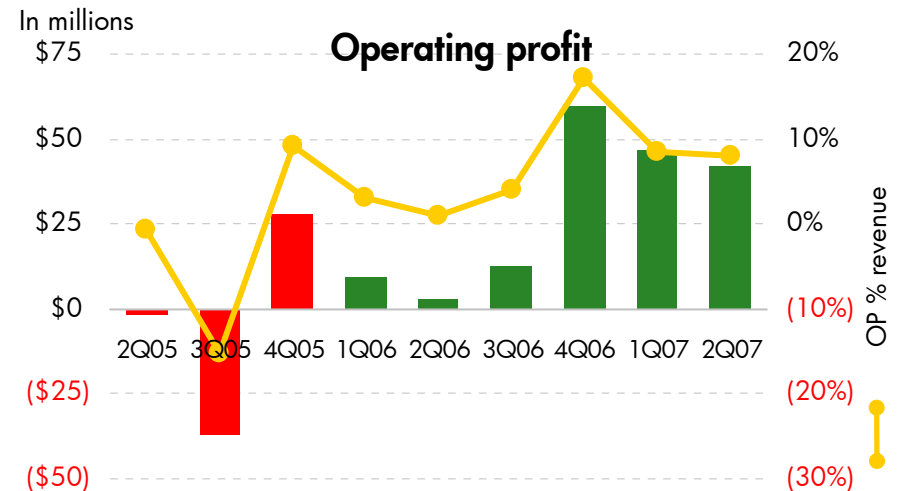
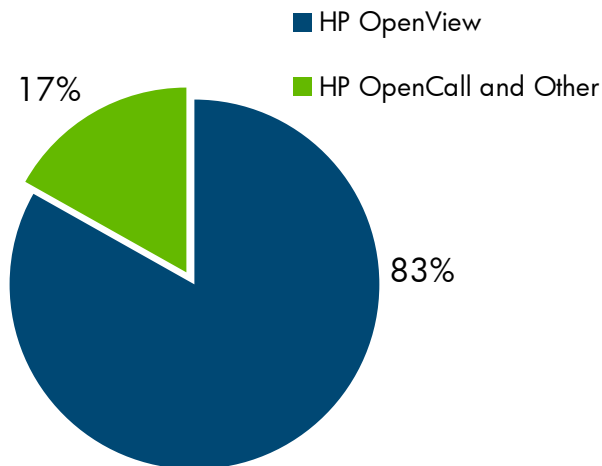


- HPS revenue of \$4.1B, up 7% Y/Y
- Operating profit of \$459M; 11.1% of revenue
- Outsourcing revenue up 12% Y/Y
- Consulting & Integration revenue up 8% Y/Y
- Technology Services revenue up 3% Y/Y

# HP Software

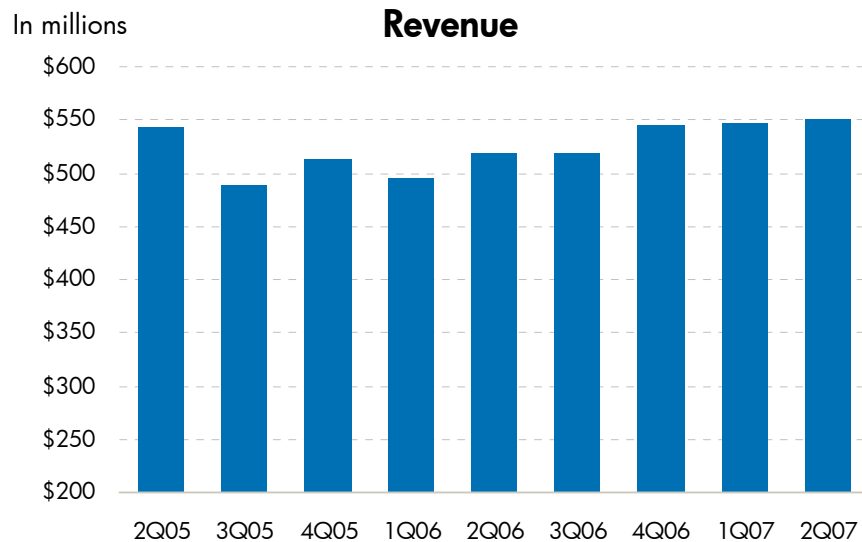


**Q2 FY07 revenue by business**

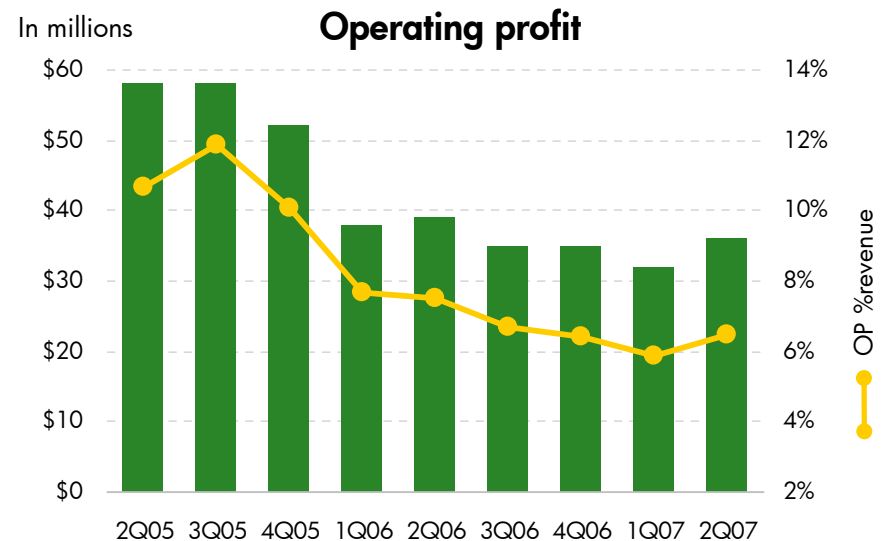
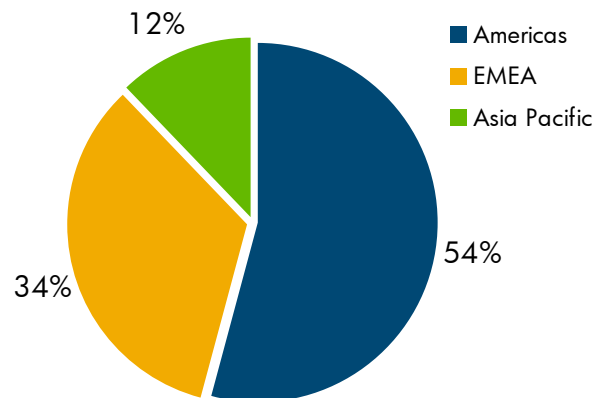


- Software revenue of \$523M, up 58% Y/Y
- Operating profit of \$42M; 8.0% of revenue
- HP OpenView revenue up 90%
  - 6% Y/Y excluding Mercury
- HP OpenCall revenue declined 13% Y/Y
- Q2 FY07 operating margin was impacted by the integration costs associated with Mercury

# HP Financial Services (HPFS)



**Q2 FY07 revenue by region**



- HPFS revenue of \$550M, up 6% Y/Y
- Operating profit of \$36M; 6.5% of revenue
- Financing volume up 8% Y/Y
- Net portfolio assets \$7.5B, up 6% Y/Y



# HPFS supplemental data

In millions	Q2 FY07	Q2 FY06	Q1 FY07
<b>Depreciation<sup>(1)</sup></b>	\$233	\$215	\$229
<b>Net capital expenditures<sup>(1)</sup></b>	\$292	\$259	\$236
<b>Increase (decrease) in net financing receivables</b>	\$55	(\$33)	\$120

1. Depreciation and net capital expenditures are shown net of inter-company eliminations

# Non-GAAP<sup>(1)</sup> financial information

In millions except  
per share amounts

	Q2 FY07		Q2 FY06		Q1 FY07	
Revenue	\$25,534	100%	\$22,554	100%	\$25,082	100%
Cost of sales	19,283	75.5%	16,970	75.2%	19,136	76.3%
Total OpEx	3,947	15.5%	3,788	16.8%	3,785	15.1%
Operating profit	2,304	9.0%	1,796	8.0%	2,161	8.6%
Interest & other, net	87		157		111	
Gains on investments <sup>(2)</sup>	13		—		10	
Pre-tax earnings	2,404	9.4%	1,953	8.7%	2,282	9.1%
Income tax	484		(43)		456	
EPS	\$0.70		\$0.69 <sup>(3)</sup>		\$0.65	

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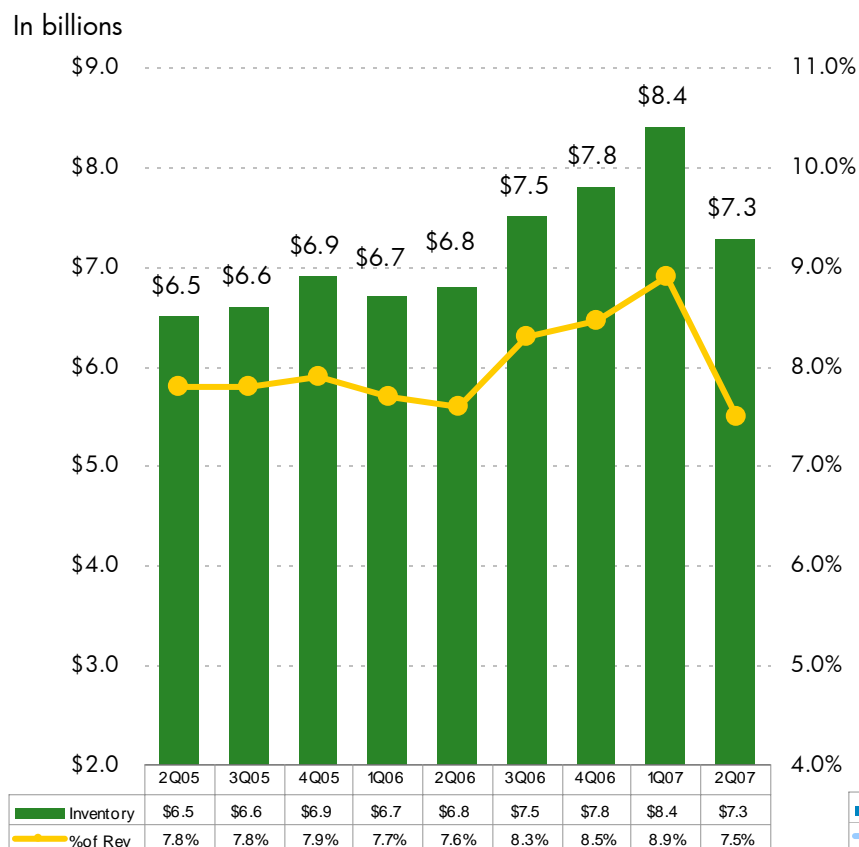
# Q2 FY07 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring	In-process R&D	Pension curtail- ment	Non-GAAP
Revenue	25,534					25,534
Cost of sales	19,283					19,283
Total OpEx	4,123	(212)	(453)	(19)	508	3,947
Operating profit	2,128	212	453	19	(508)	2,304
Interest & other, net	87					87
Gains on investments <sup>(1)</sup>	13					13
Pre-tax earnings	2,228	212	453	19	(508)	2,404
Income tax	453	53	155	–	(177)	484
Tax rate	20.3%					20.1%
Net earnings	1,775					1,920
EPS	\$0.65					\$0.70

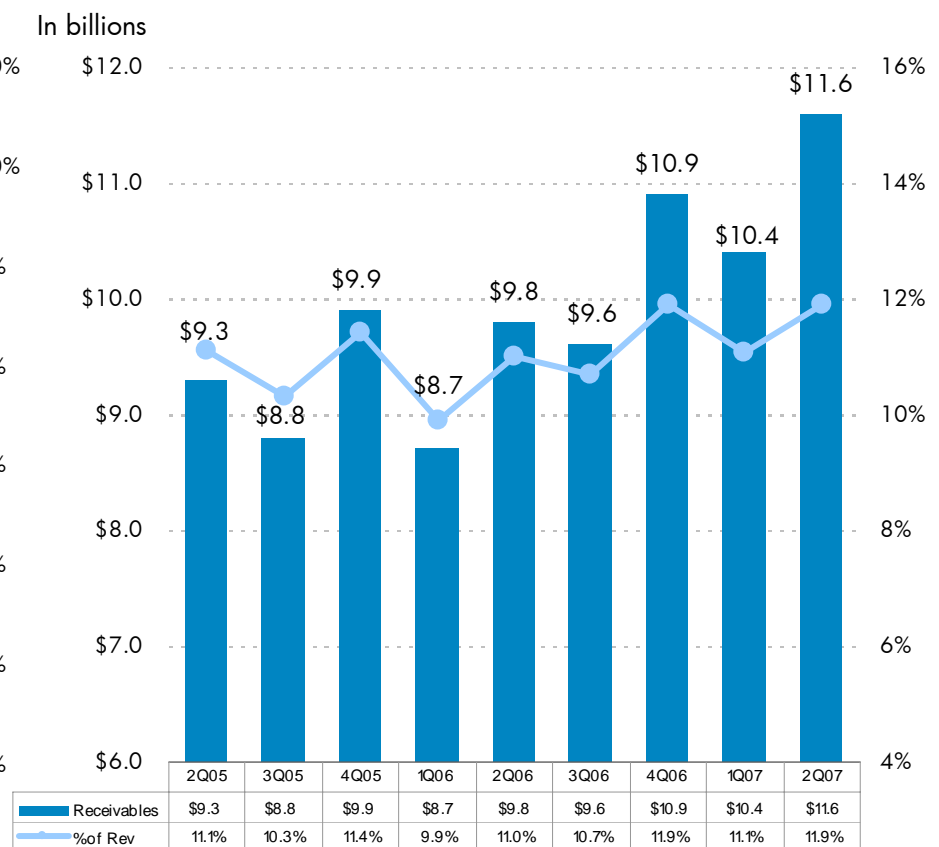
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# Inventory and accounts receivable

## Inventory

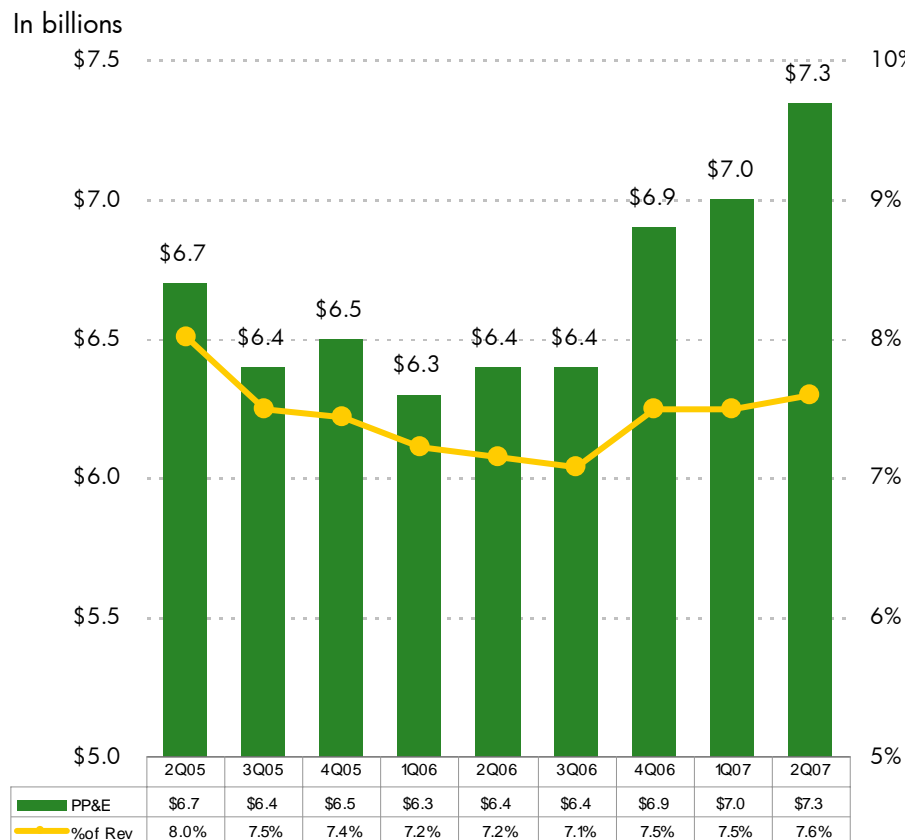


## Accounts receivable

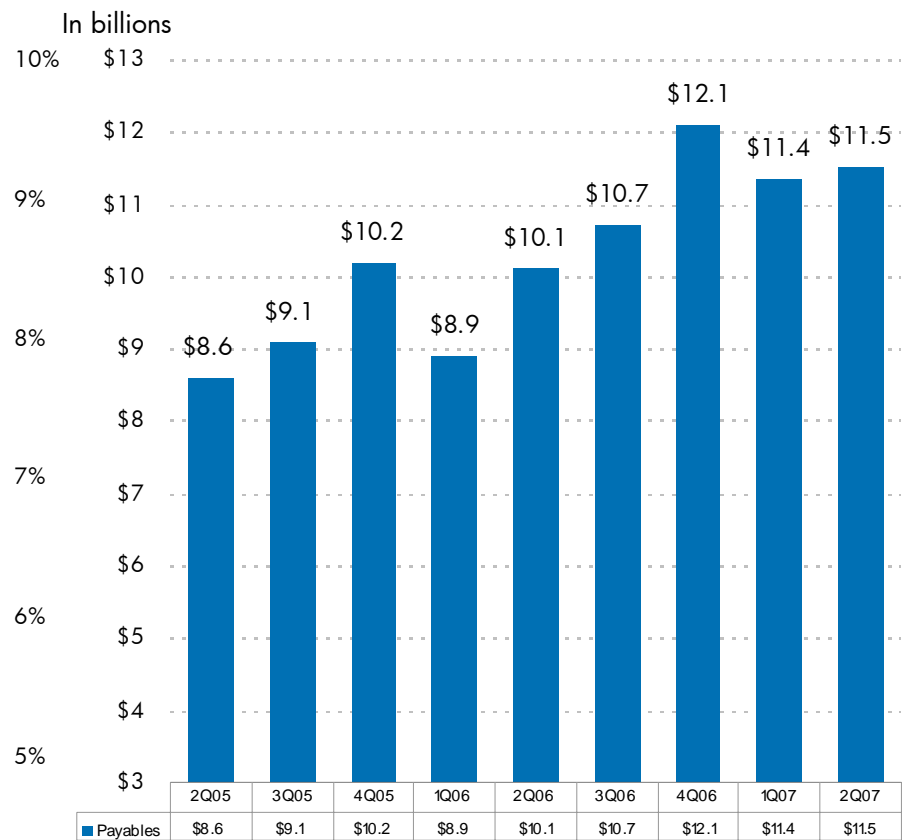


# PP&E and accounts payable

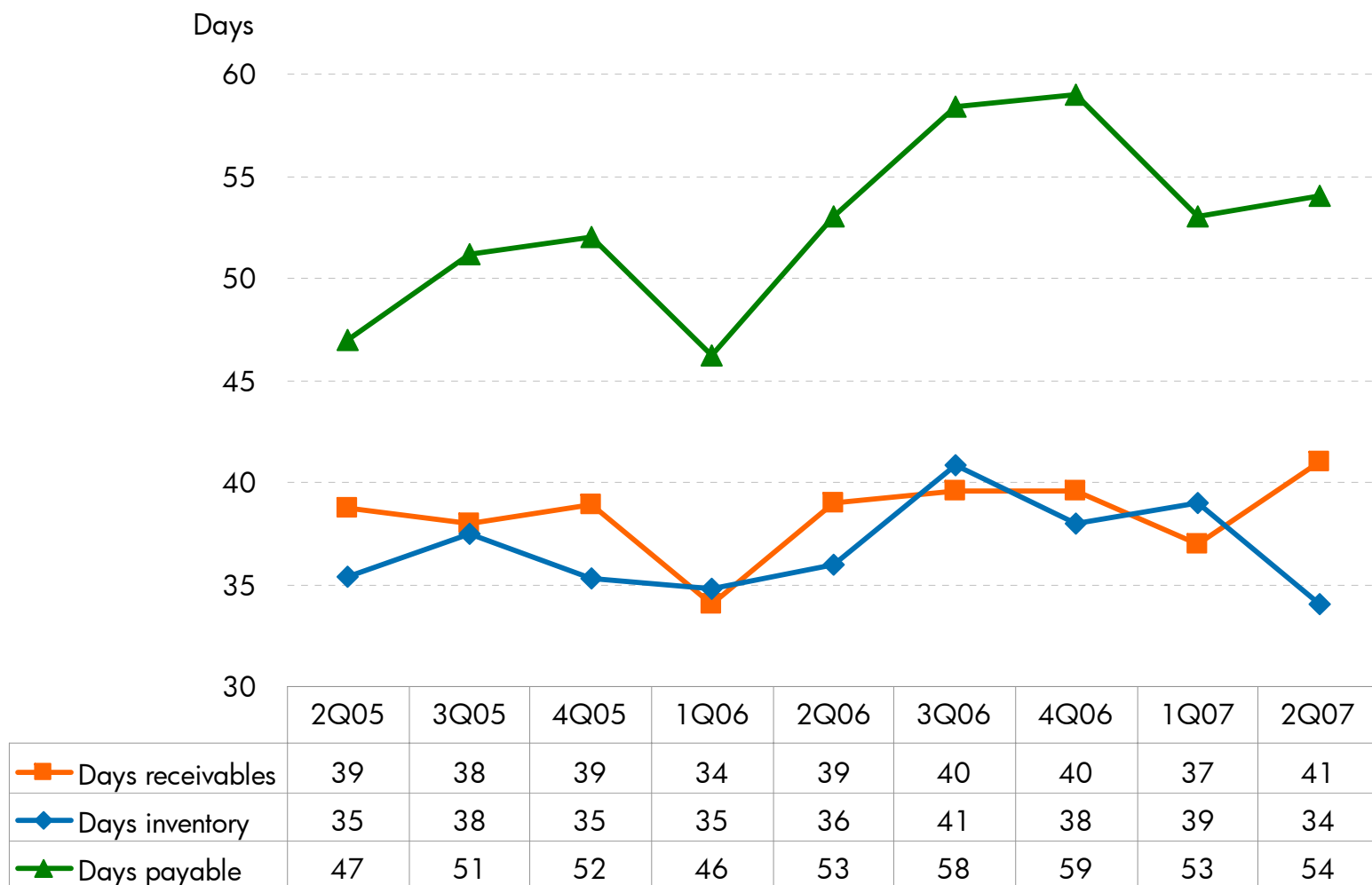
## Net PP&E



## Accounts payable



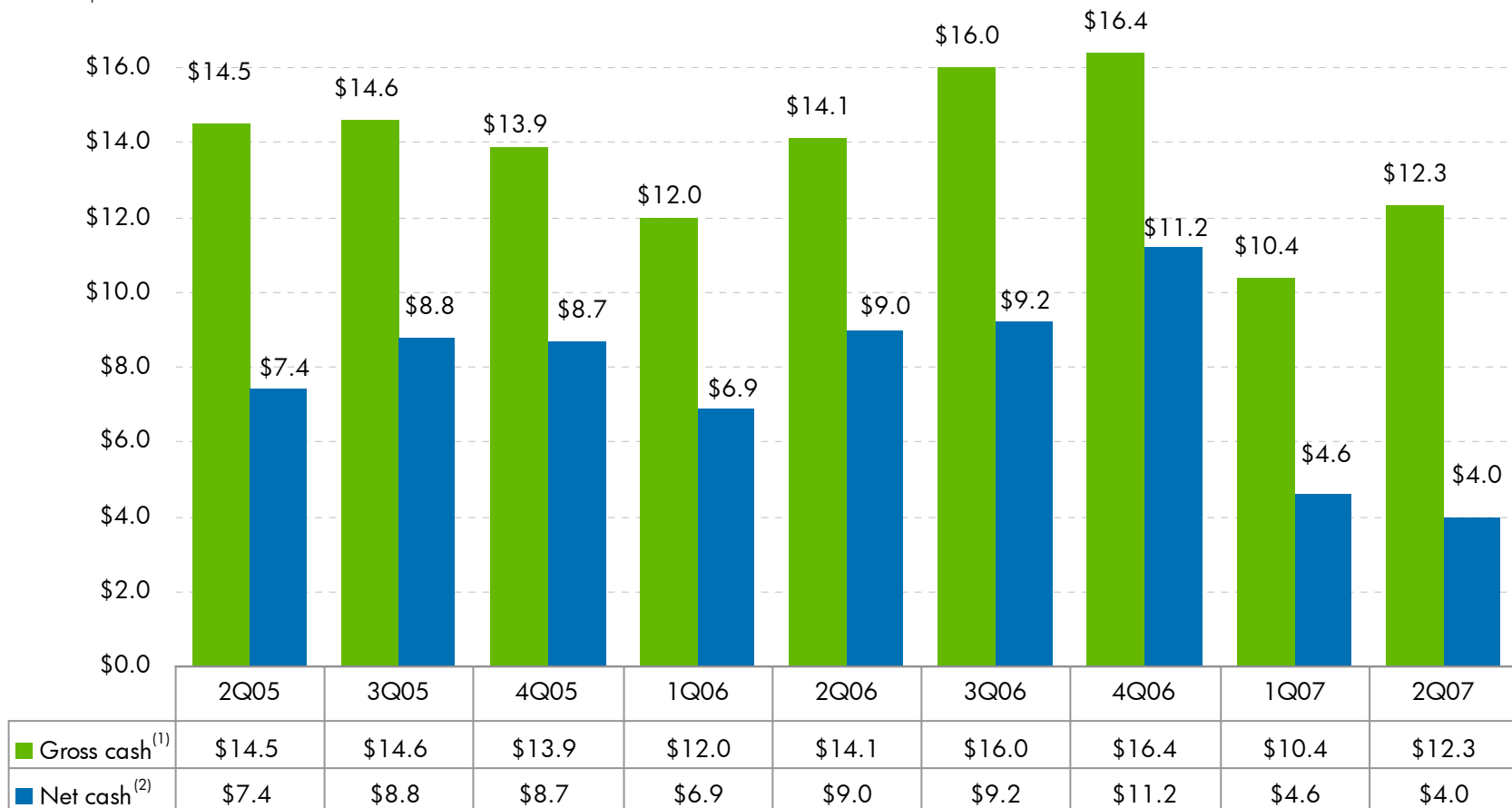
# Working capital metrics





# Gross cash and net cash

In billions  
\$18.0

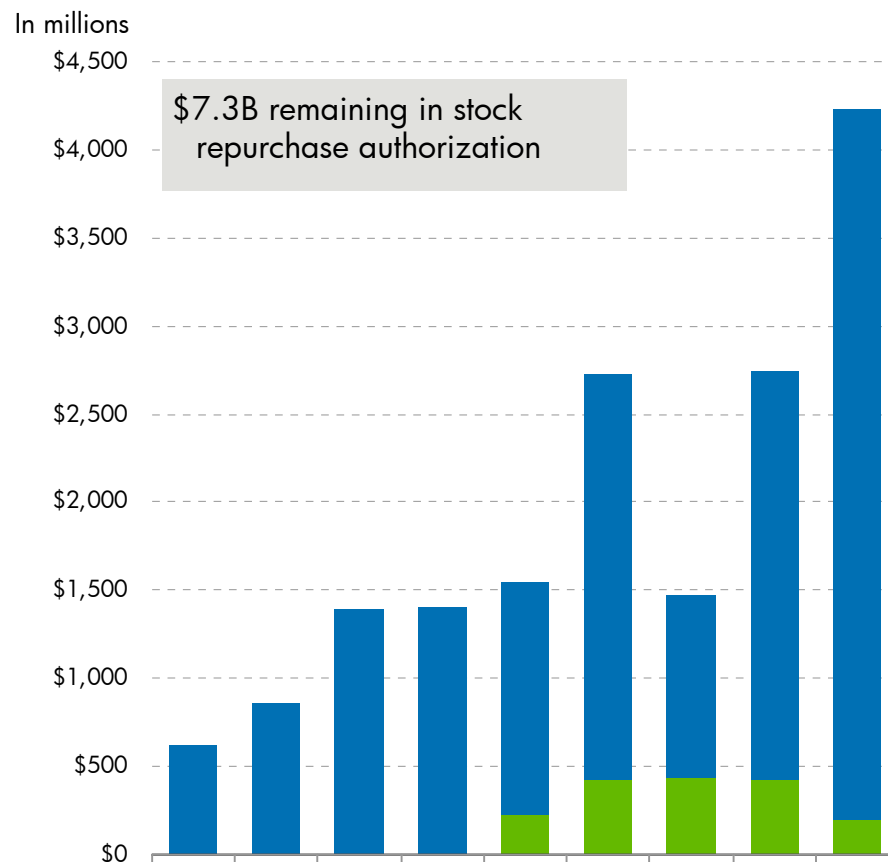


1. Includes cash and cash equivalents, short-term investments, and certain liquid long-term investments  
2. Net cash is defined as gross cash less total debt



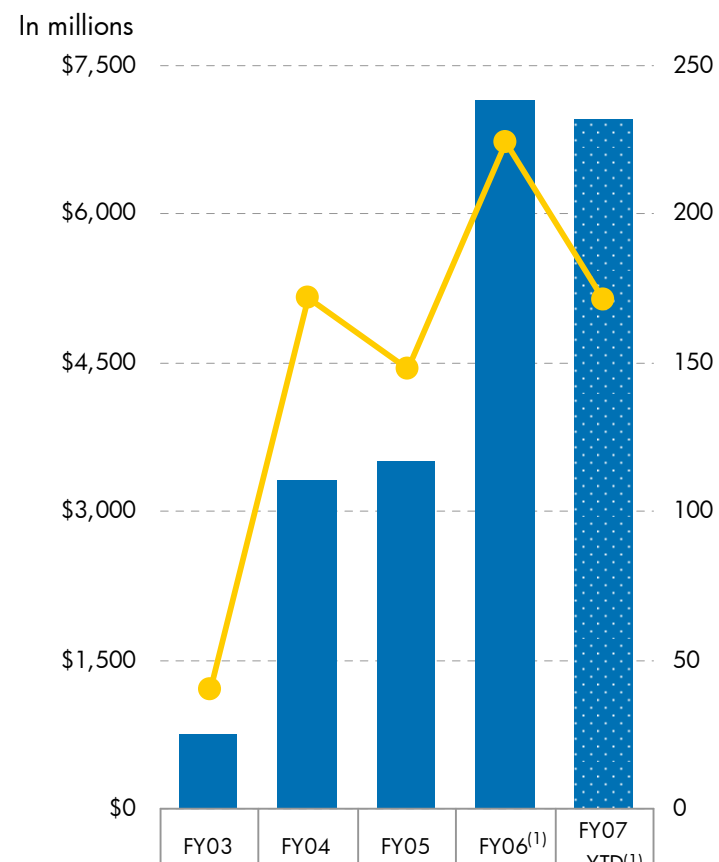
# Stock repurchase

## Quarterly trends



■ Stock repurchase	\$618	\$860	\$1,399	\$1,401	\$1,320	\$2,294	\$1,042	\$2,312	\$4,024
■ Prepaid plan <sup>(1)</sup>					\$232	\$430	\$431	\$430	\$199

## FY03 – FY07YTD

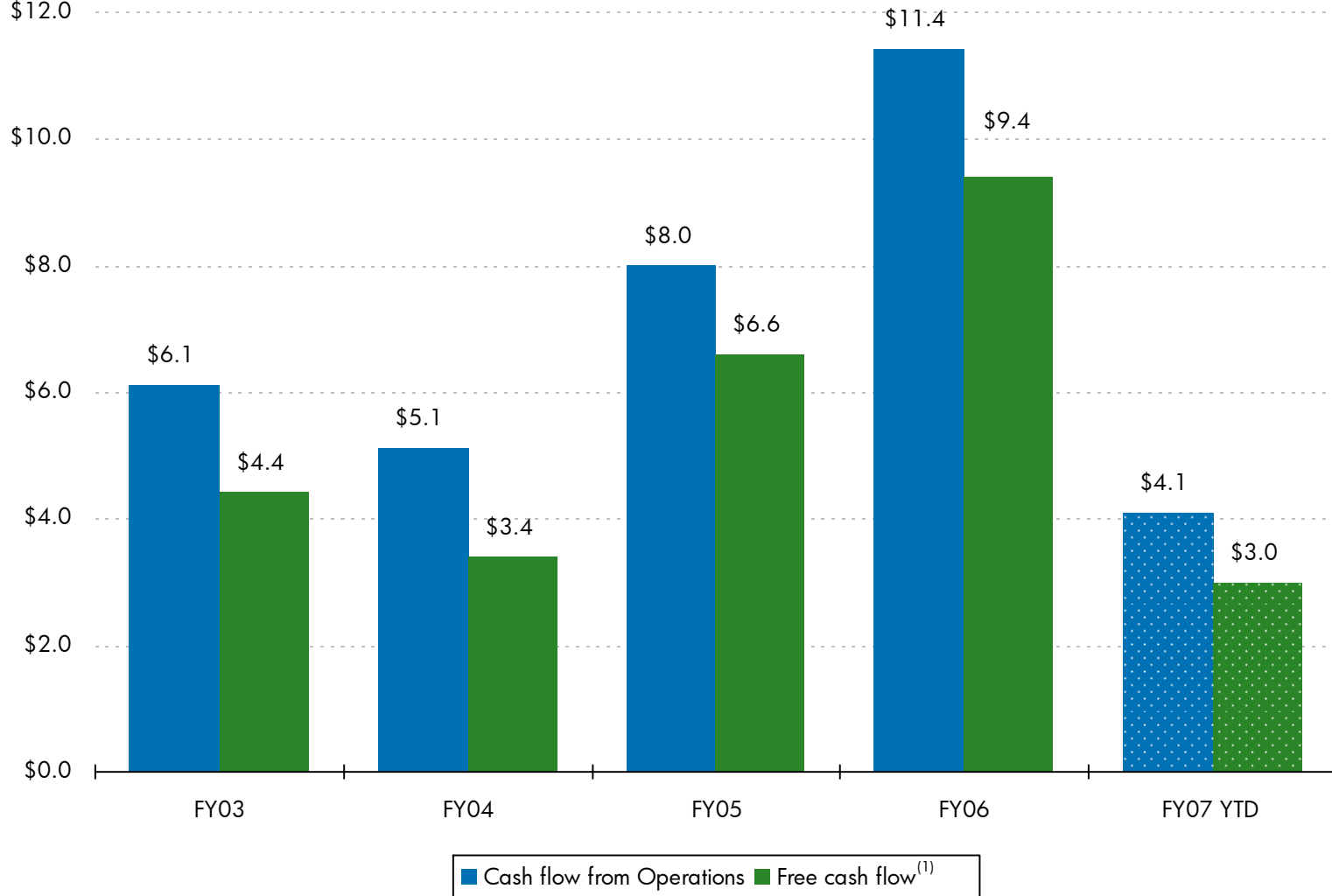


■ Stock repurchase	\$751	\$3,309	\$3,514	\$7,150	\$6,965
● Shares received	40	172	148	224	171

1. In Q1 FY06, HP entered into a prepaid variable share purchase program. \$1.7 billion in cash was used in Q1 FY06 to fully fund this plan. See our Form 10-Q for the period ended January 31, 2006 for more information. In FY06, 33.6 million shares were received under the prepaid variable share purchase program for a value of \$1.09 billion; in 1H FY07 19 million shares were received under the program for a value of \$629 million.

# Cash flow

In billions  
\$12.0



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

# Outlook

## Q3 FY07 guidance

Revenue	Approximately \$23.7 – \$23.9 billion
GAAP EPS <sup>(1)</sup>	\$0.60 – \$0.61
Non-GAAP EPS <sup>(1)</sup>	\$0.64 – \$0.65

## Full year FY07 guidance

Revenue	Approximately \$100.5 – \$100.9 billion
GAAP EPS <sup>(2)</sup>	\$2.51 – \$2.53
Non-GAAP EPS <sup>(2)</sup>	\$2.75 – \$2.77

1. Q3 FY07 non-GAAP diluted earnings per share estimates exclude after-tax costs of approximately \$0.04 per share, related primarily to the amortization of purchased intangible assets.
2. Full year FY07 non-GAAP diluted earnings per share estimates exclude after-tax costs of approximately \$0.24 per share, related primarily to the amortization of purchased intangible assets, in process research and development charges, restructuring charges and pension curtailment gains.

# Supplemental slides



# Q1 FY07 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring	In-process R&D	Pension curtail- ment	Non-GAAP
Revenue	25,082					25,082
Cost of sales	19,136					19,136
Total OpEx	4,103	(201)	41	(167)	9	3,785
Operating profit	1,843	201	(41)	167	(9)	2,161
Interest & other, net	111					111
Gains on investments <sup>(1)</sup>	10					10
Pre-tax earnings	1,964	201	(41)	167	(9)	2,282
Income tax	417	50	(8)	–	(3)	456
Tax rate	21.2%					20%
Net earnings	1,547					1,826
EPS	\$0.55					\$0.65

1. Beginning in fiscal 2007, HP no longer excludes gains or losses on investments when calculating financial measures presented on a non-GAAP basis.



# FY06 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring charges	In-process R&D	(G)/L Invest.	Non-GAAP
Revenue	91,658					91,658
Cost of sales	69,427					69,427
Total OpEx	15,671	(604)	(158)	(52)		14,857
Operating profit	6,560	604	158	52		7,374
Interest & other, net	631				(25)	606
Pre-tax earnings	7,191	604	158	52	(25)	7,980
Income tax	993	175	45		(10)	1,203
Tax rate	13.8%					15.1%
Net earnings	6,198					6,777
EPS	\$2.18					\$2.38

# Q4 FY06 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring	(G)/L Invest.	Non-GAAP
Revenue	24,555				24,555
Cost of sales	18,593				18,593
Total OpEx	4,061	(153)	(152)		3,756
Operating profit	1,901	153	152		2,206
Interest & other, net	204			(14)	190
Pre-tax earnings	2,105	153	152	(14)	2,396
Income tax	408	45	43	(5)	491
Tax rate	19.4%				20.5%
Net earnings	1,697				1,905
EPS	\$0.60				\$0.68

# Q3 FY06 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring	(G)/L Invest.	Non-GAAP
Revenue	21,890				21,890
Cost of sales	16,472				16,472
Total OpEx	3,908	(153)	(5)		3,750
Operating profit	1,510	153	5		1,668
Interest & other, net	228			(7)	221
Pre-tax earnings	1,738	153	5	(7)	1,889
Income tax	363	43	2	(2)	406
Tax rate	20.9%				21.5%
Net earnings	1,375				1,483
EPS	\$0.48				\$0.52

# Q2 FY06 GAAP to non-GAAP bridge

In millions except per share amounts	<b>GAAP</b>	Amort. of Intangibles	Re- structuring	In-process R&D	(G)/L Invest.	<b>Non-GAAP</b>
Revenue	<b>22,554</b>					<b>22,554</b>
Cost of sales	<b>16,970</b>					<b>16,970</b>
Total OpEx	<b>3,927</b>	(151)	14	(2)		<b>3,788</b>
Operating profit	<b>1,657</b>	151	(14)	2		<b>1,796</b>
Interest & other, net	<b>163</b>				(6)	<b>157</b>
Pre-tax earnings	<b>1,820</b>	151	(14)	2	(6)	<b>1,953</b>
Income tax <sup>(1)</sup>	<b>(79)</b>	44	(4)		(4)	<b>(43)</b>
Tax rate <sup>(1)</sup>	<b>NM</b>					<b>NM</b>
Net earnings <sup>(1)</sup>	<b>1,899</b>					<b>1,996</b>
EPS <sup>(1)</sup>	<b>\$0.66</b>					<b>\$0.69</b>

1. On June 6, HP upwardly revised Q2 FY06 earnings following the signing of a settlement agreement by the Internal Revenue Service resolving federal income tax matters for HP's 1996 through 1998 tax years. GAAP and Non-GAAP EPS for Q2 FY06 were previously reported as \$0.51 and \$0.54, respectively. Notification from the IRS on June 1 prior to the filing of HP's Q2 FY06 Form 10-Q required this revision to HP's reported Q2 FY06 results.

# Q1 FY06 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring charges	In-process R&D	(G)/L Invest.	Non-GAAP
Revenue	22,659					22,659
Cost of sales	17,392					17,392
Total OpEx	3,775	(147)	(15)	(50)		3,563
Operating profit	1,492	147	15	50		1,704
Interest & other, net	36				2	38
Pre-tax earnings	1,528	147	15	50	2	1,742
Income tax	301	43	4		1	349
Tax rate	20%					20%
Net earnings	1,227					1,393
EPS	\$0.42					\$0.48

# FY05 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring charges	In-process R&D	(G)/L Invest.	Pension curtail- ment	AJCA Adj	Non-GAAP
Revenue	<b>86,696</b>							<b>86,696</b>
Cost of sales	<b>66,440</b>							<b>66,440</b>
Total OpEx	<b>16,783</b>	(622)	(1,684)	(2)		199		<b>14,674</b>
Operating profit	<b>3,473</b>	622	1,684	2		(199)		<b>5,582</b>
Settlement	<b>(106)</b>							<b>(106)</b>
Interest & other, net	<b>176</b>				13			<b>189</b>
Pre-tax earnings	<b>3,543</b>	622	1,684	2	13	(199)		<b>5,665</b>
Income tax	<b>1,145</b>	185	466		3	(54)	(788)	<b>957</b>
Tax rate	<b>32%</b>							<b>17%</b>
Net earnings	<b>2,398</b>							<b>4,708</b>
EPS	<b>\$0.82</b>							<b>\$1.62</b>



# Q4 FY05 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring charges	In-process R&D	(G)/L Invest.	Pension curtail- ment	Non-GAAP
Revenue	22,913						22,913
Cost of sales	17,532						17,532
Total OpEx	5,149	(136)	(1,565)	(2)		199	3,645
Operating profit	232	136	1,565	2		(199)	1,736
Settlement	3						3
Interest & other, net	146				(14)		132
Pre-tax earnings	381	136	1,565	2	(14)	(199)	1,871
Income tax	(35)	40	429		(5)	(54)	375
Tax rate	(9%)						20%
Net earnings	416						1,496
EPS	\$0.14						\$0.51

# Q3 FY05 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring charges	(G)/L Invest.	AJCA Tax Adj.	Non-GAAP
Revenue	20,759					20,759
Cost of sales	15,942					15,942
Total OpEx	3,904	(168)	(112)			3,624
Operating profit	913	168	112			1,193
Settlement	7					7
Interest & other, net	113			6		119
Pre-tax earnings	1,033	168	112	6		1,319
Income tax	960	50	34	2	(788)	258
Tax rate	93%					20%
Net earnings	73					1,061
EPS	\$0.03					\$0.36

# Q2 FY05 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring charges	(G)/L Invest.	Non-GAAP
Revenue	21,570				21,570
Cost of sales	16,429				16,429
Total OpEx	3,978	(151)	(4)		3,823
Operating profit	1,163	151	4		1,318
Interest & other, net	(84)			(3)	(87)
Pre-tax earnings	1,079	151	4	(3)	1,231
Income tax	113	46	1	(2)	158
Tax rate	10%				13%
Net earnings	966				1,073
EPS	\$0.33				\$0.37

# Q1 FY05 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring charges	(G)/L Invest.	Non-GAAP
Revenue	21,454				21,454
Cost of sales	16,537				16,537
Total OpEx	3,752	(167)	(3)		3,582
Operating profit	1,165	167	3		1,335
Settlement	(116)				(116)
Interest & other, net	1			24	25
Pre-tax earnings	1,050	167	3	24	1,244
Income tax	107	49	2	8	166
Tax rate	10%				13%
Net earnings	943				1,078
EPS	\$0.32				\$0.37

