

Growth and profitability

Scott Stallard

SVP, Enterprise Storage & Servers

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Use of non-GAAP financial information

HP has included non-GAAP financial measures in these materials 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 these materials.

HP's management uses non-GAAP operating expense, non-GAAP OI&E, non-GAAP operating profit, non-GAAP net income, 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 income, 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 income 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.

Combined company

In order to provide additional information relating to our operating results, we present certain consolidated and segment operating results as if HP and Compaq had been a combined company in fiscal 2002 and 2001. We have included this additional information in order to provide further insight into our operating results, prior period trends and current position. Due to different fiscal period ends for HP and Compaq, the results for the twelve months ended October 31, 2002 combine the results of HP for the twelve months ended October 31, 2002 and the historical quarterly results of Compaq for the six-month period ended March 31, 2002 and for the period May 3, 2002 (the acquisition date) to October 31, 2002. In addition, the results for the twelve months ended October 31, 2001 combine the results of HP for the twelve months ended October 31, 2001 and the historical quarterly results of Compaq for the four quarters ended September 30, 2001.

Enterprise Storage & Servers (ESS)

- Major progress driving profitable growth
- Revenue pools understood
- Portfolio and R&D aligned to growth opportunities
- Driving sales effectiveness, attach & improved account coverage
- Focused on optimizing cost structure to invest in growth

HP results overview

Q4 FY06

FY06

Financials highlights

- Net revenue of \$24.6B, growth of \$1.6B, up 7% Y/Y; or 6% in constant currency
- Non-GAAP diluted EPS of \$0.68; up from \$0.51 in Q4 FY05
- GAAP diluted EPS of \$0.60; up from \$0.14 in Q4 FY05
- Cash flow from operations of \$3.2B
- \$1.4B⁽²⁾ in share repurchases, and \$219M in dividends

- Net revenue of \$91.7B, growth of \$5B, up 6% Y/Y; or 7% in constant currency
- Non-GAAP diluted EPS of \$2.38; up from \$1.62 in FY05
- GAAP diluted EPS of \$2.18; up from \$0.82 in FY05
- Cash flow from operations of \$11.4B
- \$7.2B⁽³⁾ in share repurchases, and \$894M in dividends

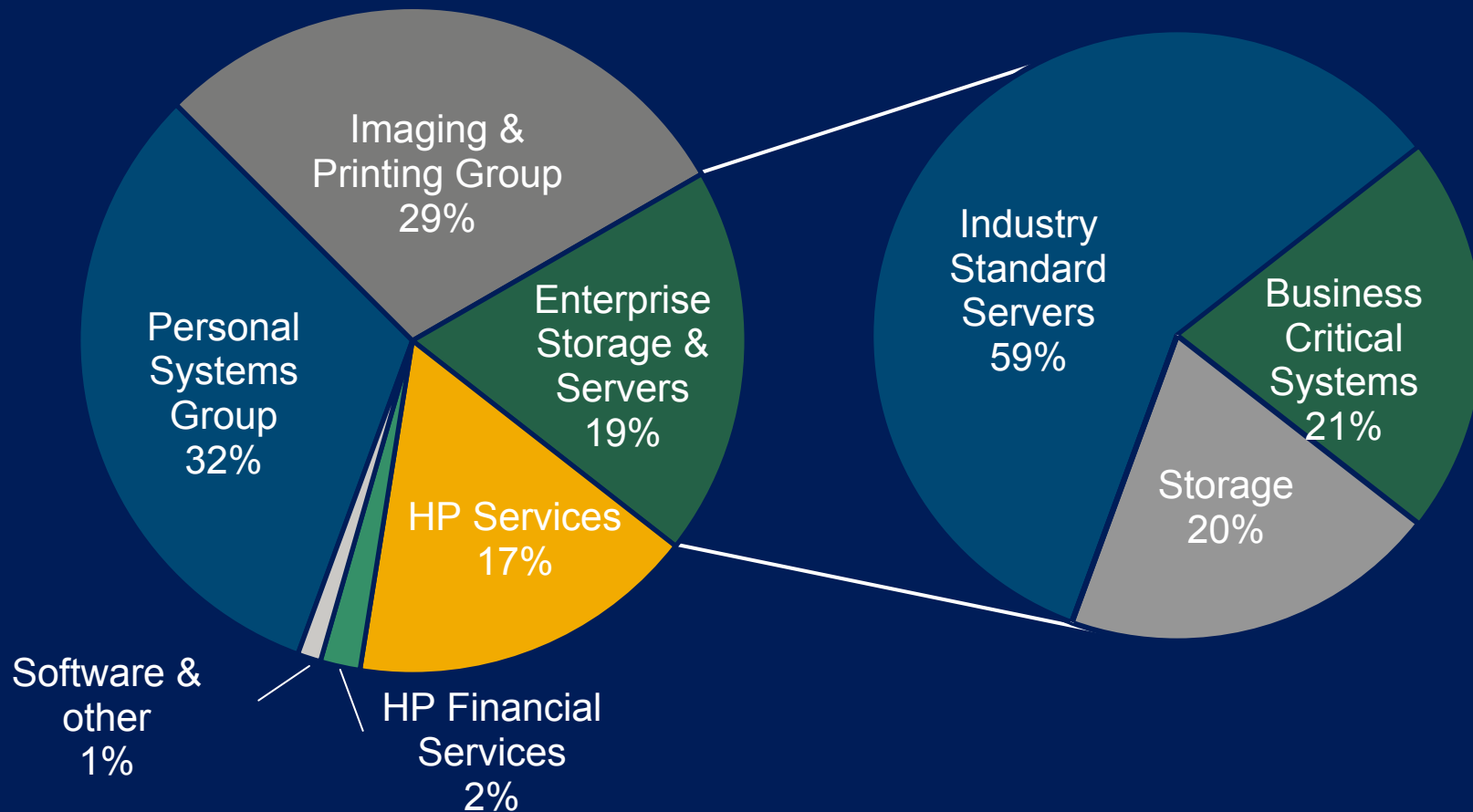
\$ in millions	Q4 FY06						FY06					
	Q4 Revenue	Growth Y/Y%	OP \$	OP % of rev	OP \$ Y/Y	OP % Y/Y	FY06 Revenue	Growth Y/Y%	OP \$	% of rev	OP \$ Y/Y	OP % Y/Y
Imaging and Printing Group	\$7,283	7%	\$1,080	14.8%	\$184	1.6 pts	\$26,786	6%	\$3,978	14.9%	\$565	1.3 pts
Personal Systems Group	\$7,823	10%	\$336	4.3%	\$136	1.5 pts	\$29,166	9%	\$1,152	3.9%	\$495	1.4 pts
Enterprise Storage and Servers	\$4,670	4%	\$502	10.7%	\$98	1.7 pts	\$17,308	4%	\$1,446	8.4%	\$646	3.6 pts
Software	\$349	14%	\$60	17.2%	\$32	8.0 pts	\$1,301	23%	\$85	6.5%	\$134	11.1 pts
Services	\$4,080	5%	\$505	12.4%	\$183	4.1 pts	\$15,617	1%	\$1,507	9.6%	\$356	2.2 pts
HP Financial Services	\$545	6%	\$35	6.4%	(\$17)	(3.7 pts)	\$2,078	(1%)	\$147	7.1%	(\$66)	(3.0 pts)
Total HP	\$24,555	7%	\$2,206⁽¹⁾	9.0%	\$470	1.4 pts	\$91,658	6%	\$7,374⁽¹⁾	8.0%	\$1,792	1.6 pts

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 on slide 3 under "Use of non-GAAP Financial Information."

2. Q4 FY06 open market repurchases totaled \$1.0 billion. An additional 13 million shares were repurchased under the Q1 FY06 Prepaid Variable Share Purchase Program for an approximate value of \$431 million.

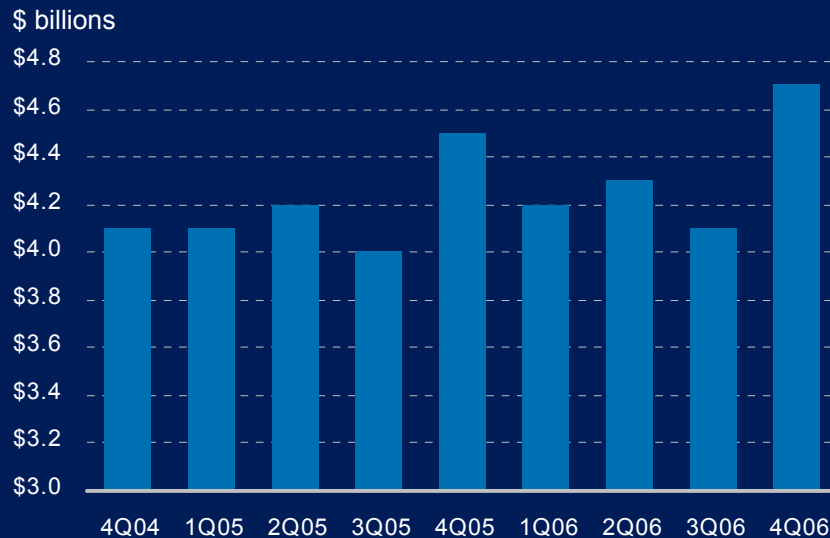
3. In FY06, open market repurchases totaled \$6.1 billion. An additional 34 million shares were received under the Prepaid Variable Share Purchase Program for a value of \$1.09 billion.

HP revenue – FY06

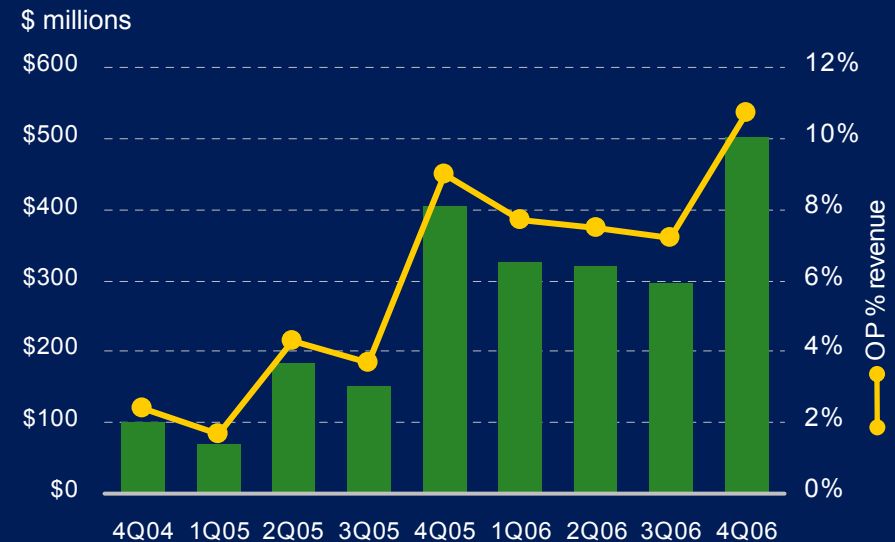


Enterprise Storage and Servers

Revenue



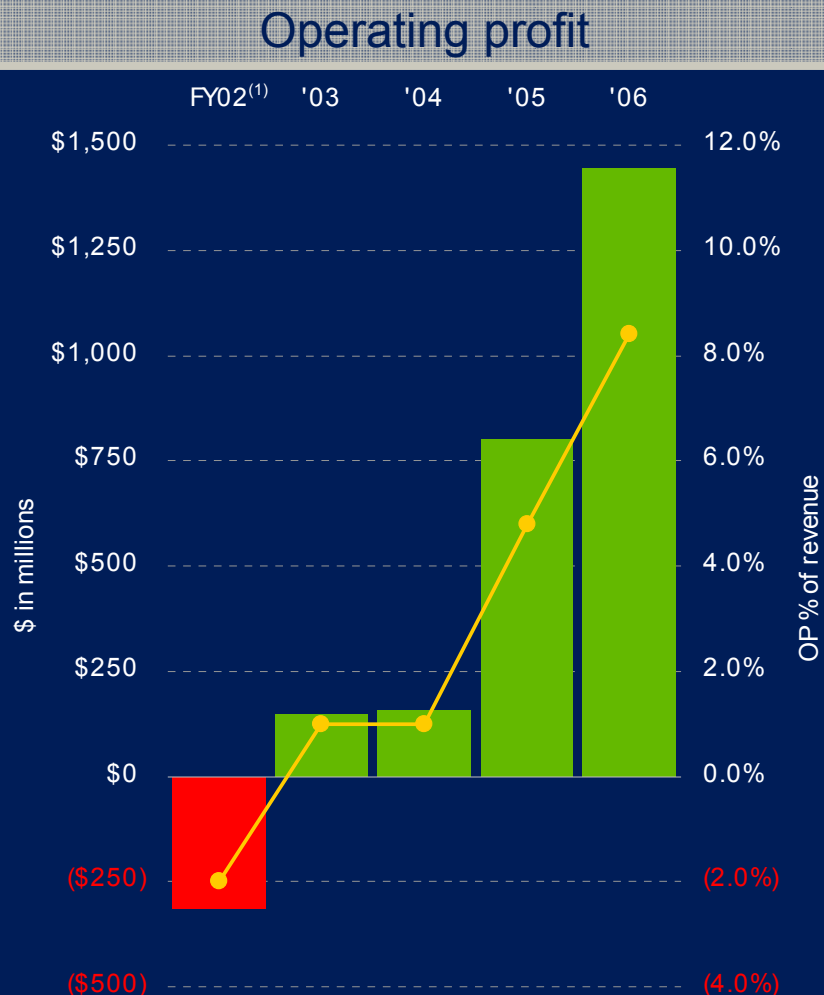
Operating profit



FY06 summary

- Revenue of \$17.3B, up 4%
- Operating profit of \$1.446B, or 8.4% of revenue, up 3.6% points Y/Y
- Operating profit growth of 81% or \$646M
- Industry standard server revenue up 6%; blade revenue up 47%
- Storage revenue growth of 4%; high-end arrays up 8%, mid-range array up 23%; offset by declines in tape
- Business critical server down 4%; Integrity revenue up 84%; 37% of FY06 BCS revenue

Significant margin expansion



Business improvements from:

- Discount management
- Increased option & portfolio attach rates
- Richer product mix, configurations
- Channel program effectiveness
- Sales coverage
- Benchmark expense structures
- Shift in R&D to high growth areas

1. Stated on a combined company basis

FY '07 ESS key business levers

Growth

+

Profits

+

Share



Extend category leadership

- #1-#2 in key segments
- “Blade Everything”
- Drive Storage momentum
- Extend Integrity leadership position



Accelerate go-to-market investments

- Mid-market expansion
- Global 2000 account coverage
- High growth countries



Increase cross-category pull-through

- Better leverage HP Services account presence
- Products, services, and solutions that work better together
- Attach everything

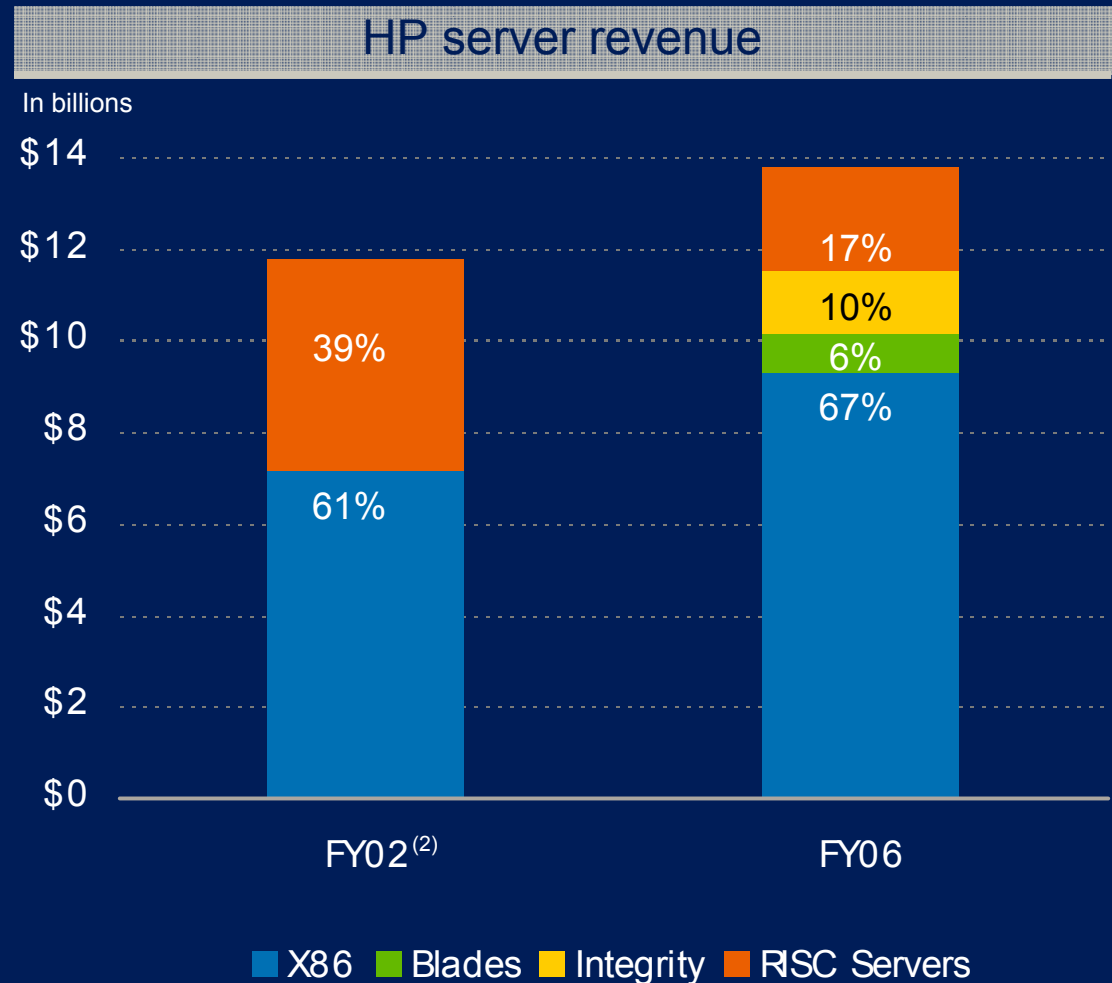


Leverage business model leadership

- Leverage IP from value systems to volume economics
- Systematically migrate R&D to growth arenas
- Continue driving cost model improvements (Opex, COS)

Enterprise servers

- Out-shipped all other major vendors in industry standard servers for 41st consecutive quarter⁽¹⁾
- No. 1 in combined Windows, Linux and UNIX server revenue⁽²⁾
- Integrity revenue grew 84%, 37% of total BCS revenue for FY06
- Uniquely positioned in blades; blade revenue up 47% in FY06

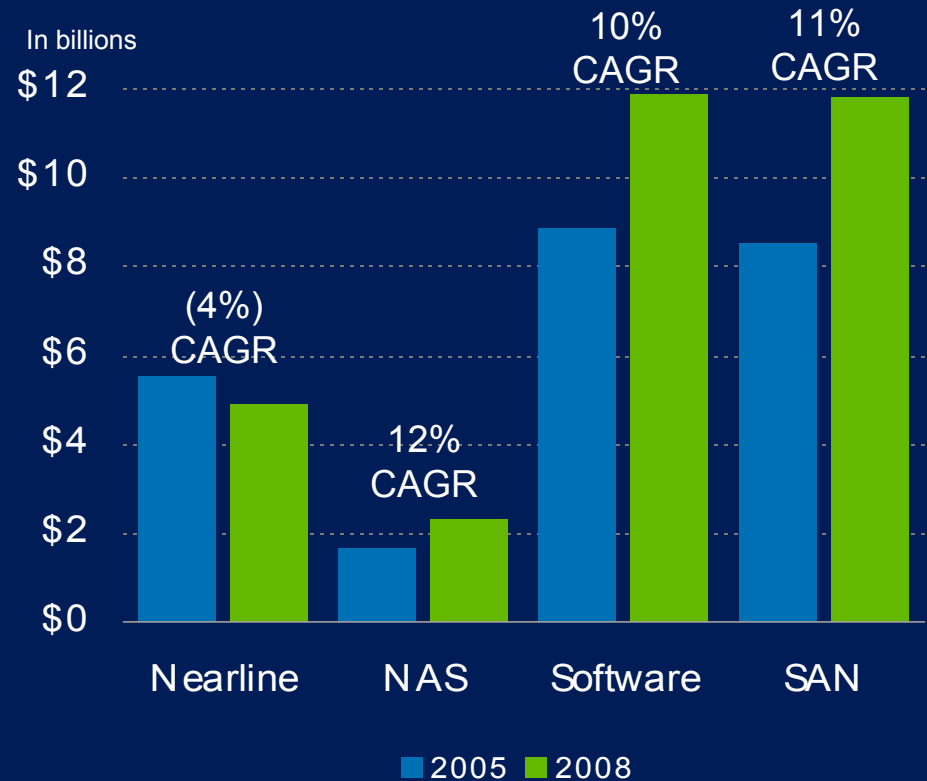


1. IDC Quarterly Tracker Q3FY06 Server Market Share
 2. Stated on a combined company basis.

Storage

- Well positioned in growth segments
 - #1 in SAN shipments⁽¹⁾
 - #1 in Total Disk Storage Revenue⁽¹⁾
- Optimizing profitability in tape segment
- Proof points in Adaptive Infrastructure
 - Industry's first Storage Blade
 - Unified management software (AppIQ)
 - Optimized archiving (Outerbay)
- Extending leadership in SMB with Innovative StorageWorks All-in-One
- Investing in go-to-market
 - Leveraging strength of channel partners in mid-market
 - Expanding coverage in large accounts

Addressable storage market 2005–2008⁽²⁾



1. IDC, Worldwide Quarterly Disk Storage Systems Tracker, Q3 2006
2. HP internal analysis

Adaptive Infrastructure

Delivering on the Next Generation Data Center trend

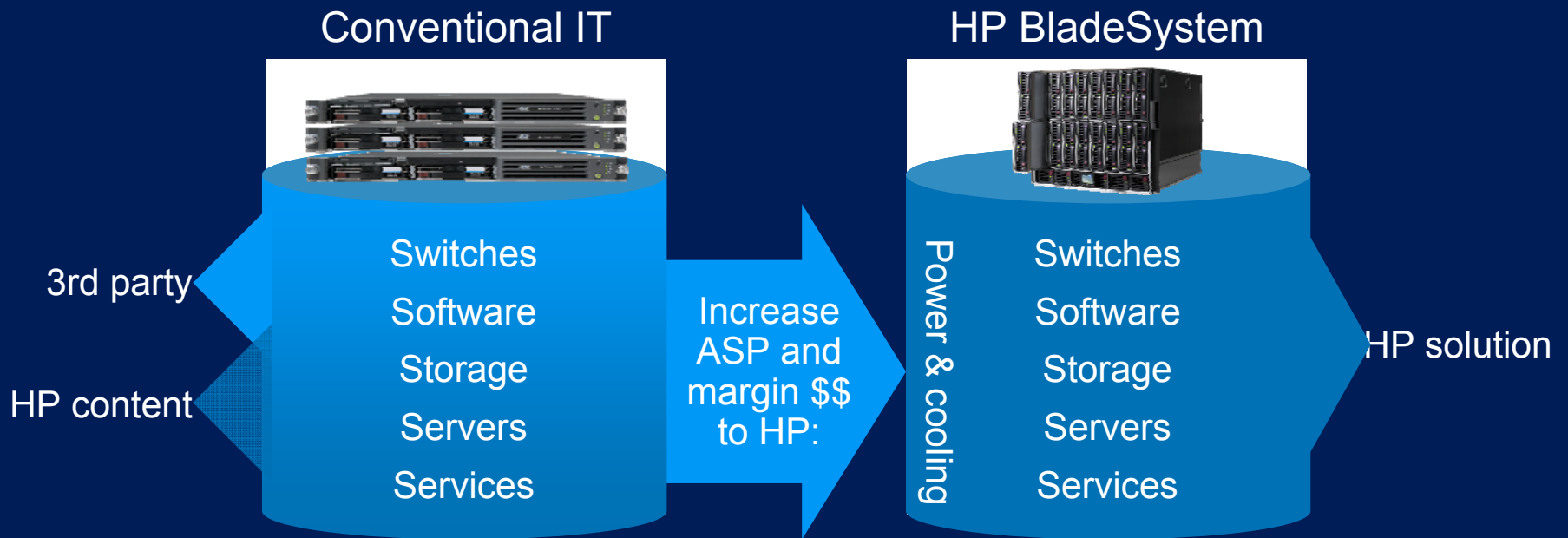


Key enablers

IT Systems & Services	Power & Cooling	Management	Security	Virtualization	Automation
<ul style="list-style-type: none">Scalability based on standardsIT services and solutions	<ul style="list-style-type: none">Energy-efficient computing	<ul style="list-style-type: none">Unified Infrastructure Management	<ul style="list-style-type: none">Proactive best practices and built-in protection	<ul style="list-style-type: none">Pooling and sharing of IT resources to optimize utilization	<ul style="list-style-type: none">Dynamic IT re-deployment to meet changing business demand

HP BladeSystem c-Class

An Adaptive Infrastructure in a 17" box



Customer benefits ⁽¹⁾	HP strengths
Lower operational costs and capital expenses	Industry standard leadership
Up to 96% IT administration cost savings	Intersection of volume and value an HP advantage
Up to 62% data center facilities cost savings	Leadership in power and cooling, automation, management and virtualization
Up to 42% system acquisition cost savings	HP portfolio of software, services, servers, storage aligned with market momentum and x86 scaling

1. HP internal analysis

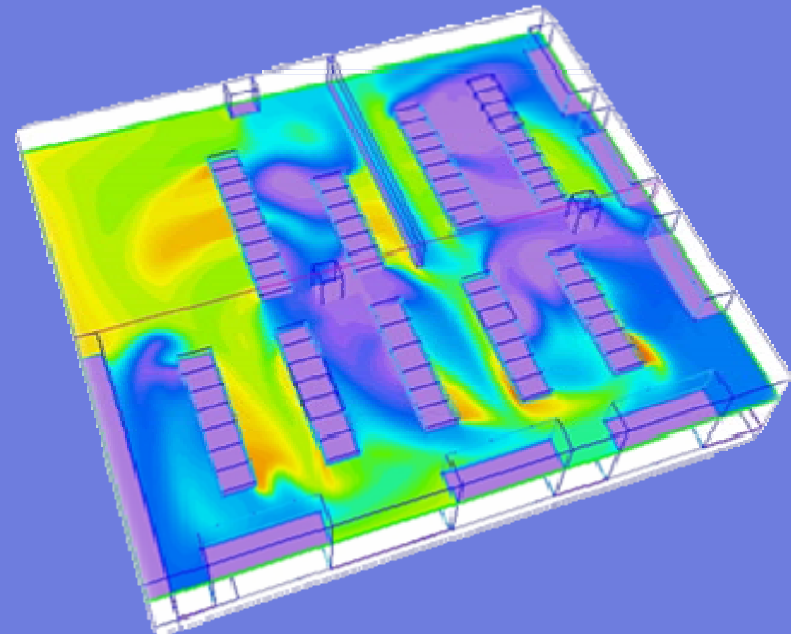
Growing problem: Data center power and cooling

- Data-center power density up 10x in 10 years
- Increasing processor power
- Power-hungry racks
- Energy costs rising
- Power and cooling costs = 40%⁽¹⁾ of total cost of ownership in the data center

HP solution: Dynamic Smart

Cooling Customer assessment services

- Holistic approach to power and cooling
- Reduces cooling costs by 25 – 50%⁽¹⁾



1. HP internal analysis

Summary

- Growth + Profits + Share
 - Improving our balance
- Leveraging our business model
 - Low cost AND high value solutions
- Leveraging HP
 - Channels, brand, services, reach, scale...
- Lead the industry in customer satisfaction & loyalty



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
Settlement	—					—
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

FY05 GAAP to non-GAAP bridge

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

FY04 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring charges	Acq. related charges	In- process R&D	(G)/L Invest.	Non-GAAP
Revenue	79,905						79,905
Cost of Sales	60,811						60,811
Total OpEx	14,867	(603)	(114)	(54)	(37)		14,059
Operating profit	4,227	603	114	54	37		5,035
Interest & other, net	39					(4)	35
Settlement	(70)						(70)
Pre-tax earnings	4,196	603	114	54	37	(4)	5,000
Income tax	699	175	38	14	10	(3)	933
Tax rate	17%						19%
EPS	\$1.15						\$1.33

FY03 GAAP to non-GAAP bridge

In millions except per share amounts	GAAP	Amort. of Intangibles	Re- structuring charges	Acq. related charges	In- proces s R&D	(G)/L Invest.	Accrued tax benefit	Non-GAAP
Revenue	73,061							73,061
Cost of Sales	54,393							54,393
Total OpEx	15,772	(563)	(800)	(280)	(1)			14,128
Operating profit	2,896	563	800	280	1			4,540
Interest & other, net	(8)					29		21
Pre-tax earnings	2,888	563	800	280	1	29		4,561
Income tax	349	159	262	97		6	131	1,004
Tax rate	12%							22%
EPS	\$0.83							\$1.16