



HP 3Q FY04 earnings announcement

August 12, 2004

© 2004 Hewlett-Packard Development Company, L.P.
The information contained herein is subject to change without notice



Forward-looking statements

This press release contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they ever materialize or prove incorrect, could cause the results of HP and its consolidated subsidiaries to differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of earnings, revenue, margins, synergies or other financial items; any statements of the plans, strategies, and objectives of management for future operations, including the execution of restructuring plans and remediation of execution issues; any statements concerning the expected development, performance or rankings of products or services; any statements regarding future economic conditions or performance; statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include macroeconomic and geopolitical trends and events; performance of contracts by suppliers, customers and partners; the development, performance and market acceptance of products and services; employee management issues; the challenge of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; the possibility that proposed contracts may not be entered into or ultimately performed on the terms currently contemplated or at all; information technology systems risks and other risks that are described from time to time in HP's Securities and Exchange Commission reports, including but not limited to the risks described in HP's Quarterly Report on Form 10-Q for the period ended April 30, 2004 and reports filed after HP's Annual Report on Form 10-K for the fiscal year ended October 31, 2003. HP assumes no obligation to update these forward-looking statements.

Use of non-GAAP terms

To supplement our consolidated condensed financial statements presented on a GAAP basis, HP uses non-GAAP additional measures of operating results, net earnings and earnings per share adjusted to exclude certain costs, expenses, gains and losses we believe appropriate to enhance an overall understanding of our past financial performance and also our prospects for the future. These adjustments to our GAAP results are made with the intent of providing both management and investors a more complete understanding of the underlying operational results and trends and our marketplace performance. For example, the non-GAAP results are an indication of our baseline performance before gains, losses or other charges that are considered by management to be outside of our core business segment operational results. In addition, these adjusted non-GAAP results are among the primary indicators management uses as a basis for our planning and forecasting of future periods. The presentation of this additional information is not meant to be considered in isolation or as a substitute for net earnings or diluted earnings per share prepared in accordance with generally accepted accounting principles in the United States.

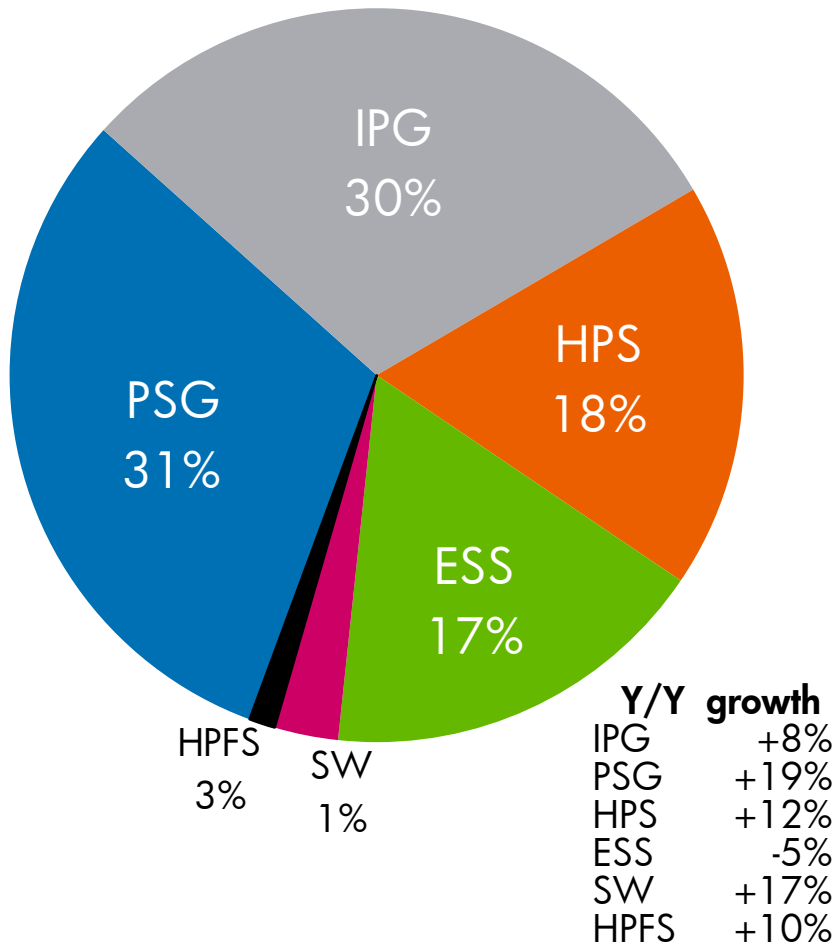
Overview

- Third quarter revenue of \$18.9 billion, up 9% year-over-year
- Non-GAAP operating profit of \$846 million; Non-GAAP EPS \$0.24
- GAAP operating profit of \$657 million; GAAP EPS \$0.19
- Revenue in Personal Systems grew 19% year-over-year; HP Services grew 12%, Enterprise Systems was down 5%, Software grew 17%; Imaging & Printing grew 8%

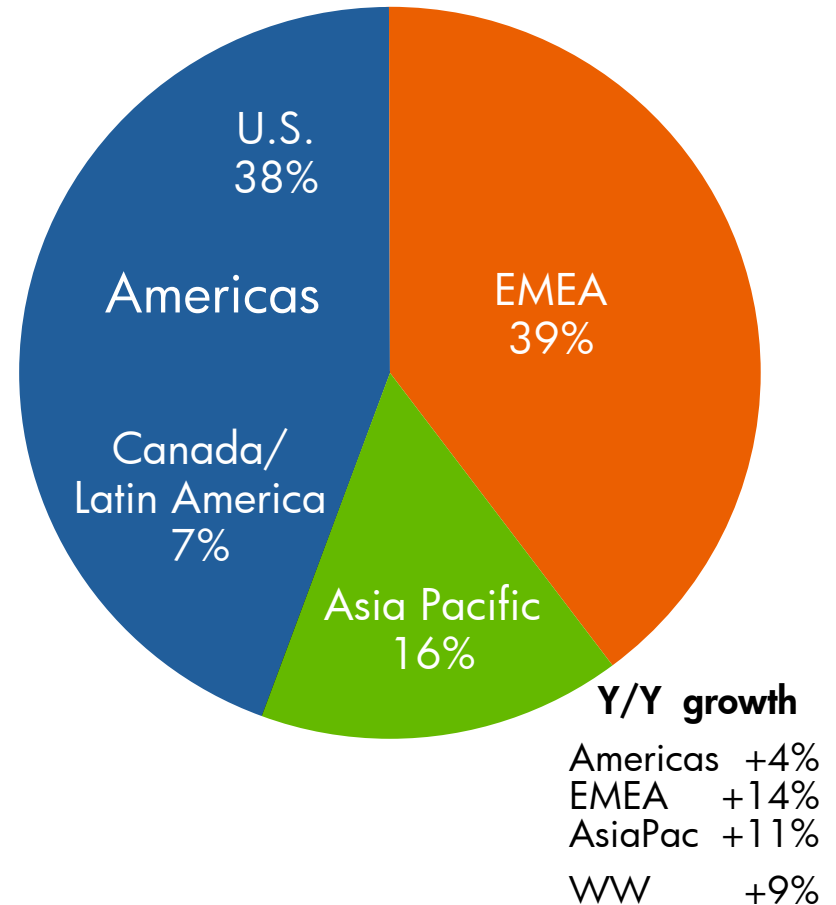
HP revenue 3Q04



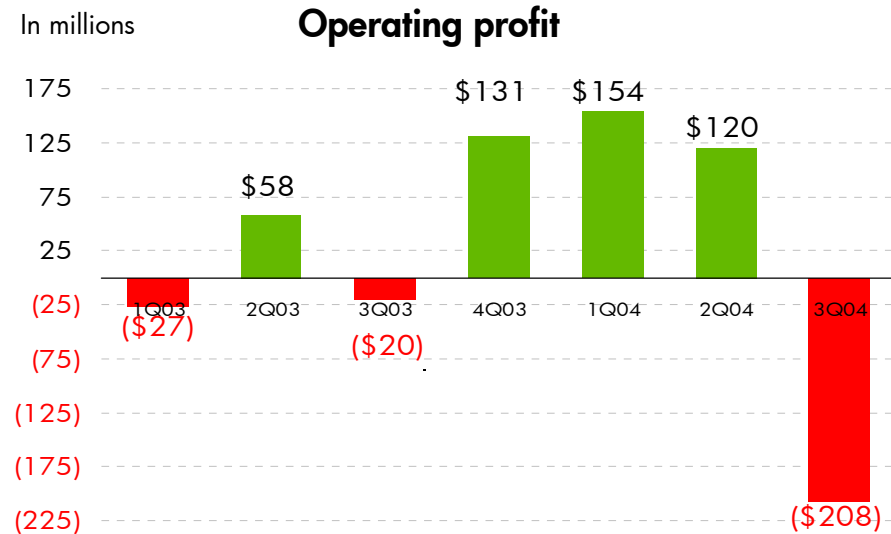
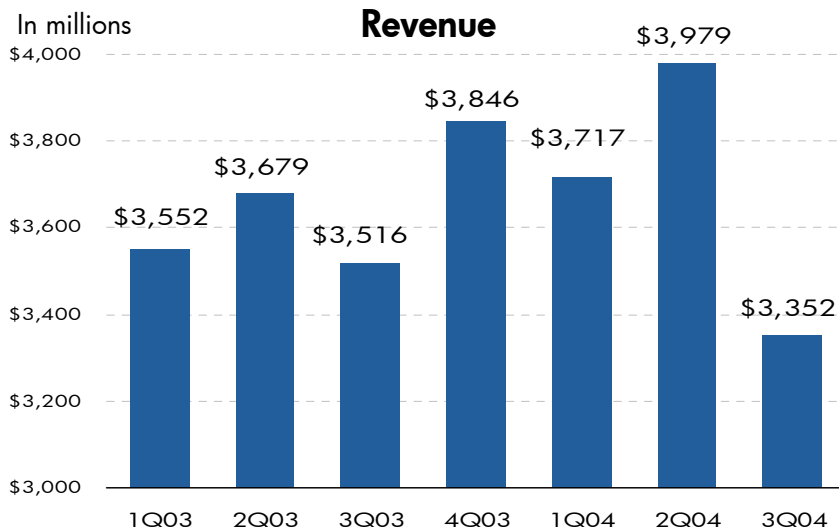
Revenue by segment



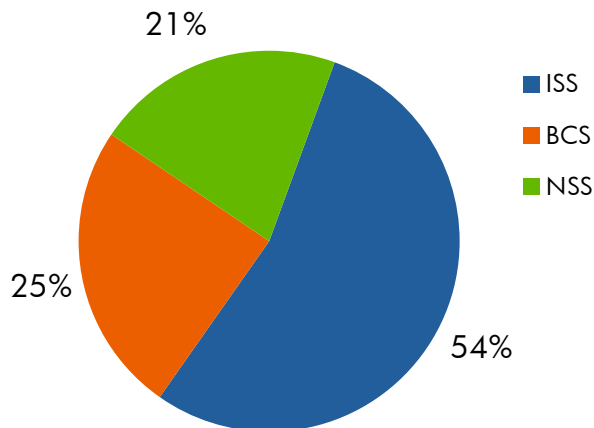
Revenue by region



Enterprise Storage and Servers

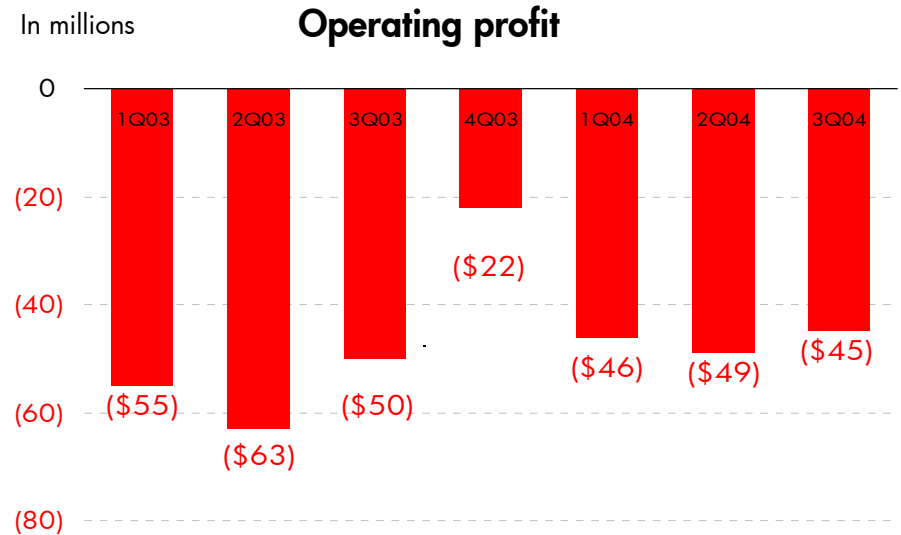
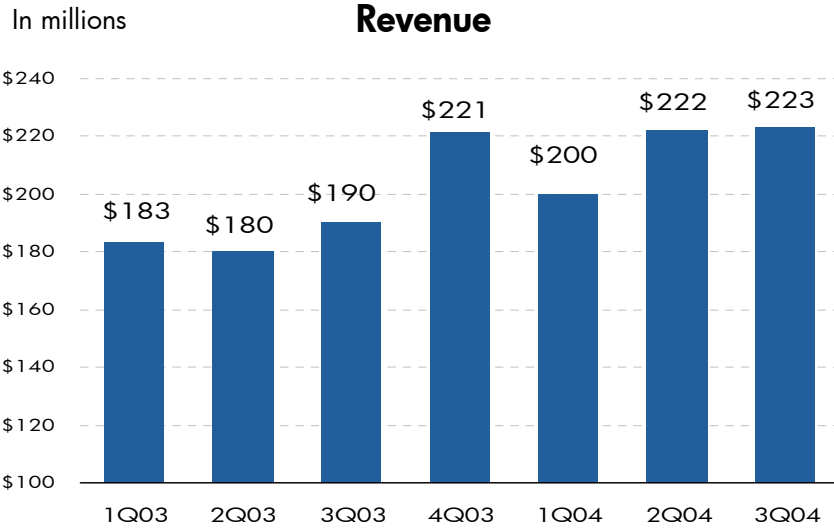


3Q04 revenue by GBU

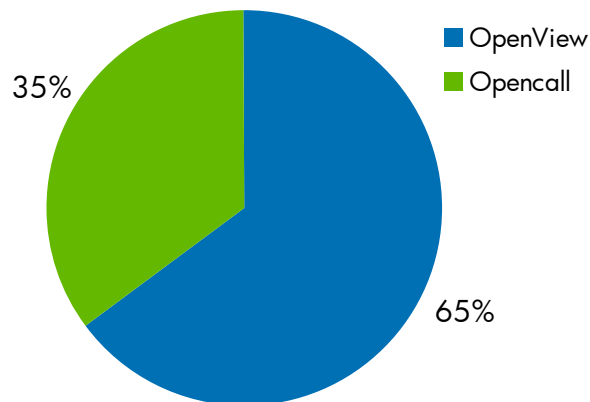


- Revenue down 5% y/y
- ISS up 2% y/y
- NSS down 15% y/y.
- BCS declined 8% y/y: UNIX up 8%, Alpha down 32%, Non-stop down 25%
- Factors impacting performance included U.S. systems migration, channel management issues in EMEA, and shortfall in NSS.

Software



3Q04 revenue by GBU

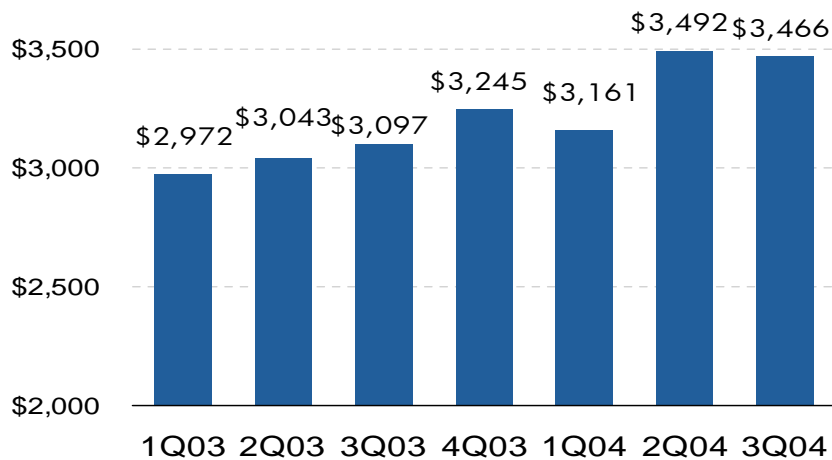


- Revenue grew 17% y/y
- HP OpenCall revenue increased 8% y/y while HP OpenView revenue grew 26% y/y
- Company continues to make strategic investments in support of Adaptive Enterprise strategy

HP Services

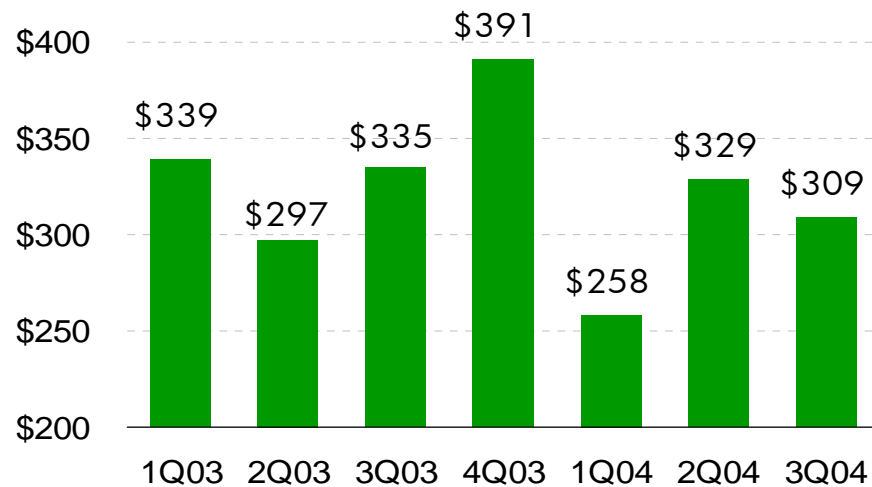
In millions

Revenue

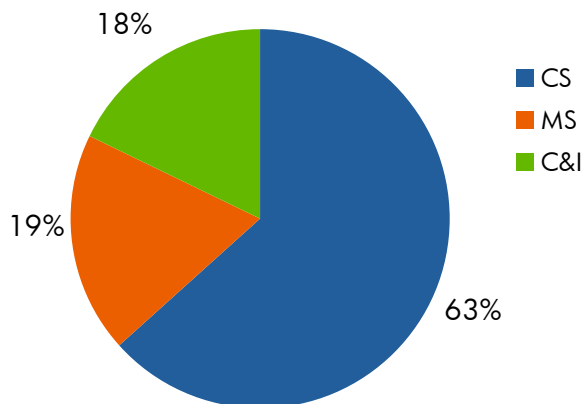


In millions

Operating profit

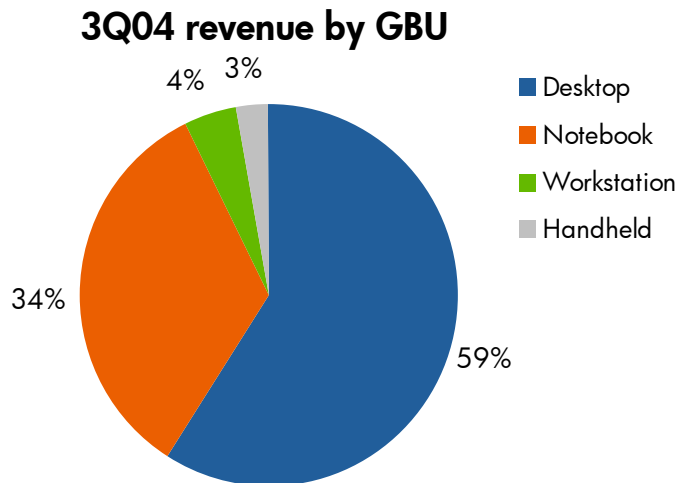
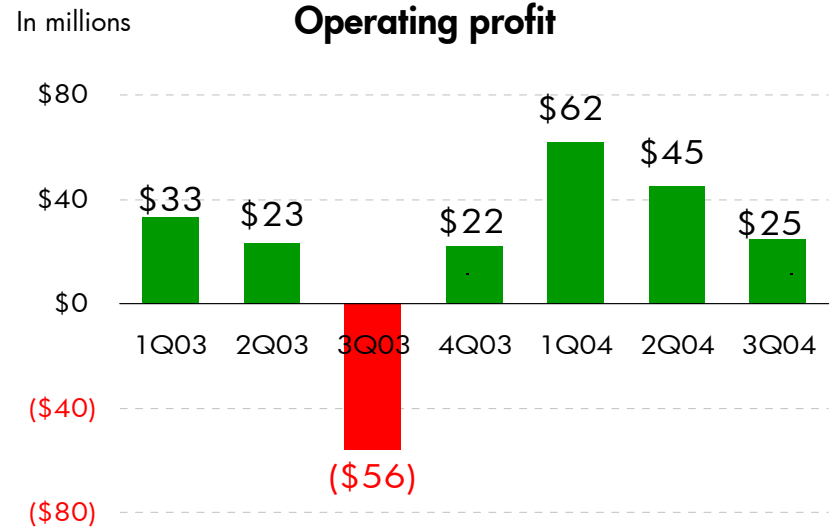
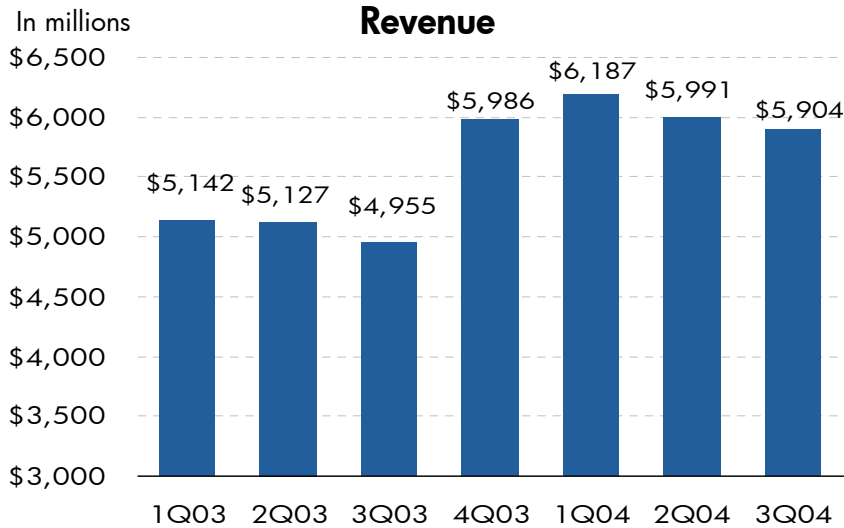


3Q04 revenue by GBU



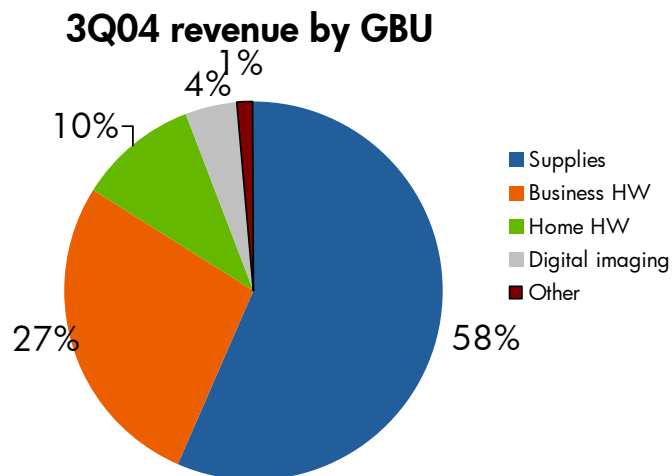
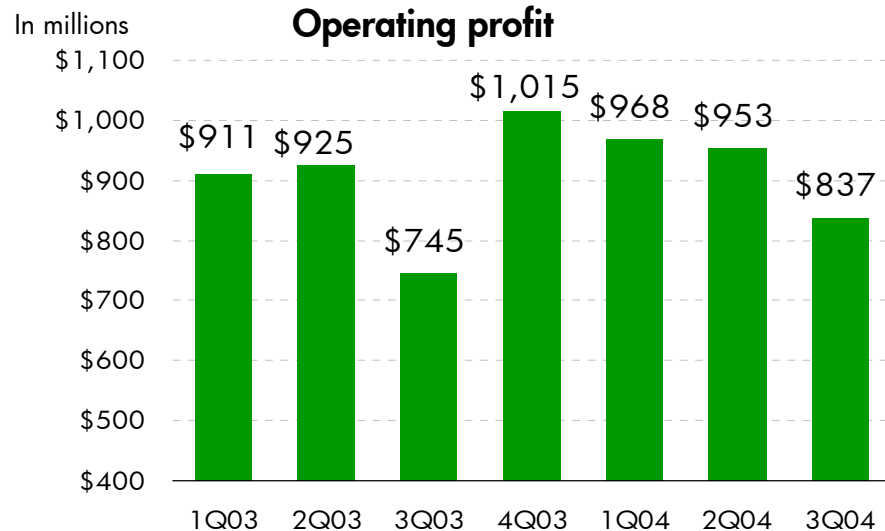
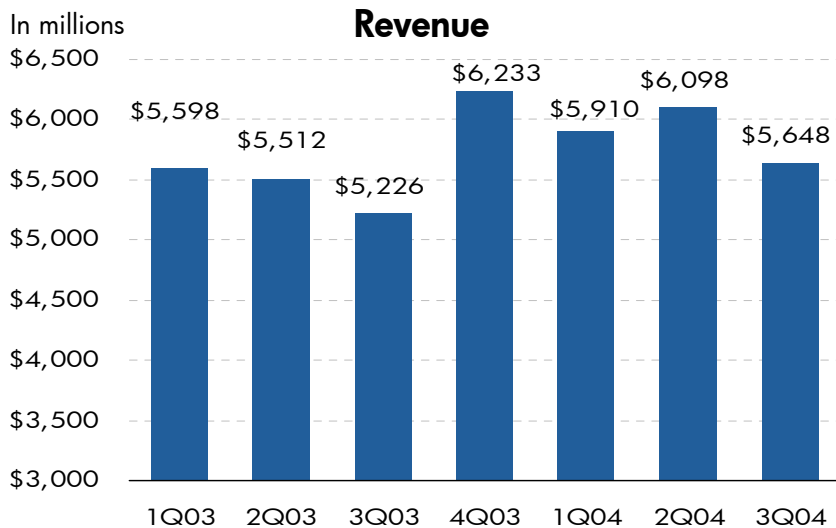
- Revenue grew 12% y/y
- CS grew 7% y/y; MS grew 42% y/y; and C&I grew increased 6%
- Operating profit was \$309 million or 8.9% of revenue

Personal Systems Group



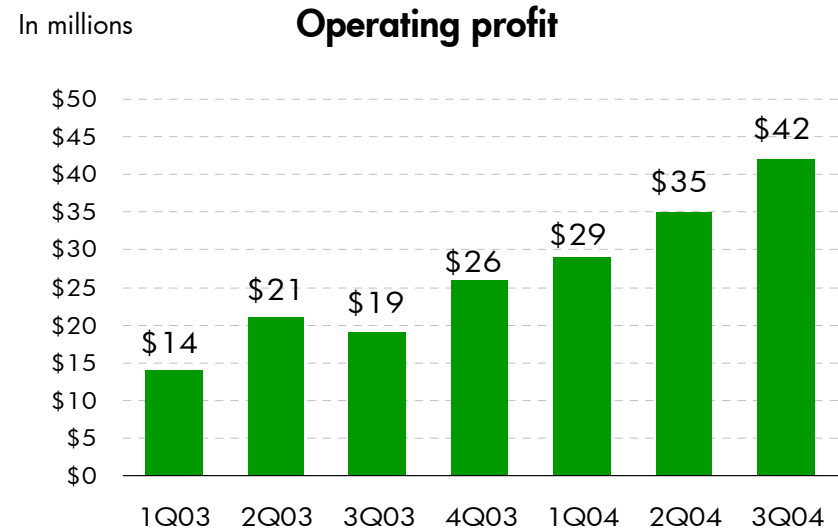
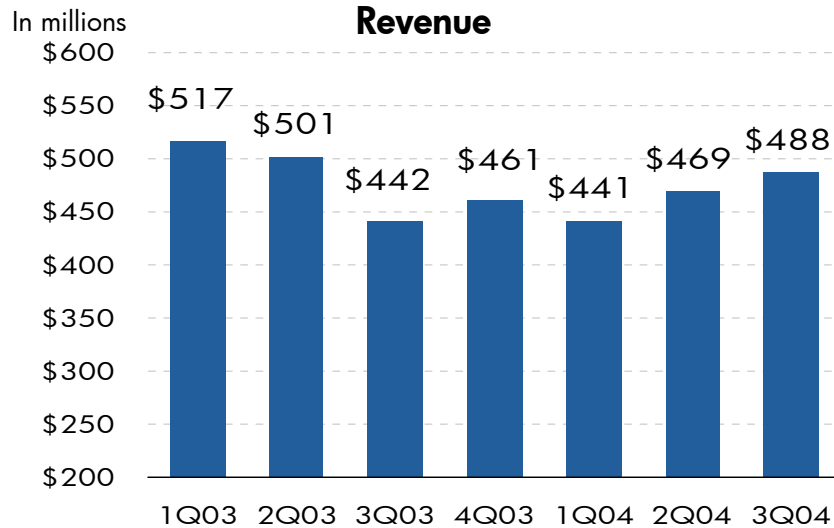
- Revenue increased 19% y/y
- Desktop revenue increased 26% y/y; Notebook revenue grew 12% y/y
- ASPs increased 2% y/y
- Commercial business grew 20% y/y; consumer business increased 19% y/y
- Operating profit increased \$81 million y/y

Imaging and Printing Group

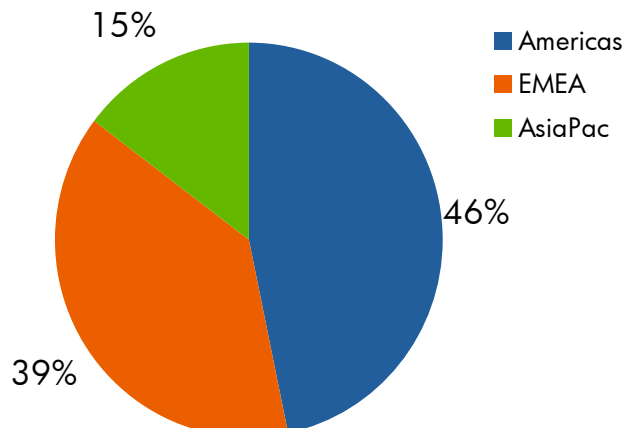


- Record 3Q revenue and growth of 8% y/y
- 10 million printers shipped in quarter
- Business printer revenue grew 8% y/y; Home printers was down 5% y/y; Supplies grew 9% y/y; and Digital Imaging grew 11% y/y
- Record 3Q operating profit of \$837 million, or 14.8%; up 12% y/y

HP Financial Services



3Q04 revenue by Region



- HP Financial Services reported revenues of \$488 million, up 10% y/y
- Operating profit was \$42 million, an increase of \$23 million from the prior year period, and represented 8.6% of revenue, our highest level since the merger.

3Q04 GAAP to non-GAAP bridge

All data in \$Ms except
per share amount

3Q04	GAAP	Amort. of Intangibles	Re- structuring charges	Acq. related charges	In-process R&D	G/L Invest.	Non-GAAP
Revenue	18,889						18,889
Gross profit	4,446						4,446
Total OpEx	3,789	(146)	(9)	(6)	(28)		3,600
Operating profit	657	146	9	6	28		846
Interest & other, net	21					(1)	20
Pre-tax earnings	678	146	9	6	28	(1)	866
Income tax	92	41	3	2			138
Tax rate	14%						16%
EPS	\$0.19						\$0.24

P&L

Non-GAAP

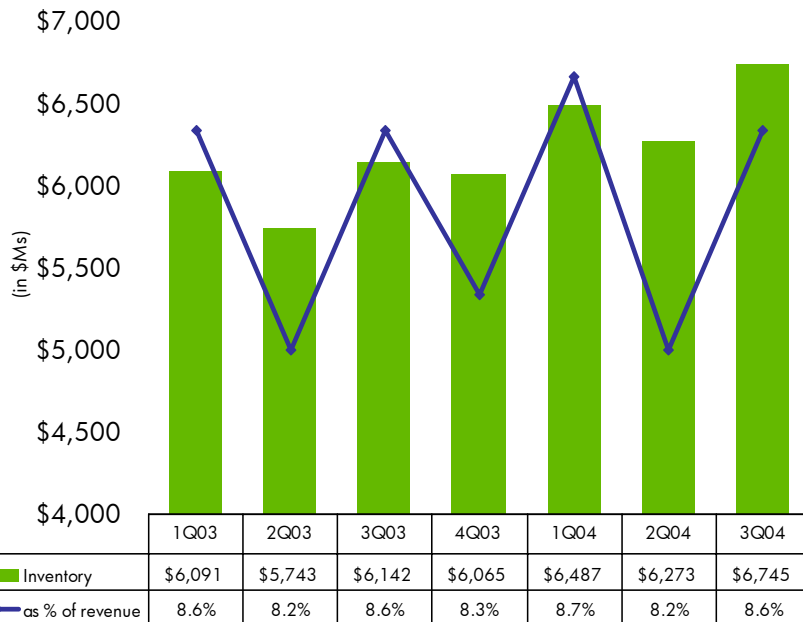
All data in \$Ms except
per share amount

	3Q04		2Q04		3Q03	
	M\$	%	M\$	%	M\$	%
Revenue	\$18,889	100%	\$20,113	100%	\$17,348	100%
Gross profit	\$4,446	23.5%	\$5,068	25.2%	\$4,538	26.2%
Total OpEx	\$3,600	19.0%	\$3,726	18.5%	\$3,680	21.3%
Operating profit	\$846	4.5%	\$1,342	6.7%	\$858	4.9%
Interest & other, net	\$20		\$(68)		\$10	
Pre-tax earnings	\$866	4.6%	\$1,274	6.3%	\$868	5.0%
Income tax	\$138		\$242		\$168	
EPS	\$0.24		\$0.34		\$0.23	

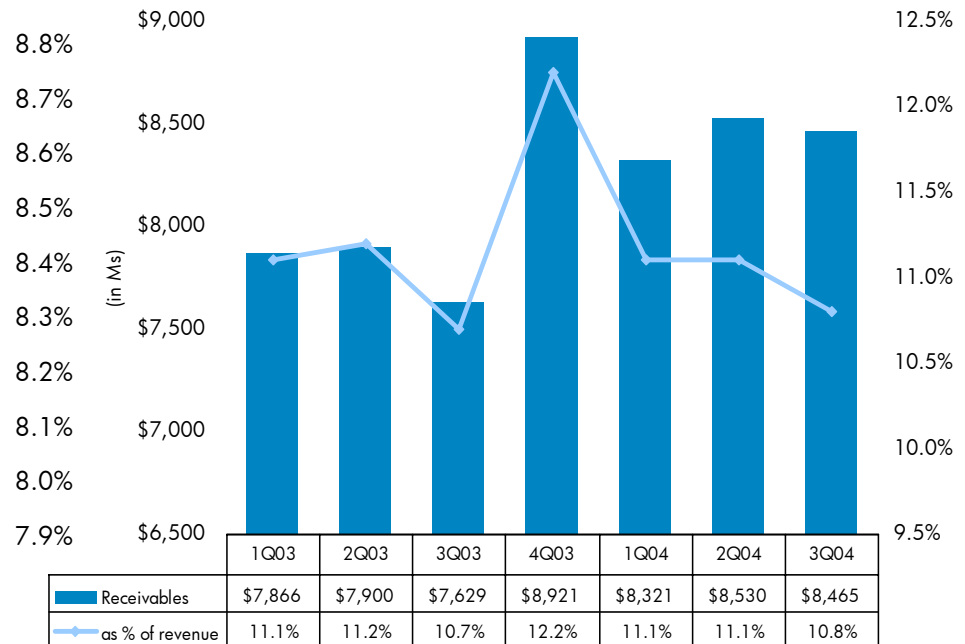
Balance sheet

Inventory and Trade receivables

Inventory



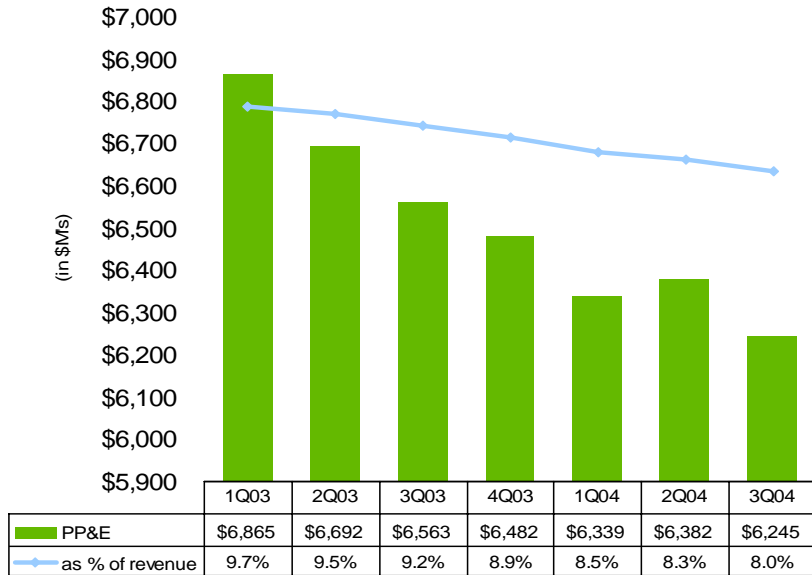
Trade receivables



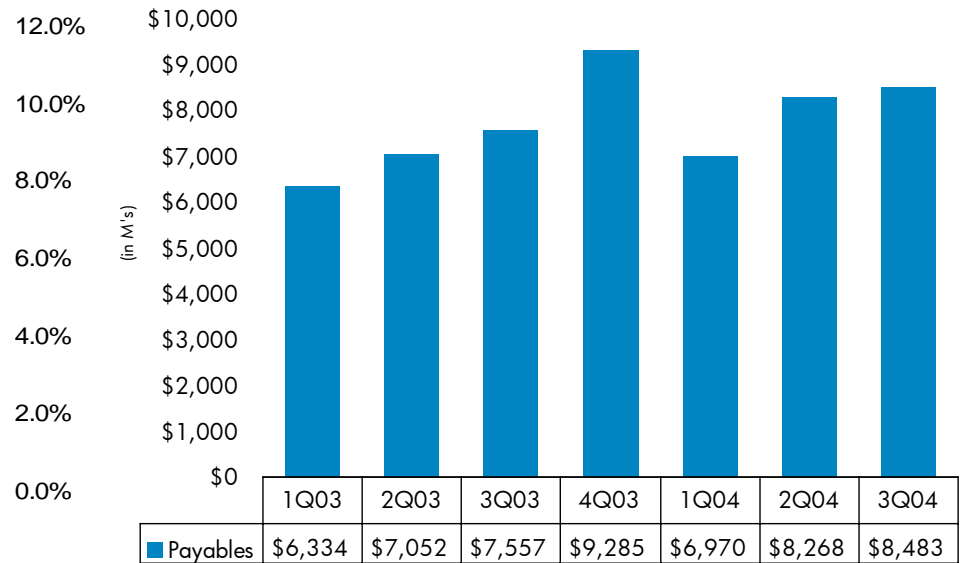
Balance sheet

PP&E and Trade payables

Net PP&E



Accounts payable



Gross cash and investments

(All data in \$Ms)



(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

Outlook

- Fourth quarter revenue is expected to be in the range of \$21.0 to \$21.5 billion.
- Fourth quarter non-GAAP earnings per share is expected to be in the range of \$0.35 to \$0.39.*

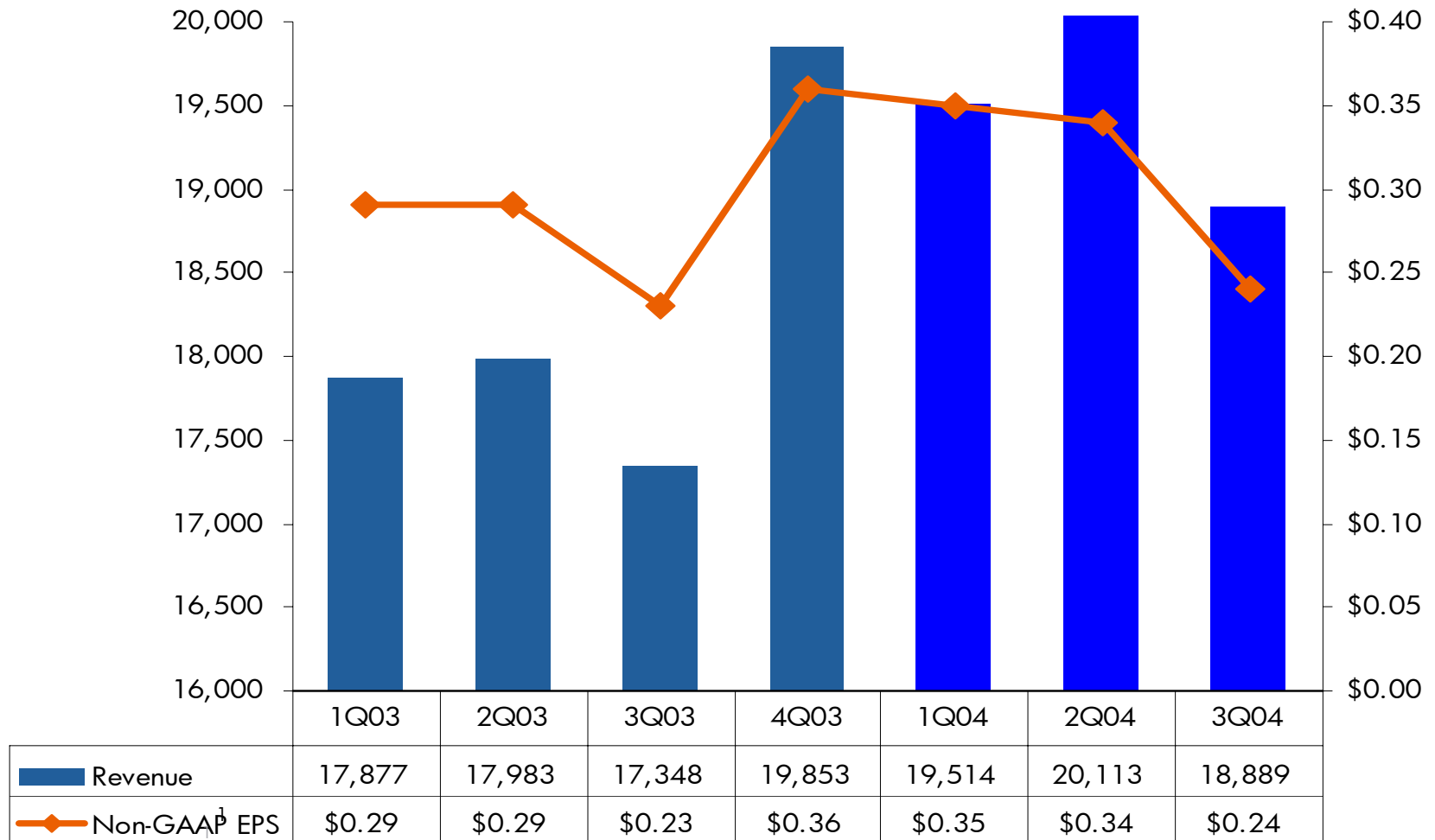
* The non-GAAP EPS expectations assume after-tax exclusion for fourth quarter charges of approximately \$0.05 per share from amortization of purchased intangible assets and acquisition-related charges.



i n v e n t

Supplemental slides

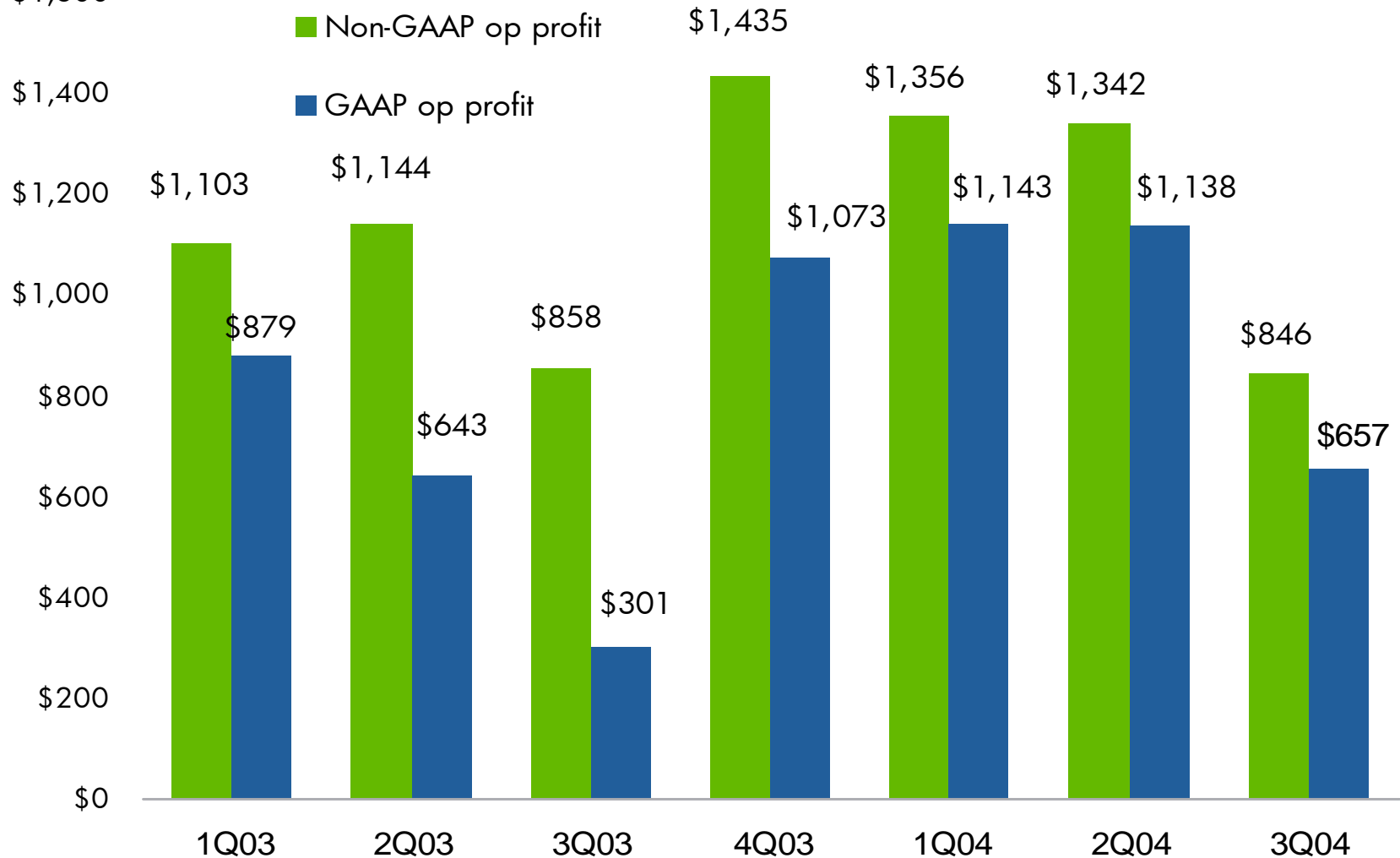
Progress report: Revenue and EPS



1) See slides 22-28 for Gaap to Non-Gaap bridges

Operating profit

In millions
\$1,600



For a GAAP – non-GAAP bridge refer to slide 22-28

3Q04 GAAP to non-GAAP bridge

All data in \$Ms except
per share amount

3Q04	GAAP	Amort. of Intangibles	Re- structuring charges	Acq. related charges	In-process R&D	G/L Invest.	Non-GAAP
Revenue	18,889						18,889
Gross profit	4,446						4,446
Total OpEx	3,789	(146)	(9)	(6)	(28)		3,600
Operating profit	657	146	9	6	28		846
Interest & other, net	21					(1)	20
Pre-tax earnings	678	146	9	6	28	(1)	866
Income tax	92	41	3	2			138
Tax rate	14%						16%
EPS	\$0.19						\$0.24

2Q04 GAAP to non-GAAP bridge

All data in \$Ms except
per share amount

2Q04	GAAP	Amort. of Intangibles	Re- structuring charges	Acq. related charges	In-process R&D	G/L Invest.	Non-GAAP
Revenue	20,113						20,113
Gross profit	5,068						5,068
Total OpEx	3,930	(148)	(38)	(9)	(9)		3,726
Operating profit	1,138	148	38	9	9		1,342
Interest & other, net	(73)					5	(68)
Pre-tax earnings	1,065	148	38	9	9	5	1,274
Income tax	181	44	13	3		1	242
Tax rate	17%						19%
EPS	\$0.29						\$0.34



1Q04 GAAP to non-GAAP bridge

All data in \$Ms except
per share amount

1Q04

	GAAP	Amort. of Intangibles	Re- structuring charges	Acq. related charges	G/L Invest.	Non-GAAP
Revenue	19,514					19,514
Gross profit	4,950					4,950
Total OpEx	3,807	(144)	(54)	(15)		3,594
Operating profit	1,143	144	54	15		1,356
Interest & other, net	20				(9)	11
Pre-tax earnings	1,163	144	54	15	(9)	1,367
Income tax	227	42	17	5	(4)	287
Tax rate	20%					21%
EPS	\$0.30					\$0.35



4Q03 GAAP to non-GAAP bridge

All data in \$Ms except
per share amount
4Q03

	GAAP	Amort. of Intangibles	Re- structuring charges	Retent. bonus	Acq. related charges	IPRD	G/L Invest.	Non- GAAP
Revenue	19,853							19,853
Gross profit	5,048							5,048
Total OpEx	3,975	(143)	(190)	(1)	(27)	(1)		3,613
Operating profit	1,073	143	190	1	27	1		1,435
Interest & other, net	(8)						(12)	(20)
Pre-tax earnings	1,065	143	190	1	27		(12)	1,415
Income tax	203	41	65		10		(7)	312
Tax rate	19.1%							22.0%
EPS	\$0.28							\$0.36



3Q03 GAAP to non-GAAP bridge

All data in \$Ms except
per share amount
3Q03

	GAAP	Amort. of intangibles	Re- structuring charges	Retent. bonus	Acq. related charges	G/L Invest.	Non- GAAP
Revenue	17,348						17,348
Gross profit	4,539						4,539
Total OpEx	4,238	(141)	(376)	(11)	(29)		3,681
Operating profit	301	141	376	11	29		858
Interest & other, net	(14)					24	10
Pre-tax earnings	287	141	376	11	29	24	868
Income tax	(10)	31	126	4	10	7	168
Tax rate	(3.5%)						19.4%
EPS	\$0.10						\$0.23



2Q03 GAAP to non-GAAP bridge

All data in \$Ms except
per share amount
2Q03

	GAAP	Amort. of intangibles	Re- structuring charges	Retent. bonus	Acq. related charges	G/L Invest.	Accrued tax benefit	Non- GAAP
Revenue	17,983							17,983
Gross profit	4,880							4,880
Total OpEx	4,237	(141)	(234)	(79)	(47)			3,736
Operating profit	643	141	234	79	47			1,144
Interest & other, net	(32)					12		(20)
Pre-tax earnings	611	141	234	79	47	12		1,124
Income tax	(48)	43	71	27	17	6	131	247
Tax rate	(8%)							22%
EPS	\$0.22							\$0.29



1Q03 GAAP to non-GAAP bridge

All data in \$Ms except
per share amount
1Q03

	GAAP	Amort. of intangibles	Re- structuring charges	Retent. bonus	Acq. related charges	G/L Invest.	Accrued tax benefit	Non- GAAP
Revenue	17,877							17,877
Gross profit	4,736							4,736
Total OpEx	3,857	(138)		(76)	(10)			3,633
Operating profit	879	138		76	10			1,103
Interest & other, net	46					5		51
Pre-tax earnings	925	138		76	10	5		1,154
Income tax	204	44		26	3			277
Tax rate	22%							24%
EPS	\$0.24							\$0.29