



HP Q1 FY05 Earnings Announcement

February 16, 2005

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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.



Q1 FY05 Overview

- Record quarterly revenue of \$21.5 billion, up 10% year-over-year
- Non-GAAP operating profit of \$1.3 billion, \$0.37 earnings per share
- GAAP operating profit of \$1.2 billion, \$0.32 earnings per share
- Strong cash flow from operations of \$1.6 billion

\$ in millions	Revenue		Operating Profit	
		Y/Y %		% of rev
Enterprise Storage & Servers	\$4,047	9%	\$71	1.8%
HP Services	\$3,815	20%	\$281	7.4%
Software	\$240	18%	(\$40)	(16.7%)
Personal Systems Group	\$6,873	11%	\$147	2.1%
Imaging & Printing Group	\$6,067	3%	\$932	15.4%
HP Financial Services	\$555	26%	\$45	8.1%

Note: All non-GAAP numbers have been adjusted to exclude certain items. A reconciliation of specific adjustments to GAAP results for this quarter and the prior period is included on the slide titled: "Q1 FY05 GAAP to non-GAAP Bridge" A description of HP's use of non-GAAP information is provided on slide 3 under "Use of Non-GAAP Financial Information."

P&L

Non-GAAP



All data in \$Ms except
per share amount

	Q1 FY05		Q4 FY04 ¹		Q1 FY04 ¹	
	M\$	%	M\$	%	M\$	%
Revenue	\$21,454	100%	\$21,389	100%	\$19,514	100%
Cost of sales	\$16,537	77.1%	\$16,393	76.6%	\$14,691	75.3%
Total OpEx	\$3,582	16.7%	\$3,505	16.4%	\$3,467	17.8%
Operating profit	\$1,335	6.2%	\$1,491	7.0%	\$1,356	6.9%
Settlement	(\$116)		\$0		\$0	
Interest & other, net	\$25		\$2		\$11	
Pre-tax earnings	\$1,244	5.8%	\$1,493	7.0%	\$1,367	7.0%
Income tax	\$166		\$266		\$287	
EPS	\$0.37		\$0.41		\$0.35	

1. Certain reclassifications have been made to prior year amounts in order to conform to fiscal 2005 presentation

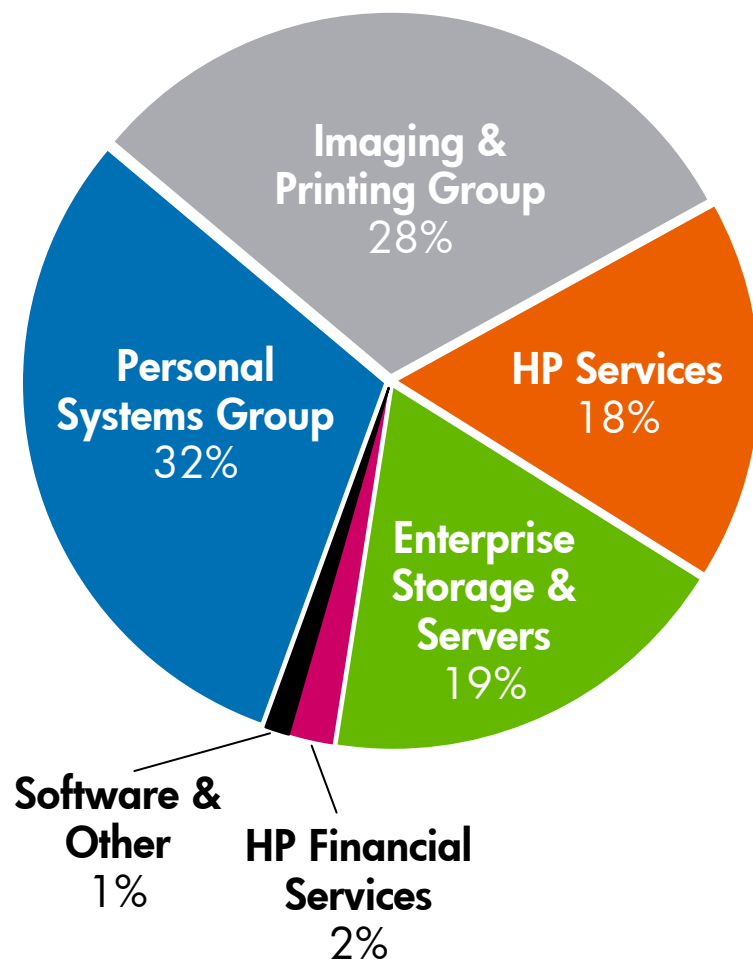
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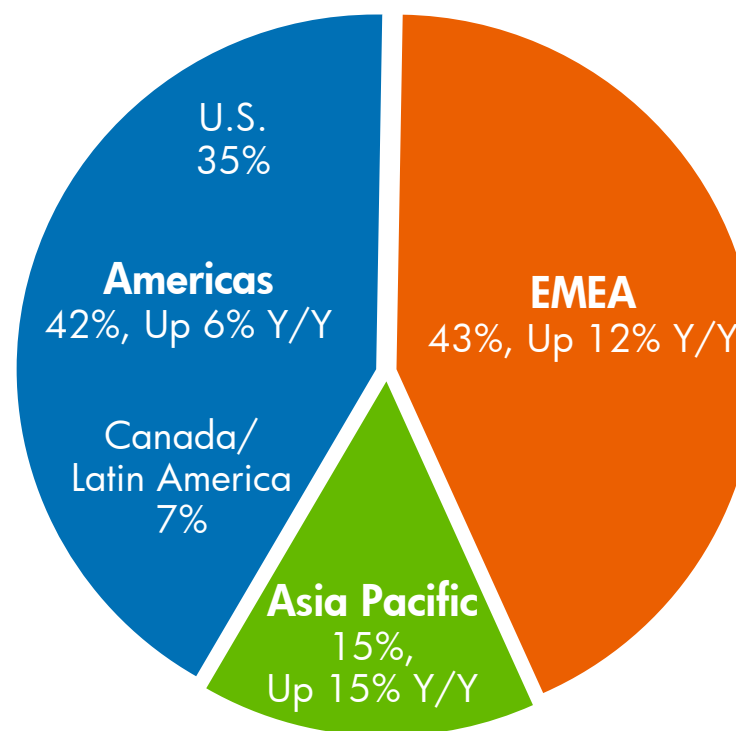
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Q1 FY05 Revenue

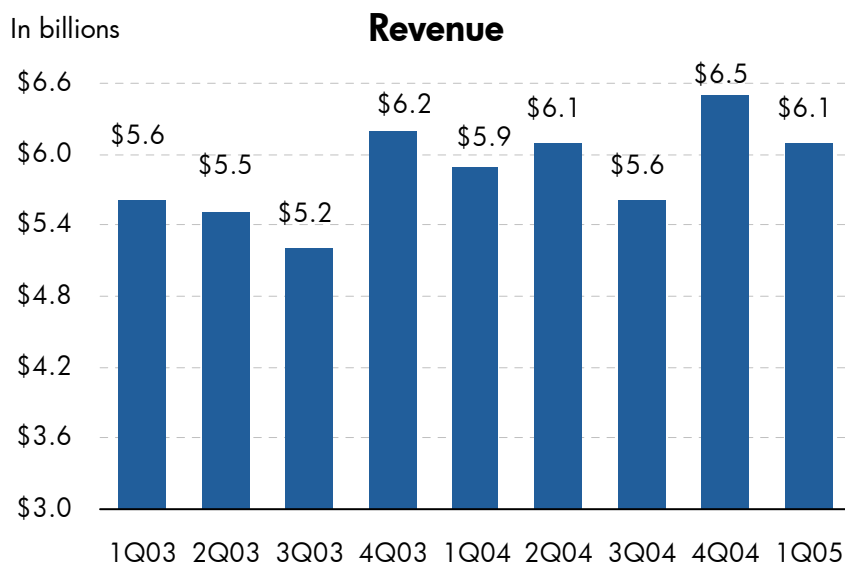
Revenue by segment



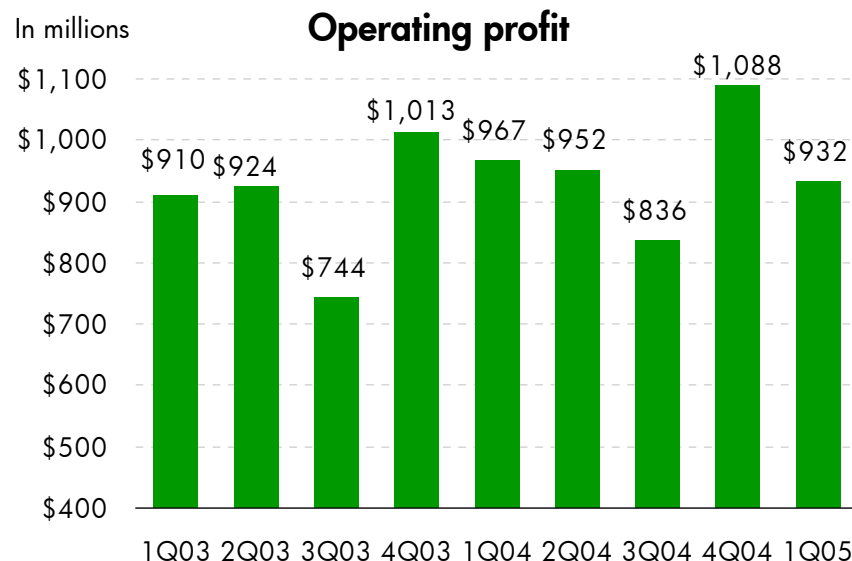
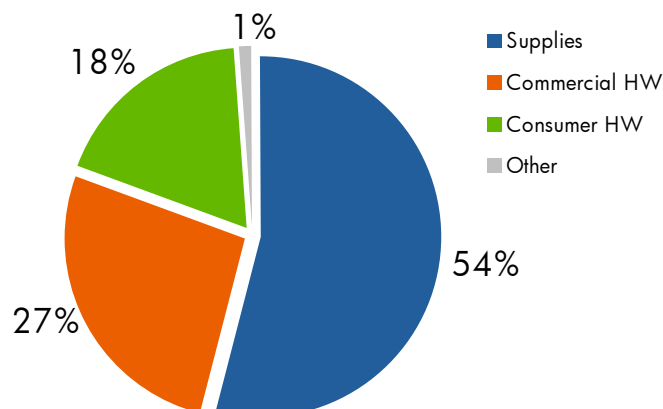
Revenue by region



Imaging and Printing Group

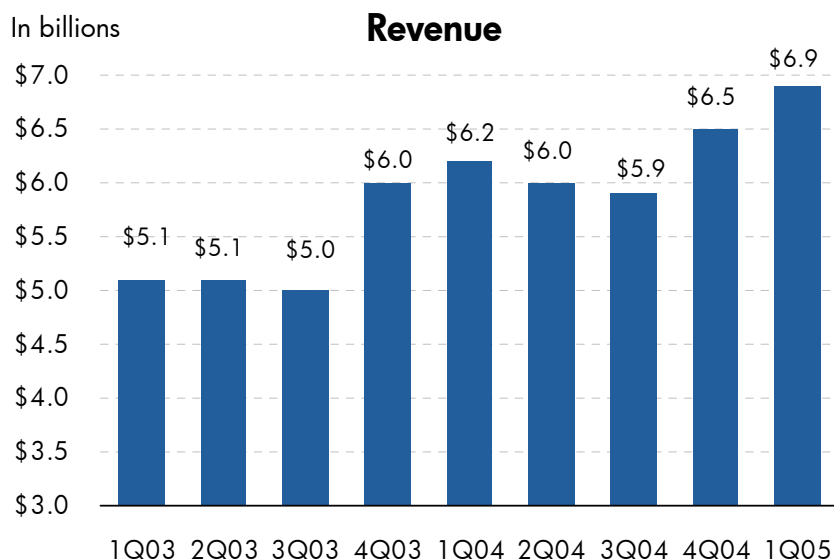


Q1 FY05 revenue by GBU

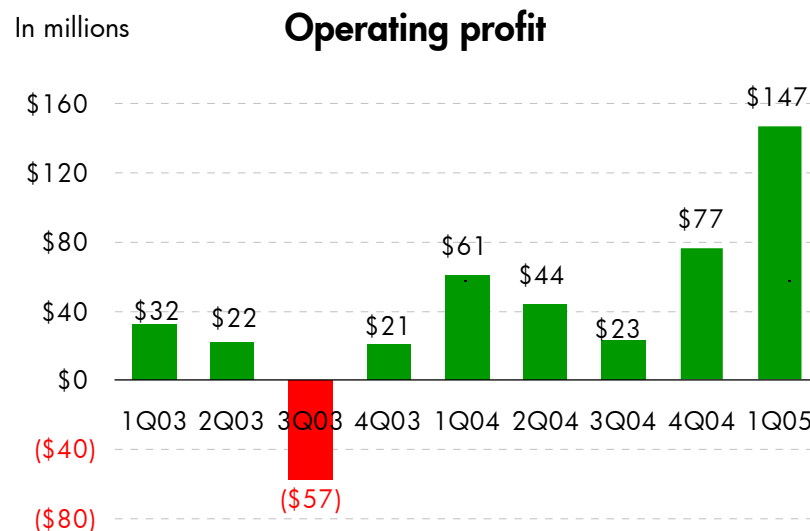
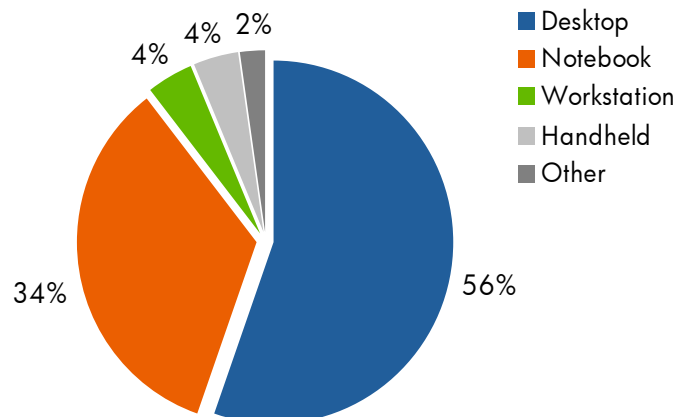


- IPG revenue of \$6.1B; up 3% Y/Y
- Operating profit of \$932M; 15.4% of revenue
- Supplies revenue grew 8% Y/Y
- Color LaserJet units up 68% Y/Y
- MFP units up 85% Y/Y

Personal Systems Group

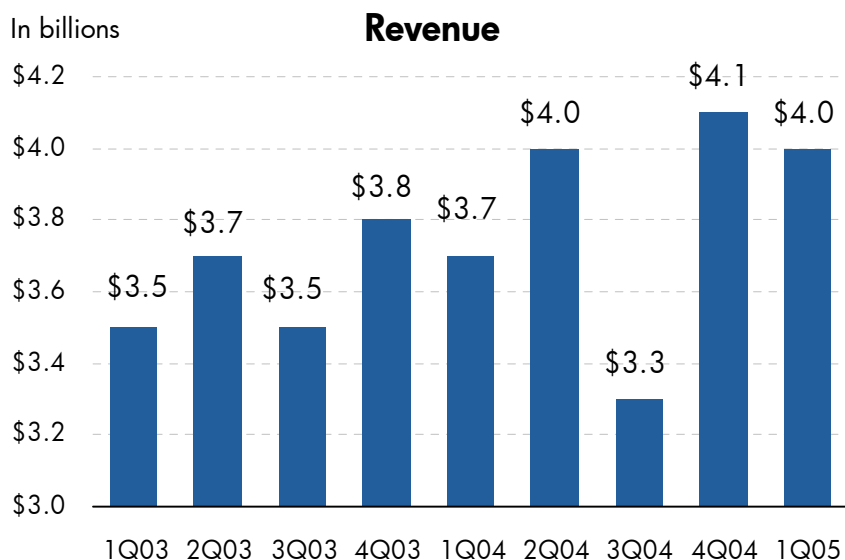


Q1 FY05 revenue by GBU

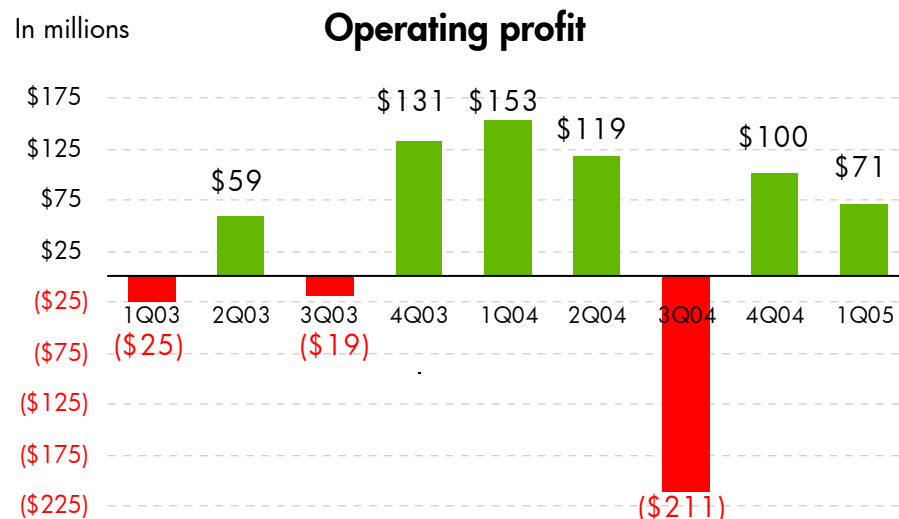
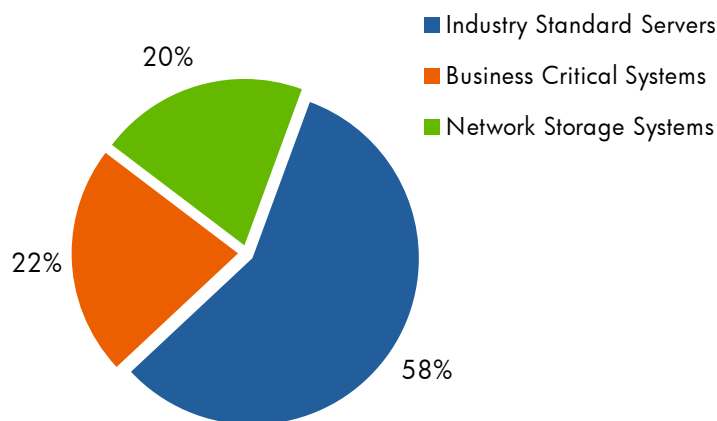


- PSG revenue up 11% Y/Y; units up 12% Y/Y
- Operating profit of \$147M; 2.1% of revenue
- Most profitable quarter since 2000
- Desktop revenue up 8% Y/Y;
Notebook revenue up 9% Y/Y
- Consumer client revenue up 7% Y/Y;
Commercial client revenue up 10% Y/Y

Enterprise Storage and Servers



Q1 FY05 revenue by GBU



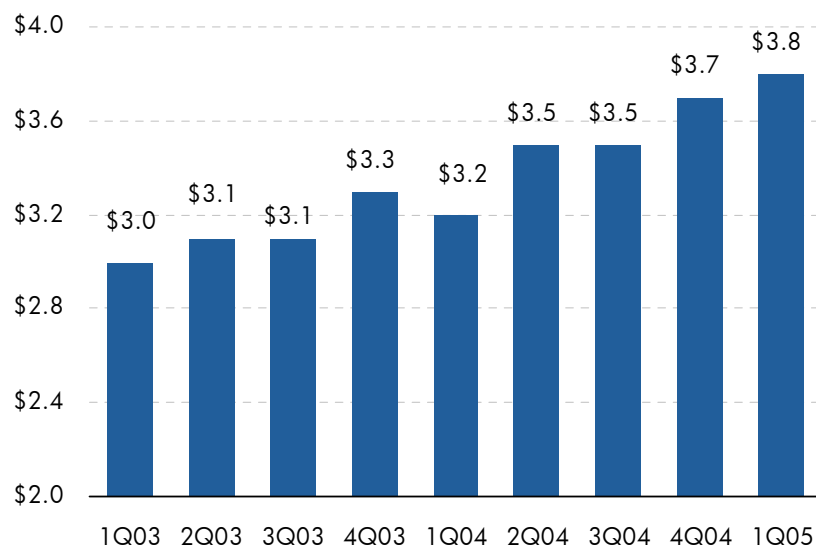
- ESS revenue grew 9% Y/Y
- Operating profit of \$71M; 1.8% of revenue
- ISS revenue up 19% Y/Y; 23% unit growth Y/Y
- Highest x86 server market share in 3 years
- HP-UX revenue grew 3% Y/Y
- Integrity sales doubled Y/Y and now represent 18% of Business Critical Server revenue
- NSS revenue down 1% Y/Y; margins improving
- Includes \$33M in workforce reductions charges



HP Services

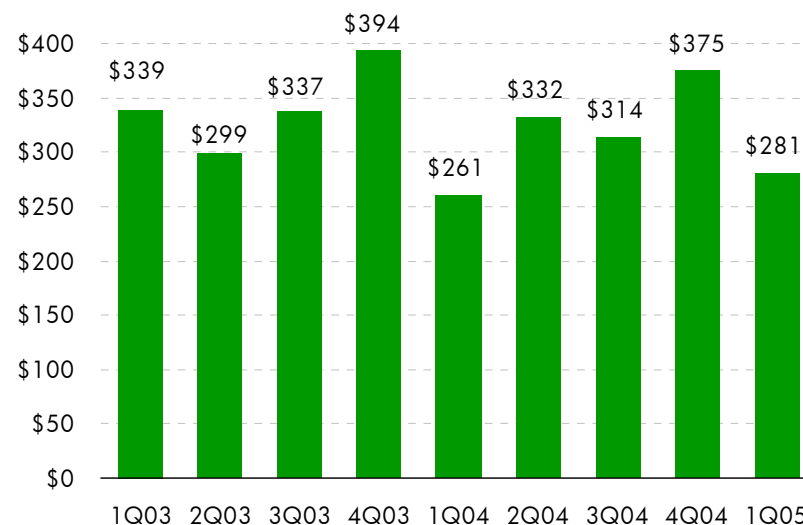
In billions

Revenue

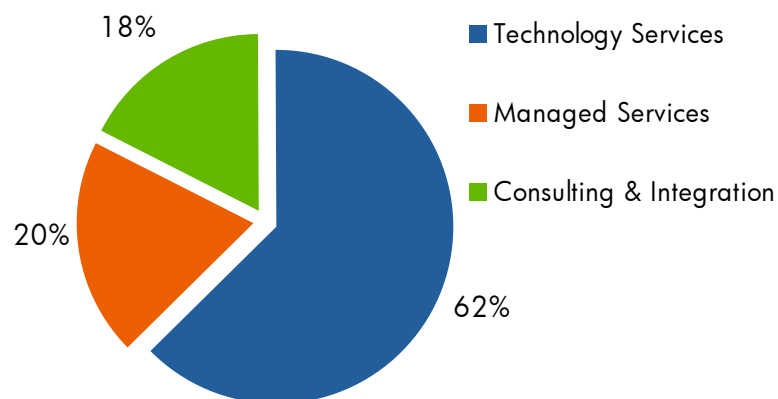


In millions

Operating profit

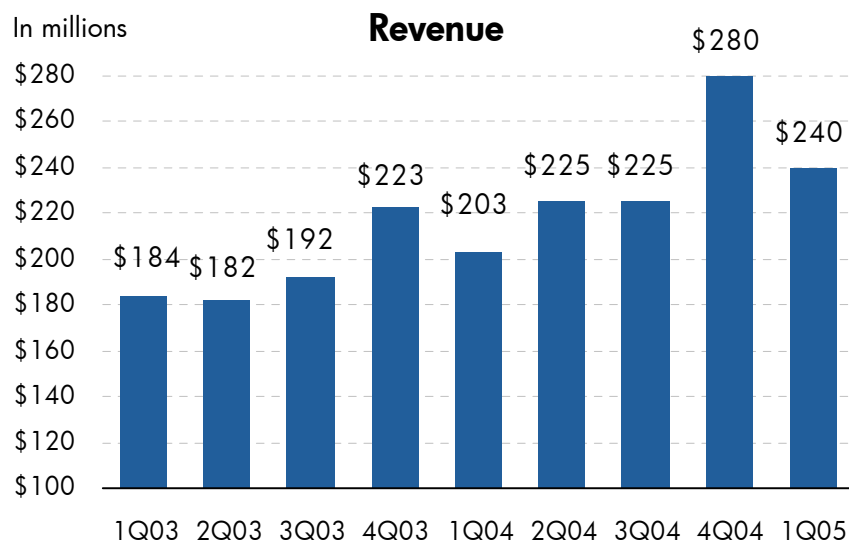


Q1 FY05 revenue by GBU

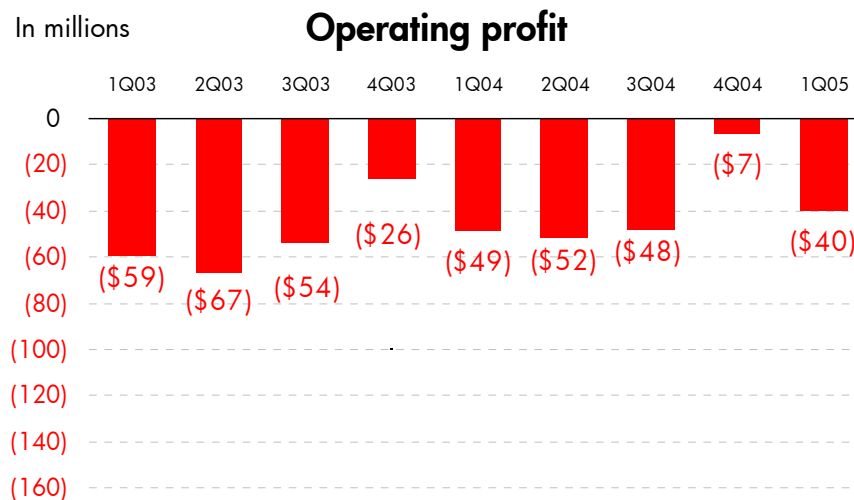
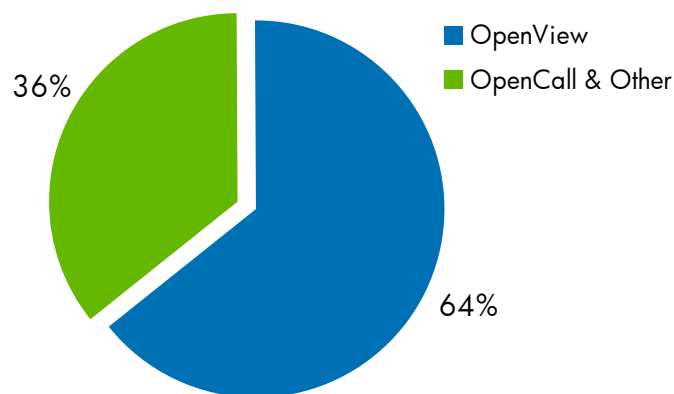


- HPS revenue grew 20% Y/Y; revenue growth excluding acquisitions was 14% Y/Y
- Operating profit of \$281M; 7.4% of revenue
- TS revenue up 14% Y/Y
- MS revenue up 44% Y/Y
- C&I revenue up 20% Y/Y
- Includes \$26M in workforce reductions charges

Software



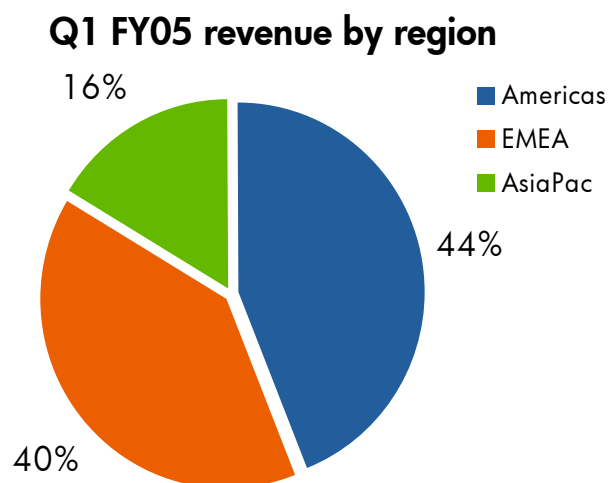
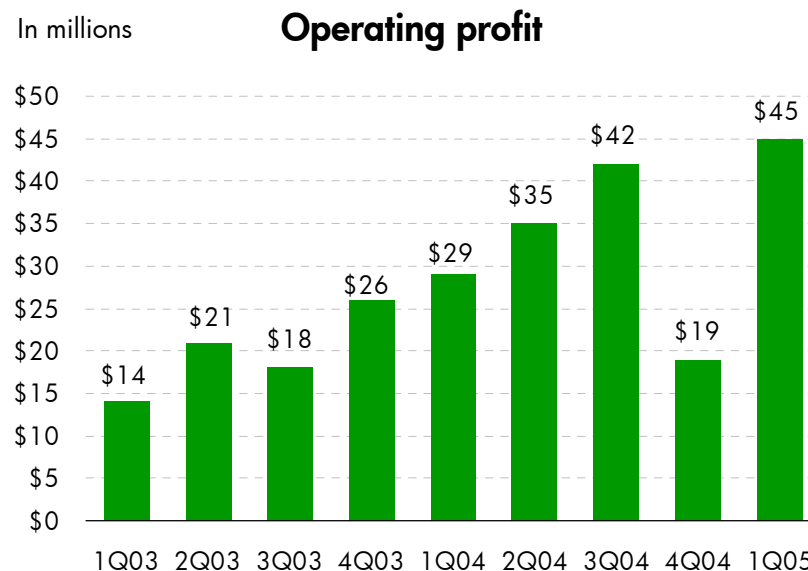
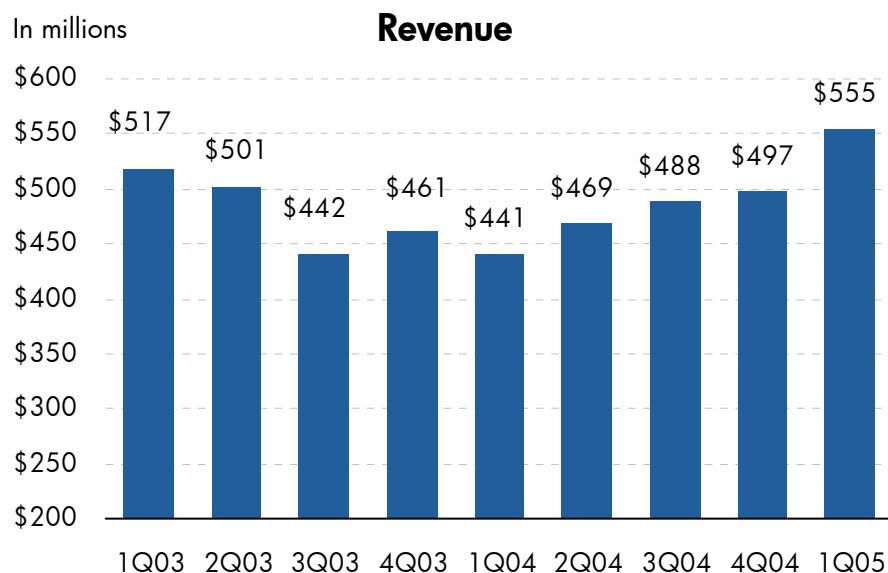
Q1 FY05 revenue by GBU



- Software revenue grew 18% Y/Y
- HP OpenView revenue grew 16% Y/Y
- HP OpenCall revenue grew 22% Y/Y
- On track to break-even exiting Q4 FY05



HP Financial Services



- HPFS revenue of \$555M, up 26% Y/Y
- Operating profit of \$45M; 8.1% of revenue
- Financing volume up 25% Y/Y
- Net portfolio assets reached \$7.2B, up 3% Y/Y

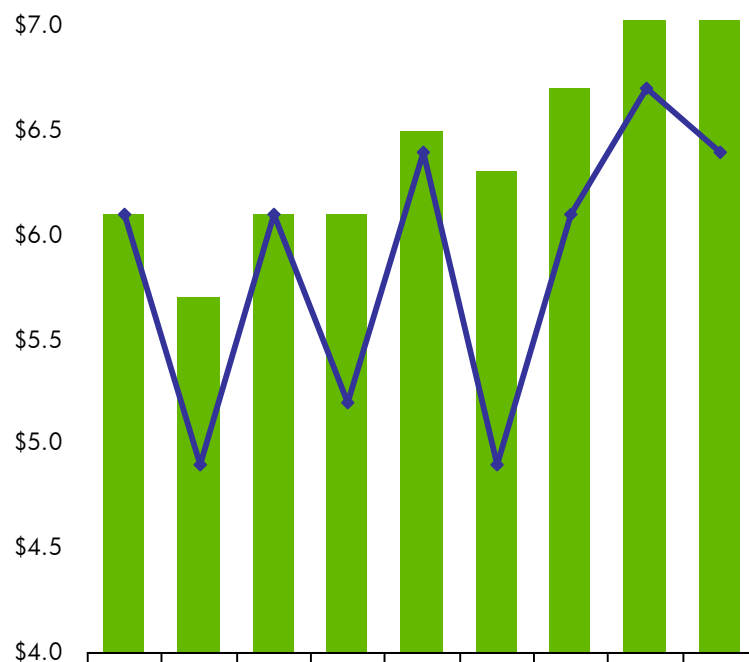
Balance Sheet

Inventory and Accounts Receivable



Inventory

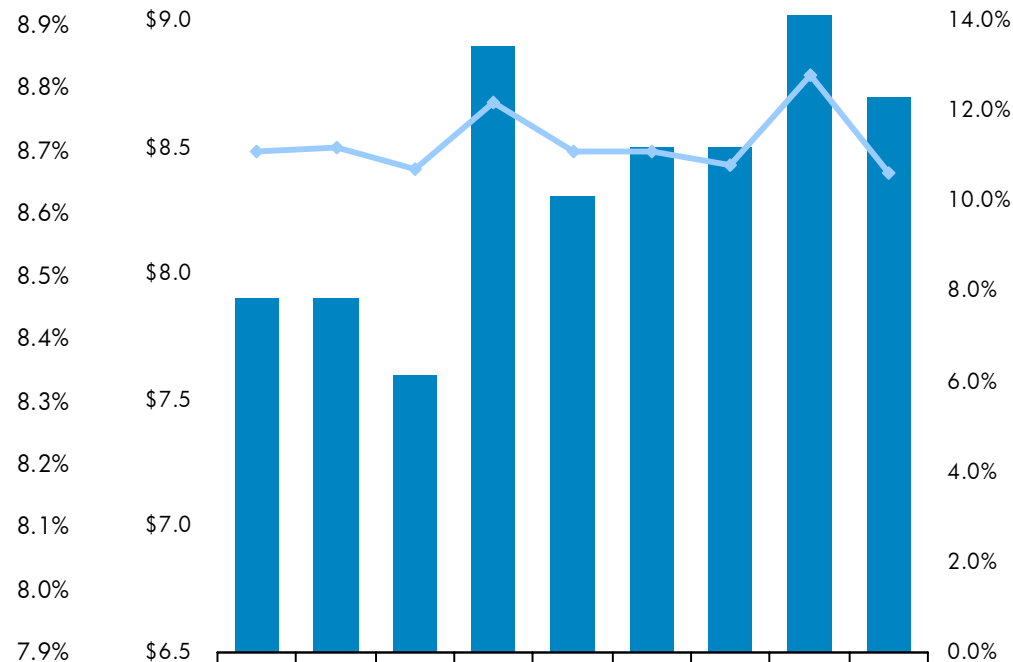
In billions



	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04	1Q05
Inventory	\$6.1	\$5.7	\$6.1	\$6.1	\$6.5	\$6.3	\$6.7	\$7.1	\$7.1
% of Rev	8.6%	8.2%	8.6%	8.3%	8.7%	8.2%	8.6%	8.8%	8.7%

Accounts receivable

In billions



	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04	1Q05
Receivables	\$7.9	\$7.9	\$7.6	\$8.9	\$8.3	\$8.5	\$8.5	\$10.2	\$8.7
% of Rev	11.1%	11.2%	10.7%	12.2%	11.1%	11.1%	10.8%	12.8%	10.6%



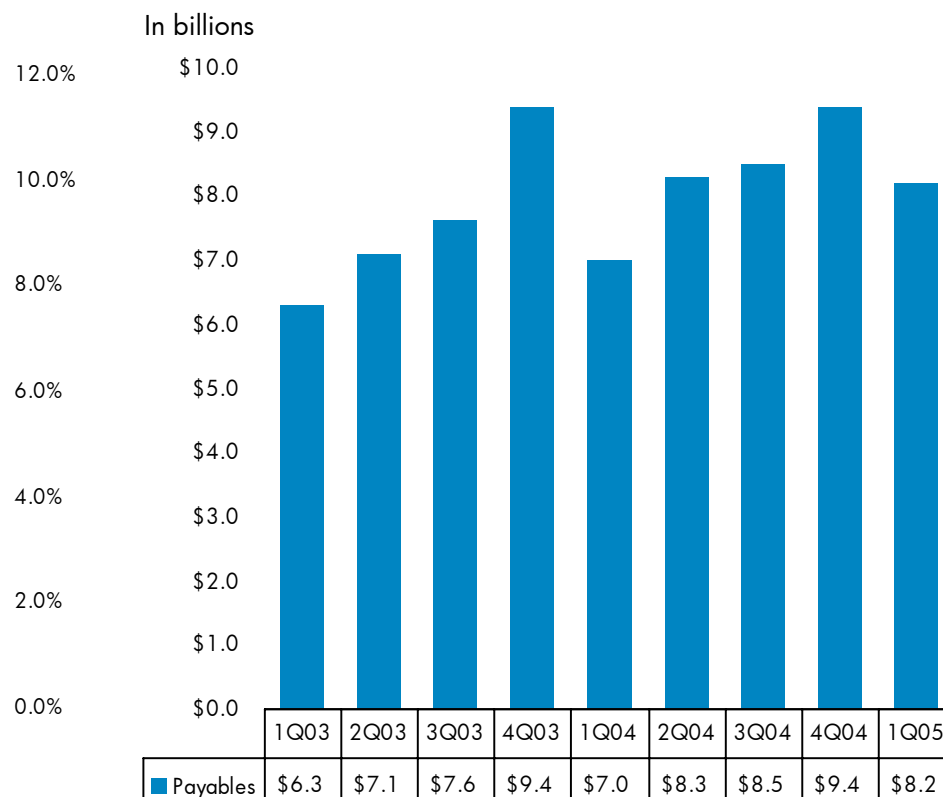
Balance Sheet

PP&E and Accounts Payable

Net PP&E

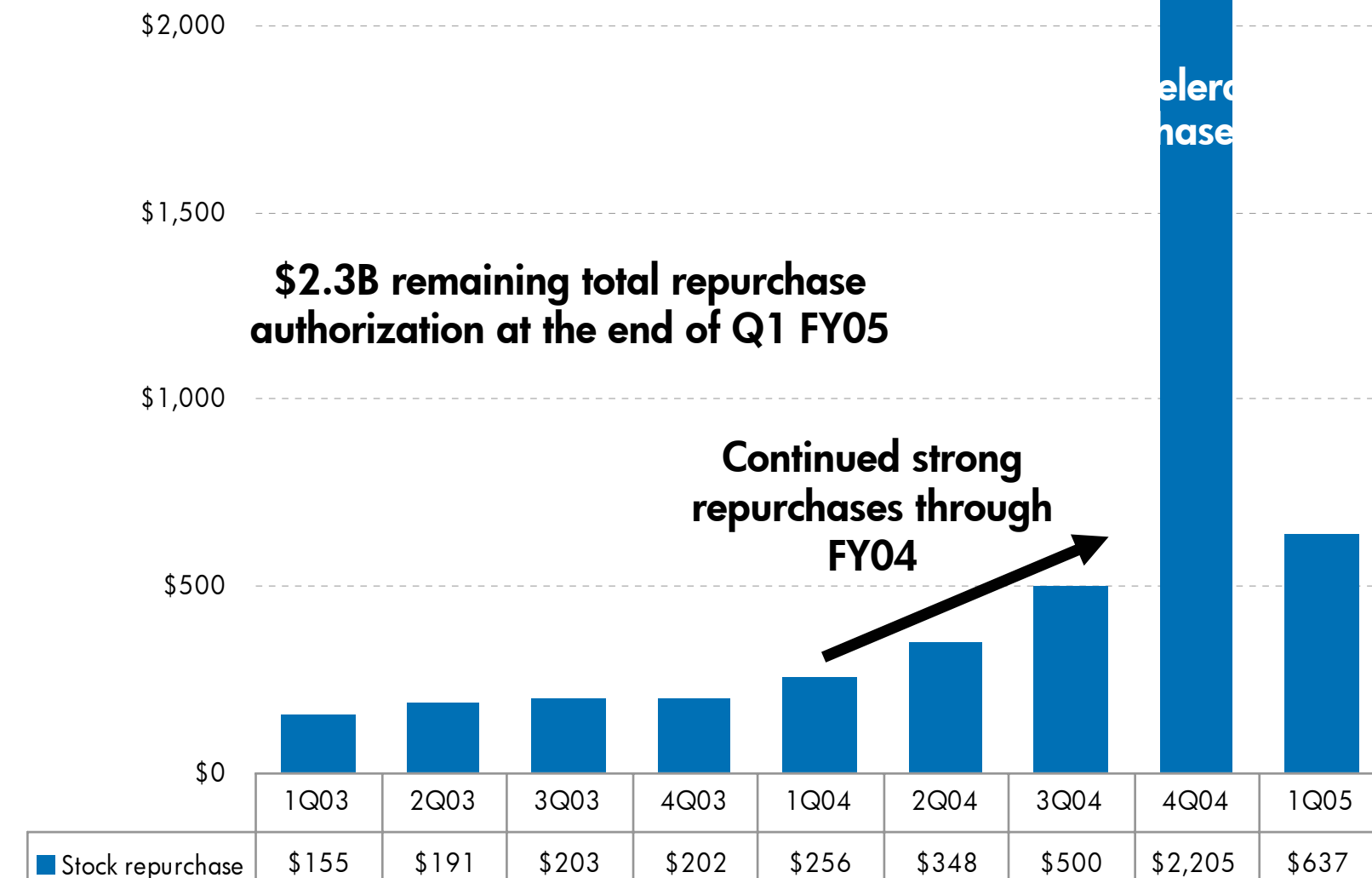


Accounts payable



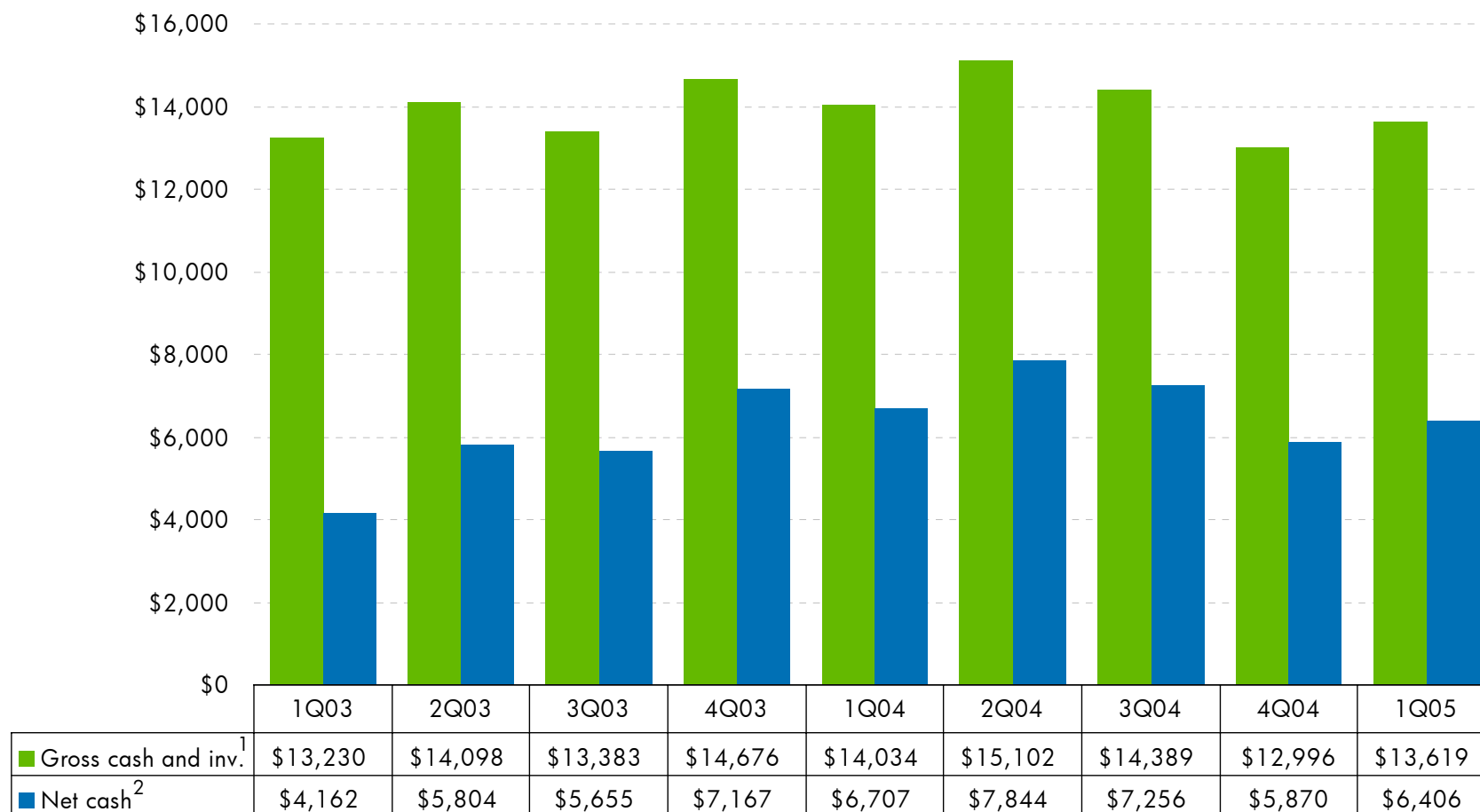
Stock Repurchase

In millions



Gross Cash and Investments

In millions



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



Q2 FY05 Outlook

- HP estimates second quarter FY05 revenue will be in the range of \$21.2 billion to \$21.6 billion.
- HP estimates second quarter non-GAAP earnings per share will be in the range of \$0.35 to \$0.37.*

* The non-GAAP EPS expectations assume after-tax exclusion of approximately \$0.04 per share per quarter from amortization of purchased intangible assets.



i n v e n t

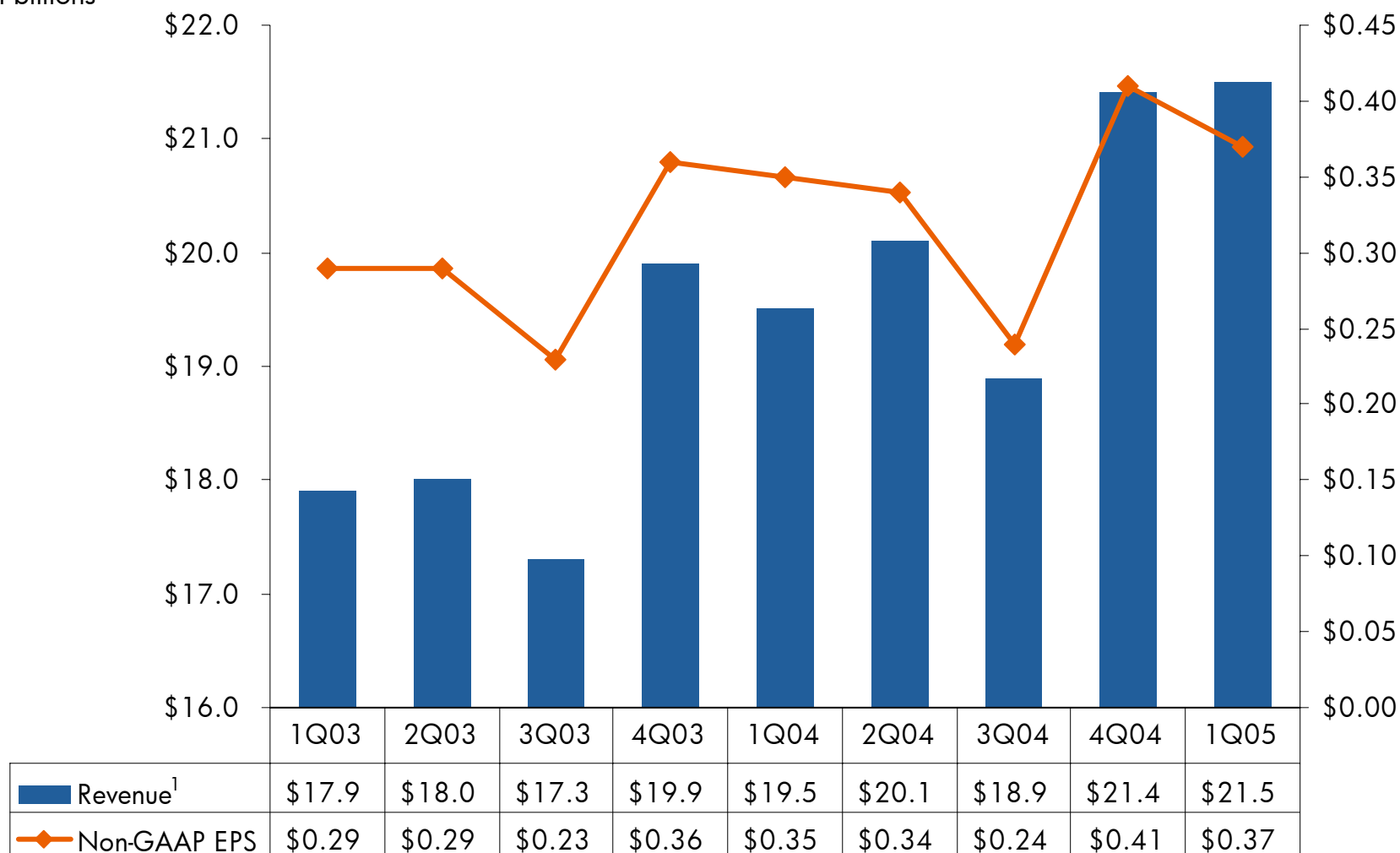


Supplemental slides



Revenue & EPS Performance

In billions



1. See GAAP to Non-GAAP bridge slides

Operating Profit

In millions





Q1 FY05 GAAP to non-GAAP bridge

All data in \$Ms except
per share amount

1Q05	GAAP	Amort. of Intangibles	Re- structuring charges	Acq. related charges	In-process R&D	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%
EPS	\$0.32						\$0.37



Q4 FY04 GAAP to non-GAAP bridge¹

All data in \$Ms except
per share amount
4Q04

	GAAP	Amort. of Intangibles	Re- structuring charges	Acq. related charges	In-process R&D	G/L Invest.	Non-GAAP
Revenue	21,389						21,389
Cost of sales	16,393						16,393
Total OpEx	3,707	(165)	(13)	(24)			3,505
Operating profit	1,289	165	13	24			1,491
Interest & other, net	1					1	2
Pre-tax earnings	1,290	165	13	24		1	1,493
Income tax	199	59	4	4			266
Tax rate	15%						18%
EPS	\$0.37						\$0.41

1. Certain reclassifications have been made to prior year amounts in order to conform to fiscal 2005 presentation

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Q3 FY04 GAAP to non-GAAP bridge¹

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
Cost of sales	14,545						14,545
Total OpEx	3,687	(146)	(9)	(6)	(28)		3,498
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

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Q2 FY04 GAAP to non-GAAP bridge¹

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
Cost of sales	15,182						15,182
Total OpEx	3,793	(148)	(38)	(9)	(9)		3,589
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

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Q1 FY04 GAAP to non-GAAP bridge¹

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
Cost of sales	14,691					14,691
Total OpEx	3,680	(144)	(54)	(15)		3,467
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

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Q4 FY03 GAAP to non-GAAP bridge¹

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
Cost of sales	14,939							14,939
Total OpEx	3,841	(143)	(190)	(1)	(27)	(1)		3,479
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

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Q3 FY03 GAAP to non-GAAP bridge¹

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
Cost of sales	12,945						12,945
Total OpEx	4,102	(141)	(376)	(11)	(29)		3,545
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

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Q2 FY03 GAAP to non-GAAP bridge¹

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
Cost of sales	13,240							13,240
Total OpEx	4,100	(141)	(234)	(79)	(47)			3,599
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

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Q1 FY03 GAAP to non-GAAP bridge¹

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
Cost of sales	13,269							13,269
Total OpEx	3,729	(138)		(76)	(10)			3,505
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	43		26	4			277
Tax rate	22%							24%
EPS	\$0.24							\$0.29

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