



# HP Q2 FY05 Earnings Announcement

May 17, 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.

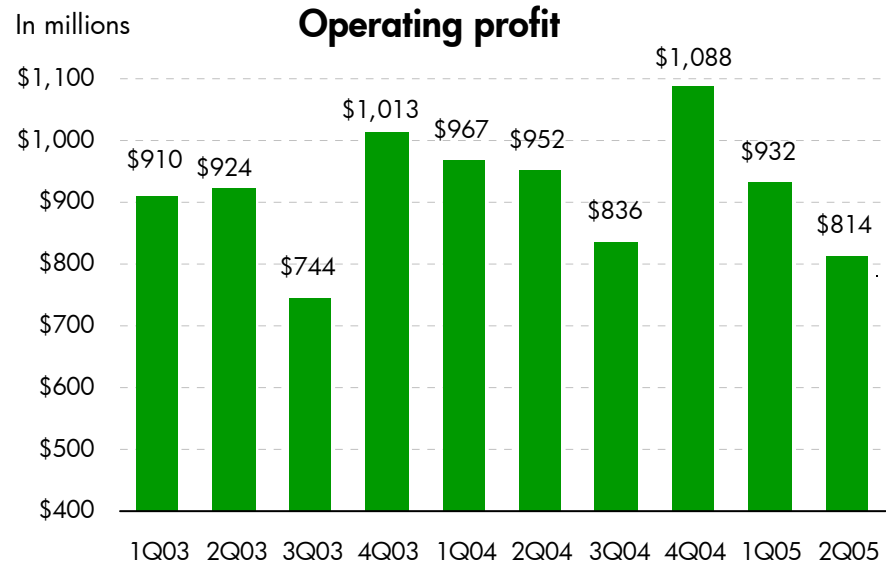
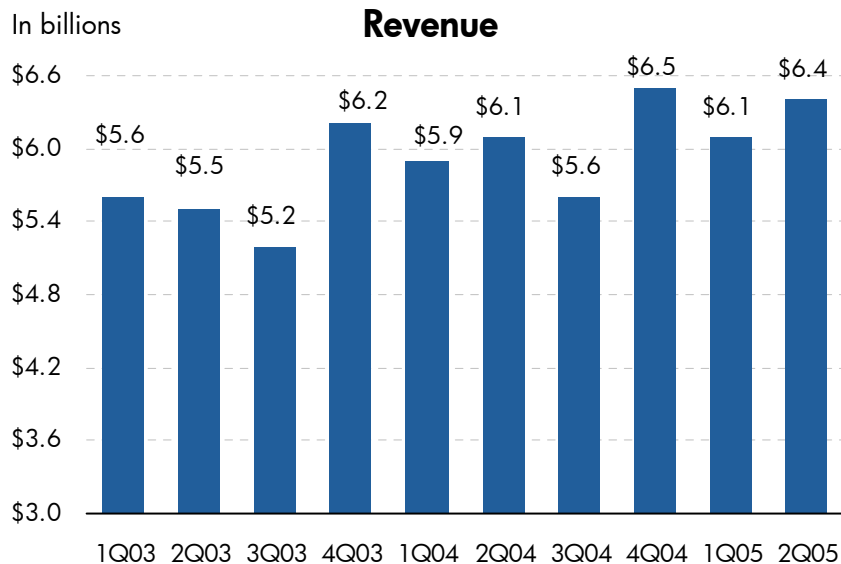
# Q2 FY05 Overview

- Record quarterly revenue of \$21.6 billion, up 7% year-over-year
- Non-GAAP operating profit of \$1.3 billion, \$0.37 earnings per share
- GAAP operating profit of \$1.2 billion, \$0.33 earnings per share
- Strong cash flow from operations of \$2.4 billion
- Workforce reduction costs of \$177 million

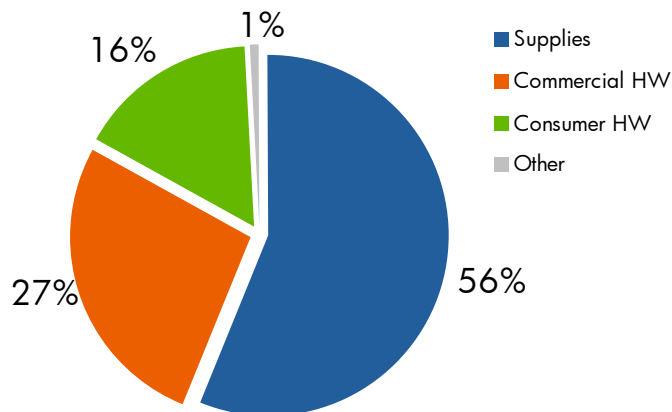
\$ in millions	Revenue		Operating Profit	
		Y/Y %		% of rev
Enterprise Storage & Servers	\$4,184	6%	\$184	4.4%
HP Services	\$3,984	14%	\$292	7.3%
Software	\$277	23%	(\$6)	(2.2%)
Personal Systems Group	\$6,369	6%	\$147	2.3%
Imaging & Printing Group	\$6,390	5%	\$814	12.7%
HP Financial Services	\$544	16%	\$58	10.7%

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: "Q2 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."

# Imaging and Printing Group

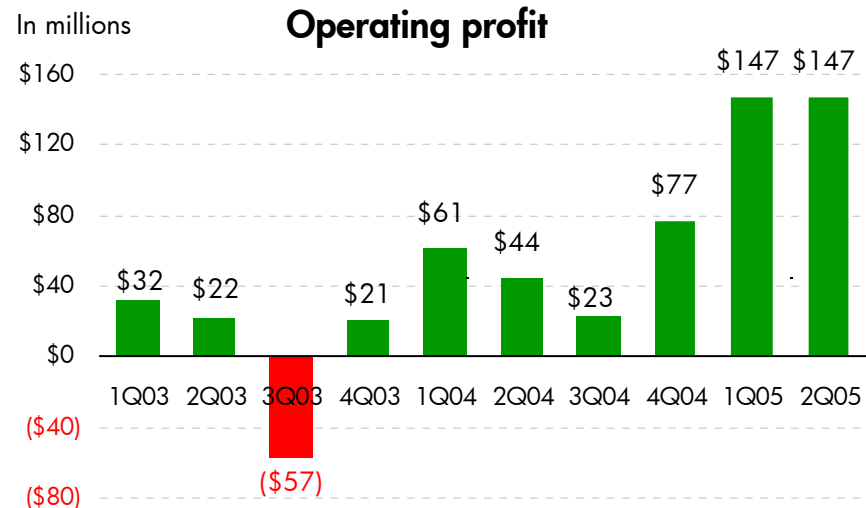
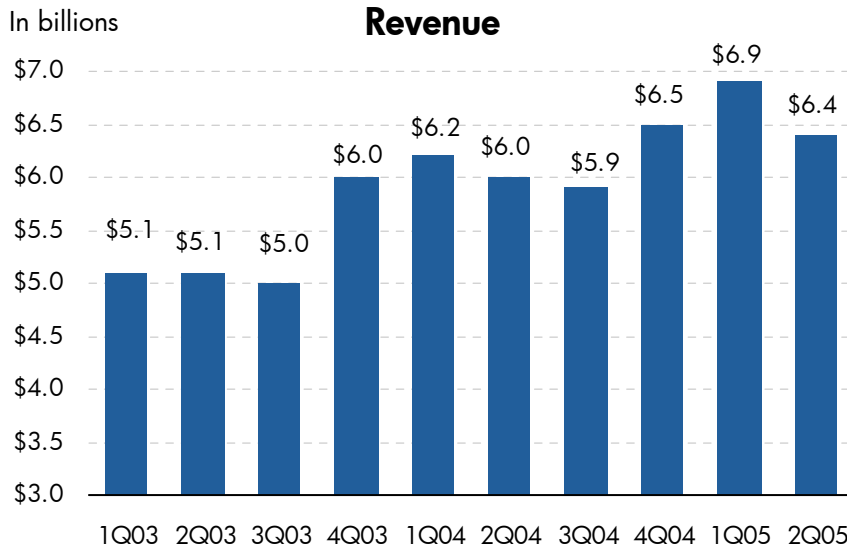


**Q2 FY05 revenue by GBU**

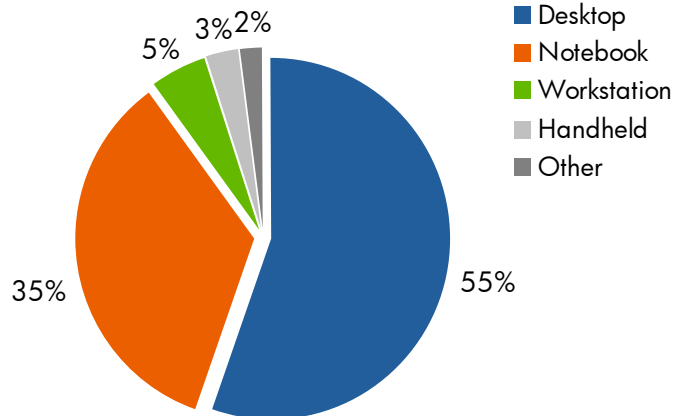


- IPG revenue of \$6.4B; up 5% Y/Y
- Operating profit of \$814M; 12.7% of revenue; 13.8% excluding workforce reductions of \$71M
- Consumer hardware units grew 13% Y/Y
- Commercial hardware units up 12% Y/Y
- Color LaserJet units up 96% Y/Y
- MFP units up 61% Y/Y
- Supplies revenue grew 4% Y/Y

# Personal Systems Group

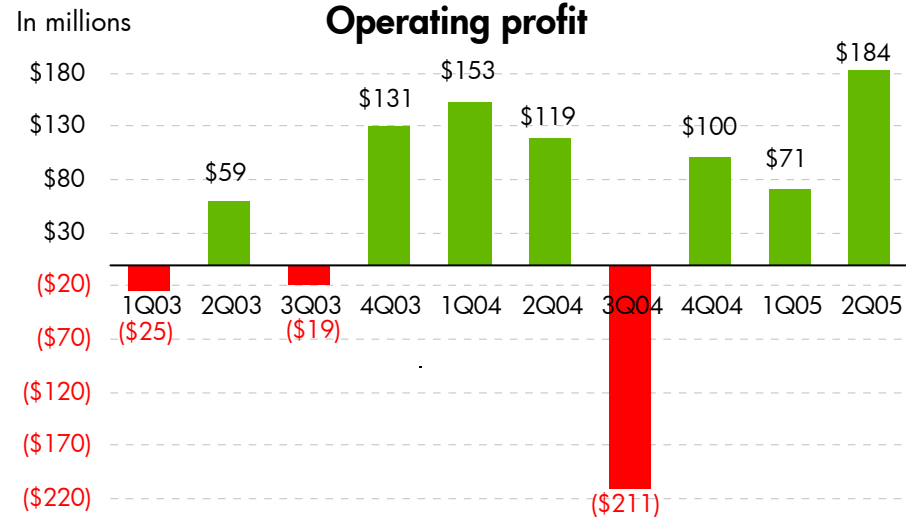
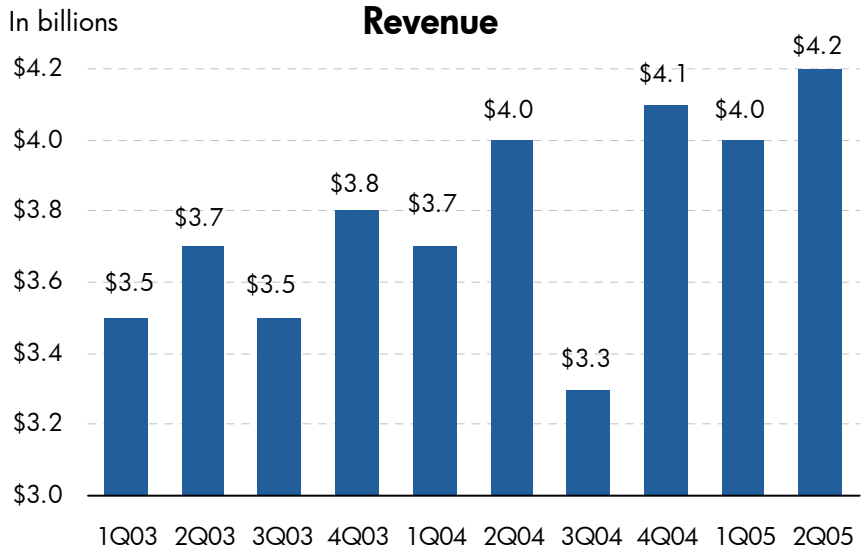


### Q2 FY05 revenue by GBU

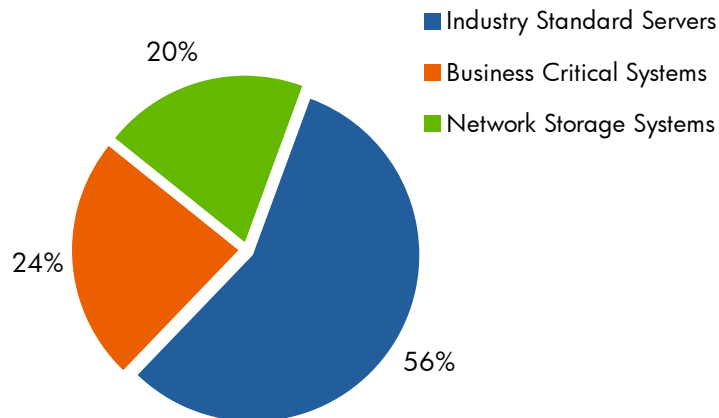


- PSG revenue up 6% Y/Y; units up 12% Y/Y
- Operating profit of \$147M; 2.3% of revenue
- Nearly \$300M in 1H05 operating profit
- Desktop revenue up 1% Y/Y; Notebook revenue up 10% Y/Y
- Consumer client revenue up 10% Y/Y; Commercial client revenue up 3% Y/Y

# Enterprise Storage and Servers

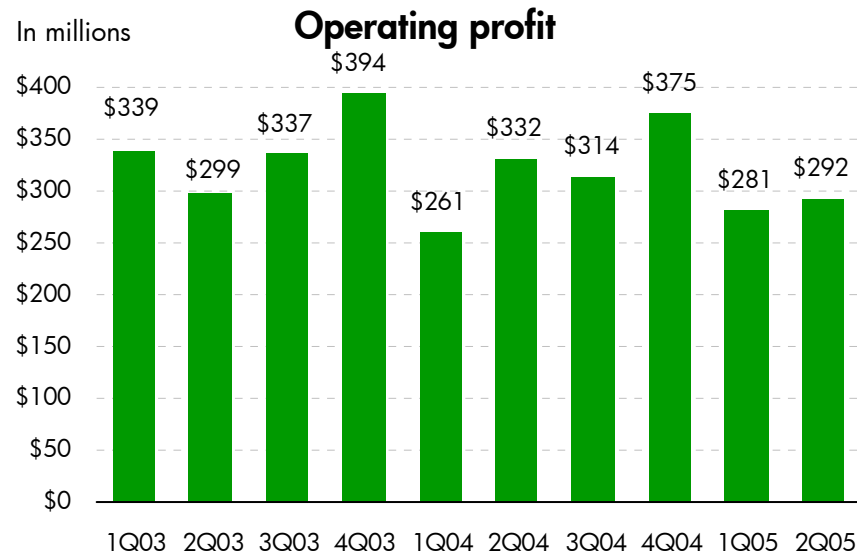
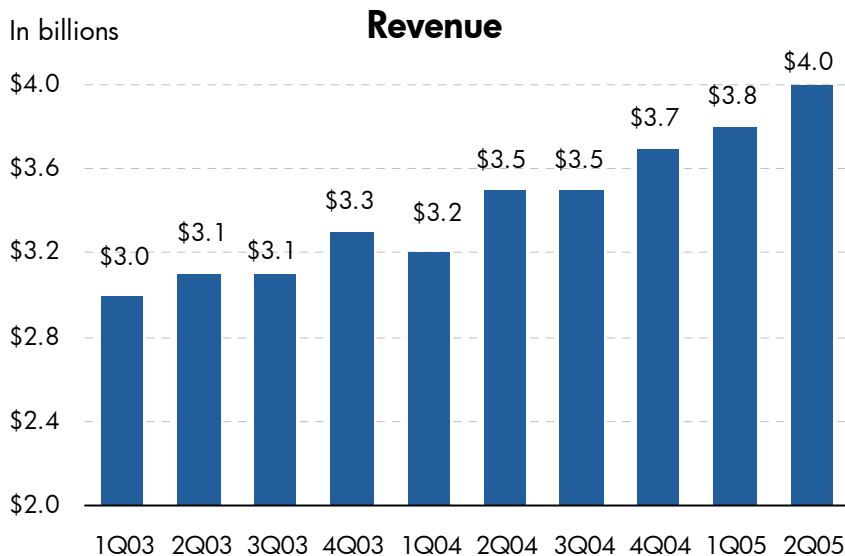


### Q2 FY05 revenue by GBU

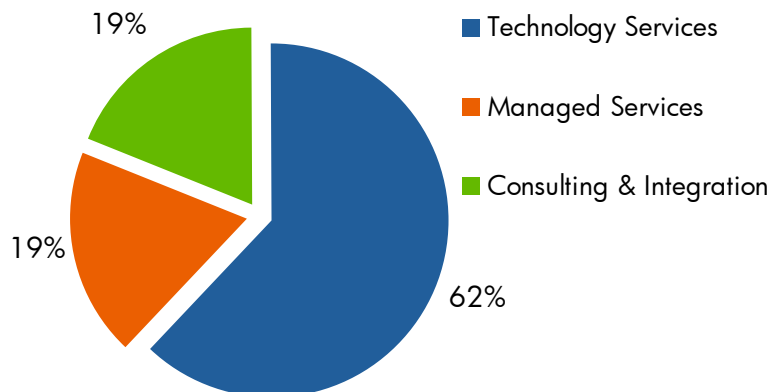


- ESS revenue grew 6% Y/Y
- Operating profit of \$184M; 4.4% of revenue; 5.0% excluding workforce reductions of \$24M
- ISS revenue up 12% Y/Y; Blade revenue up 56%
- BCS revenue up 2% Y/Y; HP-UX up 9%
- Integrity revenue up 37% Y/Y; 21% of Business Critical Server revenue
- NSS revenue down 6% Y/Y

# HP Services

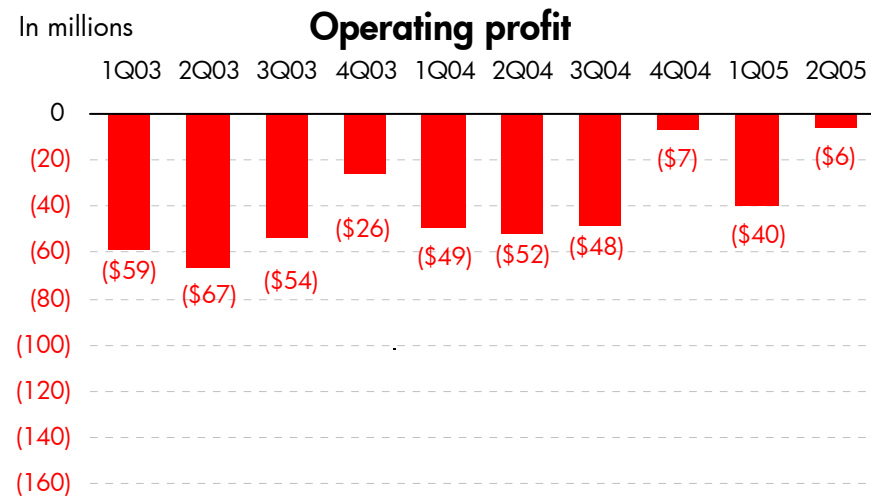
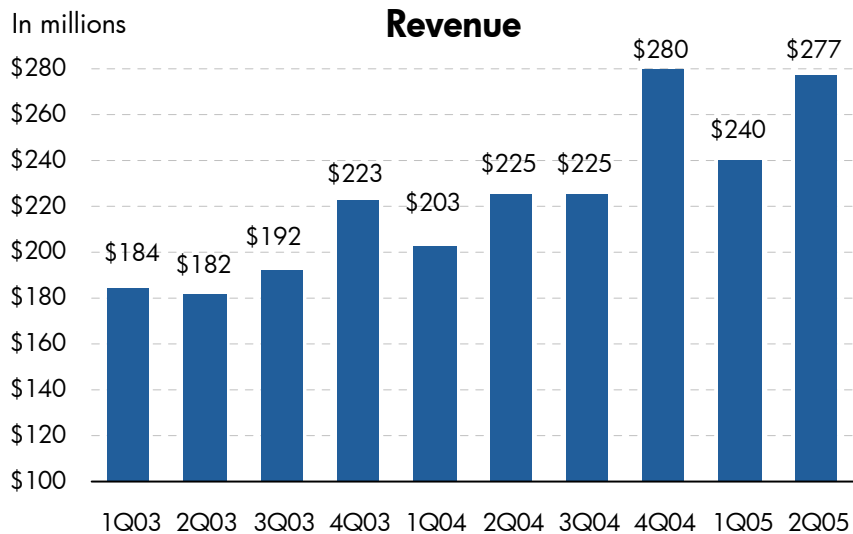


### Q2 FY05 revenue by GBU

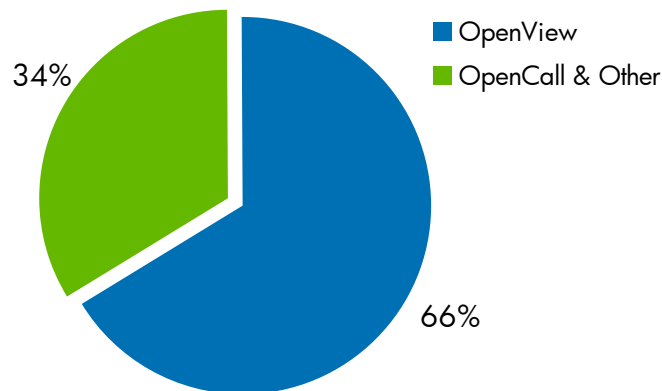


- HPS revenue grew 14% Y/Y; revenue growth excluding acquisitions was 8% Y/Y
- Operating profit of \$292M; 7.3% of revenue; 9.2% excluding workforce reductions of \$74M
- TS revenue up 11% Y/Y
- MS revenue up 27% Y/Y
- C&I revenue up 10% Y/Y

# Software

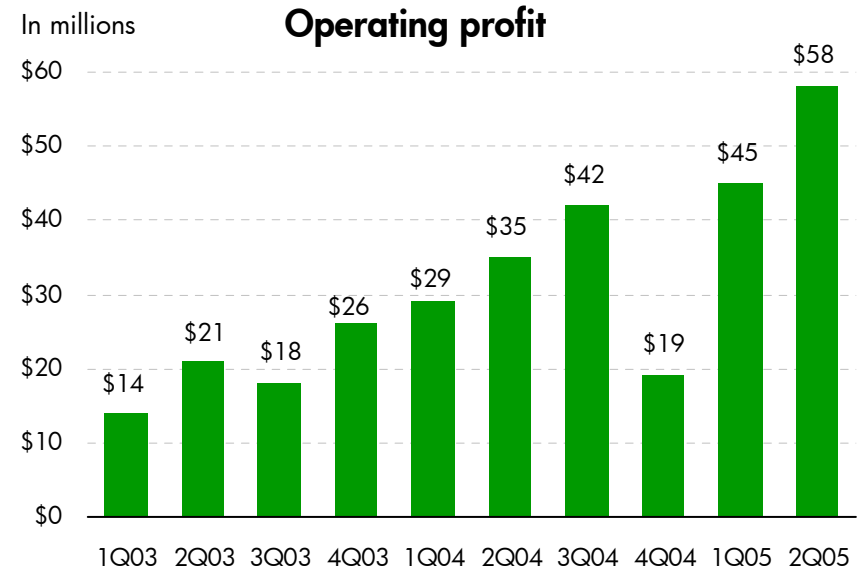
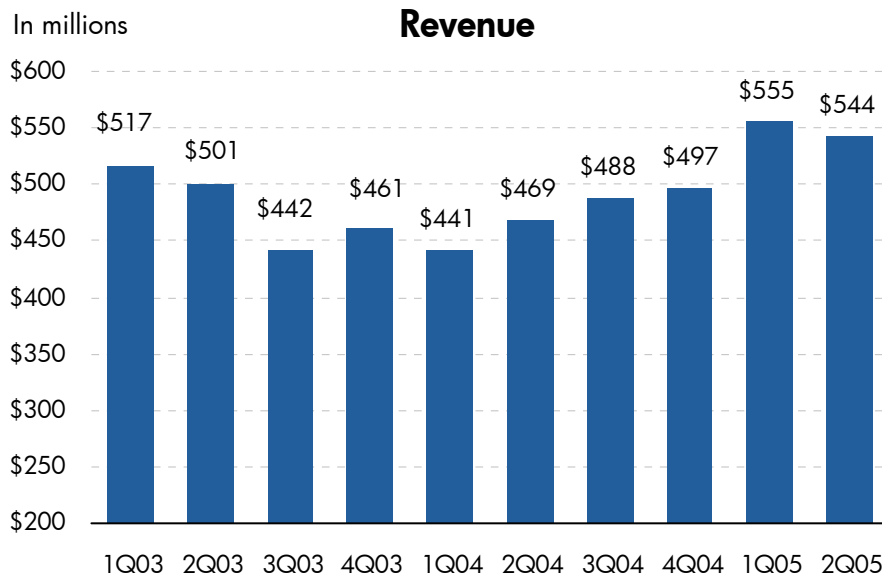


### Q2 FY05 revenue by GBU

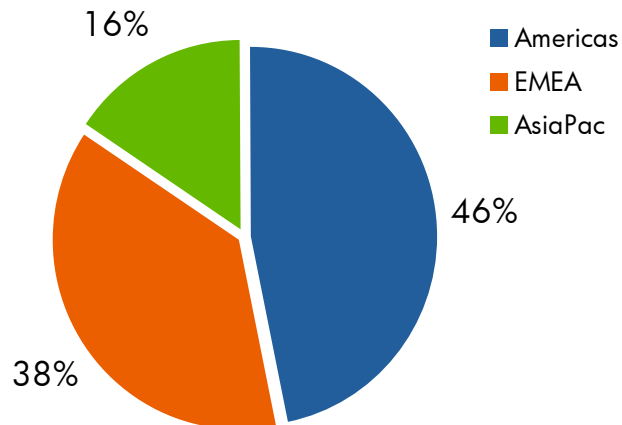


- Software revenue grew 23% Y/Y
- HP OpenView revenue grew 36% Y/Y
- HP OpenCall revenue grew 5% Y/Y
- On track to break-even exiting Q4 FY05

# HP Financial Services



### Q2 FY05 revenue by region



- HPFS revenue of \$544M, up 16% Y/Y
- Operating profit of \$58M; 10.7% of revenue
- Financing volume up 4% Y/Y
- Net portfolio assets \$7.1B, up 2% Y/Y



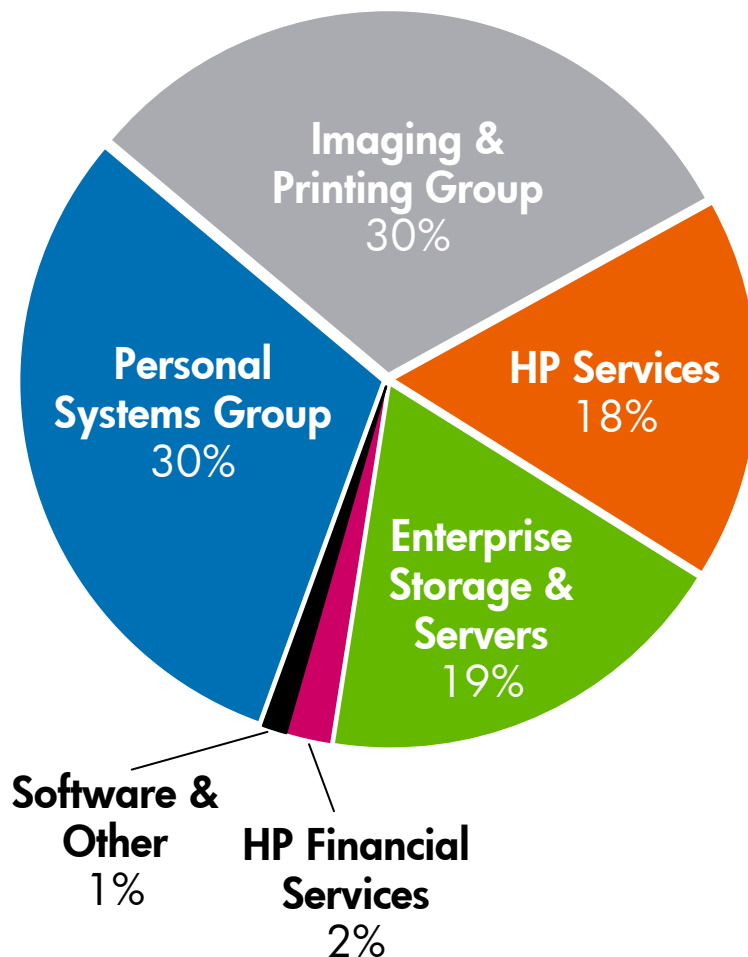
# Q2 FY05 GAAP to non-GAAP bridge

All data in \$Ms except per share amount

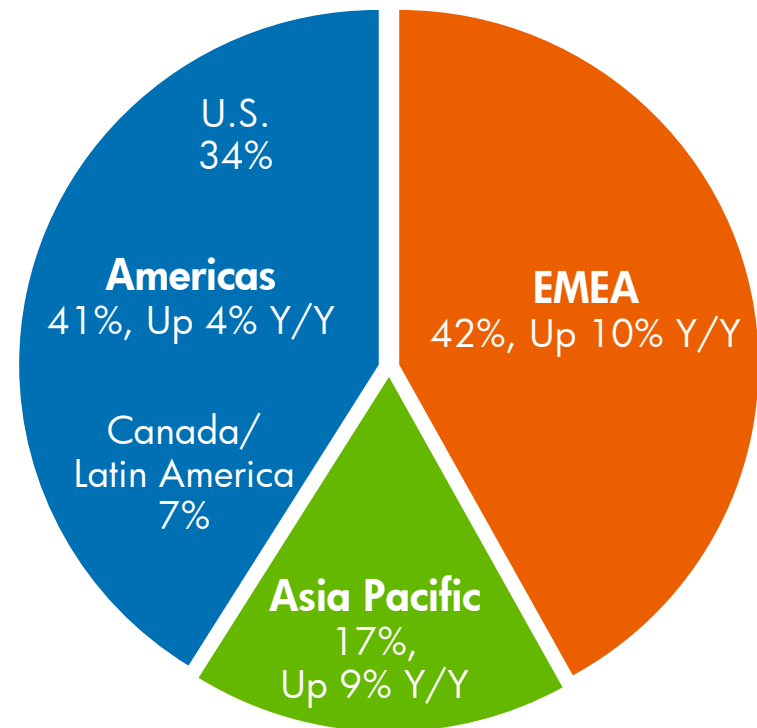
2Q05	GAAP	Amort. of Intangibles	Re-structuring charges	Acq. related charges	In-process R&D	G/L Invest.	Non-GAAP
Revenue	<b>21,570</b>						<b>21,570</b>
Cost of sales	<b>16,429</b>						<b>16,429</b>
Total OpEx	<b>3,978</b>	(151)	(4)				<b>3,823</b>
Operating profit	<b>1,163</b>	151	4				<b>1,318</b>
Settlement	-						-
Interest & other, net	<b>(84)</b>					(3)	<b>(87)</b>
Pre-tax earnings	<b>1,079</b>	151	4			(3)	<b>1,231</b>
Income tax	<b>113</b>	46	1			(2)	<b>158</b>
Tax rate	<b>10%</b>						<b>13%</b>
EPS	<b>\$0.33</b>						<b>\$0.37</b>

# Q2 FY05 Revenue

## Revenue by segment



## Revenue by region



# P&L

## Non-GAAP



All data in \$Ms except per share amount

	Q2 FY05		Q1 FY05		Q2 FY04 <sup>1</sup>	
	M\$	%	M\$	%	M\$	%
Revenue	\$21,570	100%	\$21,454	100%	\$20,113	100%
Cost of sales	\$16,429	76.2%	\$16,537	77.1%	\$15,182	75.5%
Total OpEx	\$3,823	17.7%	\$3,582	16.7%	\$3,589	17.8%
Operating profit	\$1,318	6.1%	\$1,335	6.2%	\$1,342	6.7%
Settlement			(\$116)		(\$70)	
Interest & other, net	(\$87)		\$25		\$2	
Pre-tax earnings	\$1,231	5.7%	\$1,244	5.8%	\$1,274	6.3%
Income tax	\$158		\$166		\$242	
EPS	\$0.37		\$0.37		\$0.34	

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

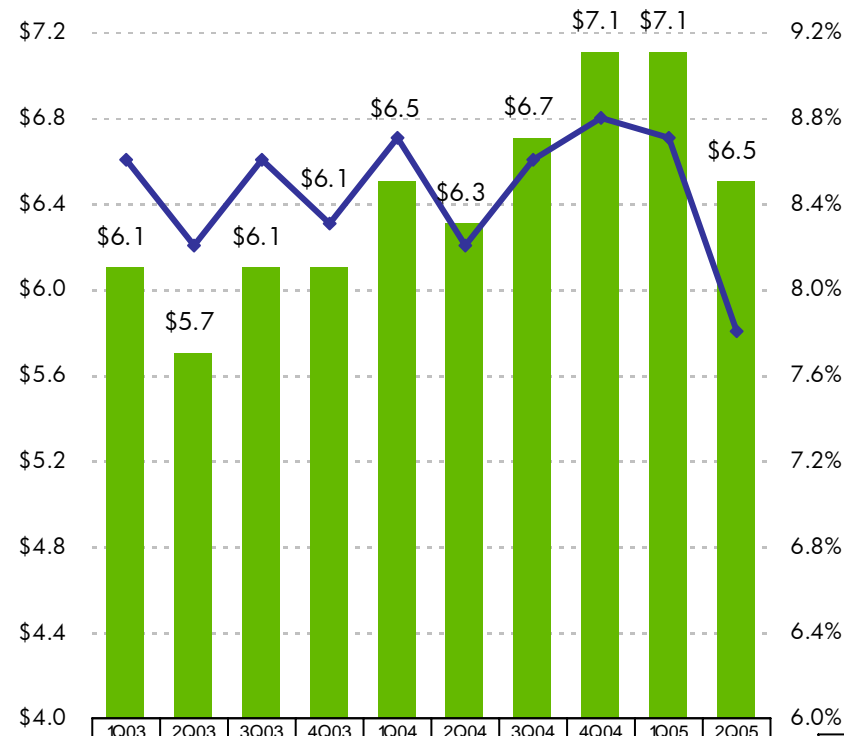
# Balance sheet

## Inventory and accounts receivable



### Inventory

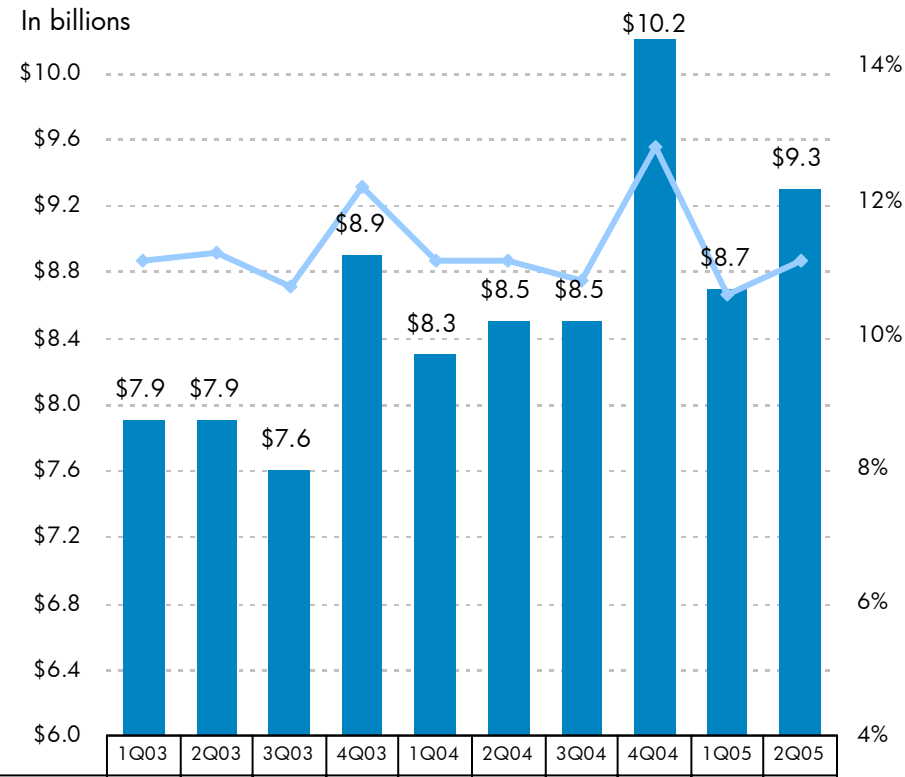
In billions



Inventory	\$6.1	\$5.7	\$6.1	\$6.1	\$6.5	\$6.3	\$6.7	\$7.1	\$7.1	\$6.5
% of Rev	8.6%	8.2%	8.6%	8.3%	8.7%	8.2%	8.6%	8.8%	8.7%	7.8%

### Accounts receivable

In billions



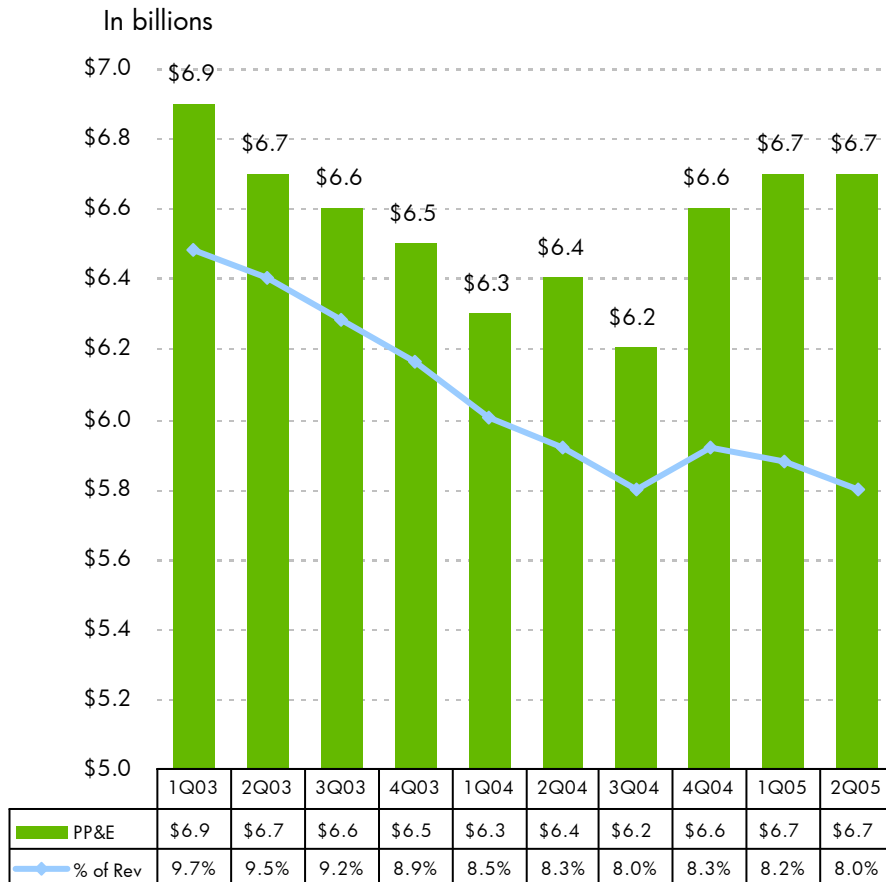
Receivables	\$7.9	\$7.9	\$7.6	\$8.9	\$8.3	\$8.5	\$8.5	\$10.2	\$8.7	\$9.3
% of Rev	11.1%	11.2%	10.7%	12.2%	11.1%	11.1%	10.8%	12.8%	10.6%	11.1%

# Balance sheet

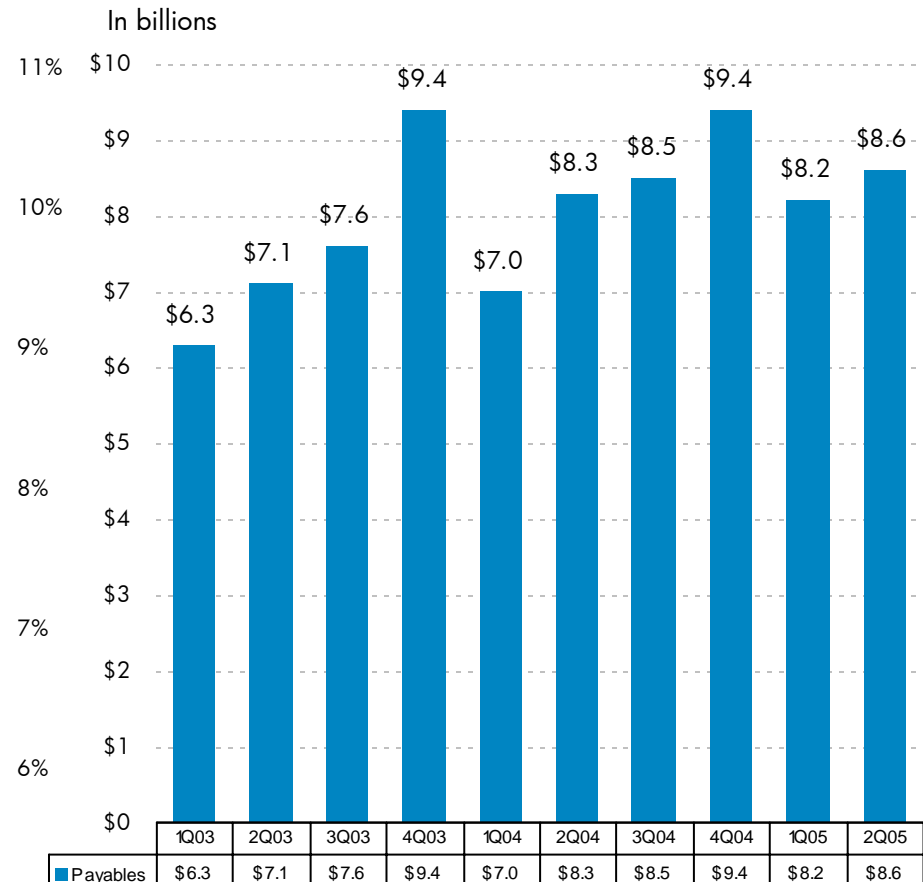
## PP&E and accounts payable



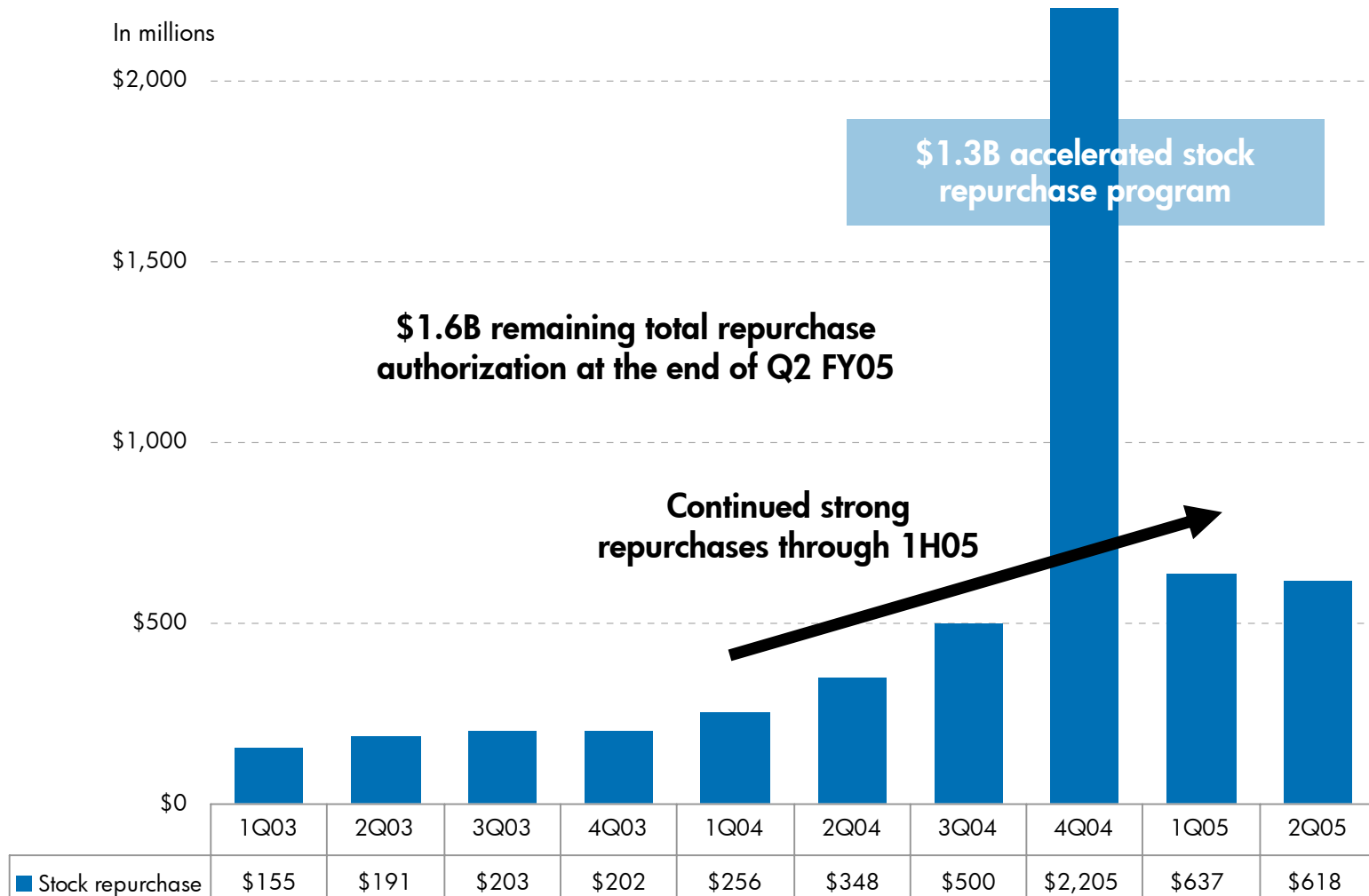
### Net PP&E



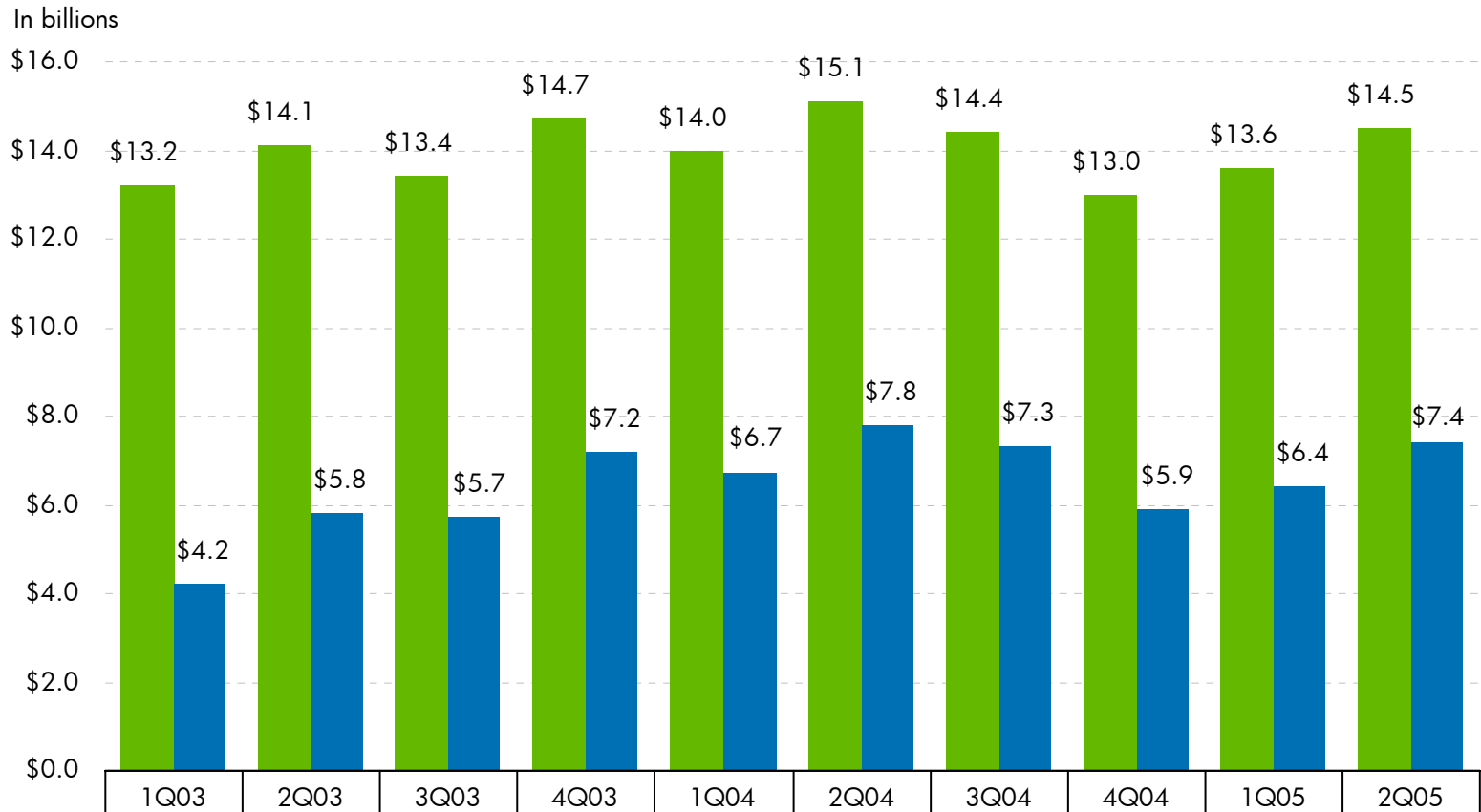
### Accounts payable



# Stock repurchase



# Gross cash and investments



■ Gross cash and inv. <sup>1</sup>	\$13.2	\$14.1	\$13.4	\$14.7	\$14.0	\$15.1	\$14.4	\$13.0	\$13.6	\$14.5
■ Net cash <sup>2</sup>	\$4.2	\$5.8	\$5.7	\$7.2	\$6.7	\$7.8	\$7.3	\$5.9	\$6.4	\$7.4

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

# Q3 FY05 Outlook

- HP estimates third quarter FY05 revenue will be in the range of \$20.3 billion to \$20.7 billion.
- HP estimates third quarter non-GAAP earnings per share will be in the range of \$0.29 to \$0.31.
- This excludes after-tax costs of approximately \$0.03 per share from amortization of purchased intangible assets and approximately \$100 million, or \$0.03 per share, in workforce reductions.

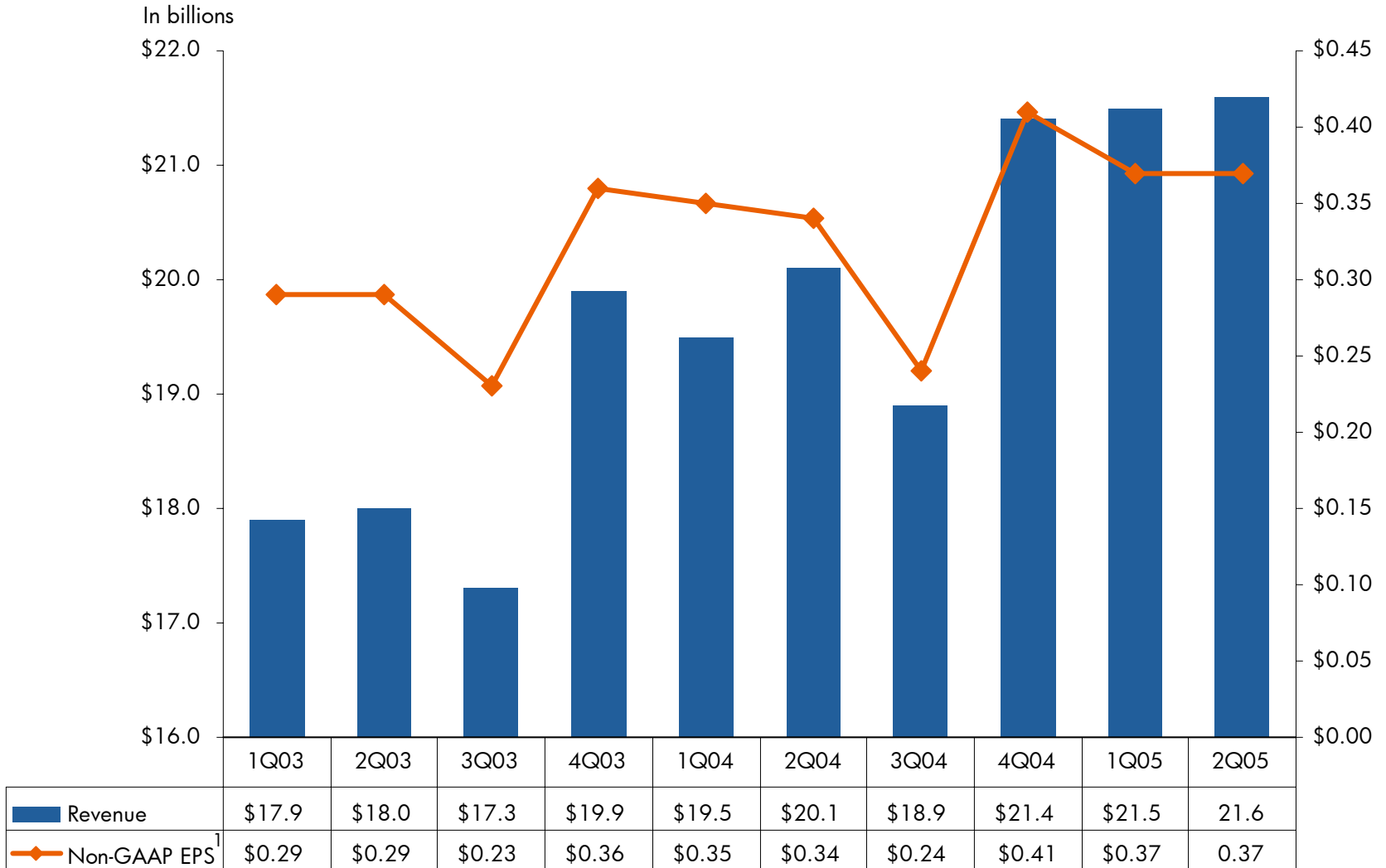


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# Supplemental slides

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# Revenue & EPS performance



1. See GAAP to Non-GAAP bridge slides

# Operating profit

In millions



# Q2 FY05 GAAP to non-GAAP bridge

All data in \$Ms except  
per share amount

2Q05	GAAP	Amort. of Intangibles	Re- structuring charges	Acq. related charges	In-process R&D	G/L Invest.	Non-GAAP
Revenue	<b>21,570</b>						<b>21,570</b>
Cost of sales	<b>16,429</b>						<b>16,429</b>
Total OpEx	<b>3,978</b>	(151)	(4)				<b>3,823</b>
Operating profit	<b>1,163</b>	151	4				<b>1,318</b>
Settlement	-						-
Interest & other, net	<b>(84)</b>					(3)	<b>(87)</b>
Pre-tax earnings	<b>1,079</b>	151	4			(3)	<b>1,231</b>
Income tax	<b>113</b>	46	1			(2)	<b>158</b>
Tax rate	<b>10%</b>						<b>13%</b>
EPS	<b>\$0.33</b>						<b>\$0.37</b>

# 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	<b>21,454</b>						<b>21,454</b>
Cost of sales	<b>16,537</b>						<b>16,537</b>
Total OpEx	<b>3,752</b>	(167)	(3)				<b>3,582</b>
Operating profit	<b>1,165</b>	167	3				<b>1,335</b>
Settlement	<b>(116)</b>						<b>(116)</b>
Interest & other, net	<b>1</b>					24	<b>25</b>
Pre-tax earnings	<b>1,050</b>	167	3			24	<b>1,244</b>
Income tax	<b>107</b>	49	2			8	<b>166</b>
Tax rate	<b>10%</b>						<b>13%</b>
EPS	<b>\$0.32</b>						<b>\$0.37</b>

# Q4 FY04 GAAP to non-GAAP bridge<sup>1</sup>

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	<b>21,389</b>						<b>21,389</b>
Cost of sales	<b>16,393</b>						<b>16,393</b>
Total OpEx	<b>3,707</b>	(165)	(13)	(24)			<b>3,505</b>
Operating profit	<b>1,289</b>	165	13	24			<b>1,491</b>
Interest & other, net	<b>1</b>					1	<b>2</b>
Pre-tax earnings	<b>1,290</b>	165	13	24		1	<b>1,493</b>
Income tax	<b>199</b>	59	4	4			<b>266</b>
Tax rate	<b>15%</b>						<b>18%</b>
EPS	<b>\$0.37</b>						<b>\$0.41</b>

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



# Q3 FY04 GAAP to non-GAAP bridge<sup>1</sup>

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	<b>18,889</b>						<b>18,889</b>
Cost of sales	<b>14,545</b>						<b>14,545</b>
Total OpEx	<b>3,687</b>	(146)	(9)	(6)	(28)		<b>3,498</b>
Operating profit	<b>657</b>	146	9	6	28		<b>846</b>
Interest & other, net	<b>21</b>					(1)	<b>20</b>
Pre-tax earnings	<b>678</b>	146	9	6	28	(1)	<b>866</b>
Income tax	<b>92</b>	41	3	2			<b>138</b>
Tax rate	<b>14%</b>						<b>16%</b>
EPS	<b>\$0.19</b>						<b>\$0.24</b>

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

# Q2 FY04 GAAP to non-GAAP bridge<sup>1</sup>

All data in \$Ms except  
per share amount

2Q04	<b>GAAP</b>	Amort. of Intangibles	Re- structuring charges	Acq. related charges	In-process R&D	G/L Invest.	<b>Non-GAAP</b>
Revenue	<b>20,113</b>						<b>20,113</b>
Cost of sales	<b>15,182</b>						<b>15,182</b>
Total OpEx	<b>3,793</b>	(148)	(38)	(9)	(9)		<b>3,589</b>
Operating profit	<b>1,138</b>	148	38	9	9		<b>1,342</b>
Interest & other, net	<b>(73)</b>					5	<b>(68)</b>
Pre-tax earnings	<b>1,065</b>	148	38	9	9	5	<b>1,274</b>
Income tax	<b>181</b>	44	13	3		1	<b>242</b>
Tax rate	<b>17%</b>						<b>19%</b>
EPS	<b>\$0.29</b>						<b>\$0.34</b>

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



# Q1 FY04 GAAP to non-GAAP bridge<sup>1</sup>

All data in \$Ms except  
per share amount  
1Q04

	<b>GAAP</b>	Amort. of Intangibles	Re- structuring charges	Acq. related charges	G/L Invest.	<b>Non-GAAP</b>
Revenue	<b>19,514</b>					<b>19,514</b>
Cost of sales	<b>14,691</b>					<b>14,691</b>
Total OpEx	<b>3,680</b>	(144)	(54)	(15)		<b>3,467</b>
Operating profit	<b>1,143</b>	144	54	15		<b>1,356</b>
Interest & other, net	<b>20</b>				(9)	<b>11</b>
Pre-tax earnings	<b>1,163</b>	144	54	15	(9)	<b>1,367</b>
Income tax	<b>227</b>	42	17	5	(4)	<b>287</b>
Tax rate	<b>20%</b>					<b>21%</b>
EPS	<b>\$0.30</b>					<b>\$0.35</b>

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# Q4 FY03 GAAP to non-GAAP bridge<sup>1</sup>

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

	<b>GAAP</b>	Amort. of Intangibles	Re- structuring charges	Retent. bonus	Acq. related charges	IPRD	G/L Invest.	<b>Non- GAAP</b>
Revenue	<b>19,853</b>							<b>19,853</b>
Cost of sales	<b>14,939</b>							<b>14,939</b>
Total OpEx	<b>3,841</b>	(143)	(190)	(1)	(27)	(1)		<b>3,479</b>
Operating profit	<b>1,073</b>	143	190	1	27	1		<b>1,435</b>
Interest & other, net	<b>(8)</b>						(12)	<b>(20)</b>
Pre-tax earnings	<b>1,065</b>	143	190	1	27		(12)	<b>1,415</b>
Income tax	<b>203</b>	41	65		10		(7)	<b>312</b>
Tax rate	<b>19.1%</b>							<b>22.0%</b>
EPS	<b>\$0.28</b>							<b>\$0.36</b>

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# Q3 FY03 GAAP to non-GAAP bridge<sup>1</sup>

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

	<b>GAAP</b>	Amort. of intangibles	Re- structuring charges	Retent. bonus	Acq. related charges	G/L Invest.	<b>Non- GAAP</b>
Revenue	<b>17,348</b>						<b>17,348</b>
Cost of sales	<b>12,945</b>						<b>12,945</b>
Total OpEx	<b>4,102</b>	(141)	(376)	(11)	(29)		<b>3,545</b>
Operating profit	<b>301</b>	141	376	11	29		<b>858</b>
Interest & other, net	<b>(14)</b>					24	<b>10</b>
Pre-tax earnings	<b>287</b>	141	376	11	29	24	<b>868</b>
Income tax	<b>(10)</b>	31	126	4	10	7	<b>168</b>
Tax rate	<b>(3.5%)</b>						<b>19.4%</b>
EPS	<b>\$0.10</b>						<b>\$0.23</b>

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

# Q2 FY03 GAAP to non-GAAP bridge<sup>1</sup>

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

	<b>GAAP</b>	Amort. of intangibles	Re- structuring charges	Retent. bonus	Acq. related charges	G/L Invest.	Accrued tax benefit	<b>Non- GAAP</b>
Revenue	<b>17,983</b>							<b>17,983</b>
Cost of sales	<b>13,240</b>							<b>13,240</b>
Total OpEx	<b>4,100</b>	(141)	(234)	(79)	(47)			<b>3,599</b>
Operating profit	<b>643</b>	141	234	79	47			<b>1,144</b>
Interest & other, net	<b>(32)</b>					12		<b>(20)</b>
Pre-tax earnings	<b>611</b>	141	234	79	47	12		<b>1,124</b>
Income tax	<b>(48)</b>	43	71	27	17	6	131	<b>247</b>
Tax rate	<b>(8%)</b>							<b>22%</b>
EPS	<b>\$0.22</b>							<b>\$0.29</b>

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



# Q1 FY03 GAAP to non-GAAP bridge<sup>1</sup>

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

	<b>GAAP</b>	Amort. of intangibles	Re- structuring charges	Retent. bonus	Acq. related charges	G/L Invest.	Accrued tax benefit	<b>Non- GAAP</b>
Revenue	<b>17,877</b>							<b>17,877</b>
Cost of sales	<b>13,269</b>							<b>13,269</b>
Total OpEx	<b>3,729</b>	(138)		(76)	(10)			<b>3,505</b>
Operating profit	<b>879</b>	138		76	10			<b>1,103</b>
Interest & other, net	<b>46</b>					5		<b>51</b>
Pre-tax earnings	<b>925</b>	138		76	10	5		<b>1,154</b>
Income tax	<b>204</b>	43		26	4			<b>277</b>
Tax rate	<b>22%</b>							<b>24%</b>
EPS	<b>\$0.24</b>							<b>\$0.29</b>

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