



# Q1 FY06 HP Earnings Announcement

February 15, 2006

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# Forward-looking statements

These materials contain forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of HP may 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 revenue, margins, expenses, charges, earnings or other financial items; any statements of the plans, strategies, and objectives of management for future operations, including execution of any restructuring plans; any statements concerning the expected development, performance or market share relating to products or services; any 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; execution and performance of contracts by suppliers, customers and partners; employee management issues; the challenge of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; assumptions related to pension and other post-retirement costs; expectations and assumptions relating to the execution and timing of workforce restructuring programs; 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 Annual Report on Form 10-K for the fiscal year ended October 31, 2005 and other reports filed after that report. As in prior quarters, the financial information set forth in this release, including tax-related items, are estimates based on information available at this time. While HP believes these estimates to be meaningful, these amounts could differ materially from actual reported amounts in HP's Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2006. In particular, determining HP's actual tax balances and provisions as of January 31, 2006 and for the fiscal quarter then ended requires extensive internal and external review of tax data (including consolidating and reviewing the tax provisions of numerous domestic and foreign entities), which is being completed in the ordinary course of preparing HP's Form 10-Q. HP assumes no obligation and does not intend to update these forward-looking statements.

# Use of non-GAAP financial information

To supplement HP's consolidated condensed financial statements presented on a GAAP basis, HP provides non-GAAP operating profit, non-GAAP net income, non-GAAP diluted earnings per share, gross cash, net cash, and free cash flow. HP also provides forecasts of non-GAAP diluted earnings per share. 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 in the attached materials.

HP's management uses non-GAAP operating profit, non-GAAP net income and non-GAAP diluted earnings per share to evaluate and forecast HP's baseline performance before gains, losses or other charges that are considered by 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. Each of these non-GAAP measures is among the primary indicators management uses as a basis for planning and forecasting future periods. We believe that these non-GAAP measures provide both management and investors with a more complete understanding of the underlying operating results and trends and an enhanced overall understanding of HP's financial performance, liquidity and prospects for the future.

This additional non-GAAP information is not meant to be considered in isolation or as a substitute for operating profit, net income, diluted earnings per share, cash and cash equivalents, or cash flow from operations prepared in accordance with GAAP. In addition, there may be limitations associated with the use of these non-GAAP financial measures. For example, items such as restructuring charges that are excluded from non-GAAP operating profit, non-GAAP net income and non-GAAP diluted earnings per share can have a material impact on cash flows. There may be restrictions on our ability to liquidate the long-term investments included in gross cash and net cash, which may limit the usefulness of non-GAAP gross cash as a liquidity measure. In addition, a limitation of free cash flow is that it does not represent the total increase or decrease in the cash balance for the period. These effects are reflected in our GAAP financial statements, including our consolidated statements of cash flows. The non-GAAP financial information that we provide also may differ from the non-GAAP information provided by other companies.

# Q1 FY06 earnings highlights

- **Non-GAAP EPS of \$0.48 (includes stock compensation) versus \$0.37 in Q105<sup>(1)</sup>**
- **Balanced revenue growth across all regions and segments**
  - Revenue up 6% Y/Y; 8% in constant currency
  - \$1.2 billion in revenue growth
- **Improved fundamentals in key businesses**
  - Supplies revenue grew 11% Y/Y, driving 14.9% operating profit in IPG
  - ESS operating profit of 7.7%
  - PSG operating profit of 3.9%
  - Continued profitability in Software with 3.0% operating profit
- **Generated strong cash flow**
  - Cash flow from operations of \$1.8 billion
  - Free cash flow of \$1.5 billion
- **Returned \$1.4 billion to shareholders in share repurchases, and \$227 million in dividends**

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."

# Results overview

## Q1 FY06 Financials

- Net revenue of \$22.7 billion, up 6% year-over-year; or 8% in constant currency
- Non-GAAP operating profit of \$1.7 billion; up from \$1.3 billion in Q1 FY05
- Non-GAAP diluted EPS of \$0.48; up from \$0.37 in Q1 FY05
- GAAP operating profit of \$1.5 billion, up from \$1.2 billion in Q1 FY05
- GAAP diluted EPS of \$0.42; up from \$0.32 in Q1 FY05
- Cash flow from operations of \$1.8 billion

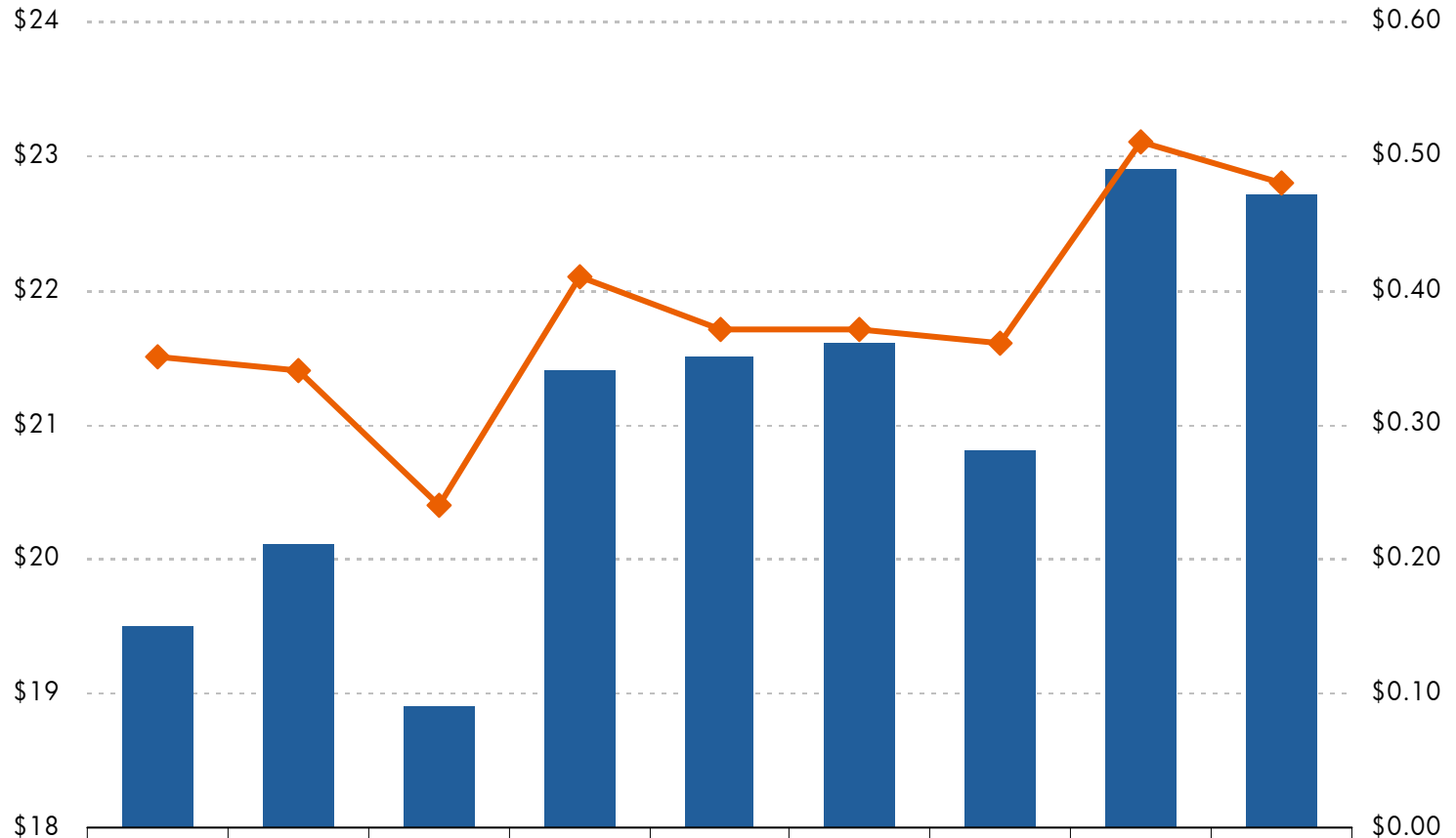
## Q1 FY06 Segments

\$ in millions	Revenue	Growth Y/Y %	Operating profit	OP % of rev
Enterprise Storage and Servers	\$4,240	5%	\$326	7.7%
Services	\$3,757	(2%)	\$293	7.8%
Software	\$304	29%	\$9	3.0%
Personal Systems Group	\$7,449	8%	\$293	3.9%
Imaging and Printing Group	\$6,545	8%	\$973	14.9%
HP Financial Services	\$496	(11%)	\$38	7.7%
Total HP	\$22,659	6%	\$1,704 <sup>(1)</sup>	7.5%

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# Revenue & EPS performance

In billions



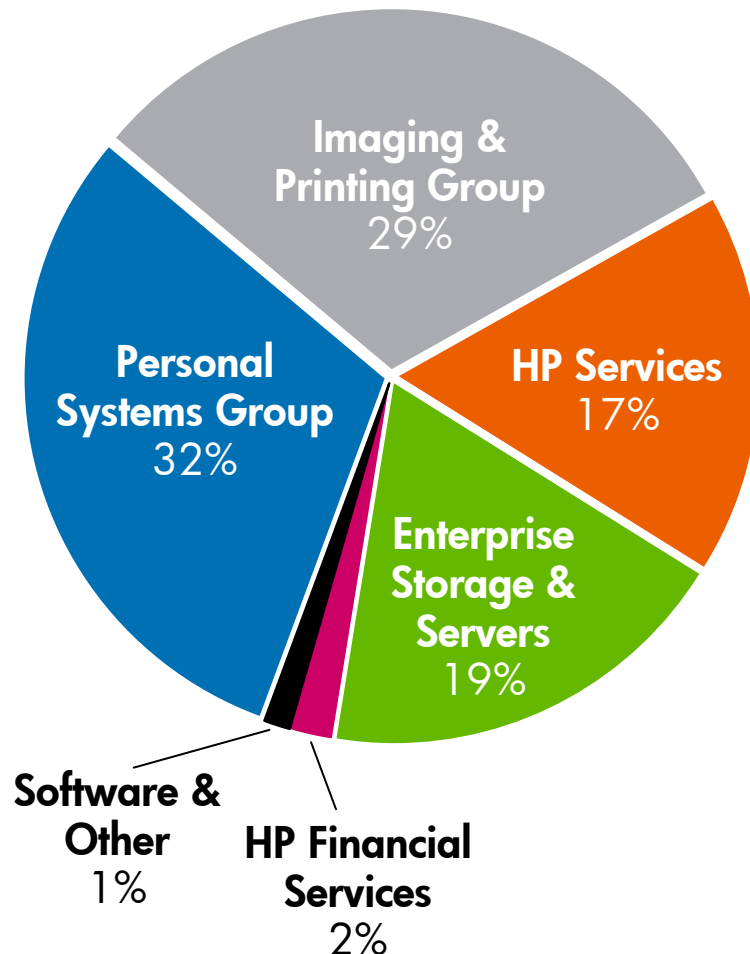
Revenue	\$19.5	\$20.1	\$18.9	\$21.4	\$21.5	\$21.6	\$20.8	\$22.9	\$22.7
Non-GAAP EPS <sup>(1)</sup>	\$0.35	\$0.34	\$0.24	\$0.41	\$0.37	\$0.37	\$0.36	\$0.51	\$0.48 <sup>(2)</sup>

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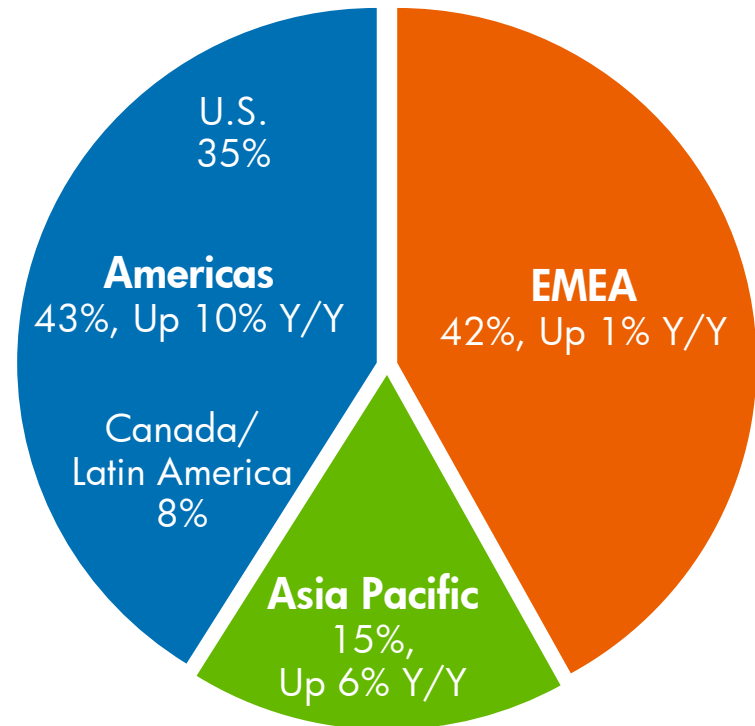
2. Prior periods do not include the effects of stock-based compensation, which are included in Q1 FY06

# Q1 FY06 revenue

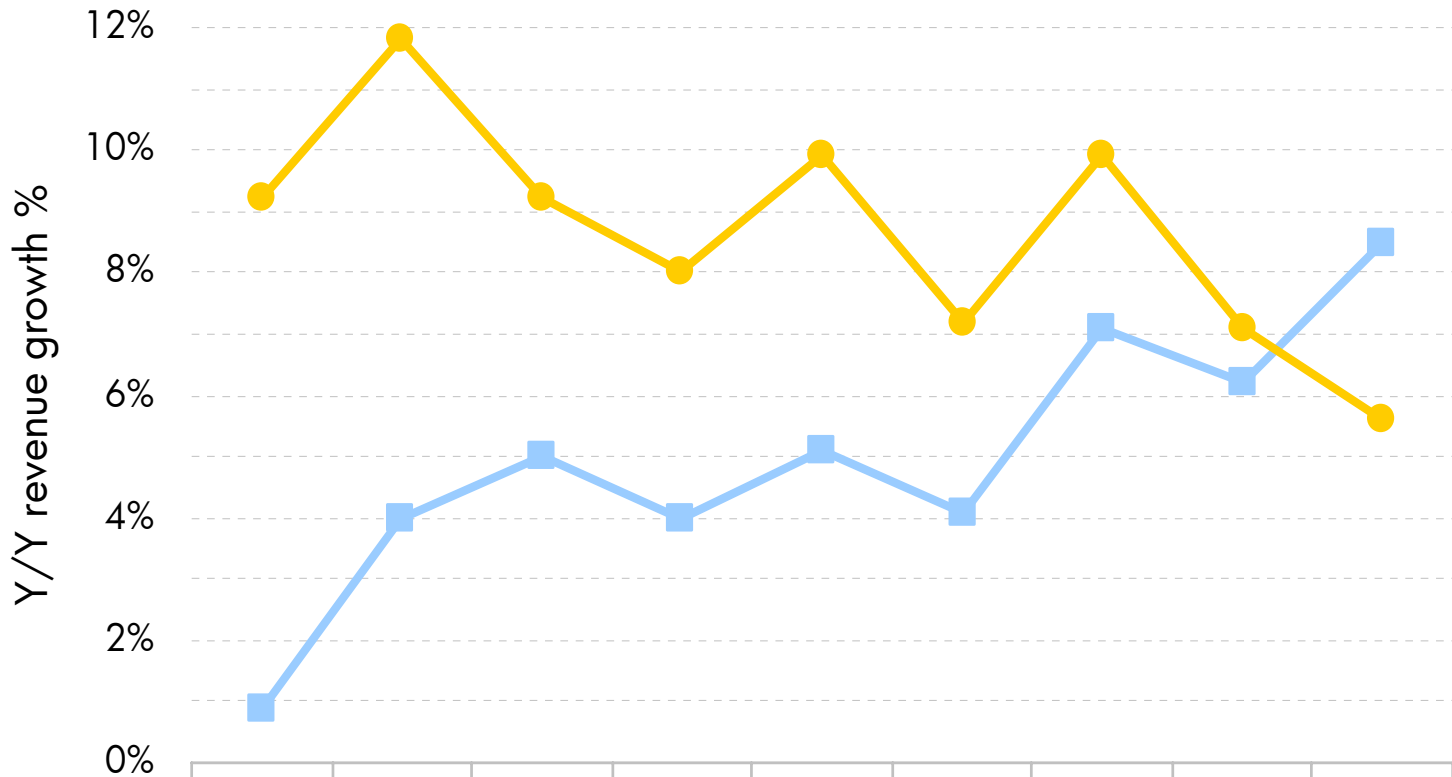
## By segment



## By region



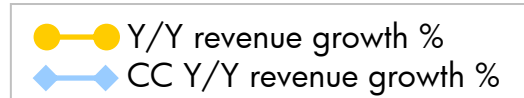
# Revenue growth



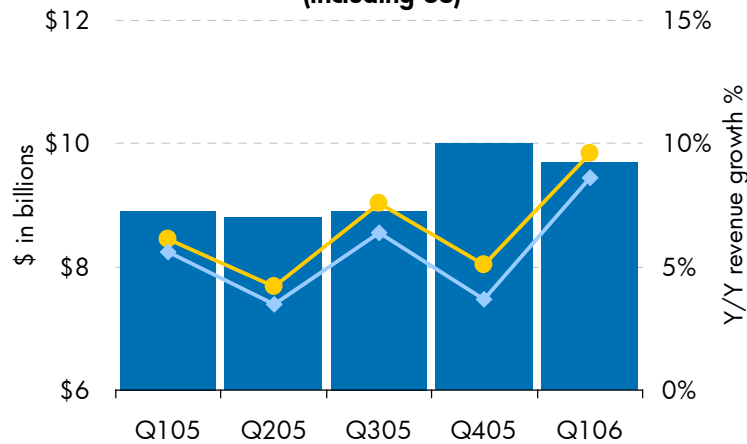
	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06
Constant currency	1%	4%	5%	4%	5%	4%	7%	6%	8%
As reported	9%	12%	9%	8%	10%	7%	10%	7%	6%



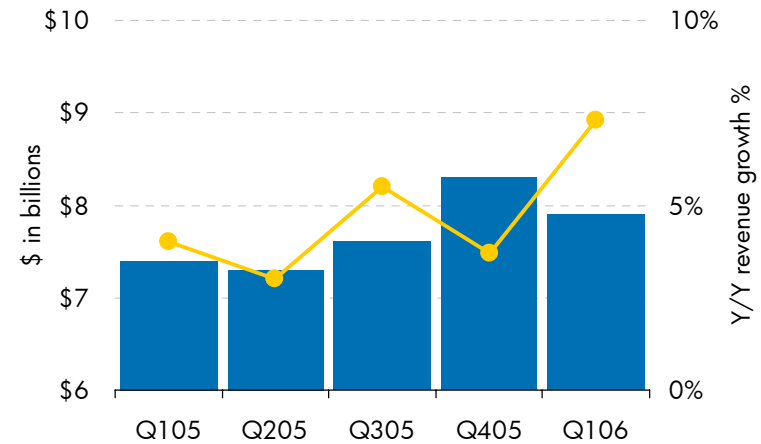
# Regional revenue trends



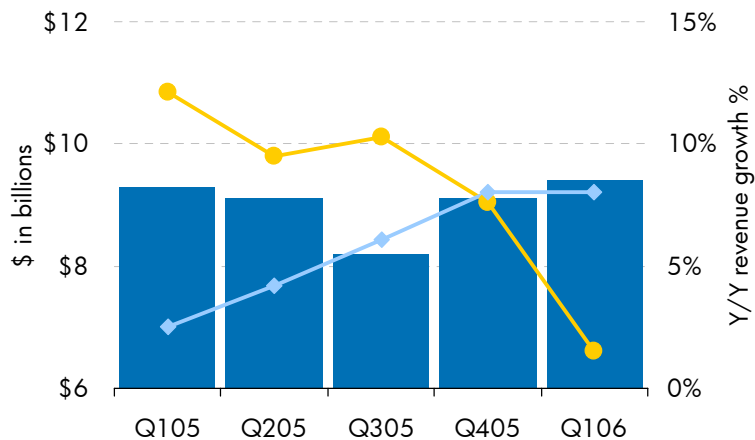
## Americas (including US)



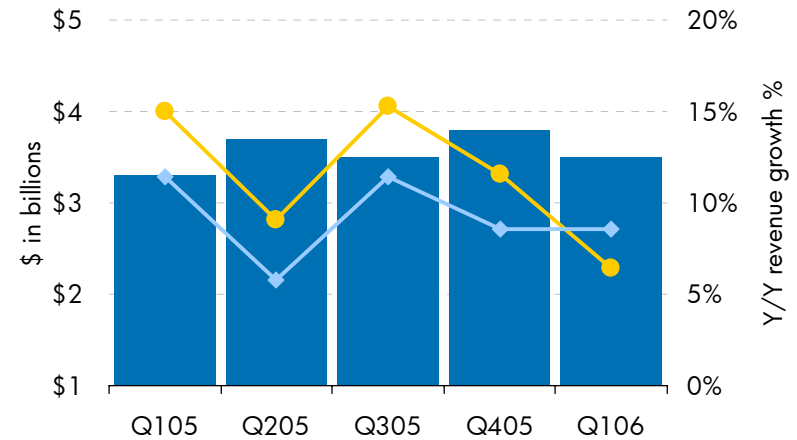
## United States



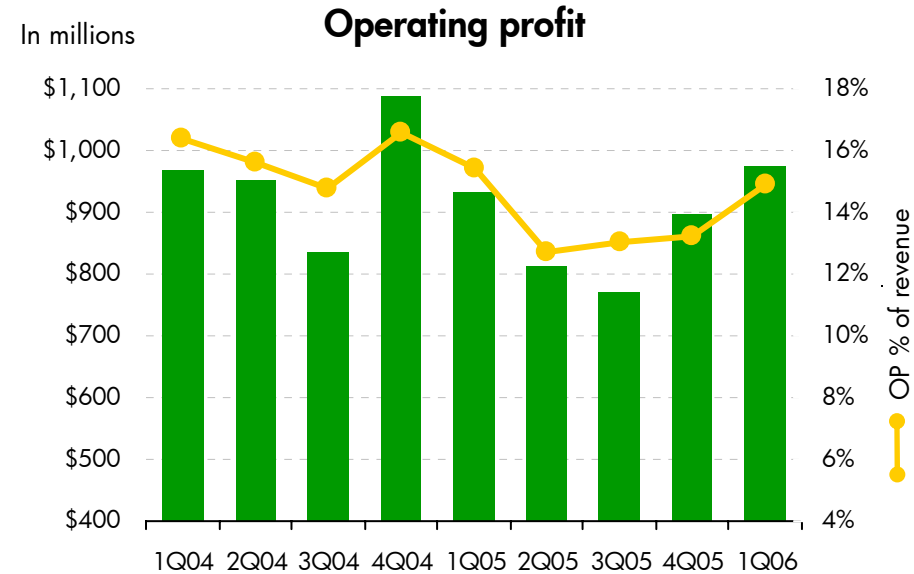
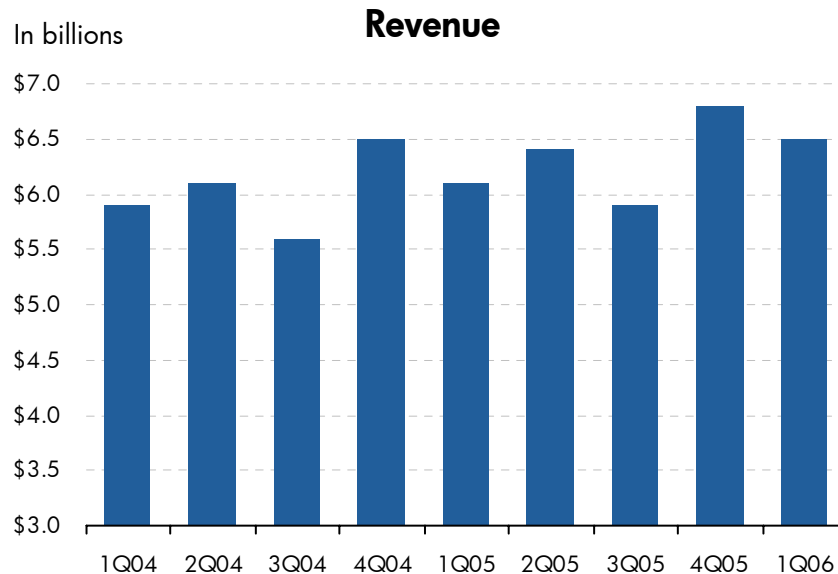
## EMEA



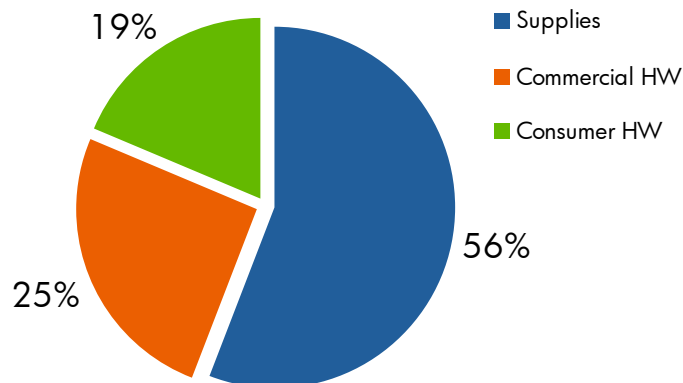
## Asia Pacific



# Imaging and Printing Group (IPG)

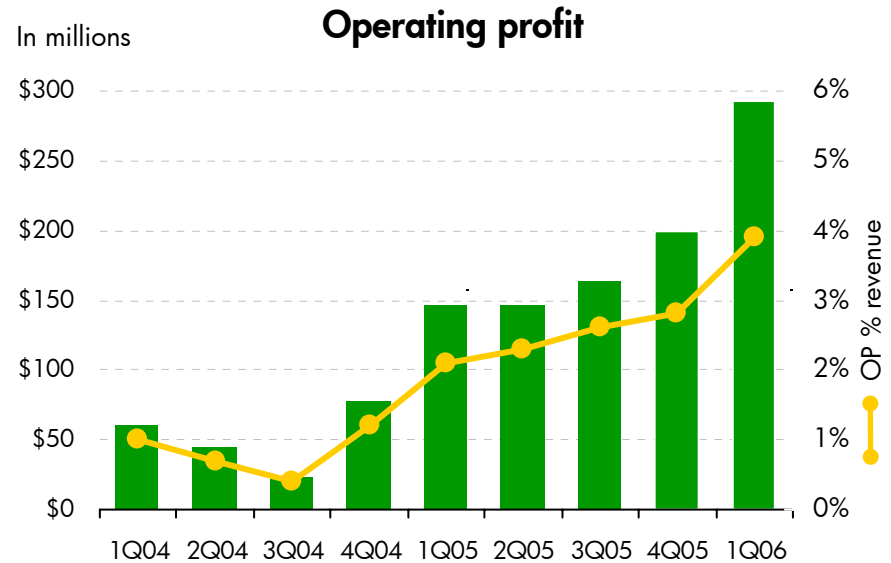
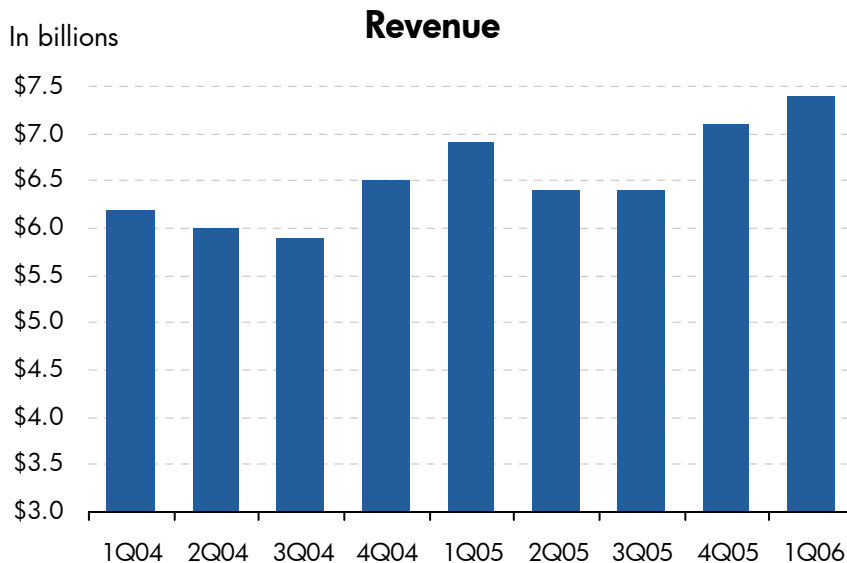


**Q1 FY06 revenue by business**

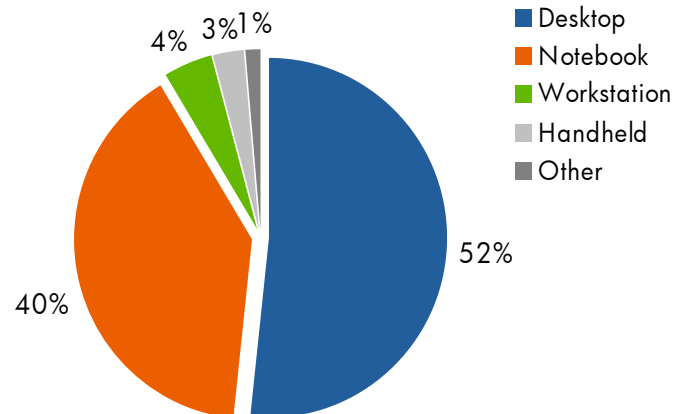


- IPG revenue of \$6.5B; up 8% Y/Y
- Operating profit of \$973M; 14.9% of revenue
- Total printer hardware units up 12% Y/Y
- Consumer printer hardware units grew 10% Y/Y
- Commercial printer hardware units up 18% Y/Y
- Color LaserJet units up 36% Y/Y
- Printer-based MFPs units up 40% Y/Y
- Indigo digital press page volume up 43% Y/Y
- Supplies revenue grew 11% Y/Y

# Personal Systems Group (PSG)

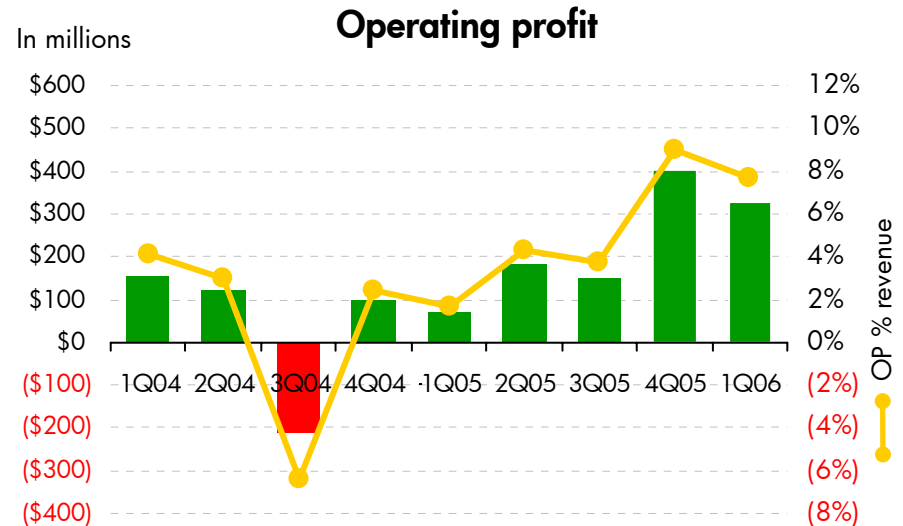
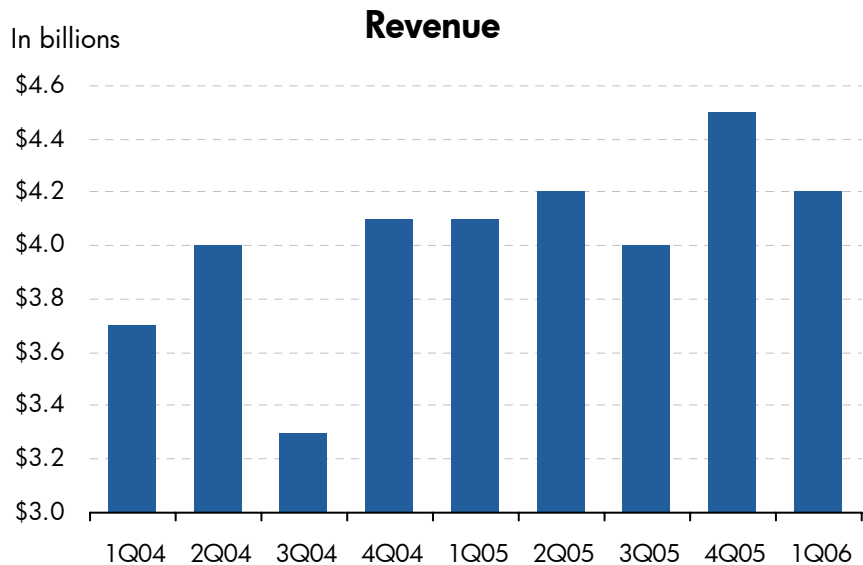


## Q1 FY06 revenue by business

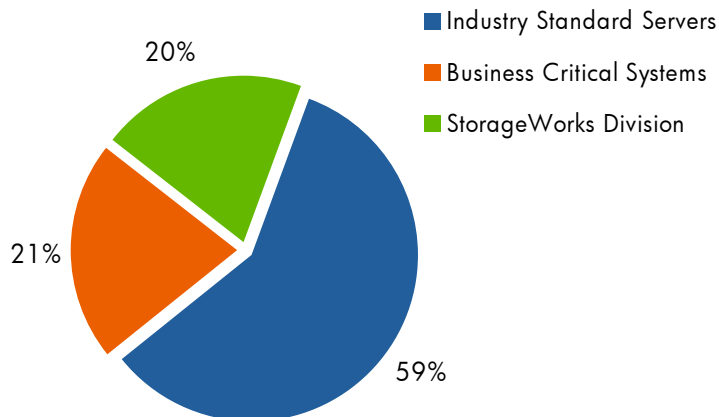


- PSG revenue of \$7.4B; up 8% Y/Y
- Operating profit of \$293M; 3.9% of revenue
- Total units up 16% Y/Y
- Desktop revenue up 1% Y/Y; units up 9%
- Notebook revenue up 26% Y/Y; units up 47%
- Consumer client revenue up 18% Y/Y;
- Commercial client revenue up 6% Y/Y

# Enterprise Storage and Servers (ESS)

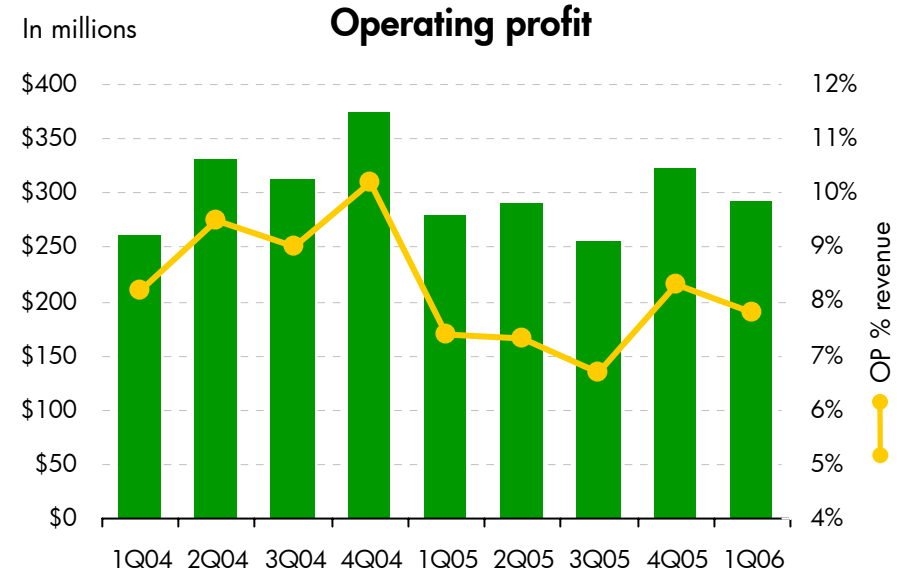
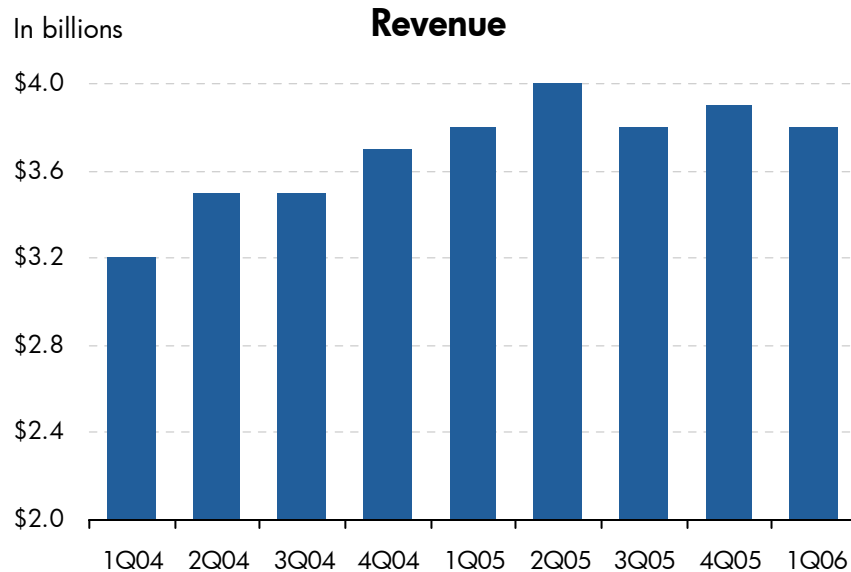


## Q1 FY06 revenue by business

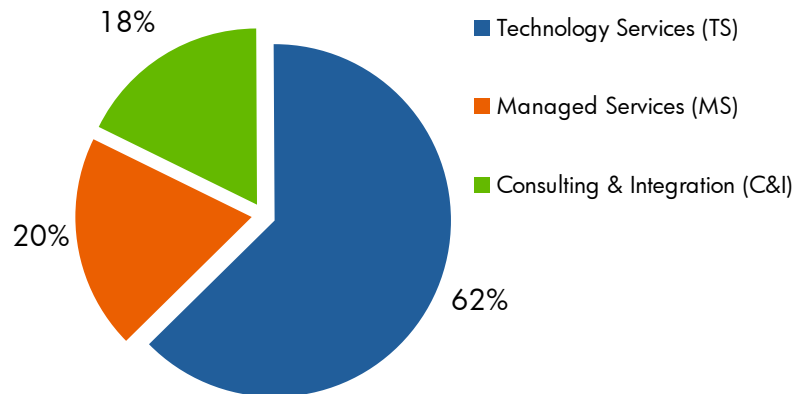


- ESS revenue of \$4.2B, up 5% Y/Y
- Operating profit of \$326M; 7.7% of revenue
- ISS revenue up 6% Y/Y; blade revenue up 58%
- BCS revenue up 1% Y/Y; HP-UX up 2%
- Integrity revenue up 94% Y/Y; 30% of BCS revenue
- Storage revenue up 4% Y/Y; mid-range storage arrays (EVA) up 28%; high-end storage (XP) up 14%

# HP Services (HPS)

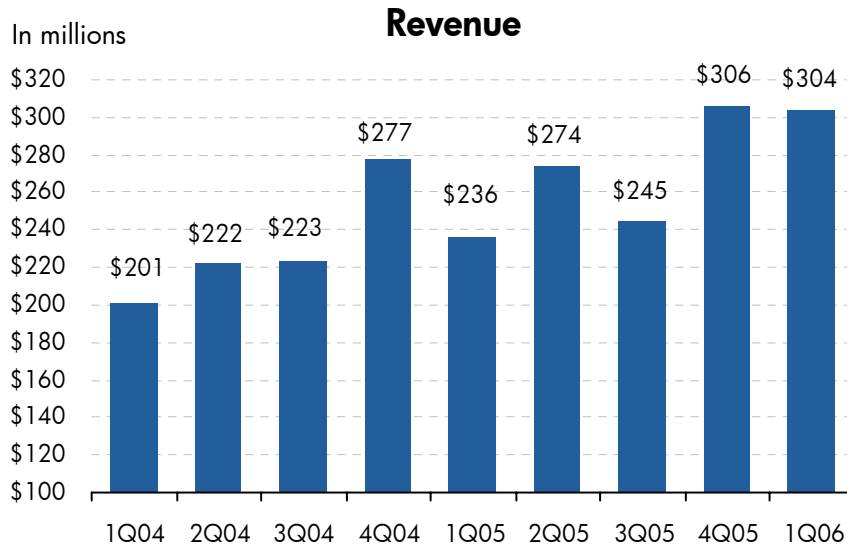


## Q1 FY06 revenue by business

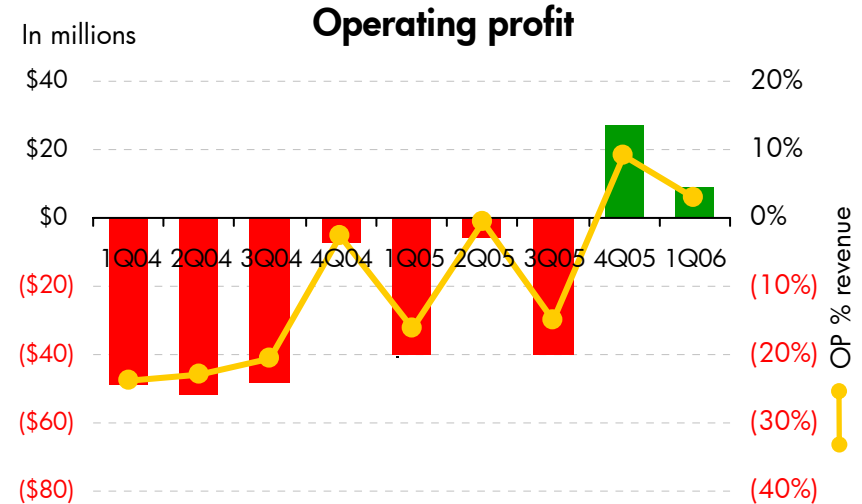
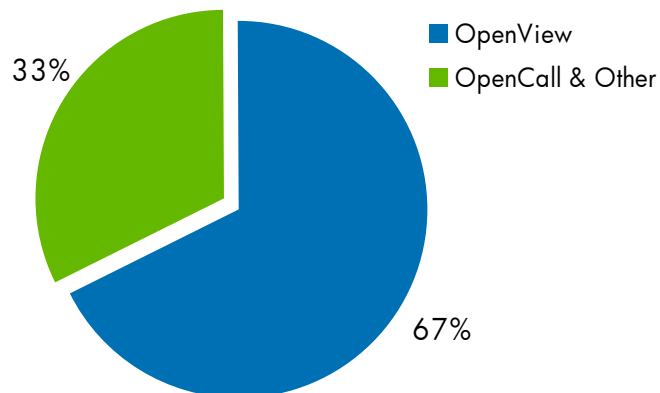


- HPS revenue declined 2% Y/Y;  
up 3% Y/Y in constant currency
- Operating profit of \$293M; 7.8% of revenue
- TS revenue down 2% Y/Y;  
flat in constant currency
- MS revenue down 1% Y/Y;  
up 4% in constant currency
- C&I revenue down 1% Y/Y;  
up 5% in constant currency

# Software

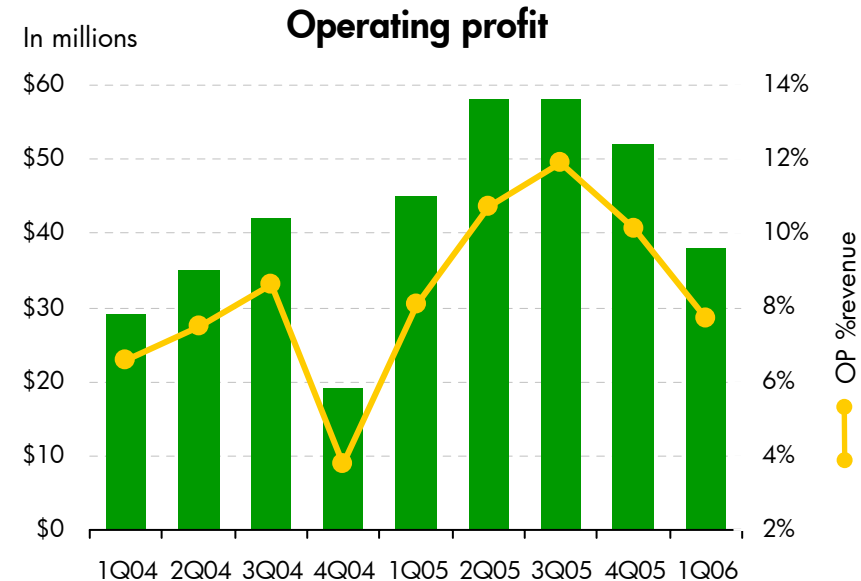
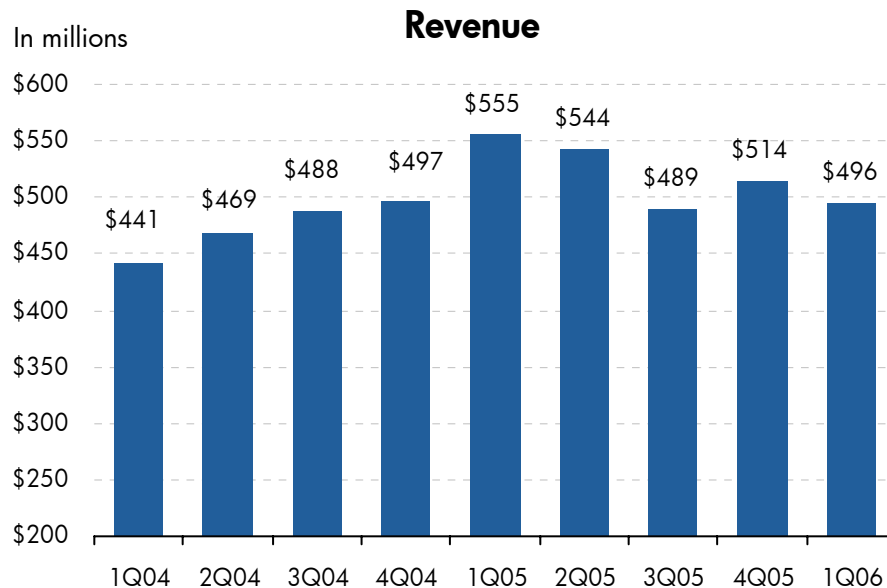


**Q1 FY06 revenue by business**

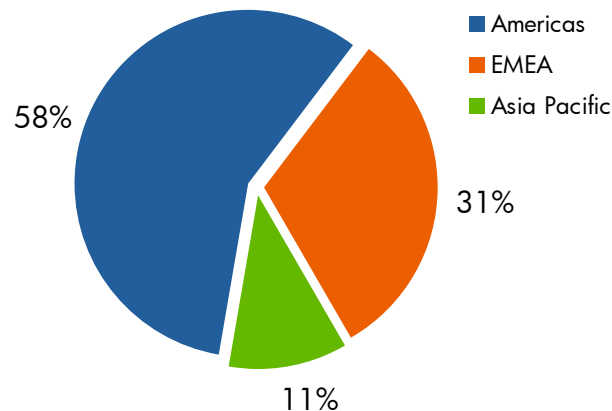


- Software revenue grew 29% Y/Y
- Operating profit of \$9M; 3.0% of revenue
- HP OpenView revenue grew 34% Y/Y
- HP OpenCall revenue grew 19% Y/Y
- Completed acquisition of Peregrine Systems, Inc.

# HP Financial Services (HPFS)



**Q1 FY06 revenue by region**



- HPFS revenue of \$496M, down 11% Y/Y
- Operating profit of \$38M;  
7.7% of revenue
- Financing volume down 10% Y/Y
- Net portfolio assets \$7.1B, down 2% Y/Y

# HPFS fundamentals

In millions	Q1 FY06	Q1 FY05	Q4 FY05
<b>Depreciation<sup>(1)</sup></b>	\$186	\$220	\$170
<b>Net capital expenditures<sup>(1)</sup></b>	\$257	\$309	\$271
<b>Increase (decrease) in net financing receivables</b>	\$77	(\$27)	(\$42)

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



# Q1 FY06 GAAP to non-GAAP bridge

All data in \$Ms except  
per share amounts

1Q06	GAAP	Amort. of Intangibles	Re- structuring charges	In-process R&D	(G)/L Invest.	Pension curtail- ment	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
Settlement	-						-
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

# P&L

## Non-GAAP



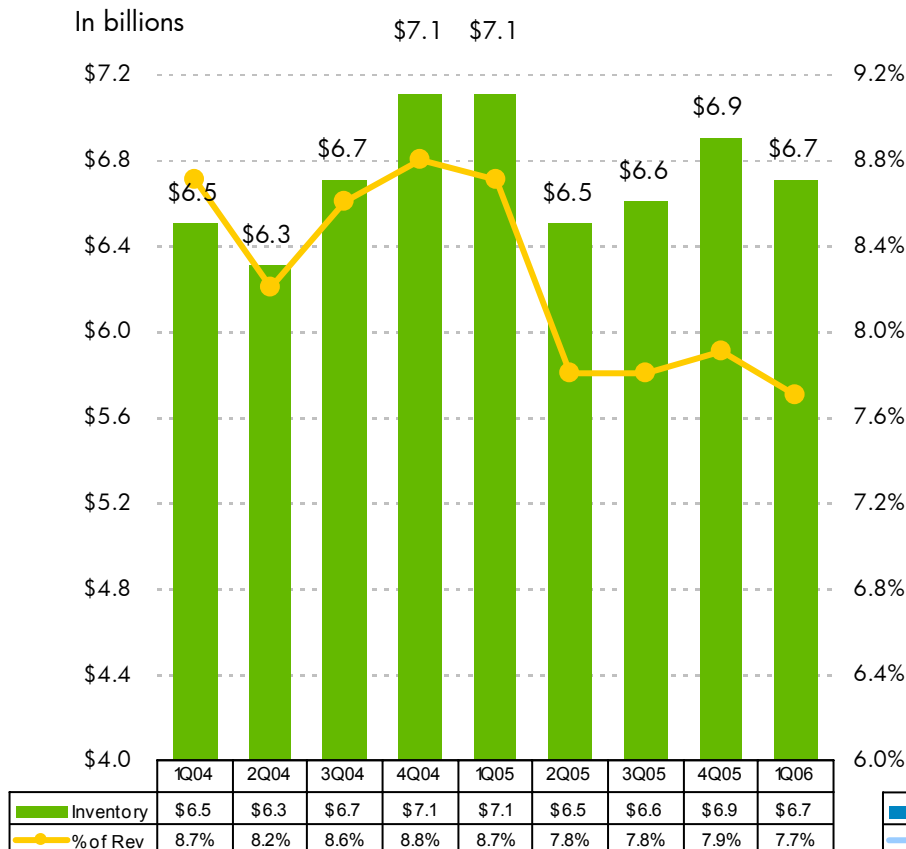
All data in \$Ms except  
per share amounts

	Q1 FY06 <sup>(1)</sup>		Q4 FY05		Q1 FY05	
	\$M	%	\$M	%	\$M	%
Revenue	22,659	100%	22,913	100%	21,454	100%
Cost of sales	17,392	76.8%	17,532	76.5%	16,537	77.1%
Total OpEx	3,563	15.7%	3,645	15.9%	3,582	16.7%
Operating profit	1,704	7.5%	1,736	7.6%	1,335	6.2%
Settlement	-		3		(116)	
Interest & other, net	38		132		25	
Pre-tax earnings	1,742	7.7%	1,871	8.2%	1,244	5.8%
Income tax	349		375		166	
EPS	\$0.48		\$0.51		\$0.37	

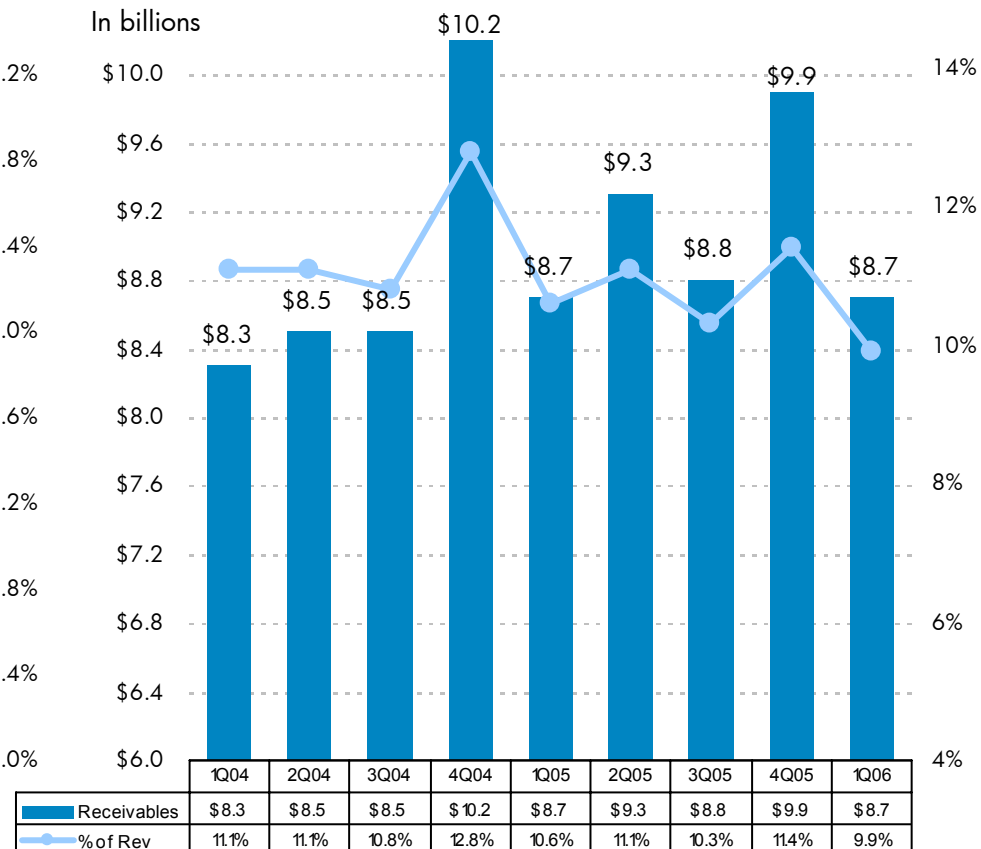
1. Prior periods do not include the effects of stock-based compensation, which are included in Q1 FY06.

# Inventory and accounts receivable

## Inventory

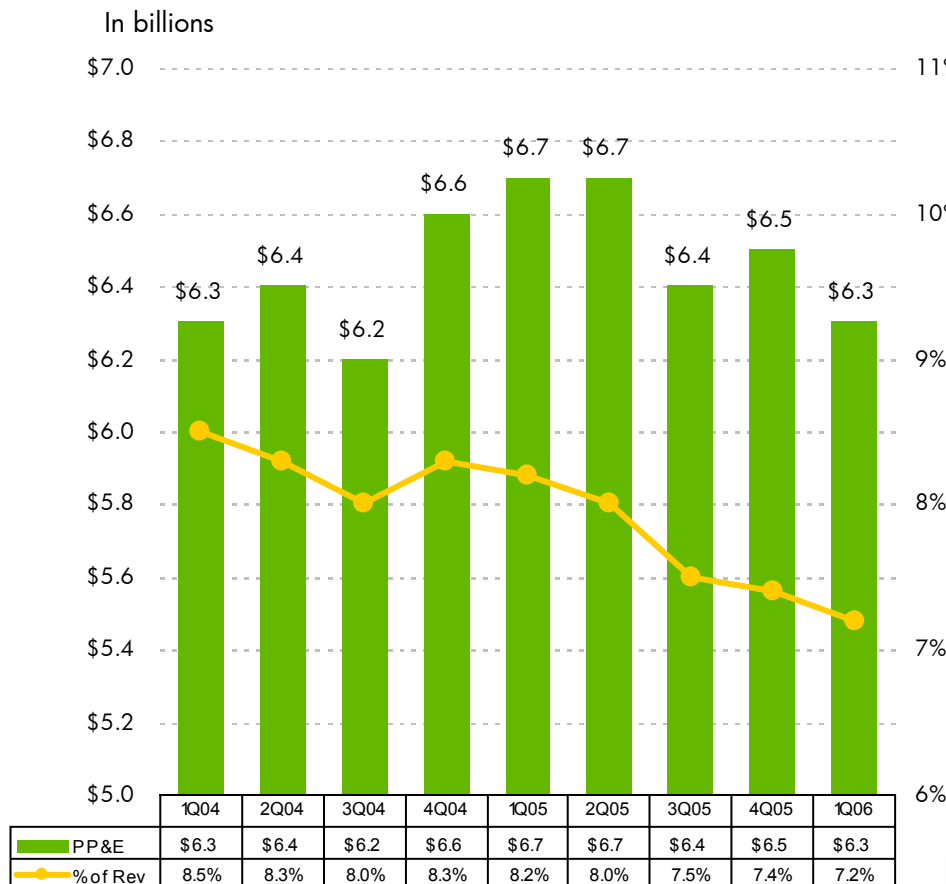


## Accounts receivable

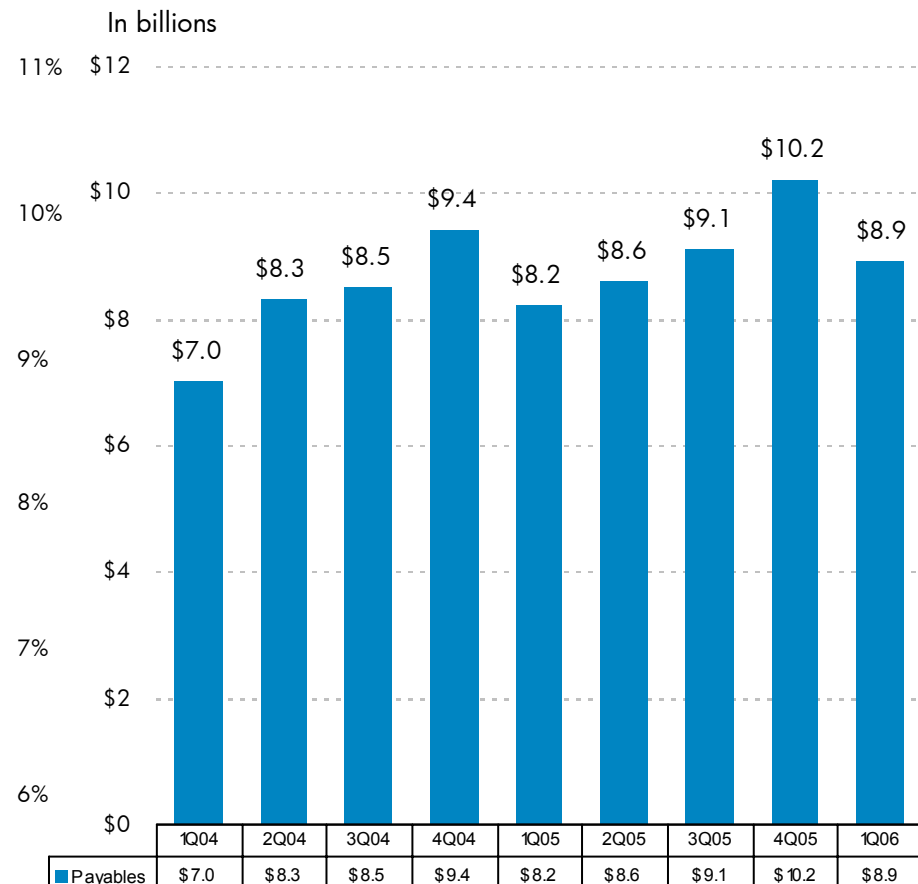


# PP&E and accounts payable

## Net PP&E

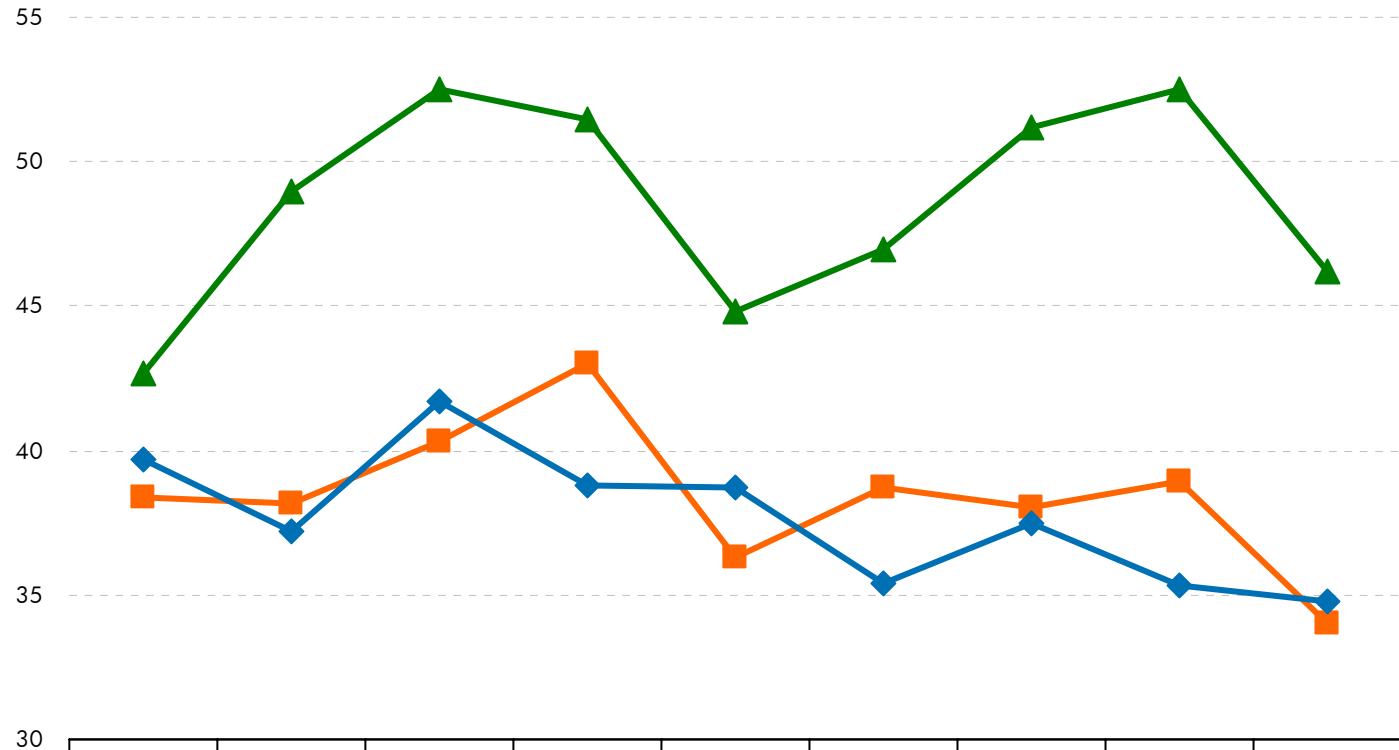


## Accounts payable



# Working capital metrics

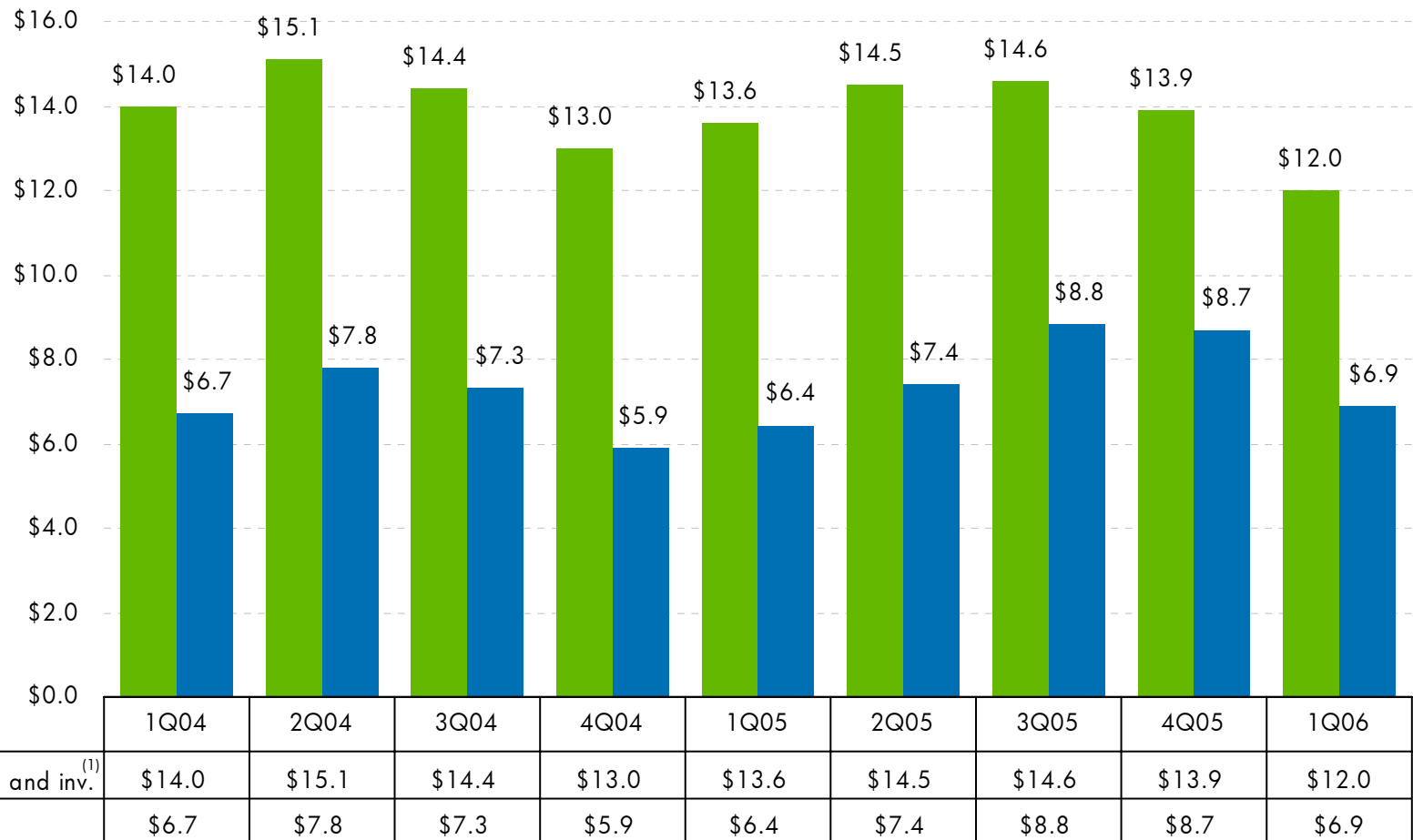
Days



	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06
Days receivables	38	38	40	43	36	39	38	39	34
Days inventory	40	37	42	39	39	35	38	35	35
Days payable	43	49	53	52	45	47	51	53	46

# Gross cash and investments

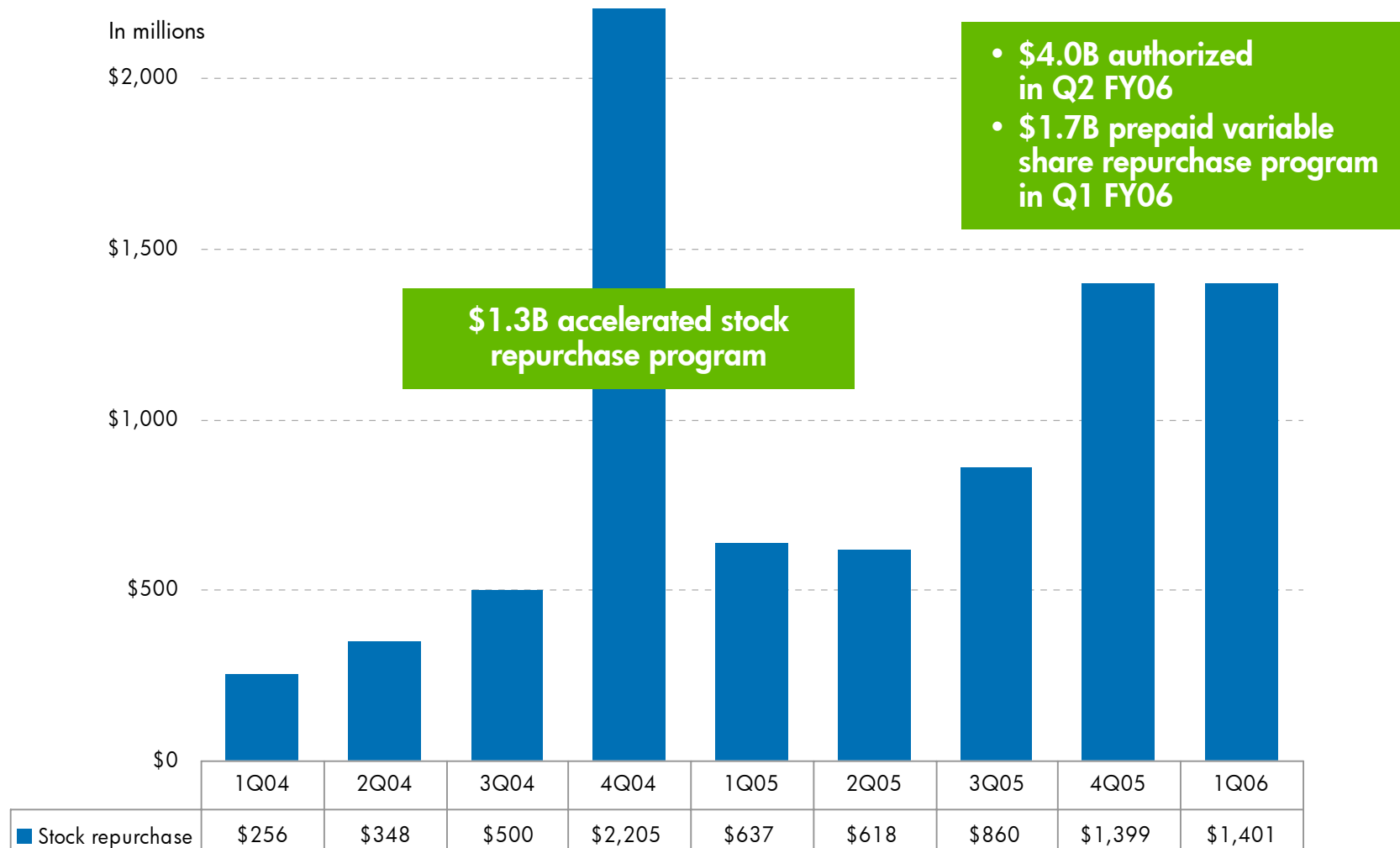
In billions



1. Includes cash and cash equivalents, short-term investments, and certain liquid long-term investments

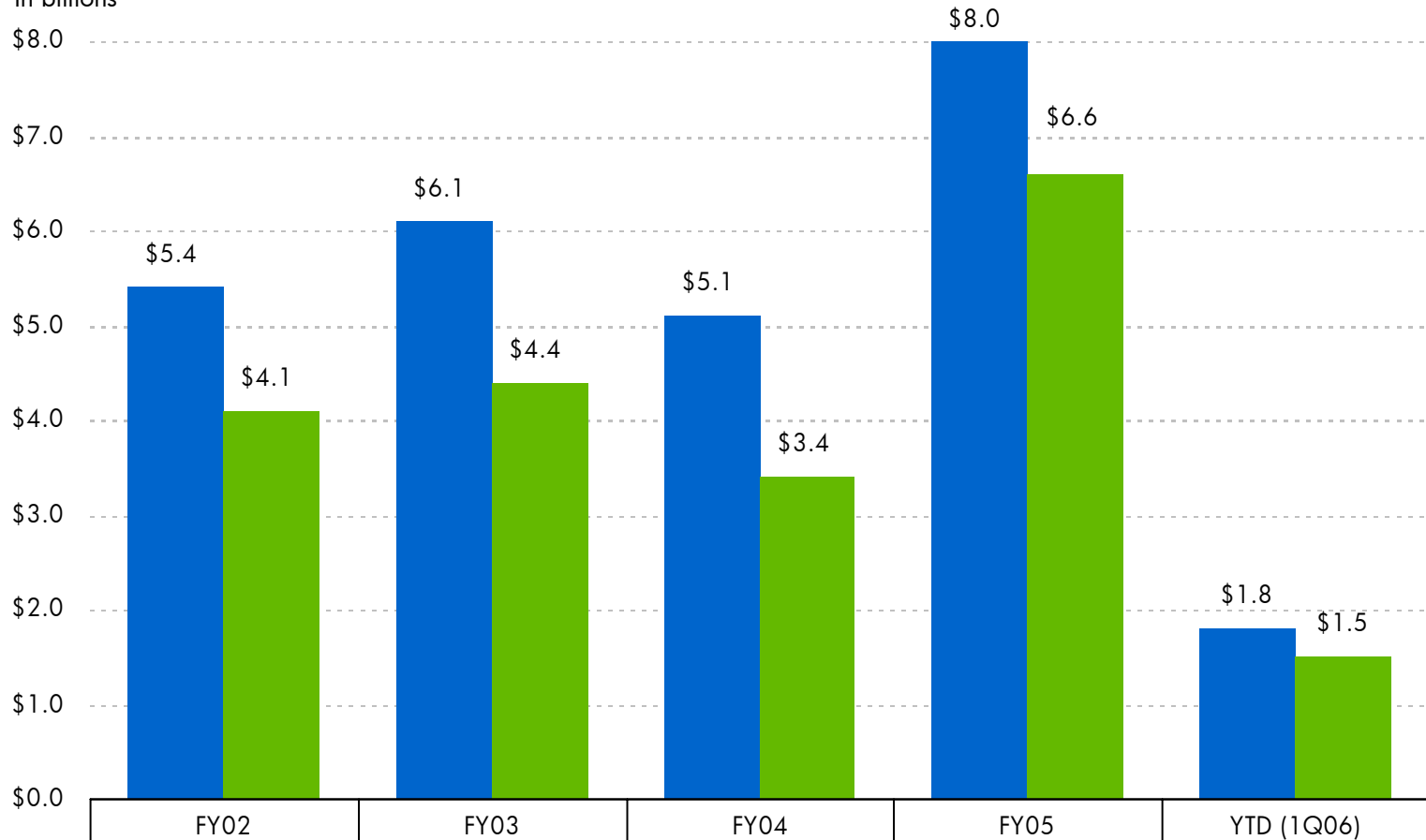
2. Net cash is defined as gross cash and investments less total debt

# Stock repurchase



# Cash flow

In billions



	FY02	FY03	FY04	FY05	YTD (1Q06)
■ Cash flow from Operations	\$5.4	\$6.1	\$5.1	\$8.0	\$1.8
■ Free cash flow <sup>(1)</sup>	\$4.1	\$4.4	\$3.4	\$6.6	\$1.5

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



# Outlook

## Q2 FY06 guidance

Revenue	\$22.4B to \$22.6B
Non-GAAP EPS <sup>(1)</sup>	\$0.47 – \$0.49
GAAP EPS <sup>(1)</sup>	\$0.43 – \$0.45

## Full year FY06 guidance (updated)

Revenue	\$90.0B to \$91.0B
Non-GAAP EPS <sup>(2)</sup>	\$1.90 – \$1.95
GAAP EPS <sup>(2)</sup>	\$1.72 – \$1.77

1. Q2 FY06 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. Second quarter non-GAAP and GAAP diluted earnings per share include \$0.03-\$0.04 of stock-based compensation expense.

2. Full year FY06 non-GAAP diluted earnings per share estimates exclude after-tax costs of approximately \$0.18 per share, related primarily to the amortization of purchased intangible assets. Full year FY06 non-GAAP and GAAP diluted earnings per share includes \$0.13 of stock-based compensation expense.

# Supplemental slides

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# FY05 GAAP to non-GAAP bridge

All data in \$Ms except  
per share amounts

FY05	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

All data in \$Ms except  
per share amounts

4Q05	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

All data in \$Ms except  
per share amounts

3Q05	GAAP	Amort. of Intangibles	Re- structuring charges	Acq. related charges	In-process R&D	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

All data in \$Ms except  
per share amounts

2Q05	GAAP	Amort. of Intangibles	Re- structuring charges	Acq. related charges	In-process R&D	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
Settlement	-						-
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

All data in \$Ms except  
per share amounts

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%
Net earnings	943						1,078
EPS	\$0.32						\$0.37

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

All data in \$Ms except  
per share amounts

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%
Net earnings	1,091						1,227
EPS	\$0.37						\$0.41

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 amounts

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%
Net earnings	586						728
EPS	\$0.19						\$0.24

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 amounts

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%
Net earnings	884						1,032
EPS	\$0.29						\$0.34

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 amounts

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%
Net earnings	936					1,080
EPS	\$0.30					\$0.35

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

