



Q2 FY06 HP Earnings Announcement

May 16, 2006

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Forward-looking statements

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Use of non-GAAP financial information

To supplement HP's consolidated condensed financial statements presented on a GAAP basis, HP provides non-GAAP operating expense, non-GAAP OI&E, non-GAAP operating profit, non-GAAP net income, non-GAAP diluted earnings per share, HP's non-GAAP tax rate, gross cash, net cash, and free cash flow. HP also provides forecasts of non-GAAP diluted earnings per share, non-GAAP OI&E and HP's non-GAAP tax rate. 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 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 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 expense, other income and expense, operating profit, net income, diluted earnings per share, HP's tax rate, 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 expense, non-GAAP operating profit, non-GAAP net income, non-GAAP diluted earnings per share and HP's non-GAAP tax rate 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.

Q2 FY06 earnings highlights

- **Non-GAAP EPS of \$0.54 (includes stock compensation) versus \$0.37 in Q205⁽¹⁾**
- **Revenue growth of \$984 million, 5% Y/Y; 8% in constant currency**
- **Operating margin of 8.0%, with margin expansion in key businesses**
 - IPG operating margin of 15.5%
 - ESS operating margin of 7.5%
 - PSG operating margin of 3.6%
 - HPS operating margin of 8.9%
- **Generated record cash flow**
 - Cash flow from operations of \$3.6 billion
 - Free cash flow of \$3.2 billion
- **Returned \$1.6 billion² to shareholders in share repurchases, and \$226 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."

2. Q2 FY06 open market repurchases totaled \$1.3 billion. An additional 7 million shares were repurchased under the Q1 FY06 Prepaid Variable Share Repurchase plan for an approximate value of \$232 million.

Results overview

Q2 FY06 Financials

- Net revenue of \$22.6 billion, growth of 5% year-over-year; or 8% in constant currency
- Non-GAAP operating profit of \$1.8 billion; up from \$1.3 billion in Q2 FY05
- Non-GAAP diluted EPS of \$0.54; up from \$0.37 in Q2 FY05
- GAAP operating profit of \$1.7 billion, up from \$1.2 billion in Q2 FY05
- GAAP diluted EPS of \$0.51; up from \$0.33 in Q2 FY05
- Cash flow from operations of \$3.6 billion

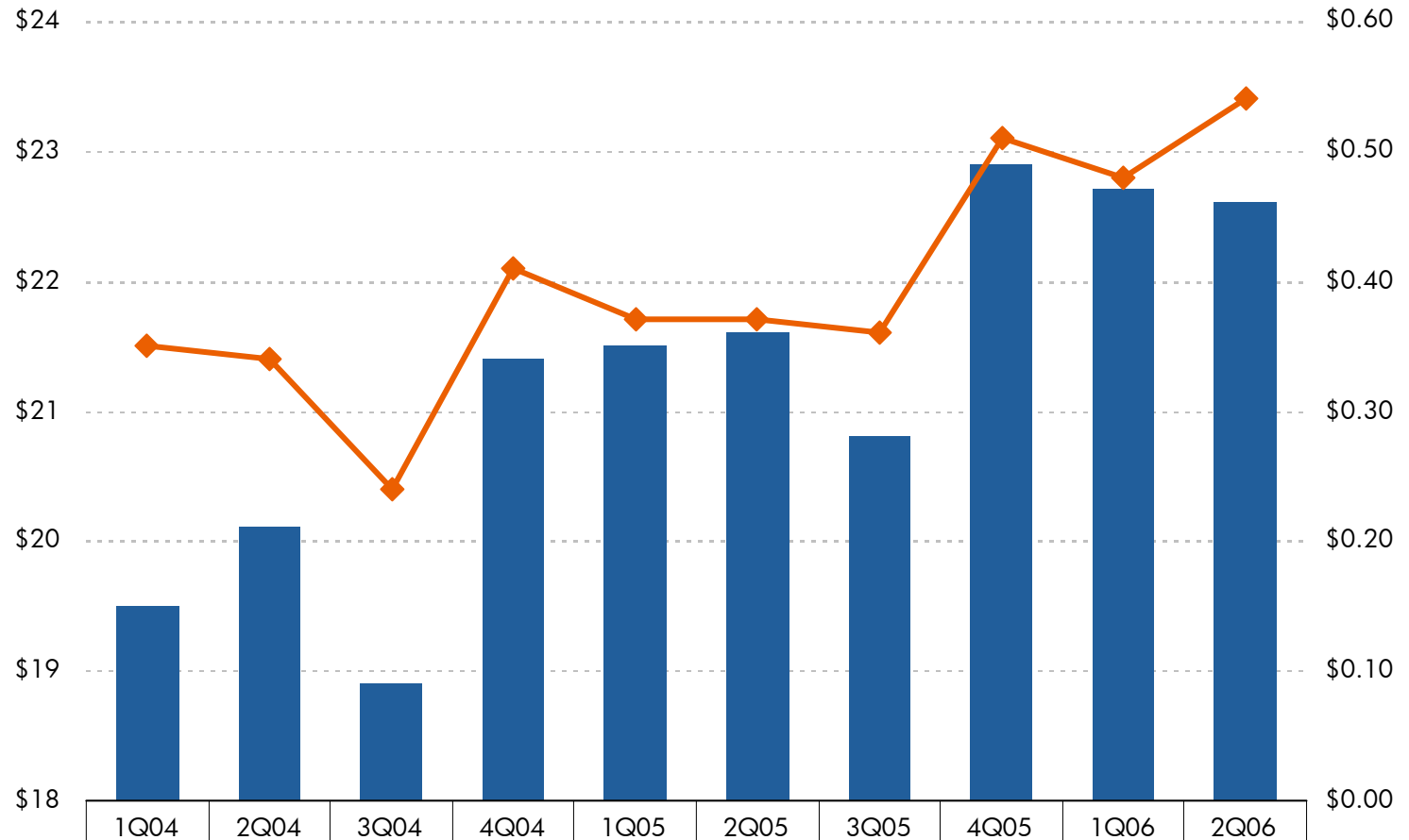
Q2 FY06 Segments

\$ in millions	Revenue	Growth Y/Y %	Operating profit	OP % of rev
Enterprise Storage and Servers	\$4,265	2%	\$322	7.5%
Services	\$3,892	(2%)	\$345	8.9%
Software	\$330	20%	\$3	0.9%
Personal Systems Group	\$6,977	10%	\$248	3.6%
Imaging and Printing Group	\$6,724	5%	\$1,041	15.5%
HP Financial Services	\$518	(5%)	\$39	7.5%
Total HP	\$22,554	5%	\$1,796⁽¹⁾	8.0%

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Revenue & EPS performance

In billions



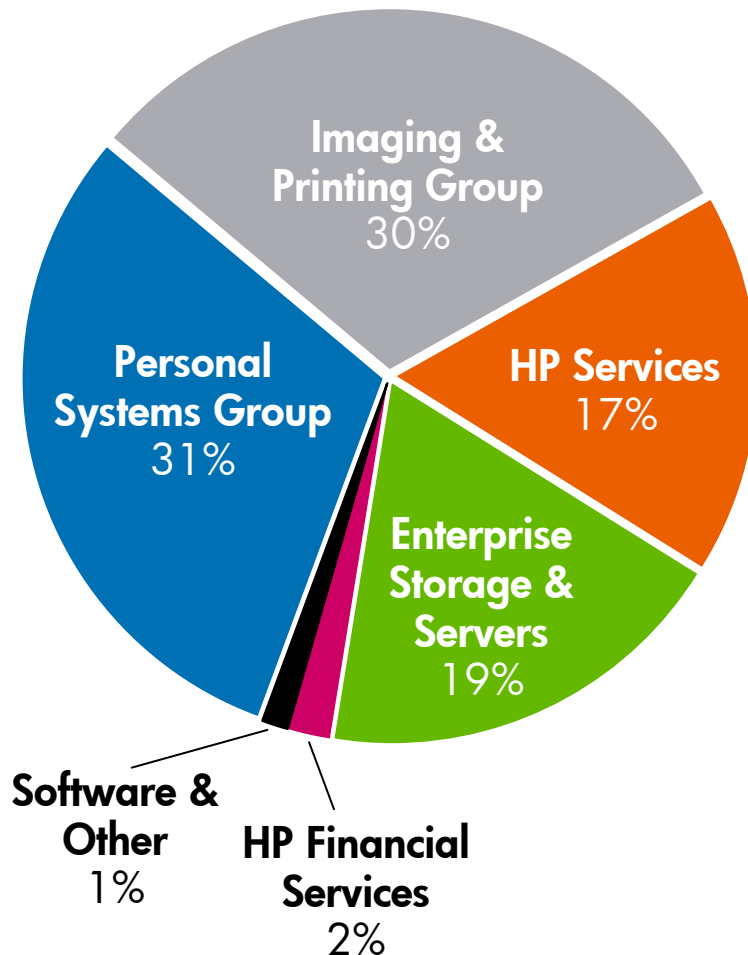
■ Revenue	\$19.50	\$20.1	\$18.9	\$21.4	\$21.5	\$21.6	\$20.8	\$22.9	\$22.7	\$22.6
◆ Non-GAAP EPS ⁽¹⁾	\$0.35	\$0.34	\$0.24	\$0.41	\$0.37	\$0.37	\$0.36	\$0.51	\$0.48 ⁽²⁾	\$0.54 ⁽²⁾

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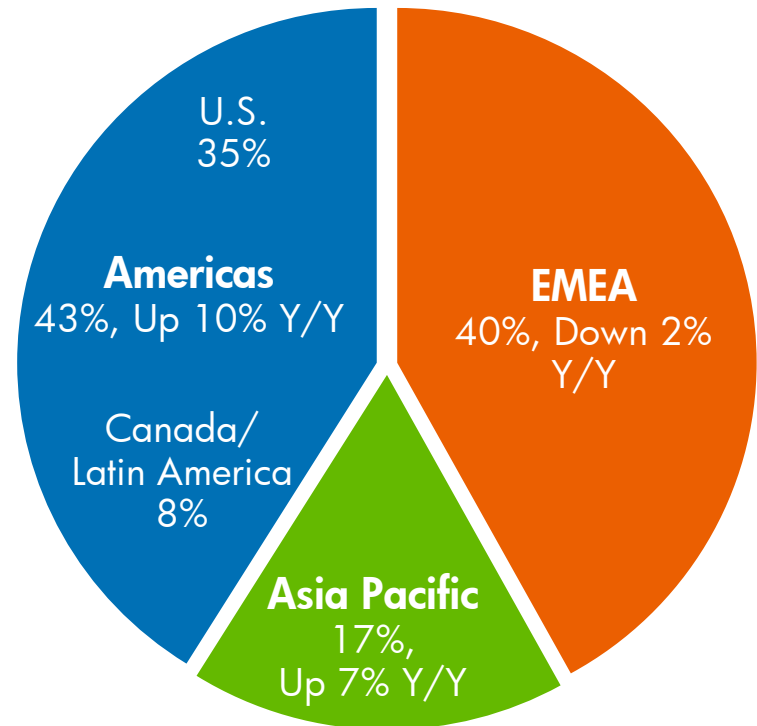
2. Prior periods do not include the effects of stock-based compensation, which are included in FY06

Q2 FY06 revenue

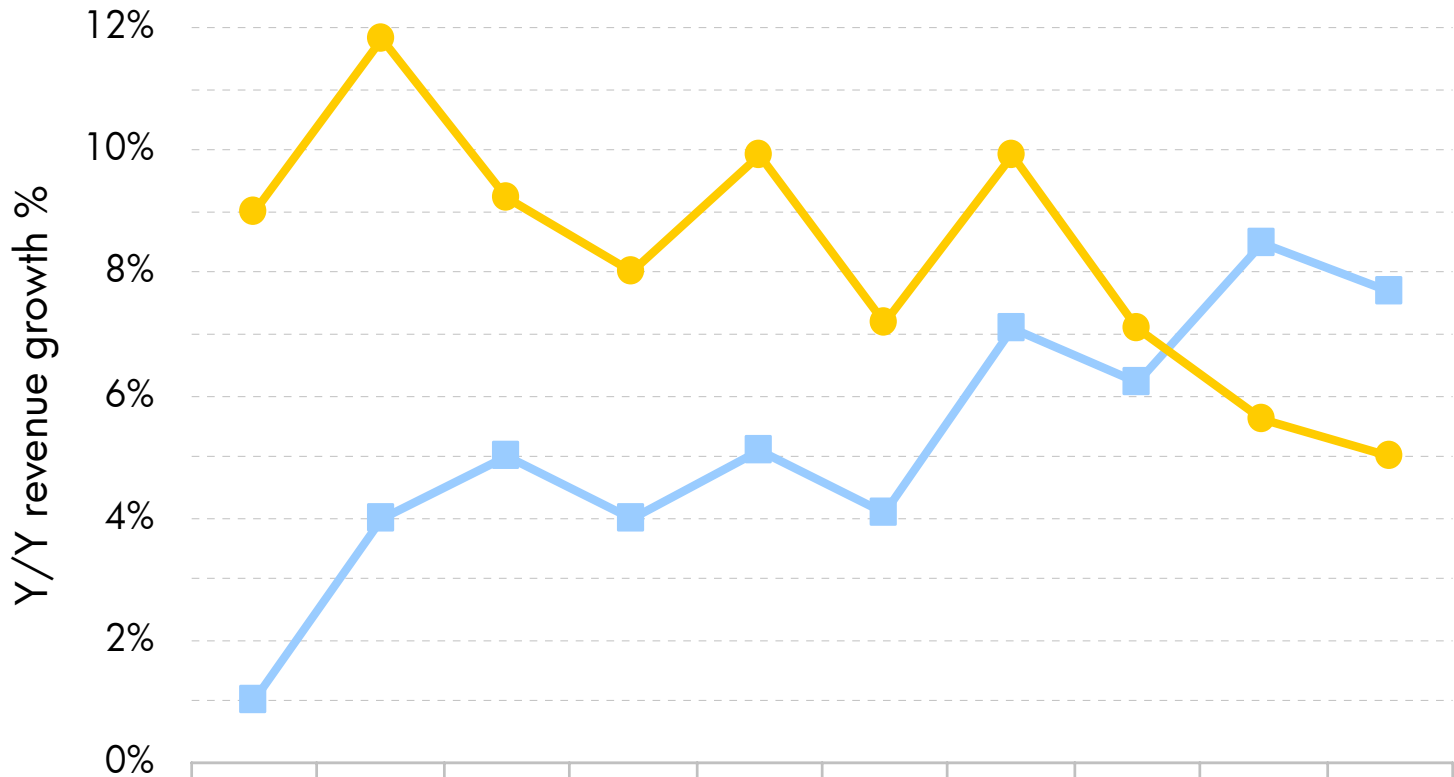
By segment





By region

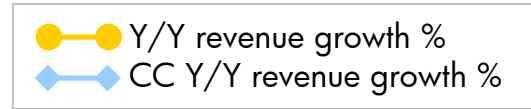


Revenue growth

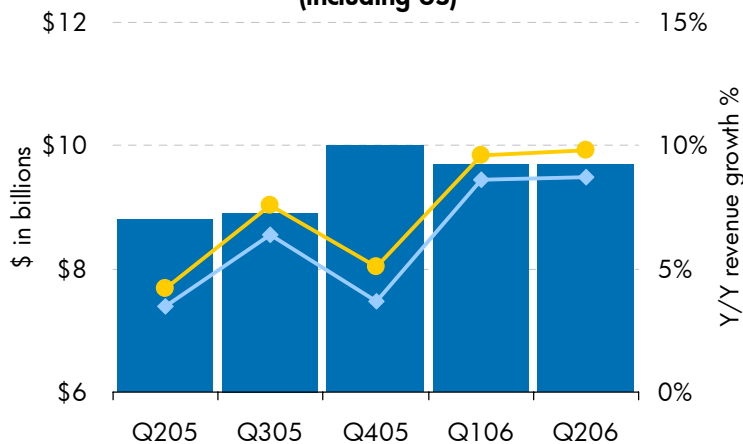


 Constant currency	1%	4%	5%	4%	5%	4%	7%	6%	8%	8%
 As reported	9%	12%	9%	8%	10%	7%	10%	7%	6%	5%

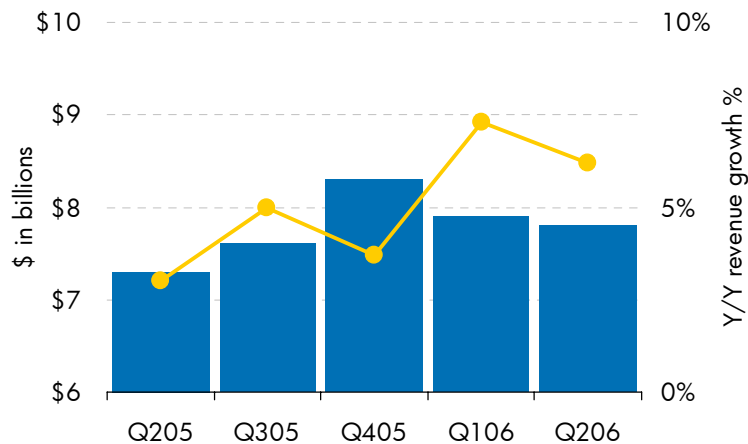
Regional revenue trends



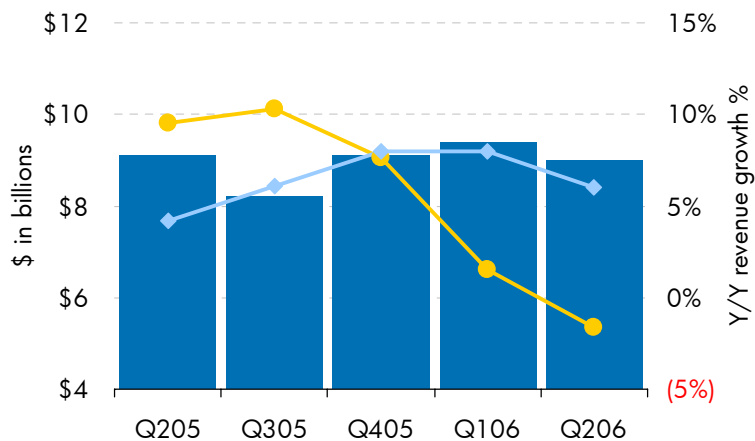
Americas (including US)



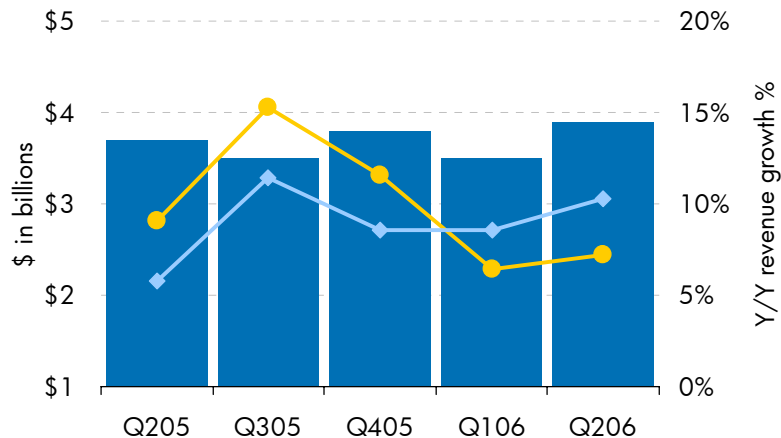
United States



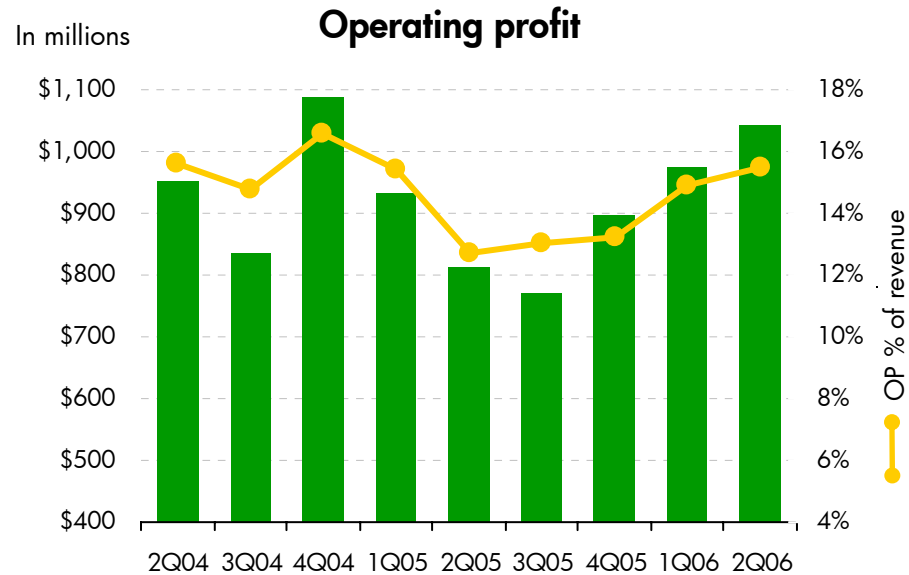
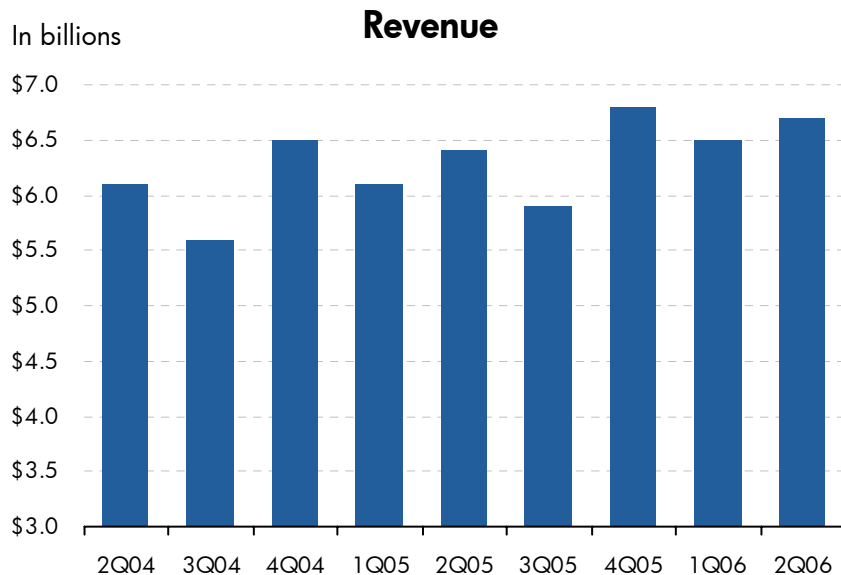
EMEA



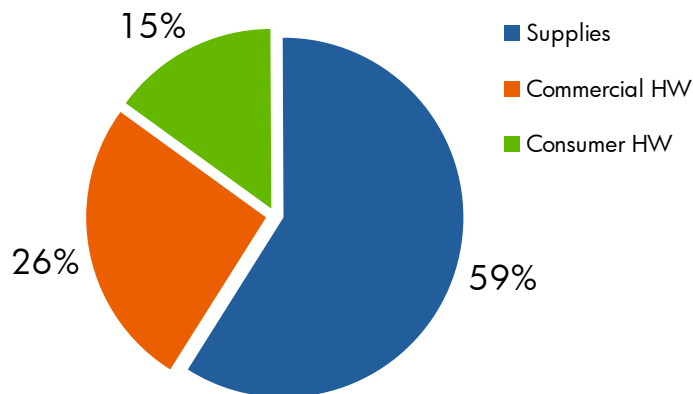
Asia Pacific



Imaging and Printing Group (IPG)

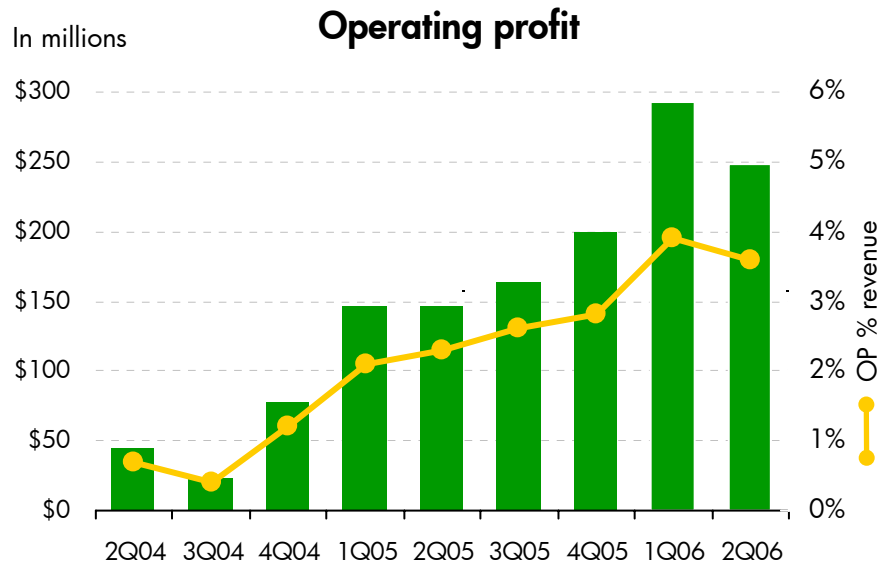
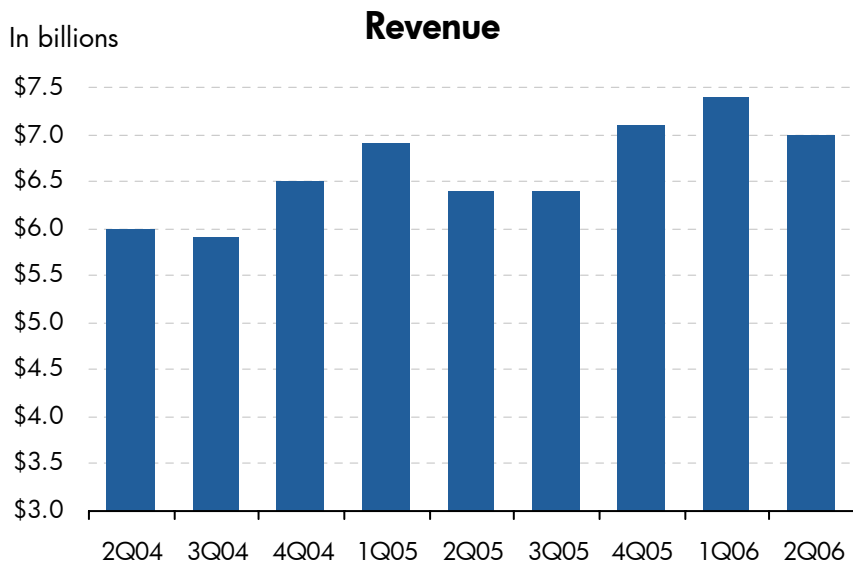


Q2 FY06 revenue by business

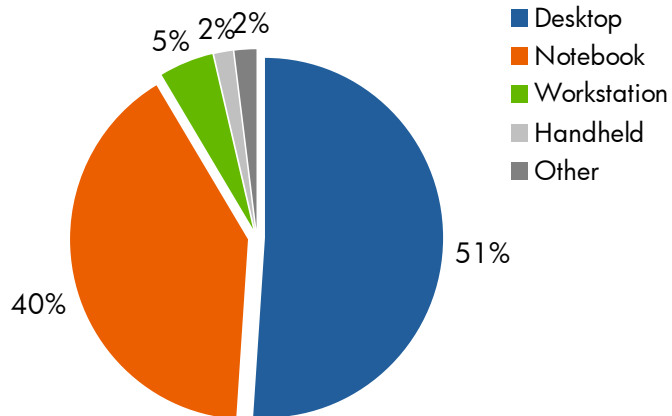


- IPG revenue of \$6.7B; up 5% Y/Y
- Operating profit of \$1,041M; 15.5% of revenue
- Total printer hardware units up 3% Y/Y; consumer units declined 1%; commercial units up 14%
- Color LaserJet units up 38% Y/Y
- Printer-based MFPs units up 44% Y/Y
- Indigo digital press page volume up 42% Y/Y
- Supplies revenue grew 10% Y/Y

Personal Systems Group (PSG)

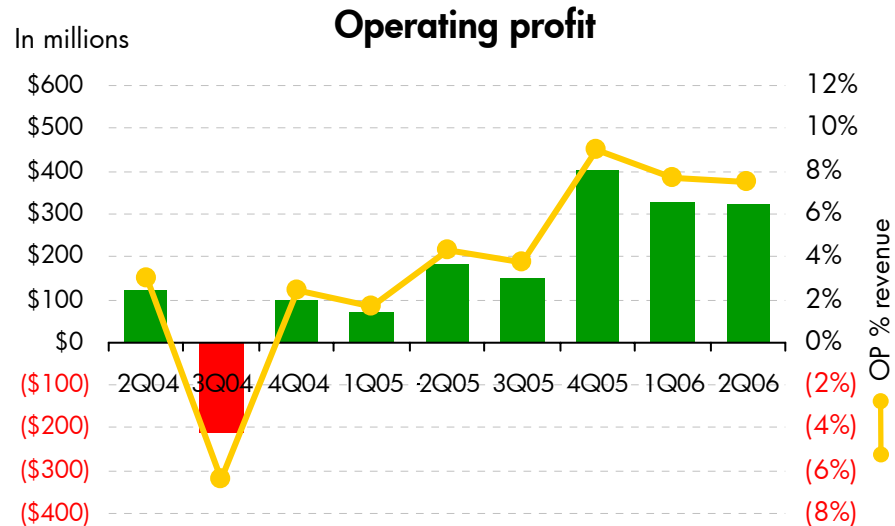
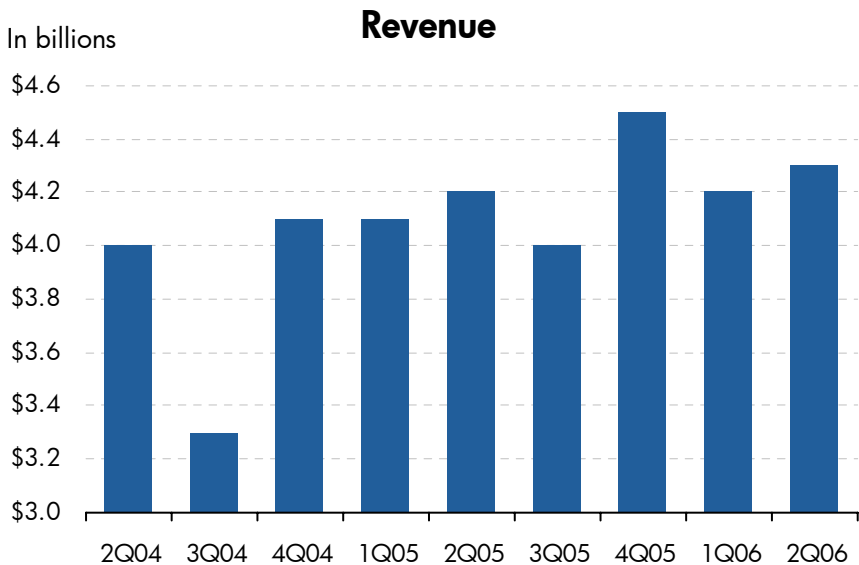


Q2 FY06 revenue by business

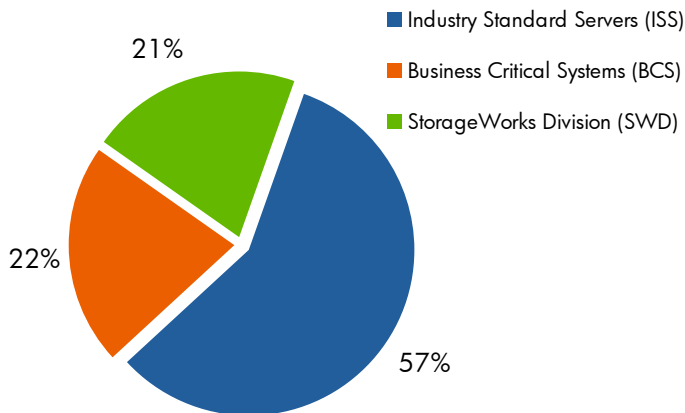


- PSG revenue of \$7.0B; up 10% Y/Y
- Operating profit of \$248M; 3.6% of revenue
- Total units up 16% Y/Y
- Desktop revenue up 1% Y/Y; units up 8%
Notebook revenue up 27% Y/Y; units up 48%
- Consumer client revenue up 24% Y/Y;
Commercial client revenue up 3% Y/Y

Enterprise Storage and Servers (ESS)

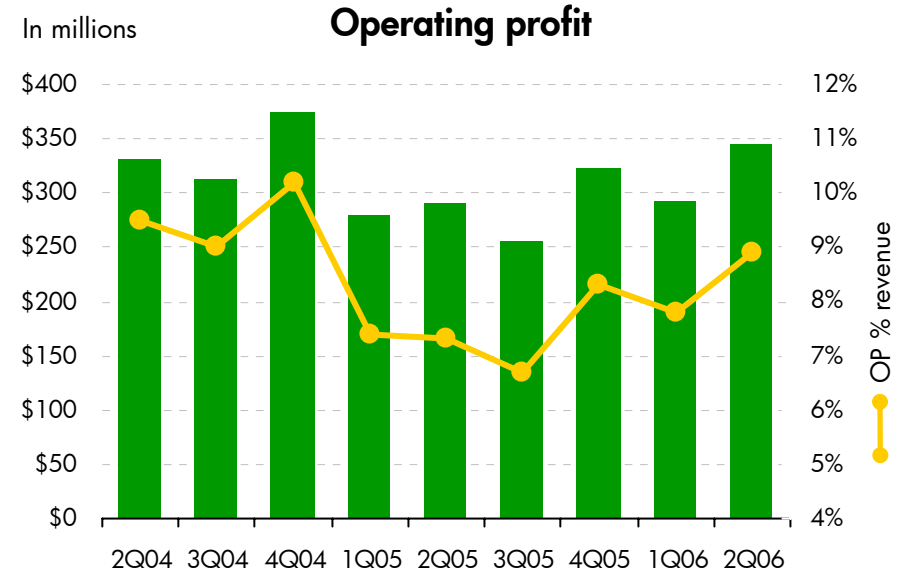
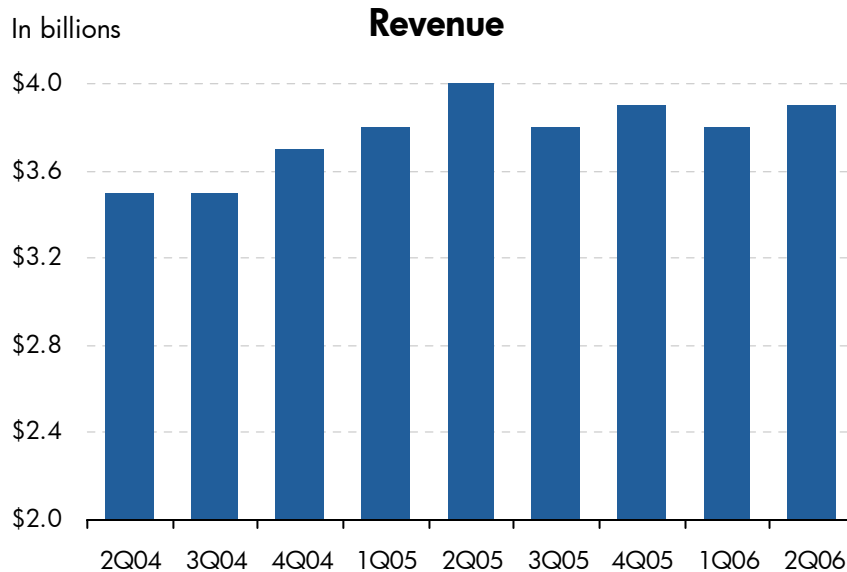


Q2 FY06 revenue by business

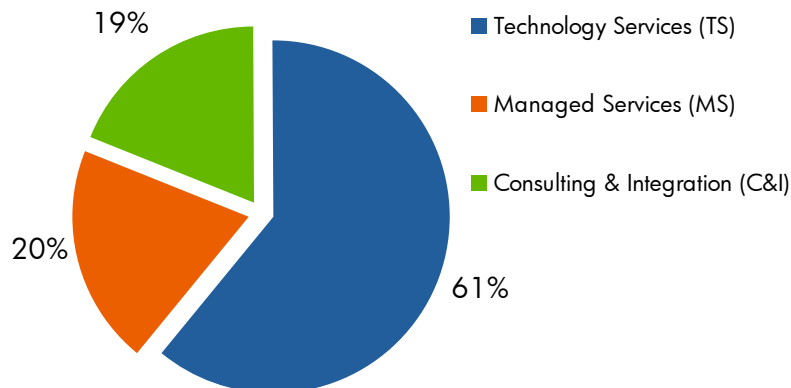


- ESS revenue of \$4.3B, up 2% Y/Y
- Operating profit of \$322M; 7.5% of revenue
- ISS revenue up 4% Y/Y; blade revenue up 60%
- BCS revenue down 7% Y/Y; HP-UX down 8%
- Integrity revenue up 93% Y/Y; 36% of BCS revenue
- Storage revenue up 8% Y/Y; mid-range storage arrays (EVA) up 46%; high-end storage (XP) up 8%

HP Services (HPS)

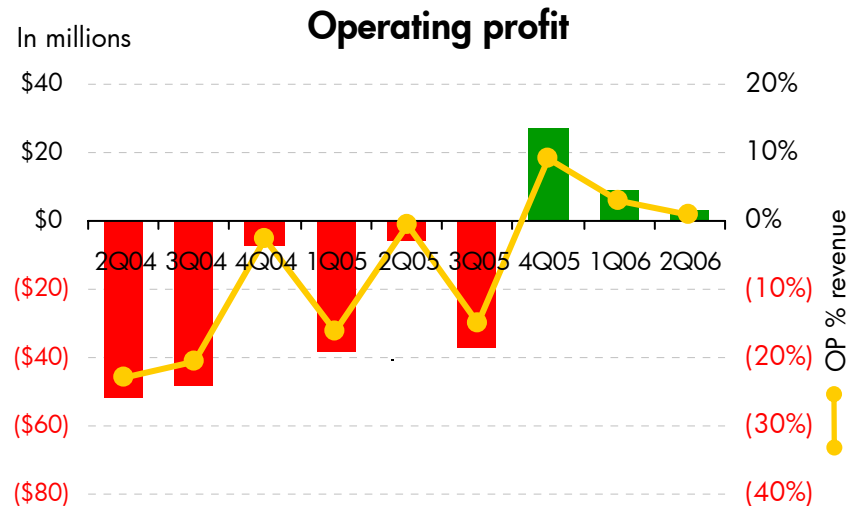
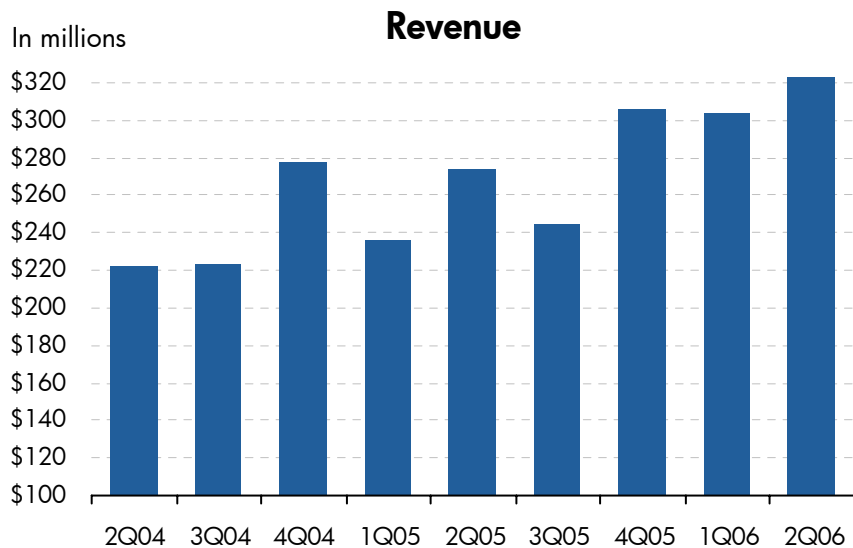


Q2 FY06 revenue by business

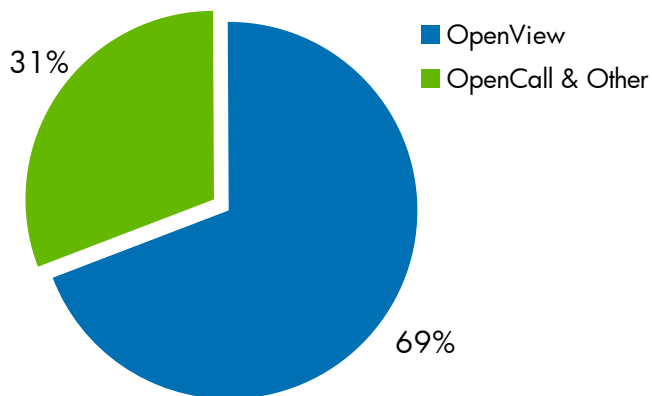


- HPS revenue declined 2% Y/Y; up 2% Y/Y in constant currency
- Operating profit of \$345M; 8.9% of revenue
- TS revenue declined 4% Y/Y; down 1% in constant currency
- MS revenue up 2% Y/Y; up 7% in constant currency
- C&I revenue declined 2% Y/Y; up 5% in constant currency

Software

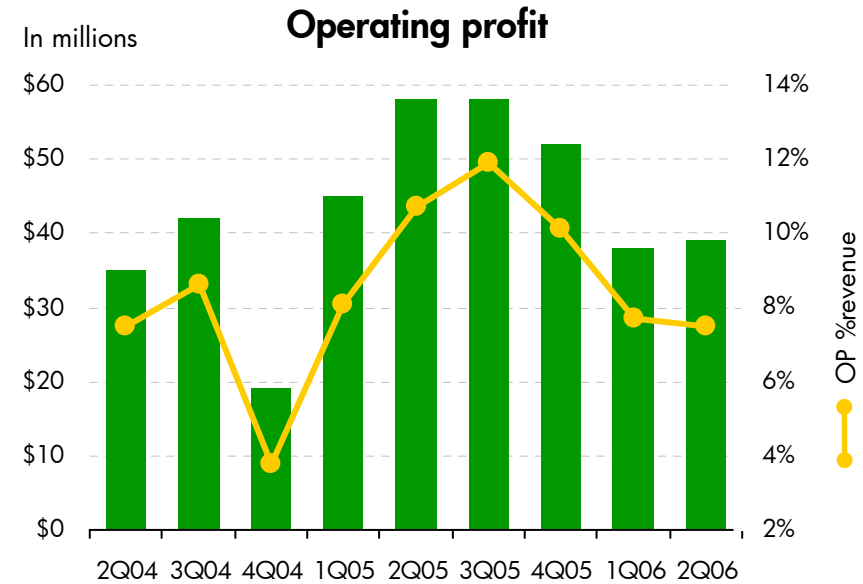
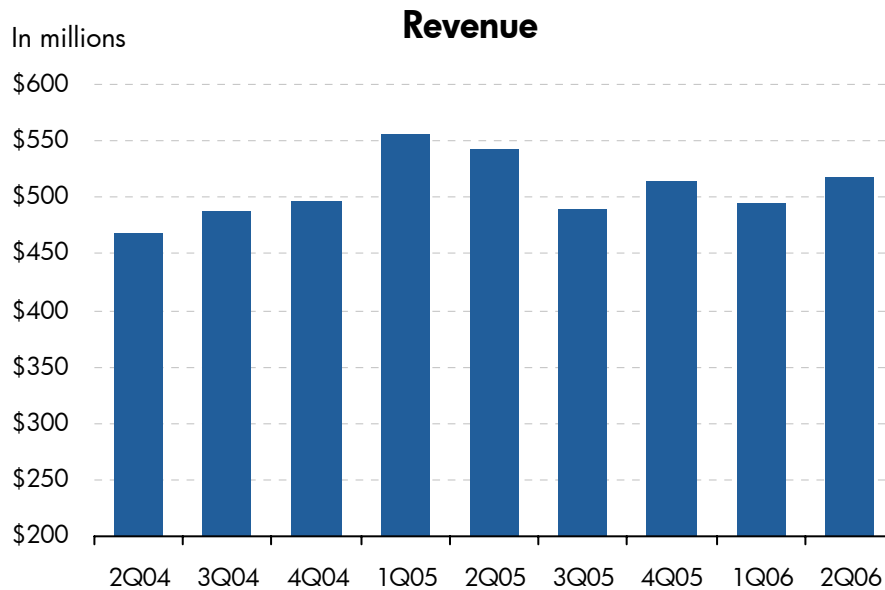


Q2 FY06 revenue by business

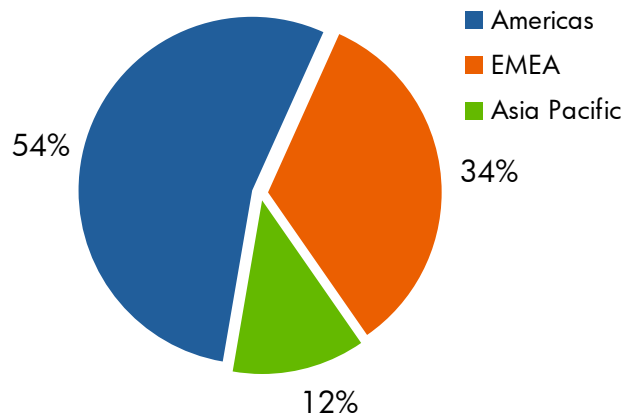


- Software revenue grew 20% Y/Y
- Operating profit of \$3M; 0.9% of revenue
- HP OpenView revenue grew 25% Y/Y, driven by strong performance in Peregrine related business
- HP OpenCall revenue grew 11% Y/Y

HP Financial Services (HPFS)



Q2 FY06 revenue by region



- HPFS revenue of \$518M, down 5% Y/Y
- Operating profit of \$39M; 7.5% of revenue
- Financing volume down 14% Y/Y
- Net portfolio assets \$7.1B, up 1% Y/Y

HPFS supplemental data

In millions

	Q2 FY06	Q2 FY05	Q1 FY06
Depreciation⁽¹⁾	\$215	\$218	\$186
Net capital expenditures⁽¹⁾	\$259	\$202	\$257
Increase (decrease) in net financing receivables	(\$31)	(\$159)	\$77

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



Q2 FY06 GAAP to non-GAAP bridge

All data in \$Ms except per share amounts

2Q06	GAAP	Amort. of Intangibles	Re-structuring	In-process R&D	(G)/L Invest.	Pension curtailment	Non-GAAP
Revenue	22,554						22,554
Cost of sales	16,970						16,970
Total OpEx	3,927	(151)	14	(2)			3,788
Operating profit	1,657	151	(14)	2			1,796
Settlement	-						-
Interest & other, net	163				(6)		157
Pre-tax earnings	1,820	151	(14)	2	(6)		1,953
Income tax	364	44	(4)		(4)		400
Tax rate	20%						20%
Net earnings	1,456						1,553
EPS	\$0.51						\$0.54

P&L

Non-GAAP



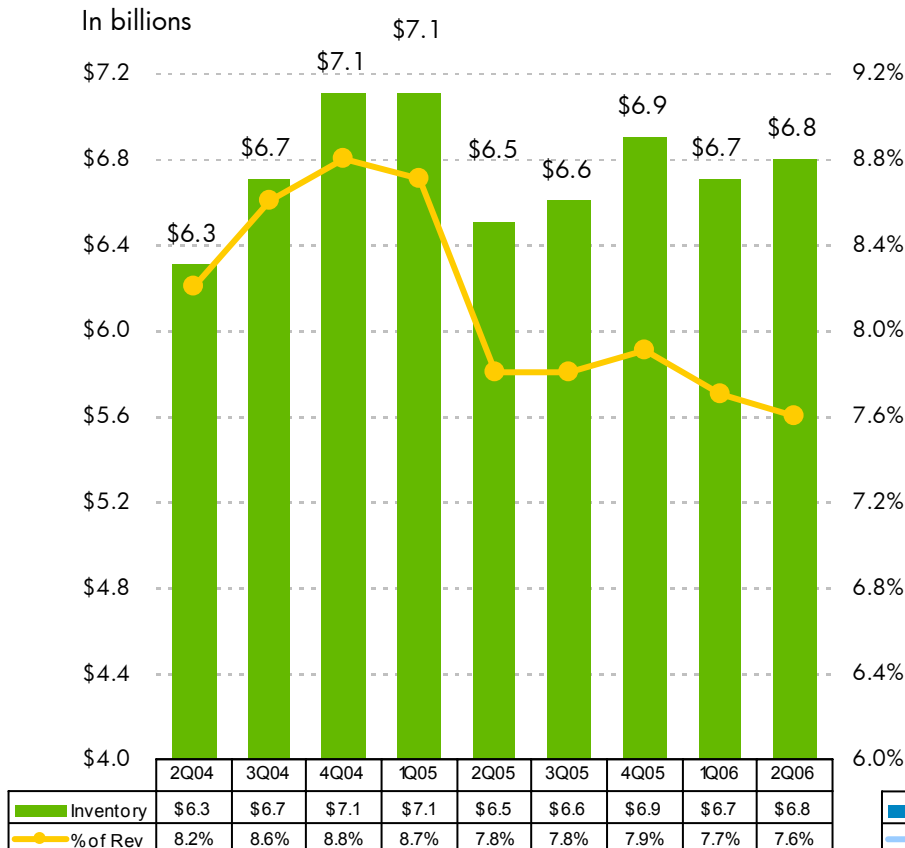
All data in \$Ms except per share amounts

	Q2 FY06 ⁽¹⁾		Q2 FY05		Q1 FY06 ⁽¹⁾	
	\$M	%	\$M	%	\$M	%
Revenue	22,554	100%	21,570	100%	22,659	100%
Cost of sales	16,970	75.2%	16,429	76.2%	17,392	76.8%
Total OpEx	3,788	16.8%	3,823	17.7%	3,563	15.7%
Operating profit	1,796	8.0%	1,318	6.1%	1,704	7.5%
Settlement	-		-		-	
Interest & other, net	157		(87)		38	
Pre-tax earnings	1,953	8.7%	1,231	5.7%	1,742	7.7%
Income tax	400		158		349	
EPS	\$0.54		\$0.37		\$0.48	

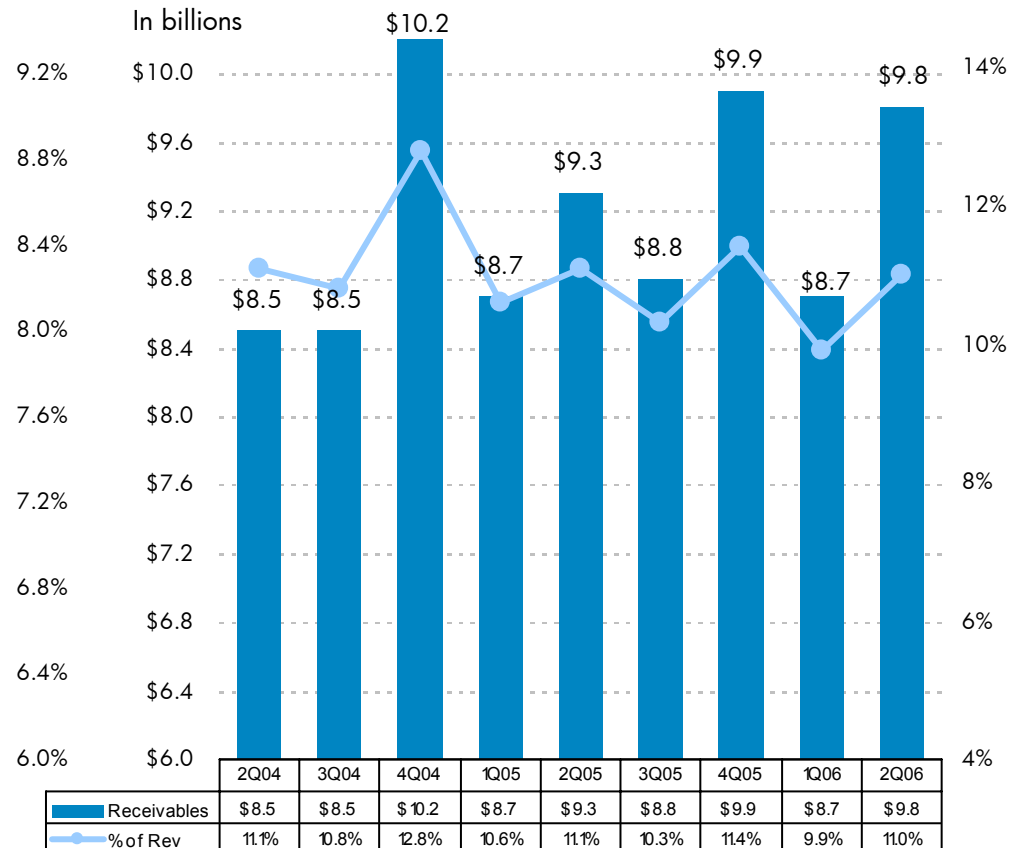
1. Prior periods do not include the effects of stock-based compensation, which are included in FY06.

Inventory and accounts receivable

Inventory

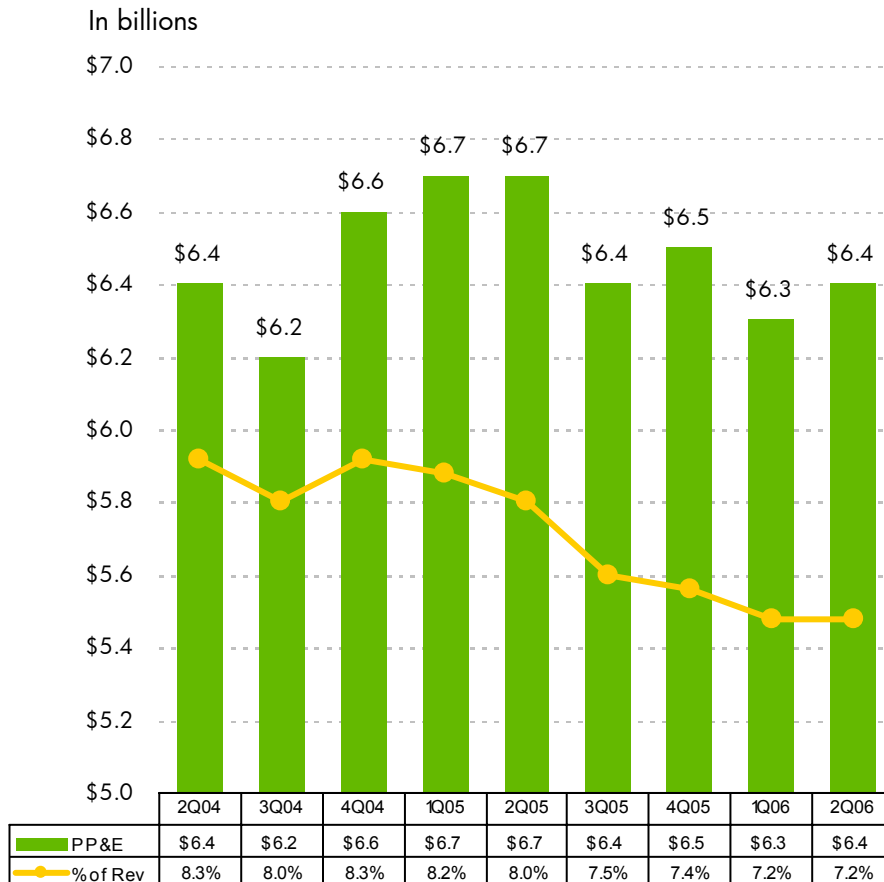


Accounts receivable

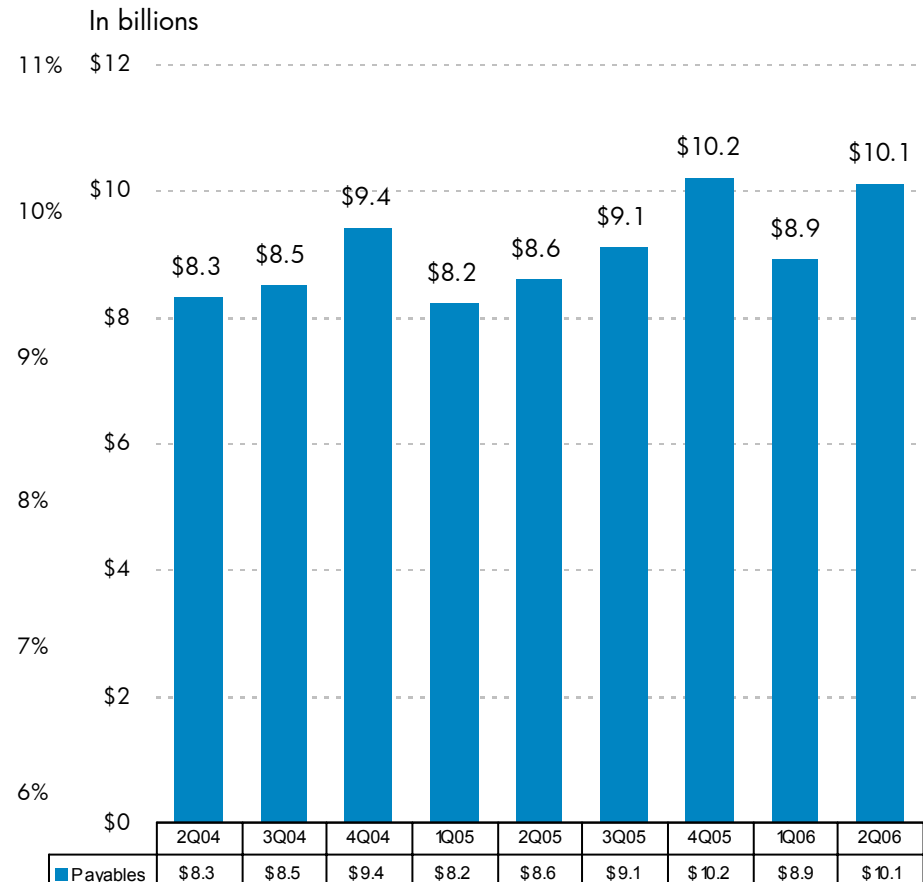


PP&E and accounts payable

Net PP&E

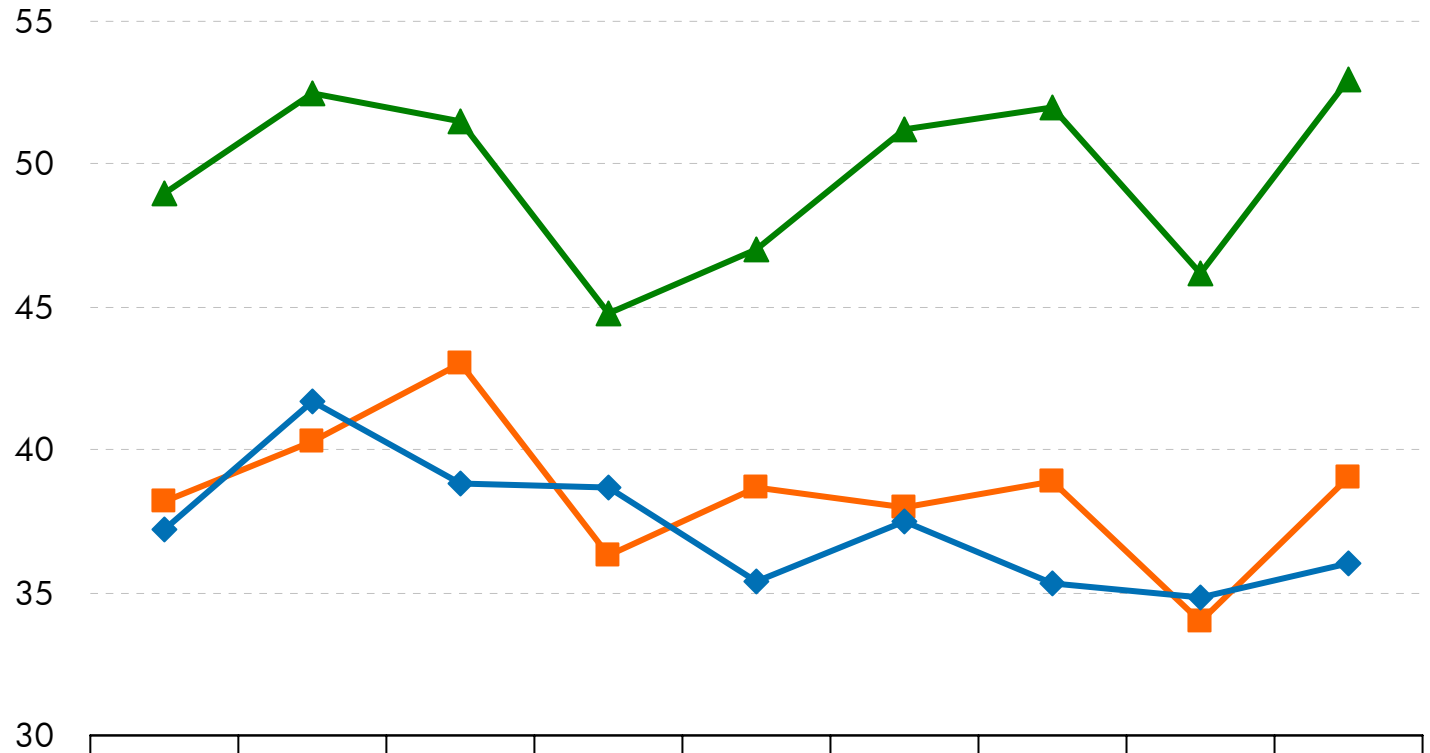


Accounts payable



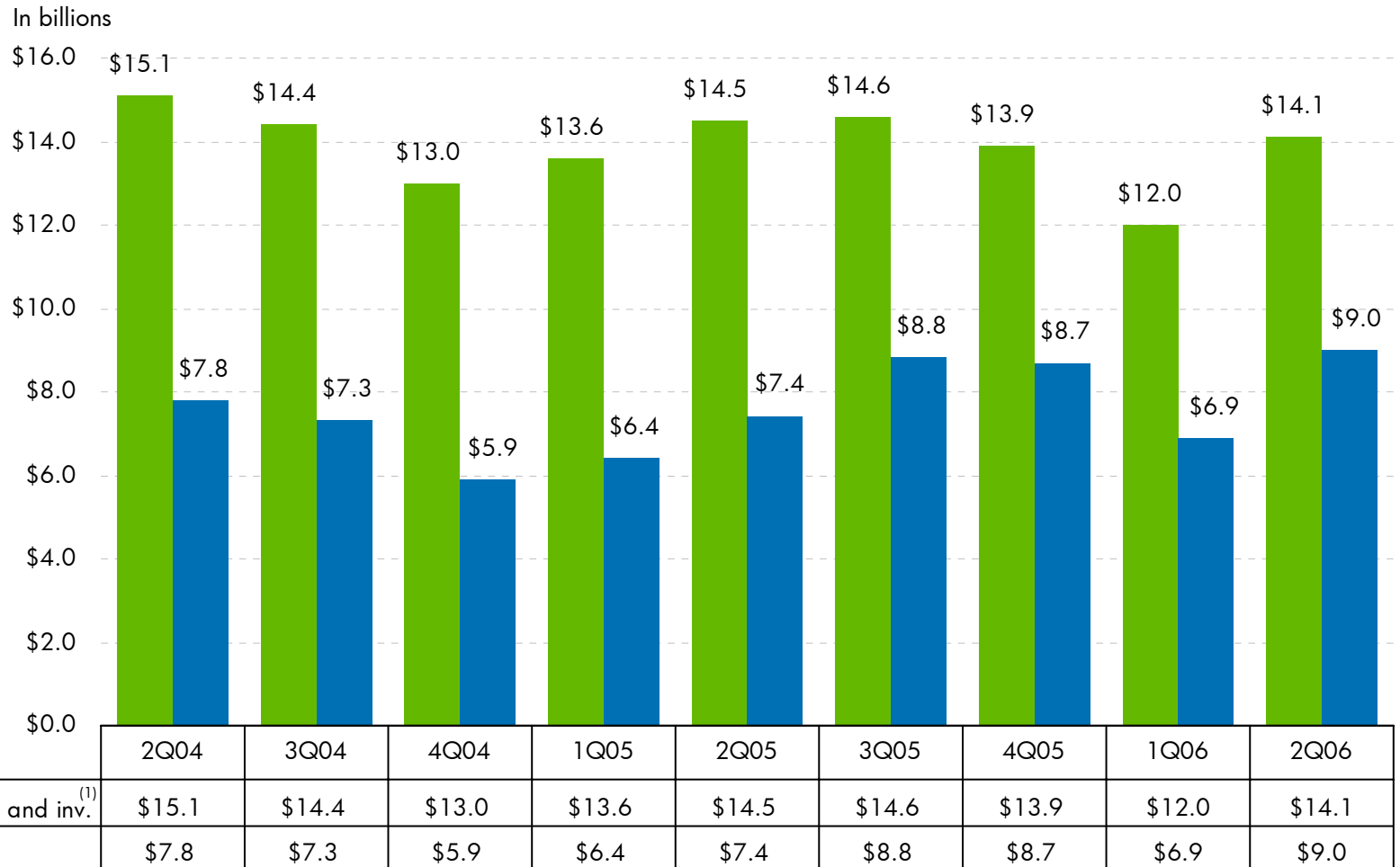
Working capital metrics

Days



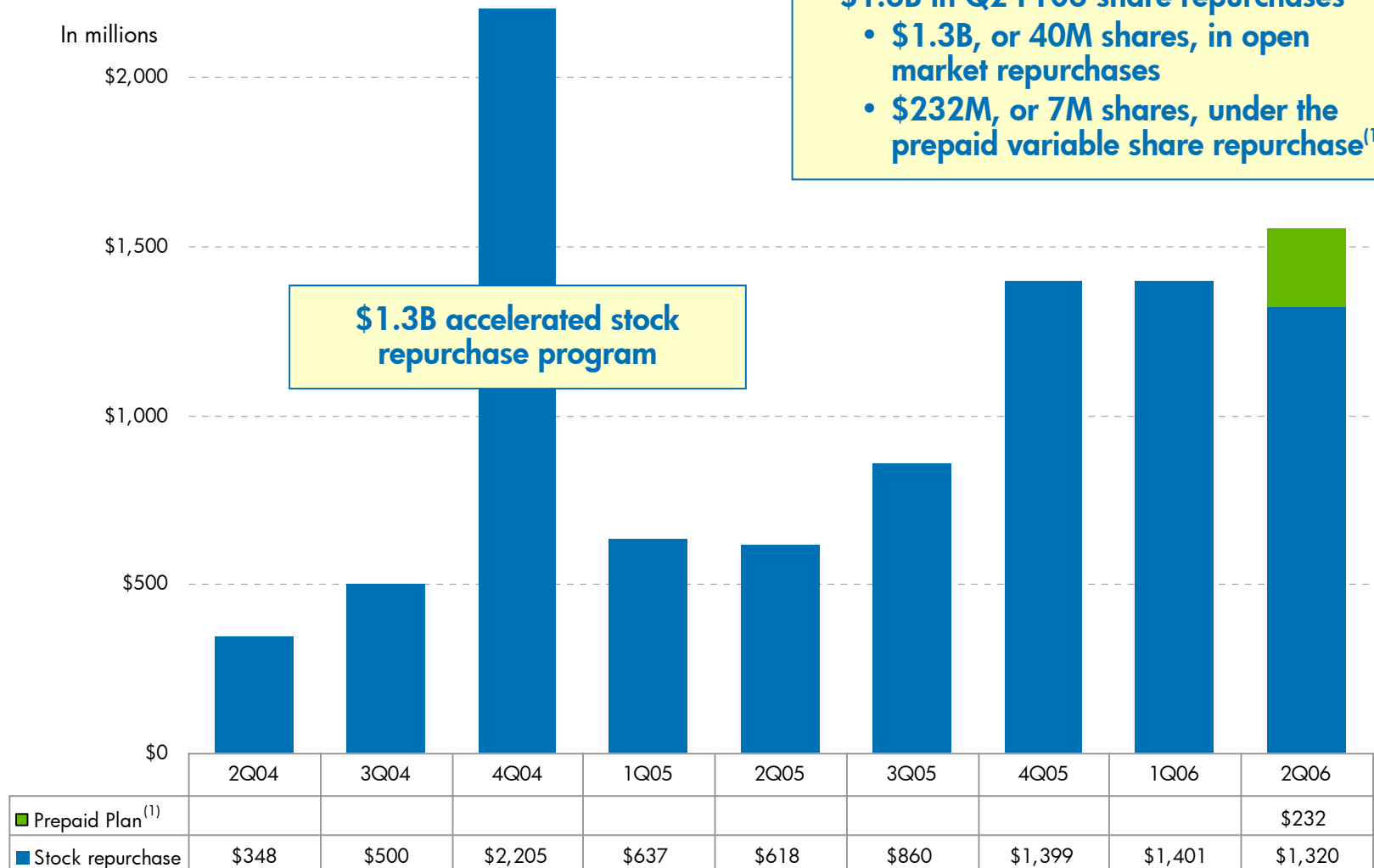
	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06
Days receivables	38	40	43	36	39	38	39	34	39
Days inventory	37	42	39	39	35	38	35	35	36
Days payable	49	53	52	45	47	51	52	46	53

Gross cash and investments



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

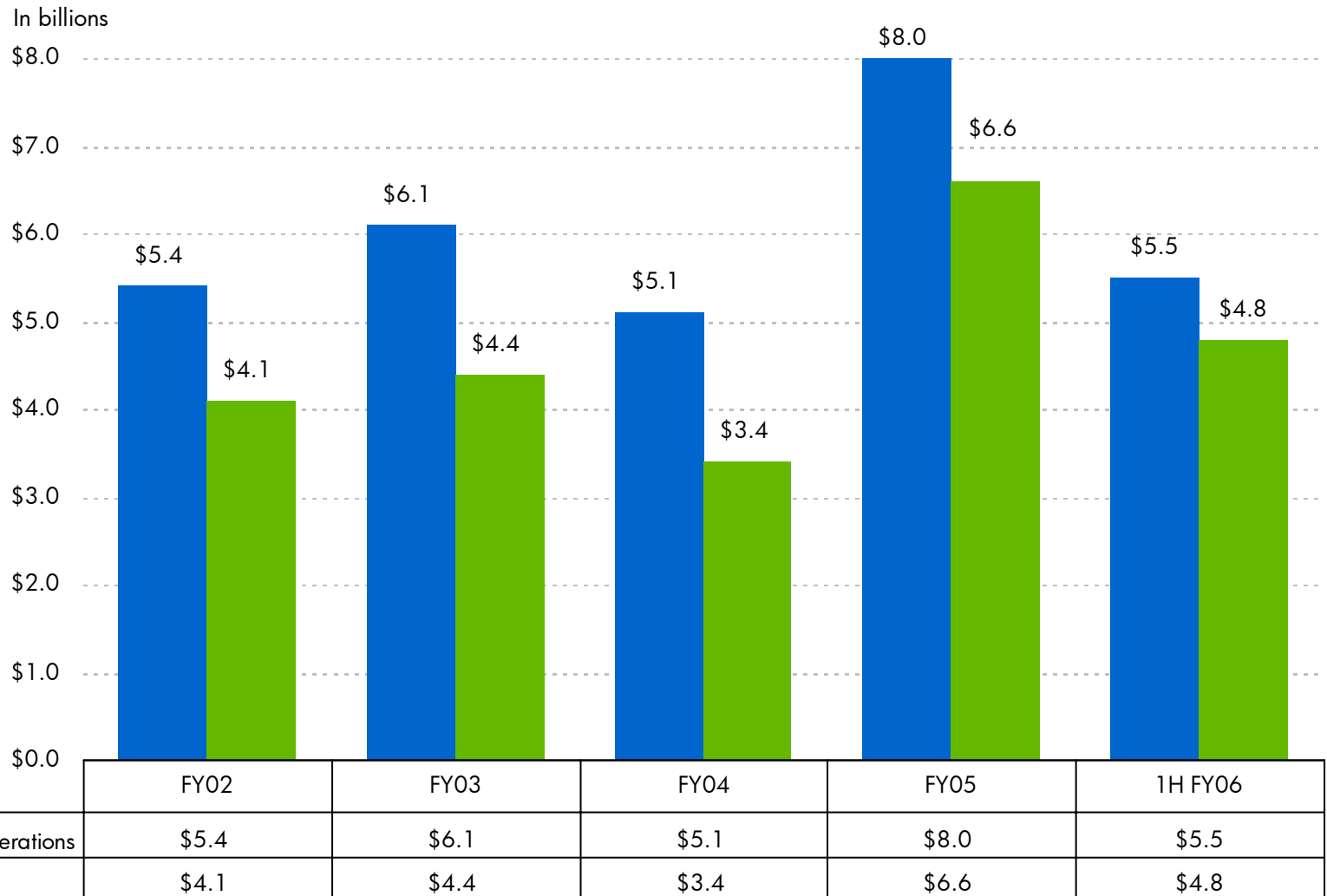


- \$2.9B remaining in share repurchase authorization
- \$1.6B in Q2 FY06 share repurchases
 - \$1.3B, or 40M shares, in open market repurchases
 - \$232M, or 7M shares, under the prepaid variable share repurchase⁽¹⁾

\$1.3B accelerated stock repurchase program

1. In Q1 FY06, HP entered into a prepaid variable share repurchase plan. \$1.7 billion in cash was used in Q1 FY06 to fully fund this plan. See our 10-Q for the period ended on January 31, 2006 for more information.

Cash flow



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

Outlook

Q3 FY06 guidance

Revenue	Approx. \$21.750 billion, inline with current analyst consensus estimates
GAAP EPS ⁽¹⁾	\$0.41 – \$0.44
Non-GAAP EPS ⁽¹⁾	\$0.45 – \$0.48

Full year FY06 guidance

Revenue	Approx. \$91.0 billion, inline with current analyst consensus estimates
GAAP EPS ⁽²⁾	\$1.87 – \$1.91
Non-GAAP EPS ⁽²⁾	\$2.04 – \$2.08

1. Q3 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. Third quarter non-GAAP and GAAP diluted earnings per share include \$0.03 of stock-based compensation expense.

2. Full year FY06 non-GAAP diluted earnings per share estimates exclude after-tax costs of approximately \$0.17 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



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 curtailment	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

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	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

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 bridge¹

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	49	4	4	10		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 bridge¹

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 bridge¹

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 bridge¹

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



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