



HP Q3 FY05 Earnings Announcement

August 16, 2005

HP Investor Relations

<http://investor.hp.com/>

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



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, cash repatriation and related tax adjustments 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; 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 fiscal quarter ended April 30, 2005 and other reports filed after HP's Annual Report on Form 10-K for the fiscal year ended October 31, 2004. HP assumes no obligation and does not intend to update these forward-looking statements.

Use of non-GAAP terms

To supplement HP's 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 or losses it believes appropriate to enhance an overall understanding of HP's past financial performance and also its prospects for the future. These adjustments to HP's 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 HP's marketplace performance. For example, the non-GAAP results are an indication of HP's baseline performance before gains, losses or other charges that are considered by management to be outside of HP's core business segment operational results. In addition, these non-GAAP results are among the primary indicators management uses as a basis for planning and forecasting 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.

Q3 FY05 overview

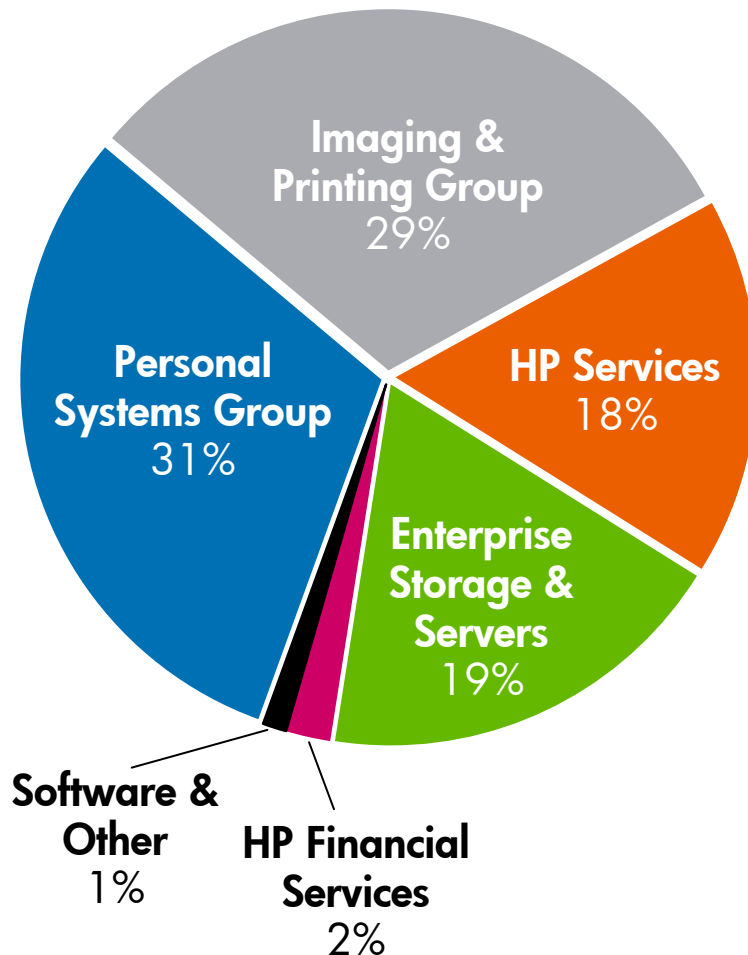
- Record quarterly revenue of \$20.8 billion, up 10% year-over-year
- Non-GAAP operating profit of \$1.2 billion, \$0.36 earnings per share
- GAAP operating profit of \$0.9 billion, \$0.03 earnings per share
- Strong cash flow from operations of \$2.2 billion
- Repatriation of \$14.5 billion in cash from foreign earnings announced

\$ in millions	Revenue		Operating Profit	
		Y/Y %		% of rev
Enterprise Storage & Servers	\$3,999	20%	\$150	3.8%
HP Services	\$3,837	10%	\$256	6.7%
Software	\$249	11%	(\$40)	(16.1%)
Personal Systems Group	\$6,386	8%	\$163	2.6%
Imaging & Printing Group	\$5,913	5%	\$771	13.0%
HP Financial Services	\$489	0%	\$58	11.9%

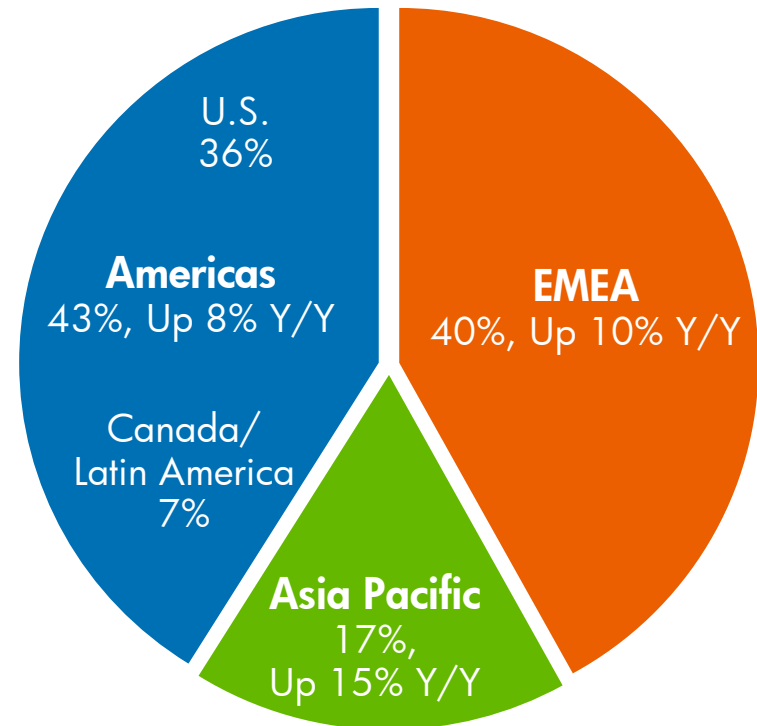
Note: All non-GAAP numbers have been adjusted to exclude certain items. A reconciliation of specific adjustments to GAAP results for this quarter and the prior period is included on the slide titled: "Q3 FY05 GAAP to non-GAAP Bridge" A description of HP's use of non-GAAP information is provided on slide 3 under "Use of non-GAAP Financial Information."

Q3 FY05 revenue

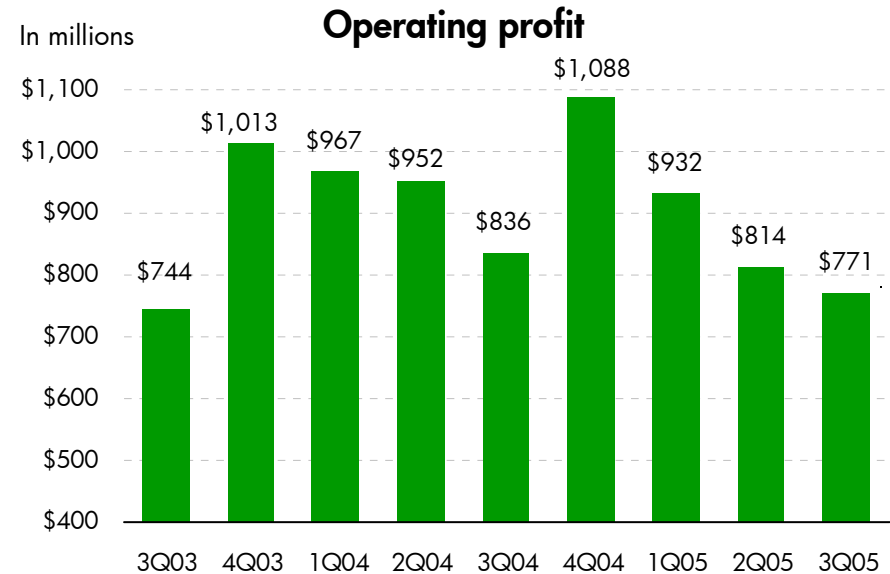
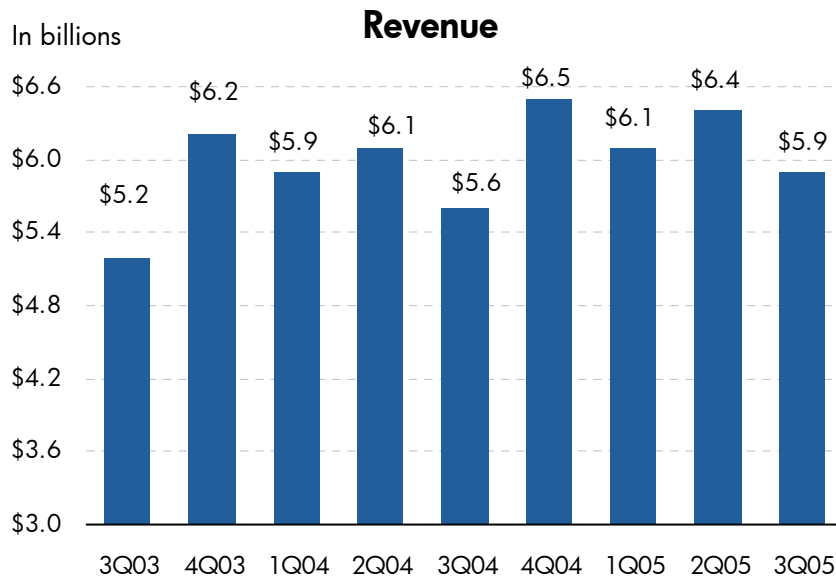
Revenue by segment



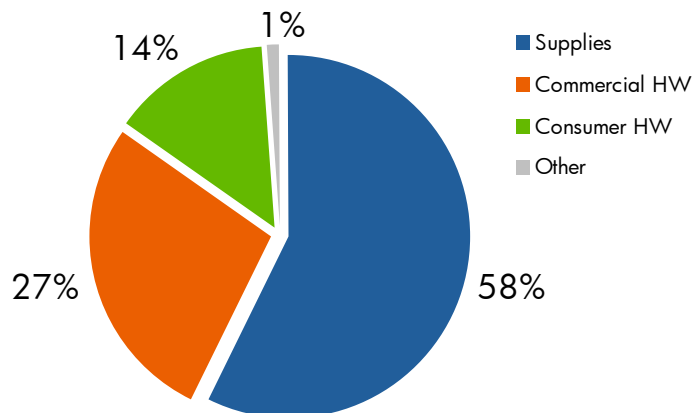
Revenue by region



Imaging and Printing Group

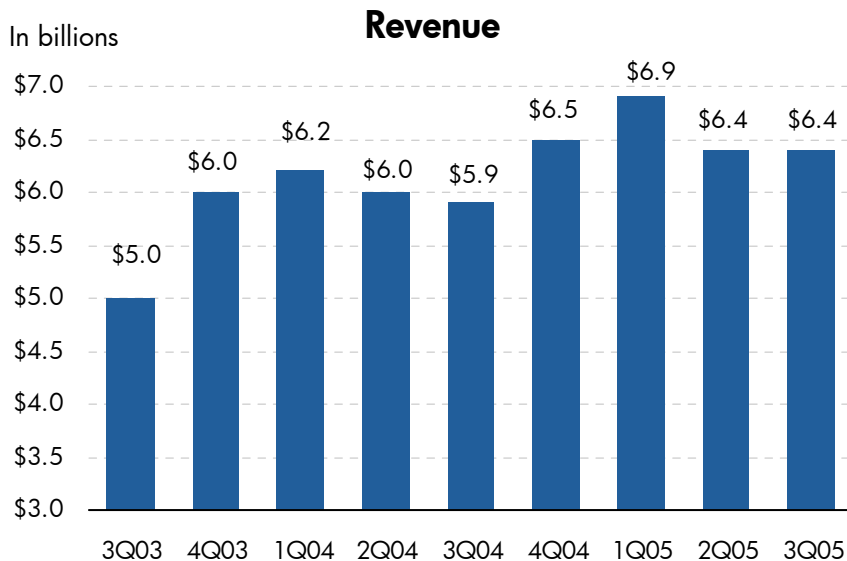


Q3 FY05 revenue by GBU

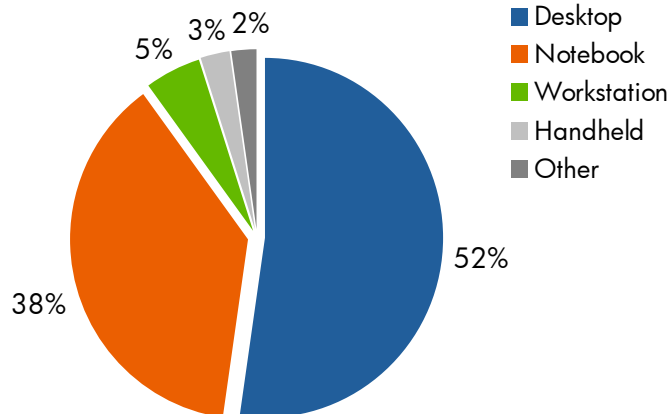


- IPG revenue of \$5.9B; up 5% Y/Y
- Operating profit of \$771M; 13.0% of revenue
- Total hardware units up 10% Y/Y
- Consumer hardware units grew 8% Y/Y
- Commercial hardware units up 12% Y/Y
- Color LaserJet units up 31% Y/Y
- MFP units up 67% Y/Y
- Supplies revenue grew 6% Y/Y

Personal Systems Group



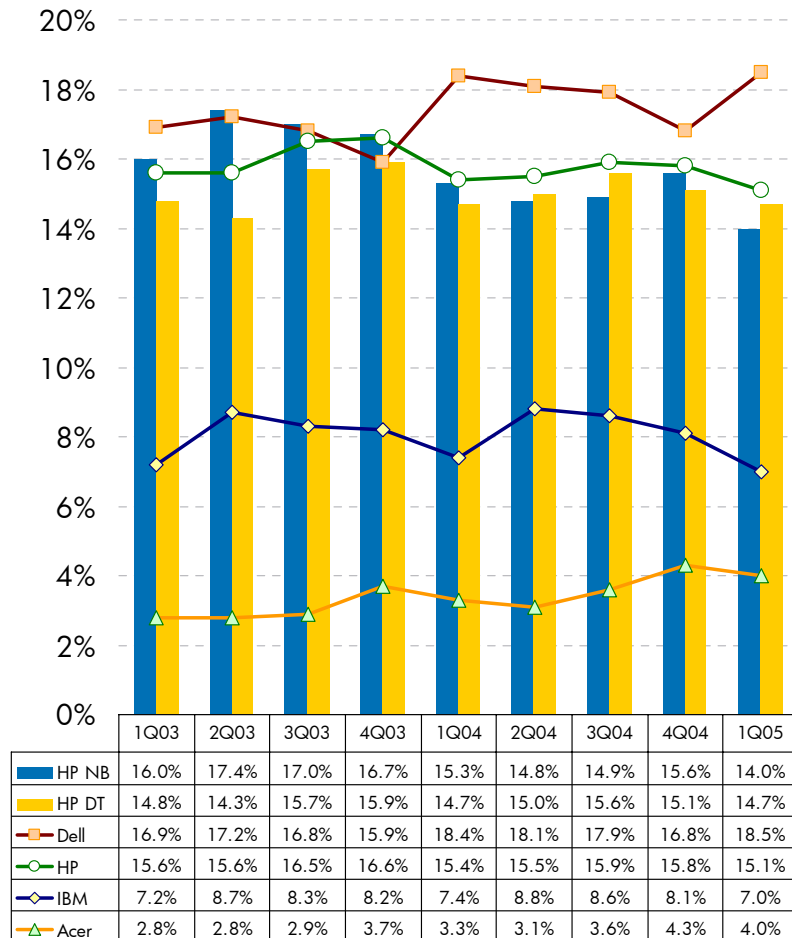
Q3 FY05 revenue by GBU



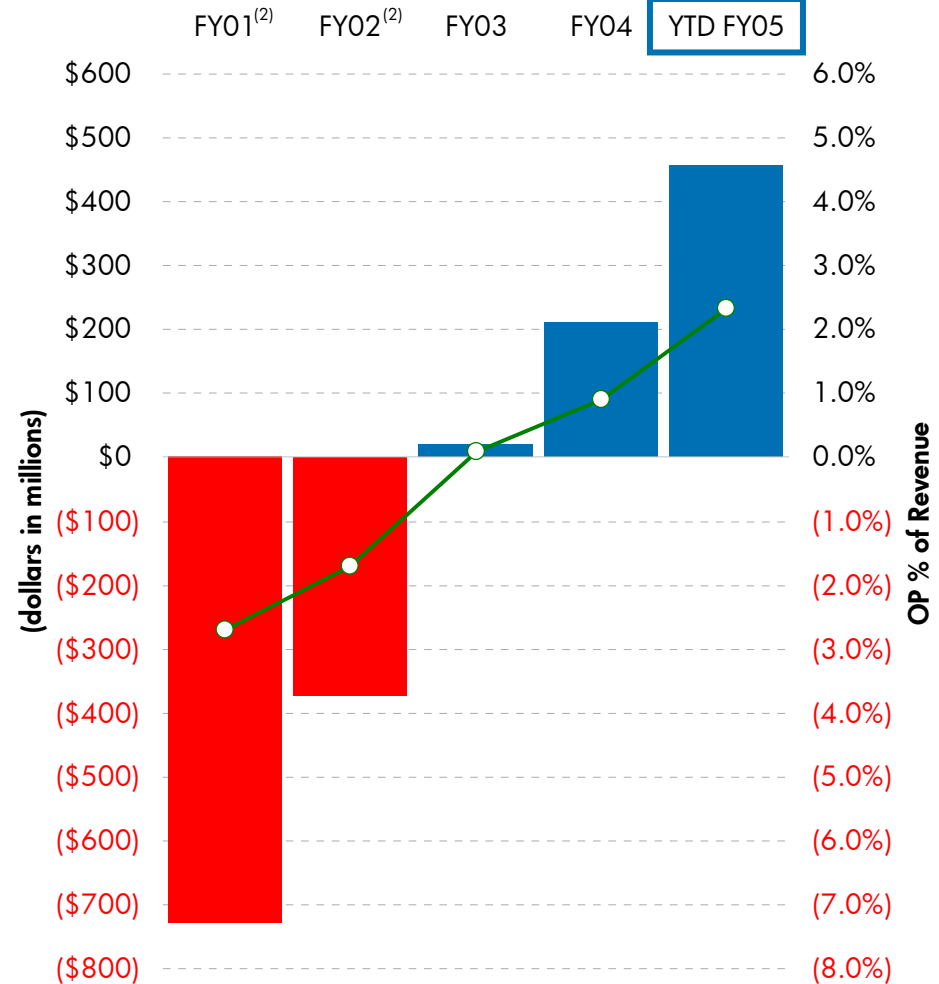
- PSG revenue up 8% Y/Y; units up 14% Y/Y
- Operating profit of \$163M; 2.6% of revenue
- Desktop revenue down 3% Y/Y; Notebook revenue up 21% Y/Y
- Consumer client revenue up 8% Y/Y; Commercial client revenue up 6% Y/Y

PSG – progress report

WW total PC market share⁽¹⁾

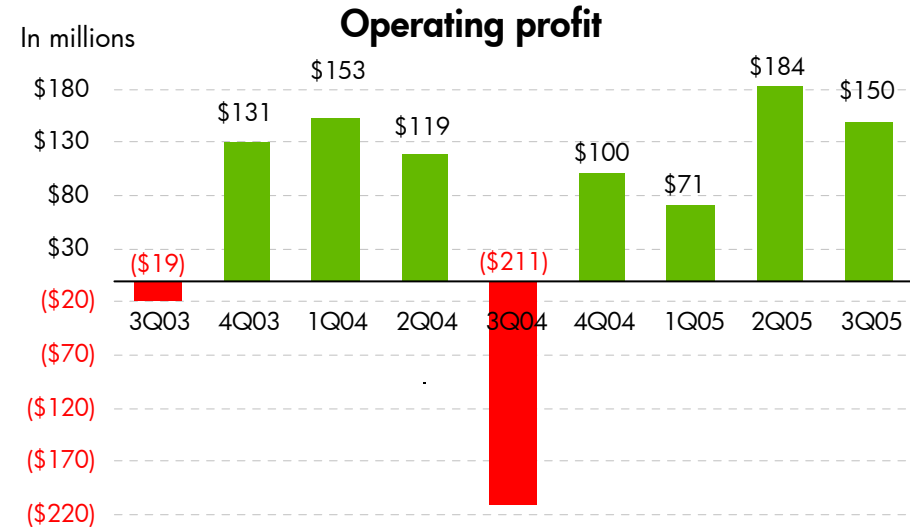
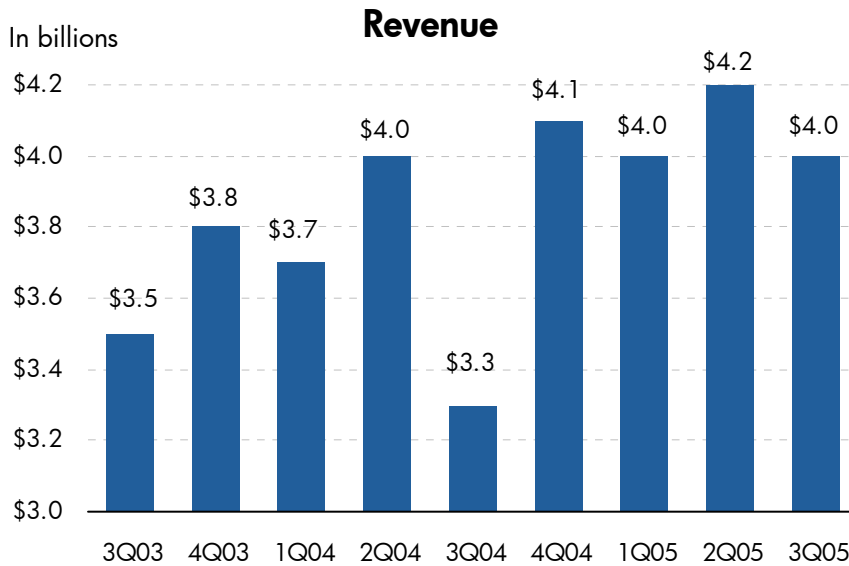


Operating profit

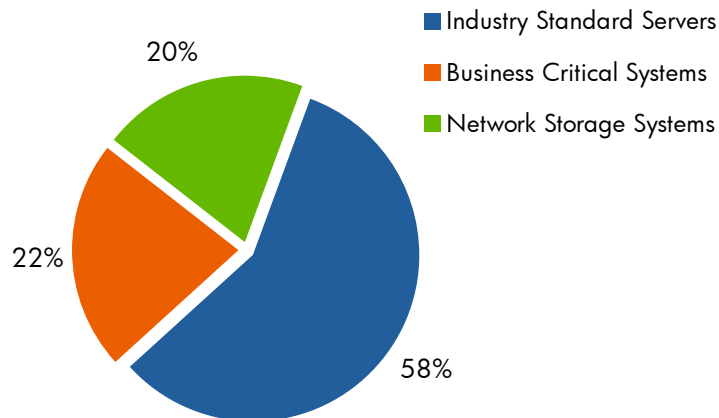


1. IDC Worldwide Quarterly PC Tracker, May 2005
 2. Stated on a combined company basis, see page 37

Enterprise Storage and Servers



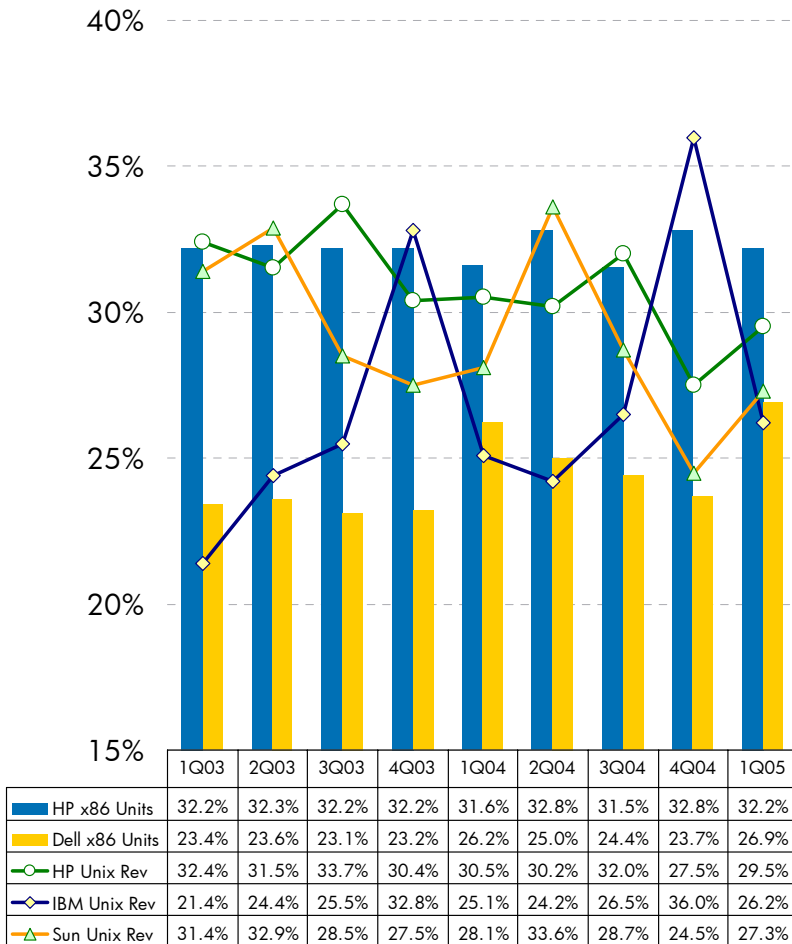
Q3 FY05 revenue by GBU



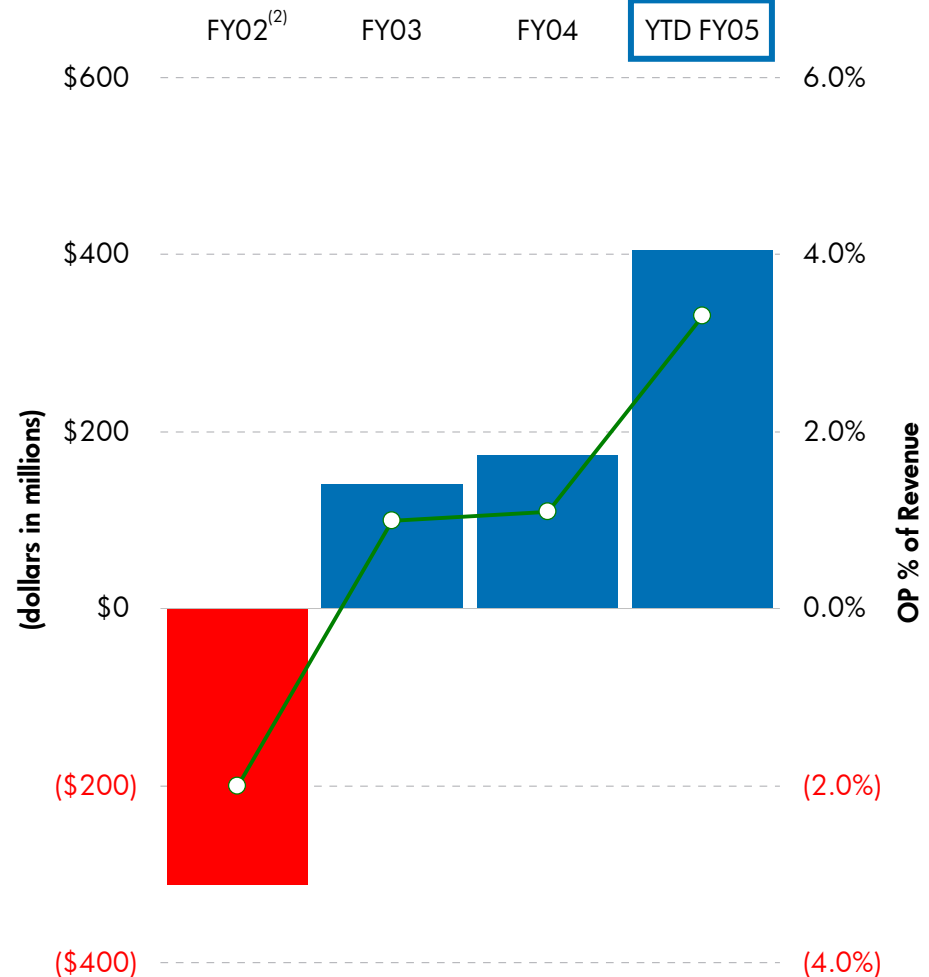
- ESS revenue grew 20% Y/Y
- Operating profit of \$150M; 3.8% of revenue
- ISS revenue up 28% Y/Y; Blade revenue up 53%
- BCS revenue up 7% Y/Y; HP-UX up 8%
- Integrity revenue up 113% Y/Y; 24% of Business Critical Server revenue
- NSS revenue up 15% Y/Y; mid-range storage arrays (EVA) up 44%

ESS – progress report

WW server market share⁽¹⁾

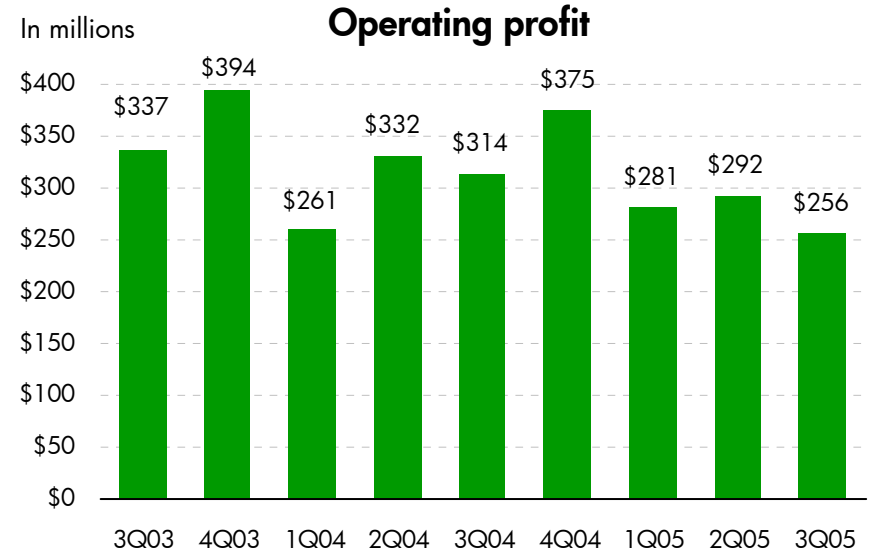
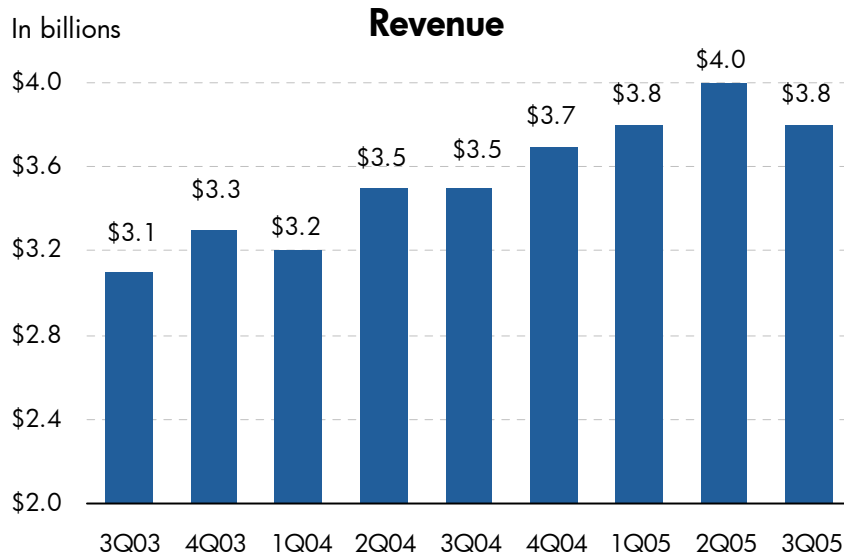


Operating profit

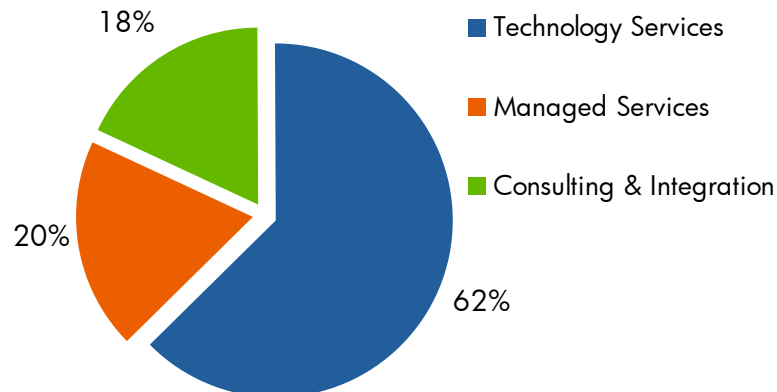


1. IDC Worldwide Quarterly Server Tracker, May 2005
 2. Stated on a combined company basis, see page 37

HP Services

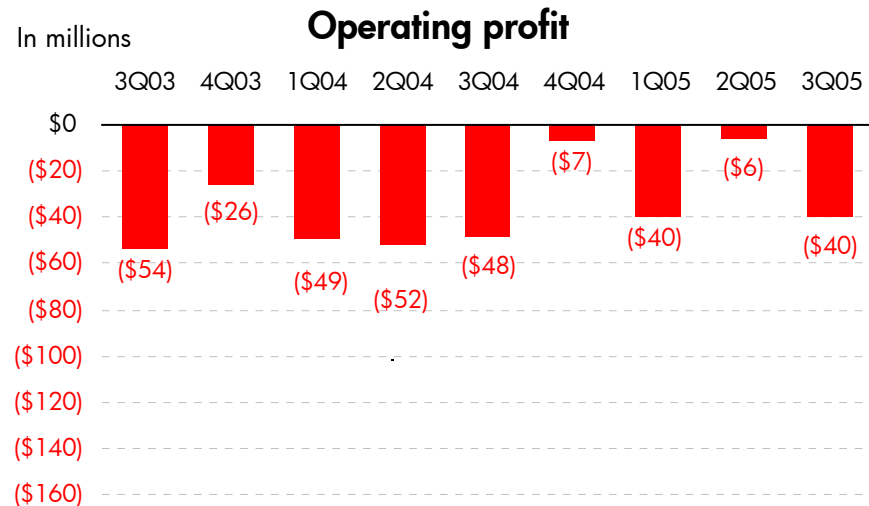
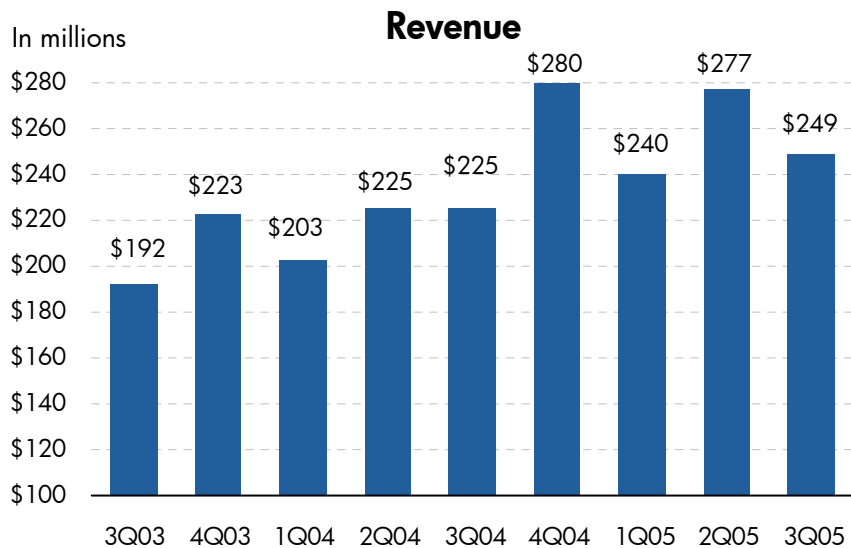


Q3 FY05 revenue by GBU

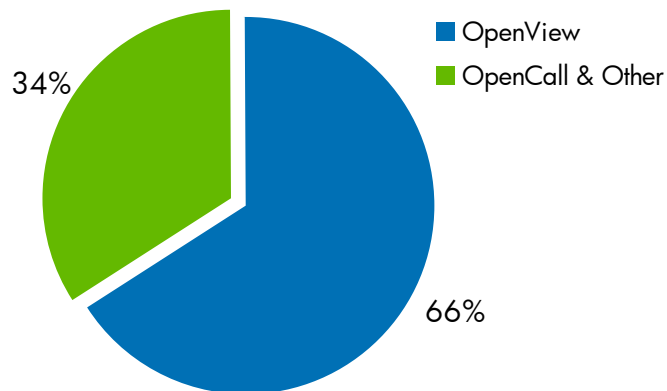


- HPS revenue grew 10% Y/Y
- Operating profit of \$256M; 6.7% of revenue
- TS revenue up 7% Y/Y
- MS revenue up 21% Y/Y
- C&I revenue up 12% Y/Y

Software

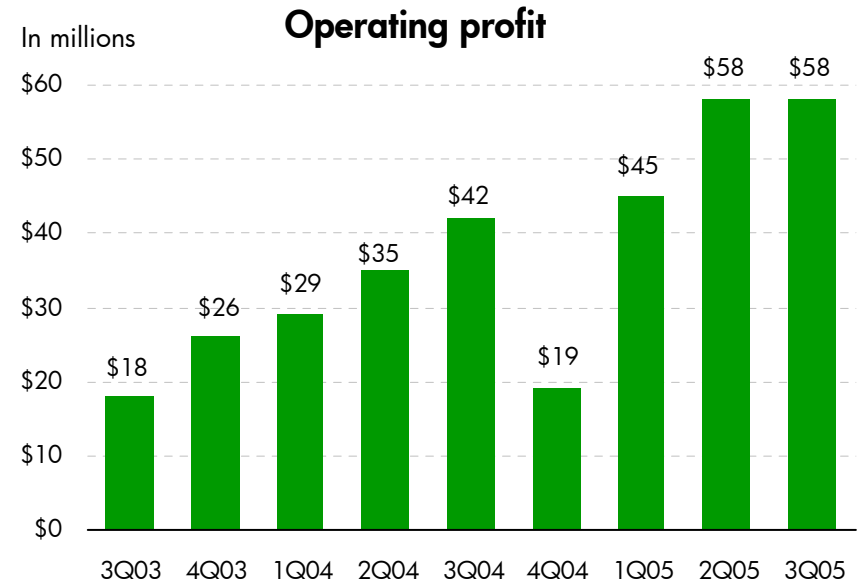
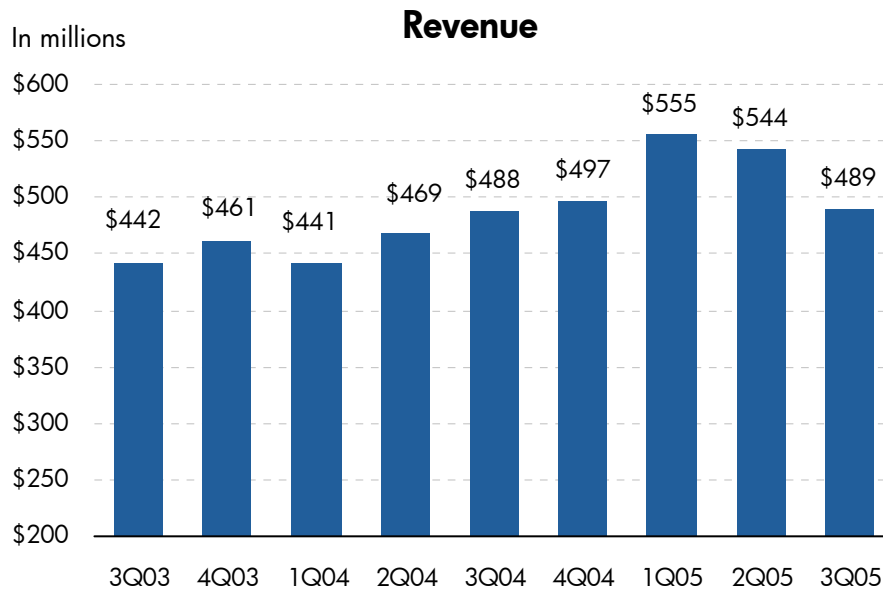


Q3 FY05 revenue by GBU

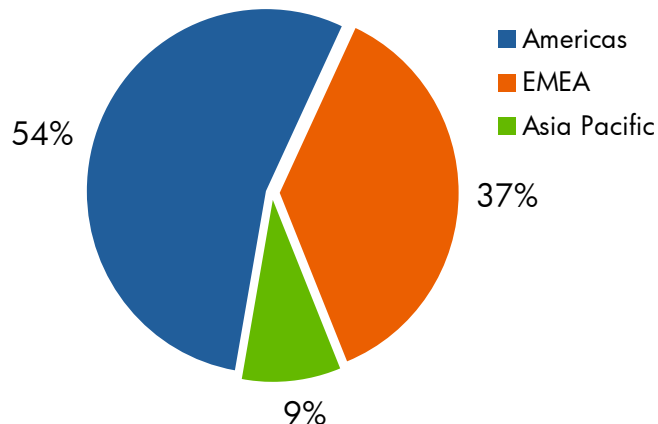


- Software revenue grew 11% Y/Y
- HP OpenView revenue grew 13% Y/Y
- HP OpenCall revenue grew 5% Y/Y
- Expect to be profitable in Q4 FY05

HP Financial Services



Q3 FY05 revenue by region



- HPFS revenue of \$489M, flat Y/Y
- Operating profit of \$58M; 11.9% of revenue
- Financing volume up 4% Y/Y
- Net portfolio assets \$6.9B, up 1% Y/Y



Q3 FY05 GAAP to non-GAAP bridge

All data in \$Ms except per share amount

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%
EPS	\$0.03							\$0.36

P&L

Non-GAAP



All data in \$Ms except per share amount

	Q3 FY05		Q2 FY05		Q3 FY04 ⁽¹⁾	
	\$M	%	\$M	%	\$M	%
Revenue	\$20,759	100%	\$21,570	100%	\$18,889	100%
Cost of sales	\$15,942	76.8%	\$16,429	76.2%	\$14,545	77.0%
Total OpEx	\$3,624	17.5%	\$3,823	17.7%	\$3,498	18.5%
Operating profit	\$1,193	5.7%	\$1,318	6.1%	\$846	4.5%
Settlement	\$7					
Interest & other, net	\$119		(\$87)		\$20	
Pre-tax earnings	\$1,319	6.4%	\$1,231	5.7%	\$866	4.6%
Income tax	\$258		\$158		\$138	
EPS	\$0.36		\$0.37		\$0.24	

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

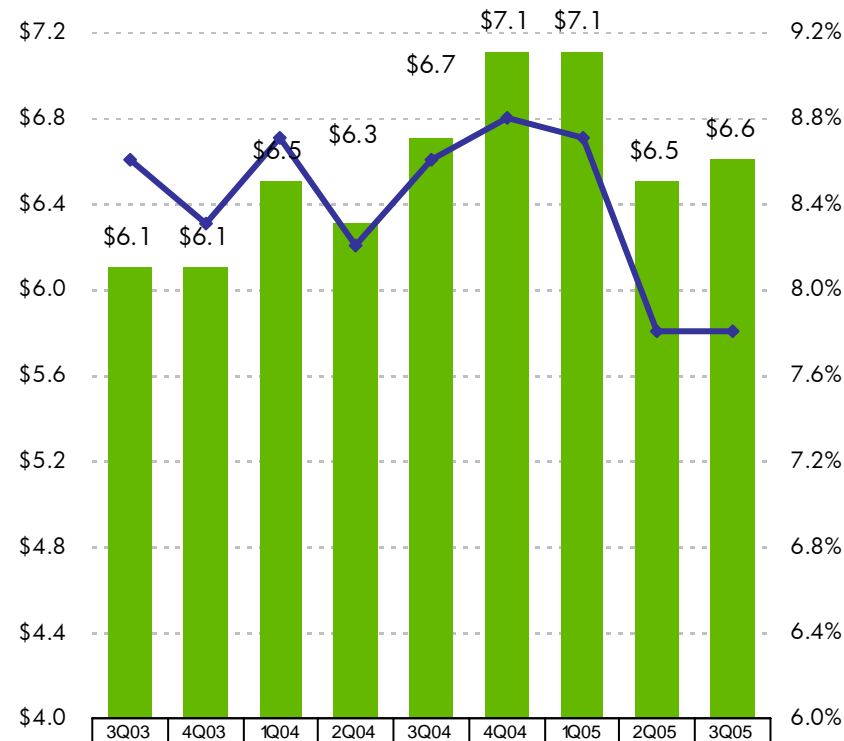
Balance sheet

Inventory and accounts receivable



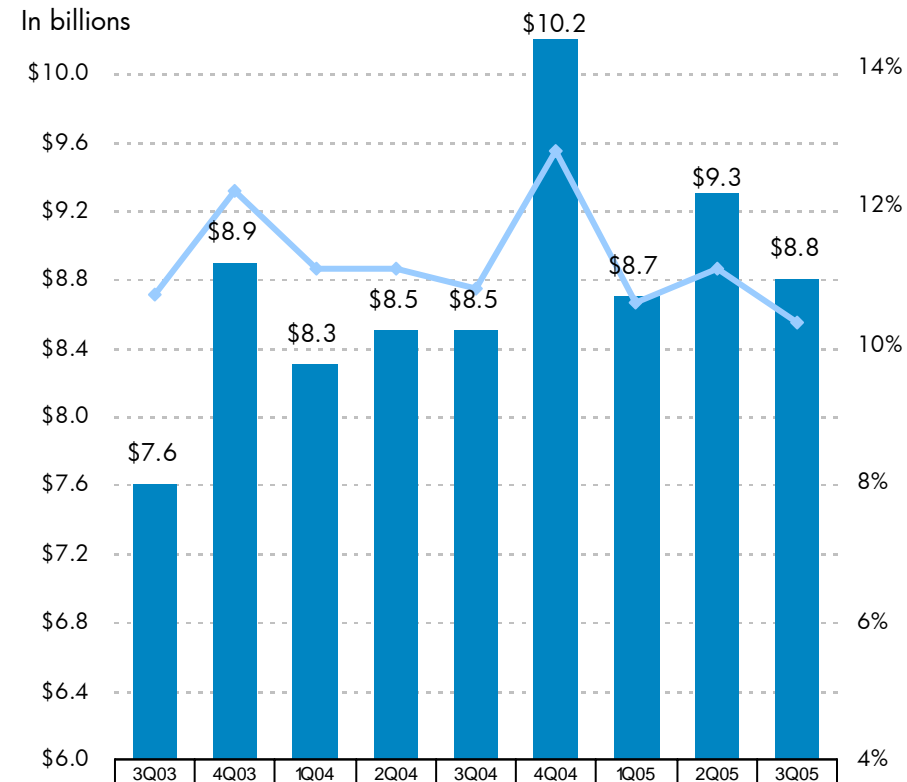
Inventory

In billions



Accounts receivable

In billions

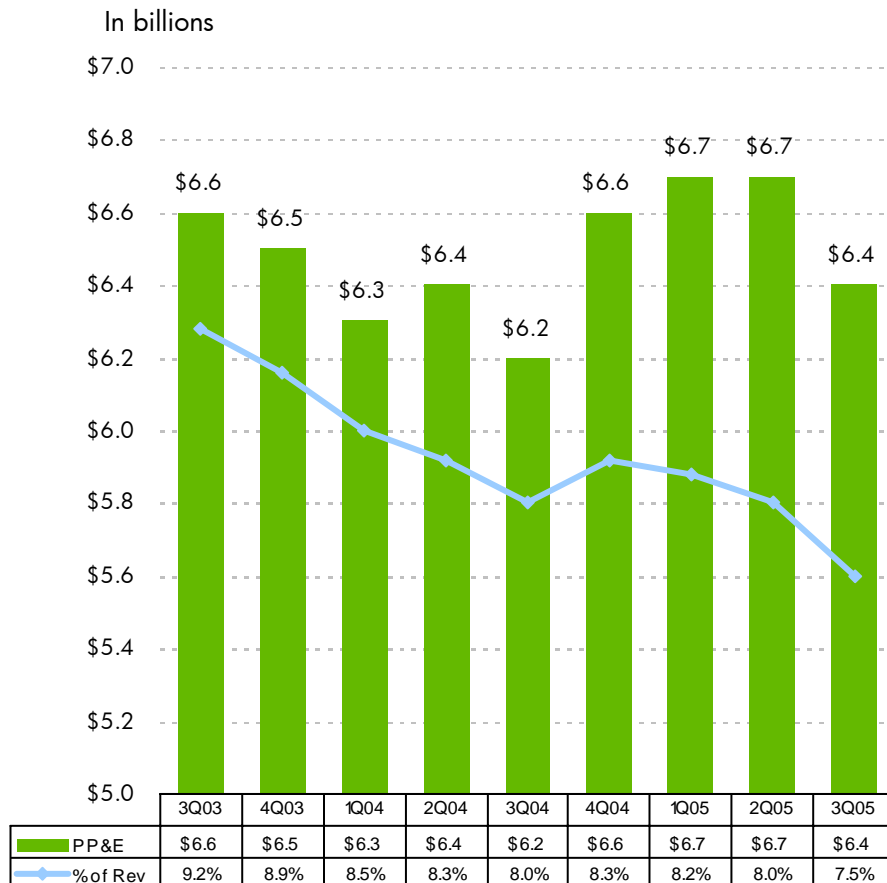


Balance sheet

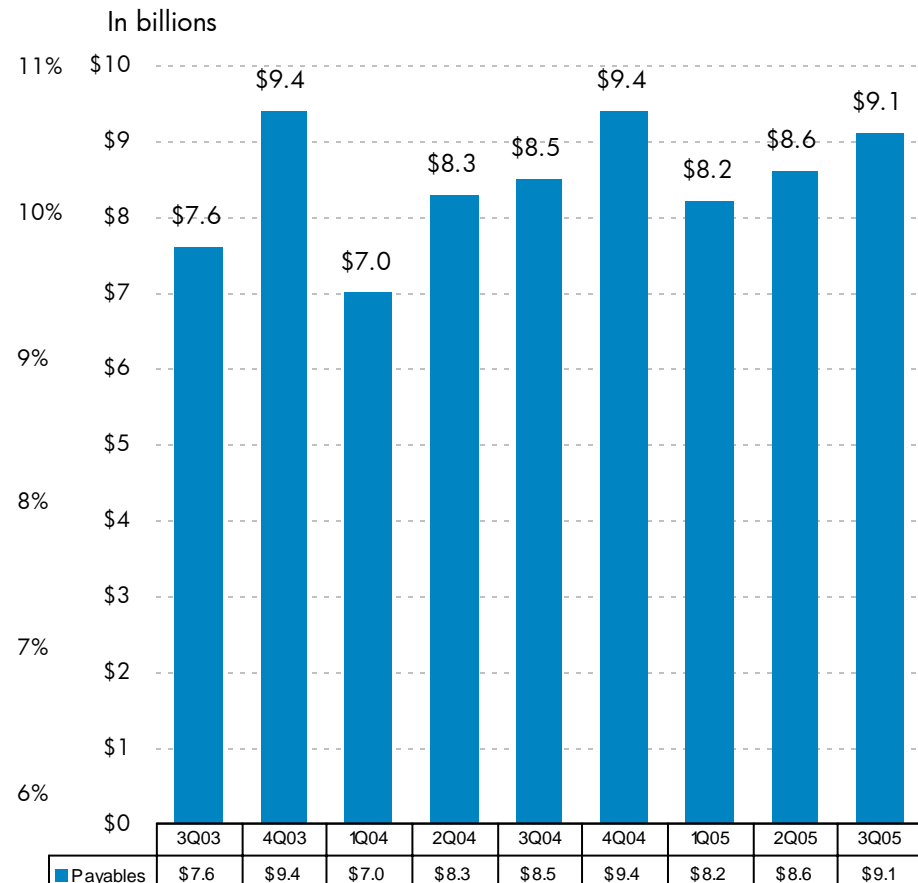
PP&E and accounts payable



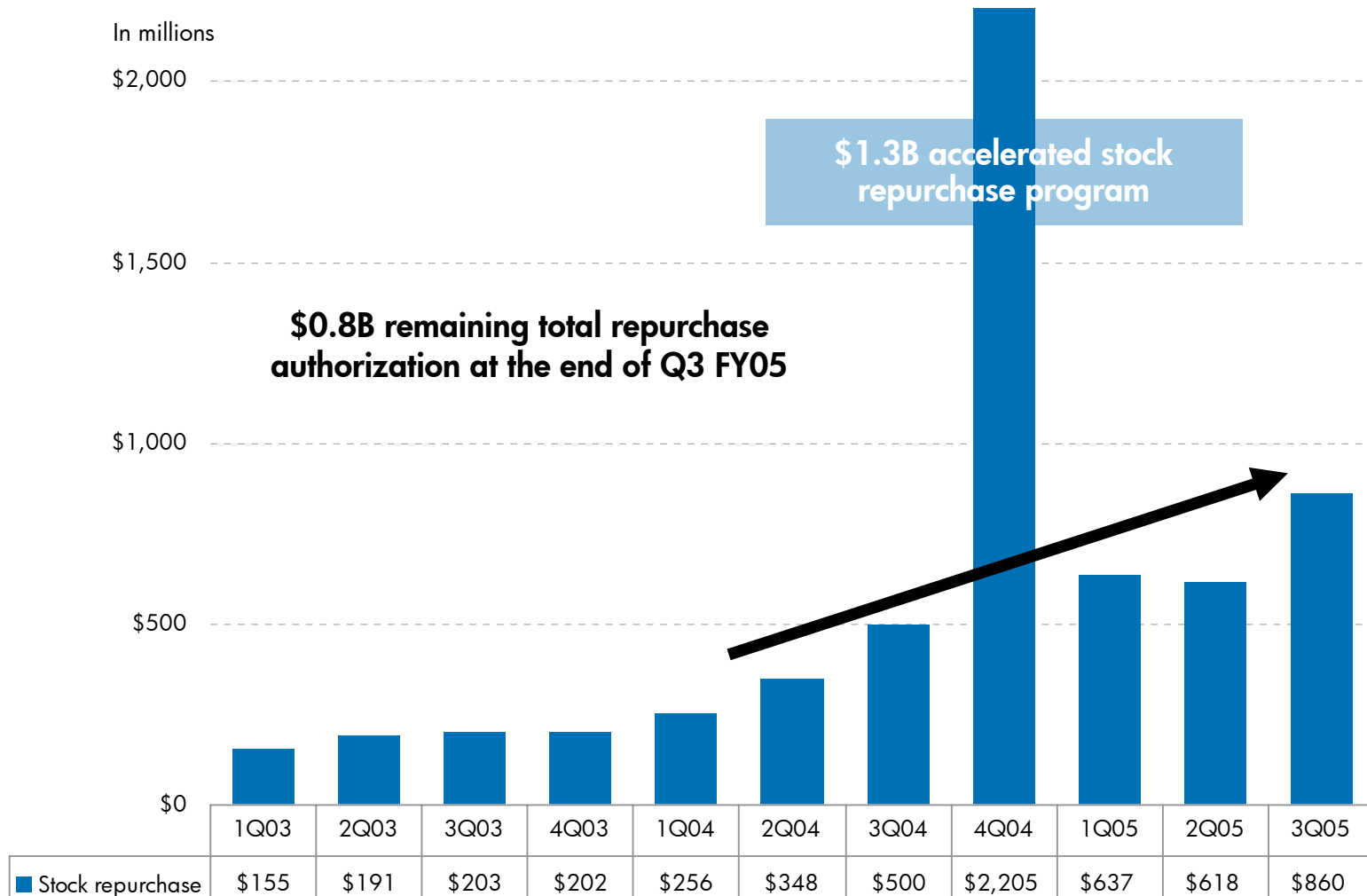
Net PP&E



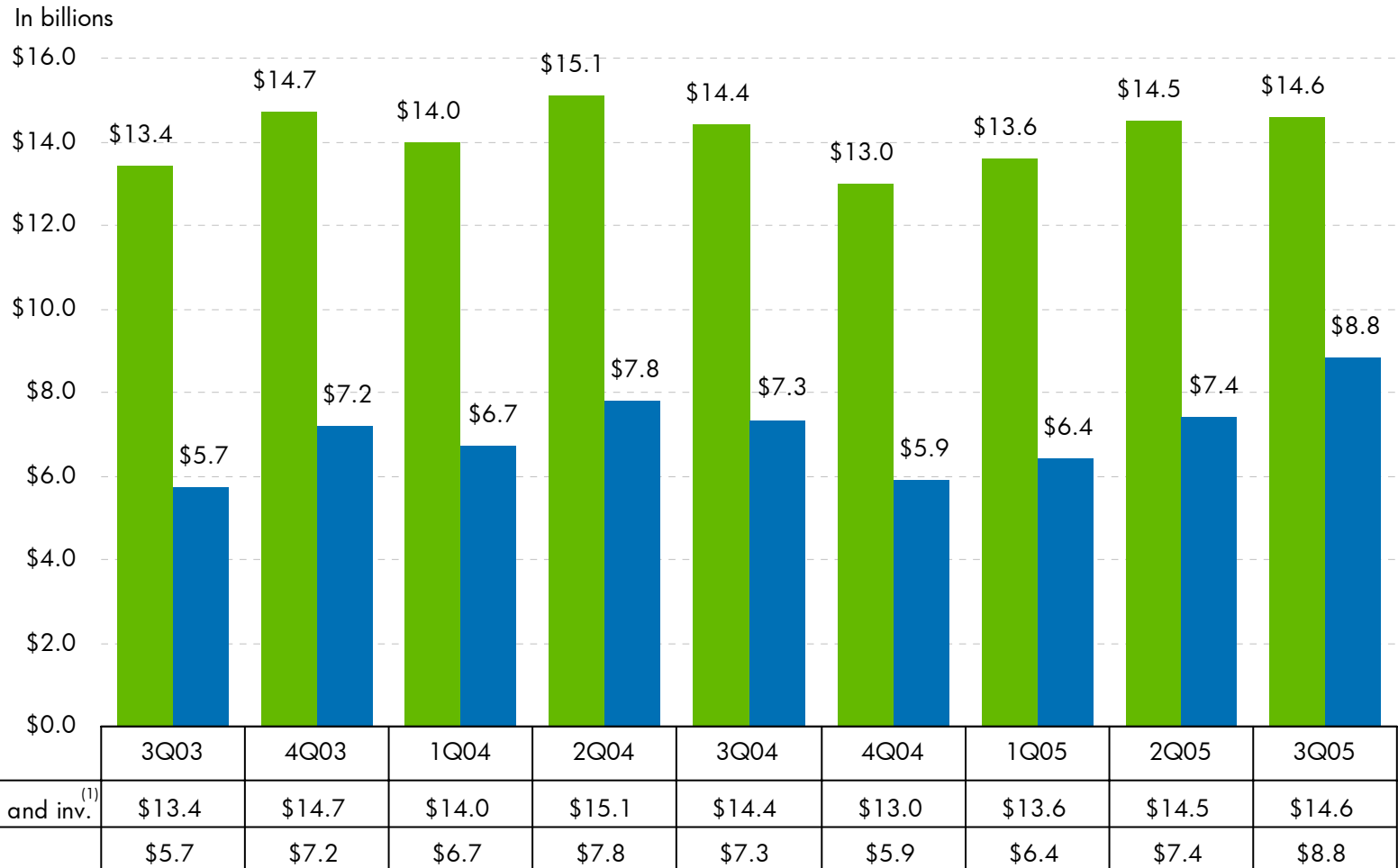
Accounts payable



Stock repurchase



Gross cash and investments

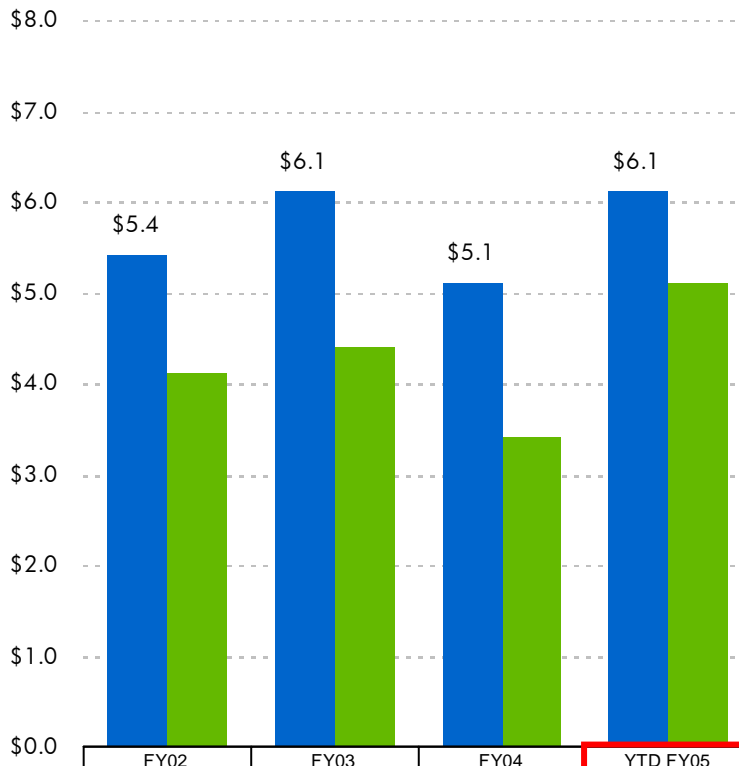


1. Includes cash and cash equivalents, short-term investments, and certain liquid long-term investments
2. Net cash is defined as gross cash and investments less total debt

Cash flow and debt

Cash flows

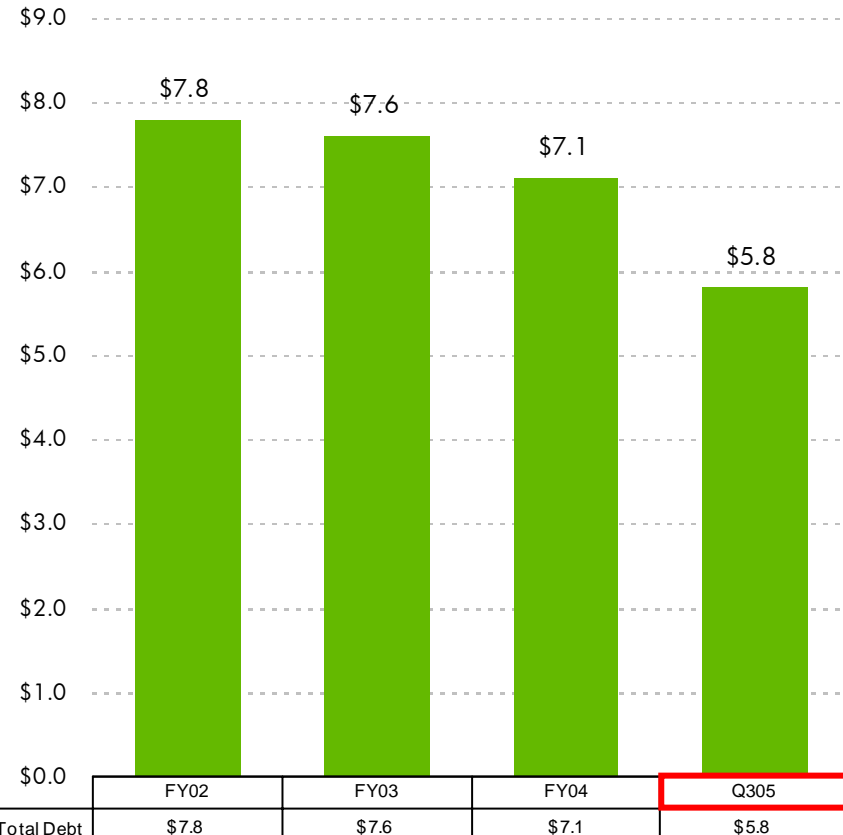
In billions



■ Cash flow from Operations	\$5.4	\$6.1	\$5.1	\$6.1
■ Free cash flow ⁽¹⁾	\$4.1	\$4.4	\$3.4	\$5.1

Debt

In billions



■ Total Debt	\$7.8	\$7.6	\$7.1	\$5.8
--------------	-------	-------	-------	-------

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

Q4 FY05 outlook

- HP estimates fourth quarter FY05 revenue will be in the range of \$22.4 billion to \$22.8 billion.
- HP estimates fourth quarter non-GAAP earnings per share will be in the range of \$0.44 to \$0.47.

This excludes approximately \$0.03 per share from amortization of purchased intangible assets and approximately \$900 million, or \$0.22 per share, in workforce reduction costs, as well as a one-time credit of approximately \$200 million, or \$0.05 per share, related to benefit plan changes.

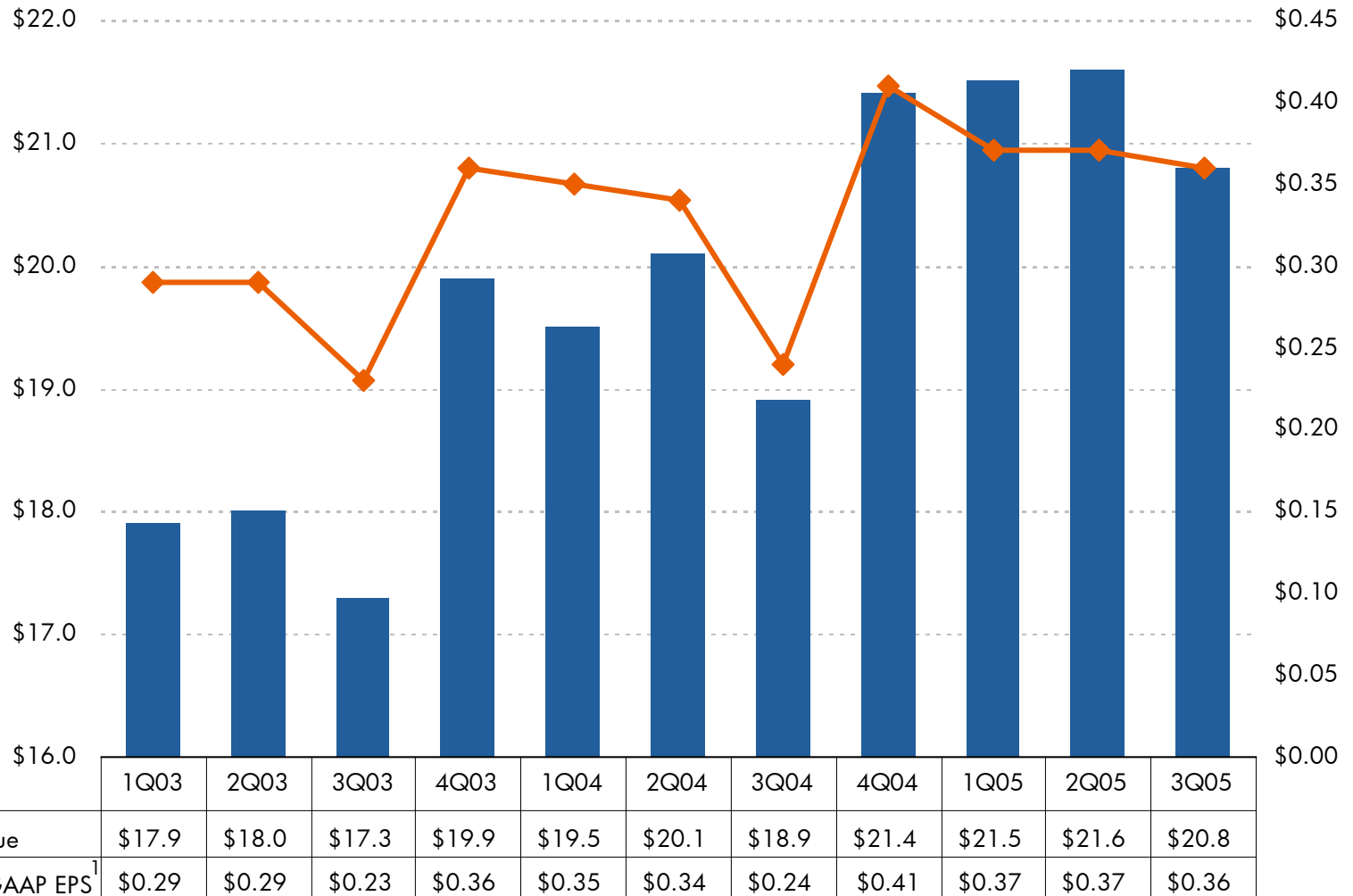


i n v e n t

Supplemental slides

Revenue & EPS performance

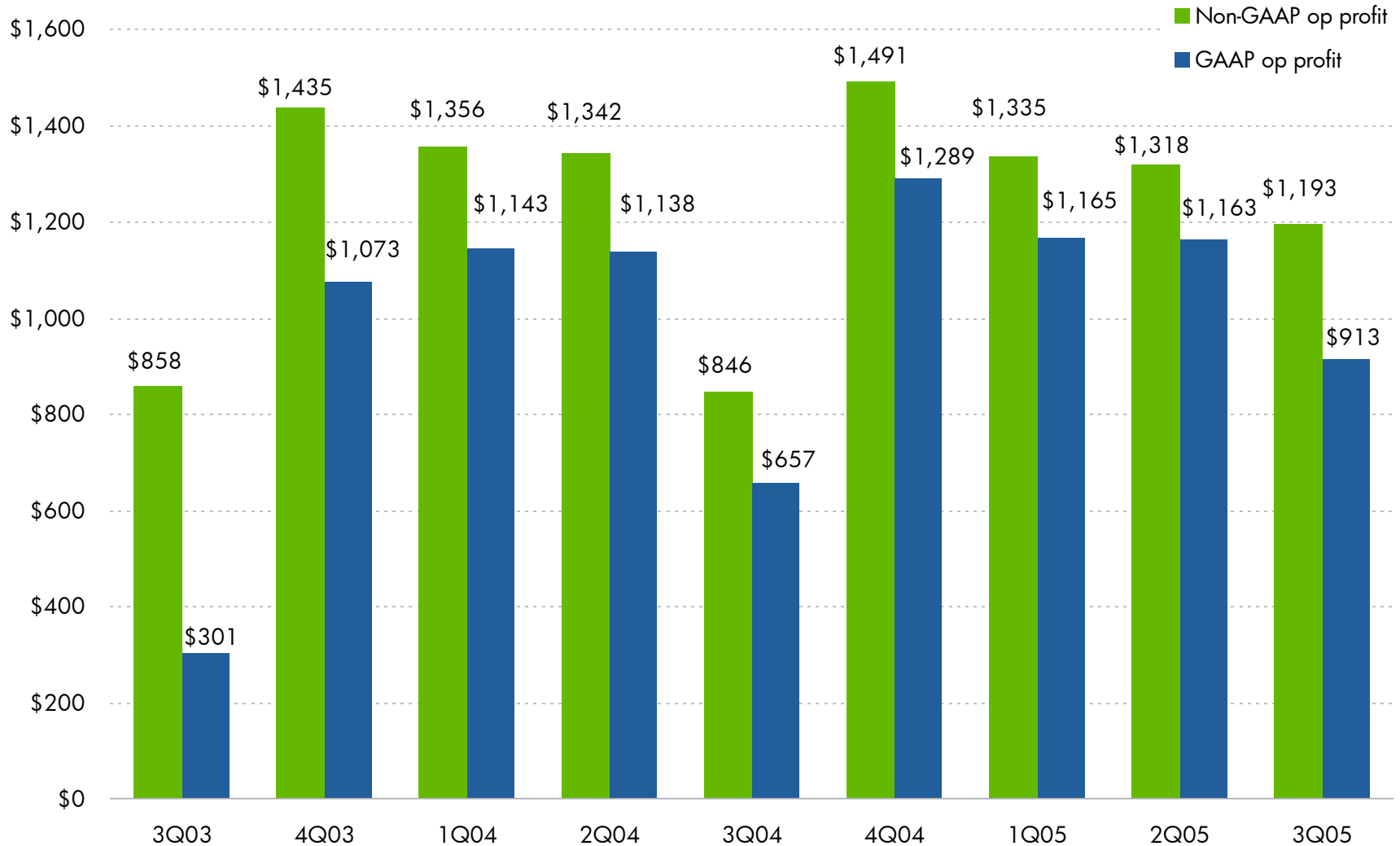
In billions



1. See GAAP to Non-GAAP bridge slides

Operating profit

In millions





Q3 FY05 GAAP to non-GAAP bridge

All data in \$Ms except per share amount

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%
EPS	\$0.03							\$0.36



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	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%
EPS	\$0.33						\$0.37



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

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

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 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

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 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

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



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

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

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

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

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

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



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

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

Combined company

In order to provide additional information relating to our operating results, we present certain consolidated and segment operating results as if HP and Compaq had been a combined company in fiscal 2002 and 2001. We have included this additional information in order to provide further insight into our operating results, prior period trends and current position. Due to different fiscal period ends for HP and Compaq, the results for the twelve months ended October 31, 2002 combine the results of HP for the twelve months ended October 31, 2002 and the historical quarterly results of Compaq for the six-month period ended March 31, 2002 and for the period May 3, 2002 (the acquisition date) to October 31, 2002. In addition, the results for the twelve months ended October 31, 2001 combine the results of HP for the twelve months ended October 31, 2001 and the historical quarterly results of Compaq for the four quarters ended September 30, 2001.