

Robert P. Wayman
Chief Executive Officer
and Chief Financial Officer



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Dear Fellow Stockholders:

In fiscal 2004, HP's focus progressed from consolidation, integration and cost cutting to accelerating profitable growth, driving leverage across HP's product portfolio and extending leadership into new categories. In many areas we performed well, but in some areas we were inconsistent or fell short of expectations.

With Carly Fiorina's departure as CEO and Chairman on February 8, 2005, HP's Board of Directors elected Patricia C. Dunn as our Non-Executive Chairman and asked me to assume the role of CEO in the interim, in addition to my current duties as CFO. I also joined HP's Board.

Turning to fiscal 2004 results, total revenue grew approximately \$7 billion, or 9 percent, to nearly \$80 billion. GAAP earnings per share grew 39 percent, while non-GAAP earnings per share grew 15 percent. During the year we generated a company-record \$5.0 billion in non-GAAP profit and achieved our most balanced business segment performance in recent years. We also continued to generate strong cash flow from operations of \$5.1 billion, and we exited the fiscal year with gross cash of approximately \$13 billion and net cash of \$5.9 billion.

This strong cash balance allows us to continue to invest in our businesses, make targeted acquisitions, and return value to stockholders through the payment of dividends and the aggressive repurchase of shares. In fiscal 2004, HP utilized \$3.3 billion for share repurchases, up from \$0.8 billion in the prior year, and paid approximately \$1 billion in dividends.

Throughout my long career at HP, I have been focused on the company's success and I'm pleased to have the opportunity to guide HP through this leadership transition. In my interim capacity, I will focus on executing against our established strategy until a new CEO is named. I strongly believe that the actions we have taken over the past several years have given us the right ingredients for success and created a solid foundation for future growth. While we have made good progress, we clearly still have more work to do. HP's entire management team is focused on driving the company towards improved performance, consistency of operations and profitable growth.

I hope you find the enclosed materials useful, and on behalf of myself and all HP employees worldwide I thank you for your continued support.

Sincerely,

A handwritten signature in black ink that reads 'Robert P. Wayman'.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
NON-GAAP CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(Unaudited)
(In millions except per share amounts)

| | Twelve months ended October 31, | |
|---|---------------------------------------|---------------------|
| | 2004 | 2003 ^(a) |
| Net revenue | \$79,905 | \$73,061 |
| Costs and expenses: | | |
| Cost of sales | 60,340 | 53,858 |
| Research and development | 3,506 | 3,651 |
| Selling, general and administrative | 11,024 | 11,012 |
| Total costs and expenses | 74,870 | 68,521 |
| Non-GAAP earnings from operations | 5,035 | 4,540 |
| Interest and other, net | 35 | 21 |
| Dispute settlement | (70) | — |
| Non-GAAP earnings before taxes | 5,000 | 4,561 |
| Provision for taxes | 933 | 1,004 |
| Non-GAAP net earnings | \$ 4,067 | \$ 3,557 |
| Non-GAAP net earnings per share: | | |
| Basic | \$ 1.34 | \$ 1.17 |
| Diluted | \$ 1.33 | \$ 1.16 |
| Cash dividends declared per share | \$ 0.32 | \$ 0.32 |
| Weighted-average shares used to compute net earnings per share: | | |
| Basic | 3,024 | 3,047 |
| Diluted | 3,055 | 3,071 |
| An itemized reconciliation between net earnings on a GAAP basis and non-GAAP basis is as follows: | | |
| GAAP net earnings | \$ 3,497 | \$ 2,539 |
| Amortization of purchased intangible assets | 603 | 563 |
| Restructuring charges | 114 | 800 |
| Acquisition-related charges | 54 | 280 |
| In-process research and development charges | 37 | 1 |
| Total non-GAAP adjustments to earnings from operations | 808 | 1,644 |
| (Losses) gains on investments | (4) | 29 |
| Income tax effect of reconciling items | (234) | (524) |
| Non-recurring income tax benefit | — | (131) |
| Non-GAAP net earnings | \$ 4,067 | \$ 3,557 |

(a) Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation.

Use of non-GAAP financial information:

To supplement our consolidated condensed financial statements presented in accordance with United States generally accepted accounting principles (GAAP), 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 GAAP.