

Table 3

# HP Enterprise Servers & Storage

May-06

(Fiscal year end: Oct 31)

	<b>2006e</b>	<b>% of</b>	<b>Change</b>	<b>2005</b>	<b>% of</b>	<b>Change</b>	<b>2004</b>	<b>% of</b>
	<b>(\$ Mill)</b>	<b>Rev</b>	<b>06/05</b>	<b>(\$ Mill)</b>	<b>Rev</b>	<b>05/04</b>	<b>(\$ Mill)</b>	<b>Rev</b>
<b>Revenue</b>		20%			19%			19%
<b>Business Segments (est)</b>								
Industry Standard Servers	\$10,550	57.0%	5.1%	\$10,040	60.1%	23.7%	\$8,118	55.0%
Bus Critical Serv	\$4,070	22.0%	1.2%	\$4,020	24.1%	6.9%	\$3,759	21.0%
Network Storage	\$3,880	21.0%	47.0%	\$2,640	15.8%	-17.4%	\$3,197	21.2%
<b>Total Revenue</b>	<b>\$18,500</b>	<b>100.0%</b>	<b>10.8%</b>	<b>\$16,700</b>	<b>100.0%</b>	<b>10.8%</b>	<b>\$15,074</b>	<b>97.2%</b>
<b>2Q06 Actual</b>	<b>\$4,265</b>		<b>1.9%</b>	<b>\$4,187</b>				
<b>Costs</b>								
Cost of Revenue	\$11,140	60.2%	10.8%	\$10,050	60.2%	2.6%	\$9,800	65.0%
One-time Charges								
<b>Total Costs</b>	<b>\$11,140</b>	<b>60.2%</b>	<b>10.8%</b>	<b>\$10,050</b>	<b>60.2%</b>	<b>2.6%</b>	<b>\$9,800</b>	<b>65.0%</b>
<b>Gross Profit/Margin</b>	<b>\$7,360</b>	<b>39.8%</b>	<b>10.7%</b>	<b>\$6,650</b>	<b>39.8%</b>	<b>26.1%</b>	<b>\$5,274</b>	<b>35.0%</b>
<b>Expenses</b>								
Sales, General & Marketing	\$4,261	23.0%	10.8%	\$3,846	23.0%	7.6%	\$3,573	23.7%
Restr. Charges (apportioned)	\$342			\$324			\$30	
<u>Research &amp; Development</u>	<u>\$1,850</u>	<u>10.0%</u>	<u>10.8%</u>	<u>\$1,670</u>	<u>10.0%</u>	<u>10.6%</u>	<u>\$1,510</u>	<u>10.0%</u>
<b>Total Expenses</b>	<b>\$6,453</b>	<b>34.9%</b>	<b>10.5%</b>	<b>\$5,840</b>	<b>35.0%</b>	<b>14.2%</b>	<b>\$5,113</b>	<b>33.9%</b>
<b>Operating Profit (Loss)</b>	<b>\$907</b>	<b>4.9%</b>	<b>12.0%</b>	<b>\$810</b>	<b>4.8%</b>	<b>402.9%</b>	<b>\$161</b>	<b>1.1%</b>
<b>as reported</b>						<b>-100.0%</b>	<b>\$161</b>	<b>1.1%</b>
<b>2Q06 Actual</b>	<b>\$322</b>	<b>7.5%</b>	<b>78.9%</b>	<b>\$180</b>	<b>4.3%</b>			
Other Income (Loss)	(\$5)	-0.0%	0.0%	(\$5)	-0.0%	-14.5%	(\$6)	-0.0%
<b>Income (Loss) Before Tax</b>	<b>\$902</b>	<b>4.9%</b>	<b>12.1%</b>	<b>\$805</b>	<b>4.8%</b>	<b>418.6%</b>	<b>\$155</b>	<b>1.0%</b>
Income Tax (Benefit)	\$183	20.3%	12.1%	\$164	20.3%	532.8%	\$26	16.7%
<b>Net Income (Loss)</b>	<b>\$718</b>	<b>3.9%</b>	<b>12.1%</b>	<b>\$641</b>	<b>3.8%</b>	<b>395.8%</b>	<b>\$129</b>	<b>0.9%</b>
Earnings per share (basic)	2.81	0.26		0.23			0.05	

## Pro Forma Valuation

	<b>P/E Ratio</b>	<b>Rev Ratio</b>	<b>Market Cap (est.)</b>			<b>Spin-off</b>	<b>Actual</b>
			<b>P/E</b>	<b>Rev</b>	<b>Combined</b>	<b>Benefit</b>	<b>(5/15/06)</b>
Industry Segment Avg	20.00	2.70	\$14.37	\$49.95	\$32.16		
HP Corp Act Prorated	27.72	0.95	\$19.91	\$17.58	\$18.19		<b>\$89.46</b>
<b>HP ESS</b>	10.00	1.60	\$7.18	\$29.60	<b>\$18.39</b>	<b>\$0.20</b>	

Source: Annex Research