

Table 1

HP Services

May-06

(Fiscal year end: Oct 31)

	2006e	% of	Change	2005	% of	Change	2004	% of
	(\$ Mill)	Rev	06/05	(\$ Mill)	Rev	05/04	(\$ Mill)	Rev
Revenue		18%			18%			17%
Business Segments (est)								
Outsourcing	\$3,260	20.0%	7.6%	\$3,030	19.5%	23.9%	\$2,446	17.7%
Integration	\$3,100	19.0%	9.2%	\$2,840	18.3%	12.9%	\$2,515	18.2%
Maintenance	\$9,960	61.0%	3.0%	\$9,670	62.2%	8.8%	\$8,887	64.2%
Total Revenue (w. Maint.)	\$16,320	100.0%	5.0%	\$15,540	100.0%	12.2%	\$13,848	100.0%
(w/o Maint.)	\$6,360		8.3%	\$5,870		18.3%	\$4,961	ERR
2Q06 Actual	\$3,892		-2.3%	\$3,984				
Costs								
Cost of Revenue	\$12,700	77.8%	5.0%	\$12,090	77.8%	13.2%	\$10,680	77.1%
One-time Charges				\$138				
Total Costs	\$12,700	77.8%	3.9%	\$12,228	78.7%	14.5%	\$10,680	77.1%
Gross Profit/Margin	\$3,620	22.2%	9.3%	\$3,312	21.3%	4.5%	\$3,168	22.9%
Expenses								
Sales, General & Marketing	\$1,960	12.0%	5.4%	\$1,860	12.0%	-1.2%	\$1,883	13.6%
Restr. Charges (apportioned)				\$302			\$20	
<u>Research & Development</u>								
Total Expenses	\$1,960	12.0%	-9.3%	\$2,162	13.9%	13.6%	\$1,903	13.7%
Operating Profit (Loss)	\$1,660	10.2%	44.3%	\$1,150	7.4%	-9.1%	\$1,265	9.1%
as reported w/o charges						-100.0%	\$1,263	9.1%
2Q06 Actual	\$345	8.9%	18.2%	\$292	7.3%			
Other Income (Loss)	(\$5)	-0.0%	0.0%	(\$5)	-0.0%	-6.9%	(\$5)	-0.0%
Income (Loss) Before Tax	\$1,655	10.1%	44.5%	\$1,145	7.4%	-9.1%	\$1,260	9.1%
Income Tax (Benefit)	\$336	20.3%	44.5%	\$233	20.3%	10.9%	\$210	16.7%
Net Income (Loss)	\$1,319	8.1%	44.5%	\$912	5.9%	-13.1%	\$1,050	7.6%
Earnings per share (basic)	2.81	0.47		0.32			0.37	

Pro Forma Valuation

	P/E Ratio	Rev Ratio	Market Cap (est.)			Spin-off	Actual
			P/E	Rev	Combined	Benefit	(5/15/06)
Industry Segment Avg	17.80	0.87	\$23.47	\$14.20	\$18.83		
HP Corp Act Prorated	27.72	0.95	\$36.55	\$15.50	\$26.03		\$89.46
HP Services	18.00	0.88	\$23.73	\$14.36	\$19.05	(\$6.98)	

Source: Annex Research