

Table 2

HP Imaging & Printing

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		29%			29%			30%
Business Segments (est)								
Supplies	\$15,420	59.0%	10.1%	\$14,010	55.7%	6.2%	\$13,197	52.5%
Business	\$6,800	26.0%	1.0%	\$6,730	26.8%	5.3%	\$6,390	28.0%
Consumer	\$3,920	15.0%	-5.8%	\$4,160	16.6%	-4.0%	\$4,335	19.0%
Other			-100.0%	\$250	1.0%	-9.7%	\$277	1.1%
Total Revenue	\$26,140	100.0%	3.9%	\$25,150	100.0%	3.9%	\$24,199	100.6%
2Q06 Actual	\$6,724		5.2%	\$6,390				
Costs								
Cost of Revenue	\$16,860	64.5%	3.9%	\$16,220	64.5%	4.7%	\$15,490	64.0%
One-time Charges								
Total Costs	\$16,860	64.5%	3.9%	\$16,220	64.5%	4.7%	\$15,490	64.0%
Gross Profit/Margin	\$9,280	35.5%	3.9%	\$8,930	35.5%	2.5%	\$8,709	36.0%
Expenses								
Sales, General & Marketing	\$3,660	14.0%	4.0%	\$3,520	14.0%	4.1%	\$3,380	14.0%
Restr. Charges (apportioned)	\$484			\$489			\$35	
<u>Research & Development</u>	<u>\$1,570</u>	<u>6.0%</u>	<u>4.0%</u>	<u>\$1,510</u>	<u>6.0%</u>	<u>4.1%</u>	<u>\$1,450</u>	<u>6.0%</u>
Total Expenses	\$5,714	21.9%	3.5%	\$5,519	21.9%	13.4%	\$4,865	20.1%
Operating Profit (Loss)	\$3,566	13.6%	4.5%	\$3,411	13.6%	-11.3%	\$3,844	15.9%
as reported						-100.0%	\$3,847	15.9%
2Q06 Actual	\$1,041	15.5%	27.9%	\$814	12.7%			
Other Income (Loss)	(\$5)	-0.0%	0.0%	(\$5)	-0.0%	-46.7%	(\$9)	-0.0%
Income (Loss) Before Tax	\$3,561	13.6%	4.5%	\$3,406	13.5%	-11.2%	\$3,838	15.9%
Income Tax (Benefit)	\$724	20.3%	4.5%	\$692	20.3%	8.3%	\$639	16.7%
Net Income (Loss)	\$2,837	10.9%	4.5%	\$2,714	10.8%	-15.1%	\$3,198	13.2%
Earnings per share (basic)	2.81	1.01		0.97			1.14	

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	15.00	1.00	\$42.56	\$26.14	\$34.35		
HP Corp Act Prorated	27.72	0.95	\$78.65	\$24.83	\$51.74		\$89.46
HP I&P	15.00	1.00	\$42.56	\$26.14	\$34.35	(\$17.39)	

Source: Annex Research