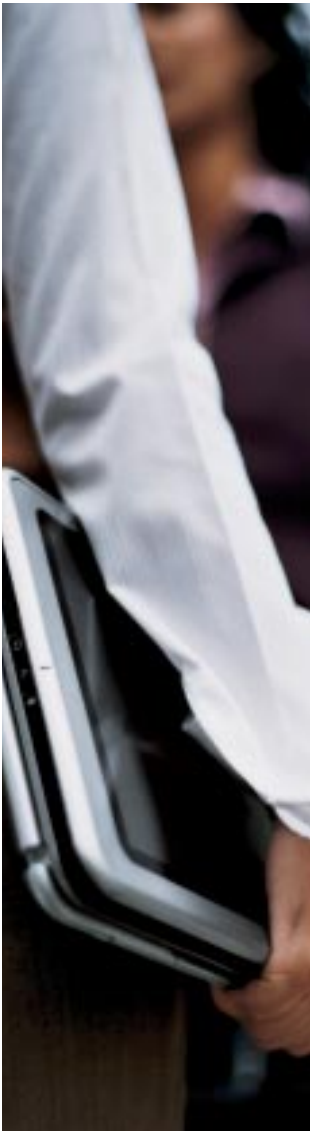


Unlike any other.

HP Annual Report 2003



What makes
this company unique?

Our character.

Our capabilities.

Our choices.

Our unmatched
depth and breadth.

And our single-minded
goal of becoming
the world's leading
technology company.

Dear Fellow Shareowners,

For all the remarkable advancements we have seen in recent years, nothing has matched the power of information technology to change our world. In the next decade, it will take us to places we can't even imagine today. Through all that change, there is only one company that has taken a leadership role in applying technology at work, at home and at play: HP.

We are a company unlike any other. It's a fact underscored by our leadership across consumer, small and medium-size business and enterprise customer categories; by our presence and leadership in key regions around the world; and by our uniquely rich technology portfolio. As proud as we are of our capabilities, we are equally proud of those things that define our character: the dedication of our people, our standards and values, and the reach and depth of our commitment to global citizenship.

For the shareowners, customers and employees of HP, fiscal year 2003 was a remarkable year in many respects. It was a year in which we began to apply the power of our portfolio, our size and scale and our global presence to serve customers better and to redefine markets. It was a year in which HP employees around the world continued to hold themselves to the highest standards while executing our business strategies.

Our financial performance

Not only did we successfully achieve the largest merger integration in the history of our industry, we also fulfilled our promise and returned all of our major business segments to profitability in the fourth quarter, with leadership across key market categories, and record, full-year operating cash flows. HP's strong fourth-quarter performance capped a fiscal year in which we delivered on our commitments:

We set unit-shipment records across key categories including printers, ProLiant servers, Superdome servers, notebooks and handhelds.

We grew revenue and market share across key categories and geographies.

We attained \$3.5 billion in merger integration and cost savings, exceeding our goal by \$1 billion—one year ahead of original schedule.

We returned each of our major business segments to profitability in the fourth quarter.

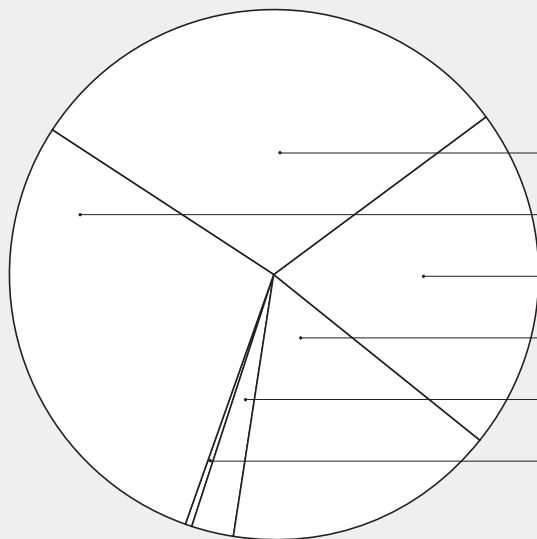
We delivered 47 percent earnings-per-share improvement on a non-GAAP¹ full-year, combined-company² basis.

We generated more than \$6 billion in cash flow from operations, ending the year with a gross cash and investments³ balance of \$14.7 billion.

¹ Non-GAAP financial information is reconciled to GAAP financial information on page 18.

² As defined on page 17.

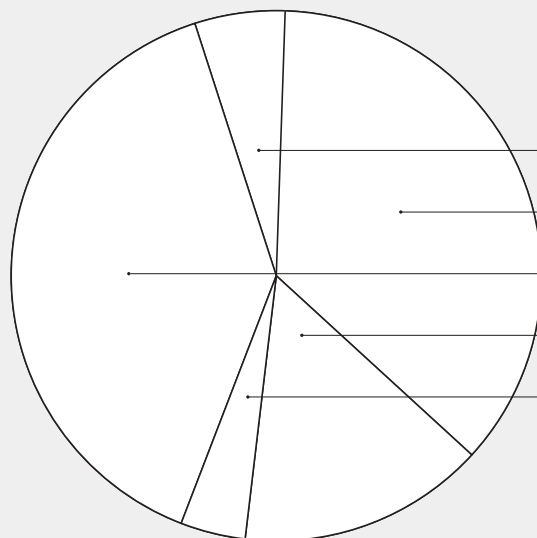
³ As defined on page 8.



Revenue overview by business segment¹

in billions, for fiscal year 2003

Personal Systems Group	\$21.2
Imaging & Printing Group	\$22.6
Enterprise Systems Group	\$15.4
HP Services	\$12.3
HP Financial Services	\$1.9
Corporate Investments	\$0.3



Revenue overview by region

in billions, for fiscal year 2003

Americas (excluding U.S.)	\$4.3
Europe, Middle East, Africa	\$28.5
United States	\$29.2
Asia Pacific	\$8.0
Japan	\$3.1

¹ Fiscal year 2003 revenue by business segment is prior to the elimination of \$740 million of intersegment revenue and other. Further, due to rounding, total revenue by business segment reflected in the table is \$73.7 billion, as compared to \$73.8 billion reflected on page 19.

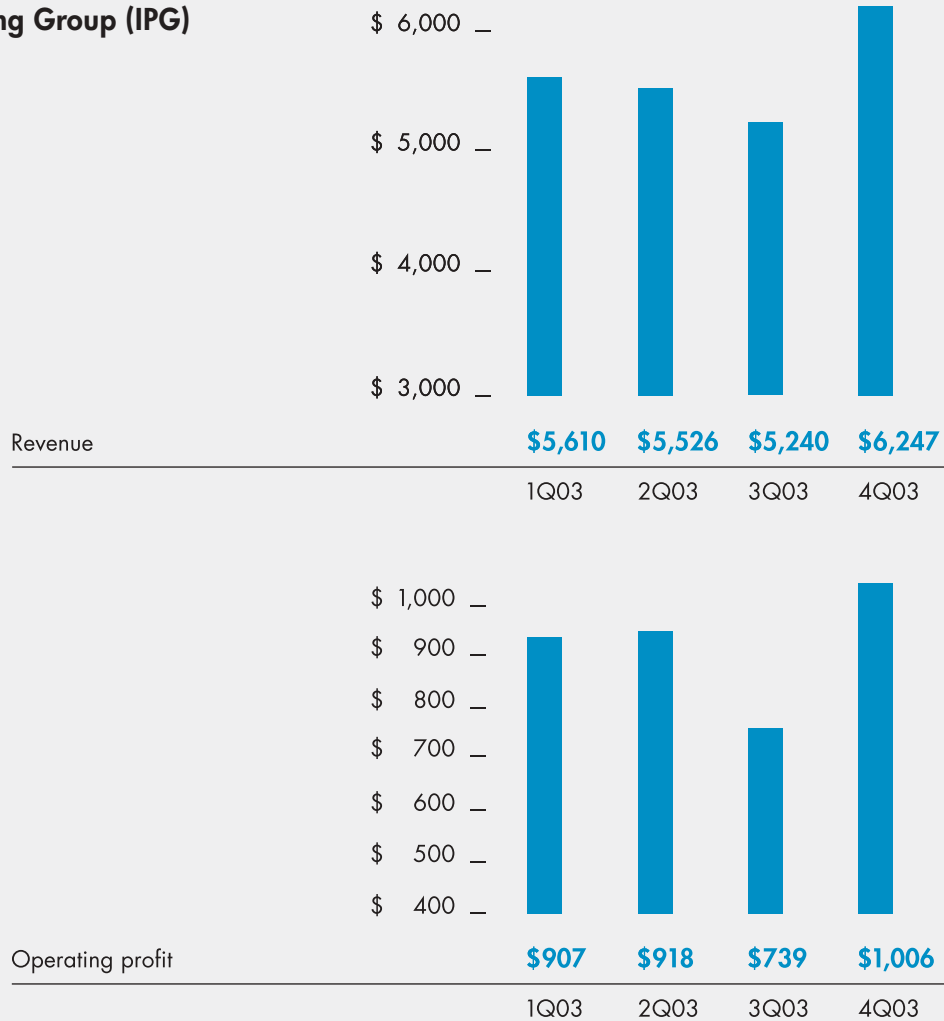
HP had record unit shipments of 43 million printers in fiscal year 2003—a rate equivalent to shipping more than one printer per second.

During the year, we strengthened our core printer franchise with double-digit revenue growth and continued share gains across key business categories and geographies. All of this translated to

a full-year segment operating profit of \$3.6 billion, with quarterly segment operating profit exceeding \$1 billion for the first time, in the fourth quarter.

Imaging and Printing Group (IPG)

in millions



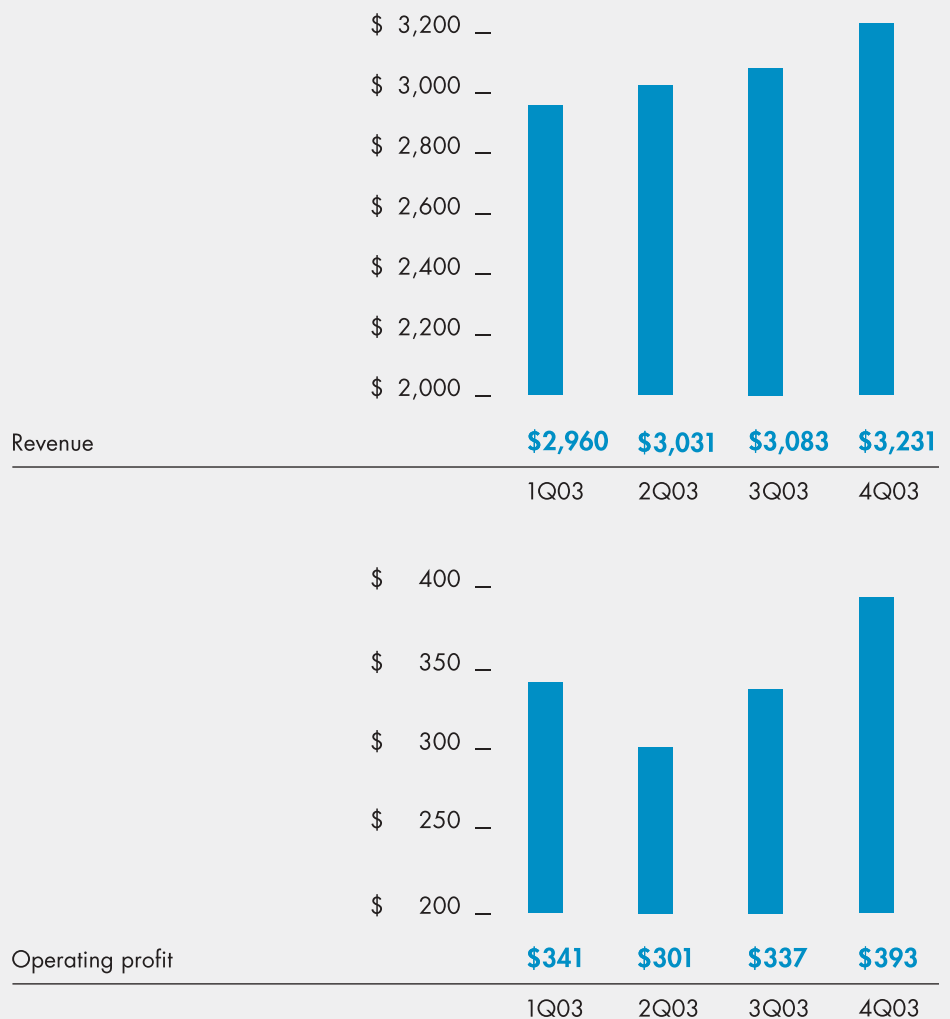
HP has firmly established itself as a major player in the managed-services market, with major wins in fiscal year 2003 including a \$3B, 10-year contract with Procter & Gamble, a \$600M outsourcing contract with Bank of Ireland and a €225M strategic outsourcing agreement with Telecom Italia.

HP Services posted strong results in fiscal year 2003 and continues to provide a stable annuity revenue and profit stream. The business generated \$1.4 billion in segment operating profit for the year.

We accelerated momentum in the managed-services business, with revenue growth of 22 percent on a full-year, combined-company basis — four times the market growth rate and faster than our principal competitor.

HP Services (HPS)

in millions



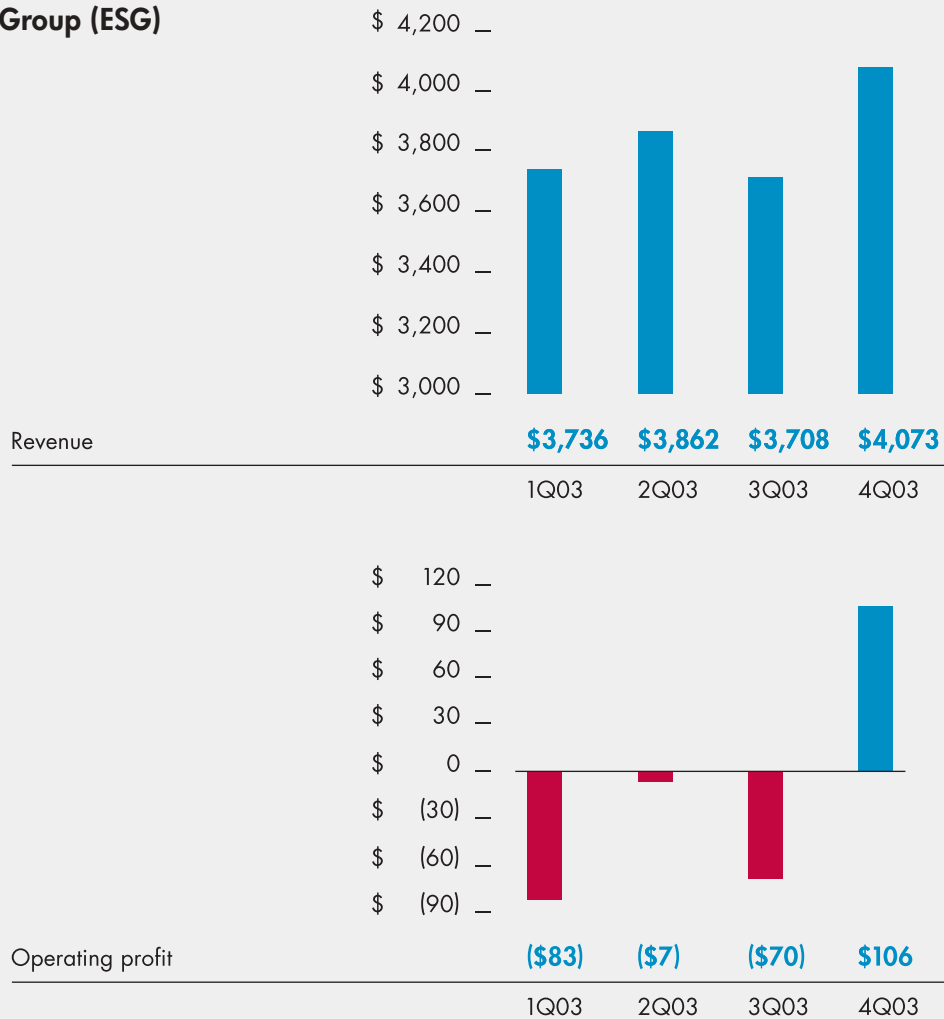
At the end of a transition year, we returned our enterprise business to profitability and set record, full-year unit shipments in our ProLiant and Superdome server lines.

As we committed, we returned the Enterprise Systems Group to profitability in the fourth quarter. Segment operating profit increased \$610 million on a full-year,

combined-company basis. During the year, we strengthened our products and solutions portfolio and gained or held share in key categories.

Enterprise Systems Group (ESG)

in millions



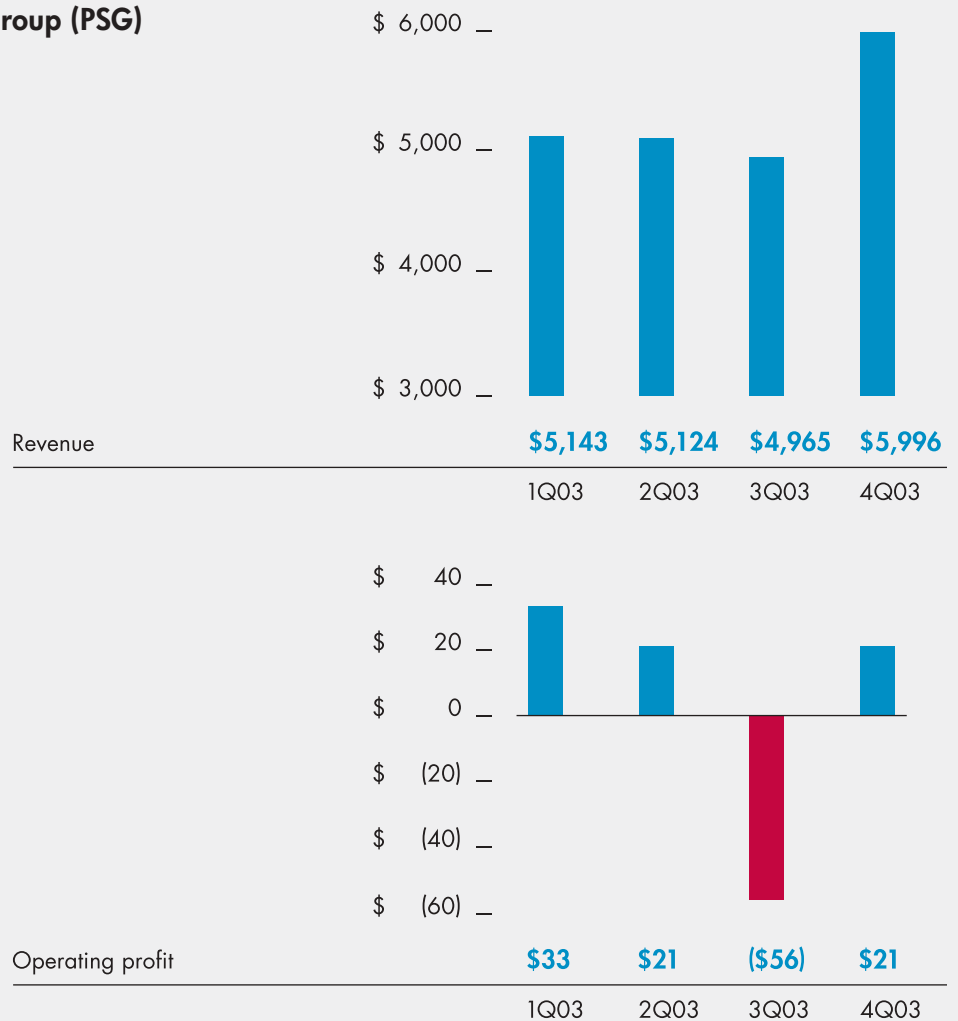
In the fourth quarter, HP notebook unit growth was 61 percent year-over-year — almost twice the growth rate of the market — while handhelds grew 117 percent.

We returned the Personal Systems Group to profitability for the year, with segment operating profit up \$391 million on a full-year, combined-company basis. We did this

while gaining share and taking over the No. 1 position in notebooks, the fastest-growing and most profitable category of the PC market.

Personal Systems Group (PSG)

in millions

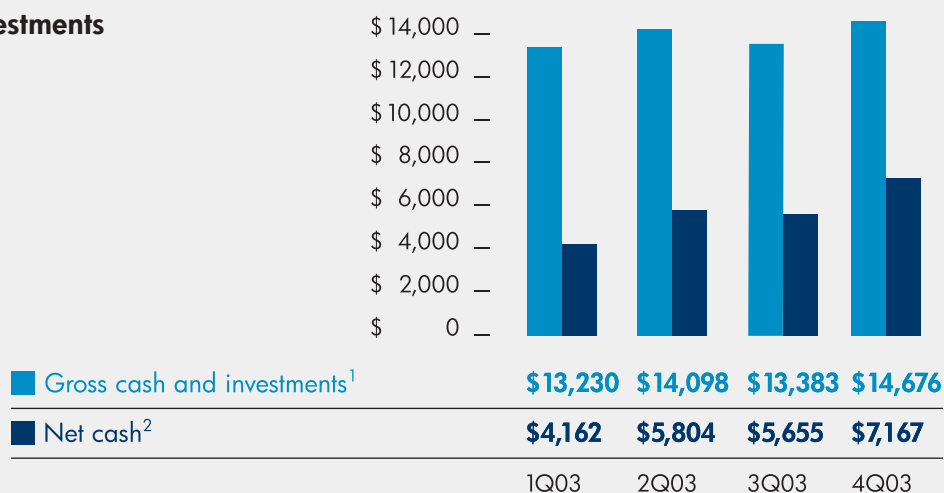


During the fiscal year, we generated \$6.1 billion of cash flow from operations. We closed the year with \$14.7 billion in gross cash and investments after funding more than \$2.6 billion in restructuring

charges, retirement funding and retention payments, as well as approximately \$750 million in stock repurchases. We also had a dividend payout of \$977 million—among the highest yields in the industry.

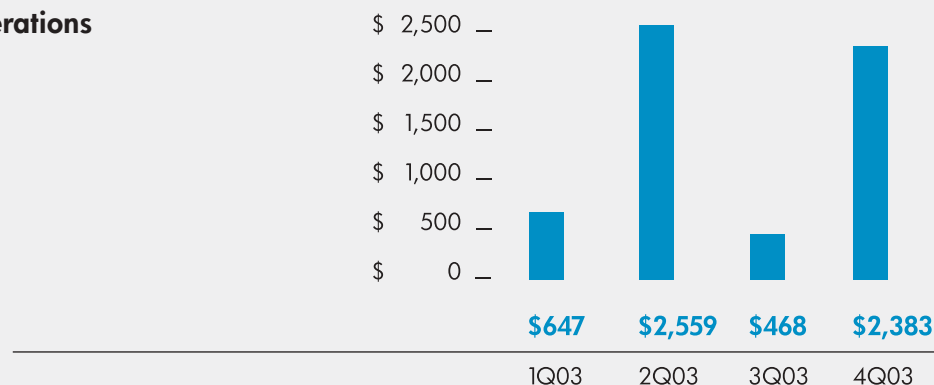
Gross cash and investments

in millions



Cash flow from operations

in millions



¹ Includes cash and cash equivalents, short-term investments and certain liquid long-term investments of \$366, \$368, \$220 and \$85 in the first, second, third and fourth quarters, respectively.

² Net cash is defined as gross cash and investments less total debt, adjusted for certain hedging and swap activity of \$152, \$177, \$58 and \$65 in the first, second, third and fourth quarters, respectively.

We launched more than 660 new products in fiscal year 2003 and closed the year with 21,000 patents in force worldwide, up from 17,000 in fiscal year 2002. This equates to some 11 patents being generated per day, double the rate of fiscal year 2002.

We accomplished all of this while making significant investments in our future competitiveness. For example, we spent \$3.7 billion on R&D, focused in areas of innovation where we believe we can make a unique contribution and lead. HP's patent-generation rate increased to 11 patents per day worldwide. We invested more than \$1 billion in software across our portfolio, \$600 million in building the HP brand, \$400 million innovating our internal IT systems and \$275 million in training and developing our people, and further invested in our direct-sales, service and support capabilities.

This is a story of performance, but it's primarily a story about HP people. Their commitment and focus reinforced my belief that when the talent and dedication of the people of this company are combined with the hopes and dreams of our customers, everything is possible.

HP's vision of the market

In addition to our accomplishments this past year, HP continues to execute on a vision we set our sights on several years ago. As technology moves from the fringe to the core of people's lives and

businesses, the need for technology to deliver more becomes increasingly important. Customers are no longer willing to choose between lower price and higher functionality, or to trade speed and flexibility for quality and reliability. The days of either/or solutions are gone. Customers — from the CEO of a Fortune 10 company to the owner of the local market — want what we at HP call the power of "and": affordability and reliability and security and simplicity and manageability and adaptability and innovation and connection.

We have entered an era in which processes and content are being transformed from static and analog to digital, mobile and virtual. Consider a process as simple as photography. It used to be that taking a picture was a physical process — you'd snap a picture and then transport the film to a store to get it developed. Today, that process is becoming increasingly digital and mobile. For instance, using an HP digital camera, you can take a picture, remove the memory card from the camera, insert it into a slot on a memory card-enabled HP printer on your desk, select photos on the printer's readout display and print.

HP is the No.1 consumer IT company in the world, the No.1 technology supplier to small and medium-size businesses and a leader in enterprise computing, with market-leadership positions in virtually every technology category and region in which we compete.

In similar ways, music and entertainment content are being converted to digital bits that can be created and consumed in new ways, and this same transformation is under way in industries from health care to financial services to communications to education. The challenges and opportunities in these industries will be addressed by the application of a wide range of technology solutions and services — which HP is uniquely prepared to supply.

What this comes down to is the need to make a diverse set of technologies work better together, to speak a common language and to network not just devices but businesses to businesses, employees to customers and suppliers to customers. In our industry, “common language” translates to “standards.” Without standards, there is no connection between stand-alone islands of technology. Standards are those technologies that over time have become broadly adopted by customers: Windows®, Linux, IA-32 processors and, increasingly, IA-64 processors are just a few examples.

HP has been a long-time proponent of open standards and architectures, and more and more customers are seeing the value

in this and seeking us as their technology provider because of it. We target our R&D investments on areas in which we can make a unique contribution and lead, and which also run on top of standard platforms.

In short, the market is moving to industry-standard computing, to virtual and digital content, and increasingly toward simplicity, manageability and adaptability. This is changing how customers buy and use technology, and in some cases, how companies organize.

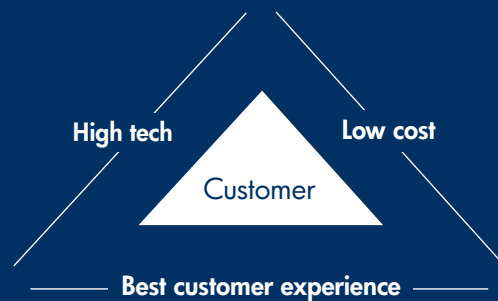
What does it take to capitalize on these shifts and serve customers in this new era? It takes expertise in imaging and printing. It takes expertise in personal access devices and storage, in servers and systems-management software. It takes global presence and leadership in services. It takes a company with a long heritage of leading through IT shifts. It takes a company with leadership across multiple markets and regions. It takes the dedication and focus of employees around the world. In short, it takes HP.

A unique strategy

HP’s depth and breadth are a result of deliberate choices. As we have noted for several years now, technology markets are consolidating, with the No.1 and

The HP corporate strategy

Our strategy is to offer products, services and solutions that are high tech and low cost and deliver the best customer experience. No other company has the portfolio, people and expertise to deliver on all three.



High tech

HP has been a leading innovator for nearly seven decades. We invest almost \$4 billion annually on R&D where we believe we can make a unique contribution and lead, and we partner for the rest—leveraging \$10 billion-plus of our partners' R&D investments. We are proud of the fact that we have now achieved the fastest rate of innovation in our company's history as measured by our output of new patents and new products.

Low cost

HP's size and scale allow us to offer customers not only competitively priced products, but also a lower total cost of ownership over a solution's lifecycle. Our \$52 billion supply chain—the largest in the technology industry—allows us to achieve world-class cost structures and to pass savings on to customers.

Best customer experience

Because we have a unique view into a wide range of customers, we're in a great position to deeply understand their needs and then mobilize our resources to develop technologies, solutions and services to deliver a uniquely rewarding experience. We're focused on improving how we interact with customers at every touch point—from how they learn about HP and purchase our products, services and solutions to how they use and manage them.

No. 2 players being best positioned for sustainable market-share growth and profitability. Recognizing this shift inspired us to get ahead of the trend and actually drive that consolidation with our merger in 2002. Making the necessary changes to remain a market leader is hard — but not making them is even harder. In response to customer needs and changing market conditions, we have built a portfolio that delivers a combination of reliable innovation at a price our customers can afford, with an experience that sets us apart. We call it “high tech, low cost, best customer experience.”

This is a strategy that draws on our belief that invention is the soul of innovation, and that only those companies that make R&D a priority today will continue to lead markets tomorrow. It draws on our belief that technology should be affordable, intuitive and available to everyone and should deliver the highest possible value for the money. It draws on our belief that

how we do things is as important as what we do. Whether it’s using our products, getting information from the website, calling our support lines for help or engaging with our consultants and engineers on a major IT consolidation project, that experience should be outstanding.

No other company in our industry can deliver this value proposition to consumers and small and medium-size businesses and large enterprises and governments, all over the world. No other company can offer everything from handheld PCs to printers to advanced utility data centers. This gives us a unique ability to stay ahead of the market and a distinct competitive advantage: Our competitors cannot match our size and scale or our ability to leverage our experience from one sector to the next.

Leadership across the board

CATEGORY	SHARE	POSITION
LaserJet printers	52.0%	1
Disk storage systems	50.7%	1
Inkjet printers	41.2%	1
UNIX® servers ¹	33.8%	1
Windows® servers	33.2%	1
Storage-area network systems	31.4%	1
Linux servers ¹	28.1%	1
Handhelds	25.9%	2
External RAID ² storage systems ¹	20.1%	2
Notebook PCs	16.9%	1
Desktop PCs	16.1%	2

¹ Factory revenue

² Redundant Array of Independent Disks

All percentages are units unless otherwise stated.

Source: IDC 3Q 2003

The power of the portfolio

The fact that we provide such a range of technologies is beginning to attract customers who are increasingly looking for a partner that can provide end-to-end solutions, with technology capabilities influenced by and reaching into both commercial and consumer markets. After all, every small and medium-size business customer is also a consumer; every enterprise customer is responsible for supplying individual employees with technology, as well as building out data centers.

By hosting all of this customer insight and technology expertise under one roof, we are able to leverage innovation across our various business segments. Shareowners reap the rewards when new applications of an innovative technology give birth to high-growth and profitable markets. For example, our leadership in digital printing for consumers is helping us aggressively target enterprise-wide digital publishing.

HP is a leading technology company in some of the world's fastest-growing IT markets, including Russia, China, India, Brazil, Mexico, Eastern Europe and the Middle East.

Ensuring growth in the future

Our broad global presence gives us the opportunity to capitalize on our deep understanding of the technology shifts occurring in the world. How do we ensure we are doing everything we can to consistently deliver customer and share-owner value, and stay competitive not just today, but into the future, in emerging markets worldwide?

If we are going to continue to grow and lead in the next decade and beyond, we must acknowledge that many ideas, employees, products and markets will come from the majority of the world that cannot currently afford IT products. If we develop even a small portion of this potential market, the rewards will be great. It follows that HP is taking an active role in developing both capacity and new markets around the world. That is why we are the leading technology company in some of the world's fastest-growing IT markets. We are facing an unprecedented opportunity to tap new markets in a way that's beneficial for our business, while

demonstrating good global citizenship—to do well by doing good—a hallmark of this corporation for nearly 70 years.

On a macro level, we actively engage with other multinational corporations, non-governmental organizations (NGOs) and world governing bodies to reignite competitiveness at home and abroad through policy and strategy that support a free-market economy. This is not only essential to maintaining HP's competitiveness, it is critical to fostering human rights in countries that do not have open economies or a democratic society. In many cases, information and communications technology (ICT) opens the door to sustainable growth in areas where it would not have been otherwise possible. We continue to participate in—and in some cases lead—efforts in the United Nations ICT task force and the World Economic Forum, to bring business insight and a legacy of corporate social responsibility to their initiatives.

Frankly, however, it's at the local level that our engagement model is most satisfying. Governments are recognizing that in an Information Age, an educated populace is the key to growing new markets and competing in a global economy. In partnership with local governments, NGOs and other private companies, HP is taking an active role to encourage development while working to close the gap between technology-empowered and technology-excluded communities, through a model of engagement we call the "i-community." What's perhaps most important and unique about i-communities is our commitment to them as a model of growth and market development: their focus on sustainability and replicability, and their foundation of collaboration, responsible engagement, relevant technology solutions and innovation for unexplored markets.

A company unlike any other

HP is not like any other company — nor do we aspire to be. We are unique because of the choices we have made, the portfolio we have built and the character that defines us. We are unique because of how we leverage our size and scale to serve a broad spectrum of customers. We are unique because we play a role in the world that shapes the technology landscape through our ability to give rise to innovation and entirely new markets. We are unique in our value proposition to customers and in our commitment to corporate social responsibility. Most of all, we are unique in our outlook: In an era when information technology is taking us to places we never even imagined, we truly believe that the combination of HP people and technology, and the ambitions of our customers and partners, make more things more possible.

This is a company that knows how to make the tough decisions and necessary investments to stay competitive. We have stayed on course and delivered on what



we promised two years ago in terms of market-share measures and cost efficiencies. Clearly, that which is unique about HP serves our shareowners and customers well today — and positions us to take advantage of opportunities in the future.

We enter 2004 with an unprecedented leadership opportunity before us and a clear intent to capitalize on what sets us apart, to the benefit of our customers, our shareowners and our employees.

Thank you for your continued support of HP.

Sincerely,

A handwritten signature in black ink that reads "Carleton S. Fiorina". The signature is written in a cursive style with a large, stylized initial "C".

Carleton S. Fiorina
Chairman and Chief Executive Officer

Hewlett-Packard Company and Subsidiaries GAAP Consolidated Condensed Statement of Earnings

Unaudited
In millions, except per-share amounts

	Twelve months ended October 31,	
	2003	2002 ^{a,b}
	(Combined Company)	
Net revenue:	\$ 73,061	\$ 72,346
Costs and expenses:		
Cost of sales ^c	53,857	54,311
Research and development	3,652	3,953
Selling, general and administrative	11,012	11,091
Restructuring charges	800	1,780
Amortization of goodwill and purchased intangible assets	563	664
Acquisition-related charges	280	772
In-process research and development	1	793
Total costs and expenses	\$ 70,165	\$ 73,364
Earnings (loss) from operations	2,896	(1,018)
Interest and other, net	21	20
Losses on investments and other, net	(29)	(56)
Earnings (loss) before taxes	2,888	(1,054)
Provision for (benefit from) taxes	349	(126)
Net earnings (loss)	<u>\$ 2,539</u>	<u>\$ (928)</u>
Net earnings (loss) per share:		
Basic	\$ 0.83	\$ (0.31)
Diluted	\$ 0.83	\$ (0.31)
Cash dividends declared per share	\$ 0.32	\$ 0.32
Weighted-average shares used to compute net earnings per share:		
Basic	3,047	3,031
Diluted	3,063	3,031

^a Certain reclassifications have been made to prior-period amounts in order to conform to the current-year presentation.

^b The combined company results for the 12 months ended October 31, 2002 include the results of Compaq as if the merger had taken place as of the beginning of the period presented. Due to different fiscal period ends for HP and Compaq, the results for the 12 months ended October 31, 2002 combine the results of HP for the 12 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.

^c Cost of products, cost of services and financing interest

Hewlett-Packard Company and Subsidiaries Non-GAAP Consolidated Condensed Statement of Earnings

Excluding adjustments itemized below
Unaudited. In millions, except per-share amounts

	Twelve months ended October 31,	
	2003	2002 ^{a,b}
	(Combined Company)	
Net revenue:	\$ 73,061	\$ 72,346
Costs and expenses:		
Cost of sales ^c	53,857	54,164
Research and development	3,652	3,953
Selling, general and administrative	11,012	11,091
Total costs and expenses	<u>68,521</u>	<u>69,208</u>
Non-GAAP earnings from operations	4,540	3,138
Interest and other, net	<u>21</u>	<u>20</u>
Non-GAAP earnings before taxes	4,561	3,158
Provision for taxes	<u>1,004</u>	<u>749</u>
Non-GAAP net earnings	<u>\$ 3,557</u>	<u>\$ 2,409</u>
Non-GAAP net earnings per share:		
Basic	\$ 1.17	\$ 0.79
Diluted	\$ 1.16	\$ 0.79
Weighted-average shares used to compute non-GAAP net earnings per share:		
Basic	3,047	3,031
Diluted	3,071	3,051
An itemized reconciliation between net earnings on a GAAP basis and non-GAAP basis is as follows:		
GAAP net earnings (loss)	\$ 2,539	\$ (928)
Cost of sales:		
Acquisition-related inventory write-downs	-	147
Other costs and expenses:		
Restructuring charges	800	1,780
Amortization of goodwill and purchased intangible assets	563	664
Acquisition-related charges	280	772
In-process research and development charges	1	793
Total non-GAAP adjustments to earnings from operations	<u>1,644</u>	<u>4,156</u>
Losses on investments and other, net	29	56
Non-recurring income tax benefit	(131)	-
Income tax effect of reconciling items	<u>(524)</u>	<u>(875)</u>
Non-GAAP net earnings	<u>\$ 3,557</u>	<u>\$ 2,409</u>

^a Certain reclassifications have been made to prior-period amounts in order to conform to the current-year presentation.

^b The combined company results for the 12 months ended October 31, 2002 include the results of Compaq as if the merger had taken place as of the beginning of the period presented. Due to different fiscal period ends for HP and Compaq, the results for the 12 months ended October 31, 2002 combine the results of HP for the 12 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.

^c Cost of products, cost of services and financing interest

See page 48 for a discussion of reasons for the use of non-GAAP financial information.

Hewlett-Packard Company and Subsidiaries Segment Information and Selected Balance Sheet Data

Unaudited
In millions

	Twelve months ended October 31,	
	2003	2002 ^{a,b}
(Combined Company)		
Segment Information		
Net revenue:		
Imaging and Printing Group	\$ 22,623	\$ 20,447
Personal Systems Group	21,228	21,895
Enterprise Systems Group	15,379	16,194
HP Services	12,305	12,326
Financing	1,921	2,088
Corporate Investments	345	284
Total segments	<u>73,801</u>	<u>73,234</u>
Eliminations of intersegment net revenue and other	<u>(740)</u>	<u>(888)</u>
Total HP Consolidated	<u>\$ 73,061</u>	<u>\$ 72,346</u>
Earnings (loss) from operations:		
Imaging and Printing Group	\$ 3,570	\$ 3,345
Personal Systems Group	19	(372)
Enterprise Systems Group	(54)	(664)
HP Services	1,372	1,369
Financing	79	(128)
Corporate Investments	(161)	(232)
Total segments	<u>4,825</u>	<u>3,318</u>
Corporate and unallocated costs, non-operating income and expense and eliminations	<u>(1,937)</u>	<u>(4,372)</u>
Total HP consolidated earnings (loss) before taxes	<u>\$ 2,888</u>	<u>\$ (1,054)</u>
Selected Balance Sheet Data		
At year-end:		
Cash and cash equivalents	\$ 14,188	\$ 11,192
Total assets	74,708	70,710
Working capital	14,366	11,765
Total debt	7,574	7,828
Stockholders' equity	37,746	36,262
Common shares outstanding	3,043	3,044

^a Certain reclassifications have been made to prior-period amounts in order to conform to the current-year presentation.

^b The combined company results of HP and each of HP's segments for the 12 months ended October 31, 2002 include the results of Compaq as if the merger had taken place as of the beginning of the period presented. Due to different fiscal period ends for HP and Compaq, the results for the 12 months ended October 31, 2002 combine the results of HP for the 12 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.

A unique portfolio serving a range of customers As more processes become digital, mobile and virtual, people need easy access to all types of information, wherever they happen to be. We're moving to a world where people might check e-mail from a handheld PC, print digital photos directly from a camera, hold a virtual business meeting from a sofa at Starbucks and re-allocate storage resources in their company's data center — all in the same day.

This blurring of distinctions between work and home is something HP

is particularly suited to address. We understand the needs of each audience and provide them with technology that helps them succeed, whether they're at work, in transit or at home. In addition, HP's dedication to using open architectures and standards, our breadth of industry and retail partners and our focused innovation in areas such as mobility, rich digital media, security and management software uniquely position us to deliver information and services to our customers wherever they are, whenever they need them.





Serving enterprise customers

In a world where every business decision triggers an IT event, CIOs must balance traditional IT requirements—managing costs, mitigating risk, increasing their quality of service—with a new requirement to improve business agility: Technology must help businesses adapt. CIOs are looking for a single point of accountability—an IT partner that will collaborate with them and leverage their technology investments across their businesses while providing end-to-end solutions. CEOs know that all parts of their business have to work better together, and that vertical, standalone islands of technology result in trapped information and lost productivity. And both CEOs and CIOs are demanding a measurable and improving return on their IT investments—whether hosted in-house or outsourced.

In May 2003, HP launched the Adaptive Enterprise, our vision and approach to address these needs. Our standards-based IT framework, the Darwin Reference Architecture, provides a step-by-step approach to creating a business-process-oriented, horizontal IT environment that dynamically allocates IT resources where they're needed, in real time. Darwin was designed around principles that make it easy for CIOs to integrate heterogeneous IT environments to simplify, standardize, modularize and integrate the components of IT infrastructure into a uniform system that is easy to manage and modify. Applying the experience of HP Services and leveraging our full expertise from the Darwin framework to handheld devices, we collaborate with customers to build a powerful platform for managing change.

A close-up photograph of a man in a dark suit and tie, looking down at a Starbucks coffee cup on a counter. The background is blurred, showing other people in a cafe setting. The lighting is soft and natural, highlighting the man's features and the texture of the coffee cup.

HP and Starbucks

HP is delivering adaptive enterprise solutions that help Starbucks balance tremendous expansion with IT costs, while also allowing them to enrich what they call “the Starbucks experience.” When the company discovered that many of its 30 million customers were seeking Internet access on the go, it decided to enhance the customer experience by providing a high-speed Wi-Fi network. To offer this service, Starbucks partnered with HP and T-Mobile — recognizing our unique expertise in building IT infrastructures that support mobility and rich media, and our understanding of how people use devices such as PCs and handhelds.

HP installed much of the equipment that makes the Wi-Fi network work and developed free, downloadable software that allows customers to configure their wireless-enabled notebooks or handhelds to automatically sense and connect to the T-Mobile HotSpot network when they enter a Starbucks. Additionally, HP’s Content Delivery System is helping Starbucks deliver rich digital content over the Wi-Fi network for its customers to enjoy while they relax and sip their beverages. For example, Starbucks recently provided customers with the opportunity to experience an exclusive interview with pop musician Sheryl Crow, hear the music that influenced the singer and download tracks to their mobile devices. While many customers enjoy the entertainment content, others use the Wi-Fi network to check e-mail and do business when they’re away from the office.







Serving small and medium-size businesses

Small and medium-size businesses (SMBs) have told us they're not looking for just an easy technology purchase at an affordable price; they need reliability, ease-of-ownership and a helpful, local IT partner to provide ongoing support—so they can focus on their businesses rather than on technology.

In fiscal year 2003, we made a concerted effort to solidify our offerings, our partner network and R&D capabilities to better address SMBs' technology needs. This was encapsulated in our Smart Office launch in September, a comprehensive and sustained effort to make the entire technology experience—purchasing, financing, installing, operations and support—more reliable, less complicated and more efficient. This \$750 million initiative includes more than 200 products, solutions and services designed for SMB customers. The HP Smart Office bundles reliable infrastructure, computing, printing and mobility products and solutions that work easily together, with helpful financing options and dedicated service and support, at a price SMBs can afford.

With more than 200,000 sales partners worldwide, HP has the ability to provide local expertise and customer support. We're also training value-added resellers to provide local support everywhere our customers are located.



HP and Powerski

For Powerski, as for many small and medium-size businesses, IT is critically important. When the company began engineering and testing its revolutionary new motorized surfboard, also known as a jetboard, it turned to HP for powerful workstations to run Parametric Technology Corporation's (PTC) suite of sophisticated CAD software. As the project advanced and Powerski moved from concept to mass production, PTC developed more complex software that demanded ever-increasing computing horsepower. Powerski was pleased to find that as its needs increased, so too did the capabilities and offerings of HP's suite of workstations.

Today, HP Workstation xw8000 models running PTC's software allow Powerski to model all of the jetboard's components, check for fit and performance, develop assembly details and evaluate service needs. With the Compaq Evo N800w Workstation, Powerski's engineering team can make engine adjustments on-site and in real time, greatly reducing development time. The HP mobile workstations have performed flawlessly, even in the most demanding conditions on sandy beaches. Powerski's IT infrastructure is 100 percent HP, with HP ProLiant servers enabling the team to collaborate and connect their notebooks, desktop PCs and workstations across a variety of business functions, including marketing and digital content-creation for ads and publicity.







Serving consumers

HP is also the world's leading consumer IT company. Our products and solutions can be found in 110,000 retail outlets and in more than 170 countries, where we reach millions of consumers.

As processes become digital, mobile and virtual, traditional consumer electronic devices, such as TVs and stereos, are merging with IT products, including PCs and digital projectors. HP has a unique opportunity to lead in the growing digital-photography and digital-entertainment markets.

Complexity is one of consumers' biggest barriers to using new technology. With this in mind, in August 2003, HP introduced more than 100 digital-photography and digital-entertainment products, including the instantly popular DVD Movie Writer, new notebook PCs, Media Center PCs, all-in-ones, the industry's first consumer 8-ink photo printer and improved digital-photography software, digital cameras, scanners and supplies. These products and solutions were designed to work easily together, with the intent of radically simplifying the customer experience.



HP and Tricia Vance

Tricia records life as she sees it: her friends at the park, a funny street sign, her parents relaxing in their living room, a cute boy on the bus. After years of using a traditional camera and film, Tricia made the transition to digital. She would rather perfect her composition and subject matter than fuss with technology. Tricia's criteria for a new photography solution: easy-to-use technology and high-quality results. Now, using a suite of intuitive HP digital-photography products, she easily clicks, prints and shares her favorite shots.

Like Tricia, people all over the world are choosing HP digital-photography products and solutions for their simplicity and quality. Many HP digital cameras feature built-in lighting technology that automatically corrects light, shade and glare. Industry-leading HP photo printers have perfected printing of black-and-white, grayscale and color photos. Sending pictures to the PC and printer is simple, thanks to HP Instant Share technology, which lets people choose photos for automatic e-mailing, printing and sharing when they dock the camera. LCD screens and memory-card readers on the front of the printer make it easy to print directly from the camera, without using a PC or USB cable. And a common digital-photography software and user interface across HP digital-photography products makes it easy for people to take photos and create scrapbooks, stickers, T-shirt decals and cards — and organize and store photos for future use.



Unique dedication to global citizenship HP has always been very thoughtful about its role in the world. We exist not only to drive shareholder value, but also to make a contribution to society. On one hand, this means recognizing how our actions fit into a larger ecosystem of causes and effects. It also means playing a direct role in the communities in which we operate and being good corporate citizens.

Responsible global citizenship requires that we uphold the highest possible standards of integrity, and conduct our affairs with the highest degree of transparency and accountability. It includes living up to the best possible standards in environmental performance, customer privacy and human rights—in short, it means being a company that our employees and shareowners can be proud of.



In 2003, HP donated more than \$62 million in cash and equipment worldwide.

We commit our time and resources to global citizenship for four reasons.

First, because it's simply the right thing to do. We live in a world where half the population lives on \$2 a day; where 1 billion people cannot read or write. At a time when 52 of the world's 100 largest economies are corporations, the reach and resources of multinational companies can make an enormous difference. HP does business in more than 170 countries, including many economies that are under-developed or developing. We have found that we can help bring about positive change in ways that sometimes even governments do not. Not only can we hold our suppliers to high standards, for example, but when we apply our resources — committing not just time and money, but people and products — we become a catalyst for change, because governments, NGOs, community leaders and other companies are more willing to make a commitment themselves.

The second reason is that the global movement to enforce labor, environmental and economic standards is maturing, and we have an important role to play in that debate. Three years ago, the United States and Jordan signed the first U.S. trade agreement that links trade with labor and environmental rights. In the past two years, the European Union, the United Nations and the World Bank have all launched new efforts to require reporting on sustainability





By bundling large PC orders in bulk packages, we've reduced waste by 86 percent.



issues. The movement is likely to grow stronger, and as a company, we can sit passively and wait to be regulated, or we can take control and use our experience to help bring more sustainability and predictability to a chaotic world.

The third reason is that, increasingly, shareowners and customers are rewarding companies that achieve social change through business. In the United States alone, there are approximately 200 socially responsible mutual funds today, with assets of \$162 billion. At the same time, our global citizenship efforts help retain, motivate and empower employees. People want to work with, and for, a company they feel pride in.

Finally, global citizenship is good for the top and bottom lines — particularly in an industry where less than 10 percent of the world's population can afford to buy IT products. If we look ahead not just to the next quarter, but to the next decade, it's clear that many of the markets, consumers, ideas, partners and employees we need in order to grow will come from the other 90 percent. HP has found that getting directly involved in sustainable development and education projects in the developing world — and in under-accessed and under-privileged communities in the developed world — allows us to invent products that we never would have imagined otherwise and open new markets, while building relationships with partners, customers and employees in the process.



HP was one of the first global businesses to achieve ISO 14001 certification for our worldwide manufacturing operations.





Only 7 percent of the world's people have access to a PC and 4 percent to the Internet, according to the World Bank.



HP's involvement in global citizenship efforts takes many forms, including:

e-inclusion. The gap between technology-empowered and technology-excluded communities is often referred to as the digital divide, and HP has taken a unique approach to bridging this gap. While many corporations enter emerging markets via philanthropic programs, HP is working to build a new model of involvement, committing not just money and products, but also our employees and our business expertise to provide people in developing economies and underserved communities with access to information and communications technology. Our intent is to create sustainable solutions, gain market insight into each population and ultimately open new markets.

As part of our e-inclusion program, we develop what we call i-communities, in which we put teams of people in the most under-accessed and under-privileged communities in the world—from a Native American reservation outside San Diego, to the village of Kuppam, India, to a rural village in Mogalakwena, South Africa—to work for up to three years at a time on projects with local citizens to help them define and then meet their goals. Through significant investment in education and training, capacity-building and partnerships with local governments and NGOs, we are ensuring that the i-communities will become self-sustaining after HP completes its engagement. In the process, we are developing culturally



HP was the first Fortune 50 company to self-certify with Safe Harbor, a privacy agreement between the U.S. Department of Commerce and the European Commission.



appropriate, affordable solutions to match the communities' needs, bringing those innovations and learnings back into HP, and then taking them to scale for replication in other regions of the world.

The environment. Given that we sell millions of products annually, we are conscious of the impact HP products have on the environment. We are committed to providing products and services that are environmentally sound through their lifecycles, conducting our operations in an environmentally responsible way and establishing health and safety practices and work environments that help minimize the risk of injury to HP employees. We believe this is fundamental to both our global citizenship and our long-term business success.

HP's ability to meet these objectives rests on four pillars: First, we manage and monitor the environmental performance of our company through our Environmental, Health and Safety Management System, which includes regular audits of our sites. Second, through our HP Design for Environment program, we focus on design to improve the energy efficiency, materials innovation and the recyclability of our products. Third, we've invested in state-of-the-art recycling programs in order to offer customers a return-recycling service for many HP products, providing an environmentally sound end-of-life solution to reduce waste and conserve resources. Our Planet Partners recycling program, operating in 20 countries, provides a facility for customers to return computer hardware and HP



HP has added U.S. postage-paid recycling envelopes in our packaging for two of our most popular inkjet cartridges.

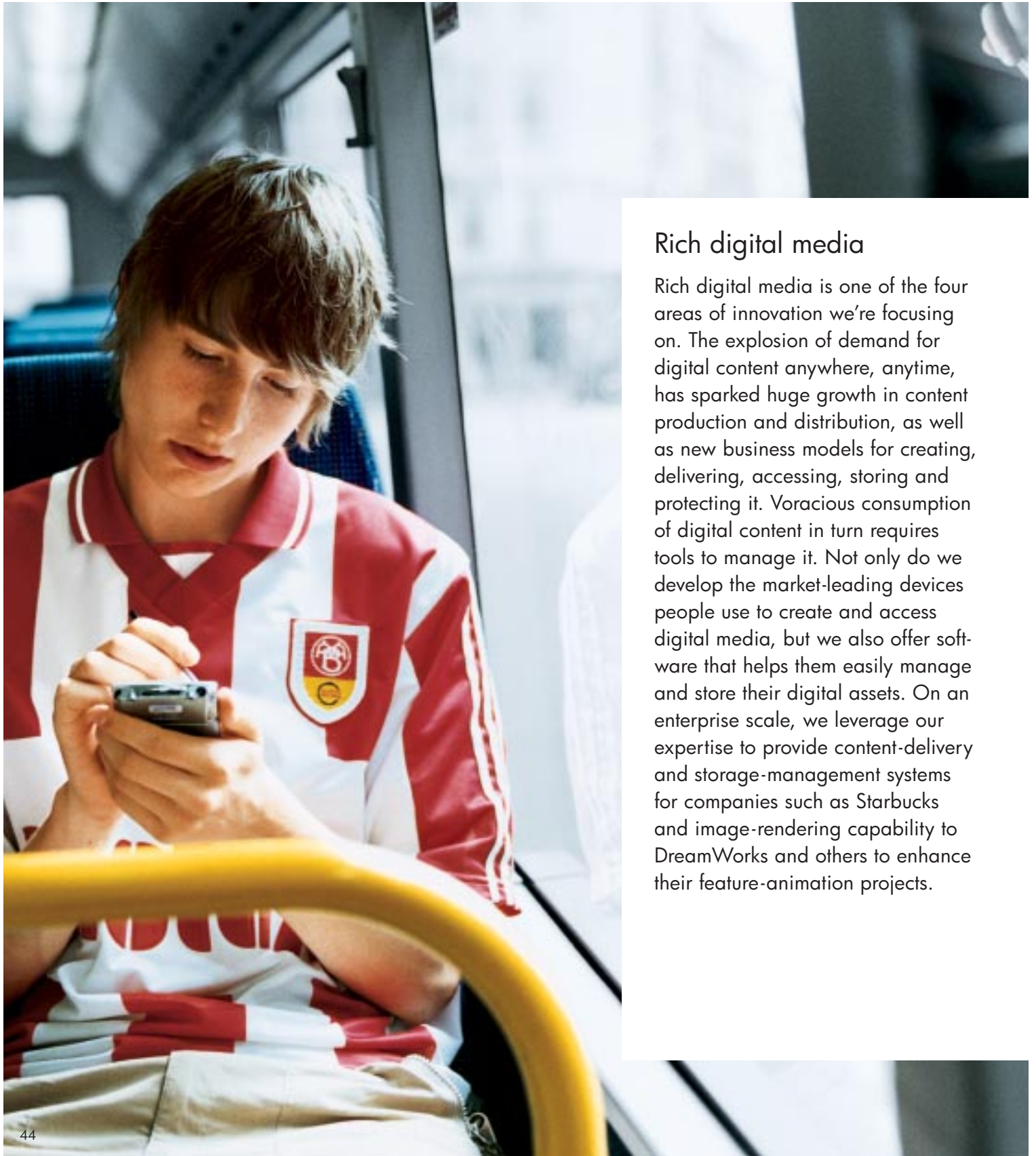
print cartridges so we can recycle them. Finally, we manage our \$52 billion supply chain to improve our environmental performance, following a Supply Chain Social and Environmental Responsibility policy with a Supplier Code of Conduct that addresses employment, environment, health and labor policies, and safety practices.

Education. Good education is essential to the advancement of information technology, which requires people skilled in computer science and electrical engineering. In too many regions of the world, not enough people are being trained in these subjects to keep up with the pace of change. In 2003, HP invested millions of dollars in education around the world — from educational grants targeted at institutions serving low-income and ethnically diverse students, to equipment, technical support and services to schools and universities. Thousands of HP employees worldwide also dedicated their time to tutor in schools.

Employee giving. Our annual U.S. Charitable Giving Campaign matches employee giving with company funds, up to \$1,000 per employee. We run similar programs in Canada and Singapore, and are looking for ways to extend the programs globally. In our 2003 annual giving campaign, the U.S. campaign raised \$10.6 million through employee and company cash contributions combined, as well as product gifts valued at \$1.6 million.

A unique focus on innovation HP has a long history of invention and innovation; our goal this year has been to ensure that our technology and business strategies are completely interlinked, so that our invention serves distinct business goals and adds differentiated value for our customers. We invest in areas where we believe we can make a unique contribution and lead, and partner for the rest. Specifically, HP R&D is now focused on four key growth areas—rich digital media, mobility, management software and security—which can be leveraged across the breadth of our offerings to

benefit a wide spectrum of customers. After all, enterprises, SMBs and consumers might have different needs, but often the technology requirements to meet those needs are the same: that it be easy to use and manage. Our technology delivers on these requirements, while also serving our strategy of delivering high-tech, low-cost solutions with the best customer experience. In addition to the focused areas of innovation, HP Labs continues to research future-looking technologies such as nanotechnology, to ensure we are investing in long-term growth and competitiveness.



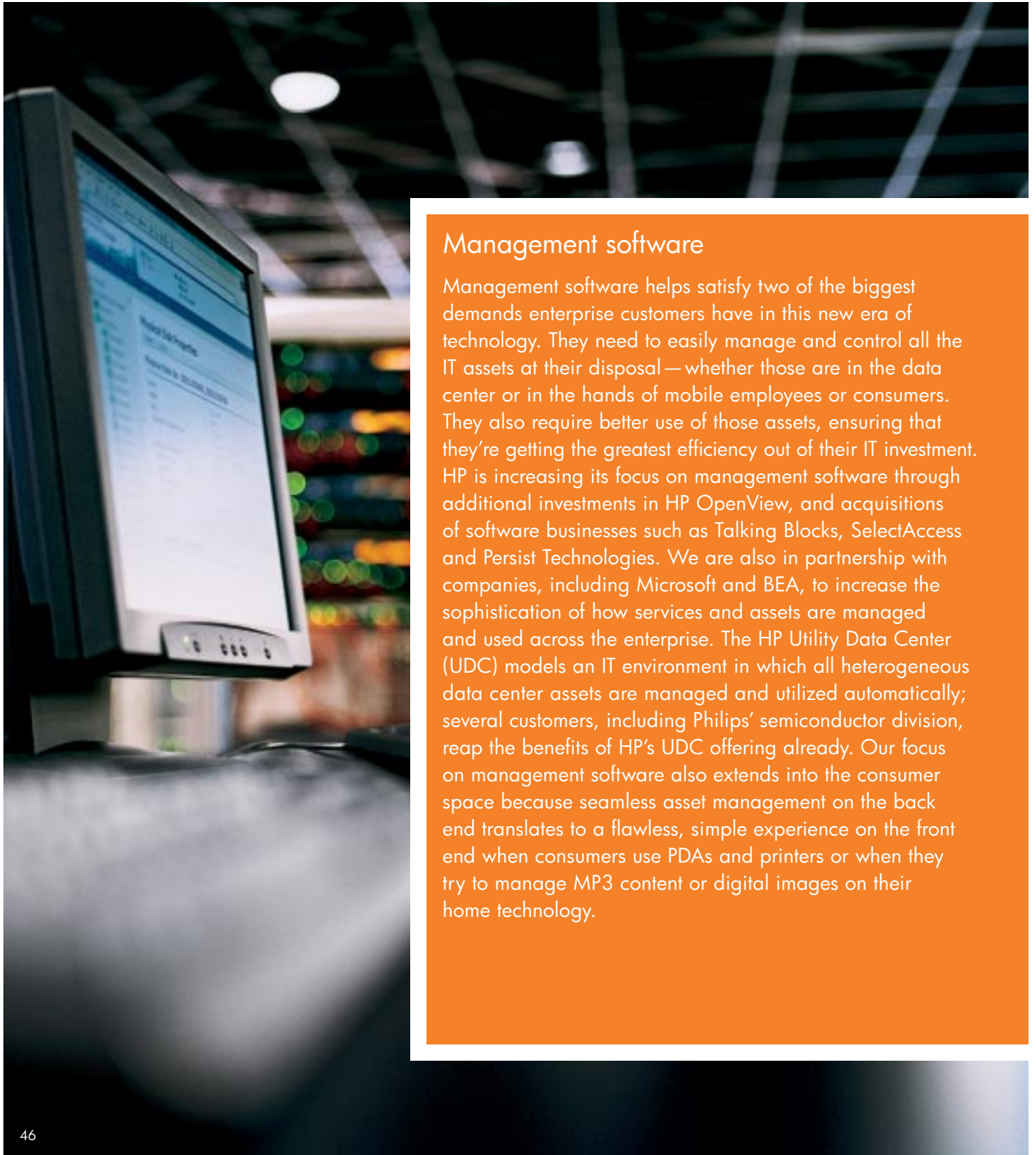
Rich digital media

Rich digital media is one of the four areas of innovation we're focusing on. The explosion of demand for digital content anywhere, anytime, has sparked huge growth in content production and distribution, as well as new business models for creating, delivering, accessing, storing and protecting it. Voracious consumption of digital content in turn requires tools to manage it. Not only do we develop the market-leading devices people use to create and access digital media, but we also offer software that helps them easily manage and store their digital assets. On an enterprise scale, we leverage our expertise to provide content-delivery and storage-management systems for companies such as Starbucks and image-rendering capability to DreamWorks and others to enhance their feature-animation projects.

A man in a light blue shirt is shown in profile, talking on a mobile phone. He is in a server room, with rows of blue server racks visible in the background. The image is slightly blurred, suggesting movement or a candid moment. The overall color palette is dominated by the blue of the server racks and the light blue of the man's shirt.

Mobility

Network and communications technology has made it possible to conduct business and access digital information almost anywhere. New services let people stay productive while on the go; meanwhile, the decline in demand for voice services has sparked an imperative for network service providers (NSPs) to offer data services to leverage their network investments and satisfy customers. HP has a long history of innovation in the area of mobility, with leadership in handholds and notebooks to fault-tolerant servers, which form the backbone of the telecommunications industry. Specifically, we're driving the next wave of mobile productivity with our leadership in public and wireless local-area networks (deploying more than 2,900 Wi-Fi hot spots worldwide) and by applying imaging software, drivers and Bluetooth printing technology so that people can print from their mobile phones. Through our HP Services teams, NSP support teams and device innovation, we're delivering seamless connectivity and simplified billing as people use their wireless devices and wander between Wi-Fi and General Packet Radio Service (GPRS) zones. Finally, we're focusing on Internet-protocol (IP) telephony technology to leverage IP networks for voice and video communication — driving cost savings for service providers and consumers alike.

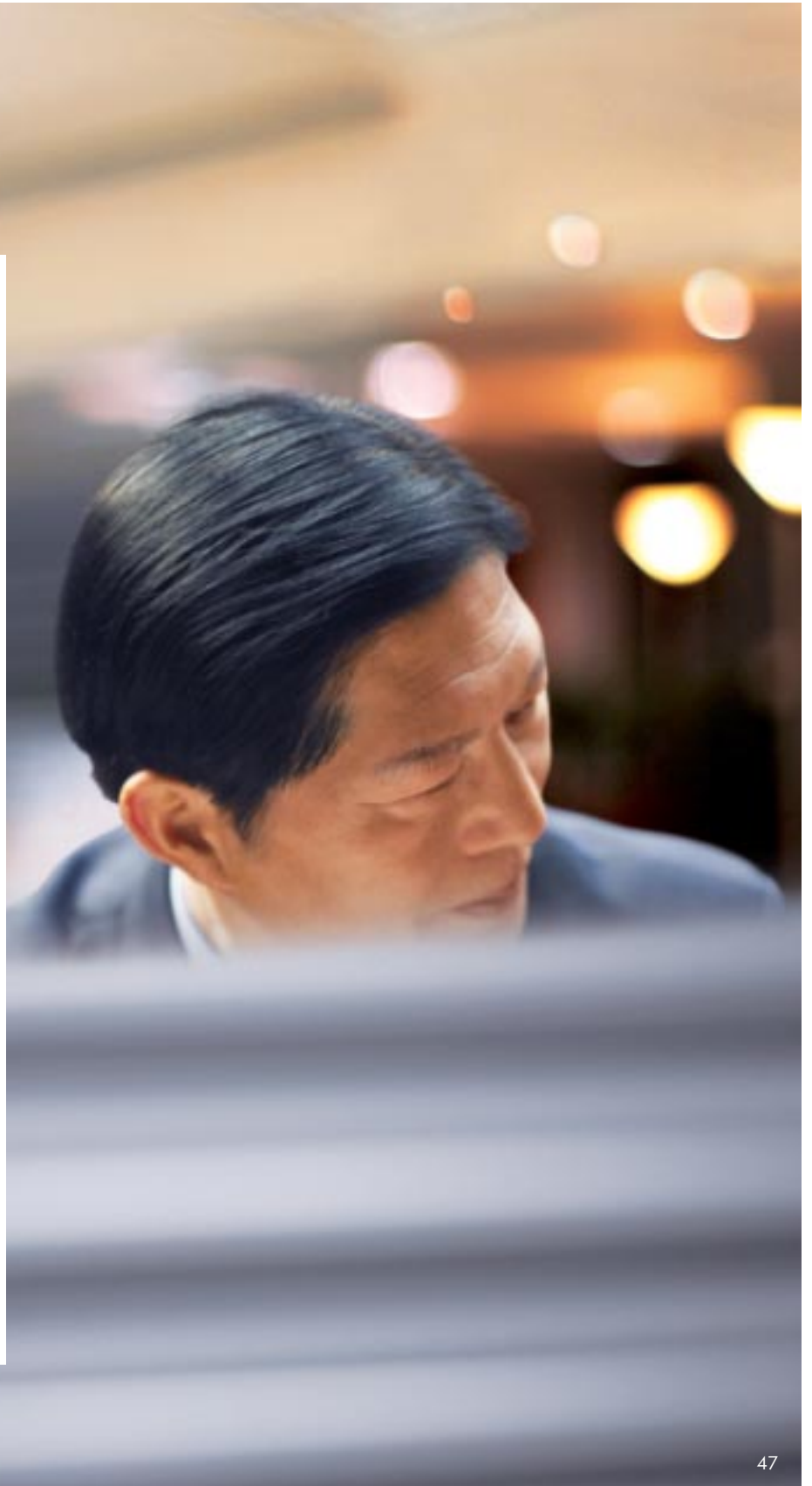


Management software

Management software helps satisfy two of the biggest demands enterprise customers have in this new era of technology. They need to easily manage and control all the IT assets at their disposal — whether those are in the data center or in the hands of mobile employees or consumers. They also require better use of those assets, ensuring that they're getting the greatest efficiency out of their IT investment. HP is increasing its focus on management software through additional investments in HP OpenView, and acquisitions of software businesses such as Talking Blocks, SelectAccess and Persist Technologies. We are also in partnership with companies, including Microsoft and BEA, to increase the sophistication of how services and assets are managed and used across the enterprise. The HP Utility Data Center (UDC) models an IT environment in which all heterogeneous data center assets are managed and utilized automatically; several customers, including Philips' semiconductor division, reap the benefits of HP's UDC offering already. Our focus on management software also extends into the consumer space because seamless asset management on the back end translates to a flawless, simple experience on the front end when consumers use PDAs and printers or when they try to manage MP3 content or digital images on their home technology.

Security

Security is top of mind for consumers and businesses alike. Consumers want to know that their personal information and privacy are honored by the companies they do business with, especially over wireless networks; businesses want to stay in business by inoculating their networks against security threats, protecting their intellectual property and applying unique organic models to automate protection. Our contribution will help our business customers stay up and running in spite of threats and attacks on systems, which today have become a common occurrence. We will continue to protect consumers' privacy by putting customers in control of indicating how their information will be used, and by participating in Safe Harbor, the de facto global standard for enabling the safe and legal transfer of personal data across national borders. By leveraging our IT infrastructure technology, management software, partnerships and services, we bolster our reputation for ensuring trustworthy technology and interactions.



For the record

Forward-looking statements

This document contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of Hewlett-Packard Company and its consolidated subsidiaries to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of earnings, revenue, costs or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new products, services, developments, anticipated performance of products or services, or industry or product rankings; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to above include the performance of contracts by vendors, customers and partners; employee management issues; the challenge of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; complexities of global political and economic developments; and other risks and assumptions that are described from time to time in HP's Securities and Exchange Commission reports, including but not limited to the annual report on form 10-K for the year ended October 31, 2003, and reports filed after the form 10-K.

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.

Directors elected in 2003

Carleton S. Fiorina

Chairman and Chief Executive Officer
Hewlett-Packard Company

Lawrence T. Babbio, Jr.

Vice Chairman and President
Verizon Communications, Inc.
Wireless communications

Philip M. Condit

Retired Chairman and Chief Executive Officer
The Boeing Company
An aerospace manufacturer

Patricia C. Dunn

Vice Chairman
Barclays Global Investors
A global investment firm

Sam Ginn

Retired Chairman
Vodafone AirTouch Plc.
Wireless communications

Richard A. Hackborn

Former Chairman and Retired Executive Vice President
Computer Products Organization
Hewlett-Packard Company

Dr. George A. Keyworth II

Chairman and Senior Fellow
The Progress & Freedom Foundation
A public policy research institute

Robert E. Knowling, Jr.

Chief Executive Officer
New York City Leadership Academy
A leadership program of the
New York City Board of Education

Sanford M. Litvack

Partner
Quinn Emanuel Urquhart Oliver & Hedges LLP
A law firm

Thomas J. Perkins

Partner
Kleiner Perkins Caufield & Byers
A venture capital firm

Lucille S. Salhany

President and Chief Executive Officer
JH Media
A consulting company

Committees of the board

Audit Committee:

Dunn (Chair), Babbio, Keyworth, Knowling, Litvack

HR and Compensation Committee:

Condit (Chair), Ginn, Perkins, Salhany

Finance and Investment Committee:

Babbio (Chair), Dunn, Knowling, Litvack

Nominating and Governance Committee:

Ginn (Chair), Condit, Salhany

Technology Committee:

Perkins (Chair), Babbio, Hackborn, Keyworth

Executive Officers

Carleton S. Fiorina

Chairman and Chief Executive Officer

Robert P. Wayman

Executive Vice President
Chief Financial Officer

Ann O. Baskins

Senior Vice President
General Counsel and Secretary

Peter Blackmore

Executive Vice President
Enterprise Systems Group

Gilles Bouchard

Executive Vice President
Chief Information Officer

Charles N. Charnas*

Vice President
Deputy General Counsel and Assistant Secretary

Debra L. Dunn

Senior Vice President
Corporate Affairs

Jon E. Flaxman

Senior Vice President
Controller

Allison Johnson

Senior Vice President
Global Brand and Communications

Vyomesh Joshi

Executive Vice President
Imaging and Printing Group

Richard H. Lampman

Senior Vice President
Director of HP Labs

Catherine A. Lesjak

Senior Vice President
Treasurer

Ann M. Livermore

Executive Vice President
HP Services

Stephen J. Pavlovich

Vice President
Investor Relations

Marcela Perez de Alonso

Executive Vice President
Human Resources and Workforce Development

Shane V. Robison

Executive Vice President
Chief Strategy and Technology Officer

Michael J. Winkler

Executive Vice President
Chief Marketing Officer

Duane E. Zitzner

Executive Vice President
Personal Systems Group

* Non-Section 16 board-elected officer.

All other officers above are executive officers of HP under Section 16 of the Securities Exchange Act of 1934, as amended.

Shareowner information

The annual meeting will be held at the time and place indicated in HP's proxy statement for the 2004 annual meeting of shareowners.

Investor information

Current and prospective HP investors can access financial information on the web at: <http://www.hp.com/hpinfo/investor>. Requests to receive the latest annual report, proxy statement, 10-K, 10-Qs, earnings announcements and other publications at no cost can be made by calling (866) 438-4771 in the United States and Canada or (402) 572-4975 for international callers, or by ordering online: <http://investor.hp.com/docreq.cfm>.

Transfer agent and registrar; dividend reinvestment program

Please contact HP's transfer agent, at the phone number or address listed below, with questions concerning stock certificates, dividend checks, transfer of ownership or other matters pertaining to your stock account.

Computershare Investor Services
Shareholder Services
Post Office Box A3504
Chicago, Illinois 60690-3504
1-800-286-5977 (from the U.S.)
(312) 360-5138 (outside the U.S.)

A dividend reinvestment and stock purchase program is also available through Computershare. For information on this program, please contact Computershare at the following address or the phone number listed above:

Computershare Trust Company
Dividend Reinvestment Services
Post Office Box A3309
Chicago, Illinois 60690-3504

Common stock and dividends

Hewlett-Packard Company is listed on the New York and Pacific stock exchanges, with the ticker symbol HPQ. HP has paid cash dividends each year since 1965. The current rate is \$0.08 per share per quarter. As of October 31, 2003, there were approximately 154,800 shareowners of record.

Corporate information

Headquarters

3000 Hanover Street
Palo Alto, California 94304-1112
Telephone: (650) 857-1501

Regional headquarters

Americas
20555 SH 249
Houston, Texas 77070
Telephone: (281) 370-0670

Europe, Africa, Middle East
Route du Nant-d'Avril 150
CH-1217 Meyrin 2
Geneva, Switzerland
Telephone: (4122) 780-8111

Asia Pacific
19/F Cityplaza One
1111 King's Road
Taikoo Shing, Hong Kong
Telephone: (852) 2599-7777

This document is printed on 10 percent post-consumer recycled paper, which was manufactured using an elemental, chlorine-free process and conforms to the criteria of the Sustainable Forestry Initiative (SFI). In addition, the printing company selected by HP for this report uses printing technologies that have been specially designed to minimize emissions.

www.hp.com

© 2004 Hewlett-Packard Development Company, L.P. The information contained herein is subject to change without notice. The only warranties for HP products and services are set forth in the express warranty statements accompanying such products and services. Nothing herein should be construed as constituting an additional warranty. HP shall not be liable for technical or editorial errors or omissions contained herein. Windows® is a registered trademark of Microsoft Corporation. UNIX® is a registered trademark of The Open Group.



= everything is possible



5982.3025EN 01/2004

