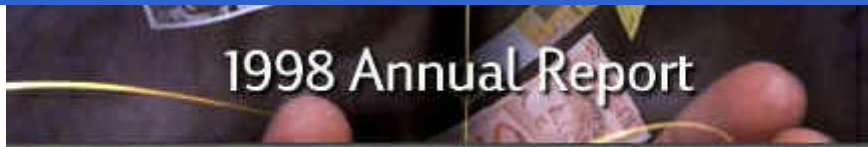




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During 1998, electronic commerce moved to the business mainstream. This is an exciting opportunity for HP, and we're well-positioned to succeed. Our online-commerce efforts emphasized three solution areas: the Web storefront, transaction security and electronic payments.

For the Web storefront, our goal is to help customers succeed in their electronic-commerce efforts. We want to make "virtual shopping" a compelling experience. This year we introduced our Web Quality of Service (QoS) program as a key to achieving this goal.

Web QoS combines our capabilities in servers, measurement and management to improve service-level guarantees on the Internet. We're working with our application, database and networking partners to allow businesses and consumers to prioritize demand on Web sites and to provide reliable service even during peak usage.



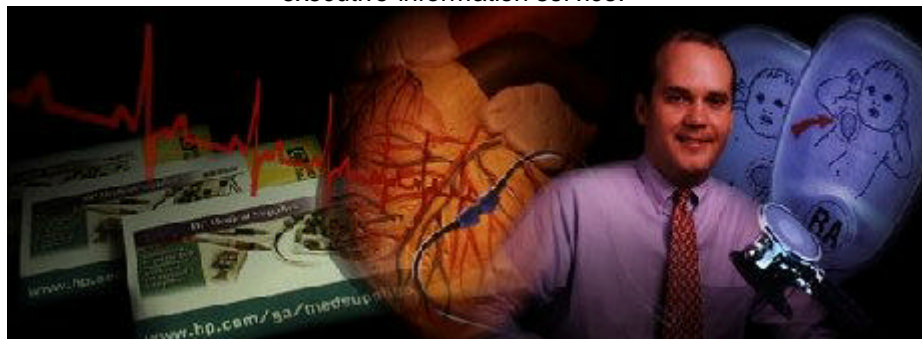
Forenings Sparbanken AB

ForeningsSparbanken AB (Swedbank) is the largest savings-bank group in Scandinavia and a technology innovator. Working with HP VeriFone and Point AB, VeriFone's distributor in Sweden, ForeningsSparbanken AB (Swedbank) is spearheading that nation's Electronic Purse initiative. The Electronic Purse initiative enables Swedish citizens to carry cash electronically on smart cards, which they use for a wide variety of traditional cash transactions, such as paying for parking. In addition, Swedish consumers will now be able to download cash from their bank accounts to their smart cards using VeriFone's Personal Automatic Teller Machine and VeriSmart software. "The flexibility and ease of use that VeriFone make possible are critical to the success of the Electronic Purse," says Jan Liden, senior vice-president at ForeningsSparbanken AB (Swedbank).

Our imaging capabilities are also helping customers optimize the commercial power of the Internet. This year we unveiled HP OpenPix Imagenite software, which enables users to zoom in on, pan and share Internet photos, and to take full advantage of HP's photographic-quality print capabilities. HP OpenPix software also enables Web site owners to track and analyze how users interact with images.

Our "Imagenite Your Site" program is designed to speed businesses' use of the compelling images this software makes possible. Companies from Levi Strauss and Liz Claiborne to online merchants such as fatface.com and ubarter.com are using OpenPix Imagenite.

We also rolled out the Electronic Solutions. Now (ESN) program, through which we are creating customized Web sites for our largest enterprise customers. ESN allows these customers to access a range of secure electronic services, including information on products and configurations, account-specific pricing, ordering, order status and support. ESN also provides customized account information and a monthly executive-information service.



BryanLGH

When Edvard Rutmanis needs to order electrodes for defibrill blood-pressure cuffs or hundreds of other medical supplies accessories from HP, he logs on to a customized online order Web site developed for him by HP's Medical Supplies Business Unit. The site enables Edvard, a buyer for BryanLGH Medical Center in Lincoln, Nebraska, to find the items he's looking for product number, instrument number or key-word search. The site also has BryanLGH's account contract price for every price. "I really like the fact that I can order what I need, when I need my schedule," says Edvard. "It's also very convenient to have prices right there on the site."

This year we also created a rich online shopping experience for our customers. Launched in November 1997, the HP Commerce Center is a Web site at which individuals, as well as small and medium-sized businesses, can order a wide range of peripheral PCs and PC servers. Resellers such as Avnet, Inacom and CompUSA fill the orders in the United States. Through the year we expanded both the range of products offered and the reseller program, and customer response has been very encouraging. We opened similar online commerce centers in Asia Pacific and Europe during the year.

Transaction security refers to our products and technologies that make transactions secure and private for consumers and merchants. Our HP VirtualVault technology is a high-security version of the HP-UX operating system that protects Web content and internal databases. During 1998, HP VirtualVault won widespread market acceptance. More than 100 banks in 22 countries are using HP VirtualVault as part of their Internet security, and the product was named "Best General Security Product of 1998" by *Security Computing* magazine, a leading trade publication.

Our electronic-payment efforts are designed to enable seamless commerce across the physical and virtual worlds for merchants, financial institutions and consumers. HP VeriFone is leading the work in this area. VeriFone is the world's largest supplier of electronic-payment solutions, including point-of-sale terminal smart-card readers and software for secure Internet payment. This year VeriFone extended its market leadership with major implementations at Blockbuster Entertainment, Rite Aid Pharmacy and CVS Drugs, as well as with the rollout of an extensive smart-card solution for McDonald's in Germany.

VeriFone also deployed secure Internet payment software to financial institutions and merchants around the world, including software that utilizes the Secure Electronic Transaction (SET) protocol developed by VISA and MasterCard.

In 1998, VeriFone was a founding member, along with EDS and HP, of the Global e-Commerce Forum, an industry group whose goal is to provide a unified voice for defining and driving a variety of electronic-commerce initiatives.