Hewlett-Packard Company

HEWLETT PACKARD COMPANY

1981 ANNUAL REPORT

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HEWLETT-PACKARD REPORT FOR THE FISCAL YEAR ENDED OCTOBER 31, 1981

FINANCIAL HIGHLIGHTS
(Millions of dollars)

	1981	1980
Domestic orders	1,918	1,517
International orders	1,789	1,623
Total orders	3,707	3,140
Net sales	3,578	3,099
Earnings before taxes	580	523
Provision for taxes	268	254
Net earnings	312	269
Net earnings per share	$2.55	$2.23*

*Restated to give effect to the 2-for-1 stock split in June, 1981.

CONTENTS

DAVID PACKARD, WILLIAM R. HEWLETT, JOHN A. YOUNG

TO OUR SHAREHOLDERS

Despite continuing adverse economic conditions in the U.S. and abroad, Hewlett-Packard achieved satisfactory growth and progress in 1981. Sales, earnings, and incoming orders were well above those of a year ago, and the company was able to sustain employment growth, maintain a strong product development effort, and further strengthen its financial position.

Net sales totaled $3.58 billion, up 15 percent from fiscal 1980. Net earnings increased 16 percent to $312 million. Earnings per share amounted to $2.55 on approximately 123 million shares of common stock outstanding, up 14 percent from $2.23 a share (restated to reflect the two-for-one stock split during 1981) on slightly fewer shares.

Incoming orders during 1981 amounted to $3.71 billion, 18 percent above the $3.14 billion booked in fiscal 1980. Order backlog at year-end stood at $761 million, compared with backlog of $619 million at the beginning of the fiscal year.

Our fourth quarter performance was generally disappointing. Net sales, although a record $1 billion, were somewhat below projections, and incoming orders were considerably lower than expectations. These shortfalls, coupled with a high level of committed expenses for new product development and product introductions, placed increased pressures on our operating profit. In fact, fourth quarter net earnings would have declined slightly compared to those of the corresponding period a year ago had it not been for two changes during this year's fourth quarter.

One of these was a $14 million reduction in accrued pension expense for the year, which increased net earnings by $7 million (six cents a share). This action followed a scheduled, five-year review of the company's U.S. Supplemental Pension Plan. The review indicated that initial funding assumptions, made at the time of the Plan's inception in 1976, should be modified, resulting in substantially lower company contributions for 1981 and future years. The new funding assumptions will not affect Plan benefits for employees.

The second change relates to the Economic Recovery Tax Act of 1981. Under provisions of the Act, the company realized an $8 million reduction in income taxes, equal to seven cents a share.

Without these two adjustments, the company's net earnings for the year would have been $297 million, up 10 percent from 1980.

While the results were varied, all of our business segments contributed to sales and earnings growth in 1981. As can be determined from the table on page 24, electronic data products sales were up 17 percent over the previous year. Earnings before taxes for this segment grew at a lesser rate of 12 percent, reflecting in part a high level of product development and marketing expenses associated with some major product introductions in the latter part of the year.

The electronic test and measurement segment reported a 12 percent increase in sales and a 5 percent increase in earnings before taxes. This imbalance was due to several factors including committed expenses for R&D programs in progress; costs involved in new plant start-ups already underway; and weak electronic component markets, particularly overseas.

The medical electronic equipment segment recorded its second consecutive year of substantial growth. Sales were up 19 percent and earnings before taxes increased 35 percent. This segment's performance benefitted from a broadened product line and a strengthening health care market.

Our analytical instrumentation segment had a gain of 16 percent in sales and a 31 percent increase in earnings before taxes. Sales growth was slightly below expectations, reflecting a depressed chemical industry market and a shift in emphasis in Federal environmental control regulations. Effective cost and expense controls helped augment the segment's profit performance.

Considering the soft world economy, we were generally pleased with the relative strength of incoming orders in 1981.

Domestic orders of $1.92 billion accounted for 52 percent of total orders, and were up 26 percent over 1980. Variations in quarterly domestic order levels during 1981 reflected the continuing uncertainties in the U.S. economy, a condition that will probably extend at least through the first half of 1982.

International orders amounted to $1.79 billion, a gain of 10 percent over the previous year. With the exception of the first quarter, 1981, international quarter-to-quarter order levels have declined since mid-1980. In part, this slowing trend reflects the prolonged recessionary climate in Western Europe. It also reflects the rapid appreciation of the U.S. dollar against other major currencies, which negatively influenced our competitiveness abroad. Both of these factors very likely will persist throughout most of 1982.

By business segment, orders for the year were $1.86 billion for electronic data products, up 24 percent over 1980; $1.38 billion for electronic test and measurement, an increase of 12 percent; $284 million for medical electronic equipment, up 13 percent; and $184 million for analytical instrumentation, up 16 percent. In fiscal year 1981, these segments represented 50 percent, 37 percent, 8 percent, and 5 percent of total orders, respectively.

As we have stated many times in the past, new products are fundamental to the company's growth. Not as evident perhaps is their importance during periods of slow economic growth. As an example, HP products introduced during the past two years accounted for one-third of product orders in 1981. A product "vintage" chart on page 5 portrays the contribution of new products to order growth over the past five years. The section that follows the chart describes and illustrates a number of the many products introduced during the year, including several developed by our international divisions.

Historically, we have spent about nine percent of sales annually for product development programs. In 1981, research and development expenditures were $347 million, representing 9.7 percent of sales. This higher-than-projected percentage was due primarily to the shortfall in sales volume, and to the emphasis placed on accelerating the lab-to-production cycle for new products. The products already introduced as a result of this R&D effort, and those scheduled for introduction in the months ahead, are expected to make an important contribution to 1982 sales volume.

HP's capital expenditures in 1981 were $318 million, compared with $297 million in 1980. Construction was completed on 1,387,000 square feet of additional plant capacity, and on new sales and service offices totaling 371,000 square feet. Our new 478,000 square-foot corporate headquarters building in Palo Alto was completed and occupied during the fiscal year.

Construction was started on new plants and additions that will provide 1,254,000 square feet of capacity, and on several new sales and service offices totaling 467,000 square feet.

Also during the fiscal year, the company purchased property in Colorado Springs, Colorado; Lake Stevens, Washington; and Bristol, England, and obtained an option on land in Lyon, France, for future plant sites.

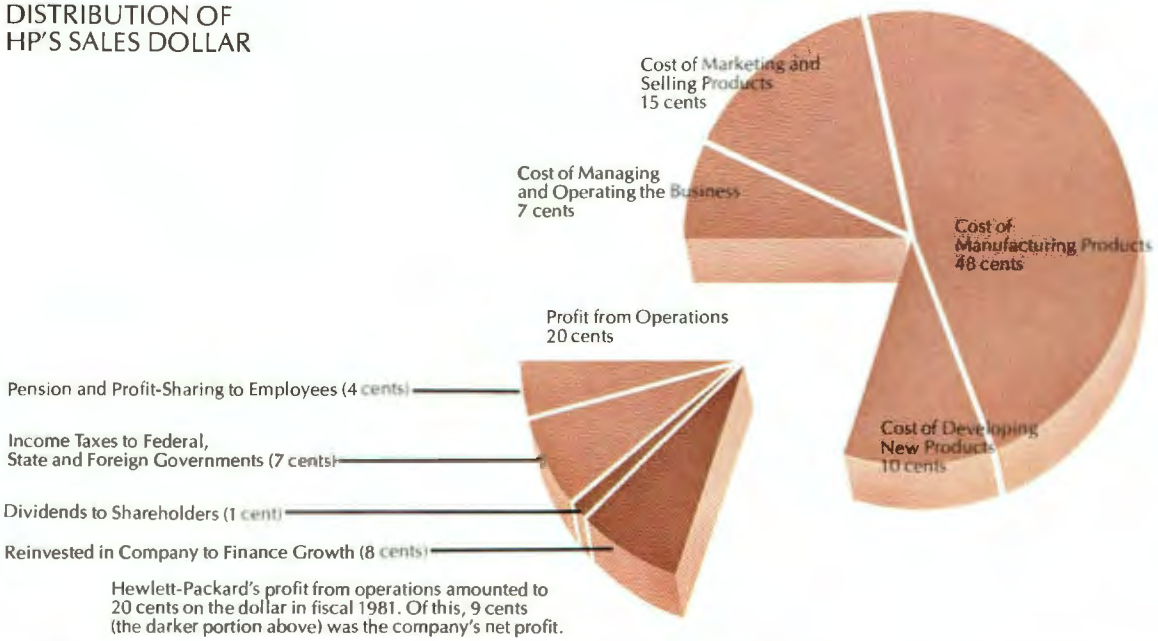
We estimate that our capital expenditures in 1982 will be about $480 million. Although this is a substantial increase, we believe it is appropriate in view of the additional plant capacity that will be needed to support the anticipated growth in HP's business over the next several years. We also will be investing a substantial portion of these funds in machinery and equipment to achieve further improvements in manufacturing and engineering productivity. Our capital expenditure programs will be reviewed periodically throughout the year so that adjustments can be made if a serious downturn in the economy should occur.

Consistent with our long-standing policy, we intend to finance these and other capital requirements with internally-generated funds such as reinvested earnings and proceeds from employee stock purchases. As the financial statements indicate, we are well positioned to do this.

Funds provided from operations in 1981 totaled $485 million, a 25 percent increase from 1980. At fiscal year-end, our net cash position was $146 million, up from $104 million a year ago. Long-term debt, primarily foreign borrowings, was $26 million, down $3 million from 1980.

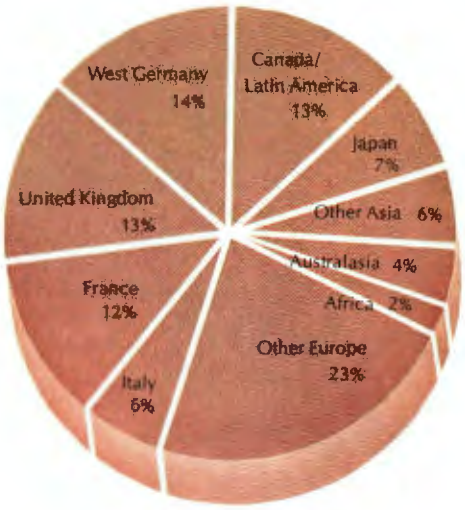
With the addition of some 7,000 employees in 1981, our year-end employment was approximately 64,000. Of this number, about 47,000 are employed in the U.S. The company's hiring, training and development practices this past year continued to reflect HP's long-standing commitment to equal employment opportunity and affirmative action. Information about the company's activities in these areas, including a statistical review, is provided in the Public Concerns section of this report.

DISTRIBUTION OF
HP'S SALES DOLLAR



Hewlett-Packard's profit from operations amounted to 20 cents on the dollar in fiscal 1981. Of this, 9 cents (the darker portion above) was the company's net profit.

GEOGRAPHICAL DISTRIBUTION OF INTERNATIONAL ORDERS
(Fiscal 1981)



Of HP's total orders in 1981, 48 percent, or $1.79 billion, came from international customers. The chart shows a percentage breakout of the company's international business by geographic regions.

At its meeting last May, the board of directors voted a two-for-one split of the company's common stock, effective in June, 1981. The board also increased the cash dividend payout rate by 20 percent, declaring a regular quarterly dividend of six cents a share (up from five cents adjusted for the split) on the increased number of shares. Concurrent with this action, the number of authorized and outstanding shares was doubled. At fiscal year-end, there were approximately 123 million shares outstanding.

At the July board meeting, Richard C. Alberding and Franco Mariotti were elected vice presidents of the company. Mr. Alberding joined HP in 1958, and serves as general manager of the Medical Products Group, a position he has held since 1977. Mr. Mariotti, who has been with HP since 1960, was named vice president-Europe. He is based in Switzerland and has overseen all HP manufacturing and marketing activities in Europe since 1977.

Elected senior vice presidents at the July meeting were William P. Doolittle, who has headed HP's international operations since 1961; Alfred P. Oliverio, head of corporate marketing since 1974; and Edwin E. van Bronkhorst, corporate treasurer since 1957 and chief financial officer.

Two highly-valued members of the board retired in 1981. Francis Moseley retired in February, after 15 years of distinguished service as a director. Mr. Moseley is a friend and associate of long-standing, and we are very appreciative of the experience and counsel he brought to the board over the years. Dr. Bernard M. Oliver retired as an officer and director of the company at the end of May. He had an outstanding 29-year career with HP as head of corporate research and development activities, and we are pleased to report that he is continuing to serve the company as technical advisor to the president.

Earlier in the year, we were privileged to have Harold J. Haynes join the board. Mr. Haynes, who retired in 1981 as chairman of the board and chief executive officer of Standard Oil Company of California, brings to the board an extensive background of executive management and industrial knowledge.

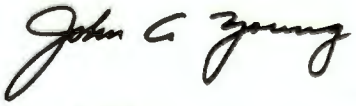
It appears that the electronics industry and our company will experience continued economic pressures well into 1982. The U.S. economy very likely will not show any significant signs of recovery until mid-year, and we do not foresee any appreciable improvement in international markets, particularly in Western Europe, much before late-1982. Therefore, we will be monitoring order levels very carefully throughout the year, and will couple this with increased emphasis on cost, expense, and hiring controls.

The outlook is not entirely negative, however. Hewlett-Packard is entering 1982 with many areas of strength. As this new fiscal year started, the company introduced an array of computer products for the office systems market, and a number of other significant products from each business segment are scheduled for introduction in the months ahead. These products, along with U.S. tax incentives related to investment and research and development, should help stimulate orders. Additionally, HP is entering the year in excellent financial position, and with a strong and resilient worldwide organization.

Barring any further deterioration in the economy, the company's new products should provide a firm base for growth in 1982. If the business climate improves markedly, we believe the company has the opportunity for a very good year.

David Packard
Chairman of the Board

William R. Hewlett
Chairman of the Executive Committee



John A. Young
President and Chief Executive Officer

December 21, 1981

NEW PRODUCTS: KEY TO GROWTH

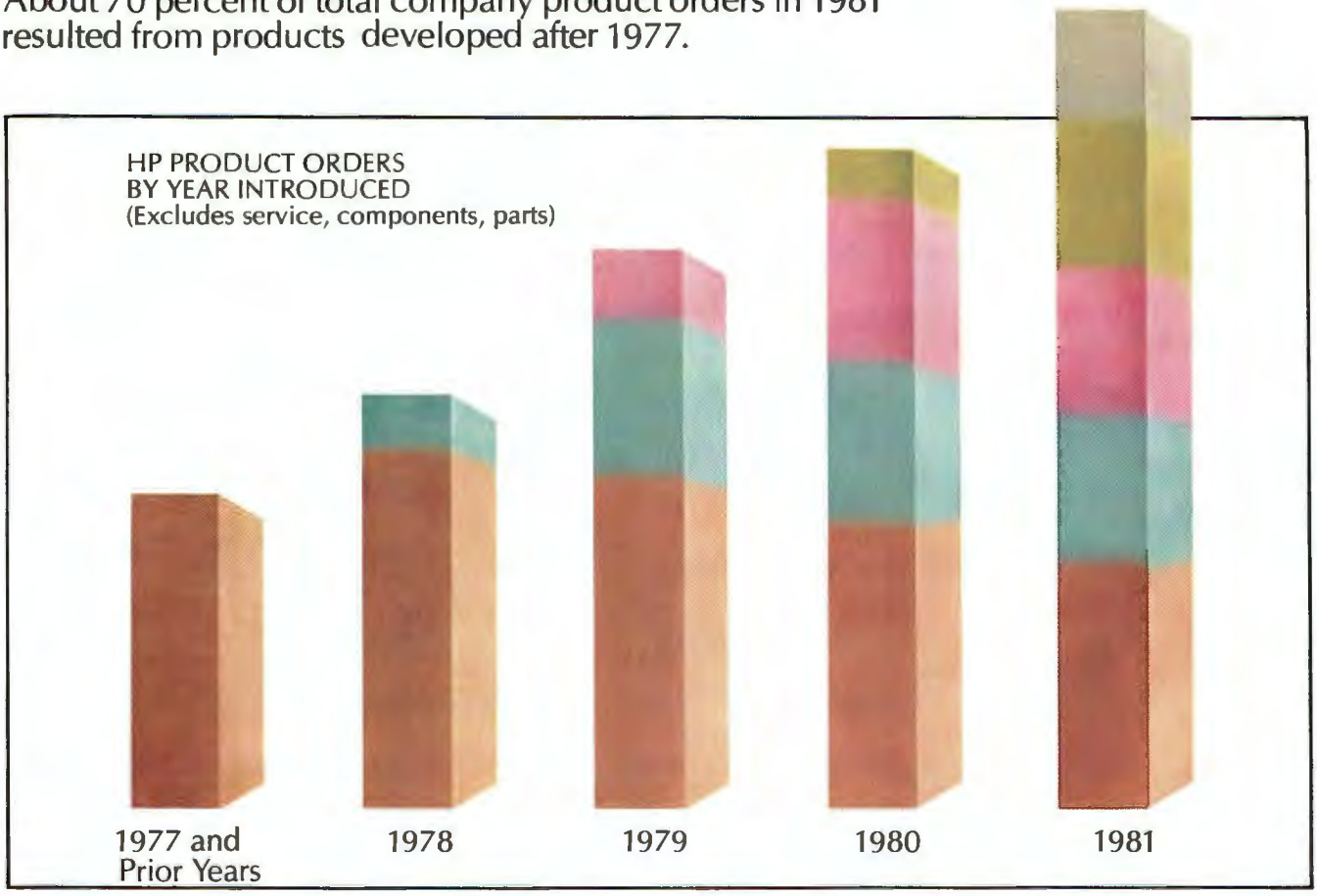
Hewlett-Packard participates in a dynamic, highly competitive industry, one that is at the forefront of technological progress. To maintain a position of leadership within the industry, the company places strong emphasis on research and development programs that generate new, and needed, products.

In 1981, HP invested more than nine cents of every sales dollar in its product development effort. This level of funding is traditional, and consistently places HP among the top U.S. industrial organizations ranked by the proportion of sales invested in product development.

Each of the company's operating divisions maintains its own product development program. These programs are augmented by Hewlett-Packard Laboratories, the corporate research and development organization.

Hewlett-Packard's growth comes from orders for new products introduced each year that—layer upon layer—build up total volume. The chart below portrays the importance of HP's new products in proportion to total orders. Each bar represents total product orders for one year, with the top section of the bar representing orders for products introduced during that year.

About 70 percent of total company product orders in 1981 resulted from products developed after 1977.



THIS COMPACT HP TERMINAL INSTANTLY PUTS MANAGERS IN TOUCH WITH INFORMATION IN THE COMPANY'S COMPUTER SYSTEM, YET CAN BE OPERATED WITH MINIMAL COMPUTER EXPERIENCE.

HP's INTERACTIVE OFFICE CONCEPT

- Document management
- Decision support
- Personal support
- Organizational communication

WITH HPWORD, THE COMPANY'S SECRETARIAL SYSTEM FOR WORD PROCESSING, CHANGES TO DOCUMENTS CAN BE MADE QUICKLY AND EASILY.

ALTHOUGH THE HP 125 IS A STAND-ALONE, PERSONAL OFFICE COMPUTER, IT HAS DATA-COMMUNICATIONS CAPABILITIES THAT ALLOW IT TO SHARE FILES WITH AN ASSOCIATED HP 3000 COMPUTER. IT CAN TRANSFORM COMPLEX BUSINESS INFORMATION INTO GRAPHICAL FORM FOR SUMMARIES AND PRESENTATIONS.

Hewlett-Packard entered the substantial and growing market for office computer systems in 1981. The company introduced a series of products designed to put computing power in the hands of a greatly increased number of individuals—from secretaries to managers.

New software packages and their supporting terminals, printers, and plotters are tied together by HP's "Interactive Office" concept. The concept builds upon the strengths of the HP 3000 business computer and the idea that the organization's information base must be available to individual users. The Interactive Office concept includes four broad classes of product capabilities listed on the accompanying chart.

Document management includes the creation, storage and retrieval of such items as letters, memos, forms, records and charts. Decision support allows users to produce graphs and charts to help make and explain business decisions. Personal support provides individual information management to assist in personal decision making. Organizational communication will enable users in one office to send, receive and print documents and messages throughout the organization.

These new tools are designed for use by most office workers—including those with minimal computer experience.

In 1982, HP plans to enhance its Interactive Office product package with electronic mail and electronic filing capabilities.

CHEMICAL ANALYSIS OF INDUSTRIAL EFFLUENT IS ONE APPLICATION FOR THE HP LAB AUTOMATION SYSTEM AT THE ENVIRONMENTAL TESTING AND CERTIFICATION CORPORATION IN EDISON, NEW JERSEY.

Hundreds of chemical analyses can be performed, completely unattended, from initial sample injection to final written report, using the capabilities of HP's family of analytical instruments and associated computers.

HP's efforts to automate the analytical process have focused on two fronts. The first is to simplify operator interactions with equipment, while producing results more quickly and with greater accuracy. The second is to continue improving the computational capabilities of lab systems that acquire, correlate, and store the data gathered by the analytical instruments.

Today, HP's lab automation systems can control and analyze data from as many as 60 instruments. The systems can also be used for such tasks as switching valves, controlling automatic samplers and running other devices.

HP'S NEW FINANCIAL CALCULATOR.

Purchasing a home in today's world of double-digit interest rates that have spawned creative owner financing and shared-appreciation mortgages poses computational challenges that traditional real estate "blue books" don't answer.

HP's newest financial calculator features built-in programs to solve these and other time-and-money problems: investment opportunities involving multiple cash flows, calculations of bond prices and yields, yearly depreciation schedules and more.

In addition to the built-in programs, the calculator can be programmed by the user to solve longer, more complex problems. And with its continuous memory feature, all programs and data remain intact, even when the calculator is turned off.

The electronic circuitry for the HP 12C financial model and its HP 11C scientific companion is contained in a small package located behind the liquid-crystal display. The display and the circuitry consume about four percent of the power of previous models, so these calculators will run on a set of disposable batteries for about a year.

The slim design of both models sets this new calculator family apart from the 27 handheld models HP has introduced since 1972.

AN HP 9826A DESKTOP COMPUTER IS PART OF A BENTLY NEVADA CORPORATION INFORMATION SYSTEM USED TO MONITOR ROTATING MACHINERY.

Hewlett-Packard introduced a minicomputer 15 years ago to solve a growing problem: the company's increasingly sophisticated test and measurement instrumentation produced raw data faster than any human could hope to interpret it.

By marrying its instruments and computers, HP gave its customers measurement information in a more useful form, as well as instruments with the ability to make decisions on the basis of their measurements.

Through the ensuing years HP has refined the ability of its instruments to "talk" to computers and other devices. The HP interface bus (HP-IB)—an HP-pioneered technology now accepted internationally as a standard for communication among instruments and computers—has been a major contributor to this achievement. Today, HP-IB provides plug-in compatibility among more than 190 HP products.

The new HP 9826A desktop computer is the premier tool available from HP for computer-aided test applications. It provides up to five times the computational speed of previous HP desktop computer models, but at the same price.

With new data communications software introduced in 1981, HP is now able to offer distributed systems network (DSN) intercommunications across all its technical and business computer product lines. Information from HP desktop computers can be shared with other computers across the room or around the world through DSN.

PLOTTER PRODUCES LARGE ENGINEERING AND SCIENTIFIC DRAWINGS.

NEW ELECTROCARDIOGRAPH TRACES ON LETTER-SIZED PAPER.

Instead of moving pen across paper, two new HP products move paper past pen to produce high-quality data displays. A large-format plotter for engineering applications and an innovative electrocardiograph (ECG) for the medical profession are the first HP products to feature the revolutionary paper-transport mechanism.

The new design was developed by engineers in HP's corporate research and development organization in conjunction with division product development specialists in Andover, Massachusetts and San Diego, California. The design features small, grit-covered wheels and rubber pinch wheels that move sheets of paper horizontally while a lightweight pen carriage operates in a perpendicular direction.

HP's new ECG provides annotated traces in a format appropriate for each medical patient. The patient record is produced on a letter-sized sheet of paper that can be stored in a standard file—thus eliminating the cutting, pasting, and mounting associated with older strip recorder printout.

The new large-format plotter is particularly well suited for applications where drawings as large as 24 by 46 inches must be prepared. Since the paper-transport mechanics are smaller and less costly than components in more traditional flat-bed and drum plotters, the plotter sells for about half the price of a comparable traditional machine.

NEW PRODUCT IS EXPLAINED BEFORE STUDIO AUDIENCE IN PALO ALTO, CALIFORNIA.

CONTROL ROOM SENDS VIDEO PROGRAM TO 38 SITES VIA SATELLITE.

HP SALESPEOPLE IN NEW YORK CITY OFFICE CALL WITH QUESTIONS DURING TELECAST.

Live television broadcasts from HP's studios in Palo Alto, California, are bringing new products, marketing experts and product designers into HP sales facilities throughout the U.S. and Canada via video.

In meeting rooms equipped with television monitors, HP sales people, customers and the press hear presentations and see demonstrations of new products. During the telecast, viewers are able to ask questions via telephone to an on-camera panel of experts.

Audio and video signals for HP's teleconferences are beamed to a communications satellite 22,000 miles in space and are received at the viewers' locations by dish antennae set up especially for the broadcast.

Soaring air fares and hotel rates have made video conferencing a cost-effective alternative to in-person gatherings. Costs for HP teleconferences in 1981 were projected to be half that of the traditional method of taking product introductions on the road.

AN HP 3000 COMPUTER AT FORD MOTOR COMPANY'S ENGINE DIVISION HELPS STREAMLINE RECEIVING AND WAREHOUSING PROCESSES.

COMPUTERIZED LABELS, WITH CHARACTERS FOUR TO SIX TIMES LARGER THAN STANDARD SIZE, MAKE IT EASIER TO LOCATE MATERIALS IN THE FORD WAREHOUSE. THE LABELS ARE PRODUCED ON AN HP PRINTER.

AT FORD'S DEARBORN, MICHIGAN, PLANT WHICH BUILDS ABOUT 2,200 ENGINES A DAY, AN HP COMPUTER PROVIDES INVENTORY CONTROL, TRACKS INSPECTIONS, SENDS A RECEIVING REPORT TO A CENTRAL COMPUTER, AND RECORDS ALL TRANSACTIONS WITH ACCOUNTS PAYABLE.

Today there are more than 8,000 installed HP 3000 computer systems in the world, ranking the system among the five most widely used general-purpose business computers available.

The HP 3000 is the company's most powerful business computer, and is used for inventory, general accounting, payroll, production scheduling, and many other activities in a range of companies from breweries to auto manufacturers.

This year, two new versions joined the family of HP 3000 computers—at the entry level and the top of the line. The least costly, the Series 40, outperforms the most powerful HP 3000s of only a year ago, yet it is priced 30 percent below the previous lowest-cost model.

At the top of the line is the new HP 3000 Series 64 Distributed Mainframe System. It is more than twice as powerful as the Series 44, HP's performance leader introduced in 1980, and can support as many as 144 terminals and workstation printers. Both new models retain full compatibility with other HP 3000s, preserving the software investment by customers with earlier models.

The family of HP 3000 computers plays a key role in the company's effort to place increasing numbers of cost-effective computers throughout organizations in the places where business information is put to work. As the power tools of management, these will multiply the effectiveness of the managers and other professionals who use them.

CARGO HANDLING IS TRACKED ON AN HP 3000 COMPUTER BY MARINE TERMINALS CORPORATION IN OAKLAND, CALIFORNIA.

CUSTOM GEARS ARE DESIGNED AT FAIRFIELD MANUFACTURING IN LAFAYETTE, INDIANA, ON AN HP DESKTOP COMPUTER.

HP's MANUFACTURERS' PRODUCTIVITY NETWORK CONCEPT

HP's strategy for the '80s includes development of products in the four application areas of MPN. Some of these products are available today.

HP COMPUTER GRAPHICS CONVEY BUSINESS INFORMATION FOR ADVANCED TECHNOLOGY SYSTEMS, A DIVISION OF THE AUSTIN COMPANY IN FAIR LAWN, NEW JERSEY.

HYLSA, S.A., A STEEL MANUFACTURER IN PUEBLA, MEXICO, USES HP 1000 COMPUTERS FOR PROCESS CONTROL.

Manufacturing companies will be able to tie together engineering, planning and control, factory automation, and office systems with a comprehensive concept introduced in 1981 by Hewlett-Packard.

The Manufacturers' Productivity Network (MPN), built around HP business and technical computers, allows companies to link computer applications and resources throughout their organization.

The intent of MPN is to allow a firm to begin with a single HP computer installation, serving one of the four application areas. Then as the organization and its needs grow, the computer systems can expand to serve all four areas. Beyond this, by adding networking products, new and higher levels of production efficiency can be reached by linking information from all areas under unified management.

For example, an engineering computer with a software package producing designs can greatly improve the productivity of the engineers who use it. When finished, the new designs can be transferred directly to production control computers via the HP network facilities—enabling a new product to move more quickly from engineering to manufacturing.

The MPN concept builds on individual products, some of which are available today from HP's computer and instrument product lines. HP will continue to add new products and improvements in all four areas of MPN.

LOGIC-CIRCUIT TESTING IS FASTER WITH THIS PROGRAMMABLE PULSE GENERATOR DESIGNED AND BUILT IN BOEBLINGEN, WEST GERMANY.

ENGINEERS AT YOKOGAWA-HEWLETT-PACKARD'S TOKYO PLANT INSPECT THEIR NEW LOW-FREQUENCY IMPEDANCE ANALYZER.

DEVELOPING SOFTWARE PRODUCTS FOR HP COMPUTERS IS PART OF THE RESPONSIBILITY OF R&D ENGINEERS AT WOKINGHAM, ENGLAND.

ENGINEERS AT HP'S OPERATION IN SINGAPORE EXAMINE THEIR LATEST DESIGN FOR HP DATA CARTRIDGE TAPES.

Hewlett-Packard opened its first manufacturing facility outside the United States in 1959. The factory, located in West Germany, focused first on manufacturing products which were designed and also made in the U.S.

After firmly establishing a manufacturing presence, the company began building a product development organization, staffed by the highly qualified technical people available in that country. The goal was to generate products not only for local markets, but for export to other countries as well.

Today, HP plants in West Germany, France, the United Kingdom, Japan, and Southeast Asia conduct a variety of local R&D programs. They are developing proprietary products in certain areas of technology in which they have a high level of interest and expertise, and which are not duplicated by any other HP units.

More than one-fifth of HP's overseas production consists of products developed by the international manufacturing subsidiaries. And several key product lines developed by international R&D teams also are manufactured at HP divisions in the U.S.

THE NEW HP HOSPITAL ACCOUNTING SYSTEM SIMPLIFIES THE PAPERWORK FOR PATIENTS BEING ADMITTED TO AND DISCHARGED FROM THE COOLEY DICKINSON HOSPITAL IN NORTHAMPTON, MASSACHUSETTS.

Since HP's entry into the medical electronic equipment field two decades ago, the company's products have become widely accepted by hospitals throughout the world for use in clinical areas—for critical-care monitoring and diagnostic services.

Today, hospitals can turn to HP for assistance in handling financial data-management support as well. HP's new Hospital Accounting System (HAS 3000), which operates on an HP 3000 business computer, provides a comprehensive financial software program. Hospitals that are accustomed to operating on a time-share computer can now own a cost-effective, in-house computer with a financial package for general ledger, accounts payable, purchasing and inventory control, patient accounting, and payroll.

Each section of the hospital is linked via terminals to the HP computer for entering or retrieving data. Yet a set of control mechanisms helps protect confidential patient information.

HAS 3000 is the latest product designed to broaden the role of HP computers in the hospital environment.

CUSTOMERS RECEIVE CIRCUIT BOARD TESTING INSTRUCTION FROM HP'S LESLIE BRABETZ AT THE COMPANY'S NEW CUSTOMER TRAINING CENTER IN ROCKVILLE, MARYLAND.

HP SYSTEMS ENGINEER FAYE PERCHARD DISCUSSES NEW COMPUTER APPLICATIONS WITH THE DATA PROCESSING MANAGER AT McWILLIAM'S WINES, ONE OF AUSTRALIA'S LEADING VINTNERS.

HP CUSTOMER ENGINEER JAAP BURGERHOUT (RIGHT) TRAINS STAFF BIOENGINEERS ON PATIENT MONITORING EQUIPMENT AT THE ACADEMIC MEDICAL CENTER IN AMSTERDAM.

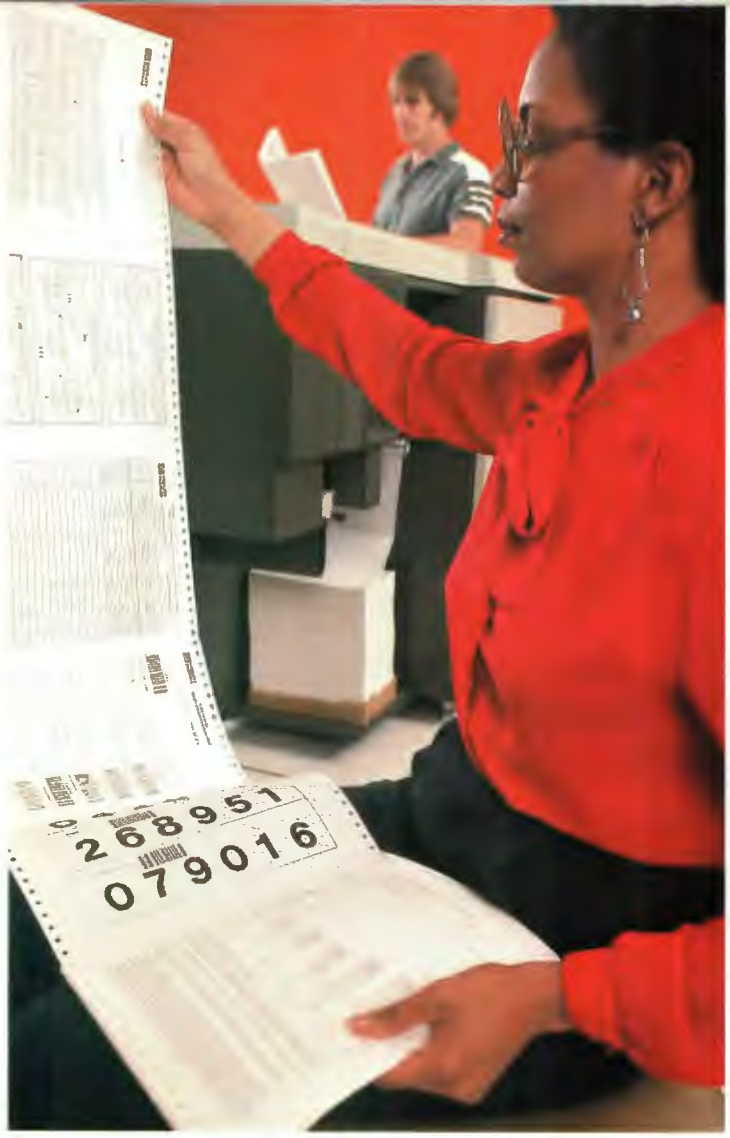
Hewlett-Packard's commitment to its customers isn't limited to delivering products of quality and reliability. The commitment also includes a variety of support services.

Support services traditionally had been part of the up-front price for HP equipment. Today those services are offered to customers in a selection of standardized programs. Customers can review the services available from HP, evaluate the costs involved, and select the most cost-effective approach for their own needs. For example, an organization with strong engineering resources might select a lower level of maintenance support for its equipment than would a customer with limited staff expertise.

In every product line, HP strives to offer a full range of support. For business computer customers, HP offers an industry first: Guaranteed Uptime Service, a support contract that guarantees that HP 3000 Series 40, 44, and 64 computers will be "up and running" 99 percent of the time.

Customers with instrument systems can design a maintenance agreement for their own needs to include options such as periodic calibration, instrument loaners, extended travel, and coverage for only parts of a year. Similar agreements are available to HP's medical and analytical instrumentation customers.

In total, more than 16,000 employees around the world are part of the Hewlett-Packard customer-support team.



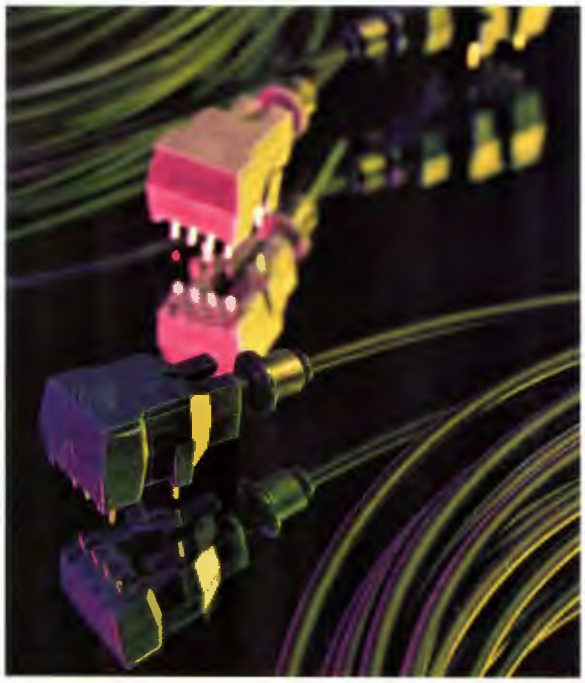
HP'S LASER PRINTING SYSTEM MERGES FORMS AND DATA ON LETTER-SIZED PAPER.

Businesses can trim growing paper inventory and warehousing costs with HP's new laser printing system.

Instead of stocking large quantities of pre-printed forms, a company with an HP laser printing system can store those forms in computer memory.

At a speedy 45-page-per-minute rate, the system prints the form and simultaneously fills it with appropriate data from its associated HP computer. Forms, letters, graphs, and similar documents can be intermixed and printed, each in as many or as few copies as desired. The results emerge on standard-sized pages rather than on bulky computer paper.

The imaging process is similar to that used in standard office copying machines. The development of the process and the printer itself was a cooperative effort between the engineers at HP Laboratories and division product development specialists in Boise, Idaho, where the printer is manufactured. The project involved HP experts in laser optics, electrophotography, photoconductors, paper handling, and typeface design.



HP'S NEW FIBER OPTIC LINK KIT.

Ten million bits of information per second can pass through HP's new fiber optic link.

Because electronic signals are converted into light waves before they travel through the cable, the technology offers freedom from the effects of most forms of electrical interference and therefore provides more reliable data transmission.

HP's new, low-cost kit gives customers the opportunity to manufacture custom fiber optic connections among instruments, controllers, and computers. The process is simple: snip the cable, buff the ends with the polishing supplies, add the connectors, and solder the transmitter and receivers to the proper printed circuit boards.

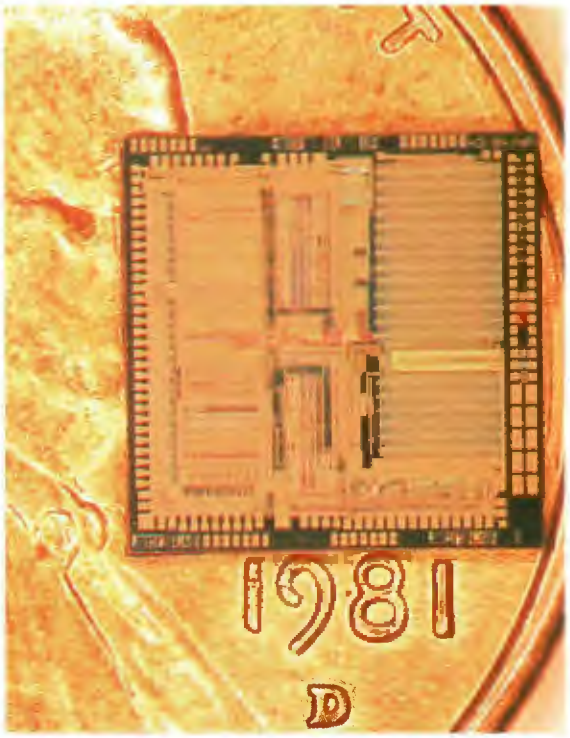
SCIENTIST USES HANDHELD CALCULATOR TO CONTROL AND INTERPRET TESTS PERFORMED BY NEW BATTERY-OPERATED INSTRUMENT.

In the latter part of 1981, Hewlett-Packard introduced a low-cost alternative in computation and control systems, built around the new HP interface loop (HP-IL), the company's personal computing products, and the first in a new family of battery-operated instruments.

Through HP-IL, low-cost test instruments and computer peripherals can be linked and controlled by HP's programmable handheld calculators and personal computers. Such a system provides economical, portable data-gathering and data-processing capability.

In a typical application, the two-wire cable is used to link the HP calculator with a printer, a cassette drive, and the company's first HP-IL instrument, a battery-operated digital multimeter. The calculator allows electrical engineers and R&D scientists to control tests performed by the instrument, read and analyze data, then print or store results.

HP-IL can support as many as 31 devices simultaneously on one loop. HP plans to introduce more HP-IL compatible instruments, controllers, and a wide range of peripherals.



HP'S STATE-OF-THE-ART COMPUTER CHIP.

A tiny computer chip with 450,000 transistors—more than twice as many as any other publicly announced chip—was unveiled by HP in mid-February.

The new chip provides as much computing power as entire large computers built just a few years ago.

Developed by HP scientists at Fort Collins, Colorado, with technical support from HP Laboratories, the state-of-the-art chip measures a mere quarter of an inch on each side. The technology that made it possible represents a substantial advancement in very-large scale integration (VLSI) and is still in development at HP. Although the company has not yet introduced any products based on the new chip, it will serve as the foundation for future computers.

ELECTRON-BEAM SYSTEM DEVELOPED BY HP LABORATORIES FOR INTEGRATED CIRCUIT PRODUCTION.

Hewlett-Packard developed an electron-beam lithography system that promises to make possible production quantities of integrated circuits of more complexity than any that are available today.

This new technology, announced in May by scientists and engineers from HP Laboratories, appears to be the first of its kind. Although there are other electron-beam systems on the market today, none gives users the speed of this HP-developed system for traditional photomask production or direct writing of circuits on silicon wafers.

Because HP's E-beam system is computer controlled, modifications to circuits are simply changes in the computing programs. As a result, these modifications can be made more quickly and easily than before.

Hewlett-Packard views E-beam as a long-term investment for the future since proprietary advanced technology components are so often the key to development of new and better products. Present plans, therefore, call for the E-beam system to be used only for producing integrated circuits for use in HP products. The new system should enhance the company's ability to get new products on the market faster and at lower cost.

ISSUES OF PUBLIC CONCERN

PHILANTHROPIC ACTIVITIES

The company's total worldwide contributions of cash and products (at list price), on both national and local community levels, amounted to more than $10 million in 1981. Recipients of these cash and product grants included various health, social service, and cultural agencies; colleges and universities; hospitals and medical clinics; and other organizations, principally in technical and scientific fields.

Consistent with HP's long-standing policy, a substantial number of employees were loaned for periods of up to several months during the year to assist a variety of national and local organizations in such fields as health, social service, job training, and higher education.

SAFETY AND HEALTH

With the addition of 23 professionals in 1981, the company now has a staff of nearly 150 people worldwide with responsibility for HP's occupational safety and health programs. The majority of these individuals are located at manufacturing and sales facilities. A small corporate staff provides overall guidelines, technical assistance, and periodic audits.

This past year, the company replaced existing monitors at several manufacturing locations where arsine and phosphine gases are used, with new, highly-sensitive continuous monitor systems, and increased the number of manufacturing plants that have computerized their chemical products tracking from purchase through final usage.

ENVIRONMENTAL

HP manufacturing divisions continued to implement increasingly more effective techniques for reclamation, recycling, and recovery of solid and liquid wastes. Expenditures at new facilities in 1981 for waste water treatment and air pollution control equipment were more than $3 million. Waste water from printed-circuit-board manufacturing locations now can be treated before discharge to remove metals to less than two-parts-per-million.

Waste water samples from manufacturing locations are sent routinely to a state-certified HP environmental lab in Palo Alto to help ensure compliance with various state and federal regulations.

ENERGY CONSERVATION

Hewlett-Packard further intensified its energy conservation efforts in 1981 with the adoption of a company-wide conservation objective. All HP manufacturing divisions and marketing regions now include conservation goals in their written intermediate-range plans, and performance will be evaluated periodically by the company's executive committee.

During 1981, HP's manufacturing space increased 14 percent, while electrical and fuel consumption increased 5 and 7 percent, respectively.

EQUAL EMPLOYMENT OPPORTUNITY AND AFFIRMATIVE ACTION

Equal employment opportunity and affirmative action are concepts which are consistent with HP's overall philosophy of treating all employees with dignity and respect and providing a work environment that encourages individual contribution.

Employment growth for minorities and women continued in 1981 with emphasis on management, professional, technical, and skilled craft areas. The table below provides a statistical review of the company's affirmative action program over the past five years.

During 1981, the company broadened its participation in various external programs that provide career guidance and skill development to minority, female, and disabled students at secondary and college levels; continued its own computer-operator training programs for minority and female high school students; provided funds, equipment, and services for the hearing impaired; and significantly increased the dollar volume of purchases from business enterprises owned and operated by minorities and women contracting with HP.

Hewlett-Packard is committed to positive action in seeking out and employing those who are willing, capable and can be productive. The company recognizes and believes that the potential talents of any segment of society should not be ignored.

AFFIRMATIVE ACTION REVIEW

	Total	Minority		Female*	
	Number	Total	Percent	Total	Percent
Managers & Supervisors					
1976	2,517	144	5.7	226	9.0
1981	6,717	649	9.7	1,427	21.2
Professionals					
1976	5,260	521	9.9	648	12.3
1981	12,799	1,436	11.2	2,924	22.8
Technicians					
1976	2,592	330	12.7	288	11.1
1981	5,059	798	15.8	727	14.4
Skilled/Craft					
1976	2,336	365	15.6	394	16.9
1981	2,577	469	18.2	361	14.0

*Includes minority females.

Job totals and percentages are based on HP's employment in the U.S. The job categories shown are among those defined by the U.S. Equal Employment Opportunity Commission. Over the past four years, a number of lead jobs were reclassified into first-line manager positions, which resulted in a substantial increase in the percentage of women in the Managers and Supervisors category, and a corresponding decrease in the percentage of women within the Skilled/Craft category.

HP IN SOUTH AFRICA

Hewlett-Packard's sales operations in South Africa are conducted by a wholly-owned subsidiary company established in 1968. The subsidiary, which employs about 200 people, had net sales of $38 million in 1981.

Consistent with its basic worldwide policy, HP has maintained equal and fair employment practices for all its people in South Africa, and was among the early subscribers to the Sullivan Principles. The principles, adopted by many U.S. companies operating in South Africa, are designed not only to assure equitable pay, benefits and working conditions for all employees, but to enhance the upward mobility of non-white employees and improve the quality of their lives outside the work environment.

Subscribers to the Sullivan Principles are periodically reviewed and, for the past three years, have been rated on their implementation of the principles. In each year HP has been among those companies receiving the highest rating.

Hewlett-Packard believes that its presence in South Africa is a positive, constructive influence toward improving the economic and social condition of the country's non-white population.

FINANCIAL STATEMENTS

BUSINESS SEGMENTS

(Orders are unaudited)
(Millions)

	Orders			Net Sales		
	1981	1980	1979	1981	1980	1979
Electronic data products	$1,859	$1,502	$1,154	$1,771	$1,510	$1,060
Electronic test and measurement	1,380	1,230	1,049	1,349	1,200	986
Medical electronic equipment	284	250	196	273	230	193
Analytical instrumentation	184	158	128	185	159	122
	$3,707	$3,140	$2,527	$3,578	$3,099	$2,361

	Earnings Before Taxes			Identifiable Assets		
	1981	1980	1979	1981	1980	1979
Electronic data products	$ 319	$ 285	$ 183	$1,169	$1,000	$ 767
Electronic test and measurement	284	271	242	817	709	594
Medical electronic equipment	50	37	27	175	146	131
Analytical instrumentation	32	24	16	99	94	83
Eliminations and corporate	(105)	(94)	(70)	498	388	325
	$ 580	$ 523	$ 398	$2,758	$2,337	$1,900

	Capital Expenditures			Depreciation and Amortization		
	1981	1980	1979	1981	1980	1979
Electronic data products	$ 174	$ 148	$ 115	$ 62	$ 46	$ 32
Electronic test and measurement	89	85	46	38	32	27
Medical electronic equipment	18	11	5	7	5	5
Analytical instrumentation	9	11	6	5	4	3
Eliminations and corporate	28	42	19	8	6	5
	$ 318	$ 297	$ 191	$ 120	$ 93	$ 72

Electronic data products are the responsibility of the business computer, technical computer, computer peripherals, computer terminals, computer marketing and personal computation groups. Products include small to medium scale computer systems for business, scientific and industrial applications, desktop computers, personal computers, personal scientific and business programmable calculators, data terminals, printers, and disc and tape memories. Also included are a wide variety of software and support services for these products.

Electronic test and measurement products and related support services are the responsibility of the instrument and components groups. Products include microwave semiconductors, light emitting diode and fiber optic components, logic analyzers, voltmeters, frequency analyzers, power supplies, board testers, plotters, recorders, oscilloscopes, counters, frequency sources, network and signal analyzers, signal generators, automated test equipment, distance measuring instruments, component measurement equipment and microprocessor development systems.

Medical electronic equipment and related support services are the responsibility of the medical group. Products include continuous monitoring systems for critical care patients, medical data management systems, fetal monitors, electrocardiographs and related interpretive and stress systems, pulmonary function analyzers, cardiac catheterization laboratory systems, blood gas measuring instruments, ultrasonic imaging systems, cardiac defibrillators and hospital supplies.

Analytical instrumentation and related support services are the responsibility of the analytical group. Products include gas chromatographs, liquid chromatographs, mass spectrometers combined with chromatographs, spectrophotometers, laboratory automation systems and integrators.

GEOGRAPHIC AREAS

(Orders are unaudited)
(Millions)

	Orders			Net Sales		
	1981	1980	1979	1981	1980	1979
United States	$1,918	$1,517	$1,280	$1,853	$1,525	$1,201
Europe	1,224	1,160	859	1,205	1,136	805
Rest of world	565	463	388	520	438	355
	$3,707	$3,140	$2,527	$3,578	$3,099	$2,361

	Earnings Before Taxes			Identifiable Assets		
	1981	1980	1979	1981	1980	1979
United States	$ 482	$ 432	$ 344	$1,854	$1,557	$1,313
Europe	156	154	102	597	565	400
Rest of world	67	55	32	228	153	132
Eliminations and corporate	(125)	(118)	(80)	79	62	55
	$ 580	$ 523	$ 398	$2,758	$2,337	$1,900

The data presented above reflect the worldwide aspect of the Company's manufacturing and marketing operations. The locations of the Company's manufacturing and marketing facilities are shown on page 40.

The Company's policy is to transfer products between affiliates at the prevailing market price, less an allowance to compensate the receiving entity for subsequent manufacturing and/or marketing services.

Except for the treatment of certain shipments from the United States discussed below, orders and net sales are classified by location of the Hewlett-Packard facility making the ultimate sale to the customer. Earnings and assets are classified based on the location of the relevant manufacturing and marketing operations.

Exports are primarily intercompany transfers to affiliates outside the area. In addition, direct shipments from the United States to trade customers in the "rest of world" are included as exports from the United States and as net sales in the "rest of world." These direct shipments amounted to $185 million in 1981, $192 million in 1980 and $180 million in 1979. A summary of export activity is shown below.

(Millions)	1981	1980	1979
Exports from:			
United States	$ 971	$ 831	$ 624
Europe	$ 50	$ 40	$ 25
Rest of world	$ 206	$ 145	$ 98

Corporate items included in earnings before taxes are corporate research and development, marketing and administrative expenses, company-wide interest income and expense and the minority interest in a 49 percent owned unconsolidated Japanese affiliate.

Corporate assets included in total assets amounted to $524 million in 1981, $409 million in 1980 and $352 million in 1979. These represent temporary cash investments, leasing receivables and headquarters facilities.

QUARTERLY SUMMARY

(Unaudited)
(Millions except per share amounts)

	Three Months Ended			
	January 31	April 30	July 31	October 31
1981				
Domestic orders	$ 453	$ 522	$ 468	$ 475
International orders	478	467	442	402
Total orders	$ 931	$ 989	$ 910	$ 877
Net sales	$ 775	$ 867	$ 936	$1,000
Cost of goods sold	366	411	440	486
Research and development	75	83	92	97
Marketing	119	128	133	146
Administrative and general	95	104	118	105
Earnings before taxes	120	141	153	166
Provision for taxes	57	67	72	72
Net earnings	$ 63	$ 74	$ 81	$ 94[2]
Net earnings per share[1]	$ .52	$ .60	$ .66	$ .77[2]
Cash dividends paid per share[1]	$ .05	$ .05	$ .06	$ .06
Stock price[1]:				
High	$ 48½	$ 52¼	$ 53⅞	$ 50
Low	$ 36⅞	$ 39¾	$ 43½	$ 38⅜
1980				
Domestic orders	$ 380	$ 369	$ 369	$ 399
International orders	420	434	393	376
Total orders	$ 800	$ 803	$ 762	$ 775
Net sales	$ 664	$ 754	$ 810	$ 871
Cost of goods sold	313	357	383	422
Research and development	59	65	72	76
Marketing	104	114	119	122
Administrative and general	82	90	99	99
Earnings before taxes	106	128	137	152
Provision for taxes	52	63	67	72
Net earnings	$ 54	$ 65	$ 70	$ 80
Net earnings per share[1]	$ .46	$ .54	$ .58	$ .65
Cash dividends paid per share[1]	$ .05	$ .05	$ .05	$ .05
Stock price[1]:				
High	$ 35¼	$ 35¼	$ 38¼	$ 41⅜
Low	$ 25⅝	$ 25⅝	$ 27¾	$ 33⅜

The Company's stock is traded on the New York Stock Exchange and the Pacific Stock Exchange. Cash dividends have been paid each year since 1965. At November 30, 1981 there were 45,618 shareholders of record.

[1]*Reflects the 2-for-1 stock split in June, 1981.*

[2]*Fourth quarter earnings include the change in accounting estimate as described in Note 5 and the impact of the Economic Recovery Tax Act of 1981 as described in the letter to shareholders on page 2.*

CONSOLIDATED STATEMENT OF EARNINGS

For the years ended October 31, 1981, 1980 and 1979
(Millions except per share amounts)

	1981	1980	1979
Net sales	$3,578	$3,099	$2,361
Costs and expenses:			
Cost of goods sold	1,703	1,475	1,106
Research and development	347	272	204
Marketing	526	459	362
Administrative and general	422	370	291
	2,998	2,576	1,963
Earnings before taxes	580	523	398
Provision for taxes	268	254	195
Net earnings	$ 312	$ 269	$ 203
Net earnings per share	$ 2.55	$ 2.23*	$ 1.72*

**Restated to give effect to the 2-for-1 stock split in June, 1981.*

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

October 31, 1981, 1980 and 1979
(Millions)

	1981	1980	1979
ASSETS			
Current assets:			
Cash and temporary cash investments	$ 290	$ 247	$ 248
Accounts and notes receivable	682	622	491
Inventories:			
Finished goods	186	148	120
Purchased parts and fabricated assemblies	456	397	358
Other current assets	91	77	52
Total current assets	1,705	1,491	1,269
Property, plant and equipment:			
Land	78	69	53
Buildings and leasehold improvements	789	645	491
Machinery and equipment	581	447	348
	1,448	1,161	892
Accumulated depreciation and amortization	469	372	301
	979	789	591
Other assets	74	57	40
	$2,758	$2,337	$1,900
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes payable and commercial paper	$ 144	$ 143	$ 147
Accounts payable	143	104	109
Employee compensation and benefits	169	156	140
Other accrued liabilities	139	141	97
Accrued taxes on earnings	109	147	106
Total current liabilities	704	691	599
Long-term debt	26	29	15
Deferred taxes on earnings	108	70	51
Shareholders' equity:			
Common stock and capital in excess of $1 par value	481	393	326
Retained earnings	1,439	1,154	909
Total shareholders' equity	1,920	1,547	1,235
	$2,758	$2,337	$1,900

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the years ended October 31, 1981, 1980 and 1979
(Millions)

	1981	1980	1979
Funds provided:			
Net earnings	$312	$269	$203
Items not affecting funds:			
Depreciation and amortization	120	93	72
Other, net	53	27	27
Total from operations	485	389	302
Proceeds from sale of common stock	67	50	37
Increase in accounts payable and accrued liabilities	50	55	104
Total funds provided	602	494	443
Funds used:			
Investment in property, plant and equipment	318	297	191
Increase in accounts and notes receivable	60	131	120
Increase in inventories	97	67	122
Increase in other current assets	14	25	16
Decrease (increase) in accrued taxes on earnings	38	(41)	(18)
Dividends to shareholders	27	24	20
Other, net	6	(12)	(5)
Total funds used	560	491	446
Increase (decrease) in cash and temporary cash investments, net of notes payable and commercial paper	$ 42	$ 3	$ (3)
Net cash at beginning of year	104	101	104
Net cash at end of year	$146	$104	$101

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For the years ended October 31, 1981, 1980 and 1979
(Millions except number of shares)

	Number of Shares of Common Stock (Thousands)			Common Stock and Capital in Excess of $1 Par Value		
	1981	1980	1979	1981	1980	1979
Balance at beginning of year	60,221	59,148	29,010	$393	$326	$276
Shares issued through:						
Employee stock plans	1,414	1,001	746	81	63	47
Stock option plans	130	72	80	6	4	3
Stock splits	60,742		29,312			
Pooling of interests	132			1		
Balance at end of year	122,639	60,221	59,148	$481	$393	$326

	Retained Earnings		
	1981	1980	1979
Balance at beginning of year	$1,154	$ 909	$ 726
Net earnings	312	269	203
Dividends declared	(27)	(24)	(20)
Balance at end of year	$1,439	$1,154	$ 909

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1981, 1980 and 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation — The consolidated financial statements include the accounts of Hewlett-Packard Company and its domestic and foreign subsidiaries.

Translation of foreign currency — The accounts and transactions of subsidiaries located outside the United States are translated into U.S. dollars at current or historical rates of exchange in accordance with generally accepted accounting principles.

Taxes on earnings — Certain revenue and expense items are reported in different periods for financial reporting and income tax purposes. Deferred taxes on earnings are provided for the related timing differences.

U.S. income taxes are provided on foreign earnings which may be repatriated to the United States and are not provided on foreign earnings which are intended to be indefinitely reinvested abroad.

Investment tax credits reduce the provision for taxes in the year the related assets are placed in service.

Inventories — Inventories are valued at standard costs which approximate costs computed on a first-in, first-out basis, not in excess of market.

Property, plant and equipment — Property, plant and equipment is stated at cost. Additions, major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are expensed currently.

Depreciation is provided using accelerated methods, principally over the following useful lives: buildings and improvements, 15 to 40 years, and machinery and equipment, 3 to 10 years. Amortization of leasehold improvements is provided using the straight-line method over the life of the lease or asset, whichever is less.

Net earnings per share — Net earnings per share is based on the number of shares outstanding at each year-end. The use of weighted-average shares outstanding during the year would have no significant effect on net earnings per share. Outstanding stock options considered to be common stock equivalents have not been included because the effect would be immaterial.

Revenue recognition — Revenues from equipment sales are recognized at the time the equipment is shipped.

Compensated absences — In November, 1980, the Financial Accounting Standards Board issued Statement No. 43, which requires the accrual basis of accounting for employee compensated absences beginning in fiscal year 1982. Historically, the Company has charged these costs to earnings when they were paid. Adoption of this pronouncement is not expected to have a material effect on the Company's consolidated financial position or results of operations.

2. NOTES PAYABLE, COMMERCIAL PAPER AND LONG-TERM DEBT

Short-term borrowings arise from notes payable and commercial paper financing. Commercial paper financing is supported by domestic lines of credit. Information about short-term borrowings at October 31, 1981, 1980 and 1979 is shown below:

(Millions)	1981	1980	1979
Notes payable	$134	$123	$ 94
Commercial paper	$ 10	$ 20	$ 53
Unused lines of credit:			
Domestic	$130	$130	$100
Foreign	$166	$148	$108

Substantially all long-term debt is foreign borrowings which mature through 2001. Interest rates on this debt range from 5 to 23 percent.

3. TAXES ON EARNINGS

The provision for taxes is composed of the following elements:

(Millions)	1981	1980	1979
Federal taxes:			
Current	$113	$143	$117
Deferred	30	(5)	12
State taxes	28	26	21
Foreign taxes	97	90	45
	$268	$254	$195

The provision for deferred federal income taxes includes taxes of $22 million in 1981, $16 million in 1980 and $8 million in 1979 related to the Company's Domestic International Sales Corporation. Also included are taxes of $16 million in 1981, $14 million in 1980 and $8 million in 1979 related to the undistributed earnings of certain foreign subsidiaries.

The difference between taxes computed by applying the federal income tax rate to earnings before taxes and the actual provision for taxes is reconciled as follows:

(Millions)	1981	1980	1979
Taxes on earnings at the United States statutory rate	$267	$241	$184
State income taxes, net of federal tax benefit	15	14	12
Investment tax credits	(9)	(5)	(4)
Research and development tax credits	(7)	—	—
Other	2	4	3
	$268	$254	$195

The Company has settled its previously contested federal income tax liability with the Internal Revenue Service (the "Service") for the four years ended October 31, 1975. The amount of the settlement approximated amounts previously recorded and was paid during the fourth quarter of this fiscal year.

The Company has reached tentative agreement with the Service in regard to certain additional assessments relating to the Company's foreign earnings for fiscal years 1976 and 1977. The Service has not completed its examination of returns for years subsequent to 1977. The Company believes that adequate accruals have been provided for all years.

The Company has not provided for United States taxes on undistributed earnings of foreign subsidiaries of $247 million at October 31, 1981. If these earnings were distributed to the parent company in the United States, foreign tax credits should become available to reduce or eliminate the resulting United States income tax liability. Normally such earnings are reinvested in subsidiary operations. However, where excess cash has accumulated and it is advantageous for tax or foreign exchange reasons, subsidiary earnings are remitted.

4. COMMON STOCK AND CAPITAL IN EXCESS OF PAR VALUE

Stock splits — On May 15, 1981 and May 18, 1979, the Company's Board of Directors voted 2-for-1 splits of the Company's common stock in the form of 100 percent distributions to shareholders of record on June 17, 1981, and June 27, 1979, respectively. As a result of each split, authorized, outstanding and reserved shares were doubled and capital in excess of par value was reduced by the par value of the additional shares issued. Net earnings per share, dividends per share, common stock prices and all amounts related to stock options, shares reserved and shares authorized reflect the stock splits.

Pooling of interests — During October, 1981, 131,985 shares of common stock and options to purchase 124,415 shares were issued in exchange for the outstanding common stock and stock options of Information Resources Limited (IRL). IRL is engaged in the development and sale of computer software systems and the sale of computer hardware. The merger, which was accounted for as a pooling of interests, had no material effect on the Company's consolidated financial position or results of operations for the current or prior years.

Stock option plans — The Company has two nonqualified stock option plans, which were adopted in 1974 and 1979. In addition, the Company has Special Acquisition Stock Options issued pursuant to the merger described above. All options are granted at market value on the date of grant. They may be exercised at the rate of 25 percent annually beginning one year from the date of grant and expire ten years from the date of grant. The terms of the 1979 plan permit the Board of Directors to lower the exercise price of an outstanding option to the then current market price. The 1974 and 1979 plans permit the granting of stock appreciation rights (SARs) to officers and certain key executives of the Company.

The Board of Directors has approved amendments to the 1974 and 1979 stock option plans. These amendments, if approved by shareholders, will result in outstanding options granted since 1976 and future options granted under the plans becoming eligible for "incentive stock option" tax treatment under the Economic Recovery Tax Act of 1981. The amendments will also permit the Company to make loans to fund the exercise of options.

The following table summarizes stock option and SAR activity under all plans for the year ended October 31, 1981.

	Options and SARs	Option Price Per Share
Outstanding at October 31, 1980	2,334,000	$15-31
Granted	834,000	43-48
Exercised	(230,000)	18-31
Cancelled	(52,000)	18-44
Outstanding at October 31, 1981	2,886,000	$15-48

At October 31, 1981, there were 1,291,000 options which were exercisable, at prices ranging from $15 to $31. Options available for grant at October 31, 1981 and 1980 were 2,803,000 and 3,460,000, respectively.

Employee stock plans — The Company has stock purchase plans whereby employees of the Company and certain subsidiaries may contribute as much as 10 percent of base pay toward the purchase of the Company's stock. The employee contributes 75 percent of the stock price and the Company contributes the remainder. The stock price is computed using a formula based on average market prices.

Shares reserved — As of October 31, 1981 and 1980, there were 12,107,000 and 14,068,000 shares, respectively, reserved under the provisions of all plans.

Shares authorized — As of October 31, 1981,the Company was authorized to issue 160 million shares of $1 par value common stock.

5. PENSION AND PROFIT-SHARING RETIREMENT PLANS

Substantially all employees worldwide are covered under various pension and deferred profit-sharing retirement plans. For U.S. employees, retirement benefits are provided by the U.S. Deferred Profit-Sharing Retirement Plan and the U.S. Supplemental Pension Plan. The Company makes contributions to the U.S. Deferred Profit-Sharing Retirement Plan in accordance with a formula set forth in the plan. The Company also makes

contributions to the U.S. Supplemental Pension Plan to provide for any excess of defined minimum benefits over the benefits available from the U.S. Deferred Profit-Sharing Retirement Plan. The Company's policy is to accrue and fund the current year's cost for all plans.

Worldwide pension and deferred profit-sharing expense amounted to $74 million in 1981, $77 million in 1980 and $63 million in 1979. A change was made during 1981 to more accurately reflect expected rates of return on plan assets of the U.S. Supplemental Pension Plan. This change, reflected in the fourth quarter, has the effect of lowering the contribution levels for 1981 and future years without affecting the plan's defined benefits. As a result, accrued pension expense was reduced by $14 million for the year, which increased net earnings by $7 million, or 6 cents per share.

At October 31, 1981, "net assets" available for benefits in both U.S. plans were $394 million. These assets have been accumulated based on assumptions that project both future wage increases and future return on investments. The actuarial present values of vested and nonvested "plan benefits" were $220 million and $90 million, respectively. These "plan benefits," computed in accordance with Statement No. 35 of the Financial Accounting Standards Board, assume no future wage increases and a future rate of return of 10 percent. However, since the calculation of "plan benefits," unlike the calculation of "net assets," does not consider future wage increases, any comparison of the two amounts is misleading.

At October 31, 1981, the assets of the Company's foreign plans exceed the actuarially computed value of vested benefits.

6. COMMITMENTS AND CONTINGENCIES

At October 31, 1981, the Company and its subsidiaries were committed for plant site acquisition, facility construction and related machinery and equipment purchases aggregating $174 million.

Various suits and claims arising in the ordinary course of business are pending against the Company and its subsidiaries. Management is of the opinion that the ultimate disposition of these actions will not have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company leases certain real and personal property. Commitments under these operating leases are as follows:

	(Millions)
1982	$ 31
1983	22
1984	16
1985	12
1986	9
1987-2033	57
	$147

Certain leases require the Company to pay property taxes, insurance and routine maintenance. Some leases include escalation clauses. Rent expense was $49 million in 1981, $42 million in 1980 and $28 million in 1979.

7. BUSINESS SEGMENTS AND GEOGRAPHIC AREAS

Business segment and geographic area data for the three years ended October 31, 1981 can be found on pages 24 and 25.

After allocating eliminations and corporate items, earnings before taxes of U.S. and foreign operations are as follows:

(Millions)	1981	1980	1979
U.S. operations	$337	$297	$241
Foreign operations	243	226	157
	$580	$523	$398

Net sales shown on page 24 are after elimination of the following intersegment sales:

(Millions)	1981	1980	1979
Electronic data products	$ 45	$ 36	$ 32
Electronic test and measurement	15	15	12
Medical electronic equipment	2	—	—
	$ 62	$ 51	$ 44

Direct and indirect sales to the United States Government amounted to approximately $320 million in 1981, $310 million in 1980 and $265 million in 1979. No other customer accounted for more than five percent of net sales.

8. EFFECTS OF INFLATION AND CHANGING PRICES

(unaudited)

The information which follows represents an attempt to make a quantitative assessment of the impact of inflation on the Company. The adjusted financial statements are presented in accordance with the Financial Accounting Standards Board's Statement No. 33, which is experimental in nature. These financial statements include approximations of the effects of both general inflation (in constant dollars) and specific price changes (current cost).

The constant dollar method restates historical results into dollars having the same purchasing power as measured by the Consumer Price Index (CPI). Thus, it is a measure of the impact of general inflation in the U.S. economy as a whole. Inventory and property, plant and equipment balances have been restated by applying the CPI to historical values. The CPI has been applied to foreign assets after their translation into U.S. dollars at historical rates.

The current cost method adjusts asset values for changes in the specific prices of each major asset cate-

gory rather than using a general price index. The current cost of foreign assets has been determined in the foreign currency, and then translated into U.S. dollars at the current exchange rate. The current cost method attempts to recognize that the rate of change of specific prices for goods and services acquired by the Company during periods of inflation frequently differs from the rate of general inflation as measured by the CPI.

For both the constant dollar and current cost methods, depreciation and amortization have been computed based upon the same useful lives as used for historical financial statements and the straight-line depreciation method. The straight-line method was chosen rather than the accelerated methods used for historical financial statement purposes because these methods already recognize some of the effects of inflation.

The restatements of inventories and property, plant and equipment affect the statement of earnings through the related adjustments to cost of goods sold and depreciation. However, as defined by Statement No. 33 , the adjustments to restate these asset balances are not included in adjusted earnings. Thus, while restated earnings are not increased for the amount of appreciation in assets, they are reduced by the increased cost of goods sold and depreciation expense amounts. Because of this inconsistency and the experimental nature of this Statement, management believes that the inflation adjusted information should be reviewed with caution.

Statement of Earnings Adjusted for Changing Prices

For the year ended October 31, 1981
(Millions)

		In Average 1981 Dollars	
	Historical Cost	Constant Dollar	Current Cost
Net sales	$3,578	$3,578	$3,578
Cost of goods sold, excluding depreciation	1,649	1,708	1,667
Depreciation and amortization	120	157	145
Other operating costs	1,229	1,229	1,229
Provision for taxes	268	268	268
	3,266	3,362	3,309
Net earnings	$ 312	$ 216	$ 269

Discussion of inflation adjusted results

Although neither method of adjustment fully measures all of the complex effects of inflation, management believes that the current cost method provides a better indication of inflation's impact on the Company, since the current cost method results in a more detailed analysis of inflation's effect than the constant dollar method.

Net earnings — During 1981, constant dollar net earnings were 31 percent less than historical earnings while current cost earnings were 14 percent less than historical earnings. The fact that current cost net earnings are higher than constant dollar net earnings indicates that the Company has been able to reduce the effect of general inflation on its operations. This reduction in the impact of general inflation results primarily from productivity gains and technological advances made by the Company in manufacturing its products. The result of these advances can be seen in the adjusted cost of goods sold amounts. Cost of goods sold on a current cost basis is only 1.1 percent higher than historical cost, while constant dollar cost of goods sold is 3.6 percent higher.

Summary of Selected Supplemental Financial Data Adjusted for Changing Prices

(Millions except per share and price index data)
(Stated in average 1981 dollars)

	1981	1980	1979	1978	1977
Net sales					
As reported	$3,578	$3,099	$2,361	$1,737	$1,368
Constant dollars	$3,578	$3,436	$2,974	$2,421	$2,044
Net earnings					
Constant dollar	$ 216	$ 205			
Current cost	$ 269	$ 242			
Net earnings per share*					
Constant dollar	$ 1.76	$ 1.70			
Current cost	$ 2.19	$ 2.01			
Net assets at year-end					
Constant dollar	$2,219	$1,966			
Current cost	$2,329	$2,110			
Decline in purchasing power of net monetary assets	$ 24	$ 24			
Cash dividends per share*	$ .22	$ .22	$ .21	$ .17	$ .15
Market price per share at year-end*	$ 43⅞	$ 38⅞	$ 31⅜	$ 25¾	$ 25⅝
Average CPI	268.4	242.1	213.1	192.6	179.6

**Reflects the 1981 and 1979 2-for-1 stock splits.*

Net sales — On a historical basis, net sales increased from $1,368 million in 1977 to $3,578 million in 1981, an average increase of 27 percent per year for the period.

In constant dollars, the restatement of 1977 net sales in terms of 1981 price levels adjusts net sales from $1,368 million to $2,044 million. Computed on an adjusted sales base of $2,044 million, the conclusion could be reached that the Company's real growth from 1977 to 1981 averaged 15 percent per year. However, this incorrectly assumes that prices of the Company's products have increased at the same rate as prices for goods and services of the U.S. economy at large. Although the exact percentage of price increases is difficult to quantify due to the complexity of the Company's product lines and the introduction of new products, average price increases for the Company have been considerably less than general inflation as measured by the CPI. In fact, the Company's electronic data products segment (50 percent of total sales) has had significant price reductions during this period. Consequently, the

Company's average real growth in net sales between 1977 and 1981 has been greater than 15 percent per year.

Net assets — Adjusted net assets under both the constant dollar and the current cost methods exceed those reported on the historical cost basis because of the inflationary trend in the cost of land, buildings and equipment.

The $24 million decline in purchasing power of net monetary assets results from the Company's excess of monetary assets over monetary liabilities. Under inflation accounting concepts, monetary assets lose purchasing power while monetary liabilities gain purchasing power during times of inflation. The Company maintains a net monetary asset position because of its policy of internally financing its growth and consequently, long-term debt is minimal. The value of having this extra borrowing capability if needed in the future is not recognized in inflation accounting.

The increase in average 1981 dollars for inventories and property, plant and equipment held during the year reflect the following:

(Millions)	
Increase in general price level	$187
Increase in specific prices	100
Excess of increase in general price level over increase in specific prices ($47 in 1980)	$ 87

At October 31, 1981, the current cost of inventory is $661 million and the current cost of property, plant and equipment, net of accumulated depreciation, is $1,467 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

(unaudited)

The letter to shareholders on pages 2 to 4 reviews operating results and trends in financial condition for 1981 and is incorporated herein by reference.

Results of operations — The following table summarizes the operating results for 1981, 1980 and 1979.

	Percent increase from prior year*			Percent of net sales*		
	1981	1980	1979	1981	1980	1979
Net sales	15	31	36	100.0	100.0	100.0
Cost of goods sold	15	33	37	47.6	47.6	46.9
Research and development	28	33	32	9.7	8.8	8.6
Marketing	15	27	37	14.7	14.8	15.3
Administrative and general	14	27	36	11.8	11.9	12.3
Earnings before taxes	11	31	35	16.2	16.9	16.9
Provision for taxes	5	30	36	7.5	8.2	8.3
Net earnings	16	32	33	8.7	8.7	8.6

**Percentages are computed based upon amounts in thousands of dollars.*

As is shown in the table above and the ten-year summary on page 37, the Company has experienced substantial growth in recent years. The ability of the Company to generate a steady stream of new and improved products has been the key factor in this growth. Underlying this product stream is the Company's commitment to a significant research and development effort. The importance of new products is further described in the letter to shareholders on page 3.

The exact percentage of price increases is difficult to quantify due to the complexity of the Company's product lines and the continued introduction of new products. However, for the Company as a whole, price increases have not been a significant factor in the growth of consolidated net sales during the three years. For certain product lines in the Company's electronic data products segment, technological advances have led to price decreases during this period. In the electronic test and measurement segment, there have been modest price increases in all three years and, as volume growth rates have declined, price increases have been proportionately greater, representing about half of the segment's overall sales growth in 1981.

For all three years, costs and expenses have remained substantially unchanged as a percent of sales although, as discussed on page 3, research and development expenditures were higher in 1981. Except for the impact of the Economic Recovery Tax Act of 1981, the effective tax rate has remained substantially the same during the three years.

Economic conditions have been unsettled in many of the Company's markets throughout much of the past

three years. Nevertheless, both sales and earnings increased at rates in excess of 30 percent in both 1980 and 1979. During 1981, however, the recessionary conditions deepened, particularly in Western Europe. As a result, the Company's sales and earnings growth were significantly lower than in the two preceding years. A more detailed discussion of these trends in 1981 is contained in the letter to shareholders on pages 2 to 4. A discussion of trends in 1980 and 1979 follows.

The performance of the four business segments varied in 1980 and 1979. However, all segments contributed to sales growth in those years and with the exception of the analytical instrumentation segment, whose earnings were flat in 1979, all contributed to earnings growth.

The most significant growth has been in the electronic data products segment, where sales increased by 42 percent in both 1980 and 1979. This segment was a small part of the Company's operations fifteen years ago and now represents about one-half of total sales. This growth in sales is not attributable to any single event or product but is accounted for by the continued development and market acceptance of a family of business and technical computer products. Handheld calculators and personal computation products showed particular strength in 1980 and made a major contribution to the 55 percent increase in the segment's earnings before taxes in that year. Earnings increased 48 percnt in 1979.

The electronic test and measurement segment recorded sales increases of 22 percent in 1980 and 35 percent in 1979. This decline in the growth rate was primarily the result of softening economic conditions. Traditional test and measurement products have continued to achieve high levels of market acceptance. This segment has also continued to benefit from an increasing customer need for test and measurement equipment to improve production efficiency and reduce costs. In response to this need, the segment has developed an increasing number of instruments which are either microprocessor controlled or are capable of interacting with other HP instruments and with HP computers. Earnings before taxes increased by 34 percent in 1979, in line with sales. In 1980, due to inflationary pressures resulting in higher production costs, earnings increased by only 12 percent.

The medical electronic equipment segment achieved 19 percent sales growth in 1980 and 18 percent in 1979. These increases were achieved within an atmosphere stressing cost containment, particularly in the U.S. marketplace. Earnings increased four percent in 1979, reflecting a higher investment in new product development and greater emphasis on field and factory support for existing products. In 1980, however, earnings increased 37 percent, reflecting a leveling off in the growth rate of these expenditures.

The analytical instrumentation segment achieved sales increases of 31 percent and 24 percent in 1980 and 1979, respectively. Although earnings were flat in 1979, as a result of start-up costs relating to some major new product introductions, earnings increased 57 percent in 1980, reflecting the success of those new products and tighter expense control.

The effects of inflation and changing prices on the Company's operations are discussed in Note 8 to the consolidated financial statements on page 32.

Financial condition — The Company intends to continue its long-standing policy of financing operations and expansion through internally generated funds. Such funds have met the Company's needs in the past and are expected to do so in the future. As a result of this policy and favorable trends in earnings, the Company has been able to finance its growth while maintaining a strong and flexible financial position. This strength provides the Company with a significant unused borrowing capability.

Long-term debt is minimal, representing less than one percent of total assets at October 31, 1981. Net cash balances were $146 million at October 31, 1981, $104 million at October 31, 1980 and $101 million at October 31, 1979. In addition, the Company has substantial unused lines of credit, amounting to approximately $300 million at October 31, 1981. The Company's working capital was $1 billion at October 31, 1981, up from $800 million at the prior year-end. At the end of 1981, 1980 and 1979, the current ratios were 2.4:1, 2.2:1 and 2.1:1, respectively.

Significant additions to property, plant and equipment have been made during the last three fiscal years. These expenditures amounted to $318 million in 1981, $297 million in 1980 and $191 million in 1979. Projected expenditures in 1982 are $480 million. Actual spending in 1981 and projected spending in 1982 are discussed further in the letter to shareholders on page 3.

STATEMENT OF MANAGEMENT RESPONSIBILITY

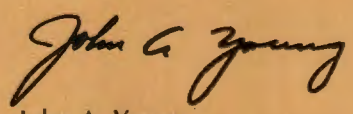
We believe the fostering of an environment conducive to good internal controls is a basic management responsibility.

The control process starts with the hiring and training of qualified people and then providing them with corporate objectives and policies that adhere to the highest principles of business ethics so that they understand how we expect them to conduct our business. Continuing education programs made available to all personnel serve to keep our basic goals and objectives in proper perspective.

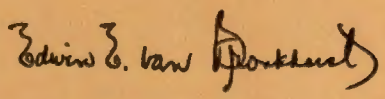
Monitoring is an integral part of any control process. Our control systems are reviewed by Price Waterhouse to the extent they consider necessary when auditing our financial statements. We continuously monitor our control systems by direct management review with assistance from a well established internal audit function which reports directly to the Chief Executive Officer.

The Audit Committee of the Board of Directors, which consists of five outside directors, serves in an oversight role by reviewing the internal control monitoring process. The committee has direct and private access to both internal and external auditors.

Management acknowledges its responsibility to provide financial information (both audited and unaudited) that is representative of the Company's operations, reliable on a consistent basis, and relevant for a meaningful appraisal of the Company. We believe that our control process has been functioning satisfactorily to help us to meet this responsibility.



John A. Young
President and Chief Executive Officer

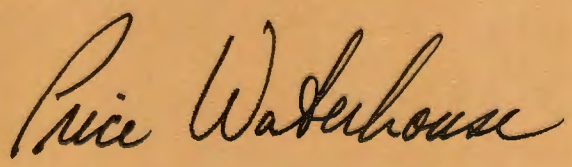


Edwin E. van Bronkhorst
Senior Vice President and Treasurer, Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of
Directors of Hewlett-Packard Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, shareholders' equity and changes in financial position present fairly the financial position of Hewlett-Packard Company and its subsidiaries at October 31, 1981, 1980 and 1979, and the results of their operations and the changes in their financial position for each of the three years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.



555 California Street
San Francisco, CA 94104
December 4, 1981

TEN-YEAR CONSOLIDATED SUMMARY

For the years ended October 31
(Millions except for employee and per share amounts)

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
Domestic orders	$1,918	$1,517	$1,280	$ 977	$ 769	$ 592	$ 501	$ 468	$ 424	$ 307
International orders	1,789	1,623	1,247	898	664	558	501	425	311	200
Total orders	$3,707	$3,140	$2,527	$1,875	$1,433	$1,150	$1,002	$ 893	$ 735	$ 507
Net sales	$3,578	$3,099	$2,361	$1,737	$1,368	$1,121	$ 985	$ 893	$ 669	$ 483
Costs and expenses:										
Cost of goods sold	1,703	1,475	1,106	808	625	538	467	425	316	224
Research and development	347	272	204	154	125	108	90	71	58	44
Marketing	526	459	362	264	208	177	162	142	124	81
Administrative and general	422	370	291	215	181	137	117	111	76	59
	2,998	2,576	1,963	1,441	1,139	960	836	749	574	408
Earnings before taxes	580	523	398	296	229	161	149	144	95	75
Provision for taxes	268	254	195	143	108	70	65	60	44	37
Net earnings	$ 312	$ 269	$ 203	$ 153	$ 121	$ 91	$ 84	$ 84	$ 51	$ 38
Per share*:										
Net earnings	$ 2.55	$ 2.23	$ 1.72	$ 1.32	$ 1.07	$ .81	$ .76	$ .77	$ .47	$ .36
Cash dividends	$ .22	$ .20	$ .17	$ .12	$ .10	$ .07	$ .06	$ .05	$ .05	$ .05
At year-end:										
Total assets	$2,758	$2,337	$1,900	$1,462	$1,158	$ 941	$ 768	$ 654	$ 580	$ 383
Long-term debt	$ 26	$ 29	$ 15	$ 10	$ 12	$ 8	$ 5	$ 3	$ 2	$ 2
Common shares outstanding*	123	120	118	116	114	112	111	109	107	106
Number of employees (in thousands)	64	57	52	42	35	32	30	29	28	21

**Reflects the 2-for-1 stock splits in June, 1981 and June, 1979.*

THE BUSINESS OF HEWLETT-PACKARD

The Hewlett-Packard Company is a major designer and manufacturer of precision electronic equipment for measurement, analysis, and computation. The company makes more than 4,500 products, which are sold worldwide and have broad application in the fields of science, engineering, business, industry, medicine, and education.

Principal product categories include computers and computer systems, electronic calculators,and computer/calculator peripheral products; test and measuring instrumentation and solid-state components; medical electronic equipment; and instrumentation for chemical analysis.

ANNUAL MEETING OF SHAREHOLDERS

The annual meeting will be held at 2 p.m., Tuesday, February 23, 1982, at Hewlett-Packard's Corporate Headquarters building, 3000 Hanover Street, Palo Alto, California. (Please note that this is a change in meeting location from last year.) A formal notice of the meeting, with a proxy statement and form of proxy, will be mailed to each shareholder separately from this report.

FORM 10-K REPORT

Information concerning the company's operations and financial position is provided in this report, and in the Form 10-K report filed with the Securities and Exchange Commission. A copy of the 10-K report will be furnished on request to the Corporate Secretary, Hewlett-Packard Company, 3000 Hanover Street, Palo Alto, California 94304.

TRANSFER AGENT AND REGISTRAR

Crocker National Bank, San Francisco.

DIRECTORS

Luis W. Alvarez,[b] Professor of Physics, Emeritus, University of California

Ernest C. Arbuckle,[b,d,f] Chairman of the Board, Saga Corporation (restaurant and food service business)

George F. Bennett,[e,f] President and Chief Executive Officer, State Street Investment Corporation (investment company)

Robert L. Boniface,[a] Executive Vice President, Hewlett-Packard Company

Robert Minge Brown,[c,d,f] Director and Chairman of the Executive Committees, California Water Service Company and San Jose Water Works

William P. Doolittle, Senior Vice President, Hewlett-Packard Company

Paul C. Ely, Jr.,[a,e] Executive Vice President, Hewlett-Packard Company

Robert J. Glaser, M.D.,[d,e] President and Chief Executive Officer, Henry J. Kaiser Family Foundation (private charitable trust)

Harold J. Haynes,[b,d] Retired Chairman of the Board and Chief Executive Officer, Standard Oil Company of California

William R. Hewlett,[a,f] Chairman of the Executive Committee, Hewlett-Packard Company

James D. Hodgson,[b,c,f] Chairman of the Board, Pathfinder Mines Corporation

Antonie T. Knoppers, M.D.,[e] Business Consultant and Director of various companies

Dean O. Morton,[a,c] Executive Vice President, Hewlett-Packard Company

David Packard,[a,f] Chairman of the Board, Hewlett-Packard Company

Thomas P. Pike,[b] Director Emeritus, Fluor Corporation (engineering and construction services for the natural resources industry)

William E. Terry,[a,c] Executive Vice President, Hewlett-Packard Company

Edwin E. van Bronkhorst,[e] Senior Vice President, Treasurer and Chief Financial Officer, Hewlett-Packard Company

John A. Young,[a,e,f] President and Chief Executive Officer, Hewlett-Packard Company

[a] Executive Committee
[b] Audit Committee
[c] Employee Benefits Committee
[d] Executive Compensation and Stock Option Committee
[e] Investment Committee
[f] Nominating Committee

Director Emeritus

Frederick E. Terman, Vice President and Provost Emeritus, Stanford University

OFFICERS

David Packard, Chairman of the Board

William R. Hewlett, Chairman of the Executive Committee

John A. Young, President and Chief Executive Officer

Robert L. Boniface, Executive Vice President

Paul C. Ely, Jr., Executive Vice President

Dean O. Morton, Executive Vice President

William E. Terry, Executive Vice President

William P. Doolittle, Senior Vice President, International

Alfred P. Oliverio, Senior Vice President, Marketing

Edwin E. van Bronkhorst, Senior Vice President, Treasurer and Chief Financial Officer

Richard C. Alberding, Vice President and General Manager, Medical Products Group

Jean C. Chognard, Vice President, Patents and Licenses

Raymond M. Demere, Jr., Vice President, Corporate Manufacturing Services

John L. Doyle, Vice President, Research and Development

Franco Mariotti, Vice President, Europe

W. Bruce Wholey, Vice President, Corporate Services

S.T. Jack Brigham III, Secretary and General Counsel

CORPORATE OFFICES

3000 Hanover Street, Palo Alto, California 94304

DOMESTIC OPERATIONS

MANUFACTURING

California: Cupertino, Palo Alto, Roseville, San Diego, San Jose, Santa Clara, Santa Rosa, Sunnyvale
Colorado: Colorado Springs, Fort Collins, Loveland
Idaho: Boise
Massachusetts: Andover, Waltham
New Jersey: Rockaway
Oregon: Corvallis, McMinnville
Pennsylvania: Avondale
Washington: Marysville, Spokane, Vancouver
Puerto Rico: Aguadilla

MARKETING

Regional Headquarters: North Hollywood, California; Atlanta, Georgia; Rolling Meadows, Illinois; Rockville, Maryland
HP Sales and Support Offices: In more than 80 cities throughout the United States.

INTERNATIONAL OPERATIONS

MANUFACTURING

Campinas, Brazil
Wokingham, England
Grenoble, France
Böblingen and Waldbronn, Federal Republic of Germany
Tokyo, Japan
Penang, Malaysia
South Queensferry, Scotland
Singapore

MARKETING

Regional Headquarters: Palo Alto, California; Geneva, Switzerland
HP Sales and Support Offices, and Distributorships: Approximately 200 in 70 countries.

HEWLETT
PACKARD

RICH PHILLIPS
INTERNATIONAL REGIONAL SALES MANAGER
Business Computers

HEWLETT
PACKARD

19420 Homestead Road. Cupertino California 95014
Telephone 408 725 8111

HEWLETT-PACKARD
a company history

The Early Years

It was 1938. Bill Hewlett and Dave Packard, close friends and engineering graduates of Stanford University, had set up shop in the one-car garage behind the Packards' rented home in Palo Alto, California. In the garage, the two worked on what was to be the first product of their lifetime business together.

That product was a new type of audio oscillator—an electronic instrument used to test sound equipment. Hewlett had designed the circuitry as a thesis subject while working toward his electrical engineering degree.

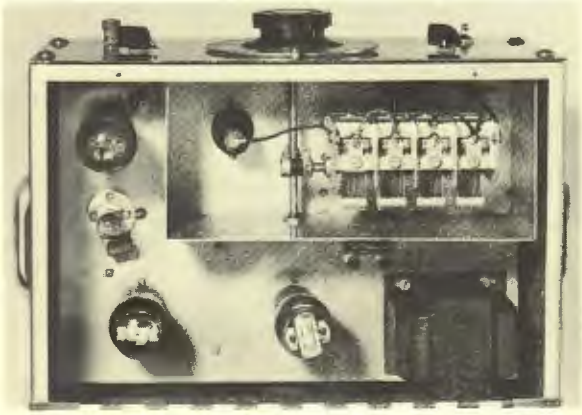
Late in the year, Hewlett presented the oscillator at a West Coast meeting of the Institute of Radio Engineers (now the Institute of Electrical and Electronics Engineers). The two men also sent descriptive information about the oscillator (designated the Model 200A "because the number sounded big") to prospective customers. Along with their first orders, they received an important letter from Walt Disney Studios.

The studio asked if the young engineers could build an oscillator having a different physical configuration and which would cover a different frequency range. The Model 200B was born shortly thereafter, and Disney purchased eight to help develop the unique sound system for the classic film, "Fantasia."

With this first "volume" order on the books, Hewlett and Packard formally organized their partnership early in 1939.

By 1940, the young company had outgrown the garage and moved into a small building nearby. Hewlett-Packard's first employees were hired that same year, and, as sales increased, so did the payroll. Expansion into additional rented quarters

HP's first "plant" still stands behind a house in a quiet residential area of Palo Alto.



By today's standards, electronics in the 1930s was in a rather elementary state. An important part of the Model 200A oscillator, for example, was a light bulb used as an amplitude control device. Paint was baked onto early instrument panels in the Packards' kitchen oven.

was necessary before HP constructed a building of its own in 1942.

Other measuring instruments followed the 200A and B, including a vacuum tube voltmeter designed by Packard that gained wide acceptance in the growing electronics industry.

Hewlett served in the Army during World War II, and Packard remained in Palo Alto to manage the business. Production was emphasized during the war, but research and new product development were not neglected. One significant result was the company's entrance into the microwave measuring field with the introduction of a microwave signal generator in 1946.

By 1950, Hewlett-Packard had 200 employees, 70 products, and $2 million in sales. Although HP had grown modestly during the war and immediately thereafter, it was not until the company had broadened its product line in the 1950s that it began a period of sustained and substantial growth. This product diversification included expansion of the microwave business, as well as the introduction of HP's first high-speed electronic counter and a fully calibrated laboratory oscilloscope.

After making several additions to its original plant, HP broke ground for a new engineering/manufacturing complex in 1956. Located in nearby Stanford Industrial Park, this facility also became the company's administrative headquarters.

The company's adjustment to a peacetime economy was strengthened by Bill Hewlett's return following WWII. Emphasis on research and development led to new products and steady growth.

A Time of Transition

The first significant change in the profile of the company began to emerge in the late 1950s and extended into the mid-1960s. While existing product organizations continued to grow rapidly in Palo Alto, HP began to expand its operations to other parts of the United States and overseas. In addition, a few acquisitions were made that took the company into new and promising markets.

HP's first acquisition, made in 1958, was of the F.L. Moseley Company of Pasadena, California—a producer of high quality graphic recorders. Two other acquisitions proved to be particularly important. They involved the Sanborn Company of Waltham, Massachusetts (a pioneer in electrocardiography and a prime supplier of other recording instrumentation) and the F&M Scientific Corporation of Avondale, Pennsylvania (a manufacturer of gas chromatographs). These acquisitions, made in the early 1960s, enabled HP to apply its electronics technology to the fields of medicine and analytical chemistry.

In 1959—HP's 20th anniversary year—the company began to establish its presence overseas. It created a European marketing organization in Gene-

Many present-day HP employee benefits were established during the 1940s, including cash profit-sharing. In those days, Hewlett, Packard and other managers distributed the checks personally, usually at a holiday gathering.

HP's complete product line in 1958: 373 electronic test and measuring instruments and accessories. Customers were primarily scientists and engineers. During the next decade, the company broadened and expanded its product mix and markets considerably.

HP's growth in the 1950s was symbolized by construction of a new headquarters. As late as October, 1958, however, all HP buildings still were located within walking distance of each other in Palo Alto. Five years later, the company had plants and sales offices in many U.S. cities, and overseas.

Manufacturing operations overseas began in this renovated knitting mill in Boeblingen, West Germany, in 1959. The company soon built its own facility nearby.

va, Switzerland, and established its first plant outside the United States (Boeblingen, West Germany).

A second overseas plant was built in the United Kingdom in 1961, and, two years later, HP entered into a joint venture with Yokogawa Electric Works of Tokyo, Japan.

Expansion continued in the U.S. as well. In 1960, the company set up a manufacturing operation in Loveland, Colorado, and, the following year, formed an organization in Palo Alto to develop high quality solid-state components. Late in 1961, HP began to acquire a number of the independent sales companies that had been marketing its products in the U.S. These firms formed the base for today's regional sales organization.

The company's continuing growth and entry into new markets, plus the fact that many HP product organizations were being established away from Palo Alto, brought about a need to restructure the company. The restructuring, begun in 1960, took the form of divisionalization along product lines. Each division was organized to operate much like a separate business; each had its own research and development, manufacturing, marketing, and support operations, as well as its own distinct family of products.

One reason this particular structure was selected was to help retain the "small company" feeling that had characterized HP during its early years. As divisions continued to grow, they often were split into smaller entities—again, along product lines. The divisionalization format still is used by Hewlett-Packard today.

HP incorporated in 1947 and, 10 years later, made its initial stock offering to the public. A 3-for-1 stock split was declared in 1960, followed by 2-for-1 splits in 1970, and again in 1979. The company was listed on the New York and Pacific Stock Exchanges in 1961.

Computers and Calculators

By the mid-1960s, HP was manufacturing electronic instruments capable of producing measurement data faster—and in greater quantities—than it could be gathered and analyzed efficiently. To help customers process this information, Hewlett-Packard introduced its first computer in November, 1966. It was designed specifically to work with HP instruments and, in fact, was called an instrumentation computer.

With introduction of its first instrumentation computer (above) in 1966, HP entered one of today's biggest growth industries. The company's initial thrust into business computing came in the 1970s with its successful 3000 System.

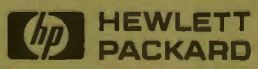
The "electronic slide rule" was born in January, 1972, with introduction of the HP-35 scientific calculator. A large family of small Hewlett-Packard calculators followed, including the world's first programmable handheld calculator.

In 1968, the company announced its development of a powerful desktop calculator. Four years later, it introduced the HP-35—the world's first handheld scientific calculator. In the years that followed, many other computational products were developed for industrial, education and business markets. To keep pace with its expanding data products business, HP built new plants in France, Singapore, Malaysia and Brazil. In addition, other new divisions were formed recently with plant sites located in California, Colorado, Idaho, North Carolina, Oregon and Washington.

Today, the company's data products activity represents a substantial portion of the company's total business. Moreover, the achievements in computer technology—especially in the area of integrated circuitry—have extended the capabilities of the company's other products. Many have built-in computer memories and integrated circuit components to increase speed and versatility. And, of course, most can be connected with externally located computers and calculators to form automatic instrumentation systems.

HP's continuing growth and diversification led to the establishment of a group structure in 1968. This structure was refined to its present form in 1974 with the combining of divisions having related products into six major categories—electronic test and measuring instruments, computers and computer-based systems, calculators, medical electronic products, solid-state components, and electronic instrumentation for chemical analysis. Group management staffs were formed to coordinate activities for their respective divisions.

Changes in top management also have occurred. In 1977, John A. Young was named president of the company, and, the following year, he was elected chief executive officer. Bill Hewlett continues as chairman of the HP Executive Committee and as a member of the company's board of directors. Dave Packard remains as chairman of the HP board.



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HEWLETT-PACKARD
a brief sketch

a brief sketch

Hewlett-Packard is a major designer and manufacturer of precision electronic equipment for measurement, analysis, and computation. The company was founded in Palo Alto, California, in 1939 by William Hewlett and David Packard.

HP's first 20 years were devoted almost exclusively to developing electronic test and measuring instruments for engineers and scientists. Since then, HP has broadened its product base considerably, adding computers, calculators, medical electronic equipment, instrumentation for chemical analysis, and solid-state components. These products have broad application in the fields of science, engineering, business, industry, medicine, and education.

Accompanying the growth and diversification of HP's product line has been a decentralization of its operations. Until 1960, virtually all of its manufacturing activities were centered in Palo Alto. Since that time, HP has expanded its geographic base by establishing production facilities throughout the United States and abroad. Here is a look at the HP of today:

* The company has plants in 23 cities in the United States and nine cities overseas.
* Each product division is organized to function much like a separate business. Each has its own family of related products and its own research and development laboratories, manufacturing facilities, and marketing and administrative staffs.
* Product divisions are grouped into six major product areas: 1) computers, computer-based systems, and peripherals; 2) electronic test and measuring instruments and systems; 3) calculators and personal computing products; 4) solid-state components; 5) medical electronic products; and 6) electronic instrumentation and systems for chemical analysis.
* There are more than 4,500 different HP products. Traditionally, HP invests from eight to 10 percent of its sales revenue annually in research and new product development ($272 million in 1980).
* Of HP's approximately 60,000 employees, about 43,000 are employed in U.S. facilities, and the remainder are located outside the United States.
* HP has 172 sales offices in 65 countries—about 70 in the U.S. alone.
* Sales for fiscal year 1980 (ended October 31) were $3.1 billion; earnings were $269 million.
* Computer and calculator products accounted for 49 percent of 1980 sales. Electronic test and measuring instruments (and components) represented 39 percent, with medical equipment providing seven percent and analytical instrumentation five percent.
* International customers account for about half of HP's business.
* HP was incorporated in 1947. It is a publicly held company with approximately 121 million shares of common stock outstanding. Since 1961, the company's stock has been traded on the New York and Pacific stock exchanges. □

TECHNICAL COMPUTER GROUP

U.S. OPERATIONS

Cupertino Integrated Circuits Operation
Cupertino, California
Integrated circuits, including silicon-on-sapphire types, for HP use

Data Systems Division
Cupertino, California
Computers and computer systems for engineering, manufacturing and OEM applications

Desktop Computer Division
Fort Collins, Colorado
Desktop computers, computing controllers, systems, and peripheral equipment for science and industry

Roseville Division
Roseville, California
Measurement and control automation products, HP 1000 I/O cards and other data communications products

INTERNATIONAL OPERATIONS

Boeblingen Desktop Computer Division
Boeblingen, Federal Republic of Germany
U.S.-developed programmable desktop computer systems and peripheral equipment for European scientific and industrial applications

Yokogawa-Hewlett-Packard, Ltd., Computer Division
Hachioji, Japan
U.S.-developed computers and peripheral equipment for the Japanese market

BUSINESS COMPUTER GROUP

U.S. OPERATIONS

Computer Systems Division
Cupertino, California
Computer systems hardware and software for the HP 3000 series of business computers

General Systems Division
Cupertino, California
Small computers for the business market, including the HP 250 and HP 125 series

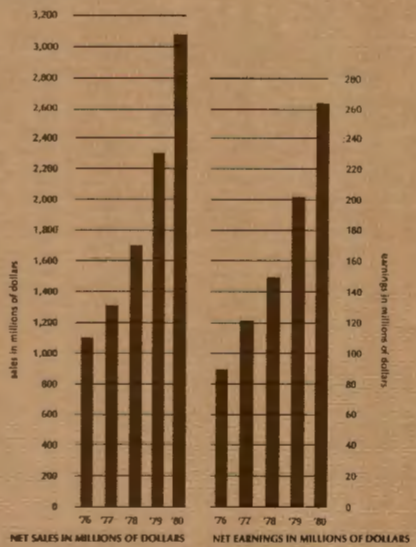
Information Networks Division
Cupertino, California
Business software tools, such as commercial languages and data-base management, and the HP 300 small business computer

INTERNATIONAL OPERATIONS

Boeblingen General Systems Division
Boeblingen, Federal Republic of Germany
Business computer systems for use in on-line, interactive data processing, data-base management and distributed data-processing applications for European markets

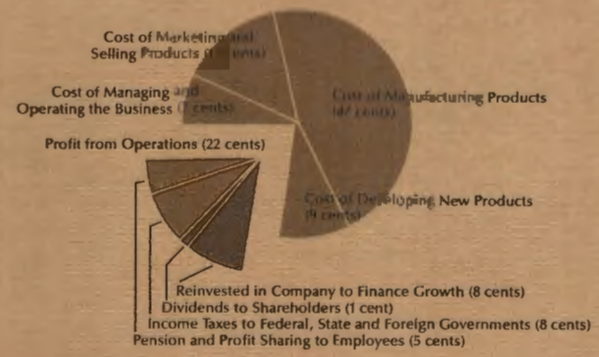
Pinewood Operation
Wokingham, England
Software and support for HP computer systems worldwide

SALES AND EARNINGS



NET SALES IN MILLIONS OF DOLLARS — NET EARNINGS IN MILLIONS OF DOLLARS

DISTRIBUTION OF AN HP SALES DOLLAR



Hewlett-Packard's profit from operations amounted to 22 cents on the dollar in fiscal 1980. Of this, 9 cents (the darker portion above) was the company's net profit.

COMPUTER PERIPHERALS GROUP

U.S. OPERATIONS

Boise Division
Boise, Idaho
Line printers, magnetic tape drives, hard-copy terminals, additional computer peripherals

Disc Memory Division
Boise, Idaho
Disc memory products and associated microprocessor-implemented controllers for computer and calculator systems

Greeley Division
Fort Collins, Colorado
Flexible mass storage devices

Vancouver Division
Vancouver, Washington
Serial and line printers and printing terminals

TERMINALS

U.S. OPERATIONS

Data Terminals Division
Sunnyvale, California
Interactive, microprocessor-implemented alphanumeric and graphics CRT terminals for data processing and communications (principal applications in program development, data entry, data retrieval, monitoring and processing)

Puerto Rico Operation
Aguadilla, Puerto Rico
Interactive, microprocessor-implemented alphanumeric and graphics CRT terminals

INTERNATIONAL OPERATIONS

Grenoble Division
Grenoble, France
Data-capture terminals for worldwide sales; technical systems, disc memories and CRT terminals for European markets

COMPUTER MARKETING GROUP

Computer Support Division
Cupertino, California
A worldwide support organization responsible for installing, servicing, and providing software support for HP computer-controlled systems

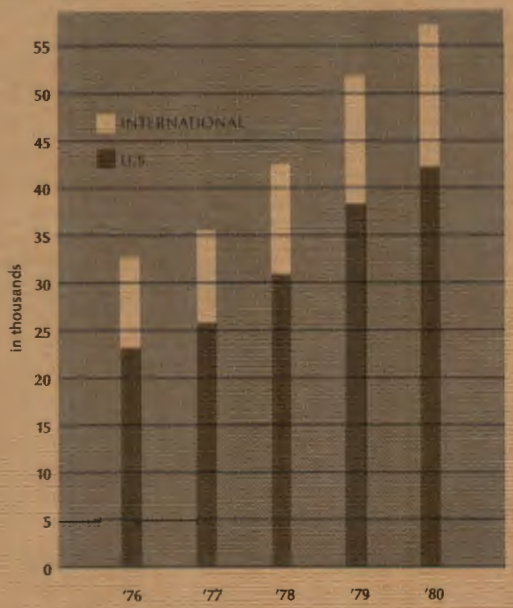
Test and Measurement Products

MICROWAVE AND COMMUNICATION INSTRUMENTS GROUP

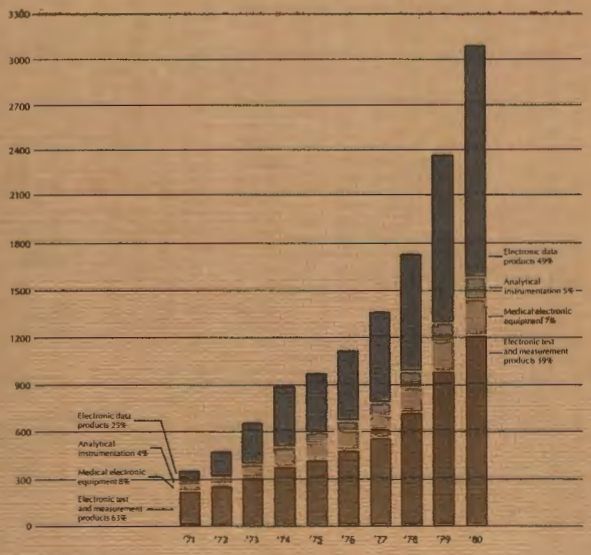
U.S. OPERATIONS

Colorado Telecommunications Division
Colorado Springs, Colorado
Transmission-measurement instruments for testing digital and analog parameters of data channels; fault-locating instruments for telecommunications cable; pair-identification instruments for telephone plant construction; instruments for measuring temperature and pressure

HP EMPLOYMENT GROWTH



MARKET DIVERSIFICATION AND GROWTH
(Net trade sales in millions of dollars by business segments)



Manufacturing Division
Palo Alto, California
Printed circuit boards, transformers, cables, modular cabinets, die castings, special tooling, and plastic parts for HP divisions

Network Measurements Division
Santa Rosa, California
High-frequency test instrumentation such as network analyzers and sweep oscillators

Santa Rosa Technology Center
Santa Rosa, California
High-frequency transistors and integrated circuits, for HP use

Signal Analysis Division
Santa Rosa, California
High-frequency test instrumentation such as spectrum analyzers

Spokane Division
Spokane, Washington
RF signal generators and synthesizers and RF transceiver test equipment

Stanford Park Division
Palo Alto, California
Microwave signal generators and synthesizers; power meters; coaxial, waveguide, and fiber-optic measuring equipment

INTERNATIONAL OPERATIONS

Queensferry Telecommunications Division
South Queensferry, Scotland
Dedicated test and measuring instruments for worldwide telecommunications markets in the areas of microwave radio, FDM, voice/data, PCM/TDM; U.S.-developed electronic counters, sweep oscillators, and RF and microwave signal generators for European and Commonwealth markets

INSTRUMENT DIVISIONS

U.S. OPERATIONS

Civil Engineering Division
Loveland, Colorado
Surveying instruments for angle/distance measuring

Colorado Springs Division
Colorado Springs, Colorado
Oscilloscopes, cathode-ray tube displays, logic analyzers, logic signal sources

Lake Stevens Instrument Division
Lake Stevens, Washington
Spectrum and wave-form analyzers and function generators

Loveland Instrument Division
Loveland, Colorado
Instruments and systems for measurement of voltage, current and resistance; network, spectrum and wave-form analyzers; function generators, oscillators, synthesizers, circuit test systems

New Jersey Division
Rockaway, New Jersey
Regulated dc laboratory and industrial power supplies, OEM modular power supplies, digitally controlled power sources, automatic test and control system components, calibrators

San Diego Division
San Diego, California
Digitizers, graphic tablets, instrumentation tape recorders, graphic plotters, recorder supplies, and X-Y, strip chart and oscillographic recorders

Santa Clara Division
Santa Clara, California
Electronic counters, digital troubleshooting devices, digital IC testers, microprocessor servicing and training products, Fourier (sound/vibration) analyzers, laser interferometers, digital printers, quartz oscillators, atomic frequency and time standards

INTERNATIONAL OPERATIONS

Boeblingen Instrument Division
Boeblingen, Federal Republic of Germany
Logic signal sources and data generators for worldwide sales; U.S.-developed recorders, voltmeters and oscilloscopes for European markets

Yokogawa-Hewlett-Packard, Ltd., Instrument Division
Hachioji, Japan
Oscilloscope cameras and components test and impedance measuring instruments and systems (LCR bridges, Q-meters and capacitance meters) for worldwide sales; a variety of U.S.-developed instruments for the Japanese market

Personal Computing Products

PERSONAL COMPUTING PRODUCTS GROUP

U.S. OPERATIONS

Corvallis Division
Corvallis, Oregon
Personal computer systems for professional applications and calculators for science and business

INTERNATIONAL OPERATIONS

Hewlett-Packard do Brasil I.e C., Ltda.
Campinas, Brazil
U.S.-developed scientific and business calculators and personal computers for Latin American and European markets

Hewlett-Packard Singapore, (Pte.) Ltd.
Singapore
U.S.-developed personal scientific and business calculators

Components

COMPONENTS GROUP

U.S. OPERATIONS

Microwave Semiconductor Division
San Jose, California
RF and microwave diodes, microwave transistors, microwave components

Optoelectronics Division
Palo Alto, California
Fiber-optics, solid-state displays, light-emitting diodes, optically coupled isolators, other optoelectronic devices

INTERNATIONAL OPERATIONS

Hewlett-Packard (Malaysia) Sdn. Bhd.
Penang, Malaysia
Computer memories, semiconductor devices

Hewlett-Packard Singapore, (Pte.) Ltd.
Singapore
Semiconductor devices

Medical Products

MEDICAL PRODUCTS GROUP

U.S. OPERATIONS

Andover Division
Andover, Massachusetts
Diagnostic instruments including electrocardiographs, cardiac stress-testing systems, physiological amplifiers and graphic recorders, fetal-monitoring systems, computerized ECG data-management systems, computerized cardiac catheterization laboratory and ultrasound-imaging systems

Hospital Supplies Operation
Chelmsford, Massachusetts
Stethoscopes, electrolytes, disposable ECG monitoring electrodes for adults and infants, disposable transducer domes, chart papers, disposable pressure kits

McMinnville Division
McMinnville, Oregon
X-ray and electron-beam systems for medical and industrial applications, pulmonary testing systems, and cardiac resuscitation systems such as defibrillators, monitors, and recorders

Waltham Division
Waltham, Massachusetts
Monitoring instrumentation for adults and neonates, blood gas monitoring systems, computerized arrhythmia monitoring systems with optional recall and edit capabilities, physiological transducers, patient-monitoring recorders, computerized patient data-management systems, and hospital information systems

INTERNATIONAL OPERATIONS

Boeblingen Medical Division
Boeblingen, Federal Republic of Germany
Fetal/neonatal-monitoring equipment for worldwide sales; instruments and computerized systems for patient-monitoring, ECG data-management and arrhythmia detection systems for European markets

Analytical Instruments

ANALYTICAL INSTRUMENT GROUP

U.S. OPERATIONS

Avondale Division
Avondale, Pennsylvania
Gas and liquid chromatographs, automatic liquid samplers, digital integrators, analytical laboratory data systems

Scientific Instruments Division
Palo Alto, California
Gas chromatograph/mass spectrometers, GC/MS data systems, UV-visible spectrophotometers

INTERNATIONAL OPERATIONS

Waldbronn Analytical Division
Waldbronn, Federal Republic of Germany
Liquid chromatographs for worldwide sales; U.S.-developed gas chromatographs and analytical laboratory data systems for European markets

U.S./Canada Sales and Service

Eastern Sales Region
Rockville, Maryland

Midwest Sales Region
Rolling Meadows, Illinois

Neely (Western) Sales Region
North Hollywood, California

Southern Sales Region
Atlanta, Georgia

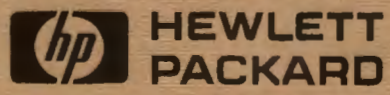
Hewlett-Packard (Canada) Ltd.
Mississauga, Ontario

Corporate Parts Center
Mountain View, California

International Sales and Service

European Sales Region
Geneva, Switzerland
(West and East Europe, North Africa, Middle East)

Intercontinental Sales Region
Palo Alto, California
(Latin America, Asia, Australasia, Africa)



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HEWLETT-PACKARD
STATEMENT OF
CORPORATE OBJECTIVES

THE ORGANIZATIONAL FRAMEWORK FOR OUR OBJECTIVES

The achievements of an organization are the result of the combined efforts of each individual in the organization working toward common objectives. These objectives should be realistic, should be clearly understood by everyone in the organization, and should reflect the organization's basic character and personality.

If the organization is to fulfill its objectives, it should strive to meet certain other fundamental requirements:

FIRST, there should be highly capable, innovative people throughout the organization. Moreover, these people should have the opportunity—through continuing programs of training and education—to upgrade their skills and capabilities. This is especially important in a technical business where the rate of progress is rapid. Techniques that are good today will be outdated in the future, and people should always be looking for new and better ways to do their work.

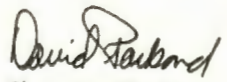
SECOND, the organization should have objectives and leadership which generate enthusiasm at all levels. People in important management positions should not only be enthusiastic themselves, they should be selected for their ability to engender enthusiasm among their associates. There can be no place, especially among the people charged with management responsibility, for half-hearted interest or half-hearted effort.

THIRD, the organization should conduct its affairs with uncompromising honesty and integrity. People at every level should be expected to adhere to the highest standards of business ethics, and to understand that anything less is totally unacceptable. As a practical matter, ethical conduct cannot be assured by written policies or codes; it must be an integral part of the organization, a deeply ingrained tradition that is passed from one generation of employees to another.

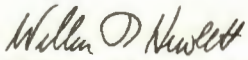
FOURTH, even though an organization is made up of people fully meeting the first three requirements, all levels should work in unison toward common objectives, recognizing that it is only through effective, cooperative effort that the ultimate in efficiency and achievement can be obtained.

It has been our policy at Hewlett-Packard not to have a tight military-type organization, but rather to have overall objectives which are clearly stated and agreed upon, and to give people the freedom to work toward those goals in ways they determine best for their own areas of responsibility.

Our Hewlett-Packard objectives were initially published in 1957. Since then they have been modified from time to time, reflecting the changing nature of our business and social environment. This booklet represents the latest updating of our objectives. We hope you find them informative and useful.



Chairman of the Board



Chairman of the Executive Committee

President and Chief Executive Officer

January, 1982

THE OBJECTIVES

1. PROFIT

OBJECTIVE: *To achieve sufficient profit to finance our company growth and to provide the resources we need to achieve our other corporate objectives.*

In our economic system, the profit we generate from our operations is the ultimate source of the funds we need to prosper and grow. It is the one absolutely essential measure of our corporate performance over the long term. Only if we continue to meet our profit objective can we achieve our other corporate objectives.

Our long-standing policy has been to reinvest most of our profits and to depend on this reinvestment, plus funds from employee stock purchases and other cash flow items, to finance our growth.

Profits vary from year to year, of course, reflecting changing economic conditions and varying demands for our products. Our needs for capital also vary, and we depend on short-term loans to meet those needs when profits or other cash sources are inadequate. However, loans are costly and must be repaid; thus, our objective is to rely on reinvested profits as our main source of capital.

Meeting our profit objective requires that we design and develop each and every product so that it is considered a good value by our customers, yet is priced to include an adequate profit. Maintaining this competitiveness in the marketplace also requires that we perform our manufacturing, marketing and administrative functions as economically as possible.

Profit is not something that can be put off until tomorrow; it must be achieved today. It means that myriad jobs be done correctly and efficiently. The day-to-day performance of each individual adds to—or subtracts from—our profit. Profit is the responsibility of all.

2. CUSTOMERS

OBJECTIVE: *To provide products and services of the highest quality and the greatest possible value to our customers, thereby gaining and holding their respect and loyalty.*

The continued growth and success of our com-

pany will be assured only if we offer our customers innovative products that fill real needs and provide lasting value, and that are supported by a wide variety of useful services, both before and after sale.

Satisfying customer needs requires the active participation of everyone in the company. It demands a total commitment to *quality,* a commitment that begins in the laboratory and extends into every phase of our operations. Products must be designed to provide superior performance and long, trouble-free service. Once in production, these products must be manufactured at a reasonable cost and with superior workmanship.

Careful attention to quality not only enables us to meet or exceed customer expectations, but it also has a direct and substantial effect on our operating costs and profitability. Doing a job right the first time, and doing it consistently, sharply reduces costs and contributes significantly to higher productivity and profits.

Once a quality product is delivered to the customer, it must be supported with prompt, efficient services of the same high quality.

Good communications are essential to an effective field sales effort. Because of our broad and growing line of products, very often several sales teams will be working with a single customer. These teams must work closely to assure that the products recommended best fulfill the customer's overall, long-term needs. Moreover, HP customers must feel that they are dealing with one company, a company with common policies and services, and one that has a clear understanding of their needs and a genuine interest in providing proper, effective solutions to their problems.

3. FIELDS OF INTEREST

OBJECTIVE: *To build on our strengths in the company's traditional fields of interest, and to enter new fields only when it is consistent with the basic purpose of our business and when we can assure ourselves of making a needed and profitable contribution to the field.*

Our company's growth has been generated by a strong commitment to research and development, and has been accomplished in two ways—first, by providing a steady flow of new products to markets in which we are already well established and second, by expanding our technology into fields that are new but related to our traditional ones. The evolution of the HP product line is a reflection of this two-dimensional growth.

Our first products were electronic measuring instruments used primarily by engineers and scientists. In time we extended our range of products to include solid-state components, and instrumentation for the fields of medicine and chemical analysis. Recognizing our customers' needs to gather and assimilate large quantities of measurement data, we developed a family of computers to complement HP measuring devices. By linking measurement and computational technologies, we gained added strength in our traditional, technically-oriented markets and began to serve the broader needs of business and industry.

Today, the interactive capabilities of Hewlett-Packard instruments and systems enable our customers—decision makers in business as well as in technical fields—to gain ready access to essential information, to put it into meaningful form, and to use it effectively in improving the productivity of themselves and their organizations. Helping these customers achieve better results is the unifying purpose of our business. The areas we serve build on each other to add strength to our company and provide additional values to our customers. This guides our interests, our organization and our marketing philosophy.

The broad scope of HP technology often provides opportunities for our company to expand into new fields. Before entering a new field, however, we must satisfy ourselves that it is consistent with our business purpose and that it affords us the opportunity to make a significant *contribution.* This requires that we have not only the technology to create truly innovative and needed products, but that we also have the capability to manufacture and market them effectively and at a reasonable profit.

4. GROWTH

OBJECTIVE: *To let our growth be limited only by our profits and our ability to develop and produce innovative products that satisfy real customer needs.*

How large should a company become? Some people feel that when it has reached a certain size there is no point in letting it grow further. Others feel that bigness is an objective in itself. We do not believe that large size is important for its own sake; however, for at least two basic reasons, continuous growth in sales *and* profits is essential for us to achieve our other objectives.

In the first place, we serve a dynamic and rapidly growing segment of our technological society. To remain static would be to lose ground. We cannot maintain a position of strength and leadership in our fields without sustained and profitable growth.

In the second place, growth is important in order to attract and hold high caliber people. These individuals will align their future only with a company that offers them considerable opportunity for personal progress. Opportunities are greater and more challenging in a growing company.

5. OUR PEOPLE

OBJECTIVE: *To help HP people share in the company's success which they make possible; to provide job security based on their performance; to insure them a safe and pleasant work environment; to recognize their individual achievements; and to help them gain a sense of satisfaction and accomplishment from their work.*

We are proud of the people we have in our organization, their performance, and their attitude toward their jobs and toward the company. The company has been built around the individual, the personal dignity of each, and the recognition of personal achievements.

Relationships within the company depend upon a spirit of cooperation among individuals and groups, and an attitude of trust and understanding on the part of managers toward their people. These relationships will be good only if employees have faith in the motives and integrity of their peers, supervisors and the company itself.

On occasion, situations will arise where people have personal problems which temporarily affect their performance or attitude, and it is important that people in such circumstances be treated with sympathy and understanding while the problems are being resolved.

Job security is an important HP objective. Over the years, the company has achieved a steady growth in employment by consistently developing good new products, and by avoiding the type of contract business that requires hiring many people, then terminating them when the contract expires. The company wants HP people to have stable, long-term careers—dependent, of course, upon satisfactory job performance.

Another objective of HP's personnel policies is to enable people to share in the company's success. This is reflected in a pay policy and in employee benefit programs that place us among the leaders in our industry.

There is also a strong commitment at HP to the concept of equal opportunity and affirmative action, not only in hiring but also in providing opportunities for advancement. Advancement is based solely upon individual initiative, ability and demonstrated accomplishment. Since we promote from within whenever possible, managers at all levels must concern themselves with the proper development of their people, and should give them ample opportunity—through continuing programs of training and education—to broaden their capabilities and prepare themselves for more responsible jobs.

The physical well-being of our people has been another important concern of HP's since the company's founding. With the growing complexity and diversity of our research and manufacturing processes, we must be especially vigilant in maintaining a safe and healthful work environment.

We want people to enjoy their work at HP and to be proud of their accomplishments. This means we must make sure that each person receives the recognition he or she needs and deserves. In the final analysis, people at all levels determine the character and strength of our company.

6. MANAGEMENT

OBJECTIVE: *To foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined objectives.*

In discussing HP operating policies, we often refer to the concept of "management by objective." By this we mean that, insofar as possible, each individ-

ual at each level in the organization should make his or her own plans to achieve company objectives and goals. After receiving supervisory approval, each individual should be given a wide degree of freedom to work within the limitations imposed by these plans, and by our general corporate policies. Finally, each person's performance should be judged on the basis of how well these individually established goals have been achieved.

The successful practice of "management by objective" is a two-way street. Management must be sure that each individual understands the immediate objectives, as well as corporate goals and policies. Thus a primary HP management responsibility is communication and mutual understanding. Conversely, employees must take sufficient interest in their work to want to plan it, to propose new solutions to old problems, to stick their necks out when they have something to contribute. "Management by objective," as opposed to management by directive, offers opportunity for individual freedom and contribution; it also imposes an obligation for everyone to exercise initiative and enthusiasm.

In this atmosphere it is important to recognize that cooperation between individuals and between operating units is essential to our growth and success. Although our operations are decentralized, we are a *single* company whose overall strength is derived from mutually helpful relationships and frequent interaction among our dispersed but interdependent units.

It is important, as well, for everyone to recognize there are some policies which must be established and maintained on a company-wide basis. We welcome recommendations on these company-wide policies from all levels, but we expect adherence to them at all times.

7. CITIZENSHIP

OBJECTIVE: *To honor our obligations to society by being an economic, intellectual and social asset to each nation and each community in which we operate.*

All of us should strive to improve the environment in which we live. As a corporation operating in many different communities throughout the world, we must make sure that each of these communities is better for our presence. This means identifying our interests with those of the community; it means applying the highest standards of honesty and integrity to all our relationships with individuals and groups; it means enhancing and protecting the physical environment, building attractive plants and offices of which the community can be proud; it means contributing talent, time and financial support to worthwhile community projects.

Each community has its particular set of social problems. Our company must help to solve these problems. As a major step in this direction, we must strive to provide worthwhile employment opportunities for people of widely different backgrounds. Among other things, this requires positive action to seek out and employ members of disadvantaged groups, and to encourage and guide their progress toward full participation at all position levels.

As citizens of their community, there is much that HP people can and should do to improve it—either working as individuals or through such groups as churches, schools, civic or charitable organizations. In a broader sense, HP's "community" also includes a number of business and professional organizations, such as engineering and scientific societies, whose interests are closely identified with those of the company and its individual employees. These, too, are deserving of our support and participation. In all cases, supervisors should encourage HP people to fulfill their personal goals and aspirations in the community as well as attain their individual objectives within HP.

At a national level, it is essential that the company be a good corporate citizen of each country in which it operates. Moreover, our employees, as individuals, should be encouraged to help in finding solutions to national problems by contributing their knowledge and talents.

The betterment of our society is not a job to be left to a few; it is a responsibility to be shared by all.

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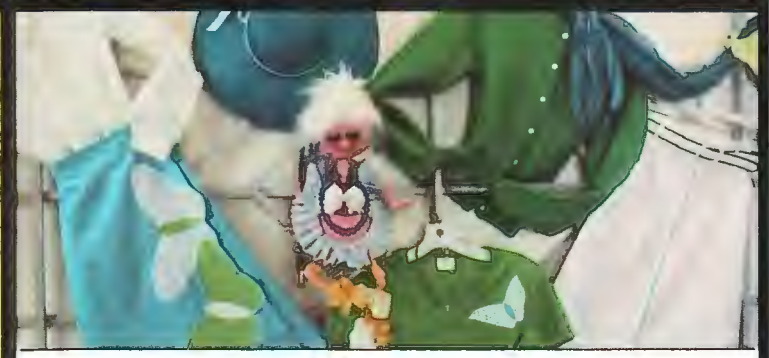

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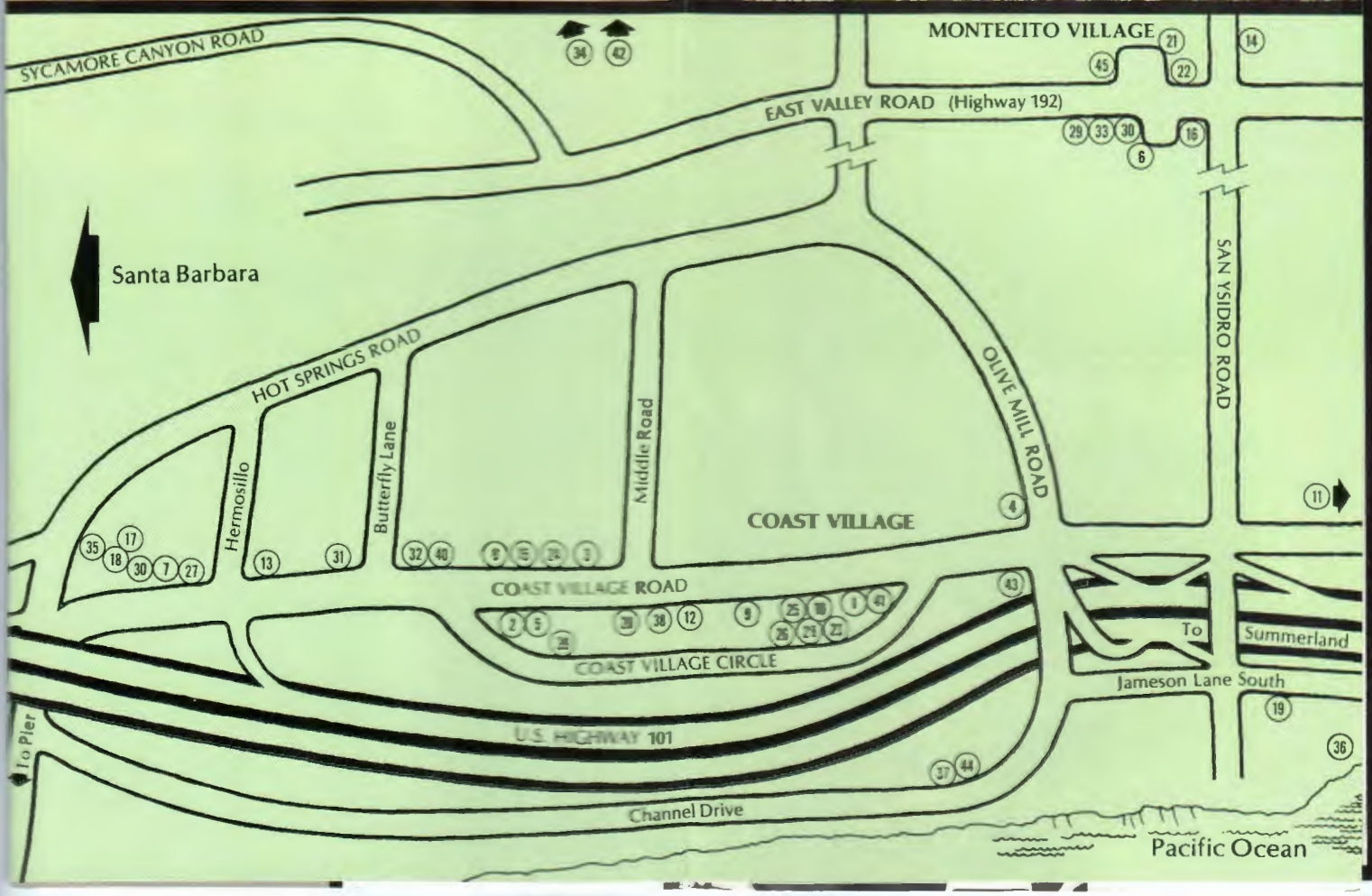

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- 7 Francis/White
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When Hewlett-Packard makes a move, its customers are expectant, and its competitors respectful. That's why the company's latest product introductions make it . . .

The one to watch

By Kathleen K. Wiegner

On Dec. 4, Hewlett-Packard Co. introduced a $121,000 laser printer that, using microprocessors, can turn digital information into charts, tables and business forms and send them to computers in remote locations.

At the same time the $3.1 billion instrument and computer maker introduced a new series of more powerful minicomputers for its growing base of business customers.

Then, in January, H-P brought out a $2,250 desk-top "personal" computer with programming aimed at business executives and technical professionals.

Is there a pattern in this flurry of new product introductions? Customers hope there is and competitors suspect so. H-P appears to be making a significant move into the broad, potentially rich office automation market known as office of the future—an array of machines linked to computers through which a company can automate inventory-keeping, draw sales charts or compile a P&L statement.

This is an arena crowded with competitors—IBM, Xerox, Wang Laboratories, Digital Equipment, Data General, Exxon's office systems, to say nothing of the insurgent Japanese Fujitsu and Nippon Electric.

Against such competitors H-P is clearly moving into a broader—and tougher—market than it has traditionally served. The company's experience in these less technologically oriented markets have not always been happy. It seems to do better holding the high ground than grappling in the trenches.

H-P's top officers are quick to say they are not attacking the whole market, which includes everything from electronic typewriters to word processors. In the usual H-P way, they are circumspect about strategy. "A product like the laser printer is central to our accounts," says Paul Ely Jr., executive vice president for computer groups. "It is *related* to the office of the future but is highly integrated with our basic business." President and CEO John A. Young insists H-P is not going into office automation in a general way. H-P's new printer, they point out, is not compatible with computers of any other manufacturer but Hewlett-Packard. Simply something new for their customers, if they should want it. Nobody here but us chickens.

In the H-P tradition, which is taken very seriously at the 42-year-old firm started in the proverbial garage by engineers David Packard and William Hewlett, the company is seldom first into the market with its new products—Xerox and IBM, for example, were first with high-priced laser printers. The company's marketing strategy is normally that of a counterpuncher. A competitor's new product comes on the market and H-P engineers, when making service calls on H-P equipment, ask their customers what they like or dislike about the new product, what features the customer would like to have.

The engineers take the answers back to H-P's sprawling, glass-roofed, greenhouse-style headquarters in Palo Alto. And pretty soon H-P salesmen are calling on customers again with a new product that answers their needs and wants. The result: happy and loyal customers.

Two years ago, when IBM savaged the minicomputer market with its aggressively priced 4300 series, H-P actually increased sales of its minicomputers. Of course, H-P benefited from long waiting periods for the 4300, but the point to remember is that minicomputer users decided that if they couldn't have IBM they would take H-P. Quite a compliment to a company one-eighth IBM's size.

Who are those customers? H-P officers don't throw around specifics, but major manufacturing firms are the key to the customer base. When H-P began its big push into the minicomputer field five years ago it decided not to go after the banks and insurance companies that were the strongholds of the major mainframe makers, like IBM. Instead H-P went to manufacturing companies like Boeing and General Motors, where its reputation had been made through years of supplying electronic test and measuring instruments.

That the strategy worked is evident from the record of the last half decade and particularly from the results of fiscal 1980, which ended Oct. 31. Sales were up 31%, to $3.1 billion, and net income rose 32%, to $269 million, $4.47 a share.

But the results marked a watershed of another kind: 50% of the sales and 54% of pretax net came from electronic data products, not from the test and measurement equipment which since H-P's founding have been its main business.

In the five years of that computer products buildup, H-P's earnings have grown at a 26% compounded rate. Its return on equity has risen 46%, to 19.3%.

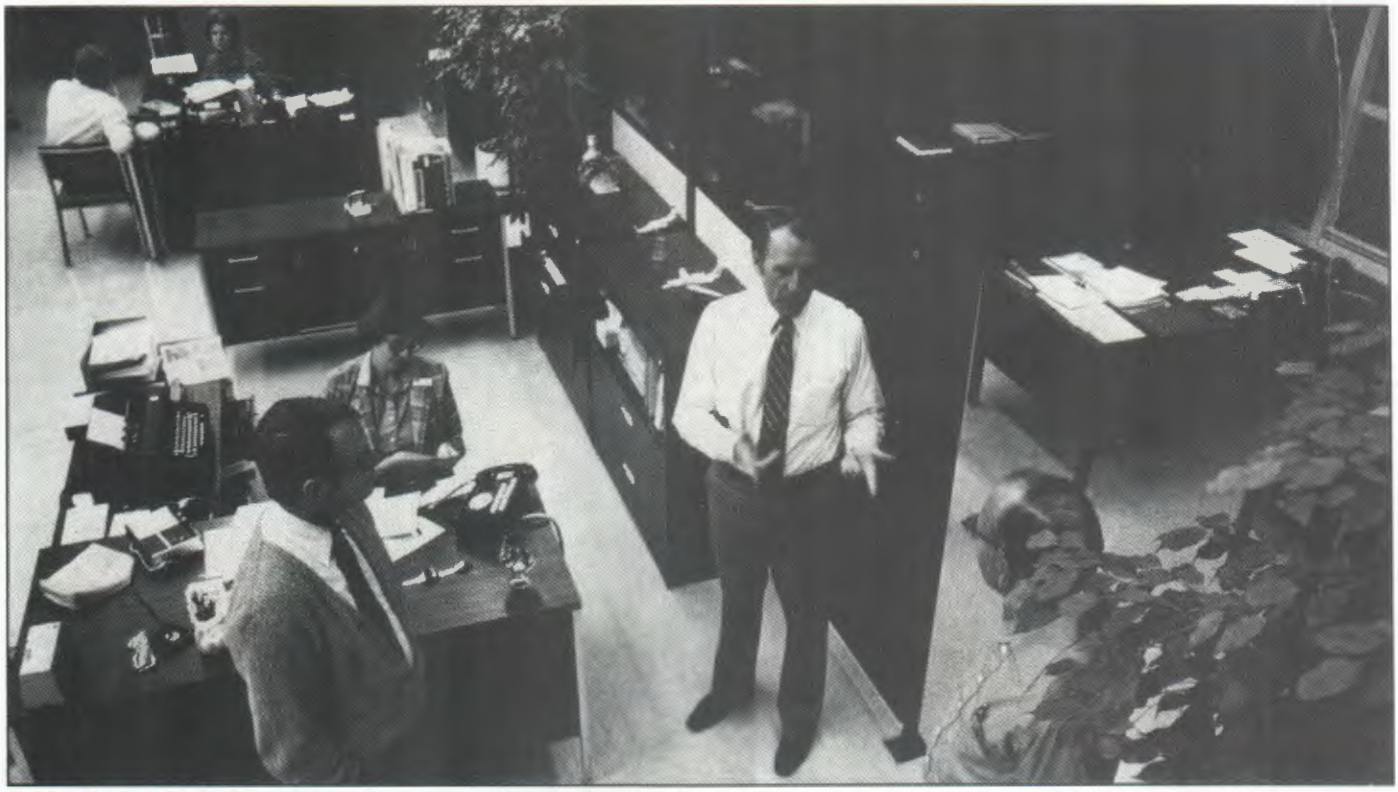
More important, the company has successfully transformed itself in the last five years as a force to be reckoned with in the small computer business. There was some urgency in this transformation. Hewlett-Packard pioneered the hand-held calculator business and by the mid-1970s was getting 40% of its profits from that business. But when Texas Instruments decided to take aim at H-P's calculators, it knocked the company out of the water with cutthroat pricing. But new products coming into the pipeline quickly took up the slack left by calculators. So H-P got through with barely a blip on its earnings screen.

Now the company is trying to broaden its customer base. H-P insiders call the welter of product introductions in the last six months the "big bang" because the pace is a departure from tradition.

So far, customer response for H-P's printer has been enthusiastic. "We looked at Xerox," says Dana Brown of Employee Benefits Insurance Co., who will use the printer to prepare customer reports and direct mailing. "But the H-P printer was just more versatile, and we expect it to demonstrate the same high quality found in all H-P products."

Quite a testimonial, and one that calls into question all that jargon about price being the "bottom line." In all its years in electronics, H-P has almost never competed aggressively on price. Its instruments usually carry a premium and in computers its prices are competitive but not bargain basement. Electronics is a business where "learning curve" pricing is common—prices set from the outset anticipate large volume production levels later on. The point is to forego immediate profit for market share. It is the pricing strategy of old H-P competitor Texas Instruments.

Executive Vice President Dean Morton



Hewlett-Packard's Chief Executive John Young outside his less-than-lavish office

The "H-P way" combines shirtsleeve informality, free coffee and a strong sense of tradition.

expresses H-P's policy: "We've never felt it was important to establish a position in the marketplace by such pricing. We've never gone into a market to generate volume. A good product, priced properly, will do that."

H-P can get away with this because it has almost no debt. This central H-P tradition of self-financing goes back to the company's beginnings in the Great Depression. David Packard has admitted that this concern about debt is colored by his Depression mentality. Long-term debt, says the H-P gospel, encourages companies to overhire in boom times and then lay off. At H-P there are no layoffs. When belt-tightening time comes around, everyone from top to bottom takes a salary cut or works a reduced workweek. Hewlett-Packard also turns down lucrative short-term defense contracts so as not to have layoffs when the contract is completed.

A nice tale, of course. But how pertinent to today's reality can Depression-born policies be? In a ferociously competitive job market H-P can attract the cream of each year's engineering crop. Not that it necessarily pays more, but because it encourages engineers to think like entrepreneurs who may one day find their product group elevated to the status of a full-fledged division. Down the road from H-P's Palo Alto headquarters, turnover among engineers in teeming Silicon Valley is legendary, but at H-P turnover among engineers averages only 10% annually. Fancy offices are out; many, including CEO John Young's, are free-standing cubicles with less space than some CEOs' reception areas. But there's a generous R&D budget (9% of sales) and personal attention aplenty. Donald Hammond, a director of H-P's central research labs, remembers when he was a young engineer having David Packard drape his arm over his shoulder and walk him through the plant to show the entire staff that the boss supported his project. In return, H-P's engineers provide the continuous stream of new products that have fueled the company's growth: Two-thirds of what H-P sells today did not exist five years ago.

Self-financing meant that when H-P began to stalk the computer business, it deliberately chose smaller computers that sold for under $250,000. Machines in that price range are usually sold outright rather than leased, which keeps cash from being tied up in long-term leasing agreements. Second, small computers represented a rapidly growing market where a new entry could make a quick return on its investment. Hewlett-Packard is fortunate in that its test and measurement business, while growing slowly, has pretax margins of 22% and thus could supply cash for its more rapidly booming computer business. "We can grow around 25% a year with our own cash," says Young. But with growth coming at a more rapid clip, managers have to keep a close eye on inventories. Last year H-P trimmed its capital budget by $50 million to make sure it kept enough money in the till.

Young, the successor to H-P's founders, finds a certain bracing quality in the self-financing policy. "It's a wonderful discipline," he says, while adding that "doubling the size of your company every three years as we have done can be a tough job." Left unsaid is Young's obvious commitment to continue such growth if possible. And that means new customers in a bigger market like the office of the future. But the company's deliberate counterpuncher style has caused it some pain in the past, when it let the competition get too far ahead.

Early on, H-P let Tektronix get ahead in oscilloscopes (instruments that measure changes in electrical impulses), and had to settle for a distant second place. In the early 1970s H-P allowed Digital Equipment to get an early technological edge, and again has had to run behind DEC in minicomputers.

In the timeliness of its laser printer introduction, H-P may be signaling greater ambitions than the firm has traditionally shown. Dean Morton expresses the H-P style quite well. "We are not a company that likes to throw the long bomb," he says. "Rather we like to sneak up on things. One reason we prevailed in computers was that we didn't take a major step. We just let things unfold." H-P clearly doesn't always win. But the stock market (according to H-P a price/earnings ratio of 20, compared with 10 for IBM, 13 for Texas Instruments and 15 for Digital Equipment) obviously is interested in seeing how H-P, in Morton's words, "lets things unfold this time." ■

Hewlett-Packard Corporate Organization January, 1982

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*Chairman, Operations Council

HEWLETT/PACKARD CORPORATE ORGANIZATION JANUARY, 1982

Viewed broadly, Hewlett-Packard Company is a rather complex organization made up of many business units that offer a wide range of advanced electronic products to a variety of markets around the world. Giving it common direction and cohesion are shared philosophies, practices and goals as well as technologies.

Within this broad context, the individual business units—called product divisions—are relatively small and self-sufficient so that decisions can be made at the level of the organization most responsible for putting them into action. Consistent with this approach, it has always been a practice at Hewlett-Packard to give each individual employee considerable freedom to implement methods and ideas that meet specific local organizational goals and broad corporate objectives.

Since its start in 1939, the HP organization has grown to more than 40 product divisions. To provide for effective overall management and coordination, the company has aligned these divisions into product groups characterized by product and/or market focus. Today there are ten such groups or segments. Six sales-and-service forces, organized around broad product categories, represent the product groups in the field.

HP's corporate structure is designed to foster a small-business flexibility within its many individual operating units while supporting them with the strengths of a larger organization. The accompanying chart provides a graphic view of the relationship of the various groups and other organizational elements. The organization has been structured to allow the groups and their divisions to concentrate on their product-development, manufacturing and marketing activities without having to perform all the administrative tasks required of a company doing business worldwide. Normal and functional lines of responsibility and communication are indicated on the chart; however, direct and informal communication across lines and between levels is encouraged.

Here is a closer look at the company's basic organizational units:

PRODUCT DIVISIONS

An HP product division is a vertically integrated organization that conducts itself very much like an independent business. Its fundamental responsibilities are to develop, manufacture and market products that are profitable and which make contributions in the marketplace by virtue of technological or economic advantage.

Each division has its own distinct family of products, for which it has worldwide marketing responsibility. A division also is responsible for its own accounting, personnel activities, quality assurance, and support of its products in the field. In addition, it has important social and economic responsibilities in its local community.

PRODUCT GROUPS

Product groups, which are composed of divisions having closely related product lines, are responsible for coordinating the activities of their respective divisions. The management of each group has overall responsibility for the operations and financial performance of its members. Further, each group has worldwide responsibility for its manufacturing operations and sales/service forces. Management staffs of the four U.S. sales regions and two international headquarters (European and Intercontinental Operations) assist the groups in coordinating the sales/service functions.

The group management structure provides a primary channel of communication between the divisions and corporate departments.

CORPORATE OPERATIONS

Corporate Operations management has responsibility for the day-to-day operation of the company. The executive vice presidents in charge of Corporate Operations are directly responsible to HP's president for the performance of their assigned product groups; they also provide a primary channel of communication between the groups and the president.

CORPORATE ADMINISTRATION

The principal responsibility of Corporate Administration is to insure that the corporate staff offices provide the specialized policies, expertise and resources to adequately support the divisions and groups on a worldwide basis. The executive vice president in charge of Corporate Administration also reports to the president, providing an important upward channel of communication for the corporate staff activities.

The Marketing and International offices, through the U.S. sales regions and two international headquarters, insure that—on a worldwide basis—all corporate policies and practices are followed and that local legal and fiscal requirements are met.

CORPORATE RESEARCH AND DEVELOPMENT

HP Laboratories is the corporate research and development organization that provides a central source of technical support for the product-development efforts of HP product divisions. In these efforts, the divisions make important use of the advanced technologies, materials, components, and theoretical analyses researched or developed by HP Labs. Through their endeavors in areas of science and technology, the corporate laboratories also help the company evaluate promising new areas of business.

BOARD OF DIRECTORS

The Board of Directors and its chairman have ultimate responsibility for the legal and ethical conduct of the company and its officers. It is the board's duty to protect and advance the interests of the stockholders, to foster a continuing concern for fairness in the company's relations with employees, and to fulfill all requirements of the law with regard to the board's stewardship. The board counsels management on general business matters and also reviews and evaluates the performance of management. To assist in discharging these responsibilities, the board has formed various committees to oversee the company's activities and programs in such areas as employee benefits, compensation, financial auditing, and investment.

PRESIDENT

The president has operating responsibility for the overall performance and direction of the company, subject to the authority of the Board of Directors. Also, the president is directly responsible for corporate development and planning functions, and for HP Labs.

EXECUTIVE COMMITTEE

This committee meets weekly for the purpose of setting and reviewing corporate policies and making coordinated decisions on a wide range of current operations and activities. Members include the Executive Committee chairman, the chairman of the Board, the president and the executive vice presidents for Operations and Administration. All are members of the Board of Directors.

OPERATIONS COUNCIL

Primary responsibilities of this body are to review operating policies on a broad basis and to turn policy decisions into corporate action. Members include the executive vice presidents, product group general managers, the senior vice presidents of Marketing and International, the vice president—Europe, and the managing director of Intercontinental.

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