



**Hewlett
Packard
Company**

**1985
Annual
Report**



Contents

Letter to Shareholders	2
HP's Corporate Objectives:	
Framework for Success	5
Directors and Officers	24
Financial Statements	25
Shareholder Information	41

Hewlett-Packard Company is a major designer and manufacturer of more than 10,000 measurement and computation products and systems. The interactive capabilities of HP instruments and computers enable HP customers — decision makers in business and technical fields worldwide — to gain access to essential information, put it into meaningful form and use it effectively to improve productivity.

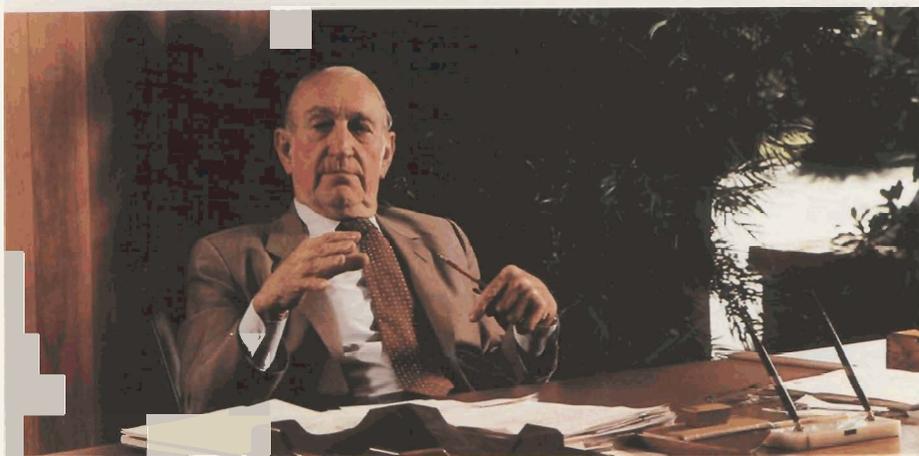
Financial Highlights

(Millions except per share amounts)

For the fiscal years ended October 31	1985	1984
Domestic orders	\$3,662	\$3,629
International orders	\$2,733	\$2,721
Total orders	\$6,395	\$6,350
Net revenue	\$6,505	\$6,044
Earnings before taxes	\$ 758	\$ 860
Net earnings	\$ 489	\$ 665*
Net earnings per share	\$ 1.91	\$ 2.59*

*Includes a one-time increase in net earnings of \$118 million (46 cents per share) resulting from a DISC tax law change.

To Our Shareholders



David Packard

1985 was a difficult year for the electronics industry and for Hewlett-Packard as well. We began to see our U.S. order rates slow in late fiscal 1984 and commented then that expected 1985 growth would be more moderate than the nearly 30 percent rate in 1984. However, we did not anticipate the extent of the slowdown, and our financial performance for 1985 was below our expectations at the beginning of the year.

Net revenue totaled \$6.505 billion, an 8 percent increase over 1984.

Net earnings were \$489 million or \$1.91 per share, down 10 percent from last year if we exclude a one-time tax benefit of \$118 million (46 cents per share) from the 1984 amount.

Orders for the year were \$6.395 billion, just 1 percent ahead of last year. We drew down backlog during 1985 and, at year-end, unfilled orders stood at \$1.2 billion, compared with \$1.3 billion at the end of fiscal 1984.

Several factors contributed to a disappointing year for HP and our industry. Business outlays for plant and equipment which HP sales traditionally track, slowed significantly. U.S. defense-related electronics purchases also slowed as many projects neared completion and as the procurement process underwent intense scrutiny.

The increasingly strong U.S. dollar in the first part of the year meant higher local currency prices for equipment manufactured in the U.S. and sold abroad. Later, as the dollar weakened, buyers were inclined to hold off on purchases and wait for further price adjustments. We also saw many businesses — both in the U.S. and internationally — delaying additional computer purchases until fundamental industry issues,



William R. Hewlett

such as standards for networking and compatibility, are addressed more fully.

As U.S. order growth flattened, we responded aggressively with several measures aimed at reducing expenses, including voluntary time-off programs and curtailed travel and overtime.

Later, as the order slump spread to international markets, we imposed pay cuts and unpaid time off for our U.S. people beginning in August. At HP operations outside the U.S., similar payroll-cost reduction programs were put in place.

At the same time, as described in subsequent pages of this report, we pursued a number of ongoing programs to make our business more productive and to build for the longer-term future of our company. Inventory, especially, was well controlled and, at October 31, was down 3 percent from the end of fiscal 1984.

During the year, we moved to consolidate portions of our integrated-circuit (IC) and printed-circuit board (PC) fabrication activities. Some operations were merged and IC and PC board facilities, though geographically dispersed, now each report through central organizations better able to coordinate operations and future developments. We continue to look for ways to maximize operating efficiency and are evaluating further consolidations.

We substantially limited hiring in 1985, although we ended the year with approximately 2,000 more people. We gave particular emphasis to technical and marketing skills needed to complete key programs. This brings our total employment to 84,000 worldwide including 56,000 people in the U.S. We maintained an active college-recruiting program — a critical investment in HP's future — and hired 1,900 recent college graduates worldwide.

We also continued to invest heavily in new-product development, which is one of our fundamental strengths. In

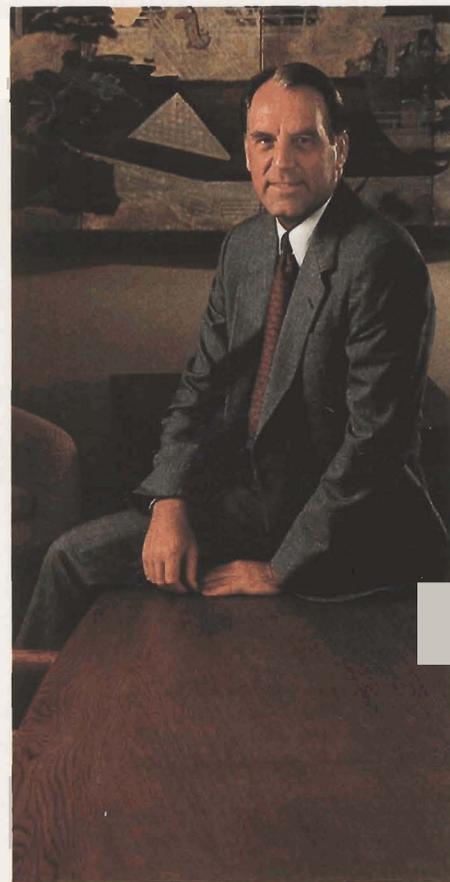
1985, R&D expenditures totaled \$685 million, representing 10.5 percent of revenue. HP's ongoing R&D activities generated a number of important new products this past year, several of which are described in the following pages.

Among the technologies HP is pursuing aggressively are artificial intelligence (AI) and reduced instruction set computing (RISC). AI is a branch of computer science that seeks to better understand human reasoning and employ that understanding in computer programs. HP sees this as an important technology to help computers reach their potential as broadly useful tools in the service of mankind. The work of HP researchers has resulted in AI tools in use within HP today, as well as in commercial products. HP introduced its first AI software product, a program to help increase the productivity of software developers, in August.

To help advance AI concepts and technologies, in 1985, HP initiated a \$50 million grant program to provide advanced engineering workstations and AI software to U.S. universities. To date, 15 schools have received grants.

RISC is a technology that simplifies the way computers operate. It capitalizes on the strides computer scientists have made in understanding precisely what computers do most of the time. A RISC-based machine implements in fast-executing hardware, rather than software, the most commonly used operating instructions of the computer. This technique promises significant performance gains when compared with conventional computers.

The new technology is central to HP's Spectrum program, the internal



John A. Young

name for the next generation of HP computers. It will be implemented, in time, throughout the company's full line of computers, giving HP a unified family of products with very good price/performance potential. The first products of the Spectrum program are scheduled for announcement in 1986.

Board changes

In January 1985, Ernest C. Arbuckle retired from HP's board of directors, and Robert L. Boniface retired as a director and a company officer.

Mr. Arbuckle, dean emeritus of the Stanford University Graduate School of Business, provided 25 years of distinguished service as an HP director. We are very appreciative of the experience and counsel he brought to the board over those years.

Mr. Boniface, an HP executive vice president, began his career in 1942 with Neely Enterprises, which HP acquired in 1963. He had been a director since 1974. His contributions to the company's growth and distinctive culture were substantial and we will miss the benefit of his broad experience.

Also in January, Paul C. Ely Jr. resigned from the board and from the company. Mr. Ely had been an executive vice president and a director since 1980.

Business outlook

The coming year is expected to be a challenging period for HP and one we are approaching cautiously. We intend to maintain the prudent management posture that characterized our 1985 activities.

As the dollar weakens, it helps improve our competitive pricing position outside the U.S. However, the weaker dollar comes at a time when some international economies are uncertain. Also, after having built shipments in 1985 by reducing backlog, we cannot expect to outship orders again in 1986. Further, as previously announced, we do not expect any measurable increment in 1986 earnings from our Spectrum program.

While we are cautious, we are far from pessimistic. Ours is a

fundamentally hardy and resilient company, one that has been further strengthened by the belt-tightening of the past year. Our people throughout the world responded creatively and effectively to HP's need to cut expenses, and we deeply appreciate their efforts.

Our July 1984 reorganization has placed us closer to our customers and better positioned us to offer them a full range of technical and business solutions. HP people are dedicated and well-trained, prepared to respond quickly to changing customer needs.

Our financial position continues strong, as does our commitment to new products — so central to our long-term competitiveness and growth.

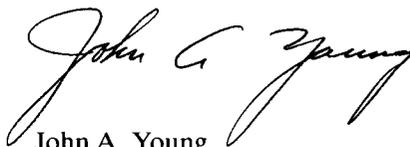
These are important, positive factors that will enable us to take good advantage of any significant improvement in business conditions and to perform satisfactorily in the months ahead.



David Packard
Chairman of the Board



William R. Hewlett
Vice Chairman of the Board



John A. Young
President and Chief Executive Officer

December 6, 1985

Framework for Success

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.

— Introduction to *Hewlett-Packard Statement of Corporate Objectives*

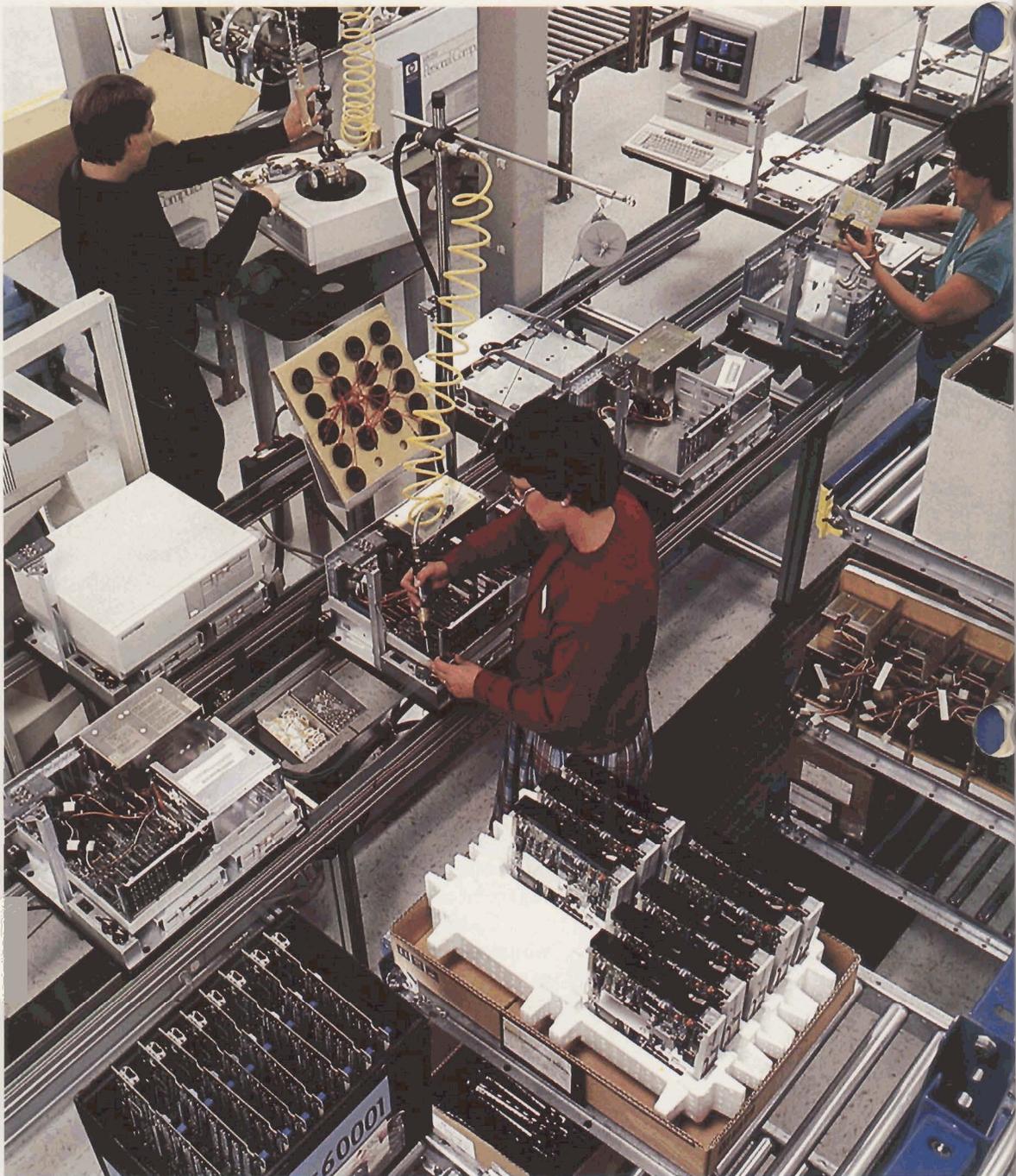
Hewlett-Packard is guided today by a set of objectives virtually identical to those first put into writing by Bill Hewlett and Dave Packard nearly 30 years ago. It is these objectives that provide a framework for the everyday activities of HP people around the world and for the strategic direction of the company. They have enabled HP to build one of the strongest, most highly regarded companies in the world.

Today, the basic principles upon which HP depends are as sound and as relevant as ever. They are the foundation for HP's fundamental strengths: superior customer satisfaction and loyalty, technological innovation and aggressive new-product development, conservative financial policies that ensure stability, and a

commitment to offering products that make a genuine contribution.

During 1985, a period of slower-than-normal growth and some uncertainty, HP's corporate objectives once again emerged as a guiding force for the company and its people. It is for this reason that the objectives have been selected as the framework for HP's customary review of its operations.

A copy of the booklet, *Hewlett-Packard Statement of Corporate Objectives*, is available from the company's Public Relations Department, Palo Alto.



Hewlett-Packard manufactures its HP Vectra PC, a modular desktop personal computer introduced in September, using Just-in-Time (JIT) manufacturing techniques. With JIT, only enough parts needed for one day's assembly activity are kept on hand, minimizing work-in-progress inventory space and costs. HP Vectra PC is compatible with the IBM PC/AT, but has up to 30 percent faster processing speed, an improved keyboard for faster, easier data entry, and is 30 percent smaller and lighter than the IBM product.

Profit

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

Profit is the one essential measure of a company's performance over the long term. While, in 1985, HP's profit growth fell below historic averages, the company withstood a significant industry downturn in large part because of its ingrained philosophy that puts a priority on responding promptly and decisively to changes in the business environment.

Meeting a profit objective requires producing every product so that it is considered a superior value by the customer, yet is priced to include an adequate profit. Manufacturing, marketing and administrative functions must be performed as economically as possible.

Programs put in place in recent years contributed to the company's profitability despite increasing competition and the effects of the strong dollar on international sales. For example, at HP, the development of a product and of the process for manufacturing that product increasingly go hand in hand.

The results of this cooperative effort can be significant. The HP Touchscreen II personal computer, introduced in April, has only 400 parts compared with 1,000 in an earlier model. Improvements in the manufacturing process itself, like using Just-in-Time procedures that include having parts and materials at the production line just as they are needed, also save time and money. Overall, the Touchscreen II PC costs 47 percent less to produce than HP's original Touchscreen PC.

Focus on quality

HP has learned that the best way to reduce costs is to focus on improving quality. Several years ago, it studied manufacturing costs and found that at least 25 percent of costs were directly attributable to not doing things right the first time. The company responded by setting a goal — to reduce the rate of product failures to one-tenth over the decade of the '80s — and by implementing hundreds of quality-related projects.

The results are visible. Failure rates have decreased an average of more than 25 percent each year for the last five. Manufacturing cycle time is

down. Inventory is reduced. These improvements have had a positive effect on the bottom line.

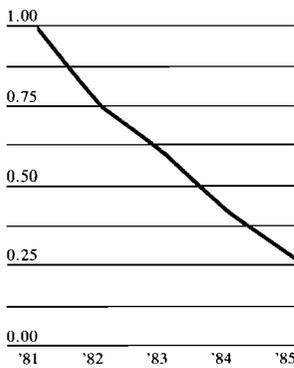
When the quality campaign began in 1980, for example, inventory as a percentage of revenue was 18 percent. In 1985 it was 15 percent. In dollars, that 3 percentage point difference means that \$195 million in cash was not required to operate HP's business.

Quality is not only important in products. Total quality process, or TQP, is a discipline that calls for treating every company business activity as a process, defining how that process should work, and identifying and removing barriers to success.

HP is applying TQP in administration, field service and sales support and software project management, as well as in more traditional manufacturing areas. By systematically defining and controlling the software development process, HP is further emphasizing quality as an important competitive advantage.

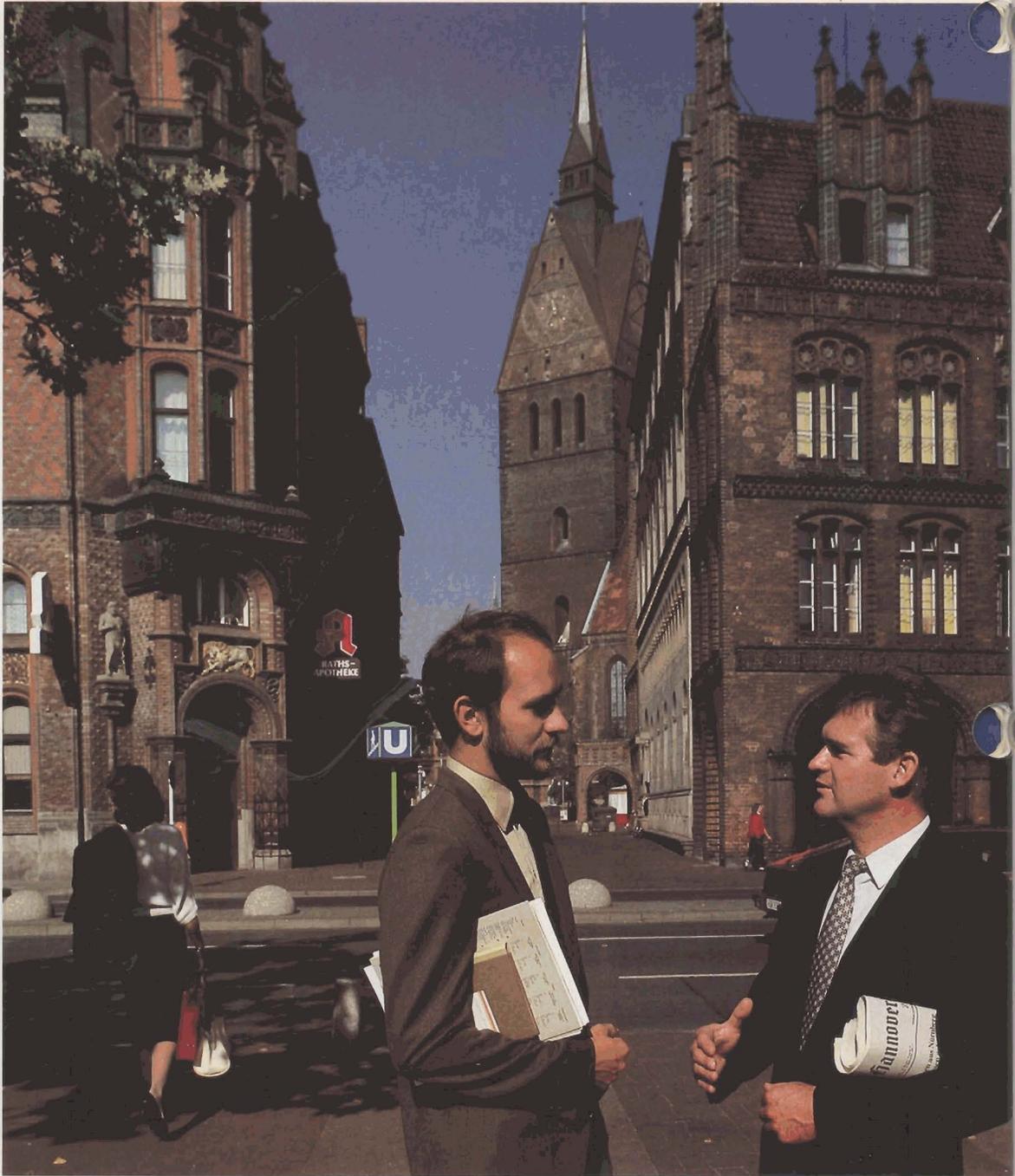
Learning to use information more effectively also lowers costs and improves productivity. For example, HP service engineers use HP portable computers to log customer information, keep accurate call records and, with a telephone hook-up, collect scheduling information without returning to the office. Using computers in the field has cut the time spent on administrative details by 60 percent in HP's western U.S. sales region.

Product failures (normalized annual failure rate)



Using tools such as Total Quality Process and Just-in-Time, in recent years HP has realized steadily decreasing product failure rates, greater product reliability and reduced warranty costs.

Carl Zeiss, West Germany, ranks among the world leaders in the field of three-dimensional measuring equipment. Zeiss' Industrial Measurement Division incorporates Hewlett-Packard instruments and computers into many of its own measuring systems. Division Director Klaus Herzog (right), relies on HP equipment – as well as on HP account manager Hubert Bernig – to help Zeiss maintain its 140-year tradition of precision and quality.



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.

Hewlett-Packard offers a unique range of measurement, computation and application solutions to technical and business problems. In order to develop and present these solutions more effectively to its customers, HP restructured its organization in July 1984. Much of fiscal 1985 was dedicated to implementing the new organization and to achieving its primary goal: serving customers better.

The company's solution-oriented approach encompasses pre-sale consultation, assistance with customizing equipment and computer software to specific uses or applications, installation, customer training and ongoing support and service.

Before presenting a proposal, for example, HP sales representatives take the time to learn and understand the customer's business. They work with the customer to identify problems and needs, and explain HP's capabilities.

HP is developing expertise in and tailoring product solutions for a number of market sectors – industries such as insurance, health care, and retail and wholesale distribution. In other areas, such as cellular-radio testing, HP is building on years of electronics-manufacturing experience to develop and offer total solutions.

Activity at HP's Palo Alto sales office provides an illustration. Applications specialists there undertook a thorough review of the microwave amplifier industry's design and manufacturing processes. They found that HP could supply this industry with numerous products, such as engineering workstations and network analyzers. It also could do much more because of its ability to provide stand-alone products and a complete range of measurement and computation systems.

The Palo Alto team developed a model offering microwave manufacturers computer-based solutions covering the full range of their needs:

- financial and cost management, including order processing and general ledger;
- engineering, including computer-aided design;
- manufacturing, including capacity planning and inventory and shop-floor control;

- test data analysis, including statistical process control; and
- computer-aided test systems. HP's sales force can offer this capability on a worldwide basis.

HP added several programs during 1985 to better support its sales people.

Field marketing centers and marketing development managers provide sales support and a direct link between the field and the product groups. They analyze local market needs and provide product-development direction to HP operating groups. They assist sales representatives in better positioning HP products and help develop local training programs for specific product lines and geographic areas.

During 1985, HP established centers in Lyon and Grenoble, France; Böblingen, West Germany; Amsterdam, The Netherlands; and Hong Kong. Marketing development managers serve the U.S. as well as other parts of the world.

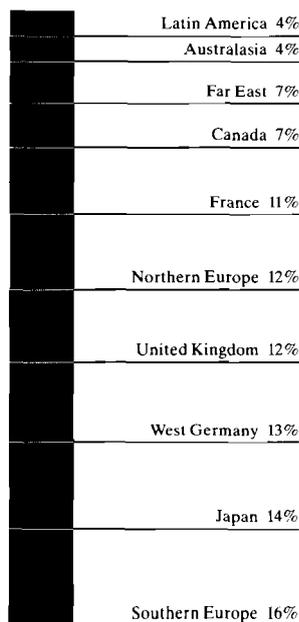
The 1984 HP reorganization has led to a centralized marketing sector, bringing greater consistency and simplicity to HP's marketing policies and communications. For example, following suggestions made by customers, HP has greatly simplified its purchase agreements, making them easier to understand and more uniform for all products and systems.

Products of quality and value

Whether the solution HP offers is a single instrument, a computer or a system comprising several HP products, quality is inherent. During 1985, HP continued its tradition of offering new products of the greatest possible value to customers.

The company announced a full line of instruments and components

Geographic distribution of international orders



Of HP's total 1985 orders, 43 percent or \$2.7 billion came from international customers.

aimed at quickly establishing HP as a leader in the fast-growing millimeter-wave frequency test market. Millimeter-wave frequencies are important for secure military and commercial communications. This new HP line is based on HP instruments that operate at microwave frequencies — products believed to offer the highest performance and finest selection of features in the industry.

In addition, HP enhanced its microwave-test offerings in 1985 with a family of modular test-instrument components, the HP 70000 measurement system. Customers are able to buy only those system components required for present measurement tasks, yet have the flexibility to add additional testing capacity if needed in the future.

The Analytical Products Group again demonstrated HP's distinct advantage as a measurement, computation and applications supplier during 1985. In December, it introduced several workstations for use in chemical analysis based on the HP 9000 Series 300 technical desktop computer. HP developed a special set of software tools to run on the Series 300 that extend the capabilities of several existing HP analytical instruments. The workstations enable chemists to manipulate and analyze more easily the tremendous quantities of complex data generated by sophisticated HP analytical instruments.

Also in '85, the company introduced the HP Vectra PC. It is a desktop personal computer initially targeted at the office market, but also with broad applications in other important HP markets, including engineering, manufacturing and chemical analysis.

HP added a new mid-range member to its HP 3000 family of business computers — the second most widely installed family of general-purpose business computers in the

world. The new system, the HP 3000 Series 58, offers up to 50 percent more performance than HP's previous mid-range system, the Series 48, yet is priced only 11 percent higher. The Series 58 gives customers a stronger mid-range growth path while preserving the value of their current HP 3000 applications.

The Medical Products Group continued to develop products aimed at increasing health-care productivity and helping to lower health-care costs. For cardiology, HP introduced an interpretive electrocardiograph, which can produce the basic ECG measurements at the bedside while giving a complete, automated diagnostic report for the ECG department.

For resuscitation, HP brought out a family of state-of-the-art defibrillators. The new offerings are characterized by low cost, easy operation and excellent reliability.

For patient monitoring, HP also introduced its CareView Review Station which, from selected clinical data, allows patient assessment either in a hospital or from remote locations.

Excellence in service and support

Nearly 375 sales and service offices and distributorships in 76 countries enable HP to serve its customers around the world.

Application Centers in every major region provide customers with consulting, training and customized computer programs. This ensures that software programs are tailored for local languages, cultures and business practices. In order to help customers be as productive as possible, HP provides system enhancements as new hardware and software technologies and products are developed.

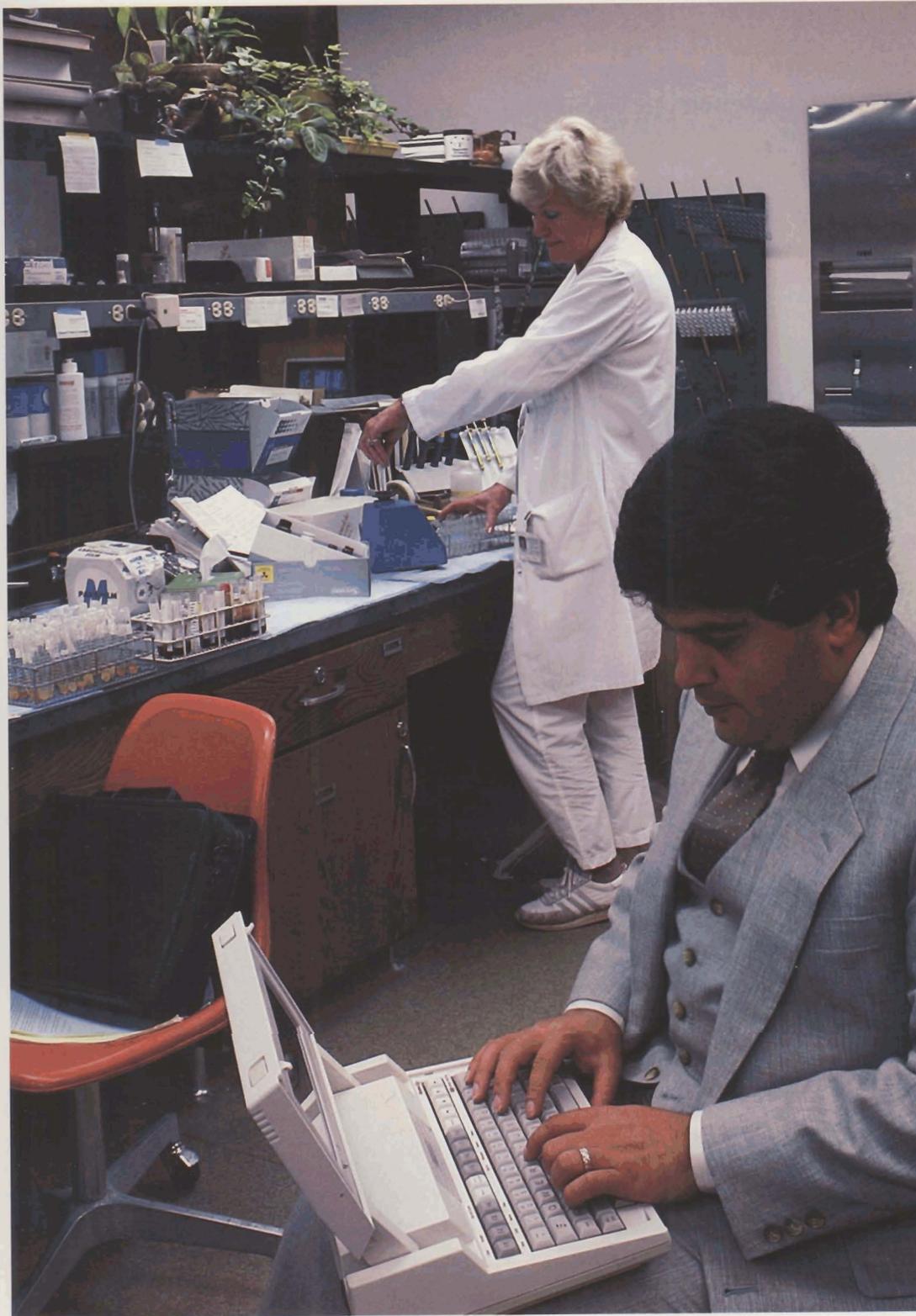
Worldwide computer and instrument systems support is offered through two Response Centers in North America, one in the United Kingdom and local centers in 21 countries. They provide fast, professional maintenance and applications assistance to HP 3000, HP 1000, HP 9000, personal computer and HP system-based instrument customers. Linked through an advanced global network, the centers draw on a common database, enabling HP to resolve a problem once and

provide the solution quickly and cost-effectively to customers elsewhere in the world.

In 1985, HP began offering a "predictive support" service for HP 3000 systems. Sophisticated software developed for the service allows a customer and HP to anticipate and eliminate some of the most serious potential computer-hardware problems.

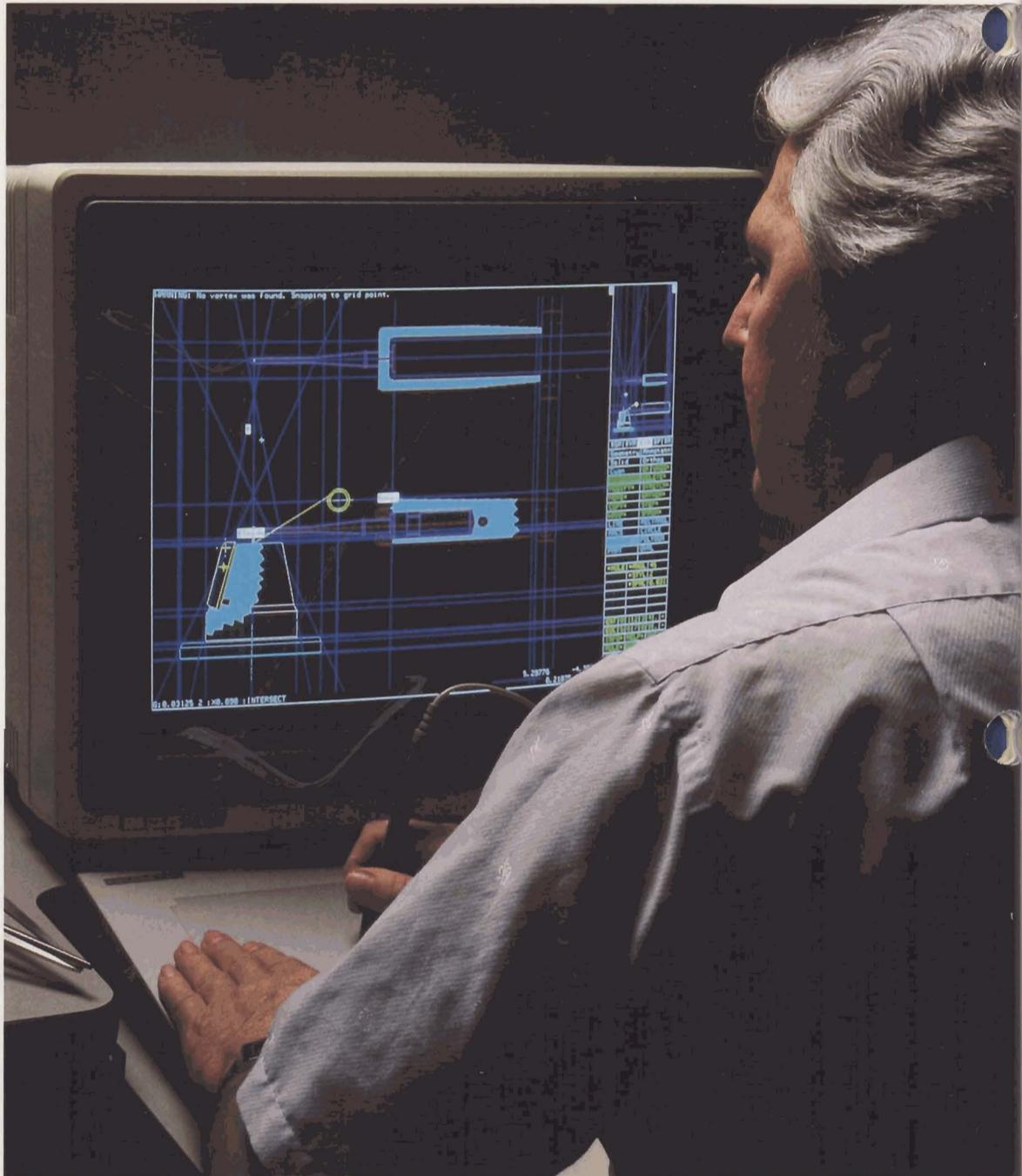
When used on a regular basis, the software analyzes system data and generates a report of potential problems for the customer. The information can be transmitted directly to an HP Response Center, where an engineer determines necessary maintenance measures. The predictive support service, provided at no extra cost as part of HP's standard hardware-support service, effectively reduces unscheduled computer downtime by detecting potential failures before they happen.

A capacity-planning program that helps customers effectively plan for future system growth also became available this year. This HP 3000 service automatically monitors use of a system over time and forwards data to an HP Response Center for analysis. The center generates a report with information that enables a customer to balance workloads across multiple HP 3000s, shifts and times of day, thereby maximizing his or her computing investment.



The HP Portable personal computer enables Du Pont sales representative Rich Saleeby to present his Biomedical Products customers with on-the-spot proposals. He checks up-to-date price lists stored in the computer's memory and, using Lotus® 1-2-3® quickly demonstrates the cost of different product options. After the sales call, Rich uses his HP computer to electronically collect messages left at his office. "The Portable PC saves me time at every turn," the salesman says.

Underscoring its commitment to computer-aided-engineering markets, in 1985 Hewlett-Packard introduced the HP 9000 Series 300 technical-computer family. West Bond Inc., Anaheim, California, designs integrated-circuit wire bonding equipment on the Series 300 using HP's Engineering Graphics Systems software. Fred Miller, West Bond's founder, chose the HP system because of its high-resolution graphics, speed and sophisticated software. Most importantly, the system can be expanded as his company grows.



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.

The original Hewlett-Packard products were electronic measuring instruments. Over the years, the company's product line has expanded to include computer systems, solid-state components, handheld calculators, medical electronic equipment and instrumentation for chemical analysis.

Today, the interactive capabilities of HP instruments and systems enable decision makers in business and technical fields to gain ready access to essential information, put it into meaningful form, and use it to improve productivity.

Major among HP's many areas of interest are products and systems for improving all aspects of the design and manufacturing process. HP brings its considerable electronics-manufacturing experience and computer expertise to this expanding market.

Increase productivity. Improve product quality and management control. Use assets more effectively. These are the demands confronting manufacturers today. Increasingly, CIM, or computer-integrated manufacturing, provides solutions.

CIM links systems in the design, manufacture and management of products in order to attain maximum efficiency. HP offers a growing line of CIM products and network capabilities.

CAE/CAD. HP's understanding of engineering tasks is central to its computer-aided engineering/computer-aided design marketing strategy. The company is focusing on electronic design and mechanical engineering tasks, and on providing fully integrated software and hardware solutions for these two areas. It also is committed to providing superior-quality workstations with the computing power needed for highly technical design tasks, and the networks to allow designers to share common information.

During 1985, HP expanded its technical-computer offerings with the HP 9000 Series 300 workstation family. These new products feature high-resolution graphics so important for engineering and technical design uses.

The company also took steps to enhance its technical computer-

software offerings. It acquired Ceracor Inc., a developer of advanced CAE software tools, and it entered into marketing agreements with several firms to provide software for CAE/CAD and mechanical engineering applications.

Information management. Linking the factory floor and the business office is critical to managing the manufacturing process. In 1985, HP introduced several additional manufacturing application programs specifically to aid production cost accounting.

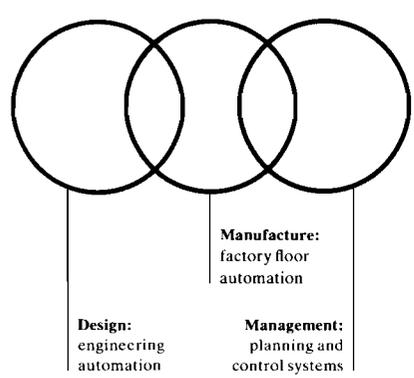
HP Production Cost Management automatically posts information on work-in-progress inventory from the production floor to the general ledger. It includes HP Inventory Cost Control, which tracks work orders and the materials and labor related to an order.

Computer-aided testing. HP's leadership in electronic testing continues as the company develops computer-based systems for specific manufacturing test needs.

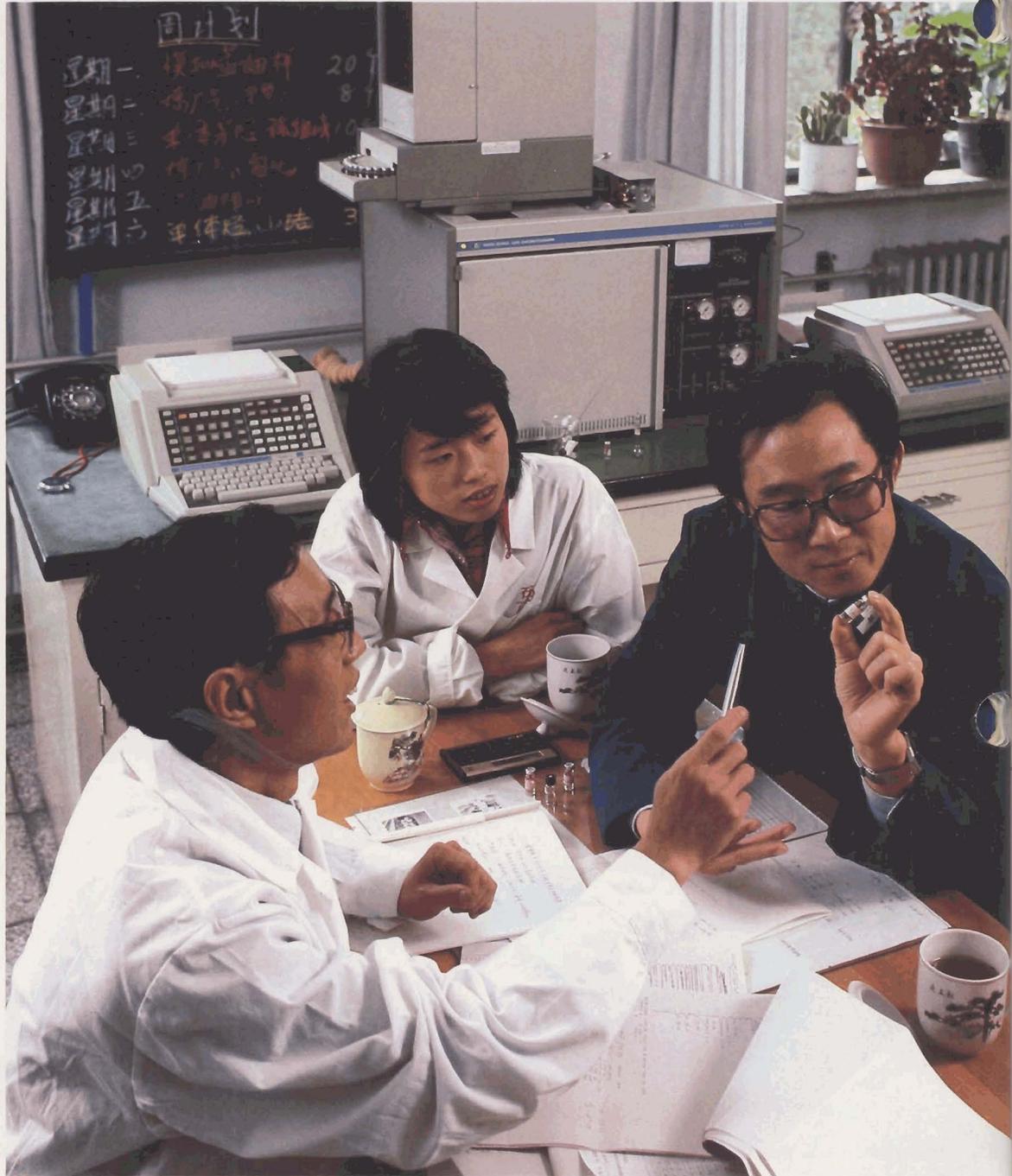
The HP 3065 printed-circuit board test system is controlled by an HP minicomputer, while micro-processors in each test station make it possible to inspect complex analog and digital boards quickly.

In 1985, HP introduced a modular, low-priced solution for automating basic testing and measuring procedures. Called HP PC Instruments, the new technology converts an HP Touchscreen personal computer or an IBM PC into an economical and easy-to-use electronic instrument, such as an oscilloscope or a universal counter.

Computer-integrated manufacturing



Computer-integrated manufacturing (CIM) unites HP's two traditional product strengths—computers and instruments—to increase manufacturing productivity. CIM links systems used in the design, manufacture and management of products.

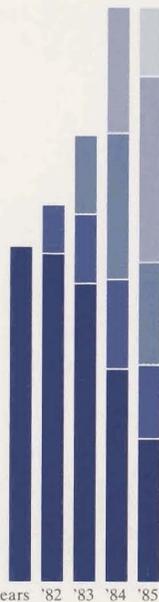


In 1985, a laboratory for chemical analysis with Hewlett-Packard instruments was established at the Research Institute of Petroleum Processing, Beijing. The lab is helping the company expose China's extensive petroleum industry to HP analytical instrumentation. HP sells and supports its instrument and computer products in China through a joint venture, which also has begun manufacturing selected HP products.

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.

HP product orders by year introduced



This chart shows the importance of HP's new products. Each bar represents the year's total product orders, with the top section of each bar representing orders for those products introduced during that year. Well over half of 1985's orders were for products introduced in the past three years.

For HP, growth is not an end in itself. Rather, it results from developing profitable products that customers view as important contributions. Over the past 10 years, HP's revenue growth has averaged 21 percent a year.

HP conducts its business in an increasingly complex environment. To thrive, the company must pursue the most promising opportunities for growth. Today, those often involve strategic partnerships, including new alliances with customers, governments and others. They permit access to new and growing markets and offer opportunities for expanding HP's traditional customer base.

HP already has joint-venture companies in Mexico, Japan, Korea and China. In 1985, the company and Nan Ya Plastics Corporation, the largest company within the Formosa Plastics Group and Taiwan's largest industrial corporation, formed a joint venture to build computer-integrated manufacturing systems.

In Europe, HP supports efforts to further develop a high-technology industry. It underscores this support with its European Research Center in Bristol, England. Established in 1983, the center is the only branch of HP's central laboratories in Palo Alto. During 1985, it expanded its research in the burgeoning field of artificial intelligence.

Also this past year, HP launched an operation in Barcelona, Spain, to manufacture the company's popular computer-graphics plotters for sale in Spain and export to European, Middle Eastern and African markets. It is HP's first Spanish manufacturing facility.

Sensitive to balance of trade concerns among the countries in which it operates, HP further developed its already extensive international purchasing activity in 1985. It established four Asian and three European procurement centers to provide HP manufacturing divisions throughout the world with easier local access to high-quality, cost-competitive components and assembled-parts. The effort saves HP money and benefits local economies.

Marketing alliances

This past year, HP entered into several agreements designed to strengthen its

presence in specific markets.

An arrangement with GRAFTEK, Inc., a subsidiary of Burroughs Corporation, enables HP to provide computer-aided design software products for the mechanical engineering market. Also, HP and Bechtel National, Inc. agreed to work together in building and equipping automated electronics factories.

An important relationship between HP and Canon Inc., begun in 1975, led to HP's first laser printer and has expanded to include technology exchanges and licensing agreements for both companies' products. The most notable result of this joint effort is HP's popular LaserJet printer. HP expects the relationship with Canon, a manufacturer of business machines, cameras and optical products, will expand further to include joint research and development efforts.

HP's dedication to providing solutions for its customers' business and technical needs also has led to expanded relationships with independent supplier organizations.

These relationships are particularly important because of the diversity of the marketplace and of distribution channels available to reach customers. HP values these suppliers' understanding of special markets, and is actively expanding this program.

The company also relies on other firms to develop specialty programs, or applications software, for use on HP computers.

Central to Hewlett-Packard's corporate culture and personnel policies is the concept of sharing with its people — sharing the responsibilities for defining and meeting goals, sharing in economic ups and downs, and sharing the opportunities for personal and professional development.

In 1985, all HP people were asked to help adjust the company's capacity to shifts in market demand. When it first became clear that order growth would be considerably below original forecasts, people at manufacturing sites with substantially reduced orders were offered a Voluntary Time Off (VTO) program. Under VTO, people can take from four hours to six months off without pay and be guaranteed continuing benefits and a job when they return.

Later, as the industry downturn deepened, HP implemented unpaid time off two days a month for virtually all its U.S. non-sales people.

International entities put in place similar payroll-cost reduction programs. Senior managers worked a full schedule, but at 10 percent less pay. Designed to reduce capacity and expenses, the program mirrored the "nine-day fortnight" in 1970 when HP people worked nine out of every 10 days for six months until business conditions improved.

The personal sacrifices of HP people around the world during 1985 played a major role in sustaining the company's 46-year record of profitability. Throughout HP's history, HP people have shared in that profitability and the same held true in 1985. Eligible HP people received profit sharing totaling \$106 million.

Providing employment security based on performance has been HP's practice since its founding. Although the company cannot guarantee specific

jobs over time, it retains its people based on their continued contributions. Recognizing that people are its most important asset, HP is committed to providing opportunities for training and retraining in order to help its people adapt to changing technologies and company needs.

These changes demand new skills and a reshaping of many jobs. Employees increasingly must be flexible and open to training and new job opportunities. Through retraining by HP divisions, manufacturing people have acquired office skills and moved to administrative support positions.

Programs like "New Balance" at HP's Colorado Springs (Colorado) Division and REASON (Retraining Employees for Administrative and Secretarial Opportunities Now) at the Personal Office Computer Division in Sunnyvale, California, assisted more than 100 people during 1985. These programs will be accelerated in the future.

Engineers, too, face a rapidly changing environment. According to an American Electronics Association survey, the "technological half-life" of an electrical engineer is five years. For a computer scientist, it is two and one-half years. In order to remain abreast of current technology, engineers must regularly take additional course work.

HP fosters its engineers' development through cooperative programs with major academic institutions throughout the world. For example, more than 200 HP people took courses at California State University, Chico, and another 1,000 at Stanford University, Palo Alto, during 1985.

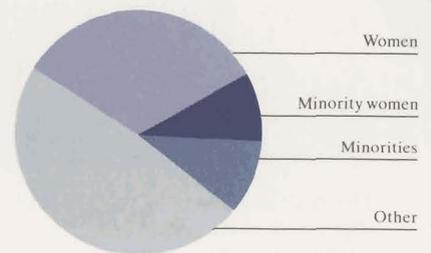
Working with Stanford, the Universidad Autonoma de Guadalajara and other major high-technology companies, HP led the establishment of an advanced degree program in Guadalajara, Mexico. Twelve HP Guadalajara employees are currently enrolled. Efforts are under way to expand this innovative teaching concept to additional countries.

Another 200 U.S. people took more than 30 courses this year through the National Technological University, a pioneering satellite-based program that HP helped develop. This "distributed university" allows

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.

Diversity of HP's U.S. work force



HP's commitment to equal employment and affirmative action stems from its philosophical roots and business objectives, which recognize that people are HP's most important resource.



Mickey Quenzer assembles HP 5350 microwave frequency counters, which the company introduced in 1985. With his guide dog Novelle, he works the day shift and shares a workbench and toolbox with a co-worker on the swing shift. Together they form an assembly team that shares "ownership" – including responsibility for quality – of the instruments they build. The team's parts kits are labeled in Braille for Mickey, who is blind.

professors from 12 leading universities to lecture, via satellite, to students throughout the U.S.

Shifting emphasis

To serve customer needs better, HP continues to shift emphasis to developing the programs that run computers and instruments. These application programs, operating systems and data communications capabilities are necessary to effectively solve a customer's problem. Making a major improvement in software quality and setting a standard of excellence for the industry was a primary goal for HP throughout 1985.

This emphasis on software has influenced HP's recruiting in 1985. For the first time in its history, HP hired more computer science than electrical engineering graduates.

It also has led to innovative employee-development efforts. Among them, a full-time, four-month software engineering training program designed by HP. The hardware-to-software transition course provides education and training for both managers and engineers in software engineering and advanced software technology. It combines seminars and workshops both in the classroom and on videotape, and takes advantage of HP's television network — believed to be the largest industrial TV network in the world. Initially offered in California, the course is being expanded to include HP engineers in the eastern U.S. and in Europe.

HP maintains close links with educational institutions through its college-recruiting activities and other outreach programs.

Programs such as the Student Employment and Education Program (SEED) recruit future HP people for summer and co-op work one to three years before college graduation. SEED serves as an affirmative-action tool, develops goodwill ambassadors for the company and contributes to students' professional and technical development. SEED student assignments range from developing software programming tools for the

UNIX™ operating system in HP Labs, to assisting with programming HP office automation systems.

HP's Eurostudent program, begun in 1983, has helped enhance the company's visibility at selected European schools. It also has enabled HP to attract and cultivate top students through short-term assignments with HP in the U.S. During 1985, 23 students from 11 countries were placed in 13 U.S. divisions.

Affirmative action

HP's affirmative-action programs support the company's goal of finding and developing qualified people, HP's most important resource.

During 1985, HP continued its efforts to develop the pool of qualified disabled job applicants. The company worked closely with the Center for Independent Living, Berkeley, California, which has special programs for severely physically disabled people. HP granted equipment, provided internships for center students and hired three graduates.

Within the company, HP equipped blind employees with HP

Touchscreen personal computers adapted for speech output to help them increase their productivity and job opportunities.

HP also expanded its efforts to recruit women and minorities through increased support for and participation at national conferences, such as those of the Society for Women Engineers, Society for Hispanic Professional Engineers, the American Indian Society for Science and Engineering and the National Urban League.

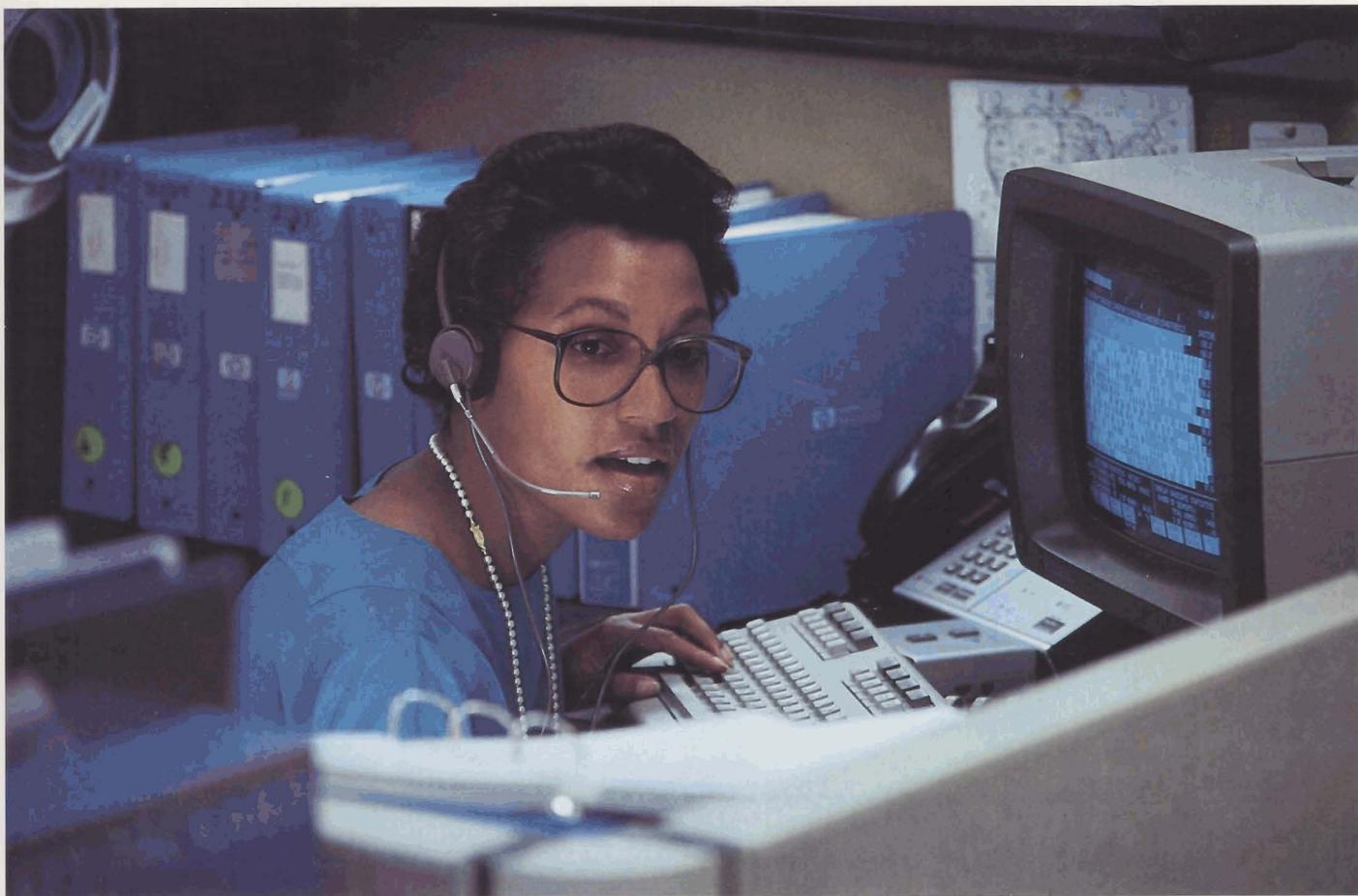
HP is one of four firms in the U.S. that participates in a national affirmative-action reporting system to the federal government. Now in its third year, the program has proven effective both for HP and the government. It has reduced reports and paperwork, thus enabling HP to focus greater attention on those areas that will continue to improve the position of women and minorities within the organization.

Additional information about the company's affirmative-action programs is available from HP's corporate offices in Palo Alto.

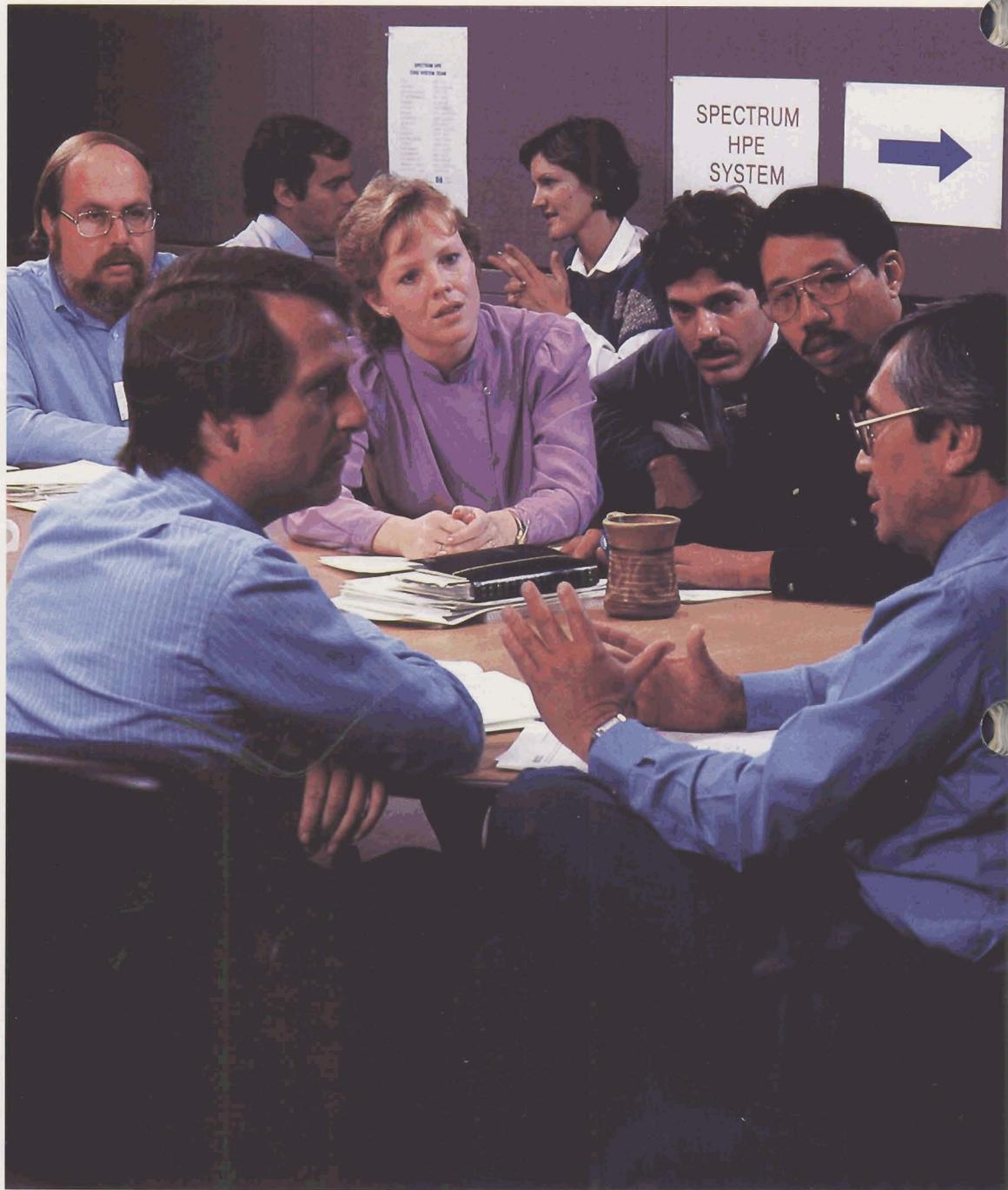
U.S. Affirmative Action Review	Total Number	Minority		Female	
		Total	Percent	Total	Percent
Managers and Supervisors					
1980	5,830	564	9.7	1,198	20.5
1985	9,282	991	10.7	2,375	25.6
Professionals					
1980	10,858	1,180	10.9	2,206	20.3
1985	18,569	2,477	13.3	5,415	29.2
Technicians					
1980	4,558	575	12.6	707	15.5
1985	5,797	1,031	17.8	907	15.6
Skilled/Craft					
1980	2,426	428	17.6	321	13.2
1985	2,884	614	21.3	517	17.9
Total HP Work Force		18.7		41.7	

Management

Computer engineers like HP's Kelli Scott form interdisciplinary teams that solve customers' computer hardware and software problems quickly and efficiently. The teams of highly trained technical experts diagnose and solve problems over the telephone using an HP Support Link modem provided with HP 3000 computer support. HP people serve customers throughout the world from two Response Centers in North America and one in the United Kingdom, and from local centers in 21 countries.



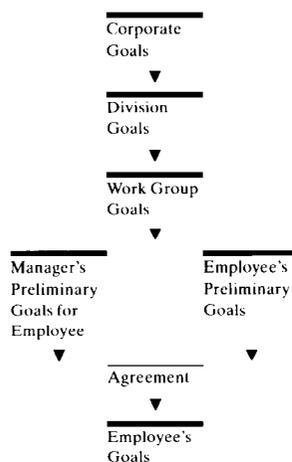
Under a sophisticated program-management system, team leaders in Cupertino, California, who work on HP's next-generation computer-development program, known as Spectrum, meet weekly to assess all aspects of the project's status. They use HP DeskManager, an electronic mail system, and video teleconferencing to coordinate their portion of the project with teams at other HP locations around the world.



Management

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

MBO



HP's practice of management by objectives (MBO) gives people the freedom to define their jobs while still achieving corporate goals.

HP's philosophy of management flows directly from the company's view of its people as its most valuable asset. HP encourages its people at every level in the organization to make their own plans for achieving the company's broader objectives and goals.

Known as "management by objective" (MBO), this concept offers the greatest possible freedom for individual initiative and contribution. It promotes creativity and enthusiasm and helps develop people who can step up and take on additional responsibility as the company grows.

To be successful, MBO demands trust, open communication and mutual understanding among all levels at HP.

HP always has had strong traditions and policies that promote communications: an open-door policy, coffee-break discussions, employee/management luncheons and open-office floor plans. HP pioneered the technique it calls "managing by wandering around," which encourages a manager to visit informally, spontaneously and frequently with his or her people.

As HP has grown and increased its employee population to more than 84,000 worldwide, quality communication has become a significant challenge. In 1985, the company began a comprehensive, worldwide employee attitude survey to obtain feedback and ideas formally from its people.

Called Open Line, the survey was HP's second in the U.S. and the first for its people in the rest of the world. Responses to the U.S. survey conducted in 1979, showed that HP was doing many things right. They also led to specific changes, including a Flexible Time Off program and improved benefits. Early results from the 1985 survey also are very encouraging and indicate that HP's relationship with its people is highly satisfactory.

Changing program management

How new-product programs are managed at HP is changing as the company grows, as technology develops further and as HP increasingly focuses on selling systems comprising multiple products from many HP divisions.

In the past, virtually all HP products were stand-alone instruments

that were developed by a single division. Today, it is common for several divisions, often geographically dispersed, to cooperate extensively in developing a system that might include instrumentation and computation products as well as programming or software. Creative, technologically sophisticated techniques are required to complete the job successfully.

For example, when HP needed to coordinate work among 16 entities on two continents in order to develop the software and application programs for its Personal Productivity Center, it used the company's own HP Desk-Manager electronic mail system. With HP DeskManager, members of the project team moved software code, exchanged documentation and updated program schedules daily.

Video teleconferencing is another important tool in HP's contemporary project-management approach and is being used extensively in the Spectrum program — HP's major next-generation computer project. Engineers in Cupertino, California, "meet" with those at the company's Ft. Collins (Colorado) Systems Division at least once a week. The video conferences allow HP people who actually are doing the work on a project to share information, resolve questions and make decisions quickly, regardless of where they are located.

HP strives to ensure that each community in which it operates is improved by the company's presence.

Contributions committees at HP sites worldwide enable HP people to make decisions about contributions to local civic, cultural and social programs. In addition, HP people give their time and technical expertise to assist a myriad of community, educational and charitable organizations.

The majority of HP philanthropic grants, which amounted to \$45 million in 1985, are directed toward programs that enhance the understanding of science, technology and medicine. HP emphasizes new-equipment grants to make the maximum impact on endeavors in these areas.

In 1985, the company made first-time grants to 20 U.S. community colleges for use in vocational, technical and management-training programs that meet the needs of the electronics industry.

HP also granted \$115,000 in medical electronic equipment to The Morehouse School of Medicine, a predominantly black institution in Atlanta, Georgia. The grant enabled Morehouse to upgrade facilities at three inner-city hospitals where its medical students and family-practice residents train.

HP takes a lead in numerous programs throughout the world to provide practical experience for students and teachers. It also encourages HP people to share their expertise on college campuses.

In 1985, for example, HP continued its faculty-loan program

begun 10 years ago. Three HP engineers served as full-time electrical-engineering instructors at universities with high minority enrollments. In addition, HP provided several dozen U.S. colleges and universities with part-time technical and business instructors.

HP is deeply concerned about the serious shortage of university computer science and electrical engineering faculty. In 1985, it continued an ongoing \$6 million program and sponsored 50 doctoral fellowships aimed at developing future professors.

Each year since 1974, HP has sponsored the Hewlett-Packard Europhysics Prize of the European Physical Society to recognize outstanding achievement in solid state physics. 1985 Nobel Laureate Klaus von Klitzing was a recipient of the HP Europhysics Award in 1982.

HP in South Africa

In the midst of worldwide attention focused on South Africa and its policy of racial separation, HP in 1985 reaffirmed its belief that it can help effect positive change while doing business in that country.

HP sales operations in South Africa are conducted by a wholly owned subsidiary established in 1968. The company, which employs some 290 people, had sales of \$44 million in 1985, less than 1 percent of HP's worldwide total.

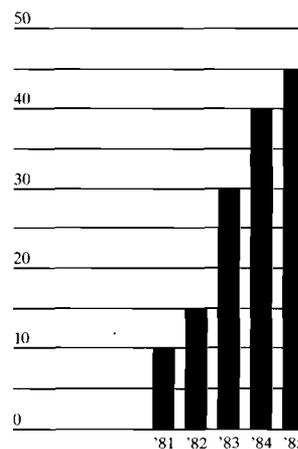
Consistent with its basic worldwide policy, HP has maintained equal and fair employment practices for all its people in South Africa, and was among the early subscribers to the Sullivan Principles. These principles are designed to assure equitable pay, benefits and working conditions for all employees, to enhance the upward mobility of non-white employees and to improve the quality of their lives outside the work environment. They also call on signatories to support actively the rescission of all apartheid laws.

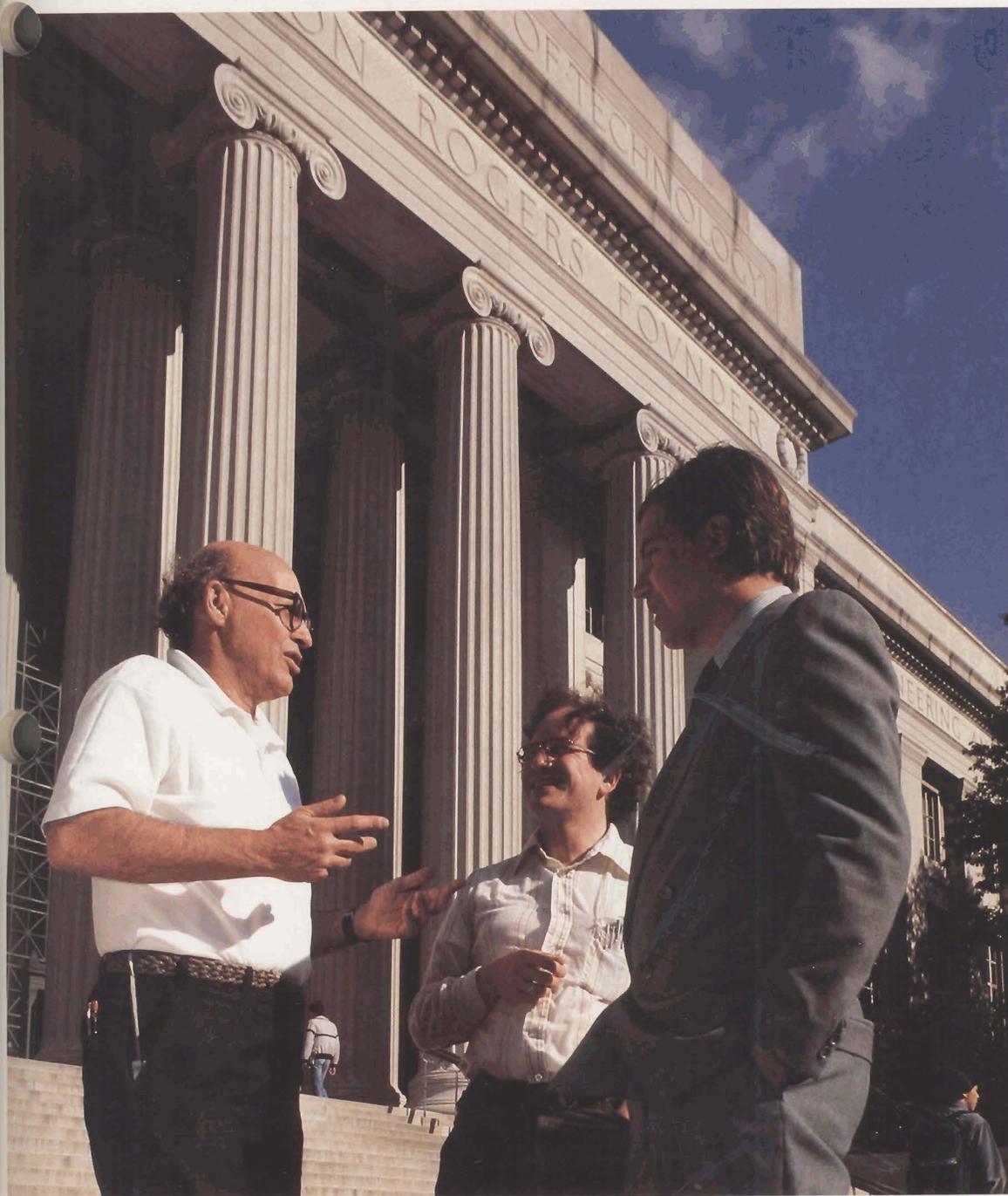
Subscribers to the Sullivan Principles are annually rated on their implementation of the principles and HP is among those companies receiving the highest rating.

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.

HP equipment and cash grants (\$ millions)





HP is granting \$50 million worth of advanced engineering workstations and computer software for research and instruction in artificial-intelligence technologies to selected U.S. universities. Artificial intelligence (AI) is a branch of computer science that seeks to better understand human reasoning and embody that understanding in computer programs. At the Massachusetts Institute of Technology, Cambridge, HP is working with (from left) Marvin Minsky, Gerald Sussman and Nicholas Negroponte — all experts in the AI field.

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Chief Executive Officer
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(a forest products manufacturer and distributor)

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Director for Medical Science
Lucille P. Markey Charitable Trust

Harold J. Haynes
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William R. Hewlett
Vice Chairman of the Board
Hewlett-Packard Company

James D. Hodgson
International Business Consultant

Shirley M. Hufstедler
Partner in the law firm of
Hufstедler, Miller, Carlson & Beardsley

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

Paul F. Miller Jr.
Senior Partner
Miller, Anderson and Sherrerd
(an investment management firm)

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Executive Vice President
and Chief Operating Officer
Hewlett-Packard Company

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Chairman of the Board
Hewlett-Packard Company

William E. Terry
Executive Vice President
Hewlett-Packard Company

Hicks B. Waldron
Chairman and Chief Executive Officer
Avon Products, Inc.
(a beauty, fashion and health-care company)

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President
Yokogawa Hokushin Electric Corporation
(a process and factory automation manufacturer)

John A. Young
President and Chief Executive Officer
Hewlett-Packard Company

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Young (Chairman), Morton, Terry

Audit Committee
Haynes (Chairman), Fery,
Hufstедler

Employee Benefits Committee
Glaser (Chairman), Hodgson,
Hufstедler, Morton, Terry

**Executive Compensation and
Stock Option Committee**
Hodgson (Chairman), Glaser,
Haynes, Waldron

Investment Committee
Fery (Chairman), Knoppers,
Miller, Young

Nominating Committee
Hodgson (Chairman), Fery, Glaser,
Haynes, Hewlett, Packard, Young

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Richard C. Alberding
Executive Vice President
Marketing and International

John L. Doyle
Executive Vice President
Information Systems and Networks

William E. Terry
Executive Vice President
Components, Measurement
and Design Systems

Douglas C. Chance
Senior Vice President and General Manager,
Information Systems Group

Alfred P. Oliverio
Senior Vice President
Major Accounts Marketing

Lewis E. Platt
Senior Vice President
Manufacturing, Medical
and Analytical Systems

Richard W. Anderson
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James L. Arthur
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U.S. Field Operations

Alan D. Bickell
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Intercontinental Operations

Joel S. Birnbaum
Vice President and Director,
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S. T. Jack Brigham III
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General Counsel

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Vice President and General Manager,
Components Group

Harold E. Edmondson
Vice President and Director,
Corporate Manufacturing

Richard A. Hackborn
Vice President and General Manager,
Peripherals Group

Benjamin L. Holmes
Vice President and General Manager,
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Franco Mariotti
Vice President and Director,
European Operations

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Vice President and General Manager,
Design Systems Group

Charles W. Richion
Vice President
U.S. Field Operations Sales

Robert P. Wayman
Vice President, Chief Financial Officer
and Controller

Cyril J. Yansouni
Vice President and General Manager,
Personal Computer Group

George F. Newman Jr.
Treasurer

D. Craig Nordlund
Secretary and Corporate Counsel

New Officers

During 1985, two HP executives were named senior vice presidents and four were named vice presidents of the company. They are: Douglas C. Chance, senior vice president and general manager, Information Systems Group; Lewis E. Platt, senior vice president, Manufacturing, Medical and Analytical Systems Sector; Richard W. Anderson, vice president and general manager, Microwave and Communications Group; William F. Craven, vice president and general manager, Components Group; Benjamin L. Holmes, vice president and general manager, Medical Group; and Charles W. Richion, vice president, U.S. Field Operations Sales.

Also during the year, D. Craig Nordlund was named secretary.

Financial Statements

Hewlett-Packard Company's business is the design and manufacture of measurement and computation products and systems used in business, industry, engineering, science, health care and education.

Principal products are integrated instrument and computer systems, including hardware and software; test and measurement instruments; computer systems and peripheral products, including printers, plotters, magnetic disc and tape drives, and network products; medical electronic equipment and systems; instrumentation and systems for chemical analysis; handheld calculators; and solid-state components.

Consolidated Statement of Earnings

For the years ended October 31 (Millions except per share amounts)	1985	1984	1983
Net revenue:			
Equipment	\$5,204	\$4,934	\$3,862
Services	1,301	1,110	848
	6,505	6,044	4,710
Costs and expenses:			
Cost of goods sold	3,166	2,865	2,195
Research and development	685	592	493
Marketing	1,181	1,066	771
Administrative and general	715	661	523
	5,747	5,184	3,982
Earnings before taxes	758	860	728
Provision for taxes	269	313	296
Reversal of DISC taxes*	—	(118)	—
	269	195	296
Net earnings	\$ 489	\$ 665	\$ 432
Net earnings per share	\$ 1.91	\$ 2.59	\$ 1.69

* Reversal of DISC taxes accrued prior to 1984 due to a change in U.S. tax law.
Certain amounts have been reclassified to conform to the 1985 format.
The accompanying notes are an integral part of these financial statements.

Supplementary Earnings Information, assuming the reversal of DISC taxes
is applied retroactively. See Financial Review, page 27.

Net earnings	\$ 489	\$ 547	\$ 457
Net earnings per share	\$ 1.91	\$ 2.13	\$ 1.79

Financial Review (Unaudited)

Statement of Earnings

1985 was a challenging year for HP, as it was for many companies in the electronics industry, due to slowing order growth. For HP total orders increased only 1 percent in 1985, compared with order growth of 29 percent in 1984 and 18 percent in 1983. Orders from U.S. customers increased 1 percent, 25 percent and 27 percent for 1985, 1984, and 1983, respectively. International orders were flat in 1985, compared with growth of 35 percent in 1984 and 7 percent in 1983.

This general order slowdown resulted from a business cycle downturn, which particularly affected the U.S. manufacturing sector. The business cycle peaked in 1984 and HP achieved strong order and revenue growth. Toward the middle of the 1984 fiscal year, HP domestic orders showed signs of softening. Through 1985, major customers scaled back capital spending plans in line with revised business expectations. Order growth rates, which compare the 1985 fiscal quarters with the same quarters of the prior year, are shown below.

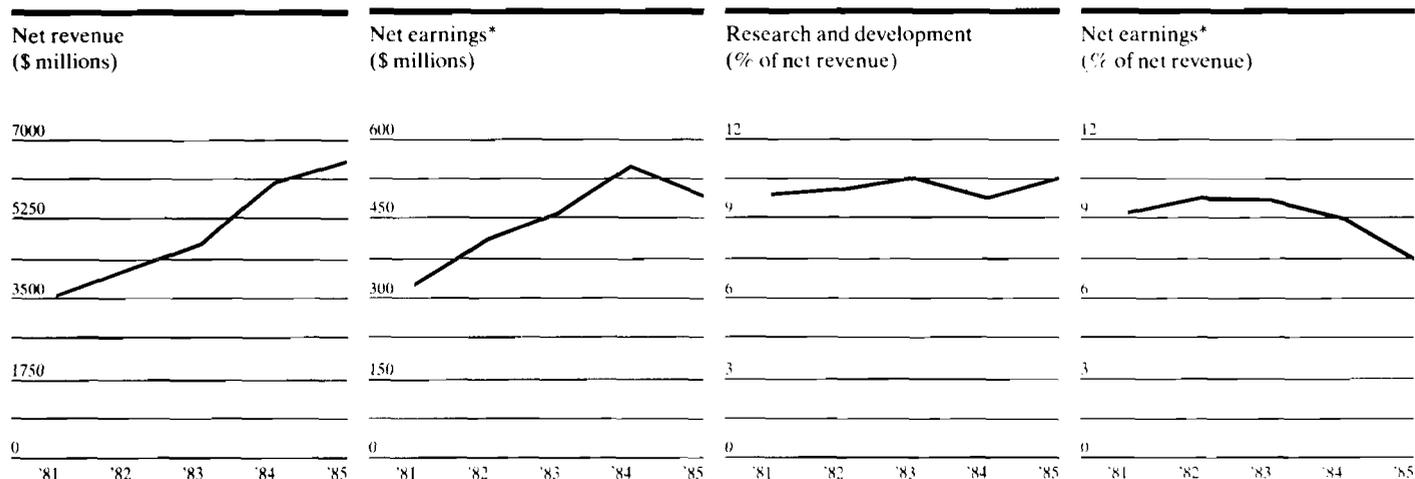
FY85 order growth rates	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
U.S. orders	10%	6%	-7%	9%
International orders	21%	12%	-20%	-9%
Total orders	15%	1%	-12%	1%

International order growth rates, especially in Europe, experienced dramatic change during the year. This was largely due to the high relative value of the U.S. dollar and the volatility of exchange rates. As shown in the graph on page 28, throughout fiscal 1985 the value of the U.S. dollar was more than 60 percent higher when measured against

European currencies than it was in 1980. As a major exporter, HP is significantly impacted by the relative strength of the dollar, which places considerable competitive pressures on non-U.S. markets. The graph also illustrates exchange rate volatility, which produces uncertainty in certain markets and disrupts steady order growth.

As expected, the trends in order growth are reflected in shipments. Net revenue in 1985 totaled \$6.5 billion, an increase of 8 percent over 1984. This compares with net revenue growth rates of 28 percent in 1984 and 12 percent in 1983. Net revenue from U.S. sales and service grew 5 percent in 1985, 29 percent in 1984 and 20 percent in 1983, while international net revenue increased 12 percent, 27 percent and 3 percent for 1985, 1984 and 1983, respectively. Inflation was not a significant factor in revenue growth during these periods.

HP responded to the downturn in business conditions by taking measures to bring operations more in balance with orders. Expenses were scaled back through an operating-expense reduction program. Costs and expenses are being actively managed consistent with long-term growth objectives. In terms of short-term performance, net earnings in 1985 decreased 10 percent from the prior year, excluding a one-time tax benefit in 1984 of \$118 million related to the company's Domestic International Sales Corporation (DISC). The company believes that applying the DISC tax benefit retroactively to the years in which it arose is more meaningful for comparative analysis of



*Based on Supplementary Earnings Information, assuming the reversal of DISC taxes is applied retroactively. See page 26.

Financial Review (continued)

trends in HP earnings and has provided that Supplementary Earnings Information on page 26. On that basis, net earnings increased 20 percent in 1984 and 11 percent in 1983.

While the company has been affected by the slow economy, HP has continued to focus on those activities essential to its long-term growth, especially key engineering programs for new-product development and marketing programs to generate new orders.

Comparative levels of costs and expenses as a percent of net revenue are provided below.

Costs and expenses (% of net revenue)	1985	1984	1983
Cost of goods sold	48.7	47.4	46.6
Research and development	10.5	9.8	10.5
Marketing	18.1	17.6	16.4
Administrative and general	11.0	10.9	11.1

Cost of goods sold as a percent of net revenue increased due to both higher costs and lower revenue. Lower-than-anticipated order volume led to some excess capacity and increased costs in certain product lines. Further, net revenue was adversely impacted by competitive pricing pressures.

New-product introductions continue to play an important role in sustained net revenue growth. Generally, approximately half of HP's annual orders are for products introduced in the preceding three years. This commitment to research and development enables HP to provide its customers with innovative products and systems that enhance productivity. In 1985, HP increased research and development expenditures by 16 percent to \$685 million.

Steady revenue growth also depends on the on-going generation of new orders. The company has continued to

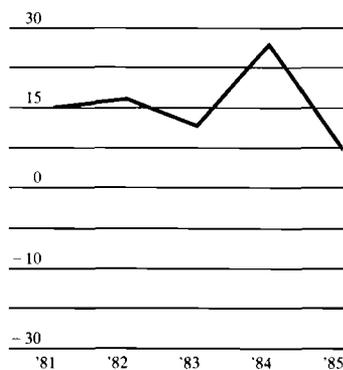
fund sales and marketing programs necessary to support order growth; thus, marketing expense has increased as a percent of net revenue.

During this fiscal year, growth in the number of employees was held to 3 percent compared with growth of 14 percent in 1984 and 7 percent in 1983. Administrative and general expenses increased only 8 percent in 1985, tracking the percentage increase in revenue. This reflects the efforts of HP people worldwide to increase productivity and to reduce expenses.

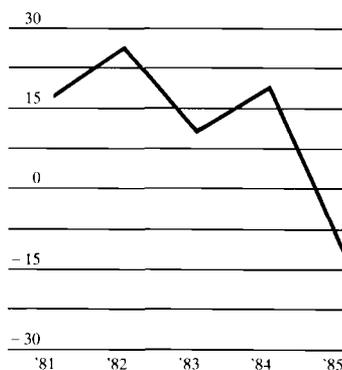
The effective tax rate was 35.5 percent in 1985, 36.4 percent in 1984 and 40.7 percent in 1983, excluding the 1984 adjustment for prior years' DISC taxes of \$118 million. Contributing to the above trend in effective tax rates were the benefits of increased investment in capital equipment and research and development as well as tax rate differentials in certain foreign jurisdictions.

Consistent with its July 1984 corporate reorganization and the increasing convergence of HP product lines, the company revised its reporting of industry segments to provide information that better reflects the nature of HP's products and markets. HP operates in a single industry segment: the design and manufacture of measurement and computation products and systems. The table on page 39 provides supplemental information showing orders and net revenue by groupings of similar products and services.

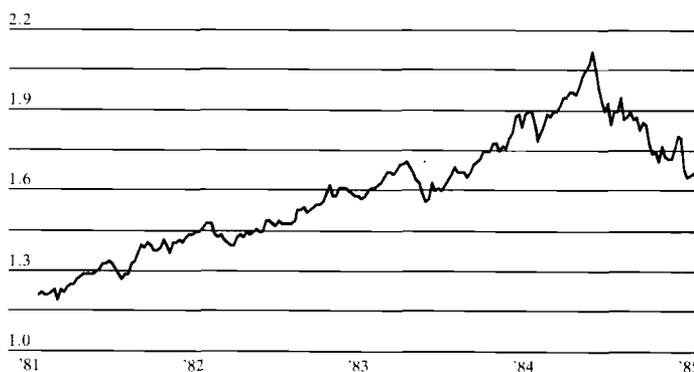
Net revenue
(% growth over prior year)



Net earnings*
(% growth over prior year)



The U.S. dollar relative to
European currency values
(fiscal 1980 = 1.0)



*Based on Supplementary Earnings Information, assuming the reversal of DISC taxes is applied retroactively. See page 26.

Quarterly Summary (Unaudited)

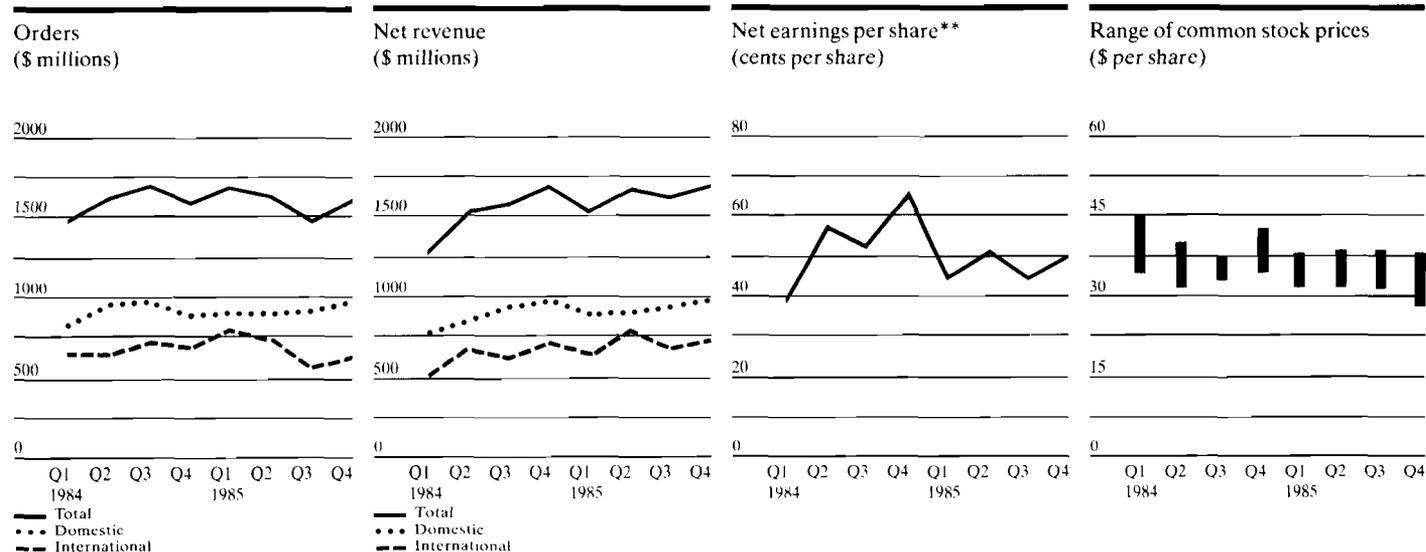
(Millions except per share amounts)

Three months ended	January 31	April 30	July 31	October 31
1985				
Domestic orders	\$ 897	\$ 894	\$ 905	\$ 966
International orders	795	736	573	629
Total orders	\$1,692	\$1,630	\$1,478	\$1,595
Net revenue	\$1,531	\$1,677	\$1,612	\$1,685
Cost of goods sold	\$ 746	\$ 815	\$ 785	\$ 820
Earnings before taxes	\$ 184	\$ 205	\$ 177	\$ 192
Net earnings	\$ 116	\$ 129	\$ 117	\$ 127
Net earnings per share	\$.45	\$.51	\$.45	\$.50
Cash dividends paid per share	\$.055	\$.055	\$.055	\$.055
Range of stock prices per share	\$38 ¹ / ₈ -31 ⁷ / ₈	\$38 ³ / ₄ -31 ¹ / ₄	\$38 ³ / ₄ -31 ¹ / ₂	\$38 ⁵ / ₈ -28 ³ / ₄

1984

Domestic orders	\$ 818	\$ 953	\$ 970	\$ 888
International orders	659	656	715	691
Total orders	\$1,477	\$1,609	\$1,685	\$1,579
Net revenue	\$1,278	\$1,519	\$1,559	\$1,688
Cost of goods sold	\$ 595	\$ 699	\$ 744	\$ 827
Earnings before taxes	\$ 164	\$ 236	\$ 218	\$ 242
Net earnings	\$ 217*	\$ 147	\$ 134	\$ 167
Net earnings per share	\$.85*	\$.57	\$.52	\$.65
Cash dividends paid per share	\$.045	\$.045	\$.045	\$.055
Range of stock prices per share	\$45-34 ³ / ₄	\$40 ¹ / ₈ -31 ⁵ / ₈	\$37 ³ / ₈ -33	\$42 ⁷ / ₈ -34 ³ / ₄

*Includes a one-time increase in net earnings of \$118 million (46 cents per share) resulting from a DISC tax law change.



**Based on Supplementary Earnings Information, assuming the reversal of DISC taxes is applied retroactively. See page 26.

Financial Review (continued)

Balance Sheet

Maintaining a sound and flexible financial position with minimal long-term debt through conservative financial strategies continues to be a high priority for HP. HP's financial condition remained strong through the 1985 fiscal year. Net cash (cash and temporary cash investments, net of notes payable) increased to \$760 million at October 31, 1985, from \$721 million in 1984 and \$732 million in 1983.

Assets continued to be well-controlled in 1985.

Accounts receivable increased only 6 percent in 1985 compared with an 8 percent growth in shipments.

Receivables as a percent of net revenue were 19, 20 and 20 percent in 1985, 1984 and 1983, respectively. Inventories decreased 3 percent in fiscal 1985, and as a percent of net revenue were 15, 17 and 16 percent in 1985, 1984 and 1983.

HP's investment in Hewlett-Packard Finance Company (HPFC), its wholly owned finance subsidiary, increased to \$51 million at October 31, 1985. HPFC accesses worldwide capital markets for funds to meet customer needs to finance HP products.

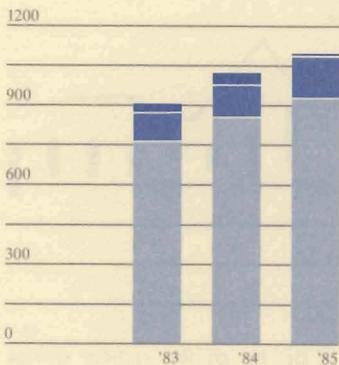
Statement of Changes in Financial Position

HP's long-standing policy has been to finance growth primarily through funds internally generated from operations. (See graph below.) Funds provided by operations increased to \$939 million in 1985, from \$868 million in 1984 and \$773 million in 1983. HP anticipates that self-financing will continue to provide the necessary resources to fund the company's future growth.

A second source of funds traditionally has been cash proceeds from stock issued to employees. One of HP's corporate objectives is to enable employees to share in HP's success. The company has achieved this objective in part through direct sale of stock to employees. As a result of employee participation in the stock purchase and stock option programs, \$156 million was provided to HP in 1985, \$112 million in 1984 and \$108 million in 1983. During the 1984 fiscal year, the company began a stock repurchase program to purchase outstanding shares of the company's common stock for reissuance under the employee stock plans. In 1985, \$240 million and, in 1984, \$142 million were used to purchase HP shares. Purchases for employee stock plans are anticipated to continue in 1986.

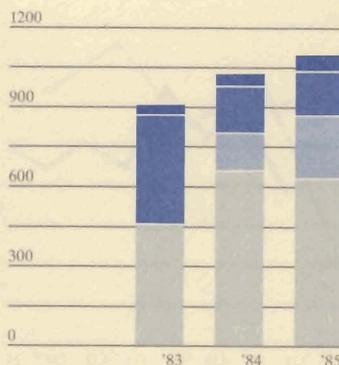
The company's primary uses of funds are investment in property, plant and equipment, purchase of common stock for employee plans and increases in working capital. Capital expenditures were \$632 million in 1985, compared with \$661 million in 1984 and \$466 million in 1983. This reflects HP's commitment to support growth and improve productivity. Projected capital expenditures for 1986 are about \$650 million.

Sources of funds (\$ millions)



Operations
Cash proceeds from stock issued to employees
Other

Uses of funds (\$ millions)



Capital investment
Shares repurchased for employee plans
Increase in working capital (including net cash)
Dividends

Consolidated Balance Sheet

October 31 (Millions)	1985	1984	1983
Assets			
Current assets:			
Cash and temporary cash investments	\$1,020	\$ 938	\$ 880
Accounts and notes receivable	1,249	1,180	951
Inventories:			
Finished goods	401	373	279
Purchased parts and fabricated assemblies	592	650	469
Other current assets	80	60	53
Total current assets	3,342	3,201	2,632
Property, plant and equipment:			
Land	230	202	167
Buildings and leasehold improvements	1,653	1,416	1,102
Machinery and equipment	1,400	1,173	888
	3,283	2,791	2,157
Accumulated depreciation and amortization	1,134	923	726
	2,149	1,868	1,431
Other assets	189	84	98
	\$5,680	\$5,153	\$4,161
Liabilities and shareholders' equity			
Current liabilities:			
Notes payable	\$ 260	\$ 217	\$ 148
Accounts payable	243	281	203
Employee compensation and benefits	397	398	300
Other accrued liabilities	302	162	103
Accrued taxes on earnings	111	203	112
Other accrued taxes	63	61	54
Total current liabilities	1,376	1,322	920
Long-term debt	102	81	71
Other liabilities	92	93	46
Deferred taxes on earnings	128	112	237
Shareholders' equity:			
Common stock and capital in excess of \$1 par value	780	775	733
Retained earnings	3,202	2,770	2,154
Total shareholders' equity	3,982	3,545	2,887
	\$5,680	\$5,153	\$4,161

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

Consolidated Statement of Changes in Financial Position

For the years ended October 31 (Millions)	1985	1984	1983
Funds provided by operations:			
Net earnings	\$489	\$665	\$432
Expenses not requiring an outlay of funds:			
Depreciation and amortization	299	237	191
Deferred taxes on earnings	97	(81)	105
Other, net	54	47	45
	939	868	773
Funds used by operations:			
Investment in property, plant and equipment	632	661	466
Increase (decrease) in working capital, excluding net cash:			
Accounts and notes receivable	69	195	178
Inventories	(30)	256	89
Other current assets	20	(9)	(1)
Accounts payable and accrued liabilities	(22)	(179)	(104)
Accrued taxes on earnings	92	(78)	39
Other, net	19	(22)	2
	780	824	669
Non-operating funds provided (used):			
Employee stock plans:			
Shares issued	156	112	108
Shares purchased	(240)	(142)	—
Dividends to shareholders	(57)	(49)	(40)
Other, net	21	24	32
	(120)	(55)	100
Increase (decrease) in net cash (cash and temporary cash investments, net of notes payable)	\$ 39	\$(11)	\$204
Net cash at beginning of year	721	732	528
Net cash at end of year	\$760	\$721	\$732

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

Consolidated Statement of Shareholders' Equity

(Millions except number of shares)	Common stock			Retained earnings	Total
	Number of shares (Thousands)	Par value	Capital in excess of par value		
Balance October 31, 1982	125,346	\$125	\$462	\$1,762	\$2,349
Employee stock plans:					
Shares issued	2,582	3	143	—	146
Shares purchased	—	—	—	—	—
Dividends	—	—	—	(40)	(40)
Stock split	126,986	127	(127)	—	—
Net earnings	—	—	—	432	432
Balance October 31, 1983	254,914	255	478	2,154	2,887
Employee stock plans:					
Shares issued	4,456	4	148	—	152
Shares purchased	(3,734)	(4)	(138)	—	(142)
Dividends	—	—	—	(49)	(49)
Increased ownership in affiliate	842	1	31	—	32
Net earnings	—	—	—	665	665
Balance October 31, 1984	256,478	256	519	2,770	3,545
Employee stock plans:					
Shares issued	7,322	8	234	—	242
Shares purchased	(6,974)	(7)	(233)	—	(240)
Dividends	—	—	—	(57)	(57)
Other	90	—	3	—	3
Net earnings	—	—	—	489	489
Balance October 31, 1985	256,916	\$257	\$523	\$3,202	\$3,982

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

Notes to the Consolidated Financial Statements

October 31, 1985, 1984 and 1983

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, other than Hewlett-Packard Finance Company, which is accounted for by the equity method. All significant intercompany accounts and transactions have been eliminated.

Industry segment

The company operates in a single industry segment: the design and manufacture of measurement and computation products and systems.

Revenue recognition

Revenue from equipment sales is recognized at the time the equipment is shipped. Services revenue is recognized over the contractual period or as services are performed. For 1984 and prior years, revenue from the sale of replacement parts has been reclassified from equipment revenue to services revenue. This reclassification has no effect on total revenue or net earnings.

Inventories

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

Research and development costs

Research and development costs, including software development costs, are expensed as incurred.

Taxes on earnings

U.S. income taxes are provided on foreign earnings that may be repatriated to the United States and are not provided on foreign earnings that 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.

Net earnings per share

Net earnings per share is based on the number of shares outstanding at the end of each period. The use of weighted-average shares outstanding during the period would not have a 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.

Property, plant and equipment

Property, plant and equipment is stated at cost. Additions, improvements and major renewals are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. Depreciation is provided using accelerated methods, principally over the following useful lives: buildings and improvements, 15 to 40 years; and machinery and

equipment, three to 10 years. Amortization of leasehold improvements is provided using the straight-line method over the life of the lease or asset, whichever is shorter.

Foreign currency translation

The U.S. dollar is the functional currency. Gains or losses from foreign currency translation are included in net earnings.

Taxes on Earnings

The provision for taxes includes:

(Millions)	1985	1984	1983
Federal taxes:			
Current	\$(11)	\$ 140	\$ 61
Deferred	97	37	105
Reversal of DISC deferred taxes	—	(118)	—
State taxes	37	37	35
Foreign taxes	146	99	95
	\$269	\$ 195	\$296

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

(Millions)	1985	1984	1983
Taxes on earnings at the U.S. statutory rate	\$349	\$ 395	\$335
DISC and FSC earnings	(16)	(145)	—
State income taxes, net of federal tax benefit	20	20	19
Research and development tax credits	(27)	(30)	(22)
Investment tax credits	(23)	(17)	(16)
Lower rates in other jurisdictions (net)	(32)	(15)	(10)
Other (net)	(2)	(13)	(10)
	\$269	\$ 195	\$296

Deferred federal taxes result from differences in the timing of revenue and expense recognition for tax and financial reporting purposes. The major sources of these timing differences are:

(Millions)	1985	1984	1983
DISC earnings	\$ —	\$ —	\$ 36
Deferred payment contracts	99	42	57
Other timing differences, net	(2)	(5)	12
	\$ 97	\$ 37	\$105

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

(Millions)	1985	1984	1983
U.S. operations	\$427	\$584	\$514
Foreign operations	331	276	214
	\$758	\$860	\$728

Federal income tax returns of the company have been examined through 1979 by the Internal Revenue Service (IRS) and settled. The IRS has not completed its examination of returns for years subsequent to 1979. The company believes that adequate accruals have been provided for all years.

At October 31, 1985, the company has not provided for U.S. taxes on \$472 million of undistributed earnings of foreign subsidiaries, which have been reinvested in subsidiary operations. If these earnings were distributed to the parent company in the U.S., foreign tax credits should become available under current law to reduce or eliminate the resulting U.S. income tax liability. Where excess cash has accumulated and it is advantageous for tax or foreign exchange reasons, subsidiary earnings are remitted.

Common Stock and Capital in Excess of Par Value

Employee stock plans include the Employee Stock Purchase Plan and Incentive Compensation Plans.

Employee Stock Purchase Plan

Eligible company employees may contribute up to 10 percent of their base pay to the quarterly purchase of company stock under the Employee Stock Purchase Plan. Under this plan, the employee pays 75 percent of a formula stock price, which is based on average market prices during the preceding quarter. The company contributes the remainder. At October 31, 1985, approximately 47,000 employees out of the approximately 67,000 who were eligible, were participating in the plan.

Incentive compensation plans

The company has three principal stock option plans, adopted in 1974, 1979 and 1985. All plans permit options granted to qualify as "Incentive Stock Options" under the Internal Revenue Code. The option price is equal to fair market value on the date of grant. Options are vested at a rate of 25 percent one year after the date of grant, 50 percent two years after the date of grant and in full three years after the date of grant. The plans permit the granting of stock appreciation rights (SARs) to officers and certain key employees.

	Options and SARs (Thousands)	Price per share
Outstanding at October 31, 1984	7,439	\$ 9-45
Granted	1,659	33-36
Exercised	(936)	9-36
Cancelled	(186)	10-45
Outstanding at October 31, 1985	7,976	\$ 9-45

At October 31, 1985, options to purchase 4,646,000 shares were exercisable at prices ranging from \$9 to \$45. Shares available for option grants at October 31, 1985, and 1984, were 11,394,000 and 1,801,000, respectively. Approximately 26,000 employees were considered eligible to receive stock options in fiscal 1985. There were approximately 7,000 employees holding options under one or more of the option plans as of October 31, 1985.

Under the 1985 Incentive Compensation Plan approved by shareholders in February 1985, certain key employees may be granted cash or restricted stock awards. Cash and restricted stock awards are independent of option grants and are subject to restrictions as determined appropriate by the Executive Compensation and Stock Option Committee of the Board of Directors. Those shares of restricted stock outstanding at October 31, 1985, are subject to forfeiture if employment terminates prior to five years from the date of grant. During that period, ownership of the shares cannot be transferred. Restricted stock has the same dividend and voting rights as other common stock and is considered to be currently issued and outstanding. As of October 31, 1985, 934,000 shares of restricted stock were outstanding representing grants to approximately 200 employees. Approximately 4,000 employees were considered eligible to receive restricted stock in fiscal 1985.

Shares reserved

Reserved shares are those shares of common stock authorized, but not yet issued and outstanding, which are available for future issuance under the employee stock plans. At October 31, 1985 and 1984, 44,700,000 and 40,215,000 shares, respectively, were reserved under the provisions of all plans.

Shares authorized

At October 31, 1985, the company was authorized to issue 320 million shares of \$1 par value common stock.

Pension and Profit-Sharing Retirement Plans

Substantially all employees worldwide are covered under various pension and deferred profit-sharing retirement plans. The worldwide pension and deferred profit-sharing expense was \$86 million in 1985, \$107 million in 1984 and \$82 million in 1983. It is the company's policy to accrue and fund current year's costs for all plans.

U.S. employees are provided retirement benefits by the U.S. Deferred Profit-Sharing Plan and the U.S. Supplemental Pension Plan. The U.S. Deferred Profit-Sharing Plan is a defined contribution plan that provides the vast majority of the retirement benefits to U.S. employees. Company contributions to the plan are in accordance with a formula set forth in the plan and assets of the plan are held in a trust for the sole benefit of employees. The U.S. Supplemental Pension Plan is a defined benefit plan that provides for any excess of defined minimum benefits over the benefits available from the U.S. Deferred Profit-Sharing Plan. The company did not record any expense for the U.S. Supplemental Pension Plan in 1985, 1984 or 1983, as the plan was determined to be fully funded.

The following table provides information on the status of the U.S. retirement plans. The actuarial present value of plan benefits shown below provides an estimate of that portion of the total prospective benefit obligation that relates to employee service to date, and assumes an 8 percent return on fund assets.

At October 31 (Millions)	1985	1984	1983
Actuarial present value of plan benefits:			
Vested	\$554	\$444	\$377
Nonvested	171	155	137
Total to date	\$725	\$599	\$514
Total including effect of projected future compensation	\$757	\$636	\$544
Market value of plan net assets	\$896	\$748	\$652

At October 31, 1985, the assets of the company's foreign plans exceeded the actuarially computed value of vested benefits.

Employees of the company and certain subsidiaries may participate in the Tax Saving Capital Accumulation Plan (TaxCAP). TaxCAP was established by the company as a supplemental retirement program. Under the TaxCAP 401(k) program, the company contributes one dollar for every three dollars from employees. Combined Employee Stock Purchase Plan and TaxCAP contributions by the employee cannot exceed 12 percent of pay. Included as a provision of TaxCAP is a Payroll-based Stock Ownership Program (PAYSOP). PAYSOP is a qualified stock bonus plan that provides stock on a per capita basis to employees and tax credits to the company. PAYSOP resulted in \$9 million, \$8 million and \$6 million in compensation expense and offsetting tax credits in 1985, 1984, and 1983, respectively. At October 31, 1985, approximately 31,000 employees were

participating in the 401(k) portion of TaxCAP out of the approximately 56,000 who were eligible. Participation in PAYSOP is automatic for all of the approximately 56,000 eligible employees.

In addition to providing pension benefits, the company currently provides certain health-care and life-insurance benefits for retired employees. Substantially all of the company's domestic employees could become eligible for those benefits. The cost of such benefits, which is recognized as expense as claims are paid, was approximately \$2.4 million for 1985.

Commitments

At October 31, 1985, the company was committed for plant site acquisition, facility construction and related machinery and equipment purchases aggregating \$243 million.

The company leases certain real and personal property. Minimum commitments under these operating leases are \$72 million for 1986, \$59 million for 1987, \$43 million for 1988, \$33 million for 1989, \$25 million for 1990 and \$90 million for 1991 through 2033.

Certain leases require the company to pay property taxes, insurance and routine maintenance. Some leases include escalation clauses. Rent expense was \$99 million in 1985, \$82 million in 1984 and \$63 million in 1983.

Unused lines of credit at October 31 amounted to \$507 million in 1985, \$273 million in 1984 and \$251 million in 1983.

Geographic Areas

The worldwide aspect of the company's operations is shown in the accompanying tables. The locations of the company's manufacturing and marketing facilities are listed on page 41.

Sales between affiliates are made at market prices, less an allowance for subsequent manufacturing and/or marketing costs. Net revenue is reported based on the location of the customer. Exports are primarily inter-area sales between affiliates. Earnings before taxes and identifiable assets are classified by the location of the company's facilities.

Identifiable assets include corporate assets of \$1,397 million in 1985, \$1,209 million in 1984 and \$1,141 million in 1983.

Net revenue (Millions)	1985	1984	1983
United States	\$3,696	\$3,527	\$2,725
Europe	1,787	1,620	1,392
Rest of world	1,022	897	593
	\$6,505	\$6,044	\$4,710

Earnings before taxes (Millions)			
United States	\$ 644	\$ 768	\$ 644
Europe	190	138	148
Rest of world	114	110	59
Eliminations and corporate	(190)	(156)	(123)
	\$ 758	\$ 860	\$ 728

Identifiable assets (Millions)			
United States	\$3,347	\$3,140	\$2,495
Europe	1,143	992	800
Rest of world	654	546	307
Eliminations and corporate	536	475	559
	\$5,680	\$5,153	\$4,161

Exports from (Millions)			
United States	\$1,424	\$1,420	\$1,105
Europe	170	145	100
Rest of world	259	277	160

Major Customers

Direct and indirect sales to the U.S. Government amounted to approximately \$620 million in 1985, \$550 million in 1984 and \$480 million in 1983. No other customer accounted for more than 5 percent of net revenue.

Effects of Inflation and Changing Prices (Unaudited)

The information that follows is computed in accordance with Statement of Financial Accounting Standards No. 33.

Current cost data reflects the impact of adjusting asset values using separate inflation indices for each major asset category. Depreciation has been computed using the straight-line method because the accelerated method used in the historical financial statements already recognizes some of the effects of inflation. No adjustment has been made to the provision for income taxes.

Results of operations

The company operates in an environment of rapid technological change accompanied by productivity improvements and moderate price changes. This has reduced the impact of inflation on the company's operations.

Net assets

The principal adjustments to historical net assets relate to inventories and net property, plant and equipment. The current cost of these assets at October 31, 1985, was \$1,008 million and \$3,031 million, respectively.

Statement of earnings adjusted for changing prices for the year ended October 31, 1985

(Millions)	Historical Cost	Current Cost
Net revenue	\$6,505	\$6,505
Cost of goods sold, excluding depreciation	3,038	3,019
Depreciation and amortization	299	301
Other operating costs	2,410	2,410
Provision for taxes	269	269
	6,016	5,999
Net earnings	\$ 489	\$ 506

Revenue, earnings and per share information adjusted for changing prices (Millions except per share and CPI data; stated in average 1985 dollars)

	1985	1984	1983	1982	1981
Net revenue	\$6,505	\$6,263	\$5,086	\$4,673	\$4,210
Current cost:					
Net earnings	\$ 506	\$ 677	\$ 432	\$ 385	\$ 313
Net earnings per share	\$ 1.97	\$ 2.64	\$ 1.70	\$ 1.53	\$ 1.27
Cash dividends per share	\$.22	\$.20	\$.17	\$.13	\$.13
Market price per share at year-end	\$ 29¾	\$ 36¾	\$ 37½	\$ 33¾	\$ 26¼
Average CPI	320.3	309.1	296.6	287.1	268.4

Asset information adjusted for changing prices (Millions; stated in average 1985 dollars)

	1985	1984	1983	1982	1981
Net assets at year-end					
Current cost	\$4,800	\$4,404	\$3,668	\$3,162	\$2,744
Decline in purchasing power of net monetary assets	\$ 23	\$ 29	\$ 20	\$ 22	\$ 27
Increase in value of inventories, property plant and equipment held during the year:					
Measured in general prices	\$ 124	\$ 135	\$ 81	\$ 125	\$ 224
Measured in specific prices	93	230	60	94	120
Excess of increase in general prices over increase in specific prices	\$ 31	\$ (95)	\$ 21	\$ 31	\$ 104

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 and training programs made available to all personnel serve to keep our basic goals and objectives in proper perspective.

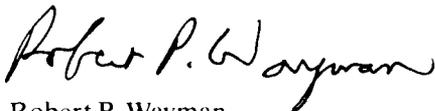
Monitoring is an integral part of any control process. Our control systems are reviewed by Price Waterhouse to the extent they consider necessary when auditing our financial statements. We continuously monitor our control systems by direct management review with assistance from a well-established internal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

The Audit Committee of the Board of Directors, which consists of three 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 enables us to meet this responsibility.



John A. Young
President and Chief
Executive Officer



Robert P. Wayman
Vice President,
Chief Financial Officer
and Controller

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, of shareholders' equity and of changes in financial position present fairly the financial position of Hewlett-Packard Company and its subsidiaries at October 31, 1985, 1984 and 1983, 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
November 22, 1985

Orders and Net Revenue by Groupings of Similar Products and Services (Unaudited)

For the years ended October 31 (Millions)	1985	1984
Orders		
Measurement, design, information and manufacturing equipment and systems	\$2,819	\$3,135
Peripherals and network products	1,537	1,440
Service for equipment, systems and peripherals	1,135	904
Medical electronic equipment and service	458	402
Analytical instrumentation and service	256	238
Electronic components	190	231
	\$6,395	\$6,350
<hr/>		
For the years ended October 31 (Millions)	1985	1984
Net revenue		
Measurement, design, information and manufacturing equipment and systems	\$2,929	\$2,879
Peripherals and network products	1,560	1,375
Service for equipment, systems and peripherals	1,125	970
Medical electronic equipment and service	448	377
Analytical instrumentation and service	248	229
Electronic components	195	214
	\$6,505	\$6,044

The company operates in a single industry segment: the design and manufacture of measurement and computation products and systems. The table above provides supplemental information showing orders and net revenue by groupings of similar products or services. The groupings are as follows:

Measurement, design, information and manufacturing equipment and systems: equipment and systems (hardware and software) used for design, manufacturing, office automation and information processing; general-purpose instruments and computers; and handheld calculators.

Peripherals and network products: printers, plotters, magnetic disc and tape drives, terminals and network products.

Service for equipment, systems and peripherals: support and maintenance services, parts and supplies related to design and manufacturing systems, office and information systems, general-purpose instruments and computers, peripherals and network products.

Medical electronic equipment and service: products that perform patient monitoring, diagnostic, therapeutic and data-management functions; application software; support and maintenance services; and hospital supplies.

Analytical instrumentation and service: gas and liquid chromatographs, mass spectrometers and spectrophotometers used to analyze chemical compounds; support and maintenance services.

Electronic components: microwave semiconductor and optoelectronic devices that are sold primarily to manufacturers for incorporation into electronic products.

Selected Financial Data (Unaudited)

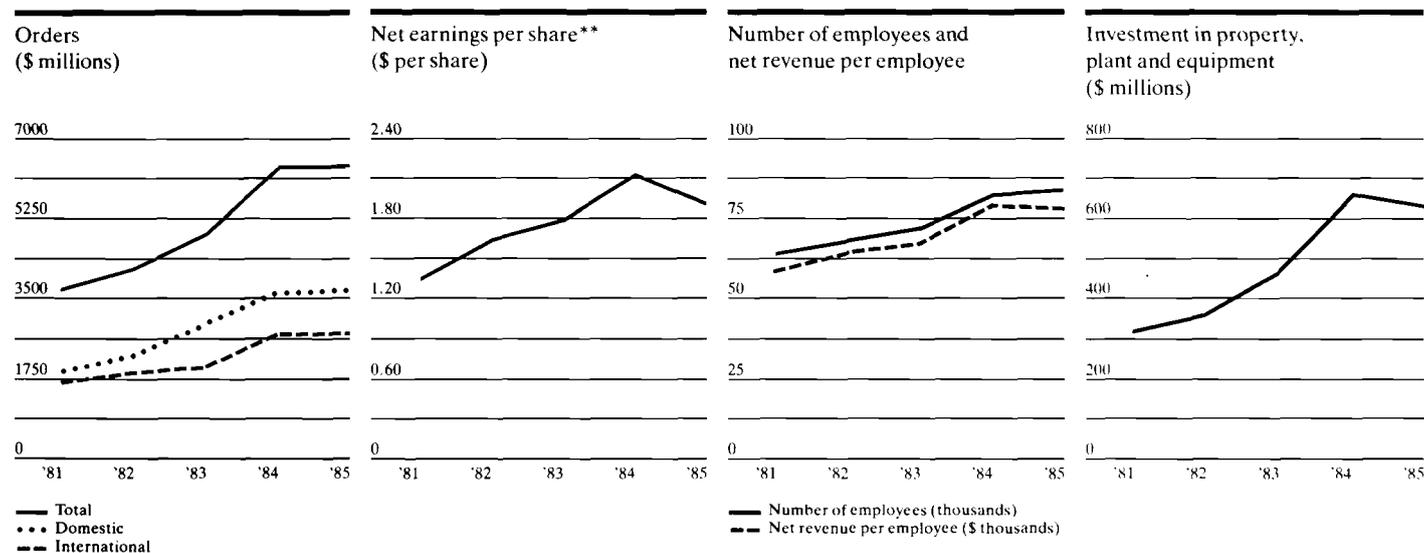
(Millions except per share amounts and employees)

For the years ended October 31	1985	1984	1983	1982	1981
Domestic orders	\$3,662	\$3,629	\$2,901	\$2,283	\$1,918
International orders	2,733	2,721	2,021	1,897	1,739
Total orders	\$6,395	\$6,350	\$4,922	\$4,180	\$3,657
Net revenue	\$6,505	\$6,044	\$4,710	\$4,189	\$3,528
Earnings before taxes	\$ 758	\$ 860	\$ 728	\$ 676	\$ 567
Net earnings	\$ 489	\$ 665*	\$ 432	\$ 383	\$ 305
Per share:					
Net earnings	\$ 1.91	\$ 2.59*	\$ 1.69	\$ 1.53	\$ 1.24
Cash dividends	\$.22	\$.19	\$.16	\$.12	\$.11
At year-end:					
Total assets	\$5,680	\$5,153	\$4,161	\$3,470	\$2,782
Employees (Thousands)	84	82	72	68	64

Supplementary Earnings Information, assuming the reversal of DISC taxes is applied retroactively.

Net earnings per share	\$ 1.91	\$ 2.13	\$ 1.79	\$ 1.64	\$ 1.33
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*Includes a one-time increase in net earnings of \$118 million (46 cents per share) resulting from a DISC tax law change.



**Based on Supplementary Earnings Information, assuming the reversal of DISC taxes is applied retroactively. See page 26.

Shareholder Information

Annual Meeting of Shareholders

The annual meeting will be held Tuesday, February 25, 1986, at 2 p.m. at Hewlett-Packard's Computer Systems Division facility, 19447 Pruneridge Avenue, Cupertino, California. A formal notice of the meeting, with a proxy statement and form of proxy, will be mailed to each shareholder on or about January 7, 1986.

Annual Report/10-K Report

Publications of interest to current and potential HP investors are available upon request. These include annual and quarterly reports and the Form 10-K filed with the Securities and Exchange Commission. As a service to those with impaired vision, the HP 1985 Annual Report is available on audio cassette. This material can be obtained at no cost by contacting the Public Relations Department, Hewlett-Packard Company corporate offices.

Transfer Agent and Registrar

Harris Trust and Savings Bank
Corporate Trust Operations Division
P.O. Box 755
Chicago, Illinois 60690
Telephone: (312) 461-6827

Common Stock, Dividend Policy

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. The current rate is \$.055 per share per quarter. At November 29, 1985, there were 74,000 shareholders of record.

Corporate Offices

3000 Hanover Street
Palo Alto, California 94304
Telephone: (415) 857-1501

Domestic Operations

Manufacturing

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

Marketing

Regional Headquarters:
North Hollywood, California
Atlanta, Georgia
Rolling Meadows, Illinois
Rockville, Maryland
HP Sales and Support
Offices: Located in
100 cities throughout the
United States*

International Operations

Manufacturing

Europe
Bristol and Pinewood, England
Grenoble and Lyon, France
Böblingen and Waldbronn,
Federal Republic of Germany
South Queensferry, Scotland
Barcelona, Spain

Intercontinental
Campinas, Brazil
Toronto, Canada
Tokyo, Japan
Penang, Malaysia
Guadalajara, Mexico
Singapore

Marketing

Europe
Operations Headquarters:
Geneva, Switzerland
Regional Headquarters:
Pinewood, England
Evry, France
Bad Homburg, Federal
Republic of Germany
Milan, Italy
Amstelveen, The Netherlands
(Northern)
Geneva, Switzerland (South East)

Intercontinental
Operations Headquarters:
Palo Alto, California
Regional Headquarters:
Melbourne, Australia
Toronto, Canada
Hong Kong
Tokyo, Japan
Palo Alto, California
(Latin America)

HP Sales and Support
Offices and Distributorships:
Approximately 275 in
75 countries*

*A directory of sales and support locations can be obtained from the Public Relations Department, Hewlett-Packard Company corporate offices.



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