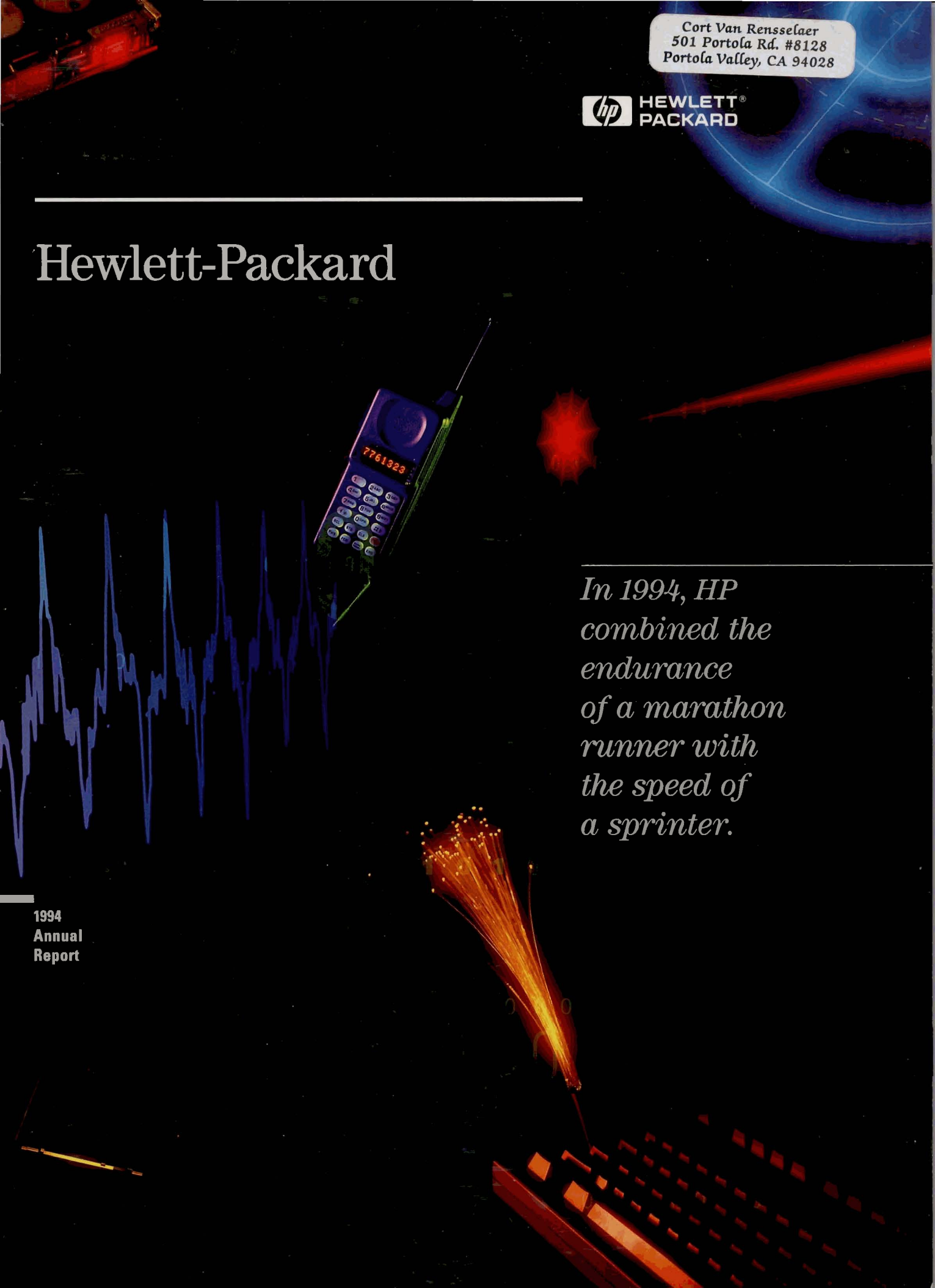
HEWLETT® PACKARD

Hewlett-Packard



In 1994, HP combined the endurance of a marathon runner with the speed of a sprinter.

1994
Annual
Report

Corporate Profile

Hewlett-Packard designs, manufactures and services electronic products and systems for measurement, computation and communications. Our basic business purpose is to create information products that accelerate the advancement of knowledge and improve the effectiveness of people and organizations. The company's products and services are used in industry, business, engineering, science, medicine and education in more than 120 countries.

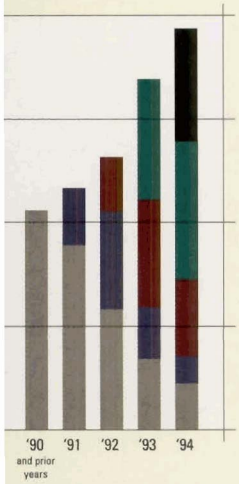
Contents

Fiscal 1994 was an outstanding year for Hewlett-Packard in most ways. We achieved excellent order and revenue growth in fiercely competitive markets, and our growth was well balanced across businesses and around the world. Good progress on expense management enabled us to turn this growth into substantial earnings and profit-margin improvement. We delivered a higher return on equity and return on assets than in 1993, and we improved our cash generation significantly. I'm especially pleased to note that our quarter-to-quarter performance was far more consistent than it has been in several years.

The idea expressed on the cover of this year's report – that HP is competing in both a sprint and a marathon – suggests the balance we struck in 1994. The sprint is the day-to-day effort to win and keep customers in fast-moving markets. This year HP's strong product offerings and disciplined expense management were key factors in our success. At the same time, we made the long-term investments in R&D, process improvements, alliances and emerging markets that are designed to position the company well for the marathon.

Our earnings growth this year resulted from the combination of strong revenue growth with good management of expenses and costs. This year's report describes many of the products and services that drove this revenue growth, as well as the challenges and opportunities we see in our different businesses. In this message I'd like to focus on two main topics: what we did to improve our cost and expense structures and thus profitability, and how we fulfilled our commitment to corporate citizenship.

HP Product Orders
By year introduced



This graph illustrates the key role new products play in HP's growth. Each bar indicates the year's total product orders, with the top section of each bar showing orders for products introduced in that year. More than half of 1994's orders were for products introduced in the past two years.

Financial Highlights
Unaudited

For the years ended October 31 In millions except per share amounts and employees	*1994*	*1993*	*Increase*
Total orders	$25,350	$20,772	22%
Net revenue	$24,991	$20,317	23%
Earnings from operations	$ 2,549	$ 1,879	36%
Net earnings	$ 1,599	$ 1,177	36%
Net earnings per share*	$ 6.14	$ 4.65	32%
Return on assets	8.2%	7.0%	
Return on average equity	17.3%	14.7%	
At year-end:			
Shares outstanding	255	253	
Employees	98,400	96,200	

*See discussion of the 1994 calculation of earnings-per-share on page 32 of this report.

Significant progress on financial competitiveness All of HP's businesses compete in markets where pricing and other competitive pressures are intense. As we've said in the past, the need to price aggressively, and to adjust prices in order to stay competitive, has put consistent upward pressure on HP's cost of sales as a percentage of net revenue. While the changing mix of our revenue and the shift to indirect sales channels have also contributed to this pressure, in 1994 price competition was the biggest factor. We worked to offset this pricing impact in two ways: through better management of our manufacturing costs and by striving to reduce our operating-expense ratios. In 1994 we continued to make very good progress on both fronts.

Cost of sales was 62.0 percent of net revenue, an increase of 2.3 percentage points over fiscal 1993. This increase, while significant, was more moderate than last year's, when cost of sales rose 3.9 percentage points over 1992. This slower growth resulted in part from increased shipments of test-and-measurement equipment and high-end computer systems, both of which have inherently lower cost-of-sales ratios than printers and PCs. In addition, we reduced our manufacturing costs by consolidating, streamlining and outsourcing a number of production processes. We will continue to focus on lowering manufacturing costs, because we believe that upward pressure on cost of sales, due to pricing and other competitive factors, is likely to persist.

The healthy spread between revenue growth and expense growth attests to the energy and resourcefulness of HP people around the world.

Our operating expenses rose only 10 percent, and we increased employment by just 2 percent for the year. The healthy spread between revenue growth and expense growth attests to the energy and resourcefulness of HP people around the world. Operating expenses were 27.8 percent of revenue, a decline of 3.3 percentage points compared with last year. We're very pleased with this result, in part because we achieved it while continuing to make vital R&D investments for the future. R&D spending increased 15 percent to $2.0 billion.

Selling, general and administrative expenses were up 8 percent but declined substantially as a percentage of revenue. Our efforts to eliminate redundancies, outsource where appropriate and streamline administrative functions throughout the company continued to produce good results.

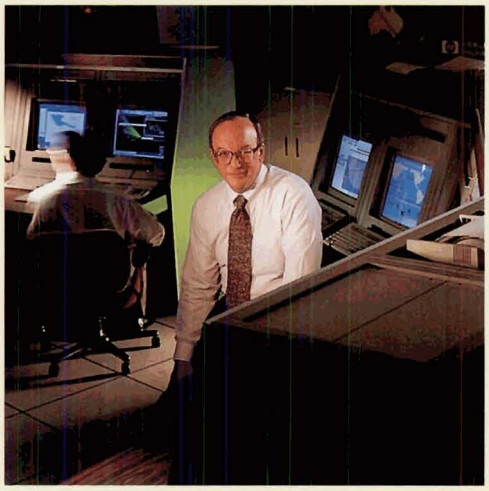
This year's decline in operating-expense ratios more than offset the increase in cost-of-sales ratios. As a result, our operating-profit margin rose to 10.2 percent, HP's

highest since 1989. Our net-profit margin also increased to 6.4 percent from 5.8 percent. With a more consistent performance throughout the year, coupled with our earnings improvement, we saw significant share price appreciation during much of 1994.

Focus on asset management yields improvement Asset management is vital to our success because it frees up cash to pursue growth opportunities and provide returns to shareholders. In 1994 we attained good overall results in asset management. The property, plant and equipment category was down substantially as a percent of revenue, while accounts receivable declined slightly. Inventory as a percent of revenue was down 1.1 percentage points from where we ended 1993, and total inventory grew by about $580 million during the year. This was much less than what we added in 1993, but still too much. Inventory levels will continue to receive significant management attention in 1995. Return on assets was 8.2 percent this year, a good improvement over last year, but there is room for more progress.

Now I'd like to describe some of our efforts in corporate citizenship, a dimension of our activities that is of increasing importance to customers, partners, shareholders and employees.

HP as a corporate citizen Our corporate objective on citizenship challenges the company 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 has always sought to contribute to economic and social development wherever we do business. We do this in two ways. The first and most fundamental way is by



providing high-skill jobs, tax revenues, exports and other economic benefits derived from our business activities. Beyond that, we devote considerable resources – as we have since the company's early years – to our efforts in the environmental, educational and philanthropic arenas. We believe that this approach to citizenship is the right thing to do for our communities and our business.

This citizenship objective, like all our corporate objectives, is grounded in HP's core values. One of these values is a deeply rooted trust in and respect for individuals. In today's global marketplace, we bring this value to life in our efforts to promote diversity.

Our diversity efforts are focused on creating a work environment where all people can contribute to the company and have an opportunity to reach their personal goals. Diversity is much more than a program or legal requirement at HP; it's a business priority for several compelling reasons. We sell to a diverse, global customer base. We operate in many different countries and cultures, where we need to attract and retain outstanding employees and partners. In addition, a culture that fosters respect for and appreciation of differences among people clearly helps teamwork, productivity and morale.

We believe that our approach to citizenship is the right thing to do for our communities and our business.

In a year when our employment grew very little, we made progress in the representation of women and minorities at HP. We also offered employees new ways to balance their work and non-work lives. We still have more work to do on diversity, but we're committed and we're excited about our progress.

Protecting the environment HP's commitment to the environment takes many forms. Our product stewardship effort enabled HP businesses to cost effectively design and distribute products that minimize the impact on health, safety and the ecosystem. We continued to reduce, and in some cases eliminate, the use of chemicals known to affect human health and global ecology. Our worldwide operations recycled more than half their solid waste in 1994, saving the company several million dollars in landfill costs. Our analytical instruments, computers and software played an important role in helping scientists monitor the earth's air, water and soil. For these and other efforts, HP won several awards, including a 1994 Stratospheric Ozone Protection Award from the U.S. Environmental Protection Agency.

Strong support for education HP has long believed that education is crucial to every society's well-being and to the sustainability of business. In 1994 we strengthened the company's ties with educators and schools. Virtually every HP site in the United

States had some form of outreach program, with more than 3,000 employees participating regularly in programs that affect tens of thousands of students, from kindergarten to post-doctoral levels. For example, HP developed and helped implement hands-on science curricula for grades K through 6 in 21 U.S. school districts this year.

Philanthropy in 1994 With donations of cash and equipment totaling $67 million this year, we enhanced our status as one of the world's most generous corporations. These grants supported education as well as the efforts of communities to improve health and human services, promote cultural activities and protect the environment. Thousands of HP employees gave their time and energy to a wide range of local programs supported by HP grants and tailored to local needs.

Business outlook We start 1995 with important strengths: technology leadership, outstanding product programs, excellent presence in the reseller channel and a good position in emerging markets. However, we expect the competitive environment to remain unforgiving, and we're determined to avoid complacency in any form. In addition, given the fact that our growth rates have exceeded those of many markets we compete in, we're assuming some moderation from our recent rates of order growth.

We'll work to achieve consistent and balanced growth in revenue, earnings per share and return on assets. To reach these goals, we will stay focused on getting to market quickly with products and services that offer customers exceptional value. We'll also continue our efforts to achieve industry-leading asset and expense structures. In short, we'll run two races again in 1995. Our sprint will focus on improving both the consistency of our quarterly earnings and asset management without sacrificing the longer-term investments in technology and global presence that winning our marathon requires.

Lew Platt

Lew Platt
Chairman of the Board, President and Chief Executive Officer
December 12, 1994

1 The DeskJet 1200C printer enhanced its price/performance leadership in the market for midrange black and color printers for the office.

2 The DeskJet 1200C printer and the new Color LaserJet printer meet the increasing demand for workgroup color printing in mainstream offices.

This year, ten years after introducing its first laser and inkjet printers, HP shipped its 30 millionth printer and solidified its leadership in laser and inkjet printing. But exciting opportunities are keeping all of HP's hardcopy businesses moving fast, as the groups strive to extend their track record of technology leadership and outstanding customer satisfaction.

In 1994, HP's hardcopy businesses delivered new products, expanded their distribution and focused on rapid time to market with price/performance improvements. The result was substantial growth in the office, home, graphics firms and small-office/home-office markets.

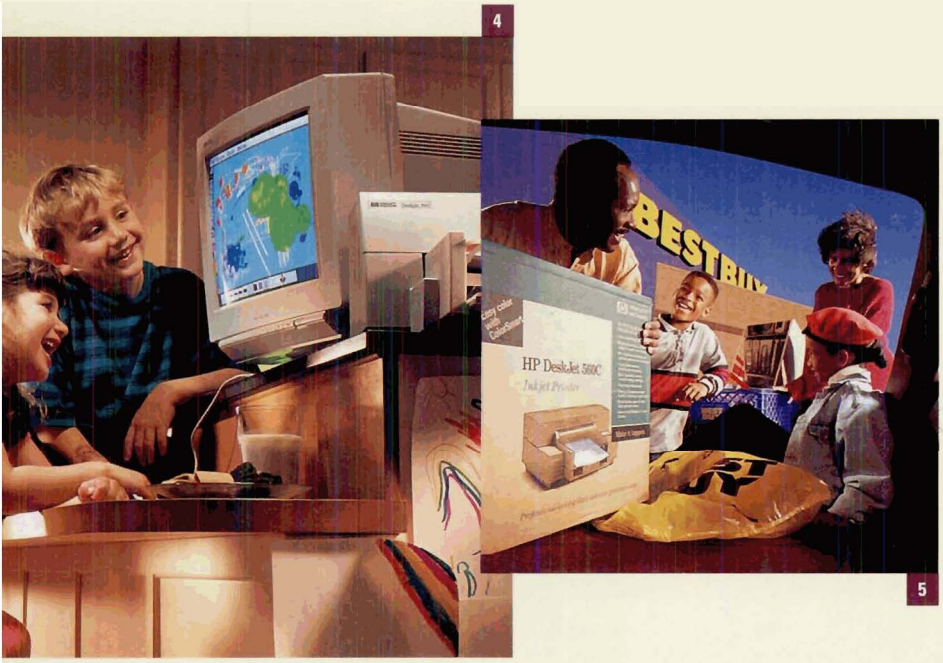
Mainstays in the office Since 1984, the HP LaserJet printer has been the standard for workgroup and personal printing in offices of every kind. This year the LaserJet Printer Group (LPG) raised the standard again with the HP LaserJet 4 Plus and 4V printers. The 4 Plus offered 30 to 40 percent faster print speed and enhanced print quality at the same price as its predecessor. The LaserJet 4V is HP's fastest

desktop laser printer and can use letter- and legal-size paper as well as 11-x-17-inch for drawings and large spreadsheets.

The increasing use of color is a major trend in office printing. This year LPG announced the HP Color LaserJet printer, which offers corporate computer users the print quality, speed and ease of use that have made HP LaserJet printers the market leader. The company also enhanced the HP DeskJet 1200C inkjet printer, which is widely used as an all-purpose black-and-white and color printer for the office. Another successful office product was the HP ScanJet IIcx scanner, whose affordability and ease of use brought desktop scanning to a wide range of business communicators.

Reaching people where they live The growth of color printing in the office, as well as the increased presence of PCs in the home for education and entertainment, drove strong growth in the HP DeskJet printer family this year. The DeskJet Printer Group's (DPG) excellent results were also due to its willingness to replace very successful products before competitors could.

In March, DPG introduced the DeskJet 560C printer, which incorporates HP's breakthrough ColorSmart technology. ColorSmart simplifies color printing in much



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3 HP broadened the LaserJet printer family with the Color LaserJet printer, which offers high-volume, networked color printing.

4 More than 50 percent of DeskJet printers, the world's best-selling brand, are used in people's homes for applications such as education and entertainment.

5 Best Buy, one of the fastest-growing consumer-electronics retailers, with stores in 27 U.S. states, helped HP printer and fax products reach the vital home market.

the same way that autofocus changed 35mm photography. At the same time, the group introduced the DeskJet 520 printer, which replaced the DeskJet 500 printer and soon supplanted it as the best-selling printer in the world.

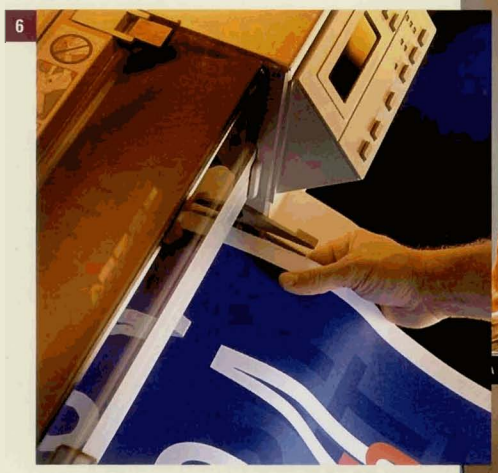
Six months later, DPG replaced the DeskJet 520 printer with the DeskJet 540 printer, the lowest-priced color DeskJet ever. Users can convert the monochrome DeskJet 540 printer into a color printer by inserting a color cartridge. The group also announced two mobile printers, the DeskJet 320 printer for notebook PCs and the DeskWriter 320 printer for Macintosh PowerBooks.

Moving beyond CAD HP's DesignJet large-format plotters continued to achieve excellent results in the CAD (computer-aided design) market. The Hardcopy Imaging Group (HIG) introduced the low-cost DesignJet 220 plotter, which is targeted at small engineering, architectural and construction firms. HIG also brought large-format color output to a new segment with the DesignJet 650C/PS printer. This product enables designers in advertising, publishing, packaging and

6 Grondorf•Field•Black and Company relies on its DesignJet 650C/PS printer to create signage and displays for advertising, trade shows and in-store promotions.

7 Office Depot's success at reaching the small-business market is making it easier for customers to buy HP printers, PCs and fax machines.

8 HP plain-paper fax machines are helping many kinds of small businesses expand their marketing efforts and improve customer satisfaction.



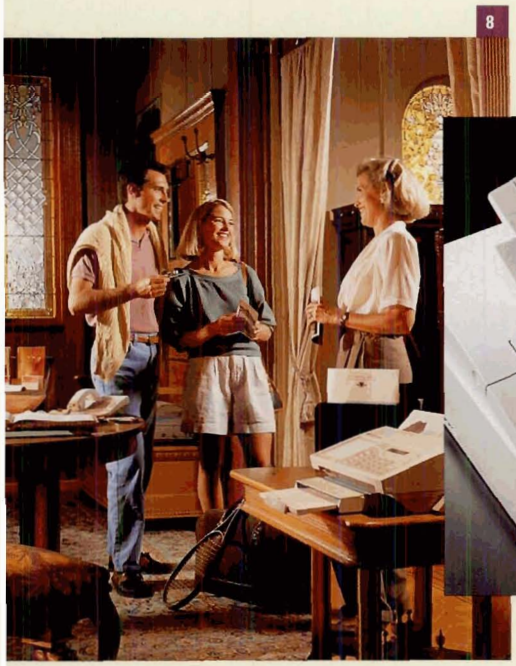
other businesses to create large-format proofs, presentations and signage more quickly and at significantly lower cost than traditional methods.

At home in the changing workplace About 37 million homes in the United States alone now include an income-generating office, according to LINK Resources, a market-research firm. This year HP introduced exciting products and expanded its distribution channels to reach this fast-growing market. For price-sensitive home-office users who need a space-saving device that delivers professional output, the HP OfficeJet printer•fax•copier is three products in one – a full-featured printer, plain-paper fax machine and convenience copier. Also introduced this year was the HP ScanJet 3p scanner, which enables users to perform most scanning functions with the click of a computer mouse. Another click gives users a convenience copier.

Wider distribution, especially in the retail channel, is crucial to reaching the home-office market. This year HP added more than 2,100 retail outlets to its reseller roster, including such leaders as Wal-Mart Stores and The Good Guys!.

9 This year HP entered the market for multifunction products with the HP OfficeJet printer•fax•copier, the first product from HP to perform all three functions.

10 The DesignJet 650C/PS printer's ability to provide affordable large-format printing is opening up the graphic-arts and related markets.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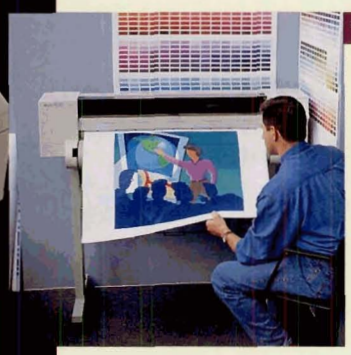
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HP's Computer Systems Organization (CSO) helps companies use information technology to reshape their business and technical processes, and gain a competitive advantage. In 1994, CSO expanded its range of leading-edge products and services to help organizations transition from traditional computing systems, such as mainframes, to more flexible and cost-effective solutions based on open, client/server computing.

Open systems and client/server architectures were just emerging ideas in the computer industry when HP made them the basis of its strategy over a decade ago. Today these concepts play a major role in enterprise computing, and so does HP. Recognized by industry analysts as the leading, worldwide supplier of open systems, HP is enabling its customers to achieve a host of benefits from open, client/server solutions – including increased flexibility, faster time to market and easier access to information from different sources.

Extending the family During 1994, HP expanded its UNIX® system-based computer family – already the broadest in the industry – to boost performance at the high end and reach new low price points at the entry level. The breadth of HP's product line allows customers to select the amount of computing power that's just right for them and add to their systems incrementally.

Sales of HP's UNIX system-based servers grew more than twice the market average, according to industry analysts. At the high end, CSO added the HP 9000 T500, which has the power and functionality to run mainframe-class applications and costs significantly less than a traditional mainframe. The T500 and other systems, software and services make up HP's mainframe-alternative program.

1 **Wall Street Deli, Inc. is networking its more than 125 locations to track sales and inventory on a daily basis. The U.S. restaurant chain's client/server system is based on a low-end HP business server and HP Vectra PCs.**

2 **With more than 37 million phone connections, Deutsche Telekom is Europe's largest telecommunications provider. The company now manages investment and budget-control functions 10 times more rapidly than before, thanks to a network of high-end HP servers.**

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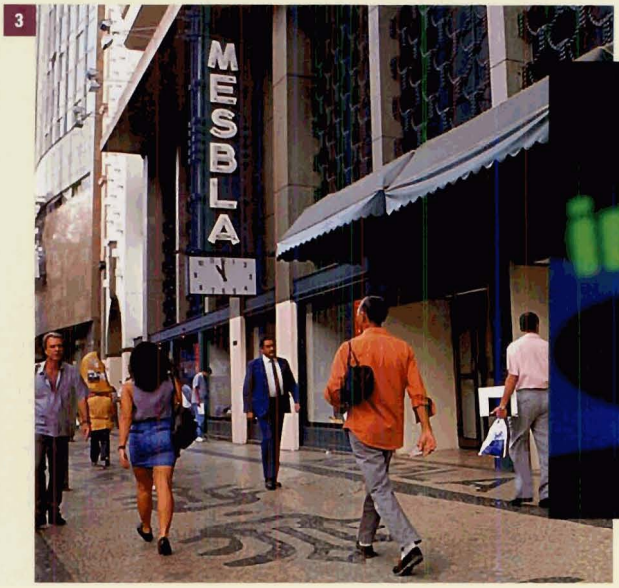
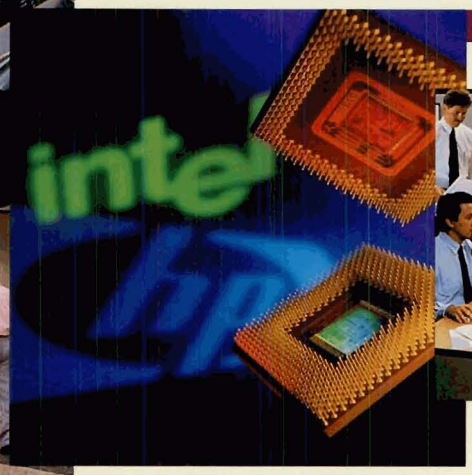




Under this program, the company has helped more than 1,000 organizations implement HP mainframe-alternative solutions.

At the entry level, CSO introduced a new class of servers that provide enterprise-computing functionality at PC server prices. In addition, CSO enhanced its HP 3000 family with new models and features to expand its role as a flexible, open server for client/server environments.

In the workstation market, where industry watchers rank HP as the No. 2 supplier worldwide, CSO refreshed its entire line, offering improved price/performance and industry-leading 3-D graphics capabilities.

The servers and workstations incorporate new versions of HP's flagship PA-RISC architecture. A low-cost PA-RISC chip, the PA-7100LC, enables HP's entry-level workstations to display video and perform multimedia tasks without expensive, additional hardware. A new high-performance chip, the PA-7150, allows HP's high-end workstations to run applications up to 50 percent faster than before.

Looking toward the future, HP announced a collaborative effort with Intel Corporation to develop advanced technologies for end-of-the-decade computers. The new architecture will be fully compatible with both companies' existing offerings to protect customers' investments in current software.

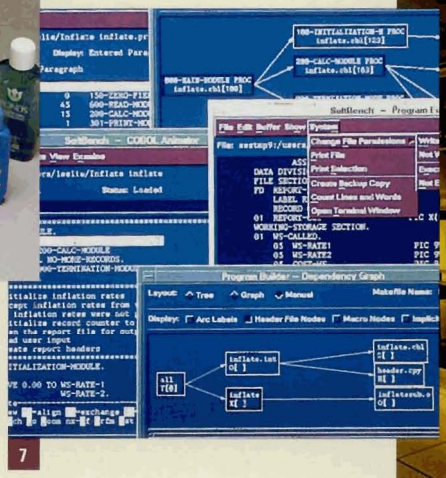
This year, CSO also expanded another line of open-systems products – X terminals. HP is recognized by industry analysts as the leading supplier of these low-cost, graphical, UNIX system-based displays.

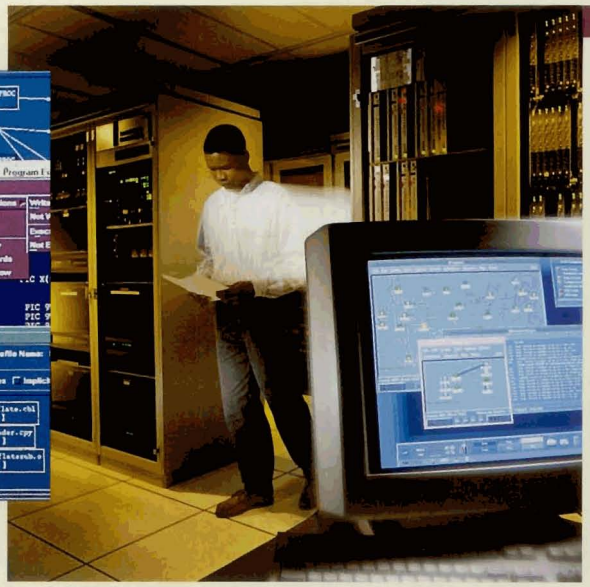
Managing distributed, open systems In 1994, CSO continued to develop networking, application-development and systems software to help customers implement and manage client/server solutions. Many of these innovations are the basis of emerging industry standards.

3 **Mesbla, one of Brazil's largest department-store chains, replaced its two mainframe computers with six HP servers. The retailer reduced computing costs by 30 percent while increasing processing speed and store managers' access to information.**

4 **HP and Intel Corporation, both with leading-edge microprocessors today, announced their intent to develop advanced semiconductor process, compiler and micro-processor technologies.**

5 **HP workstations lead the growing market for mechanical CAD, CAM and CAE design, according to industry analysts.**





6 HP consultants are working with Chesebrough-Pond's USA to help the maker of such products as Vaseline® and Q-tips® move to open systems. Says CIO Gene Goodmaster, "HP is providing us with everything from management awareness to network planning and hands-on training."

7 Software developers can transfer COBOL programs from a mainframe to a UNIX system-based environment more easily using HP's COBOL SoftBench tool set, which now supports CICS mainframe software and DB2 database products.

8 With HP OpenView software, information-technology managers can monitor and control multivendor networks and systems from a central point.

For example, HP OpenView – HP's suite of software tools for managing multivendor networks and systems – has become a de facto standard, with more than 65,000 installations. Companies that adopted HP OpenView this year include Oracle Corporation, Siemens Public Communication Networks Group and Alcatel NV.

HP's SoftBench environment, another de facto standard, is a set of UNIX system-based application-development tools designed to boost the productivity of software developers programming in COBOL, C and C++. This year, CSO introduced the Distributed SoftBench platform, which helps software teams ease their transitions to client/server development and object-oriented programming, a leading-edge software technology.

To help pursue next-generation software development, HP purchased a 15 percent stake in Taligent, joining founding partners Apple Computer, Inc. and IBM Corporation. HP will use Taligent's object-oriented products with its HP-UX operating system, and Taligent will license key technologies from HP.

Tying it all together One of the computer industry's fastest-growing markets is consulting and professional services, reflecting the assistance many customers want when implementing new information-technology solutions. According to industry analysts, HP's activity in this area significantly outpaced overall market growth this year, making the company one of the top 10 computer-service firms.

To give more focus to professional services, the company formed the Solutions Integration Group. Its more than 4,000 consultants in over 100 countries offer customers more than a decade of HP consulting experience. Target industries include telecommunications, financial services and manufacturing.

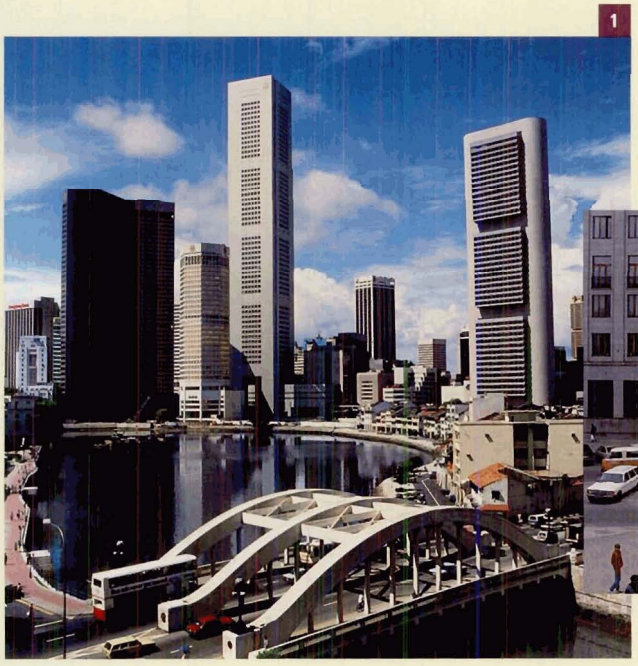
HP offers consulting services designed to achieve very fast results. For example, HP's Rapid Application Prototype workshop helps customers develop a working application prototype in as little as three weeks. Other services include open-systems and client/server consulting, systems integration and education.

The move from traditional, proprietary technology to a standards-based computing environment is redefining the role of service and support. Where yesterday's customers required mostly maintenance and repair, today's customers want a much broader range of services. During the past year, Worldwide Customer Support Operations (WCSO) launched important new services to meet customers' changing needs.

In 1994, WCSO addressed rising customer expectations by building on its strengths and entering new markets. As more customers move to multivendor environments, WCSO has expanded its ability to support such sites, operating 36 response centers in 34 countries. WCSO also increased the number of vendors whose products it supports to more than 350, and expanded support agreements with Novell and Microsoft® to include more products and train more support people on these products.

This year WCSO entered the growing market for network and systems operations. HP's selective outsourcing differs from the all-or-nothing approach of most competitors in that customers can choose which functions they want HP to perform. Ford Motor Company, GE Industrial & Power Systems and NatWest Markets, among others, began using this service during the year.

In 1994, WCSO also launched the HP Asset Management Service, which helps customers better manage their desktop computing resources, and the HP Tech Refresh Program, which helps customers plan and implement their transitions to next-generation workstations and PCs.



1 HP's plant in Singapore is the site of a new Asia-Pacific data center for financial giant J. P. Morgan & Co. Created and run by engineers from both companies, the center is an example of HP's selective outsourcing business at work.

2 WCSO provides around-the-clock support to the Czech National Bank, which uses HP 9000 business servers to run the Czech Republic's banking-information system.

The rapid evolution of technology and the marketplace meant significant changes for HP's Information Storage Group (ISG) this year. The group achieved strong growth driven by new products, collaboration with key industry partners and expanded distribution into the vital reseller channel.

The rapid growth of a digital information infrastructure is driving the evolution of information storage and is creating many opportunities for ISG.

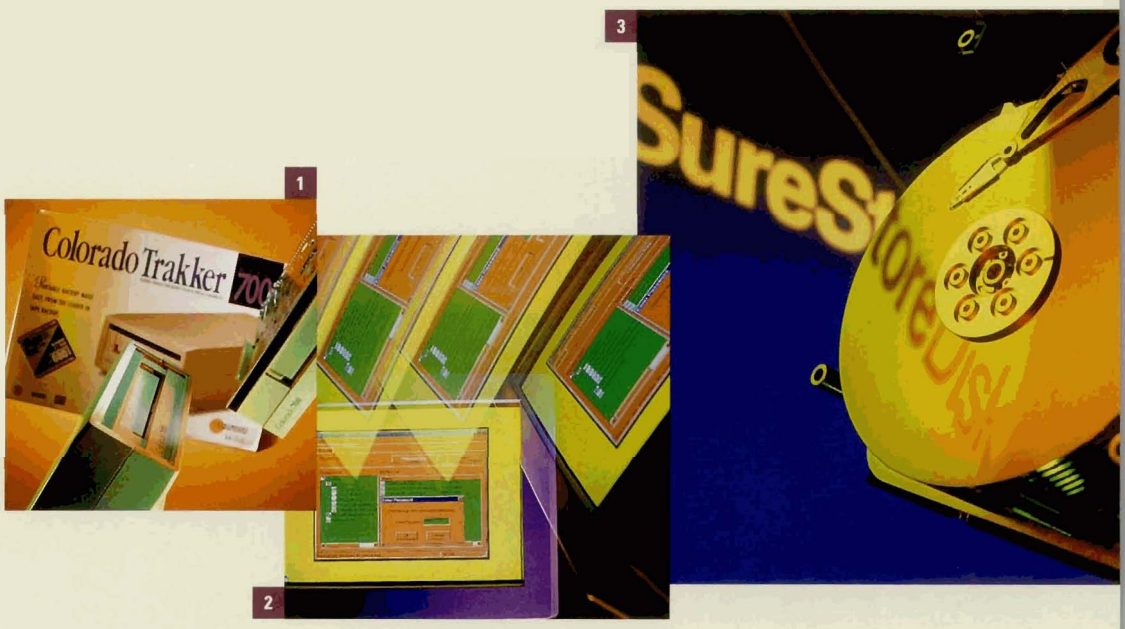
The group is one of the few suppliers to manufacture products based on all the major storage technologies: magnetic disks, optical libraries and tape. This year's success in high-end disk drives led to expanded manufacturing in Penang, Malaysia. A high-capacity optical library was introduced at a breakthrough price and enhanced ISG's market leadership in this category. Market-leading quarter-inch minicartridge and digital audio tape products have made HP the top supplier of tape drives in the world.

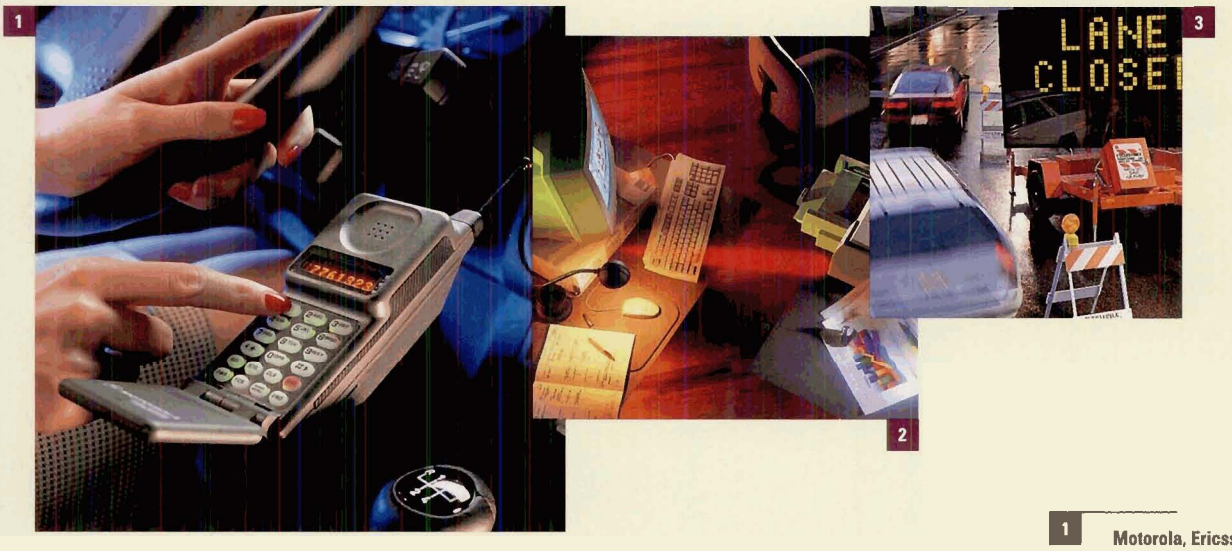
In today's multivendor computing world, strategic alliances are essential for technology leadership and competitive cost structures. ISG's work with Microsoft and Novell helped keep the group at the forefront of operating-system advances. ISG also established a joint venture, Headway Technologies, Inc., with Asahi Glass Company of Japan and Komag, Incorporated to produce magneto-resistive heads, an emerging technology for data storage.

1 **Tape backup systems from Colorado Memory Systems, which HP acquired in 1992, are targeted at desktop PCs and have won strong market acceptance.**

2 **HP wrote the backup application for Microsoft's Windows 95 operating system, and the application will be shipped with every copy of Windows 95.**

3 **A major branding effort is designed to establish a strong preference for SureStore products in the increasingly important reseller sales channel.**





1 Motorola, Ericsson, Hughes and AT&T are among the cellular-phone providers that use HP components.

2 The Components Group introduced a low-cost transceiver that enables office devices, such as computers and printers, to communicate directly via serial infrared, represented by the red line.

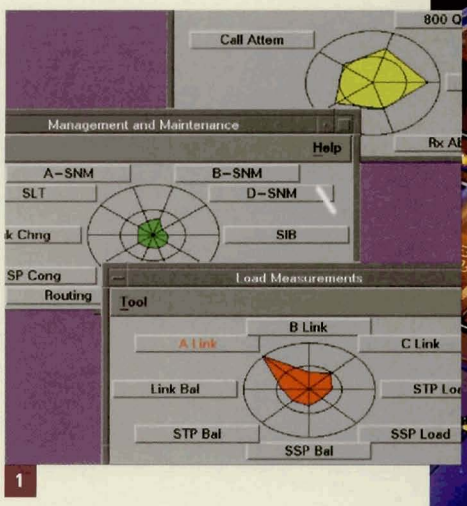
3 New technology made HP's light-emitting diodes (LEDs) cost effective for many kinds of display applications, such as portable traffic signals.

The Components Group's more than 9,000 products help people communicate quickly, reliably and cost effectively. The group achieved strong growth by building on core technology strengths and ***successfully*** *integrating BT&D, a company acquired in 1993. In 1994, the Components Group enhanced its position as the world's leading independent supplier of communications components.*

The Components Group is extending the frontiers of fiber-optic, wireless and visual communications. Its products and technologies support key marketplace trends, such as mobile computing, the digital information highway and multimedia communications.

Fiber-optic components that convert electrical signals to light signals, and back again, are used in data communications, telecommunications and industrial control. This year's integration of BT&D, a leading supplier of fiber-optic components that HP acquired last year, rounded out the group's offering of these components.

The rapid worldwide growth of wireless communications – both voice and data – created significant opportunities this year. The group introduced transistors, integrated circuits, surface-mount diodes for radio-frequency communications and a transmitter/receiver for infrared communications. The Components Group also introduced red-orange and yellow LEDs that are the world's brightest. From traffic signals in California to automobile brake lights to a mammoth sign in Beijing, China, HP LEDs are setting new standards in high-impact, cost-effective visual communications.



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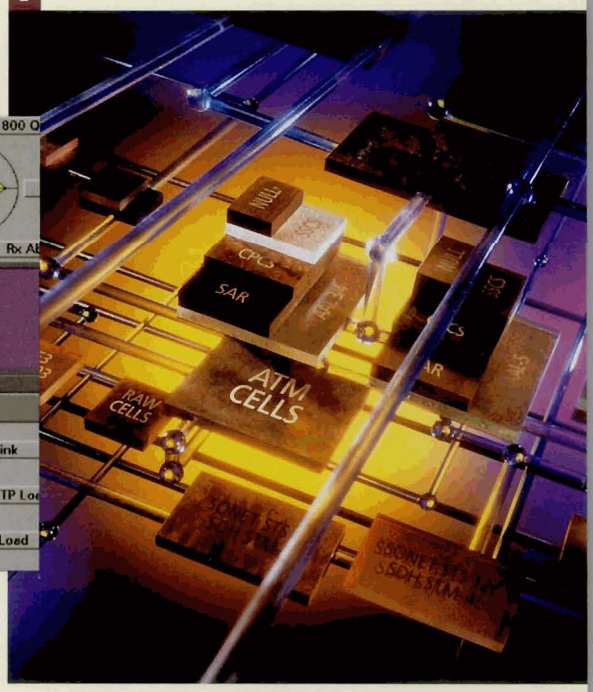


2

1 **The HP AcceSS7 Monitoring System allows telecommunications customers to monitor all the elements on their SS7 networks from a central location. Colors indicate network condition and provide early warning of problems.**

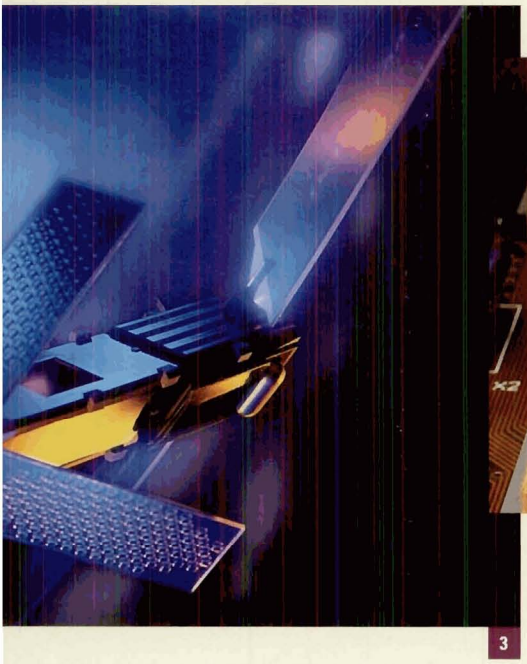
2 **Powerful new networking technologies, such as asynchronous transfer mode (ATM), are very complex. Without HP test equipment, such networks would be difficult to build or maintain.**

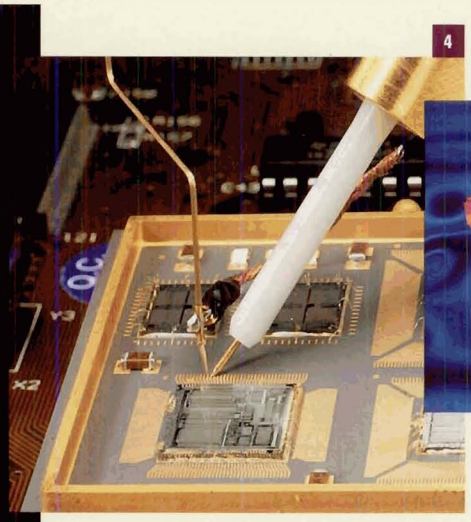
Long focused on enabling customers to advance the state of the art in technology, this year HP's Test and Measurement Organization (TMO) broadened its mission to include helping customers improve their business results. This new emphasis led to innovative approaches to test and a broader view of the opportunities ahead.

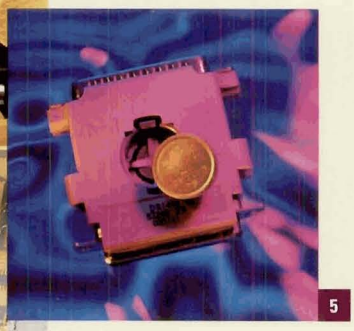
Among the innovative approaches to testing that stemmed from TMO's new mission was the "just enough test" qualities of its new semiconductor- and board-test products. Product design aimed at helping customers minimize test costs and maximize benefits. Producers of some of the industry's most advanced RISC chips chose the HP 83000 family of digital-IC testers because its broad range of performance allows them to purchase only the capabilities they currently require, knowing that they can easily upgrade as their needs change.

A second innovative approach to testing focused on providing customers with complete test solutions. In 1994 these included instruments whose "personalities" could be changed by inserting different CD-ROMs, as well as modular systems of hardware and software that could be customized easily. Software solutions for engineers doing high-frequency or RF design proved especially popular this year.

A third innovative approach to test involved not products, but people. To serve the needs of customers who have downsized or outsourced their test functions, TMO has strengthened its ability to provide consulting services, customized solutions, systems integration and outsourcing services. Sales of such services rose rapidly in 1994.







3 Conceived by Motorola, the IRIDIUM system will use satellites to form a global voice and data network. As part of its move into professional services, TMO is providing specialized test equipment to verify satellites prior to launching.

4 Sales of HP's semiconductor-test solutions more than doubled in 1994, as the HP 83000 and HP 9490 products were selected to test some of the industry's most advanced digital and mixed-signal devices.

5 HP's innovative Pay-Per-Use system allows customers to purchase a credit token for high-end testing that can be inserted into their board testers. Thus, customers pay for higher performance only when they need and use it.

In the early 1990s TMO saw its growth stall, as major aerospace and defense customers deferred or curtailed spending. While continuing to serve these customers, TMO's broadened view of the opportunities ahead now includes the fast-growing communications market.

HP is usually first to market with products to test the new communications technologies. In 1994, TMO introduced the first test set to measure waveform quality for CDMA, a new U.S. standard for digital-cellular communications. The HP Broadband Series Test System emerged as an industry standard. First to test ATM and broadband ISDN networks – and first to integrate testing of all layers of this complex technology – the system helped the industry prove that these new technologies can form the basis of an "information highway" transporting voice, data, image and video over the same network.

TMO also introduced the HP AcceSS7 Monitoring System, an open-system platform for monitoring Signaling System #7 networks – the distributed computers and databases that control call routing on the telecommunications network, giving it "intelligence."

As communications advances make possible digital video and video-on-demand, TMO is leveraging its core technologies to capitalize upon this opportunity. In 1994, Pacific Telesis Video Services chose HP's video server for its initial deployment of video-on-demand.

Achieving its strongest growth in years, in 1994 TMO proved that there's no such thing as an "old" business.

HP's PC business came of age in 1994. The Personal Information Products Group (PPG) achieved outstanding growth, won greatly increased recognition and entered important new markets. To build on this year's success, PPG will stay focused on delivering high-value products at aggressive prices through a complete range of reseller channels.

PPG produced some of HP's most gratifying successes in 1994. Desktop PC and server sales grew dramatically; profitability improved; and emerging markets, such as Korea and Eastern Europe, were strong. The PC-networking business offered leading technology and made significant inroads in a growing market. In an exciting new segment, TCI and Comcast, two of the largest U.S. cable-TV operators, announced their intention to use PPG's digital set-top terminals in their interactive TV offerings.

There were several common elements in PPG's success: feature-rich products priced at or below the competition, focused organizations that moved quickly, a commitment to customer satisfaction and a strong Channel Partners Program. PPG's focus on customer satisfaction helped HP achieve the highest ranking in the prestigious J. D. Power and Associates 1994 study of customer satisfaction among desktop PC business users.* The group's channel strength was reflected in the annual survey conducted by *Computer Reseller News*, a top trade publication for resellers, in which HP finished first in more categories than any other company.

**1994 J. D. Power and Associates Desktop Personal Computer Satisfaction Study. Study conducted among business users and based on 1,528 user respondents.*

1 **HP was one of the first PC companies to offer desktop PCs and servers based on Intel's newest Pentium™ microprocessors.**

2 **HP's 100VG–AnyLAN technology for PC networks supports a variety of applications, including multimedia, over standard twisted-pair wiring.**

PPG brought compelling PCs to market in the mobile, desktop and server segments. The group enhanced its HP OmniBook family of notebook PCs for mobile professionals with one of the lightest full-function notebook PCs available today. PPG also introduced the HP 200LX palmtop PC, with Pocket Quicken, the widely used mobile financial-tracking software, built in.

PPG refreshed the entire HP Vectra line of desktop PCs and met the growing demand for PC-based communications and multimedia capabilities. New network-ready machines gave users multimedia, CD-ROM, fax or telephone-answering capabilities. PPG also extended the HP NetServer family of PC-network servers, a product line that attained significant market share and won recognition for excellence from several industry publications.

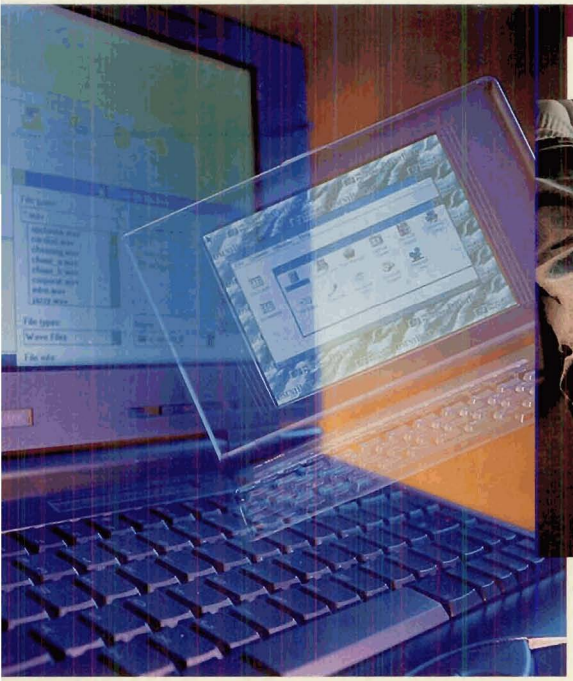
During 1994, PPG introduced the first products based on 100VG-AnyLAN, a technology for high-speed local area networks that is becoming an industry standard and that HP Labs co-developed with AT&T Microelectronics. HP and Cisco Systems also announced an alliance that is expected to yield networking products for 100VG-AnyLAN and ATM, a key emerging technology in this market.

PPG attained its best results ever in 1994. Its continuing challenges are to reach new markets, deliver innovative products and develop industry-leading cost structures.

3 Independent surveys named HP one of the fastest-growing PC companies in the world during 1994.

4 In early fiscal 1995, HP added a full-performance subnotebook and an advanced-performance notebook to its family of mobile PCs.

5 HP's OmniShare conferencer enables people in two locations to "meet" and collaborate on the same document, at the same time, over a single phone line.



1 HP's new ultrasound platform diagnoses the heart non-invasively and provides more information faster and more efficiently than previous systems.

2 MPG implemented a medical and administrative information system to help doctors at the Frankfurt Heart Center in Germany improve patient outcomes and control costs.

Fundamental change in the healthcare industry slowed capital spending in the Medical Products Group's (MPG) markets this year. In response, the group expanded its collaboration with partners, brought out new products and focused on cost controls. These activities helped improve solutions for healthcare providers, who are under pressure to strengthen the quality and cost effectiveness of medical treatment.

Industry consolidation and uncertainty over healthcare reform made the medical market difficult this year. MPG worked on several fronts to help customers become more efficient and effective in the delivery of healthcare.

MPG formed significant strategic alliances in the clinical and information-systems arenas. The group expanded its roster of software partners using HP computer platforms to improve customers' administration and decision support. HP also established a research collaboration with the Duke University Medical Center to study the use of information technology to improve patient care and reduce costs. MPG and Ohmeda, a worldwide leader in anesthesia delivery and support, forged a global alliance to serve the operating-room market.

The HP CareVue Clinical Event Review, introduced this year, was well received by customers. The workstation-based system enables clinicians to specify the patient data they need and retrieve it more quickly than before. Finally, MPG took steps to reduce its costs. Manufacturing consolidations, a re-engineered customer-support delivery process and lower discretionary spending were among the measures designed to help MPG sustain profitability in a challenging year.

A sluggish marketplace and increased competition made 1994 a year of moderate growth for the Analytical Products Group (APG). The group, which produces instrumentation for scientists, introduced several major products, entered new markets and strengthened its presence in the Asia Pacific region through its joint venture in Japan.

1 APG's protein sequencer and liquid chromatographs are helping Amgen develop treatments for cancer and kidney disease.

2 HP-sponsored workshops brought together officials of the U.S. Environmental Protection Agency with their counterparts in China, Japan, Taiwan and Korea.

3 A mass analyzer designed for trace-metals analysis, combined with easy-to-use software, enabled APG's joint venture in Japan to enter the worldwide market for inorganic analysis successfully.

APG helps customers create chemically based products, produce energy cost effectively, improve the environment and develop new medical treatments. The group competes in the pharmaceutical, petrochemical, environmental and biosciences markets.

APG products and consulting helped pharmaceutical customers comply with changing regulations and global quality standards. An isocratic liquid chromatography system, for example, won strong acceptance in quality-control departments. A new gas chromatograph detector system gave chemists in the petrochemical industry the qualitative, structural data needed to identify chemicals quickly and accurately. This helps researchers characterize unknowns in materials and products and can help solve manufacturing-process problems.

APG is working with many countries to enhance water and air quality. An automated analytical instrument system designed to detect organic chemicals has helped improve drinking water in the Netherlands by identifying when the Rhine River, that country's main water source, needs certain treatment. A liquid chromatograph/mass spectrometer introduced this year enabled bioscientists who are working with proteins and peptides to analyze biomolecules, which are being used to fundamentally change healthcare.

Contents

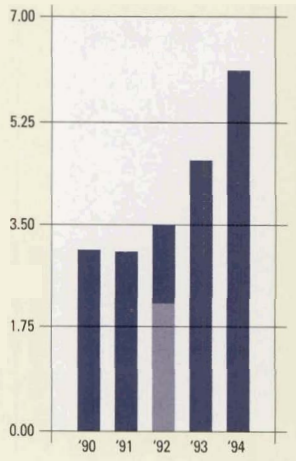
Selected Financial Data
Unaudited

For the years ended October 31 In millions except per share amounts and employees	*1994*	*1993*	*1992*	*1991*	*1990*
U.S. orders	$11,692	$ 9,462	$ 7,569	$ 6,484	$ 6,143
International orders	13,658	11,310	9,192	8,192	7,342
Total orders	$25,350	$20,772	$16,761	$14,676	$13,485
Net revenue	$24,991	$20,317	$16,410	$14,494	$13,233
Earnings from operations	$ 2,549	$ 1,879	$ 1,404	$ 1,210	$ 1,162
Earnings before effect of 1992 accounting change	$ 1,599	$ 1,177	$ 881	$ 755	$ 739
Net earnings	$ 1,599	$ 1,177	$ 549	$ 755	$ 739
Per share:					
Earnings before effect of 1992 accounting change	$ 6.14	$ 4.65	$ 3.49	$ 3.02	$ 3.06
Net earnings	$ 6.14	$ 4.65	$ 2.18	$ 3.02	$ 3.06
Cash dividends paid	$ 1.10	$ .90	$ .725	$ .48	$ .42
At year-end:					
Total assets	$19,567	$16,736	$13,700	$11,973	$11,395
Employees	98,400	96,200	92,600	89,000	92,200

See discussion of the 1994 calculation of earnings-per-share on page 32 of this report.

See discussion of the 1992 change in accounting for retiree medical benefits on page 39 of this report.

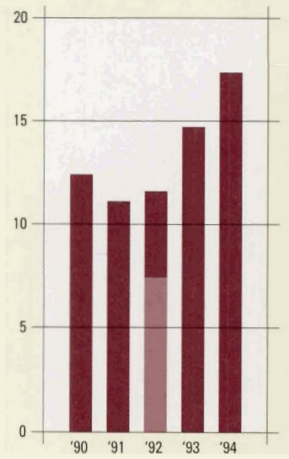
Net Earnings Per Share
In dollars



EPS

EPS including effect of accounting change

Return on Average Shareholders' Equity
Percent



ROE

ROE including effect of accounting change

Consolidated Statement of Earnings

For the years ended October 31 *In millions except per share amounts*	*1994*	*1993*	*1992*
Net revenue:			
Equipment	$19,307	$15,533	$12,354
Services	5,684	4,784	4,056
	24,991	20,317	16,410
Costs and expenses:			
Cost of equipment sold	11,572	8,929	6,625
Cost of services	3,918	3,194	2,533
Research and development	2,027	1,761	1,620
Selling, general and administrative	4,925	4,554	4,228
	22,442	18,438	15,006
Earnings from operations	2,549	1,879	1,404
Interest income and other, net	29	25	17
Interest expense	155	121	96
Earnings before taxes and effect of 1992 accounting change	2,423	1,783	1,325
Provision for taxes	824	606	444
Earnings before effect of 1992 accounting change	1,599	1,177	881
Transition effect of 1992 accounting change, net of taxes	—	—	332
Net earnings	$ 1,599	$ 1,177	$ 549
Earnings per share before effect of 1992 accounting change	$ 6.14	$ 4.65	$ 3.49
Transition effect per share of 1992 accounting change, net of taxes	—	—	1.31
Net earnings per share	$ 6.14	$ 4.65	$ 2.18

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

See discussion of the 1994 calculation of earnings-per-share on page 32 of this report.

See discussion of the 1992 change in accounting for retiree medical benefits on page 39 of this report.

Results of Operations In 1994, HP again experienced excellent overall market acceptance of new products and achieved 23 percent growth in net revenue, despite some continuing economic weakness around the world. Moreover, favorable impacts from ongoing efforts to improve operating expense structures offset rising costs of sales, resulting in increased earnings from operations of 36 percent over 1993.

HP's orders increased 22 percent over 1993, totaling $25.4 billion, compared with a 24 percent increase in 1993. Domestic and international orders grew 24 and 21 percent, respectively, reflecting HP's well-balanced position across a variety of geographic markets. In 1994, net revenue grew 23 percent in both the U.S. and internationally to $11.5 billion and $13.5 billion, respectively, following increases of 30 percent in the U.S. and 19 percent internationally in 1993. The U.S. dollar weakened during 1994 relative to most major foreign currencies, which had a minor impact on HP's international net revenue.

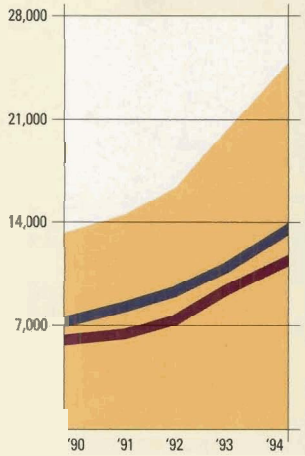
Net revenue from equipment sales increased 24 percent in 1994 compared with 26 percent in 1993. Demand for the company's peripheral products, such as the HP LaserJet and HP DeskJet families of printers, continued to be excellent in 1994, which included the shipment of the 30 millionth HP printer. Orders for semiconductor- and communications-test equipment, multi-user computer systems based on the UNIX operating system and Vectra PCs also continued to be excellent in 1994. Sales of customer support services and consumable supplies for the company's printer products were strong and fueled the growth in services revenue of 19 percent in 1994 and 18 percent in 1993. Detailed information on orders and net revenue by groupings of similar products and services is presented on page 44 of this report.

New products introduced during the year demonstrated HP's commitment to innovative technology and continuous product improvements. Many new products received strong acceptance in the marketplace during 1994 such as those from the HP LaserJet and HP DeskJet printer families, HP 9000 Series workstations and multiuser systems, and HP Vectra PCs.

Costs, expenses and earnings as a percentage of net revenue were as follows:

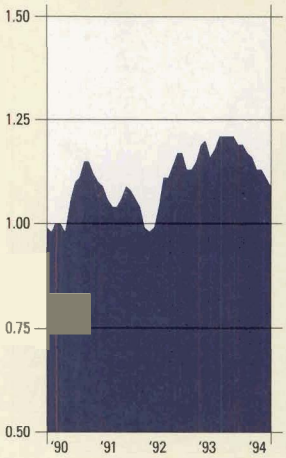
For the years ended October 31	*1994*	*1993*	*1992*
Cost of equipment sold and services	62.0%	59.7%	55.8%
Research and development	8.1%	8.7%	9.9%
Selling, general and administrative	19.7%	22.4%	25.7%
Earnings from operations	10.2%	9.2%	8.6%
Earnings before effect of 1992 accounting change	6.4%	5.8%	5.4%
Net earnings	6.4%	5.8%	3.3%

Net Revenue
In millions

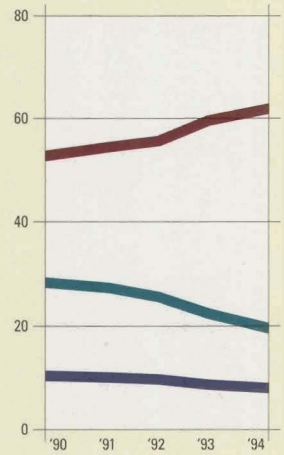


■ Total
■ International
■ U.S.

U.S. Dollar Relative to Major Foreign Currencies
Fiscal 1980 equals 1.00



Costs and Expenses
As a percentage of net revenue



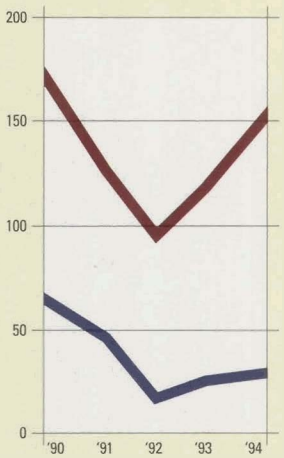
■ Cost of equipment sold and services
■ Selling, general and administrative
Research and development

During 1994, cost of equipment sold and services as a percentage of net revenue increased 2.3 percentage points following a 3.9 percentage point increase in 1993. Pricing and other competitive pressures continued in 1994 and had a significant impact on cost of sales as a percentage of net revenue. Changes in the mix of products sold also continued to put upward pressure on cost of sales as a percentage of net revenue. In 1994, a higher portion of the company's net revenue was generated by sales through dealers and other indirect channels. Products, such as peripherals and PCs, sold through these channels generally carry higher discounts, thereby increasing cost of sales as a percentage of net revenue. These factors are likely to continue to put some upward pressure on the cost of sales ratio. Although the company again experienced upward pressures on its cost of sales, the growth in cost of sales as a percentage of net revenue slowed in 1994, partly as a result of HP's ongoing efforts to improve its cost structure by maximizing manufacturing efficiencies.

Research and development expenditures increased 15 percent to $2.0 billion in 1994 versus $1.8 billion in 1993. The increased investment in research and development reflects the company's ongoing belief that success in a global marketplace requires a continuing flow of innovative, high-quality products. Research and development expenditures as a percentage of net revenue decreased .6 percentage points in 1994 compared with a 1.2 percentage point decrease in 1993.

Selling, general and administrative expense as a percentage of net revenue decreased 2.7 percentage points to 19.7 percent of net revenue during 1994, following a 3.3 percentage point decrease in 1993. The decrease in selling, general and administrative expense as a percentage of net revenue is attributable primarily to the company's ongoing cost control initiatives and continuing efforts to manage employment levels.

Interest and Other, Net
In millions



■ Interest expense
■ Interest income and other, net

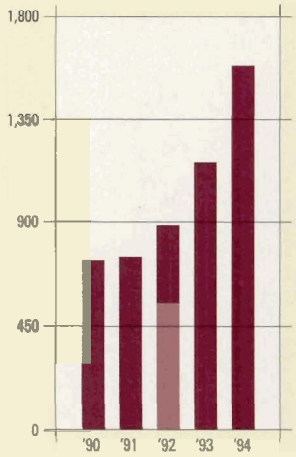
Interest income and other, net was $29 million in 1994 compared to $25 million in 1993 and $17 million in 1992. Interest expense was $155 million in 1994 compared to $121 million in 1993 and $96 million in 1992. The increases in interest expense reflect increases in the level of debt outstanding, as well as interest rate changes during the respective periods.

The company's effective tax rate was 34 percent in both 1994 and 1993, up slightly from 33.5 percent in 1992. A combination of factors led to the increase from 1992 to 1993, including an increase in the U.S. corporate federal income tax rate, changes in the geographic mix of the company's earnings, and resolution of certain issues related to tax returns filed in prior years.

Net earnings increased 36 percent to $1.6 billion in 1994. This compares to a 34 percent increase in 1993 and a 17 percent increase in 1992, excluding the 1992 one-time charge of $332 million after income taxes for a change in accounting for retiree medical benefits. As a percentage of net revenue, net earnings were 6.4 percent in 1994 compared with 5.8 percent in 1993 and 5.4 percent in 1992, excluding the accounting change.

In fiscal 1994, net earnings per share were computed based on a method which approximates the use of a weighted-average number of common shares and common share equivalents outstanding during the period. Common share equivalents represent the dilutive effect of outstanding stock options. In previous periods, common share equivalents were not included as their effect was considered immaterial. The inclusion of these equivalents in fiscal 1994 reduced earnings per share by 15 cents. Average shares outstanding used to compute earnings per share were 260.4 million in 1994, 253.2 million in 1993 and 252.6 million in 1992. The increases in shares outstanding resulted from the inclusion, in 1994, of common share equivalents, and issuances of common stock to employees under various stock plans, partially offset by stock acquired by the company under its ongoing share repurchase program.

Net Earnings
In millions



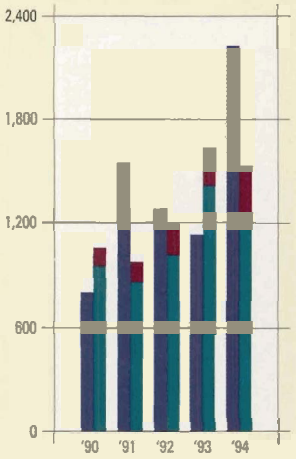
Net earnings

Net earnings including effect of accounting change

Financial Condition and Liquidity HP's financial position remains strong, with cash and cash equivalents and short-term investments of $2.5 billion at October 31, 1994, compared with $1.6 billion at October 31, 1993, and $1.0 billion at October 31, 1992.

Operating activities generated $2.2 billion in cash in 1994, compared with $1.1 billion and $1.3 billion in 1993 and 1992, respectively. The increase in cash generated from operations in 1994 compared to 1993 is primarily attributable to higher net earnings before depreciation and amortization and slower inventory growth. Inventory as a percentage of net revenue declined from 18.2 percent in 1993 to 17.1 percent in 1994. The lower growth rate is attributable to the company's effort to enhance processes, with a focus on improving inventory turnover, to accommodate business changes such as shorter product life cycles and rapid product ramp-ups.

Selected Cash Flows
In millions



Cash flows from operating activities

Capital expenditures

Dividends paid

1994 capital expenditures were $1.3 billion compared to $1.4 billion and $1.0 billion in 1993 and 1992, respectively. The capital expenditures in 1994 relate mainly to expansion of production capacity and to accommodate the introduction of new products.

The company invests excess cash in short-term and long-term investments depending on its projected cash needs for operations, capital expenditures and other business purposes. The company from time to time supplements its internally generated cash flow with a combination of short-term and long-term borrowings as required by various business and financial market factors.

Cash flow from changes in the company's debt structure resulted in net borrowings of $155 million in 1994 compared with net borrowings of $966 million and $416 million in 1993 and 1992, respectively. At October 31, 1994, the company had unused credit lines and authorized but unissued commercial paper totaling $3.1 billion.

Shares are repurchased periodically to meet employee stock plan requirements. Approximately 4.0 million shares were purchased in 1994 at an aggregate price of approximately $325 million. In 1993, approximately 4.3 million shares were purchased at an aggregate price of approximately $314 million; and in 1992, approximately 7.7 million shares were purchased at an aggregate price of approximately $530 million. Additional stock repurchases, based on certain price and volume criteria, are authorized by the Board of Directors. At October 31, 1994, the remaining authorization was $255 million.

Consolidated Balance Sheet

October 31 *In millions except par value and number of shares*	*1994*	*1993*
Assets		
Current assets:		
Cash and cash equivalents	$ 1,357	$ 889
Short-term investments	1,121	755
Accounts and notes receivable	5,028	4,208
Inventories:		
Finished goods	2,466	2,121
Purchased parts and fabricated assemblies	1,807	1,570
Other current assets	730	693
Total current assets	12,509	10,236
Property, plant and equipment:		
Land	508	514
Buildings and leasehold improvements	3,472	3,254
Machinery and equipment	3,958	3,759
	7,938	7,527
Accumulated depreciation	(3,610)	(3,347)
	4,328	4,180
Long-term receivables and other assets	2,730	2,320
	$19,567	$16,736
Liabilities and shareholders' equity		
Current liabilities:		
Notes payable and short-term borrowings	$ 2,469	$ 2,190
Accounts payable	1,466	1,223
Employee compensation and benefits	1,256	1,048
Taxes on earnings	1,245	922
Deferred revenues	598	507
Other accrued liabilities	1,196	978
Total current liabilities	8,230	6,868
Long-term debt	547	667
Other liabilities	864	690
Shareholders' equity:		
Preferred stock, $1 par value (authorized: 300,000,000 shares; issued: none)	—	—
Common stock and capital in excess of $1 par value (authorized: 600,000,000 shares; issued and outstanding: 254,827,000 in 1994 and 252,713,000 in 1993)	1,033	937
Retained earnings	8,893	7,574
Total shareholders' equity	9,926	8,511
	$19,567	$16,736

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

Factors That May Affect Future Results The company's future operating results are dependent on the company's ability to rapidly develop, manufacture, and market technologically innovative products that meet customers' needs. Inherent in this process are a number of risks that the company must successfully manage in order to achieve favorable operating results.

The process of developing new high technology products is complex and uncertain and requires innovative designs that anticipate customer needs and technological trends. After the products are developed, the company must quickly manufacture products in sufficient volumes at acceptable costs to meet demand.

In addition, a portion of the company's manufacturing operations is dependent on the ability of significant suppliers to deliver integral sub-assemblies and components in time to meet critical manufacturing schedules. The failure of suppliers to deliver these sub-assemblies and components in a timely manner may adversely affect the company's operating results until alternate sourcing could be developed. The company believes that alternate suppliers or design solutions could be arranged within a reasonable time so that material long-term adverse impacts would be unlikely.

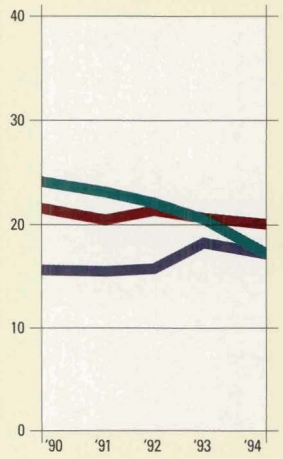
Changing industry practices and customer preferences require the company to expand into new distribution channels. As more of HP's products are distributed through dealer and other indirect channels, these channels become more critical to the company's success. Financial results could be adversely affected in the event that the financial condition of these sellers weakens.

The operations of the company involve the use of substances regulated under various federal, state and international laws governing the environment. It is the company's policy to apply strict standards for environmental protection to sites inside and outside the U.S., even if not subject to regulations imposed by local governments. Liability for environmental remediation is accrued when it is considered probable and costs can be estimated. Environmental expenditures are presently not material to HP's operations or financial position.

A portion of the company's research and development activities, its corporate headquarters and other critical business operations are located near major earthquake faults. The ultimate impact on the company, significant suppliers and the general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake. The company is predominantly self-insured for losses and interruptions caused by earthquakes.

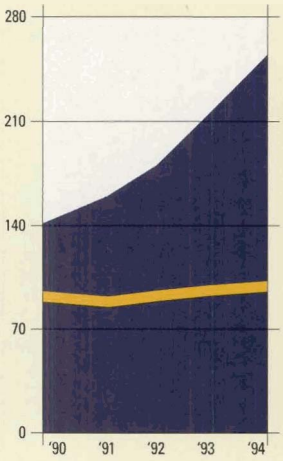
Although HP believes that it has the product offerings and resources needed for continued success, future revenue and margin trends cannot be reliably predicted and may cause the company to adjust its operations. Factors external to the company can result in volatility of the company's common stock price. Because of the foregoing factors, recent trends should not be considered reliable indicators of future stock prices or financial results.

Asset Management
As a percentage of net revenue



Net property, plant and equipment
Accounts and notes receivable
Inventories

Employees and Net Revenue Per Employee
In thousands



Number of employees
Net revenue per employee

Consolidated Statement of Cash Flows

For the years ended October 31 *In millions*	*1994*	*1993*	*1992*
Cash flows from operating activities:			
Net earnings	$ 1,599	$ 1,177	$ 549
Adjustments to reconcile net earnings to cash provided by operating activities:			
Transition effect of 1992 accounting change	—	—	332
Depreciation and amortization	1,006	846	673
Deferred taxes on earnings	(156)	(137)	(35)
Changes in assets and liabilities:			
Accounts and notes receivable	(848)	(709)	(480)
Inventories	(582)	(1,056)	(267)
Accounts payable	243	283	226
Taxes on earnings	320	452	31
Other current assets and liabilities	585	200	328
Other, net	57	86	(69)
	2,224	1,142	1,288
Cash flows from investing activities:			
Investment in property, plant and equipment	(1,257)	(1,405)	(1,032)
Disposition of property, plant and equipment	291	215	183
Purchase of short-term investments	(2,758)	(1,634)	(782)
Maturities of short-term investments	2,392	1,283	883
Purchase of long-term investments	(332)	(22)	(53)
Maturities of long-term investments	47	22	4
Acquisitions, net of cash acquired	(62)	(86)	(411)
Other, net	69	23	(58)
	(1,610)	(1,604)	(1,266)
Cash flows from financing activities:			
Increase in notes payable and short-term borrowings	250	807	186
Issuance of long-term debt	64	387	309
Payment of current maturities of long-term debt	(159)	(228)	(79)
Issuance of common stock under employee stock plans	300	308	293
Repurchase of common stock	(325)	(314)	(530)
Dividends	(280)	(228)	(183)
Other, net	4	(22)	(2)
	(146)	710	(6)
Increase in cash and cash equivalents	468	248	16
Cash and cash equivalents at beginning of year	889	641	625
Cash and cash equivalents at end of year	$ 1,357	$ 889	$ 641

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

Consolidated Statement of Shareholders' Equity

In millions except number of shares in thousands	*Common stock*			
	Number of shares	*Par value and capital in excess of par*	*Retained earnings*	*Total*
Balance October 31, 1991	251,547	$1,010	$6,259	$7,269
Employee stock plans:				
Shares issued	6,960	394	—	394
Shares purchased	(7,683)	(530)	—	(530)
Dividends	—	—	(183)	(183)
Net earnings	—	—	549	549
Balance October 31, 1992	250,824	874	6,625	7,499
Employee stock plans:				
Shares issued	6,234	377	—	377
Shares purchased	(4,345)	(314)	—	(314)
Dividends	—	—	(228)	(228)
Net earnings	—	—	1,177	1,177
Balance October 31, 1993	252,713	937	7,574	8,511
Employee stock plans:				
Shares issued	6,142	421	—	421
Shares purchased	(4,028)	(325)	—	(325)
Dividends	—	—	(280)	(280)
Net earnings	—	—	1,599	1,599
Balance October 31, 1994	254,827	$1,033	$8,893	$9,926

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

Summary of Significant Accounting Policies

Principles of consolidation The consolidated financial statements include the accounts of Hewlett-Packard Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Revenue recognition Revenue from equipment sales is generally recognized at the time the equipment is shipped. Services revenue is recognized over the contractual period or as services are performed.

Taxes on earnings Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts.

Net earnings per share In fiscal 1994, net earnings per share are computed based on a method that approximates the use of a weighted-average number of common shares and common share equivalents outstanding during each period. Common share equivalents represent the dilutive effect of outstanding stock options. In previous periods, common share equivalents were not included as their effect was considered immaterial. Shares used in the computation were 260,388,000 in 1994, 253,230,000 in 1993 and 252,600,000 in 1992.

Short-term investments Short-term investments are principally comprised of cash invested in certificates of deposit, temporary money-market instruments and repurchase agreements and are stated at cost, which approximates market.

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

Property, plant and equipment Property, plant and equipment are 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; machinery and equipment, 3 to 10 years. Depreciation of leasehold improvements is provided using the straight-line method over the life of the lease or the asset, whichever is shorter.

Foreign currency translation The company uses the U.S. dollar as its functional currency. Foreign currency assets and liabilities are translated into U.S. dollars at end-of-period exchange rates except for inventories, deposits, and property, plant and equipment, which are translated at historical exchange rates. Revenues and expenses are translated at average exchange rates in effect during each period except for those expenses related to balance sheet amounts, which are translated at historical exchange rates. Gains or losses from foreign currency translation are included in net earnings.

Statement of cash flows The company has classified investments as cash equivalents if the original maturity of such investments is three months or less.

The company paid income taxes of $626 million in 1994, $293 million in 1993 and $459 million in 1992. For the same periods, the company paid interest of $143 million, $109 million and $84 million, respectively. The effect of foreign currency exchange rate fluctuations on cash balances denominated in foreign currencies was not material.

Reclassifications Certain amounts have been reclassified to conform to the 1994 presentation.

Acquisitions

The company acquired several companies during 1994, 1993 and 1992. These acquisitions were not significant to the financial position or results of operations of the company.

All of these acquisitions were accounted for using the purchase method. Under the purchase method, the results of operations of acquired companies are included prospectively from the date of acquisition, and the acquisition cost is allocated to the acquirees' assets and liabilities based upon their fair market values at the date of the acquisition. The excess of the acquisition cost over the fair market value of net assets acquired represents goodwill and amounted to $40 million and $71 million for the 1994 and 1993 acquisitions, respectively. At the end of fiscal year 1994, the net book value of goodwill associated with current and prior acquisitions was $528 million and is being amortized on a straight-line basis over 3 to 10 years.

Financial Instruments

Off-balance-sheet risk The company enters into foreign exchange contracts to hedge against changes in foreign currency exchange rates. Such exposures are a result of the portion of the company's operations as well as assets and liabilities that are denominated in currencies other than the U.S. dollar. When the company's foreign exchange contracts hedge operational exposure, the effects of movements in currency exchange rates on these instruments are recognized when the related revenue and expenses are recognized. When foreign exchange contracts hedge balance sheet exposure, such effects are recognized when the exchange rate changes. Because the impact of movements in currency exchange rates on foreign exchange contracts offsets the related impact on the underlying items being hedged, these instruments do not subject the company to risk that would otherwise result from changes in currency exchange rates. Foreign exchange contracts require the company to exchange foreign currencies for U.S. dollars and generally mature within six months. The company had foreign exchange contracts of $2.5 billion and $3.0 billion outstanding at October 31, 1994 and 1993, respectively.

The company enters into interest rate swap agreements to manage its exposure to interest rate changes. The transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. At October 31, 1994 and 1993, off-balance-sheet exposures under interest rate swap agreements were not material.

Concentrations of credit risk Financial instruments that potentially subject the company to significant concentrations of credit risk consist principally of cash investments and trade accounts receivable.

The company maintains cash and cash equivalents, short- and long-term investments and certain other off-balance-sheet financial instruments with various financial institutions. These financial institutions are located in many different geographies throughout the world, and company policy is designed to limit exposure with any one institution. As part of its cash management process, the company performs periodic evaluations of the relative credit standing of these financial institutions.

Credit risk with respect to trade accounts receivable is generally diversified due to the large number of entities comprising the company's customer base and their dispersion across many different industries and geographies. The company performs ongoing credit evaluations of its customers' financial condition, utilizes flooring arrangements with third-party financing companies and requires collateral, such as letters of credit and bank guarantees, in certain circumstances.

The company sells a significant portion of its products through third-party resellers and, as a result, maintains individually significant receivable balances with major distributors. If the financial condition and operations of these distributors deteriorate below critical levels, the company's operating results could be adversely affected. The ten largest distributor receivable balances collectively represented 10 percent and 9 percent of total accounts and notes receivable at October 31, 1994 and 1993, respectively.

Fair value of financial instruments For certain of the company's financial instruments, including cash and cash equivalents, short-term investments, accounts and notes receivable, notes payable and short-term borrowings, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to their short maturities. Long-term floating rate notes and certificates of deposit are carried at amounts that approximate fair value. The estimated fair value of long-term debt is primarily based on quoted market prices, as well as borrowing rates currently available to the company for bank loans with similar terms and maturities. This fair value, when adjusted for unrealized gains and losses on related interest rate swap agreements, approximates the carrying amount of long-term debt. Consequently, such instruments are not included in the following table, which provides information regarding the estimated fair values of other financial instruments, both on and off-balance-sheet, at October 31:

	1994		*1993*	
In millions	*Carrying Amount*	*Estimated Fair Value*	*Carrying Amount*	*Estimated Fair Value*
Long-term stock investments	$ 64	$ 75	$ 88	$106
Foreign exchange contracts, including options	$(24)	$(108)	$ 32	$ 66

The estimated fair value of long-term stock investments is based on quoted market prices. For foreign exchange contracts, including options, the estimated fair value is primarily based on quoted market prices for the same or similar instruments, adjusted where necessary for maturity differences.

The estimated fair values may not be representative of actual values of the financial instruments that could have been realized as of year end or that will be realized in the future.

Taxes on Earnings

The provision for income taxes is comprised of the following:

In millions	*1994*	*1993*	*1992*
U.S. federal taxes:			
Current	$511	$330	$248
Deferred	(156)	(46)	(93)
Non-U.S. taxes:			
Current	441	381	199
Deferred	—	(91)	58
State taxes	28	32	32
	$824	$606	$444

The significant components of deferred tax assets and liabilities included on the balance sheet at October 31 are:

In millions	*1994*		*1993*	
	Deferred tax assets	*Deferred tax liabilities*	*Deferred tax assets*	*Deferred tax liabilities*
Inventory	$329	$ 28	$283	$ 28
Fixed assets	61	12	56	6
Retiree medical benefits	243	—	234	—
Other retirement benefits	—	113	—	116
Employee benefits, other than retirement	90	20	22	31
Leasing activities	—	79	—	83
Other	254	198	193	163
	$977	$450	$788	$427

No valuation allowance was necessary in 1994 and 1993.

Tax benefits of $41 million, $35 million and $28 million associated with the exercise of employee stock options were allocated to equity in 1994, 1993 and 1992, respectively. The company's average U.S. statutory tax rate increased to 35 percent in 1994 from 34.8 percent in 1993 and 34.0 percent in 1992 as a result of legislation enacted in August 1993 which was effective January 1, 1993. The effect on the company's deferred tax assets and liabilities was not material.

The differences between the U.S. federal statutory income tax rate and the company's effective rate are as follows:

	1994	*1993*	*1992*
U.S. federal statutory income tax rate	35.0%	34.8%	34.0%
State income taxes, net of federal tax benefit	0.8	1.1	1.6
Lower rates in other jurisdictions, net	(4.8)	(3.1)	(4.1)
Other, net	3.0	1.2	2.0
	34.0%	34.0%	33.5%

After allocating eliminations and corporate items, earnings before taxes are as follows:

In millions	*1994*	*1993*	*1992*
U.S. operations including Puerto Rico	$ 915	$ 818	$ 734
Non-U.S.	1,508	965	591
	$2,423	$1,783	$1,325

The company has not provided for U.S. federal income and foreign withholding taxes on $2.2 billion of non-U.S. subsidiaries' undistributed earnings as of October 31, 1994, because such earnings are intended to be reinvested indefinitely. If these earnings were distributed, 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 in the company's non-U.S. subsidiaries and it is advantageous for tax or foreign exchange reasons, subsidiary earnings are remitted.

As a result of certain employment and capital investment actions undertaken by the company, income from manufacturing activities in certain countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, for years through 2010. The income tax benefits attributable to the tax status of these subsidiaries are estimated to be $163 million, $128 million and $123 million for 1994, 1993 and 1992, respectively.

The Internal Revenue Service (IRS) has completed its examination of the company's federal income tax returns filed through 1983. The IRS has not commenced its examination of returns for years subsequent to 1989. The company believes that adequate accruals have been provided for all years.

Borrowings

Notes payable and short-term borrowings are comprised of the following:

	1994		*1993*	
In millions		*Interest rate*		*Interest rate*
Commercial paper	$1,155	5.1%	$1,174	3.1%
Notes payable to banks	1,090	5.1%	820	4.2%
Other short-term borrowings	224	3.7%	196	3.2%
	$2,469		$2,190	

The interest rates represent average rates in effect at October 31, 1994 and 1993.

Long-term debt consists of corporate bonds placed with various financial institutions with interest rates ranging from 4.8 percent to 7.3 percent. The aggregate payments for the next five years of long-term debt outstanding at October 31, 1994 are $151 million in 1996, $158 million in 1999, and $238 million in 2000 and thereafter.

At October 31, 1994, the company had unused lines of credit of $1.3 billion and authorized but unissued commercial paper of about $1.8 billion. The credit lines provide for borrowings on a worldwide basis and generally do not require commitment fees.

Employee Stock Purchase Plan Eligible company employees may generally contribute up to 10 percent of their base compensation to the quarterly purchase of company stock under the Employee Stock Purchase Plan. Under this plan, employee contributions are partially matched with company contributions on a quarterly basis to purchase HP stock. At October 31, 1994, approximately 83,000 employees were eligible to participate and approximately 41,000 employees were participants in the plan.

Incentive compensation plans The company has three principal stock option plans, adopted in 1979, 1985 and 1990. All plans permit options granted to qualify as "Incentive Stock Options" under the Internal Revenue Code. The exercise price of a stock option is generally equal to the fair market value of the company's common stock on the date the option is granted. Under the 1990 Incentive Stock Plan, however, the Executive Compensation and Stock Option Committee, in certain cases, may choose to establish a discounted exercise price at no less than 75 percent of fair market value on the grant date. In 1994 and 1993, discounted options totaling 216,000 shares and 741,000 shares, respectively, were granted at no less than 75 percent of fair market value on the grant date. Stock compensation expense related to the discounted options was not material. Options generally vest at a rate of 25 percent per year over a period of four years from the date of grant except for discounted options, which may not be exercised before the fifth anniversary of the option grant date, at which time such options become 100 percent vested. The plans provide for the granting of stock appreciation rights with respect to options granted to officers. The company has not included stock appreciation rights with options granted to officers since October 31, 1991.

The following table summarizes option activity during 1994:

In thousands except price per share amounts	*Options*	*Price per share*
Outstanding at October 31, 1993	13,912	$27-81
Granted	2,109	56-88
Exercised	(2,964)	27-85
Cancelled	(221)	27-85
Outstanding at October 31, 1994	12,836	$27-88

At October 31, 1994, options to purchase 6,899,000 shares were exercisable at prices ranging from $27 to $88 per share. Shares available for option grants at October 31, 1994 and 1993 were 5,161,000 and 7,406,000, respectively. Approximately 47,000 employees were considered eligible to receive stock options in fiscal 1994. There were approximately 21,000 employees holding options under one or more of the option plans as of October 31, 1994.

Under the 1985 Incentive Compensation Plan and the 1990 Incentive Stock Plan, 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 considered appropriate by the company's Executive Compensation and Stock Option Committee. The majority of the shares of restricted stock outstanding at October 31, 1994 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. The cost of the awards, determined to be the fair market value of the shares at the date of grant, is expensed ratably over the period the restrictions lapse. Such expense was not material in 1994, 1993 or 1992. At October 31, 1994 and 1993, the company had 482,000 and 276,000 shares, respectively, of restricted stock outstanding.

Shares reserved The company has reserved shares for future issuance under the employee stock plans. At October 31, 1994 and 1993, 29,709,000 and 35,797,000 shares, respectively, were reserved.

Stock repurchase program Under the company's stock repurchase program, shares of HP common stock are periodically purchased to meet future employee stock plan requirements. In 1994, 1993 and 1992, 4,028,000, 4,345,000 and 7,683,000 shares were repurchased for an aggregate purchase price of $325 million, $314 million and $530 million, respectively. At October 31, 1994, HP had authorization for an aggregate of $255 million in future repurchases under this program based on certain price and volume criteria.

Retirement Plans and Retiree Medical Benefits

Pension and profit-sharing plans Substantially all of the company's employees are covered under various pension and deferred profit-sharing retirement plans. The worldwide pension and deferred profit-sharing costs were $196 million in 1994, $159 million in 1993, and $138 million in 1992.

Through October 31, 1993, U.S. employees were provided retirement benefits under the U.S. Deferred Profit-Sharing Plan (DPS) and the U.S. Supplemental Pension Plan (SPP). The DPS was a defined contribution plan that provided the vast majority of retirement benefits. The plan was funded solely by the company through an annual contribution based upon the company's adjusted U.S. net income, as defined in the plan agreement. The SPP was a defined benefit plan that provided for any excess of defined minimum benefits over the benefits available from the DPS. The amount of the benefit was computed based upon the employee's highest average pay rate and length of service, reduced by the annuity value to which the employee was entitled under the DPS. The DPS and SPP were substantially amended effective October 29, 1993, such that all accrued pension benefits under these plans were immediately 100 percent vested. This amendment resulted in SPP prior service cost of $69 million. Additionally, the accumulated benefit obligation and projected benefit obligation increased by approximately $3 million and $69 million, respectively.

Effective November 1, 1993, the DPS assets were frozen and the SPP was modified and renamed the Hewlett-Packard Company Retirement Plan (Retirement Plan). Benefits under the amended plan continue to be based upon the employee's highest average pay rate and length of service. Employees retained benefits earned through October 31, 1993 under the DPS and SPP with benefits under the SPP adjusted for future salary increases. Assets of the Retirement Plan, previously the SPP, and the DPS are held in trust for the sole benefit of employees.

The status of the U.S. Retirement and DPS plans follows:

In millions	*1994*	*1993*
Fair value of plan assets	$2,093	$2,096
Retirement benefit obligation	$1,977	$1,872

Employees outside the U.S. generally receive retirement benefits under various defined benefit and defined contribution plans based upon factors such as years of service and employee compensation levels.

Retiree medical plan In addition to providing pension benefits, the company also has a medical plan that provides defined benefits to U.S. retired employees. Substantially all of the company's U.S. employees could become eligible for these benefits.

The company adopted, effective as of the beginning of the 1992 fiscal year, Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." SFAS No. 106 requires that postretirement benefits other than pensions be accounted for using the accrual method. The adoption of SFAS No. 106 in 1992 resulted in a one-time charge to net earnings of $332 million in the first quarter, after a reduction for income taxes of $212 million, representing the transition effect of adopting SFAS No. 106 as of the beginning of 1992.

An increase in the discount rate and changes in benefit elections made by the plan participants resulted in a decrease in the benefit obligation and an increase in the unrecognized net experience gain at October 31, 1994. Additionally, effective January 1, 1994, the plan was amended such that all benefits for retirees age 65 and over are coordinated with Medicare on a carve-out basis. This amendment resulted in an unrecognized prior service gain and a decrease in the benefit obligation.

401(k) Plan U.S. employees of the company may participate in the Tax Saving Capital Accumulation Plan (TAXCAP), which was established as a supplemental retirement program. Under the TAXCAP program, the company matches contributions by employees up to a maximum of 4 percent of an employee's annual compensation. Effective November 1, 1993, the maximum combined contribution to the Employee Stock Purchase Plan and TAXCAP is 17 percent of an employee's annual base compensation subject to certain regulatory and plan limitations. Previously, the combined contributions to these two plans by an employee could not exceed 12 percent of an employee's annual base compensation. At October 31, 1994, 47,000 employees were participating in TAXCAP out of the 56,000 who were eligible.

Funded status and net periodic cost The funded status of the defined benefit and retiree medical plans is as follows:

	U.S. defined benefit plan		*Non-U.S. defined benefit plans*		*U.S. retiree medical plan*	
In millions	*1994*	*1993*	*1994*	*1993*	*1994*	*1993*
Fair value of plan assets	$ 310	$ 307	$ 933	$ 798	$ 258	$ 251
Benefit obligation	(194)	(83)	(1,015)	(851)	(328)	(444)
Excess of plan assets over benefit obligation	116	224	(82)	(53)	(70)	(193)
Unrecognized net experience (gain) loss	(52)	(77)	85	69	(203)	(57)
Unrecognized prior service cost related to plan changes	63	69	33	28	(183)	(181)
Unrecognized net transition asset*	(47)	(54)	(6)	(7)	—	—
Prepaid (accrued) costs	$ 80	$ 162	$ 30	$ 37	$(456)	$(431)
Vested benefit obligation	$ (47)	$ (19)	$ (656)	$(529)		
Accumulated benefit obligation	$ (47)	$ (19)	$ (706)	$(576)		

*Amortized over 15 years for the U.S. plan and over periods ranging from 12 to 20 years for non-U.S. plans.

Plan assets consist primarily of listed stocks and bonds for the U.S. plans and listed stocks, bonds and cash surrender value of life insurance policies for the non-U.S. plans. It is the company's practice to fund these costs to the extent they are tax-deductible.

The company's net pension, deferred profit-sharing and retiree medical costs are comprised of the following:

	Pension and deferred profit-sharing								
	U.S. plans			*Non-U.S. plans*			*U.S. retiree medical plan*		
In millions	*1994*	*1993*	*1992*	*1994*	*1993*	*1992*	*1994*	*1993*	*1992*
Service cost—benefits earned during the period	$112	$ 4	$ 3	$ 73	$ 61	$ 52	$ 27	$ 28	$ 26
Interest cost on benefit obligation	6	3	3	58	49	45	33	35	33
Actual investment return on plan assets	(7)	(45)	(19)	(44)	(107)	5	(7)	(40)	(14)
Net amortization and deferral	(29)	11	(14)	(16)	59	(53)	(27)	10	(13)
Net plan cost (credit)	82	(27)	(27)	71	62	49	26	33	32
Pension and deferred profit-sharing costs for other plans	—	88	69	43	36	47	—	—	—
	$ 82	$ 61	$ 42	$114	$ 98	$ 96	$ 26	$ 33	$ 32

The assumptions used to measure the benefit obligations and to compute the expected long-term return on assets for the company's defined benefit and retiree medical plans are as follows:

	1994	*1993*	*1992*
U.S. defined benefit plan:			
Discount rate	8.0%	7.0%	8.0%
Average increase in compensation levels	5.5%	5.5%	6.5%
Expected long-term return on assets	9.0%	9.0%	9.0%
Non-U.S. defined benefit plans:			
Discount rate	5.0% to 8.8%	5.0% to 9.0%	5.0% to 9.0%
Average increase in compensation levels	4.1% to 7.0%	4.5% to 6.3%	4.5% to 6.3%
Expected long-term return on assets	7.0% to 9.5%	7.0% to 10.0%	7.0% to 11.0%
Retiree medical plan:			
Discount rate	8.0%	7.0%	8.0%
Expected long-term return on assets	9.0%	9.0%	9.0%
Current medical cost trend rate	10.8%	11.2%	13.0%
Ultimate medical cost trend rate	6.0%	6.0%	7.0%
Medical cost trend rate decreases to ultimate rate in year	2007	2007	2007
Effect of a 1% increase in the medical cost trend rate (millions):			
Increase in benefit obligation	$66	$97	$88
Increase in the annual retiree medical cost	$13	$18	$17

Commitments

The company leases certain real and personal property. Minimum commitments under these operating leases are $157 million for 1995, $128 million for 1996, $96 million for 1997, $80 million for 1998, $50 million for 1999 and $171 million for 2000 through 2061. Certain leases require the company to pay property taxes, insurance and routine maintenance and include escalation clauses. Rent expense was $274 million in 1994, $269 million in 1993 and $257 million in 1992.

Geographic Area Information

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

Net revenue, earnings from operations and identifiable assets, classified by the major geographic areas in which the company operates, are as follows:

In millions	*1994*	*1993*	*1992*
Net revenue			
United States:			
Unaffiliated customer sales	$11,469	$ 9,346	$ 7,212
Interarea transfers	4,653	4,249	3,436
	16,122	13,595	10,648
Europe:			
Unaffiliated customer sales	8,423	7,177	6,083
Interarea transfers	1,058	899	649
	9,481	8,076	6,732
Asia Pacific, Canada, Latin America:			
Unaffiliated customer sales	5,099	3,794	3,115
Interarea transfers	2,765	2,165	1,120
	7,864	5,959	4,235
Eliminations	(8,476)	(7,313)	(5,205)
	$24,991	$20,317	$16,410
Earnings from operations			
United States	$ 1,472	$ 1,485	$ 1,155
Europe	660	447	308
Asia Pacific, Canada, Latin America	824	630	372
Eliminations and corporate	(407)	(683)	(431)
	$ 2,549	$ 1,879	$ 1,404
Identifiable assets			
United States	$ 9,848	$ 8,984	$ 7,309
Europe	4,991	4,452	3,869
Asia Pacific, Canada, Latin America	4,052	3,056	2,026
Eliminations and corporate	676	244	496
	$19,567	$16,736	$13,700

Net revenue from sales to unaffiliated customers is based on the location of the customer. Interarea transfers are sales among HP affiliates principally made at market price, less an allowance primarily for subsequent manufacturing and/or marketing costs. Earnings from operations and identifiable assets are classified based on the location of the company's facilities.

Identifiable corporate assets, which are net of eliminations, comprise primarily cash, property, plant and equipment, and other assets, and aggregate $4,594 million in 1994, $3,148 million in 1993 and $2,889 million in 1992.

Statement of Management Responsibility

The company's management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and other financial information presented in this report. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles and reflect the effects of certain estimates and judgments made by management.

The company's management maintains an effective system of internal control that is designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded and executed in accordance with management's authorization. The system is continuously monitored by direct management review and by internal auditors who conduct an extensive program of audits throughout the company. The company selects and trains qualified people who are provided with and expected to adhere to the company's standards of business conduct. These standards, which set forth the highest principles of business ethics and conduct, are a key element of the company's control system.

The company's consolidated financial statements have been audited by Price Waterhouse LLP, independent accountants. Their audits were conducted in accordance with generally accepted auditing standards, and included a review of financial controls and tests of accounting records and procedures as they considered necessary in the circumstances.

The Audit Committee of the Board of Directors, which consists of four outside directors, meets regularly with management, the internal auditors and the independent accountants to review accounting, reporting, auditing and internal control matters. The committee has direct and private access to both internal and external auditors.

Lew Platt

Lew Platt
Chairman of the Board, President and Chief Executive Officer

Bob Wayman

Bob Wayman
Executive Vice President, Finance and Administration
Chief Financial Officer

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of Hewlett-Packard Company and its subsidiaries at October 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1994, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in the Retirement Plans and Retiree Medical Benefits note to the financial statements, the company changed its method of accounting for retiree medical benefits in the year ended October 31, 1992. We concur with this change in accounting.

Price Waterhouse LLP

San Francisco, California
November 21, 1994

Orders and Net Revenue by Groupings of Similar Products and Services

Unaudited

For the years ended October 31 *In millions*	*1994*	*1993*	*1992*
Orders			
Computer products, service and support	$19,882	$15,903	$12,293
Electronic test and measurement instrumentation, systems and service	2,759	2,335	2,257
Medical electronic equipment and service	1,170	1,196	1,004
Analytical instrumentation and service	777	721	678
Electronic components	762	617	529
	$25,350	$20,772	$16,761
Net revenue			
Computer products, service and support	$19,632	$15,572	$12,028
Electronic test and measurement instrumentation, systems and service	2,722	2,318	2,207
Medical electronic equipment and service	1,141	1,149	1,010
Analytical instrumentation and service	754	704	693
Electronic components	742	574	472
	$24,991	$20,317	$16,410

The table above provides supplemental information showing orders and net revenue by groupings of similar products and services. The groupings are as follows:

Computer products, service and support Computer equipment and systems (hardware and software), networking products, printers, plotters, scanners, disk and tape drives, terminals and handheld calculators; support and maintenance services, parts and supplies. Products are used for business, scientific and industrial applications.

Electronic test and measurement instrumentation, systems and service Instruments and measurement systems used for design, production and maintenance of electronic equipment; support and maintenance services.

Medical electronic equipment and service Instruments and information systems used for patient care monitoring; diagnostic cardiology; computer equipment, systems integration and application software; support and maintenance services; hospital supplies.

Analytical instrumentation and service Gas and liquid chromatographs, mass spectrometers and spectrophotometers used to analyze chemical compounds; laboratory data and information management systems; support, supplies and maintenance services.

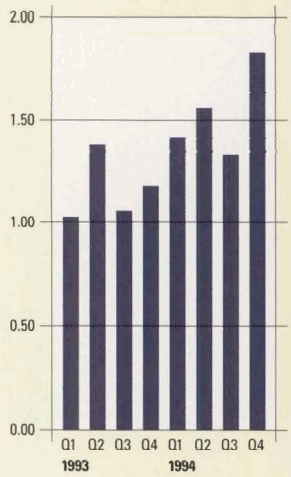
Electronic components Microwave semiconductor and optoelectronic devices that are sold primarily to manufacturers for incorporation into electronic products.

Quarterly Summary
Unaudited

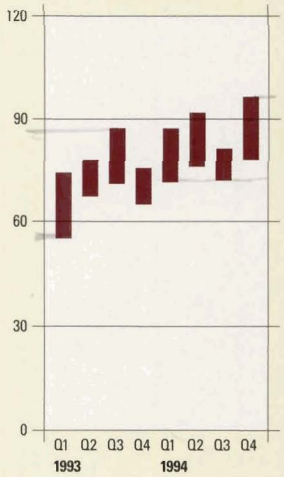
For the three months ended *In millions except per share amounts*	*January 31*	*April 30*	*July 31*	*October 31*
1994				
U.S. orders	$2,572	$2,937	$2,776	$3,407
International orders	3,570	3,431	3,185	3,472
Total orders	$6,142	$6,368	$5,961	$6,879
Net revenue	$5,682	$6,254	$6,053	$7,002
Cost of equipment sold and services	$3,470	$3,890	$3,774	$4,356
Earnings from operations	$ 598	$ 638	$ 543	$ 770
Net earnings	$ 368	$ 408	$ 347	$ 476
Net earnings per share*	$ 1.42	$ 1.56	$ 1.33	$ 1.83
Cash dividend paid per share	$ .250	$ .250	$ .300	$ .300
Range of stock prices per share	$71½-87½	$76-92	$72-81⅞	$78⅜-97⅞
1993				
U.S. orders	$2,093	$2,341	$2,237	$2,791
International orders	3,108	3,026	2,466	2,710
Total orders	$5,201	$5,367	$4,703	$5,501
Net revenue	$4,573	$5,096	$4,961	$5,687
Cost of equipment sold and services	$2,664	$2,997	$2,968	$3,494
Earnings from operations	$ 421	$ 554	$ 427	$ 477
Net earnings	$ 261	$ 347	$ 271	$ 298
Net earnings per share	$ 1.03	$ 1.38	$ 1.06	$ 1.18
Cash dividend paid per share	$ .200	$ .200	$ .250	$ .250
Range of stock prices per share	$55⅝-74⅛	$67⅞-78¼	$71-87½	$65-75⅝

*See discussion of the 1994 calculation of earnings-per-share on page 32 of this report.

Net Earnings Per Share
In dollars



Range of Common Stock Prices
In dollars per share



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California Institute of Technology

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A paper and forest products manufacturer and distributor

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Credit Lyonnais
A global banking institution

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Hewlett-Packard Company

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and Director
Center for Computer Assisted
Research in the Humanities
A non-profit corporation

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Hufstedler & Kaus

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Assistance Center
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The Packard Humanities
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Theatre Foundation
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and Chief Executive Officer
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An automotive company

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Chairman of the Board,
President and Chief Executive
Officer
Hewlett-Packard Company

Robert P. Wayman
Executive Vice President
Chief Financial Officer
Hewlett-Packard Company

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William R. Hewlett
Co-founder

David Packard
Chairman Emeritus
Co-founder

Committees of the Board

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Audit Committee
Hufstedler (Chair), Hackborn,
Haynes, Hewlett

Compensation Committee
Fery (Chair), Everhart,
Haynes, Orr, Petersen

Finance and Investment Committee
Miller (Chair), Gimon,
Packard, Wayman

Organization Review and Nominating Committee
Haynes (Chair), Hackborn,
Hewlett, Keyworth, Packard,
Platt

Officers

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Chairman, President and
Chief Executive Officer

Robert P. Wayman*
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Finance and Administration
Chief Financial Officer

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General Manager
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Operations

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General Manager
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Managing Director
Geographic Operations

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Franco Mariotti
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Microwave and Communications
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S. T. Jack Brigham III*
Vice President Corporate Affairs and
General Counsel

Douglas K. Carnahan*
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Measurement Systems Organization

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Vice President and General Manager
Components Group

Manuel F. Diaz
Vice President and General Manager
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Computer Systems Organization

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Vice President and General Manager
Medical Products Group

Dieter Hoehn
Vice President and General Manager
Analytical Products Group

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Vice President
Hewlett-Packard Company

Michael C. Leavell
Vice President and General Manager
Solutions Integration Group

Richard S. Love
Vice President and General Manager
Computer Systems Organization
Order Fulfillment and Manufacturing

Franz Nawratil
Vice President and
Managing Director
Europe, Africa and Middle East
Operations

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Personnel

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Vice President and General Manager
Worldwide Field Operations
Test and Measurement Organization

Charles W. Richion
Vice President and Manager
Global Partners
Computer Systems Organization

Richard C. Watts
Vice President and General Manager
Personal Information Products
Group

Lawrence Tomlinson
Treasurer

D. Craig Nordlund
Associate General Counsel
and Secretary

Ann O. Baskins
Assistant Secretary and
Managing Counsel

**Executive Officer under Section 16 of the Securities and Exchange Act of 1934*

†Retired from the Company effective December 16, 1994

Shareholder Information

Annual Meeting of Shareholders

The annual meeting will be held Tuesday, February 28, 1995, at 2 p.m. at Hewlett-Packard's Cupertino site located at 19447 Pruneridge Avenue, Cupertino, California.

Annual Report/Form 10-K

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 1994 Annual Report is available on audio cassette. This material can be obtained at no cost by contacting the Corporate Communications 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) 461-4061

Common Stock, Dividend Policy

The company's stock is traded on the New York Stock Exchange and the Pacific, Tokyo, London, Frankfurt, Zurich and Paris exchanges. Cash dividends have been paid each year since 1965. The current rate is $.30 per share per quarter. At November 30, 1994, there were 72,843 shareholders of record.

Corporate Information

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

Geographic Operations
Americas
5301 Stevens Creek Boulevard
Santa Clara, California 95052
Telephone: (408) 246-4300

Europe, Africa, Middle East
Route du Nant-d'Avril 150
CH-1217 Meyrin 2
Geneva, Switzerland
Telephone: (41/22) 780-8111

Asia Pacific
17-21/F Shell Tower
Times Square, 1 Matheson Street
Causeway Bay, Hong Kong
Telephone: (852) 599-7777

A directory of sales and support locations can be obtained from the Corporate Communications Department at HP's offices in Palo Alto.

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