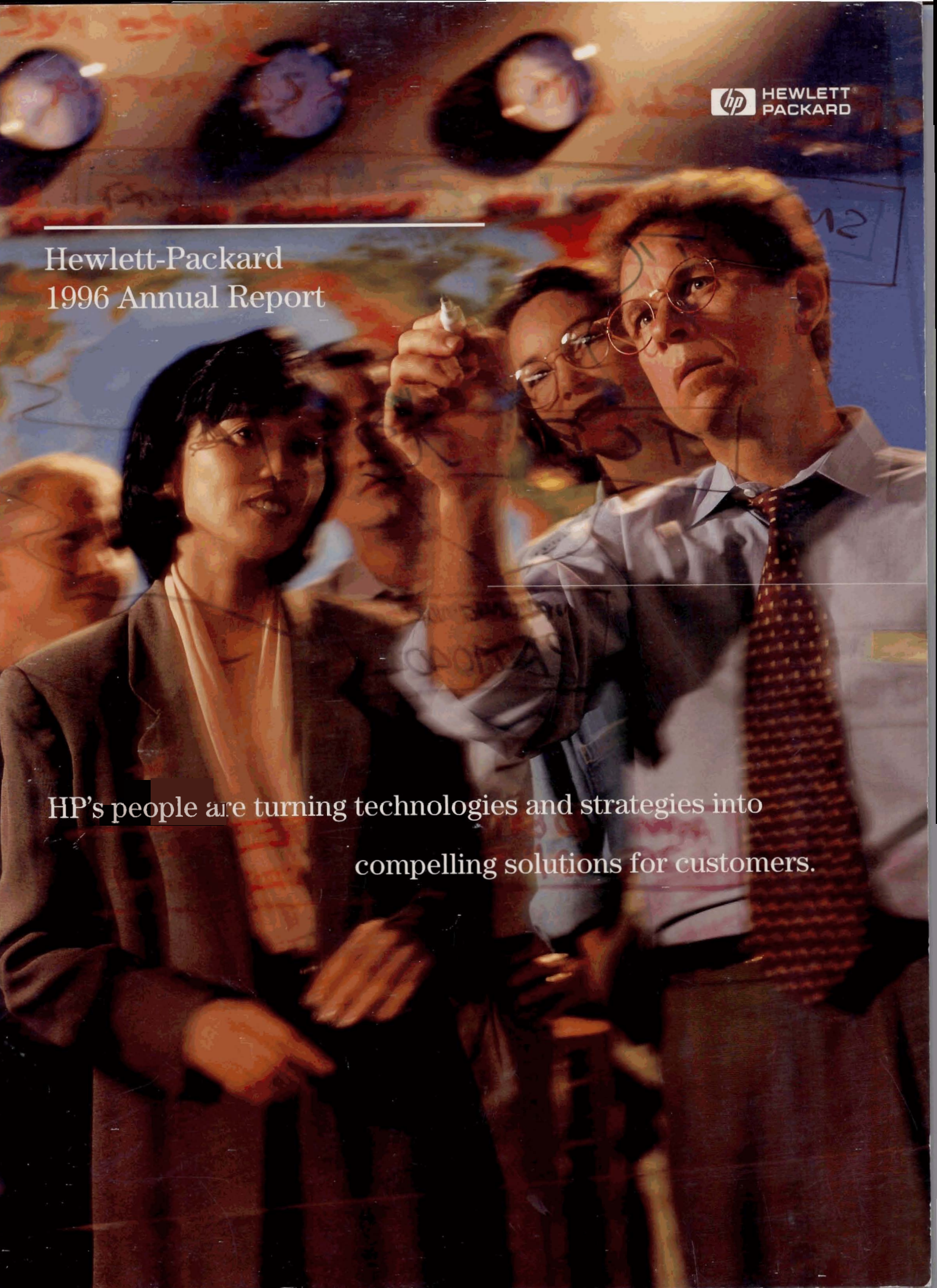

HEWLETT PACKARD
Hewlett-Packard
1996 Annual Report
HP's people are turning technologies and strategies into
compelling solutions for customers.

HP Computer Museum
www.hpmuseum.net

For research and education purposes only.

Corporate Profile

Hewlett-Packard Company designs, manufactures and services 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

Financial Highlights	1
Letter to Shareholders	2
Dave Packard: The Legacy Endures	6
Computer Organization	8
Test and Measurement Organization	16
Measurement Systems Organization	20
HP Laboratories	25
Citizenship	27
Financial Statements	28
Directors	55
Officers	56
Shareholder Information and Corporate Information	inside back cover

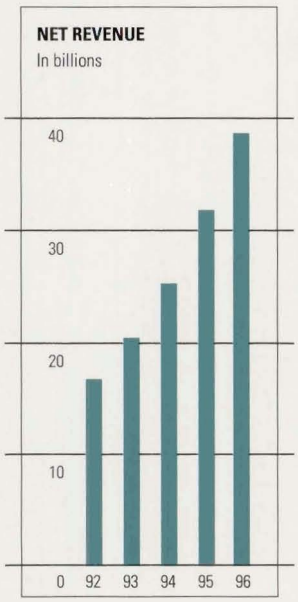
House

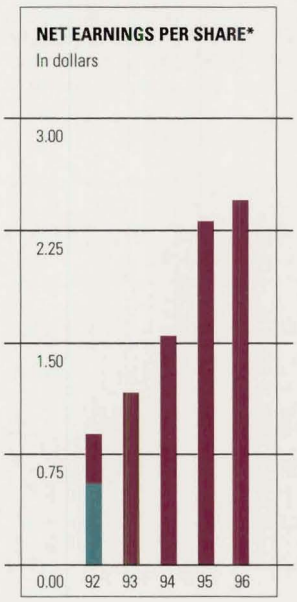
FINANCIAL HIGHLIGHTS

Computer Museum

Unaudited
For the years ended October 31
In millions except per share amounts and employees

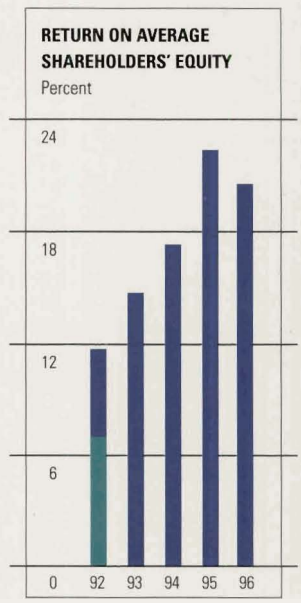
	1996	1995	Increase
Total orders	**$38,889**	$32,685	19%
Net revenue	**$38,420**	$31,519	22%
Earnings from operations	**$ 3,726**	$ 3,568	4%
Net earnings	**$ 2,586**	$ 2,433	6%
Net earnings per share, restated for 1996 stock split	**$ 2.46**	$ 2.31	6%
Return on assets	**9.3%**	10.0%	
Return on average equity	**20.3%**	22.3%	
At year-end:			
Shares outstanding	**1,014**	1,020	
Employees	**112,000**	102,300	





EPS
EPS including effect of accounting change

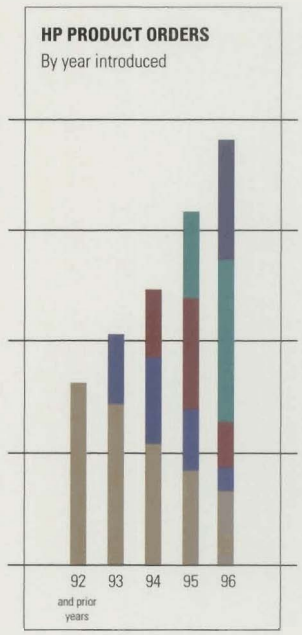
*Restated for 1996 stock split



ROE
ROE including effect of accounting change

TO OUR SHAREHOLDERS

Nineteen ninety-six was a year of reasonably good financial performance and important changes to prepare Hewlett-Packard for the future. In this year's annual report, the men and women who have overall responsibility for HP's businesses describe the key achievements and challenges in those businesses. I'd like to offer some context for those descriptions by reviewing the year's financial results, and by describing how we are positioning HP for long-term success.



HP thrives on new products. Each bar represents a year's orders, with the top section showing orders for products introduced that year. More than half of 1996's orders were for products introduced in the past two years.

Financial Performance Our results in 1996 were good in many respects. Our growth in orders and net revenue — 19 and 22 percent, respectively — was excellent. PC and UNIX® system servers, desktop PCs, service and support, and printers all achieved very good growth, which was driven by new products and services.

Despite good overall revenue growth, we achieved only a 6-percent increase in earnings compared with fiscal 1995, when earnings rose 52 percent. Our more moderate earnings growth this year reflects a challenging second half. Orders slowed significantly in the third quarter. While they rebounded nicely in the fourth quarter, the order weakness in the third quarter resulted in revenue growth for the second half that was below our plan. I'd like to describe some of the factors that were at work in this slowdown and how we responded to them.

In July, we announced that we would exit the disk-mechanism manufacturing business, which had been unable to achieve acceptable profitability for a number of years in an extremely competitive industry. This action reduced our reported order and revenue growth in the second half. We took writeoffs in the third quarter, and these charges, combined with operating losses in disk mechanisms, reduced earnings per share by 22 cents for the year.

Business conditions in some industries also affected second-half growth. An example was the semiconductor industry, where a slowdown reduced demand in our components and semiconductor-test businesses. In addition, growth in the third quarter was lower in part due to our decision to work with reseller channel partners, who sell printers and PCs, to bring their inventories to more manageable levels. We encouraged some channel partners to delay or cancel orders with us until they could work through existing inventories. This approach helped our results in the fourth quarter, when orders from the reseller channel grew nicely.

The downturn in the second half made it crucial for us to slow the growth of operating expenses as the year went on. When we began 1996, our plan

was to add resources to support the 20-plus percent growth we had achieved in each of the three prior years. As growth slowed, we adjusted our spending. We went from a 23-percent increase in operating expenses in the second quarter to 15 percent in the third quarter and 11 percent in the fourth quarter.

One key to this operating-expense outcome was a change in our hiring actions. We added about 3,000 people in each of the first two quarters, and hired approximately 2,400 people in the third quarter and 1,200 in the fourth quarter. However, the decline in operating-expense ratio that we achieved during the year didn't offset the increase in cost-of-sales ratio. As a result, both our operating- and net-profit margins, while still healthy, were lower than in 1995.

During 1996, we took important strides in our quest to pursue opportunities for long-term, profitable growth.

Positioning for the Future This year's financial results were the outcome of the "sprint" that HP runs every year in pursuit of our short-term goals. At the same time, we're running a "marathon" whose goal is to position our businesses to pursue opportunities for long-term, profitable growth. During 1996, we took important strides in this marathon.

In test and measurement (T&M), growth did not match the levels of 1995, in part because of T&M's difficult comparison with a very strong prior year. T&M's continuing emphasis on the communications marketplace, as well as its growing ability to offer consulting and training services, produced encouraging growth this year. In components, a highly cyclical business, a decline in orders from an outstanding 1995 reflected the "down" phase of the cycle. However, we believe this business is poised for growth when industry conditions improve.

In the Medical Products Group, we refocused our strategy to concentrate on the clinical side of the business, where we have been very successful. In addition, Chemical Analysis and T&M both exited a number of smaller businesses in order to redirect their resources to areas of greater opportunity.

Within the Computer Organization, we believe we have the ability to lead in many areas of next-generation computing. We expect this next era to be defined by the convergence of the PC world — a high-volume, price-sensitive world in which strong channel partnerships for distribution, marketing and support are crucial — with the enterprise-computing world, where reliability, robust performance and application availability are critical.

This convergence will create exciting opportunities for HP. In 1996, we took many actions to identify and pursue these opportunities. Our service and support businesses successfully introduced consulting, training and support

services designed to help customers bring these computing paradigms together. In addition, we fully internalized a computing strategy that is operating-system neutral. This meant that we continued to make substantial investments in next-generation UNIX, while, at the same time, we embraced Microsoft Windows® NT™ and worked with our database and application partners to maximize its performance.

We also pursued leadership in the next generation of microprocessor architectures. Our joint-development effort with Intel on the IA-64 architecture made excellent progress this year. During the year, Microsoft® and Compaq publicly endorsed our effort with Intel.

This year we also enhanced our strong programs and partnerships in both direct and indirect sales channels. Our progress was shown by the fact that, for the third time in five years, our direct sales force was rated best in the United States by *Sales and Marketing Manager* magazine. We also achieved top ranking in reseller satisfaction in numerous product categories during the year.

In 1996, we strengthened our presence and visibility in the Internet/intranet marketplace, where we see exciting opportunities for all of HP's businesses. We've developed a range of products and strategies that draw on our decade of experience with the Internet as well as with our own intranet, which is one of the world's largest and most effective. These products and strategies are based on our belief that the Internet and the World Wide Web are the early forms of an emerging information "utility," and that the Internet is about to become an important vehicle for the conduct of business.

We have ambitious goals in the Internet marketplace. The first is to be a leader in enabling the commercial use of the Internet. We are also building on our strength in printing and scanning to lead in Internet imaging. Finally, we want to leverage our competencies in test and measurement, network and systems management, and support to lead in measuring, monitoring and supporting the Internet.

We made progress on all these goals this year. As a leader in the industry effort to develop the International Cryptography Framework, we worked to address the key issue of security for Internet transactions. We brought our expertise in distributed measurement and network management, which has been so well received in the telecommunications market, to the Internet. Our service and support business expanded its Internet-related offerings in training, consulting and support.

We bring many strengths and ambitious goals to the Internet marketplace.

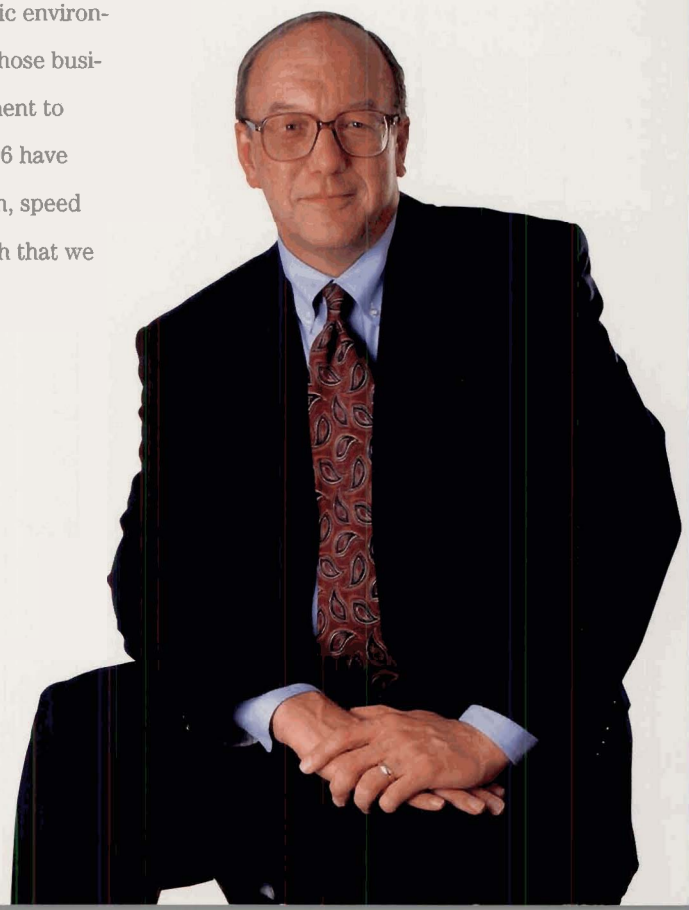
Remembering Dave Packard Our enthusiasm for these accomplishments and prospects was matched by our sadness following the death of co-founder Dave Packard on March 26. As the tribute to Dave in this year's report makes clear, his values and spirit are very much alive across the company.

For many of us at HP, Dave was our mentor, inspiration and our closest personal brush with greatness. He never wavered in his commitment to our customers, our employees, our communities, and to the conduct of business with richly informed common sense and uncompromising integrity. He struck an extremely rare balance among technical, business and humanitarian achievements, and his life will be an enduring source of guidance and inspiration for everyone at HP.

Business Outlook As fiscal 1997 begins, we bring many strengths to the highly competitive markets in which we operate. We have outstanding technologies, products, solutions and services, and we have strong new-product programs in place. Our channel partnerships are broad and successful. We have talented people who are committed to reaching our goals, and we have the financial strength needed to make appropriate investments in all these areas, which are important to our future success.

There are reasons for us to be cautious, as well. The macroeconomic environment is uncertain in some key markets. We have to rekindle growth in those businesses where it has been slow, and we expect the competitive environment to remain very demanding. We believe that the actions we took during 1996 have improved our ability to compete. We'll continue to emphasize innovation, speed and flexibility as we pursue the many opportunities for profitable growth that we see across the company.

Lew Platt
Chairman of the Board, President
and Chief Executive Officer
December 12, 1996

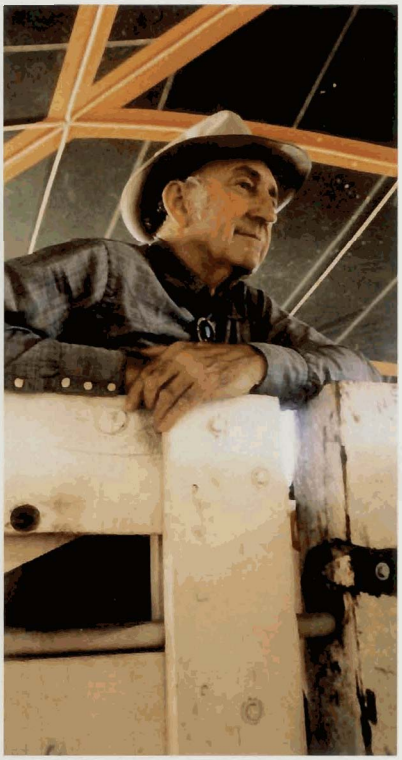


DAVE PACKARD: *The Legacy Endures*

Dave Packard, a modest man from Colorado, built a world-class company in collaboration with his best friend, Bill Hewlett. Together, they developed an innovative management philosophy known as the "HP way." Packard, a philanthropist, civil servant, sportsman and rancher, died on March 26, 1996, at age 83.

When asked in 1993 to reflect on his greatest achievements, Packard said, "I think you get the most satisfaction in trying to do something useful. After you've done that, you ought to forget about it and try to find something better to do."

We asked employees for their thoughts about how to keep Packard's legacy alive.



Dave Packard 1912-1996

"Respect, trust and encouragement"

What I learned through Dave and Bill's example was a passion for the HP way — the belief that people will do well, if given the right tools and resources and treated with respect, trust and encouragement. No matter what job I have at HP, there are always opportunities to keep the HP way alive.

Dore Thompson
Learning Technology Instructor
Roseville, California

"Commitment to quality is key"

I've kept a copy of a note from Packard that was distributed many years ago because it impressed me very much. He wrote, "If I hear of anyone refusing to reject a bad lot (of components) because it is needed on the (manufacturing) line, I will see that he is fired." That kind of commitment to quality is key to HP's success.

Siegfried Falk
Mechanical Engineering Manager
Boeblingen, Germany

Rebecca Maddex

"Concern for the environment"

Dave Packard's concern for the environment is reflected in HP's reputation as an environmentally conscious company. We continually seek to minimize the environmental impact of our manufacturing processes and to provide products that are environmentally sound throughout their life cycles.

Rebecca Maddex
Environmental Engineer
San Jose, California

"Great challenge"

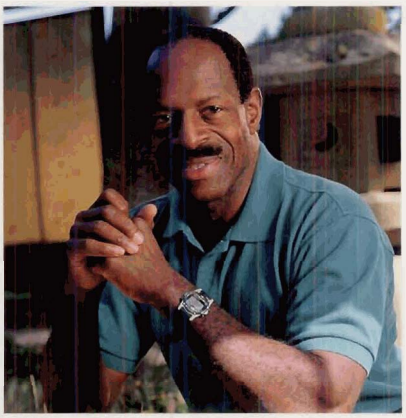
It is a great challenge to meet and exceed the standards that Dave and Bill set for customer satisfaction, but I have welcomed it every day for almost 16 years.

Chuck Fugee
Customer Consultant
Houston, Texas

"Equal opportunity"

I regret I never had the chance to meet Mr. Packard. If I had, I would have told him this: I am a disabled employee, and, because of his belief in equal opportunity, I have been able to live a very independent life in my 17 years at HP.

Louie Iniguez
Office Technology Coordinator
Palo Alto, California


Al Moye

"Building bridges"

One way we can carry on Dave's legacy is by furthering his goal of building bridges between industry and higher education. HP supports universities through philanthropy, serving on advisory boards and hiring graduates.

Al Moye
Director of HP University Affairs
Palo Alto, California

Ray Crispin

"Dave's commitment to innovation"

To continue Packard's commitment to innovation, we must never stop striving to understand and anticipate our customers' needs in a way that combines imagination with deep technical competence.

Ray Crispin
Lab Director
Bristol, England

"Give something back"

Dave believed companies should give something back to society. I've had the privilege of going to South America three times on medical mission trips where HP has donated cardiac-ultrasound equipment to pediatric hospitals in Ecuador. Programs like these keep Packard's values alive.

Carolyn Alexander
Clinical Marketing Specialist
Andover, Massachusetts

"Fast on our feet"

Though I didn't know Dave, I would bet that he would like all of us at HP to try to be just as fast on our feet as when the company was small, collaborating like two guys in a garage.

Warren Chism
Manufacturing Development Engineer
Corvallis, Oregon

"Keep things simple"

Dave's vision was to keep things simple; do what makes sense; trust your people; give them the freedom to perform. That's the HP way I have lived, and it's an honor to continue.

Paul F. Chermak
Asia Pacific Global Accounts Manager
Shinjuku, Japan

"Teamwork"

The HP way transcends cultural and geographical boundaries. Where you find an HP office, you'll find Dave's values of trust, teamwork and informality.

Cecilia Pang
Asia Pacific Communications Manager
Singapore

COMPUTER ORGANIZATION

"It was an exciting year in our computer business. We achieved strong growth, we delivered compelling products and technologies, and we greatly improved our ability to help customers harness the power of the 'Net."

Richard E. Belluzzo
HP Executive Vice President and General Manager, Computer Organization

The breadth of our computer businesses is a major advantage in serving customers, who range from the individual to the global enterprise.

COMPUTER SYSTEMS

"Advanced technology, innovative products and comprehensive solutions were the keys as we solidified our position as trusted advisor to enterprise customers."

Dick Watts

HP Vice President and

General Manager, Computer Systems

In our systems business, last year's formation of the Computer Organization began to pay dividends in 1996. We developed a more cohesive enterprise-computing strategy, and we delivered solutions that bring together our strengths in the technologies that are at the heart of today's computing systems — UNIX, Microsoft's Windows NT and the Internet.

We continued to invest in new versions of HP-UX, HP's UNIX operating system, to give customers better performance and more features for running business-critical applications. We disclosed plans to develop the next-generation UNIX with full 64-bit capabilities, to complement the next-generation microprocessor architecture we're developing jointly with Intel. During 1996, we also strengthened our relationship with Microsoft, as part of our strategy to lead the industry in supporting mixed computing environments. Microsoft announced support for the HP/Intel architecture as well as plans to work with us to develop system-management links between the HP OpenView family of network- and system-management products and Microsoft's Systems Management Server.

The Internet is a logical outgrowth of the open, client/server computing model we've been championing for years, and in 1996 we made progress in addressing this

Our new HP 9000 workstations and enterprise servers run on the 64-bit PA-8000 microprocessor, which uses several optimization techniques to provide outstanding system performance across the full range of customer applications.

opportunity. We formed an Internet Technology Group as well as an Enterprise Solutions Organization in order to accelerate the deployment of leading-edge information systems that include HP and third-party technologies.

We particularly emphasized security, which is a major concern for customers who want to conduct business on the Internet. For example, we're working with partners to develop "smart cards" that authenticate a person's identity. In addition, we made progress on encryption technology designed to address government export regulations. HP's technology would expand businesses' ability to conduct secure international transactions over the Internet while complying with the laws of national governments.

Our Praesidium Authorization Server guards against fraud by establishing a single set of access and usage rules that revolve around the user rather than residing on every system the user might access. Finally, our HP VirtualVault Web platform makes sure a person accesses only the information he or she is authorized to see. Our strength in Internet security enabled us to implement solutions for Security First Network Bank, the world's first Internet-only bank, as well as The Huntington National Bank, Gries & Heissel Bankiers in Germany and Novit in Norway.

The Internet was also a major focus for our Professional Services Organization (PSO), which launched its Internet Consulting Practice to provide training and education for customers who are bringing their businesses to the Internet. PSO also expanded its offering of workshops for customers who are implementing client/server architectures based on UNIX systems, Windows NT or a combination of operating systems. These and other efforts resulted in No. 1 rankings for HP in surveys of professional services offerings conducted by *Computerworld* and *Software* magazines.

The Professional Services Organization is helping Snap-on strengthen its leadership in the automotive aftermarket by integrating supply-chain management and improving the quality of data for decision support.

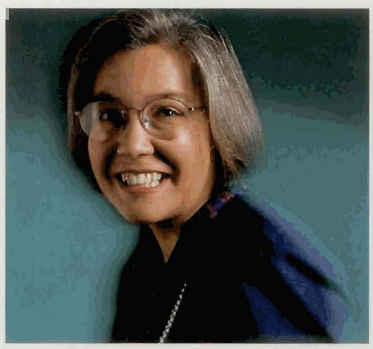
WORLDWIDE CUSTOMER SUPPORT OPERATIONS

"We expanded our sales and delivery of support through resellers, strengthened our ability to support mixed computing environments and teamed with customers to manage and operate their IT environments."

Ann Livermore

HP Vice President and General Manager, Worldwide Customer Support Operations

Ann Livermore



During 1996, Worldwide Customer Support Operations (WCSO) expanded HP's range of support services and attained strong customer-satisfaction ratings in industry surveys.

The reseller channel was a major focus for WCSO. We expanded our

efforts to combine our strengths in supporting distributed, enterprise computing with resellers' competitive cost structures and strong relationships with customers. An example was a program under which we contract, to selected resellers, the maintenance and support of multivendor PCs and peripherals for many of HP's largest customers. Later, we enhanced our HP SupportPack family of network-support services to enable resellers to complement their own support services.

We also strengthened our ability to support computing environments that include both UNIX systems and Microsoft Windows NT. We expanded our high-availability support for UNIX system customers. We are one of just three global support providers for NT,

"We needed HP's support for mission-critical environments because anything less than 100% system availability was no longer a choice."

— Mohammed I. Al Mansour
Arab National Bank

Motorcycle couriers in Korea are delivering repaired printers and PCs to customers just hours after the repair request comes in.

and this year we enhanced our NT services and increased the number of people who are dedicated to UNIX system/NT integration. We also worked with Microsoft on several R&D projects, including one effort focused on monitoring and managing the performance of NT environments.

The explosion of the Internet/intranet market created new opportunities in support this year. We became a worldwide support provider for Netscape products, and we provided intranet management and support for numerous accounts. For example, we're responsible for day-to-day management of Ford Motor Company's intranet, which connects some 20,000 users doing automotive design and engineering around the world. We also used the Internet to deliver information and services to customers. An example is HP's Software Update Manager, an Internet-based, free-of-charge tool that enables users of HP 9000 UNIX systems to review data on available application and software updates and to receive software updates via the Internet.

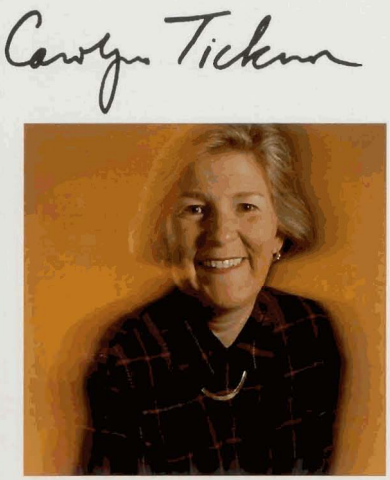
Another major emphasis in WCSO was helping customers gain control of their desktop environments. We leveraged HP's experience with our own PC Common Operating Environment, which now manages more than 100,000 desktops worldwide, to launch HP Enterprise Desktop Management Services. This comprehensive suite of services helps global enterprises plan, design, finance, implement, operate and maintain their distributed desktop environments. One such customer is Alcoa, for whom we are providing a wide range of desktop services focused on Microsoft Windows NT and the Microsoft BackOffice family of server software products. We also announced HP AssetView software, designed to help customers manage their assets by tracking those assets, as well as who is using them, how they are configured, what they cost and more.

We were pleased to receive top customer-satisfaction rankings this year in surveys conducted by *Computer Reseller News,* a leading industry publication, as well as by *Datamation* magazine and DataPro, an industry research firm.

LASERJET SOLUTIONS GROUP

"Our vision is to enable a seamless flow of information between paper and digital forms, from person to person and from device to device."

Carolyn Ticknor
HP Vice President and General Manager, LaserJet Solutions Group



The LaserJet Solutions Group saw solid, double-digit order increases this year. Our current strategic focus is to both pursue and enable a shift to "local printing," a trend with significant growth potential.

"Local printing" means printing documents locally in a workgroup or on a desktop rather than using centralized printing and copying. If this trend continues, most office staff will have their own desktop printers and scanners.

Networks have spurred the growth of "local printing," as they make documents immediately available to desktop users, who can view and then print them. This "distribute-then-print" process is far more effective than the "print-then-distribute" method that relies on physical mail distribution. Continuing to enhance our network-printer offerings, we recently introduced the HP LaserJet 5N printer, the first low-cost, network-optimized printer for workgroups.

Printing multiple copies of a document locally rather than copying an original many times maintains the original high print quality. It eliminates the extra trip to a more expensive departmental copier, saving time and money. We call this "mopying" (creating Multiple Original Prints) and recently developed the LaserJet 5Si printer, the world's first "mopier," featuring stapling, electronic collating

The world's first "mopier" eliminates trips to the copier, lowers overall costs and results in better-looking documents.

Computer Museum

and a "transmit-once" protocol to reduce network traffic.

As a complement to "local printing," scanning is now a fast, easy way to convert paper-based information into electronic information. The scanned object or text can be incorporated into a document or sent immediately to someone via the network, who can then print it locally. HP introduced the HP ScanJet 4Si scanner, the industry's first network scanner, this year.

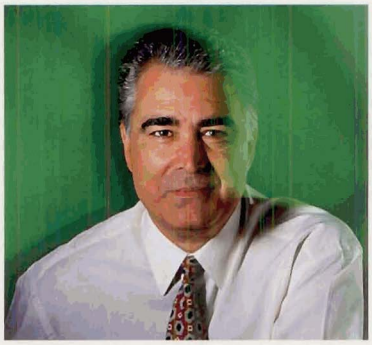
Office workers in the future "digital workplace" will increasingly rely on the Internet to send and retrieve information, much of which they will print locally. Readers will soon be able to receive many periodicals and books directly from the Internet and will print excerpts locally at their desktops. As well as fine-tuning our own applications, we are working with the World Wide Web Consortium and key players, such as Microsoft and Netscape, to greatly improve printing from the Internet.

INKJET PRODUCTS GROUP

"In 1996, we implemented a consumer operating model that substantially increased our market share. Next year our growth will come from developing new printing categories."

Antonio Perez

HP Vice President and General Manager, Inkjet Products Group



This year the inkjet printer business achieved very strong growth. We significantly increased our market share, and today HP DeskJet printers are the most popular printers in most major world markets. Our inkjet supplies business also enjoyed healthy growth.

We brought our home customers increased versatility and improved image quality at lower costs. The DeskJet 682C printer made card and banner printing possible. The DeskJet 690C printer was our first photo-quality printer. Our small-business customers responded favorably to our new Professional Series, DeskJet 820C and 870C printers. The DeskJet 820C is the first to use a new HP printing architecture that allows Windows users to print at higher speeds with reduced costs.

This year we also led a team of partners in developing FlashPix — an industry-standard photo-imaging file format. We worked with Live Picture, Inc. to apply this new

HP DesignJet large-format printers produce high-quality poster-sized output for use by advertising, graphic-design, legal-graphics and package-design firms to create presentations and indoor signage.

technology to make it easy for customers to view and print high-quality images from the Internet for the first time.

To manage our rapid growth, we changed some of our business processes this year — particularly in supply-chain management. We made significant investments in manufacturing capacity for silicon wafers, cartridges and printers, opening facilities in Ireland and China. We reorganized to increase our retail effectiveness. We developed new alliances with other major market leaders, such as Disney, Microsoft and Kodak, to produce innovative, world-class marketing programs.

While the market will remain very competitive this year, our business fundamentals remain as strong as ever. We believe that color use and imaging will continue their rapid growth and that the color speed and imaging quality of HP inkjet technology will make new applications possible. We are focusing on digital photography, Internet printing and personal color copiers — all of them with great growth potential.

DeskJet 680 series printers are perfect for creating banners, special-occasion cards and a variety of crafts, as well as for everyday family printing.

PERSONAL INFORMATION PRODUCTS GROUP

"This was a challenging, yet highly successful year for us in a product range spanning handheld and desktop computers, servers and networking products."

Duane Zitzner

HP Vice President and General Manager, Personal Information Products Group

HP's PC business made rapid gains again in 1996, particularly with the phenomenal growth in PCs and network servers. In fact, we took over the No. 2 position worldwide for sales of Intel-based servers. At the high end of the spectrum is the HP NetServer LX Pro system, the fastest machine in the industry and the first HP NetServer system based on the Intel Pentium® Pro processor. We introduced the LX Pro specifically for enterprise networks running business-critical applications. At the other end of the server line is a new product category we created, the HP NetServer E series, which is a "plug-and-forget" solution targeted at small-business customers, who typically don't have in-house MIS support.

Crédit Lyonnais, one of the largest banks in France, chose HP NetServer systems to run all of its financial transactions because of the equipment's performance, manageability and reliability.

In commercial desktop PCs, HP took over as the No. 3 supplier worldwide. We capitalized on the emerging X86/NT desktop market with the introduction of the Vectra XW personal workstation, the first NT workstation from a major PC vendor.

We also entered the small-business market this year with the Vectra 500 series PC. This Internet-ready product is aimed at small businesses that need productivity, uptime and communications capabilities in an affordable, out-of-the-box solution.

In the fast-growing mobile area, we announced plans to develop new handheld appliances based on Microsoft's new Windows CE operating system, and we enhanced our award-winning lightweight notebook family with the OmniBook 800 notebook PC line.

In one year's time, the HP Pavilion multimedia home PC has become one of the top five consumer PCs in the United States. The Pavilion also was the industry's first home PC with a built-in PhotoDrive color scanner, ideal for capturing, editing and cataloging family snapshots.

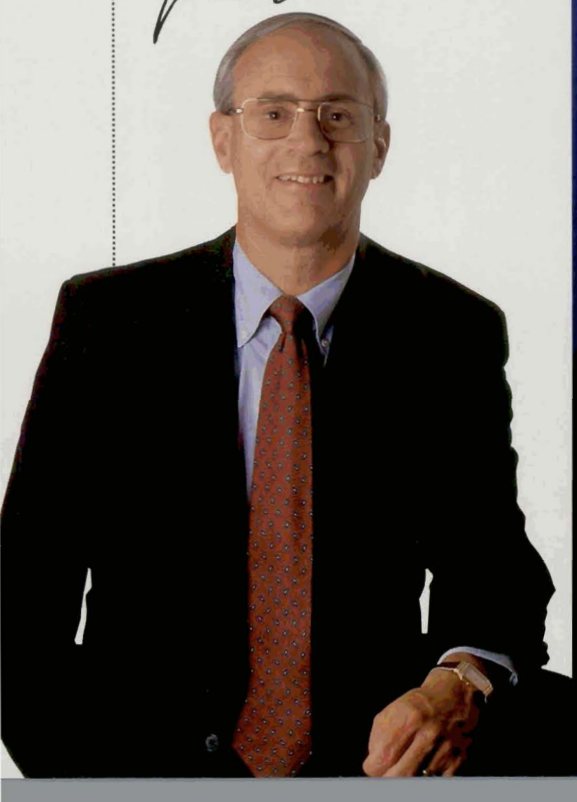
Our JetDirect hub, which allows customers to network printers, plotters and other peripherals, is the leader in its market, too. It's no surprise that HP is one of the fastest-growing PC vendors for the fourth straight year.

The Internet-ready family of HP Vectra 500 PCs is aimed at small businesses that need productivity, uptime and communications capabilities.

TEST AND MEASUREMENT ORGANIZATION

"We achieved very good results this year, in spite of a slowdown in several key markets. We are continuing to strengthen our leadership in our core businesses while leveraging our expertise to expand into new areas."

Edward W. (Ned) Barnholt
HP Executive Vice President and General Manager, Test and Measurement Organization



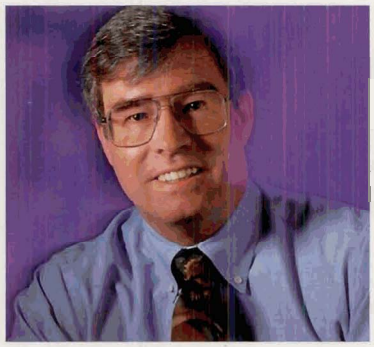
By applying our capabilities in design, test and measurement, we help customers improve their business results.

COMMUNICATIONS TEST SOLUTIONS GROUP

"We're helping telecommunications companies design, build and manage networks — equipping them to improve customer satisfaction, revenue growth and operating costs."

Byron Anderson

HP Vice President and General Manager, Communications Test Solutions Group

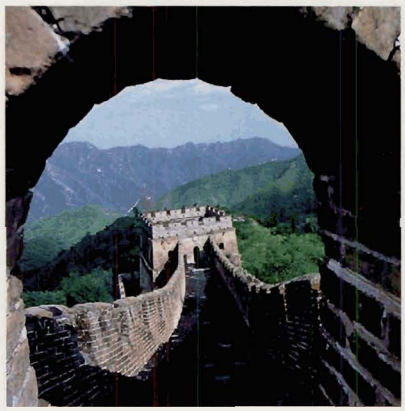


In 1996, telecommunications companies faced increased uncertainty stemming from deregulation and competition. Their reductions in capital spending somewhat moderated the growth of HP's Communications Test Solutions Group. Bright spots included products that help customers implement new, high-speed network technologies. HP estimates that more than three out of four companies that develop high-speed networks and equipment use HP test solutions.

Continuing to offer tools for emerging communications technologies, this year we introduced the industry's first solution to test compressed video streams. We also responded to telecom providers' changing needs for installation and maintenance tools. A new version of the HP Internet Advisor automates network trouble-shooting, enabling technicians to perform a wider variety of tasks with less training.

In addition, we helped customers use our network-management systems to do more than improve network performance. The HP acceSS7 system gathers real-time data on telecommunications network activity that can be "mined" to reduce unpaid calls, determine inter-carrier traffic and assess customer usage trends. The HP NetMetrix system extracts local-area-network data for capacity planning and to improve network security.

Bell Atlantic estimates that HP's acceSS7 network monitoring system will help the telecommunications service provider save millions of dollars now being lost due to unpaid calls.

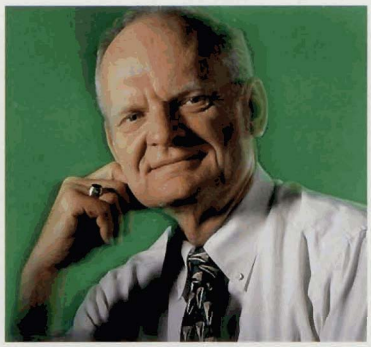


To support the rapid expansion of telecommunications in China, this year HP helped China Telecom establish its new Telecom Education Center for engineer training.

MICROWAVE AND COMMUNICATIONS GROUP

"We've had one of our best years ever, driven by strong acceptance of our test products for wireless communications."

Richard W. Anderson
HP Vice President and General Manager, Microwave and Communications Group

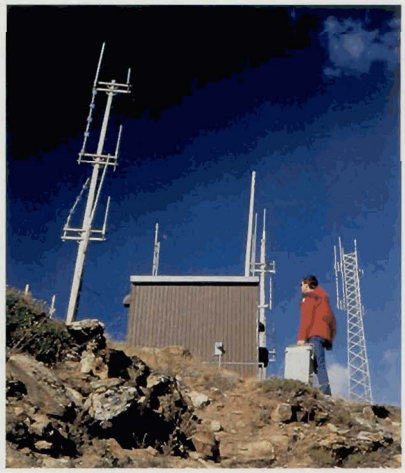


The Microwave and Communications Group's focus on the wireless communications market, initiated four years ago, continues to pay off. For example, we estimate that 85 percent of the world's GSM (Groupe Speciale Mobile) telephones are tested in manufacturing with HP instruments.

This year, orders were particularly strong from developing countries, as many of these nations work to establish wireless communication infrastructures.

We continued in 1996 to support emerging digital, wireless formats by introducing the industry's first instruments to test communications devices based on CDMA (Code Division Multiple Access) technology. We also introduced our first digital signal generator, which gives manufacturers exceptional testing flexibility.

In addition, we added capabilities to our system for testing radio-frequency integrated circuits — the ICs used in cellular phones. As these ICs become more complicated, manufacturers need more powerful test solutions. HP's system can test ICs in production volumes at higher frequencies than any other tester.

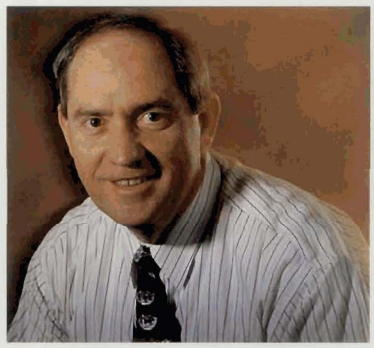


HP's cell-site test equipment, for the installation and maintenance of wireless base stations, uses automation to reduce test times.

AUTOMATED TEST GROUP

"More than ever, semiconductor and electronics manufacturers measure our contribution as 'time-to-money' — the fastest path to the lowest-cost solution. That's what we provide."

John E. Scruggs
HP Vice President and General Manager, Automated Test Group



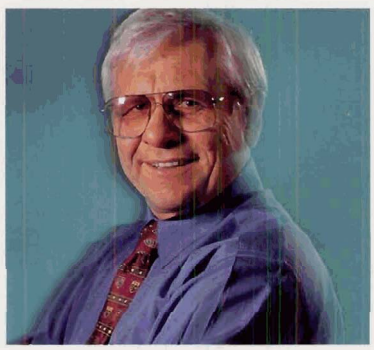
The explosive order growth HP's Automated Test Group achieved in 1994 and 1995 moderated in 1996, due to a cyclical downturn in the semiconductor manufacturing industry. However, we continued to grow at a fast clip in the Asia Pacific region, driven by exceptional demand for digital test systems.

ELECTRONIC INSTRUMENTS GROUP

> "We're moving beyond the traditional focus of our business — applying our test and measurement expertise in new ways to serve a broader customer base."

Thomas E. Vos

HP Vice President and General Manager, Electronic Instruments Group



This year, we introduced several new products to help our customers make productivity gains that speed time to market and lower the cost of test. For example, our new semiconductor parametric test system reduces test times by a factor of three, compared with the market-leading HP system it replaces.

In a program to strengthen long-term customer relationships, this year our consultants helped manufacturers get more out of their HP test systems. For example, working with HP, Oki Electric Industry Co., Ltd., a leading supplier of integrated circuits for communication devices, was able to significantly improve the accuracy of its test environment, thereby increasing product quality.

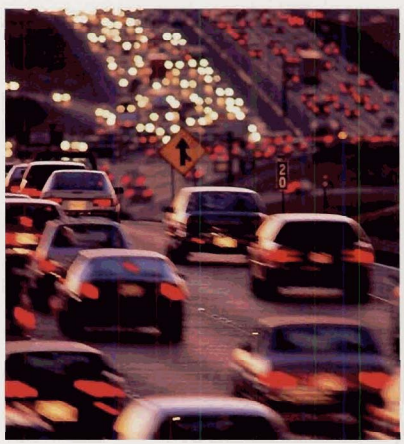
Motorola, Inc. says the use of HP test equipment is one important aspect of its ability to supply high-quality smart-card microcontrollers cost effectively.

This year, in addition to maintaining our position as the leading supplier of logic analyzers and other measurement tools for electrical engineers, the Electronic Instruments Group sought growth by leveraging its technologies in a number of areas.

We applied decades of experience in quartz technology and cesium time standards in a new way for the communications industry. Our timing-synchronization products enable networks to function with the higher levels of accuracy and reliability needed to deliver new digital services for voice, data and video communication.

We also introduced a new test platform for automotive-electronics manufacturers that customers say performs tests up to six times faster than their previous systems.

We increased our focus on meeting the needs of small electronics firms, where engineers often require multipurpose tools. Our new mixed-signal oscilloscope — which combines timing analysis and oscilloscope capabilities into one low-cost, easy-to-use instrument — was well received.



HP is helping the automotive industry speed time to market with tools such as HP's engine-emulation test platform.

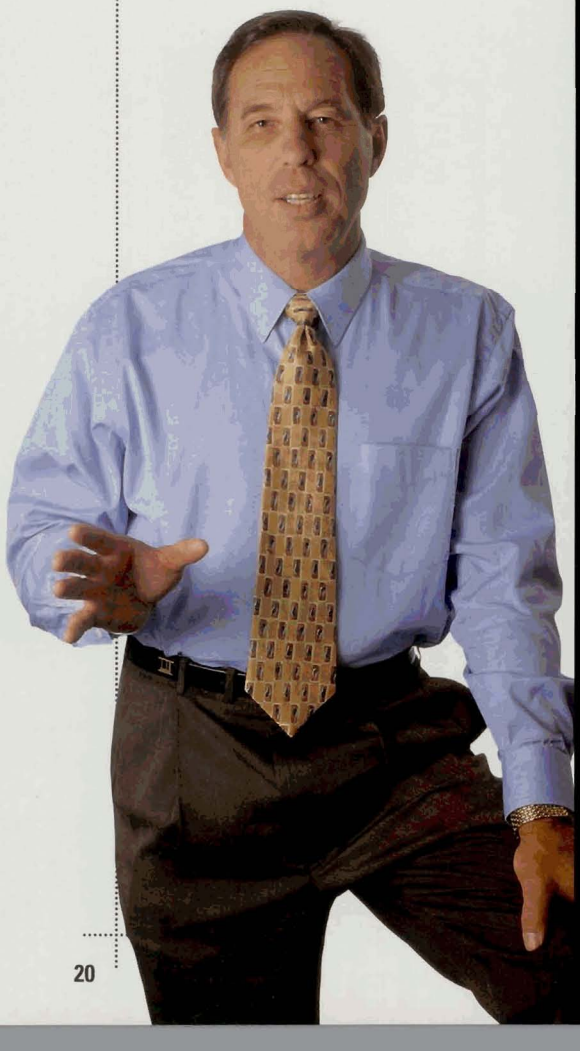
MEASUREMENT SYSTEMS ORGANIZATION

"We are selectively extending our core competencies into new markets with excellent potential for profitable growth."

Douglas K. Carnahan

HP Senior Vice President and General Manager, Measurement Systems Organization

Doug Carnahan



Our portable, lower-cost instruments and systems provide our customers with faster, more pervasive information-sharing capabilities.

COMPONENTS GROUP

"This year's introductions pave the way for next-generation products that are revolutionizing the processing, communication and display of information."

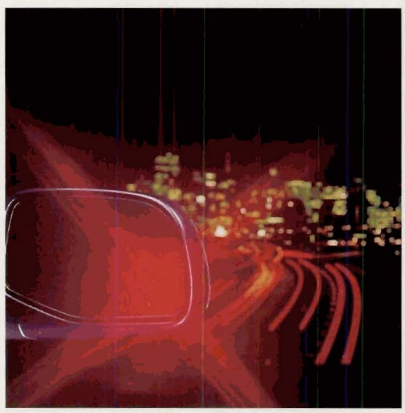
Bill Craven
HP Vice President and General Manager, Components Group

This year, the Components Group adjusted production timing and volume to match its cyclical market. As distributors and OEMs worked to reduce inventory, orders fell below the level of the 1995 surge. At the same time, our R&D efforts paid off with the introduction of more than 50 new products. Here are some highlights:

Small and inexpensive, our new high-speed infrared transceiver allows wireless data exchange in a wide range of portable computing applications — phones, computers, printers, cash registers, ATMs, digital cameras and more. Through a point-and-shoot connection of several feet, the new transceiver can be used in wireless cash exchange; accessing computer files, printers or e-mail; faxing; projecting electronic presentations; and transferring digital-camera images to a printer or PC.

We introduced a low-priced fiber-optic transceiver with gigabit-per-second speed for transmitting full-motion video and other multimedia. The product's low price positions it for use in mass storage and computer-system input/output channels, high-speed peripheral interfaces and computer networking equipment.

Our new SnapLED (light-emitting diode) assembly makes cost-effective, thin automotive-rear-lighting assemblies, which reduce design and manufacturing costs. By 1998, the rear lighting of more than 70 car models worldwide is expected to contain HP LEDs.



Signal Mirror technology from Muth Mirror Systems uses HP LEDs for high-visibility turn signals in exterior rearview mirrors.

MEDICAL PRODUCTS GROUP

"We're focusing on developing clinical devices and departmental information solutions for the ultrasound, resuscitation and patient-monitoring markets."

Cynthia P. Danaher

General Manager,

Medical Products Group

An expanding Asia Pacific customer base, a sluggish Americas marketplace and political pressures in Europe accounted for moderate overall growth this year. Responding to customers pressured to enhance quality and productivity but reduce costs, we focused on improving our clinical measurements to aid faster and more accurate decision-making.

To help drive open systems for healthcare, HP organized the Andover Working Group for Open Healthcare Interoperability. The Andover Group will define, develop and implement standards-based solutions for sharing information across the healthcare enterprise.

Extending our strong clinical-diagnostics focus, we introduced new software capabilities that predict heart attack probability, display 3-D cardiac images and manage multimedia cardiology data on a PC.

We plan to bring more clinical measurements to the patient's side as he or she moves along the continuum of care, through hospitals, clinics and physicians' offices. We will provide caregivers with powerful diagnostic solutions that meet their needs and will also address growth opportunities in the emerging home healthcare market.

Neonatal intensive-care units, where accuracy is critical and space is at a premium, are installing HP's new flat-screen monitors.

CHEMICAL ANALYSIS GROUP

"This year, our instrument systems again improved our customers' productivity by providing ever higher performance at a low cost."

Rick Kniss

General Manager,

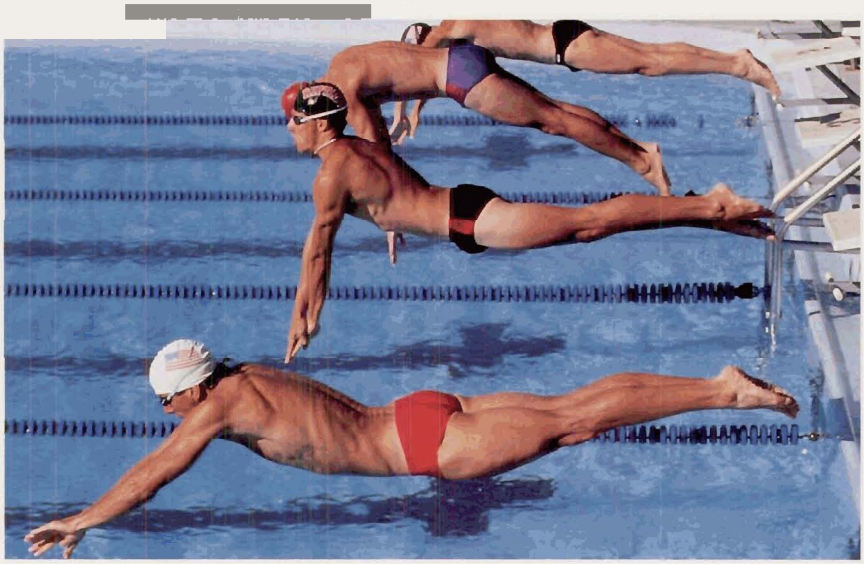
Chemical Analysis Group

Healthy demand in Europe and Asia Pacific offset a slump in the U.S. environmental, petrochemical and government sectors, resulting in relatively flat 1996 sales. Despite sluggish markets, we increased our market strength in liquid chromatography (LC).

While sales of HP's gas chromatography line, the worldwide market leader, are slowing in a mature market, orders for the new LC 1100 series grew by double digits. Various LC 1100 modules can be built into customized systems for specialized tasks — from routine analyses by less-skilled technicians to sophisticated R&D applications by highly trained research chemists.

More and more scientists and engineers will be involved in the drug-discovery industries, which will need fast, low-cost biotechnology innovations to replenish dwindling product pipelines. Using common platforms of molecular-recognition technology and informatics, we can offer the bioscience market a unique capability — the integration of diagnostics and therapeutics, from basic research through disease management.

We have expanded our focus to include systems and integrated information within our customers' labs — as well as products and instruments. We will concentrate on advances in distributed measurement (miniaturizing and mobilizing equipment for field use) and on Laboratory Information Management.

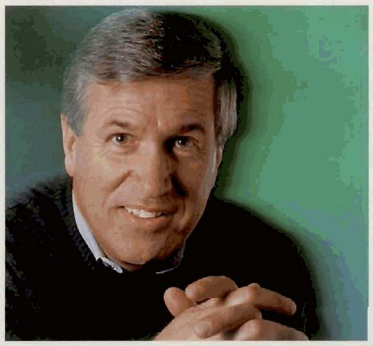


Remarkable for its high detection limits, an HP MSD benchtop mass spectrometer was used for drug testing at the '96 Olympics.

INFORMATION STORAGE GROUP

"It's been a year of tough realities and tough choices. We move forward with a sharper focus and real enthusiasm about the opportunities ahead."

Mike Matson
General Manager,
Information Storage Group



This year we decided to exit the disk-mechanism business because we lacked the volume to compete effectively in a consolidating industry. Thanks to concerted effort throughout the company, we were able to retain about 75 percent of the people affected by this decision. The remainder accepted severance incentives.

With this decision behind us, we are now focusing on the opportunities in extended storage — which are storage products managed directly by software, such as backup or archival applications. Our digital audio tape (DAT) products posted solid growth. We expanded distribution into the Japanese reseller channel with the introduction of the first fully localized HP SureStore DAT product. We also extended the HP SureStore family of network-backup solutions by offering two additional technologies for tape-based storage — Travan-based tape and digital linear tape (DLT).

We also expanded our line of library solutions to include a DLT-based product. The product we introduced this year leverages the same industry-leading robotics capabilities found in our optical "jukebox" libraries. These continue to be very popular with customers such as Chicago Title and Trust, which is moving its records to HP's optical jukeboxes to speed responsiveness to customer inquiries. We're also seeing encouraging customer acceptance of the HP SureStore CD-Writer, which we described in last year's report.

HP's family of network-backup products was expanded this year to include digital audio tape and digital linear tape, as well as Travan tape.

HEWLETT-PACKARD LABORATORIES

"We're working to develop disruptive technologies — breakthroughs that change the rules and create new businesses for HP."

Joel S. Birnbaum

HP Senior Vice President

Research and Development;

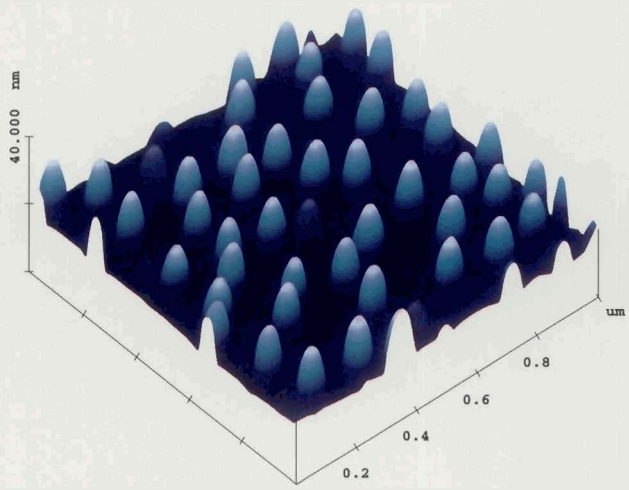
Director, HP Laboratories

HP Labs' mission is to lead HP in the creation of innovative information products and new business opportunities.

Since its formation in 1966, HP Labs has helped to fuel HP's growth through technology innovation. The HP-35 handheld scientific calculator, cardiac ultrasound imaging, thermal inkjet printing, RISC-based computing and telecoms management are just a few of the technologies pioneered at Labs that have become cornerstones of HP's businesses.

Today, more than 200 projects are under way at HP Labs' locations in Palo Alto, Bristol (England) and Tokyo. All seek to deepen and extend HP's core competencies in computation, measurement and communications.

Our computation program focuses on creating HP's future system, computer peripheral, silicon IC, software and multimedia technologies. In the measurement arena, research efforts range from materials and processing to electronic, medical and analytical measurements, as well as photonic and solid-state materials, components, manufacturing systems, distributed measurement systems and smart sensors. Communications research encompasses networked systems, telecommunications, distributed-computing platforms, mobile communications and digital-media appliances.



We are pursuing path-breaking work in the study of quantum structures, such as these germanium quantum dots grown on silicon, which could hold the key to creating memory and processor chips thousands of times more powerful than those of today.

As important as the technology HP provides is the vision that underlies it. Our vision is of a digital information utility that will make information truly pervasive. The Internet and the World Wide Web built upon it are the embryonic forms of this emerging utility. For HP Labs' researchers, the Internet is at once a tool and a testbed, providing fertile ground for exploring and identifying opportunities for HP. Next-generation computing platforms, measurement and management of the Internet, information appliances that connect to the 'Net, and Internet imaging and printing are some of the areas particularly well suited to HP's technology strengths.

HP Labs keeps its research efforts at the forefront through a rich web of partnerships. We maintain science centers at Technion-Israel Institute of Technology and the Newton Institute for Mathematical Sciences at Cambridge University, England. Our research alliances also extend to key business partners. For example, working with Intel, we are jointly developing the next generation of microprocessors that will be used by both companies. We expect this architecture, based on the Wide Word technology developed at HP Labs, to define the course of computing for the next decade.

At a time when most companies in our industry have reduced their research spending, HP has continued to increase its investments in the future. As a result, Labs is well-positioned to extend its 30-year record as HP's "innovation engine."

CITIZENSHIP

An active, global commitment to social progress strengthens HP's ability to compete and is the right way to conduct business as we approach the 21st century.

During 1996, HP and its employees worked in many ways to enrich communities, improve the quality of life and promote economic development around the world. This year, the company donated approximately $72 million in cash and equipment.

About 80 percent of this total went to education. Our emphasis on education took many forms. This year, we launched a pilot program called "Access the Internet," under which we will make grants of HP NetServer PC servers to enable teachers and students to use the Internet and the World Wide Web.

In the United States, we expanded our "hands-on science" grants to help teachers present science in creative and stimulating ways. By the end of 1996, this program involved more than 1,000 teachers and 150,000 students across the United States.

Educational outreach wasn't limited to the United States. For example, at a vocational high school outside Sao Paulo, Brazil, HP equipment, as well as volunteers from the local HP office, enabled the school to set up its first computer lab. The program also provides job experience for students as part-time employees at HP's Sao Paulo office.

Our philanthropy efforts in Asia Pacific accelerated sharply this year. We expanded our involvement in China, Korea, India, Taiwan and Japan. We made a significant grant of equipment, courseware and consulting to help Vietnam's National Program of Information Technology.

HP's "hands-on science" program reaches elementary school students and includes instructional resources, teacher training and HP volunteers.

The U.S. Environmental Protection Agency (EPA) named HP its "Printer Partner of the Year" in recognition of our printers' energy-efficiency features and our educational efforts in support of the EPA's ENERGY STAR program.

Our focus on the environment starts with rigorous attention to our own operations and products. For example, we evaluate environmental effects at the earliest stages of our product-generation process in order to conserve resources as well as prevent or minimize environmental impact. We're also working with outside suppliers and partners to develop products and processes that are environmentally sound. More than 100 of our PCs and other products have earned the U.S. Environmental Protection Agency's ENERGY STAR designation for energy conservation.

FINANCIAL STATEMENTS

Contents

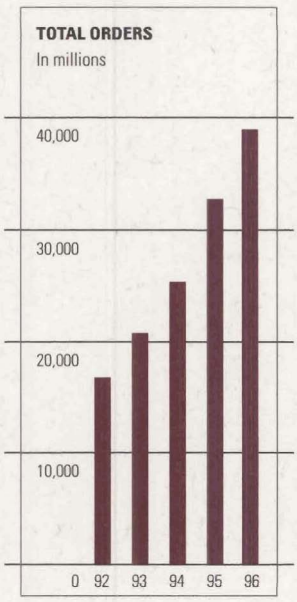
Selected Financial Data	29
Consolidated Statement of Earnings	30
Financial Review	31
Consolidated Balance Sheet	34
Consolidated Statement of Cash Flows	38
Consolidated Statement of Shareholders' Equity	39
Notes to Consolidated Financial Statements	40
Statement of Management Responsibility	52
Report of Independent Accountants	52
Orders and Net Revenue by Groupings of Similar Products and Services	53
Quarterly Summary	54

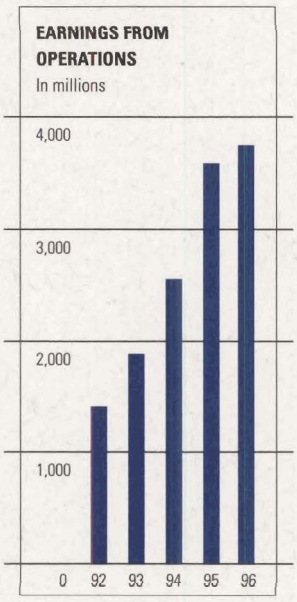
SELECTED FINANCIAL DATA

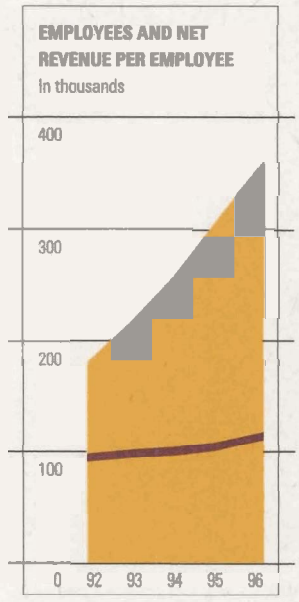
Unaudited

For the years ended October 31 In millions except per share amounts and employees	1996	1995	1994	1993	1992
U.S. orders	**$ 17,181**	$ 14,686	$11,692	$ 9,462	$ 7,569
International orders	**21,708**	17,999	13,658	11,310	9,192
Total orders	**$ 38,889**	$ 32,685	$25,350	$20,772	$16,761
Net revenue	**$ 38,420**	$ 31,519	$24,991	$20,317	$16,410
Earnings from operations	**$ 3,726**	$ 3,568	$ 2,549	$ 1,879	$ 1,404
Earnings, before effect of accounting change in 1992	**$ 2,586**	$ 2,433	$ 1,599	$ 1,177	$ 881
Net earnings	**$ 2,586**	$ 2,433	$ 1,599	$ 1,177	$ 549
Per share amounts, restated for 1996 stock split:					
Earnings, before effect of accounting change in 1992	**$ 2.46**	$ 2.31	$ 1.54	$ 1.16	$ .87
Net earnings	**$ 2.46**	$ 2.31	$ 1.54	$ 1.16	$ .55
Cash dividends	**$ .44**	$ .35	$ .275	$ .225	$ .18
At year-end:					
Total assets	**$ 27,699**	$ 24,427	$19,567	$16,736	$13,700
Long-term debt	**$ 2,579**	$ 663	$ 547	$ 667	$ 425
Employees	**112,000**	102,300	98,400	96,200	92,600

1992 results include an after-tax charge of $.32 per share for the cumulative effect of a change in accounting for retiree medical benefits.







CONSOLIDATED STATEMENT OF EARNINGS

For the years ended October 31 In millions except per share amounts	1996	1995	1994
Net revenue:			
Products	$33,114	$27,125	$21,380
Services	5,306	4,394	3,611
Total net revenue	38,420	31,519	24,991
Costs and expenses:			
Cost of products sold	22,013	17,069	13,012
Cost of services	3,486	2,945	2,478
Research and development	2,718	2,302	2,027
Selling, general and administrative	6,477	5,635	4,925
Total costs and expenses	34,694	27,951	22,442
Earnings from operations	3,726	3,568	2,549
Interest income and other, net	295	270	29
Interest expense	327	206	155
Earnings before taxes	3,694	3,632	2,423
Provision for taxes	1,108	1,199	824
Net earnings	$ 2,586	$ 2,433	$ 1,599
Net earnings per share	$ 2.46	$ 2.31	$ 1.54
Weighted average shares and equivalents outstanding	1,052	1,052	1,041

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

FINANCIAL REVIEW

Unaudited

Results of Operations

In 1996, HP continued its 20 percent-plus growth in revenue, adding almost $7 billion in revenue during the year. Order growth was strong as well, at 19 percent, and the company also made progress in reducing its operating-expense ratio. However, the first half of the year was stronger than the second half, in which order and revenue growth were reduced by various factors including inventory adjustments in the reseller channel and the company's decision to exit disk-mechanism manufacturing in the third quarter. As a result, full-year operating- and net-profit margins were lower than in 1995, and net earnings growth was 6 percent, compared with 52 percent in 1995.

HP's orders increased 19 percent over 1995 to $38.9 billion, compared with a 29 percent increase in 1995. Slower, but still very healthy growth rates, in the company's computer businesses, representing approximately 80 percent of HP's orders, were key factors in the order growth from 1995. Geographically, domestic and international orders grew 17 and 21 percent, respectively, compared to growth of 26 percent and 32 percent, respectively, in the prior year.

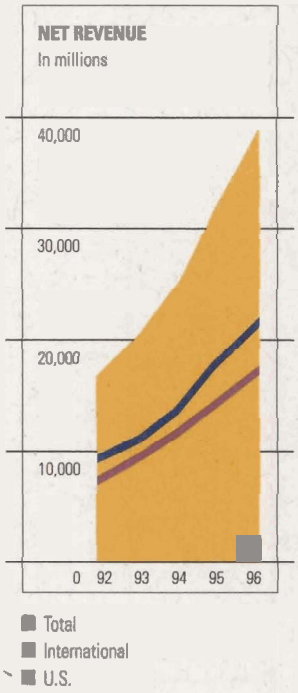
Net revenue grew 22 percent both in the U.S. and internationally in 1996 to $17.0 billion and $21.4 billion, respectively, following increases of 22 percent in the U.S. and 30 percent internationally in 1995. Currency unfavorably impacted the international growth rate as the dollar strengthened in 1996.

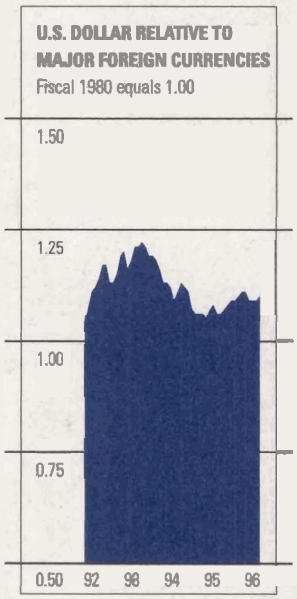
Net revenue from product sales increased 22 percent, compared with 27 percent in 1995. The sustained increase in net revenue, while lower than in 1995, primarily reflects the company's continued success in technological innovation and rapid time to market with new products.

Shipments of the company's computer and peripheral products, such as the HP Vectra and Pavilion PCs, HP NetServer PC servers, multiuser UNIX systems, and HP's families of DeskJet and LaserJet printers, continued strong in 1996. As in 1995, strong unit volume growth was driven primarily by new product introductions. In addition, intense competition contributed to declines in the average selling price for many of these products. As a result, unit volume growth outpaced revenue growth. Sales of consumable supplies for the company's printer products increased strongly this year, reflecting increased printer usage and a larger installed base.

Revenue growth in the company's non-computer businesses was slowed by various industry-specific factors during the year, including weakness in the markets for components and semiconductor-test equipment. Information on orders and net revenue by groupings of similar products and services is presented on page 53 of this report.

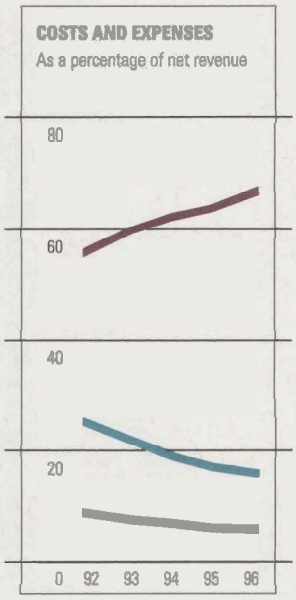
Services such as systems integration, selective-outsourcing management, consulting, education, product financing and rentals, as well as hardware and software support and maintenance, are an integral part of the company's offerings. Net revenue from services grew 21 percent, compared with 22 percent in 1995. During 1996 and 1995, service and support





FINANCIAL REVIEW

Unaudited



Cost of products sold and services
Selling, general and administrative
Research and development

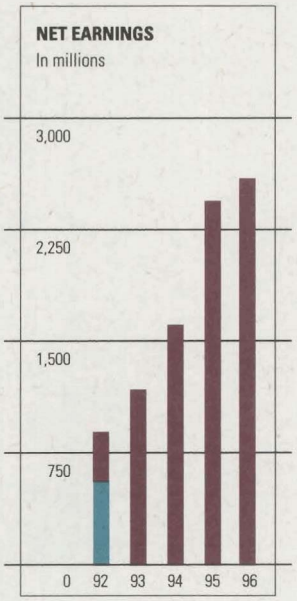
revenue continued to grow with the increase in the installed base, higher leasing revenue and the continued success of the professional services businesses.

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

For the years ended October 31	1996	1995	1994
Cost of products sold and services	**66.4%**	63.5%	62.0%
Research and development	**7.1%**	7.3%	8.1%
Selling, general and administrative	**16.8%**	17.9%	19.7%
Earnings from operations	**9.7%**	11.3%	10.2%
Net earnings	**6.7%**	7.7%	6.4%

During 1996, cost of products sold and services as a percentage of net revenue was 66.4 percent, an increase of 2.9 percentage points, compared with a 1.5 percentage point increase in 1995. Intense price competition affected product revenues and resulted in reduced gross profit margins. Additionally, the continued shift in the mix of products sold towards lower gross-margin, high-volume product families, as well as costs associated with the stream of new-product introductions, helped drive both the 1996 and 1995 increases in cost of sales. These factors are likely to continue to put some upward pressure on the cost of sales ratio.

Pretax charges of approximately $135 million due to the exit from disk-mechanism manufacturing, and the related operating losses in that business, also contributed to the overall increase in the cost of sales ratio over the year-ago period. Cost of products sold and services as a percentage of net revenue would have been 65.5 percent for 1996 without these factors.



Net earnings
Net earnings including effect of accounting change

Research and development expenditures increased 18 percent in 1996 to $2.7 billion, versus 14 percent growth and expenditures of $2.3 billion in 1995. The ongoing increase in spending on research and development reflects the company's belief that success in a global marketplace requires a continuing flow of innovative, high-quality products. Selling, general and administrative expenses grew 15 percent in 1996 and 14 percent in 1995. This growth was due largely to increased selling costs related to order and revenue growth, and increased advertising and marketing costs associated with the company's growing presence in high-volume, consumer-oriented businesses. Both research and development and selling, general and administrative expenses decreased as a percentage of net revenue in 1996 and 1995, which reflects the growth of the net revenue base in both years. These decreases also reflect the company's focused management of operating-expense growth, which was most evident in the second half of 1996 when the company quickly adjusted to slowing order and revenue growth.

Interest income and other, net was $295 million in 1996, compared with $270 million in 1995 and $29 million in 1994. The increased levels in 1996 and 1995 are primarily due to increased earnings on cash and other investments, increased income from equity investees, and gains on sales of real estate and other assets. Interest expense was $327 million in 1996, compared with $206 million in 1995 and $155 million in 1994, reflecting increasing levels of debt outstanding, as well as interest rate changes during the respective periods.

FINANCIAL REVIEW

Unaudited

The company's effective tax rate was 30 percent in 1996, compared with 33 percent in 1995 and 34 percent in 1994. A combination of factors led to the decreases, including continued shifts in the geographical composition of earnings and resolution of certain issues related to tax returns filed in previous years.

Net earnings increased 6 percent to $2.6 billion in 1996. This compares with a 52 percent increase in 1995 and a 36 percent increase in 1994. As a percentage of net revenue, net earnings were 6.7 percent in 1996, compared with 7.7 percent in 1995 and 6.4 percent in 1994. Net earnings growth for 1996 would have been higher without the effects of the company's exit from disk-mechanism manufacturing.

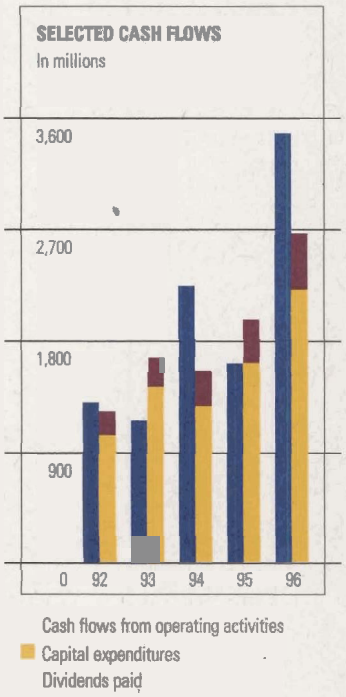
Financial Condition and Liquidity

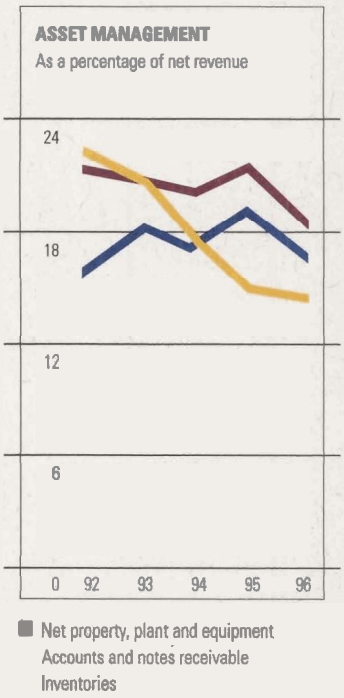
HP's financial position remains strong, with cash and cash equivalents and short-term investments of $3.3 billion at October 31, 1996, and $2.6 billion at October 31, 1995. In addition, other long-term investments, relatively low levels of debt compared to assets, and a large equity base continue to demonstrate the company's financial flexibility.

Operating activities generated $3.5 billion in cash in 1996, compared with $1.6 billion and $2.2 billion in 1995 and 1994, respectively. The increase in cash generated from operations in 1996 compared with 1995 is primarily due to substantially reduced receivables and inventory growth. Receivables as a percentage of net revenue decreased to 18.5 percent at October 31, 1996, from 21.4 percent a year ago, while inventories as a percentage of net revenue decreased to 16.7 percent from 19.1 percent. Slowing revenue growth in the second half of the year contributed to these declines. The company's efforts to enhance processes, with a focus on improving asset utilization and supply-chain management in order to accommodate shorter product life cycles and rapid product ramps, were also a factor in the improvements of these ratios.

Capital expenditures in 1996 were $2.2 billion, compared with $1.6 billion and $1.3 billion in 1995 and 1994, respectively. The increases in capital expenditures relate primarily to expansion of production capacity to accommodate higher volumes and the introduction of new products, but also reflect increasing expenditures to support growth in the company's leasing business.

The company invests excess cash in short- and long-term investments, depending on its projected cash needs for operations, capital expenditures and other business purposes. Additionally, the company from time to time supplements its internally generated cash flow with a combination of short- and long-term borrowings. Recent changes in tax laws in Puerto Rico have resulted in the company liquidating a substantial portion of its short-term investments there and using the cash to pay down notes payable and short-term borrowings. Long-term debt has increased, however, as it is utilized to support increased investments in the company's lease portfolio and to finance interest-bearing assets. Cash flow from net changes in debt structure resulted in net borrowings of $811 million in 1996 compared





CONSOLIDATED BALANCE SHEET

October 31 In millions except par value and number of shares	1996	1995
Assets		
Current assets:		
Cash and cash equivalents	**$ 2,885**	$ 1,973
Short-term investments	**442**	643
Accounts and notes receivable	**7,126**	6,735
Inventories:		
Finished goods	**3,956**	3,368
Purchased parts and fabricated assemblies	**2,445**	2,645
Other current assets	**1,137**	875
Total current assets	**17,991**	16,239
Property, plant and equipment:		
Land	**475**	485
Buildings and leasehold improvements	**4,257**	3,810
Machinery and equipment	**5,466**	4,452
	10,198	8,747
Accumulated depreciation	**(4,662)**	(4,036)
	5,536	4,711
Long-term investments and other assets	**4,172**	3,477
Total assets	**$27,699**	$24,427
Liabilities and shareholders' equity		
Current liabilities:		
Notes payable and short-term borrowings	**$ 2,125**	$ 3,214
Accounts payable	**2,375**	2,422
Employee compensation and benefits	**1,675**	1,568
Taxes on earnings	**1,514**	1,494
Deferred revenues	**951**	782
Other accrued liabilities	**1,983**	1,464
Total current liabilities	**10,623**	10,944
Long-term debt	**2,579**	663
Other liabilities	**1,059**	981
Commitments and contingencies		
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: 2,400,000,000 shares; issued and outstanding: 1,014,123,000 in 1996 and 1,019,910,000 in 1995)	**1,014**	1,381
Retained earnings	**12,424**	10,458
Total shareholders' equity	**13,438**	11,839
Total liabilities and shareholders' equity	**$27,699**	$24,427

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

FINANCIAL REVIEW

Unaudited

with $857 million and $155 million in 1995 and 1994, respectively. At October 31, 1996, the company had various uncommitted borrowing arrangements in place with borrowing capacity totaling $4.6 billion.

The company split its stock on a 2-for-1 basis effective June 21, 1996, following a similar split in March of last year. All share and per share amounts have been restated to reflect the retroactive effect of this split. Shares are repurchased periodically to manage the dilution created by shares issued under various employee stock plans. In 1996, 24.6 million shares were repurchased at an aggregate price of $1,089 million. In 1995, 20.8 million shares were repurchased for $686 million and in 1994, 16.1 million shares were repurchased for $325 million. Additional stock repurchases, based on certain price and volume criteria, are periodically authorized by the Board of Directors.

Factors That May Affect Future Results

HP's future operating results may be adversely affected if the company is unable to continue to rapidly develop, manufacture and market innovative products and services that meet customer requirements. The process of developing new high technology products and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. The company then must make long-term investments and commit significant resources before knowing whether its predictions will eventually result in products that achieve market acceptance. After a product is developed, the company must quickly ramp manufacturing in sufficient volumes at acceptable costs.

This is a process that requires accurate forecasting of volumes, mix of products and configurations. Moreover, the supply and timing of a new product or service must match the customers' demand and timing for those particular products or services. Given the wide variety of systems, products and services the company offers, the process of planning production and managing inventory levels becomes increasingly difficult.

Inventory management has also become increasingly complex as the company continues to sell a greater mix of products, especially printers and personal computers, through third-party distribution channels. Resellers constantly adjust their ordering patterns in response to the company's, and its competitors', supply into the channel and the timing of their new product introductions and relative feature sets, as well as seasonal fluctuations in end-user demand such as the back-to-school and holiday selling periods. Resellers may increase orders during times of shortages, cancel orders if the channel is filled with currently available products, or delay orders in anticipation of new products. Any excess supply could result in price reductions and inventory writedowns, which in turn could adversely affect the company's gross margins.

The short life cycles of many of the company's products pose a challenge for the effective management of the transition from existing products to new products and could adversely affect the company's future operating results. Product development or manufacturing

FINANCIAL REVIEW

Unaudited

delays, variations in product costs, and delays in customer purchases of existing products in anticipation of new product introductions are among the factors that make a smooth transition from current products to new products difficult. In addition, the timing of competitors' introductions of new products and services may negatively affect the future operating results of the company, especially when these introductions coincide with periods leading up to the company's own introduction of new or enhanced products. Furthermore, some of the company's own new products replace or compete with others of the company's current products.

Portions of the company's manufacturing operations are dependent on the ability of suppliers to deliver components, subassemblies and completed products in time to meet critical manufacturing and distribution schedules. The company periodically experiences constrained supply of certain component parts in some product lines as a result of strong demand in the industry for those parts. Such constraints, if persistent, may adversely affect the company's operating results until alternate sourcing could be developed. In order to secure components for production and introduction of new products, the company frequently makes advance payments to certain suppliers, and often enters into noncancelable purchase commitments with vendors for such components. Volatility in the prices of these component parts, the possible inability of the company to secure enough components at reasonable prices to build new products in a timely manner in the quantities and configurations demanded or, conversely, a temporary oversupply of these parts, could adversely affect the company's future operating results.

The company continues to expand into third-party distribution channels to accommodate changing customer preferences. As a result, the financial health of these resellers, and the company's continuing relationships with them, become more important to the company's success. Some of these companies are thinly capitalized and may be unable to withstand changes in business conditions. The company's financial results could be adversely affected if the financial condition of these resellers substantially weakens or the company's relationship with such resellers deteriorates.

Sales outside the United States make up more than half of the company's revenues. In addition, a portion of the company's product and component manufacturing, along with key suppliers, are located outside the United States. Accordingly, the company's future results could be adversely affected by a variety of factors, including changes in foreign currency exchange rates, changes in a specific country's or region's political or economic conditions, trade protection measures, import or export licensing requirements, the overlap of different tax structures, unexpected changes in regulatory requirements and natural disasters.

As a matter of course, the company frequently engages in discussions with a variety of parties relating to possible acquisitions, strategic alliances, joint ventures and divestitures. Although the consummation of any transaction is unlikely to have a material effect on the

FINANCIAL REVIEW

Unaudited

Computer Museum

company's results as a whole, the implementation or integration of the transaction may contribute to the company's results differing from the investment community's expectation in a given quarter. Divestitures may result in the cancellation of orders and charges to earnings. Acquisitions and strategic alliances may require, among other things, integration or coordination with a different company culture, management team organization, and business infrastructure. They may also require the development, manufacture and marketing of product offerings with the company's products in a way that enhances the performance of the combined business or product line. Depending on the size and complexity of the transaction, successful integration or implementation depends on a variety of factors, including the hiring and retention of key employees, management of geographically separate facilities, and the integration or coordination of different research and development and product manufacturing facilities. All of these efforts require varying levels of management resources, which may temporarily adversely impact other business operations.

A portion of the company's research and development activities, its corporate headquarters, other critical business operations and certain of its suppliers are located near major earthquake faults. The ultimate impact on the company, its 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.

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. The liability for environmental remediation and related costs is accrued when it is considered probable and the costs can be estimated. Environmental costs are presently not material to the company's operations or financial position.

Although the company believes that it has the product offerings and resources needed for continuing success, future revenue and margin trends cannot be reliably predicted and may cause the company to adjust its operations. The company's stock price, like that of other technology companies, is subject to significant volatility. The announcement of new products, services or technological innovations by the company or its competitors, quarterly variations in the company's results of operations, changes in revenue or earnings estimates by the investment community and speculation in the press or investment community are among the factors affecting the company's stock price. In addition, the stock price may be affected by general market conditions and domestic and international macroeconomic factors unrelated to the company's performance. Because of the foregoing reasons, recent trends should not be considered reliable indicators of future stock prices or financial results.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended October 31 In millions	**1996**	1995	1994
Cash flows from operating activities:			
Net earnings	**$ 2,586**	$ 2,433	$ 1,599
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**1,297**	1,139	1,006
Deferred taxes on earnings	**(284)**	(102)	(156)
Changes in current assets and liabilities:			
Accounts and notes receivable	**(293)**	(1,696)	(848)
Inventories	**(356)**	(1,740)	(582)
Accounts payable	**(55)**	956	243
Taxes on earnings	**102**	180	320
Other current assets and liabilities	**553**	663	585
Other, net	**(94)**	(220)	57
Net cash provided by operating activities	**3,456**	1,613	2,224
Cash flows from investing activities:			
Investment in property, plant and equipment	**(2,201)**	(1,601)	(1,257)
Disposition of property, plant and equipment	**316**	294	291
Purchase of short-term investments	**(6,652)**	(3,191)	(2,758)
Maturities of short-term investments	**7,074**	3,669	2,392
Purchase of long-term investments	**(734)**	(308)	(332)
Maturities of long-term investments	**—**	—	47
Acquisitions, net of cash acquired	**—**	—	(62)
Other, net	**22**	(38)	69
Net cash used in investing activities	**(2,175)**	(1,175)	(1,610)
Cash flows from financing activities:			
Change in notes payable and short-term borrowings	**(1,137)**	755	250
Issuance of long-term debt	**1,989**	434	64
Payment of current maturities of long-term debt	**(41)**	(332)	(159)
Issuance of common stock under employee stock plans	**363**	361	300
Repurchase of common stock	**(1,089)**	(686)	(325)
Dividends	**(450)**	(358)	(280)
Other, net	**(4)**	4	4
Net cash (used in) provided by financing activities	**(369)**	178	(146)
Increase in cash and cash equivalents	**912**	616	468
Cash and cash equivalents at beginning of year	**1,973**	1,357	889
Cash and cash equivalents at end of year	**$ 2,885**	$ 1,973	$ 1,357
Supplemental cash flow disclosures:			
Income taxes paid, net	**$ 1,159**	$ 1,058	$ 626
Interest paid	**$ 267**	$ 187	$ 143

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	Common stock: Par value and capital in excess of par	Retained earnings	Total
Balance October 31, 1993	1,010,852	$ 1,447	$ 7,064	$ 8,511
Employee stock plans:				
Shares issued	24,568	421	—	421
Shares repurchased	(16,112)	(325)	—	(325)
Dividends	—	—	(280)	(280)
Net earnings	—	—	1,599	1,599
Balance October 31, 1994	1,019,308	1,543	8,383	9,926
Employee stock plans:				
Shares issued	21,392	524	—	524
Shares repurchased	(20,790)	(686)	—	(686)
Dividends	—	—	(358)	(358)
Net earnings	—	—	2,433	2,433
Balance October 31, 1995	1,019,910	1,381	10,458	11,839
Acquisition via immaterial pooling	3,056	137	(162)	(25)
Employee stock plans:				
Shares issued	15,737	577	—	577
Shares repurchased	(24,580)	(1,081)	(8)	(1,089)
Dividends	—	—	(450)	(450)
Net earnings	—	—	2,586	2,586
Balance October 31, 1996	**1,014,123**	**$ 1,014**	**$12,424**	**$13,438**

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

NOTES TO CONSOLIDATED 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.

Use of estimates The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses reported for the periods presented. The company regularly assesses these estimates and, while actual results may differ, management believes that the estimates are reasonable.

Revenue recognition Revenue from product sales is generally recognized at the time the product is shipped, with provisions established for price protection programs and for estimated product returns. Upon shipment, the company also provides for the estimated cost that may be incurred for product warranties and post-sales support. Service revenue is recognized over the contractual period or as services are rendered and accepted by the customer.

Advertising Advertising costs are expensed as incurred and amounted to $999 million in 1996, $830 million in 1995, and $686 million in 1994.

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 Net earnings per share is computed using the 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.

Cash equivalents and short-term investments The company has classified investments as cash equivalents if the original maturity of such investments is three months or less. Short-term investments are principally comprised of 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.

Long-term investments The company's investments are primarily comprised of debt securities which are held-to-maturity.

Employee stock compensation The company accounts for its employee stock compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," which is effective for fiscal year 1997. Under SFAS 123 companies may elect, but are not required, to use a fair value methodology to recognize compensation expense for all stock-based awards. In fiscal 1997, the company will implement the disclosure-only provisions of SFAS 123.

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, property, plant and equipment, other assets and deferred revenue, 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. The effect of foreign currency exchange rate fluctuations on cash and cash equivalents denominated in foreign currencies was not material.

Acquisitions

The company acquired several companies during the last three years, which were not significant to its financial position or results of operations. During 1996, one acquisition was accounted for as a pooling of interests; however, prior period consolidated financial statements were not restated because the retroactive effect was not material. All other 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. At October 31, 1996, the net book value of goodwill associated with acquisitions was $288 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 possible exposure from changes in foreign currency exchange rates. Such exposure arises from assets and liabilities that are denominated in currencies other than the U.S. dollar as well as firm foreign currency commitments. When foreign exchange contracts hedge balance sheet exposure, such effects are recognized when the exchange rate changes. When the company's foreign exchange contracts hedge operational exposure, the effects of movements in exchange rates on these instruments are recognized when the related revenues and expenses are recognized. Because the impact of movements in 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 such changes. 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 $7.1 billion and $5.4 billion at October 31, 1996 and 1995, respectively. At October 31, 1996 and 1995, deferred gains and deferred losses on these contracts amounted to $66 million and $78 million, and $126 million and $82 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. Interest rate differentials under interest rate swap agreements are recognized over the life of the contracts as interest expense. The notional amounts and maturities of interest rate swap agreements match those of the underlying debt. At October 31, 1996 and 1995, 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, trade accounts receivable and certain other off-balance-sheet financial instruments.

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, and company policy is designed to limit exposure with any one institution. As part of its cash and risk management processes, the company performs periodic evaluations of the relative credit standing of the financial institutions. The company has not sustained material credit losses from these instruments.

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 substantially, the company's operating results could be adversely affected. The ten largest distributor receivable balances collectively represent 13 percent of total accounts and notes receivable at both October 31, 1996 and 1995. Credit risk with respect to other 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 third-party resellers' and other 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.

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, long-term stock investments 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.

The estimated fair value for foreign exchange contracts is primarily based on quoted market prices for the same or similar instruments, adjusted where necessary for maturity differences. At October 31, 1996 and 1995, the estimated fair value of foreign exchange contracts with carrying values of $(7) million and $(15) million, respectively, amounted to $(19) million and $44 million, respectively.

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.

Finance Receivables and Equipment on Operating Leases

Finance receivables represent sales-type and direct-financing leases and installment sales resulting from the marketing of the company's and complementary third-party products. These receivables have terms from two to five years and are typically collateralized by a security interest in the underlying assets. The components of finance receivables, net, which are included in accounts and notes receivable and long-term investments and other assets at October 31, are:

In millions	**1996**	1995
Gross finance receivables	**$2,004**	$1,723
Unearned income	**(224)**	(181)
Finance receivables, net	**1,780**	1,542
Less current portion	**(897)**	(791)
Amounts due after one year, net	**$ 883**	$ 751

Contractual maturities of the company's gross finance receivables at October 31, 1996 are $1,022 million in 1997, $527 million in 1998, $291 million in 1999, $116 million in 2000 and $48 million thereafter. Actual cash collections may differ, however, primarily due to customer early buy-outs and refinancings.

The company also leases its products to customers under operating leases. Equipment on operating leases was $849 million and $573 million at October 31, 1996 and 1995, respectively, and is included in machinery and equipment. Accumulated depreciation on equipment on operating leases was $378 million and $286 million at October 31, 1996 and 1995, respectively. Minimum future rentals on noncancelable operating leases with original terms of one year or longer are $466 million in 1997, $259 million in 1998, $92 million in 1999, $17 million in 2000 and $14 million thereafter.

Taxes on Earnings

The provision for income taxes is comprised of:

In millions	**1996**	1995	1994
U.S. federal taxes:			
Current	**$ 614**	$ 642	$ 511
Deferred	**(115)**	(87)	(156)
Non-U.S. taxes:			
Current	**716**	609	441
Deferred	**(169)**	(15)	—
State taxes	**62**	50	28
	$1,108	$1,199	$ 824

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The significant components of deferred tax assets, which required no valuation allowance, and deferred tax liabilities included on the balance sheet at October 31 are:

	1996		1995	
In millions	**Deferred tax assets**	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
Inventory	**$ 497**	**$ 13**	$ 381	$ 50
Fixed assets	**142**	**8**	110	10
Retiree medical benefits	**251**	**—**	248	—
Other retirement benefits	**—**	**111**	—	111
Employee benefits, other than retirement	**178**	**34**	130	42
Leasing activities	**—**	**84**	—	86
Other	**272**	**133**	325	228
	$1,340	**$383**	$1,194	$527

Tax benefits of $123 million, $91 million and $41 million associated with the exercise of employee stock options were allocated to equity in 1996, 1995 and 1994, respectively.

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

	1996	1995	1994
U.S. federal statutory income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**1.1**	0.9	0.8
Lower rates in other jurisdictions, net	**(6.9)**	(5.0)	(4.8)
Other, net	**0.8**	2.1	3.0
	30.0%	33.0%	34.0%

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

In millions	**1996**	1995	1994
U.S. operations including Puerto Rico	**$1,535**	$1,548	$ 915
Non-U.S.	**2,159**	2,084	1,508
	$3,694	$3,632	$2,423

The company has not provided for U.S. federal income and foreign withholding taxes on $3.8 billion of non-U.S. subsidiaries' undistributed earnings as of October 31, 1996, 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 $212 million, $168 million and $163 million for 1996, 1995 and 1994, 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 1992. The company believes that adequate accruals have been provided for all years.

Borrowings

Notes payable and short-term borrowings and the related average interest rates at October 31 are:

	1996		1995	
In millions		Average interest rate		Average interest rate
Commercial paper	**$1,848**	**5.3%**	$2,785	5.8%
Notes payable to banks	**200**	**7.5%**	315	6.6%
Other short-term borrowings	**77**	**6.2%**	114	3.5%
	$2,125		$3,214	

At October 31, 1996, the company had various borrowing arrangements in place with unused borrowing capacity totaling $4.6 billion. These credit arrangements are generally uncommitted and generally do not require commitment fees.

Long-term debt and related maturities and interest rates at October 31 are:

In millions	1996	1995
U.S. dollar notes due 1997-2017 at 5.25%-7.98%	**$1,348**	$488
Deutschemark notes, due 2000-2002 at 4.75%-5.63%	**513**	—
Yen notes, due 1999-2002 at 1.80%-5.00%	**567**	—
British pound issue, due 1999 at 7.13%	**149**	149
Other	**87**	65
Less current portion	**(85)**	(39)
Long-term debt	**$2,579**	$663

The company utilizes interest rate swaps to modify the interest expense on its long-term debt to achieve primarily U.S. LIBOR-based floating rates. The company also hedges currency exposure on its foreign-currency denominated long-term debt. The aggregate future repayments of long-term debt outstanding at October 31, 1996 are $85 million in 1997, $256 million in 1998, $1,245 million in 1999, $417 million in 2000, $246 million in 2001 and $415 million thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareholders' Equity

Stock split The company made a 2-for-1 split of its $1 par value common stock in the form of a 100 percent distribution to shareholders of record as of June 21, 1996. As a result of the stock split, authorized, outstanding, and reserved common shares doubled and retained earnings was reduced by the par value of the additional common shares issued. The rights of the holders of these securities were not otherwise modified. All share and per share data and stockholders' equity balances have been restated for the effect of the stock split.

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 to purchase HP stock are partially matched with shares contributed by the company. At October 31, 1996, approximately 89,000 employees were eligible to participate and approximately 52,000 employees were participants in the plan.

Incentive compensation plans The company has four principal stock option plans, adopted in 1979, 1985, 1990 and 1995. 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 and 1995 Incentive Stock Plans, however, the Compensation 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 1996 and 1995, discounted options totaling 1,165,000 shares and 1,536,000 shares, respectively, were granted. 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 generally may not be exercised before the fifth anniversary of the option grant date, at which time such options become 100 percent vested. The plans also 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 1996:

In thousands except price per share amounts	Options	Price per share
Outstanding at October 31, 1995	49,616	$ 7-48
Granted	7,876	29-53
Exercised	(7,214)	7-49
Cancelled	(934)	7-53
Outstanding at October 31, 1996	**49,344**	**$ 7-53**

At October 31, 1996, options to purchase 25,649,000 shares were exercisable at prices ranging from $7 to $47 per share. Shares available for option grants at October 31, 1996 and 1995 were 65,531,000 and 74,488,000, respectively. Approximately 49,000 employees were considered eligible to receive stock options in fiscal 1996. There were approximately 29,000 employees holding options under one or more of the option plans as of October 31, 1996.

Under the 1985 Incentive Compensation Plan and the 1990 and 1995 Incentive Stock Plans, 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 Compensation Committee. The majority of the shares of restricted stock outstanding at October 31, 1996 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 1996, 1995 or 1994. At October 31, 1996 and 1995, the company had 3,926,000 and 3,062,000 shares, respectively, of restricted stock outstanding.

Shares reserved The company has reserved shares for future issuance under the employee stock plans. At October 31, 1996 and 1995, 145,622,000 and 160,468,000 shares, respectively, were reserved.

Stock repurchase program Under the company's stock repurchase program, shares of HP common stock are purchased primarily to manage the dilution created by shares issued under the employee stock plans. In 1996, 1995 and 1994, 24,580,000, 20,790,000 and 16,112,000 shares were repurchased for an aggregate purchase price of $1,089 million, $686 million and $325 million, respectively. At October 31, 1996, HP had authorization for an aggregate of $230 million in future repurchases under this program based on certain price and volume criteria. During November 1996, the Board of Directors authorized an additional $1 billion in stock repurchases.

Retirement Plans and Retiree Medical Benefits

Pension and deferred profit-sharing plans Substantially all of the company's employees are covered under various pension and deferred profit-sharing retirement plans. Worldwide pension and deferred profit-sharing costs were $281 million in 1996, $233 million in 1995, and $196 million in 1994.

U.S. employees who meet certain minimum eligibility criteria are provided retirement benefits under the Hewlett-Packard Company Retirement Plan (Retirement Plan). Defined benefits are based upon an employee's highest average pay rate and length of service. For eligible service through October 31, 1993, the benefit payable under the Retirement Plan is reduced by any amounts due to the employee under the company's frozen defined contribution Deferred Profit-Sharing Plan (DPS), which has since been closed to new participants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The combined status of the Retirement Plan and DPS follows:

In millions	1996	1995
Fair value of plan assets	**$2,744**	$2,400
Retirement benefit obligation	**$2,799**	$2,413

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. Eligibility is generally determined in accordance with local statutory requirements.

Retiree medical plan In addition to providing pension benefits, the company also sponsors a medical plan that provides defined benefits to U.S. retired employees. Substantially all of the company's current U.S. employees could become eligible for these benefits and the existing benefit obligation relates primarily to those employees. Once participating in the plan, retirees may choose from managed-care and indemnity options, with their contributions dependent on options chosen and length of service.

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. 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. At October 31, 1996, 52,000 employees were participating in TAXCAP out of 58,000 who were eligible.

Funded status The funded status of the defined benefit and retiree medical plans is:

	U.S. defined benefit plan		Non-U.S. defined benefit plans		U.S. retiree medical plan	
In millions	1996	1995	1996	1995	1996	1995
Fair value of plan assets	**$ 485**	$ 358	**$1,223**	$ 1,116	**$ 365**	$ 310
Benefit obligation	**(540)**	(371)	**(1,246)**	(1,182)	**(429)**	(412)
Benefit obligation in excess of plan assets	**(55)**	(13)	**(23)**	(66)	**(64)**	(102)
Unrecognized net experience (gain) loss	**(19)**	(8)	**50**	95	**(225)**	(176)
Unrecognized prior service cost (benefit) related to plan changes	**48**	52	**27**	32	**(163)**	(173)
Unrecognized net transition asset*	**(31)**	(39)	**—**	—	**—**	—
Prepaid (accrued) costs	**$ (57)**	$ (8)	**$ 54**	$ 61	**$(452)**	$(451)
Vested benefit obligation	**$(232)**	$(157)	**$ (893)**	$ (812)		
Accumulated benefit obligation	**$(232)**	$(157)	**$ (944)**	$ (859)		

*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.

Net periodic cost The company's net pension and retiree medical costs are comprised of:

	Pension								
	U.S. plans			Non-U.S. plans			U.S. retiree medical plan		
In millions	**1996**	1995	1994	**1996**	1995	1994	**1996**	1995	1994
Service cost—benefits earned during the period	**$137**	$108	$112	**$ 86**	$ 88	$ 73	**$ 23**	$ 21	$ 27
Interest cost on benefit obligation	**27**	15	6	**74**	72	58	**32**	28	33
Actual return on plan assets	**(61)**	(59)	(7)	**(120)**	(26)	(44)	**(55)**	(52)	(7)
Net amortization and deferral	**25**	25	(29)	**36**	(52)	(16)	**8**	18	(27)
Net plan cost	**$128**	$ 89	$ 82	**$ 76**	$ 82	$ 71	**$ 8**	$ 15	$ 26

Assumptions 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:

	1996	1995	1994
U.S. defined benefit plan:			
Discount rate	**7.5%**	7.5%	8.0%
Average increase in compensation levels	**5.5%**	5.5%	5.5%
Expected long-term return on assets	**9.0%**	9.0%	9.0%
Non-U.S. defined benefit plans:			
Discount rate	**4.0 to 8.5%**	4.0 to 8.5%	5.0 to 8.8%
Average increase in compensation levels	**3.5 to 6.5%**	3.5 to 6.5%	4.1 to 7.0%
Expected long-term return on assets	**5.8 to 10.0%**	5.8 to 10.0%	7.0 to 9.5%
U.S. retiree medical plan:			
Discount rate	**7.5%**	7.5%	8.0%
Expected long-term return on assets	**9.0%**	9.0%	9.0%
Current medical cost trend rate	**10.0%**	10.4%	10.8%
Ultimate medical cost trend rate	**6.0%**	6.0%	6.0%
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	**$90**	$87	$66
Increase in the annual retiree medical cost	**$13**	$12	$13

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments

The company leases certain real and personal property under non-cancelable operating leases. Future minimum lease payments at October 31, 1996 are $182 million for 1997, $151 million for 1998, $111 million for 1999, $87 million for 2000, $78 million for 2001 and $287 million thereafter. Certain leases require the company to pay property taxes, insurance and routine maintenance and include escalation clauses. Rent expense was $353 million in 1996, $302 million in 1995 and $274 million in 1994.

Contingencies and Factors That Could Affect Future Results

Contingencies The company is involved in lawsuits, claims, investigations and proceedings, including patent, commercial, and environmental matters, which arise in the ordinary course of business. There are no such matters pending that the company expects to be material in relation to its business, financial condition, or results of operations.

Factors that could affect future results A substantial portion of the company's revenues each year are generated from the development, manufacture and rapid release to market of high technology products newly introduced during the year. In the extremely competitive industry environment in which the company operates, such product generation, manufacturing and marketing processes are uncertain and complex, requiring accurate prediction of market trends and demand as well as successful management of various manufacturing risks inherent in such products. Additionally, the company's production strategy relies on certain key suppliers' ability to deliver completed products, subassemblies, and component parts in time to meet critical manufacturing and distribution schedules, and its sales strategy on the ability of certain third-party resellers to support sales channels to the mass market effectively. In light of these dependencies, it is reasonably possible that failure to successfully manage a significant product introduction, failure of certain key suppliers to deliver as needed, or failure of certain resellers to remain customers and channel partners could have a severe near-term impact on the company's order growth, revenue growth, or results of operations.

Geographic Area Information

The company, operating in a single industry segment, designs, manufactures and services products and systems for measurement, computation and communications.

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

In millions	1996	1995	1994
Net revenue			
United States:			
Unaffiliated customer sales	**$ 17,041**	$ 13,963	$11,469
Interarea transfers	**7,263**	5,728	4,653
	24,304	19,691	16,122
Europe:			
Unaffiliated customer sales	**13,252**	11,142	8,423
Interarea transfers	**1,643**	1,432	1,058
	14,895	12,574	9,481
Japan, Other Asia Pacific, Canada, Latin America:			
Unaffiliated customer sales	**8,127**	6,414	5,099
Interarea transfers	**5,470**	3,783	2,765
	13,597	10,197	7,864
Eliminations	**(14,376)**	(10,943)	(8,476)
	$ 38,420	$ 31,519	$24,991
Earnings from operations			
United States	**$ 2,470**	$ 2,259	$ 1,472
Europe	**769**	930	660
Japan, Other Asia Pacific, Canada, Latin America	**1,173**	1,240	824
Eliminations and corporate	**(686)**	(861)	(407)
	$ 3,726	$ 3,568	$ 2,549
Identifiable assets			
United States	**$ 14,321**	$ 12,347	$ 9,848
Europe	**7,991**	7,168	4,991
Japan, Other Asia Pacific, Canada, Latin America	**7,200**	5,854	4,052
Eliminations and corporate	**(1,813)**	(942)	676
	$ 27,699	$ 24,427	$19,567

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 and cash equivalents, property, plant and equipment, and other assets, and aggregate $4,810 million in 1996, $4,343 million in 1995 and $4,594 million in 1994.

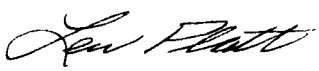
Statement of Management Responsibility

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 consolidated 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 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
Chairman of the Board, President and
Chief Executive Officer

Robert 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, cash flows and shareholders' equity present fairly, in all material respects, the financial position of Hewlett-Packard Company and its subsidiaries at October 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1996, 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.

San Jose, California
November 18, 1996

ORDERS AND NET REVENUE BY GROUPINGS OF SIMILAR PRODUCTS AND SERVICES

Unaudited

For the years ended October 31 In millions	1996	1995	1994
Orders			
Computer products, service and support	**$31,828**	$25,980	$19,882
Electronic test and measurement instrumentation, systems and service	**3,912**	3,499	2,759
Medical electronic equipment and service	**1,423**	1,385	1,170
Chemical analysis and service	**895**	855	777
Electronic components	**831**	966	762
	$38,889	$32,685	$25,350
Net revenue			
Computer products, service and support	**$31,430**	$25,269	$19,632
Electronic test and measurement instrumentation, systems and service	**3,798**	3,288	2,722
Medical electronic equipment and service	**1,416**	1,300	1,141
Chemical analysis and service	**858**	806	754
Electronic components	**918**	856	742
	$38,420	$31,519	$24,991

The table above provides supplemental information showing orders and net revenue by groupings of similar products and services. In fiscal 1996, the company changed its order-reporting policies for its support businesses to report orders when received instead of as services are provided. Fiscal 1995 orders have been restated to reflect this change, which did not have a material impact on order growth rates. The groupings are as follows:

Computer products, service and support Computer equipment and systems (hardware and software), networking products, desktop and large-format printers and scanners; extended-storage products; terminals and handheld calculators; consulting and integration services; support and maintenance services; and parts and supplies.

Electronic test and measurement instrumentation, systems and service Instruments and systems used to design, synchronize and produce electronics; instruments and systems that test, synchronize and extract data from communications networks; digital communications products; and consulting services.

Medical electronic equipment and service Clinical measurement instrumentation and information systems used for patient monitoring, diagnostic cardiology and ultrasound imaging; support, systems-integration and equipment-maintenance services; and medical supplies.

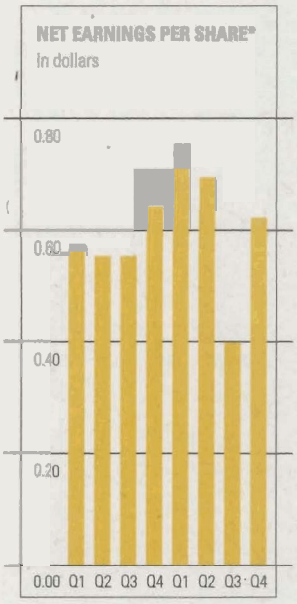
Chemical analysis and service Gas and liquid chromatographs, mass spectrometers and spectrophotometers used to analyze chemical compounds; laboratory data and information management systems; support and maintenance services; and consumables and supplies.

Electronic components Microwave semiconductor and optoelectronic devices.

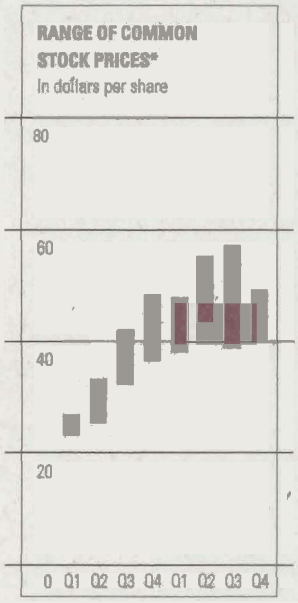
QUARTERLY SUMMARY

Unaudited

For the three months ended In millions except per share amounts	January 31	April 30	July 31	October 31
1996				
U.S. orders	$ 3,923	$ 4,672	$ 3,888	$ 4,698
International orders	6,179	5,438	4,784	5,307
Total orders	$10,102	$10,110	$ 8,672	$10,005
Net revenue	$ 9,288	$ 9,880	$ 9,105	$10,147
Cost of products sold and services	$ 5,988	$ 6,498	$ 6,194	$ 6,819
Earnings from operations	$ 1,195	$ 1,041	$ 611	$ 879
Net earnings	$ 790	$ 723	$ 425	$ 648
Per share amounts, restated for 1996 stock split:				
Net earnings	$ .75	$ .69	$ .40	$ .62
Cash dividends	$ .10	$ .10	$ .12	$ .12
Range of stock prices	$37⅞-47½	$43⅛-55	$38⅝-56⅞	$ 40-49
1995				
U.S. orders	$3,167	$3,523	$3,733	$4,263
International orders	4,668	4,609	4,317	4,405
Total orders	$7,835	$8,132	$8,050	$8,668
Net revenue	$7,304	$7,428	$7,739	$9,048
Cost of products sold and services	$4,547	$4,654	$4,907	$5,906
Earnings from operations	$ 932	$ 875	$ 824	$ 937
Net earnings	$ 602	$ 577	$ 576	$ 678
Per share amounts, restated for 1996 stock split:				
Net earnings	$ .57	$ .55	$ .55	$ .64
Cash dividends	$ .075	$ .075	$ .10	$ .10
Range of stock prices	$23-26⅝	$25¼-33	$32⅛-41¾	$36¼-48



*Restated for 1996 stock split



*Restated for 1996 stock split

DIRECTORS

Thomas E. Everhart
President
California Institute of Technology

John B. Fery
Retired Chairman of the Board
and Chief Executive Officer
Boise Cascade Corporation
A paper and forest products manufacturer and distributor

Jean-Paul G. Gimon
Honorary General Representative
North America
Crédit Lyonnais
A global banking institution

Sam Ginn
Chairman, President and
Chief Executive Officer
AirTouch Communications
A wireless communications company

Richard A. Hackborn
Retired Executive Vice President
Hewlett-Packard Company

Walter B. Hewlett
Independent Researcher
and Director
Center for Computer Assisted
Research in the Humanities
A non-profit corporation

George A. Keyworth II
Chairman and Senior Fellow
The Progress & Freedom Foundation
A public policy research institute

David M. Lawrence, M.D.
Chairman and Chief Executive Officer
Kaiser Foundation Health Plan, Inc.
Kaiser Foundation Hospitals

Paul F. Miller, Jr.
Retired Partner
Miller, Anderson and Sherrerd, LLP
An investment management firm

Susan P. Orr
President, Technology Resource
Assistance Center
A software-development company

David Woodley Packard
President
The Packard Humanities
Institute and The Stanford
Theatre Foundation
Non-profit institutions

Donald E. Petersen
Retired Chairman of the Board
and Chief Executive Officer
Ford Motor Company
An automotive company

Lewis E. Platt
Chairman of the Board,
President and Chief Executive Officer
Hewlett-Packard Company

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

Emeritus Director

William R. Hewlett
Co-founder

Committees of the Board

Executive Committee
Platt (Chair), Wayman

Audit Committee
Petersen (Chair), Hackborn,
Hewlett, Keyworth, Lawrence, Miller

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

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

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

OFFICERS

Lewis E. Platt*
Chairman, President and
Chief Executive Officer

Edward W. Barnholt*
Executive Vice President and
General Manager
Test and Measurement
Organization

Richard E. Belluzzo*
Executive Vice President and
General Manager
Computer Organization

Robert P. Wayman*
Executive Vice President
Finance and Administration
Chief Financial Officer

Joel S. Birnbaum*
Senior Vice President
Research and Development
Director, HP Laboratories

S.T. Jack Brigham III*
Senior Vice President
Corporate Affairs and
General Counsel

Douglas K. Carnahan*
Senior Vice President and
General Manager
Measurement Systems
Organization

Franco Mariotti
Senior Vice President
European Strategic Initiatives

F.E. (Pete) Peterson*
Senior Vice President
Corporate Personnel

Byron J. Anderson
Vice President and General Manager
Communications Test
Solutions Group

Richard W. Anderson
Vice President and General Manager
Microwave and Communications
Group

George B. Cobbe
Vice President and General Manager
Americas Geographic Operations

Raymond W. Cookingham*
Vice President and Controller

William F. Craven
Vice President and General Manager
Components Group

Manuel F. Diaz
Vice President and General Manager
Solutions Sales and Delivery Group

Bernard Guidon
Vice President
Hewlett-Packard Company

Larry R. Langdon
Vice President
Tax, Licensing and Customs

Ann M. Livermore
Vice President and General Manager
Worldwide Customer Support
Operations

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

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

Antonio M. Perez
Vice President and General Manager
Inkjet Products Group

Larry D. Potter
Vice President and General Manager
Worldwide Field Operations
Test and Measurement Organization

John E. Scruggs
Vice President and General Manager
Automated Test Group

Richard W. Sevcik
Vice President and General Manager
Systems Technology Group

Alex Sozonoff
Vice President and General Manager
Computer Organization
Sales and Marketing

Carolyn M. Ticknor
Vice President and General Manager
LaserJet Solutions Group

Lee S. Ting*
Vice President and Managing Director
Geographic Operations

Lawrence Tomlinson
Vice President and Treasurer

Thomas E. Vos
Vice President and General Manager
Electronic Instruments Group

Robert R. Walker
Vice President and
Chief Information Officer
Corporate Information Systems

Richard C. Watts
Vice President and General Manager
Computer Systems Organization

Duane E. Zitzner
Vice President and General Manager
Personal Information Products Group

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*

SHAREHOLDER INFORMATION

Annual Meeting of Shareholders

The annual meeting will be held on Tuesday, February 25, 1997 at the Scottish Rite Center in San Jose, California. The address is: 2455 Masonic Drive, San Jose, CA 95125

Investor Information

Current and prospective HP investors can receive the annual report, proxy statement, 10-K, earnings announcements, 10-Q's and other publications of interest at no cost by calling 800-TALK-HWP (825-5497). As a service to those with impaired vision, the 1996 annual report is available on audio cassette.

This year's annual report and related financial information are also available on the World Wide Web. The Web address is: *http://www.hp.com/go/financials*

Transfer Agent and Registrar

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

Harris Trust and Savings Bank
Corporate Trust Operations Division
P.O. Box A3504
Chicago, Illinois 60690-3504
If calling from anywhere within the U.S.: (800) 286-5977
From outside the U.S.: (312) 461-4061

Common Stock and Dividends

The company's stock is listed on the New York and Pacific stock exchanges, with a ticker symbol of HWP. Cash dividends have been paid each year since 1965. The current rate is $0.12 per share per quarter. At Nov. 30, 1996, there were 92,068 shareholders of record.

HP does not currently offer dividend reinvestment, direct purchase of stock or product discounts to shareholders.

CORPORATE INFORMATION

Headquarters

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

Geographic Operations

Americas
19420 Homestead Road
Cupertino, California 95014-0610
Telephone: (408) 725-8900

Europe, Middle East, Africa
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) 2-599-7777

A directory of sales and support locations can be obtained from the Corporate Communications Department at HP's offices in Palo Alto. Please call 800-825-5497 to request this information.

Printed on recycled paper

HP-UX9. and 10.0 for HP 9000 Series 700 and 800 computers are X/Open Company UNIX 93 branded products.*

X/Open is a registered trademark, and the X device is a trademark of X/Open Company Ltd. in the UK and other countries.

Microsoft is a U.S. registered trademark of Microsoft Corp.

Pentium is a U.S. registered trademark of Intel Corporation.

UNIX is a registered trademark in the United States and other countries, licensed exclusively through X/Open Company Ltd.

Windows NT is a U.S. trademark of Microsoft Corporation.

HEWLETT®
PACKARD

5965-6046E