

HEWLETT-PACKARD LIMITED
(Registered Number 690597)

REPORT AND ACCOUNTS

YEAR ENDED 31 OCTOBER 1996



HEWLETT-PACKARD LIMITED

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report and the audited accounts of the Company and its subsidiaries ("the Group") for the year ended 31 October 1996.

RESULTS AND DIVIDENDS

The consolidated results for the year are shown on page 5. The Directors recommend a dividend of £11 million (1995: £18 million) be paid and that the retained profit for the year of £95 million (1995: £68 million) be transferred to reserves.

PRINCIPAL ACTIVITIES

The Group's principal activities are the design, manufacture, marketing and servicing of measurement and computation products and systems, to help its customers improve their personal and business effectiveness.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Group's results for 1996 continue to be very encouraging. Our continued investment in research and development has helped to develop a strong portfolio generating record UK and export turnover of £1,869 million (1995: £1,707 million).

This growth was led by the Computer Products Organisation which had an outstanding year driven by excellent growth in HP DeskJet and LaserJet printers and personal computers.

The Computer Peripherals Division near Bristol had a very good year largely based upon their Digital Audio Tape ("DAT") technology.

South Queensferry continued to develop products for the growing telecommunications market and is well placed to maximise future opportunities.

The Fibre Optic Components operation continued to take advantage of the rapidly growing fiber-based communications market with its sophisticated optoelectronic components.

The Group reported a pre-tax profit of £160 million (1995: £133 million).

The Group maintained its reputation for customer service, support and satisfaction. New product offerings continue to be of an excellent standard providing a strong base for future growth prospects.

RESEARCH AND DEVELOPMENT

The Group maintained an extensive programme of engineering and software research and development at each of its major sites in the UK, in addition to the special activities of the Bristol Research Centre.

HEWLETT-PACKARD LIMITED

REPORT OF THE DIRECTORS (continued)

TANGIBLE FIXED ASSETS

The movements in tangible fixed assets are shown in note 9 to the accounts. The Directors are aware that the market value of certain of the Group's land and buildings is currently less than their book amount but they do not consider this to represent a permanent diminution in value and hence no provision has been made in the accounts.

EMPLOYEE INVOLVEMENT

The Group continues to place importance upon the education and development of its people.

There is a well developed employee involvement programme within the Group. Employees receive regular newsletters.

All employees' training and development is supported by continuing in-service education. All employees who have completed minimum periods of service are eligible to join both profit share and share purchase schemes of the Hewlett-Packard Company (the ultimate parent company of Hewlett-Packard Limited).

EMPLOYMENT OF DISABLED EMPLOYEES

All applications from disabled persons are fully considered. Should an employee become disabled, it is the Group's practice to continue their current employment where possible or offer suitable alternatives.

DONATIONS

Donations to UK charities and educational establishments amounted to £129,000 (1995: £96,000).

The Group made no political donations (1995: £Nil).

DIRECTORS

The Directors of the Company during the year were:

D A Baldwin CBE	(Resigned as Chairman 18 December 1995, resigned as Director 31 October 1996)
J T Golding	(Appointed as Chairman 18 December 1995)
F Mariotti	(Resigned 18 December 1996)
J Taylor OBE	
P Valler	
F Nawratil	Appointed 18 December 1995

According to the register required to be kept under Section 325 of the Companies Act 1985 none of the Directors had any beneficial interest in the shares of the Company at the beginning or end of the financial year.

Hewlett-Packard Company operates a worldwide Directors' liability insurance scheme.

HEWLETT-PACKARD LIMITED

REPORT OF THE DIRECTORS (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the accounts.
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company or Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The auditors, Price Waterhouse, have indicated their willingness to be re-appointed and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

BY ORDER OF THE BOARD

A handwritten signature in dark ink, appearing to read 'Jackie Connor', written over a horizontal line.

Jackie Connor
Secretary

18th December 1996

Price Waterhouse



HEWLETT-PACKARD LIMITED

AUDITORS' REPORT TO THE MEMBERS OF HEWLETT-PACKARD LIMITED

We have audited the accounts on page 5 to 26 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11.

Respective responsibilities of Directors and auditors

As described on page 3, the Company's Directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 October 1996 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

18 December 1996

HEWLETT-PACKARD LIMITED

CONSOLIDATED PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31 OCTOBER 1996

	<u>1996</u> £'000	<u>1995</u> £'000
TURNOVER (Note 2)	1,869,102	1,707,419
Cost of sales	(1,572,008)	(1,429,626)
	<hr/>	<hr/>
GROSS PROFIT	297,094	277,793
Distribution costs	(119,504)	(126,902)
Administrative expenses	(23,590)	(19,755)
	<hr/>	<hr/>
OPERATING PROFIT (Note 4)	154,000	131,136
Interest receivable and similar income	7,010	5,708
Interest payable (Note 6)	(893)	(3,518)
	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	160,117	133,326
Taxation on profit on ordinary activities (Note 7)	(53,973)	(47,432)
	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE YEAR (Note 17)	106,144	85,894
Dividends on equity shares (Note 17)	(11,146)	(18,364)
	<hr/>	<hr/>
RETAINED PROFIT FOR THE YEAR	<u>94,998</u>	<u>67,530</u>

There are no recognised gains or losses other than the profit for the year.

All the results derive from continuing operations.

The notes on pages 8 to 26 form part of these accounts.

HEWLETT-PACKARD LIMITED

BALANCE SHEETS AT 31 OCTOBER 1996

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
FIXED ASSETS				
Tangible assets (Note 9)	201,798	185,642	161,723	151,148
Investments (Note 10)	3,590	3,590	31,139	31,857
	<hr/>	<hr/>	<hr/>	<hr/>
	205,388	189,232	192,862	183,005
	<hr/>	<hr/>	<hr/>	<hr/>
CURRENT ASSETS				
Stocks (Note 11)	87,968	112,439	87,968	112,439
Debtors (Note 12)				
- amounts due in one year	248,695	252,290	308,247	312,036
- amounts due after one year	37,469	24,548	20,610	2,692
Cash at bank and in hand	128,277	116,282	126,055	116,224
	<hr/>	<hr/>	<hr/>	<hr/>
	502,409	505,559	542,880	543,391
CREDITORS (amounts falling due within one year) (Note 13)	(333,142)	(408,348)	(342,449)	(417,908)
	<hr/>	<hr/>	<hr/>	<hr/>
NET CURRENT ASSETS	169,267	97,211	200,431	125,483
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES	374,655	286,443	393,293	308,488
	<hr/>	<hr/>	<hr/>	<hr/>
CREDITORS (amounts falling due after more than one year) (Note 14)	(5,020)	(5,088)	(5,020)	(5,088)
	<hr/>	<hr/>	<hr/>	<hr/>
PROVISIONS FOR LIABILITIES AND CHARGES (Note 15)	(11,098)	(17,816)	(11,098)	(17,816)
	<hr/>	<hr/>	<hr/>	<hr/>
	358,537	263,539	377,175	285,584
	<hr/>	<hr/>	<hr/>	<hr/>
CAPITAL AND RESERVES				
Called up share capital (Note 16 & 17)	104,772	104,772	104,772	104,772
Share premium account (Note 17)	17	17	17	17
Profit and loss account (Note 17)	253,748	158,750	272,386	180,795
	<hr/>	<hr/>	<hr/>	<hr/>
SHAREHOLDERS' FUNDS (Note 17)	358,537	263,539	377,175	285,584
	<hr/>	<hr/>	<hr/>	<hr/>

Approved by the Board on 18th December 1996 and signed on its behalf by:

J T Golding
Director

The notes on pages 8 to 26 form part of these accounts.

HEWLETT-PACKARD LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 1996

	<u>1996</u>		<u>1995</u>	
	£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note A)		196,674		124,566
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received	7,076		5,767	
Interest paid	(867)		(2,809)	
Dividends paid	(11,146)		(18,364)	
Interest on finance leases	(103)		(72)	
	<hr/>		<hr/>	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(5,040)		(15,478)
TAXATION				
Corporation tax paid		(43,768)		(26,254)
INVESTING ACTIVITIES				
Payments to acquire tangible fixed assets	(66,905)		(59,010)	
Receipts from sales of tangible fixed assets	1,117		2,788	
	<hr/>		<hr/>	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(65,788)		(56,222)
NET CASH INFLOW BEFORE FINANCING		82,078		26,612
FINANCING				
Repayment of loans from group undertakings (Note D)	(2,547)		(50,633)	
Repayments of capital on finance leases	(630)		(194)	
	<hr/>		<hr/>	
NET CASH OUTFLOW FROM FINANCING		(3,177)		(50,827)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (Note B)		78,901		(24,215)
		<hr/>		<hr/>

The notes on pages 8 to 26 form part of these accounts.

HEWLETT-PACKARD LIMITED

NOTES TO THE CASH FLOW STATEMENT

A RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Operating profit	154,000	131,136
Depreciation charge	45,791	44,764
Loss on sale of tangible fixed assets	3,841	5,214
Decrease/(Increase) in stocks	24,471	(34,717)
Increase in investment in finance leases	(19,988)	(8,391)
Decrease/(Increase) in debtors	10,597	(90,576)
(Decrease)/increase in creditors	(15,320)	74,549
(Decrease)/Increase in pension commitments	(6,718)	2,587
	<hr/>	<hr/>
	196,674	124,566
	<hr/>	<hr/>

B ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Balance at 1 November	40,143	64,358
Net cash inflow/(outflow) (Note C)	78,901	(24,215)
	<hr/>	<hr/>
Balance at 31 October	119,044	40,143
	<hr/>	<hr/>

HEWLETT-PACKARD LIMITED

NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

C ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	<u>1996</u>	<u>1995</u>	<u>Change</u>
	<u>£'000</u>	<u>£'000</u>	<u>in year</u>
			<u>£'000</u>
Cash at bank and in hand	128,277	116,282	11,995
Bank overdrafts and short-term loans	(9,233)	(76,139)	66,906
	<u> </u>	<u> </u>	<u> </u>
	119,044	40,143	78,901
	<u> </u>	<u> </u>	<u> </u>

Short-term loans represent advances from banks repayable within 3 months from the date of the advance.

D ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<u>1996</u>		<u>1995</u>	
	<u>Share capital</u>	<u>Loans</u>	<u>Share capital</u>	<u>Loans</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Balance at 1 November	104,772	5,504	104,772	56,137
Cash (outflow) from financing	-	(2,547)		(50,633)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 October	104,772	2,957	104,772	5,504
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

(a) Consolidation principles

The Group accounts include the results, assets and liabilities of the Company and its subsidiaries, other than Apollo Computer (UK) Limited as set out in note 10. Newly acquired subsidiaries are consolidated from the effective date of their acquisition.

(b) Turnover

Turnover consists of sales in the year of equipment, parts and services at the amounts invoiced, excluding value added tax, less returns and discounts, together with income from leased equipment.

(c) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost. Depreciation is calculated on the cost of tangible fixed assets in accordance with the methods and estimated useful lives set out below:

Freehold buildings and long leasehold property	- reducing balance over approximately 40 years.
Short leasehold property	- straight line over the period of the lease.
Equipment	- sum of the digits over three to ten years.
Equipment rented under operating leases	- sum of the digits over three to five years.

No depreciation is provided on freehold land or property under construction.

(d) Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes appropriate overheads. Long-term contracts are reflected in the profit and loss account by recording turnover and related costs and profits as contract activity progresses. Profits are recognised on a prudent basis when the outcome of a contract can be assessed with reasonable certainty. Full provision is made for any foreseeable losses.

(e) Goods sold under warranty

Provision is made in the accounts for costs anticipated to arise during the unexpired warranty periods on goods sold.

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(f) Finance leases

Amounts receivable in respect of finance leases to customers are stated after deduction of the interest element of the income relating to the unexpired portion of the lease. The interest element of the income from such leases is taken to the profit and loss account over the term of the lease using the actuarial method after tax.

Assets held under finance leases are capitalised and depreciated over their estimated useful lives. The corresponding liability is recorded as a creditor net of finance charges. The interest element of the finance charge is charged to the profit and loss account over the period of the lease.

(g) Operating leases

Rentals receivable/payable on operating leases are credited/charged to the profit and loss account on a straight line basis over the term of the lease.

(h) Goodwill

Goodwill arising on consolidation, being the difference between the fair value of the consideration given and the aggregate of the fair values of the separable net assets acquired, is written off against reserves in the year of acquisition.

(i) Deferred taxation

Deferred tax liabilities are provided using the liability method in respect of timing differences only where it is probable that the liability will become payable within the foreseeable future. Deferred tax assets are not recognised.

(j) Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions are translated at the rate of exchange ruling at the date of the relevant transaction.

(k) Research and development

Expenditure on research and development, including the development of software, is written off as incurred.

(l) Pension costs

The cost of pensions in respect of the Group's defined benefit plan is charged to the profit and loss account so as to spread the cost over the service lives of employees in the plan. Variations from regular cost are spread over the average expected remaining service lives of employees in the plan.

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 SEGMENTAL INFORMATION

The analysis of turnover is as follows:

	<u>1996</u>		<u>1995</u>	
	£'000	£'000	£'000	£'000
Turnover in the United Kingdom		1,166,024		1,000,495
Turnover overseas:				
United States of America	315,073		313,441	
Rest of Europe	278,721		314,532	
Other	109,284		78,951	
		<u>703,078</u>		<u>706,924</u>
		1,869,102		1,707,419
		<u><u>1,869,102</u></u>		<u><u>1,707,419</u></u>

Turnover overseas includes sales to the ultimate parent company and fellow subsidiaries of £691million (1995: £669 million). Turnover, profit before tax and net assets are all attributable to United Kingdom operations. The Group operates within one industry segment: the design, manufacture, marketing and servicing of measurement and computation products and systems.

3 LEASES

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Included within turnover (refer Note 2) are aggregate rentals receivable in respect of:		
Finance leases	26,687	18,050
Operating leases	28,186	26,318
	<u>54,873</u>	<u>44,368</u>
	<u><u>54,873</u></u>	<u><u>44,368</u></u>

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

4 OPERATING PROFIT

	<u>1996</u>	<u>1995</u>
	£'000	£'000
The operating profit is stated after charging:		
Research and development expenditure	31,911	29,766
Depreciation - owned assets	45,182	44,576
- leased assets	609	188
Operating leases - hire of machinery and equipment	10,607	9,967
- hire of other assets	3,018	3,809
Auditors' remuneration - audit services	126	121
Auditors' remuneration - other services	86	278
Loss on sale of tangible fixed assets	3,841	5,214
Wages and salaries	161,870	148,942
Social security costs	14,757	12,721
Other pension costs (Notes 15 and 20)	9,059	9,489
	<u> </u>	<u> </u>

5 DIRECTORS' EMOLUMENTS

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Fees	11	15
Management remuneration	510	465
	<u> </u>	<u> </u>
	521	480
	<u> </u>	<u> </u>

The emoluments above exclude contributions made by the Company to the Group Pension Scheme on behalf of the Directors (refer Note 20 for details of funding of the Group Pension Scheme). Contributions are paid by the Company to the Scheme on a group basis and are not ascertainable for individual members of the Scheme.

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

5 DIRECTORS' EMOLUMENTS (CONTINUED)

The emoluments of the Chairman and highest paid Director were £238,031 (1995: Chairman £12,052, highest paid Director £221,932). In addition the Chairman and highest paid Director was granted options to subscribe for 9,000 shares in Hewlett-Packard Company at US \$44.97 each exercisable over the 10 years to 17 November 2005 under the terms of the Hewlett-Packard Corporation Stock Option Scheme (1995: 12,000 shares at US \$25.22 each). The number of Directors whose emoluments fell within the bands shown was as follows:

	<u>1996</u>	<u>1995</u>
Up to £5,000	2	2
£10,001 to £15,000	1	1
£85,001 to £90,000	-	1
£105,001 to £110,000	*1	-
£150,001 to £155,000	-	1
£165,001 to £170,000	**1	-
£220,001 to £225,000	-	1
£235,001 to £240,000	1	-

*This Director was also granted options during the year under the Hewlett-Packard Company Stock Option Scheme to subscribe for 720 shares at \$44.97 each exercisable over the 10 years to 17 November 2005 (1995: 3200 shares at US\$ 25.22 each).

**This Director was also granted options during the year under the Hewlett-Packard Company Stock Option Scheme to subscribe for 4,000 shares at \$44.97 each exercisable over the 10 years to 17 November 2005 (1995: 8000 shares of US\$25.22 each).

On 21st June 1996, Hewlett-Packard Company split its stock, two for one. Holders of options as at that date had their option balances adjusted to reflect the split and the prior year comparative figures shown above have been adjusted to reflect this change.

Details of other transactions with Directors are set out in the Report of the Directors.

6 INTEREST PAYABLE

	<u>1996</u>	<u>1995</u>
	<u>£'000</u>	<u>£'000</u>
On loans and overdrafts repayable within five years:		
- bank loans and overdrafts	536	1,289
- amounts owed to group undertakings	254	2,157
- interest on finance leases	103	72
	<u>893</u>	<u>3,518</u>

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Corporation tax at 33% (1995: 33%)	54,204	48,530
Prior year adjustments	(231)	(1,098)
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	53,973	47,432
	<hr/>	<hr/>

The tax charge differs from the statutory rate principally due to the non-recognition of movements in the level of the potential deferred tax asset.

8 HEWLETT-PACKARD LIMITED PROFIT AND LOSS ACCOUNT

In accordance with Section 230(3) of the Companies Act 1985, the Company has not presented its own profit and loss account. Of the Group profit for the year, £102,737,000 (1995: £85,111,000) has been dealt with in the accounts of the parent company.

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

9 TANGIBLE ASSETS

Group	<u>Property</u> £'000	Property under <u>construction</u> £'000	<u>Equipment</u> £'000	Equipment rented under <u>leases</u> £'000	<u>Total</u> £'000
<u>Cost</u>					
At 1 November 1995	158,944	6,495	93,244	84,669	343,352
Additions	2,266	10,290	25,953	28,744	67,253
Reclassifications	11,657	(12,508)	851	-	-
Disposals	(505)	-	(18,068)	(7,015)	(25,588)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 1996	172,362	4,277	101,980	106,398	385,017
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<u>Depreciation</u>					
At 1 November 1995	41,472	-	66,063	50,175	157,710
Charge for the year	7,333	-	16,120	22,338	45,791
On additions	-	-	348	-	348
On reclassifications	5	-	(5)	-	-
On disposals	(354)	-	(14,086)	(6,190)	(20,630)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 1996	48,456	-	68,440	66,323	183,219
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<u>Net book amount</u>					
At 31 October 1996	123,906	4,277	33,540	40,075	201,798
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At 31 October 1995	117,472	6,495	27,181	34,494	185,642
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Of the total net book amount of £201,798,000 (1995: £185,642,000), £391,522 (1995: £1,000,000) relates to assets held under finance leases.

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

9 TANGIBLE ASSETS (CONTINUED)

Company	Property £'000	Property under Construction £'000	Equipment £'000	Total £'000
<u>Cost</u>				
At 1 November 1995	158,944	6,495	93,244	258,683
Additions	2,266	10,290	25,953	38,509
Reclassifications	11,657	(12,508)	851	-
Disposals	(505)	-	(18,068)	(18,573)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 1996	172,362	4,277	101,980	278,619
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Depreciation</u>				
At 1 November 1995	41,472	-	66,063	107,535
Charge for the year	7,333	-	16,120	23,453
On additions	-	-	348	348
On reclassifications	5	-	(5)	-
On Disposals	(354)	-	(14,086)	(14,440)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 1996	48,456	-	68,440	116,896
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Net book amount</u>				
At 31 October 1996	123,906	4,277	33,540	161,723
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 1995	117,472	6,495	27,181	151,148
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Included within equipment in the Company and Group are assets subject to short-term rental agreements with a cost of £9,606,700 (1995: £8,141,000) and accumulated depreciation of £2,886,700 (1995: £2,644,000).

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

9 TANGIBLE ASSETS (CONTINUED)

Analysis of property	<u>1996</u>		<u>1995</u>
	Cost £'000	Depreciation £'000	Net £'000
Freehold land	43,641	-	43,641
Freehold buildings	104,746	(42,525)	62,221
Short leaseholds	4,791	(3,480)	1,311
Long leaseholds	19,184	(2,451)	16,733
	<hr/>	<hr/>	<hr/>
Total Company and Group property	172,362	(48,456)	123,906
	<hr/>	<hr/>	<hr/>

10 INVESTMENTS

	<u>Group</u>		<u>Company</u>	
	<u>1996</u> £'000	<u>1995</u> £'000	<u>1996</u> £'000	<u>1995</u> £'000
Shares in group undertakings	-	-	27,549	28,267
Investment in Apollo Computer (UK) Limited	3,590	3,590	3,590	3,590
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments	3,590	3,590	31,139	31,857
	<hr/>	<hr/>	<hr/>	<hr/>

The movement in company shares in group undertakings is as follows:

	<u>1996</u> £'000	<u>1995</u> £'000
At 1 November	28,267	28,267
Liquidations during the year	(718)	-
	<hr/>	<hr/>
At 31 October	27,549	28,267
	<hr/>	<hr/>

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

10 INVESTMENTS (CONTINUED)

The Group companies listed below are wholly owned subsidiaries registered in England and Wales and operating in Great Britain. All subsidiaries are included in the consolidation except for Apollo Computer (UK) Limited as noted below.

<u>Subsidiary Undertakings</u>	<u>Financial Year End</u>
Hewlett-Packard Finance Limited	31 October
BT & D Technologies Limited	31 October
Hewlett-Packard Product Leasing Limited	31 January

Hewlett-Packard Finance Limited is engaged in the provision of financial services to users of Hewlett-Packard products. BT&D Technologies Limited was involved in the manufacture of optoelectronic technologies and products. The business, assets and liabilities of BT&D Technologies Limited were transferred to the Company on 31 October 1994 and has been dormant since that date. Hewlett-Packard Product Leasing Limited did not trade during the Group's financial year.

Liquidations

The following subsidiaries were liquidated during the financial year and hence have not been included in the consolidation. None of the companies traded during the year.

<u>Subsidiary Undertakings</u>	<u>Financial Year End</u>
Hewlett-Packard Avantek Limited	31 October
Colorado Memory Systems (Europe) Limited	31 October
Hewlett-Packard Equipment Leasing Limited	30 April
Hewlett-Packard Leasing Limited	31 July

Investment

Apollo Computer (UK) Limited which was previously engaged in the manufacture, sale and support of computer systems and software, did not trade during the year. The accounts of Apollo Computer (UK) Limited have not been consolidated on the basis that these are not material in the context of the Group accounts.

At 31 October 1996, in the opinion of the Directors, the carrying value of Apollo was not less than the amount at which the investment is stated in the Company and Group balance sheets and on an equity basis the net assets were £5,304,000. Apollo Computer (UK) Limited is owed £3,215,000 by the other Hewlett-Packard Limited Group undertakings.

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

11 STOCKS

	<u>Group</u>		<u>Company</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£'000	£'000	£'000	£'000
Raw materials and consumables	37,985	56,596	37,985	56,596
Work in progress	9,015	8,933	9,015	8,933
Finished goods for resale	48,758	56,394	48,758	56,394
Payments on account	(7,790)	(9,484)	(7,790)	(9,484)
	<hr/>	<hr/>	<hr/>	<hr/>
	87,968	112,439	87,968	112,439
	<hr/>	<hr/>	<hr/>	<hr/>

Long term contract balances are analysed as follows:

Cost less foreseeable losses	7,790	9,484	7,790	9,484
Less: applicable payments on account	(7,790)	(9,484)	(7,790)	(9,484)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

12 DEBTORS

	<u>Group</u>		<u>Company</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£'000	£'000	£'000	£'000
Trade debtors	114,454	103,764	112,475	101,802
Amounts owed by subsidiary undertakings	-	-	-	84,047
Amounts owed by other group undertakings	94,621	92,861	200,866	92,650
Other debtors	11,207	33,193	10,948	33,196
Prepayments and accrued income	5,790	6,916	4,568	3,033
Investment in finance leases	60,092	40,104	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	286,164	276,838	328,857	314,728
	<hr/>	<hr/>	<hr/>	<hr/>

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

12 DEBTORS (CONTINUED)

Of these, amounts due after one year are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£'000	£'000	£'000	£'000
Amounts owed by subsidiary undertakings	-	-	20,610	2,692
Investment in finance leases	37,469	24,548	-	-
	<u>37,469</u>	<u>24,548</u>	<u>20,610</u>	<u>2,692</u>

13 CREDITORS (amounts falling due within one year)

	<u>Group</u>		<u>Company</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	9,233	76,139	9,233	76,139
Trade creditors	27,534	44,646	25,636	42,086
Amounts owed to other group undertakings	97,364	102,819	115,735	121,361
Other creditors	1,439	1,890	1,064	1,530
Corporation tax	48,414	40,996	47,320	39,958
Other taxation and social security	39,541	28,088	39,328	27,371
Accruals and deferred income	109,145	111,222	103,661	106,915
Obligations under lease purchase contracts (Note 19)	472	193	472	193
Payments on account	-	2,355	-	2,355
	<u>333,142</u>	<u>408,348</u>	<u>342,449</u>	<u>417,908</u>

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

14 CREDITORS (amounts falling due after more than one year)

	<u>Group and Company</u>	
	<u>1996</u>	<u>1995</u>
	£'000	£'000
Other creditors	4,952	2,306
Loans from other group undertakings wholly repayable within 1-2 years	-	1,908
Obligations under lease purchase contracts (Note 19)	68	874
	<hr/>	<hr/>
	5,020	5,088
	<hr/>	<hr/>

15 PROVISIONS FOR LIABILITIES AND CHARGES

	<u>Group and Company</u>	
	<u>1996</u>	<u>1995</u>
	£'000	£'000
Pension commitments	11,098	17,816
Deferred taxation	-	-
	<hr/>	<hr/>
	11,098	17,816
	<hr/>	<hr/>

The potential deferred tax balances maybe analysed as follows:

	<u>Group</u>		<u>Company</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£'000	£'000	£'000	£'000
Accelerated capital allowances	3,150	2,810	(3,992)	(4,523)
Pension commitments	3,662	5,879	3,662	5,879
Other	4,205	1,950	3,970	1,176
	<hr/>	<hr/>	<hr/>	<hr/>
Potential deferred tax asset	11,017	10,639	3,640	2,532
	<hr/>	<hr/>	<hr/>	<hr/>

No deferred tax assets have been recognised in the accounts.

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

15 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

The movement on provisions for liabilities and charges is as follows:

	Group and Company	
	<u>Pension commitments</u>	
	<u>1996</u>	<u>1995</u>
	£'000	£'000
At 1 November	17,816	15,229
Charge for the year (Notes 4 and 20)	9,059	9,489
Contributions paid (Note 20)	(15,777)	(6,902)
	<hr/>	<hr/>
At 31 October	11,098	17,816
	<hr/>	<hr/>

16 CALLED UP SHARE CAPITAL

	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	Number	Number	£'000	£'000
	('000)	('000)		
Authorised:				
Ordinary shares of £1 each	200,000	200,000	200,000	200,000
	<hr/>	<hr/>	<hr/>	<hr/>
Allotted and fully paid:				
Ordinary shares of £1 each	104,772	104,772	104,772	104,772
	<hr/>	<hr/>	<hr/>	<hr/>

The ordinary shares are the only class of shares in existence and have full voting rights and access to dividends.

17 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Group	Called up share capital	Share premium account	Profit and loss account	Total Shareholders' Funds	
				<u>1996</u>	<u>1995</u>
	£'000	£'000	£'000	£'000	£'000
At 1 November	104,772	17	158,750	263,539	196,009
Dividend	-	-	(11,146)	(11,146)	(18,364)
Profit for the year	-	-	106,144	106,144	85,894
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October	104,772	17	253,748	358,537	263,539
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

17 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS (CONTINUED)

Company	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total Shareholders' Funds	
				<u>1996</u> £'000	<u>1995</u> £'000
At 1 November	104,772	17	180,795	285,584	218,837
Dividend	-	-	(11,146)	(11,146)	(18,364)
Profit for the year	-	-	102,737	102,737	85,111
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 October	104,772	17	272,386	377,175	285,584
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Shareholders' funds are attributable entirely to equity interests. The cumulative amount of goodwill written-off to reserves at 31 October 1996 is £10,789,000 (1995 : £11,093,000).

18 COMMITMENTS

	<u>1996</u> £'000	<u>1995</u> £'000
<u>Capital expenditure:</u>		
Committed but not provided	4,441	5,547
	<u> </u>	<u> </u>
Authorised but not committed	16,580	1,928
	<u> </u>	<u> </u>

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

18 COMMITMENTS (CONTINUED)

Operating lease commitments:

Group annual commitments under non-cancellable operating leases are set out below.

	<u>1996</u>		<u>1995</u>	
	<u>Property</u>	<u>Other</u>	<u>Property</u>	<u>Other</u>
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within 1 year	237	4,357	54	5,616
Between 1 and 5 years	238	6,536	936	8,424
After 5 years	1,810	-	1,648	-
	<hr/>	<hr/>	<hr/>	<hr/>
	2,285	10,893	2,638	14,040
	<hr/>	<hr/>	<hr/>	<hr/>

Forward exchange contracts:

At 31 October 1996 the Group and Company had commitments arising from forward exchange contracts entered into in the normal course of business.

19 OBLIGATIONS UNDER FINANCE LEASE

	<u>Group and company</u>	
	<u>1996</u>	<u>1995</u>
	£'000	£'000
<u>Gross amounts payable:</u>		
Within one year	504	319
In the second to fifth year inclusive	71	1,087
	<hr/>	<hr/>
	575	1,406
Less: finance charges allocated to future periods	(35)	(339)
	<hr/>	<hr/>
	540	1,067
	<hr/>	<hr/>
<u>Analysed as follows:</u>		
Current obligations (Note 13)	472	193
Non-current obligations (Note 14)	68	874
	<hr/>	<hr/>
	540	1,067
	<hr/>	<hr/>

HEWLETT-PACKARD LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

20 PENSIONS

The Group operates a contributory defined benefit pension scheme, covering the majority of its employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The market value of the pension fund assets on 1 February 1996 was £189,400,000.

The pension costs are assessed in accordance with the advice of an independent qualified actuary. Further, the contributions are determined by the qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 February 1996 and showed that the assets were sufficient to secure 95% of the benefits accrued to members. The Company has implemented a policy whereby regular contributions are being paid at the rate required to achieve the funding objective of 100% of the projected accrued liability by amortising any deficit at the valuation date over a period of five years. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment returns would be 8.5% per annum and that salary increases would average 5.5%.

The pension charge for the year was £9,059,000 (1995: £9,489,000). This included £958,000 (1995: £920,000) in respect of the amortisation of experience surpluses that are being recognised over the average remaining service lives of employees.

During the year, the Group and its employees made pension contributions of £15,777,000 (1995: £6,902,000) and £1,390,000 (1995: £1,233,000) respectively. Contributions will continue to be paid in accordance with the actuary's recommendation.

21 EMPLOYEES

	<u>1996</u>	<u>1995</u>
The average number of persons employed by the Group during the year was:	Number	Number
Sales and service	2,384	2,229
Manufacturing and research & development	3,104	3,064
	<hr/>	<hr/>
	5,488	5,293
	<hr/>	<hr/>

22 ULTIMATE PARENT COMPANY

The ultimate parent company and the smallest and largest undertaking in which these accounts are consolidated is Hewlett-Packard Company, which is incorporated in the United States of America. Copies of the Group accounts of Hewlett-Packard Company can be obtained from 3000 Hanover Street, Palo Alto, California 94304, USA.