

The Hewlett-Packard Company is a major designer and manufacturer of more than 10,000 measurement and computation products and systems. A significant number of these products are manufactured and sold in the UK by Hewlett-Packard Limited.

The 1986 Annual Report contains the consolidated audited accounts for Hewlett-Packard Limited for the year ended October 31st 1986.



REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 October 1986.

- **Results for the Year.** The consolidated results for the year are shown on page 4. The directors recommend that no dividend be paid and that the profit for the year be carried forward in retained earnings.
- **Principal Activities.** The group's principal activities are the design, manufacture and marketing of measurement and computation products and systems.
- **Review of the Business.** Financial Year 1986 was one of consolidation for Hewlett-Packard Limited with continued emphasis on investment for the future, and a return to profitability. Major elements of the capital investment programme included the completion of Building II at Wallscourt Farm, Bristol, to be the permanent home of the Bristol Research Centre and Computer Support Bristol, as well as facilities expansion at South Queensferry. Exports to markets in Europe and the world continued to grow from our UK operations. We continued with a previously reported cost containment programme, but recruitment of essential skilled Research and Development engineers and graduates was maintained. The overall employee total at year end was slightly lower due to natural attrition. Major new product announcements in Financial Year 1986 included commercial

and technical computers based on a new technology called Hewlett-Packard Precision Architecture and a number of advanced products in many fields of business which will provide a sound basis for growth in the future.

- **Research and Development.** The group is committed to an extensive programme of engineering and software research and development in order to ensure the provision of products using the latest technologies.
- **Employee Involvement.** The company has maintained its programme of regular newsletters and meetings to ensure that all employees remain informed both on matters of concern to them as employees and on the financial performance of the company. In addition, employees receive an annual financial report. In 1986 Hewlett-Packard Limited carried out an employee attitude survey which was designed to help the company measure, analyse and respond to a wide range of employee viewpoints in a systematic way. All employees who have completed minimum periods of service are eligible to join both profit share and share purchase schemes of Hewlett-Packard Company.
- **Employment of Disabled Persons.** The company considers fully all applications from disabled persons and endeavours to provide employment where their qualifications, aptitudes and abilities merit their selection. Should an employee become disabled, it is company practice to

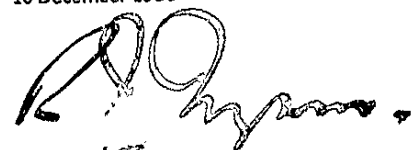
continue the current employment where possible, or to offer suitable alternatives, where available or feasible, giving retraining as necessary.

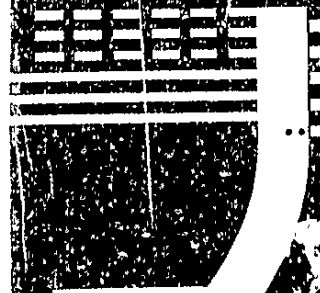
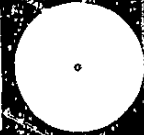
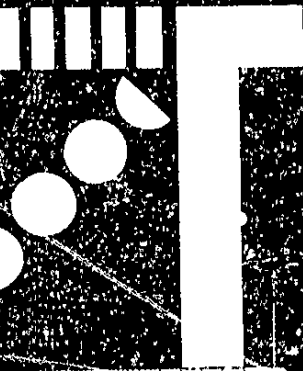
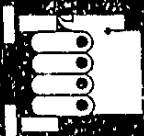
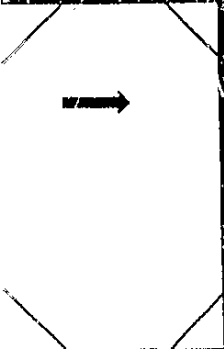
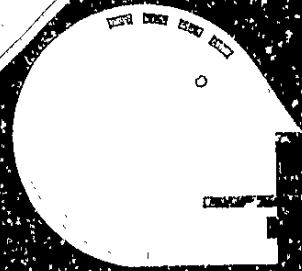
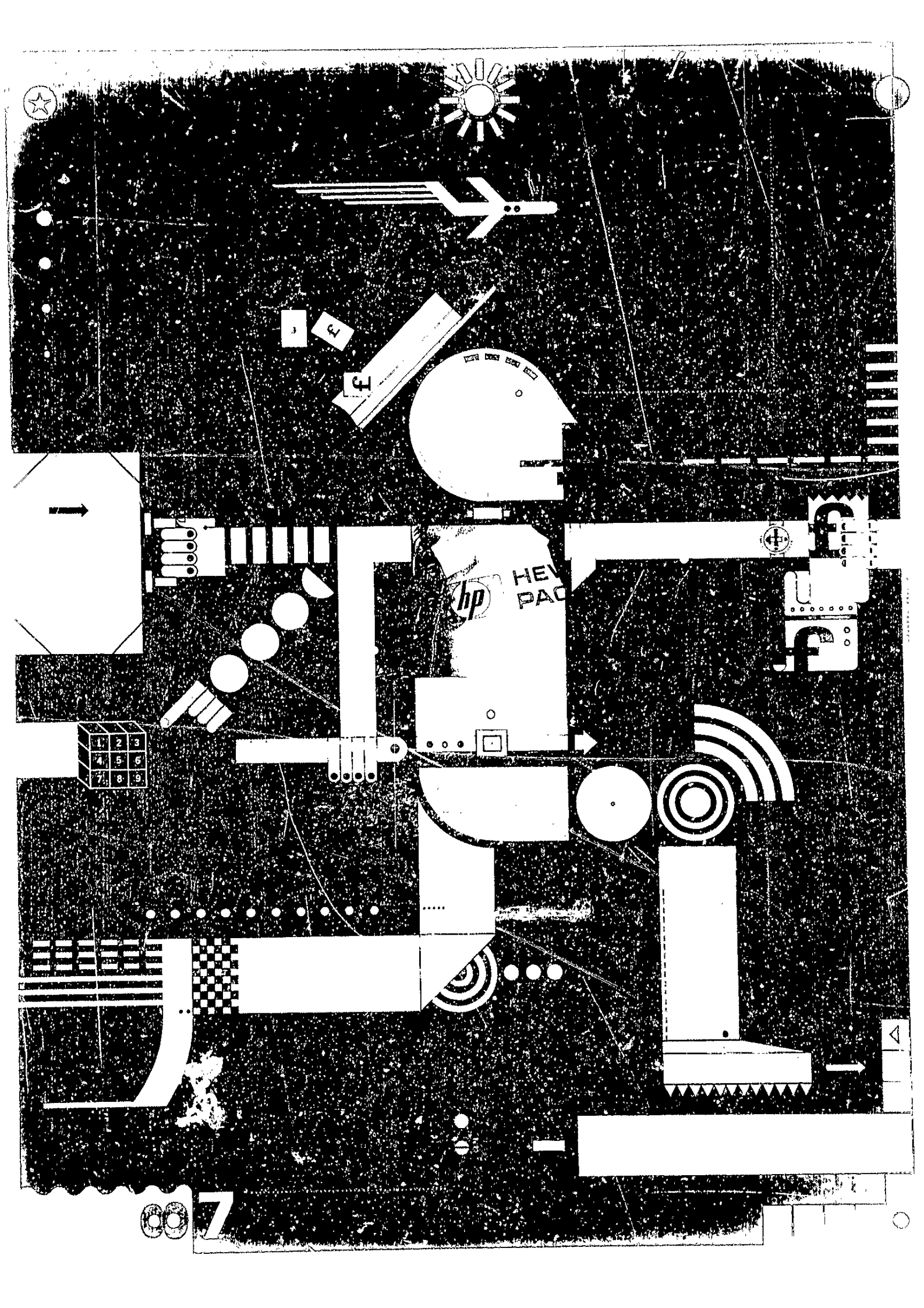
All employees, including the disabled, where their abilities permit, are equally eligible for training and retraining, promotion and career development as part of normal company procedure.

- **Donations.** Donations to UK charities and education establishments amounted to £1,070,000 (1985-£665,000). No political contributions were made during the year.
- **Directors and their Interests.** The directors of the company are detailed on the inside back cover. Mr F MacKenzie CBE was appointed to the board on 11 December 1985. 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.
- **Auditors.** The auditors, Price Waterhouse, have indicated their willingness to be re-appointed.

The wealth created by HP in the UK is divided as follows: wages and salaries £49.1m; reinvested to finance growth £25.4m; interest payments to lenders £5.1m; company pension contributions are £5.3m; company National Insurance contributions are £4.1m; profit sharing to employees £2.1m.

By Order of the Board,
Richard D Thompson, Secretary
10 December 1986





**CONSOLIDATED PROFIT
AND LOSS ACCOUNT**

		1986	1985
For the year ended 31 October 1986	Note	£000	£000
■ Turnover	2	356,796	353,612
Cost of sales		(273,767)	(283,444)
Gross profit		83,029	70,168
Distribution costs		(51,825)	(54,677)
Administrative expenses		(13,600)	(14,458)
Operating profit	3	17,604	1,033
Interest receivable		416	1,909
Interest payable	6	(5,053)	(6,086)
■ Profit/(Loss) on ordinary activities before taxation		12,967	(3,144)
Taxation on Profit/(Loss) on ordinary activities	7	(4,480)	1,152
■ Profit/(Loss) on ordinary activities after taxation		8,487	(1,992)
Extraordinary item	8	—	1,100
■ Profit/(Loss) for the year		8,487	(892)

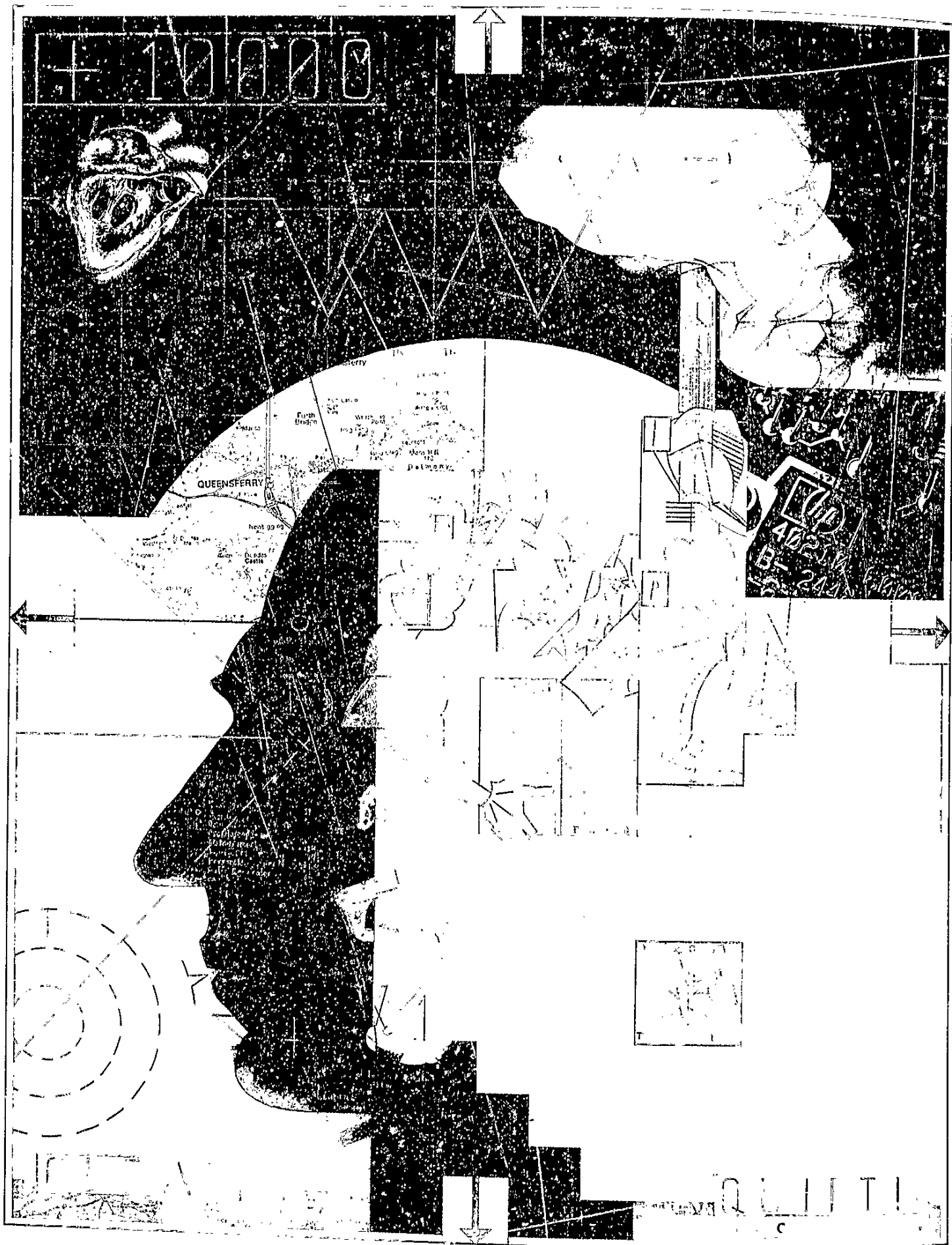
BALANCE SHEETS

		Group		Company	
		1986	1985	1986	1985
At 31 October 1986	Note	£000	£000	£000	£000
■ Fixed assets					
Tangible assets	10	72,069	61,171	71,932	60,957
Investments	11	—	—	200	200
■ Current assets					
Stocks	12	33,991	38,721	33,991	38,721
Debtors	13	82,275	77,493	70,742	63,810
Cash at bank and in hand		17,779	6,673	11,895	6,672
		134,045	122,887	116,628	109,203
■ Creditors (amounts falling due within one year)	14	117,856	114,956	106,693	109,261
■ Net current assets/(liabilities)		16,189	7,931	9,935	(58)
■ Total assets less current liabilities		88,258	69,102	82,067	61,099
■ Creditors (amounts falling due after more than one year)	15	16,599	8,845	15,437	5,540
■ Provisions for liabilities and charges	17	17,227	14,312	14,490	11,218
		54,432	45,945	52,140	44,341
■ Capital and reserves					
Called up share capital	18	1,000	1,000	1,000	1,000
Profit and loss account	19	53,432	44,945	51,140	43,341
		54,432	45,945	52,140	44,341

Approved by the Board on
10 December 1986

D A Baldwin
K C Sinclair Directors

KC Sinclair
D A Baldwin



**CONSOLIDATED SOURCE AND
APPLICATION OF FUNDS**

For the year ended 31 October 1986

■ Source of funds

From operations:

Profit/(Loss) on ordinary activities before taxation

Depreciation

From other sources:

Extraordinary item

Bank loans

Loans from group companies

Disposal of fixed assets

Taxation received

(Increase)/decrease in working capital:

Stocks

Debtors

Creditors

■ Application of funds

Capital expenditure

Finance leases

Bank loans

■ Funds released/(required)

■ Represented by:

(Increase)/decrease in net borrowings:

Loans and overdrafts

Cash at bank and in hand

1986

£000

1985

£000

12,967 (3,144)

13,658 11,416

26,625 8,272

— 1,100

3,000 5,814

6,107 —

875 1,795

— 167

9,982 8,876

4,730 (7,421)

(2,948) (3,447)

18,974 (2,714)

20,756 (13,582)

25,431 29,143

3,352 2,667

1,498 2,274

30,281 34,084

27,082 (30,518)

15,976 (18,148)

11,106 (12,370)

27,082 (30,518)

Hewlett-Packard is an international designer and manufacturer of more than 10,000 products. These include measurement and computation systems, medical equipment, systems for chemical analysis, hand-held calculators and solid state components.

NOTES TO THE ACCOUNTS

1. Accounting policies

- **Consolidation principles.** The group accounts include the results of the company and its subsidiaries as set out in note 11 and are prepared under the historical cost convention and in accordance with United Kingdom accounting standards. The results of those companies whose financial years are not co-terminous with that of the company are included on the basis of accounts made up to 31 October.
- **Turnover.** Turnover consists of sales of equipment, parts and repair services at the amount invoiced less returns and discounts, together with income from leased equipment.
- **Tangible fixed assets and depreciation.** Tangible fixed assets are stated at cost after deduction of government grants. Depreciation is calculated on the above defined cost of tangible fixed assets in accordance with the methods and estimated useful lives set out below:
Freehold buildings – declining balance – over approximately 40 years.
Leasehold property – straight line – over the period of the lease.
Equipment – sum of the digits – three to ten years.
Operating leases – sum of the digits – three to five years.
All items under £750 are written off in the year of acquisition.
No depreciation is provided on freehold land or property under construction.
- **Stocks.** Stocks are valued at the lower of cost and net realisable value. Cost includes appropriate overheads.
- **Goods sold under warranty.** Provision is made in the accounts for costs anticipated to arise during the unexpired warranty periods on goods sold.
- **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 profit and loss account over the term of the lease using the actuarial method after tax. Finance leases where the group is the lessee are accounted for under the same policy. The method of income recognition was changed from a before tax to an after tax basis during the current year. The impact of this change on the accounts is immaterial.
- **Deferred taxation.** Deferred taxation is provided using the liability method in respect of all timing differences expected to reverse.
- **Research and development.** Expenditure on research and development, including the development of software, is written off to revenue as incurred.
- **Foreign currencies.** Assets and liabilities in foreign currency are converted to sterling at the rate of exchange ruling at the balance sheet date. Trading transactions are converted at the rate of exchange ruling at the date of the relevant transaction.

2 Turnover

Turnover includes sales to the ultimate holding company and fellow subsidiaries of £113,776,000 (1985: £113,763,000)

The principal markets in which the group's turnover arose were as follows:

	1986 £000	1985 £000
United Kingdom	243,020	239,849
Other	113,776	113,763
	<hr/>	<hr/>
	356,796	353,612

3 Operating profit

Operating profit is stated after charging:

	1986 £000	1985 £000
Depreciation	13,658	11,416
Operating leases – hire of machinery and equipment	3,834	3,586
Operating leases – hire of other assets	5,582	4,197
Finance lease charges	73	73
Directors' emoluments (Note 4)	167	104
Auditors' remuneration	66	59
Wages and salaries	51,180	46,917
Social security costs	4,071	2,747
Other pension costs	5,322	4,832

For fiscal year 1986 Hewlett-Packard Limited reported a turnover of £357 million, with a pre-tax profit of £13 million and exports of £114 million.

NOTES TO THE ACCOUNTS

	1986	1985
	£000	£000
4 Directors' emoluments		
Fees	22	24
Management remuneration	145	80
	<hr/>	<hr/>
	167	104
	<hr/>	<hr/>

The Chairman received no emoluments in the year (1985: nil) and the emoluments of the highest paid director were £71,541 (1985: £72,543). The number of other directors whose emoluments fell within the bands shown was as follows:

Up to £5,000	2	2
£5,001 to £10,000	4	4
£55,001 to £60,000	1	-
	<hr/>	<hr/>

5 Employees' emoluments

The number of employees whose emoluments fell within the bands shown was as follows:

£30,001 to £35,000	59	59
£35,001 to £40,000	47	41
£40,001 to £45,000	15	12
£45,001 to £50,000	3	2
£50,001 to £55,000	-	1
£60,001 to £65,000	-	1
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

	1986	1985
	£000	£000
6 Interest payable		
On loans and overdrafts repayable within 5 years:		
On bank loans and overdrafts	3,997	5,519
On loans from group companies	834	508
	<hr/> 4,831	<hr/> 6,027
On loans repayable after more than 5 years:		
On bank loans	222	59
	<hr/> 5,053	<hr/> 6,086
	<hr/>	<hr/>
7 Taxation on ordinary activities		
Corporation tax at 37.1% (1985: 42.1%)	1,944	(541)
Prior year adjustments	(379)	34
Deferred tax	2,915	(645)
	<hr/> 4,480	<hr/> (1,152)
	<hr/>	<hr/>

The 1985 corporation tax credit arose from tax losses incurred in the year, being relieved against 1984 taxable profits.

8 Extraordinary item

The extraordinary item is in respect of a non taxable capital sum paid to the company by the developer of Central Square, Uxbridge, in which the company subsequently assumed a leasehold interest.

9 Hewlett-Packard Limited profit and loss account

In accordance with Section 228 (7) of the Companies Act 1985, Hewlett-Packard Limited has not presented its own profit and loss account.

NOTES TO THE ACCOUNTS

10 Tangible assets

	Property	Property under Construction	Equipment	Total Company	Operating Leases	Total Group
	£000	£000	£000	£000	£000	£000
Cost:						
As at 31 October 1985	37,341	5,677	45,197	88,215	688	88,903
Additions	3,128	10,425	11,891	25,444	150	25,594
Reclassifications	9,640	(10,427)	787	-	-	-
Disposals	(416)	-	(1,345)	(1,761)	(245)	(2,006)
As at 31 October 1986	49,693	5,675	56,530	111,898	593	112,491
Depreciation:						
As at 31 October 1985	5,098	-	22,160	27,258	474	27,732
Provision for year	2,033	-	11,527	13,560	98	13,658
On additions	-	-	97	97	66	163
On disposals	(142)	-	(807)	(949)	(182)	(1,131)
As at 31 October 1986	6,989	-	32,977	39,966	456	40,422
Net Book Amount						
As at 31 October 1986	42,704	5,675	23,553	71,932	137	72,069
As at 31 October 1985	32,243	5,677	23,037	60,957	214	61,171

	Cost	Depreciation	Net	Net
	1986	1986	1986	1985
	£000	£000	£000	£000
Analysis of property				
Freehold land	5,027	-	5,027	3,424
Freehold buildings	30,847	(3,813)	27,034	17,275
Long leaseholds	7,503	(1,613)	5,890	6,129
Short leaseholds	6,316	(1,563)	4,753	5,415
	49,693	6,989	42,704	32,243

Capital Investment by HP Limited in 1986 amounted to £25.4 million. Total capital investment in the UK since 1981 has amounted to £99.4 million.



NOTES TO THE ACCOUNTS

	1986	1985
	£000	£000
11 Investments		
Group companies:		
Ordinary shares at cost	200	200

The group companies listed below are wholly owned subsidiaries which are engaged in the provision of financial services to users of Hewlett-Packard products. The accounting dates of those subsidiaries with financial years not co-terminous with that of the holding company are also shown below. It is necessary for these subsidiaries to have non-coterminous year ends in order that they may provide financial services at competitive rates.

Hewlett-Packard Product Leasing Limited
Accounting date 31 January

Hewlett-Packard Equipment Leasing
Limited
Accounting date 30 April

Hewlett-Packard Leasing Limited
Accounting Date 31 July

Hewlett-Packard Finance Limited

12 Stocks

Raw materials and consumables	15,093	17,092
Work in progress	3,184	4,023
Finished goods and goods for resale	15,714	17,606
	33,991	38,721

NOTES TO THE ACCOUNTS

	Group		Company	
	1986	1985	1986	1985
	£000	£000	£000	£000
13 Debtors				
Trade debtors	36,230	41,789	35,939	41,419
Investment in finance leases	19,966	18,132	—	—
Amounts owed by subsidiary	—	—	9,260	5,155
Amounts owed by group companies	18,249	8,591	18,249	8,591
Other debtors	5,973	7,154	5,677	7,075
Prepayments and accrued income	1,857	1,827	1,617	1,570
	82,275	77,493	70,742	63,810
Due after one year:				
Investment in finance leases	13,004	12,114	—	—
Amounts owed by subsidiary	—	—	5,314	4,314
	13,004	12,114	5,314	4,314

14 Creditors

(amounts falling due within one year)

Bank loans and overdrafts (Note 16)	25,342	41,318	17,799	38,607
Trade creditors	8,598	8,277	8,025	7,909
Amounts owed to other group companies	52,349	35,271	52,349	35,271
Other creditors	532	331	433	273
Corporation tax	3,153	2,817	2,588	2,817
Other taxation and social security	3,438	3,326	3,195	3,130
Obligations under finance leases	1,021	1,455	—	—
Accruals and deferred income	23,423	22,161	22,304	21,254
	117,856	114,956	106,693	109,261

NOTES TO THE ACCOUNTS

		Group		Company
	1986	1985	1986	1985
	£000	£000	£000	£000
15 Creditors				
(amounts falling due after more than one year)				
Bank loans (Note 16)	8,242	6,740	8,242	5,540
Corporation tax	1,229	-	1,088	-
Obligations under finance leases	1,021	2,105	-	-
Loans from other group companies wholly repayable within 5 years	6,107	-	6,107	-
	16,599	8,845	15,437	5,540

16 Bank loans and overdrafts

Repayable by instalments:

within 5 years

1,774

1,632

1,774

1,632

after 5 years

452

868

452

868

2,226

2,500

2,226

2,500

Repayable other than by instalments:

within 5 years

31,358

45,558

23,815

41,647

33,584

48,058

26,041

44,147

Included in current liabilities

25,342

41,318

17,799

38,607

8,242

6,740

8,242

5,540

Amounts repayable by instalments represents a bank loan at 9.5% per annum repayable in half yearly instalments commencing 15 January 1986.

Certain bank loans and overdrafts are guaranteed by the ultimate holding company.

Included in cash at bank and in hand is a deposit of £6,107,000 (1985: £2,837,000) on which there is a right of set-off under a swap agreement against a bank loan included above.

NOTES TO THE ACCOUNTS

		Group		Company
	1986	1985	1986	1985
	£000	£000	£000	£000
17 Provisions for liabilities and charges				
Deferred taxation	17,227	14,312	14,490	11,218

Full provision has been made for deferred taxation which is attributable primarily to accelerated capital allowances.

18 Called up share capital

Ordinary shares of £1 each:

Authorised			1,000	1,000
Allotted and fully paid			1,000	1,000

19 Profit and loss account

As at 1 November	44,928	45,820	43,324	44,727
Profit/(Loss) for the year	8,487	(892)	7,799	(1,403)
As at 31 October	53,415	44,928	51,123	43,324
Share premium account	17	17	17	17
	53,432	44,945	51,140	43,341

NOTES TO THE ACCOUNTS

	1986	1985
	£000	£000
20 Commitments		
Capital expenditure:		
Committed but not provided for	4,463	8,360
Authorised but not committed	9,248	6,661

	Property	Other	Property	Other
	1986	1986	1985	1985
	£000	£000	£000	£000
Leasing commitments:				
Group annual operating lease commitments	5,105	1,940	3,351	1,452
Payable within 1 year	20,407	929	13,379	990
Payable between 1 to 5 years	54,157	—	18,891	4
Payable after 5 years				
	79,669	2,869	35,621	2,446

Forward exchange contracts:

At 31 October 1986 the company had substantial commitments arising from forward exchange contracts entered into in the normal course of business.

21 Pensions

The group operates a non-contributory defined benefit pension scheme covering the majority of its employees. The scheme's funds are administered by trustees and are independent of the group's finances. The latest actuarial valuation of the scheme was carried out as at 1 February 1984. At that date there was no actuarial deficiency in the scheme on a discontinuance basis and contribution rates are being paid in accordance with the consulting actuary's recommendations. The group's contributions are charged against profit in the year in which the contributions are made.

In 1986, the average number of people employed was 1,758 in sales and service, and 1,790 in manufacturing. The end of year total was 3,594.



NOTES TO THE ACCOUNTS

22 Employees	1986	1985
The average number of persons employed by the group during the year was:		
Sales and service	1,758	1,753
Manufacturing, research and development	1,790	1,693
	<hr/>	<hr/>
	3,548	3,446
	<hr/>	<hr/>

23 Ultimate holding company

The ultimate holding company is Hewlett-Packard Company which is incorporated in the United States of America.

Report of the auditors to the members of Hewlett-Packard Limited

We have audited the accounts on pages 4 to 20 in accordance with approved Auditing Standards. In our opinion the accounts give a true and fair view of the state of affairs of the company and the group at 31 October 1986 and of the profit and the source and application of funds of the group for the year then ended and comply with the Companies Act 1985.

Price Waterhouse

Price Waterhouse,
Chartered Accountants,
London
10 December 1986

DIRECTORS

Mr. J. H. ()

Mr. J. H. ()

Mr. J. H. ()

Mr. J. H. ()

Mr. J. H. ()

Mr. J. H. ()

Mr. J. H. ()

Mr. J. H. ()

Mr. J. H. ()

SECRETARY

Mr. J. H. ()

AUDITORS

Mr. J. H. ()

Mr. J. H. ()

Mr. J. H. ()

Mr. J. H. ()

Printed and Published by the
County of ...
...
...

For fiscal year 1986,
Hewlett-Packard Limited
reported a turnover of
£357 million, with a pre-
tax profit of £13 million,
exports of £114 million,
and capital expenditure
of £25 million.