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Page One

Page One

Page Two

Page Two

Page Three

Page Three

Page Four

Page Four

Page Five

Page Five

Page Six

Page Six

Page Seven

Page Seven

Page Eight

Page Eight

Page Nine

Page Nine

Chairman's Statement

The financial year which ended on 31 October, 1978 was an extremely healthy one for Hewlett-Packard Ltd with turnover increasing to £56.5 million—27.8 per cent up over the previous year. Profits from trading, at £6.4 million before tax, represented a 20% increase over the same period. However, the decline in the value of the dollar resulted in an exceptionally high exchange loss arising from the conversion of US dollar balances into sterling.

A significant element in this growth has been the continued record of success and product innovation from HP's manufacturing division at South Queensferry, near Edinburgh.

1978 saw the introduction of five new products—two of them dedicated to digital communications test, one using microprocessor techniques to extend the range of FDM (Frequency Division Multiplex) measurements and, with the provision of two new access switches, the capability of providing complete computer based solutions for FDM surveillance.

The year also marked a major undertaking to strengthen the range and depth of the company's sales and service network. The addition of over 100 people to the Marketing Division operation was an increase of 20% over 1977 and brought total U.K. employment to 1282.

The geographic distribution of these people also received attention so that at the end of the year HP support was available from nine strategic locations with plans being completed for at least two further branch offices during 1979.

In depth support for the company's rapidly expanding data products business has been a major factor in this investment programme. For example, the



company now has two customer training centres in constant use and a major development early in 1979 will be the acquisition of a 28-acre site in Berkshire specifically intended for customer support and training activities.

A further innovation for the year was the formation in September of HP's own leasing company as an additional service to those of our customers who prefer this method of capital equipment acquisition.

In summary 1978 was a progressive year for the company. I would like to conclude by expressing the sincere appreciation of the directors to all our employees whose hard work and dedication made it possible.

Franco Mariotti
CHAIRMAN

x February 1979

Directors

F. Mariotti
(Chairman)

D. A. Baldwin
(Joint Managing)

P. Carmichael
(Joint Managing)

W. P. Doolittle
(USA)

K. C. Sinclair
C.B.E., B.Sc., F.I.E.E.

R. A. Smith
C.B.E., M.A., Ph.D., F.R.S.E., F.R.S.

R. D. Gill
M.A.

Secretary:
J. B. Penrose
F.C.A.

Auditors

Price Waterhouse & Co.,
Southwark Towers,
32 London Bridge Street,
London SE1 9SY.

Offices

*Registered Office &
U.K. Headquarters:*
King Street Lane, Winnersh,
Wokingham, Berkshire RG11 5AR.
Telephone: 0734 784774

Manufacturing:
South Queensferry,
West Lothian, EH30 9TG.

Sales & Service:
King Street Lane, Winnersh,
Wokingham, Berkshire RG11 5AR.

Fourier House, (*April '79)
253-267 High Street,
London Colney, Herts.

Lygon Court, Hereward Rise,
Dudley Road, Halesowen,
West Midlands, B62 8SD.

2C Avonbeg Industrial Estate,
Long Mile Road, Dublin 12,
Ireland.

14 Wesley Street, Castleford,
Yorkshire WF10 1AE.

9 Savoy Street, (*March '79)
London WC2.

Tradex House, (*April '79)
St. Marys Walk, Maidenhead, Berks.

Morley Road, Staple Hill,
Bristol BS16 4QT.

Wedge House,
799 London Road, Thornton Heath,
Surrey, CR94 6XL.

Trafalgar House,
Navigation Road, Altrincham,
Cheshire WA14 1NU.

South Queensferry,
West Lothian, EH30 9TG.

**Planned opening dates*

Directors' Report

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 October 1978.

1. RESULTS FOR THE YEAR

The consolidated results for the year are shown on page seven. The directors recommend that no dividend should be paid and the profit for the year be carried forward in retained earnings.

2. PRINCIPAL ACTIVITIES

The company is engaged in the manufacture, sale and service of electronic test and measurement instruments, computer systems, desk-top computers, calculators, medical electronic equipment, instrumentation for chemical analysis and solid-state components. South Queensferry, near Edinburgh, is the Hewlett-Packard Corporation's worldwide centre for research, development and manufacture of communications test equipment.

3. FIXED ASSETS

Details of fixed assets and movements during the year are set out in Note 8 to the accounts.

In the opinion of the directors the market value of the company's land and buildings was in excess of the net book amount at 31 October 1978.

4. EMPLOYEES

The average number of staff employed during the year was 1,207 (1977 1,144) and their aggregate remuneration, excluding pension fund contributions and other benefits not receivable in cash, was £6,453,585 (1977—£5,217,810).

5. DONATIONS

Donations to U.K. charities and educational establishments amounted to £9,330 (1977—£4,702). No political contributions were made during the year.

6. EXPORTS

Exports of the group during the year amounted to £12,003,000.

7. DIRECTORS

The directors of the company are as detailed on page three.

Mr. D. P. Taylor and Mr. W. E. Terry resigned from the Board in March, 1978.

Mr. P. Carmichael and Mr. D. A. Baldwin were appointed directors in March and April 1978 respectively.

Mr. R. D. Gill was appointed a director on 15 November 1978.

In accordance with the articles of association Mr. W. P. Doolittle, Dr. R. A. Smith and Mr. K. C. Sinclair retire and offer themselves for re-election.

8. DIRECTORS' INTERESTS

During the financial year, the company was party to arrangements whereby certain of its employees were assisted through the Hewlett-Packard Company Foreign Employees Stock Purchase Plan in the purchase of capital stock in its holding company, Hewlett-Packard Company, which is incorporated in the United States of America. Mr. D. A. Baldwin and Mr. P. Carmichael held capital stock and options acquired during the year under these arrangements.

Certain of the directors and employees are eligible to participate in the holding company's Incentive Stock Option Plan. This provides for the grant of options to acquire stock in the holding company at a price equivalent to the market price of the stock at the date when the option was granted.

None of the directors had any beneficial interest in the shares of the company at the beginning or end of the financial year.

9. INCOME AND CORPORATION TAXES ACT 1970

The Company is not a close company within the meaning of this Act.

10. AUDITORS

The auditors, Price Waterhouse & Co., have indicated their willingness to be re-appointed.

By order of the Board

JOHN B. PENROSE

Secretary

13 February 1979

Auditors' Report

TO THE MEMBERS OF HEWLETT-PACKARD LIMITED

In our opinion the accounts on pages seven to sixteen, which have been prepared under the historical cost convention give, under that convention, a true and fair view of the state of affairs of the company and the group at 31 October 1978, and of the profit and the source and application of funds of the group for the year then ended and comply with the Companies Acts, 1948 and 1967.

Southwark Towers,
32, London Bridge Street,
London SE1 9SY.

Price Waterhouse & Co.

PRICE WATERHOUSE & CO.,
Chartered Accountants

28 December 1978

HEWLETT-PACKARD LIMITED AND SUBSIDIARY

Consolidated Profit & Loss Account

FOR THE YEAR ENDED 31 OCTOBER 1978

	1978 £000	1977 £000
Turnover (Note 3)		
Sales and service:		
Outside customers	44,508	32,582
Exports to ultimate holding Company and fellow subsidiaries	<u>12,003</u>	<u>11,622</u>
	<u>56,511</u>	<u>44,204</u>
Profit from trading	6,422	5,372

After charging:	1978 £000	1977 £000
Depreciation	478	426
Hire of machinery & equipment	595	402
Directors' emoluments (Note 5)	71	26
Auditors' remuneration	25	16

Less: loss on exchange	<u>1,300</u>	<u>623</u>
	5,122	4,749
Interest (Note 4)	<u>176</u>	<u>123</u>
Profit before taxation	5,298	4,872
Taxation (Note 7)	<u>2,827</u>	<u>2,542</u>
Retained profit for the year (Note 11)	<u>2,471</u>	<u>2,330</u>

The notes on pages eleven to sixteen form part of these accounts.

HEWLETT-PACKARD LIMITED AND SUBSIDIARY

Consolidated Balance Sheet

AT 31 OCTOBER 1978

	1978	1977
	£000	£000
<i>Net Assets Employed</i>		
FIXED ASSETS (Note 8)	3,415	3,294
LONG TERM DEBTORS (Note 1)	218	—
CURRENT ASSETS		
Stocks (Note 9)	6,840	4,834
Deposits & prepaid expenses	308	365
Debtors	8,755	5,350
Amounts due from fellow subsidiary companies	7,501	4,987
Cash and short term deposits	2,188	4,809
	<u>25,592</u>	<u>20,345</u>
CURRENT LIABILITIES		
Creditors	4,006	2,922
Amounts due to holding and fellow subsidiary companies	3,175	1,252
Current taxation	2,036	3,010
Corporation tax payable 1 January, 1980	2,562	2,597
Bank loans and overdrafts	749	659
	<u>12,528</u>	<u>10,440</u>
NET CURRENT ASSETS	13,064	9,905
	<u>16,697</u>	<u>13,199</u>
<i>Financed by:</i>		
SHARE CAPITAL (Note 10)	200	200
SHARE PREMIUM ACCOUNT	17	17
RETAINED PROFITS (Note 11)	14,301	11,417
	<u>14,518</u>	<u>11,634</u>
LOAN (Note 12)	78	90
DEFERRED TAXATION (Note 13)	2,101	1,475
	<u>16,697</u>	<u>13,199</u>

The notes on pages eleven to sixteen form part of these accounts.

HEWLETT-PACKARD LIMITED

Balance Sheet

AT 31 OCTOBER 1978

	1978 £000	1977 £000
<i>Net Assets Employed</i>		
FIXED ASSETS (Note 8)	3,415	3,294
INTEREST IN SUBSIDIARY (Note 14)	286	—
CURRENT ASSETS		
Stocks (Note 9)	6,840	4,834
Deposits & prepaid expenses	308	365
Debtors	8,694	5,350
Amounts due from fellow subsidiary companies	7,501	4,987
Cash and short term deposits	<u>2,188</u>	<u>4,809</u>
	<u>25,531</u>	<u>20,345</u>
CURRENT LIABILITIES		
Creditors	4,004	2,922
Amounts due to holding and fellow subsidiary companies	3,175	1,252
Current taxation	2,184	3,010
Corporation tax payable 1 January, 1980	2,562	2,597
Bank loans and overdrafts	<u>749</u>	<u>659</u>
	<u>12,674</u>	<u>10,440</u>
NET CURRENT ASSETS	<u>12,857</u>	<u>9,905</u>
	<u>16,558</u>	<u>13,199</u>
<i>Financed by:</i>		
SHARE CAPITAL (Note 10)	200	200
SHARE PREMIUM ACCOUNT	17	17
RETAINED PROFITS (Note 11)	<u>14,310</u>	<u>11,417</u>
	<u>14,527</u>	<u>11,634</u>
LOAN (Note 12)	78	90
DEFERRED TAXATION (Note 13)	<u>1,953</u>	<u>1,475</u>
	<u>16,558</u>	<u>13,199</u>

P. Carmichael
D. A. Baldwin Directors

The notes on pages eleven to sixteen form part of these accounts.

HEWLETT-PACKARD LIMITED AND SUBSIDIARY

Source & Application of Funds

YEAR ENDED 31 OCTOBER 1978

SOURCE OF FUNDS	1978		1977	
	£000	£000	£000	£000
Trading profit before tax		5,298		4,872
Adjustment for items not involving the movements of funds:				
Depreciation		478		426
Loss on disposal of fixed assets		<u>13</u>		<u>57</u>
TOTAL GENERATED FROM OPERATIONS		5,789		5,355
FUNDS FROM OTHER SOURCES				
Government grants received		74		51
Effect of accounting changes before taxation		<u>309</u>		<u>—</u>
		6,172		5,406
APPLICATION OF FUNDS				
Tax paid	(3,106)		(894)	
Purchase of fixed assets	(686)		(533)	
Decrease in long-term borrowing	<u>(12)</u>		<u>(12)</u>	
		(3,804)		(1,439)
		2,368		3,967
INCREASE (DECREASE) IN WORKING CAPITAL				
Stocks	2,006		203	
Debtors	3,566		701	
Net group debtors	591		(1,285)	
Creditors	<u>(1,084)</u>		<u>(455)</u>	
Net movements in working capital		5,079		(836)
INCREASE (DECREASE) IN CASH BALANCES		(2,711)		4,803

The notes on pages eleven to sixteen form part of these accounts.

Notes to the Accounts

1 ACCOUNTING POLICIES

The accounting policies used in the preparation of the accounts of the Group are summarised below:

Consolidation

The consolidated accounts include the accounts of the Company and its subsidiary Hewlett-Packard Finance Limited, which is 100% owned by the Company and was incorporated in England on 18 September 1978 for the purpose of providing leasing and other financial services to customers.

Fixed Assets and Depreciation

Fixed Assets are stated at cost after deduction of Government grants.

Depreciation is calculated on the sum of the digits method with reference to the above defined cost of fixed assets over estimated useful lives as follows:

Freehold Buildings	—	Forty years
Leasehold Property	—	Over the term of the Lease
Machinery & Equipment	—	Three to ten years
Motor Vehicles	—	Four years

Stocks

Stocks and work in progress are valued at the lower of cost and estimated net realisable value. Cost includes attributable overheads. With effect from 1 November 1977 freight, duty and surcharges have been included in attributable overheads, see note 11.

Deferred Taxation

Allowance is made on the deferral method for taxation deferred or prepaid by reason of the inclusion for taxation purposes of items of income and expense in periods different from those in which such items are recognised in the financial accounts.

Leasing Income and Debtors

The interest element of the income from finance type equipment leases to customers is credited to profit and loss account over the term of the lease using the sum of the digits method of calculation. Amounts receivable in respect of finance type leases are stated after deduction of the interest element of the income relating to the unexpired portion of the lease. Net amounts receivable over periods in excess of twelve months are shown as long term debtors.

Foreign Currencies

Assets and liabilities in U.S. dollars 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.

Goods Sold Under Warranty

With effect from 1 November 1977 provision is made for costs anticipated to arise during the unexpired Warranty period on goods sold, see Note 11.

2 ULTIMATE HOLDING COMPANY

The Company is a subsidiary of the Hewlett-Packard Company which is incorporated in the United States of America and is not a subsidiary of any other company.

3 TURNOVER

Sales which are for equipment, parts and charges for repair services are stated at the amount invoiced less returns and trade discounts. Sales also include income from leased equipment.

4 INTEREST

	1978 £000	1977 £000
Interest receivable	217	265
Interest payable		
Bank loans and overdrafts	36	136
Other loans	5	6
	—	—
	41	142
Net interest receivable	<u>176</u>	<u>123</u>

5 DIRECTORS' EMOLUMENTS

The emoluments of the Company's Directors were:

	1978 £000	1977 £000
Fees	5	4
Management Remuneration	46	22
Ex-gratia payment to former director	<u>20</u>	<u>—</u>
	<u>71</u>	<u>26</u>

Emoluments excluding pension contributions were:

	£000	£000
Chairman	—	—
Highest paid Director	18	22
Other Directors	Number	Number
Nil	2	2
Up to £2,500	2	2
£10,001—£12,500	1	—
£12,501—£15,000	1	—

6 EMPLOYEES' EMOLUMENTS

The number of employees whose emoluments exceeded £10,000 (excluding pension contributions) was:

	1978 Number	1977 Number
£10,001—£12,500	43	13
£12,501—£15,000	14	4
£15,001—£17,500	5	1

7 TAXATION

	1978 £000	1977 £000
Based on profit for the year:		
Corporation tax at 52%	2,036	2,597
Deferred taxation	<u>713</u>	<u>(57)</u>
	2,749	2,540
Adjustment in respect of prior years:		
Corporation tax	78	(1)
Deferred taxation	<u>—</u>	<u>3</u>
	<u>2,827</u>	<u>2,542</u>

8 FIXED ASSETS

	Freehold land and buildings	Short leasehold property	Machinery vehicles & equipment	TOTAL
Cost	£000	£000	£000	£000
At 1 November 1977	3,404	54	2,088	5,546
Additions	24	2	586	612
Reclassifications	23	—	(23)	—
Disposals	<u>(3)</u>	<u>—</u>	<u>(115)</u>	<u>(118)</u>
At 31 October 1978	3,448	56	2,536	6,040
Depreciation	<u>935</u>	<u>6</u>	<u>1,684</u>	<u>2,625</u>
Net Book Value				
At 31 October 1978	<u>2,513</u>	<u>50</u>	<u>852</u>	<u>3,415</u>
At 31 October 1977	<u>2,627</u>	<u>51</u>	<u>616</u>	<u>3,294</u>

9 STOCKS

The stocks of the company comprise:

	1978 £000	1977 £000
Raw Materials	1,068	1,193
Work in Progress	1,655	1,485
Finished goods	<u>4,117</u>	<u>2,156</u>
	<u>6,840</u>	<u>4,834</u>

10 SHARE CAPITAL

	1978 £000	1977 £000
Ordinary Shares of £1 each:		
Authorised	<u>210</u>	<u>210</u>
Issued and fully paid	<u>200</u>	<u>200</u>

11 RETAINED PROFIT

	Consolidated £000	Company £000
At 31 October 1977 as previously reported	11,417	11,417
Prior year adjustments (net of taxation):		
Change in accounting policy for Stocks (Note 1)	213	213
Change in accounting policy for warranty provisions (Note 1)	(65)	(65)
Correction of deferred taxation	265	265
	<u>413</u>	<u>413</u>
At 1 November 1977 as adjusted	11,830	11,830
Retained profit for the year	<u>2,471</u>	<u>2,480</u>
At 31 October 1978	<u>14,301</u>	<u>14,310</u>

The prior year adjustments resulting from changes in accounting policy reflect the cumulative effect of those changes at 31 October 1977. Comparative figures have not been adjusted to reflect the new accounting policies as the effect of these changes at 31 October 1976 cannot be accurately ascertained. However, it is estimated that the profit after taxation for the year ended 31 October 1977 would not have been significantly affected by the changes, or by the corrections.

12 LOAN

The long-term loan, which is secured over certain freehold property, is repayable in fifteen half yearly instalments by Whitsunday, 1985 and bears interest at 6½% on the balance outstanding from time to time.

13 DEFERRED TAXATION

	Consolidated		Company	
	1978	1977	1978	1977
	£000	£000	£000	£000
The balance comprises:				
Tax deferred by capital allowances	1,121	860	973	860
Tax deferred by other timing differences:				
Stock relief	956	681	956	681
Other	24	(66)	24	(66)
	<u>2,101</u>	<u>1,475</u>	<u>1,953</u>	<u>1,475</u>

14 INTEREST IN SUBSIDIARY

	1978	1977
	£000	£000
Shares at Cost	—	—
Amount owing by subsidiary	<u>286</u>	<u>—</u>
	<u>286</u>	<u>—</u>

At 31 October 1978 the Company beneficially owned two £1 Ordinary shares in its subsidiary company Hewlett-Packard Finance Ltd., being the entire issued share capital at that date. Subsequent to 31 October 1978, the issued share capital has been increased by £49,998, all issued to the Company.

15 CAPITAL COMMITMENTS

	1978	1977
	£000	£000
Committed but not provided for	<u>166</u>	<u>183</u>
Authorised but not committed	<u>—</u>	<u>—</u>