

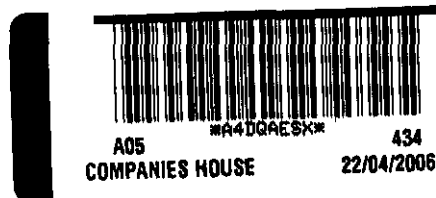
690597

# Hewlett-Packard Limited

## Report and Financial Statements

31 October 2005

 ERNST & YOUNG



# Hewlett-Packard Limited

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Registered No: 690597

## **Directors**

S Gill  
C R Dean  
M Lambton

## **Secretary**

J Ormrod

## **Auditors**

Ernst & Young LLP  
Apex Plaza  
Reading  
Berkshire  
RG1 1YE

## **Registered Office**

Cain Road  
Bracknell  
Berkshire  
RG12 1HN

 **ERNST & YOUNG**

## Directors' report

The directors present their report and financial statements for the year ended 31 October 2005.

### Principal activity and review of the business

The company is a leading provider of computing and imaging solutions and services for business and home, and is focused on capitalising on the opportunities of the Internet and the proliferation of electronic services.

Over the past year, the company has continued to build an integrated, cross-company strategy to fully exploit the intersection of its various product offerings focused on creating solutions that deliver total customer experience. The directors are satisfied with the results of the company.

The company 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.

On 1 January 2005, Hewlett-Packard Limited bought Synstar Limited for £165.9m following the acquisition by Hewlett-Packard Company of Synstar in October 2004.

On 1 March 2005, Hewlett-Packard Limited acquired 10% of the trade and assets of Schlumberger Business Continuity Services (Ireland) Limited, the remaining 90% was acquired by Hewlett-Packard Ireland Limited.

On 14 April 2005, Hewlett-Packard Limited bought the rights to the technology and website of Snapfish for £1.5m.

In September 2005, the company communicated its intention to restructure aspects of the business which would result in up to 968 jobs being lost within the UK of which this entity forms part. This initiative is part of a world wide initiative to reduce cost and improve operating profit. Most of these positions will be lost over the next 12 months. No provision has been booked in respect of this restructuring at year end.

### Research and development

The company maintained an extensive programme of research and development.

### Employee involvement

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

There is a well-developed employee involvement programme within the company. 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 the company performance bonus and share purchase schemes of the Hewlett-Packard Company.

### Employment of disabled employees

All applications from disabled persons are fully considered. Should an employee become disabled, it is the company's practice to continue their current employment where possible or offer suitable alternatives. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

### Donations

Donations to UK charities and educational establishments amounted to £327,738 (2004: £685,925).

## Directors' report (continued)

### Results and dividends

The company reported a pre-tax profit of £166 million (2004: profit £216 million). Profit after taxation for the year amounted to £113 million (2004: profit £163 million).

The company has paid dividends totalling £130 million (2004: £226 million) during the year. This consists of a dividend relating to year ended 31 October 2005 of £130 million (2004: £200 million).

### Directors

The directors during the year were as follows:

S Gill  
C R Dean  
M Lambton

No directors have any interests in the share capital of the company.

During the year, and up to the date of approval of the financial statements, the company had in place third party indemnity provision for the benefit of all the directors of the company.

### Auditors

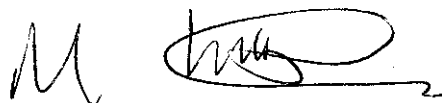
Ernst & Young LLP will be reappointed as the company's auditor in accordance with the elective resolution passed by the company under section 386 of the Companies Act 1985.

### Elective resolutions

The company has passed the following elective resolutions;

- (1) That for the purpose of Section 252 of the Companies Act 1985, the company elected to dispense with the laying of financial statements and reports before the company in general meeting.
- (2) That for the purpose of Section 366A of the Companies Act 1985, the company elected to dispense with the holding of Annual General Meetings.
- (3) That for the purpose of Section 386 of the Companies Act 1985, the company elected to dispense with the obligation to appoint auditors annually.

By order of the Board



Director M. LAMBTON

Date: 21.12.05

## Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Independent auditors' report to the members of Hewlett-Packard Limited

We have audited the company's financial statements for the year ended 31 October 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

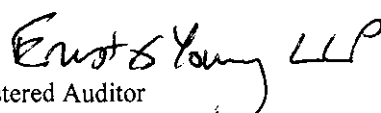
### Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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 financial statements 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 financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 October 2005 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Registered Auditor  
Reading

Date: 21 December 2005

# Profit and loss account

for the year ended 31 October 2005

	Note	2005 £'000	2004 £'000
<b>Turnover</b>	2	2,845,175	2,770,126
Cost of sales		(2,452,681)	(2,289,017)
<b>Gross profit</b>		392,494	481,109
Distribution costs		(170,062)	(203,032)
Administration expenses		(73,640)	(92,323)
<b>Operating profit</b>	3, 4	148,792	185,754
Exceptional item: impairment of investment	4	(20,691)	-
Interest receivable		22,086	10,437
Other finance income	7	20,936	19,713
Interest payable	8	(5,369)	(53)
<b>Profit on ordinary activities before taxation</b>		165,754	215,851
Tax on profit on ordinary activities	9	(53,020)	(53,265)
<b>Profit for the financial year</b>		112,734	162,586
<b>Dividends</b>			
Ordinary dividend	10	(130,000)	(200,000)
<b>Accumulated loss for the year</b>		(17,266)	(37,414)

## Statement of total recognised gains and losses

for the year ended 31 October 2005

	Note	2005 £'000	2004 £'000
<b>Accumulated loss for the year</b>		(17,266)	(37,414)
Actuarial loss recognised in the pension scheme	22	(66,560)	(64,812)
Current tax credit associated with loss in the pension scheme	9	31,064	31,643
Deferred tax charge associated with loss in the pension scheme	18	(11,096)	(12,200)
<b>Total recognised loss relating to the year</b>		<u>(63,858)</u>	<u>(82,783)</u>




**Balance sheet**

as at 31 October 2005

	Note	2005 £'000	2004 £'000
<b>Fixed assets</b>			
Tangible assets	11	173,584	185,620
Intangible assets	12	171,328	183,464
Investments	13	637,754	492,514
		<u>982,666</u>	<u>861,598</u>
<b>Current assets</b>			
Tangible assets	11	6,919	4,816
Stocks	14	81,974	86,555
Debtors:			
- amounts due within one year	15	1,150,989	500,845
- amounts due after more than one year	15	4,639	21,366
Cash at bank and in hand		67,608	568,308
		<u>1,312,129</u>	<u>1,181,890</u>
<b>Creditors:</b>			
- amounts falling due within one year	16	(1,609,600)	(1,336,595)
		<u>(297,471)</u>	<u>(154,705)</u>
<b>Net current (liabilities)</b>			
		<u>685,195</u>	<u>706,893</u>
<b>Total assets less current liabilities</b>			
		<u>685,195</u>	<u>706,893</u>
<b>Provisions for liabilities and charges</b>	17	(59,699)	(37,225)
		<u>625,496</u>	<u>669,668</u>
<b>Net assets excluding pension liability</b>			
		<u>625,496</u>	<u>669,668</u>
Pension liability	22	(46,558)	(26,872)
		<u>578,938</u>	<u>642,796</u>
<b>Net assets including pension liability</b>			
		<u>578,938</u>	<u>642,796</u>
<b>Capital and Reserves</b>			
Called up share capital	19	104,772	104,772
Share premium account	20	382,017	382,017
Profit and loss account	20	92,149	156,007
		<u>578,938</u>	<u>642,796</u>
<b>Equity shareholders' funds</b>	20	<u>578,938</u>	<u>642,796</u>

Approved by the Board



Director M. LAMBTON

Date: 21.12.05

## Notes to the financial statements

at 31 October 2005

### 1. Accounting policies

#### Accounting convention

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

The company is exempt from the requirement to prepare group accounts by virtue of Section 248 of the Companies Act 1985, and accordingly the accounts present information about the company as an individual undertaking and not about its group.

#### Turnover

Turnover consists of: sales in the year of equipment and parts at the amounts invoiced; amounts earned on services; the sales value of the work done in the year, including any estimates in respect of amounts not invoiced, in respect of long term contracts; computer software sales, consulting, training and maintenance services; excluding value added tax, less returns and trade discounts, together with income from leased equipment.

Revenues on service contracts are recognised on a straight-line basis over the term of the contract.

On 1 May 2005, the company entered into an agreement with two fellow subsidiaries, whereby it would purchase certain receivables that become due on contracts with customers. In addition, the company would indemnify and hold harmless the subsidiaries against any and all costs, claims, expenses or damages suffered or incurred by them as a result of any claim by a counterparty under any Customer Contract to which they are party, save where such claim results from the negligence or willful default by the fellow subsidiary in performing its obligations under the relevant customer contract.

All the access to future economic benefits is controlled by Hewlett-Packard Limited. As such the assets and associated revenue have been recorded in the financial statements of Hewlett-Packard Limited.

#### Tangible fixed assets

Tangible fixed assets are initially recorded 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 - straight line over a period of 40 years/length of lease if less than 40 years.

Short leasehold property - straight line over the period of the lease.

Machinery and equipment - straight line over a period of 3 - 10 years.

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

#### Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes appropriate overheads. Work in progress is reduced by payments received on account of work done and is stated after allowing for all foreseeable losses.

#### Long-term contracts

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. Provision is made in full for any foreseeable losses.

#### Goods sold under warranty

A liability is recognised for costs anticipated to arise during the un-expired warranty period on goods sold, and is included within provisions for liabilities and charges in accordance with FRS 12.

## Notes to the financial statements

at 31 October 2005

### 1. Accounting policies (continued)

#### 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.

Amounts receivable in respect of finance leases to customers are stated after deduction of the interest element of the income relating to the un-expired 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.

#### Goodwill

Following the introduction of FRS 10, goodwill arising on consolidation, being the difference between the fair value of the consideration paid and the aggregate of the fair values of the separable net assets acquired, is capitalised and amortised over its useful economic life up to a presumed maximum of 15 years.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

#### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- deferred tax assets are recognised only to the extent that the directors consider that is more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### Research and development

Expenditure on research and development is written off as incurred.

#### 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. Exchange gains and losses are dealt with through the profit and loss account.

#### Derivatives or other financial instruments

The company enters into foreign exchange forward contracts to eliminate its exposure to market risks from changes in foreign exchange rates. These forward exchange contracts have maturities of less than three months and are entered into for the sole purpose of hedging exposures arising in the normal course of business.

## Notes to the financial statements

at 31 October 2005

### 1. Accounting policies (continued)

#### Pensions

The company operates both defined benefit and defined contribution pension schemes. The assets of the schemes are held separately from those of the company.

Defined benefit pension scheme assets are measured using market value. Associated pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The increase in the present value of the liabilities of the company's defined benefit pension scheme expected to arise from employee service in the period, is charged to the operating profit. The expected return on the schemes assets and the increase during the period in the present value of the schemes liabilities arising from the passage of time, are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The cost of providing pensions to employees under the company's defined contribution scheme is charged to the profit and loss account as incurred.

#### Cash flow statement

In accordance with Financial Reporting Standard 1 (revised), Hewlett-Packard Limited has not published a cash flow statement as its ultimate parent company, Hewlett-Packard Company, which is incorporated in the United States of America, has published consolidated financial statements in which the cash flows of the company are included.

#### Stock options

Provision is made for an estimate of the charges to be made to the company by Hewlett-Packard Company, the ultimate parent company, in relation to the difference between the market value of unexercised vested stock options in Hewlett-Packard Company, and the exercise price of those options held by employees of Hewlett-Packard Limited at the balance sheet date.

In accordance with UITF 25, National Insurance on Share Option Grants, the anticipated National Insurance charge on gains made by employees over the period from date of grant of the option to the end of the performance period has been provided for.

#### Investments

Investments are included at cost, less amounts written off. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

### 2. Turnover

Turnover represents sales by the company to outside customers, excluding value added tax.

	2005 £'000	2004 £'000
<i>Sales were made to geographical markets as follows:</i>		
United Kingdom	2,558,265	2,506,206
Rest of Europe	241,911	222,859
United States	44,999	38,294
Other areas	-	2,767
	<u>2,845,175</u>	<u>2,770,126</u>

Turnover, profit before tax and net assets are all attributable to continuing United Kingdom operations. The company operates within one industry segment; provision of computing and imaging solutions and services for business and home.

## Notes to the financial statements

at 31 October 2005

### 3. Operating profit

This is stated after charging:		2005	2004
		£'000	£'000
Depreciation	- owned assets	16,939	19,690
Operating lease rentals	- other	3,465	8,914
	- land and buildings	16,276	16,436
Auditors' remuneration	- audit services	267	243
	- other services	142	86
Loss on sale of tangible fixed and current assets		422	6,278
Foreign Exchange (gain)/loss		(21,769)	47,066
Research and development expenditure		30,786	26,442
Less: amounts recharged to other group companies		(19,122)	(15,946)
		11,664	10,496

The auditors' remuneration borne by the company was £266,928 (2004: £243,000). £44,440 was paid on behalf of another group company (2004: £3,542).

### 4. Exceptional Items

		2005	2004
		£'000	£'000
<i>Recognised in arriving at operating profit:</i>			
Restructuring costs (see note 17)		435	(3,506)
<i>Recognised below operating profit:</i>			
Impairment review of Synstar Ltd		(20,691)	-
		(20,256)	(3,506)

During 2005, the company continued with an employee redundancy and property rationalisation programme with a release of provision £435,000 (2004: cost of £3,506,000). As noted in the directors' report, no provision has been made in respect of the September 2005 restructuring announcement as no constructive obligation was present at year end.

Also during the year, the investment in Synstar Ltd was subject to an impairment review and the investment was subsequently written down by £20,691,000.

### 5. Staff costs

		2005	2004
		£'000	£'000
Wages and salaries		366,358	346,424
Social security costs		36,925	36,169
Other pension costs	- defined benefits (note 22)	28,118	27,573
	- defined contributions	18,167	11,374
		449,568	421,540

## Notes to the financial statements

at 31 October 2005

### 5. Staff costs (continued)

The average number of persons employed by the company during the year was:

	2005 No.	2004 No.
Sales and services	5,214	4,788
Manufacturing and research and development	649	653
	<u>5,863</u>	<u>5,441</u>

### 6. Directors' emoluments

	2005 £'000	2004 £'000
Fees	524	457
Pensions	126	90
Other	2	2
	<u>652</u>	<u>549</u>

The emoluments of the highest paid director were fees £285,185, pensions £80,715 (2004: fees £276,464, pensions £58,759).

Two directors participated in the company's defined contribution pension scheme during the year ended 31 October 2005 (2004: 2).

One director participated in the defined benefit pension plan during the year ended 31 October 2005 (2004: 1).

The alternate directors' services to the company do not occupy a significant amount of their time. As such the directors do not consider that the alternate directors receive any remuneration for their services as directors to the company for the year ended 31 October 2004.

### 7. Other finance income

	2005 £'000	2004 £'000
Expected return on pension scheme assets	85,916	77,614
Interest on pension scheme liabilities	(64,980)	(57,901)
	<u>20,936</u>	<u>19,713</u>

# Notes to the financial statements

at 31 October 2005

## 8. Interest payable

	2005 £'000	2004 £'000
On bank loans and overdrafts repayable within five years	186	53
Other loans	5,183	-
	<u>5,369</u>	<u>53</u>

## 9. Taxation on profit on ordinary activities

a) Analysis of charge in the year:

	2005 £'000	2004 £'000
United Kingdom corporation tax charge/(credit) based on the taxable profit for the year at 30% (2004: 30%)	32,220	26,811
(Over)/under provision in prior year	(9,891)	2,280
Less amount transferred to reserves (note 20)	31,064	31,643
	<u>53,393</u>	<u>60,734</u>
Total current tax (note 9b)	-	-
Withholding tax expensed	(373)	(7,469)
Deferred tax		
	<u>53,020</u>	<u>53,265</u>

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2004 – 30%). The differences are reconciled below:

b) Factors affecting tax charge for year:

	2005 £'000 £	2004 £'000 £
Profit on ordinary activities before tax	165,754	215,851
	<u>49,726</u>	<u>64,755</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)		
Tax effects of:		
(Over)/under provision in prior year	(9,891)	2,280
Capital allowances in advance of depreciation	(4,022)	(820)
Expenses disallowable for tax purposes	13,364	6,352
Other	4,216	(1,184)
Group relief received for nil payment	-	(10,649)
	<u>53,393</u>	<u>60,734</u>

## Notes to the financial statements

at 31 October 2005

## 10. Dividends

	2005 £'000	2004 £'000
<i>Equity dividends on ordinary shares:</i>		
Interim paid	130,000	200,000

## 11. Tangible fixed assets

	Property £'000	Machinery and equipment £'000	Total £'000
<i>Cost:</i>			
At 31 October 2004	216,172	42,826	258,998
Additions	4,632	11,696	16,328
Reclassifications	(135)	135	-
Disposals	(948)	(12,849)	(13,797)
Transfer to current assets	(7,939)	-	(7,939)
At 31 October 2005	211,782	41,808	253,590
<i>Depreciation:</i>			
At 31 October 2004	55,538	17,840	73,378
Charge for the year	6,336	10,603	16,939
Reclassifications	(12)	12	-
Disposals	(443)	(8,848)	(9,291)
Transfer to current assets	(1,020)	-	(1,020)
At 31 October 2005	60,399	19,607	80,006
<i>Net book value:</i>			
At 31 October 2005	151,383	22,201	173,584
At 31 October 2004	160,634	24,986	185,620



## Notes to the financial statements

at 31 October 2005

### 11. Tangible fixed assets (continued)

#### Analysis of property

	2005	2005	2005	2004
	Cost	Depreciation	Net	Net
	£'000	£'000	£'000	£'000
Freehold land	50,735	-	50,735	53,058
Freehold buildings	152,288	47,117	105,171	108,204
Short leaseholds	16,698	14,302	2,396	4,179
Transfer to current assets	(7,939)	(1,020)	(6,919)	(4,807)
Total property	211,782	60,399	151,383	160,634

Included within machinery and equipment in the company are assets subject to finance lease agreements with a cost of £nil (2004: £4,034,428) and accumulated depreciation of £nil (2004: £1,151,289).

The land and building at Skippetts House, Basingstoke, have been reclassified as current assets as there is an agreement to sell the assets. The net book value at 31 October 2005 was £6,918,591.

The land and building at Pinewood were reclassified to current assets in the year ended 31 October 2004, as there was an agreement to sell the assets in February 2005.

### 12. Intangible fixed assets

<i>Goodwill</i>	£'000
<i>Cost:</i>	
Brought forward	207,937
Acquisitions	3,058
Carried forward	210,995
<i>Amortisation:</i>	
Brought forward	24,473
Charge	15,194
Carried forward	39,667
<i>Net book value:</i>	
Year ended 31 October 2005	171,328
Year ended 31 October 2004	183,464

## Notes to the financial statements

at 31 October 2005

### 12. Intangible fixed assets (continued)

Analysis of acquisitions, accounted for using acquisition accounting.

#### **Snapfish**

*Date of Acquisition 14<sup>th</sup> April 2005.*

	<i>Book value £'000</i>	<i>Adjustment £'000</i>	<i>Fair value £'000</i>
Net assets	-	-	-
Consideration			1,513
Goodwill arising on acquisition			1,513

#### **Schlumberger Business Continuity Services**

*Date of Acquisition 1<sup>st</sup> March 2005.*

	<i>Book value £'000</i>	<i>Adjustment £'000</i>	<i>Fair value £'000</i>
Tangible fixed assets	57	-	57
Debtors	266	-	266
Cash	353	-	353
Creditors due within one year	(368)	-	(368)
Net assets	308		308
Consideration			1,853
Goodwill arising on acquisition			1,545

Hewlett-Packard Limited acquired 10% of the trade and assets of Schlumberger Business Continuity Services (Ireland) Limited, the remaining 90% was acquired by Hewlett-Packard Ireland Limited.

The trade and assets were transferred at fair value to Hewlett-Packard Limited post acquisition.

## Notes to the financial statements

at 31 October 2005

### 13. Investments

	2005 £'000	2004 £'000
Shares in group undertakings	637,754	492,514
Investments comprise:		
Hewlett-Packard Limited owns 100% of the nominal share capital of the following investments.		
Investment in Hewlett-Packard Finance Limited	50	50
Investment in Compaq Computer Limited	382,000	382,000
Investment in Digital Equipment Company Limited	106,300	106,300
Investment in Spiritguide Limited	-	-
Investment in Spiritmodel Limited	-	-
Investment in Novadigm UK Limited	1,598	1,598
Investment in FH Computer Services Limited	1,516	1,516
Investment in CEC Europe Service Management Limited	1,050	1,050
Investment in Synstar Limited	145,240	-
	637,754	492,514

Hewlett-Packard Finance Limited and Digital Equipment Computer Limited, are in the process of being liquidated. The directors are of the opinion that the carrying value of the investments are not materially different from the recoverable value.

Novadigm UK Limited, FH Computer Services Limited and CEC Europe Service Management Limited were acquired during the year ended 31 October 2004. Novadigm UK Limited and FH Computer Services Limited undertake software development and CEC Europe Service Management Limited undertakes IT services.

Spiritguide Limited & Spiritmodel Limited are trustee companies.

Compaq Computer Limited was dormant throughout 2004 and 2005.

Synstar Limited was acquired on 1 January 2005 from Hewlett-Packard Global Investments BV. Synstar undertakes a broad range of integrated IT, hardware and software support services.

# Notes to the financial statements

at 31 October 2005

## 14. Stocks

	2005 £'000	2004 £'000
Raw materials and consumables	16,019	8,208
Finished goods for resale	26,230	64,040
Long-term contract balances	39,725	14,307
	<u>81,974</u>	<u>86,555</u>

*Long-term contract balances are analysed as follows:*

	2005 £'000	2004 £'000
Cost less foreseeable losses	76,104	43,744
Less: applicable payments on account	(36,379)	(29,437)
	<u>39,725</u>	<u>14,307</u>

## 15. Debtors

	2005 £'000	2004 £'000
Trade debtors	313,138	323,228
Amounts recoverable on contracts	30,702	25,861
Amounts owed by fellow subsidiary undertakings	23,001	-
Amount owed by other group undertakings	724,139	79,537
Corporation tax	-	10,633
Other debtors	10,658	8,142
Prepayments and accrued income	13,664	15,324
Deferred taxation (note 18)	40,326	59,486
	<u>1,155,628</u>	<u>522,211</u>

*Of these, the amounts due after more than one year are as follows:*

	2005 £'000	2004 £'000
Deferred taxation	4,639	21,366

## Notes to the financial statements

at 31 October 2005

### 16. Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Trade creditors	45,412	39,380
Amounts owed to subsidiary undertakings	559,390	492,464
Amounts owed to other group undertakings	475,273	331,590
Corporation tax	2,868	-
Other taxation and social security	55,103	57,914
Other creditors	2,946	7,412
Accruals and deferred income	468,608	407,835
	<u>1,609,600</u>	<u>1,336,595</u>

### 17. Provisions for liabilities and charges

Provisions for liabilities and charges for the company can be analysed as follows:

	Long term disability £'000	Restructuring costs £'000	Stock options £'000	Warranty £'000	Total £'000
At 31 October 2004	4,391	21,003	3,144	8,687	37,225
Profit and loss account	-	(435)	23,404	10,681	33,650
Utilised in the year	-	(6,754)	(4,422)	-	(11,176)
At 31 October 2005	<u>4,391</u>	<u>13,814</u>	<u>22,126</u>	<u>19,368</u>	<u>59,699</u>

#### Stock options

Provision is made for an estimate of the charges to be made to the company by Hewlett-Packard Company, the ultimate parent company, in relation to the difference between the market value of unexercised vested stock options in Hewlett-Packard Company, and the exercise price of those options held by employees of Hewlett-Packard Limited at the balance sheet date. The share price was \$28.01 at the year end. This provision will crystallise when employees choose to exercise their stock options.

#### Warranty

Provision is made for expected warranty claims on products with unexpired warranty periods. This provision is expected to crystallise within the next 12 months.

#### Restructuring costs

These costs represent the ongoing employee redundancy and property rationalisation programmes. This provision is expected to crystallise within the next 12 months.

#### Long term disability

Provision is made for expected long term disability claims. This provision will crystallise as claims arise.

# Notes to the financial statements

at 31 October 2005

## 18. Deferred taxation

	<i>Provided</i>	
	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Depreciation in advance of capital allowances	9,363	9,525
Pension deficit	19,953	11,516
Short-term timing differences	30,963	49,961
Total deferred tax asset	60,279	71,002
Amounts offset against pension deficit (note 22)	(19,953)	(11,516)
	<u>40,326</u>	<u>59,486</u>

*The movement on the deferred tax provision for the year was as follows:*

	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
At 1 November	71,002	75,729
Prior year adjustment	(1,392)	7,826
Transfer to profit and loss account tax charge for the year	1,765	(353)
Transfer to reserves arising on actuarial gain on pension scheme	(11,096)	(12,200)
At 31 October	<u>60,279</u>	<u>71,002</u>

## 19. Share capital

	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
<i>Authorised:</i>		
Ordinary shares of £1 each	200,000	200,000
<i>Allotted and fully paid:</i>		
Ordinary shares of £1 each	<u>104,772</u>	<u>104,772</u>

## Notes to the financial statements

at 31 October 2005

### 20. Reconciliation of shareholders' funds and movements on reserves

	<i>Share capital £'000</i>	<i>Share premium £'000</i>	<i>Profit and loss account £'000</i>	<i>Total £'000</i>
At 31 October 2003	104,772	382,017	238,790	725,579
Loss for the year	-	-	(37,414)	(37,414)
Actuarial gain recognised in the pension scheme	-	-	(64,812)	(64,812)
Current tax associated with loss in the pension scheme	-	-	31,643	31,643
Deferred tax associated with loss in the pension scheme	-	-	(12,200)	(12,200)
At 31 October 2004	104,772	382,017	156,007	642,796
Loss for the year	-	-	(17,266)	(17,266)
Actuarial gain recognised in the pension scheme	-	-	(66,560)	(66,560)
Current tax associated with loss in the pension Scheme	-	-	31,064	31,064
Deferred tax associated with loss in the pension scheme	-	-	(11,096)	(11,096)
At 31 October 2005	104,772	382,017	92,149	578,938

### 21. Commitments

*Operating lease commitments:*

Amounts due under operating leases:

	2005		2004	
	<i>Land and buildings £'000</i>	<i>Other £'000</i>	<i>Land and buildings £'000</i>	<i>Other £'000</i>
<i>Amounts payable:</i>				
- within one year	1,674	696	134	785
- within two to five years	336	1,250	2,568	1,569
- after five years	7,669	-	5,487	-
	9,679	1,946	8,189	2,354

### 22. Pensions

The company operates defined benefit pension schemes, covering a significant proportion of its employees. These schemes were closed to new entrants and a defined contribution scheme established for new employees. As the defined benefit schemes were closed to new entrants, under the projected unit method, the current service cost for the schemes will increase as the members of the schemes approach retirement.

## Notes to the financial statements

at 31 October 2005

## 22. Pensions (continued)

## Hewlett-Packard Plan

Assets in scheme and expected rate of return:

	Long term rate of return expected at 31 Oct 2005	Value at 31 Oct 2005 £'000	Long term rate of return expected at 31 Oct 2004	Value at 31 Oct 2004 £'000	Long term rate of return expected at 31 Oct 2003	Value at 31 Oct 2003 £'000
Equities	8.6%	420,600	8.0%	343,900	7.7%	343,900
Bonds	5.4%	174,500	4.9%	152,300	5.1%	109,400
Total market value of assets		595,100		496,200		453,300
Present value of scheme liabilities		(637,000)		(520,200)		(454,900)
(Deficit)/surplus in the scheme		(41,900)		(24,000)		(1,600)
Related deferred tax asset/(liability)		12,570		7,200		480
Net pension (liability)/asset		(29,330)		(16,800)		(1,120)

Movements in deficit during the year:

	2005 £'000	2004 £'000
Deficit in scheme at beginning of year	(24,000)	(1,600)
Current service cost	(16,700)	(16,100)
Past service cost	(200)	(200)
Contributions paid	27,000	15,700
Gain on curtailment	-	-
Other finance income	8,200	7,300
Actuarial (loss)/gain	(36,200)	(29,100)
Deficit in scheme at end of year	(41,900)	(24,000)

Analysis of the amount charged to operating profit:

	2005 £'000	2004 £'000
Current service cost	16,700	16,100
Past service cost	200	200
Net curtailment gain	-	-
	16,900	16,300



## Notes to the financial statements

at 31 October 2005

### 22. Pensions (continued)

*Analysis of actuarial gain/(loss) recognised in the statement of total recognised gains and losses:*

	2005 £'000	2004 £'000
Actual less expected return on pension scheme assets	39,800	(1,000)
Experience gains and losses arising on the scheme liabilities	3,700	10,700
Changes in assumptions underlying the present value of the liabilities	(79,700)	(38,800)
	<u>(36,200)</u>	<u>(29,100)</u>

*History of experience gains and losses:*

	2005	2004	2003
Difference between the expected and actual return on scheme assets			
Amount (£'000)	39,800	(1,000)	27,700
Percentage of scheme assets	7%	0%	6%
Experience gains and losses on scheme liabilities			
Amount (£'000)	3,700	10,700	2,800
Percentage of the present value of the scheme liabilities	1%	2%	1%
Total amount recognised in the statement of total recognised gains and losses			
Amount (£'000)	(36,200)	(29,100)	9,700
Percentage of the present value of the scheme liabilities	(6%)	(6%)	2%

A full actuarial valuation of the Hewlett-Packard section of the defined benefit scheme was carried out at 30 September 2005 and projected forward to 31 October 2005 to take account of the requirements of FRS 17 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 October 2005	At 31 October 2004	At 31 October 2003
Rate of increase in salaries	4.25%	4.30%	4.30%
Rate of limited price indexation increases to pensions in payment	2.73%	2.70%	2.70%
Discount rate	5.00%	5.40%	5.60%
Inflation assumption	2.75%	2.80%	2.80%

## Notes to the financial statements

at 31 October 2005

## 22. Pensions (continued)

*Digital Plan**Assets in scheme and expected rate of return:*

	Long term rate of return expected at 31 Oct 2005	Value at 31 Oct 2005 £'000	Long term rate of return expected at 31 Oct 2004	Value at 31 Oct 2004 £'000	Long term rate of return expected at 31 Oct 2003	Value at 31 Oct 2003 £'000
Equities	8.4%	544,200	8.25%	453,900	8.25%	418,900
Bonds	5.4%	223,400	5.5%	195,600	5.25%	143,200
Total market value of assets		767,600		649,500		562,100
Present value of scheme liabilities		(791,900)		(663,851)		(580,551)
(Deficit)/surplus in the scheme		(24,300)		(14,351)		(18,451)
Related deferred tax asset/(liability)		7,290		4,305		5,535
Net pension (liability)/asset		(17,010)		(10,046)		(12,916)

*Movements in deficit during the year:*

	2005 £'000	2004 £'000
Deficit in scheme at beginning of year	(14,351)	(18,451)
Current service cost	(10,100)	(10,900)
Past service cost	(400)	-
Contributions paid	15,700	38,300
Other finance income	12,700	12,400
Actuarial gain/(loss)	(27,849)	(35,700)
Deficit in scheme at end of year	(24,300)	(14,351)

*Analysis of the amount charged to operating profit:*

	2005 £'000	2004 £'000
Current service cost	10,100	10,900
Past service cost	400	-
Net curtailment gain	-	-
	10,500	10,900

## Notes to the financial statements

at 31 October 2005

### 22. Pensions (continued)

*Analysis of actuarial gain/(loss) recognised in the statement of total recognised gains and losses:*

	2005 £'000	2004 £'000
Actuarial return less expected return on pension scheme assets	64,100	-
Experience gains and losses arising on the scheme liabilities	14,051	(100)
Changes in assumptions underlying the present value of the liabilities	(106,000)	(35,600)
	<u>(27,849)</u>	<u>(35,700)</u>

*History of experience gains and losses:*

	2005	2004	2003
Difference between the expected and actual return on scheme assets			
Amount (£'000)	64,100	-	49,300
Percentage of scheme assets	8%	0%	16%
Experience gains and losses on scheme liabilities			
Amount (£'000)	14,051	(100)	3,900
Percentage of the present value of the scheme liabilities	2%	0%	1%
Total amount recognised in the statement of total recognised gains and losses			
Amount (£'000)	(27,849)	(35,700)	51,700
Percentage of the present value of the scheme liabilities	(4%)	(5%)	9%

A full actuarial valuation of the Hewlett-Packard section of the defined benefit scheme was carried out at 30 September 2005 and projected forward to 31 October 2005 to take account of the requirements of FRS 17 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 October 2005	At 31 October 2004	At 31 October 2003
Rate of increase in salaries	4.25%	4.25%	4.00%
Rate of limited price indexation increases to pensions in payment	2.73%	2.75%	2.50%
Discount rate	5.00%	5.50%	5.50%
Inflation assumption	2.75%	2.75%	2.50%

# Notes to the financial statements

at 31 October 2005

## 22. Pensions (continued)

### Bank of Ireland Plan

	<i>Long term rate of return expected at 31 Oct 2005</i>	<i>Value at 31 Oct 2005 £'000</i>	<i>Long term rate of return expected at 31 Oct 2004</i>	<i>Value at 31 Oct 2004 £'000</i>
Equities	8.3%	6,340	7.7%	313
Bonds	5.3%	2,786	4.9%	135
Total market value of assets		9,126		448
Present value of scheme liabilities		(9,437)		(485)
(Deficit)/surplus in the scheme		(311)		(37)
Related deferred tax asset/(liability)		93		11
Net pension (liability)/asset		(218)		(26)

### Movements in deficit during the year:

	<i>2005 £'000</i>	<i>2004 £'000</i>
Deficit in scheme at beginning of year	(37)	-
Current service cost	(712)	(373)
Past service cost	(6)	-
Contributions paid	2,919	335
Other finance income	36	13
Actuarial gain/(loss)	(2,511)	(12)
Deficit in scheme at end of year	(311)	(37)

### Analysis of the amount charged to operating profit:

	<i>2005 £'000</i>	<i>2004 £'000</i>
Current service cost	712	373
Past service cost	6	-
Net curtailment gain	-	-
	718	373

## Notes to the financial statements

at 31 October 2005

### 22. Pensions (continued)

*Analysis of actuarial gain/(loss) recognised in the statement of total recognised gains and losses:*

	2005 £'000	2004 £'000
Actuarial return less expected return on pension scheme assets	(121)	12
Experience gains and losses arising on the scheme liabilities	(1,993)	30
Changes in assumptions underlying the present value of the liabilities	(397)	(54)
	<u>(2,511)</u>	<u>(12)</u>

*History of experience gains and losses:*

	2005	2004
Difference between the expected and actual return on scheme assets		
Amount (£'000)	(121)	12
Percentage of scheme assets	(1%)	3%
Experience gains and losses on scheme liabilities		
Amount (£'000)	(1,993)	30
Percentage of the present value of the scheme liabilities	(21%)	6%
Total amount recognised in the statement of total recognised gains and losses		
Amount (£'000)	(2,511)	(12)
Percentage of the present value of the scheme liabilities	(27%)	(2%)

A full actuarial valuation of the Hewlett-Packard section of the defined benefit scheme was carried out at 30 September 2005 and projected forward to 31 October 2005 to take account of the requirements of FRS 17 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 October 2005	At 31 October 2004
Rate of increase in salaries	5.75%*	5.80%*
Rate of limited price indexation increases to pensions in payment	2.73%	2.70%
Discount rate	5.00%	5.40%
Inflation assumption	2.75%	2.80%

\* including a short term adjustment of 1.5% p.a. for three years

During the year ended 31 October 2004, Hewlett-Packard set-up the Bank of Ireland plan as part of an agreement to take on former Bank of Ireland employees.

## Notes to the financial statements

at 31 October 2005

### 22. Pensions (continued)

*Summary of actuarial gain/(loss) recognised in the statement of total recognised gains and losses:*

	2005	2004
	£'000	£'000
Hewlett-Packard Plan	(36,200)	(29,100)
Digital Plan	(27,849)	(35,700)
Bank of Ireland Plan	(2,511)	(12)
	<u>(66,560)</u>	<u>(64,812)</u>

After the year end, there was a cash contribution of £nil (2004: £4.3m) to the Hewlett-Packard Plan, there are further cash contributions of £2m (2004: £22.8m) (Hewlett-Packard Plan), £0.5m (2004: £17.4m) (Digital Plan) and £0.8m (2004: £0.7m) (Bank of Ireland Plan) planned.

### 23. Contingent liability

In March 2004, Hewlett-Packard (HP) changed its company car scheme. Under the new scheme employees purchase their car by way of a personal loan with HP agreeing to pay any shortfall in the event of the employee defaulting/leaving.

At the year end there was £16.2m (2004: £14.6m) in personal loans in respect of the scheme. No provision has been made in the financial statements in respect of default payments, as management believe the rate of defaults will not give rise to a material liability.

M Lambton, a director of the company, has a car under the above scheme. This arrangement was entered into in March 2004, before he became a director. The maximum value of the loan during the year was £25,000, of which £13,500 remains outstanding at the year end. The agreement to pay any shortfall due to default/leaving was on the same basis as any other employee eligible to participate in the car scheme. No provision has been made against this amount.

### 24. Ultimate parent undertaking

The ultimate parent company and controlling party and the largest undertaking, which consolidates these financial statements, is Hewlett-Packard Company, which is incorporated in the United States of America. Copies of the group financial statements of Hewlett-Packard Company can be obtained from 3000 Hanover Street, Palo Alto, California 94304, USA.

The smallest undertaking, which consolidates these financial statements, is Hewlett-Packard Holdings Limited. Copies of the group financial statements of Hewlett-Packard Holdings Limited can be obtained from Cain Road, Bracknell, Berkshire RG12 1HN.

The immediate parent company is Hewlett-Packard (Bracknell) Holdings Limited.

### 25. Related parties

The company has taken advantage of the exemption available to wholly owned subsidiary undertakings under Financial Reporting Standard Number 8 ("Related Party Transactions"), and accordingly has not provided details of its transactions with entities forming part of the Hewlett-Packard Company group.