

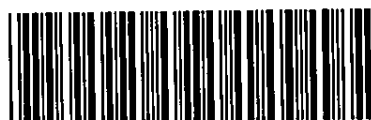
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# Hewlett-Packard Limited

## Report and Financial Statements

31 October 2008

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COMPANIES HOUSE

# Hewlett-Packard Limited

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Registered No: 690597

## **Directors**

S Gill

M Lewthwaite

## **Secretary**

J Ormrod

## **Auditors**

Ernst & Young LLP

Apex Plaza

Reading

Berkshire

RG1 1YE

## **Registered Office**

Cain Road

Bracknell

Berkshire

RG12 1HN

## Directors' report

The directors present their report and financial statements for the year ended 31 October 2008.

### 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.

During the year, Hewlett-Packard Limited continued with a program of growth by acquisition.

- On 1 November 2007, the company bought the business and trade assets of its subsidiary, Opware UK Limited for a consideration of £1.
- On 27 November 2007, the company purchased Neoware UK Limited and its subsidiaries for £13,044,873. The business and trade assets of Neoware UK Limited were acquired for a consideration of £1.
- On the 1 April 2008, the company bought the business and trade assets of EYP Mission Critical Facilities (UK) Limited for a consideration of £691,956.
- On the 1 May 2008, the company bought the business and trade assets of Exstream Software UK Limited for a consideration of £5,096,158.
- On the 1 August 2008, the company bought the business and trade assets of Tower Software (UK) Limited for a consideration of £672,395.

### Research and development

The company maintained an extensive programme of research and development.

### Review of business risk

There are a range of risks and uncertainties facing the company and the list below is not intended to be exhaustive. The focus is on those specific risks and uncertainties that the directors believe could have a significant impact on the company's performance, as analysed by its key performance indicators.

#### Market conditions

Levels of business activity will vary for each of the markets in which Hewlett-Packard Limited operates, but ultimately this is dependent on factors such as economic cycles, consumer confidence and growth of the economy. A weak economy could affect the level of customer spending on Hewlett-Packard Limited's products.

#### Competitive pressures

The company operates in a number of highly competitive markets with differing characteristics. Market share could be affected by the emergence of new competitors, product distribution issues, quality, and reputation.

#### Customers

The company must maintain its ability to continue to provide an innovative service to the local customer base and develop in a profitable way in an increasingly price sensitive market. If the company fails to do this, customers may spend less on Hewlett-Packard products.

## Directors' report (continued)

### Review of business risk (continued)

#### Parent company dependency

Hewlett-Packard Limited is a subsidiary of Hewlett-Packard Company and is dependent on this parent company for the supply of products and for its brand strength.

Any risks impacting the ultimate parent company will cascade to Hewlett-Packard Limited. A full description of the risks and uncertainties impacting Hewlett-Packard Company can be found in the Hewlett-Packard Company group financial statements.

#### Financial key performance indicators

The directors monitor the company's progress against its strategic objectives and the financial performance of the company's operations on a regular basis. Details of the most significant Key Performance Indicators (KPI's) used by the company are as follows:

#### Turnover (growth)

Hewlett-Packard views change in the market as an opportunity to grow; to use its profits and ability to develop and produce innovative products, services and solutions that satisfy emerging customer needs.

Growth comes from taking considered risks, based on the state of the industry- that requires both a conviction in studying the trends, but also in inducing change in the industry in which Hewlett-Packard operates.

For the year ended 31 October 2008, turnover was £3.2 billion, unchanged from the year ended 31 October 2007 (£3.2 billion).

#### Profitability

In order to be successful, Hewlett-Packard needs to achieve sufficient profit to finance company growth, create value for the company's ultimate shareholders and provide the resources needed to achieve the company's other objectives.

- The balance of long-term and short-term objectives is key to profitability.
- Profit allows Hewlett-Packard to reinvest in new and emerging business opportunities.
- Profit is highly correlated to generating cash, which brings more flexibility to the business at a lower cost.

For the year ended 31 October 2008, gross profit was £331 million, marginally lower than the year ended 31 October 2007 (£332 million).

#### Market share

The company aims to extend market share by continually providing useful and significant products, services and solutions to markets it already serves and to expand into new areas that build on Hewlett-Packard technologies, competencies and customer interests. The company aims to be positioned at number one or two in the markets in which it operates.

Market share data is extremely dynamic and based on diverse areas of the business. Hewlett-Packard use independent industry analyst reports for market share data which is publicly available. These should be referred to for up to date market share positions.

## **Directors' report (continued)**

### **The environment**

Hewlett-Packard's goals are to provide products and services that are safe and environmentally sound throughout their lifecycles, and conduct operations in an environmentally responsible manner.

To accomplish this, Hewlett-Packard will:

- pursue pollution prevention, energy conservation and waste reduction in operations;
- design and manufacture products to be safe to use and to minimise their environmental impact;
- offer customers environmentally responsible end-of-life management services for products; and
- require suppliers to conduct their operations in a socially and environmentally responsible manner.

The company achieves this by integrating these objectives into business planning, decision-making, performance tracking and review processes to ensure that goals are reached and continually improved upon.

Hewlett-Packard Company, for which Hewlett-Packard Limited is a subsidiary, publishes an annual corporate responsibility report where detailed company wide environmental commitments, initiatives and key performance indicators can be found.

### **Employees**

Details of the number of employees and related costs can be found in note 5 to the financial statements.

### **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. Employee representatives are consulted regularly on a wide range of matters affecting their interests. Employees receive regular newsletters and have the opportunity to provide feedback to senior management by participating in an annual Voice of the Workforce survey.

All employees' training and development is supported by continuing in-service education. 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.

Hewlett-Packard's goal is to create health and safety practices and work environments that enable employees to work injury-free. This is accomplished by continually reducing occupational injury and illness risks while promoting employee health and well-being.

The company believes that a diverse workforce encourages creativity and innovation and helps build an exciting, stimulating work environment. A diverse workforce, reflecting the demographics of the many different markets where Hewlett-Packard operates, also provides a competitive advantage and helps acquire new business.

Hewlett-Packard Company, for which Hewlett-Packard Limited is a subsidiary, publishes an annual corporate responsibility report where detailed company wide employee commitments, initiatives and key performance indicators can be found.

### **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 £109,603 (2007: £137,714).

## Directors' report (continued)

### Supplier payment policy

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the company at 31 October 2008 were equivalent to 7 days purchases, based on the average daily amount invoiced by suppliers during the year (2007: 7 days).

### Results and dividends

The profit for the year, after taxation, amounted to £63 million (2007: profit £28 million). The directors do not recommend a final ordinary dividend, making the total of ordinary dividends paid for the year £nil million (2007: £100 million).

### Directors

The directors during the year, and to date, were as follows:

S Gill	
M Lambton	(resigned 10 November 2008)
M Lewthwaite	(appointed 10 November 2008)
*M Hess	(appointed 23 August 2008, resigned 7 September 2008)

\*This director was appointed as an alternate director.

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.

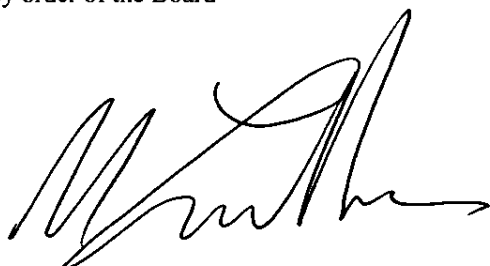
## Directors' report (continued)

### Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board



Director

Date: 16.01.2009

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 that 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



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

We have audited the company's financial statements for the year ended 31 October 2008 which comprise the Profit and Loss Account, the Balance Sheet and the Statement of Total Recognised Gains and Losses and the related notes 1 to 26. These financial statements have been prepared under 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**

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 judgments 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.

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

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 October 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

*Ernst & Young LLP*

Ernst & Young LLP

Registered auditor

Reading

Date *16 July 2009*

## Profit and loss account

for the year ended 31 October 2008

	Note	2008 £'000	2007 £'000
<b>Turnover</b>	2	3,188,239	3,158,955
Cost of sales		(2,857,132)	(2,826,690)
<b>Gross profit</b>		331,107	332,265
Distribution costs		(212,193)	(190,132)
Administration expenses		(71,866)	(76,579)
<b>Operating profit</b>	3, 4	47,048	65,554
Exceptional item - impairment of investments	4	(14,361)	-
- profit on disposal of fixed tangible asset	4	27,476	-
Interest receivable		59,595	49,320
Other finance income	8	45,401	41,713
Interest payable	9	(1,699)	(4,693)
<b>Profit on ordinary activities before taxation</b>		163,460	151,894
Tax on profit on ordinary activities	10	(100,058)	(123,708)
<b>Profit for the financial year</b>		63,402	28,186

Details of dividends paid during the year are set out in note 11 to the financial statements.

## Statement of total recognised gains and losses

for the year ended 31 October 2008

	Note	2008 £'000	2007 £'000
<b>Profit for the year</b>		63,402	28,186
Actuarial (loss)/gain recognised in the pension schemes	23	(239,467)	194,679
Current tax credit associated with the pension schemes	10	3,853	9,154
Deferred tax credit/(charge) associated with the pension schemes	19	63,198	(62,862)
<b>Total recognised (loss)/gain relating to the year</b>		<u>(109,014)</u>	<u>169,157</u>

**Balance sheet**

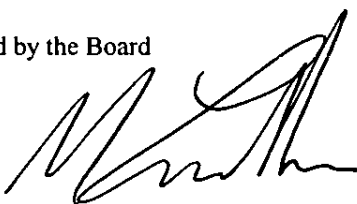
at 31 October 2008

	Note	2008 £'000	2007 £'000
<b>Fixed assets</b>			
Tangible assets	12	102,294	104,662
Intangible assets	13	127,349	143,626
Investments	14	570,283	571,599
		<u>799,926</u>	<u>819,887</u>
<b>Current assets</b>			
Stocks	15	62,976	81,173
Debtors - amounts due within one year	16	1,517,333	1,305,202
Cash at bank and in hand		16,859	16,320
		<u>1,597,168</u>	<u>1,402,695</u>
<b>Creditors: amounts falling due within one year</b>	17	(1,554,519)	(1,415,269)
<b>Net current assets/ (liabilities)</b>		<u>42,649</u>	<u>(12,574)</u>
<b>Total assets less current liabilities</b>		<u>842,575</u>	<u>807,313</u>
<b>Creditors: amounts falling due after more than one year</b>	17	(3,207)	(3,110)
<b>Provisions for liabilities and charges</b>	18	(58,527)	(65,103)
<b>Net assets excluding pension asset</b>		<u>780,841</u>	<u>739,100</u>
<b>Pension asset</b>	23	<u>15,438</u>	<u>169,043</u>
<b>Net assets including pension asset</b>		<u>796,279</u>	<u>908,143</u>
<b>Capital and Reserves</b>			
Called up share capital	20	104,772	104,772
Share premium account	21	492,017	492,017
Profit and loss account	21	199,490	311,354
<b>Equity shareholders' funds</b>	21	<u>796,279</u>	<u>908,143</u>

Approved by the Board

Director

Date:



16-01-2009.

## Notes to the financial statements

at 31 October 2008

### 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 financial statements by virtue of Section 228 of the Companies Act 1985, and accordingly the financial statements present information about the company as an individual undertaking and not about its group.

#### 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.

#### 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.

Revenues on service contracts are recognised on a straight-line basis over the term of the contract for fixed price contracts and on the output or consumption basis for all other service contracts.

#### Research and development

Expenditure on research and development is written off as incurred.

#### 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.

#### Goodwill

Purchased goodwill is capitalised and amortised on a straight line basis over its useful economic life up to a presumed maximum of 15 years. It is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a 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.

#### 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.

#### 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.

## Notes to the financial statements

at 31 October 2008

### 1. Accounting policies (continued)

#### 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 when the outcome of a contract can be assessed with reasonable certainty. Provision is made in full for any foreseeable losses.

#### Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and if it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect is material, the expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability.

#### Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account.

The company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 November 2006.

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.

The company records the charge payable to Hewlett-Packard Company for the difference between the market value of exercised options and the exercise price of those options when the liability is due. The Company records the charge to the profit and loss account if the charge relates to options that are not in scope for FRS 20. The Company records the charge to equity if the charge relates to options that are in scope for FRS 20.

## Notes to the financial statements

at 31 October 2008

### 1. Accounting policies (continued)

#### 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.

#### 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 exceptions:

- 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.
- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

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.

#### Leases

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

#### 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 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.

#### 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.



## Notes to the financial statements

at 31 October 2008

### 1. Accounting policies (continued)

#### Treasury policy

Hewlett-Packard Company, the ultimate parent company, has a centralised treasury function which manages the overall group's Treasury policy and requirements.

Hewlett-Packard Limited holds financial instruments for two principal purposes that enable's it to manage the interest and currency risks arising from its operations and provide sources of finance. The company finances its operation by a mixture of short and long term loans from Hewlett-Packard Company subsidiaries and capital markets. The company borrows primarily in Sterling and US Dollars with the majority of loans being at fixed rates of interest.

The main risk arising from the financial instruments are liquidity, foreign currency risk and interest rate risk. These risks, and the policies to manage them, are summarised below. These policies have remained unchanged this year. The company does not enter into speculative derivative contracts.

#### Interest rate risk

The company manages its interest rate risk primarily through the use of fixed rate loans. It seeks to issue debt opportunistically, at the lowest possible cost, based upon assessment of the future interest rate environment.

#### Liquidity and refinancing risk

Hewlett-Packard Company's objective is to produce continuity of funding at a reasonable cost. To do this it seeks to arrange committed funding for a variety of maturities from a diversity of sources.

#### Foreign currency risk

The company borrows and holds cash balances in both Sterling and US Dollars. Hewlett-Packard Company's centralised treasury function manages foreign currency risk for the wider group, including Hewlett-Packard Limited.

### 2. Turnover

	2008 £'000	2007 £'000
<i>Sales were made to geographical markets as follows:</i>		
United Kingdom	2,895,776	2,863,150
Rest of Europe	221,962	229,638
United States	65,892	64,081
Other areas	4,609	2,086
	<u>3,188,239</u>	<u>3,158,955</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 2008

### 3. Operating profit

This is stated after charging:	2008	2007
	£'000	£'000
Depreciation - owned assets	9,401	10,258
Amortisation of goodwill	16,277	18,116
Operating lease rentals - other	302	537
- land and buildings	11,085	18,437
Auditors' remuneration - audit services	176	184
- other services	2	24
Foreign exchange loss/( gain)	13,674	(6,599)
Loss/(gain) on disposal of fixed assets	1,277	(376)
	<u>35,656</u>	<u>31,217</u>
Research and development expenditure		
Less: amounts recharged to other group companies	(22,376)	(22,565)
	<u>13,280</u>	<u>8,652</u>

The auditors' remuneration borne by the company was £175,756 (2007: £184,368). £ 22,369 was paid on behalf of other group companies (2007: £19,119).

### 4. Exceptional items

	2008	2007
	£'000	£'000
<i>Recognised in arriving at operating profit:</i>		
Restructuring costs	(21,284)	(8,278)
<i>Recognised below operating profit:</i>		
Impairment review of fixed asset investments (note 14)	(14,361)	-
Profit on disposal of surplus land and buildings	27,476	-
	<u>(8,169)</u>	<u>(8,278)</u>

During 2008, the company continued with certain employee redundancy and property rationalisation programmes at a cost of £21,284,000 (2007: £8,278,000).

### 5. Staff costs

	2008	2007
	£'000	£'000
Wages and salaries	405,860	374,444
Social security costs	41,997	38,289
Other pension costs - defined benefits (note 23)	28,866	33,046
- defined contributions	24,275	24,116
	<u>500,998</u>	<u>469,895</u>

## Notes to the financial statements

at 31 October 2008

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

	2008 No.	2007 No.
Sales and services	5,450	5,094
Manufacturing and research and development	461	560
	<u>5,911</u>	<u>5,654</u>

### 6. Share based payments

#### *Employee Stock Purchase Plan*

Hewlett-Packard Company ("HP"), the ultimate parent company, sponsors the Hewlett-Packard Company 2000 Employee Stock Purchase Plan, also known as the Share Ownership Plan (the "ESPP"), pursuant to which eligible employees of Hewlett-Packard Limited may contribute up to 10% of base compensation, subject to certain income limits, to purchase shares of HP's common stock. Employees are able to purchase stock semi-annually at a price equal to 85% of the fair market value on the purchase date. The benefit provided to employees by this plan is considered to be an option under FRS 20.

#### *Incentive Compensation Plans*

HP stock option plans include principal plans adopted in 2004, 2000, 1995 and 1990 ("principal option plans"), as well as various stock option plans assumed through acquisitions under which stock options are outstanding. All regular employees of Hewlett-Packard Limited meeting limited employment qualifications were eligible to receive stock options in HP in financial year 2007. The exercise price of a stock option is equal to the fair market value of HP's common stock on the option grant date (as determined by the average of the highest and lowest reported sale prices of HP's common stock on that date). The contractual term of options granted since financial year 2003 was generally eight years, while the contractual term of options granted prior to financial year 2003 was generally ten years. Options vest when employees meet required service periods. There are no other vesting conditions attached to these options.

In light of accounting guidance under FRS 20, Hewlett-Packard Limited estimates a fair value of employee options granted. The fair value of equity-settled share options granted is estimated as at the date of grant using the Black-Scholes pricing model.

## Notes to the financial statements

at 31 October 2008

### 6. Share based payments (continued)

The following table lists the inputs to the model used for the years ended 31 October 2008 and 31 October 2007.

	2008	2007
<i>Share options and ESPP</i>		
Weighted average fair value of grants	\$16.05	\$13.40
Risk-free interest rate	3.09%	4.69%
Dividend yield	0.69%	0.76%
Expected volatility	34.09%	27.51%
Expected life in years	5.04	5.00

The risk-free interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. In order to calculate expected volatility, management determined that implied volatility calculated based on actively traded options on HP common stock is a better indicator of expected volatility and future stock price trends than historical volatility. Therefore, expected volatility in financial years 2008 and 2007 was based on a market-based implied volatility. The expected life computation is based on historical exercise patterns and post-vesting termination behaviour.

\* With regard to the ESPP, the same assumptions as above have been used with the exception of the expected life where 0.5 years has been used.

No other feature of option grants are incorporated into the measurement of fair value.

The expense recognised for share based payments in respect of employee services received during the year ended 31 October 2008 is £8,754,000 (2007: £9,625,000). This all arises from equity settled options.

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year:

	2008		2007	
	Shares No.	Weighted average exercise price \$	Shares No.	Weighted average exercise price \$
Outstanding at beginning of year	11,189,420	32.63	13,864,653	30.80
Granted	125,950	46.48	1,183,060	41.69
Exercised	1,996,394	27.08	2,963,623	25.67
Forfeited or cancelled	345,216	40.35	894,670	39.29
Outstanding at end of year	8,973,760	33.75	11,189,420	32.63
Exercisable at end of year	6,988,536	33.49	7,540,461	40.42

## Notes to the financial statements

at 31 October 2008

### 6. Share based payments (continued)

The range of exercise prices for options outstanding at the end of the year and associated weighted average remaining contractual life is set out below.

Range of exercise price	Shares outstanding No.	2008 Weighted average remaining contractual life in years	Shares outstanding No.	2007 Weighted average remaining contractual life in years
\$0 - \$9.99	17,791	7.38	11,363	7.23
\$10 - \$19.99	911,051	2.77	1,263,340	3.74
\$20 - \$29.99	2,962,018	3.59	3,939,579	4.51
\$30 - \$39.99	2,160,557	3.80	2,763,794	4.88
\$40 - \$49.99	1,927,585	4.00	2,125,490	4.71
\$50 - \$59.99	563,616	1.73	624,289	2.60
\$60 - \$69.99	198,356	1.51	214,003	1.21
\$70 and over	232,786	0.27	247,562	1.27
	<u>8,973,760</u>	3.40	<u>11,189,420</u>	4.31

### Performance-based restricted units

For the year ended 31 October 2008, HP implemented a program that provides for the issuance of performance-based restricted units ("PRUs") representing hypothetical shares of Hewlett-Packard Company, (HP), common stock that may be issued under the Hewlett-Packard Company 2004 Stock Incentive Plan. PRU awards may be granted to eligible employees. Each PRU award reflects a target number of shares that may be issued to the award recipient. The actual number of shares the recipient receives is determined at the end of a three-year performance period based on results achieved versus company performance goals. Those goals are based on HP's annual cash flow from operations as a percentage of revenue and average total shareholder return ("TSR") relative to the S&P 500 over the performance period. Depending on HP's results during the three-year performance period, the actual number of shares that a grant recipient receives at the end of the period may range from 0% to 200% of the targeted shares granted, based on the calculations described below.

Cash flow performance goals are established at the beginning of each year. At the end of each year, a portion of the target number of shares may be credited in the award recipient's name depending on the achievement of the cash flow performance goal for that year. The number of shares credited varies between 0% if performance is below minimum level and 150% if performance is at or above maximum level. For performance between the minimum level and the maximum level, a proportionate percentage between 30% and 150% is applied based on relative performance between minimum and maximum. Following the expiration of the three-year performance period, the number of shares credited to the award recipient during the performance period is adjusted by a TSR modifier. The TSR modifier, which is determined at the beginning of each performance period, varies between 0%, if the minimum level is not met, resulting in no payout under the PRU award, and 133%, if performance is at or above the maximum level. For performance between the minimum level and the maximum level, a proportionate TSR modifier between 66% and 133% is applied based on relative performance between minimum and maximum. The number of shares, if any, received by the PRU award recipient equals the number of shares credited to the award recipient during the performance period multiplied by the TSR modifier. Recipients of PRU awards generally must remain employed by HP on a continuous basis through to the end of the applicable three-year performance period in order to receive any portion of the shares subject to that award. Target shares subject to PRU awards do not have dividend equivalent rights and do not have the voting rights of common stock until earned and issued following the end of the applicable performance period.

## Notes to the financial statements

at 31 October 2008

### 6. Share based payments (continued)

HP estimated the fair value of a target PRU share using the Monte Carlo simulation model, as the TSR modifier contains a market condition. The estimated fair value of each target share for the current year was \$40.21. The estimated fair value of a target share for the second and third years of the three-year performance period will be determined at the beginning of the second and third years, respectively, and the expense will be amortised over the remainder of the three-year performance period.

The following assumptions were used to determine the fair value of the PRU awards for the first year:

	2008	2007
Risk-free interest rate	3.13%	-
Dividend yield	0.70%	-
Expected volatility <sup>(1)</sup>	26.00%	-
Expected life in years	2.75	-

<sup>(1)</sup> HP uses historic volatility for PRU awards as implied volatility cannot be used when simulating multivariate prices for companies in the S&P 500.

	2008	2007
	Shares No.	Shares No.
Outstanding at beginning of year	-	-
Granted	296,505	-
Forfeited or cancelled	4,376	-
Outstanding at end of year	292,129	-
Exercisable at end of year	-	-

### 7. Directors' emoluments

	2008	2007
	£'000	£'000
Remuneration	705	746
Pensions	46	64
	751	810

The emoluments of the highest paid director were remuneration £446,147, pensions £34,596 (2007: remuneration £484,298; pensions £38,400).

Two directors participated in the company's defined contribution pension scheme during the year ended 31 October 2008 (2007: 2). In 2008 and 2007, no directors participated in the defined benefit scheme.

Two directors exercised share options in the year. (2007: 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 years ended 31 October 2008 and 31 October 2007.

# Notes to the financial statements

at 31 October 2008

## 8. Other finance income

	2008 £'000	2007 £'000
Expected return on pension scheme assets	125,364	116,006
Interest on pension scheme liabilities	(79,963)	(74,293)
Net return	45,401	41,713

## 9. Interest payable

	2008 £'000	2007 £'000
On bank loans and overdrafts repayable within five years	206	351
Group loans	1,493	4,098
Other loans	-	244
	1,699	4,693

## 10. Taxation on profit on ordinary activities

a) Analysis of charge in the year:

	2008 £'000	2007 £'000
United Kingdom corporation tax charge based on the taxable profit for the year at 28.83% (2007: 30%)	81,765	121,273
Under/(over) provision in prior year	4,230	(10,124)
Amount transferred to reserves (note 21)	3,853	9,154
Total current tax (note 10b)	89,848	120,303
Deferred tax	10,210	3,405
Tax on profit on ordinary activities	100,058	123,708

## Notes to the financial statements

at 31 October 2008

### 10. Taxation on profit on ordinary activities (continued)

*b) Factors affecting tax charge for year:*

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 28.83% (2007: 30%). The differences are reconciled below:

	2008 £'000 £	2007 £'000 £
Profit on ordinary activities before tax	163,460	151,894
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.83% (2007: 30%)	47,126	45,568
<i>Effects of:</i>		
Under/(over) provision in prior year	4,230	(10,124)
Capital allowances in advance of depreciation	(1,627)	(3,770)
Non-taxable gain on disposal of fixed asset	(7,921)	-
Impairment of investments	4,140	-
Expenses disallowable for tax purposes	4,596	29,835
Payment made for group relief in excess of standard rate	46,591	58,572
Other	(7,287)	222
Total current tax (note 10a)	89,848	120,303

Under the 2007 Finance Act, the rate of UK corporation tax was reduced to 28% from 30% with effect from 1 April 2008.

### 11. Dividends

	2008 £'000	2007 £'000
<i>Paid during the year:</i>		
Interim dividend on ordinary shares	-	100,000



## Notes to the financial statements

at 31 October 2008

### 12. Tangible fixed assets

	<i>Property</i> <i>£'000</i>	<i>Machinery and equipment</i> <i>£'000</i>	<i>Total</i> <i>£'000</i>
<i>Cost:</i>			
At 31 October 2007	159,737	43,860	203,597
Additions	720	20,171	20,891
Disposals	(33,417)	(12,401)	(45,818)
At 31 October 2008	127,040	51,630	178,670
<i>Depreciation:</i>			
At 31 October 2007	66,527	32,408	98,935
Charge for the year	4,897	4,504	9,401
Disposals	(21,058)	(10,902)	(31,960)
At 31 October 2008	50,366	26,010	76,376
<i>Net book value:</i>			
At 31 October 2008	76,674	25,620	102,294
At 31 October 2007	93,210	11,452	104,662

#### Analysis of property

	<i>2008</i> <i>Cost</i> <i>£'000</i>	<i>2008</i> <i>Depreciation</i> <i>£'000</i>	<i>2008</i> <i>Net</i> <i>£'000</i>	<i>2007</i> <i>Net</i> <i>£'000</i>
Freehold land	33,319	-	33,319	37,308
Freehold buildings	78,826	37,000	41,826	53,162
Short leaseholds	14,895	13,366	1,529	2,740
Total property	127,040	50,366	76,674	93,210

## Notes to the financial statements

at 31 October 2008

### 13. Intangible fixed assets

<i>Goodwill</i>	£'000
<i>Cost:</i>	
At 31 October 2007	217,603
Additions	-
At 31 October 2008	217,603
<i>Amortisation:</i>	
At 31 October 2007	73,977
Charge	16,277
At 31 October 2008	90,254
<i>Net book value:</i>	
At 31 October 2008	127,349
At 31 October 2007	143,626

### 14. Investments

<i>Cost:</i>	£'000
At 31 October 2007	571,599
Additions	13,045
Impairment	(14,361)
At 31 October 2008	570,283

	2008	2007
	£'000	£'000
Shares in group undertakings	570,283	571,599

## Notes to the financial statements

at 31 October 2008

### 14. Investments (continued)

*Investments comprise:*

Hewlett-Packard Limited owns 100% of the nominal share capital of the following investments:

	2008 £'000	2007 £'000
Investment in Hewlett-Packard Finance Limited	-	50
Investment in Compaq Computer Limited	382,000	382,000
Investment in Digital Equipment Company Limited	95,965	106,300
Investment in Spiritguide Limited*	-	-
Investment in Spiritmodel Limited*	-	-
Investment in Neoware UK Limited	9,564	-
Investment in Synstar Limited	80,179	80,179
Investment in Opsware UK Limited	2,575	3,070
	<u>570,283</u>	<u>571,599</u>

\* £1 shareholding held, therefore zero shown as values are in £'000s.

On 27 November 2007, the company acquired all the issued share capital of Neoware UK Limited for £13,044,873. The business and trading assets of all companies were sold subsequently to Hewlett-Packard group companies at book value.

The directors have carried out an impairment review of the company's investments and have written down the investments in Hewlett-Packard Finance Limited, Digital Equipment Company Limited, Neoware UK Limited and Opsware UK Limited by £14,361,000.

Hewlett-Packard Finance Limited and Digital Equipment Company Limited are in the process of being liquidated. Spiritguide Limited and Spiritmodel Limited are trustee companies.

Compaq Computer Limited was dormant throughout 2008 and 2007.

### 15. Stocks

	2008 £'000	2007 £'000
Raw materials and consumables	6,881	6,678
Finished goods for resale	56,095	74,495
Long-term contract balances	-	-
	<u>62,976</u>	<u>81,173</u>

# Notes to the financial statements

at 31 October 2008

## 15. Stocks (continued)

Long-term contract balances are analysed as follows:

	2008 £'000	2007 £'000
Cost less foreseeable losses	150,005	107,024
Less: applicable payments on account	(150,005)	(107,024)
	-	-

## 16. Debtors

	2008 £'000	2007 £'000
Trade debtors	410,933	401,006
Amounts recoverable on contracts	35,724	39,509
Amounts owed by fellow subsidiary undertakings	17,064	1,738
Amount owed by other group undertakings	974,634	807,395
Corporation tax	40,010	23,753
Other debtors	3,554	1,507
Prepayments and accrued income	31,295	19,428
Deferred taxation (note 19)	4,119	10,866
	1,517,333	1,305,202

## 17. Creditors

Amounts falling due within one year	2008 £'000	2007 £'000
Trade creditors	56,069	52,344
Amounts owed to subsidiary undertakings	522,793	491,439
Amounts owed to other group undertakings	413,792	328,565
Other taxation and social security	64,433	81,313
Other creditors	-	286
Accruals and deferred income	497,432	461,322
	1,554,519	1,415,269

## Notes to the financial statements

at 31 October 2008

### 17. Creditors (continued)

Amounts falling due after more than one year

	2008 £'000	2007 £'000
Other creditors	3,207	3,110
	<u>3,207</u>	<u>3,110</u>

### 18. Provisions for liabilities and charges

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

	<i>Long term disability £'000</i>	<i>Restructuring costs £'000</i>	<i>Employers National Insurance £000</i>	<i>Warranty £'000</i>	<i>Total £'000</i>
At 31 October 2006	4,391	31,478	5,847	43,521	85,237
Profit and loss account	(4,391)	8,278	7,074	16,649	27,610
Utilised in the year	-	(24,589)	(3,581)	(19,574)	(47,744)
At 31 October 2007	-	15,167	9,340	40,596	65,103
Profit and loss account	-	21,284	(7,991)	16,001	29,294
Utilised in the year	-	(18,056)	-	(17,814)	(35,870)
At 31 October 2008	-	18,395	1,349	38,783	58,527

#### Employers National Insurance

Certain eligible employees have been granted stock options in the shares of Hewlett-Packard Company. Hewlett-Packard Limited is liable to pay National Insurance of 12.8% on the difference between the option exercise price and the market value of the related shares when the options are exercised.

Accordingly the company has made a provision of £1,349,000 (2007: £9,340,000), based on stock options outstanding and Hewlett-Packard Company's closing share price of US\$38.28 at 31 October 2008. (2007: US\$51.68).

The amount of National Insurance payable on the stock options will depend on the number of UK employees who remain with the company and when they exercise their options, the market price of Hewlett-Packard Company's common shares at the time of exercise and the prevailing National Insurance rate at the time.

#### Warranty

Provision is made for expected warranty claims on products with unexpired warranty periods. This provision is expected to crystallise within the next 36 months.

## Notes to the financial statements

at 31 October 2008

### 18. Provisions for liabilities and charges (continued)

#### Restructuring costs

These costs represent certain ongoing employee redundancy and property rationalisation programmes.

### 19. Deferred taxation

Deferred tax assets/(liabilities) have been recognised as follows:

	<i>Provided</i>	
	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>
Depreciation in advance of capital allowances	2,217	4,852
Pension surplus	(6,004)	(65,739)
Short-term timing differences	1,902	6,014
Total deferred tax liability	(1,885)	(54,873)
Amounts offset against pension surplus (note 23)	6,004	65,739
	<u>4,119</u>	<u>10,866</u>

*The movement on the deferred tax asset/(liability) for the year was as follows:*

	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>
At 1 November	(54,873)	11,394
Prior year adjustment	(652)	(203)
Origination and reversal of timing differences	(9,558)	(7,122)
Transfer to reserves arising on actuarial gain on pension scheme	63,198	(62,862)
Effect of tax rate change from 30% to 28%	-	3,920
At 31 October	<u>(1,885)</u>	<u>(54,873)</u>

Deferred tax asset/liability has been provided at 28% (2007: 28%).

# Notes to the financial statements

at 31 October 2008

## 20. Share capital

	2008 £'000	2007 £'000
<i>Authorised:</i>		
Ordinary shares of £1 each	200,000	200,000
<i>Allotted, issued and fully paid:</i>		
Ordinary shares of £1 each	104,772	104,772

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

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 31 October 2006	104,772	492,017	241,550	838,339
Profit for the year	-	-	28,186	28,186
Dividends and other appropriations	-	-	(100,000)	(100,000)
Actuarial gain recognised in the pension scheme	-	-	194,679	194,679
Current tax associated with gain in the pension scheme	-	-	9,154	9,154
Deferred tax associated with gain in the pension scheme	-	-	(62,862)	(62,862)
Share-based payment (note 6)	-	-	9,625	9,625
Recharge for share-based payments	-	-	(8,978)	(8,978)
At 31 October 2007	104,772	492,017	311,354	908,143
Profit for the year	-	-	63,402	63,402
Actuarial losses recognised in the pension scheme	-	-	(239,467)	(239,467)
Current tax associated with gain in the pension scheme	-	-	3,853	3,853
Deferred tax associated with gain in the pension scheme	-	-	63,198	63,198
Share-based payment (note 6)	-	-	8,754	8,754
Recharge for share-based payments	-	-	(11,604)	(11,604)
At 31 October 2008	104,772	492,017	199,490	796,279

## Notes to the financial statements

at 31 October 2008

### 22. Commitments

*Operating lease commitments:*

Amounts due under operating leases:

	2008		2007	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£'000	£'000	£'000	£'000
<i>Amounts payable:</i>				
- within one year	2,154	10	1,268	40
- within two to five years	4,944	5	2,283	8
- after five years	4,742	-	4,939	-
	<u>11,840</u>	<u>15</u>	<u>8,490</u>	<u>48</u>

### 23. 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.

Net pension asset/(liability) summary:

	<i>Value at 31 October 2008 £'000</i>	<i>Value at 31 October 2007 £'000</i>	<i>Value at 31 October 2006 £'000</i>
Hewlett Packard Plan	(8,501)	56,071	(11,760)
Digital Plan	21,863	110,780	25,270
Bank of Ireland Plan	2,076	2,192	828
Total	<u>15,438</u>	<u>169,043</u>	<u>14,338</u>

#### *Determination of the overall expected long-term rate of return on plan assets*

Hewlett-Packard Limited employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out in this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation.



## Notes to the financial statements

at 31 October 2008

### 23. Pensions (continued)

#### Hewlett-Packard Plan

##### Assets in scheme:

	<i>Value at 31 Oct 2008 £'000</i>	<i>Value at 31 Oct 2007 £'000</i>	<i>Value at 31 Oct 2006 £'000</i>	<i>Value at 31 Oct 2005 £'000</i>	<i>Value at 31 Oct 2004 £'000</i>
Equities	314,604	488,393	435,900	420,600	343,900
Property	40,965	66,719	67,900	-	-
Bonds	150,735	166,763	164,400	174,500	152,300
Total market value of assets	506,304	721,875	668,200	595,100	496,200
Present value of scheme liabilities	(518,111)	(643,999)	(685,000)	(637,000)	(520,200)
(Deficit)/surplus in the scheme	(11,807)	77,876	(16,800)	(41,900)	(24,000)
Related deferred tax asset/(liability)	3,306	(21,805)	5,040	12,570	7,200
Net pension (liability)/asset	(8,501)	56,071	(11,760)	(29,330)	(16,800)

##### Long term rate of return expected:

	<i>2008 %</i>	<i>2007 %</i>	<i>2006 %</i>	<i>2005 %</i>	<i>2004 %</i>
Equities	8.4	8.7	8.6	8.6	8.0
Property	8.4	7.6	7.6	-	-
Bonds	5.3	5.4	5.4	5.4	4.9

##### Movement during the year:

	<i>2008 £'000</i>	<i>2007 £'000</i>
Deficit in scheme at beginning of year	77,876	(16,800)
Current service cost	(15,874)	(18,657)
Past service cost	(669)	(933)
Contributions paid	3,919	6,556
Other finance income	20,089	17,626
Actuarial (loss)/gain	(97,148)	90,084
(Deficit)/surplus in scheme at end of year	(11,807)	77,876

## Notes to the financial statements

at 31 October 2008

### 23. Pensions (continued)

#### *Hewlett-Packard Plan (continued)*

*Analysis of the amount charged to operating profit:*

	2008 £'000	2007 £'000
Current service cost	15,874	18,657
Past service cost	669	933
	<u>16,543</u>	<u>19,590</u>

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

	2008 £'000	2007 £'000
Actual less expected return on pension scheme assets	(264,802)	5,219
Experience gains and losses arising on the scheme liabilities	2,503	10,629
Changes in assumptions underlying the present value of the liabilities	165,151	74,236
	<u>(97,148)</u>	<u>90,084</u>

*History of experience gains and losses:*

	2008	2007	2006	2005	2004
<i>Difference between the expected and actual return on scheme assets</i>					
Amount (£'000)	(264,802)	5,219	33,200	39,800	(1,000)
Percentage of scheme assets	(52%)	1%	5%	7%	0%
<i>Experience gains and losses on scheme liabilities</i>					
Amount (£'000)	2,503	10,629	(5,300)	3,700	10,700
Percentage of the present value of the scheme liabilities	0%	2%	(1%)	1%	2%
<i>Total amount recognised in the statement of total recognised gains and losses</i>					
Amount (£'000)	(97,148)	90,084	26,100	(36,200)	(29,100)
Percentage of the present value of the scheme liabilities	<u>(19%)</u>	<u>14%</u>	<u>4%</u>	<u>(6%)</u>	<u>(6%)</u>

## Notes to the financial statements

at 31 October 2008

### 23. Pensions (continued)

A full actuarial valuation of the Hewlett-Packard section of the defined benefit scheme was carried out at 30 September 2008 and projected forward to 31 October 2008 to take account of the requirements of FRS 17 by a qualified independent actuary. The major assumptions used by the actuary were:

	<i>At 31 October 2008</i>	<i>At 31 October 2007</i>	<i>At 31 October 2006</i>
Rate of increase in salaries	2.00%	3.75%	3.80%
<i>Rate of pension increases in payment:</i>			
For pensions accrued from 1 April 1997	2.97%	2.75%	2.79%
For pensions accrued before 1 April 1997, subject to two-thirds of the lesser of 5% and the annual increase in RPI	1.98%	1.83%	1.86%
Discount rate	6.90%	5.60%	4.90%
<i>Inflation assumption</i>	3.00%	2.75%	2.80%

#### **Digital Plan**

*Assets in scheme:*

	<i>Value at 31 Oct 2008 £'000</i>	<i>Value at 31 Oct 2007 £'000</i>	<i>Value at 31 Oct 2006 £'000</i>	<i>Value at 31 Oct 2005 £'000</i>	<i>Value at 31 Oct 2004 £'000</i>
Equities	426,781	629,985	623,900	544,200	453,900
Property	23,353	45,705	-	-	-
Bonds	209,911	238,198	233,100	223,400	195,600
Total market value of assets	660,045	913,888	857,000	767,600	649,500
Present value of scheme liabilities	(629,680)	(760,027)	(820,900)	(791,900)	(663,851)
Surplus/(deficit) in the scheme	30,365	153,861	36,100	(24,300)	(14,351)
Related deferred tax (liability)/asset	(8,502)	(43,081)	(10,830)	7,290	4,305
Net pension asset/(liability)	21,863	110,780	25,270	(17,010)	(10,046)

*Long term rate of return expected:*

	<i>2008 %</i>	<i>2007 %</i>	<i>2006 %</i>	<i>2005 %</i>	<i>2004 %</i>
Equities	8.5	8.4	8.3	8.4	8.25
Property	8.5	7.1	-	-	-
Bonds	5.4	5.2	5.4	5.4	5.5

# Notes to the financial statements

at 31 October 2008

## 23. Pensions (continued)

### Digital Plan (continued)

#### Movement during the year:

	2008	2007
	£'000	£'000
Surplus in scheme at beginning of year	153,861	36,100
Current service cost	(10,218)	(11,693)
Past service cost	(1,326)	(938)
Contributions paid	5,509	4,197
Other finance income	24,914	23,752
Actuarial (loss)/gain	(142,375)	102,443
Surplus in scheme at end of year	30,365	153,861

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

	2008	2007
	£'000	£'000
Current service cost	10,218	11,693
Past service cost	1,326	938
	11,544	12,631

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

	2008	2007
	£'000	£'000
Actuarial return less expected return on pension scheme assets	(306,705)	10,857
Experience gains/(losses) arising on the scheme liabilities	6,018	(25,191)
Changes in assumptions underlying the present value of the liabilities	158,312	116,777
	(142,375)	102,443

## Notes to the financial statements

at 31 October 2008

### 23. Pensions (continued)

#### *Digital Plan (continued)*

##### *History of experience gains and losses:*

	2008	2007	2006	2005	2004
<i>Difference between the expected and actual return on scheme assets</i>					
Amount (£'000)	(306,705)	10,857	42,700	64,100	-
Percentage of scheme assets		1%	5%	8%	0%
<i>Experience gains and losses on scheme liabilities</i>					
Amount (£'000)	6,018	(25,191)	23,300	14,051	(100)
Percentage of the present value of the scheme liabilities	1%	(3%)	3%	2%	0%
<i>Total amount recognised in the statement of total recognised gains and losses</i>					
Amount (£'000)	(142,375)	102,443	54,300	(27,849)	(35,700)
Percentage of the present value of the scheme liabilities	(23%)	13%	7%	(4%)	(5%)

A full actuarial valuation of the Hewlett-Packard section of the defined benefit scheme was carried out at 30 September 2008 and projected forward to 31 October 2008 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 2008	At 31 October 2007	At 31 October 2006
Rate of increase in salaries	2.00%	3.75%	3.80%
Limited price indexation capped at 5% for pensions accrued between 6 April 1997 and 1 July 2005 and for members who elected this rate for pension accrued from 1 July 2005	2.97%	2.75%	2.79%
Limited price indexation capped at 2.5% for members who elected this rate for pension accrued from 1 July 2005	2.22%	2.20%	2.22%
Discount rate	7.12%	5.70%	4.90%
Inflation assumption	3.00%	2.75%	2.80%

## Notes to the financial statements

at 31 October 2008

### 23. Pensions (continued)

#### Bank of Ireland Plan

##### Assets in scheme:

	<i>Value at 31 Oct 2008 £'000</i>	<i>Value at 31 Oct 2007 £'000</i>	<i>Value at 31 Oct 2006 £'000</i>	<i>Value at 31 Oct 2005 £'000</i>	<i>Value at 31 Oct 2004 £'000</i>
Equities	7,205	9,074	8,080	6,340	313
Bonds	2,992	3,736	3,231	2,786	135
Total market value of assets	10,197	12,810	11,311	9,126	448
Present value of scheme liabilities	(7,313)	(9,765)	(10,128)	(9,437)	(485)
Surplus/(deficit) in the scheme	2,884	3,045	1,183	(311)	(37)
Related deferred tax liability/(asset)	(808)	(853)	(355)	93	11
Net pension asset/(liability)	2,076	2,192	828	(218)	(26)

##### Long term rate of return expected:

	<i>2008 %</i>	<i>2007 %</i>	<i>2006 %</i>	<i>2005 %</i>	<i>2004 %</i>
Equities	8.0	8.3	8.3	8.3	7.7
Bonds	5.0	5.3	5.3	5.3	4.9

##### Movement during the year:

	<i>2008 £'000</i>	<i>2007 £'000</i>
Surplus in scheme at beginning of year	3,045	1,183
Current service cost	(754)	(825)
Past service cost	(25)	-
Contributions paid	164	200
Other finance income	398	335
Actuarial gain	56	2,152
Surplus in scheme at end of year	2,884	3,045

# Notes to the financial statements

at 31 October 2008

## 23. Pensions (continued)

### *Bank of Ireland Plan (continued)*

*Analysis of the amount charged to operating profit:*

	2008 £'000	2007 £'000
Current service cost	754	825
Past service cost	25	-
	<u>779</u>	<u>825</u>

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

	2008 £'000	2007 £'000
Actuarial return less expected return on pension scheme assets	(3,634)	472
Experience gains and losses arising on the scheme liabilities	132	215
Changes in assumptions underlying the present value of the liabilities	3,558	1,465
	<u>56</u>	<u>2,152</u>

*History of experience gains and losses:*

	2008	2007	2006	2005
<i>Difference between the expected and actual return on scheme assets</i>				
Amount (£'000)	(3,634)	472	624	(121)
Percentage of scheme assets	(36%)	4%	6%	(1%)
<i>Experience gains and losses on scheme liabilities</i>				
Amount (£'000)	132	215	562	(1,993)
Percentage of the present value of the scheme liabilities	2%	2%	6%	(21%)
<i>Total amount recognised in the statement of total recognised gains and losses</i>				
Amount (£'000)	56	2,152	1,209	(2,511)
Percentage of the present value of the scheme liabilities	1%	22%	12%	27%

## Notes to the financial statements

at 31 October 2008

### 23. Pensions (continued)

#### *Bank of Ireland Plan (continued)*

A full actuarial valuation of the Hewlett-Packard section of the defined benefit scheme was carried out at 30 September 2008 and projected forward to 31 October 2008 to take account of the requirements of FRS 17 by a qualified independent actuary. The major assumptions used by the actuary were:

	<i>At 31 October 2008</i>	<i>At 31 October 2007</i>	<i>At 31 October 2006</i>
Rate of increase in salaries	2.00%	3.75%	5.3%*
<i>Rate of increase to pensions in payment:</i>			
Pension increases April 1997 to April 2005 (RPI capped at 5% p.a.)	2.97%	2.75%	2.79%
Pension increases post April 2005 (RPI capped at 2.5%)	2.22%	2.20%	2.22%
Pension increases pre-April 2005 in excess of pre-April 1988 GMPs (RPI capped at 3% p.a.)	2.51%	2.45%	2.48%
Discount rate	6.69%	5.50%	4.80%
Inflation assumption	3.00%	2.75%	2.80%

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

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

	<i>2008 £'000</i>	<i>2007 £'000</i>
Hewlett-Packard plan	(97,148)	90,084
Digital plan	(142,375)	102,443
Bank of Ireland plan	56	2,152
	<u>(239,467)</u>	<u>194,679</u>

The company expects cash contributions to be paid into the respective pension funds in the financial year to 31 October 2009, of £3.4 million (2007: £3.3 million) (Hewlett-Packard Plan), £4.2 million (2007: £3.4 million) (Digital Plan) and £0.1 million (2007: £0.1 million) (Bank of Ireland Plan).



## Notes to the financial statements

at 31 October 2008

### 24. Contingent liability

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

With effect from 1 November 2007, this scheme was closed to new entrants; employees who reached the end of their lease term were eligible to renew the agreement until February 2008. The scheme will close on expiry of the final lease.

At the year end there was £16.8 million (2007: £19.8 million), 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 during the year, has a car under the above scheme. The maximum value of the loan during the year was £33,496 (2007: £37,687), of which £27,209 (2007: £33,496), remains outstanding at the year end. The agreement to pay any shortfall due to default/leaving is on the same basis as any other employee eligible to participate in the car scheme. No provision has been made against this amount.

### 25. 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 The Hague BV. Copies of the group financial statements of Hewlett-Packard The Hague BV can be obtained from Startbaan 16, 1187 XR Amstelveen, The Netherlands.

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

### 26. 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.