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# Hewlett-Packard Limited

## Report and Financial Statements

31 October 2004

 ERNST & YOUNG



# Hewlett-Packard Limited

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Registered No: 690597

## **Directors**

S Gill  
C R Dean  
M Lambton

## **Secretary**

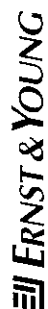
J Morris

## **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 2004.

### Principal activity and review of the business

The Group 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 Group 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 group.

On 1 February 2003, Hewlett-Packard Limited bought the trade and assets of Compaq Computer Limited, which had until that date traded as an independent legal entity.

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

### Research and development

The Group maintained an extensive programme of research and development.

### Employee involvement

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

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

All employees' training and development is supported by continuing in-service education. All employees who have completed minimum periods of service are eligible to join both 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 Group's practice to continue their current employment where possible or offer suitable alternatives. It is the policy of the Group 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 £689,925 (2003: £685,974).

### Post balance sheet events

On 1 January 2005, Hewlett-Packard Limited bought Synstar Limited for £165.9m.

## Directors' report

### Results and dividends

The consolidated results for the year are shown on page 6 and 7. The Group reported a pre-tax profit of £216 million (2003: profit £114 million). Profit after taxation for the year amounted to £162 million (2003: profit £75 million).

The directors have paid dividends totalling £226,410,459 during the year. This consists of a dividend relating to year ended 31 October 2004 of £200 million and payment of the 2003 proposed dividend. (2003: £26,410,459).

### Directors

The directors during the year were as follows:

S Gill	
C R Dean	
M Lambton	(appointed 1 May 2004)
G J Sheridan*	(appointed 5 April 2004; resigned 13 April 2004)
	(appointed 23 August 2004; resigned 3 September 2004)
A Bothwell*	(appointed 5 April 2004; resigned 13 April 2004)
	(appointed 25 May 2004; resigned 28 May 2004)

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

\*These directors are appointed as alternate directors.

### 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

Date: 17/1/2005

## **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 group and of the profit or loss of the group 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group 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 group 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 2004 which comprise the Consolidated Profit and Loss Account, Statement of Consolidated Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet and the related notes 1 to 28. 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 and of the Group as at 31 October 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP  
Registered Auditor  
Reading

Date:

*Ernst & Young LLP*  
*18 July 2005*

**Consolidated profit and loss account**

for the year ended 31 October 2004

	Note	2004 £'000	2003 £'000
<b>Turnover</b>			
Continuing operations		2,770,126	2,199,674
<b>Group turnover</b>	2	2,770,126	2,199,674
Cost of sales	3	(2,289,017)	(1,775,227)
<b>Gross profit</b>		481,109	424,447
Distribution costs	3	(203,032)	(200,696)
Administration expenses	3	(92,323)	(119,844)
<b>Operating profit</b>			
Continuing operations		185,754	104,276
Discontinued operations		-	(369)
<b>Group operating profit</b>	3,4,5	185,754	103,907
Interest receivable from group undertakings		10,437	8,433
Other finance income	8	19,713	2,300
Interest payable	9	(53)	(193)
<b>Profit on ordinary activities before taxation</b>		215,851	114,447
Tax on profit on ordinary activities	10	(54,338)	(39,754)
<b>Profit for the financial year</b>		161,513	74,693
<b>Dividends</b>			
Ordinary dividend	11	(200,000)	(26,410)
<b>Accumulated (Loss)/Retained Profit for the year</b>		(38,487)	48,283

## Statement of consolidated recognised gains and losses

for the year ended 31 October 2004

	Note	2004 £'000	2003 £'000
<b>Accumulated (Loss)/Retained Profit For The Year</b>		(38,487)	48,283
Actuarial gain/(loss) recognised in the pension scheme	24	(64,812)	61,400
Current tax associated with gain in the pension scheme	10	31,643	31,998
Deferred tax associated with gain in the pension scheme	20	(12,200)	(50,418)
<b>Total Recognised (Loss)/Profits Relating To The Year</b>		<u>(83,856)</u>	<u>91,263</u>




**Balance sheet**

as at 31 October 2004

		<i>Group</i>		<i>Company</i>	
		2004	2003	2004	2003
	<i>Note</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Fixed Assets</b>					
Tangible assets	13	185,620	195,626	185,620	195,626
Intangible assets	14	183,464	195,054	183,464	195,054
Investments	15	-	-	492,514	503,209
		<u>369,084</u>	<u>390,680</u>	<u>861,598</u>	<u>893,889</u>
<b>Current Assets</b>					
Tangible assets	13	4,816	-	4,816	-
Stocks	16	86,555	45,536	86,555	45,536
Debtors:					
- amounts due within one year	17	500,360	601,834	500,845	601,236
- amounts due after more than one year	17	21,366	38,641	21,366	38,641
Cash at bank and in hand		568,308	511,103	568,308	511,103
		<u>1,181,405</u>	<u>1,197,114</u>	<u>1,181,890</u>	<u>1,196,516</u>
<b>Creditors:</b>					
- amounts falling due within one year	18	(844,122)	(795,863)	(1,336,595)	(1,299,021)
<b>Net Current Assets/(Liabilities)</b>		<u>337,283</u>	<u>401,251</u>	<u>(154,705)</u>	<u>(102,505)</u>
<b>Total Assets Less Current Liabilities</b>		<u>706,367</u>	<u>791,931</u>	<u>706,893</u>	<u>791,384</u>
<b>Provisions For Liabilities And Charges</b>	19	(37,225)	(51,769)	(37,225)	(51,769)
<b>Net Assets Excluding Pension Liability</b>		<u>669,142</u>	<u>740,162</u>	<u>669,668</u>	<u>739,615</u>
Pension liability	24	(26,872)	(14,036)	(26,872)	(14,036)
<b>Net Assets Including Pension Liability</b>		<u>642,270</u>	<u>726,126</u>	<u>642,796</u>	<u>725,579</u>
<b>Capital And Reserves</b>					
Called up share capital	21	104,772	104,772	104,772	104,772
Share premium account	22	382,017	382,017	382,017	382,017
Profit and loss account	22	155,481	239,337	156,007	238,790
<b>Equity Shareholders' Funds</b>	22	<u>642,270</u>	<u>726,126</u>	<u>642,796</u>	<u>725,579</u>

Approved by the Board

Director  
Date:
  
 17/1/2005

## Notes to the financial statements

at 31 October 2004

### 1. Accounting Policies

#### Accounting convention

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

#### Consolidation principles

The group financial statements include the results, assets and liabilities of the company and its subsidiaries. Newly acquired subsidiaries are consolidated from the effective date of their acquisition. Subsidiaries that have been disposed of are consolidated up to the effective date of their disposal.

#### 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.

#### 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.

## Notes to the financial statements

at 31 October 2004

### 1. Accounting Policies (continued)

#### 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.

#### 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.

## Notes to the financial statements

at 31 October 2004

### 1. Accounting Policies (continued)

#### 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.

#### Pensions

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

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 group'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 group'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 group 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.

## Notes to the financial statements

at 31 October 2004

### 2. Turnover

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

	2004 £'000	2003 £'000
<i>Sales were made to geographical markets as follows:</i>		
United Kingdom	2,506,206	2,018,732
Rest of Europe	222,859	115,857
United States	38,294	61,832
Other areas	2,767	3,253
	<u>2,770,126</u>	<u>2,199,674</u>

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

### 3. Cost Of Sales And Operating Expenses

	2004		2003	
	<i>Continuing</i>	<i>Discontinued</i>	<i>Continuing</i>	<i>Discontinued</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost of sales	2,289,017	-	2,289,017	1,774,858
Distribution costs	203,032	-	203,032	200,696
Administrative expenses	92,323	-	92,323	119,844
	<u>2,584,372</u>	<u>-</u>	<u>2,584,372</u>	<u>1,995,398</u>

Due to the integration of the business it is not possible to give a meaningful split between existing operations and the acquisitions down to an operating profit level.

## Notes to the financial statements

at 31 October 2004

### 4. Operating Profit

This is stated after charging:	2004	2003
	£'000	£'000
Depreciation - owned assets	19,690	22,311
Operating lease rentals - other	8,914	7,593
- land and buildings	16,436	12,788
Auditors' remuneration - audit services	243	131
- other services	86	276
Loss on sale of tangible fixed assets	6,278	2,559
Foreign Exchange (Gain)/Loss	47,066	37,728
	<hr/>	<hr/>
Research and development expenditure	26,442	25,342
Less: amounts recharged to other group companies	(15,946)	(15,562)
	<hr/>	<hr/>
	10,496	9,780
	<hr/>	<hr/>

The auditors' remuneration borne by the company was £243,000 (2003: £131,000). £3,542 was paid on behalf of another group company (2003: £5,224).

### 5. Exceptional Items

	2004	2003
	£'000	£'000
<i>Recognised in arriving at operating profit:</i>		
Restructuring costs (see note 19)	(3,506)	(16,508)
	<hr/>	<hr/>
	(3,506)	(16,508)
	<hr/>	<hr/>

During 2004, the group continued with an employee redundancy and property rationalisation programme with costs incurred of £3,506,000 (2003: 16,508,000).

# Notes to the financial statements

at 31 October 2004

## 6. Staff costs

	2004 £'000	2003 £'000
Wages and salaries	346,424	309,976
Social security costs	36,169	31,907
Other pension costs		
- defined benefits (note 24)	27,573	24,800
- defined contributions	11,374	9,542
	<u>421,540</u>	<u>376,225</u>

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

	2004 Number	2003 Number
Sales and services	4,645	4,122
Manufacturing and research and development	796	700
	<u>5,441</u>	<u>4,822</u>

## 7. Directors' Emoluments

	2004 £'000	2003 £'000
Fees	457	726
Pensions	90	43
Other	2	2
	<u>549</u>	<u>771</u>

The emoluments of the highest paid director were fees £276,464, pensions £58,759 (2003: fees £585,487, pensions £20,627).

Two directors participated in the company's defined contribution pension scheme during the year ended 31 October 2004 (2003: 1).

One director participated in the defined benefit pension plan during the year ended 31 October 2004 (2003: 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 2004 and 31 October 2003.

# Notes to the financial statements

at 31 October 2004

## 8. Other Finance Income

	2004 £'000	2003 £'000
Expected return on pension scheme assets	77,614	47,800
Interest on pension scheme liabilities	(57,901)	(45,500)
Net return	19,713	2,300

## 9. Interest Payable

	2004 £'000	2003 £'000
On bank loans and overdrafts repayable within five years	53	193

## 10. Taxation On Profit On Ordinary Activities

a) Analysis of charge in the year:

	2004 £'000	2003 £'000
United Kingdom corporation tax charge/(credit) based on the taxable profit for the year at 30% (2003: 30%)	26,811	7,585
Under/(Over) provision in prior year	(4,469)	(1,562)
Less amount transferred to reserves (note 22)	31,643	31,998
Total current tax (note 10b)	53,985	38,021
Withholding tax expensed	-	239
Deferred tax (note 20)	353	1,494
Tax on profit on ordinary activities	54,338	39,754

b) Factors affecting tax charge for year:

	2004 £'000 £	2003 £'000 £
Profit on ordinary activities before tax	215,851	114,447
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 – 30%)	64,755	34,334
Tax effects of:		
Under/(Over) provision in prior year	(4,469)	(1,562)
Capital allowances in advance of depreciation	(820)	(2,472)
Expenses disallowable for tax purposes	6,352	7,344
Other	(1,184)	377
Group Relief received for nil payment	(10,649)	-
Total current tax (note 10a)	53,985	38,021



# Notes to the financial statements

at 31 October 2004

## 11. Dividends

	2004 £'000	2003 £'000
<i>Equity dividends on ordinary shares:</i>		
Interim paid	200,000	-
Final proposed	-	26,410
	<u>200,000</u>	<u>26,410</u>

The final proposed dividend for the year ended 31 October 2003 of £26,410,459 was paid during the year ended 31 October 2004.

## 12. Hewlett-Packard Limited Profit And Loss Account

In accordance with Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. Of the group loss for the financial year, a loss of £37,414,000 (2003 profit: £73,890,000) has been dealt with in the financial statements of the company.

## 13. Tangible Fixed Assets

*Group & Company*

	<i>Property</i> £'000	<i>Machinery and equipment</i> £'000	<i>Total</i> £'000
<i>Cost:</i>			
At 31 October 2003	226,451	42,217	268,668
Additions	8,996	11,781	20,777
Reclassifications	(2,026)	2,026	-
Disposals	(4,092)	(12,863)	(16,955)
Transfer to Current Assets	(13,157)	(335)	(13,492)
At 31 October 2004	<u>216,172</u>	<u>42,826</u>	<u>258,998</u>
<i>Depreciation:</i>			
At 31 October 2003	60,144	12,898	73,042
Charge for the year	6,890	12,800	19,690
Reclassifications	(744)	744	-
Disposals	(2,402)	(8,276)	(10,678)
Transfer to Current Assets	(8,350)	(326)	(8,676)
At 31 October 2004	<u>55,538</u>	<u>17,840</u>	<u>73,378</u>
<i>Net book value:</i>			
At 31 October 2004	<u>160,634</u>	<u>24,986</u>	<u>185,620</u>
At 31 October 2003	<u>166,307</u>	<u>29,319</u>	<u>195,626</u>

## Notes to the financial statements

at 31 October 2004

### 13. Tangible Fixed Assets (continued)

#### Analysis of Property

	2004 Cost £'000	2004 Depreciation £'000	2004 Net £'000	2003 Net £'000
Freehold land	53,058	-	53,058	45,510
Freehold buildings	157,506	49,302	108,204	114,322
Short leaseholds	18,765	14,586	4,179	6,475
Transfer to Current Assets	(13,157)	(8,350)	(4,807)	-
Total Company and Group property	216,172	55,538	160,634	166,307

Included within machinery and equipment in the company are assets subject to finance lease agreements with a cost of £4,034,428 (2003: £5,760,797) and accumulated depreciation of £1,151,289 (2003: £1,286,713).

The Land & Building at Pinewood have been reclassified as Current Assets as there is an agreement to sell the assets in February 2005, the Net Book Value at 31/10/04 was £4,815,612.

### 14. Intangible Fixed Assets

#### Group & Company

#### Goodwill

	£'000
Cost:	
Brought forward	205,320
Acquisitions	2,617
Carried forward	207,937
Amortisation:	
Brought forward	10,266
Charge	14,207
Carried forward	24,473
Net book value: Year Ended 31 October 2004	183,464
Net book value: Year Ended 31 October 2003	195,054

## Notes to the financial statements

at 31 October 2004

### 14. Intangible Fixed Assets (continued)

Analysis of acquisitions, accounted for using acquisition accounting.

#### Novadigm UK Limited

Date of Acquisition 1<sup>st</sup> June 2004.

	Book value £'000	Adjustment £'000	Fair value £'000
Tangible fixed assets	69	(69) <sup>(1)</sup>	-
Debtors	1,904	(261) <sup>(2)</sup>	1,643
Cash	7,740	-	7,740
Creditors due within one year	(8,914)	1,127 <sup>(3)</sup>	(7,787)
Net assets	799		1,596
Consideration			1,651
Goodwill arising on acquisition			55

Adjustments:

- (1) Reassessment of fair value of fixed assets
- (2) Reassessment of the fair value of debtors
- (3) Reassessment of the fair value of deferred revenue

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

#### CEC Europe Service Management Limited

Date of Acquisition 1<sup>st</sup> May 2004

	Book value £'000	Adjustment £'000	Fair value £'000
Tangible fixed assets	20	(20) <sup>(1)</sup>	-
Debtors	300	(1) <sup>(2)</sup>	299
Cash	18	-	18
Creditors due within one year	(307)	1 <sup>(3)</sup>	(306)
Net assets	31		11
Consideration			1,057
Goodwill arising on acquisition			1,046

Adjustments:

- (1) Reassessment of fair value of fixed assets
- (2) Reassessment of the fair value of debtors
- (3) Reassessment of deferred tax

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

## Notes to the financial statements

at 31 October 2004

### 14. Intangible Fixed Assets (continued)

#### FH Computer Services Ltd

Date of Acquisition 9<sup>th</sup> February 2004.

	Book value £'000	Adjustment £'000	Fair value £'000
Net assets	-	-	-
Consideration			1,516
Goodwill arising on acquisition			1,516

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

### 15. Investments

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Shares in group undertakings		-	492,514	503,209

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 Digital Equipment SME Limited	-	-	-	12,745
Investment in Twinsoft UK Limited	-	-	-	2,114
Investment in Basys Automation Systems Limited	-	-	-	-
Investment in X/Team Limited	-	-	-	-
Investment in Spiritguide Limited	-	-	-	-
Investment in Spiritmodel Limited	-	-	-	-
Investment in Novadigm UK Limited	-	-	1,598	-
Investment in FH Computer Services Limited	-	-	1,516	-
Investment in CEC Europe Service Management Limited	-	-	1,050	-
	-	-	492,514	503,209

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

## Notes to the financial statements

at 31 October 2004

### 15. Investments (continued)

Digital Equipment SME Limited, Twinsoft UK Limited, Basys Automation Systems Limited and X/Team Limited were all liquidated in the year.

Novadigm UK Limited, FH Computer Services Limited and CEC Europe Service Management Limited were acquired within the year. 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 the year.

### 16. Stocks

	<i>Group &amp; Company</i>	
	<i>2004</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>
Raw materials and consumables	8,208	10,014
Work in progress	-	2,706
Finished goods for resale	64,040	32,816
Long-term contract balances	14,307	-
	<hr/>	<hr/>
	86,555	45,536
	<hr/>	<hr/>

Long-term contract balances are analysed as follows:

	<i>Group &amp; Company</i>	
	<i>2004</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>
Cost less foreseeable losses	43,744	31,482
Less: applicable payments on account	(29,437)	(31,482)
	<hr/>	<hr/>
	14,307	-
	<hr/>	<hr/>

## Notes to the financial statements

at 31 October 2004

### 17. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Trade debtors	323,228	319,174	323,228	319,174
Amounts recoverable on contracts	25,861	31,332	25,861	31,332
Amount owed by other Group undertakings	79,537	158,985	79,537	158,985
Corporation tax	10,148	34,345	10,633	33,747
Other debtors	8,142	10,121	8,142	10,121
Prepayments and accrued income	15,324	16,804	15,324	16,804
Deferred taxation (note 20)	59,486	69,714	59,486	69,714
	<u>521,726</u>	<u>640,475</u>	<u>522,211</u>	<u>639,877</u>

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

	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Deferred taxation	21,366	38,641	21,366	38,641
	<u>21,366</u>	<u>38,641</u>	<u>21,366</u>	<u>38,641</u>

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

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Trade creditors	39,380	47,642	39,380	47,642
Amounts owed to subsidiary undertakings	-	-	492,464	503,158
Amounts owed to other group undertakings	331,581	360,302	331,590	360,302
Other taxation and social security	57,914	25,368	57,914	25,368
Other creditors	7,412	-	7,412	-
Accruals and deferred income	407,835	362,551	407,835	362,551
	<u>844,122</u>	<u>795,863</u>	<u>1,336,595</u>	<u>1,299,021</u>

## Notes to the financial statements

at 31 October 2004

### 19. Provisions For Liabilities And Charges

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

	<i>Long term disability £'000</i>	<i>Restructuring costs £'000</i>	<i>Stock options £'000</i>	<i>Warranty £'000</i>	<i>Total £'000</i>
At 31 October 2003	4,391	31,180	6,565	9,633	51,769
Profit and loss account	-	3,506	(4,028)	(946)	(1,468)
Utilised in the year	-	(13,683)	607	-	(13,076)
At 31 October 2004	4,391	21,003	3,144	8,687	37,225

#### Stock options

Provision is made for an estimate of the charges to be made to the group 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 \$18.50 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 2004

### 20. Deferred Taxation

*Group & Company*

	2004 <i>Provided</i>	2003 <i>Provided</i>
	£'000	£'000
Depreciation in advance of capital allowances	9,525	7,481
Pension deficit	11,516	6,015
Short-term timing differences	49,961	62,233
Total deferred tax asset	71,002	75,729
Amounts offset against pension deficit (note 24)	(11,516)	(6,015)
	59,486	69,714

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

*Group & Company*

	2004 £'000	2003 £'000
At 1 November	75,729	34,827
Prior Year Adjustment	7,826	-
Transfer to profit and loss account tax charge for the year (note 10)	(353)	(1,494)
Transfer to reserves arising on actuarial gain on pension scheme	(12,200)	(50,418)
Fair Value adjustment for recognition of Deferred Tax Asset on ACA transferred from CCL	-	13,044
Fair Value adjustment for recognition on Pension Liability accrued re CCL	-	79,770
At 31 October	71,002	75,729

### 21. Share Capital

	<i>Group</i>		<i>Company</i>	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
<i>Authorised:</i>				
Ordinary shares of £1 each	200,000	200,000	200,000	200,000
<i>Allotted and fully paid:</i>				
Ordinary shares of £1 each	104,772	104,772	104,772	104,772



# Notes to the financial statements

at 31 October 2004

## 22. Reconciliation Of Shareholders' Funds And Movements On Reserves

<i>Group</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Profit and loss account</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 31 October 2002	104,772	17	148,074	252,863
Profit for the year	-	-	48,283	48,283
Acquisition of CCL	-	382,000	-	382,000
Actuarial gain recognised in the pension scheme	-	-	61,400	61,400
Current tax associated with gain in the pension scheme	-	-	31,998	31,998
Deferred tax associated with gain in the pension scheme	-	-	(50,418)	(50,418)
At 31 October 2003	104,772	382,017	239,337	726,126
Loss for the year	-	-	(38,487)	(38,487)
Actuarial loss 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	155,481	642,270

During the previous year the company issued one £1 ordinary share for £382m, as consideration for the acquisition of Compaq Computer Limited

## Notes to the financial statements

at 31 October 2004

### 22. Reconciliation Of Shareholders' Funds And Movements On Reserves (continued)

*Company*

	<i>Share capital £'000</i>	<i>Share premium £'000</i>	<i>Profit and loss account £'000</i>	<i>Total £'000</i>
At 31 October 2002	104,772	17	121,920	226,709
Profit for the year	-	-	73,890	73,890
Acquisition of CCL	-	382,000	-	382,000
Actuarial gain recognised in the pension scheme	-	-	61,400	61,400
Current tax associated with gain in the pension scheme	-	-	31,998	31,998
Deferred tax associated with gain in the pension scheme	-	-	(50,418)	(50,418)
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

### 23. Commitments

*Operating lease commitments:*

Amounts due under operating leases:

	2004		2003	
	<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	134	785	525	3,889
- within two to five years	2,568	1,569	3,011	7,778
- after five years	5,487	-	6,192	-
	8,189	2,354	9,728	11,667

*Forward exchange contracts:*

At 31 October 2004 the group and company had commitments arising from forward exchange contracts entered into in the normal course of business amounting to £Nil (2003: £85 million).

## Notes to the financial statements

at 31 October 2004

### 24. Pensions

The group 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.

#### Hewlett-Packard Plan

Assets in scheme and expected rate of return:

	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	Long term rate of return expected at 31 Oct 2002	Value at 31 Oct 2002 £'000
Equities	8.0%	343,900	7.7%	343,900	7.3%	293,200
Government bonds	4.7%	81,100	5.0%	58,000	4.6%	29,800
Corporate bonds	5.2%	71,200	5.3%	51,400	5.6%	27,300
Total market value of assets		496,200		453,300		350,300
Present value of scheme liabilities		(520,200)		(454,900)		(402,600)
(Deficit)/surplus in the scheme		(24,000)		(1,600)		(52,300)
Related deferred tax asset/(liability)		7,200		480		15,690
Net pension (liability)/asset		(16,800)		(1,120)		(36,610)

Movements in deficit during the year:

	2004 £'000	2003 £'000
Deficit in scheme at beginning of year	(1,600)	(52,300)
Current service cost	(16,100)	(15,300)
Past service cost	(200)	(1,100)
Contributions paid	15,700	53,800
Gain on curtailment	-	-
Other finance income	7,300	3,600
Actuarial (loss)/ gain	(29,100)	9,700
Deficit in scheme at end of year	(24,000)	(1,600)

## Notes to the financial statements

at 31 October 2004

### 24. Pensions (continued)

*Analysis of the amount charged to operating profit:*

	2004 £'000	2003 £'000
Current service cost	16,100	15,300
Past service cost	200	1,100
Net curtailment gain	-	-
	<u>16,300</u>	<u>16,400</u>

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

	2004 £'000	2003 £'000
Actual less expected return on pension scheme assets	(1,000)	27,700
Experience gains and losses arising on the scheme liabilities	10,700	2,800
Changes in assumptions underlying the present value of the liabilities	(38,800)	(20,800)
	<u>(29,100)</u>	<u>9,700</u>

*History of experience gains and losses:*

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

## Notes to the financial statements

at 31 October 2004

### 24. Pensions (continued)

A full actuarial valuation of the Hewlett-Packard section of the defined benefit scheme was carried out at 30 September 2004 and projected forward to 31 October 2004 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 2004	At 31 October 2003	At 31 October 2002
Rate of increase in salaries	4.30%	4.30%	4.30%
Rate of limited price indexation increases to pensions in payment	2.70%	2.70%	2.40%
Discount rate	5.40%	5.60%	5.60%
Inflation assumption	2.80%	2.80%	2.30%

#### Digital Plan

Assets in scheme and expected rate of return:

	Long term rate of return expected at 31 Oct 2004 £'000	Value at 31 Oct 2004	Long term rate of return expected at 31 Oct 2003 £'000	Value at 31 Oct 2003	Long term rate of return expected at 31 Jan 2003 £'000	Value at 31 Jan 2003
Equities	8.25%	453,900	8.25%	418,900	8.25%	231,400
Bonds	5.5%	192,100	5.25%	143,200	5.25%	70,400
Cash		3,500		-		-
Total market value of assets		649,500		562,100		301,800
Present value of scheme liabilities		(663,851)		(580,551)		(567,700)
(Deficit)/surplus in the scheme		(14,351)		(18,451)		(265,900)
Related deferred tax asset/(liability)		4,305		5,535		79,770
Net pension (liability)/asset		(10,046)		(12,916)		(186,130)

# Notes to the financial statements

at 31 October 2004

## 24. Pensions (continued)

*Movements in deficit during the year:*

	<i>Year ended 31 Oct 2004</i>	<i>Year ended 31 Oct 2003</i>
	<i>£'000</i>	<i>£'000</i>
Deficit in scheme at beginning of period	(18,451)	(265,900)
Current service cost	(10,900)	(8,400)
Contributions paid	38,300	205,449
Financing costs	12,400	(1,300)
Actuarial gain/(loss)	(35,700)	51,700
Deficit in scheme at end of period	(14,351)	(18,451)

*Analysis of the amount charged to operating profit:*

	<i>2004 £'000</i>	<i>2003 £'000</i>
Current service cost	10,900	8,400
Net curtailment gain	-	-
	10,900	8,400

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

	<i>Year ended 31 Oct 2004</i>	<i>Period ended 31 Oct 2003</i>
	<i>£'000</i>	<i>£'000</i>
Actuarial return less expected return on pension scheme assets	-	49,300
Experience gains and losses arising on the scheme liabilities	(100)	3,900
Changes in assumptions underlying the present value of the liabilities	(35,600)	(1,500)
	(35,700)	51,700

## Notes to the financial statements

at 31 October 2004

### 24. Pensions (continued)

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

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

A full actuarial valuation of the Hewlett-Packard section of the defined benefit scheme was carried out at 30 September 2004 and projected forward to 31 October 2004 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 2004	At 31 October 2003	At 31 January 2003
Rate of increase in salaries	4.25%	4.00%	4.50%
Rate of limited price indexation increases to pensions in payment	2.75%	2.50%	2.50%
Discount rate	5.50%	5.50%	5.50%
Inflation assumption	2.75%	2.50%	2.50%

# Notes to the financial statements

at 31 October 2004

## 24. Pensions (continued)

### Bank of Ireland Plan

	<i>Long term rate of return expected at 31 Oct 2004</i>	<i>Value at 31 Oct 2004</i>
		<i>£'000</i>
Equities	7.7%	313
Government bonds	5.0%	72
Corporate bonds	5.2%	63
Total market value of assets		448
Present value of scheme liabilities		(485)
(Deficit)/surplus in the scheme		(37)
Related deferred tax asset/(liability)		11
Net pension (liability)/asset		(26)

### Movements in deficit during the year:

	<i>Period ended 31 Oct 2004 £'000</i>
Deficit in scheme at beginning of period	-
Current service cost	(373)
Contributions paid	335
Financing costs	13
Actuarial gain/(loss)	(12)
Deficit in scheme at end of period	(37)

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

	<i>2004 £'000</i>
Current service cost	373
Net curtailment gain	-
	373



## Notes to the financial statements

at 31 October 2004

### 24. Pensions (continued)

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

	<i>Period ended</i>
	<i>31 Oct 2004</i>
	<i>£'000</i>
Actuarial return less expected return on pension scheme assets	12
Experience gains and losses arising on the scheme liabilities	30
Changes in assumptions underlying the present value of the liabilities	(54)
	<u>(12)</u>

*History of experience gains and losses:*

	<i>2004</i>
Difference between the expected and actual return on scheme assets	
Amount (£'000)	12
Percentage of scheme assets	3%
Experience gains and losses on scheme liabilities	
Amount (£'000)	30
Percentage of the present value of the scheme liabilities	6%
Total amount recognised in the statement of total recognised gains and losses	
Amount (£'000)	(12)
Percentage of the present value of the scheme liabilities	<u>(2%)</u>

## Notes to the financial statements

at 31 October 2004

### 24. Pensions (continued)

A full actuarial valuation of the Hewlett-Packard section of the defined benefit scheme was carried out at 30 September 2004 and projected forward to 31 October 2004 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 2004
Rate of increase in salaries	5.80% *
Rate of limited price indexation increases to pensions in payment	2.70%
Discount rate	5.40%
Inflation assumption	2.80%

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

During the year Hewlett-Packard set-up the Bank Of Ireland plan as part of an agreement to take on former Bank of Ireland employees.

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

	31 Oct 2004 £'000	31 Oct 2003 £'000
Hewlett-Packard Plan	(29,100)	9,700
Digital Plan	(35,700)	51,700
Bank of Ireland Plan	(12)	-
	<u>(64,812)</u>	<u>61,400</u>

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

## Notes to the financial statements

at 31 October 2004

### 25. 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 £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 £32,000, of which £25,000 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.

### 26. Post balance sheet event

On 1 January 2005, Hewlett-Packard Limited bought Synstar Limited for £165.9m.

### 27. 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.

### 28. 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.