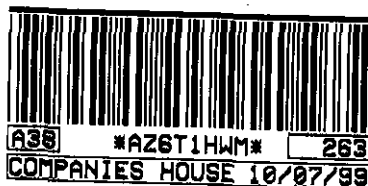


Hewlett-Packard Limited
(Registered Number 690597)

Report and Financial Statements

For the year ended 31 October 1998



Hewlett-Packard Limited

Index to the accounts

For the year ended 31 October 1998

Directors' Report	1 - 3
Auditors' Report to the members of Hewlett-Packard Limited	4
Consolidated Profit & Loss Account	5
Balance Sheets	6
Notes to the accounts	7 - 21

Directors' Report

The Directors have pleasure in submitting their annual report and the audited accounts of the Company and its subsidiaries ("the Group") for the year ended 31 October 1998.

Results and dividends

The consolidated results for the year are shown on page 5. The Group reported a pre-tax profit of £196 million (1997: £205 million). Profit after taxation for the year amounted to £126 million (1997: £143 million). The Directors do not recommend the payment of a dividend (1997: £246 million). The resulting retained profit for the year of £126 million (1997 loss: £103 million) is to be transferred to reserves.

Principal activities

The Group's principal activities are the design, manufacture, marketing and servicing of products and systems for measurement, computation and communication, to help its customers improve their personal and business effectiveness.

Review of the business and future developments

The Group's results for 1998 continue to be very encouraging. Our continued investment in research and development has helped to develop a strong portfolio, once again generating record UK and export turnover of £2,172 million (1997: £2,008 million).

The growth in business was led by the Computer Organisation through the sale of computer products and associated services. There has also continued to be a strong market for HP DeskJet and LaserJet printers and personal computers.

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.

Post Balance Sheet Event

On 2 March 1999, plans were announced for a strategic realignment of Hewlett-Packard Company, the ultimate parent company, that will create two independent companies.

Shareholders of Hewlett-Packard Company will hold shares in each company, one focussed on the measurement business, the other on the computing and imaging businesses.

The new measurement company will comprise Hewlett-Packard Company's industry-leading test and measurement, components, chemical analysis and medical businesses. A name has not yet been selected for the new measurement company.

It is expected that this decision will impact the Hewlett-Packard Limited Group, with effect from 1 November 1999, when the Group's existing measurement business will be transferred to a new legal entity.

Research and development

The Group maintained an extensive programme of engineering and software research and development at each of its major sites in the UK, in addition to the special activities of the Bristol Research Centre.

Directors' Report *(continued)*

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 profit share and share purchase schemes of the Hewlett-Packard Company (the ultimate parent company of Hewlett-Packard Limited).

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.

Donations

Donations to the UK charities and educational establishments amounted to £119,000 (1997: £140,000).

The Group made no political donations (1997: £Nil).

Year 2000

The Year 2000 ("Y2K") problem arises from the use of a two-digit field to identify years in computer programs, e.g., 85=1985, and the assumption of a single century, the 1900s. Any program so created may read, or attempt to read, "00" as the year 1900. There are two other related issues which could also lead to incorrect calculations or failure, such as (i) some systems' programming assigns special meaning to certain dates, such as 9/9/99, and (ii) the year 2000 is a leap year. Accordingly, some computer hardware and software, including programs embedded within machinery and parts, will need to be modified prior to the year 2000 in order to remain functional. The Company's Y2K initiatives are focusing primarily on four areas of potential impact: internal information technology ("IT") systems, internal non-IT systems, including services and embedded chips (controllers), the Company's products and services, and the readiness of significant third parties with whom the Company has material business relationships.

The Company expects to implement successfully the systems and programming changes necessary to address Y2K internal IT and non-IT readiness issues and, based on current estimates, does not believe that the costs associated with such actions will have a material effect on the Company's results of operations or financial condition. There can be no assurance, however, that there will not be a delay in, or increased costs associated with the implementation of such changes. In addition, failure to achieve Y2K readiness for the Company's internal systems could delay its ability to manufacture and ship products and deliver services, disrupt its customer service and technical support facilities, and interrupt customer access to its online products and services. The Company's inability to perform these functions could have an adverse effect on future results of operations or financial condition.

Directors' Report *(continued)*

Directors

The Directors of the Company during the year were:

J T Golding OBE	(Chairman and Managing Director)
J Taylor OBE	(Resigned 31 December 1998)
P Valler	
F Nawratil	

According to the register required to be kept under Section 325 of the Companies Act 1985 none of the Directors had any beneficial interest in the shares of the Company at the beginning or end of the financial year.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare accounts for each financial year which gives a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:


- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company or 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 Company and Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Following the merger on 1 July 1998 of Price Waterhouse and Coopers & Lybrand, the auditors Price Waterhouse resigned and PricewaterhouseCoopers were appointed by the Directors to fill the vacancy thereby arising. PricewaterhouseCoopers have indicated their willingness to be re-appointed and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

By order of the board


Jackie Connor
Secretary

Date: 7 July 1999

Registered Office:
Cain Road
Bracknell
Berkshire
RG12 1HN

Auditors' Report To The Members Of Hewlett-Packard Limited

PricewaterhouseCoopers
Thames Court
1 Victoria Street
Windsor SL4 1HB
Telephone +44 (0) 1753 752000
Facsimile +44 (0) 1753 864826

We have audited the accounts on pages 5 to 21 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 9.

Respective responsibilities of Directors and Auditors

As described on page 3, the Company's Directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.


Basis of opinion

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanation which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 October 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers
Chartered Accountants
And Registered Auditors

Date: 7 July 1999

PricewaterhouseCoopers is the successor partnership to the UK firms of Price Waterhouse and Coopers & Lybrand. The principal place of business of PricewaterhouseCoopers and its associate partnerships, and of Coopers & Lybrand, is 1 Embankment Place, London WC2N 6NN. The principal place of business of Price Waterhouse is Southwark Towers, 32 London Bridge Street, London SE1 9SY. Lists of the partners' names are available for inspection at those places.

All partners in the associate partnerships are authorised to conduct business as agents of, and all contracts for services to clients are with, PricewaterhouseCoopers. PricewaterhouseCoopers is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

Hewlett-Packard Limited

Consolidated Profit & Loss Account

For the year ended 31 October 1998

	Notes	1998 £'000	1997 £'000
Turnover	2	2,172,100	2,007,542
Cost of sales		(1,813,226)	(1,666,787)
Gross profit		358,874	340,755
Distribution costs		(134,462)	(121,309)
Administrative expenses		(28,653)	(20,572)
Operating profit	4	195,759	198,874
Interest receivable and similar income		2,760	8,180
Interest payable	6	(2,250)	(1,743)
Profit on ordinary activities before taxation		196,269	205,311
Taxation on profit on ordinary activities	7	(70,039)	(62,497)
Profit on ordinary activities after taxation and for the year	17	126,230	142,814
Dividends on equity shares	17	-	(246,069)
Retained profit/(loss) for the year transferred to reserves		126,230	(103,255)

There are no recognised gains or losses other than the profit for the year.

All the results derive from continuing operations.

The notes on pages 7 to 21 form part of these accounts.

Hewlett-Packard Limited

Balance Sheets

At 31 October 1998

	Notes	Group		Company	
		1998 £'000	1997 £'000	1998 £'000	1997 £'000
Fixed assets					
Tangible assets	9	245,556	232,003	177,912	177,617
Investments	10	3,590	3,590	31,139	31,139
		<u>249,146</u>	<u>235,593</u>	<u>209,051</u>	<u>208,756</u>
Current assets					
Stocks	11	89,207	89,538	89,207	89,538
Debtors	12				
- amounts due in one year		297,132	271,938	347,034	308,240
- amounts due after one year		49,112	46,256	45,765	49,183
Cash at bank and in hand		113,478	3,258	113,250	2,832
		<u>548,929</u>	<u>410,990</u>	<u>595,256</u>	<u>449,793</u>
Creditors (amounts falling due within one year)	13	(410,745)	(381,137)	(409,589)	(380,294)
Net current assets		<u>138,184</u>	<u>29,853</u>	<u>185,667</u>	<u>69,499</u>
Total assets less current liabilities		<u>387,330</u>	<u>265,446</u>	<u>394,718</u>	<u>278,255</u>
Creditors (amounts falling due after more than one year)	14	(4,430)	(4,130)	(4,430)	(4,130)
Provisions for liabilities and charges	15	(1,388)	(6,034)	(1,388)	(6,034)
		<u>381,512</u>	<u>255,282</u>	<u>388,900</u>	<u>268,091</u>
Capital and reserves					
Called up share capital	16,17	104,772	104,772	104,772	104,772
Share premium account	17	17	17	17	17
Profit and loss account	17	276,723	150,493	284,111	163,302
Equity Shareholders' funds	17	<u>381,512</u>	<u>255,282</u>	<u>388,900</u>	<u>268,091</u>

Approved by the Board on 7 July 1999 and signed on its behalf by:

JT Golding OBE
Director

The notes on pages 7 to 21 form part of these accounts.

Notes to the accounts

For the year ended 31 October 1998

1. Accounting Policies

Accounting convention

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

Consolidation principles

The Group accounts include the results, assets and liabilities of the Company and its subsidiaries, other than Apollo Computer (UK) Limited as set out in note 10. Newly acquired subsidiaries are consolidated from the effective date of their acquisition.

Turnover

Turnover consists of sales in the year of equipment, parts and services at the amounts invoiced, excluding value added tax, less returns and trade discounts, together with income from leased equipment.

Tangible fixed assets and depreciation

Tangible fixed assets are stated 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	- reducing balance over approximately 40 years.
Short leasehold property	- straight line over the period of the lease.
Machinery & Equipment	- sum of the digits over three to ten years.
Equipment rented under operating leases	- sum of the digits or straight line over two to five years.

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

Stocks

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

Long term contracts

Long term contracts are reflected in the profit and loss account by recording turnover and related costs and profits as contract activity progresses. Profits are recognised on a prudent basis when the outcome of a contract can be assessed with reasonable certainty. Provision is made in full for any foreseeable losses.

Goods sold under warranty

A liability is recognised in the accounts for costs anticipated to arise during the unexpired warranty periods on goods sold.

Notes to the accounts *(continued)*

For the year ended 31 October 1998

1. Accounting Policies *(continued)*

Finance leases

Amounts receivable in respect of finance leases to customers are stated after deduction of the interest element of the income relating to the unexpired portion of the lease. The interest element of the income from such leases is taken to 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.

Operating 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.

Goodwill

Following the introduction of FRS10, 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. Goodwill written off against reserves in previous years has not been reinstated.

Deferred taxation

Deferred tax liabilities are provided using the liability method in respect of timing differences only where it is probable that the liability will become payable within the foreseeable future. Deferred tax assets are not recognised.

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.

Research and development

Expenditure on research and development, including the development of software, is written off as incurred.

Grants

Capital grants are treated as deferred credits, which are amortised to the profit and loss account on the same basis as the related tangible fixed assets are depreciated.

Revenue grants are credited to the profit and loss account when the related revenue expenditure is incurred.

Hewlett-Packard Limited

Notes to the accounts (continued)

For the year ended 31 October 1998

1. Accounting Policies (continued)

Pension costs

The cost of pensions in respect of the Group's defined benefit plan is charged to the profit and loss account so as to spread the cost over the average remaining service lives of employees in the plan. Variations from regular cost are also spread over the average expected remaining service lives of employees in the plan.

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

Cashflow statement

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

2. Segmental information

The analysis of turnover is as follows:

	1998		1997	
	£'000	£'000	£'000	£'000
Turnover in the United Kingdom		1,393,490		1,247,739
Turnover overseas:				
United States of America	369,830		427,384	
Rest of Europe	276,036		210,030	
Other	132,744		122,389	
		<hr/>		<hr/>
		778,610		759,803
		<hr/>		<hr/>
		2,172,100		2,007,542
		<hr/>		<hr/>

Turnover overseas includes sales to the ultimate parent company and fellow subsidiaries of £764 million (1997: £741 million). Turnover, profit before tax and net assets are all attributable to United Kingdom operations. The Group operates within one industry segment; the design, manufacture, marketing and servicing of products and systems for measurement, computation and communication.

Hewlett-Packard Limited

Notes to the accounts *(continued)*

For the year ended 31 October 1998

3. Leases

	1998 £'000	1997 £'000
Included within turnover (<i>refer Note 2</i>) are aggregate rentals receivable in respect of:		
Finance leases	49,109	37,478
Operating leases	37,151	32,627
Less: Repayments of principal	(41,247)	(29,823)
	<u>45,013</u>	<u>40,282</u>

4. Operating profit

	1998 £'000	1997 £'000
The operating profit is stated after charging:		
Research and development expenditure	50,912	39,295
Depreciation - owned assets	44,319	43,096
- leased assets	1,312	778
Operating leases- hire of machinery and equipment	9,056	11,349
- hire of other assets	2,803	3,590
Auditors' remuneration – audit services	141	126
Auditors' remuneration – other services	206	133
Loss on sale of tangible fixed assets	8,048	5,465
Wages and salaries	209,036	182,057
Social security costs	19,430	16,054
Other pension costs - defined benefits (<i>Notes 15 and 20</i>)	22,591	13,604
- defined contributions	2,497	812
	<u></u>	<u></u>

The auditors remuneration borne by the Company was £131,000 (1997: £116,000).

Notes to the accounts (continued)

For the year ended 31 October 1998

5. Directors' emoluments

	1998 £'000	1997 £'000
Fees	-	-
Management remuneration	552	520
	<u>552</u>	<u>520</u>

The emoluments of the highest paid Director were £269,053 (1997: £257,423).

No directors participated in the Company's defined contribution pension scheme during the year ended 31 October 1998 (1997: Nil).

Three directors participated in the defined benefit pension plan during the year ended 31 October 1998 (1997: 3).

The accrued pension of the highest paid director amounts to £125,439 per annum as at 31 October 1998 (1997: £111,552 per annum). This figure represents the pension that would be payable from normal pension age had the director left pensionable service on 31 October 1998. It excludes allowances for increases between leaving service and retirement and any amounts attributable to voluntary contributions.

6. Interest payable

	1998 £'000	1997 £'000
On loans and overdrafts repayable within five years:		
- bank loans and overdrafts	2,067	1,557
- interest on finance leases	183	186
	<u>2,250</u>	<u>1,743</u>

7. Taxation on profit on ordinary activities

	1998 £'000	1997 £'000
Corporation tax at 31% (1997: 31.83%)	63,439	62,789
Prior year adjustments	6,600	(292)
	<u>70,039</u>	<u>62,497</u>

The tax charge differs from the statutory rate principally due to the non-recognition of movements in the level of the potential deferred tax assets, and provision for adjustments relating to prior year open tax computations.

Hewlett-Packard Limited

Notes to the accounts *(continued)*

For the year ended 31 October 1998

8. 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 profit for the year, £120,809,000 (*1997 profit: £136,985,000*) has been dealt with in the accounts of the Company.

9. Tangible assets

Group	Property £'000	Property under Construction £'000	Machinery & Equipment £'000	Equipment Rented Under Operating Leases £'000	Total £'000
Cost					
At 1 November 1997	175,245	22,840	106,642	132,707	437,434
Additions	2,325	10,012	20,079	37,201	69,617
Reclassifications	25,938	(27,686)	1,748	-	-
Disposals	(342)	-	(28,152)	(23,073)	(51,567)
At 31 October 1998	203,166	5,166	100,317	146,835	455,484
Depreciation					
At 1 November 1997	54,474	-	72,636	78,321	205,431
Charge for the year	10,169	-	15,493	19,969	45,631
Transfers	-	-	22	-	22
Reclassifications	108	-	(108)	-	-
Disposals	(293)	-	(21,764)	(19,099)	(41,156)
At 31 October 1998	64,458	-	66,279	79,191	209,928
Net book amount					
At 31 October 1998	138,708	5,166	34,038	67,644	245,556
At 31 October 1997	120,771	22,840	34,006	54,386	232,003

Hewlett-Packard Limited

Notes to the accounts (continued)

For the year ended 31 October 1998

9. Tangible assets (continued)

Company	Property £'000	Property Under Construction £'000	Machinery & Equipment £'000	Total £'000
Cost				
At 1 November 1997	175,245	22,840	106,642	304,727
Additions	2,325	10,012	20,079	32,416
Reclassifications	25,938	(27,686)	1,748	-
Disposals	(342)	-	(28,152)	(28,494)
At 31 October 1998	203,166	5,166	100,317	308,649
Depreciation				
At 1 November 1997	54,474	-	72,636	127,110
Charge for the year	10,169	-	15,493	25,662
Transfers	-	-	22	22
Reclassifications	108	-	(108)	-
Disposals	(293)	-	(21,764)	(22,057)
At 31 October 1998	64,458	-	66,279	130,737
Net book amount				
At 31 October 1998	138,708	5,166	34,038	177,912
At 31 October 1997	120,771	22,840	34,006	177,617

Included within the fixed assets of the Company and Group are assets held under finance leases at a net book value of £574,000 (1997: £992,000).

Included within Machinery & Equipment in the Company and Group are assets subject to short-term rental agreements with a cost of £9,644,000 (1997: £11,149,000) and accumulated depreciation of £2,921,000 (1997: £3,235,000).

Analysis of property	Cost £'000	Deprecia- tion £'000	1998 Net £'000	1997 Net £'000
Freehold land	43,641	-	43,641	43,641
Freehold buildings	130,904	51,713	79,191	60,470
Short leaseholds	3,551	2,715	836	1,015
Long leaseholds	25,070	10,030	15,040	15,645
Total Company and Group property	203,166	64,458	138,708	120,771

Hewlett-Packard Limited

Notes to the accounts (continued) For the year ended 31 October 1998

10. Investments

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Shares in group undertakings	-	-	27,549	27,549
Investment in Apollo Computer (UK) Limited	3,590	3,590	3,590	3,590
Total investments	3,590	3,590	31,139	31,139

The Group companies listed below are wholly owned subsidiaries registered in England and Wales and operating in Great Britain. All subsidiaries are included in the consolidation except for Apollo Computer (UK) Limited as noted below.

Subsidiary Undertakings

Financial Year End

Hewlett-Packard Finance Limited
BT & D Technologies Limited
Hewlett-Packard Product Leasing Limited

31 October
31 October
31 January

Hewlett-Packard Finance Limited is engaged in the provision of financial services to users of Hewlett-Packard products.

BT&D Technologies Limited was involved in the manufacture of optoelectronic technologies and products. The business, assets and liabilities of BT&D Technologies Limited were transferred to the Company on 31 October 1994 and the company has been dormant since that date.

Hewlett-Packard Product Leasing Limited did not trade during the Group's financial year.

Apollo Computer (UK) Limited which was previously engaged in the manufacture, sale and support of computer systems and software, did not trade during the year. The accounts of Apollo Computer (UK) Limited have not been consolidated on the basis that these are not material in the context of the Group accounts.

At 31 October 1998, in the opinion of the Directors, the carrying value of Apollo was not less than the amount at which the investment is stated in the Company and Group balance sheets and on an equity basis the net assets were £5,305,000. Apollo Computer (UK) Limited is owed £432,000 by the other Hewlett-Packard Limited Group undertakings.

Hewlett-Packard Limited

Notes to the accounts (continued)

For the year ended 31 October 1998

11. Stocks

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Raw materials and consumables	40,722	40,619	40,722	40,619
Work in progress	11,491	10,858	11,491	10,858
Finished goods for resale	48,321	42,985	48,321	42,985
Payments on account	(11,327)	(4,924)	(11,327)	(4,924)
	<u>89,207</u>	<u>89,538</u>	<u>89,207</u>	<u>89,538</u>

Long term contract balances are analysed as follows:

Cost less foreseeable losses	11,327	7,775	11,327	7,775
Less: applicable payments on account	(11,327)	(4,924)	(11,327)	(4,924)
	<u>-</u>	<u>2,851</u>	<u>-</u>	<u>2,851</u>

12. Debtors

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Trade debtors	127,990	119,140	124,447	117,353
Amounts recoverable on contracts	7,938	2,640	7,938	2,640
Amounts owed by subsidiary undertakings	-	-	142,940	125,036
Amount owed by other group undertakings	101,808	100,310	101,622	93,611
Other debtors	13,914	11,579	13,351	11,047
Corporation tax	-	2,276	-	4,940
Prepayments and accrued income	4,003	3,873	2,501	2,796
Investment in finance leases	90,591	78,376	-	-
	<u>346,244</u>	<u>318,194</u>	<u>392,799</u>	<u>357,423</u>

Hewlett-Packard Limited

Notes to the accounts (continued)

For the year ended 31 October 1998

12. Debtors (continued)

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

	Group		Company	
	£'000	£'000	£'000	£'000
Amounts owed by subsidiary undertakings	-	-	45,765	49,183
Investment in finance leases	49,112	46,256	-	-
	<u>49,112</u>	<u>46,256</u>	<u>45,765</u>	<u>49,183</u>

The Group has acquired assets with a cost of £46,361,175 (1997: £34,042,363) for the purposes of letting under finance leases.

13. Creditors: (amounts falling due within one year)

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	14,533	65,007	14,003	58,507
Payments received on account	1,133	-	1,133	-
Trade creditors	64,219	47,300	57,759	42,085
Amounts owed to subsidiary undertakings	-	-	18,396	18,396
Amounts owed to other group undertakings	117,954	111,204	117,509	111,193
Other creditors	2,164	1,849	1,508	1,471
Corporation tax	43,478	-	39,983	-
Other taxation and social security	39,093	39,311	38,295	38,674
Accruals and deferred income	127,633	115,853	120,465	109,355
Obligations under finance leases (Note 19)	538	613	538	613
	<u>410,745</u>	<u>381,137</u>	<u>409,589</u>	<u>380,294</u>

14. Creditors: (amounts falling due after more than one year)

	Group and Company	
	1998	1997
	£'000	£'000
Other creditors	3,995	3,765
Obligations under finance leases (Note 19)	435	365
	<u>4,430</u>	<u>4,130</u>

Hewlett-Packard Limited

Notes to the accounts *(continued)* For the year ended 31 October 1998

15. Provisions for liabilities and charges

	Group and Company	
	1998	1997
	£'000	£'000
Pension commitments	1,388	6,034
Deferred taxation	-	-
	<u>1,388</u>	<u>6,034</u>

The potential deferred tax balances maybe analysed as follows:

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Accelerated capital allowances	3,771	(1,616)	(3,855)	(5,274)
Pension commitments	430	1,871	430	1,871
Other creditors	2,387	2,036	2,387	2,036
Other	731	4,485	731	1,253
Potential deferred tax asset/(liability)	<u>7,319</u>	<u>6,776</u>	<u>(307)</u>	<u>(114)</u>

No deferred tax balances have been recognised in the accounts.

The movement on provision for liabilities and charges is as follows:

	Group and Company	
	Pension commitments	
	1998	1997
	£'000	£'000
At 1 November	6,034	11,098
Charges for the year <i>(Notes 4 and 20)</i>	22,591	13,604
Contributions paid <i>(Note 20)</i>	(27,237)	(18,668)
At 31 October	<u>1,388</u>	<u>6,034</u>

Hewlett-Packard Limited

Notes to the accounts (continued)

For the year ended 31 October 1998

16. Called up share capital

	1998 Number (‘000)	1997 Number (‘000)	1998 £’000	1997 £’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

17. Reconciliation of movement in shareholders’ funds

	Called up Share Capital	Share Premium Account	Profit and Loss Account	Shareholders funds 1998 £’000	Total Shareholders funds 1997 £’000
Group	£’000	£’000	£’000	£’000	£’000
At 1 November	104,772	17	150,493	255,282	358,537
Dividend	-	-	-	-	(246,069)
Profit for the year	-	-	126,230	126,230	142,814
At 31 October	104,772	17	276,723	381,512	255,282
Company					
At 1 November	104,772	17	163,302	268,091	377,175
Dividend	-	-	-	-	(246,069)
Profit for the year	-	-	120,809	120,809	136,985
At 31 October	104,772	17	284,111	388,900	268,091

Shareholders’ funds are attributable entirely to equity interests. The cumulative amount of goodwill written-off to reserves at 31 October 1998 is £10,789,000 (1997: £10,789,000).

Hewlett-Packard Limited

Notes to the accounts (continued)

For the year ended 31 October 1998

18. Commitments

	1998 £'000	1997 £'000
--	---------------	---------------

Capital expenditure:

Committed but not provided	1,930	3,382
----------------------------	-------	-------

Operating lease commitments:

	1998		1997	
	Property £'000	Other £'000	Property £'000	Other £'000
Operating leases which expire:				
Within 1 year	21	3,816	99	4,587
Between 1 and 5 years	526	5,724	478	6,883
After 5 years	2,550	-	2,525	-
	<u>3,097</u>	<u>9,540</u>	<u>3,102</u>	<u>11,470</u>

Forward exchange contracts:

At 31 October 1998 the Group and Company had commitments arising from forward exchange contracts entered into in the normal course of business.

19. Obligations under finance leases

	Group and Company	
	1998 £'000	1997 £'000
Gross amounts payable:		
Within one year	655	733
In the second to fifth year inclusive	540	455
	<u>1,195</u>	<u>1,188</u>
Less: finance charges allocated to future periods	(222)	(210)
	<u>973</u>	<u>978</u>
Analysed as follows:		
Current obligations (Note 13)	538	613
Non-current obligations (Note 14)	435	365
	<u>973</u>	<u>978</u>

Notes to the accounts *(continued)*

For the year ended 31 October 1998

20. Pensions

The Group operates a contributory defined benefit pension scheme, covering the majority of its employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The market value of the pension fund assets on 1 February 1998 was £278,480,000, compared to the last triennial valuation of £189,400,000 on 1 February 1996.

The pension costs are assessed in accordance with the advice of an independent qualified actuary. Further, the contributions are determined by the qualified actuary on the basis of annual valuations using the projected unit method, based on assumptions reviewed on a triennial basis. The most recent valuation was at 1 February 1998 and showed that the assets were sufficient to secure 90% of the benefits accrued to members. The Company has implemented a funding policy whereby regular contributions are being paid at the rate required to achieve the funding objective of 100% of the past service ongoing liabilities, five years after the valuation date. Key assumptions, which have a significant effect on the results of the valuation, are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment returns would be 8.5% per annum and that salary increases would average 5.5%.

The pension charge for the year was £22,591,000 (1997: £13,604,000). This included £336,000 (1997: £799,000) in respect of the amortisation of prior period experience surpluses and deficits that are being recognised over the average remaining service lives of employees.

During the year, the Group made pension contributions of £27,237,000 (1997: £18,668,000). Contributions will continue to be paid in accordance with funding policy agreed between the Trustees and the Company.

21. Employees

	1998 Number	1997 Number
The average number of persons employed by the Group during the year was:		
Sales and service	2,600	2,444
Manufacturing and research & development	2,916	3,134
	<u>5,516</u>	<u>5,578</u>

22. Ultimate parent company

The ultimate parent company and the largest undertaking which consolidates these accounts is Hewlett-Packard Company, which is incorporated in the United States of America. Copies of the Group accounts of Hewlett-Packard Company can be obtained from 3000 Hanover Street, Palo Alto, California 94304, USA. The smallest undertaking which consolidates these accounts is Hewlett-Packard Europe BV. Copies of the Group accounts of Hewlett-Packard Europe BV can be obtained from Startbaan 16, 1187 XR Amstelveen, The Netherlands.

Notes to the accounts *(continued)*

For the year ended 31 October 1998

23. Related party transactions

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

24. Post Balance Sheet Event

On 2 March 1999, plans were announced for a strategic realignment of Hewlett-Packard Company, the ultimate parent company, that will create two independent companies.

Shareholders of Hewlett-Packard Company will hold shares in each company, one focussed on the measurement business, the other on the computing and imaging businesses.

The new measurement company will comprise Hewlett-Packard Company's industry-leading test and measurement, components, chemical analysis and medical businesses. A name has not yet been selected for the new measurement company.

It is expected that this decision will impact the Hewlett-Packard Limited Group, with effect from 1 November 1999, when the Group's existing measurement business will be transferred to a new legal entity.