

**Palm Europe Limited**

**Report and Financial Statements**

**31 October 2011**

THURSDAY



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COMPANIES HOUSE

# **Palm Europe Limited**

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## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

Karen Harrison  
Steven David Burr (Appointed 1 May 2011)  
Nicholas Wilson  
Mark Lewthwaite (Resigned 1 May 2011)

### **SECRETARY**

Karen Harrison

### **REGISTERED OFFICE**

Cain Road  
Bracknell  
Berkshire  
RG12 1HN

### **BANKERS**

Bank of America  
Client Services  
2<sup>th</sup> Floor  
26 Elmfield Road  
Bromley  
Kent  
BR1 1WA

### **SOLICITORS**

Baker & McKenzie  
100 New Bridge Street  
London  
EC4V 6JA

### **AUDITORS**

Ernst & Young LLP  
Apex Plaza  
Reading  
Berkshire RG1 1YE

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 October 2011. The company has taken advantage of the exemption to prepare consolidated accounts under s401 of the Companies Act 2006. Accordingly, the financial statements present information about the company as a single undertaking and not about its group.

### **ACTIVITIES**

Palm Europe Limited was a distributor of smartphones, tablets and accessories throughout the EMEA region. The company has subsidiaries in France, Germany, the Netherlands, Italy and Switzerland, in addition to a branch in Spain, to assist in the marketing of products locally.

### **REVIEW OF BUSINESS AND FUTURE PROSPECTS AND GOING CONCERN**

Turnover decreased this period to \$4,727,000 from \$93,173,000 primarily due to fewer unit sales. Gross profit decreased from \$80,351,000, or 86% of revenues to \$18,447,000, or 390% of revenues. The average number of sales and distribution employees was 17 (2010: 15).

The company has guaranteed profits and cash flows from group companies collectively owned by a parent company, Hewlett-Packard The Hague. Amounts received in accordance with these guarantees are recorded as a reduction of cost of sales. The significant decrease in revenues for the period and the comparative increase in the amount of guarantees received to cover costs resulted in negative cost of sales totalling \$13,720,000.

On 18 August 2011 Hewlett-Packard Company (or HP), the ultimate parent company, announced it would discontinue operations for webOS devices, specifically the TouchPad and webOS phones. HP will continue to explore options to optimize the value of webOS software going forward. The discontinuance of webOS devices is the primary driver for the significant decrease in turnover year over year. As a result, as of 31 October 2011, the company entered into certain activities to significantly reduce headcount and related costs in response to the significant curtailment of smartphones, tablets and accessories available for distribution. Accordingly, redundancy costs of \$779,000 are included in the results of operations for the year ended 31 October 2011. As options to optimize the value of webOS software are being explored, the primary component of turnover going forward will be the rateable recognition of deferred revenues through October 2013 recorded as a result of webOS device sales during fiscal years 2011 and 2010. The Directors have not determined the ultimate impact that this will have on future operations of the company.

Having considered these circumstances, the principal risks and uncertainties detailed below and the uncertain economic environment as well as the considerable financial resources of HP to support the company's operations, we have a reasonable expectation that the company has adequate resources or will receive the necessary support from its parent to continue in operational existence for the foreseeable future. Accordingly we continue to adopt the going concern basis in preparing the financial statements.

### **DIVIDENDS**

During the period, no interim dividend was paid (2010: \$11,000,000). The directors do not recommend the payment of a final dividend (2010: \$nil).

### **FINANCIAL RISK MANAGEMENT**

The company's activities expose it to a number of financial risks.

#### **Foreign currency and cash flow risks**

The company's activities expose it primarily to the risk of changes in foreign currency exchange rates as transactions with suppliers are conducted in Euros, Pounds Sterling, Swiss Francs and US Dollars and transactions with customers are conducted in US Dollars. The company manages its overall exposure at a group level to exchange rate fluctuations by maintaining bank facilities in Euros, Pounds Sterling, Swiss Francs and US Dollars, matching payments and receipts in foreign currencies wherever possible.

The company also enters into foreign exchange forward contracts at a group level to minimise the short-term impact of foreign currency fluctuations on certain foreign currency assets and liabilities. Gains and losses on the contracts offset foreign exchange gains and losses from the revaluation of certain foreign currency assets and liabilities denominated in currencies other than the functional currency of the company. The company did not have any foreign exchange contracts related to current assets and liabilities as of 31 October 2011.

## **DIRECTORS' REPORT (continued)**

### **Credit risk**

The company's principal financial assets are bank balances and trade and other receivables

The company's credit risk is primarily attributable to its trade receivables. Palm Europe Ltd sells the majority of its products through carriers and distributors. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The credit risk is diversified due to the number of entities comprising Palm's customer base, of which the company performs periodic credit evaluations.

### **DIRECTORS**

The directors who served on the Board during the period and to the date of this report are stated on page 1

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

During the financial period, and up to the date of the 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**

Each of the persons who is a director at the date of approval of this report confirms that

- so far as he/she is aware, there is no relevant audit information needed by the auditor in connection with preparing its report of which the company's auditors are unaware, and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

A resolution for the re-appointment of Ernst & Young LLP will be proposed at the forthcoming Annual General Meeting

Approved by the Board on 14 March 2012  
and signed on its behalf



Karen Harrison  
Director  
Sunnyvale, CA, USA

14 March 2012

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Directors' 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). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to

- select accounting policies and then apply them consistently,
- make judgements and accounting 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent Auditor's Report to the members of Palm Europe Limited**

We have audited the financial statements of Palm Europe Limited for year ended 31 October 2011 which comprise the Profit and Loss Account, the Reconciliation of Movements in Shareholder's Funds, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 October 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

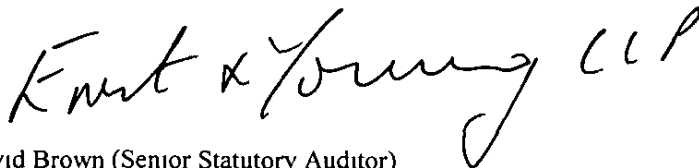
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Independent Auditor's Report (continued)** **to the members of Palm Europe Limited**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



David Brown (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP  
Statutory Auditor  
Reading

Date 21/03/2012



# **Palm Europe Limited**

## **PROFIT AND LOSS ACCOUNT for the year ended 31 October 2011**

		<b>52 weeks to 31 Oct. 2011 \$'000</b>	<b>75 weeks to 31 Oct. 2010 \$'000</b>
	<b>Note</b>		
<b>TURNOVER</b>	<b>2</b>	<b>4,727</b>	<b>93,173</b>
Cost of sales		13,720	(12,822)
		<u>18,447</u>	<u>80,351</u>
Gross profit			
Net distribution costs	<b>4</b>	(15,352)	(73,242)
Administrative expenses		(2,236)	(4,948)
		<u>(17,588)</u>	<u>(78,190)</u>
<b>OPERATING PROFIT</b>		<b>859</b>	<b>2,161</b>
Interest receivable and similar income	<b>6</b>	-	467
Interest payable and similar charges	<b>7</b>	-	(1)
Redundancy costs	<b>8</b>	(779)	(577)
		<u>(779)</u>	<u>(111)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>80</b>	<b>2,050</b>
Tax on profit on ordinary activities	<b>9</b>	(405)	(167)
		<u>(325)</u>	<u>1,883</u>
<b>(LOSS)/PROFIT FOR THE FINANCIAL PERIOD AFTER TAXATION</b>			

All amounts are derived from continuing activities

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS  
for the year ended 31 October 2011**

	Note	52 weeks to 31 Oct. 2011 \$'000	75 weeks to 31 Oct. 2010 \$'000
(Loss)/profit for the financial period		(325)	1,883
Share based compensation expense		93	108
Currency translation differences		-	(6)
Dividends paid on equity shares	11	-	(11,000)
Net decrease to shareholder's funds		(232)	(9,015)
Opening shareholder's funds		4,543	13,558
Closing shareholder's funds		4,311	4,543

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
for the year ended 31 October 2011**

	52 weeks to 31 Oct. 2011 \$'000	75 weeks to 31 Oct. 2010 \$'000
(Loss)/profit for the financial period	(325)	1,883
Currency translation differences on foreign currency net investments	-	(6)
<b>Total recognised (losses)/gains in the period</b>	<b>(325)</b>	<b>1,877</b>

# **Palm Europe Limited**

## **BALANCE SHEET** **31 October 2011**

	Note	31 Oct. 2011 \$'000	31 Oct. 2010 \$'000
<b>FIXED ASSETS</b>			
Tangible assets	12	890	82
Investments	13	177	177
		<u>1,067</u>	<u>259</u>
<b>CURRENT ASSETS</b>			
Debtors	14	10,238	17,908
Cash at bank and in hand		8,050	14,920
		<u>18,288</u>	<u>32,828</u>
<b>CREDITORS: amounts falling due within one year</b>	15	<u>(14,791)</u>	<u>(27,638)</u>
<b>NET CURRENT ASSETS</b>		<u>3,497</u>	<u>5,190</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>4,564</u>	<u>5,449</u>
<b>CREDITORS: amounts falling due after more than one year</b>	15	(137)	(737)
<b>PROVISIONS FOR LIABILITIES</b>	16	<u>(116)</u>	<u>(169)</u>
<b>NET ASSETS</b>		<u>4,311</u>	<u>4,543</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	156	156
Profit and loss account	18	4,155	4,387
<b>SHAREHOLDER'S FUNDS</b>		<u>4,311</u>	<u>4,543</u>

The financial statements of Palm Europe Ltd, registered number 03903962 were approved by the board of directors and authorised for issue on 14 March 2012

Signed on behalf of the Board of Directors



Karen Harrison  
Director

**NOTES TO THE FINANCIAL STATEMENTS**  
**52 week period ended 31 October 2011**

**1. ACCOUNTING POLICIES**

**Basis of preparation**

The financial statements have been prepared under the historical cost convention, the accounting policies set out below and in accordance with Companies Act 2006 and applicable accounting standards in the United Kingdom. They have all been applied consistently throughout the year and the preceding period.

The current year consists of the 52 weeks ended 31 October 2011. The prior period consisted of the 75 weeks ended 31 October 2010. The change in the length of the periods was due to the transition of the Palm group companies to the fiscal year ended 31 October, to be consistent with the fiscal year-end of the ultimate holding company.

The US Dollar is the functional currency of the company, as the majority of the company's trading transactions are conducted in this currency. The average exchange rate from Pounds Sterling to US Dollars was 1.6071 for the 52 weeks ended 31 October 2011. The period-end exchange rate from Pounds Sterling to US Dollars was 1.6140 as of 31 October 2011.

**Going concern**

The company's business activities and principal risks and uncertainties are detailed on page 2 and 3 of the Directors' report of the financial statements for the year ended 31 October 2011. Liquidity is managed at the group level using a variety of tax planning and financing strategies. Having considered these risks and the current economic environment, the directors have a reasonable expectation that the company has adequate resources or will receive the necessary support from its parent company to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

**Statement of cash flows**

Under FRS 1 (revised) the company is exempt from the requirement to prepare a statement of cash flows on the grounds that the ultimate parent undertaking, Hewlett-Packard Company, prepares a statement of cash flows which includes the company in its own published group financial statements, copies of which can be obtained from the address in note 22.

**Related Party Transactions**

The company is a wholly owned subsidiary of Hewlett-Packard Company. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions or balances with wholly owned entities of the Hewlett-Packard group or investees of the group.

**Exemption from preparation of consolidated financial statements**

The financial statements contain information about Palm Europe Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under Section 401 of the Companies Act 2006 from the requirement to prepare group accounts as the company and all of its subsidiaries are included in the consolidated accounts of Hewlett-Packard Company, a company incorporated in the USA, which is the ultimate controlling party.

**Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Building improvements	Between 3 and 5 years
Plant and machinery	Between 3 and 5 years
Computer hardware and software	Between 3 and 5 years
Fixtures and fittings	Between 3 and 5 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicated the carrying value may not be recoverable.

**NOTES TO THE FINANCIAL STATEMENTS**  
**52 week period ended 31 October 2011**

**1. ACCOUNTING POLICIES (continued)**

**Taxation**

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

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 that result in an obligation to pay more tax on the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

**Leases**

Operating lease rentals are charged to the profit and loss account in equal annual amounts over the lease term

**Foreign currency transactions**

Transactions in foreign currencies are recorded in US dollars at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate

The financial statements of overseas branches are translated into US dollars at the closing rate of exchange and the difference arising from the translation of the opening net investment at the closing rates is taken directly to reserves. All other translation differences are dealt with in the profit and loss account

**Post retirement benefits**

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

**Estimate for bad debts**

Trade debtors have been reduced by an estimate for bad debts. The company records an estimate for bad debts based on the length of time that the balance has been outstanding. The company records a specific reserve for individual accounts when the company becomes aware of specific customer circumstances that would affect account recoverability

**Revenue recognition and deferred revenues**

Turnover represents the amounts (excluding value added tax) derived from the sale of tablets, smartphones and accessories, in addition to the provision of customer support services throughout the EMEA region. Revenue on the sale of products and accessories is recognised, after discounts, when the risk of ownership is transferred to the buyer. Revenue on the provision of services is recognised when delivery has occurred and collectibility of the debt is probable

**NOTES TO THE FINANCIAL STATEMENTS**  
**52 week period ended 31 October 2011**

**1. ACCOUNTING POLICIES (continued)**

**Revenue recognition and deferred revenues (continued)**

The Company expects to periodically provide services and unspecified software free of charge to customers of HP webOS products. These services and unspecified software, along with the tangible smartphone product, represent multiple deliverables under the Company's sales arrangements for HP webOS products. The Company separated its two deliverables in connection with its arrangements for the sale of HP webOS products. The first deliverable is the HP webOS smartphone product, which represents both the tangible product and the included software that functions with the hardware to provide the product's essential functionality, and includes warranty and related services. Revenues and related direct product cost of revenues, including estimates of liability for warranty and related service costs, are recognized at the time of delivery. The second deliverable represents a subscription to future services and unspecified software relating to HP webOS products that end users have the right to receive on a when-and-if-available basis. Revenues associated with the second deliverable are recorded as deferred revenues and recognized ratably on a straight-line basis over the estimated economic life of the associated HP webOS smartphone product, which is currently 24 months.

The Company allocates the revenues associated with each of its two deliverables based on their respective estimated selling prices, or ESP. The ESP represents the price at which the Company would transact a sale if each deliverable were sold on a stand-alone basis. The Company established the ESP for each of its deliverables by considering multiple factors, including, but not limited to, cost-plus model analyses allowing for internal costs and/or margin objectives, management's pricing strategies and the competitive landscape. Significant judgment was used in determining the ESP, including expectations about future shipment volumes, product costs, assumptions regarding margin objectives, an assessment of the competitive landscape and the Company's assumptions regarding the purchasing preferences of its end users, including the Company's belief that its end users would not be willing to pay more than a nominal amount for future services and unspecified software on a when-and-if-available basis. The Company regularly reviews its selling price assumptions and maintains internal controls over the establishment and updates of these estimates.

**Investments and interest income**

Investments are included at cost less provisions for impairment. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

**Share-based compensation expense**

Hewlett-Packard Company issues performance-based restricted units ("PRUs") representing hypothetical shares of HP common stock. Each PRU award reflects a target number of shares that may be issued to the award recipient. Hewlett-Packard Company determines the actual number of shares the recipient receives at the end of a three-year performance period based on results achieved versus goals based on our annual cash flow from operations as a percentage of revenue and total shareholder return ("TSR") relative to the S&P 500 over the performance period. Hewlett-Packard Company uses historic volatility for PRU awards as implied volatility cannot be used when simulating multivariate prices for companies in the S&P 500. Hewlett-Packard Company estimates the fair value of PRUs using the Monte Carlo simulation model, as the TSR modifier contains a market condition. Hewlett-Packard Company updates the estimated expense, net of forfeitures, for the cash flow performance against the goal for that year at the end of each reporting period.

Stock-based compensation expense for all share-based payment awards granted is determined based on the grant-date fair value. The Company recognizes these compensation costs net of an estimated forfeiture rate, and recognizes compensation cost only for those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting term of the share-based payment awards. The Company estimated the forfeiture rate based on its historical experience for fiscal grant years where the majority of the vesting terms have been satisfied.

**NOTES TO THE FINANCIAL STATEMENTS**  
**52 week period ended 31 October 2011**

**1. ACCOUNTING POLICIES (continued)**

**Share-based compensation expense (continued)**

Palm Inc issued equity-settled share-based payments to certain employees of the company After the acquisition of Palm, Inc by Hewlett-Packard Company on 1 July 2010, the underlying shares of certain share-based payment awards were converted to shares of Hewlett-Packard Company using a pre-determined formula Any impact to the fair value of these awards as a result of this conversion was recorded in the 75 week period ended 31 October 2010 as modification expense Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions

Beginning on 1 July 2010, Hewlett-Packard Company uses the Black-Scholes option valuation model to determine the fair value of stock options The determination of the fair value of share-based payment awards on the date of grant using an option-valuation model is affected by the stock price of the underlying shares as well as assumptions regarding a number of complex variables These variables include the expected stock price volatility of the underlying shares over the term of the awards, projected employee stock option exercise behaviour, expected risk-free interest rate and expected dividends

**2. TURNOVER**

The geographical analysis of turnover by destination of sales is as follows

	52 weeks to 31 Oct. 2011 \$'000	75 weeks to 31 Oct. 2010 \$'000
United Kingdom	1,857	24,570
Germany	-	42,843
Rest of Europe	2,870	25,760
	<u>4,727</u>	<u>93,173</u>

The directors consider that there is one class of business, hence an analysis of turnover by business activity is not given

**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

The directors of the company are also directors or officers of other companies within the Group and were remunerated for their services by other Group companies in both the current and preceding period These directors' services to the company do not occupy a significant amount of their time and are considered to be incidental As such, these directors do not consider that they have received any remuneration for their incidental services to the company for the 52 week period ended 31 October 2011 and the 75 week period ended 31 October 2010 The share of emoluments allocated in respect of services to the UK company is deemed to be \$nil (2010 \$nil)

**NOTES TO THE FINANCIAL STATEMENTS**  
**52 week period ended 31 October 2011**

	<b>52 weeks to 31 Oct. 2011</b>	<b>75 weeks to 31 Oct. 2010</b>
<b>Average number of persons employed (including directors)</b>		
	<b>No.</b>	<b>No.</b>
Sales and distribution	17	15
Administration	2	3
	<u>19</u>	<u>18</u>
	<b>\$'000</b>	<b>\$'000</b>
<b>Staff costs during the period</b>		
Wages and salaries	3,324	5,124
Social security costs	422	976
Pension costs	4	29
Share based payments	93	108
	<u>3,843</u>	<u>6,237</u>

**4. NET DISTRIBUTION COSTS**

	<b>52 weeks to 31 Oct. 2011</b>	<b>75 weeks to 31 Oct. 2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Gross distribution costs	16,959	75,233
Recharges to other group companies	(1,607)	(1,991)
	<u>15,352</u>	<u>73,242</u>

**5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

	<b>52 weeks to 31 Oct. 2011</b>	<b>75 weeks to 31 Oct. 2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Depreciation		
- owned assets	277	93
Rentals under operating leases		
- other operating leases	194	756
Foreign exchange losses	40	823
Gain on disposal of fixed assets	-	(34)
Auditors' remuneration		
audit fees	56	65
other services – tax compliance	28	27
	<u></u>	<u></u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**52 week period ended 31 October 2011**

**6. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>52 weeks to 31 Oct. 2011 \$'000</b>	<b>75 weeks to 31 Oct. 2010 \$'000</b>
On bank deposits	-	15
Dividends received	-	452
	<u>-</u>	<u>467</u>

**7. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>52 weeks to 31 Oct. 2011 \$'000</b>	<b>75 weeks to 31 Oct. 2010 \$'000</b>
Other interest	-	1
	<u>-</u>	<u>1</u>

**8. REDUNDANCY COSTS**

Redundancy costs incurred during 2010 related to the closure of offices no longer in service      Redundancy costs incurred during 2011 related to employee severance payments

	<b>52 weeks to 31 Oct 2011 \$'000</b>	<b>75 weeks to 31 Oct. 2010 \$'000</b>
At beginning of period	-	-
Debited to the profit and loss account	779	577
Utilised in the year	<u>(59)</u>	<u>(577)</u>
At end of period	<u>720</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**52 week period ended 31 October 2011**

**9. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	52 weeks to 31 Oct. 2011 \$'000	75 weeks to 31 Oct. 2010 \$'000
<b><i>UK corporation tax</i></b>		
Current corporation tax at 26.83% (2010: 28%) based on the profit for the period	-	32
Adjustments in respect of prior periods	-	(9)
	-	23
<b><i>Overseas taxation</i></b>		
Current tax on income for the period	4	64
Adjustments in respect of prior periods	(13)	13
	(9)	77
Total current taxation	(9)	100
<b><i>Deferred taxation</i></b>		
Timing differences, origination and reversal	-	178
Adjustment in respect of prior years	108	(111)
Derecognition of deferred tax asset	306	-
	414	67
Tax on profit on ordinary activities	405	167

The tax assessed for the period differs from that resulting from applying the standard rate of corporation tax in the UK: 26.83% (2010: 28%). The differences are explained below:

	52 weeks to 31 Oct. 2011 %	75 weeks to 31 Oct. 2010 %
Standard tax rate for period as a percentage of profit	(27)	(28)
<b><i>Effects of</i></b>		
Expenses not deductible for tax purposes	-	(3)
Movement in short term timing differences	(56)	19
Capital allowances in excess of depreciation	56	2
Overseas tax rates	(5)	(3)
Effect of change in tax rate	16	8
Utilisation of losses	27	-
Current tax rate for period as a percentage of profit	11	(5)

***Factors affecting tax charge***

In his budget of 23 March 2011, the Chancellor of the Exchequer announced Budget tax changes, which, if enacted in the proposed manner, will have an effect on the company's future tax position. The Finance Bill 2011 which included a reduction in the UK corporation tax rate to 25% was substantially enacted on 21 July 2011.

**NOTES TO THE FINANCIAL STATEMENTS**

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The Budget proposed a decrease in the rate of UK corporation tax from 28% to 26% on 1 April 2011 and by a further 1% each year until April 2014. This reduction will affect both the future and current tax charge of the Company.

The effect on the Company of these proposed changes to the UK tax system will be reflected in the Company's financial statements in future years, as appropriate, once the proposals have been substantively enacted.

**10. DEFERRED TAXATION**

A deferred tax asset has been recognised as follows

	31 Oct. 2011 \$'000	31 Oct. 2010 \$'000
Depreciation in excess of capital allowances	-	108
Short-term timing differences	-	293
Share based payments	-	13
	<u>-</u>	<u>414</u>
	<u>-</u>	<u>414</u>
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Movement on deferred taxation balances during the period		
At beginning of period	414	481
Debited to the profit and loss account (note 9)	(414)	(67)
	<u>-</u>	<u>414</u>
At end of period	<u>-</u>	<u>414</u>

A potential deferred tax asset of £244,516 has not been recognised due to the uncertainty of its recoverability. The unrecognised asset is made up of

- Tax losses \$92,605
- Short term timing differences \$91,954
- Fixed asset timing differences \$59,957

**11. DIVIDENDS**

	52 weeks to 31 Oct. 2011 \$'000	75 weeks to 31 Oct. 2010 \$'000
Amounts recognised as distributions to equity holders in the period		
Interim dividend for the period	-	11,000
	<u>-</u>	<u>11,000</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**52 week period ended 31 October 2011**

**12. TANGIBLE FIXED ASSETS**

	<b>Building improvements \$'000</b>	<b>Plant and machinery \$'000</b>	<b>Computer hardware and software \$'000</b>	<b>Fixtures and fittings \$'000</b>	<b>Total \$'000</b>
<i><b>Cost</b></i>					
Balance at 31 October 2010	14	815	584	35	1,448
Additions	-	1,085	-	-	1,085
Disposals	(14)	(38)	-	(35)	(87)
Balance at 31 October 2011	-	1,862	584	-	2,446
<i><b>Accumulated depreciation</b></i>					
Balance at 31 October 2010	14	739	578	35	1,366
Charge for the year	-	271	6	-	277
Disposals	(14)	(38)	-	(35)	(87)
Balance at 31 October 2011	-	972	584	-	1,556
<i><b>Net book value</b></i>					
Balance at 31 October 2011	-	890	-	-	890
Balance at 31 October 2010	-	76	6	-	82

**13. INVESTMENTS IN SUBSIDIARY COMPANIES**

	<b>Shares in group companies \$'000</b>
<b>Cost and net book value</b>	
At 31 October 2011 and at 31 October 2010	177

<b>Name of company</b>	<b>Country of incorporation</b>
Palm France SAS	France
Palm Germany GmbH	Germany
Palm Benelux BV	Netherlands
Palm Italy Srl	Italy
Palm Geneva SARL	Switzerland

The company owns 100% of the ordinary share capital of the above companies

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**14. DEBTORS**

	31 Oct. 2011 \$'000	31 Oct. 2010 \$'000
Amounts due within one year		
Trade debtors, net	2,331	1,409
Amounts owed by group undertakings	6,901	14,878
Other debtors	1,005	1,150
Prepayments and accrued income	1	57
Deferred tax asset (note 10)	-	414
	<u>10,238</u>	<u>17,908</u>

**15. CREDITORS**

	31 Oct. 2011 \$'000	31 Oct. 2010 \$'000
Amounts due within one year		
Trade creditors	3,201	963
Amounts owed to group undertakings	1,274	4,236
Other creditors	100	247
Accruals and deferred income	10,216	22,192
	<u>14,791</u>	<u>27,638</u>
Amounts due after more than one year		
Deferred income	<u>137</u>	<u>737</u>

**16. PROVISIONS FOR LIABILITIES AND CHARGES**

	\$'000
At 31 October 2010	169
Charged to profit and loss account	1,473
Utilised in the year	<u>(1,526)</u>
At 31 October 2011	<u>116</u>

Provision	Reason for provision	Expected time period in which provision will be utilised
Technical support costs	Costs expected during customer support period	Within one year

**NOTES TO THE FINANCIAL STATEMENTS**  
**52 week period ended 31 October 2011**

**17. CALLED UP SHARE CAPITAL**

	31 Oct. 2011 \$'000	31 Oct. 2010 \$'000
Called up, allotted and fully paid		
100,000 ordinary shares of £1 (\$1.56) each	156	156

**18. MOVEMENTS ON RESERVES**

	Share capital \$'000	Profit and loss account \$'000	Total \$'000
Balance at 31 October 2010	156	4,387	4,543
Retained profit for the financial year	-	(325)	(325)
Share based payment credit	-	93	93
Balance at 31 October 2011	156	4,155	4,311

**19. FINANCIAL COMMITMENTS**

The annual commitments under non-cancellable operating leases are as follows

	31 Oct. 2011 \$'000	31 Oct. 2010 \$'000
Land and buildings		
Leases which expire		
Within one year	-	40

**20. SHARE-BASED COMPENSATION**

**Equity-settled share option schemes**

As of 31 October 2011, certain employees of Palm Europe Limited benefit from the issuance of share-based payments by Hewlett-Packard Company

Prior to the acquisition of Palm, Inc. by Hewlett-Packard Company on 1 July 2010, certain employees of Palm Europe Limited benefited from the issuance of share-based payments by Palm, Inc. Palm, Inc. had six share-based employee compensation plans out of which Palm, Inc. granted new awards, four of which were relevant to the company: the 2009 Employee Stock Purchase Plan, the 2009 Stock Plan, the 1999 Employee Stock Purchase Plan and the 1999 Stock Plan. The 1999 Employee Stock Purchase Plan and the 1999 Stock Plan expired during the 75 weeks ended 31 October 2010 and were replaced by the 2009 Employee Stock Purchase Plan and the 2009 Stock Plan, respectively, which were consistent in terms and eligibility.

*Hewlett-Packard Company Principal Equity Plans*

Stock options granted under the principal equity plans are generally non-qualified stock options, but the principal equity plans permit some options granted to qualify as "incentive stock options" under the U.S. Internal Revenue Code. Stock options generally vest over three to four years from the date of grant. The exercise price of a stock option is equal to the fair market value of Hewlett-Packard Company's common stock on the option grant date (as determined by the reported sale prices of Hewlett-Packard Company's common stock when the market closes on that date). The contractual term of options granted since fiscal 2003 was generally eight years, while the contractual term of options granted prior to fiscal 2003 was generally ten years. Prior to March 2010, Hewlett-Packard Company could choose, in certain cases, to establish a discounted exercise price at no less than 75% of fair market value on the grant date. Hewlett-Packard

**NOTES TO THE FINANCIAL STATEMENTS**  
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Company has not granted any discounted options since fiscal 2003. In fiscal year 2011, Hewlett-Packard Company granted performance-contingent stock options that require the satisfaction of both service and market conditions prior to the expiration of the awards in order for them to vest.

Under the principal equity plans, Hewlett-Packard Company granted certain employees cash-settled awards, restricted stock awards, or both. Restricted stock awards are non-vested stock awards that may include grants of restricted stock or grants of restricted stock units. Cash-settled awards and restricted stock awards are independent of option grants and are generally subject to forfeiture if employment terminates prior to the release of the restrictions. Such awards generally vest one to three years from the date of grant. During that period, ownership of the shares cannot be transferred. Restricted stock has the same cash dividend and voting rights as other common stock and is considered to be currently issued and outstanding. Restricted stock units have dividend equivalent rights equal to the cash dividend paid on restricted stock. Restricted stock units do not have the voting rights of common stock, and the shares underlying the restricted stock units are not considered issued and outstanding.

*Performance-based restricted units ("PRU")*

In fiscal 2008, Hewlett-Packard Company implemented a program that provides for the issuance of PRUs representing hypothetical shares of Hewlett-Packard Company common stock. PRU awards may be granted to eligible employees, including Hewlett-Packard Company's principal executive officer, principal financial officer and other executive officers. Each PRU award reflects a target number of shares ("Target Shares") that may be issued to the award recipient before adjusting for performance and market conditions. 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 Hewlett-Packard Company's annual cash flow from operations as a percentage of revenue and total shareholder return ("TSR") relative to the S&P 500 over the three-year performance period. Depending on the results achieved 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 Target Shares granted, based on the calculations described below.

Cash flow performance goals are established at the beginning of each fiscal year. At the end of each fiscal year, a portion of the Target 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 the minimum level, and 150%, if performance is at or above the 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 the minimum and the maximum levels.

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 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 the minimum and the maximum levels. 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 Hewlett-Packard Company on a continuous basis through 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. The expense for these awards, net of estimated forfeitures, is recorded over the requisite service period based on the number of target shares that are expected to be earned and the achievement of the cash flow goals during the performance period.

Hewlett-Packard Company estimates the fair value of a target PRU share using the Monte Carlo simulation model, as the TSR modifier contains a market condition. The following weighted-average assumptions were used to determine the weighted-average fair values of the PRU awards for fiscal years ended October 31:

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	<b>2011</b>
Weighted-average fair value of grants per share	\$44.81
Expected volatility <sup>(1)</sup>	36.37%
Risk-free interest rate	0.65%
Dividend yield	0.75%
Expected life in months	34.7

(1) Hewlett-Packard Company uses historic volatility for PRU awards as implied volatility cannot be used when simulating multivariate prices for companies in the S&P 500

Non-vested PRUs as of October 31, 2011 and 2010 and changes during the financial period and 75 weeks ended October 31, 2010 were as follows

	<b>2011</b>	<b>2010</b>
	<b>No.</b>	<b>No.</b>
Outstanding target shares at beginning of year	-	-
Granted	1,350	-
Vested	-	-
Forfeited	-	-
	<hr/>	<hr/>
Outstanding target shares at end of year	1,350	-
	<hr/>	<hr/>
Outstanding target shares of PRUs assigned a fair value at end of year	\$1,418	-
	<hr/>	<hr/>

*Stock Plans*

Under the Palm, Inc. stock plans, Palm, Inc. was allowed to grant restricted stock awards, stock appreciation rights, performance units, restricted stock units and options to purchase shares of common stock to employees, directors and consultants. Stock options were generally granted at not less than the fair market value on the date of grant, typically vested over a four-year period and generally expired seven to ten years after the date of grant. Restricted stock units were granted at par value to employees, officers and directors, subject to vesting restrictions. Restricted stock units issued under the plan generally vested annually over four years.

*Determining Fair Value*

Until 30 June 2010, Palm, Inc. relied primarily on the Black-Scholes option valuation model to determine the fair value of stock options and ESPP shares. The determination of the fair value of share-based payment awards on the date of grant using an option-valuation model is affected by the stock price of the underlying shares as well as assumptions regarding a number of complex variables. These variables include the expected stock price volatility of the underlying shares over the term of the awards, projected employee stock option exercise behaviour, expected risk-free interest rate and expected dividends.

Beginning on 1 July 2010, Hewlett-Packard Company utilizes the Black-Scholes option pricing model to value the stock options granted under its principal equity plans. Hewlett-Packard Company estimates an implied volatility based on actively traded options on its common stock, which Hewlett-Packard Company believes is a better indicator of expected volatility and future stock price trends than historical volatility. The expected life computation is based on historical exercise patterns and post-vesting termination behaviour. 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.

Palm, Inc. estimated the expected term of options granted based on historical time from vesting until exercise and the expected term of ESPP shares using the average life of the purchase periods under each offering. Palm, Inc. estimated the volatility of its common stock based upon the implied volatility derived from the historical market prices of traded options with similar terms. The company's decision to use this measure of volatility was based upon the availability of actively traded options on Palm, Inc.'s common stock and its assessment that this measure of volatility was more representative of future stock price trends than the



**NOTES TO THE FINANCIAL STATEMENTS**

**52 week period ended 31 October 2011**

historical volatility in Palm, Inc 's common stock Palm, Inc based the risk-free interest rate for option valuation on Constant Maturity Rates provided by the United States Treasury with remaining terms similar to the expected term of the options Palm, Inc did not anticipate paying any cash dividends in the foreseeable future and therefore used an expected dividend yield of zero in the option valuation model In addition, forfeitures of share-based awards have been estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates The company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest

The key assumptions used by Palm, Inc in the Black-Scholes option valuation model during the financial period ended 31 October 2010 were as follows

	<b>31 Oct. 2010 (1)</b>
Weighted average share price	\$9 49
Weighted average exercise price	\$9 49
Expected volatility	72%
Expected life	3 9 years
Risk free rate	2 0%
Expected dividends	-

(1) The assumptions presented relate to options granted by Palm, Inc prior to 30 June 2010 There were no options granted by Hewlett-Packard Company subsequent to the acquisition of Palm, Inc on 1 July 2010 Outstanding options assumed by Hewlett-Packard Company in the acquisition were valued using the Black-Scholes option valuation model and the following assumptions a weighted average share price of \$42 89, a weighted average exercise price of \$24 23, an expected volatility of 34%, an expected life of 3 7 years, a risk-free rate of 1 3% and an expected dividends rate of 0 75%

Details of the share options outstanding during the period are as follows

	<b>31 October 2011</b>		<b>31 October 2010</b>	
	<b>Number of shares</b>	<b>Weighted average exercise price (in \$)</b>	<b>Number of shares</b>	<b>Weighted average exercise price (in \$)</b>
Outstanding at the start of period	4,953	\$26 67	277,756	\$5 61
Granted in the period	-	-	113,223 (1)	\$9 49
Forfeited in the period	(687)	\$35 93	(107,255)(1)	\$11 63
Expired in the period	-	-	(10,515)	\$21 07
Converted in the period (2)	-	-	(49,911)	\$3 06
Exercised in the period	(1,626)	\$15 05	(218,345)	\$4 03
	<u>2,640</u>	<u>\$31 42</u>	<u>4,953</u>	<u>\$26 67</u>
Outstanding at the end of period	2,640	\$31 42	4,953	\$26 67
Exercisable at the end of period	1,156	\$32 39	1,957	\$18 16

(1) The granted and forfeited amounts presented for the 75 weeks ended 31 October 2010 include those with underlying shares of either Palm, Inc or Hewlett-Packard Company

(2) As a result of Palm, Inc 's acquisition by Hewlett-Packard Company on 1 July 2010, the underlying shares of all outstanding Palm, Inc option awards with an exercise price of less than \$5 70 as of 30 June 2010 were converted to shares of Hewlett-Packard Company using a predetermined formula

**NOTES TO THE FINANCIAL STATEMENTS**  
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The range of exercise prices and weighted average remaining contractual life for share options outstanding at the end of the period is as follows

Range of exercise prices	Number outstanding at 31 Oct. 2011	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$28.26 to \$30.46	2,450	2.72	\$30.46	988	\$30.46
\$30.47 to \$39.80	7	0.02	\$33.63	7	\$33.63
\$39.81 to \$44.15	183	0.17	\$44.15	161	\$44.15
	<u>2,640</u>	<u>2.50</u>	<u>\$31.42</u>	<u>1,156</u>	<u>\$32.39</u>

Details of the restricted stock units outstanding during the period are as follows

	31 October 2011		31 October 2010	
	Number of shares	Weighted average grant date fair value (US \$)	Number of shares	Weighted average grant date fair value (US \$)
Outstanding at the start of period	448	\$42.89	4,200	\$8.54
Awarded in the period	2,978	\$39.88	2,868 (1)	\$10.39
Forfeited in the period	-	-	(210)	\$7.10
Converted in the period (2)	-	-	(3,576)	\$5.81
Released in the period	(723)	\$39.97	(2,834)	\$8.54
Outstanding at the end of period	<u>2,703</u>	<u>\$40.36</u>	<u>448</u>	<u>\$42.89</u>

(1) The granted amount presented for the 75 weeks ended 31 October 2010 include those with underlying shares of either Palm, Inc. or Hewlett-Packard Company

(2) As a result of Palm, Inc.'s acquisition by Hewlett-Packard Company on 1 July 2010, the underlying shares of all outstanding Palm, Inc. restricted stock unit awards as of 30 June 2010 were converted to shares of Hewlett-Packard Company using a predetermined formula

The company recognised total expenses of \$93,000 and \$108,000 related to equity-settled share-based payment transactions in the periods ended 31 October 2011 and 31 October 2010, respectively. Share-based payment expense is recorded with the offset as a share based payment credit to shareholder's funds

*Employee Stock Purchase Plan*

Hewlett-Packard Company sponsors the Hewlett-Packard Company 2011 Employee Stock Purchase Plan (the "2011 ESPP"), pursuant to which eligible employees may contribute up to 10% of base compensation, subject to certain income limits, to purchase shares of Hewlett-Packard Company's common stock

For purchases made on October 31, 2011, employees purchased stock pursuant to the 2011 ESPP at a price equal to 95% of the fair market value on the purchase date and all the criteria of a non-compensatory plan are met. Under the ESPP plan all employees were eligible to participate, one employee did participate and 74 shares were purchased under the plan at a weighted-average purchase price of \$25.28 per share

**NOTES TO THE FINANCIAL STATEMENTS**

**52 week period ended 31 October 2011**

**21. PENSION SCHEME**

The Company contributes to a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to \$4,000 (2010: \$29,000).

Contributions amounting to \$nil (2010: \$3,000) were payable to the scheme as at the period-end and are included within creditors.

**22. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY**

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 company's immediate parent undertaking is Palm Ireland Investments Limited, a company incorporated in Ireland.