

690597

Hewlett-Packard Limited

Report and Financial Statements

31 October 2002

 ERNST & YOUNG



Hewlett-Packard Limited

Registered No: 690597

Directors

S Gill
C R Dean

Secretary

G John

Auditors

Ernst & Young LLP
Apex Plaza
Reading
Berkshire
RG1 1YE

Registered Office

Cain Road
Bracknell
Berkshire
RG12 1HN

Directors' report

The directors present their report and financial statements for the year ended 31 October 2002.

Principal activity and review of the business

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

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

On 4 September 2001 the ultimate parent company, Hewlett-Packard Company, announced the intention, subject to the approval of the shareholders and the regulatory authorities to acquire Compaq Computer Corporation. Approval was given and the acquisition of Compaq Computer Corporation completed on 3 May 2002.

The Group has continued to experience a decline in turnover as a result of the difficult economic environment within the industry. Subsequent to the merger of the parent company, Hewlett-Packard Company with Compaq Computer Corporation steps have been taken to reduce operating costs and as a result the UK Group initiated a redundancy programme, at an expected full cost to the Group of £10,000,000 (note 6).

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.

The directors approved the disposal of the residual income stream of the remaining lease portfolio of Hewlett-Packard Finance Limited effective on 1 March 2002.

Research and development

The Group maintained an extensive programme of research and development at its major manufacturing site at Bristol, in addition to the special activities of the Bristol Research Centre.

Employee involvement

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

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

All employees' training and development is supported by continuing in-service education. All employees who have completed minimum periods of service are eligible to join both the company performance bonus and share purchase schemes of the Hewlett-Packard Company.

Employment of disabled employees

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

Donations

Donations to the UK charities and educational establishments amounted to £52,000 (2001: £228,000).

Directors' report

Results and dividends

The consolidated results for the year are shown on page 7. The Group reported a pre-tax profit of £59 million (2001 restated: £98 million). Profit after taxation for the year amounted to £36 million (2001 restated: £66 million).

The retained profit for the year of £36 million (2001 restated: £66 million) is to be transferred to reserves.

The restatement for the year ended 31 October 2001 is as a result of the adoption of FRS 19 on Deferred Tax (note 1).

Directors

The directors during the year were as follows:

S Gill	(appointed 27 May 2002)
C R Dean	
A Isherwood	(appointed 22 August 2002; resigned 9 September 2002)
A Bothwell	(appointed 6 September 2002; resigned 22 September 2002)
N Pawsey	(resigned 27 May 2002)
P Lawler	(resigned 31 October 2002)

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

Auditors

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

Elective resolutions

The Company has passed the following elective resolutions;

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

By order of the Board

Secretary

Date:

Director

15/1/03

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Hewlett-Packard Limited

We have audited the group's financial statements for the year ended 31 October 2002 which comprise the Consolidated Profit and Loss Account, Statement of Consolidated Recognised Gains and Losses, Balance Sheet and the related notes 1 to 26. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

This report has been prepared for the members of the company pursuant to Section 235 of the Companies Act 1985 (the "Act") and for no other purpose.

No person is entitled to rely on this report unless such person:

- i) is a person who is entitled to rely on this report by virtue of and for the purposes of the Act; or
- ii) has been expressly authorised to do so by our prior written consent

Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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

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

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of Hewlett-Packard Limited

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 October 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Reading

Date: *16 January 2003*

Consolidated profit and loss account

for the year ended 31 October 2002

		2002	As restated 2001
	Note	£'000	£'000
Turnover			
Continuing operations		1,391,236	1,632,720
Discontinued operations		6,514	27,596
Group turnover	2	1,397,750	1,660,316
Cost of sales	4	(1,184,457)	(1,439,095)
Gross profit		213,293	221,221
Distribution costs	4	(91,598)	(99,960)
Administration expenses	4	(72,538)	(34,257)
Operating profit		48,295	78,055
Continuing operations		862	8,949
Discontinued operations			
Group operating profit	4,5	49,157	87,004
Gain on sale of future lease income stream	6	3,499	-
Interest receivable		4,752	7,798
Other financial income	8	1,900	5,700
Interest payable	9	(190)	(2,659)
Profit on ordinary activities before taxation		59,118	97,843
Tax on profit on ordinary activities	10	(23,552)	(31,630)
Profit retained for the year		35,566	66,213

Statement of consolidated recognised gains and losses

for the year ended 31 October 2002

		2002	As restated 2001
	Note	£'000	£'000
Profit Retained For The Year		35,566	66,213
Actuarial loss recognised in the pension scheme	23	(94,960)	(115,451)
Current tax associated with loss in the pension scheme	10	12,413	11,540
Deferred tax associated with loss in the pension scheme	19	16,075	23,095
Total Recognised Losses Relating To The Year		(30,906)	(14,603)
Prior year adjustment	1	16,478	
Total Recognised Losses Since Last Report		(14,428)	

Balance sheet

as at 31 October 2002

		Group		Company	
		As restated		As restated	
		2002	2001	2002	2001
	Note	£'000	£'000	£'000	£'000
Fixed Assets					
Tangible assets	12	103,915	123,041	103,915	104,095
Investments	13	-	-	50	50
		103,915	123,041	103,965	104,145
Current Assets					
Stocks	14	21,767	54,561	21,767	54,561
Debtors:					
- amounts due within one year	15	197,126	296,613	185,117	268,249
- amounts due after more than one year	15	12,600	8,210	12,600	3,185
Cash at bank and in hand		307,675	207,878	292,300	202,022
		539,168	567,262	511,784	528,017
Creditors:					
- amounts falling due within one year	16	(344,059)	(357,807)	(342,879)	(323,803)
Net Current Assets		195,109	209,455	168,905	204,214
Total Assets Less Current Liabilities		299,024	332,496	272,870	308,359
Creditors:					
- amounts due in more than one year	17	-	(1,575)	-	(1,575)
Provisions For Liabilities And Charges	18	(9,551)	(11,112)	(9,551)	(11,112)
Net Assets Excluding Pension Liability		289,473	319,809	263,319	295,672
Pension liability	23	(36,610)	(36,040)	(36,610)	(36,040)
Net Assets Including Pension Liability		252,863	283,769	226,709	259,632
Capital And Reserves					
Called up share capital	20	104,772	104,772	104,772	104,772
Share premium account	21	17	17	17	17
Profit and loss account	21	148,074	178,980	121,920	154,843
Equity Shareholders' Funds	21	252,863	283,769	226,709	259,632

Approved by the Board on:

16/1/03

Director



Notes to the financial statements

at 31 October 2002

1. Accounting Policies

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. In preparing the financial statements the company has adopted FRS 19 'Deferred Tax' which has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Previously, deferred tax was provided for on a partial provision basis, whereby provision was made on all timing difference to the extent that they were expected to reverse in future without replacement.

This change in accounting policy has resulted in a prior year adjustment for both the group and the company. For the group, shareholders' funds at 1 November 2000 have been increased by £13,479,000 and the profit after tax for the year ended 31 October 2001 has been increased by £2,999,000. The deferred tax asset has been increased by £16,478,000 at 31 October 2001. Profit after tax for the current year has been reduced by £19,426,000 as a result of the change in accounting policy. For the company, shareholders' funds have been reduced by £1,519,000 at 1 November 2000 and profit after tax for the year ended 31 October 2001 has been increased by £60,000. The deferred tax asset has been reduced by £1,459,000 at 31 October 2001. Profit after tax for the company for the current year has been reduced by £1,489,000 as a result of the change in accounting policy.

Consolidation principles

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

Turnover

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

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

Tangible fixed assets

Tangible fixed assets are initially recorded at cost. Depreciation is calculated on the cost of tangible fixed assets in accordance with the methods and estimated useful lives set out below.

Freehold buildings and long leasehold property	- reducing balance over approximately 40 years.
Short leasehold property	- straight line over the period of the lease.
Machinery and 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.

Notes to the financial statements

at 31 October 2002

1. Accounting Policies (continued)

Long-term contracts

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

Goods sold under warranty

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

Leases

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

Amounts receivable in respect of finance leases to customers are stated after deduction of the interest element of the income relating to the un-expired portion of the lease. The interest element of the income from such leases is taken to the profit and loss account over the term of the lease using the actuarial method after tax.

Assets held under finance leases are capitalised and depreciated over their estimated useful lives. The corresponding liability is recorded as a creditor net of finance charges. The interest element of the finance charge is charged to the profit and loss account over the period of the lease.

Goodwill

Following the introduction of FRS 10, goodwill arising on consolidation, being the difference between the fair value of the consideration paid and the aggregate of the fair values of the separable net assets acquired, is capitalised and amortised over its useful economic life up to a presumed maximum of 20 years.

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

Deferred taxation

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

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

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

Research and development

Expenditure on research and development is written off as incurred.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions are translated at the rate of exchange ruling at the date of the relevant transaction. Exchange gains and losses are dealt with through the profit and loss account.

Notes to the financial statements

at 31 October 2002

1. Accounting Policies (continued)

Derivatives or other financial instruments

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

Pensions

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

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

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

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

Cash flow statement

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

Stock options

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

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

Notes to the financial statements

at 31 October 2002

2. Turnover

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

	2002 £'000	2001 £'000
<i>Sales were made to geographical markets as follows:</i>		
United Kingdom	1,119,892	1,337,596
Rest of Europe	174,427	160,825
United States	82,291	126,206
Other areas	21,140	35,689
	<u>1,397,750</u>	<u>1,660,316</u>

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

3. Net Rental Income

Included within turnover are aggregate rentals receivable in respect of:

	2002 £'000	2001 £'000
Finance leases	5,255	28,201
Operating leases	4,674	22,872
Less: repayments of principal	(3,415)	(23,477)
	<u>6,514</u>	<u>27,596</u>

4. Cost Of Sales And Operating Expenses

	2002		2001	
	Continuing	Discontinued	Continuing	Discontinued
	£'000	£'000	£'000	£'000
Cost of sales	1,182,097	2,360	1,184,457	13,338
Distribution costs	91,598	-	99,960	-
Administrative expenses	69,246	3,292	28,948	5,309
	<u>1,342,941</u>	<u>5,652</u>	<u>1,313,365</u>	<u>18,647</u>

Notes to the financial statements

at 31 October 2002

5. Operating Profit

This is stated after charging:		2002	2001
		£'000	£'000
Depreciation	- owned assets	12,224	23,907
	- leased assets	13	18
Operating leases	- other	6,876	7,966
	- land and buildings	3,209	2,066
Auditors' remuneration	- audit services	101	101
	- other services	202	-
Loss on sale of tangible fixed assets		3,303	10,978
Wages and salaries		192,671	216,287
Social security costs		18,301	22,664
Other pension costs	- defined benefits (note 23)	16,100	13,300
	- defined contributions	4,855	4,944
Research and development expenditure		31,825	39,781
Less: amounts recharged to other group companies		(23,051)	(23,918)
		8,774	15,863

The auditors' remuneration borne by the company was £91,000 (2001: £91,000).

6. Exceptional Items

	2002	2001
	£'000	£'000
<i>Recognised in arriving at operating profit::</i>		
Redundancy programme costs	(10,000)	(18,030)
Trademark royalties	-	(50,000)
	(10,000)	(68,030)
<i>Recognised below operating profit:</i>		
Gain on sale of future lease income stream	3,499	-
	(6,501)	(68,030)

During the year, the group initiated a voluntary redundancy programme with costs incurred of £10,000,000. A similar programme was initiated in 2001 with associated costs of £21,430,000. This was offset by a curtailment gain on the pension scheme of £3,400,000 (note 23) resulting from the programme.

Hewlett-Packard Finance Limited ceased trading on 1 March 2002 subsequent to the sale of its future lease income stream. The profit before tax on the sale of that income stream amounted to £3,499,000. Any corporation tax in relation to this profit will be reduced to £nil due to the availability of tax writing down allowances.

In 2001, as a result of changes in the calculation of trademark royalties payable by the group to its ultimate parent, Hewlett-Packard Company, an additional accrual of £50,000,000 (£35,000,000 net of tax) has been made in the year to cover amounts payable for the years ending 31 October 1998 to 31 October 2001 inclusive.

Notes to the financial statements

at 31 October 2002

7. Directors' Emoluments

	2002 £'000	2001 £'000
Management remuneration	789	686
Compensation for loss of office	657	-

The emoluments of the highest paid director were £926,696 (2001: £217,250), including compensation for loss of office of £476,000.

No directors participated in the company's defined contribution pension scheme during the year ended 31 October 2002 (2001: £nil).

3 directors participated in the defined benefit pension plan during the year ended 31 October 2002 (2001: 3). The highest paid director did not participate in the scheme.

8. Other Finance Income

	2002 £'000	2001 £'000
Expected return on pension scheme assets	20,500	22,700
Interest on pension scheme liabilities	(18,600)	(17,000)
Net return	1,900	5,700

9. Interest Payable

	2002 £'000	2001 £'000
On bank loans and overdrafts repayable within five years	190	2,659

10. Taxation On Profit On Ordinary Activities

a) Analysis of charge in the year:

	2002 £'000	As restated 2001 £'000
United Kingdom corporation tax (credit)/charge based on the taxable profit for the year at 30% (2001: 30%)	(11,474)	22,718
Under provision in prior year	1,342	184
Less amount transferred to reserves	12,413	11,540
Total current tax (note 10b)	2,281	34,442
Withholding tax expensed	2,115	-
Deferred tax (note 19)	19,156	(2,812)
Tax on profit on ordinary activities	23,552	31,630

Notes to the financial statements

at 31 October 2002

10. Taxation On Profit On Ordinary Activities (continued)

b) Factors affecting tax charge for year:

	2002	As restated 2001
	£'000	£'000
	£	£
Profit on ordinary activities before tax	59,118	97,843
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 – 30%)	17,736	29,353
Tax effects of:		
Under provision in prior year	1,342	184
Capital allowances in advance of depreciation	(18,394)	3,375
Expenses disallowable for tax purposes	1,709	1,319
Other	(112)	211
Total current tax (note 10a)	2,281	34,442

11. 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 after tax for the year, a profit of £33,549,000 (2001: £61,482,000 as restated) has been dealt with in the accounts of the company.

Notes to the financial statements

at 31 October 2002

12. Tangible Fixed Assets

Group

	Property	Property	Machinery	Equipment	Total
	£'000	construction	and	rented	
	£'000	£'000	equipment	under	£'000
				operating	
				leases	
				£'000	
<i>Cost:</i>					
At 31 October 2001	146,803	283	47,193	86,104	280,383
Additions	554	671	10,520	-	11,745
Reclassifications	1,168	(796)	(372)	-	-
Disposals	(49)	-	(9,117)	(86,104)	(95,270)
At 31 October 2002	148,476	158	48,224	-	196,858
<i>Depreciation:</i>					
At 31 October 2001	53,066	-	37,118	67,158	157,342
Charge for the year	4,009	-	5,868	2,360	12,237
Disposals	(42)	-	(7,076)	(69,518)	(76,636)
At 31 October 2002	57,033	-	35,910	-	92,943
<i>Net book value:</i>					
At 31 October 2002	91,443	158	12,314	-	103,915
At 31 October 2001	93,737	283	10,075	18,946	123,041

Notes to the financial statements

at 31 October 2002

12. Tangible Fixed Assets (continued)

Company

	Property £'000	Property under construction £'000	Machinery and equipment £'000	Total £'000
<i>Cost:</i>				
At 31 October 2001	146,803	283	47,193	194,279
Additions	554	671	10,520	11,745
Reclassifications	1,168	(796)	(372)	-
Disposals	(49)	-	(9,117)	(9,166)
At 31 October 2002	148,476	158	48,224	196,858
<i>Depreciation:</i>				
At 31 October 2001	53,066	-	37,118	90,184
Charge for the year	4,009	-	5,868	9,877
Disposals	(42)	-	(7,076)	(7,118)
At 31 October 2002	57,033	-	35,910	92,943
<i>Net book value:</i>				
At 31 October 2002	91,443	158	12,314	103,915
At 31 October 2001	93,737	283	10,075	104,095
Analysis of Property				
	2002 Cost £'000	2002 Depreciation £'000	2002 Net £'000	2001 Net £'000
Freehold land	43,404	-	43,404	43,404
Freehold buildings	104,635	56,689	47,946	50,227
Short leaseholds	437	344	93	106
Total Company and Group property	148,476	57,033	91,443	93,737

Included within machinery and equipment in the company and group are assets subject to short-term rental agreements with a cost of £3,584,000 (2001: £3,052,000) and accumulated depreciation of £443,000 (2001: £1,510,000).

Notes to the financial statements

at 31 October 2002

13. Investments

	<i>Group</i>		<i>Company</i>	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
<i>Hewlett-Packard Finance Limited</i>				
Shares in group undertakings	-	-	50	50

Hewlett-Packard Finance Limited is a wholly owned subsidiary registered in England and Wales and operating in Great Britain and is engaged in the provision of financial services to users of Hewlett-Packard products.

14. Stocks

	<i>Group</i>		<i>Company</i>	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Raw materials and consumables	7,002	23,889	7,002	23,889
Work in progress	697	772	697	772
Finished goods for resale	14,068	23,599	14,068	23,599
Long term contract balances	-	6,301	-	6,301
	21,767	54,561	21,767	54,561

Long-term contract balances are analysed as follows:

	<i>Group</i>		<i>Company</i>	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Cost less foreseeable losses	4,218	12,869	4,218	12,869
Less: applicable payments on account	(4,218)	(6,568)	(4,218)	(6,568)
	-	6,301	-	6,301

Notes to the financial statements

at 31 October 2002

15. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Trade debtors	90,057	113,311	90,057	112,547
Amounts recoverable on contracts	8,711	6,029	8,711	6,029
Amounts owed by subsidiary undertakings	-	-	-	750
Amount owed by other Group undertakings	40,395	97,439	40,395	96,684
Corporation tax	38,113	28,295	26,104	28,295
Other debtors	5,618	10,682	5,618	10,020
Prepayments and accrued income	7,695	13,219	7,695	12,198
Investment in finance leases	-	13,000	-	-
Deferred taxation (note 19)	19,137	22,848	19,137	4,911
	<u>209,726</u>	<u>304,823</u>	<u>197,717</u>	<u>271,434</u>

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

	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Investment in finance leases	-	5,025	-	-
Deferred taxation	12,600	3,185	12,600	3,185
	<u>12,600</u>	<u>8,210</u>	<u>12,600</u>	<u>3,185</u>

Notes to the financial statements

at 31 October 2002

16. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Bank loans and overdrafts	64,157	18,472	62,977	-
Trade creditors	12,892	41,915	12,892	41,915
Amounts owed to subsidiary undertakings	-	-	-	5
Amounts owed to other group undertakings	113,702	151,651	113,702	148,550
Corporation tax	-	8,133	-	-
Other taxation and social security	23,093	22,879	23,093	22,861
Other creditors	2,705	7,118	2,705	5,739
Accruals and deferred income	127,510	107,639	127,510	104,733
	<u>344,059</u>	<u>357,807</u>	<u>342,879</u>	<u>323,803</u>

17. Creditors: amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Other creditors	-	1,575	-	1,575

18. Provisions For Liabilities And Charges

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

	<i>Stock options £'000</i>	<i>Warranty £'000</i>	<i>Total £'000</i>
At 31 October 2001	1,577	9,535	11,112
Credited to the profit and loss account	(821)	(740)	(1,561)
At 31 October 2002	<u>756</u>	<u>8,795</u>	<u>9,551</u>

Stock options

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

Warranty

Provision is made for expected warranty claims on products with unexpired warranty periods.

Notes to the financial statements

at 31 October 2002

19. Deferred Taxation

Group

	2002	<i>As restated</i> 2001
	<i>Provided</i>	<i>Provided</i>
	£'000	£'000
Accelerated capital allowances	(3,091)	15,848
Pension deficit	15,690	15,060
Short-term timing differences	22,228	7,000
Total deferred tax asset	34,827	37,908
Amounts offset against pension deficit (note 23)	(15,690)	(15,060)
	19,137	22,848

Company

	2002	<i>As restated</i> 2001
	<i>Provided</i>	<i>Provided</i>
	£'000	£'000
Accelerated capital allowances	(3,091)	(2,089)
Pension deficit	15,690	15,060
Short-term timing differences	22,228	7,000
Total deferred tax asset	34,827	19,971
Amounts offset against pension deficit (note 23)	(15,690)	(15,060)
	19,137	4,911

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

Group

	2002	2001
	£'000	£'000
At 1 November	37,908	12,001
Transfer to profit and loss account tax charge for the year (note 10)	(19,156)	2,812
Transfer to reserves arising on actuarial loss on pension scheme	16,075	23,095
At 31 October	34,827	37,908

Notes to the financial statements

at 31 October 2002

19. Deferred Taxation (continued)

<i>Company</i>	<i>2002</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>
At 1 November	19,971	(2,915)
Transfer to profit and loss account tax charge for the year	(1,219)	(209)
Transfer to reserves arising on actuarial loss on pension scheme	16,075	23,095
At 31 October	34,827	19,971

20. Share Capital

	<i>Group</i>		<i>Company</i>	
	<i>2002</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>
<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

21. Reconciliation Of Shareholders' Funds And Movements On Reserves

<i>Group</i>	<i>Share capital</i> <i>£'000</i>	<i>Share premium</i> <i>£'000</i>	<i>Profit and loss account</i> <i>£'000</i>	<i>Total</i> <i>£'000</i>
At 1 November 2000 as previously reported	104,772	17	180,104	284,893
Prior year adjustment (note 1)	-	-	13,479	13,479
At 1 November 2000 as restated	104,772	17	193,583	298,372
Profit for the year restated	-	-	66,213	66,213
Actuarial loss recognised in the pension scheme	-	-	(115,451)	(115,451)
Current tax associated with loss in the pension scheme	-	-	11,540	11,540
Deferred tax associated with loss in the pension scheme	-	-	23,095	23,095
At 31 October 2001 as restated	104,772	17	178,980	283,769
Profit for the year	-	-	35,566	35,566
Actuarial loss recognised in the pension scheme	-	-	(94,960)	(94,960)
Current tax associated with loss in the pension scheme	-	-	12,413	12,413
Deferred tax associated with loss in the pension scheme	-	-	16,075	16,075
At 31 October 2002	104,772	17	148,074	252,863

Notes to the financial statements

at 31 October 2002

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

Company

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 1 November 2000 as previously reported	104,772	17	175,696	280,485
Prior year adjustment (note 1)	-	-	(1,519)	(1,519)
At 1 November 2000 as restated	104,772	17	174,177	278,966
Profit for the year restated	-	-	61,482	61,482
Actuarial loss recognised in the pension scheme	-	-	(115,451)	(115,451)
Current tax associated with loss in the pension scheme	-	-	11,540	11,540
Deferred tax associated with loss in the pension scheme	-	-	23,095	23,095
At 31 October 2001 as restated	104,772	17	154,843	259,632
Profit for the year	-	-	33,549	33,549
Actuarial loss recognised in the pension scheme	-	-	(94,960)	(94,960)
Current tax associated with loss in the pension scheme	-	-	12,413	12,413
Deferred tax associated with loss in the pension scheme	-	-	16,075	16,075
At 31 October 2002	104,772	17	121,920	226,709

22. Commitments

Operating lease commitments:

Amounts due under finance leases and hire purchase contracts:

	2002		2001	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
<i>Amounts payable:</i>				
- within one year	6	2,338	1,584	2,363
- within two to five years	1,439	4,676	492	4,726
- after five years	975	-	1,226	-
	2,420	7,014	3,302	7,089

Forward exchange contracts:

At 31 October 2002 the group and company had commitments arising from forward exchange contracts entered into in the normal course of business amounting to £42 million (2001: £77 million).

Notes to the financial statements

at 31 October 2002

23. Pensions

The group operates a defined benefit pension scheme, covering the majority of its employees. This scheme was closed to new entrants in January 1997 and a defined contribution scheme established for new employees. As the defined benefit scheme is closed to new entrants, under the projected unit method, the current service cost for the scheme will increase as the members of the scheme approach retirement.

Assets in scheme and expected rate of return:

	Long term rate of return expected at 31 Oct 2002	Value at 31 Oct 2002 £'000	Long term rate of return expected at 31 Oct 2001	Value at 31 Oct 2001 £'000	Long term rate of return expected at 31 Oct 2000	Value at 31 Oct 2000 £'000
Equities	7.3%	293,200	7.2%	242,100	6.9%	257,500
Government bonds	4.6%	29,800	4.5%	24,600	4.9%	49,000
Corporate bonds	5.6%	27,300	5.5%	22,600	-	-
Total market value of assets		350,300		289,300		306,500
Present value of scheme liabilities		(402,600)		(340,400)		(270,000)
(Deficit)/surplus in the scheme		(52,300)		(51,100)		36,500
Related deferred tax asset/(liability)		15,690		15,060		(10,950)
Net pension (liability)/asset		(36,610)		(36,040)		25,550

Movements in surplus during the year:

	2002 £'000	2001 £'000
(Deficit)/surplus in scheme at beginning of year	(51,100)	36,500
Current service cost	(16,100)	(16,700)
Contributions paid	107,960	35,451
Gain on curtailment	-	3,400
Other finance income	1,900	5,700
Actuarial loss	(94,960)	(115,451)
Deficit in scheme at end of year	(52,300)	(51,100)

Notes to the financial statements

at 31 October 2002

23. Pensions (continued)

Analysis of the amount charged to operating profit:

	2002 £'000	2001 £'000
Current service cost	16,100	16,700
Net curtailment gain	-	(3,400)
	<u>16,100</u>	<u>13,300</u>

Analysis of actuarial loss recognised in the statement of total recognised gains and losses:

	2002 £'000	2001 £'000
Actual less expected return on pension scheme assets	(63,000)	(73,400)
Experience gains and losses arising on the scheme liabilities	(7,160)	(10,651)
Changes in assumptions underlying the present value of the liabilities	(24,800)	(31,400)
	<u>(94,960)</u>	<u>(115,451)</u>

History of experience gains and losses:

	2002	2001
Difference between the expected and actual return on scheme assets		
Amount (£'000)	(63,000)	(73,400)
Percentage of scheme assets	(18%)	(25%)
Experience gains and losses on scheme liabilities		
Amount (£'000)	(7,160)	(10,651)
Percentage of the present value of the scheme liabilities	(20%)	(3%)
Total amount recognised in the statement of total recognised gains and losses		
Amount (£'000)	(94,960)	(115,451)
Percentage of the present value of the scheme liabilities	(24%)	(34%)

The company has agreed with the Trustees of the defined benefit scheme to pay future contributions of 22.8% of annual salaries and additional amounts of £272,000 each month. The additional amounts represent payments to remove a funding deficit, net of the expected return on the pension scheme assets over the interest cost on the pension scheme liabilities. These contributions are subject to review.

Notes to the financial statements

at 31 October 2002

23. Pensions (continued)

A full actuarial valuation of the Hewlett-Packard section of the defined benefit scheme was carried out at 30 June 2001 and projected forward to 31 October 2002 to take account of the requirements of FRS 17 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 October 2002	At 31 October 2001	At 31 October 2000
Rate of increase in salaries	4.3%	4.2%	4.7%
Rate of limited price indexation increases to pensions in payment	2.4%	2.3%	2.6%
Discount rate	5.6%	5.5%	6.3%
Inflation assumption	2.3%	2.2%	2.7%

24. Employees

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

	2002 No.	2001 No.
Salaries and services	2,513	2,864
Manufacturing and research and development	849	1,054
	<u>3,362</u>	<u>3,918</u>

25. Ultimate Parent Undertaking

The ultimate parent company and controlling party 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.

26. Related Parties

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