

2010 Trustees' Report to Members

Hewlett-Packard Section



Hewlett-Packard Limited Retirement Benefits Plan

Keeping you up to date

July 2011

Welcome to this year's Report from the Trustees of the Hewlett-Packard Limited Retirement Benefits Plan (the Plan). This Report will update you on the various activities we have been involved in.

It has been another busy year for the Trustees working to ensure the Plan continues to be well run for members. We are pleased to report that the Plan remains well funded and that the employer's covenant (this is the legal obligations of Hewlett-Packard Limited (the Company) to the Plan as well as the ability and willingness to fund members' benefits) remains strong.

The most recent actuarial valuation, which looks at the funding of the Plan as at 31 October 2009, is now complete and the attached summary funding statement details the results.

We have provided you with an update on what has changed in pensions and what it could mean for your retirement. In this edition, you can find details on the recent pension tax changes, annual pension increases and changes to the default retirement age.

The Member Nominated Trustees are coming up for re-election or replacement over the coming months. For further details please see the Trustee board section of this Report.

We hope you find this Report useful. If you have any questions about your pension from the Plan please contact the Plan Administrator, Xafinity Paymaster, by sending an email to hp@xafinitypaymaster.com

For and on behalf of the Trustees of the Plan

Jonathan Lord
Chairman

Tell us what you think

Please let us have any feedback about the Report by emailing us at hpplantrustees@hymans.co.uk so we can make sure that it continues to be helpful and informative. If there is a particular topic you are interested in we would be very happy to hear from you.

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Who looks after your Plan?

The Trustee board

As Trustees we have a number of responsibilities, including making sure benefits are paid on time and to the right people and making sure the right amount of money is paid into the Plan and is properly invested. On top of this we make sure that the Plan follows all the complex rules and regulations which govern pensions. To carry out our role successfully we meet regularly, attend training courses and receive help and assistance from our advisers.

The full Trustee board met four times during the year to review the ongoing management of the Plan.

The Trustees of the Plan are:



Front left to right: John Young, Jonathan Lord, Keith Norrington
Back left to right: Philippa Oram, Phil Ladds, Andrew Dodd, Rob McMicking, Mike Jackson, Paul Early

Company Nominated

Jonathan Lord — Chairman
David Bolland
Andrew Dodd
Rob McMicking
Keith Norrington
Philippa Oram

Member Nominated

John Young — Deputy Chairman
Phil Ladds
Mike Jackson
Paul Early

Sub-committees

The full Trustee board is responsible for making all strategic decisions, whereas the sub-committees primarily act as advisory bodies, making recommendations to the full Trustee board.

The existing sub-committees are:

- The [Covenant Sub-Committee \(CSC\)](#) looks after all aspects of employer covenant on behalf of the main Trustee board.
- The [Trustee Investment Sub-Committee \(TISC\)](#) is responsible for looking after investment matters.
- The [Operations Sub-Committee \(OSC\)](#) oversees administrative matters, including member communications and Trustee discretions.
- The [Funding Sub-Committee \(FSC\)](#) is responsible for overseeing all aspects of funding for the Plan.

Changes to the Trustee board

Under the Pensions Act 2004 the Trustees are required to ensure that arrangements are in place, and implemented, that provide for at least one third of their number to be Member Nominated Trustees (MNTs).

The current term of office for the current MNTs, as shown above, will end in July 2011. As such a new nomination and selection process needs to be run to elect new MNTs or re-elect the current MNTs.

We have included nomination papers for active and pensioner members (who are involved in the nomination process) with this Report.

If you would like to contact the Plan Trustees, you can send an email to hpplantrustees@hymans.co.uk



Advisers and Investment Managers

The Plan Trustees have appointed the following advisers and Investment Managers to assist them in carrying out their duties and responsibilities:

Plan Actuary	David Eteen FIA, Aon Hewitt Limited (previously known as Hewitt Associates Limited)
Administrator	Xafinity Paymaster
Independent Auditors	KPMG LLP
Banker	Lloyds Bank plc
Solicitor	Linklaters LLP
Plan Secretary	Freya Williams, Hymans Robertson LLP
Investment Managers	<p>Fauchier Partners</p> <p>Insight Investment Management (Global) Limited</p> <p>Lothbury Investment Management</p> <p>Legal & General Investment Management</p> <p>Mesirow Financial Product Group</p> <p>Morgan Stanley Investment Management Limited</p> <p>PIMCo Europe Limited</p> <p>Shoreline Investment Management Company</p> <p>State Street Associates</p> <p>State Street Global Advisors</p> <p>Stone Harbor Investment Partners LLP</p> <p>Threadneedle Asset Management</p> <p>Wellington Management International Limited</p>
Investment Consultants	Mercer Limited
AVC providers	<p>Clerical Medical Investment Group Limited</p> <p>Equitable Life Assurance Society</p> <p>Legal & General Assurance Society Limited</p> <p>MGM Assurance</p> <p>Phoenix Life and Pension (formerly Royal & Sun Alliance)</p> <p>Standard Life Assurance Limited</p>
Custodian	State Street Bank Europe Ltd

Your Plan

Reminder — How the Plan works

Your Plan is a final salary pension plan. This means that your pension when you retire is based on how long you have been a member and your salary when you retire or leave the Plan. We invest the Plan's assets in different funds with the intention of getting the best possible return to pay our members' pension benefits.

Although the funds in the Plan are invested, your pension is not linked to the performance of these investments.

Plan membership

Details of the membership of the HP Section of the Plan.

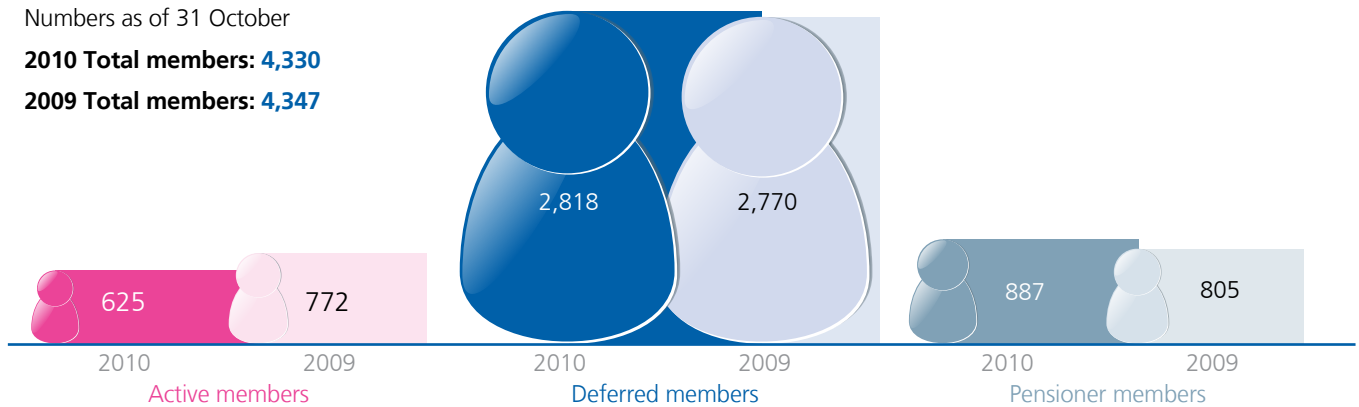
“

your pension when you retire is based on how long you have been a member and your salary when you retire or leave the Plan”

Numbers as of 31 October

2010 Total members: 4,330

2009 Total members: 4,347



Membership types

Active members

Members who are employed by the Company and paying contributions into the Plan.

Deferred members

Members who no longer contribute to the Plan. These members' benefits are held by the Plan until they retire.

Pensioner members

Members and their surviving partners, children and dependants who are already receiving a pension from the Plan.

Financial highlights

The financial highlights shown below are a summary from the Trustees' Annual Report and Accounts. This set of accounts cover the 12 month period from 1 November 2009 to 31 October 2010.

The Trustee's Annual Report and Accounts have been audited and received an unqualified opinion from the auditor that they represented a true and fair view of the Plan's affairs.



If you would like to receive a full copy of the Trustees' Annual Report and Accounts, this can be obtained on the HP portal or you can request a copy by emailing hpplantrustees@hymans.co.uk

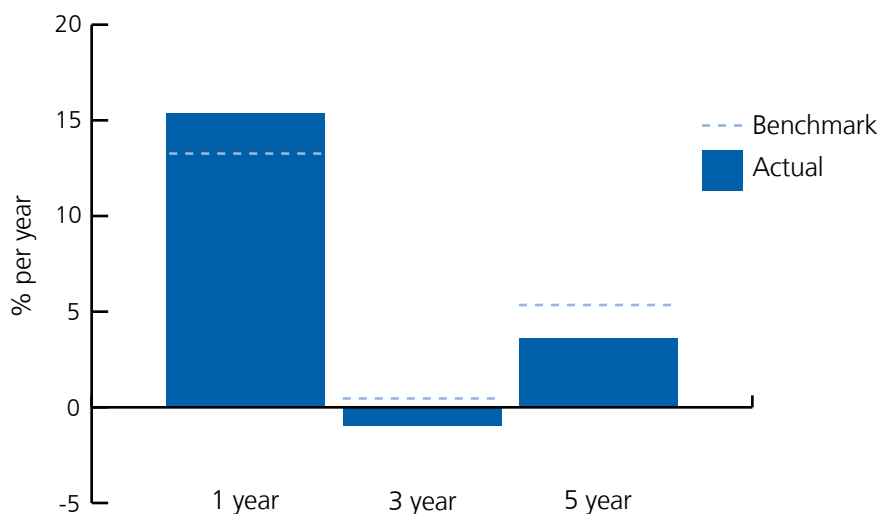
Money going into and out of the Hewlett-Packard Section of the Plan from 1 November 2009 to 31 October 2010

	Year ended 31 October 2010	Year ended 31 October 2009
Income	£000	£000
Member contributions	406	460
Employer contributions		
Normal	76,349	3,663
Employee directed	1,205	1,362
Augmentations	2,173	1,363
Transfers in and reinstatements of benefits	8	26
Investment income	3,377	12,475
Other income	0	837
Total income	83,518	20,186
Expenditure	£000	£000
Benefits payable	16,356	15,098
Transfers out	1,866	2,006
Other payments	0	102
Administration and actuarial charges	667	656
Investment fees	1,345	2,598
Professional, audit and legal fees	373	288
PPF levy	485	293
Other	113	1
Total expenditure	21,205	21,042
Net income available for investment	62,313	(856)
Value of the fund – 2009-2010	£000	
Value of the Plan at 1 November 2009	603,363	
Net income available for investment	62,313	
Movement in market value of investment	80,394	
Value of the Plan at 31 October 2010	746,070	

Investing for the long term

How the HP Section's investments performed

Please note these investment performance figures cover the 12 month period 1 November 2009 to 31 October 2010.

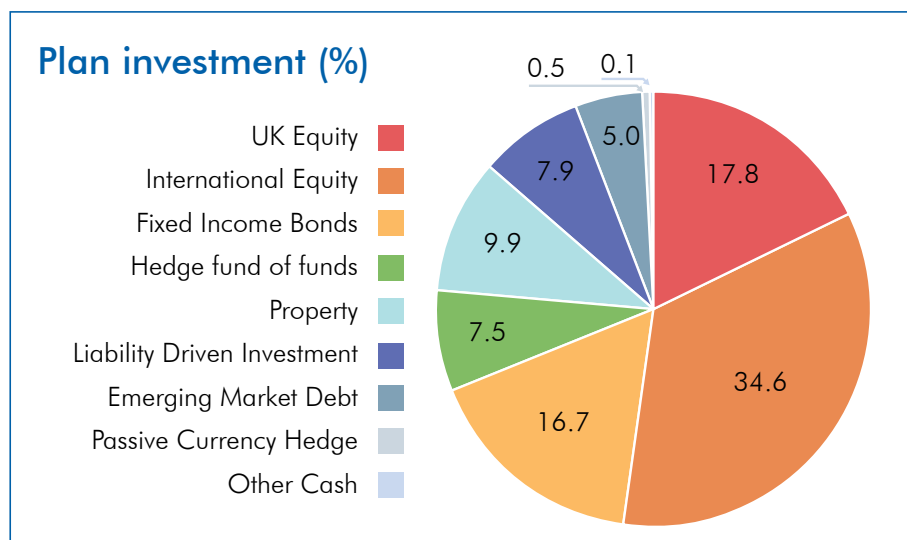


Over the one-year period, the HP Section outperformed the **benchmark** by 1.6% (net of fees). Equities and fixed income were the main contributors to the Section's relative outperformance. This was partially offset by underperformance of the Plan's property portfolio and in particular the UBS mandate, which has now been terminated. For more details see the section "Changes to the Plan's investments" on the following page.

Where are the HP Section's funds invested?

The Trustees and the Trustee Investment Sub-Committee (TISC) must balance the need to maintain the security of members' benefits with the aim of achieving the best possible return on the assets of the Plan. We therefore work with our investment advisers to agree which asset types are likely to provide the best return to pay members' pension benefits. The Trustees continue to take a long term view bearing in mind that payments from the Plan to members will continue for a long time into the future since a large number of members are yet to retire.

At 31 October 2010 the HP Section's funds were invested in the asset classes shown in the chart below.



Cash held at the bank by the Plan Administrator and net current liabilities are excluded from the chart.



Some investment terms explained

Benchmark

The measure against which fund performance is judged. For example, we might measure the performance of a fund by comparing it with the total returns of the top 100 leading company shares as measured by the FTSE100 index.

Passive managers

A passive manager aims to achieve a return that is close to a chosen benchmark, for example the FTSE All-Share Index, unlike an active fund manager who will seek to outperform the index.

Active managers

A professional investment manager uses their judgement to make investment decisions in an attempt to produce returns that are higher than the benchmark. The aim of the investment manager is to beat the benchmark (such as the FTSE 100 Index), but there is also a risk that their returns could fail to match the benchmark. Active management will generally have more volatile performance than passive management. However, there is also the intention of achieving greater returns (net of the higher fees charged).

Diversification

This is the spreading of investments over different types of assets and geographic locations to reduce the risk exposure that an investor has to one particular type of asset.

Liability Driven Investment

A form of investing in which the main goal is to match the asset proceeds to the payments that will need to be made to members both current and future. As a result the performance of the investments and therefore the value of the investments are more closely matched to the movements in the liabilities (the expected cost of paying the pensions).

Hedge fund of funds

A fund of funds investment holds a portfolio of other investment funds rather than investing directly in shares, bonds or other securities. A hedge fund of funds invests in a portfolio of different hedge funds to provide broad exposure to the hedge fund industry and to diversify the risks associated with a single hedge fund.

Jargon explained



Deferred pension

If you no longer work for the Company and haven't reached your Normal Pension Age, your pension benefits are held by the Plan until you retire. This is known as a deferred pension.

RPI – Retail Prices Index

An indicator of inflation in the UK. It measures the average change from month to month in the prices of goods and services purchased in the UK.

CPI – Consumer Prices Index

This is the inflation measure the Government has chosen to use going forward. It is similar to the RPI, but the way it is calculated is slightly different – it doesn't include things like council tax and housing costs.

How are the Plan's investments managed?

There are some terms in this section that are quite technical, they are in bold and we have explained them in the blue section to the left.

We review the Plan's investments regularly with our investment managers. These are the experts we appoint to look after the Plan's investments and make sure they give a return in line with the investment strategy of the Plan.

Changes to the Plan's investments

Over the year to 31 October 2010 the TISC implemented a number of changes to the Plan's investment strategy with the aim of increasing **diversification**. The TISC reduced the asset allocation to equities and bonds and increased the allocation to **Liability Driven Investment (LDI)** and **Hedge fund of funds**.

In order to do this, in December 2009, assets were invested into Mesirow's Hedge fund of funds mandate and into Threadneedle and Lothbury's Property mandates. This was followed by the introduction of an allocation to Emerging Market Debt in June 2010 through an investment in Stone Harbor's Emerging Market Debt fund.

Hot topics

Changes to pension increases

To keep up with the rising cost of living, many pensions (including the State Pension) increase each year. In the past, the measure used for this increase was the Retail Prices Index (RPI). However, in July 2010 the Government announced its intention to change this to the Consumer Prices Index (CPI).

The changes will essentially change how much benefits such as the State Pension will increase each year (although the State Pension is now linked to the better of CPI increases, earnings increases and 2.5% p.a.). Statutory minimum increases to pension rights in occupational pension schemes are also affected.

Although both the CPI and RPI measure the change in the price of goods and services over time, CPI is generally lower than the RPI. This is because it uses a different calculation to measure prices and doesn't include items like council tax and housing costs.

What does this mean for the HP Plan benefits?

There are two changes to the Plan. First, members who leave (or have left) the Plan before retirement will have their deferred pension increased between when they leave and when they retire at the rate of increase in RPI for the period of deferment up to 31 December 2010 and at the rate of increase in CPI for periods of deferment after this.

Second, Guaranteed Minimum Pensions (GMP), have in the past increased whilst in payment by the rate of increase in RPI each year. Going forward the GMP will be increased whilst in payment by the rate of increase in CPI each year, capped at 3% in accordance with legislation. Unless you are notified otherwise the non GMP part of your pension will increase on the same terms as at present.

Guaranteed Minimum Pensions were built up between 6 April 1988 and 5 April 1997 due to the Plan being contracted out of the State Earnings- Related Pension Scheme (SERPS).

Pension taxation changes

The Government is changing the amount of pension savings that you can make and still benefit from tax relief.

Changes to the annual allowance

The annual allowance applies to your membership of the Plan while you are employed by the Company and paying contributions into the Plan. It may also apply to other pension schemes you are a member of if you are earning benefits or paying pension contributions to that scheme.

For a final salary pension plan like the HP Plan, the annual allowance is the amount your pension savings can grow, in any year, and still benefit from full tax relief. Growth in your pension savings in a particular pension scheme while you are not earning more benefits by paying contributions does not count towards the annual allowance.

The Government has reduced the annual allowance from £255,000 to £50,000 from April 2011. If, after allowing for inflation, the increase in your pension value is above £50,000, the excess will be treated as income and taxed at your marginal rate of income tax.

To assist individuals, there is the ability to carry forward unused annual allowance from the previous three years to offset any pension saving above the annual allowance.

To find out how the increase in your pension savings is calculated you can visit www.hmrc.gov.uk/pensionschemes/annual-allowance/guide.htm or contact the Plan Administrator. If you are still working for the Company, further information can be found on the pensions section of the HP Portal.

Changes to the lifetime allowance

The lifetime allowance is the maximum amount of pension benefits you can build up in total across all your pension savings without incurring an additional tax charge at retirement. The Government is proposing to reduce the lifetime allowance from £1.8 million to £1.5 million from April 2012.

If your total pension savings exceed the lifetime allowance when you retire then a lifetime allowance tax charge may be payable. Some protection will be offered to help protect employees who have already made pension saving decisions based on the current lifetime allowance limit. Individuals who want to rely on this protection must give notice to HMRC of this before 6 April 2012.

What do I need to do?

The changes are still being finalised and will be passed in legislation during 2011. The first period your benefits will be measured for the reduced annual allowance is 1 February 2011 to 31 January 2012.

Change to the default retirement age

The Government recently announced that it will be removing the default retirement age of 65 for all employees from 6 April 2011. The default retirement age refers to your employment terms and will not change the earliest age you can start receiving an unreduced pension from the Plan – known as your Normal Pension Age.

To find out more, visit www.direct.gov.uk or contact the Plan Administrator.

Equitable Life With Profits Compensation

Members who had Additional Voluntary Contributions (AVCs) held in Equitable Life's With Profits funds are now eligible for compensation. The government will be contacting you directly from June 2011 to mid 2012 regarding any compensation if you are eligible. Please see www.equitable.co.uk for further information or call the Government helpline on 0300 0200 150.



The tax changes could impact you if:

- You have a pensionable salary above £150,000;

And/or

- You have a long period of pensionable service within the Plan and get a substantial salary rise;

And/or

- You are paying Additional Voluntary Contributions (AVCs).



The Government is proposing to reduce the lifetime allowance from £1.8 million to £1.5 million from April 2012.

Useful information

Have you moved?

If you have recently moved or are planning to move in the next few months, please don't forget to let us know. It is important that we have your most up to date details so that you don't miss out on future pension benefits. Please contact Xafinity Paymaster by emailing hp@xafinitypaymaster.com

Expressing your wishes

To ensure that no tax liability arises, the Trustees use their discretion to decide which of your relatives, dependants or beneficiaries should receive any lump sum benefit payable at the time of your death. When the Trustees are making their decision, they will take into account your nominations of preferred beneficiaries stated on your expression of wish form. It is therefore important that you keep this form up-to-date. If you would like to make any changes to your nominations, a form can be obtained from Xafinity Paymaster on 01293 604844 or by emailing hp@xafinitypaymaster.com

Finding an Independent Financial Adviser (IFA)

If you are thinking of leaving the Plan or making any changes to your pension arrangement, we recommend you get advice first. Neither the Trustees nor our advisers can give advice but an IFA can. For a list of advisers go to www.unbiased.co.uk

Get more online

A website is available for members of the Plan. The website allows you to see your own personal details relating to your Plan membership. You can complete certain changes to your personal details on the website for example if you move house you can update your address. You can also run some calculations using our online modelling tools to see what your estimated benefits might be.

Access to the website is through a secure login process. If you are a deferred member you should have already received details of your login username and password. We hope to have pensioner and active member access available by the end of 2011.

The website address is <https://hp1.xpmemberservices.com>

We hope you find the site useful. Please let us have your comments.

You can also visit these websites for more general pension information:



www.direct.gov.uk – Government information and public services online. You can find pensions information by clicking on 'Pensions and retirement planning'.



www.pensions-ombudsman.org.uk – The Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to an occupational or personal pension scheme. It should be noted that the Pensions Ombudsman will not normally consider a dispute between the member and the Trustees unless the Plan's formal dispute resolution procedure has been completed.



www.pensionsadvisoryservice.org.uk – Assists members and beneficiaries with any pension's query they may have or any difficulty that they have failed to resolve with the Trustees or the Plan Administrator.

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The Trustees will take into account your nominations of preferred beneficiaries stated on your expression of wish form ”

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The website allows you to see your own personal details relating to your Plan membership ”

Member service and support

General information and announcements can be accessed by current employees via the pensions section of the HP portal. Xafinity Paymaster Limited, the Plan Administrator, can provide member specific information and benefit quotations (for retirement at different ages).

Xafinity Paymaster can be contacted on the Hotline number 01293 604844 or by sending an email quoting your badge number or pension ID to hp@xafinitypaymaster.com or by writing to:



The Administrators of the Hewlett-Packard
Limited Retirement Benefits Plan
Xafinity Paymaster
Sutherland House
Russell Way
Crawley
West Sussex, RH10 1UH

Alternatively, if you would like to contact the Plan Trustees, you can do so by emailing hpplantrustees@hymans.co.uk or writing to:



Freya Williams
Hymans Robertson LLP
45 Church Street
Birmingham, B3 2RT

Current employees can alternatively contact HP-HR using the Contact HR facility.

Please ensure that your personal details are kept up to date at all times.