

2009 Trustees' Report to Members

Hewlett-Packard Section



Hewlett-Packard Limited Retirement Benefits Plan

Keeping you up to date

July 2010

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

You will see that the financial highlights that we are providing cover a 13 month period to 31 October 2009. This is because we have changed the Plan's year end to tie in with the accounting year end of Hewlett-Packard.

The most recent actuarial valuation, which looks at the funding of the Plan as at 31 October 2009, is underway. We are currently discussing the outcomes with the Company and will communicate the results to you when they are known.

During the year investments have continued to take up a lot of our time as we aim to ensure that the Plan is invested appropriately. On page 7 you can read about some of the changes we have implemented to the Plan's investment strategy. As last year, the focus of these changes has been to diversify the Plan's assets and strengthen the link between investment performance and the pensions that we have to pay.

Over the course of the year we have also carried out some restructuring of the Trustee board. I am now sole chairman, rather than having a joint role with Andrew Dodd. Andrew Dodd continues in his role as chairman of the Operations Sub-Committee. John Young is the new deputy chairman of the board.

We hope you find the Report useful. If you have any questions about your pension from the Plan please contact the Plan Administrator, Xafinity Paymaster, on 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.

Inside this Report

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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

Changes to the Trustee board

Since we last wrote there have been some changes to our roles. Jonathan Lord is now the sole Chairman of the Trustee board and John Young is the Deputy Chairman.

We have also formalised one of our groups as a new sub-committee:

- The **Covenant Sub-Committee (CSC)** looks after all aspects of employer covenant on behalf of the main Trustee board. This means they keep under review HP's ability to provide additional funding to ensure that benefits can be paid as they fall due. The Pensions Regulator advises that trustees should take into account factors specific to their scheme such as the strength of the employer's covenant when determining a funding strategy for the scheme.

The existing sub-committees are:

- 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.

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

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 the exercise of their duties and responsibilities:

| | |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Plan Actuary | David Eteen, Hewitt Associates Limited |
| Administrator | Xafinity Paymaster Limited |
| Independent Auditors | KPMG LLP (previous auditors PricewaterhouseCoopers LLP) |
| Banker | Barclays Bank plc (previous banker Lloyds TSB plc) |
| Solicitor | Linklaters LLP |
| Plan Secretary | Freya Williams, Hymans Robertson LLP |
| Investment Managers | Fauchier Partners Management Limited Insight Investment Management (Global) Limited KBC Lothbury Limited Legal & General Assurance (Pensions Management) Limited Mesirow Financial Morgan Stanley Investment Management Ltd PIMCo Europe Ltd State Street Global Advisors Threadneedle Pensions Limited UBS Global Asset Management |
| Investment Consultants | Mercer Limited |
| AVC providers | Equitable Life Assurance Society Clerical Medical Investment Group Limited MGM Assurance Standard Life Assurance Limited |
| Custodian | State Street Bank Europe Ltd |

Your Plan

Reminder - How the Plan works

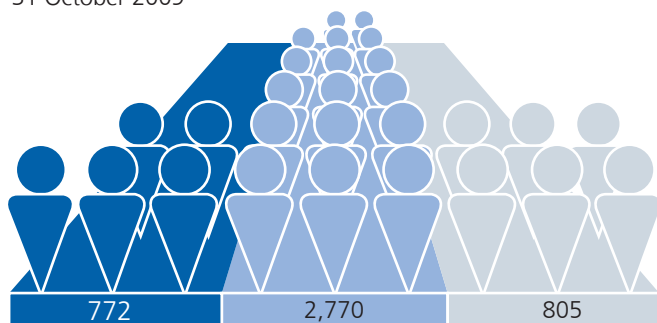
Your Plan is a final salary pension plan. This means that your pension when you retire is based on how long you have been a member and your salary when you retire or leave the Plan. We invest the Plan's assets in different funds with the intention of getting the best possible return to pay our members' pension benefits. As a member of a final salary plan the pension you are paid is not dependent on how investments perform.

“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”

Plan membership

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

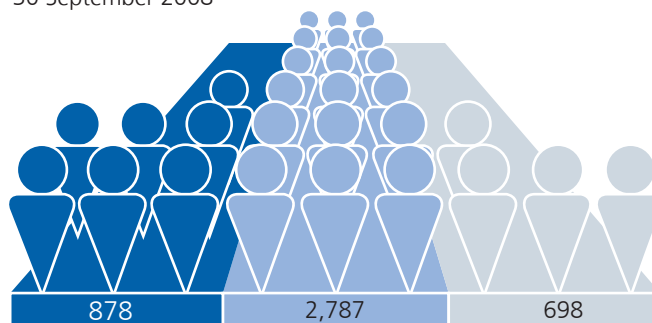
31 October 2009



Active members Deferred members Pensioner members

Total members: 4,347

30 September 2008



Active members Deferred members Pensioner members

Total members: 4,363

Membership types

Active - 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. As the accounting year end changed from 30 September to 31 October in 2009, this set of accounts cover the 13 month period from 1 October 2008 to 31 October 2009. The next report will cover the 12 month period ending on 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 October 2008 to 31 October 2009



| | Period ended 31 October 2009 | Year ended 30 September 2008 |
|---------------------------------------------|---------------------------------|---------------------------------|
| Income | £000 | £000 |
| Member contributions | 460 | 689 |
| Employer contributions | | |
| Normal | 3,663 | 3,224 |
| Employee directed | 1,362 | 1,018 |
| Augmentations | 1,363 | 601 |
| Transfers in and reinstatements of benefits | 26 | 62 |
| Investment income | 12,475 | 16,178 |
| Other income | 837 | 112 |
| Total | 20,186 | 21,884 |



| | £000 | £000 |
|--------------------------------------------|---------------|---------------|
| Expenditure | | |
| Benefits payable | 15,098 | 9,899 |
| Transfers out | 2,006 | 1,020 |
| Other payments | 102 | 249 |
| Administration and actuarial charges | 656 | 709 |
| Investment fees | 2,598 | 3,268 |
| Professional, audit and legal fees | 288 | 321 |
| Other | 294 | 253 |
| Total | 21,042 | 15,719 |
| Net income available for investment | (856) | 6,165 |



| Value of the fund – 2008-2009 | £000 |
|---------------------------------------------|----------------|
| Value of the fund at 1 October 2008 | 584,922 |
| Net income available for investment | (856) |
| Movement in market value of investment | 19,297 |
| Value of the fund at 1 November 2009 | 603,363 |

Investing for the long term

Following is an overview of how investment markets have performed in general over the last year.

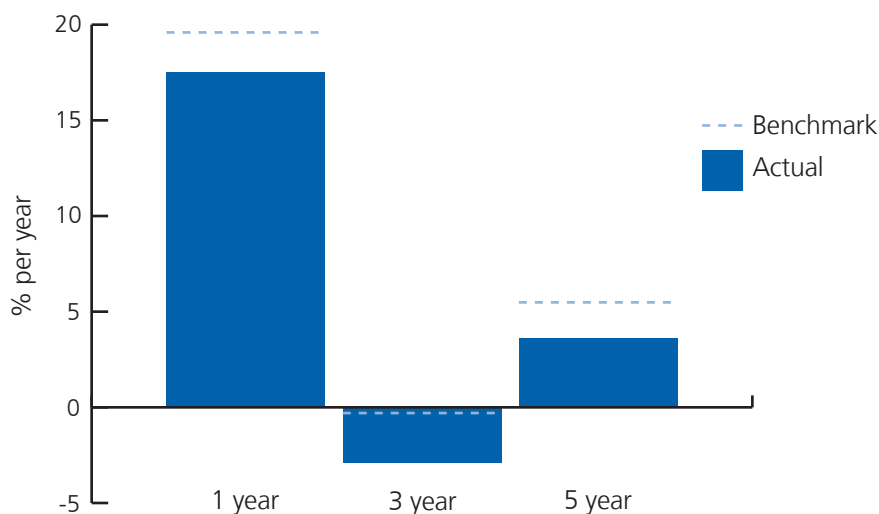
The effects of the “credit crunch” and the resulting recession continued to impact on investment markets. As a result markets continued to be very volatile over the year to 31 October 2009 with high variations in market prices. This provided opportunities to high quality investment managers but remained a challenging environment in which to invest.

In particular equity markets produced very positive returns in all regions, especially in Emerging Markets and Asia Pacific. The value of sterling fell against most major currencies over the year, with the exception of the US, potentially increasing returns as they were converted back into sterling. However, as the Plan had hedged against the risk of currency movements, it did not gain from these currency movements (and would not have lost in the opposite situation). Bond markets produced mixed returns over the year, as the effects of the “credit crunch” appeared to begin to unwind with bonds issued by companies in sterling producing the strongest positive returns. On the other hand long-dated fixed interest government bonds produced negative returns as the effects of the recession impacted confidence.

Property and commodities produced positive returns over the year. Due to the high levels of volatility hedge funds were also a positive investment class.

How the HP Section’s investments performed

Please note these investment performance figures cover the 12 month period 30 September 2008 to 30 September 2009.



The impact of the recession and the credit crunch on investment values did not pass the Plan by as covered in our Report last year. As a result the Trustees were pleased that strong positive returns were generated by the investment managers resulting in an overall return of 17.6% over the year.

However, over the one year period, the Hewlett-Packard Section underperformed the benchmark by 2.1%. The underperformance of equity manager AXA Rosenberg and property manager UBS were among the main reasons for the overall performance falling behind.

The Trustees continually review the performance of their investment managers and following the year end decided to move away from these underperforming investments. For more details see the section “Changes to the Plan’s investments” on the following page.

Some investment terms explained

Passive managers

A passive fund 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.

Passive funds cost less to manage and have lower charges than actively managed funds but expect to achieve returns close to the appropriate benchmark.

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 asset type or geography.

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 is 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.

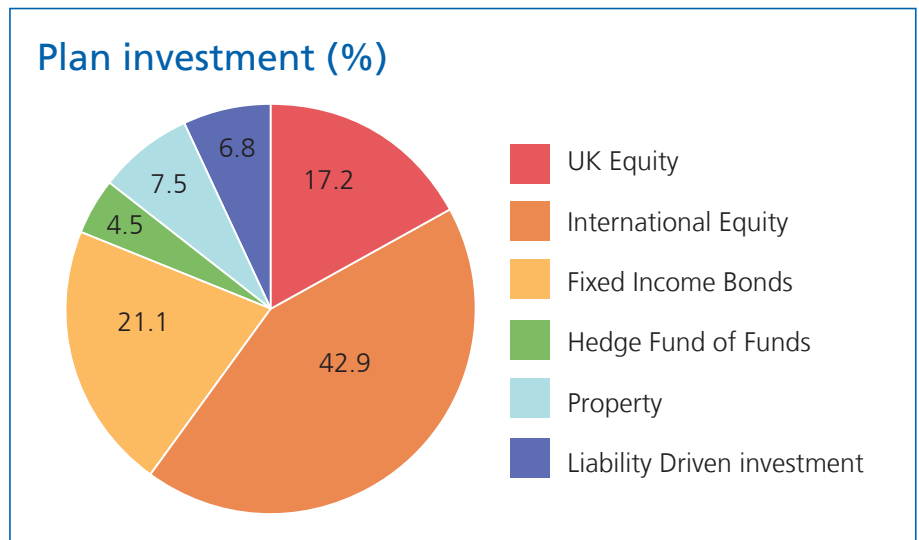
A **hedge fund of funds** invests in a portfolio of different hedge funds to provide broad exposure to the hedge fund industry and to diversify the risks associated with a single investment fund.

“We review the Plan’s investments regularly with our investment managers”

Where are the HP Section’s funds invested?

We work with our investment advisers to agree which asset classes are likely to provide the best return to pay members’ pension benefits. The Trustees continue to take the long term view bearing in mind that payments from the Plan to members will continue for a long time into the future as a large number of members are yet to retire.

At 31 October 2009 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.

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

The Trustee Investment Sub-Committee (TISC) implemented a number of changes to the Plan’s investment strategy over the year. The TISC reduced the allocation to equities and increased the **diversification** of the Plan’s assets with an allocation to a **hedge fund of funds** with Fauchier and **Liability Driven Investments** with Insight.

The TISC also decided to move the Plan’s equity exposure from **active managers** to **passive managers**, with the exception of the global equity exposure. The move was completed during the fourth quarter of 2009 when all the Plan’s active equity managers (including those that have underperformed) were terminated and most of the proceeds invested with the new passive equity manager (Legal & General). The TISC has also replaced the underperforming property manager with almost all monies having been transferred as at June 2010.

Hot topics

Active members - Changes to the pension accrual rate

Following on from previous communications the changes to accrual rates/contribution levels was implemented with effect from 1 April 2010. Unless you advised HP otherwise, your contributions were increased by 3% to maintain your current accrual rate.

Active members - Freeze of the Lifetime Allowance

HMRC applies a limit to the amount of pension benefits that you can take from approved pension plans before incurring a tax penalty. This limit is the Lifetime Allowance and the tax penalty is in addition to the tax you already pay on pension benefits. The Lifetime Allowance is to be maintained at the 2010-11 level of £1.8 million for a further five years, up to and including 2015-16.

Active members - Limits on pension contributions

There is also a limit on the maximum amount of pension savings that can be built up in any one tax year with full tax relief. This is known as the Annual Allowance and is currently £255,000. Contributions paid in excess of this amount will give rise to a tax charge. Further limits on tax relief are applicable to individuals with taxable income over £130,000 in this tax year. For example, this may impact you if you choose to change the level of AVCs you pay in this tax year. You may also have seen that in the emergency budget on 22 June 2010 the Government announced it is considering reducing the Annual Allowance to between £30,000 and £45,000 in future tax years. We will provide further information to active members prior to the bonus sacrifice window in January 2011.

Pensioner members - State benefits

Pensioner members of the Plan may be entitled to a number of State benefits that can help them with life in retirement. However, according to the charity Age UK many pensioners are not claiming all of the benefits that they are entitled to as a result of their paying tax during their working life. The Trustees urge all our pensioner members who may be entitled to these benefits to consider making a claim. The benefits that are available include:

- **The Pension Credit.** Introduced in 2003 to help to lift Britain's poorest pensioners out of poverty. For details of how to apply, ring 0800 99 1234.
- **Council Tax and Housing Benefits.** The benefits that you can claim depend on your income, savings, rental costs and the Council Tax in your area. Any claims should be made to your local authority.
- **Extra money for your heating costs.** If you are over 60, or receive Pension Credit or certain other benefits, you will get extra money to help you in winter. A Winter Fuel Payment and a Cold Weather Payment is available. For more information call 08459 15 15 15.
- **Healthcare costs.** Anyone over 60 qualifies for free prescriptions, eye tests and hearing aids. Dental costs are not always free, but they are for pensioners who qualify for Pension Credit.

These benefits can be a valuable help to pensioner members of the Plan. More information on these benefits can be found on Age UK website, www.ageuk.org.uk or by calling Age UK on 0800 169 6565.

Alternatively, visit the Government's website www.direct.gov.uk and click on 'Pensions and retirement planning'.

"The Lifetime Allowance is to be maintained at the 2010-11 level of £1.8 million for a further five years"

"The Trustees urge all our pensioner members who may be entitled to these benefits to consider making a claim"

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 or use the new website (see below).

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

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

Get more online

A new website has been created for members of the Plan. The site allows you to see your own personal details relating to your Plan membership. You can complete certain changes to your personal details on the site 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 site is through a secure login process. You will be sent details of your login username and password. Deferred members have already been given access to the site. Access for active members is expected over the next few months and we hope to have pensioner access available by the end of 2010.

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 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.

“The new site 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
6th Floor
120 Edmund Street
Birmingham, B3 2ED

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.