

# **EntServ UK Limited**

**(formerly Hewlett Packard Enterprise Services UK Limited)**

## **Report and Financial Statements**

31 October 2016



EntServ UK Limited  
(formerly Hewlett Packard Enterprise Services UK Limited)

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Registered No. 00053419

**Directors**

T Gough  
N Wilson  
M Woodfine

**Auditors**

Ernst & Young LLP  
Apex Plaza  
Forbury Road  
Reading  
Berkshire  
RG1 1YE

**Registered Office**

Royal Pavilion  
Wellesley Road  
Aldershot  
Hampshire  
GU11 1PZ

**Bankers**

Citibank  
33 Canada Square  
Canary Wharf  
London  
E14 5LB

## Strategic report

The directors present their strategic report for the year ended 31 October 2016.

### Review of the business

The company is a leading global technology services company delivering business solutions to its clients. It delivers a broad portfolio of IT and business process outsourcing services to clients in the manufacturing, financial services, healthcare, communications, energy, transportation, consumer and retail industries, and to the government.

Services include outsourcing of network and systems operations, data management, application development, security and field services. The company provides outsourcing of entire business processes or functions to improve overall business performance, and delivers process and technology consulting, e-business enabled solutions, and high-value management consulting.

The company's portfolio is built around innovative offerings in application maintenance and development, business processing outsourcing, and infrastructure services, including desktop services, hosting, storage and networking. The company's aspiration is to assist its customers in adapting their IT architecture to demands of 21st century by providing services driven by cloud, big data, mobility and security. Over the past few years the company introduced several new enterprise cloud and security services. Services are delivered using an 'Agile Enterprise' Platform, and use a next-generation global delivery system and Best-Shore strategy to ensure high-quality, cost-competitive services from an optimal mix of onshore, near-shore and offshore locations. This enables the company's clients to respond quickly to changing market dynamics and increase their competitiveness.

The profit for the year, after taxation, amounted to £63,667,000 (2015: profit £14,618,000; restated under FRS101).

The directors do not recommend a final ordinary dividend, making the total of ordinary dividends paid for the year £ nil (2015: £nil).

The company transitioned from United Kingdom Generally Accepted Accounting Practice ("UK GAAP") to Financial Reporting Standard 101, Reduced Disclosure Framework ("FRS101") on 1 November 2014. An explanation of how the transition to FRS101 has affected the reported financial position of the company is provided in note 28.

On 1 December 2016, the company changed its name from Hewlett Packard Enterprise Services UK Limited to EntServ UK Limited.

After the balance sheet date significant pension contributions have been made to reduce the company sponsored defined benefit pension deficit:

On 7 November 2016 the company made a pension contribution in a lump sum payment of £10,000,000.

On 14 December 2016 payment for £1,498,600,000. It was paid from a capital contribution to the company by a fellow UK group company Hewlett-Packard Holdings Limited.

The directors monitor the financial performance of the company's operations on a regular basis. Details of the most significant key performance indicators (KPI's) used by the company are as follows:

|   | 2016    | 2015    |
|---|---------|---------|
|   | £m      | £m      |
| Turnover  | 1,954.1 | 2,159.3 |
| Gross profit  | 313.7   | 345.5   |
| Gross profit margin   | 16.1%   | 16.0%   |
| Operating profit before exceptional items                     | 77.3    | 156.3   |
| Profit/(loss) before tax                                      | 134.8   | (6.3)   |
| Total contract value (TCV) of deals signed over £16M/ \$25M * | 398.2   | 2,988.6 |

## Strategic report (continued)

### Review of the business (continued)

*\* There are no third-party standards or requirements governing the calculation of TCV. The TCV of a client contract represents the company's estimate at contract signing of the total revenue expected over the term of the contract. Contract signings include contracts with new clients and renewals, extensions and add-on business with existing clients and excludes the UK element on global deals. The above includes individual signings with TCV greater than US\$25m. An indicative exchange rate of US\$1.536: £1 (2015: US\$1.543:£1) has been used for the purposes of calculating this metric.*

Turnover on the company's portfolio of contracts decreased by 9.5% (2015: increase by 1.5%). The company is continuing certain initiatives that aim to return the company turnover to growth in future years, improving service delivery for higher quality and lower cost.

Gross profit for the year increased by 0.1 percentage points (2015: increased 3.2 percentage points) and decreased in absolute terms by £31.8 million (2015: increased £73.6 million). After overhead costs the operations results of the company before exceptional items recorded a profit of £77.3 million (2015: profit £156.3 million). Including exceptional items the total profit before tax is £134.8 million (2015: loss £6.3 million). The overall increase in profit is driven by foreign currency exchange gains (see note 5). In 2016 the company continued with cost reduction programs that the directors believe will benefit the company in the future. The directors recognise that achieving the balance of long-term and short-term objectives is key to future profitability.

Management considers TCV to be an important metric to monitor new business activity. The 2016 decrease in TCV in comparison to 2015 is driven by high value commercial contracts signed in the prior period, which did not occur in the current reporting period. TCV is the reflection of new agreements signed in the current year for which the revenue will be recognised in future periods. Therefore there is minimal impact on revenue in the current year.

At the balance sheet date the company was part of the Hewlett Packard Enterprise company group.

On 1 November 2015 Hewlett Packard Company split into two independent and industry-leading companies, Hewlett Packard Enterprise Company and HP Inc. Up to 31 October 2015 the Hewlett-Packard Company was the ultimate parent of the Company. From 1 November 2015 the ultimate parent became Hewlett Packard Enterprise Company.

On 24 May 2016 the Hewlett Packard Enterprise Company announced plans for a spin off and merger of its Enterprise Services Business with Computer Sciences Corporation (CSC). On 1 April 2017 the spin off and merger transaction completed with CSC and a new company was created called DXC Technology Company (DXC). As a result, from 1 April 2017 DXC Technology Company becomes the ultimate parent of EntServ UK Limited.

### Market share

As at 31 October 2016, the company aimed to be positioned among leaders in the majority of markets in which it operates. The company aims to maintain this position and to extend its market share by continually providing useful and significant services and solutions to markets it already serves and to expand into new areas.

## Strategic report (continued)

### Principal risks and uncertainties

There are a range of risks and uncertainties facing the company and the list below is not intended to be exhaustive. The focus is on those specific risks and uncertainties that the directors believe could have a significant impact on the company's position, performance and future developments, as analysed by its key performance indicators.

#### **Market conditions**

Levels of business activity will vary for each of the markets in which the company operates, but ultimately this is dependent on factors such as economic cycles, consumer confidence and growth of the economy. A weak economy had affected the level of customer spending on services and the profitability of the company. The longer term political and economic effects of the United Kingdom leaving the European Union are as yet unclear. Through the merger with CSC, implementation of global cost reduction strategies, client focus and internal process improvements, the company aims despite the challenging economic climate to maintain its underlying profitability.

#### **Competitive pressures**

The company operates in a number of highly competitive markets with differing characteristics. Market share and the level of customer spending could be affected by the emergence of new competitors, services delivery issues, quality, pricing, and reputation. The company must be able to maintain its ability to continue to provide an innovative service to the local customer base and develop in a profitable way in an increasingly price sensitive market to remain competitive. The merger with CSC and becoming a part of DXC Technology group aims to create a greater value for clients, partners and shareholders.

#### **Reliance on parent company - exposure to credit, liquidity and cash flow risk**

During the year the Company was a subsidiary of Hewlett Packard Enterprise Company and from 1 April 2017 is a subsidiary of DXC Technology Company and is dependent on that parent company for its brand strength. As at 31 October 2016 the company holds a mixture of short and long term loans with subsidiaries of Hewlett Packard Enterprise Company denoted in both Sterling and US Dollars. The financing structure of the company gives rise to interest rate and foreign currency risks. Interest rate risk is the risk of exposure to fluctuations in interest rates that will increase the cost of debt on the financial borrowings of the company. Foreign currency risk is the risk of exposure to fluctuations in the value of specific currencies that are used to value the financial assets and liabilities of the company. Hewlett Packard Enterprise Company up to 31 March 2017 and now DXC Technology Company, has a centralised treasury function which manages the overall group's Treasury policy, risks and requirements, including EntServ UK Limited (formerly Hewlett Packard Enterprise Services UK Limited). The centralised treasury function manages foreign currency risk to mitigate any potential exposure to the company. Interest rate risk is managed primarily through the use of fixed rate loans. Debt is issued as required at the lowest possible cost based upon assessment of the future interest rate environment. The centralised treasury function, in conjunction with the directors, continually assess the performance of the company and the financing structure to ensure that where the requirement for support arises this is identified and that the company has the appropriate financial availability to satisfy this. Any risks impacting the ultimate parent company will cascade to the company. A full description of the risks and uncertainties impacting Hewlett Packard Enterprise Company can be found in the Hewlett Packard Enterprise Company group financial statements (<http://investors.hpe.com/financial/annual-reports>).

## Strategic report (continued)

### Future developments

The business has been able to diagnose those areas in which efficiencies and improvements can be made and implement plans to reduce costs. The company aims to execute further cost reduction strategies within the organisation to continue to stabilise, if not improve, profitability for the next financial year.

On 1 April 2017 the merger of the Enterprise Services Business with Computer Sciences Corporation (CSC) was completed and the DXC Technology Company was created. The new company's strategy is to become a trusted advisor and pure information technology services provider with the focus on digital transformation and innovation.

### The environment

The company's goals are to provide services that are safe and environmentally sound throughout their lifecycles, and conduct operations in an environmentally responsible manner.

To accomplish this, the company:

- pursues pollution prevention, energy conservation (including significant investment in low energy data centres and consolidating services into this more efficient estate) and waste reduction in operations;
- designs solutions that are safe to use and to minimise their environmental impact;
- offers customers environmentally responsible end-of-life management services; and
- require suppliers to conduct their operations in a socially and environmentally responsible manner.

The company achieves this by integrating these objectives into business planning, decision-making, performance tracking and review processes to ensure that goals are reached and continually improved upon. Hewlett Packard Enterprise Company, for which EntServ UK Limited (formerly Hewlett Packard Enterprise Services UK Limited) was a subsidiary up to 31 March 2017 and from 1 April 2017 is part of DXC group publishes an annual corporate responsibility report where detailed companywide environmental commitments, initiatives and key performance indicators can be found. A copy of the report is available under [http://www.dxc.technology/cr/ds/88734-corporate\\_responsibility\\_report\\_archives](http://www.dxc.technology/cr/ds/88734-corporate_responsibility_report_archives).

Approved by the Board

  
Tina Gough (Aug 25, 2017)

T Gough

Director

Date: 25 August 2017

## Director's report

The directors present their report for the year ended 31 October 2016.

### Directors

The directors during the year, and to date, were as follows:

|             |  |
|-------------|--|
| M Coombs    | (resigned 24 November 2016)                            |
| J Ferguson  | (resigned 13 March 2017)                               |
| A Isherwood | (resigned 10 October 2016)                             |
| M Waters    | (appointed 10 October 2016, resigned 24 November 2016) |
| T Gough     | (appointed 24 November 2016)                           |
| N Wilson    | (appointed 13 March 2017)                              |
| M Woodfine  | (appointed 26 June 2017)                               |

During the period, and up to the date of approval of the financial statements, the company had in place third party indemnity provision for the benefit of all the directors of the company.

### Employees

Details of the number of employees and related costs can be found in note 7 to the financial statements.

### Employee involvement

The company continues to place importance upon the education and development of its people. There is a well-developed employee involvement programme. Employee representatives are consulted regularly on a wide range of matters affecting their interests. Employees receive regular newsletters and have the opportunity to provide feedback to senior management.

All employees' training and development is supported by continuing in-service education.

Hewlett Packard Enterprise's goal is to create health and safety practices and work environments that enable employees to work injury-free. This is accomplished by continually reducing occupational injury and illness risks while promoting employee health and well-being.

The company believes that a diverse workforce encourages creativity and innovation and helps build an exciting, stimulating work environment. A diverse workforce, reflecting the demographics of the many different markets where Hewlett Packard Enterprise Company operates, also provides a competitive advantage and helps acquire new business.

### Employment of disabled employees

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

### Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, and review of business risk are described in the Strategic Report on pages 2 to 5.

The company generated profit in the current financial year. The directors have reviewed the company's performance and forecasts and believe that company will be profitable in the future.

## Director's report (continued)

### Going concern (continued)

As a result, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

### Research and development costs

The company incurs development expenditure which is an integral part of customer contracts. Recognition of these costs follows contract accounting within the company results as all these amounts are charged onto customers via billing arrangements. Amounts are not separately identified as intangible assets or under a separate research and development heading. There is an element of these costs included within the overall contract expenditure that is expensed in the income statement and an element included in both fixed and current assets under the deferred costs category on the balance sheet together with other contract expenditure incurred.

### Strategic report

In accordance with Section 414C(11) of the Companies Act 2006, the following information has been included in the company's strategic report which would otherwise be required by Schedule 7 of the 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008' to be contained in the directors' report:

- The financial risk management objectives and policies of the company and exposure of the company to risk in relation to the use of financial instruments;
- Future developments of the company (including post balance sheet events); and
- Dividend recommendations

### Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board

  
Tina Gough (Aug 23, 2017)

T Gough

Director

Date: 25 August 2017

## **Statement of director's responsibilities in respect of financial statements**

The directors are responsible for preparing the Strategic Report, 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 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 EntServ UK Limited (formerly Hewlett Packard Enterprise Services UK Limited)**

We have audited the financial statements of EntServ UK Limited (formerly Hewlett Packard Enterprise Services UK Limited) for the year ended 31 October 2016 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, and the related notes 1 to 28. 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), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 Directors' Responsibilities Statement set out on page 8, 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 Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 October 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (including FRS101 "Reduced Disclosure Framework"); 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

to the members of EntServ UK Limited (formerly Hewlett Packard Enterprise Services UK 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.

*Ernst & Young LLP*

Marcus Butler (Senior statutory auditor)  
For and on behalf of Ernst & Young LLP,  
Reading

Date: 25/08/17

## Statement of comprehensive income

for the year ended 31 October 2016

|  | Note | 2016<br>£000 | 2015<br>£000 |
|--|------|--------------|--------------|
| <b>Turnover</b>  | 2    | 1,954,085    | 2,159,331    |
| Cost of sales  |      | (1,640,333)  | (1,813,822)  |
| <b>Gross profit</b>  |      | 313,752      | 345,509      |
| Distribution costs   |      | (82,952)     | (92,406)     |
| Administrative expenses  |      | (153,476)    | (96,827)     |
| Exceptional items  | 5    | 100,869      | (134,332)    |
| <b>Operating profit</b>  | 4    | 178,193      | 21,944       |
| <i>Analysed between:</i>   |      |              |              |
| Operating profit before exceptional item   |      | 77,324       | 156,276      |
| Exceptional item - exchange gains  | 5    | 212,167      | -            |
| Exceptional item - restructuring expenses  | 5    | (111,298)    | (67,603)     |
| Exceptional item - impairment  | 5    | -            | (66,729)     |
| Dividend income from investments   | 14   | 2            | 1,087        |
| Interest receivable and similar income   | 8    | 16,482       | 19,211       |
| Interest payable and similar costs   | 9    | (59,893)     | (48,542)     |
| <b>Profit/(loss) on ordinary activities before taxation</b>                                      |      | 134,784      | (6,300)      |
| Tax (expense)/credit on profit/(loss) on ordinary activities                                     | 10   | (71,117)     | 20,918       |
| <b>Profit for the financial year</b>   |      | 63,667       | 14,618       |
| <b>Other comprehensive income:</b>   |      |              |              |
| <b>Items that cannot be reclassified to profit or loss:</b>                                      |      |              |              |
| Remeasurement (loss)/gains on defined benefit pension plan                                       | 23   | (363,721)    | 18,184       |
| Tax on items relating to components of other comprehensive income                                | 10   | (14,384)     | 4,397        |
| Rate change impact on deferred tax on items relating to components of other comprehensive income | 10   | (13,784)     | (2,188)      |
| <b>Total comprehensive income for the year</b>   |      | (328,222)    | 35,011       |

All amounts are derived from continuing operations.

## Statement of changes in equity

for the year ended 31 October 2016

|   | Share<br>capital<br>£000 | Share<br>premium<br>£000 | Retained<br>earnings<br>£000 | Total<br>Equity<br>£000 |
|---|--------------------------|--------------------------|------------------------------|-------------------------|
| At 1 November 2014                      | 157,580                  | 600,000                  | (509,141)                    | 248,439                 |
| Profit for the financial year           | -                        | -                        | 14,618                       | 14,618                  |
| Other comprehensive income for the year | -                        | -                        | 20,393                       | 20,393                  |
| Shares issued                           | -                        | 350,000                  | -                            | 350,000                 |
| Share-based payments                    | -                        | -                        | 11,650                       | 11,650                  |
| Recharge for share-based payments       | -                        | -                        | (25,059)                     | (25,059)                |
| At 31 October 2015                      | 157,580                  | 950,000                  | (487,539)                    | 620,041                 |
| Profit for the financial year           | -                        | -                        | 63,667                       | 63,667                  |
| Other comprehensive income for the year | -                        | -                        | (391,889)                    | (391,889)               |
| Share-based payments                    | -                        | -                        | 8,715                        | 8,715                   |
| Recharge for share-based payments       | -                        | -                        | (3,132)                      | (3,132)                 |
| At 31 October 2016                      | 157,580                  | 950,000                  | (810,178)                    | 297,402                 |

EntServ UK Limited  
(formerly Hewlett Packard Enterprise Services UK Limited)

Registered No. 00053419

## Balance Sheet

at 31 October 2016

|   | Note | 2016<br>£'000      | 2015<br>£'000    |
|---|------|--------------------|------------------|
| <b>Fixed assets</b>                                   |      |                    |                  |
| Tangible assets                                       | 11   | 276,800            | 266,254          |
| Intangible assets                                     | 12   | 31,193             | 30,868           |
| Deferred costs  | 13   | 209,423            | 130,574          |
| <b>Total non-current assets</b>                       |      | <b>517,416</b>     | <b>427,696</b>   |
| <b>Current assets</b>                                 |      |                    |                  |
| Stocks  | 15   | 13,110             | 24,890           |
| Deferred costs  | 13   | 92,326             | 68,731           |
| Debtors (amounts due within one year)                 | 16   | 1,456,674          | 1,551,295        |
| Debtors (amounts due after one year)                  | 17   | 443,869            | 410,560          |
| Deferred tax  | 10   | 114,004            | 158,540          |
| Cash at bank and in hand                              |      | 4,734              | 1,292            |
|   |      | <b>2,124,717</b>   | <b>2,215,308</b> |
| <b>Creditors: amounts falling due within one year</b> | 18   | <b>(705,299)</b>   | <b>(791,593)</b> |
| <b>Net current assets</b>                             |      | <b>1,419,418</b>   | <b>1,423,715</b> |
| <b>Total assets less current liabilities</b>          |      | <b>1,936,834</b>   | <b>1,851,411</b> |
| <b>Creditors: amounts falling due after one year</b>  | 19   | <b>(339,959)</b>   | <b>(337,641)</b> |
| <b>Provision for liabilities and charges</b>          | 21   | <b>(7,101)</b>     | <b>(7,221)</b>   |
| <b>Pension liability</b>                              | 23   | <b>(1,292,372)</b> | <b>(886,508)</b> |
| <b>Net assets</b>                                     |      | <b>297,402</b>     | <b>620,041</b>   |
| <b>Capital and reserves</b>                           |      |                    |                  |
| Called up share capital                               | 22   | 157,580            | 157,580          |
| Share premium   |      | 950,000            | 950,000          |
| Retained earnings                                     |      | (810,178)          | (487,539)        |
| <b>Total equity</b>                                   |      | <b>297,402</b>     | <b>620,041</b>   |

Approved by the Board

Tina Gough  
Tina Gough (Aug 25, 2017)

T Gough

Director

Date: 25 August 2017

## Notes to the financial statements

at 31 October 2016

### 1. Accounting policies

#### 1.1 Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of EntServ UK Limited (the "Company") for the year ended 31 October 2016 were authorised for issue by the board of directors on 25 August 2017 and the balance sheet was signed on the board's behalf by T.Gough. EntServ UK Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The company has used a true and fair view override in respect of the non-amortisation of goodwill.

The Company's financial statements are presented in Sterling, which is also the company's functional currency, and all values are rounded to the nearest thousand (£000) except where otherwise stated.

As at 31 October 2016 the company is a wholly owned subsidiary of ES Hague B.V. the consolidated financial statements of which are publicly available and may be obtained from Startbaan 16, 1187 XR Amstelveen, the Netherlands. As such the company has taken advantage of the exemption under s400 of the Companies Act 2006 not to present group accounts.

The principal accounting policies adopted by the Company are set out below.

#### 1.2 Basis of preparation

The Company transitioned from previously extant UK GAAP to FRS 101 for all periods presented. Transition reconciliations showing all material adjustments are disclosed in note 28. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 October 2016.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because the share based payment arrangement concerns the instruments of another group entity;

(b) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations

(c) the requirements of IFRS 7 Financial Instruments: Disclosures,

(d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

(i) paragraph 79(a)(iv) of IAS 1;

(ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;

(iii) paragraph 118(e) of IAS 38 Intangible Assets;

(e) the requirements of the following paragraphs of IAS 1 Presentation of Financial Statements:

10(d) and 111 – a statement of cash flows for the period;

10(f) – a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements;

16 – a statement of compliance with IFRS, which is not applicable since we are adopting FRS101 rather than following IFRS in full;

38A-D and 40A-D – a third statement of financial position, profit and loss and other comprehensive income, statement of changes in equity and other additional comparative information;

134-136 – disclosure of management of capital;

## Notes to the financial statements

at 31 October 2016

### 1. Accounting policies (continued)

#### 1.2 Basis of preparation (continued)

- (f) the requirements of IAS 7 Statement of Cash Flows;
- (g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (h) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- (i) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

#### 1.3 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

##### *Taxation*

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 9.

##### *Functional currency*

Management carried out an assessment to determine the functional currency for the company as part of the transition from UK GAAP to FRS 101, which was previously UK Sterling. The Company predominantly operates within the UK Sterling environment, staff costs incurred and the majority of customer invoicing are denominated in UK Sterling. On the basis of this assessment it was determined that the functional currency of UK Sterling remained appropriate.

##### *Pension benefits*

The cost of defined benefit pension plans are determined using actuarial valuations. The actuarial valuations involved making assumptions about discount rates, future salary increase, mortality rates and future pension increases. Due to the complexity of the valuations, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligations. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary increase and pension increase are based on expected future inflation rates.

## Notes to the financial statements

at 31 October 2016

### 1. Accounting policies (continued)

#### 1.4 Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the report and the financial statements.

#### 1.5 Turnover

Turnover including intercompany, is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

The Company recognises turnover only if it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. The Company recognises turnover when it has persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and the collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided to the client, risk of loss has transferred to the client and the client acceptance has been obtained, client acceptance provisions have lapsed or the Company has objective evidence that the criteria specified in the client acceptance provisions have been satisfied. No turnover is recognised if there are significant uncertainties regarding recovery of consideration due, associated costs or the Company's continuing involvement with goods.

##### Intercompany

Turnover is received on work done for fellow group companies where services provided are billed, this includes an at arm's length mark-up.

##### Hardware (sold as part of contract package)

Turnover from hardware sales is recognised when the product is shipped to the client and when significant risk and rewards of ownership have been transferred to the buyer.

Any cost of warranties and remaining obligations that are inconsequential or perfunctory are accrued when the corresponding turnover is recognised.

##### Software (sold as part of contract package)

Turnover from perpetual (one-time charge) licensed software is recognised at the inception of the license term. Turnover from term (monthly license charge) arrangements is recognised on a subscription basis over the period that the client is using the license. Turnover from maintenance, unspecified upgrades and technical support is recognised over the period such items are delivered.

##### Services

The Company's primary services offerings include information technology (IT) data centre and business process transformation outsourcing, application management services, technology infrastructure and system maintenance, web hosting, and the design and development of complex IT systems to a client's specifications (design and build). These services are provided on a time and material basis, as a fixed price contract or as a fixed price per measure of output contract, and the contract terms generally range from less than one year to ten years. Turnover from IT data centre and business process transformation outsourcing contracts is recognised in the year the services are provided using either an objective measure of output or a straight-line basis over the term of the contract. Under the output method, the amount of turnover recognised is based on the services delivered in the year as stated in the contract.

Turnover from application management services, technology infrastructure and system maintenance, and web hosting contracts is recognised on a straight-line basis over the term of the contract.

## Notes to the financial statements

at 31 October 2016

### 1. Accounting policies (continued)

#### 1.5 Turnover (continued)

Turnover from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred. Turnover related to extended warranty and product maintenance contracts is deferred and recognised on a straight-line basis over the delivery period.

Turnover from fixed-price design and build contracts is recognised where the outcome of a contract can be reliably estimated, and turnover and costs are recognised under the percentage of completion (POC) method. Under the POC method, turnover is either recognised based on the costs incurred to date as a percentage of the total estimated costs to fulfil the contract or on an output method upon customers' acceptance of the project's stage of delivery. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, then revisions to the estimates are made. These revisions may result in increases or decreases in estimated turnover or costs, and such revisions are reflected in the Income statement in the year in which the circumstances that give rise to the revision become known by management.

The Company performs ongoing profitability analysis of its services contracts in order to determine whether the latest estimates, such as turnover, costs of sales or profits, require updating. If, at any time, these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately.

In some of the Company's services contracts the Company bills the client prior to performing the services. These balances are held as deferred income in deferred contract revenue in the balance sheet until the service is performed. In other services contracts the Company performs the services prior to billing the client. These balances are held as amounts recoverable on contracts in the balance sheet until the client is billed. Billings usually occur in the month after the Company performs the services or in accordance with specific contractual provisions.

#### Multiple-element arrangements

The Company enters into multiple-element software and non-software related arrangements, which may include any combination of services, software and hardware. A multiple-element arrangement is separated into more than one unit of accounting if all of the following criteria are met:

#### Software related arrangements

- The functionality of the delivered elements is not dependent on the undelivered elements.
- There is a fair value to the undelivered elements.
- Delivery of the delivered elements represents the culmination of the earnings process for those elements.

#### Non-software related arrangements

- The delivered items have value to the client on a standalone basis.
- There is objective and reliable evidence of the fair value of the undelivered items.

#### 1.6 Deferred costs - Long term contracts

Costs on outsourcing contracts are generally expensed as incurred. However, certain costs incurred upon the initiation of an outsourcing contract are deferred and expensed on a straight-line basis over the life of the contract. These costs consist of contract acquisition and transition costs, including the costs of due diligence after competitive selection and costs associated with installation of systems and processes. These costs are recorded as deferred costs on the balance sheet, split between current assets and fixed assets.

Costs incurred for bid and proposal activity are expensed as incurred.

## Notes to the financial statements

at 31 October 2016

### 1. Accounting policies (continued)

#### **1.6 Deferred Costs - Long term contracts (continued)**

Costs on major fixed price contract projects are deferred and released to the profit and loss account according to the appropriate stage of completion. Where contract provisions for risks and contingencies exist these are included in provisions for liabilities and charges.

#### **1.7 Private Finance Initiative (PFI) and similar contracts**

PFI and similar contracts are accounted for in accordance with IFRIC 12. PFI schemes are service concessions and companies must recognise the infrastructure (together with the related liability to pay for it) on their balance sheets from the date the services commence in accordance with the finance leasing rules of IAS 17. IFRS 1 App D para 22 enables companies to not follow IFRIC 12 for the comparative period if it is impracticable. This exemption has been taken.

#### **1.8 Interest income**

Revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

#### **1.9 Intangible assets**

##### **Goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree.

The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. The company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

## Notes to the financial statements

at 31 October 2016

### 1. Accounting policies (continued)

#### **1.9 Intangible assets (continued)**

Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

##### **Internally development software**

Direct labour and overhead costs incurred in the development of software may be capitalised. Costs incurred to develop commercial software products are capitalised after technological feasibility has been established. Costs incurred to establish technological feasibility are expensed as incurred. Enhancements to software products are capitalised where such enhancements extend the life or significantly expand the marketability of such products. These costs are amortised on a straight-line basis over their expected useful lives from the date the product enters commercial exploitation (currently three to seven years).

##### **Purchased software**

Significant purchase software costs are deferred and amortised on a straight-line basis over the period if their expected benefit, either the life of an associated licence or three to five years.

##### **Impairment**

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognise

#### **1.10 Tangible fixed assets**

All fixed assets are initially recorded at cost.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

|                        |   |
|------------------------|---|
| Land and property      | – 40 years (straight line), no depreciation on land           |
| Leasehold improvements | – 5 to 40 years or length of lease if shorter (straight line) |
| Plant and machinery    | – 3 to 10 years (straight line)                               |

## Notes to the financial statements

at 31 October 2016

### 1. Accounting policies (continued)

#### **1.10 Tangible fixed assets (continued)**

Costs incurred in establishing a new or changed operation in relation to a contract and that meets the criteria for recognition of as tangible fixed assets under IAS16 ('Property, plant and equipment') are capitalised as tangible fixed assets. Such costs are depreciated over the shorter of the life of the asset or contract term as appropriate.

The company typically has an obligation to return buildings that it occupies under lease to their original condition when the relevant lease is terminated. In such cases the company records the obligation (discounted to its net present value) when the condition of the building is altered, and creates a tangible fixed asset equal in value to that obligation. Such fixed assets are categorised as leasehold improvements and depreciated on a straight line basis over the period of the lease to which they relate.

Leasehold premises improvements take place from time to time. Costs incurred are included in assets under construction until the work is complete. On completion as these assets are brought into operation they are transferred to other categories and depreciation begins

#### **1.11 Investments**

Investments are included at cost less amounts impaired. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

#### **1.12 Stocks**

Stocks are valued at the lower of cost and net realisable value after making allowance for obsolete or slow moving stocks. In general, cost is determined on a first in first out basis and includes transport and handling costs; in the case of finished goods, cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition.

#### **1.13 Income Taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

## Notes to the financial statements

at 31 October 2016

### 1. Accounting policies (continued)

#### **1.13 Income Taxes (continued)**

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

#### **1.14 Cash at bank and in hand**

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

#### **1.15 Trade and other debtors**

Trade debtors, which generally have 30 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

#### **1.16 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 income statement.

#### **1.17 Leases**

(i) Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over the shorter of the lease term or their useful lives. Where the asset is used by the company the capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet. Where the assets are leased to the customer, the asset is reflected in the Net Investment in finance leases.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

(ii) Amounts receivable under finance leases are included under debtors and represent the total amount outstanding under lease agreements less unearned income. Finance lease income, having been allocated to accounting periods to give a constant periodic rate of return on the net cash investment, is included in turnover.

The interest elements of the rental obligations on both the asset and liability are charged in the profit and loss account over the periods of the leases and represent a constant periodic rate of return on the net cash investment asset and a constant proportion of the balance of capital liability repayments outstanding.

(iii) Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Rentals receivable under operating leases are included in turnover on an accrual basis.

## Notes to the financial statements

at 31 October 2016

### 1. Accounting policies (continued)

#### **1.18 Pensions**

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

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight-line bases over the vesting period or immediately if benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in the income statements as finance revenue or cost.

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprised the total present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amount the Company expected to recover by way of refunds from the plan or reductions in the future contributions.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

#### **1.19 Share-based payments – equity settled transactions**

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity. Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period.

## Notes to the financial statements

at 31 October 2016

### 1. Accounting policies (continued)

#### **1.19 Share-based payments – equity settled transactions (continued)**

In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account.

The company records the charge payable to Hewlett-Packard Enterprise Company for the difference between the market value of exercised options and the exercise price of those options when the liability is due to equity.

#### **1.20 Provisions**

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and if it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, the expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability.

The company makes provision for the cost of restoring the existing leased office to their original condition based on publicly available estimated costs per square foot.

#### **1.21 Exceptional items**

The company presents as exceptional items those material items of income and expense which, because of the nature or expected infrequency of the events giving rise to them merits separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

#### **1.22 Research and development costs**

Research cost are expensed as incurred.

Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Costs incurred on customer contracts are all recognised following contract accounting and do not fall under the scope of IAS38 Intangible assets. As all these amounts are charged onto customers via billing arrangements they are not capitalised as intangible assets. See deferred costs – Long term contract note above.

#### **1.23 Financial Instruments**

##### **i) Financial assets**

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss or loans and receivables.

## Notes to the financial statements

at 31 October 2016

### 1. Accounting policies (continued)

#### 1.23 Financial Instruments (continued)

The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company's financial assets include cash and short-term deposits and trade and other receivables.

##### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

**Financial assets at fair value through profit or loss:** Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in finance revenue or finance expense in the income statement.

**Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value and subsequently measured at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the income statement. Losses arising from impairment are recognised in the income statement in other operating expenses.

#### ii) Financial liabilities

##### Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

##### Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

**Financial liabilities at fair value through profit or loss:** Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

##### Derecognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

#### iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle liabilities simultaneously.

## Notes to the financial statements

at 31 October 2016

### 2. Turnover

Turnover from continuing operations recognised in the income statement is analysed as follows:

|                                    | 2016<br>£000     | 2015<br>£000     |
|------------------------------------|------------------|------------------|
| Rendering of services on contracts | <u>1,954,085</u> | <u>2,159,331</u> |

A small level of goods have been sold together with services but the level of these is not significant to the main services provided.

No revenue was derived from exchanges of goods or services (2015: nil)

All turnover is generated from activities within the UK market.

### 3. Auditors' remuneration

|   | 2016<br>£000 | 2015<br>£000 |
|---|--------------|--------------|
| Auditors' remuneration - audit of the financial statements* | 441          | 417          |
| - other services  | <u>4</u>     | <u>4</u>     |
|   | <u>445</u>   | <u>421</u>   |

\*Audit fees paid on behalf of fellow group companies £33,923(2015: £29,395)

## Notes to the financial statements

at 31 October 2016

### 4. Operating profit

This is stated after charging/(crediting):

|   | 2016<br>£000 | 2015<br>£000 |
|---|--------------|--------------|
| Amortisation  | 2,257        | 3,625        |
| Depreciation of owned fixed assets                                  | 19,783       | 27,630       |
| Depreciation of assets held under hire purchase agreements          | 51,715       | 38,018       |
| Impairment loss on tangible fixed assets                            | -            | 66,729       |
| (Gain)/loss on disposal of tangible fixed assets                    | 648          | (191)        |
| Loss on disposal of intangible fixed assets                         | 41           | 476          |
| Foreign exchange gains  | (212,167)    | (10,624)     |
| Cost of stocks recognised as an expense (included in cost of sales) | 37,731       | 52,689       |
| Including: -write-down of stocks to net realisable value            | 3,001        | 1,785        |
| -reversals of impairments in stocks*                                | (4,601)      | -            |
| Government grants received  | (62)         | (1,698)      |
| Operating lease costs – plant and machinery**                       | 7,476        | 7,082        |
| – land and buildings**  | 12,359       | 13,326       |
| – other   | 926          | 1,231        |

\* The reversals of impairment in stocks arose as a result of recovery in sales prices

\*\* Operating lease costs that relates to leasehold premises no longer used are offset by onerous lease provision utilisation (see note 21).

#### Research and Development:

The company incurs development expenditure which is an integral part of customer contracts. Recognition of these costs follows contract accounting within the company results as all these amounts are charged onto customers via billing arrangements. Amounts are not systemically separately identified as intangible assets or under a separate research and development heading. There is an element of these costs included within the overall contract expenditure that is expensed in operating profit and an element included in both fixed and current assets under the deferred costs category on the balance sheet.

## Notes to the financial statements

at 31 October 2016

### 5. Exceptional items

|  | 2016<br>£000     | 2015<br>£000   |
|--|------------------|----------------|
| Exceptional item – Employee redundancy costs | 111,298          | 67,603         |
| Exceptional item – Currency exchange gain    | (212,167)        | -              |
| Exceptional item – Impairment                | -                | 66,729         |
|  | <u>(100,869)</u> | <u>134,332</u> |

Employee redundancy costs from company restructuring programmes include payments to individuals and associated employer pension charges.

The currency exchange gains result from significant UK Sterling fluctuations against the US dollar on the company's US dollar denominated asset balances. This is a direct result of the political and economic situation in the United Kingdom. On 23<sup>rd</sup> of June 2016, a referendum in the United Kingdom returned a result in favour of leaving the European Union, which triggered a significant fall in the UK Sterling value against U.S dollar and other currencies. The decrease in the value of UK Stirling has been 21% over the financial year as compared to a decrease of 4% in the comparative year.

During the year, there were no indicators of impairment identified. In 2015 a data centres value in use assessment was carried out. This led to an impairment of expense of £66,729,244 in the prior reporting period.

### 6. Directors' emoluments

The directors of the company all receive payment of directors' emoluments in respect of services for the company which are borne by another fellow group company Hewlett-Packard Limited.

The aggregate remuneration for directors who have performed qualifying services for this company amounted to £1,693,487 (2015: £1,638,968) with pension contributions of £16,208 (2015: £24,040). The emoluments of the highest paid director were remuneration of £852,026 and pension contributions to money purchase schemes of £nil (2015: remuneration £916,458; pension contributions to money purchase schemes £ nil). The highest paid director had accrued pension, in respect of defined benefits, at the end of the year of £191,107 (2015: £ 191,107).

One directors participated in the company's defined contribution pension scheme during the year ended 31 October 2016 (2015: one). Two directors participated in a fellow group company's defined benefit pension scheme during the year ended 31 October 2016 (2015: two). One director exercised share options during the year ended 31 October 2016 (2015: nil). Three directors acquired shares through the vesting of previously granted restricted stock units (2015: three).

The directors of the company estimate that the total remuneration in relation to identifiable qualifying services during the year for EntServ UK Limited (formerly Hewlett Packard Enterprise Services UK Limited) is £1,016,739 (2015: £967,359) with pension contributions of £15,534 (2015: £23,278). The remainder is in relation of their time spent performing services for other group companies.

## Notes to the financial statements

at 31 October 2016

### 7. Particulars of employees

The average number of staff employed by the company during the year amounted to:

|                     | 2016<br>No. | 2015<br>No. |
|---------------------|-------------|-------------|
| Enterprise Services | 7,309       | 8,498       |

The aggregate payroll costs of the above were:

|                                     | 2016<br>£000 | 2015<br>£000 |
|-------------------------------------|--------------|--------------|
| Wages and salaries                  | 462,814      | 489,410      |
| Social security costs               | 48,613       | 54,337       |
| Other pension costs                 | 66,616       | 48,591       |
| Equity-settled share-based payments | 8,715        | 11,650       |
|                                     | 586,758      | 603,988      |

The above aggregate payroll costs include amounts expensed in relation to employee redundancy costs which is shown separately in note 5 as an exceptional item.

Other pension costs above do not include amounts credited to finance income (note 8) and amounts recognised in other comprehensive income in respect of defined benefit pension schemes.

### 8. Interest receivable and similar income

|   | 2016<br>£000 | 2015<br>£000 |
|---|--------------|--------------|
| Discounted provisions – effect of change in discount rate | -            | 5,762        |
| Other interest receivable                                 | 2,081        | 350          |
| Interest receivable on finance debtor                     | -            | 1,774        |
| Interest receivable on finance leases                     | 7,702        | 6,623        |
| Interest from group undertakings                          | 6,699        | 4,702        |
|   | 16,482       | 19,211       |

### 9. Interest payable and similar charges

|   |        |        |
|---|--------|--------|
| Discounted provisions – unwinding of discount                             | 3,144  | 3,539  |
| – effect of change in discount rate                                       | 10,007 | -      |
| Interest payable to group companies                                       | 145    | 16     |
| Interest payable in respect of finance leases and hire purchase contracts | 16,718 | 14,587 |
| Other interest payable  | 60     | -      |
| Other finance expense (note 23)   | 29,819 | 30,400 |
|   | 59,893 | 48,542 |

## Notes to the financial statements

at 31 October 2016

### 10. Taxation on ordinary activities

(a) Tax charged in the income statement

|   | 2016<br>£000 | 2015<br>£000 |
|---|--------------|--------------|
| Current tax:  |              |              |
| United Kingdom corporation tax on the profit/(loss) for the year at 20% (2015:20.41%) | 24,271       | (3,520)      |
| Under provision in prior year   | 30,384       | -            |
| Foreign tax   | 94           | 100          |
| Total current income tax  | 54,749       | (3,420)      |
| Deferred tax:   |              |              |
| Origination and reversal of timing differences  | 9,802        | 6,229        |
| Adjustments in respect of prior periods   | 13,283       | (1,279)      |
| Effect of change in deferred tax rate   | 8,765        | 5,244        |
| Write-down/(reversal of write down) of deferred tax asset                             | (15,482)     | (27,692)     |
| Total deferred tax  | 16,368       | (17,498)     |
| Tax charge/(credit) in the income statement   | 71,117       | (20,918)     |

(b) Tax relating to items charged or credited to other comprehensive income

|  | 2016<br>£000 | 2015<br>£000 |
|--|--------------|--------------|
| Deferred tax:  |              |              |
| Actuarial gains/(loss) on defined benefit pension plans            | (72,743)     | 3,712        |
| Effect of change in deferred tax rate                              | 13,784       | 2,188        |
| Write-down/(reversal of write down) of deferred tax asset          | 87,127       | (8,109)      |
| Total deferred tax   | 28,168       | (2,209)      |
| Tax (credit)/charge in the statement of other comprehensive income | 28,168       | (2,209)      |

## Notes to the financial statements

at 31 October 2016

### 10. Taxation on ordinary activities (continued)

(c) Reconciliation of the total tax charge

|  | 2016<br>£000 | 2015<br>£000 |
|--|--------------|--------------|
| Profit/(loss) on ordinary activities before tax  | 134,784      | (6,300)      |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20% (2015: 20.41%). | 26,957       | (1,286)      |
| Effects of:  |              |              |
| Disallowable expenses  | 7,115        | 4,217        |
| Income non-taxable   | -            | (222)        |
| Adjustments to tax charge in respect of prior years  | 43,668       | (1,279)      |
| Foreign tax  | 94           | 100          |
| Effect of change in tax rate   | 8,765        | 5,244        |
| Deferred tax not recognised  | (15,482)     | (27,692)     |
| Total deferred tax and current charge for the year (note 10 (a))   | 71,117       | (20,918)     |

(d) Deferred tax

The deferred tax included in the balance sheet is as follows:

|                    | 2016<br>£000 | 2015<br>£000 |
|--------------------|--------------|--------------|
| Deferred tax asset | 114,004      | 158,540      |

The movement in the deferred taxation account during the year was:

|   | 2016<br>£000 | 2015<br>£000 |
|---|--------------|--------------|
| At 1 November 2015  | 158,540      | 138,833      |
| Deferred tax (charged)/credited to the income statement       | (16,368)     | 17,498       |
| Deferred tax (charged)/credited to other comprehensive income | (28,168)     | 2,209        |
| At 31 October 2016  | 114,004      | 158,540      |

## Notes to the financial statements

at 31 October 2016

### 10. Taxation on ordinary activities (continued)

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of:

|   | 2016<br>£000   | 2015<br>£000   |
|---|----------------|----------------|
| Excess of depreciation over taxation allowances | 37,719         | 27,477         |
| Pension deficit                                 | 11,331         | 92,093         |
| Losses carried forward                          | 41,479         | 24,050         |
| Other timing differences                        | 23,475         | 14,920         |
| Total deferred tax asset                        | <u>114,004</u> | <u>158,540</u> |

A deferred tax asset has been recognised to the level where the directors believe that, based on forecast results, it is more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

As a result of the post balance sheet event of a large pension contribution made by a fellow group company (note 23 and 27), the company will not obtain any tax benefit from this payment and therefore there is no recoverability of the deferred tax pension asset of £204,145,520.

Of the reduction in deferred tax recoverable amounts for the pension deferred tax asset in the year, £93,476,901 and £110,668,619 has been charged to the profit and loss account and other comprehensive income respectively. This is offset against recognition of previously unrecognized deferred tax amounts of £132,500,000; £ 108,958,832 credited to the profit and loss account; £ 23,541,168 credited to other comprehensive income.

#### (e) Factors that may affect future tax charges

The UK corporation tax rate is 20% effective 1 April 2015. The Finance (No2) Act 2015 announced a reduction in the United Kingdom corporation tax rate from 20% to 19%, effective from 1 April 2017. There has been also further reduction in the rate to 17% enacted in the Finance Act 2016 on 15 September 2016 and effective from 1 April 2020. As a result, the deferred tax balances as at 31 October 2016 have been recognised at the rate at which they are expected to unwind.

The Finance (No. 2) Act 2017 includes proposals to restrict the utilisation of brought forward trading losses to offset trading income from 1 April 2017. This legislation had not yet been enacted or substantively enacted and is not taken into account in calculating the current or deferred tax amounts in these financial statements. It is expected that under this legislation the brought forward trading losses will be utilised over a longer period and future cash tax expense will be higher than it would have been under current legislation. Based on forecast results, it is anticipated that the losses will still be fully utilised and therefore the enactment of this legislation will not result in any write down of deferred tax asset.

The rates of capital allowances remains at a level of 18% and 8% respectively for the general pool and special rate pool.

## Notes to the financial statements

at 31 October 2016

### 11. Tangible fixed assets

|                        | <i>Land and<br/>property<br/>£000</i> | <i>Leasehold<br/>improvements<br/>£000</i> | <i>Assets under<br/>construction<br/>£000</i> | <i>Plant and<br/>machinery<br/>£000</i> | <i>Total<br/>£000</i> |
|------------------------|---------------------------------------|--|---|---|-----------------------|
| <i>Cost :</i>          |                                       |  |   |   |                       |
| At 1 November 2015     | 14,503                                | 361,344                                    | 12,376  | 545,490                                 | 933,713               |
| Additions              | -                                     | -  | 26,570  | 68,352                                  | 94,922                |
| Disposals              | -                                     | (24,601)                                   | -   | (200,356)                               | (224,957)             |
| Transfers              | -                                     | 18,560                                     | (18,771)                                      | (35,220)                                | (35,431)              |
| At 31 October 2016     | 14,503                                | 355,303                                    | 20,175  | 378,266                                 | 768,247               |
| <i>Depreciation:</i>   |                                       |  |   |   |                       |
| At 1 November 2015     | 2,354                                 | 237,565                                    | -   | 427,540                                 | 667,459               |
| Charge for the year    | 123                                   | 13,664                                     | -   | 57,711                                  | 71,498                |
| On disposals           | -                                     | (23,804)                                   | -   | (188,281)                               | (212,085)             |
| On Transfers           | -                                     | -  | -   | (35,425)                                | (35,425)              |
| At 31 October 2016     | 2,477                                 | 227,425                                    | -   | 261,545                                 | 491,447               |
| <i>Net book value:</i> |                                       |  |   |   |                       |
| At 31 October 2016     | 12,026                                | 127,878                                    | 20,175  | 116,721                                 | 276,800               |
| At 1 November 2015     | 12,149                                | 123,779                                    | 12,376  | 117,950                                 | 266,254               |

Land and property – Included within the net book value of land and property is £3,186,744 (2015: £3,309,706) of depreciable long leasehold property, and £8,839,144 (2015: £8,839,144) of land which is not depreciated.

Transfers of assets in assets under construction are those brought into operation and transferred to depreciable assets within the categories, leasehold improvements and plant and machinery in the year.

#### Hire and lease purchase agreements

Included within the net book value of £276,800,243 is £109,540,806 (2015: £74,714,443) relating to assets held under hire and lease purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £51,714,912 (2015: £38,018,126).

## Notes to the financial statements

at 31 October 2016

### 12. Intangible assets

|                        | <i>Software</i><br><i>£000</i> | <i>Goodwill</i><br><i>£000</i> | <i>Total</i><br><i>£000</i> |
|------------------------|--------------------------------|--------------------------------|-----------------------------|
| <i>Cost:</i>           |                                |                                |                             |
| At 1 November 2015     | 55,401                         | 296,954                        | 352,355                     |
| Additions              | 2,701                          | -                              | 2,701                       |
| Disposals              | (37,933)                       | -                              | (37,933)                    |
| Transfers              | 35,431                         | -                              | 35,431                      |
| At 31 October 2016     | <u>55,600</u>                  | <u>296,954</u>                 | <u>352,554</u>              |
| <i>Amortization</i>    |                                |                                |                             |
| At 1 November 2015     | 52,502                         | 268,985                        | 321,487                     |
| Charge for the year    | 2,257                          | -                              | 2,257                       |
| On disposals           | (37,808)                       | -                              | (37,808)                    |
| On transfers           | 35,425                         | -                              | 35,425                      |
| At 31 October 2016     | <u>52,376</u>                  | <u>268,985</u>                 | <u>321,361</u>              |
| <i>Net book value:</i> |                                |                                |                             |
| At 31 October 2016     | <u>3,224</u>                   | <u>27,969</u>                  | <u>31,193</u>               |
| At 1 November 2015     | <u>2,899</u>                   | <u>27,969</u>                  | <u>30,868</u>               |

Goodwill net book value of £24,149,000 (2015: £24,149,000) relates to the acquisition on 1 August 2009 of the UK outsourcing business from Hewlett Packard Limited and Hewlett Packard Enterprise Marigalante Limited, which is being subject to annual impairment testing.

Goodwill net book value of £3,820,000 (2015: £3,820,000) relates to the acquisition on 31 October 2011 of the UK outsourcing business from Eisis Limited which is being subject to annual impairment testing.

### 13. Deferred costs

|                                      | <i>2016</i><br><i>£000</i> | <i>2015</i><br><i>£000</i> |
|--------------------------------------|----------------------------|----------------------------|
| Deferred contract costs : Long term  | 209,423                    | 130,574                    |
| Deferred contract costs : Short term | <u>92,326</u>              | <u>68,731</u>              |
|                                      | <u>301,749</u>             | <u>199,305</u>             |

Deferred Costs are costs on outsourcing contracts incurred upon the initiation of an outsourcing contract which are deferred and expensed on a straight-line basis over the life of the contract. These costs consist of contract acquisition and transition costs, including the costs of due diligence after competitive selection and costs associated with installation of systems and processes. These costs are recorded as deferred costs on the balance sheet, split between fixed assets (Long term) and current assets (Short term).

## Notes to the financial statements

at 31 October 2016

### 14. Investments

Companies in which the company's interest is more than 20% are as follows:

| <i>Company</i>      | <i>Country of incorporation</i> | <i>Principal activity</i> | <i>Class and percentage of shares held</i> |
|---------------------|---------------------------------|---------------------------|--|
| EDS Trustee Limited | England and Wales               | Dormant company           | £1 ordinary shares<br>90%                  |
| Spiritguide Ltd     | England and Wales               | Dormant company           | £1 ordinary shares<br>100%                 |
| Spiritmodel Ltd     | England and Wales               | Dormant company           | £1 ordinary shares<br>100%                 |

On 20 September 2016 a resolution was made to purchase one £1 ordinary share in Spiritguide Ltd and one £1 ordinary share in Spiritmodel Ltd from Hewlett-Packard Ltd for consideration of £1 each. These acquisitions were part of the spin off, merger of the Enterprise Services business with CSC business reorganisation programme.

The company received a dividend income of £1,759 (2015: £1,087,000) from Media Accounting Services Limited, which was owned 100% by the company and was dissolved on 7 September 2016.

### 15. Stocks

|                                     | <i>2016</i> | <i>2015</i> |
|-------------------------------------|-------------|-------------|
|                                     | <i>£000</i> | <i>£000</i> |
| Finished goods and goods for resale | 13,110      | 24,890      |

### 16. Debtors: amounts falling due within one year

|                                    | <i>2016</i>      | <i>2015</i>      |
|------------------------------------|------------------|------------------|
|                                    | <i>£000</i>      | <i>£000</i>      |
| Trade debtors                      | 190,728          | 222,869          |
| Amounts owed by group undertakings | 1,117,150        | 1,122,499        |
| Corporation tax repayable          | -                | 27,559           |
| Finance debtors                    | 36,533           | 41,064           |
| Amounts recoverable on contracts   | 67,466           | 86,071           |
| Other debtors                      | 5,289            | 489              |
| Prepayments and accrued income     | 39,508           | 50,744           |
|                                    | <u>1,456,674</u> | <u>1,551,295</u> |

## Notes to the financial statements

at 31 October 2016

### 17. Debtors: amounts falling due after more than one year

|                                    | 2016           | 2015           |
|------------------------------------|----------------|----------------|
|                                    | £000           | £000           |
| Amounts owed by group undertakings | 300,145        | 300,024        |
| Finance debtor                     | 58,440         | 58,697         |
| Financial asset*                   | 74,869         | 41,451         |
| Prepayments and accrued income     | 10,415         | 10,388         |
|                                    | <u>443,869</u> | <u>410,560</u> |

\* The company has entered into a long term financial loan with a customer with an interest rate of 3.87%.

This arrangement ends in April 2025

### 18. Creditors: amounts falling due within one year

|   | 2016           | 2015           |
|---|----------------|----------------|
|   | £000           | £000           |
| Bank overdraft  | 842            | 330            |
| Deferred contract revenue                                     | 150,436        | 192,350        |
| Trade creditors   | 86,099         | 114,307        |
| Amounts owed to group undertakings                            | 197,768        | 151,806        |
| Corporation tax payable                                       | 23,827         | -              |
| Other taxation and social security                            | 41,156         | 55,981         |
| Obligations under hire and lease purchase contracts (note 20) | 84,720         | 82,640         |
| Other creditors   | 924            | 29,990         |
| Accruals  | 119,527        | 164,189        |
|   | <u>705,299</u> | <u>791,593</u> |

In 2015 £28,507,959 included in other creditors related to the purchase of data centres contained within tangible assets which was secured on these assets.

## Notes to the financial statements

at 31 October 2016

### 19. Creditors: amounts falling due after more than one year

|   | 2016           | 2015           |
|---|----------------|----------------|
|   | £000           | £000           |
| Deferred contract revenue   | 186,087        | 182,927        |
| Other creditors   | 24,164         | 22,970         |
| Obligations under hire and lease purchase contracts (see note 20) | 129,708        | 131,744        |
|   | <u>339,959</u> | <u>337,641</u> |

Included within other creditors is £24,163,398 (2015: £22,968,608) related to the purchase of data centres contained within tangible assets which is secured on these assets.

### 20. Obligations under hire and lease purchase agreements

The company uses finance leases and hire purchase contract to acquire plant and machinery.

Future minimum lease payment under finance leases and hire purchase contracts are as follows:

|  | 2016           | 2015           |
|--|----------------|----------------|
|  | £000           | £000           |
| Future minimum lease payments due:               |                |                |
| No later than one year                           | 94,410         | 92,546         |
| Later than one year but no more than five years  | 141,544        | 143,217        |
| Later than five years                            | 38             | 2,901          |
|  | <u>235,992</u> | <u>238,664</u> |
| Less finance charges allocated to future periods | (21,564)       | (24,280)       |
| Present value of minimum lease payments          | <u>214,428</u> | <u>214,384</u> |

The present value of minimum lease payment is analysed as follows:

|   | 2016           | 2015           |
|---|----------------|----------------|
|   | £000           | £000           |
| Amounts payable:                                |                |                |
| No later than one year                          | 84,720         | 82,640         |
| Later than one year but no more than five years | 129,676        | 129,332        |
| Later than five years                           | 32             | 2,412          |
|   | <u>214,428</u> | <u>214,384</u> |

Commitments under hire purchase and finance leases are secured on the assets concerned.

## Notes to the financial statements

at 31 October 2016

### 21. Provisions for liabilities and charges

|                                       | <i>Dilapidation<br/>&amp; Onerous<br/>Lease<br/>provisions<br/>£000</i> | <i>National<br/>Insurance on<br/>share based<br/>payments<br/>£000</i> | <i>Total<br/>£000</i> |
|---------------------------------------|---|--|-----------------------|
| Balance brought forward               | 7,085   | 136  | 7,221                 |
| <i>Charge to the profit and loss:</i> |   |  |                       |
| Change in foreign exchange            | 478   | -  | 478                   |
| Additional amounts provided           | 765   | 302  | 1,067                 |
| Unwinding of discounted amount        | 280   | -  | 280                   |
| Provision release during the year     | (1,665)   | -  | (1,665)               |
| Amounts utilised during the year      | (144)   | (136)  | (280)                 |
| Balance carried forward               | 6,799   | 302  | 7,101                 |

Dilapidation provisions represent the net present value of leasehold premises exit obligations. These are expected to be utilised on exit of individual leases. Leasehold obligation assets within leasehold improvement tangible fixed assets are set up at the net present value of the contractual obligation assumed on entry to leasehold premises and depreciated accordingly (note 1). At the same time dilapidation provision are reflected for an equal and opposite amount. Regular review of the exit obligation is undertaken.

Onerous lease provisions represent the net present value of the costs associated with certain contractual obligations for leasehold premises which are no longer used in operations following a group property rationalisation program. It is expected that these costs will have been incurred within 5 years of the balance sheet date in accordance with the respective contractual obligations. The onerous lease provision represent the present value of the amount to be paid discounted at an average rate of 5.7% (2015:6.2%)

National Insurance provisions represent the Company's liability on certain granted stock options to pay National Insurance on the difference between the stock option exercise price and the market value of the related shares when the stock options are exercised. The provision have been calculated based on the closing share price of \$22.47 as at 31 October 2016.

### 22. Share capital

|  | <i>2016<br/>£'000</i> | <i>2015<br/>£'000</i> |
|--|-----------------------|-----------------------|
| <i>Allotted, called up and fully paid:</i>                 |                       |                       |
| 157,580,002 (2015: 157,580,002) ordinary shares of £1 each | 157,580               | 157,580               |

## Notes to the financial statements

at 31 October 2016

### 23. Pensions and other post-retirement benefits

#### Defined contribution schemes

Hewlett Packard Enterprise in the United Kingdom (UK) operated defined contribution pension schemes for the benefit of certain employees.

The assets of these schemes are held separately from those of the company in an independently administered fund. The cost for the year amounted to £27,023,613 (2015: £29,440,441). There were no outstanding or prepaid contributions at the end of the financial period.

Included on the company balance sheet:

|  | 2016             | 2015           |
|--|------------------|----------------|
|  | £'000            | £'000          |
| Unfunded benefit scheme liabilities    | 91,516           | 76,361         |
| Funded defined benefit scheme deficits | 1,200,856        | 810,147        |
| Liability balance at 31 October        | <u>1,292,372</u> | <u>886,508</u> |

#### Unfunded benefit schemes

|                                  | 2016           | 2015           |
|----------------------------------|----------------|----------------|
|                                  | £'000          | £'000          |
| Balance at 1 November            | 76,361         | 78,976         |
| Charge to the profit and loss:   |                |                |
| Additional amounts provided      | 7,411          | 4,453          |
| Unwinding of discounted amount   | 2,864          | 2,977          |
| Effect of change in assumptions  | 10,007         | (5,762)        |
| Amounts utilised during the year | <u>(5,127)</u> | <u>(4,283)</u> |
| Balance at 31 October            | <u>91,516</u>  | <u>76,361</u>  |

The above balances represent unfunded termination benefits for contractual enhancement payments made to ex-employees who have had their employment terminated early and who are members of the 1994 pension scheme. These amounts are linked to pensions and are administered as such but funded by the company directly. The resulting liability is measured at the discounted value of the future expected payments, using a discount rate of 2.7% (2015:3.8%) and is calculated using the same assumptions as those applied to the 1994 pension plan (see below). The liability is payable from the date of employee leaving to the retirement age or death of the employee. The average length it is expected that these costs will be incurred is 26.5years (2015:27.7years) from the balance sheet date.

#### Defined benefit funded schemes

The company operates defined benefit pension schemes for the benefit of certain employees:

- the Electronic Data Systems Retirement Plan (Retirement plan);
- the Electronic Data Systems 1994 Pension Scheme (1994 scheme); and
- the Memorex UK Limited Pension Plan (Memorex). (This scheme merged into the Retirement Plan from 1 April 2015)

## Notes to the financial statements

at 31 October 2016

### 23. Pensions and other post-retirement benefits (continued)

These schemes provide benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company in separate trustee administered funds. These schemes are closed to new individual members. New individual employees are invited to join the UK group defined contribution scheme.

The valuation used has been based on the most recent actuarial valuation at 31 December 2014 (Retirement Plan), 31 December 2014 (1994 scheme) and 1 April 2012 (Memorex) and updated by the schemes' independent qualified actuaries Xafinity Consulting Limited to take account of the requirements of FRS101 in order to assess the liabilities of the schemes at 31 October 2016 and 31 October 2015.

Scheme assets are stated at their market values at the respective balance sheet dates.

The assets and liabilities of the schemes at 31 October are:

|  | Retirement<br>Plan | 1994<br>Scheme | Total       |
|--|--------------------|----------------|-------------|
| Year ended 31 October 2016             | £000               | £000           | £000        |
| Scheme assets at fair value            |                    |                |             |
| Equities                               | 981,166            | 352,556        | 1,333,722   |
| Bonds                                  | 988,829            | 433,334        | 1,422,163   |
| Property                               | 141,956            | 53,670         | 195,626     |
| Others                                 | 399,383            | 153,605        | 552,988     |
| Fair value of scheme assets            | 2,511,334          | 993,165        | 3,504,499   |
| Present value of scheme liabilities    | (3,433,164)        | (1,272,191)    | (4,705,355) |
| Defined benefit pension scheme deficit | (921,830)          | (279,026)      | (1,200,856) |

|  | Retirement<br>Plan | 1994<br>Scheme | Total       |
|--|--------------------|----------------|-------------|
| Year ended 31 October 2015             | £000               | £000           | £000        |
| Scheme assets at fair value            |                    |                |             |
| Equities                               | 1,151,720          | 423,302        | 1,575,022   |
| Bonds                                  | 525,933            | 230,072        | 756,005     |
| Property                               | 138,672            | 52,429         | 191,101     |
| Others                                 | 296,815            | 117,228        | 414,043     |
| Fair value of scheme assets            | 2,113,140          | 823,031        | 2,936,171   |
| Present value of scheme liabilities    | (2,732,221)        | (1,014,097)    | (3,746,318) |
| Defined benefit pension scheme deficit | (619,081)          | (191,066)      | (810,147)   |

The pension plans have not invested in any of the company's own financial instruments nor in properties or other assets used by the company.

## Notes to the financial statements

at 31 October 2016

### 23. Pensions and other post-retirement benefits (continued)

The amounts recognised in the Income statement and in the Statement of comprehensive income for the year are as follows:

|   | Retirement<br>Plan | 1994<br>Scheme | Total   |
|---|--------------------|----------------|---------|
|   | £000               | £000           | £000    |
| <b>Year ended 31 October 2016</b>                   |                    |                |         |
| <b>Recognised in the income statement</b>           |                    |                |         |
| Current service costs                               | 27,307             | 3,339          | 30,646  |
| Curtailment gain                                    | (8,355)            | -              | (8,355) |
| Administrative expenses                             | 4,673              | 2,759          | 7,432   |
| Separated employee pension enhancements             | 370                | 6,957          | 7,327   |
| Expenses recognised in arriving at operating profit | 23,995             | 13,055         | 37,050  |

Of the total charge, £19,174,000 was included in cost of sales, £6,382,000 in administrative expenses, £3,987,000 in distribution costs and £7,507,000 in exception restructuring expenses.

|   |        |       |        |
|---|--------|-------|--------|
| Net interest on defined benefit liability | 22,856 | 6,963 | 29,819 |
|---|--------|-------|--------|

#### Taken to the statement of comprehensive income

|   |           |           |           |
|---|-----------|-----------|-----------|
| Return on plan assets (excluding amounts included in net interest expense)          | (357,051) | (156,125) | (513,176) |
| Experience gains arising on scheme liabilities                                      | (21,499)  | (10,008)  | (31,507)  |
| Effect of changes in assumptions underlying the present value of scheme liabilities | 661,066   | 247,338   | 908,404   |
| Recognised in the statement of comprehensive income                                 | 282,516   | 81,205    | 363,721   |

|   | Retirement<br>Plan | 1994<br>Scheme | Memorex | Total    |
|---|--------------------|----------------|---------|----------|
|   | £000               | £000           | £000    | £000     |
| <b>Year ended 31 October 2015</b>                   |                    |                |         |          |
| <b>Recognised in the income statement</b>           |                    |                |         |          |
| Current service costs                               | 31,124             | 7,092          | -       | 38,216   |
| Past service costs /(gains)                         | (19,671)           | (12,353)       | -       | (32,024) |
| Administrative expenses                             | 3,362              | 2,705          | 54      | 6,121    |
| Separated employee pension enhancements             | 876                | 5,495          | -       | 6,371    |
| Expenses recognised in arriving at operating profit | 15,691             | 2,939          | 54      | 18,684   |

Of the total charge, £4,033,000 was included in cost of sales, £6,161,000 in administrative expenses, £1,644,000 in distribution costs and £6,846,000 in exception restructuring expenses

|   |        |       |     |        |
|---|--------|-------|-----|--------|
| Net interest on defined benefit liability | 22,174 | 7,966 | 260 | 30,400 |
|---|--------|-------|-----|--------|

## Notes to the financial statements

at 31 October 2016

### 23. Pensions and other post-retirement benefits (continued)

Year ended 31 October 2015

|   | Retirement<br>Plan | 1994<br>Scheme | Memorex | Total    |
|---|--------------------|----------------|---------|----------|
| <b>Taken to the statement of comprehensive income</b>                               |                    |                |         |          |
| Return on plan assets (excluding amounts included in net interest expense)          | (25,766)           | (8,375)        | (1,039) | (35,180) |
| Experience gains arising on scheme liabilities                                      | (11,282)           | (21,176)       | -       | (32,458) |
| Effect of changes in assumptions underlying the present value of scheme liabilities | 42,889             | 6,565          | -       | 49,454   |
| Recognised in the statement of comprehensive income                                 | 5,841              | (22,986)       | (1,039) | (18,184) |

**The main assumptions adopted are:**

|   | Retirement Plan |      | 1994 Scheme |      |
|---|-----------------|------|-------------|------|
|   | 2016            | 2015 | 2016        | 2015 |
|   | %               | %    | %           | %    |
| Rate of increase in salaries            |                 |      |             |      |
| – retirement plan - post April 2010     | 2.0             | 2.0  | -           | -    |
| – retirement plan - pre April 2010      | 3.0             | 3.0  | -           | -    |
| – 1994 plan                             | -               | -    | 2.5         | 2.5  |
| Rate of increase in pensions in payment |                 |      |             |      |
| – retirement plan – post 2006           | 2.2             | 2.2  | -           | -    |
| – retirement plan – pre 2006            | 3.2             | 3.2  | -           | -    |
| – 1994 plan                             | -               | -    | 3.3         | 3.2  |
| Discount rate                           | 2.7             | 3.8  | 2.7         | 3.8  |
| Inflation assumption – RPI              | 3.3             | 3.2  | 3.3         | 3.2  |
| Inflation assumption – CPI              | 2.2             | 2.1  | 2.2         | 2.1  |

## Notes to the financial statements

at 31 October 2016

### 23. Pensions and other post-retirement benefits (continued)

|                            | Retirement Plan |              | 1994 Scheme  |              |
|----------------------------|-----------------|--------------|--------------|--------------|
|                            | 2016            | 2015         | 2016         | 2015         |
|                            | <i>Years</i>    | <i>Years</i> | <i>Years</i> | <i>Years</i> |
| Post-retirement mortality  |                 |              |              |              |
| Current pensioners         |                 |              |              |              |
| at 65 – male               | 23.6            | 23.8         | -            | -            |
| at 65 - female             | 26.2            | 26.4         | -            | -            |
| at 60 – male               | -               | -            | 27.9         | 28.0         |
| at 60 - female             | -               | -            | 31.2         | 31.4         |
| Current 45 year old member |                 |              |              |              |
| from 65 - male             | 25.3            | 25.5         | -            | -            |
| from 65 - female           | 28.1            | 28.4         | -            | -            |
| from 60 - male             | -               | -            | 29.2         | 29.4         |
| from 60 - female           | -               | -            | 32.7         | 32.9         |

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

| Assumption                | Change in assumption       | Impact on scheme liabilities      |
|---------------------------|----------------------------|-----------------------------------|
| <b>Retirement Plan</b>    |                            |                                   |
| Discounts rate            | Increase/ decrease by 1.0% | Increase 19.1%/ decrease by 25.9% |
| Inflation assumption      | Increase/ decrease by 1.0% | Increase 10.9%/ decrease by 10.4% |
| Rate of salary increases  | Increase/ decrease by 0.5% | Increase 0.9%/ decrease by 0.9%   |
| Post retirement mortality | Increase by 1 year         | Increase by 3.4%                  |
| <b>1994 Scheme</b>        |                            |                                   |
| Discounts rate            | Increase/ decrease by 1.0% | Increase 17.9%/ decrease by 24.4% |
| Inflation assumption      | Increase/ decrease by 1.0% | Increase 18.9%/ decrease by 14.7% |
| Rate of salary increases  | Increase/ decrease by 0.5% | Increase 0.3%/ decrease by 0.3%   |
| Post retirement mortality | Increase by 1 year         | Increase by 3.4%                  |

## Notes to the financial statements

at 31 October 2016

### 23. Pensions and other post-retirement benefits (continued)

| Changes in the present value of the defined benefit obligation scheme are as follows: | Retirement Plan | 1994 Scheme | Memorex  | Total     |
|---|-----------------|-------------|----------|-----------|
|   | £000            | £000        | £000     | £000      |
| As at 1 November 2014   | 2,615,563       | 1,017,851   | 33,156   | 3,666,570 |
| Current service cost  | 31,124          | 7,092       | -        | 38,216    |
| Past service credit   | (19,671)        | (12,353)    | -        | (32,024)  |
| Separated employee pension enhancements   | 876             | 5,495       | -        | 6,371     |
| Interest on scheme liabilities  | 98,007          | 37,852      | 1,203    | 137,062   |
| Scheme transfer *   | 33,488          | -           | (33,488) | -         |
| Actuarial loss/(gain)   | 31,607          | (14,611)    | -        | 16,996    |
| Contributions by scheme participants  | 465             | 394         | -        | 859       |
| Benefits paid   | (59,238)        | (27,623)    | (871)    | (87,732)  |
| As at 31 October 2015   | 2,732,221       | 1,014,097   | -        | 3,746,318 |
| Current service cost  | 27,307          | 3,339       | -        | 30,646    |
| Curtailement gain   | (8,355)         | -           | -        | (8,355)   |
| Separated employee pension enhancements   | 370             | 6,957       | -        | 7,327     |
| Interest on scheme liabilities  | 101,603         | 37,516      | -        | 139,119   |
| Actuarial loss/(gain)   | 639,567         | 237,330     | -        | 876,897   |
| Contributions by scheme participants  | 459             | 301         | -        | 760       |
| Benefits paid   | (60,008)        | (27,349)    | -        | (87,357)  |
| As at 31 October 2016   | 3,433,164       | 1,272,191   | -        | 4,705,355 |

\*On 1 April 2015 the Memorex scheme merged into the Retirement Plan.

The separated employee's pension enhancements relate to additional pension benefits offered to employees leaving through redundancy. These are paid through the pension schemes.

## Notes to the financial statements

at 31 October 2016

### 23. Pensions and other post-retirement benefits (continued)

| Changes in the fair value of scheme assets<br>are as follows: | Retirement<br>Plan | 1994<br>Scheme | Memorex  | Total     |
|---|--------------------|----------------|----------|-----------|
|   | £000               | £000           | £000     | £000      |
| As at 1 November 2014   | 2,017,198          | 800,675        | 25,954   | 2,843,827 |
| Interest income plan assets                                   | 75,833             | 29,886         | 943      | 106,662   |
| Contributions by employer                                     | 29,467             | 14,028         | -        | 43,495    |
| Contributions by scheme participants                          | 465                | 394            | -        | 859       |
| Scheme transfer *   | 27,011             | -              | (27,011) | -         |
| Benefits paid   | (59,238)           | (27,623)       | (871)    | (87,732)  |
| Administrative expenses                                       | (3,362)            | (2,705)        | (54)     | (6,121)   |
| Actuarial gain  | 25,766             | 8,376          | 1,039    | 35,181    |
| As at 31 October 2015   | 2,113,140          | 823,031        | -        | 2,936,171 |
| Interest income plan assets                                   | 78,747             | 30,553         | -        | 109,300   |
| Contributions by employer                                     | 26,618             | 13,263         | -        | 39,881    |
| Contributions by scheme participants                          | 459                | 301            | -        | 760       |
| Benefits paid   | (60,008)           | (27,349)       | -        | (87,357)  |
| Administrative expenses                                       | (4,673)            | (2,759)        | -        | (7,432)   |
| Actuarial gain  | 357,051            | 156,125        | -        | 513,176   |
| As at 31 October 2016   | 2,511,334          | 993,165        | -        | 3,504,499 |

\*On 1 April 2015 the Memorex scheme merged into the Retirement Plan.

Contributions paid by the company in the accounting year amounted to £39,881,000.

£31,633,000 paid in June 2016 and £1,363,000 in September 2016 relate to instalments of contribution funding schedules agreed to be paid during the year November 2015 to October 2016.

£6,885,000 paid through monthly payroll deductions relates to contributions payable in respect of the year November 2015 to October 2016.

In readiness for the Hewlett Packard Enterprise Company spin off and merge of the Enterprise Services Business with CSC (Computer Sciences Corporation) to form DXC Technology from 1 April 2017 deficit repair and acceleration of contributions after 31 October 2016 and before 1 April 2017 have taken place.

The company paid a lump sum payment of £10,000,000 in November 2016.

This was followed by a payment of £1,498,600,000 in December 2016 which was paid from a capital contribution to the company by a fellow UK group company Hewlett-Packard Holdings Limited.

Further contribution over the period November 2016 to October 2017 are £5,086,500 in March 2017 and £5,786,000 from regular monthly contributions from payroll deductions.

## Notes to the financial statements

at 31 October 2016

### 24. Share-based payments

In conjunction with the Separation, the Company adopted the Hewlett Packard Enterprise Company 2015 Stock Incentive Plan (the "Plan"). The Plan became effective on 1 November 2015.

The Company recognises stock-based compensation expense for all share-based payment awards, net of forfeitures. The recognised costs are for only those shares expected to meet the service and performance vesting conditions over the requisite service period of the awards.

The Company has the following stock purchase and incentive compensation plans:

#### *Employee stock purchase plan*

The Parent sponsored the 2011 Employee Stock Purchase Plan ("2011 ESPP"), pursuant to which eligible employees may contribute up to 10% of their eligible compensation, subject to certain income limits, to purchase shares of the Parent's common stock. Pursuant to the terms of the 2011 ESPP, employees purchased stock under the 2011 ESPP at a price equal to 95% of Parent's closing stock price on the purchase date.

Effective 1<sup>st</sup> November 2015, post Separation, the Company adopted the Employee Stock Purchase Plan ("ESPP"). The ESPP allows eligible employees to contribute up to 10% of their eligible compensation to purchase Hewlett Packard Enterprise's common stock. The plan provides for a discount not to exceed 15% and an offering period up to 24 months. The Company currently offers 6 month offering periods during which employees have the ability to purchase shares at 95% of the closing market price on purchase date.

#### *Incentive compensation plans*

Prior to the Separation, the Parent's stock-based incentive compensation plans included equity plans adopted in 2004 and 2000 as amended ("principle equity plans") as well as various equity plans assumed through acquisitions under which stock-based awards were outstanding. Stock-based awards granted from the principal equity plans include restricted stock awards, stock options and performance-based awards. Employees who had met certain employment qualifications were eligible to receive stock-based awards.

#### *Stock options*

During the year 143,922 (2015: 221,365) share options were exercised. The weighted average share price at the date of exercise for share options exercised during the year was \$9.86 (2015: \$19.50).

At the reporting date there were 1,078,415 (2015: 490,787) outstanding share options. The range of exercise prices for stock options outstanding at the end of the year and associated weighted average remaining contractual life is set out below:

## Notes to the financial statements

at 31 October 2016

### 24. Share-based payments (continued)

#### Stock options (continued)

| Range of Exercise Prices | 2016                  |  | 2015                  |  |
|--------------------------|-----------------------|--|-----------------------|--|
|                          | Shares<br>outstanding | Weighted-<br>average<br>remaining<br>life in years | Shares<br>outstanding | Weighted-<br>average<br>remaining<br>life in years |
| \$0.01 - \$9.99          | 35,968                | 4.16   | -                     | -  |
| \$10 - \$19.99           | 803,899               | 5.91   | 89,674                | 4.77   |
| \$20 - \$29.99           | 238,548               | 5.58   | 239,629               | 4.75   |
| \$30 - \$39.99           | -                     | -  | 138,984               | 7.15   |
| \$40 - \$49.99           | -                     | -  | 12,500                | 0.48   |
| \$50 - \$59.99           | -                     | -  | 10,000                | 2.36   |
|                          | <u>1,078,415</u>      | <u>5.78</u>  | <u>490,787</u>        | <u>5.28</u>  |

#### Restricted stock awards

Restricted stock awards are non-vested stock awards and are generally subject to forfeiture if employment terminates prior to the lapse of the restrictions. Such awards generally vest one to three years from the date of grant. During the vesting period, ownership of the restricted stock cannot be transferred. 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 upon grant.

The Company expenses the fair value of restricted stock awards, as determined on the date of grant, rateably over the period during which the restrictions lapse.

During the year 149,506 (2015: 998,021) non-vested restricted stock units were exercised.

At the reporting date there were 1,383,105 (2015: 541,509) outstanding non-vested restricted stock units.

## Notes to the financial statements

at 31 October 2016

### 25. Commitments under operating leases

At 31 October 2016 the company had total commitments under non-cancellable operating leases as set out below:

|  | 2016                          |                        | 2015                          |                        |
|--|-------------------------------|------------------------|-------------------------------|------------------------|
|  | <i>Land and<br/>buildings</i> | <i>Other<br/>items</i> | <i>Land and<br/>buildings</i> | <i>Other<br/>items</i> |
|  | £000                          | £000                   | £000                          | £000                   |
| Operating leases which expire:                     |                               |                        |                               |                        |
| No later than in one year                          | 12,417                        | 669                    | 13,274                        | 714                    |
| Later than one year but in no more than five years | 37,887                        | 951                    | 38,934                        | 831                    |
| Later than in five years                           | 18,904                        | -                      | 24,376                        | -                      |
|  | <u>69,208</u>                 | <u>1,620</u>           | <u>76,584</u>                 | <u>1,545</u>           |

### 26. Ultimate parent undertaking and controlling party

At 31 October 2016, the company's immediate parent undertaking is ES Hague B.V., a company incorporated in the Netherlands.

During the year, the ultimate parent company and controlling party and the smallest and largest undertaking, which consolidates these financial statements, is Hewlett Packard Enterprise 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.

### 27. Post balance sheet events

On 24 May 2016 the Hewlett Packard Enterprise Company announced plans for a spin off and merger of its Enterprise Services Business with CSC (Computer Sciences Corporation). This transaction was completed on 1 April 2017. From this date the company's ultimate parent company changed to the DXC Technology Company.

After the balance sheet date significant pension contribution have been made to reduce the company sponsored defined benefit pension deficit:

On 7 November 2016 the company made a pension contribution in a lump sum payment of £10,000,000.

On 14 December 2016 payment was made for £1,498,600,000. It was paid from a capital contribution to the company by a fellow UK group company Hewlett-Packard Holdings Limited.

## Notes to the financial statements

at 31 October 2016

### 28. Transition to FRS 101

For all periods up to and including the year ended 31 October 2015, the Company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 October 2016, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 November 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 November 2014, the Company's date of transition to FRS101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 November 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 October 2015.

#### Exemptions Applied

IFRS 1 allows first-time adopters certain exemptions from the general requirements to apply IFRSs as effective for December 2014 year ends retrospectively. The Company has taken advantage of the following exemptions:

IFRS 2 Share based payment has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005. This is treatment is consistent with the transitional provisions taken when the company adopted FRS 20, the UK equivalent standard.

Cumulative actuarial gains and losses on pensions and other post-employment benefits are recognised in full in equity on the date of transition to IFRS. This is the same treatment as under previous UK GAAP.

## Notes to the financial statements

at 31 October 2016

### 28. Transition to FRS 101 (continued)

The impact from the transition to FRS101 is set out in the tables and notes that follow.

#### Reconciliation as at 1 November 2014

|   | <i>Note</i> | <i>UK GAAP</i><br>£'000 | <i>Reclass</i><br>£'000 | <i>Adjustments</i><br>£'000 | <i>FRS101</i><br>£'000 |
|---|-------------|-------------------------|-------------------------|-----------------------------|------------------------|
| <b>Fixed Assets</b>                                   |             |                         |                         |                             |                        |
| Tangible assets                                       | <b>A</b>    | 319,309                 | (5,904)                 | -                           | 313,405                |
| Intangible fixed assets                               | <b>A</b>    | 27,969                  | 5,904                   | -                           | 33,873                 |
| Deferred costs  | <b>B,C</b>  | -                       | 37,792                  | -                           | 37,792                 |
|   |             | 347,278                 | 37,792                  | -                           | 385,070                |
| <b>Current assets</b>                                 |             |                         |                         |                             |                        |
| Stocks  | <b>C,D</b>  | 27,667                  | (8,826)                 | -                           | 18,841                 |
| Deferred costs  | <b>B,C</b>  | -                       | 121,994                 | -                           | 121,994                |
| Debtors due inside 1 year                             | <b>B</b>    | 1,130,388               | (28,347)                | -                           | 1,102,041              |
| Debtors due outside 1 year                            | <b>B</b>    | 386,471                 | (67,812)                | -                           | 318,659                |
| Deferred tax  | <b>E</b>    | 53,710                  | 85,123                  | -                           | 138,833                |
| Cash at bank and in hand                              |             | 84                      | -                       | -                           | 84                     |
|   |             | 1,598,320               | 102,132                 | -                           | 1,700,452              |
| <b>Creditors: amounts falling due within one year</b> | <b>D</b>    | (658,885)               | (54,801)                | -                           | (713,686)              |
| <b>Net current assets</b>                             |             | 939,435                 | 47,331                  | -                           | 986,766                |
| <b>Total assets less current liabilities</b>          |             | 1,286,713               | 85,123                  | -                           | 1,371,836              |
| <b>Creditors: amounts falling due within one year</b> |             | (210,050)               | -                       | -                           | (210,050)              |
| <b>Provision for liabilities and charges</b>          | <b>F</b>    | (90,604)                | 78,976                  | -                           | (11,628)               |
| <b>Pension liability</b>                              | <b>E,F</b>  | (737,620)               | (164,099)               | -                           | (901,719)              |
| <b>Net assets</b>                                     |             | 248,439                 | -                       | -                           | 248,439                |
| <b>Capital and reserves</b>                           |             |                         |                         |                             |                        |
| Called up share capital                               |             | 757,580                 | -                       | -                           | 757,580                |
| Retained earnings                                     |             | (509,141)               | -                       | -                           | (509,141)              |
| <b>Total equity</b>                                   |             | 248,439                 | -                       | -                           | 248,439                |

## Notes to the financial statements

at 31 October 2016

### 28. Transition to FRS 101 (continued)

#### Reconciliation as at 31 October 2015

|   | <i>Note</i> | <i>UK GAAP</i><br>£'000 | <i>Reclass</i><br>£'000 | <i>Adjustments</i><br>£'000 | <i>FRS101</i><br>£'000 |
|---|-------------|-------------------------|-------------------------|-----------------------------|------------------------|
| <b>Fixed Assets</b>                                   |             |                         |                         |                             |                        |
| Tangible assets                                       | <b>A</b>    | 269,153                 | (2,899)                 | -                           | 266,254                |
| Intangible fixed assets                               | <b>A,G</b>  | 2,547                   | 2,899                   | 25,422                      | 30,868                 |
| Deferred costs  | <b>B,C</b>  | -                       | 130,574                 | -                           | 130,574                |
|   |             | <u>271,700</u>          | <u>130,574</u>          | <u>25,422</u>               | <u>427,696</u>         |
| <b>Current assets</b>                                 |             |                         |                         |                             |                        |
| Stocks  | <b>C,D</b>  | 32,807                  | (7,917)                 | -                           | 24,890                 |
| Deferred costs  | <b>B,C</b>  | -                       | 68,731                  | -                           | 68,731                 |
| Debtors due inside 1 year                             | <b>B</b>    | 1,597,769               | (46,474)                | -                           | 1,551,295              |
| Debtors due outside 1 year                            | <b>B</b>    | 526,063                 | (115,503)               | -                           | 410,560                |
| Deferred tax  | <b>E</b>    | 66,447                  | 92,093                  | -                           | 158,540                |
| Cash at bank and in hand                              |             | 1,292                   | -                       | -                           | 1,292                  |
|   |             | <u>2,224,378</u>        | <u>(9,070)</u>          | <u>-</u>                    | <u>2,215,308</u>       |
| <b>Creditors: amounts falling due within one year</b> | <b>D</b>    | (762,182)               | (29,411)                | -                           | (791,593)              |
| <b>Net current assets</b>                             |             | <u>1,462,196</u>        | <u>(38,481)</u>         | <u>-</u>                    | <u>1,423,715</u>       |
| <b>Total assets less current liabilities</b>          |             | <u>1,733,896</u>        | <u>92,093</u>           | <u>25,422</u>               | <u>1,851,411</u>       |
| <b>Creditors: amounts falling due within one year</b> |             | (337,641)               | -                       | -                           | (337,641)              |
| <b>Provision for liabilities and charges</b>          | <b>F</b>    | (83,582)                | 76,361                  | -                           | (7,221)                |
| <b>Pension liability</b>                              | <b>E,F</b>  | (718,054)               | (168,454)               | -                           | (886,508)              |
| <b>Net assets</b>                                     |             | <u>594,619</u>          | <u>-</u>                | <u>25,422</u>               | <u>620,041</u>         |
| <b>Capital and reserves</b>                           |             |                         |                         |                             |                        |
| Called up share capital                               |             | 1,107,580               | -                       | -                           | 1,107,580              |
| Retained earnings                                     |             | (512,961)               | -                       | 25,422                      | (487,539)              |
| <b>Total equity</b>                                   |             | <u>594,619</u>          | <u>-</u>                | <u>25,422</u>               | <u>620,041</u>         |

## Notes to the financial statements

at 31 October 2016

### 28. Transition to FRS 101 (continued)

#### Total comprehensive income for the year from UK GAAP to FRS 101

The effect of the remeasurement differences on reported profit and income of the Company for the year ended 31 October 2015 is as follows:

|                                   | <i>Note</i> | <i>UK GAAP</i> | <i>Adjustments</i> | <i>Reclass</i> | <i>FRS101</i> |
|-----------------------------------|-------------|----------------|--------------------|----------------|---------------|
|                                   |             | <i>£'000</i>   | <i>£'000</i>       | <i>£'000</i>   | <i>£'000</i>  |
| Profit/(loss) for the year        | <b>G,H</b>  | 41,905         | (36,483)           | 9,196          | 14,618        |
| Other comprehensive income        | <b>H</b>    | (32,316)       | 61,905             | (9,196)        | 20,393        |
| <i>Total comprehensive income</i> |             | 9,589          | 25,422             | -              | 35,011        |

Notes to the reconciliation of equity as at 1 November 2014 and 31 October 2015 and total comprehensive income for the year ended 31 October 2015

#### A. Software Assets

Software assets have been reclassified from tangible fixed assets to intangible fixed assets as per the requirements of IAS 38 Intangible Assets. The reclassification for the year ended 31 October 2015 amounted to £2,899,000 and for the year ended 31 October 2014 £5,904,000.

#### B. Deferred costs, reclassification from debtors

Under UK GAAP certain contract costs were categorised within debtors as amounts recoverable on contracts (UITF34). There is no similar accounting under FRS101 and so these amounts have been reclassified to deferred costs in amount of £46,474,000 from Debtors due inside one year and £115,503,000 from Debtors due outside one year for the year ended 31 October 2015. For the year ended 31 October 2014 it was £28,347,000 from Debtors due inside one year and £67,812,000 from Debtors due outside one year.

#### C. Deferred costs, reclassification from stock (work in progress)

Under FRS101 it is more appropriate for all deferred costs to be classified under the new deferred costs category and split between the balance sheet areas of fixed assets and current assets, rather than the previous classification to work in progress. Accordingly amounts have been reclassified to deferred costs, current assets of £22,257,000 and deferred costs, fixed assets of £15,071,000 from stocks for the year ended 31 October 2015. Reclassified to deferred costs, current assets of £93,647,000 and deferred costs, fixed assets of £ (30,020,000) from stocks for the year ended 31 October 2014.

#### D. Deferred contract revenue, reclassification from stock

Under UK GAAP long term contract accounting (SSAP9) applicable payment on account could be offset against work in progress balances. There is no arrangements under FRS101 and accordingly these offsets have been reversed. Reclassification back to creditors falling in one year from stock amounted to £29,411,000 for the year ended 31 October 2015 and £54,801,000 for the year ended 31 October 2014.

## Notes to the financial statements

at 31 October 2016

### 28. Transition to FRS 101 (continued)

#### ***E. Pensions: deferred tax***

Under UK GAAP, the pension liability was required to be shown net of the related deferred tax asset. Under FRS101 the pension liability is required to be shown gross and the related deferred tax include within the deferred tax asset line on the balance sheet. Reclassification amounted to £92,093,000. For the year ended 31 October 2014 it was £85,123,000.

#### ***F. Pensions: other termination benefits***

Under UK GAAP contractual unfunded pensions balances were included under FRS12 provision accounting. To bring this in line with IAS19 Employee benefits all pension balances have been reclassified under the pension liability heading on the balance sheet. Reclassification of ACP pension amounted to £76,361,000. In FY14 it was £78,976,000.

#### ***G. Goodwill amortisation***

Under UK GAAP goodwill was amortised. Under FRS101, IFRS 3 Business combinations requires an annual impairment and no amortisation. Following the transition rules for adopting FRS101 an exemption has been taken so goodwill is restated back to the balance recorded in the balance sheet at 1 November 2014. The amortisation recorded previously for the year ended 31st October 2016 £25,422,000 has been written back to the profit and loss account and retained earnings adjusted accordingly.

#### ***H. Pensions: net interest on pension liability and administration expenses***

Under previous UK GAAP, the interest cost was determined by applying the discount rate to the opening present value of the defined benefit obligation, and the interest income on the expected return on plan assets based on an assessment made at the beginning of the year of the long-term market returns on scheme assets. Under IAS 19, net interest is calculated by applying the discount rate to the net defined liability or asset.

As a result of transition to FRS 101, net interest for the year ended 31 October 2015 was £55,784,000 lower than had been recognised under previous UK GAAP, with a corresponding reduction/increase in remeasurement gains/losses recognised in other comprehensive income.

Under FRS 17, the expected return on assets assumption is stated net of administrative expenses. FRS 101 removes this option and instead any administrative expenses should be expensed in the profit and loss as incurred. Such expenses should include the costs of administering the Plan (including PPF levies) but should not include investment management fees.

As a result of transition to FRS 101, administration charges for the year ended 31 October 2015 were £6,121,000 higher than had been recognised under previous UK GAAP.

Adjustment of interest on pension liability and administrative expenses has resulted in profit in income statement and other comprehensive income changes. This has been followed by tax figures in income statement and other comprehensive income reclassification amounted to £9,196,000.