

HP Enterprise Services UK Ltd

Report and Financial Statements

31 October 2014

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COMPANIES HOUSE

Registered No. 53419

Directors

M Coombs
A Isherwood
J Ferguson

Secretary

T Trower

Auditors

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

Registered Office

Amen Corner
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Strategic report

The directors present their strategic report for the year ended 31 October 2014.

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 year the company introduced several new enterprise cloud and security services, including HP As-a-Service Solutions, HP Cloud Security Risk and Control Advisory 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 loss for the year, after taxation, amounted to £225,709,000 (2013: loss of £51,275,000).

The directors do not recommend a final ordinary dividend, making the total of ordinary dividends paid for the year £ nil (2013: £ nil).

On 29 October 2014, £600,000,000 of additional share capital was injected into the company from an issue of 1 ordinary share of £1 with a share premium of £599,999,999 (see note 20).

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:

	2014	2013
	£m	£m
Turnover	2,127.5	2,373.2
Gross profit	271.9	229.5
Gross profit margin	12.8%	9.7%
Operating profit/(loss) before exceptional items	40.0	(3.9)
Loss before tax	(69.6)	(48.7)
Total contract value (TCV) of deals signed over £15M/ \$25M *	453.0	1,192.0

** 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\$1.654: £1 (2013: US\$1.561:£1) has been used for the purposes of calculating this metric.*

Strategic report (continued)

Review of the business (continued)

Turnover on the company's portfolio of contracts declined by 10.3 % (2013: declined by 9.6%), which is due to the continued challenging economic environment and pressure of a fiercely competitive and evolving market in which the company operates. The company has launched certain initiatives that aim to return the company to turnover growth in future years, improving our service delivery for higher quality and lower cost.

Gross profit for the year increased by 3.1 percentage points (2013: decrease 6.6 percentage points) and increased in absolute terms by £42.3 million (2013: decrease £199.7 million). After overhead costs the operations results of the company before exceptional items recorded a profit of £40.0 million (2013: loss £3.9 million). Including exceptional items the total loss before tax is £69.6 million (2013: loss £48.7 million), which is an increased loss from the previous year by 43%. These overall increasing losses are driven by several factors, including a reduction in turnover forced by the competitive business environment and increased restructuring efforts and related charges to optimise the business sales force and administration structure. In 2014 the company continued with several 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 62% decline in TCV in the current year is a reflection of difficulties in the current economic climate. The decrease in TCV is driven by new agreements signed during the period and the revenue will be recognised in future periods. Therefore there is minimal impact on revenue in the current year.

Market share

As at 31 October 2014, 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 that build on Hewlett-Packard technologies, competencies and customer interests.

Market share data is extremely dynamic and based on diverse areas of the business. Hewlett-Packard use independent industry analyst reports for market share data which is publicly available at www.uk.idc.com. These should be referred to for up to date market share positions.

Pensions

The company offers both defined benefit and defined contribution pension schemes as benefits to employees. Details of the defined benefit schemes and the amounts included within these financial statements can be found in note 21. The sponsored defined benefit schemes operated by the company have been closed to new individual members for a number of years. All new individual employees joining the company are invited to join the defined contribution schemes.

Due to the nature of the company's defined benefit schemes there is significant contribution from these schemes to the company's financial position. At 31 October 2014 the net pension deficit reported is £737,620,000 (2013: £720,250,000). This deficit has increased over the year with the major movements being cash contributions to the scheme of £411,216,000 (2013: £157,104,000), actuarial losses net of tax recognised within the statement of total recognised gains and losses of £284,564,000 (2013: £23,246,000) and a reduction in the related deferred tax asset of £115,208,000 (2013: £nil) following an assessment of the recoverability of this asset (see note 9).

The company continues to support these schemes with the current funding arrangements for the next year included in note 21.

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 Hewlett-Packard 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 Hewlett-Packard services and the profitability of the company. Through developing a greater understanding of partner and consumer needs Hewlett-Packard implements global cost reduction strategies to ensure that despite the challenging economic climate the company can improve its profitability in the future.

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. Hewlett-Packard as a group has reacted to this by increasing their commitment to partners and consumers through targeting their individual requirements and creating innovations that align these needs with their business strategy. Targeting their individual requirements has enabled Hewlett-Packard to provide more advanced end-to-end personalised and unique solutions.

Reliance on parent company

The company is a subsidiary of Hewlett-Packard Company and is dependent on this parent company for its brand strength. The company also holds a mixture of short and long term loans with subsidiaries of Hewlett-Packard 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 Company, the ultimate parent company, has a centralised treasury function which manages the overall group's Treasury policy, risks and requirements, including HP Enterprise Services UK Ltd. 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 Company can be found in the Hewlett-Packard Company group financial statements.

Strategic report (continued)

Post balance sheet events

On 31st July 2015 following a decision by the company to exit one of its data centre an impairment of fixed assets was booked charging the profit and loss account for £66,000,000.

On 26 October 2015, the Company issued 1 ordinary share with a nominal value of £1 and share premium of £349,999,999 to its existing shareholder Hewlett-Packard Holdings Limited for a total consideration of £350,000,000.

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. This has also enabled a renewed focus on the growth of revenue for the next financial year through the use of more rationalised and effective go to market strategies to capture new opportunities in the market. This in turn is expected to have a positive impact on the market share of the business.

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 will:

- pursue 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;
- design solutions that are safe to use and to minimise their environmental impact;
- offer 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 Company, for which HP Enterprise Services UK Ltd is a subsidiary, 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 from www.hp.com/hpinfo/globalcitizenship/.

Approved by the Board



M Coombs

Director

Date: 20 November 2015

Directors' report

The directors present their report for the year ended 31 October 2014.

Directors

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

M Birch	(resigned 28 October 2014)
P Bladen	(resigned 28 October 2014)
S Burr	(resigned 30 June 2015)
M Coombs	(appointed 17 July 2015)
J Ferguson	(appointed 28 October 2014)
S Grayson	(resigned 7 July 2014)
A Isherwood	
R Putland	(resigned 13 May 2014)
T Trower	(appointed 13 May 2014 and resigned 28 October 2014)
C Wilson	(resigned 28 October 2014)

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 6 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 within the company. 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 by participating in an annual Voice of the Workforce survey.

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

Employees who have completed minimum periods of service are eligible to join both the company performance bonus and share purchase schemes of the Hewlett-Packard Company.

Hewlett-Packard'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 Company operates, also provides a competitive advantage and helps acquire new business.

Hewlett-Packard Company, for which HP Enterprise Services UK Limited is a subsidiary, publishes an annual corporate responsibility report where detailed company-wide employee commitments, initiatives and key performance indicators can be found.

Directors' report (continued)

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 loss 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.

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.

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:

Paragraph 6 – 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; and

Paragraph 7 – Future developments of the company

Directors' report (continued)

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.

Auditors

Ernst & Young LLP continue as the company's auditor. In accordance with the elective resolution passed by the company under section 386 of the Companies Act 1985, which continues in force under the Companies Act 2006, the company has elected to dispense with the obligation to appoint auditors annually.

By order of the Board



M Coombs

Director

Date: 20 November 2015

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing Strategic Report, 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 HP Enterprise Services UK Ltd

We have audited the financial statements of HP Enterprise Services UK Ltd for the year ended 31 October 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9, 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 the 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 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report (continued)

to the members of HP Enterprise Services UK Ltd

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
Statutory Auditor
Reading

Date: *20th November 2015*

Profit and loss account

for the year ended 31 October 2014

	Notes	2014 £000	2013 £000
Turnover	2	2,127,482	2,373,225
Cost of sales		<u>(1,855,617)</u>	<u>(2,143,742)</u>
Gross profit		271,865	229,483
Distribution costs		(103,978)	(102,705)
Administrative expenses		(127,860)	(130,685)
Exceptional items	4	<u>(123,757)</u>	<u>(66,199)</u>
Operating loss	3	(83,730)	(70,106)
Analysed between:			
Operating profit / (loss) on ordinary activities before exceptional item		40,027	(3,907)
Exceptional item – restructuring expenses		(123,757)	(66,199)
Net loss from investments		-	(52)
Interest receivable and similar income	7	37,392	49,487
Interest payable and similar charges	8	<u>(23,244)</u>	<u>(27,991)</u>
Loss on ordinary activities before taxation		(69,582)	(48,662)
Tax on loss on ordinary activities	9	<u>(156,127)</u>	<u>(2,613)</u>
Loss for the financial year		<u>(225,709)</u>	<u>(51,275)</u>

All of the activities of the company are classed as continuing.

Statement of total recognised gains and losses

for the year ended 31 October 2014

	Notes	2014 £000	2013 £000
Loss for the financial year attributable to the shareholder	20	(225,709)	(51,275)
Actuarial (loss)/gain in respect of defined benefit pension scheme		(316,707)	64,637
Current tax in respect of defined benefit pension scheme	9a	46,938	6,932
Deferred tax in respect of defined benefit pension scheme		22,199	(22,069)
Reduction in deferred tax recoverable amounts		(35,133)	-
Rate change impact of deferred tax in respect of defined benefit pension scheme		<u>(1,861)</u>	<u>(26,254)</u>
Total recognised loss relating to the year		<u>(510,273)</u>	<u>(28,029)</u>

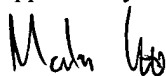
Registered No. 53419

Balance sheet

at 31 October 2014

	Notes	2014 £000	2013 £000
Fixed assets			
Tangible assets	10	319,309	355,021
Intangible assets	11	27,969	61,441
		<u>347,278</u>	<u>416,462</u>
Current assets			
Stocks	13	27,667	43,532
Debtors [including £461,077,000 (2013: £219,679,000) due after more than one year]	14	1,570,569	1,368,553
Cash at bank		84	253
		<u>1,598,320</u>	<u>1,412,338</u>
Creditors: amounts falling due within one year	15	<u>(658,885)</u>	<u>(671,392)</u>
Net current assets		<u>939,435</u>	<u>740,946</u>
Total assets less current liabilities		<u>1,286,713</u>	<u>1,157,408</u>
Creditors: amounts falling due after more than one year	16	<u>(210,050)</u>	<u>(187,864)</u>
		<u>1,076,663</u>	<u>969,544</u>
Provision for liabilities and charges	18	<u>(90,604)</u>	<u>(91,285)</u>
Net assets excluding pension liability		<u>986,059</u>	<u>878,259</u>
Defined benefit pension scheme liability	21	<u>(737,620)</u>	<u>(720,250)</u>
Net assets including pension liability		<u>248,439</u>	<u>158,009</u>
Capital and reserves			
Called up equity share capital	19	157,580	157,580
Share premium	20	600,000	-
Profit and loss account	20	<u>(509,141)</u>	<u>429</u>
Shareholders' funds	20	<u>248,439</u>	<u>158,009</u>

Approved by the Board



M Coombs

Director

Date: 20 November 2015

Notes to the financial statements

at 31 October 2014

1. Accounting policies

The following accounting policies have been applied consistently in dealing with the items which are considered material in relation to the financial statements, except as noted below.

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

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.

Cash flow statement

Under Financial Reporting Standard No. 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking, Hewlett-Packard Company, includes the company in its own published group financial statements.

Turnover

Turnover is recognised to the extent that the company obtains the right to consideration in exchange for performance. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, Value Added Tax and other sales taxes or duty.

Turnover on contracts is recognised as described below under 'Accounting for Contracts'.

Turnover is also received on work done for fellow group companies where services provided are billed and recognised in turnover. These includes an at arm's length mark-up.

Accounting for contracts

With the exception of PFI contracts (discussed below) in order to account for a contract's performance, each contract is split out into its separable deliverable elements. In accordance with Financial Reporting Standard No. 5 Application Note G, the total contract revenue is allocated to each separate element based on the fair value of each element. Thereafter the accounting for each element is considered independently. If a contract only consists of a single element then no separation takes place.

Where the contract element is for the provision of service or repetitive processes, revenue is generally recognised when the product or service is provided. If services are provided evenly during the contract term but billings are irregular, revenue is recognised on a straight-line basis over the contract term that is as the service is being provided. Where the contract element is a major development or implementation project that is transferred to the customer on completion the element is accounted for in accordance with Statement of Standard Accounting Practice No. 9, 'Stocks and long-term contracts'. Revenue recognition is based on a delivery approach to measure the stage of completion, depending on the specific contractual terms the measurement of delivery takes the form of performance milestones, costs completed to date or other appropriate measure. Profits are only recognised when the outcome of this contract element can be foreseen with reasonable certainty. Provision is made for losses on this element as soon as they are foreseen.

Notes to the financial statements

at 31 October 2014

1. Accounting policies (continued)

Accounting for contracts (continued)

Where the contract element is the provision of assets under a leasing arrangement the element is accounted for under SSAP21 'Accounting for leases and Hire purchase contracts'. The lease is accounted for as stated in the leasing and hire purchase accounting policy note.

Contract costs that are directly attributable to building a fixed asset, including computer systems, are capitalised and depreciated over the expected life of the related asset. The company also defers and subsequently expenses over the life of the contract certain initial set up costs related to the activities, which enable the provision of contracted services to the client. Such activities include the relocation of transitioned employees, the migration of client systems or processes, and the exit of client facilities.

The recoverability of all fixed assets and other deferred costs associated with a particular contract are reviewed for impairment on a regular basis by reference to their estimated recoverable amount being the higher of their net realisable value and their value in use or their cost and net realisable value as appropriate. Values in use are based on the estimated cash flows of the contract over its remaining term.

Private Finance Initiative (PFI) and similar contracts

PFI and similar contracts are accounted for in accordance with Financial Reporting Standard No.5 Application Note F 'PFI and Similar Contracts'. Where it can be demonstrated that the balance of risks and rewards derived from the underlying assets are not borne by the company, the asset created under the contract is accounted for as a financial debtor. Income derived from such contracts is allocated to the provision of the asset and the provision of the services. This asset is reduced as payments are received from the client. In addition financial income on this financial asset is recorded in subsequent years using a property specific interest rate. The remainder of the PFI payments (i.e. full payments less the capital repayment and the imputed financing charge) is recorded within operating profit. During the period from the start of the contract to the date of the acceptance of the completed asset by the client, turnover equal to cost incurred is recognised.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations is capitalised and amortised over its useful economic life on a straight-line basis. The directors estimate the useful economic life of the goodwill relating to each acquisition on an individual basis.

Amortisation 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:

Goodwill – 3 to 20 years (straight line)

Notes to the financial statements

at 31 October 2014

1. Accounting policies (continued)

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)
Software	– 3 to 5 years (straight line)

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 Financial Reporting Standard No. 15 'Tangible Fixed Assets' 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.

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.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Costs include appropriate overheads. Work in progress is reduced by payments received on account of work done and is stated after allowing for all foreseeable losses.

Taxation

The charge/credit for taxation is based on the profit/loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Notes to the financial statements

at 31 October 2014

1. Accounting policies (continued)

Leasing and hire purchase accounting

(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.

Pension costs and other post-retirement benefits

The company accounts for both defined benefit and defined contribution pension schemes. The assets of the schemes are held separately from those of the company.

In relation to the defined contribution schemes, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

Defined benefit pension scheme assets are measured using market values. Associated pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full on the balance sheet, net of deferred tax within the pension asset/liability.

The amount charged to operating profit is the current service cost of providing retirement benefits to employees during the year as well as the full cost of providing amendments to benefits in respect of past service.

The expected return on the market value of the pension scheme assets at the start of the financial year and the expected increase in the scheme's liabilities due to the unwinding of the discount during the year are shown as financing costs in the profit and loss account.

Any difference between the expected and actual return on assets together with differences from changes in assumptions, are recognised as actuarial gains and losses in the statement of total recognised gains and losses.

Notes to the financial statements

at 31 October 2014

1. Accounting policies (continued)

Pension costs and other post-retirement benefits (continued)

Included within the pension liability are pension enhancements provided to employees leaving through redundancies, such enhancements on redundancy are outside of the scope of FRS 17 Retirement Benefits.

The company also pays other termination benefits which are outside of the scope of FRS 17 Retirement Benefits. The company has offered contractual enhancement payments to ex-employees who have had their employment terminated early. These payments are payable to the recipient employee from the date of termination to either the retirement age or to death depending on the contractual terms agreed with that employee. These amounts are linked to pensions and are administered as such but are funded directly by the company and are separate from the pension schemes. The resulting liability is measured at the discounted value of the future payments, using similar assumptions to the pension plan and are booked as part of 'Provisions for liabilities and charges'.

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. 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 has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 November 2006.

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

Notes to the financial statements

at 31 October 2014

1. Accounting policies (continued)

Equity-settled transactions (continued)

The company records the charge payable to Hewlett-Packard Company for the difference between the market value of exercised options and the exercise price of those options when the liability is due. The company records the charge to the profit and loss account if the charge relates to options that are not in scope for FRS 20. The company records the charge to equity if the charge relates to options that are in scope for FRS 20.

Interest Income

Income 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.

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.

2. Turnover

Segmental analysis for turnover by geographical split has not been provided as it is the opinion of the directors that any disclosure would be seriously prejudicial to the interests of the company and therefore has not been disclosed.

The company operates within one industry segment, the provision of technology business solutions.

3. Operating loss

This is stated after charging/(crediting):

	2014 £000	2013 £000
Auditors' remuneration – audit of the financial statements*	413	512
– other services	5	4
<i>*Audit fees paid on behalf of fellow group companies £51,547 (2013: £67,674)</i>		
Amortisation	33,472	33,472
Depreciation of owned fixed assets	34,474	40,179
Depreciation of assets held under hire purchase agreements	39,769	29,452
Loss on disposal of fixed assets	477	1,700
Foreign exchange loss/(gain)	3,545	(1,805)
Operating lease costs – plant and machinery*	9,329	10,186
– land and buildings*	13,101	9,635
– other	919	1,463

**Operating lease costs that relates to leasehold premises no longer used are offset by onerous lease provision utilisation (see note 18).*

Notes to the financial statements

at 31 October 2014

4. Exceptional items

	2014	2013
	£000	£000
Exceptional items – Employee redundancy costs	123,757	66,199

Employee redundancy costs include payments to individuals and associated employer pension charges

5. 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 £3,778,352 (2013: £2,355,388) with pension contributions of £74,344 (2013: £110,920). The emoluments of the highest paid director were remuneration of £1,642,053 and pension contributions to money purchase schemes of £ nil (2013: remuneration £753,177; pension contributions to money purchase schemes £37,133). The highest paid director had accrued pension, in respect of defined benefits, at the end of the year of £237,098 (2013: £ nil).

Four directors participated in the company's defined contribution pension scheme during the year ended 31 October 2014 (2013: five). Five directors participated in a fellow group company's defined benefit pension scheme during the year ended 31 October 2014 (2013: three). Seven directors acquired shares through the vesting of previously granted restricted stock units (2013: seven).

The directors of the company estimate that the total remuneration in relation to identifiable qualifying services during the year for HP Enterprise Services UK Ltd is £2,311,083 (2013: £1,399,688) with pension contributions of £51,817 (2013: £62,868). The remainder is in relation of their time spent performing services for other group companies.

6. Particulars of employees

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

	2014	2013
	No.	No.
Information Technology Outsourcing	9,881	10,785

The aggregate payroll costs of the above were:

	2014	2013
	£000	£000
Wages and salaries	579,168	606,524
Social security costs	59,238	65,836
Other pension costs	85,890	101,341
Equity-settled share-based payments	8,979	7,448
Other employee benefits	430	288
	733,705	781,437

Notes to the financial statements

at 31 October 2014

6. Particulars of employees (continued)

The above aggregate payroll costs include amounts expensed in relation to employee redundancy costs which is shown separately in note 4 as an exceptional item.

Other pension costs above do not include amounts credited to finance income (see note 7) and amounts recognised in the statement of total recognised gains and losses in respect of defined benefit pension schemes.

7. Interest receivable and similar income

	2014	2013
	£000	£000
Other interest receivable	32	530
Interest receivable on finance debtor	7,045	13,620
Interest receivable on finance leases	6,326	11,952
Interest from group undertakings	242	228
Other finance income (note 21)	23,747	23,157
	<u>37,392</u>	<u>49,487</u>

8. Interest payable and similar charges

	2014	2013
	£000	£000
Discounted provisions – unwinding of discount	4,375	4,483
– effect of change in discount rate	4,828	4,211
Interest payable to group companies	54	117
Interest payable in respect of finance leases and hire purchase contracts	13,887	19,180
Other interest payable	100	-
	<u>23,244</u>	<u>27,991</u>

Notes to the financial statements

at 31 October 2014

9. Taxation on ordinary activities

(a) Analysis of charge in the period

	2014 £000	2013 £000
Current tax:		
United Kingdom corporation tax on the loss for the year at 21.83% (2013:23.42%)	-	(11,035)
Amount transferred to statement of total recognised gains and losses	46,938	6,932
Under / (over) provision in prior year	14,533	(9,029)
	<u>61,471</u>	<u>(13,132)</u>
Foreign tax:		
Current tax on income for the year	245	535
	<u>61,716</u>	<u>(12,597)</u>
Total current tax (note 9(b))		
Deferred tax:		
Origination and reversal of timing differences – current year	(12,117)	5,401
Unrelieved tax losses carried forward	(51,579)	(3,629)
Origination and reversal of timing differences – prior year	-	2,913
Effect of decreased tax rate	5,340	10,525
Reduction in recoverable amounts	152,767	-
Total deferred tax	<u>94,411</u>	<u>15,210</u>
Tax on loss on ordinary activities	<u>156,127</u>	<u>2,613</u>

Notes to the financial statements

at 31 October 2014

9. Taxation on ordinary activities (continued)

(b) Factors affecting current year tax charge

The tax assessed on the result on ordinary activities for the year is different to the standard rate of corporation tax in the United Kingdom of 21.83% (2013: 23.42%). The differences are reconciled below:

	2014 £000	2013 £000
Loss on ordinary activities before tax	(69,582)	(48,662)
Loss on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 21.83% (2013: 23.42%).	(15,190)	(11,397)
Effects of:		
Disallowable expenses	(1,568)	9,709
Income non-taxable	-	(15)
Depreciation and similar items in excess of capital allowances	7,129	8,270
Capital items in revenue	2,620	2,810
Other timing differences	2,368	(16,482)
Adjustments to tax charge in respect of prior years	14,533	(9,029)
Overseas tax	245	535
Unrelieved tax losses carried forward	51,579	3,629
Adjustment to tax rate used to carried back losses	-	(627)
Total current tax (note 9(a))	61,716	(12,597)

(c) Deferred tax

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

	2014 £000	2013 £000
Included in debtors (note 14)	53,710	67,976

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

	2014 £000	2013 £000
Balance brought forward	248,039	311,572
Profit and loss account movement arising during the year (note 9(a))	(94,411)	(15,210)
Amounts credited to the statement of total recognised gains and losses	(14,795)	(48,323)
Balance carried forward	138,833	248,039

Notes to the financial statements

at 31 October 2014

9. Taxation on ordinary activities (continued)

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

	2014	2013
	£000	£000
Excess of depreciation over taxation allowances	20,840	40,115
Pension deficit	85,123	180,063
Losses carried forward	21,396	3,099
Other timing differences	11,473	24,762
Total deferred tax asset	138,833	248,039
Transfer out of pension deficit (note 21)	(85,123)	(180,063)
	<u>53,710</u>	<u>67,976</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.

Reduction in deferred tax recoverable amounts in the year has been £187,900,000 (2013:£nil). £152,767,000 (2013:£nil) charged to the profit and loss account (note 9(a)) and £35,133,000 (2013:£nil) charged to the statement of total recognised gains and losses.

(d) Factors that may affect future tax charges

The Finance Bill 2012 included a reduction in the UK corporation tax rate from 25% to 24% effective from 1 April 2012 and 24% to 23% effective from 1 April 2013 (substantively enacted on 3 July 2012).

The Finance Bill 2013 included a reduction in the UK corporation tax rate from 23% to 21% from 1 April 2014 and a further reduction to 20% from 1 April 2015. These rates were substantively enacted on 2 July 2013 and therefore deferred tax assets and liabilities as at 31 October 2014 have been calculated at a rate of 20% (31 October 2013 – 20%) as the timing differences are not expected to materially reverse before 1 April 2015.

The Finance Bill 2015 left the UK corporation tax rate at 20% from 1 April 2016. The bill also reduced the rate to 19% effective from 1 April 2017 until 1 April 2020 when the rate will be reduced further to an 18% level.

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 2014

10. Tangible fixed assets

	<i>Land and property £000</i>	<i>Leasehold improvements £000</i>	<i>Assets under construction £000</i>	<i>Plant and machinery £000</i>	<i>Software £000</i>	<i>Total £000</i>
<i>Cost :</i>						
At 1 November 2013	14,503	360,979	3,417	570,699	47,348	996,946
Additions	-	266	5,499	33,344	2,770	41,879
Disposals	-	(5,433)	-	(120,645)	(1,191)	(127,269)
Transfers	-	6,035	(6,202)	167	6,509	6,509
At 31 October 2014	14,503	361,847	2,714	483,565	55,436	918,065
<i>Depreciation:</i>						
At 1 November 2013	1,362	149,996	-	450,553	40,014	641,925
Charge for the year	123	19,417	-	50,720	3,983	74,243
On disposals	-	(2,615)	-	(120,332)	(974)	(123,921)
On Transfers	-	-	-	-	6,509	6,509
At 31 October 2014	1,485	166,798	-	380,941	49,532	598,756
<i>Net book value:</i>						
At 31 October 2014	13,018	195,049	2,714	102,624	5,904	319,309
At 1 November 2013	13,141	210,983	3,417	120,146	7,334	355,021

Land and property – Included within the net book value of land and property is £3,432,667 (2013: £3,555,628) of depreciable long leasehold property, and £9,585,761 (2013: £9,585,761) 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 £319,309,000 is £84,795,791 (2013: £94,878,917) 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 £39,768,718 (2013: £29,451,972).

Notes to the financial statements

at 31 October 2014

11. Intangible fixed assets

	<i>Goodwill</i> £000
<i>Cost:</i>	
At 1 November 2013 and 31 October 2014	<u>296,954</u>
<i>Amortisation:</i>	
At 1 November 2013	235,513
Charge for the year	<u>33,472</u>
At 31 October 2014	<u>268,985</u>
<i>Net book value:</i>	
At 31 October 2014	<u>27,969</u>
At 1 November 2013	<u>61,441</u>

Goodwill net book value of £24,149,000 (2013: £56,348,783) relates to the acquisition on 1 August 2009 of the UK outsourcing business from Hewlett-Packard Limited and Hewlett-Packard Marigalante Limited, which is being written off over 6 years on a straight line basis representing the estimated useful economic life.

Goodwill net book value of £3,820,000 (2013: £5,093,069) relates to the acquisition on 31 October 2011 of the UK outsourcing business from Eisis Limited which is being written off over 6 years on a straight line basis representing the estimated useful economic life.

Notes to the financial statements

at 31 October 2014

12. 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>
			£1 ordinary shares
Media Accounting Services Limited	England and Wales	Non-trading	100%
			£1 ordinary shares
EDS Trustee Limited	England and Wales	Dormant company	90%

13. Stocks

	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
Finished goods and goods for resale	18,841	20,239
Long term contract balances	8,826	23,293
	<u>27,667</u>	<u>43,532</u>

Long term contract balances are analysed as follows:

Cost	63,627	87,681
Less: applicable payments on account	(54,801)	(64,388)
	<u>8,826</u>	<u>23,293</u>

14. Debtors

	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>
Trade debtors	253,052	255,418
Amounts owed by group undertakings	847,674	498,833
Corporation tax repayable	27,560	42,178
Finance debtors	154,878	253,090
Amounts recoverable on contracts	88,509	105,100
Deferred contract costs	96,159	74,944
Other debtors	933	3,650
Prepayments and accrued income	48,094	67,364
Deferred taxation (note 9(c))	53,710	67,976
	<u>1,570,569</u>	<u>1,368,553</u>

Notes to the financial statements

at 31 October 2014

14. Debtors (continued)

The debtors above include the following amounts falling due after more than one year:

	2014	2013
	£000	£000
Amounts owed by group undertakings	300,037	-
Finance debtor	60,545	101,502
Deferred contract costs	67,812	50,909
Other debtors	-	969
Prepayments and accrued income	3,077	7,805
Deferred tax asset	29,606	58,494
	<u>461,077</u>	<u>219,679</u>

15. Creditors: amounts falling due within one year

	2014	2013
	£000	£000
Bank overdraft	77	100
Payments received on account	108,608	105,698
Trade creditors	60,708	58,418
Amounts owed to group undertakings	196,434	205,328
Other taxation and social security	54,271	46,088
Obligations under hire and lease purchase contracts (note 17)	89,962	98,299
Other creditors	376	268
Accruals	148,449	157,193
	<u>658,885</u>	<u>671,392</u>

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

	2014	2013
	£000	£000
Payments received on account	48,402	18,730
Other creditors	49,203	47,029
Obligations under hire and lease purchase contracts (see note 17)	112,445	122,105
	<u>210,050</u>	<u>187,864</u>

Included within other creditors is £49,202,698 (2013: £47,029,393) relating to the purchase of data centres contained within tangible assets which are secured on these assets.

Notes to the financial statements

at 31 October 2014

17. Obligations under hire and lease purchase agreements

Future commitments under hire and lease purchase agreements are as follows:

	2014 £000	2013 £000
Amounts payable:		
Within one year	89,962	98,299
In 2 to 5 years	106,407	121,517
After 5 years	6,038	588
	<u>202,407</u>	<u>220,404</u>

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

18. Provisions for liabilities and charges

	<i>Dilapidation & Onerous Lease provisions</i> £000	<i>Contract provisions</i> £000	<i>Other termination benefits</i> £000	<i>Total</i> £000
Balance brought forward	22,010	2,018	67,257	91,285
<i>Charge to the profit and loss:</i>				
Additional amounts provided	3,834	300	8,390	12,524
Unwinding of discounted amount	1,503	-	2,872	4,375
Effect of change in assumptions	-	-	4,828	4,828
Provision release during the year	(289)	-	-	(289)
Amounts utilised during the year	(15,730)	(2,018)	(4,371)	(22,119)
Balance carried forward	<u>11,328</u>	<u>300</u>	<u>78,976</u>	<u>90,604</u>

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 6.2% (2013:7.6%)

Contract provisions comprise provision for costs to complete construct and build elements of contracts where the total estimated costs are in excess of the revenue for those contract components, and the provision for claims and actions against the company in respect of contract disputes. Utilisation will be when disputes are settled and expected costs are incurred. It is expected that these costs will have been incurred within the next financial year.

Notes to the financial statements

at 31 October 2014

18. Provisions for liabilities and charges (continued)

Other termination benefits are 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 3.8% (2013:4.3%) and is calculated using the same assumptions as those applied to the 1994 pension plan (see note 21). 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 years (2013:26.8 years) from the balance sheet date.

19. Share capital

	2014 £'000	2013 £'000
<i>Allotted, called up and fully paid</i>		
157,580,001 (2013: 157,580,000) ordinary shares of £1 each	<u>157,580</u>	<u>157,580</u>

20. Reconciliation of shareholders' funds and movement on reserves

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
At 1 November 2012	157,580	-	23,769	181,349
Loss for the financial year	-	-	(51,275)	(51,275)
Actuarial loss recognised in respect of defined benefit pension schemes net of current and deferred tax	-	-	23,246	23,246
Recognition of equity-settled share-based payments in the year	-	-	7,448	7,448
Recharge for exercised share options	-	-	(2,759)	(2,759)
At 31 October 2013	<u>157,580</u>	<u>-</u>	<u>429</u>	<u>158,009</u>
Loss for the financial year	-	-	(225,709)	(225,709)
Actuarial gain recognised in respect of defined benefit pension schemes net of current and deferred tax	-	-	(284,564)	(284,564)
Recognition of equity-settled share-based payments in the year	-	-	8,979	8,979
Recharge for exercised share options	-	-	(8,276)	(8,276)
Shares issued	-	600,000	-	600,000
At 31 October 2014	<u>157,580</u>	<u>600,000</u>	<u>(509,141)</u>	<u>248,439</u>

On 29 October 2014 the company issued £1 ordinary share to its parent with a share premium of £599,999,999.

Notes to the financial statements

at 31 October 2014

21. Pensions and other post-retirement benefits

Defined contribution schemes

Hewlett Packard Group in the United Kingdom operates 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 £31,770,166 (2013: £29,168,056). There were no outstanding or prepaid contributions at the end of the financial period.

Defined benefit 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).

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 defined contribution scheme operated by Hewlett Packard (see above).

The valuation used has been based on the most recent actuarial valuation at 31 December 2012 (Retirement Plan), 31 December 2012 (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 FRS17 in order to assess the liabilities of the schemes at 31 October 2014 and 31 October 2013.

For the 1994 scheme and retirement plan, the next funding valuations are due to be carried out as at 31 December 2014.

For the Memorex Plan, this Plan is due to merge with the EDS Retirement Plan during 2015 and the next funding valuation will be carried out following the merger.

Scheme assets are stated at their market values at the respective balance sheet dates. The expected rates of return are established by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rate of return experienced in the respective markets.

Notes to the financial statements

at 31 October 2014

21. Pensions and other post-retirement benefits (continued)

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

	Retirement Plan	1994 Scheme	Memorex	Total
Year ended 31 October 2014	£000	£000	£000	£000
Scheme assets at fair value				
Equities	1,081,828	415,752	17,702	1,515,282
Bonds	454,843	207,974	7,774	670,591
Property	116,432	45,047	-	161,479
Others	364,095	131,902	478	496,475
Fair value of scheme assets	2,017,198	800,675	25,954	2,843,827
Present value of scheme liabilities	(2,615,563)	(1,017,851)	(33,156)	(3,666,570)
Defined benefit pension scheme deficit	(598,365)	(217,176)	(7,202)	(822,743)
Related deferred tax asset	61,908	22,470	745	85,123
Net liability on the balance sheet	(536,457)	(194,706)	(6,457)	(737,620)

	Retirement Plan	1994 Scheme	Memorex	Total
Year ended 31 October 2013	£000	£000	£000	£000
Scheme assets at fair value				
Equities	1,163,651	420,996	17,990	1,602,637
Bonds	304,309	156,879	6,115	467,303
Property	73,781	37,375	-	111,156
Others	108,552	49,975	213	158,740
Fair value of scheme assets	1,650,293	665,225	24,318	2,339,836
Present value of scheme liabilities	(2,321,690)	(886,754)	(31,705)	(3,240,149)
Defined benefit pension scheme deficit	(671,397)	(221,529)	(7,387)	(900,313)
Related deferred tax asset	134,280	44,306	1,477	180,063
Net liability on the balance sheet	(537,117)	(177,223)	(5,910)	(720,250)

Notes to the financial statements

at 31 October 2014

21. Pensions and other post-retirement benefits (continued)

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.

The amounts recognised in the profit and loss account and the statement of total recognised gains and losses for the year are as follows:

	Retirement Plan	1994 Scheme	Memorex	Total
Year ended 31 October 2014	£000	£000	£000	£000
Recognised in the profit and loss account				
Current service costs	29,900	6,904	-	36,804
(Gain)/loss on curtailment	(7,829)	997	-	(6,832)
Separated employee pension enhancements	710	10,004	-	10,714
Expenses recognised in arriving at operating profit	22,781	17,905	-	40,686
Expected return on scheme assets	(117,011)	(43,612)	(1,660)	(162,283)
Interest on scheme liabilities	99,926	37,296	1,314	138,536
Other finance income	(17,085)	(6,316)	(346)	(23,747)
Total expense/(income) recognised in the profit and loss account	5,696	11,589	(346)	16,939
Taken to the statement of total recognised gains and losses				
Actual return less expected return on scheme assets	2,301	2,886	5	5,192
Experience gains arising on scheme liabilities	4,289	700	979	5,968
Effect of changes in assumptions underlying the present value of scheme liabilities	(222,601)	(102,645)	(2,622)	(327,868)
Actuarial gains and losses recognised in the statement of total recognised gains and losses	(216,011)	(99,059)	(1,638)	(316,708)

Notes to the financial statements

at 31 October 2014

21. Pensions and other post-retirement benefits (continued)

	Retirement Plan	1994 Scheme	Memorex	Total
Year ended 31 October 2013	£000	£000	£000	£000
Recognised in the profit and loss account				
Current service costs	38,527	10,021	-	48,548
Past service cost	-	-	3,567	3,567
Loss on curtailment	-	7,000	-	7,000
Separated employee pension enhancements	282	5,570	-	5,852
Expenses recognised in arriving at operating profit	38,809	22,591	3,567	64,967
Expected return on scheme assets	(102,644)	(49,008)	(1,540)	(153,192)
Interest on scheme liabilities	95,378	33,487	1,170	130,035
Other finance income	(7,266)	(15,521)	(370)	(23,157)
Total expense recognised in the profit and loss account	31,543	7,070	3,197	41,810
Taken to the statement of total recognised gains and losses				
Actual return less expected return on scheme assets	171,411	54,040	2,348	227,799
Experience gains/(losses) arising on scheme liabilities	11,072	(9,269)	86	1,889
Effect of changes in assumptions underlying the present value of scheme liabilities	(90,381)	(74,369)	(301)	(165,051)
Actuarial gains and losses recognised in the statement of total recognised gains and losses	92,102	(29,598)	2,133	64,637

Notes to the financial statements

at 31 October 2014

21. Pensions and other post-retirement benefits (continued)

The main assumptions adopted are:	Retirement Plan		1994 Scheme		Memorex	
	2014	2013	2014	2013	2014	2013
	%	%	%	%	%	%
Rate of increase in salaries						
– retirement plan - post April 2010	2.0	2.0	-	-	-	-
– retirement plan - pre April 2010	3.0	3.5	-	-	-	-
– 1994 plan	-	-	2.5	2.0	-	-
– Memorex	-	-	-	-	N/A	N/A
Rate of increase in pensions in payment						
– retirement plan	3.1	3.1	-	-	-	-
– 1994 plan	-	-	3.2	3.2	-	-
– Memorex	-	-	-	-	2.3	2.3
Discount rate	3.8	4.3	3.8	4.3	3.7	4.2
Inflation assumption – RPI	3.2	3.2	3.2	3.2	3.2	3.2
Inflation assumption – CPI	2.2	2.3	2.2	2.3	2.2	2.3
Expected rates of return on scheme assets						
– Government stock	2.7	3.3	2.7	3.3	2.7	3.3
– Corporate bonds	3.5	3.9	3.5	3.9	3.5	3.9
– Equity	7.6	8.0	7.6	8.0	7.6	8.0
– Property	6.8	7.4	6.8	7.4	6.8	7.4
– Other	3.4	4.9	3.5	4.5	2.5	3.1
	<i>Years</i>	<i>Years</i>	<i>Years</i>	<i>Years</i>	<i>Years</i>	<i>Years</i>
Post-retirement mortality						
Current pensioners						
at 65 – male	23.5	23.5	-	-	22.4	21.4
at 65 - female	26.0	26.0	-	-	24.6	23.5
at 60 – male	-	-	27.8	27.8	-	-
at 60 - female	-	-	31.0	31.0	-	-
Current 45 year old member						
from 65 - male	25.3	25.3	-	-	24.1	23.3
from 65 - female	27.9	27.9	-	-	26.5	24.7
from 60 - male	-	-	29.4	29.4	-	-
from 60 - female	-	-	32.6	32.6	-	-

Notes to the financial statements

at 31 October 2014

21. Pensions and other post-retirement benefits (continued)

	Retirement Plan	1994 Scheme	Memorex	Total
	£000	£000	£000	£000
Changes in the present value of the defined benefit obligation scheme are as follows:				
As at 1 November 2012	2,150,368	768,884	27,756	2,947,008
Current service cost	38,527	10,021	-	48,548
Past service cost	-	-	3,567	3,567
Loss on curtailment	-	7,000	-	7,000
Separated employee pension enhancements	282	5,570	-	5,852
Interest on scheme liabilities	95,378	33,487	1,170	130,035
Actuarial loss	79,309	83,638	215	163,162
Contributions by scheme participants	634	664	-	1,298
Benefits paid	(42,808)	(22,510)	(1,003)	(66,321)
As at 31 October 2013	2,321,690	886,754	31,705	3,240,149
Current service cost	29,900	6,904	-	36,804
(Gain)/loss on curtailment	(7,829)	997	-	(6,832)
Separated employee pension enhancements	710	10,004	-	10,714
Interest on scheme liabilities	99,926	37,296	1,314	138,536
Actuarial loss	218,312	101,944	1,643	321,899
Contributions by scheme participants	520	586	-	1,106
Benefits paid	(47,666)	(26,634)	(1,506)	(75,806)
As at 31 October 2014	2,615,563	1,017,851	33,156	3,666,570

Notes to the financial statements

at 31 October 2014

21. Pensions and other post-retirement benefits (continued)

	Retirement Plan £000	1994 Scheme £000	Memorex £000	Total £000
Changes in the fair value of scheme assets are as follows:				
As at 1 November 2012	1,303,889	542,919	19,956	1,866,764
Expected return on scheme assets	102,644	49,008	1,540	153,192
Contributions by employer	114,523	41,104	1,477	157,104
Contributions by scheme participants	634	664	-	1,298
Benefits paid	(42,808)	(22,510)	(1,003)	(66,321)
Assets over performance from expected	171,411	54,040	2,348	227,799
As at 31 October 2013	1,650,293	665,225	24,318	2,339,836
Expected return on scheme assets	117,011	43,612	1,660	162,283
Contributions by employer	294,739	115,000	1,477	411,216
Contributions by scheme participants	520	586	-	1,106
Benefits paid	(47,666)	(26,634)	(1,506)	(75,806)
Assets over performance from expected	2,301	2,886	5	5,192
As at 31 October 2014	2,017,198	800,675	25,954	2,843,827

The separated employee's pension enhancements relate to additional pension benefits offered to employees leaving through redundancy and as such outside of the scope of FRS 17. These are paid through the pension schemes.

Contributions paid by the company in the accounting year amounted to £411,216,000.

£99,000,000 paid in June 2014 and £2,851,000 in September 2014 relate to instalments of a contributions funding schedule agreed to be paid during the year November 2013 to October 2014.

£9,365,000 paid through monthly payroll deductions relates to contributions payable in respect of the year November 2013 to October 2014.

A one off payment of £300,000,000 was paid in October 2014 which was split between the EDS 1994 Pension Scheme (£73,000,000) and the EDS Retirement Plan (£227,000,000).

Future contribution instalments over the period November 2014 to October 2015 are expected to be £26,300,000 in June 2015 and £1,500,000 in September 2015. Regular monthly contributions from payroll deductions will be paid in line with the future service rates determined from the 31 December 2012 funding valuations.

Notes to the financial statements

at 31 October 2014

21. Pensions and other post-retirement benefits (continued)

Retirement Plan

	<i>31-Oct-14</i>	<i>31-Oct-13</i>	<i>31-Oct-12</i>	<i>31-Oct-11</i>	<i>31-Oct-10</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Present value of defined benefit obligation	(2,615,563)	(2,321,690)	(2,150,368)	(1,881,684)	(1,605,599)
Fair value of scheme assets	2,017,198	1,650,293	1,303,889	1,148,466	1,133,958
Deficit in scheme	(598,365)	(671,397)	(846,479)	(733,218)	(471,641)
Experience adjustments arising on scheme liabilities	4,289	11,072	7,424	(4,877)	46,798
Experience adjustments arising on scheme assets	2,301	171,411	23,094	(88,372)	75,177

1994 Scheme

	<i>31-Oct-14</i>	<i>31-Oct-13</i>	<i>31-Oct-12</i>	<i>31-Oct-11</i>	<i>31-Oct-10</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Present value of defined benefit obligation	(1,017,851)	(886,754)	(768,884)	(686,814)	(599,368)
Fair value of scheme assets	800,675	665,225	542,919	473,353	423,460
Deficit in scheme	(217,176)	(221,529)	(225,965)	(213,461)	(175,908)
Experience adjustments arising on scheme liabilities	700	(9,269)	1,188	(2,881)	1,479
Experience adjustments arising on scheme assets	2,886	54,040	1,770	(32,504)	25,527

Notes to the financial statements

at 31 October 2014

21. Pensions and other post-retirement benefits (continued)

Memorex	<i>31-Oct-14</i>	<i>31-Oct-13</i>	<i>31-Oct-12</i>	<i>31-Oct-11</i>	<i>31-Oct-10</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Present value of defined benefit obligation	(33,156)	(31,705)	(27,756)	(24,923)	(24,186)
Fair value of scheme assets	25,954	24,318	19,956	17,724	16,508
Deficit in schemes	(7,202)	(7,387)	(7,800)	(7,199)	(7,678)
Experience adjustments arising on scheme liabilities	979	86	83	(94)	1,286
Experience adjustments arising on scheme assets	5	2,348	364	(1,090)	525

The cumulative amount of actuarial gains and losses recognised since 1 January 2002 in the statement of total recognised gains and losses is a net loss of £1,352,054,000 (to 31 October 2013: £1,035,346,000).

Notes to the financial statements

at 31 October 2014

22. Share-based payments

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

From 1st November 2010, Hewlett-Packard Company, the ultimate parent company, sponsors the Hewlett-Packard Company 2011 Employee Stock Purchase Plan (the "2011 ESPP"), pursuant to which eligible employees of HP Enterprise Services UK Ltd could contribute up to 10% of base compensation, subject to certain income limits, to purchase shares of Hewlett-Packard Company's common stock. Purchases made prior to fiscal year 2011 were made under the Hewlett-Packard Company 2000 Employee Stock Purchase Plan which expired on 1 November 2010.

For purchases made on or after 31 October 2011, employees purchased stock at a price equal to 95% of the fair market value on the purchase dates. An expense is recorded in the profit and loss account in connection with those purchases which equals to the cross charge from the parent company for the 5% discount employees received on the purchases.

Incentive compensation plans

Hewlett-Packard Company's incentive compensation plans are 'broad-based' plans which include principal plans adopted in 2004 (as amended in 2010), 2000 and 1995 ("principle equity plans") as well as various stock option plans assumed through acquisitions under which stock based awards are outstanding. Stock based awards granted from the principle equity plans include stock options, restricted stock awards and performance based restricted units ("PRUs"). Employees meeting certain employment qualifications are eligible to receive stock based awards.

Stock Options

Stock options granted under the principal equity plans are generally non-qualified stock options. Stock options generally vest over three to four years from the date of grant. The exercise price of a stock option is equal to the closing price of Hewlett-Packard Company's stock on the option grant date. Hewlett-Packard Company utilises the Black-Scholes-Merton option pricing model to value the service based stock options, granted under its principle equity plan.

Hewlett-Packard Company estimated the weighted average fair value of stock options using the following assumptions:

	2014	2013
Weighted average fair value of grants per share	\$6.76	\$3.59
Risk-free interest rate	1.52%	0.76%
Dividend yield	2.12%	3.67%
Expected volatility	32.53%	39.98%
Expected life in years	5.18	5.17

Notes to the financial statements

at 31 October 2014

22. Share-based payments (continued)

Stock Options (continued)

The risk-free interest rates for periods within the contractual life of the award are based on the U.S. Treasury yield curve in effect at the time of grant. In order to calculate expected volatility, management determined that implied volatility calculated based on actively trade options on Hewlett-Packard Company common stock is a better indicator of expected volatility and future stock price trends than historical volatility. Therefore, expected volatility in fiscal years 2014 and 2013 was based on a market-based implied volatility. The expected life computation is based on historical exercise patterns and post-vesting termination behaviour.

The company recognised total expenses of £602,435 (2013: £727,407) in respect of stock options during the year.

The following table illustrates the number of weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2014		2013	
	Shares No.	WAEP \$	Shares No.	WAEP \$
Outstanding at 1 November	989,077	26.82	817,347	31.68
Granted	158,663	27.14	335,852	14.34
Forfeited or cancelled	(244,691)	35.50	(24,788)	25.87
Exercised	(158,128)	20.17	(14,837)	22.00
Transfers net	(61,450)	21.27	(11,115)	30.64
Expired	-	-	(113,382)	25.38
Outstanding at 31 October	683,471	25.82	989,077	26.82
Exercisable at 31 October	351,896	303.30	540,815	34.64

The weighted average share price at the date of exercise for share options exercised during the year was \$32.49 (2013: \$23.47).

Notes to the financial statements

at 31 October 2014

22. Share-based payments (continued)

Stock Options (continued)

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.

<i>Range of Exercise Prices</i>	<i>2014</i>		<i>2013</i>	
	<i>Shares outstanding</i>	<i>Weighted-average remaining life in years</i>	<i>Shares outstanding</i>	<i>Weighted-average remaining life in years</i>
\$10 - \$19.99	185,940	5.99	310,227	7.20
\$20 - \$29.99	359,953	5.84	317,820	5.89
\$30 - \$39.99	8,400	2.48	154,620	0.32
\$40 - \$49.99	115,678	0.36	191,910	0.98
\$50 - \$59.99	13,500	2.74	14,500	3.52
	<u>683,471</u>	<u>4.85</u>	<u>989,077</u>	<u>4.44</u>

Restricted stock awards

Hewlett-Packard Company granted certain employees restricted stock awards. Restricted stock awards are non-vested stock awards and are generally subject to forfeiture if employment terminates prior to the release of the restrictions. Such awards generally vest one to three years from the date of grant. During that period, ownership of the shares cannot be transferred. Restricted stock 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.

Hewlett-Packard Company expenses the fair market value of restricted stock awards, as determined on the date of grant, ratably over the period during which the restrictions lapse.

Details of the number of non-vested restricted stock units during the period are as follows:

	<i>2014</i>	<i>2013</i>
	<i>No.</i>	<i>No.</i>
Outstanding at 1 November	822,554	612,002
Granted	755,747	524,165
Exercised	(396,068)	(255,157)
Transfers net	7,072	(23,949)
Forfeited or cancelled	(71,544)	(34,507)
Outstanding at 31 October	<u>1,117,761</u>	<u>822,554</u>

Notes to the financial statements

at 31 October 2014

22. Share-based payments (continued)

Stock Options (continued)

In 2014 restricted stock units were granted with a weighted average fair value per unit of \$27.46 (2013: \$13.95).

The company recognised total expenses of £8,376,928 (2013: £6,470,918) in respect of restricted stock awards during the year.

Performance-based restricted units

Hewlett-Packard Company's PRU program provides for the issuance of PRUs representing hypothetical shares of Hewlett-Packard Company stock. Each PRU award reflects a target number of shares ("Target Shares") that may be issued to the award recipient before adjusting for performance and market conditions. The actual number of shares the recipient receives is determined at the end of a three-year performance period based on results achieved versus company performance goals and may range from 0% to 200% of the Target Shares granted. No PRUs were granted in fiscal years 2013 and 2012. The performance goals for PRUs granted prior to fiscal year 2012 are based on Hewlett-Packard Company's adjusted annual cash flow from operations as a percentage of revenue and on a market condition based on total shareholder return ("TSR") relative to the S&P 500 over the three-year performance period.

Recipients of a PRU award generally must remain employed by Hewlett-Packard Company on a continuous basis through the end of the applicable three-year performance period in order to receive shares subject to that award. Target Shares subject to PRU awards do not have dividend equivalent rights and do not have the voting rights of common stock until earned and issued following the end of the applicable performance period. The expense for these awards, net of estimated forfeitures, is recorded over the requisite service period based on the number of Target Shares that are expected to be earned and the achievement of performance goals during the performance period.

For PRU awards granted prior to fiscal year 2012, Hewlett-Packard Company estimates the fair value of the Target Shares subject to those awards using the Monte Carlo simulation model, as the TSR modifier represents a market condition.

The following weighted-average assumptions, in addition to projections of market conditions, were used to measure the weighted-average fair values of these PRU awards for fiscal years ended on 31 October:

	2014	2013
Weighted average fair value of grants per share	-	\$0.00 ⁽¹⁾
Risk-free interest rate	-	0.18%
Dividend yield	-	3.94%
Expected volatility ⁽²⁾	-	33.37%
Expected life in years	-	1

⁽¹⁾ Reflects the weighted-average fair value for the third year of the three-year performance period applicable to PRUs granted in fiscal 2011. The weighted-average fair value per unit is zero based on the result of the Monte-Carlo simulation model using the weighted-average assumptions on the measurement date.

⁽²⁾ Hewlett-Packard Company uses historic volatility for PRU awards when simulating multivariate prices for companies in the S&P 500.

Notes to the financial statements

at 31 October 2014

22. Share-based payments (continued)

Performance-based restricted units (continued)

Details of the number of non-vested performance-based restricted stock units during the year are as follows:

	2014	2013
	No.	No.
Outstanding at 1 November	77,068	206,812
Forfeited or cancelled ⁽³⁾	(77,554)	(117,235)
Transfers net	486	(12,509)
Outstanding at 31 October	-	77,068

⁽³⁾ Forfeited includes reductions where no pay outs were awarded as minimum performances were not met.

The company did not recognise any expense in 2014 as any remaining non-vested performance-based restricted stock units were forfeited or cancelled during the year (2013: £249,384).

23. Commitments under operating leases

At 31 October 2014 the company had annual commitments under non-cancellable operating leases as set out below:

	2014		2013	
	Land and buildings	Other items	Land and buildings	Other items
	£000	£000	£000	£000
Operating leases which expire:				
Within 1 year	2,742	135	132	139
Within 2 to 5 years	6,854	878	12,451	1,125
After more than 5 years	4,568	-	7,764	-
	<u>14,164</u>	<u>1,013</u>	<u>20,347</u>	<u>1,264</u>

24. Parent undertakings and controlling party

The company's immediate parent undertaking is Hewlett-Packard Holdings Limited a company incorporated in England and Wales.

The ultimate parent company and controlling party and the smallest and largest undertaking which consolidates these financial statements is Hewlett-Packard Company, which is incorporated in the United States of America. Copies of the group financial statements of Hewlett-Packard Company can be obtained from 3000 Hanover Street, Palo Alto, California 94304, U.S.A.

25. Related parties

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

Notes to the financial statements

at 31 October 2014

26. Post balance sheet events

On 31st July 2015 following a decision by the company to exit one of its data centre an impairment of fixed assets was booked charging the profit and loss account for £66,000,000.

On 26 October 2015, the Company issued 1 ordinary share with a nominal value of £1 and share premium of £349,999,999 to its existing shareholder Hewlett-Packard Holdings Limited for a total consideration of £350,000,000.