

Registered No: 00690597

Hewlett-Packard Limited

Report and Financial Statements

31 October 2016

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COMPANIES HOUSE

Directors

M Coombs
M Waters

Secretary

T Trower

Auditors

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

Registered Office

Amen Corner
Cain Road
Bracknell
Berkshire
RG12 1HN

Strategic report

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

Review of the business

During the year the Company continued to deliver products and services across servers, storage and networking and cutting-edge technology in cloud, mobility and big data analytics. The Company also maintained its reputation for customer service, support and satisfaction.

The loss for the year, after taxation, amounted to £28,748,000 (2015 profit: £80,703,000).

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 ("FRS 101") on 1 November 2014. An explanation of how the transition to FRS 101 has affected the reported financial position of the company is provided in note 24.

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	1,330	2,252
Gross profit	272	365
(Loss)/Profit before tax	(14)	94

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. (the "Separation"). 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.

Turnover declined by 41% during the year as a result of the sale of the Printing and Personal System business in 2015. The Company is continuing to launch certain initiatives that aim to generate the turnover growth in future years, improving our service delivery for higher quality and lower cost.

Gross profit for the year declined by 25%, which is driven predominately by the reduction in revenue.

The result before tax has declined from a profit of £94.2m in FY15 to a loss of £13.5m in FY16. This can predominantly be attributed to the sale of the Printing and Personal Systems business in FY15. FY15 profits included a gain on disposal of £60.9m, and also contributed to the underlying operating profits of the business which are not repeated in FY16.

In 2016 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. This profitability allows Hewlett Packard Enterprise Company to reinvest in new and emerging business opportunities and is highly correlated to generating cash which brings more flexibility to the business at a lower cost.

Strategic report (continued)

Market share

As at 31 October 2016, the Company aimed to be positioned as number 1 and 2 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 products, services and solutions to markets it already serves and to expand into new areas that build on Hewlett Packard Enterprise technologies, competencies and customer interests.

Market share data is extremely dynamic and based on diverse areas of the business. Hewlett-Packard Limited 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.

Acquisition

On 16 December 2015, the Company signed an agreement to purchase the business, including certain assets and liabilities, of Aruba (Europe) Limited, effective 1 January 2016, for a total cash consideration of £12,703,466. Goodwill of £12,812,331 has been recognised representing the difference between the purchase price and net liabilities assumed of £108,000. The purchase price represents the fair market value of the business taking into account the assets and liabilities transferred.

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 size of the Company's defined benefit schemes there is significant contribution from these schemes to the Company's financial position. At 31 October 2016 the gross pension liability reported is £44,200,000 (2015: £16,200,000). Through the adoption of IAS 19 and IFRIC 14 in the current years, as a result of the conversion to FRS 101, additional considerations were needed as to whether a pension surplus can be recognised. After a full review, the surplus was valued to nil in line with IFRIC 14. The financial impact of this is disclosed within the other comprehensive income section.

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

Research and development

The Company maintained an extensive programme of research and development during the year which included an appreciable amount of innovation. As the industry and consumer needs constantly evolve, there is an increasing demand for a fully integrated hardware, software, infrastructure and services solution. Hewlett Packard Enterprise Company has reacted to this through a focus in its research and development activities to increase the breadth of services it can provide, across multiple business units, into a combined solution. Hewlett Packard Enterprise Company will continue to have significant research and development expenditure in the future to support the design and development of innovative, high quality products, services and solutions to maintain and enhance our competitive position. The research and development spend by the Company in the current year was £16,188,000 (2015: £15,555,000).

Principal risks and uncertainties

The Company is managed on a group basis and the principal risks and uncertainties facing it are therefore integrated with those facing the Hewlett Packard Enterprise Group as a whole. 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.

Strategic report (continued)

- **Market conditions**

Levels of business activity will vary for each of the markets in which Hewlett Packard Enterprise Company operates, but ultimately this is dependent on factors such as economic cycles, customer confidence and growth of the economy. A weak economy could affect the level of customer spending on Hewlett Packard Enterprise products and the profitability of the Company. Through developing a greater understanding of partner and customer needs, Hewlett Packard Enterprise Company have been able to implement global cost reduction strategies to ensure that despite the challenging economic climate the Company can 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, product distribution 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 Enterprise Company as a group has reacted to this by increasing their commitment to partners and customers through targeting their individual requirements and creating innovations that align these needs with their business strategy. Targeting their individual requirements has enabled Hewlett Packard Enterprise Company to provide more advanced end-to-end personalised and unique solutions.

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

Hewlett-Packard Limited is a subsidiary of Hewlett Packard Enterprise Company and is dependent on this ultimate parent company for the supply of products and for its brand strength. The Company also holds a mixture of short and long term loans with Hewlett Packard Enterprise subsidiaries 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, the ultimate parent company during the year, has a centralised treasury function which manages the overall group's Treasury policy, risks and requirements, including Hewlett-Packard 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, the subsidiary undertakings and the financing structure. This is to ensure that where the requirement for support arises, this is identified and that the Company providing the support has the appropriate financial availability to satisfy this.

Any risks impacting the ultimate parent company providing the support will cascade to Hewlett-Packard Limited. 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.

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.

Strategic report (continued)

Events since the balance sheet date

On 24 May 2016 the Hewlett Packard Enterprise Company announced plans for a spin off and merger of its Enterprise Services ("ES") Business with Computer Sciences Corporation ("CSC"). This transaction was completed on 31 March 2017. Whilst this Company will remain within the Hewlett Packard Enterprise Company and not be merged with CSC, as part of the preparation for this merge on 1 December 2016 the Company sold its ES assets and liabilities including its interests in a freehold premises used as a data centre to EntServ UK Limited, a fellow group company at the time of the transaction, which merged with CSC on 1 April 2017, for consideration of £17,349,457 (\$21,686,821).

On 7 September 2016 Hewlett Packard Enterprise Company announced plans for a spin off and merger of its Software Business with Micro Focus. This transaction is planned to be completed on 1 September 2017. Operationally the transaction became effective in the UK from 1 June 2017 when Hewlett-Packard Limited executed the sale of its Software Business to Entcorp UK Ltd, for a consideration of £44,632,353 (\$57,620,368) generating a loss on disposal of £1,640,823 after writing down the associated goodwill balance. At the time of the transaction Entcorp UK Ltd is a fellow group company which will merge with Micro Focus on 1 September 2017.

On 1 May 2017, the Company signed an agreement to purchase the business of Silicon Graphics Limited. The goodwill recognised in 2017 amounted to £4,094,151 in exchange for a cash payment of £1,802,898 (\$2,327,000) and net liabilities of £2,291,253.

The environment

Hewlett Packard Enterprise's goals are to provide products and services that are safe and environmentally sound throughout their lifecycles, and conduct operations in an environmentally responsible manner.

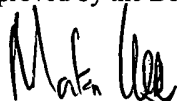
To accomplish this, Hewlett Packard Enterprise Company will:

- pursue pollution prevention, energy conservation and waste reduction in operations;
- design and manufacture products to be safe to use and to minimise their environmental impact;
- offer customers environmentally responsible end-of-life management services for products; 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 Hewlett-Packard Limited 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 2016 report is available from www8.hp.com/us/en/hpe/hp-information/livingprogress.

Approved by the Board



Martin Coombs
Director

Date: 21 July 2017

Directors' 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

A Isherwood (resigned 8 October 2016)

M Waters (appointed 8 October 2016)

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.

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

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 and stimulating work environment. A diverse workforce, reflecting the demographics of the many different markets where Hewlett Packard Enterprise operates, also provides a competitive advantage and helps acquire new business.

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

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 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.

Directors' report (continued)

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 and activities of the Company in the field of research and development (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.

Auditors

Ernst & Young LLP continue as the Company's auditor. In accordance with section 487 of the Companies Act 2006, Ernst & Young LLP shall be deemed to be re-appointed as auditors of the Company.

By order of the Board



Martin Coombs
Director

Date: 21 July 2017

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Director's 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 United Kingdom 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 auditors' report

to the members of Hewlett-Packard Limited

We have audited the financial statements of Hewlett-Packard 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 24. 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 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 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (including FRS 101 '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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Hewlett-Packard Limited (continued)

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: 21/07/17

Statement of comprehensive income

for the year ended 31 October 2016

	Note	2016 £'000	2015 £'000
Turnover	3	1,329,789	2,251,882
Cost of sales		(1,057,591)	(1,887,355)
Gross profit		272,198	364,527
Distribution costs		(229,262)	(263,978)
Administration expenses		(49,857)	(43,276)
Exceptional items		(20,342)	(30,223)
Operating (loss)/profit	4,5	(27,263)	27,050
<i>Analysed between:</i>			
Operating profit on ordinary activities before exceptional items		(6,921)	57,273
Exceptional item - restructuring expenses	5	(20,342)	(20,051)
Exceptional item - impairment of fixed assets	5	-	(10,172)
Exceptional item - profit on the sale of business	5	5,461	60,908
Interest receivable and similar income	9	17,946	19,975
Interest payable	10	(9,679)	(13,672)
(Loss)/Profit on ordinary activities before taxation		(13,535)	94,261
Tax on (loss)/profit on ordinary activities	11	(15,213)	(13,558)
(Loss)/Profit for the financial year		(28,748)	80,703
Other comprehensive income:			
Items that cannot be reclassified to profit or loss:			
Remeasurement (loss)/gain on defined benefit pension plan	21	(73,439)	60,594
Tax credit/(charge) on items relating to components of other comprehensive income		14,824	(11,684)
Total comprehensive (loss)/income for the year		(87,363)	129,613

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

Statement of changes in equity

for the year ended 31 October 2016

	Share capital £000	Share premium £000	Retained earnings £000	Total Equity £000
At 1 November 2014	104,772	492,017	71,991	668,780
Profit for the financial year	-	-	80,703	80,703
Other comprehensive income for the year	-	-	48,910	48,910
Share-based payments (note 7)	-	-	8,830	8,830
Recharge for share-based payments	-	-	(24,190)	(24,190)
At 31 October 2015	104,772	492,017	186,244	783,033
Loss for the financial year	-	-	(28,748)	(28,748)
Other comprehensive loss for the year	-	-	(58,615)	(58,615)
Share-based payments (note 7)	-	-	7,799	7,799
Recharge for share-based payments	-	-	(4,132)	(4,132)
At 31 October 2016	104,772	492,017	102,548	699,337

Balance sheet

at 31 October 2016

	<i>Note</i>	<i>2016</i> <i>£'000</i>	<i>2015</i> <i>£'000</i>
Non-current assets			
Tangible assets	12	94,175	93,428
Intangible assets	13	76,741	63,929
		<u>170,916</u>	<u>157,357</u>
Current assets			
Stocks	15	17,642	22,521
Debtors: amounts falling due within one year	16	1,320,034	1,314,279
Debtors: amounts falling due after one year	16	819	1,478
Deferred tax	11	36,904	44,901
Cash at bank and in hand		4,715	1,675
		<u>1,380,114</u>	<u>1,384,854</u>
Creditors: amounts falling due within one year	17	(691,748)	(633,850)
Net current assets		<u>688,366</u>	<u>751,004</u>
Total assets less current liabilities		<u>859,282</u>	<u>908,361</u>
Creditors: amounts falling due after one year	17	(93,605)	(92,825)
Provisions for liabilities and charges	18	(22,140)	(16,303)
Pension liability	21	(44,200)	(16,200)
Net assets		<u><u>699,337</u></u>	<u><u>783,033</u></u>
Capital and reserves			
Called up share capital	19	104,772	104,772
Share premium account		492,017	492,017
Retained earnings		102,548	186,244
Total equity		<u><u>699,337</u></u>	<u><u>783,033</u></u>

The financial statements on pages 11 to 45 were approved by the board of directors on and signed on its behalf by:



Martin Coombs
Director

Date: 21 July 2017

Notes to the financial statements

at 31 October 2016

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Hewlett-Packard Limited (the "Company") for the year ended 31 October 2016 were authorised for issue by the board of directors on 21 July 2017 and the Balance sheet was signed on the board's behalf by Martin Coombs. The Company 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 (note 13).

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

The Company is a wholly owned subsidiary of Hewlett Packard Enterprise Company, the consolidated financial statements of which are publicly available. 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 in note 2.

2. Accounting Policies

2.1. 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 24. 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; and

(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;

16 – a statement of compliance with IFRS, which is not applicable since we are adopting FRS 101 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;

(f) the requirements of IAS 7 Statement of Cash Flows;

Notes to the financial statements (continued)

at 31 October 2016

2. Accounting Policies (continued)

2.1. Basis of preparation (continued)

(f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

(g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

(h) 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.

2.1.1. 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.

2.2. 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 11.

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 (continued)

at 31 October 2016

2. Accounting Policies (continued)

2.2 Significant accounting policies

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

The following criteria must also be met before revenue is recognised:

- Sale of goods

Turnover from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods. Revenue on products is recognised net of expected rebates. The amount of the rebate is recorded at the later of the date of revenue recognition or the date the rebate is offered to the customer.

- Royalty Income

Royalty income is recognised when it is the Company's right to receive payment in accordance with the licensing agreement.

- Rendering of services

Turnover from fixed-price or maintenance contracts, including extended warranty contracts and software post-contract customer support agreements is recognised rateably over the contract period.

- Software

Turnover from perpetual software licenses is recognised at the inception of the license term with term-based software license revenue recognised on a subscription basis over the term of the license entitlement.

In accordance with IFRS 15, when a contract consists of more than one element, the total contract revenue is allocated to each separate element, such as licences, and post contract support, based on the fair value of each element.

Revenue generated from maintenance and unspecified upgrades or updates on a when-and-if-available basis is recognised over the period during which such items are delivered. Revenue for software hosting or software-as-a-service (SaaS) arrangements is recognised as delivered, generally on a straight-line basis, over the contractual period of performance. In software hosting arrangements where software licenses are sold, the associated software revenue is recognised according to whether perpetual licenses or term licenses are sold, subject to the above guidance. In SaaS arrangements where software licenses are not sold, the entire arrangement is recognised on a subscription basis over the term of the arrangement.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive income.

Interest income

Interest 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.

Notes to the financial statements (continued)

at 31 October 2016

2. Accounting Policies (continued)

2.3. Significant accounting policies (continued)

Intangible assets

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. For existing goodwill, amortisation of £21,310,000 would have been recognised increasing administrative costs and decreasing intangible assets, had the true and fair override not been applied. For goodwill acquired during the year, given the size of the business acquired as a proportion of the overall legal entity, 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. 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 generated intangible assets are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

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.

Notes to the financial statements (continued)

at 31 October 2016

2. Accounting Policies (continued)

2.3. Significant accounting policies (continued)

Intangible assets (continued)

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 derecognised.

Investments

Investments in subsidiaries, associates and joint ventures are held at historical cost less any applicable provision for impairment.

Research and development

Research costs 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 IAS 38 Intangible assets. As all these amounts are charged onto customers via billing arrangements they are not capitalised as an asset.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the assets capable of operating as intended.

Land and construction-in-progress are not depreciated. Other tangible fixed assets are depreciated so as to write off their costs to residual values on a straight line basis over their useful lives which are estimated to be:

Freehold buildings and long leasehold property	- straight line over a period of 40 years/length of lease if less than 40 years
Short leasehold property	- straight line over the period of the lease
Machinery and equipment	- straight line over a period of 3 - 10 years

The carrying values of property, machinery and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, machinery and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Notes to the financial statements (continued)

at 31 October 2016

2. Accounting Policies (continued)

2.3. Significant accounting policies (continued)

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses on continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

Leases

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases. Cost in respect of operating leases are charged on a straight-line basis over the lease term.

Stocks

Stocks are valued 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.

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 exception - 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.

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.

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.

Notes to the financial statements (continued)

at 31 October 2016

2. Accounting Policies (continued)

2.3. Significant accounting policies (continued)

Trade and other debtors

Trade debtors, which generally have 30 day payment 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.

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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income.

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.

Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event, if it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of 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.

Notes to the financial statements (continued)

at 31 October 2016

2. Accounting Policies (continued)

2.3. Significant accounting policies (continued)

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.

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 comprises 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.

Factoring

The Company has entered into a Receivables Purchase Agreement with Wells Fargo, this program applies to the eligible receivables from selected resellers.

Transfers for all eligible receivables under the Factoring program are recorded as sales in accordance with IAS 39 – Financial instruments. Wells Fargo receives a percentage based on the gross invoice value as a factoring fee. The factoring fee is recognised as a financing cost in the statement of comprehensive income.

In accordance with IAS 39 – Financial instruments the Company recognises the factored debt as a receivables and records the consideration received as a liability within other creditors in respect of the proceeds received from the factor under separate presentation.

Notes to the financial statements (continued)

at 31 October 2016

3. Turnover

Turnover recognised in the income statement is analysed as follows:

	2016 £'000	2015 £'000
Enterprise Group (products/services)	1,196,200	1,174,031
Printing and Personal Systems	-	908,280
Software	137,139	173,880
Other	3,550	4,309
	<u>1,329,789</u>	<u>2,251,882</u>

The 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.

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

4. Operating profit

This is stated after charging/(crediting):

	2016 £'000	2015 £'000
Operating lease costs		
-land and buildings*	9,361	7,641
-other	500	1,173
Auditors' remuneration		
-audit services	111	168
-other services	5	5
Foreign exchange loss/(gain)	785	(8,220)
Depreciation		
-owned assets	10,662	21,659
Impairment on fixed assets	-	10,172
Cost of stocks recognised as an expense (within cost of sales)	656,812	1,519,353
Loss on disposal of fixed assets	1,103	323
	<u>16,188</u>	<u>15,555</u>

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

Notes to the financial statements (continued)

at 31 October 2016

5. Exceptional items

	2016 £'000	2015 £'000
<i>Recognised in arriving at operating profit:</i>		
Restructuring costs	20,342	20,051
Impairment of fixed assets (note 12)	-	10,172
<i>Recognised below operating profit:</i>		
Profit on the sale of business	5,461	60,908

During 2016, the Company continued with certain employee redundancy and property rationalisation programmes at a cost of £20,342,000 (2015: £20,051,000).

On 8 March 2016, the Company sold its Tipping-Point business for a total consideration of £1,319,000. A gain on disposal of £5,461,000 has been recognised, representing the difference between the sale price and net liabilities derecognised.

As at 1 August 2015 a review of the Swindon data centre value in use was carried out. Cash flows over a 33 month period were considered to the planned exit date of the data centre. This showed an expected net outflow of cash, therefore the fixed assets relating to the data centre premises have been written down via an impairment charge of £10,172,000 (2014: £nil) to the net realisable value of the premises (note 12).

On 1 August 2015 the Printing and Personal Systems business was sold to HP Inc. UK Limited for a consideration of £14,163,000 generating a gain on disposal of £60,908,000. At the time of the transfer both companies were part of the Hewlett-Packard Company group and they continued to trade as part of that group until 1 November 2015 when Hewlett-Packard Company completed the Separation.

6. Staff costs

	2016 £'000	2015 £'000
Wages and salaries	271,938	313,415
Social security costs	32,785	39,528
Other pension costs	52,739	52,333
Equity-settled share-based payments	7,958	8,830
Other employee benefits	-	386
	<u>365,420</u>	<u>414,492</u>

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

	2016 No.	2015 No.
-Sales and services	3,168	3,711
Research and development	304	321
	<u>3,472</u>	<u>4,032</u>

Notes to the financial statements (continued)

at 31 October 2016

6. Staff costs (continued)

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 within other interest payable (note 10) and amounts recognised in the statement of total recognised gains and losses in respect of defined benefit pension schemes.

7. 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 1st 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 1st 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.

Notes to the financial statements (continued)

at 31 October 2016

7. Share-based payments (continued)

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 Parent's stock on the option grant date.

During the year 123,535 (2015: 219,511) share options were exercised. The weighted average share price at the date of exercise for share options exercised during the year was \$19.36 (2015: \$19.45).

At the reporting date there were 507,100 (2015: 420,812) 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:

<i>Range of Exercise Prices</i>	<i>2016</i>		<i>2015</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>
\$0.01 - \$9.99	67,607	3.85	11,971	3.51
\$10 - \$19.99	295,554	5.08	79,126	4.64
\$20 - \$29.99	143,939	3.87	161,049	4.51
\$30 - \$39.99	-	-	120,777	5.63
\$40 - \$49.99	-	-	27,389	1.30
\$50 - \$59.99	-	-	20,500	2.32
	<u>507,100</u>	<u>4.58</u>	<u>420,812</u>	<u>4.51</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 125,847 (2015: 814,576) non-vested restricted stock units were exercised.

At the reporting date there were 1,359,889 (2015: 446,870) outstanding non-vested restricted stock units.

Notes to the financial statements (continued)

at 31 October 2016

8. Directors' emoluments

The aggregate remuneration for directors who have performed qualifying services for this Company amounted to £1,146,912 (2015: £1,124,184) with pension contributions of £1,008 (2015: £7,623).

The emoluments of the highest paid director were remuneration of £849,549 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 director participated in the Company's defined contribution pension scheme during the year ended 31 October 2016 (2015: One).

One director participated in a fellow group company's defined benefit pension scheme during the year ended 31 October 2016 (2015: One).

One director exercised share options during the year ended 31 October 2016 (2015: Zero).

Two directors acquired shares through the vesting of previously granted restricted stock units (2015: Two).

The directors of the Company estimate that the total remuneration in relation to identifiable qualifying services during the year for Hewlett-Packard Limited is £675,470 (2015: £671,609) with pension contributions of £706 (2015: £762). The remainder is in relation of their time spent performing services for other group companies.

9. Interest receivable and other finance income

	2016 £'000	2015 £'000
Interest receivable from group undertakings	17,744	19,864
Other finance income	202	106
Other interest receivable	-	5
	<u>17,946</u>	<u>19,975</u>

10. Interest payable

	2016 £'000	2015 £'000
Interest payable to group undertakings	485	1,710
Other interest payable	9,194	11,962
	<u>9,679</u>	<u>13,672</u>

Included within other interest payable at 31 October 2016 is interest payable associated with debt financing arrangements of £3,025,000 (2015: £6,468,000).

Notes to the financial statements (continued)

at 31 October 2016

11. Taxation on profit on ordinary activities

(a) Analysis of tax charge in the income statement

	2016 £'000	2015 £'000
Current tax:		
United Kingdom corporation tax on (loss)/profit for the year at 20.00% (2015: 20.41%)	(6,682)	-
Amount transferred to other comprehensive income	9,088	1,495
Foreign Tax	227	163
	<hr/>	<hr/>
Total current tax in relation to current year	2,633	1,658
Over provision in prior year	(1,154)	(590)
	<hr/>	<hr/>
Total current tax	1,479	1,068
Deferred tax:		
Origination and reversal of timing differences – current year	10,588	8,978
Origination and reversal of timing differences – prior year	2,404	650
Effect of decreased tax rate	742	2,862
	<hr/>	<hr/>
Total deferred tax	13,734	12,490
	<hr/>	<hr/>
Tax expense in the income statement	15,213	13,558
	<hr/>	<hr/>

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

	2016 £000	2015 £000
Current tax:		
Tax on defined benefit pension plans	(9,088)	(1,495)
	<hr/>	<hr/>
Total current income tax	(9,088)	(1,495)
Deferred tax:		
Actuarial (loss)/gains on defined benefit pension plan	(5,601)	13,862
Share Based Payments	(1,339)	-
Change in tax rates	1,203	(683)
	<hr/>	<hr/>
Total deferred tax	(5,737)	13,179
	<hr/>	<hr/>
Tax (income)/expense in the statement of other comprehensive income	(14,824)	11,684
	<hr/>	<hr/>

Notes to the financial statements (continued)

at 31 October 2016

11. Taxation on profit on ordinary activities (continued)

(c) Reconciliation of the total tax charge

The tax assessed on the profit on ordinary activities for the year is different to the standard rate of corporation tax in the United Kingdom of 20.00% (2015: 20.41%). The differences are reconciled below:

	2016 £'000	2015 £'000
(loss)/Profit on ordinary activities before tax	(13,535)	94,261
(Loss)/Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20.00% (2015: 20.41%)	(2,707)	19,239
<i>Effects of:</i>		
Disallowable expenses	982	3,665
Profit on sale of Printing and Personal Systems business	-	(12,431)
Foreign Tax	227	163
Effect of decreased tax rate	742	2,862
Imputed profits	14,719	-
Total current tax in relation to current year	13,963	13,498
Over provision in prior year	1,250	60
Total current tax (note 11(a))	15,213	13,558

(d) Deferred tax

	2016 £'000	2015 £'000
The deferred tax included in the balance sheet is as follows:	36,904	44,901

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

	2016 £'000	2015 £'000
Excess of depreciation over taxation allowances	7,162	10,028
Pension deficit	7,514	2,916
Other timing differences	22,228	31,957
Total deferred tax asset	36,904	44,901

Notes to the financial statements (continued)

at 31 October 2016

11. Taxation on profit on ordinary activities (continued)

(d) Deferred tax (continued)

A deferred tax asset has been recognised as 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.

	2016 £000	2015 £000
At 1 November	44,901	70,570
Deferred tax expense to the income statement	(13,734)	(12,490)
Deferred tax expense to statement of other comprehensive income	5,737	(13,179)
At 31 October	36,904	44,901

(e) Factors that may affect future tax charges

The Finance Bill 2016 announced a reduction in the United Kingdom corporation tax rate from 20% to 19%, effective from 1 April 2017. The bill also further reduced the rate to 17% effective from 1 April 2020. These rates were substantively enacted on 15 September 2016. 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 rates of capital allowances remains at a level of 18% and 8% respectively for the general pool and special rate pool.

12. Tangible fixed assets

	Property £'000	Assets under construction £'000	Machinery and equipment £'000	Total £'000
<i>Cost:</i>				
At 1 November 2015	154,023	14,094	41,213	209,330
Additions	15	6,814	5,764	12,593
Transfers	18,132	(19,663)	1,531	-
Disposals	(3,464)	-	(7,202)	(10,666)
At 31 October 2016	168,706	1,245	41,306	211,257
<i>Depreciation:</i>				
At 1 November 2015	86,716	-	29,186	115,902
Charge for the year	5,127	-	5,535	10,662
Disposals	(2,573)	-	(6,909)	(9,482)
At 31 October 2016	89,270	-	27,812	117,082
<i>Net book value:</i>				
At 31 October 2016	79,436	1,245	13,494	94,175
At 1 November 2015	67,307	14,094	12,027	93,428

Notes to the financial statements (continued)

at 31 October 2016

12. Tangible fixed assets (continued)

Analysis of property

	2016	2016	2016	2015
	Cost	Depreciation	Net	Net
	£'000	£'000	£'000	£'000
Freehold land	33,319	-	33,319	33,319
Freehold buildings and long leasehold	114,618	82,213	32,405	46,709
Short leaseholds	22,014	7,057	14,957	1,373
Total property	169,951	89,270	80,681	81,401

13. Intangible fixed assets

<i>Goodwill</i>	£'000
<i>Cost:</i>	
At 1 November 2015	63,929
Additions – acquisition of business	12,812
At 31 October 2016	76,741

Additions

On 16 December 2015, the Company purchased the business, including certain assets and liabilities, of Aruba (Europe) Limited, effective 1 January 2016, for a total cash consideration of £12,703,000. The identifiable assets and liabilities of the business as at the date of acquisition represented net liabilities of £109,000, made up of prepayments of £4,000 and accruals of £113,000. There was no difference between book and fair value at the date of acquisition. As a result, the transaction generated goodwill of £12,812,000. On acquisition, the cash flows and operating activities of the business were integrated into the continuing business of Hewlett-Packard Limited and as a result the revenue and profit or loss contributed since acquisition cannot be separately identified.

Impairment

On 7 September 2016, Hewlett Packard Enterprise Company announced plans for a spin off and merger of its Software Business with Micro Focus International PLC (“Micro Focus”). This transaction is planned to be completed on 1 September 2017. Operationally the transaction became effective in the UK from 1 June 2017 when Hewlett-Packard Limited executed the sale of its Software Business to Entcorp UK Ltd, a fellow group company at the time of the transaction which will merge with Micro Focus on 1 September 2017.

This transaction led the directors to carry out an impairment review of the Company’s existing goodwill balance, representing the Software business. This review compared the recoverable amount for the goodwill, as determined from a net realisable value calculation, with the carrying value. No material difference was identified between the recoverable amount and the carrying value which resulted in no impairment charge being recognised in the year. The impairment review used a valuation utilising discounted cash flows under the income method of valuation, taking into account market rates, current market trends and organic revenue growth rates.

Notes to the financial statements (continued)

at 31 October 2016

14. Investments

The Company holds investments in the following direct subsidiaries:

<i>Name</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Percentage of ordinary shares held</i>
Hewlett Packard UK Pension Trustee Limited	England and Wales	Trustee	100%
Hewlett-Packard Investment Scheme Pension Company Limited	England and Wales	Trustee	100%

On 20 October 2016, the Company sold its 100% shareholding of 1 ordinary share of £1 in Spiritguide Limited, a company incorporated in England and Wales, to EntServ UK Limited for a total consideration of £1.

On 20 October 2016, the Company sold its 100% shareholding of 1 ordinary share of £1 in Spiritmodel Limited, a company incorporated in England and Wales, to EntServ UK Limited for a total consideration of £1.

15. Stocks

	<i>2016 £'000</i>	<i>2015 £'000</i>
Finished goods for resale	17,642	22,521

16. Debtors

	<i>2016 £'000</i>	<i>2015 £'000</i>
Trade debtors	262,297	262,356
Amounts owed by group undertakings	1,027,312	1,018,502
Corporation tax	528	528
Other debtors	5,302	7,321
Deferred contract costs	1,322	2,160
Prepayments and accrued income	24,092	24,890
	<u>1,320,853</u>	<u>1,315,757</u>

In 2016, the Company continues to operate under the Receivables Purchase Agreement with Wells Fargo and this program applies to the eligible receivables from selected resellers. Included in trade debtors at 31 October 2016 are assets associated with debt financing arrangement of £167,985,000 (2015: £152,797,000).

Notes to the financial statements (continued)

at 31 October 2016

16. Debtors (continued)

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

	2016 £'000	2015 £'000
Deferred contract costs	85	662
Other debtors	734	816
	<u>819</u>	<u>1,478</u>

17. Creditors

Amounts falling due within one year:

	2016 £'000	2015 £'000
Trade creditors	45,237	56,548
Amounts owed to group undertakings	214,846	159,883
Other taxation and social security	40,303	33,508
Other creditors	151,875	144,091
Accruals and deferred income	239,487	239,820
	<u>691,748</u>	<u>633,850</u>

Included within other creditors at 31 October 2016 are liabilities associated with debt financing arrangements of £151,875,000 (2015: £141,230,000).

Amounts falling due after more than one year:

	2016 £'000	2015 £'000
Accruals and deferred income	<u>93,605</u>	<u>92,825</u>

Notes to the financial statements (continued)

at 31 October 2016

18. Provisions for liabilities and charges

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

	<i>Onerous lease provisions</i>	<i>Warranty</i>	<i>National Insurance</i>	<i>Total</i>
At 1 November 2015	3,217	12,969	117	16,303
Amounts provided in the year	4,337	19,188	262	23,787
Unwinding of discounted amount	145	-	-	145
Amounts utilised during the year	(1,679)	(16,299)	(117)	(18,095)
At 31 October 2016	<u>6,020</u>	<u>15,858</u>	<u>262</u>	<u>22,140</u>

Onerous lease provisions

Onerous lease provisions represent the net present value of the costs associated with early termination of 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 represents the present value of the amount to be paid discounted at an average rate of 5.04% (2015: 4.51%).

Warranty

Provision is made for expected warranty claims on products with unexpired warranty periods. Standard product warranty terms generally include post-sales support and repairs or replacement of a product at no additional charge for a specified period of time. Estimated warranty obligation is based on contractual warranty terms, repair costs, product call rates, average cost per call, current period product shipments and ongoing product failure rates, as well as specific product class failure outside of baseline experience. It is expected that these costs will have been incurred within 3 years of the balance sheet date in accordance with the respective contractual obligations.

National Insurance

Provision represents 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 has been calculated based on the closing share price of \$22.47 as at 31 October 2016.

19. Share capital

	<i>2016</i>	<i>2015</i>
	<i>£'000</i>	<i>£'000</i>
<i>Allotted, issued and fully paid:</i>		
Ordinary shares of £1 each	<u>104,772</u>	<u>104,772</u>

Notes to the financial statements (continued)

at 31 October 2016

20. Commitments under operating leases

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2016		2015	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£'000	£'000	£'000	£'000
- not later than one year	10,192	456	9,969	432
- after one year but not more than 5 years inclusive	34,619	642	32,675	373
- after 5 years	39,188	-	39,537	-
	<u>83,999</u>	<u>1,098</u>	<u>82,181</u>	<u>805</u>

21. Pensions and other post-retirement benefits

Defined contribution scheme

Hewlett Packard Enterprise 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 £22,756,000 (2015: £25,173,000). There were no outstanding or prepaid contributions at the end of the financial period.

Defined benefit pension scheme

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

- The Hewlett-Packard Limited Retirement Benefits Plan - Digital Section
- The Hewlett-Packard Limited Retirement Benefits Plan – Hewlett-Packard Section
- The Hewlett-Packard Limited Retirement Benefits Plan – Bank of Ireland Section (this section merged into the Hewlett-Packard Section of the Hewlett-Packard Limited Retirement Benefits Plan on 6 July 2016, which is reflected in this note and the comparatives. It also includes the Medas scheme which merged into the Bank of Ireland Section on 1 June 2015).

These schemes provide benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company in separate trustee administered funds to meet long-term pension liabilities to past and present employees. This scheme is closed to new individual members. New individual employees are invited to join the defined contribution scheme operated by Hewlett Packard Enterprise (see above).

The valuation for the disclosures has been based on the most recent data as at 31 October 2016 and was updated by AON Hewitt Limited to take account of the requirements of FRS101 in order to assess the scheme liabilities at 31 October 2016. The next formal actuarial valuation is in the process of being completed with an effective date of 31 October 2015. Scheme assets are stated at their market values at the respective balance sheet dates.

Notes to the financial statements (continued)

at 31 October 2016

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

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

At 31 October 2016

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Scheme assets at fair value			
Equities	767,181	808,972	1,576,153
Bonds	251,037	242,434	493,471
Property	112,123	107,628	219,751
Liability driven investments	316,215	338,672	654,887
Hedge funds	23,132	23,851	46,983
Cash/other	76,778	103,263	180,041
Fair value of scheme assets	1,546,466	1,624,820	3,171,286
Present value of scheme liabilities	(1,497,702)	(1,613,218)	(3,110,920)
Defined benefit pensions scheme asset	48,764	11,602	60,366
Unrecognised surplus	(48,764)	(11,602)	(60,366)
Minimum funding requirement	(22,300)	(21,900)	(44,200)
Liability recognised on the balance sheet	(22,300)	(21,900)	(44,200)

At 31 October 2015

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Scheme assets at fair value			
Equities	574,504	590,948	1,165,452
Bonds	244,595	269,558	514,153
Property	134,306	117,243	251,549
Liability driven investments	248,353	251,000	499,353
Hedge funds	63,492	65,412	128,904
Cash/other	22,312	14,404	36,716
Fair value of scheme assets	1,287,562	1,308,565	2,596,127
Present value of scheme liabilities	(1,280,689)	(1,297,932)	(2,578,621)
Defined benefit pensions scheme asset	6,873	10,633	17,506
Unrecognised surplus	(6,873)	(10,633)	(17,506)
Minimum funding requirement	(14,000)	(2,200)	(16,200)
Liability recognised on the balance sheet	(14,000)	(2,200)	(16,200)

Notes to the financial statements (continued)

at 31 October 2016

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.

When determining the adjustment in respect of the minimum funding requirement, it has been determined that the Company would not be able to obtain economic benefit from any surplus which currently exists or which arises in the future. An additional liability has been recognised now such that the immediate payment of the present value of agreed deficit contributions would not result in a balance sheet asset under FRS 101. This is a change from previous assessment under previously extant UK GAAP, when it was determined that the Company would be able to obtain economic benefit from any surplus which existed. Accordingly, the comparator figures have been restated for the revised approach. These additional liabilities have been calculated based on the Schedules of Contributions dated 14 April 2016 and 16 January 2014 respectively.

The amounts recognised in the Income Statement and in the Statement of Other Comprehensive Income for the year are analysed as follows:

Year ended 31 October 2016

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
Recognised in the Income statement	£000	£000	£000
Current service costs	6,224	10,432	16,656
Administration expenses	3,274	2,387	5,661
Past service cost	1,910	891	2,801
	<hr/>	<hr/>	<hr/>
Expenses recognised in arriving at operating profit	11,408	13,710	25,118
	<hr/>	<hr/>	<hr/>
Net interest on defined benefit liability	518	82	600
	<hr/>	<hr/>	<hr/>

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
Taken to Statement of Other Comprehensive Income	£000	£000	£000
Return on plan assets (excluding amounts included in net interest expense)	228,287	274,663	502,950
Actuarial losses due to changes in financial assumptions	(242,199)	(300,655)	(542,854)
Actuarial gains/(losses) due to changes in demographic assumptions	18,690	(14,708)	3,982
Actuarial gains due to liability experience	13,924	16,829	30,753
Adjustment due to unrecognised surplus	(41,001)	131	(40,870)
Adjustment in respect of minimum funding requirement	(7,782)	(19,618)	(27,400)
	<hr/>	<hr/>	<hr/>
Recognised in the statement of other comprehensive income	(30,081)	(43,358)	(73,439)
	<hr/>	<hr/>	<hr/>

Notes to the financial statements (continued)

at 31 October 2016

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

Year ended 31 October 2015

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
Recognised in the Income statement	£000	£000	£000
Current service costs	7,062	13,265	20,327
Administration expenses	3,160	2,272	5,432
Past service cost	2,367	1,192	3,559
Expenses recognised in arriving at operating profit	12,589	16,729	29,318
Net interest on defined benefit liability	2,670	2,821	5,491

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
Taken to Statement of Other Comprehensive Income	£000	£000	£000
Return on plan assets (excluding amounts included in net interest expense)	47,037	43,140	90,177
Actuarial gains/(losses) due to changes in financial assumptions	(597)	12,670	12,073
Actuarial losses due to changes in demographic assumptions	(8,281)	(10,788)	(19,069)
Actuarial gains/(losses) due to liability experience	12,088	(4,432)	7,656
Adjustment in respect of acquisitions	-	3,463	3,463
Adjustment due to unrecognised surplus	(6,873)	(10,633)	(17,506)
Adjustment in respect of minimum funding requirement	(14,000)	(2,200)	(16,200)
Recognised in the statement of other comprehensive income	29,374	31,220	60,594

Notes to the financial statements (continued)

at 31 October 2016

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

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
As at 1 November 2014	1,271,736	1,238,376	2,510,112
Current service cost	7,062	13,265	20,327
Past service cost	2,367	1,192	3,559
Interest on scheme liabilities	46,098	45,922	92,020
Actuarial (gain)/loss	(3,210)	2,550	(660)
Benefits paid	(43,364)	(29,944)	(73,308)
Net increase in liabilities from acquisitions	-	26,571	26,571
As at 31 October 2015	1,280,689	1,297,932	2,578,621
Current service cost	6,224	10,432	16,656
Past service cost	1,910	891	2,801
Interest on scheme liabilities	46,355	47,939	94,294
Actuarial loss	209,585	298,534	508,119
Benefits paid	(47,061)	(42,510)	(89,571)
As at 31 October 2016	1,497,702	1,613,218	3,110,920

Changes in the fair value of scheme plan assets are analysed as follows:

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
As at 1 November 2014	1,155,121	1,101,430	2,256,551
Interest income plan assets	43,428	43,101	86,529
Contributions by employer	88,500	123,076	211,576
Benefits paid	(43,364)	(29,944)	(73,308)
Administrative expenses	(3,160)	(2,272)	(5,432)
Actuarial gain	47,037	43,140	90,177
Net increase in assets from acquisitions	-	30,034	30,034
As at 31 October 2015	1,287,562	1,308,565	2,596,127
Expected return on scheme assets	47,245	49,039	96,284
Contributions by employer	33,707	37,450	71,157
Benefits paid	(47,061)	(42,510)	(89,571)
Administrative expenses	(3,274)	(2,387)	(5,661)
Actuarial gain	228,287	274,663	502,950
As at 31 October 2016	1,546,466	1,624,820	3,171,286

Notes to the financial statements (continued)

at 31 October 2016

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

The main assumptions adopted are:

	<i>Digital Section</i>		<i>Hewlett-Packard Section</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	%	%	%	%
Rate of salary increases	2.5	2.5	2.5	2.5
Hewlett-Packard section – Post 1997 service	-	-	3.2	3.2
Digital Section – Post 2005 service (RPI subject to 5% cap)	3.2	3.2	-	-
Digital Section – Post 2005 service (RPI subject to 2.5% cap)	2.3	2.2	-	-
Discount rate	2.7	3.7	2.7	3.7
Inflation assumption – RPI	3.3	3.2	3.3	3.2
Inflation assumption – CPI	2.2	2.1	2.2	2.1
Rate of statutory revaluations to deferred pension in excess of GMP	2.2	2.1	2.2	2.1
Mortality rates (in years)				
Current pensioners life expectancy at 60 - male	27.8	28.1	28.3	28.5
Current pensioners life expectancy at 60 - female	30.3	30.3	30.1	30.8
Future pensioners life expectancy at 60 - male	29.1	29.4	29.6	29.8
Future pensioners life expectancy at 60 - female	31.8	31.8	31.6	32.3

The rate of increase to pensions in payment is based on the rules of the relevant section, combined with the relevant inflation (RPI or CPI) assumption where the increase is capped.

The UK discount rate is based on published indices for 18 year AA bonds. The assumptions for inflation and for increases in pensions are based on yield gap between long-term index-linked and long-term fixed interest gilt securities. The mortality rates are based on S2 'Light' tables, adjusted to reflect recent actual mortality experience of scheme members at each year end, and allow for expected future improvements in mortality rates.

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

Assumption	Change in assumption	Impact on scheme liabilities	
		<i>Digital Section</i>	<i>Hewlett-Packard Section</i>
Discount rate	Increase by 1%	Decrease by 15%	Decrease by 17%
	Decrease by 1.0%	Increase by 20%	Increase by 23%
Inflation assumption *	Increase by 1%	Increase by 7%	Increase by 13%
	Decrease by 1.0%	Decrease by 7%	Decrease by 12%
Rate of salary increases	Increase by 0.5%	Increase by 1%	Increase by 1%
	Decrease by 0.5%	Decrease by 1%	Decrease by 1%
Post retirement mortality	Increase by 1 year	Increase by 3%	Increase by 3%

Notes to the financial statements (continued)

at 31 October 2016

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

* The following assumptions are affected by a change in the inflation (RPI) assumption and this is allowed for in the sensitivity:

- CPI;
- Pension increase in deferment; and
- Pension increased in payment.

The sensitivity information shown above is approximate and has been determined taking into account the duration of the liabilities and the overall profile of the plan membership.

Pension contributions are determined with the advice of independent qualified actuaries on the basis of annual valuations using the projected unit credit method. The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for future earnings. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets.

Contributions paid by the Company in the accounting year amounted to £71,157,000. This represents £3,100,000 of augmentations, £4,507,000 of salary sacrifice contributions paid on behalf of members and temporary extra pension payments and £63,550,000 in accordance with the Funding Agreement between the Trustees and the Company.

The Company expects cash contributions to be paid into the respective pension funds in the financial year to 31 October 2017 of £95,015,000. This represents £3,040,000 of augmentations, £4,460,000 of salary sacrifice contributions paid on behalf of members and temporary extra pension payments and £87,515,000 in accordance with the Funding Agreement between the Trustees and the Company.

The level of contributions are based on the current service costs and the expected cash flows of the defined benefit schemes. The Company estimates the duration of the liabilities in the date received as at 31 July 2016 to be 18 years and 21 years for the Digital Section and HP Section of the Plan respectively.

22. Parent undertaking and controlling party

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.

The immediate parent company is Hewlett-Packard (Bracknell) Holdings Limited, a company incorporated in England and Wales.

Notes to the financial statements (continued)

at 31 October 2016

23. 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 ("ES") Business with Computer Sciences Corporation ("CSC"). This transaction was completed on 31 March 2017. Whilst this Company will remain within the Hewlett Packard Enterprise Company and not be merged with CSC, as part of the preparation for this merge on 1 December 2016 the Company sold its ES assets and liabilities including its interests in a freehold premises used as a data centre to EntServ UK Limited, a fellow group company at the time of the transaction, which merged with CSC on 31 March 2017, for consideration of £17,349,457 (\$21,686,821). On 7 September 2016 Hewlett Packard Enterprise Company announced plans for a spin off and merger of its Software Business with Micro Focus. This transaction is planned to be completed on 31 August 2017. Operationally the transaction became effective in the UK from 1 June 2017 when Hewlett-Packard Limited executed the sale of its Software Business to Entcorp UK Ltd, for a consideration of £44,632,353 (\$57,620,368) generating a loss on disposal of £1,640,823 after writing down the associated goodwill balance. At the time of the transaction Entcorp UK Ltd is a fellow group company which will merge with Micro Focus on 31 August 2017.

On 1 May 2017, the Company signed an agreement to purchase the business of Silicon Graphics Limited. The goodwill recognised in 2017 amounted to £4,094,151 in exchange for a cash payment of £1,802,898 (\$2,327,000) and net liabilities of £2,291,253.

24. 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 FRS 101, 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.

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

Notes to the financial statements (continued)

at 31 October 2016

24. Transition to FRS 101 (continued)

Reconciliation as at 1 November 2014

	<i>Note</i>	<i>UK GAAP</i> £'000	<i>Reclass</i> £'000	<i>Adjustments</i> £'000	<i>FRS101</i> £'000
Non-current assets					
Tangible assets		93,839	-	-	93,839
Intangible assets		63,929	-	-	63,929
Current assets					
Stocks		43,076	-	-	43,076
Debtors		1,921,869	-	-	1,921,869
Deferred tax	B	19,676	50,895	-	70,571
Cash at bank and in hand		999	-	-	999
		<u>1,985,620</u>	<u>50,895</u>	<u>-</u>	<u>2,036,515</u>
Creditors: amounts falling due within one year		<u>(1,123,494)</u>	<u>-</u>	<u>-</u>	<u>(1,123,494)</u>
Net current assets		<u>862,125</u>	<u>-</u>	<u>-</u>	<u>913,021</u>
Total assets less current liabilities		<u>1,019,893</u>	<u>-</u>	<u>-</u>	<u>1,070,789</u>
Creditors: amounts falling due after one year		<u>(118,879)</u>	<u>-</u>	<u>-</u>	<u>(118,879)</u>
Provision for liabilities and charges		<u>(29,569)</u>	<u>-</u>	<u>-</u>	<u>(29,569)</u>
Pension liability	B,D	<u>(203,583)</u>	<u>(49,978)</u>	<u>-</u>	<u>(253,561)</u>
Net assets		<u><u>667,863</u></u>	<u><u>(49,978)</u></u>	<u><u>-</u></u>	<u><u>668,780</u></u>
Capital and reserves					
Called up share capital		104,772	-	-	104,772
Share premium account		492,017	-	-	492,017
Retained earnings	D	<u>71,074</u>	<u>917</u>	<u>-</u>	<u>71,991</u>
Total equity		<u><u>667,863</u></u>	<u><u>917</u></u>	<u><u>-</u></u>	<u><u>668,780</u></u>

Notes to the financial statements (continued)

at 31 October 2016

24. Transition to FRS 101 (continued)

Reconciliation as at 31 October 2015

	<i>Note</i>	<i>UK GAAP</i> £'000	<i>Reclass</i> £'000	<i>Adjustments</i> £'000	<i>FRS101</i> £'000
Non-current assets					
Tangible assets		93,428	-	-	93,428
Intangible assets	A	42,619	-	21,310	63,929
Current assets					
Stocks		22,521	-	-	22,521
Debtors		1,315,757	-	-	1,315,757
Deferred tax	B	40,135	4,766	-	44,901
Cash at bank and in hand		1,675	-	-	1,675
		<u>1,380,088</u>	<u>4,766</u>	<u>-</u>	<u>1,384,854</u>
Creditors: amounts falling due within one year		<u>(608,453)</u>	<u>-</u>	<u>(25,397)</u>	<u>(633,850)</u>
Net current assets		<u>771,635</u>	<u>4,766</u>	<u>(25,397)</u>	<u>751,004</u>
Total assets less current liabilities		<u>907,682</u>	<u>4,766</u>	<u>(4,087)</u>	<u>908,361</u>
Creditors: amounts falling due after one year		<u>(92,825)</u>	<u>-</u>	<u>-</u>	<u>(92,825)</u>
Provision for liabilities and charges		<u>(16,303)</u>	<u>-</u>	<u>-</u>	<u>(16,303)</u>
Pension asset/(liability)	B,C,D	<u>10,433</u>	<u>(26,633)</u>	<u>-</u>	<u>(16,200)</u>
Net assets		<u>808,987</u>	<u>(21,867)</u>	<u>(4,087)</u>	<u>783,033</u>
Capital and reserves					
Called up share capital		104,772	-	-	104,772
Share premium account		492,017	-	-	492,017
Retained earnings	A,B,C,D	212,198	(21,867)	(4,087)	186,244
Total equity		<u>808,987</u>	<u>(21,866)</u>	<u>(4,087)</u>	<u>783,033</u>

Notes to the financial statements (continued)

at 31 October 2016

24. 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>FRS101</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit/(loss) for the year	A,B,C,E	116,569	(35,866)	80,703
Other comprehensive income	B,C,D	39,915	8,995	48,910
Total comprehensive income		156,484	(26,871)	129,613

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. Goodwill: Write back of FY15 amortisation

Under previous UK GAAP, goodwill was amortised annually based on its defined useful economic life. Under FRS 101, goodwill has been determined to have an indefinite useful life and as a result amortisation is prohibited. Instead, goodwill is tested for impairment annually at the end of the reporting period.

B. Pensions: Current and deferred tax

Under previous UK GAAP, the defined benefit pension liability or asset was required to be shown net of the related deferred tax asset or liability. Under FRS 101, the defined benefit pension liability or asset is required to be shown gross of any deferred tax asset or liability. The related deferred tax element being is included in the total deferred tax balance.

As a result of the transition to FRS 101, tax on profit on ordinary activities is £8,388,000 lower than had been recognised under previous UK GAAP, representing a £3,181,000 reduction recognised in other comprehensive income and £5,206,000 increase recognised in deferred tax.

C. Pensions: Net interest on pension asset, and administration costs

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 was 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 £36,545,000 lower than had been recognised under previous UK GAAP, with a corresponding reduction in remeasurement gains 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.

Notes to the financial statements (continued)

at 31 October 2016

25. Transition to FRS 101 (continued)

C. Pensions: Net interest on pension asset, and administration costs (continued)

As a result of transition to FRS 101, administration charges for the year ended 31 October 2015 were £5,472,000 higher than had been recognised under previous UK GAAP.

D. Pensions: Unrecognised surplus

Under FRS 101 it has been determined that the Company would not be able to obtain economic benefit from any surplus which currently exists or which arises in the future. An additional liability has been recognised now such that the immediate payment of the present value of agreed deficit contributions would not result in a balance sheet asset under FRS 101. This is a change from the previous assessment under previously extant UK GAAP, when it was determined that the Company would be able to obtain economic benefit from any surplus which existed. This has reduced the defined benefit pension position by £917,000 in 2014 £16,074,000 in 2015, with a corresponding reduction recognised in other comprehensive income.

E. Prior year corrections

In addition to adjustments related to the transition to FRS 101, comparative figures have been adjusted to correct errors in the prior year reported results. Other creditors have been increased by £10,280,000 as a result of an arithmetic error in the prior year close process. Intercompany receivables have been reduced by £15,116,000 as a result of the balance being irrecoverable as at October 31, 2015. The impact of these adjustment is an increase in previously reported Cost of sales by £35,396,000.