

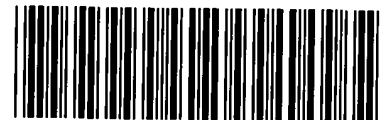
Registered No: 00690597

# **Hewlett-Packard Limited**

## **Report and Financial Statements**

31 October 2018

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COMPANIES HOUSE

## Hewlett-Packard Limited

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### **Directors**

P Oram

M Waters

### **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 2018.

### Review of the business

During the year, the Company continued to provide a broad portfolio of services-led and software-enabled infrastructure and solutions including secure, software-defined servers, storage, data center networking and HPE Pointnext services. The Company also maintained its reputation for customer service, support and satisfaction.

In the prior year, on 1 December 2016, the Company sold its Enterprise Service 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 was spun-out and merged with CSC on 1 April 2017, for consideration of £17,349,000 (\$21,687,000) generating a gain on disposal of £287,000. On 1 June 2017, the Company also executed the sale of its Software Business to Entcorp UK Ltd, a fellow group company at the time of the transaction, which was spun-out and merged with Micro Focus on 1 September 2017, for consideration of £44,632,000 (\$57,620,000) generating a gain on disposal of £2,273,000 after writing down the associated goodwill balance.

The profit for the year, after taxation, amounted to £41,232,000 (2017: loss of £78,705,000).

The directors do not recommend a final ordinary dividend, making the total of ordinary dividends paid for the year £nil (2017: £nil).

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:

	2018	2017
	£m	£m
Turnover	1,109	1,181
Gross profit	268	214
Profit/(loss) before tax	46	(58)

Turnover declined by 6% during the year as a result of the sale the Software Business on 1 June 2017. The Company is continuing to launch certain initiatives that aim to generate turnover growth in future years, improving our service delivery for higher quality and lower cost.

Gross profit for the year increased by 25%, which can be predominately attributed to a favourable movement in foreign currency movements offset by a reduction, following the sale of the Software Business on 1 June 2017. Gross profit as a proportion of turnover represents 24% in 2018, compared to 18% in 2017.

The improvement in gross profit and an increase in interest receivable from group undertakings has generated a profit before tax of £46m in 2018, compared to a loss before tax of £58m in 2017.

In 2018 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.

### Market share

As at 31 October 2018, 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.

## Strategic report (continued)

### Market share (continued)

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](http://www.uk.idc.com). These should be referred to for up to date market share positions.

### Acquisitions

On 1 July 2018, the Company signed an agreement to purchase the business of RedPixie Limited. Cash consideration of £12,769,000 (\$16,856,000) was exchanged for net assets of £637,000, customer relationships valued at £3,976,000, resulting in goodwill of £8,156,000 being recognised.

On 31 October 2018, Hewlett-Packard Limited purchased the trade and assets of a fellow group company, Hewlett-Packard Manufacturing Limited, for a total consideration of £20,928,000 (\$26,781,000). At the date of the transaction the business had net assets of £3,649,000. The difference between the purchase price and net assets assumed has been recognised as a merger reserve of £17,279,000 within equity. 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 19. 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.

At 31 October 2018 the pension asset reported is £34,701,000 (2017: 42,072,000).

The Company continues to support these schemes with the current funding arrangements for the next year included in note 19.

On 26 October 2018, the High Court of Justice issued a judgement in a claim brought by Lloyds Banking Group Pension Trustees Limited regarding the rights of female members of certain pension schemes and the inequality of treatment in respect of the receipt of pension benefits. The judgement impacts the pension schemes operated by the Company as set out in note 19. Uncertainty still remains over how the calculation of the obligation for GMP equalisation should be performed. In determining the obligation, the Company has assumed the Trustees will adopt Method C, an option provided in the guidance issued in the judgment. Additional guidance may also be issued by the UK Government on the application of GMP equalisation, which could alter the final cost and may lead to the cost being higher or lower than the current estimate.

### 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-defined 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 £16,100,000 (2017: £17,231,000).

## Strategic report (continued)

### 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.

#### - **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 has 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 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.

## Strategic report (continued)

### Future developments

The business has been able to diagnose those areas in which efficiencies and improvements can be made and implement plans to reduce costs. The Company aims to execute further cost reduction strategies within the organisation to continue to stabilise, if not improve, profitability for the next financial year. This has also enabled a renewed focus on the growth of revenue for the next financial year through the use of more rationalised and effective go to market strategies to capture new opportunities in the market. This in turn is expected to have a positive impact on the market share of the business.

### The environment

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 2018 report is available from

<https://www.hpe.com/us/en/living-progress.html>.

Approved by the Board

P. A. Oram .

Philippa Oram  
Director

Date: 24 June 2019

## Directors' report

The directors present their report for the year ended 31 October 2018.

### Directors

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

P Oram  
M Waters

During the year, 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

P. A. Oram.

Philippa Oram  
Director

Date: 24 June 2019



## **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 and Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101").

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 auditor's report to the members of Hewlett-Packard Limited**

## **Opinion**

We have audited the financial statements of Hewlett-Packard Limited for the year ended 31 October 2018 which comprise the Statement of comprehensive income, the Statement of changes in equity, the Balance sheet and the related notes 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 October 2018 and of its profit 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.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Independent auditor's report (continued) to the members of Hewlett-Packard Limited**

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

### **Responsibilities of directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## **Independent auditor's report (continued) to the members of Hewlett-Packard Limited**

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

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.

*Ernst & Young LLP*

San Gunapala (Senior statutory auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
Reading

Date: 24/6/19

## Statement of comprehensive income

for the year ended 31 October 2018

	Note	2018 £'000	2017 £'000
<b>Turnover</b>	3	1,109,476	1,180,902
Cost of sales		(841,160)	(967,185)
<b>Gross profit</b>		268,316	213,717
Distribution costs		(157,715)	(197,221)
Administration expenses		(19,996)	(19,476)
Exceptional items	5	(55,322)	(53,123)
<b>Operating profit/(loss)</b>	4,5	35,283	(56,103)
<i>Analysed between:</i>			
Operating profit/(loss) on ordinary activities before exceptional items		90,605	(2,980)
Exceptional item - restructuring expenses	5	(42,322)	(53,123)
Exceptional item – guaranteed minimum pension equalisation	5	(13,000)	-
Exceptional item - profit on the sale of business	5	-	2,560
Interest receivable and similar income	9	18,541	4,107
Interest payable	10	(7,748)	(8,082)
<b>Profit/(loss) on ordinary activities before taxation</b>		46,076	(57,518)
Tax on profit/(loss) on ordinary activities	11	(4,844)	(21,187)
<b>Profit/(loss) for the financial year</b>		41,232	(78,705)
<b>Other comprehensive income:</b>			
<b>Items that cannot be reclassified to profit or loss:</b>			
Remeasurement gains on defined benefit pension plan	19	20,766	18,151
Tax on items relating to components of other comprehensive income		(2,823)	(3,485)
Total other comprehensive income for the year, net of tax		17,943	14,666
<b>Total comprehensive income/(loss) for the year</b>		59,175	(64,039)

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

# Statement of changes in equity

for the year ended 31 October 2018

	Share capital £000	Share premium £000	Merger reserve £'000	Retained earnings £000	Total equity £000
At 1 November 2016	104,772	492,017	-	102,548	699,337
Loss for the financial year	-	-	-	(78,705)	(78,705)
Other comprehensive income for the year	-	-	-	14,666	14,666
Share-based payments (note 6)	-	-	-	7,008	7,008
Recharge for share-based payments	-	-	-	(20,039)	(20,039)
At 31 October 2017	104,772	492,017	-	25,478	622,267
Profit for the financial year	-	-	-	41,232	41,232
Other comprehensive income for the year	-	-	-	17,943	17,943
Share-based payments (note 6)	-	-	-	5,622	5,622
Recharge for share-based payments	-	-	-	(17,765)	(17,765)
Common control acquisition (note 21)	-	-	(20,568)	-	(13,990)
Deferred tax on acquisition of a common control entity (notes 11, 21)	-	-	3,289	-	(3,289)
At 31 October 2018	104,772	492,017	(17,279)	72,510	652,020

# Hewlett-Packard Limited

Registered No: 00690597

## Balance sheet

at 31 October 2018

	Note	2018 £'000	2017 £'000
<b>Non-current assets</b>			
Tangible assets	12	51,572	69,771
Intangible assets	13	45,493	33,361
		<u>97,065</u>	<u>103,132</u>
<b>Current assets</b>			
Stocks	15	21,168	17,215
Debtors: amounts falling due within one year	16	1,189,846	1,196,902
Debtors: amounts falling due after one year	16	624	1,024
Cash at bank and in hand		213	4,571
Deferred tax	11	18,268	12,385
		<u>1,230,119</u>	<u>1,232,097</u>
<b>Creditors: amounts falling due within one year</b>	17	<u>(601,794)</u>	<u>(647,262)</u>
<b>Net current assets</b>		<u>628,325</u>	<u>584,835</u>
<b>Total assets less current liabilities</b>		<u>725,390</u>	<u>687,967</u>
<b>Creditors: amounts falling due after one year</b>	17	<u>(89,787)</u>	<u>(88,943)</u>
<b>Provisions for liabilities and charges</b>	18	<u>(18,284)</u>	<u>(18,829)</u>
<b>Pension asset</b>	19	<u>34,701</u>	<u>42,072</u>
<b>Net assets</b>		<u><u>652,020</u></u>	<u><u>622,267</u></u>
<b>Capital and reserves</b>			
Called up share capital	20	104,772	104,772
Share premium account		492,017	492,017
Merger reserve	21	(17,279)	-
Retained earnings		72,510	25,478
<b>Total equity</b>		<u><u>652,020</u></u>	<u><u>622,267</u></u>

The financial statements on pages 12 to 45 were approved by the board of directors on and signed on its behalf by:

P. A. Oram.

Philippa Oram  
Director

Date: 24 June 2019

## Notes to the financial statements

at 31 October 2018

### 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 2018 were authorised for issue by the board of directors on 24 June 2019 and the Balance sheet was signed on the board's behalf by Philippa Oram. 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 in note 2.

### 2. Accounting Policies

#### 2.1. Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 October 2018.

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 paragraphs 10(d), 16, 38A-38D, 40A-40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- (f) the requirements of IAS 7 Statement of Cash Flows;
- (g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (h) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures; and
- (i) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.



## Notes to the financial statements (continued)

at 31 October 2018

### 2. Accounting Policies (continued)

#### 2.1. 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.

Management judgement is also required in determining the deductibility of costs within the tax computation, in accordance with the tax legislation.

The estimate and assumptions that affect the current year or have a significant risk of causing a material adjustment within the financial year are as follows:

##### *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. The sensitivity to changes in pension increase assumptions is disclosed in note 19.

On 26 October 2018, the High Court of Justice issued a judgment in a claim brought by Lloyds Banking Group Pension Trustees Limited regarding the rights of female members of certain pension schemes and the inequality of treatment in respect of the receipt of pension benefits. The judgment impacts the pension schemes operated by the Company as set out in note 19. Uncertainty still remains over how the calculation of the obligation for GMP equalisation should be performed. In determining the obligation, the Company has assumed the Trustees will adopt Method C, an option provided in the guidance issued in the judgment. Additional guidance may also be issued by the UK Government on the application of GMP equalisation, which could alter the final cost and may lead to the cost being higher or lower than the current estimate.

## Notes to the financial statements (continued)

at 31 October 2018

### 2. Accounting Policies (continued)

#### 2.3. 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.

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 2018

### 2. Accounting Policies (continued)

#### 2.4. Significant accounting policies (continued)

##### Business Combinations

Business combinations which are in scope of IFRS 3 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. For transactions which are under common control and which therefore fall outside of the scope of IFRS 3, the pooling of interests method is used. Under the acquisition method, the excess of the purchase price over the fair value of the net assets acquired is recognised as goodwill, whereas this is taken to the merger reserve under the pooling of interest method.

The UK Companies Act 2006 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, as the value is not considered by the Directors' to reduce gradually over its life, 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 as by recognising impairments as they arise, this better reflects the true carrying value of the goodwill. For goodwill arising on acquisition, given the small size of the businesses 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 represents 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.

##### Intangible Assets

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 on a straight-line basis 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.

## Notes to the financial statements (continued)

at 31 October 2018

### 2. Accounting Policies (continued)

#### 2.4. Significant accounting policies (continued)

##### Intangible assets (continued)

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is 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 accumulated 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.

##### 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 2018

### 2. Accounting Policies (continued)

#### 2.4. 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. Sublease payments received, including the effect of lease incentives, are recognised 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. 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 exceptions:

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

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

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

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.

## Notes to the financial statements (continued)

at 31 October 2018

### 2. Accounting Policies (continued)

#### 2.4. Significant accounting policies (continued)

##### Trade and other debtors

Trade debtors, which generally have 30-60 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.

##### 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 receivable and records the consideration received as a liability within other creditors in respect of the proceeds received from the factor under separate presentation, until the receivable is collected by Wells Fargo.

##### 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.

## Notes to the financial statements (continued)

at 31 October 2018

### 2. Accounting Policies (continued)

#### 2.4. Significant accounting policies (continued)

##### 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.

##### 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.

##### Trade and other creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade creditors are initially measured at fair value and subsequently measured at amortised cost.

## Notes to the financial statements (continued)

at 31 October 2018

### 3. Turnover

Turnover recognised in the income statement is analysed as follows:

	2018 £'000	2017 £'000
Hybrid IT/Intelligent Edge (products/services)	1,109,476	1,101,666
Software	-	79,236
	<u>1,109,476</u>	<u>1,180,902</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 (2017: £nil).

### 4. Operating profit/(loss)

This is stated after charging/(crediting):

	2018 £'000	2017 £'000
Auditor's remuneration		
- audit services	184	197
- other services	4	5
Foreign exchange gain	(92,751)	(4,344)
Depreciation		
- owned assets	4,095	6,566
Cost of stocks recognised as an expense (within cost of sales)	759,900	732,322
(Gain)/loss on disposal of fixed assets	(1,270)	287
	<u>16,100</u>	<u>17,231</u>
Research and development expenditure		
	<u>16,100</u>	<u>17,231</u>
Operating lease costs		
- land and buildings*	7,121	4,594
- other	351	597
Operating sublease payments	(6,499)	(6,136)
	<u>973</u>	<u>(945)</u>
Total lease and sublease payments recognised in the income statement		
	<u>973</u>	<u>(945)</u>

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



## Notes to the financial statements (continued)

at 31 October 2018

### 5. Exceptional items

	2018 £'000	2017 £'000
<i>Recognised in arriving at operating profit/(loss):</i>		
Restructuring costs	42,322	53,123
GMP equalisation	13,000	-
<i>Recognised below operating profit/(loss):</i>		
Profit on the sale of business	-	2,560

During 2018, the Company continued with certain employee redundancy and property rationalisation programmes at a cost of £42,322,000 (2017: £53,123,000).

On 26 October 2018, the High Court of Justice issued a judgment in a claim brought by Lloyds Banking Group Pension Trustees Limited regarding the rights of female members of certain pension schemes and the inequality of treatment in respect of the receipt of pension benefits. The judgment impacts the pension schemes operated by the Company as set out in note 19. Uncertainty still remains over how the calculation of the obligation for GMP equalisation should be performed. In determining the obligation, the Company has assumed the Trustees will adopt Method C, an option provided in the guidance issued in the judgment. Additional guidance may also be issued by the UK Government on the application of GMP equalisation, which could alter the final cost and may lead to the cost being higher or lower than the current estimate.

On 1 June 2017, the Company executed the sale of its Software Business to Entcorp UK Ltd, a fellow group company at the time of the transaction, which was merged with Micro Focus on 31 August 2017, for consideration of £44,632,000 (\$57,620,000) generating a gain on disposal of £2,273,000 after writing down the associated goodwill balance.

On 1 December 2016, the Company sold its Enterprise Service 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 was spun-out and merged with CSC on 31 March 2017, for consideration of £17,349,000 (\$21,687,000) generating a gain on disposal of £287,000.

### 6. Staff costs

	2018 £'000	2017 £'000
Wages and salaries	199,179	237,022
Social security costs	24,802	30,124
Other pension costs	50,502	44,263
Equity-settled share-based payments (note 7)	5,622	7,008
	<u>280,105</u>	<u>318,417</u>

## Notes to the financial statements (continued)

at 31 October 2018

### 6. Staff costs (continued)

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

	2018	2017
	No.	No.
Sales and services	1,916	2,632
Research and development	186	239
	<u>2,102</u>	<u>2,871</u>

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

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

Effective 1 November 2015, the Company adopted the Hewlett Packard Enterprise Company 2015 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.

Prior to Hewlett-Packard Company separating into Hewlett Packard Enterprise Company and HP Inc (the "Separation") on 1 November 2015, under the former Parent's ESPP, employees could contribute up to 10% of their eligible compensation, subject to certain income limits, to purchase shares of former Parent's common stock. Pursuant to the terms of former Parent's ESPP, employees purchased stock under the ESPP at a price equal to 95% of former Parent's closing stock price on the purchase date.

#### Incentive compensation plans

The Company adopted the Hewlett Packard Enterprise Company 2015 Stock Incentive Plan (the "Plan"). The Plan became effective on 1 November 2015. The Plan provides for the grant of various types of awards including restricted stock awards, stock options, and performance-based awards. These awards generally vest over three years from the grant date. The Company's stock-based incentive compensation program also includes various equity plans assumed through acquisitions under which stock-based awards are outstanding. Additionally, as permitted by the Plan, in connection with the Everett and Seattle Transactions and in accordance with the respective Employee Matters Agreements, Hewlett Packard Enterprise made certain post-spin adjustments to the exercise price and number of stock-based compensation awards with the intention of preserving the intrinsic value of the outstanding awards prior to the close of the transactions. The incremental expense incurred by the Company related to the Everett and Seattle Transactions was not material.

## Notes to the financial statements (continued)

at 31 October 2018

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

#### Stock options

Stock options granted under the Plan 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 the Company's common stock on the option grant date. The majority of the stock options issued by the Company contain only service vesting conditions. The Company also issued performance-contingent stock options that vest only on the satisfaction of both service and market conditions. In fiscal 2018, the Company did not issue stock options.

During the year 578,418 (2017: 748,216) share options were exercised. The weighted average share price at the date of exercise for share options exercised during the year was \$17.49 (2017: \$18.87).

At the reporting date there were 185,258 (2017: 863,464) 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>2018</i>		<i>2017</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	124,048	2.18	435,734	2.68
\$10 - \$19.99	61,210	4.14	427,730	2.32
	<u>185,258</u>	<u>2.83</u>	<u>863,464</u>	<u>2.50</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 common 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 1,099,699 (2017: 1,005,009) non-vested restricted stock units were exercised.

At the reporting date there were 928,810 (2017: 1,596,172) outstanding non-vested restricted stock units.

## Notes to the financial statements (continued)

at 31 October 2018

### 8. Directors' emoluments

The aggregate remuneration for directors who have performed qualifying services for this Company amounted to £739,000 (2017: £690,000) with pension contributions of £nil (2017: £23,000).

The emoluments of the highest paid director were remuneration of £499,000 (2017: £429,000) and pension contributions to money purchase schemes of £nil (2017: £23,000).

One director participated in the Company's defined contribution pension scheme during the year ended 31 October 2018 (2017: One).

One director participated in the fellow group company's defined benefit pension scheme during the year ended 31 October 2018 (2017: None).

Two directors exercised share options during the year ended 31 October 2018 (2017: Two).

Two directors acquired shares through the vesting of previously granted restricted stock units (2017: Two).

### 9. Interest receivable and other finance income

	2018 £'000	2017 £'000
Interest receivable from group undertakings	17,120	3,981
Other finance income	1,421	126
	<u>18,541</u>	<u>4,107</u>

### 10. Interest payable

	2018 £'000	2017 £'000
Interest payable to group undertakings	2,428	1,911
Other interest payable	5,320	6,171
	<u>7,748</u>	<u>8,082</u>

Included within other interest payable at 31 October 2018 is interest payable associated with debt financing arrangements of £3,167,000 (2017: £2,936,000).

## Notes to the financial statements (continued)

at 31 October 2018

### 11. Taxation on profit/(loss) on ordinary activities

(a) Analysis of tax charge in the income statement

	2018 £'000	2017 £'000
<b>Current tax:</b>		
United Kingdom corporation tax on profit for the year at 19.00% (2017: 19.41%)	16,282	-
Foreign Tax	31	153
	<hr/>	<hr/>
Total current tax in relation to current year	16,313	153
Over provision in prior year	(6,051)	-
	<hr/>	<hr/>
Total current tax	10,262	153
<b>Deferred tax:</b>		
Origination and reversal of timing differences – current year	5,318	23,010
Origination and reversal of timing differences – prior year	(11,064)	-
Effect of decreased tax rate	328	(1,976)
	<hr/>	<hr/>
Total deferred tax	(5,418)	21,034
	<hr/>	<hr/>
Tax expense in the income statement	4,844	21,187
	<hr/>	<hr/>

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

	2018 £'000	2017 £'000
<b>Deferred tax:</b>		
Actuarial gain on defined benefit pension plan	2,737	3,523
Share Based Payments	418	456
Change in tax rates	(332)	(494)
	<hr/>	<hr/>
Total deferred tax	2,823	3,485
	<hr/>	<hr/>
Tax expense in the statement of other comprehensive income	2,823	3,485
	<hr/>	<hr/>

(c) Tax relating to items charged or credited to equity

	2018 £'000	2017 £'000
<b>Deferred tax:</b>		
Deferred tax on acquisition of a common control entity	(3,674)	-
Change in tax rates	385	-
	<hr/>	<hr/>
Total deferred tax	(3,289)	-
	<hr/>	<hr/>
Tax expense in the statement of equity	(3,289)	-
	<hr/>	<hr/>

## Notes to the financial statements (continued)

at 31 October 2018

### 11. Taxation on profit/(loss) on ordinary activities (continued)

#### (d) 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 19.00% (2017: 19.41%). The differences are reconciled below:

	2018 £'000	2017 £'000
Profit /(loss) on ordinary activities before tax	46,076	(57,518)
Profit /(loss) on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 19.00% (2017: 19.41%)	8,754	(11,164)
<i>Effects of:</i>		
Disallowable expenses	5,382	23,201
Profit on sale of Enterprise Services and Software business	-	1,916
Foreign Tax	31	153
Effect of decreased tax rate	328	(1,976)
Imputed profits	7,464	9,057
Total current tax in relation to current year	21,959	21,187
Over provision in prior year	(17,115)	-
Total current tax (note 11(a))	4,844	21,187

#### (e) Deferred tax

	2018 £'000	2017 £'000
The deferred tax included in the balance sheet is as follows:	18,268	12,385

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

	2018 £'000	2017 £'000
Excess of depreciation over taxation allowances	8,388	6,240
Pension (surplus)	(5,787)	(7,152)
Losses carried forward	13,481	1,950
Other timing differences	2,186	11,347
Total deferred tax asset	18,268	12,385

## Notes to the financial statements (continued)

at 31 October 2018

### 11. Taxation on profit/(loss) on ordinary activities (continued)

#### (e) 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.

	2018 £'000	2017 £'000
At 1 November	12,385	36,904
Deferred tax expense/(credit) to the income statement	5,417	(21,034)
Deferred tax credit to statement of other comprehensive income	(2,823)	(3,485)
Deferred tax expense to statement of equity	3,289	-
At 31 October	18,268	12,385

#### (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. No other future changes to the corporation tax rate have been proposed. As a result, the deferred tax balances as at 31 October 2018 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 2017	122,887	2,079	14,336	139,302
Additions	9	-	665	674
Transfers	1,684	(1,684)	5	5
Disposals	(54,052)	(395)	(5,184)	(59,631)
At 31 October 2018	70,528	-	9,822	80,350
<i>Depreciation:</i>				
At 1 November 2017	58,443	-	11,088	69,531
Charge for the year	2,763	-	1,332	4,095
Disposals	(40,353)	-	(4,495)	(44,848)
At 31 October 2018	20,853	-	7,925	28,778
<i>Net book value:</i>				
At 31 October 2018	49,675	-	1,897	51,572
At 1 November 2017	64,444	2,079	3,248	69,771

## Notes to the financial statements (continued)

at 31 October 2018

### 12. Tangible fixed assets (continued)

#### Analysis of property

	2018	2018	2018	2017
	Cost	Depreciation	Net	Net
	£'000	£'000	£'000	£'000
Freehold land	31,718	-	31,718	32,156
Freehold buildings and long leasehold	28,175	17,668	10,507	25,155
Short leaseholds	10,635	3,185	7,450	9,212
Total property	70,528	20,853	49,675	66,523

On 23 March 2018, the Company completed an agreement for the sale of the owned land, property and fixtures at Wallscourt Farm, Filton Road, Filton, Bristol and the owned land lying to the north east Hogarth Walk, Stoke Gifford, for a purchase price of £20,000,000, generating a profit on disposal of £7,004,000. As part of the agreement the Company entered into a leaseback arrangement to occupy certain areas of the premises sold, accordingly the profit on disposal has been deferred over the term of the lease. The term of the lease commenced on 23 March 2018 for a fixed term ending on 1 November 2019. As a result, a gain of £2,652,000 has been recognised in 2018 and included in the gain on disposal of fixed assets.

### 13. Intangible fixed assets

	2018	2018	2018
	Goodwill	Customer relationships	Total Intangibles
	£'000	£'000	£'000
<i>Cost:</i>			
At 1 November 2017	33,361	-	33,361
Additions – acquisition of business	8,156	3,976	12,132
At 31 October 2018	41,517	3,976	45,493

#### Additions

On 1 July 2018, the Company signed an agreement to purchase the business of RedPixie Limited. Cash consideration of £12,769,000 (\$16,856,000) was exchanged for net assets of £637,000, customer relationships valued at £3,976,000, resulting in goodwill of £8,156,000 being recognised.



## Notes to the financial statements (continued)

at 31 October 2018

### 13. Intangible fixed assets (continued)

#### Additions (continued)

The fair value of the identifiable assets and liabilities, of the acquired business, as at the date of acquisition were equivalent to the book values, these were as follows:

	<i>RedPixie Limited</i>
	<i>Book value</i>
	<i>£'000</i>
Property, plant and equipment	100
Trade receivables	874
Prepaid expenses	103
Accrued revenue	68
Accounts payable	(344)
Accrued expenses	(74)
Deferred revenue	(90)
Net assets	637
Goodwill arising on acquisition	8,156
Customer relationships valued on acquisition	3,976
	12,769
Discharged by:	
Cash	12,769

On acquisition, the above business was fully integrated into the Company's existing operations. From this point onwards, the cashflows and performance are no longer separately identifiable and therefore it is impracticable for the revenue and profit or loss of the acquiree since the acquisition date to be disclosed.

Goodwill acquired through business combinations is allocated to the one cash-generating unit that the business operates under. This represents the lowest level within the Company at which goodwill is monitored for internal management purposes. The recoverable amount of this cash-generating unit has been determined based on a value in use calculation using cash flow projections approved by management.

### 14. Investments

The Company holds investments in the following direct subsidiaries with the collective carrying value of £8 (2017: £8):

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

The registered office of Hewlett Packard Enterprise UK Pension Trustee Limited and Hewlett-Packard Investment Scheme Pension Company Limited is Amen Corner, Cain Road, Bracknell, Berkshire, RG12 1HN.

## Notes to the financial statements (continued)

at 31 October 2018

### 15. Stocks

	2018 £'000	2017 £'000
Finished goods for resale	21,168	17,215

### 16. Debtors

	2018 £'000	2017 £'000
Trade debtors	223,655	210,344
Amounts owed by group undertakings	944,176	970,012
Corporation tax	-	528
Other debtors	1,423	3,242
Deferred contract costs	1,528	834
Prepayments and accrued income	19,688	12,966
	<u>1,190,470</u>	<u>1,197,926</u>

In 2018, the Company continued 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 2018 are assets associated with debt financing arrangement of £125,073,000 (2017: £113,224,000).

Included within amounts owed by group undertakings is a loan due from a fellow group company in the amount of £805,817,000 (2017: £824,513,000) with an interest rate of 2.57906% (2017: 0.45181%).

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

	2018 £'000	2017 £'000
Deferred contract costs	300	256
Other debtors	324	768
	<u>624</u>	<u>1,024</u>

### 17. Creditors

Amounts falling due within one year:	2018 £'000	2017 £'000
Trade creditors	35,089	37,455
Amounts owed to group undertakings	259,643	304,106
Other taxation and social security	20,539	21,191
Other creditors	95,419	93,316
Accruals and deferred income	191,104	191,194
	<u>601,794</u>	<u>647,262</u>

## Notes to the financial statements (continued)

at 31 October 2018

### 17. Creditors (continued)

Included within other creditors at 31 October 2018 are liabilities associated with debt financing arrangements of £95,419,000 (2017: £93,316,000).

Amounts falling due after more than one year:

	2018 £'000	2017 £'000
Accruals and deferred income	89,787	88,943

### 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 2017	4,896	13,769	164	18,829
Amounts provided in the year	1,890	8,357	101	10,348
Unwinding of discounted amount	204	-	-	204
Amounts utilised during the year	(1,102)	(8,357)	(164)	(9,623)
Amounts released during the year	(18)	(1,456)	-	(1,474)
At 31 October 2018	5,870	12,313	101	18,284

#### 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 4.40% (2017: 4.89%).

#### 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 \$15.25 as at 31 October 2018. It is expected that these costs will have been incurred within 3 years of the balance sheet date in accordance with the respective vesting period.

## Notes to the financial statements (continued)

at 31 October 2018

### 19. 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 £14,473,000 (2017: £19,198,000). The outstanding liability relating to the scheme at 31 October 2018 was £1,177,000 (2017: £1,301,000).

#### 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

On 26 October 2018, the High Court of Justice issued a judgment in a claim brought by Lloyds Banking Group Pension Trustees Limited regarding the rights of female members of certain pension schemes and the inequality of treatment in respect of the receipt of pension benefits. The judgment impacts the pension schemes operated by the Company. Uncertainty still remains over how the calculation of the obligation for GMP equalisation should be performed. In determining the obligation, the Company has assumed the Trustees will adopt Method C, an option provided in the guidance issued in the judgment. Additional guidance may also be issued by the UK Government on the application of GMP equalisation, which could alter the final cost and may lead to the cost being higher or lower than the current estimate.

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 2018 and was updated by AON Hewitt Limited to take account of the requirements of FRS 101 in order to assess the scheme liabilities at 31 October 2018. The latest formal actuarial valuation of the Sections took place on 31 October 2015. The next valuation is due as at 31 October 2018. Scheme assets are stated at their market values at the respective balance sheet dates.

On 31 October 2018, the Company signed an agreement to purchase the business of Hewlett-Packard Manufacturing Limited, as part of the agreement the defined benefit pension scheme, “Digital Manufacturing Section” transferred to Hewlett-Packard Limited. The transfer of the scheme asset and liabilities are included within the “Digital Section” of this note.

## Notes to the financial statements (continued)

at 31 October 2018

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

The assets and liabilities of the schemes are:

At 31 October 2018

	<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	151,714	163,200	314,914
Diversified growth fund	34,703	70,030	104,733
Low risk	639,215	727,175	1,366,390
Property	-	24	24
Liability driven investments	698,315	674,180	1,372,495
Hedge funds	660	681	1,341
Cash/other	20,245	31,414	51,659
Fair value of scheme assets	1,544,852	1,666,704	3,211,556
Present value of scheme liabilities	(1,430,968)	(1,511,555)	(2,942,523)
Transfer of Digital Manufacturing section assets	246,750	-	246,750
Transfer of Digital Manufacturing section liabilities	(246,088)	-	(246,088)
<b>Defined benefit pensions scheme asset</b>	114,546	155,149	269,695
Unrecognised surplus	(101,906)	(130,591)	(232,497)
Asset recognised before consideration of minimum funding requirement	12,640	24,558	37,198
Adjustment in respect of minimum funding requirement	-	(2,497)	(2,497)
<b>Asset recognised on the balance sheet</b>	12,640	22,061	34,701

## Notes to the financial statements (continued)

at 31 October 2018

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

At 31 October 2017

	<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	216,974	276,183	493,157
Diversified growth fund	54,262	72,906	127,168
Low risk	541,169	602,121	1,143,290
Property	47	22,669	22,716
Liability driven investments	722,247	665,405	1,387,652
Hedge funds	4,810	4,960	9,770
Cash/other	46,734	48,626	95,360
Fair value of scheme assets	1,586,243	1,692,870	3,279,113
Present value of scheme liabilities	(1,477,361)	(1,572,236)	(3,049,597)
<b>Defined benefit pensions scheme asset</b>	108,882	120,634	229,516
Unrecognised surplus	(99,959)	(87,485)	(187,444)
Asset recognised before consideration of minimum funding requirement	8,923	33,149	42,072
<b>Asset recognised on the balance sheet</b>	8,923	33,149	42,072

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

The disclosures have been based on the assumption that the Company does not have an unconditional right to recoup any surplus arising in the Plan. Therefore, the provisions of IAS 19 have resulted in the amount of surplus shown in the balance sheet being restricted. The Funding Agreement between the Trustees and the Company specified that Funding Agreement contributions are required for 2019. The contribution covers both accrual and any required deficit contribution. In addition, contributions for salary sacrifice paid on behalf of members are due to be paid. An additional liability has been recognised where applicable such that the immediate payment of the present value of agreed deficit contributions would not result in a balance sheet asset under FRS 101.

By projecting the expected future contributions and service cost over the expected lifetime of active members, this shows that the Company is paying less for future benefits than it is recording as accounting service cost. Therefore the Company is effectively eroding the size of the surplus over time. The accounting cost of the benefits accruing each year is the service cost and by paying less than this amount, the expected accounting surplus in future years is lower – the Company is then obtaining economic value from the surplus through reduced cash contributions.

When determining the adjustment in respect of the minimum funding requirement, the Company is assumed not to be able to obtain economic benefit from any surplus which currently exists or which arises in the future except to the extent discussed above. This future economic value of surplus is recognised on the

## Notes to the financial statements (continued)

at 31 October 2018

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

This future economic value of surplus is recognised on the balance sheet. It has been calculated assuming that the cost of accrual and accounting service costs continue at the current rate but based on a declining membership.

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

#### Year ended 31 October 2018

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
<b>Recognised in the Income statement</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Current service costs	4,780	9,167	13,947
Administration expenses	2,557	2,723	5,280
Past service cost	11,205	5,735	16,940
	<hr/>	<hr/>	<hr/>
Expenses recognised in arriving at operating profit	18,542	17,625	36,167
	<hr/>	<hr/>	<hr/>
Net Interest on defined benefit asset	(297)	(903)	(1,200)
	<hr/>	<hr/>	<hr/>

The past service cost includes £13,000,000 in relation to the impacts of GMP equalisation, which has been disclosed as an exceptional item in note 5.

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
<b>Taken to Statement of Comprehensive Income</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Return on plan assets (excluding amounts included in net interest expense)	1,311	5,058	6,369
Actuarial gains due to changes in financial assumptions	18,168	7,689	25,857
Actuarial gains due to changes in demographic assumptions	6,695	5,667	12,362
Actuarial (losses)/gains due to liability experience	(9,084)	28,340	19,256
Adjustment in respect of acquisitions	-	-	-
Adjustment due to unrecognised surplus	382	(40,963)	(40,581)
Adjustment in respect of minimum funding requirement	-	(2,497)	(2,497)
	<hr/>	<hr/>	<hr/>
Recognised in the statement of comprehensive income	17,472	3,294	20,766
	<hr/>	<hr/>	<hr/>

## Notes to the financial statements (continued)

at 31 October 2018

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

Year ended 31 October 2017

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
<b>Recognised in the Income statement</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Current service costs	5,087	10,715	15,802
Administration expenses	3,245	2,998	6,243
Past service cost	1,442	1,787	3,229
Expenses recognised in arriving at operating profit	9,774	15,500	25,274
Interest on adjustment in respect of minimum funding requirement	524	539	1,063

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
<b>Taken to Statement of Comprehensive Income</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Return on plan assets (excluding amounts included in net interest expense)	40,862	46,511	87,373
Actuarial gains due to changes in financial assumptions	19,236	56,684	75,920
Actuarial losses due to changes in demographic assumptions	(9,551)	(2,500)	(12,051)
Actuarial losses due to liability experience	(23,137)	(30,767)	(53,904)
Adjustment in respect of acquisitions	10	(41)	(31)
Adjustment due to unrecognised surplus	(49,477)	(74,942)	(124,419)
Adjustment in respect of minimum funding requirement	22,824	22,439	45,263
Recognised in the statement of comprehensive income	767	17,384	18,151



## Notes to the financial statements (continued)

at 31 October 2018

### 19. 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>
<b>As at 1 November 2016</b>	1,497,702	1,613,218	3,110,920
Current service cost	5,087	10,715	15,802
Past service cost	1,442	1,787	3,229
Interest on scheme liabilities	34,435	39,250	73,685
Actuarial loss/(gain)	13,452	(23,417)	(9,965)
Benefits paid	(62,034)	(62,395)	(124,429)
Net increase in liabilities from disposals/acquisitions	(12,723)	(6,922)	(19,645)
<b>As at 31 October 2017</b>	1,477,361	1,572,236	3,049,597
Current service cost	4,780	9,167	13,947
Past service cost	11,205	5,735	16,940
Interest on scheme liabilities	33,628	37,967	71,595
Actuarial gain	(15,779)	(41,696)	(57,475)
Benefits paid	(80,227)	(71,854)	(152,081)
Transfer of Digital Manufacturing section liabilities	246,088	-	246,088
<b>As at 31 October 2018</b>	1,677,056	1,511,555	3,188,611

## Notes to the financial statements (continued)

at 31 October 2018

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

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

	<i>Digital Section</i>	<i>Hewlett-Packard Section</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>As at 1 November 2016</b>	1,546,466	1,624,820	3,171,286
Interest income plan assets	36,153	40,191	76,344
Contributions by employer	40,754	53,704	94,458
Benefits paid	(62,034)	(62,395)	(124,429)
Administrative expenses	(3,245)	(2,998)	(6,243)
Actuarial gain	40,862	46,511	87,373
Net increase in assets from disposals/acquisitions	(12,713)	(6,963)	(19,676)
<b>As at 31 October 2017</b>	1,586,243	1,692,870	3,279,113
Interest income on Plan assets	36,254	41,013	77,267
Contributions by employer	3,828	2,340	6,168
Benefits paid	(80,227)	(71,854)	(152,081)
Administrative expenses	(2,557)	(2,723)	(5,280)
Actuarial gain	1,311	5,058	6,369
Transfer of Digital Manufacturing section assets	246,750	-	246,750
<b>As at 31 October 2018</b>	1,791,602	1,666,704	3,458,306

## Notes to the financial statements (continued)

at 31 October 2018

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

The main assumptions adopted are:

	<i>Digital Section</i>		<i>Hewlett-Packard Section</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	%	%	%	%
Rate of salary increases	3.0	2.5	3.0	2.5
Hewlett-Packard section – Post 1997 service	-	-	3.2	3.1
Digital Section – Post 2005 service (RPI subject to 5% cap)	3.2	3.1	-	-
Digital Section – Post 2005 service (RPI subject to 2.5% cap)	2.2	2.2	-	-
Discount rate for Section liabilities	2.8	2.7	2.9	2.7
Discount rate for interest cost	2.5	2.3	2.6	2.5
Discount rate for service cost	2.9	2.8	2.9	2.8
Inflation assumption – RPI	3.2	3.1	3.2	3.1
Inflation assumption – CPI	2.1	2.0	2.1	2.0
Rate of statutory revaluations to deferred pension in excess of GMP	2.1	2.0	2.1	2.0
Mortality rates (in years)				
Current pensioners life expectancy at 60 - male	27.6	27.7	28.0	28.2
Current pensioners life expectancy at 60 - female	29.9	29.9	29.7	29.7
Future pensioners life expectancy at 60 – male*	28.6	28.8	29.1	29.2
Future pensioners life expectancy at 60 – female*	31.0	31.1	30.8	30.9

\* These life expectancies are for members currently aged 45

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.

## Notes to the financial statements (continued)

at 31 October 2018

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

The Company has considered the full yield curve when deriving the discount rate assumptions and each future projected benefit cashflow has been discounted at the spot rate appropriate for that year. For the purpose of this disclosure, the discount rates quoted above are the single equivalent rates which provide the same result as applying the full yield curve. 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	
		Digital Section	Hewlett-Packard Section
Discount rate	Increase by 0.5%	Decrease by 7.9%	Decrease by 9.2%
	Decrease by 0.5%	Increase by 8.6%	Increase by 10.2%
Inflation assumption *	Increase by 0.25%	Increase by 1.9%	Increase by 4.6%
	Decrease by 0.25%	Decrease by 1.8%	Decrease by 4.4%
Rate of salary increases	Increase by 0.5%	Increase by 0.2%	Increase by 0.2%
	Decrease by 0.5%	Decrease by 0.2%	Decrease by 0.2%
Post retirement mortality	Increase by 1 year	Increase by 3%	Increase by 3%

\* 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 £6,170,000. This represents £3,910,000 of augmentations, £2,260,000 of salary sacrifice contributions paid on behalf of members and temporary extra pension payments and nil 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 2019 of £21,620,000. This represents £4,940,000 of augmentations, £2,180,000 of salary sacrifice contributions paid on behalf of members and temporary extra pension payments and Funding Agreement contributions of £14,500,000.

## Notes to the financial statements (continued)

at 31 October 2018

### 20. Share capital

	2018 £'000	2017 £'000
<i>Allotted, issued and fully paid:</i>		
Ordinary shares of £1 each	104,772	104,772

### 21. Merger reserve

On 31 October 2018, Hewlett-Packard Limited purchased the trade and assets of a fellow group company, Hewlett-Packard Manufacturing Limited, for a total consideration of £20,928,000 (\$26,781,000). At the date of the transaction the business had net assets of £3,649,000. The difference between the purchase price and net assets assumed has been recognised as a merger reserve of £17,279,000 within equity. The purchase price represents the fair market value of the business taking into account the assets and liabilities transferred.

### 22. Commitments under operating leases

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

	2018		2017	
	<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	4,750	168	4,664	345
- after one year but not more than 5 years inclusive	19,869	167	20,183	435
- after 5 years	22,799	-	26,794	-
	<u>47,418</u>	<u>335</u>	<u>51,641</u>	<u>780</u>

Future minimum sublease payments expected to be received under non-cancellable sublease agreements are as follows:

	2018	2017
	<i>Land and buildings</i>	<i>Land and buildings</i>
	£'000	£'000
- not later than one year	4,751	3,471
- after one year but not more than 5 years inclusive	13,699	14,782
- after 5 years	7,758	10,028
	<u>26,208</u>	<u>28,281</u>

## Notes to the financial statements (continued)

at 31 October 2018

### **23. Parent undertaking and controlling party**

During the year and until 10 October 2018, the immediate parent company was Hewlett-Packard (Bracknell) Holdings Limited, a company incorporated in England and Wales. From 10 October 2018, the immediate parent company is Hewlett-Packard Holdings Limited, a company incorporated in England and Wales.

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