HEWLETT PACKARD CO
Form 10-K
December 18, 2014

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended October 31, 2014

Or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-4423

HEWLETT-PACKARD COMPANY

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-1081436** (I.R.S. employer identification no.)
3000 Hanover Street, Palo Alto, California (Address of principal executive offices)	**94304** (Zip code)

Registrant's telephone number, including area code: **(650) 857-1501**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý

The aggregate market value of the registrant's common stock held by non-affiliates was $61,031,111,812 based on the last sale price of common stock on April 30, 2014.

The number of shares of HP common stock outstanding as of November 30, 2014 was 1,834,081,993 shares.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT DESCRIPTION	**10-K PART**
Portions of the Registrant's proxy statement related to its 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A within 120 days after Registrant's fiscal year end of October 31, 2014 are incorporated by reference into Part III of this Report.	III

Hewlett-Packard Company

Form 10-K

For the Fiscal Year Ended October 31, 2014

Table of Contents

Table of Contents

Forward-Looking Statements

This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Hewlett-Packard Company and its consolidated subsidiaries ("HP") may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of revenue, margins, expenses, effective tax rates, net earnings, net earnings per share, cash flows, benefit plan funding, share repurchases, currency exchange rates or other financial items; any projections of the amount, timing or impact of cost savings or restructuring charges; any statements of the plans, strategies and objectives of management for future operations, including the previously announced separation transaction and the future performances of the post-separation companies if the separation is completed, as well as the execution of restructuring plans and any resulting cost savings or revenue or profitability improvements; any statements concerning the expected development, performance, market share or competitive performance relating to products or services; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on HP and its financial performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include the need to address the many challenges facing HP's businesses; the competitive pressures faced by HP's businesses; risks associated with executing HP's strategy, including the planned separation transaction; the impact of macroeconomic and geopolitical trends and events; the need to manage third-party suppliers and the distribution of HP's products and the delivery of HP's services effectively; the protection of HP's intellectual property assets, including intellectual property licensed from third parties; risks associated with HP's international operations; the development and transition of new products and services and the enhancement of existing products and services to meet customer needs and respond to emerging technological trends; the execution and performance of contracts by HP and its suppliers, customers, clients and partners; the hiring and retention of key employees; integration and other risks associated with business combination and investment transactions; the execution, timing and results of the separation transaction or restructuring plans, including estimates and assumptions related to the cost (including any possible disruption of HP's business) and the anticipated benefits of implementing the separation transaction and restructuring plans; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including but not limited to the items discussed in "Risk Factors" in Item 1A of Part I of this report and that are otherwise described or updated from time to time in HP's Securities and Exchange Commission reports. HP assumes no obligation and does not intend to update these forward-looking statements.

PART I

ITEM 1. Business.

We are a leading global provider of products, technologies, software, solutions and services to individual consumers, small- and medium-sized businesses ("SMBs") and large enterprises, including customers in the government, health and education sectors. Our offerings span the following:

- personal computing and other access devices;
- imaging- and printing-related products and services;
- enterprise information technology ("IT") infrastructure, including enterprise server and storage technology, networking products and solutions, technology support and maintenance;
- multi-vendor customer services, including technology consulting, outsourcing and support services across infrastructure, applications and business process domains; and

IT management software, application testing and delivery software, information management solutions, big data analytics, security intelligence and risk management solutions.

HP was incorporated in 1947 under the laws of the state of California as the successor to a partnership founded in 1939 by William R. Hewlett and David Packard. Effective in May 1998, we changed our state of incorporation from California to Delaware.

October 2014 Announcement of HP Separation Transaction

On October 6, 2014, we announced plans to separate into two independent publicly-traded companies: one comprising our enterprise technology infrastructure, software, services and financing businesses, which will conduct business as Hewlett-Packard Enterprise and one that will comprise our printing and personal systems businesses, which will conduct business as HP Inc. The separation is subject to certain conditions, including, among others, obtaining final approval from HP's Board of Directors, receipt of a favorable opinion and/or rulings with respect to the tax-free nature of the transaction for federal income tax purposes and the effectiveness of a Form 10 filing with the SEC. The separation is expected to be completed by the end of fiscal 2015. Under the separation plan, HP shareholders will own shares of both Hewlett-Packard Enterprise and HP Inc. The following chart provides an overview of the planned separation and segment revenues of the respective businesses based on HP's fiscal 2014 results, excluding Corporate Investments and intercompany eliminations.

HP Products and Services; Segment Information

We offer one of the IT industry's broadest portfolios of products and services that bring together infrastructure, software, and services through innovation to enable our customers to create value and solve business problems. As consumers and enterprises shift the way technology is created, delivered, consumed and paid for, they are demanding a foundation that will support much greater agility, lower cost, facilitate quicker time-to-market, and provide a higher degree of accessibility by end-users to that technology. We design our solutions to provide that foundation, particularly in the areas of security, cloud, mobility and big data, by leveraging the breadth of our offerings and the strengths and capabilities of our individual business units.

Our operations are organized into seven business segments: Personal Systems; Printing; the Enterprise Group ("EG"); Enterprise Services ("ES"); Software; HP Financial Services ("HPFS"); and Corporate Investments. In each of the past three fiscal years, notebook personal computers ("PCs"), printing supplies, infrastructure technology outsourcing services, desktop PCs and industry standard servers each accounted for more than 10% of our consolidated net revenue.

The Personal Systems segment and the Printing segment are structured beneath a broader Printing and Personal Systems Group ("PPS"). While PPS is not a reportable segment, we may provide financial

Table of Contents

data aggregating the Personal Systems and Printing segments to provide a supplementary view of its business.

A summary of our net revenue, earnings from operations and assets for our segments along with a description of our fiscal 2014 organizational realignments can be found in Note 2 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. A discussion of factors potentially affecting our operations is set forth in "Risk Factors" in Item 1A, which is incorporated herein by reference.

Printing and Personal Systems Group

The mission of PPS is to leverage the respective strengths of the Personal Systems segment and the Printing segment by creating a unified business that is customer-focused and poised to capitalize on rapidly shifting industry trends. Each of the business segments within PPS is described in detail below.

Personal Systems

Personal Systems provides commercial PCs, consumer PCs, workstations, thin client PCs, tablets, retail point-of-sale ("POS") systems, calculators and other related accessories, software, support and services for the commercial and consumer markets. We group commercial notebooks, commercial desktops, commercial tablets, workstations and thin clients into commercial clients and consumer notebooks, consumer desktops and consumer tablets into consumer clients when describing performance in these markets. Both commercial and consumer PCs and tablets are based predominately on the Microsoft Windows operating system and use processors from Intel Corporation ("Intel") and Advanced Micro Devices, Inc. ("AMD"). Personal Systems also maintains a multi-operating system, multi-architecture strategy using the Google Chrome and Android operating systems for notebooks and tablets, respectively.

Commercial PCs. Commercial PCs are optimized for use by customers including enterprise and SMB customers, and for connectivity, reliability and manageability in networked environments. Commercial PCs include the HP ProBook and HP EliteBook lines of notebooks and hybrids (detachable tablets), the HP Pro and HP Elite lines of business desktops and all-in-ones, retail POS systems, HP Thin Clients, HP ElitePad and HP Pro Tablet PCs. Commercial PCs also include workstations that are designed and optimized for high-performance and demanding application environments including Z desktop workstations, Z all-in-ones and Z mobile workstations.

Consumer PCs. Consumer PCs include the HP Spectre, HP ENVY, HP Pavilion, HP Chromebook, HP Split and HP Slate series of multi-media consumer notebooks, consumer tablets, hybrids and desktops, including the TouchSmart line of touch-enabled notebooks and all-in-one desktops.

Printing

Printing provides consumer and commercial printer hardware, supplies, media, software and services, as well as scanning devices. Printing is also focused on imaging solutions in the commercial markets. These solutions range from managed print services to areas such as industrial applications, outdoor signage and the graphic arts business. HP groups LaserJet, large format printers and commercial inkjet printers into Commercial Hardware and consumer and SMB inkjet printers into Consumer Hardware when describing performance in these markets.

LaserJet and Enterprise Solutions. LaserJet and Enterprise Solutions delivers LaserJet and enterprise products, services and solutions to the SMB and enterprise segments including LaserJet printers and supplies (toner), Officejet Pro X inkjet enterprise products and supplies, multi-function devices, scanners, web-connected hardware, managed services, and enterprise software solutions such as

Web Jetadmin. Managed Print Services provides printing equipment, supplies, support, workflow optimization and security features for SMB and enterprise customers around the world, utilizing proprietary HP tools and fleet management solutions, as well as third-party software.

Inkjet and Printing Solutions. Inkjet and Printing Solutions deliver consumer and SMB inkjet solutions (hardware, supplies, media, and web-connected hardware and services) and include single-function and all-in-one inkjet printers. Ongoing initiatives and programs, such as Ink in the Office and Ink Advantage, and newer initiatives, such as Instant Ink, are intended to provide innovative printing solutions to consumers and SMBs. Our Ink in the Office initiative is focused on providing high value inkjet printing solutions to SMBs through our Officejet Premium and Officejet Pro inkjet portfolios. Our Ink Advantage program aims to provide savings on the overall cost of printing in emerging markets. Instant Ink is an ink replacement service that allows customers to pay a monthly fee to print a specified number of pages per month.

Graphics Solutions. Graphics Solutions deliver large format printers (Designjet, Large Format Production and Scitex Industrial), specialty printing, digital press solutions (Indigo and Inkjet Webpress), supplies and services to print service providers and design and rendering customers. The solutions cover a wide range of printing applications such as technical design, photos, sign and display, direct mail, marketing collateral, labels and packaging, and publishing.

Software and Web Services. Software and Web Services delivers a suite of offerings, including photo-storage and printing offerings (such as Snapfish), document storage, entertainment services, web-connected printing, and PC back-up and related services.

Enterprise Group

EG provides a broad portfolio of enterprise technology infrastructure solutions for a variety of operating environments that address a wide range of customer challenges, including the need to increase agility and accelerate innovation in order to drive revenue, manage risk and lower costs. HP Helion, our enterprise technology infrastructure portfolio of servers, storage, networking and technology services combined with HP's cloud services and software, allows customers to adopt a holistic approach to building a technology infrastructure that supports their current business and consumer demands and next generation applications and web services. HP's Converged Systems portfolio (servers, storage and networking) simplifies IT through quick deployment, intuitive management and system-level support. Optimized for key workloads such as virtualization, cloud and big data, these complete, integrated solutions enable organizations of all sizes to efficiently utilize IT staffing resources and deploy applications faster.

Industry Standard Servers. Industry Standard Servers offers a range of products from entry-level servers through premium ProLiant servers, which run primarily Windows, Linux and virtualization platforms from software providers such as Microsoft Corporation ("Microsoft") and VMware, Inc. ("VMware"), and open source software from other major vendors while leveraging x86 processors from Intel and AMD. The business spans a range of server product lines, including microservers, towers, traditional rack, density-optimized rack and blades, solutions for large, distributed computing companies who buy and deploy nodes at a massive scale. Industry Standard Servers also offers HP Moonshot servers operating on ARM, AMD and Intel Atom-based processors which offer reduced cost, space, energy and complexity compared to traditional servers.

Business Critical Systems. Business Critical Systems delivers our mission-critical systems through a portfolio of HP Integrity servers based on the Intel Itanium processor that run the HP-UX and OpenVMS operating systems, as well as HP Integrity NonStop solutions and mission-critical x86 ProLiant servers.

Table of Contents

Storage. Our storage offerings include platforms for enterprise and SMB environments. Our flagship product is the 3PAR StoreServ Storage Platform, which is designed for virtualization, cloud and IT-as-a-service. Traditional Storage solutions include tape, storage networking and legacy external disk products such as EVA and XP. Converged Storage solutions include 3PAR StoreServ, StoreOnce and StoreVirtual products. These offerings enable customers to optimize their existing storage systems, build new virtualization solutions and facilitate their transition to cloud computing.

Networking. Our networking offerings include switches, routers, wireless local area network ("WLAN") and network management products that deliver open, scalable, secure, agile and consistent solutions that span the data center, campus and branch environments and deliver software-defined networking and unified communications capabilities. Our unified wired and wireless networking offerings include both WLAN access points, controllers and switches. Our networking solutions are based on our FlexNetwork architecture, which is designed to enable simplified server virtualization, unified communications and multi-media application delivery for the enterprise. Software-defined networking provides an end-to-end solution to automate the network from data center to campus and branch.

Technology Services. Technology Services provides support services and technology consulting, focused on cloud, mobility and big data and provides IT organizations with advice, design, implementation, migration and optimization of EG's platforms: servers, storage, networking and converged infrastructure. Support services offerings span various levels of customer support needs and include: HP Foundation Care, our portfolio of reactive hardware and software support services; HP Proactive Care, which combines remote support technology for real-time monitoring with rapid access to our technical experts; HP Datacenter Care, a comprehensive and flexible capacity end-to-end support for HP and multi-vendor systems that enables customers to build, operate or consume IT in traditional, cloud or hybrid cloud environments; and Lifecycle Event services, which are event-based services offering our technology expertise and consulting for each phase of the technology life cycle. These services are available in the form of service contracts, pre-packaged offerings (HP Care Pack services) or on a customized basis.

Enterprise Services

ES provides technology consulting, outsourcing and support services across infrastructure, applications and business process domains. ES delivers to our clients by leveraging investments in consulting and support professionals, infrastructure technology, applications, standardized methodologies and global supply and delivery. ES also creates opportunities to sell additional hardware and software by offering solutions that encompass both products and services.

Infrastructure Technology Outsourcing. Infrastructure Technology Outsourcing delivers comprehensive services that streamline and optimize our clients' technology infrastructure to efficiently enhance performance, reduce costs, mitigate risk and enable business change. These services encompass the management of data centers, IT security, cloud computing, workplace technology, networks, unified communications and enterprise service management. We also offer a set of managed services that provide a cross-section of our broader infrastructure services for smaller, discrete engagements.

Application and Business Services. Application and Business Services helps our clients develop, revitalize and manage their applications and information assets. This full application life cycle approach encompasses application development, testing, modernization, system integration, maintenance and management for both packaged and custom-built applications and cloud offerings. The Application and Business Services portfolio also includes intellectual property-based industry solutions, along with technologies and related services all of which help clients better manage their critical industry processes for customer relationship management, finance and administration, human resources, payroll and document processing.

Table of Contents

Software

Software provides IT management, application testing and delivery, information management, big data analytics, security intelligence and risk management solutions for businesses and enterprises of all sizes. Our software offerings include licenses, support, professional services and software-as-a-service ("SaaS"). Described below are our global business capabilities within Software.

Application Delivery Management which is part of HP's IT management offerings, provides software that enables organizations to deliver high performance applications by automating and testing the processes required to ensure the quality and scalability of desktop, web, mobile and cloud-based applications.

Big Data provides a full suite of software designed to help organizations store, explore, govern, protect and serve information and insights that fundamentally improve the outcomes of businesses and the environment, while managing risk and meeting legal obligations. The group's suite includes HP Vertica, the leading analytics platform for machine, structured and semi-structured data, HP IDOL, a unique analytics platform for human information from Autonomy, as well as market leading solutions for archiving, data protection, eDiscovery, information governance and Enterprise Content Management.

Enterprise Security software is designed to disrupt fraud, hackers and cyber criminals by scanning software and websites for security vulnerabilities, improving network defenses and providing real-time warning of threats as they emerge.

IT Operations Management which is part of HP's IT management offerings, provides software required to automate routine IT tasks and to pinpoint IT problems when they occur, helping enterprises to reduce operational costs and improve the reliability of applications running in a traditional, cloud or hybrid environment.

Marketing Optimization focuses on delivering solutions that help businesses engage audiences, reach new customer segments and markets and deliver compelling content across channels. The group provides solutions for augmented reality, contact center analytics, customer communications management and digital experience management.

Software's big data platform, HAVEn, provides unique assets for processing and understanding machine and sensor data, business data and unstructured human information. A growing ecosystem of customers, partners and developers use this platform to build big data driven analytic applications. Software also leverages HAVEn's unique analytic assets to deliver market-leading, purpose-built solutions for a variety of markets, including application testing and delivery, big data analytics and applications, IT operations management, marketing optimization and enterprise security. These solutions are designed for businesses and enterprises of all sizes, and are available via on-premises, SaaS and hybrid delivery models. Software's HAVEn big data platform and purpose-built applications are augmented by support and professional services in order to provide an end-to-end solution to customers.

HP Financial Services

HPFS provides flexible investment solutions, such as leasing, financing, utility programs and asset management services, for customers to enable the creation of unique technology deployment models and acquisition of complete IT solutions, including hardware, software and services from HP and others. Providing flexible services and capabilities that support the entire IT lifecycle, HPFS partners with customers globally to help build investment strategies that enhance their business agility and support their business transformation. HPFS offers a wide selection of investment solution capabilities for large enterprise customers and channel partners, along with an array of financial options to SMBs, educational and governmental entities.

Table of Contents

Corporate Investments

Corporate Investments includes HP Labs and certain cloud-related business incubation projects among others.

Sales, Marketing and Distribution

We manage our business and report our financial results based on the business segments described above. Our customers are organized by consumer and commercial groups, and purchases of HP products, solutions and services may be fulfilled directly by HP or indirectly through a variety of partners, including:

- retailers that sell our products to the public through their own physical or Internet stores;
- resellers that sell our products and services, frequently with their own value-added products or services, to targeted customer groups;
- distribution partners that supply our solutions to resellers;
- original equipment manufacturers ("OEMs") that integrate our products and services with their own products and services, and sell the integrated solution;
- independent software vendors that provide their clients with specialized software products and often assist us in selling our products and services to clients purchasing their products;
- systems integrators that provide expertise in designing and implementing custom IT solutions and often partner with us to extend their expertise or influence the sale of our products and services; and
- advisory firms that provide various levels of management and IT consulting, including some systems integration work, and typically partner with us on client solutions that require our unique products and services.

The mix of our business conducted by direct sales or channel differs substantially by business and region. We believe that customer buying patterns and different regional market conditions require us to tailor our sales, marketing and distribution efforts accordingly. We are focused on driving the depth and breadth of our coverage, in addition to identifying efficiencies and productivity gains, in both our direct and indirect businesses. While each of our business segments manages the execution of its own go-to-market and distribution strategy, our business segments also collaborate to ensure strategic and process alignment where appropriate. For example, we typically assign an account manager, generally from EG or ES, to manage relationships across our business with large enterprise customers. The account manager is supported by a team of specialists with product and services expertise. For other customers and for consumers, PPS typically manages direct online sales as well as channel relationships with retailers, while our business segments collaborate to manage relationships with commercial resellers targeting SMBs where appropriate.

Manufacturing and Materials

We utilize a significant number of outsourced manufacturers ("OMs") around the world to manufacture HP-designed products. The use of OMs is intended to generate cost efficiencies and reduce time to market for HP-designed products. We use multiple OMs to maintain flexibility in our supply chain and manufacturing processes. In some circumstances, third-party OEMs produce products that we purchase and resell under the HP brand. In addition to our use of OMs, we currently manufacture a limited number of finished products from components and subassemblies that we acquire from a wide range of vendors.

Table of Contents

We utilize two primary methods of fulfilling demand for products: building products to order and configuring products to order. We build products to order to maximize manufacturing and logistics efficiencies by producing high volumes of basic product configurations. Alternatively, configuring products to order enables units to match a customer's particular hardware and software customization requirements. Our inventory management and distribution practices in both building products to order and configuring products to order seek to minimize inventory holding periods by taking delivery of the inventory and manufacturing shortly before the sale or distribution of products to our customers.

We purchase materials, supplies and product subassemblies from a substantial number of vendors. For most of our products, we have existing alternate sources of supply or such alternate sources of supply are readily available. However, we do rely on sole sources for laser printer engines, LaserJet supplies, certain customized parts and parts for products with short life cycles (although some of these sources have operations in multiple locations in the event of a disruption). We are dependent upon Intel and AMD as suppliers of x86 processors and Microsoft for various software products; however, we believe that disruptions with these suppliers would result in industry-wide dislocations and therefore would not disproportionately disadvantage us relative to our competitors. See "Risk Factors We depend on third-party suppliers, and our financial results could suffer if we fail to manage suppliers properly," in Item 1A, which is incorporated herein by reference.

Like other participants in the IT industry, we ordinarily acquire materials and components through a combination of blanket and scheduled purchase orders to support our demand requirements for periods averaging 90 to 120 days. From time to time, we may experience significant price volatility or supply constraints for certain components that are not available from multiple sources. Frequently, we are able to obtain scarce components for somewhat higher prices on the open market, which may have an impact on our gross margin but does not generally disrupt production. We also may acquire component inventory in anticipation of supply constraints or enter into longer-term pricing commitments with vendors to improve the priority, price and availability of supply. See "Risk Factors We depend on third-party suppliers, and our financial results could suffer if we fail to manage suppliers properly," in Item 1A, which is incorporated herein by reference.

International

Our products and services are available worldwide. We believe this geographic diversity allows us to meet demand on a worldwide basis for both consumer and enterprise customers, draws on business and technical expertise from a worldwide workforce, provides stability to our operations, provides revenue streams that may offset geographic economic trends and offers us an opportunity to access new markets for maturing products. In addition, we believe that future growth is dependent in part on our ability to develop products and sales models that target developing countries. In this regard, we believe that our broad geographic presence gives us a solid base on which to build such future growth.

A summary of our domestic and international net revenue and net property, plant and equipment is set forth in Note 2 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. Approximately 65% of our overall net revenue in fiscal 2014 came from outside the United States ("U.S.").

For a discussion of risks attendant to HP's international operations, see "Risk Factors Due to the international nature of our business, political or economic changes or other factors could harm our future revenue, costs and expenses, and financial condition," in Item 1A, "Quantitative and Qualitative Disclosure about Market Risk," in Item 7A and Note 11 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

Table of Contents

Research and Development

Innovation is a key element of our culture. Our development efforts are focused on designing and developing products, services and solutions that anticipate customers' changing needs and desires, and emerging technological trends. Our efforts also are focused on identifying the areas where we believe we can make a unique contribution and the areas where partnering with other leading technology companies will leverage our cost structure and maximize our customers' experiences.

HP Labs, together with the various research and development groups within our business segments, are responsible for our research and development efforts. HP Labs is part of our Corporate Investments segment.

Expenditures for research and development were $3.4 billion in fiscal 2014, $3.1 billion in fiscal 2013 and $3.4 billion in fiscal 2012. We anticipate that we will continue to have significant research and development expenditures in the future to support the design and development of innovative, high-quality products and services to maintain and enhance our competitive position.

For a discussion of risks attendant to our research and development activities, see "Risk Factors If we cannot successfully execute on our strategy and continue to develop, manufacture and market products, services and solutions that meet customer requirements for innovation and quality, our revenue and gross margin may suffer," in Item 1A, which is incorporated herein by reference.

Patents

Our general policy has been to seek patent protection for those inventions likely to be incorporated into our products and services or where obtaining such proprietary rights will improve our competitive position. At October 31, 2014, our worldwide patent portfolio included over 34,000 patents, which represents a decrease over the number of patents in our portfolio at the end of fiscal 2013 and fiscal 2012. This decrease is attributable, in part, to the sale of a portfolio of mobile computing intellectual property ("IP") in January 2014.

Patents generally have a term of twenty years from the date they are filed. As our patent portfolio has been built over time, the remaining terms of the individual patents across our patent portfolio vary. We believe that our patents and patent applications are important for maintaining the competitive differentiation of our products and services, enhancing our freedom of action to sell our products and services in markets in which we choose to participate, and maximizing our return on research and development investments. No single patent is in itself essential to HP as a whole or to any of HP's business segments.

In addition to developing our patent portfolio, we license IP from third parties as we deem appropriate. We have also granted and continue to grant to others licenses, and other rights, under our patents when we consider these arrangements to be in our interest. These license arrangements include a number of cross-licenses with third parties.

For a discussion of risks attendant to IP rights, see "Risk Factors Our revenue, cost of sales, and expenses may suffer if we cannot continue to license or enforce the IP rights on which our business depends or if third parties assert that we violate their IP rights," in Item 1A, which is incorporated herein by reference.

Backlog

We believe that backlog is not a meaningful indicator of future business prospects due to our diverse products and services portfolio, including the large volume of products delivered from finished goods or channel partner inventories and the shortening of product life cycles. Therefore, we believe that backlog information is not material to an understanding of our overall business.

Table of Contents

Seasonality

General economic conditions have an impact on our business and financial results. From time to time, the markets in which we sell our products and services experience weak economic conditions that may negatively affect sales. We experience some seasonal trends in the sale of our products and services. For example, European sales are often weaker in the summer months and consumer sales are often stronger in the fourth calendar quarter. Demand during the spring and early summer months also may be adversely impacted by market anticipation of seasonal trends. See "Risk Factors Our sales cycle makes planning and inventory management difficult and future financial results less predictable," in Item 1A, which is incorporated herein by reference.

Competition

We encounter strong competition in all areas of our business activity. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, reputation, distribution, range of products and services, ease of use of our products, account relationships, customer training, service and support, security, availability of application software and internet infrastructure offerings.

The markets for each of our business segments are characterized by strong competition among major corporations with long-established positions and a large number of new and rapidly growing firms. Most product life cycles are short, and to remain competitive we must develop new products and services, periodically enhance our existing products and services and compete effectively on the basis of the factors listed above. In addition, we compete with many of our current and potential partners, including OEMs that design, manufacture and often market their products under their own brand names. Our successful management of these competitive partner relationships will be critical to our future success. Moreover, we anticipate that we will have to continue to adjust prices on many of our products and services to stay competitive.

We have a broad technology portfolio spanning personal computing and other access devices, imaging and printing-related products and services, enterprise IT infrastructure products and solutions, multi-vendor customer services and IT management software and solutions. We are the leader or among the leaders in each of our business segments.

The competitive environments in which each segment operates are described below:

Personal Systems. The markets in which Personal Systems operates are highly competitive and are characterized by price competition and inventory obsolescence. The decline in the PC market and the ongoing shift among customers to mobility products has further intensified competition in the PC market. Our primary competitors are Lenovo Group Limited ("Lenovo"), Dell Inc. ("Dell"), Acer Inc., ASUSTeK Computer Inc., Apple Inc., Toshiba Corporation and Samsung Electronics Co., Ltd. ("Samsung"). In particular regions, we also experience competition from local companies and from generically-branded or "white box" manufacturers. Our competitive advantages include our broad product portfolio, our innovation and research and development capabilities, our brand and procurement leverage, our ability to cross-sell our portfolio of offerings, our extensive service and support offerings and the accessibility of our products through a broad-based distribution strategy from retail and commercial channels to direct sales.

Printing. The markets for printer hardware and associated supplies are highly competitive. Printing's key customer segments each face competitive market pressures in pricing and the introduction of new products. Our primary competitors include Canon U.S.A., Inc., Lexmark International, Inc., Xerox Corporation Ltd., Seiko Epson Corporation, The Ricoh Company Ltd., Samsung and Brother Industries, Ltd. In addition, independent suppliers offer refill and remanufactured alternatives for HP original inkjet and toner supplies, which are often available for lower prices but generally offer lower print quality and reliability. Other competitors also have

Table of Contents

developed and marketed new compatible cartridges for HP's laser and inkjet products, particularly outside of the U.S. where IP protection is inadequate or ineffective. Our competitive advantages include our comprehensive solutions for the home, office and publishing environments, our innovation and research and development capabilities, our brand, and the accessibility of our products through a broad-based distribution strategy from retail and commercial channels to direct sales.

Enterprise Group. EG operates in the highly competitive enterprise technology infrastructure market that is characterized by rapid and ongoing technological innovation and price competition. Our primary competitors include technology vendors such as International Business Machines Corporation ("IBM"), Dell, EMC Corporation ("EMC"), Cisco Systems, Inc. ("Cisco"), Lenovo, Oracle Corporation ("Oracle"), Fujitsu Limited ("Fujitsu"), Inspur, Huawei Technologies Co. Ltd., NetApp, Inc., Hitachi Ltd., Juniper Networks, Inc., Arista Networks, Inc., Extreme Networks, Inc., Brocade Communications Systems, Inc., VMware, Microsoft, Google Inc., Rackspace Inc., and Amazon.com, Inc. ("Amazon"). In certain regions, we also experience competition from local companies and from generically-branded or "white-box" manufacturers. Our strategy is to deliver superior products, high-value technology support services and differentiated integrated solutions that combine our infrastructure, software and services capabilities. Our competitive advantages include our broad end-to-end solutions portfolio, supported by our strong IP portfolio and research and development capabilities, coupled with our global reach and partner ecosystem.

Enterprise Services. ES competes in the IT services, consulting and integration, infrastructure technology outsourcing, business process outsourcing and application service markets. Our primary competitors include IBM Global Services, Computer Sciences Corporation, systems integration firms such as Accenture plc. and offshore companies such as Fujitsu and India-based competitors Wipro Limited, Infosys Limited and Tata Consultancy Services Ltd. We also compete with other traditional hardware providers, such as Dell, which are increasingly offering services to support their products, new players in emerging areas like cloud such as Amazon, and smaller local players. Many of our competitors offer a wide range of global services, and some of our competitors enjoy significant brand recognition. ES teams with many companies to offer services, and those arrangements allow us to extend our reach and augment our capabilities. Our competitive advantages include our deep technology expertise, especially in complex multi-country, multi-vendor and/or multi-language environments, differentiated IP, our strong track record of collaboration with clients and partners, and the combination of our expertise in infrastructure management with skilled global resources on platforms from SAP AG ("SAP"), Oracle and Microsoft, among others.

Software. The markets in which Software operates are fueled by rapidly changing customer requirements and technologies. We design and develop enterprise IT management software in competition with IBM, CA Technologies, Inc., VMware, BMC Software, Inc. and others. Our big data solutions, which include data analytics, information governance and digital marketing offerings incorporating both structured and unstructured data, compete with products from companies like Adobe Systems Inc., IBM, EMC, Open Text Corporation, Oracle and Symantec Corporation. We also deliver enterprise security/risk intelligence solutions that compete with products from EMC, IBM, Cisco and Intel. As customers are becoming increasingly comfortable with newer delivery mechanisms such as SaaS, we are facing competition from smaller, less traditional competitors, particularly for customers with smaller IT organizations. Our differentiation lies in the breadth and depth of our software and services portfolio and the scope of our market coverage.

HP Financial Services. In our financing solution business, our competitors are captive financing companies, mainly IBM Global Financing, as well as banks and other financial institutions. We believe our competitive advantage in this business over banks and other financial institutions is our ability to deliver flexible investment solutions and expertise that help customers and partners create unique technology deployments based on specific business needs.

Table of Contents

For a discussion of risks attendant to these competitive factors, see "Risk Factors Competitive pressures could harm our revenue, gross margin and prospects," in Item 1A, which is incorporated herein by reference.

Environment

Our operations are subject to regulation under various federal, state, local and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, and third-party damage or personal injury claims, if we were to violate or become liable under environmental laws.

Many of our products are subject to various federal, state, local and foreign laws governing chemical substances in products and their safe use, including laws regulating the manufacture and distribution of chemical substances and laws restricting the presence of certain substances in electronics products. Some of our products also are, or may in the future be, subject to requirements applicable to their energy consumption. In addition, we face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the chemical and materials composition of our products, their safe use, and their energy efficiency, including requirements relating to climate change. We are also subject to legislation in an increasing number of jurisdictions that makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products (sometimes referred to as "product take-back legislation"). In the event our products become non-compliant with these laws, our products could be restricted from entering certain jurisdictions and we could face other sanctions, including fines.

Our operations and ultimately our products are expected to become increasingly subject to federal, state, local and foreign laws, regulations and international treaties relating to climate change. As these laws, regulations, treaties and similar initiatives and programs are adopted and implemented throughout the world, we will be required to comply or potentially face market access limitations or other sanctions, including fines. However, we believe that technology will be fundamental to finding solutions to achieve compliance with and manage those requirements, and we are collaborating with industry, business groups and governments to find and promote ways that HP technology can be used to address climate change and to facilitate compliance with related laws, regulations and treaties.

We are committed to maintaining compliance with all environmental laws applicable to our operations, products and services and to reducing our environmental impact across all aspects of our business. We meet this commitment with a comprehensive environmental, health and safety policy, strict environmental management of our operations and worldwide environmental programs and services.

A liability for environmental remediation and other environmental costs is accrued when we consider it probable that a liability has been incurred and the amount of loss can be reasonably estimated. Environmental costs and accruals are presently not material to our operations, cash flows or financial position. Although there is no assurance that existing or future environmental laws applicable to our operations or products will not have a material adverse effect on our operations, cash flows or financial condition, we do not currently anticipate material capital expenditures for environmental control facilities.

For a discussion of risks attendant to these environmental factors, see "Risk Factors Unforeseen environmental costs could adversely affect our business and results of operations," in Item 1A, which is incorporated herein by reference. In addition, for a discussion of our environmental contingencies see

Table of Contents

Note 15 to the Consolidated Financial Statements in Item 8, which is also incorporated herein by reference.

Executive Officers

The following are our current executive officers:

Martin Fink; age 50; Executive Vice President and Chief Technology Officer

Mr. Fink has served as Executive Vice President, Chief Technology Officer and Director of HP Labs since November 2012. Prior to that, he served as Senior Vice President and General Manager of the Business Critical Systems and Converged Application Systems from April 2005 to October 2012. During his almost 30 year career at HP, Mr. Fink has worked in a wide range of roles across HP. He also serves as a director of Hortonworks, Inc.

Henry Gomez; age 51; Executive Vice President, Chief Marketing and Communications Officer

Mr. Gomez has served as Executive Vice President and Chief Marketing and Communications Officer since August 2013. Previously, he served as Chief Communications Officer and Executive Vice President from January 2012 to July 2013. Prior to that, he ran HSG Communications, a consulting business that he founded in September 2008. He also served on the leadership team of Ms. Whitman's gubernatorial campaign from February 2009 to November 2010. For most of the previous decade, he worked at eBay Inc. in a variety of roles including Senior Vice President for Corporate Communications and President of Skype. From September 2011 to September 2013 he served as a director of BJ's Restaurants, Inc.

John M. Hinshaw; age 44; Executive Vice President, Technology and Operations

Mr. Hinshaw has served as Executive Vice President, Technology and Operations since November 2011. Previously, Mr. Hinshaw served as Vice President and General Manager of Information Solutions at The Boeing Company, an aerospace company, from January 2011 to October 2011 and as Global Chief Information Officer for Boeing from June 2007 to December 2010. He also serves as a director of Bank of New York Mellon.

Abdo George Kadifa; age 55; Executive Vice President, Strategic Relationships

Mr. Kadifa has served as Executive Vice President, Strategic Relationships since May 2014. Previously, Mr. Kadifa served as Executive Vice President, Software from May 2012 to May 2014. Prior to that, he served as a director of Silver Lake, a private equity firm, from June 2007 to May 2012.

Tracy S. Keogh; age 53; Executive Vice President, Human Resources

Ms. Keogh has served as Executive Vice President, Human Resources since April 2011. Previously, Ms. Keogh served as Senior Vice President of Human Resources at Hewitt Associates, a provider of human resources consulting services, from May 2007 until March 2011.

Catherine A. Lesjak; age 55; Executive Vice President and Chief Financial Officer

Ms. Lesjak has served as Executive Vice President and Chief Financial Officer since January 2007. Ms. Lesjak served as interim Chief Executive Officer from August 2010 until November 2010. She also serves as a director of SunPower Corporation.

Table of Contents

Todd R. Morgenfeld; age 42; Treasurer and Senior Vice President, Corporate Development and Corporate Analytics

Mr. Morgenfeld has served as Treasurer and Senior Vice President, Corporate Development and Corporate Analytics since November 2013. Previously, Mr. Morgenfeld served as Senior Vice President, HP Mobility, supporting our strategy of providing integrated solutions for the rapidly changing information technology landscape, from June 2013 to October 2013. Prior to that, Mr. Morgenfeld served in several roles at Silver Lake, a private equity firm, from 2004 until May 2013, most recently serving as a director.

Michael G. Nefkens; age 45; Executive Vice President, Enterprise Services

Mr. Nefkens has served as Executive Vice President, Enterprise Services since December 2012. Previously, he served in that role in an acting capacity since August 2012. Prior to that, Mr. Nefkens served as Senior Vice President and General Manager of Enterprise Services in the EMEA region from November 2009 to August 2012, after having served in client-facing roles for some of Enterprise Services' largest clients since joining the business in 2001. He also serves as a director of Riverbed Technology, Inc.

Jeff T. Ricci; age 53; Senior Vice President, Controller and Principal Accounting Officer

Mr. Ricci has served as Senior Vice President, Controller and Principal Accounting Officer since April 2014. Previously, Mr. Ricci served as Controller and Principal Accounting Officer on an interim basis from November 2013 to April 2014. Prior to that, Mr. Ricci served as Vice President of Finance for our Technology and Operations organization from May 2012 to November 2013. Mr. Ricci served as Vice President of Finance for Global Accounts and HP Financial Services from March 2011 to May 2012 and Vice President of Finance for HP Software from March 2009 to March 2011. Prior to joining HP, Mr. Ricci served as Senior Vice President of Finance for BEA Systems, Inc., an enterprise software company, from 2000 until June 2008.

John F. Schultz; age 50; Executive Vice President, General Counsel and Secretary

Mr. Schultz has served as Executive Vice President, General Counsel and Secretary since April 2012. Previously, he served as Deputy General Counsel for Litigation, Investigations and Global Functions from September 2008 to April 2012. From March 2005 to September 2008, Mr. Schultz was a partner in the litigation practice at Morgan, Lewis & Bockius LLP, where, among other clients, he supported HP as external counsel on a variety of litigation and regulatory matters.

William L. Veghte; age 47; Executive Vice President and General Manager, Enterprise Group

Mr. Veghte has served as Executive Vice President and General Manager of the Enterprise Group since August 2013. Previously, he served as Chief Operating Officer from May 2012 to August 2013. Prior to that, Mr. Veghte served as Executive Vice President of HP Software from May 2010 to May 2012. Prior to joining HP, Mr. Veghte served as Senior Vice President of the Windows business group at Microsoft Corporation, a software company, from February 2008 until January 2010.

Dion J. Weisler; age 47; Executive Vice President, Printing and Personal Systems Group

Mr. Weisler has served as Executive Vice President of the Printing and Personal Systems Group since June 2013. Previously, he served as Senior Vice President and Managing Director, Printing and Personal Systems, Asia Pacific and Japan from January 2012 to June 2013. Prior to joining HP, he was Vice President and Chief Operating Officer of the Product and Mobile Internet Digital Home Groups at Lenovo Group Ltd., a technology company, from January 2008 to December 2011.

Table of Contents

Margaret C. Whitman; age 58; Chairman, President and Chief Executive Officer

Ms. Whitman has served as Chairman since July 2014, President and Chief Executive Officer since September 2011 and as a member of our Board of Directors since January 2011. From March 2011 to September 2011, Ms. Whitman served as a part-time strategic advisor to Kleiner Perkins Caufield & Byers, a private equity firm. Previously, Ms. Whitman served as President and Chief Executive Officer of eBay Inc., from 1998 to March 2008. Prior to joining eBay, Ms. Whitman held executive-level positions at Hasbro Inc., FTD, Inc., The Stride Rite Corporation, The Walt Disney Company, and Bain & Company. Ms. Whitman also serves as a director of The Procter & Gamble Company and is a former director of Zipcar, Inc.

Robert Youngjohns; age 63; Executive Vice President and General Manager, HP Software

Mr. Youngjohns has served as Executive Vice President and General Manager of HP Software since May 2014. Previously, Mr. Youngjohns served as Senior Vice President and General Manager of the HP Autonomy /Information Management business unit, within HP Software from September 2012 to May 2014. Prior to joining HP, he was President of Microsoft North America from September 2007 to September 2012 and was President and Chief Executive Officer of Callidus Software from August 2005 to September 2007. Prior to that, he spent 10 years at Sun Microsystems, where he had a variety of leadership positions in sales and general management both regionally and globally.

Employees

We had approximately 302,000 employees worldwide as of October 31, 2014.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available on our website at http://www.hp.com/investor/home, as soon as reasonably practicable after HP electronically files such reports with, or furnishes those reports to, the Securities and Exchange Commission. HP's Corporate Governance Guidelines, Board of Directors' committee charters (including the charters of the Audit Committee, Finance and Investment Committee, HR and Compensation Committee, Technology Committee, and Nominating, Governance and Social Responsibility Committee) and code of ethics entitled "Standards of Business Conduct" are also available at that same location on our website. Stockholders may request free copies of these documents from:

Hewlett-Packard Company
Attention: Investor Relations
3000 Hanover Street
Palo Alto, CA 94304
http://www.hp.com/investor/informationrequest

Additional Information

Microsoft® and Windows® are U.S.-registered trademarks of Microsoft Corporation. Intel®, Itanium® , Intel®AtomTM, and Intel® Itanium® are trademarks of Intel Corporation in the United States and other countries. AMD is a trademark of Advanced Micro Devices, Inc. ARM® is a registered trademark of ARM Limited. UNIX® is a registered trademark of The Open Group.

Table of Contents

ITEM 1A. Risk Factors.

The following discussion of risk factors contains forward-looking statements. These risk factors may be important for understanding any statement in this Form 10-K or elsewhere. The following information should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation" and the Consolidated Financial Statements and related notes in Part II, Item 8, "Financial Statements and Supplemental Data" of this Form 10-K.

Because of the following factors, as well as other variables affecting our results of operations, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

If we are unsuccessful at addressing our business challenges, our business and results of operations may be adversely affected and our ability to invest in and grow our business could be limited.

We are in the process of addressing many challenges facing our business. One set of challenges relates to dynamic and accelerating market trends, such as the decline in the PC market, the growth of multi-architecture devices running competing operating systems, the market shift towards tablets within mobility, the market shift to cloud-related infrastructure, software, and services, and the growth in software-as-a-service business models. Another set of challenges relates to changes in the competitive landscape. Our major competitors are expanding their product and service offerings with integrated products and solutions; our business-specific competitors are exerting increased competitive pressure in targeted areas and are going after new markets; our emerging competitors are introducing new technologies and business models; and our alliance partners in some businesses are increasingly becoming our competitors in others. A third set of challenges relates to business model and go-to-market execution. In addition, we are facing a series of significant macroeconomic challenges, including weakness across many geographic regions, particularly in the United States, Central Eastern Europe and Russia, and certain countries and businesses in Asia. We may experience delays in the anticipated timing of activities related to these efforts and higher than expected or unanticipated execution costs. In addition, we are vulnerable to increased risks associated with these efforts given our large portfolio of businesses, the broad range of geographic regions in which we and our customers and partners operate, and the integration of acquired businesses. If we do not succeed in these efforts, or if these efforts are more costly or time-consuming than expected, our business and results of operations may be adversely affected, which could limit our ability to invest in and grow our business.

In May 2012, we announced a company-wide restructuring plan. The restructuring plan includes both voluntary early retirement programs and non-voluntary workforce reductions. Significant risks associated with these actions that may impair our ability to achieve anticipated cost reductions or that may otherwise harm our business include delays in implementation of anticipated workforce reductions in highly regulated locations outside of the United States, particularly in Europe and Asia, decreases in employee morale and the failure to meet operational targets due to the loss of employees. In addition, our ability to achieve the anticipated cost savings and other benefits from these actions within the expected time frame is subject to many estimates and assumptions. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. If these estimates and assumptions are incorrect, if we experience delays, or if other unforeseen events occur, our business and financial results could be adversely affected.

Competitive pressures could harm our revenue, gross margin and prospects.

We encounter aggressive competition from numerous and varied competitors in all areas of our business, and our competitors may target our key market segments. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, reputation, distribution, range of products and services, ease of use of our products, account relationships, customer training, service and support, security, availability of application software, and internet infrastructure offerings. If our products, services, support and cost structure do not enable us to compete successfully based on any of those criteria, our results of operations and prospects could be harmed.

We have a large portfolio of businesses and must allocate resources across all of those businesses while competing with companies that have much smaller portfolios or specialize in one or more of these product lines. As a result, we may invest less in certain areas of our businesses than our competitors do, and these competitors may have greater financial, technical and marketing resources available to them than our businesses that compete against them. Industry consolidation also may affect competition by creating larger, more homogeneous and potentially stronger competitors in the markets in which we compete, and our competitors also may affect our business by entering into exclusive arrangements with existing or potential customers or suppliers.

Companies with whom we have alliances in some areas may be competitors in other areas. In addition, companies with whom we have alliances also may acquire or form alliances with our competitors, which could reduce their business with us. If we are unable to effectively manage these complicated relationships with alliance partners, our cash flows and results of operations could be adversely affected.

We face aggressive price competition for our products and services and, as a result, we may have to continue lowering the prices of many of our products and services to stay competitive, while at the same time trying to maintain or improve revenue and gross margin. In addition, competitors who have a greater presence in some of the lower-cost markets in which we compete may be able to offer lower prices than we are able to offer. Our cash flows, results of operations and financial condition may be adversely affected by these and other industry-wide pricing pressures.

Because our business model is based on providing innovative and high-quality products, we may spend a proportionately greater amount on research and development than some of our competitors. If we cannot proportionately decrease our cost structure on a timely basis in response to competitive price pressures, our gross margin and, therefore, our profitability could be adversely affected. In addition, if our pricing and other factors are not sufficiently competitive, or if there is an adverse reaction to our product decisions, we may lose market share in certain areas, which could adversely affect our revenue and prospects.

Even if we are able to maintain or increase market share for a particular product, revenue could decline because the product is in a maturing industry or market segment or contains technology that is becoming obsolete. For example, our Storage business unit is experiencing the effects of a market transition towards converged products and solutions, which has led to a decline in demand for our traditional storage products. In addition, the performance of our Business Critical Systems business unit has been affected by the decline in demand for UNIX servers and concerns about the development of new versions of software to support our Itanium-based products. Revenue and margins also could decline due to increased competition from other types of products. For example, growing demand for an increasing array of mobile computing devices and the development of cloud-based solutions has reduced demand for some of our existing hardware products. In addition, refill and remanufactured alternatives for some of HP's LaserJet toner and inkjet cartridges compete with our printing supplies business.

If we cannot successfully execute on our strategy and continue to develop, manufacture and market products, services and solutions that meet customer requirements for innovation and quality, our revenue and gross margin may suffer.

Our long-term strategy is focused on leveraging our portfolio of hardware, software and services as we adapt to a changing and hybrid model of IT delivery and consumption driven by the growing adoption of cloud computing and increased demand for integrated IT solutions. To successfully execute on this strategy, we need to continue evolving our focus towards the delivery of integrated IT solutions for our customers and to continue to invest and expand into cloud computing, security, big data and mobility. Any failure to successfully execute this strategy, including any failure to invest sufficiently in strategic growth areas, could adversely affect our business, results of operation and financial results.

The process of developing new high-technology products, software, services and solutions and enhancing existing hardware and software products, services and solutions is complex, costly and uncertain, and any failure by us to anticipate customers' changing needs and emerging technological trends accurately could significantly harm our market share and results of operations. For example, as the transition to an environment characterized by cloud-based computing and software being delivered as a service progresses, we must continue to successfully develop and deploy cloud-based solutions for our customers. We must make long-term investments, develop or obtain, and protect, appropriate intellectual property, and commit significant research and development and other resources before knowing whether our predictions will accurately reflect customer demand for our products, services and solutions. In addition, after we develop a product, we must be able to manufacture appropriate volumes quickly while also managing costs and preserving margins. To accomplish this, we must accurately forecast volumes, mixes of products and configurations that meet customer requirements, and we may not succeed at doing so within a given product's life cycle or at all. Any delay in the development, production or marketing of a new product, service or solution could result in us not being among the first to market, which could further harm our competitive position.

In the course of conducting our business, we must adequately address quality issues associated with our products, services and solutions, including defects in our engineering, design and manufacturing processes and unsatisfactory performance under service contracts, as well as defects in third-party components included in our products and unsatisfactory performance or even malicious acts by third-party contractors or subcontractors or the employees of those contractors or subcontractors. In order to address quality issues, we work extensively with our customers and suppliers and engage in product testing to determine the causes of problems and to develop and implement appropriate solutions. However, the products, services and solutions that we offer are complex, and our regular testing and quality control efforts may not be effective in controlling or detecting all quality issues or errata, particularly with respect to faulty components manufactured by third-parties. If we are unable to determine the cause, find an appropriate solution or offer a temporary fix (or "patch") to address quality issues with our products, we may delay shipment to customers, which would delay revenue recognition and could adversely affect our revenue and reported results. Addressing quality issues can be expensive and may result in additional warranty, replacement and other costs, adversely affecting our profits. If new or existing customers have difficulty operating our products or are dissatisfied with our services or solutions, our results of operations could be adversely affected, and we could face possible claims if we fail to meet our customers' expectations. In addition, quality issues can impair our relationships with new or existing customers and adversely affect our brand and reputation, which could, in turn, adversely affect our results of operations.

Our plan to separate into two independent publicly-traded companies is subject to various risks and uncertainties and may not be completed in accordance with the expected plans or anticipated timeline, or at all, and will involve significant time and expense, which could disrupt or adversely affect our business.

On October 6, 2014, we announced plans to separate into two independent publicly-traded companies. The separation, which is currently targeted to be completed by the end of fiscal 2015, is subject to approval by our Board of Directors of the final terms of the separation and market, regulatory and certain other conditions. Unanticipated developments, including changes in the competitive conditions of Hewlett-Packard Enterprise's and HP Inc.'s respective markets, possible delays in obtaining various tax opinions or rulings, regulatory approvals or clearances, the uncertainty of the financial markets and challenges in executing the separation, could delay or prevent the

Table of Contents

completion of the proposed separation, or cause the proposed separation to occur on terms or conditions that are different or less favorable than expected.

We have established a Separation Management Office tasked with driving the separation process. We expect that the process of completing the proposed separation will be time-consuming and involve significant costs and expenses, which may be significantly higher than what we currently anticipate and may not yield a discernible benefit if the separation is not completed. Executing the proposed separation will require significant time and attention from our senior management and employees, which could adversely affect our business, financial results and results of operations. We may also experience increased difficulties in attracting, retaining and motivating employees during the pendency of the separation and following its completion, which could harm our businesses.

The separation may not achieve some or all of the anticipated benefits.

We may not realize some or all of the anticipated strategic, financial, operational, marketing or other benefits from the separation. As independent publicly-traded companies, Hewlett-Packard Enterprise and HP Inc. will be smaller, less diversified companies with a narrower business focus and may be more vulnerable to changing market conditions, which could materially and adversely affect their respective business, financial condition and results of operations. Further, there can be no assurance that the combined value of the common stock of the two publicly-traded companies will be equal to or greater than what the value of our common stock would have been had the proposed separation not occurred.

The proposed separation may result in disruptions to, and negatively impact our relationships with, our customers and other business partners.

Uncertainty related to the proposed separation may lead customers and other parties with which we currently do business or may do business in the future to terminate or attempt to negotiate changes in existing business relationships, or consider entering into business relationships with parties other than us. These disruptions could have a material and adverse effect on our businesses, financial condition, results of operations and prospects. The effect of such disruptions could be exacerbated by any delays in the completion of the separation.

The separation could result in substantial tax liability.

We intend to obtain an opinion of outside counsel to the effect that, for U.S. federal income tax purposes, the separation will qualify, for both HP and its stockholders, as a reorganization within the meaning of Sections 368(a)(1)(D) and 355 of the U.S. Internal Revenue Code of 1986, as amended. In addition, we intend to obtain a private letter ruling from the Internal Revenue Service (the "IRS") and/or one or more opinions of outside counsel regarding certain matters impacting the U.S. federal income tax treatment of the separation for HP and certain related transactions as transactions that are generally tax-free for U.S. federal income tax purposes. The opinions of outside counsel and any IRS private letter ruling will be based, among other things, on various factual assumptions we have authorized and representations we have made to outside counsel or the IRS. If any of these assumptions or representations are, or become, inaccurate or incomplete, reliance on the opinions and/or IRS private letter ruling may be affected. An opinion of outside counsel represents their legal judgment but is not binding on the IRS or any court. Accordingly, there can be no assurance that the IRS will not challenge the conclusions reflected in the opinions or that a court would not sustain such a challenge. In addition, we may incur certain tax costs in connection with the separation, including non-U.S. tax expense resulting from separations in multiple non-U.S. jurisdictions that do not legally provide for tax-free separations, which may be material.

Table of Contents

Economic weakness and uncertainty could adversely affect our revenue, gross margin and expenses.

Our revenue and gross margin depend significantly on worldwide economic conditions and the demand for technology hardware, software and services in the markets in which we compete. Economic weakness and uncertainty have resulted, and may result in the future, in decreased revenue, gross margin, earnings or growth rates and in increased expenses and difficulty in managing inventory levels. For example, we are continuing to experience macroeconomic weakness across many geographic regions, particularly in the Europe, the Middle East and Africa ("EMEA") region, China and other high-growth markets. The U.S. federal government spending cuts that went into effect on March 1, 2013 may further reduce demand for our products, services and solutions from organizations that receive funding from the U.S. government and could negatively affect macroeconomic conditions in the United States, which could further reduce demand for our products, services and solutions. Economic weakness and uncertainty may adversely affect demand for our products, services and solutions, may result in increased expenses due to higher allowances for doubtful accounts and potential goodwill and asset impairment charges, and may make it more difficult for us to make accurate forecasts of revenue, gross margin, cash flows and expenses.

We also have experienced, and may experience in the future, gross margin declines in certain businesses, reflecting the effect of items such as competitive pricing pressures and increases in component and manufacturing costs resulting from higher labor and material costs borne by our manufacturers and suppliers that, as a result of competitive pricing pressures or other factors, we are unable to pass on to our customers. In addition, our business may be disrupted if we are unable to obtain equipment, parts or components from our suppliers and our suppliers from their suppliers due to the insolvency of key suppliers or the inability of key suppliers to obtain credit.

Economic weakness and uncertainty could cause our expenses to vary materially from our expectations. Any financial turmoil affecting the banking system and financial markets or any significant financial services institution failures could negatively impact our treasury operations, as the financial condition of such parties may deteriorate rapidly and without notice in times of market volatility and disruption. Poor financial performance of asset markets combined with lower interest rates and the adverse effects of fluctuating currency exchange rates could lead to higher pension and post-retirement benefit expenses. Interest and other expenses could vary materially from expectations depending on changes in interest rates, borrowing costs, currency exchange rates, costs of hedging activities and the fair value of derivative instruments. Economic downturns also may lead to restructuring actions and associated expenses.

The revenue and profitability of our operations have historically varied, which makes our future financial results less predictable.

Our revenue, gross margin and profit vary among our products and services, customer groups and geographic markets and therefore will likely be different in future periods than our current results. Our revenue depends on the overall demand for our products and services. Delays or reductions in IT spending could have a material adverse effect on demand for our products and services, which could result in a significant decline in revenue. In addition, revenue declines in some of our businesses, particularly our services businesses, may affect revenue in our other businesses as we may lose cross-selling opportunities. Overall gross margins and profitability in any given period are dependent partially on the product, service, customer and geographic mix reflected in that period's net revenue. Competition, lawsuits, investigations and other risks affecting those businesses therefore may have a significant impact on our overall gross margin and profitability. Certain segments have a higher fixed cost structure and more variation in gross margins across their business units and product portfolios than others and may therefore experience significant operating profit volatility on a quarterly basis. In addition, newer geographic markets may be relatively less profitable due to investments associated with entering those markets and local pricing pressures, and we may have difficulty establishing and

Table of Contents

maintaining the operating infrastructure necessary to support the high growth rate associated with some of those markets. Market trends, industry shifts, competitive pressures, commoditization of products, seasonal rebates, increased component or shipping costs, regulatory impacts and other factors may result in reductions in revenue or pressure on gross margins of certain segments in a given period, which may lead to adjustments to our operations. Moreover, our efforts to address the challenges facing our business could increase the level of variability in our financial results because the rate at which we are able to realize the benefits from those efforts may vary from period to period.

If we fail to manage the distribution of our products and services properly, our revenue, gross margins and profitability could suffer.

We use a variety of distribution methods to sell our products and services, including third-party resellers and distributors and both direct and indirect sales to enterprise accounts and consumers. Successfully managing the interaction of our direct and indirect channel efforts to reach various potential customer segments for our products and services is a complex process. Moreover, since each distribution method has distinct risks and gross margins, our failure to implement the most advantageous balance in the delivery model for our products and services could adversely affect our revenue and gross margins and therefore our profitability. Other distribution risks are described below.

Our financial results could be materially adversely affected due to channel conflicts or if the financial conditions of our channel partners were to weaken.

Our results of operations may be adversely affected by any conflicts that might arise between our various sales channels, the loss or deterioration of any alliance or distribution arrangement or the loss of retail shelf space. Moreover, some of our wholesale and retail distributors may have insufficient financial resources and may not be able to withstand changes in business conditions, including economic weakness and industry consolidation. Many of our significant distributors operate on narrow product margins and have been negatively affected by business pressures. Considerable trade receivables that are not covered by collateral or credit insurance are outstanding with our distribution and retail channel partners. Revenue from indirect sales could suffer, and we could experience disruptions in distribution, if our distributors' financial conditions, abilities to borrow funds in the credit markets or operations weaken.

Our inventory management is complex as we continue to sell a significant mix of products through distributors.

We must manage inventory effectively, particularly with respect to sales to distributors, which involves forecasting demand and pricing issues. Distributors may increase orders during periods of product shortages, cancel orders if their inventory is too high or delay orders in anticipation of new products. Distributors also may adjust their orders in response to the supply of our products and the products of our competitors and seasonal fluctuations in end-user demand. Our reliance upon indirect distribution methods may reduce visibility to demand and pricing issues, and therefore make forecasting more difficult. If we have excess or obsolete inventory, we may have to reduce our prices and write down inventory. Moreover, our use of indirect distribution channels may limit our willingness or ability to adjust prices quickly and otherwise to respond to pricing changes by competitors. We also may have limited ability to estimate future product rebate redemptions in order to price our products effectively.

We depend on third-party suppliers, and our financial results could suffer if we fail to manage suppliers properly.

Our operations depend on our ability to anticipate our needs for components, products and services, as well as our suppliers' ability to deliver sufficient quantities of quality components, products and services at reasonable prices and in time for us to meet critical schedules. Given the wide variety

Table of Contents

of systems, products and services that we offer, the large number of our suppliers and contract manufacturers that are located around the world, and the long lead times required to manufacture, assemble and deliver certain components and products, problems could arise in production, planning, and inventory management that could seriously harm us. In addition, our ongoing efforts to optimize the efficiency of our supply chain could cause supply disruptions and be more expensive, time-consuming and resource intensive than expected. Other supplier problems that we could face include component shortages, excess supply, risks related to the terms of our contracts with suppliers, risks associated with contingent workers, and risks related to our relationships with single source suppliers, as described below.

Shortages. Occasionally we may experience a shortage of, or a delay in receiving, certain components as a result of strong demand, capacity constraints, supplier financial weaknesses, inability of suppliers to borrow funds in the credit markets, disputes with suppliers (some of whom are also customers), disruptions in the operations of component suppliers, other problems experienced by suppliers or problems faced during the transition to new suppliers. For example, our PC business relies heavily upon OMs to manufacture its products and is therefore dependent upon the continuing operations of those OMs to fulfill demand for our PC products. HP represents a substantial portion of the business of some of these OMs, and any changes to the nature or volume of business transacted by HP with a particular OM could adversely affect the operations and financial condition of the OM and lead to shortages or delays in receiving products from that OM. If shortages or delays persist, the price of certain components may increase, and we may be exposed to quality issues or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build products or provide services in a timely manner in the quantities or according to the specifications needed. Accordingly, our revenue and gross margin could suffer as we could lose time-sensitive sales, incur additional freight costs or be unable to pass on price increases to our customers. If we cannot adequately address supply issues, we might have to reengineer some products or services offerings, which could result in further costs and delays.

Oversupply. In order to secure components for the provision of products or services, at times we may make advance payments to suppliers or enter into non-cancelable commitments with vendors. In addition, we may purchase components strategically in advance of demand to take advantage of favorable pricing or to address concerns about the availability of future components. If we fail to anticipate customer demand properly, a temporary oversupply could result in excess or obsolete components, which could adversely affect our gross margin.

Contractual terms. As a result of binding price or purchase commitments with vendors, we may be obligated to purchase components or services at prices that are higher than those available in the current market and be limited in our ability to respond to changing market conditions. If we commit to purchasing components or services for prices in excess of the then-current market price, we may be at a disadvantage to competitors who have access to components or services at lower prices, our gross margin could suffer, and we could incur additional charges relating to inventory obsolescence. In addition, many of our competitors obtain products or components from the same OMs and suppliers that we utilize. Our competitors may obtain better pricing, more favorable contractual terms and conditions, and more favorable allocations of products and components during periods of limited supply, and our ability to engage in relationships with certain OMs and suppliers could be limited. The practice employed by our PC business of purchasing product components and transferring those components to its OMs may create large supplier receivables with the OMs that, depending on the financial condition of the OMs, may create collectibility risks. In addition, certain of our OMs and suppliers may decide to discontinue conducting business with us. Any of these actions by our competitors, OMs or suppliers could adversely affect our future results of operations and financial condition.

Table of Contents

Contingent workers. We also rely on third-party suppliers for the provision of contingent workers, and our failure to manage our use of such workers effectively could adversely affect our results of operations. We have been exposed to various legal claims relating to the status of contingent workers in the past and could face similar claims in the future. We may be subject to shortages, oversupply or fixed contractual terms relating to contingent workers. Our ability to manage the size of, and costs associated with, the contingent workforce may be subject to additional constraints imposed by local laws.

Single source suppliers. Our use of single source suppliers for certain components could exacerbate any supplier issues. We obtain a significant number of components from single sources due to technology, availability, price, quality or other considerations. For example, we rely on Intel to provide us with a sufficient supply of processors for many of our PCs, workstations and servers and AMD to provide us with a sufficient supply of processors for other products. Some of those processors are customized for our products. New products that we introduce may utilize custom components obtained from only one source initially until we have evaluated whether there is a need for additional suppliers. Replacing a single source supplier could delay production of some products as replacement suppliers may be subject to capacity constraints or other output limitations. For some components, such as customized components and some of the processors that we obtain from Intel, alternative sources either may not exist or may be unable to produce the quantities of those components necessary to satisfy our production requirements. In addition, we sometimes purchase components from single source suppliers under short-term agreements that contain favorable pricing and other terms but that may be unilaterally modified or terminated by the supplier with limited notice and with little or no penalty. The performance of such single source suppliers under those agreements (and the renewal or extension of those agreements upon similar terms) may affect the quality, quantity and price of components to HP. The loss of a single source supplier, the deterioration of our relationship with a single source supplier, or any unilateral modification to the contractual terms under which we are supplied components by a single source supplier could adversely affect our revenue, gross margin and cash flows.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our worldwide operations could be disrupted by earthquakes, telecommunications failures, power or water shortages, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics or pandemics and other natural or manmade disasters or catastrophic events, for which we are predominantly self-insured. The occurrence of any of these business disruptions could result in significant losses, seriously harm our revenue, profitability and financial condition, adversely affect our competitive position, increase our costs and expenses, and require substantial expenditures and recovery time in order to fully resume operations. Our corporate headquarters and a portion of our research and development activities are located in California, and other critical business operations and some of our suppliers are located in California and Asia, near major earthquake faults known for seismic activity. In addition, six of our principal worldwide IT data centers are located in the southern United States, making our operations more vulnerable to natural disasters or other business disruptions occurring in that geographical area. The manufacture of product components, the final assembly of our products and other critical operations are concentrated in certain geographic locations, including Shanghai, Singapore and India. We also rely on major logistics hubs primarily in Asia to manufacture and distribute our products and in the southwestern United States to import products into the Americas region. Our operations could be adversely affected if manufacturing, logistics or other operations in these locations are disrupted for any reason, including natural disasters, information technology system failures, military actions or economic, business, labor, environmental, public health, regulatory or political issues. The ultimate impact on us, our significant suppliers and our general

Table of Contents

infrastructure of being located near locations more vulnerable to the occurrence of the aforementioned business disruptions, such as near major earthquake faults, and being consolidated in certain geographical areas is unknown and remains uncertain.

Our sales cycle makes planning and inventory management difficult and future financial results less predictable.

In some of our segments, our quarterly sales often have reflected a pattern in which a disproportionate percentage of each quarter's total sales occurs towards the end of such quarter. This uneven sales pattern makes predicting revenue, earnings, cash flow from operations and working capital for each financial period difficult, increases the risk of unanticipated variations in quarterly results and financial condition and places pressure on our inventory management and logistics systems. If predicted demand is substantially greater than orders, there may be excess inventory. Alternatively, if orders substantially exceed predicted demand, we may not be able to fulfill all of the orders received in the last few weeks of each quarter. Depending on when they occur in a quarter, developments such as a systems failure, component pricing movements, component shortages or global logistics disruptions, could adversely impact inventory levels and results of operations in a manner that is disproportionate to the number of days in the quarter affected.

We experience some seasonal trends in the sale of our products that also may produce variations in quarterly results and financial condition. For example, sales to governments (particularly sales to the U.S. government) are often stronger in the third calendar quarter, consumer sales are often stronger in the fourth calendar quarter, and many customers whose fiscal and calendar years are the same spend their remaining capital budget authorizations in the fourth calendar quarter prior to new budget constraints in the first calendar quarter of the following year. European sales are often weaker during the summer months. Demand during the spring and early summer also may be adversely impacted by market anticipation of seasonal trends. Moreover, to the extent that we introduce new products in anticipation of seasonal demand trends, our discounting of existing products may adversely affect our gross margin prior to or shortly after such product launches. Typically, our third fiscal quarter is our weakest and our fourth fiscal quarter is our strongest. Many of the factors that create and affect seasonal trends are beyond our control.

Due to the international nature of our business, political or economic changes or other factors could harm our future revenue, costs and expenses, and financial condition.

Sales outside the United States make up approximately 65% of our net revenue. In addition, an increasing portion of our business activity is being conducted in emerging markets, including Brazil, Russia, India and China. Our future revenue, gross margin, expenses and financial condition could suffer due to a variety of international factors, including:

- ongoing instability or changes in a country's or region's economic or political conditions, including inflation, recession, interest rate fluctuations and actual or anticipated military or political conflicts;
- longer collection cycles and financial instability among customers;
- trade regulations and procedures and actions affecting production, pricing and marketing of products;
- local labor conditions and regulations, including local labor issues faced by specific HP suppliers and OMs;
- managing a geographically dispersed workforce;
- changes in the regulatory or legal environment;

Table of Contents

- differing technology standards or customer requirements;

- import, export or other business licensing requirements or requirements relating to making foreign direct investments, which could increase our cost of doing business in certain jurisdictions, prevent us from shipping products to particular countries or markets, affect our ability to obtain favorable terms for components, increase our operating costs or lead to penalties or restrictions;

- difficulties associated with repatriating earnings generated or held abroad in a tax-efficient manner and changes in tax laws; and

- fluctuations in freight costs, limitations on shipping and receiving capacity, and other disruptions in the transportation and shipping infrastructure at important geographic points of exit and entry for our products and shipments.

The factors described above also could disrupt our product and component manufacturing and key suppliers located outside of the United States. For example, we rely on manufacturers in Taiwan for the production of notebook computers and other suppliers in Asia for product assembly and manufacture.

Currencies other than the U.S. dollar, including the euro, the British pound, Chinese yuan renminbi and the Japanese Yen, can have an impact on our results (expressed in U.S. dollars). In particular, the economic uncertainties relating to European sovereign and other debt obligations and the related European financial restructuring efforts may cause the value of the euro to fluctuate. Currency variations also contribute to variations in sales of products and services in impacted jurisdictions. For example, in the event that one or more European countries were to replace the euro with another currency, our sales into such countries, or into Europe generally, would likely be adversely affected until stable exchange rates are established. Accordingly, fluctuations in foreign currency rates, most notably the strengthening of the dollar against the euro, could adversely affect our revenue growth in future periods. In addition, currency variations can adversely affect margins on sales of our products in countries outside of the United States and margins on sales of products that include components obtained from suppliers located outside of the United States. We use a combination of forward contracts and options designated as cash flow hedges to protect against foreign currency exchange rate risks. The effectiveness of our hedges depends on our ability to accurately forecast future cash flows, which is particularly difficult during periods of uncertain demand for our products and services and highly volatile exchange rates. We may incur significant losses from our hedging activities due to factors such as volatility and currency variations. In addition, our hedging activities may be ineffective or may not offset any or more than a portion of the adverse financial impact resulting from currency variations. Losses associated with hedging activities also may impact our revenue and to a lesser extent our cost of sales and financial condition.

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act (the "FCPA"). For example, as discussed in Note 15 to the Consolidated Financial Statements, the German Public Prosecutor's Office has been investigating allegations that certain current and former employees of HP engaged in bribery, embezzlement and tax evasion. In addition, the Polish Central Anti-Corruption Bureau is conducting investigations into potential FCPA violations by a former employee of an HP subsidiary in connection with certain public-sector transactions in Poland. Although we implement policies and procedures designed to facilitate compliance with these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have an adverse effect on our business and reputation.

Any failure by us to identify, manage, complete and integrate acquisitions, divestitures and other significant transactions successfully could harm our financial results, business and prospects, and the costs, expenses and other financial and operational effects associated with managing, completing and integrating acquisitions may result in financial results that are different than expected.

As part of our business strategy, we may acquire companies or businesses, divest businesses or assets, enter into strategic alliances and joint ventures and make investments to further our business (collectively, "business combination and investment transactions"). In order to pursue this strategy successfully, we must identify candidates for and successfully complete business combination and investment transactions, some of which may be large or complex, and manage post-closing issues such as the integration of acquired businesses, products, services or employees. Risks associated with business combination and investment transactions include the following, any of which could adversely affect our revenue, gross margin, profitability and financial results:

- Managing business combination and investment transactions requires varying levels of management resources, which may divert our attention from other business operations.

- We may not fully realize all of the anticipated benefits of any business combination and investment transaction, and the timeframe for realizing benefits of a business combination and investment transaction may depend partially upon the actions of employees, advisors, suppliers or other third-parties.

- Business combination and investment transactions have resulted, and in the future may result, in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, goodwill and asset impairment charges, charges from the elimination of duplicative facilities and contracts, asset impairment charges, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans.

- Any increased or unexpected costs, unanticipated delays or failure to meet contractual obligations could make business combination and investment transactions less profitable or unprofitable.

- Our ability to conduct due diligence with respect to business combination and investment transactions, and our ability to evaluate the results of such due diligence, is dependent upon the veracity and completeness of statements and disclosures made or actions taken by third-parties or their representatives.

- Our due diligence process may fail to identify significant issues with the acquired company's product quality, financial disclosures, accounting practices or internal control deficiencies.

- The pricing and other terms of our contracts for business combination and investment transactions require us to make estimates and assumptions at the time we enter into these contracts, and, during the course of our due diligence, we may not identify all of the factors necessary to estimate accurately our costs, timing and other matters or we may incur costs if a business combination is not consummated.

- In order to complete a business combination and investment transaction, we may issue common stock, potentially creating dilution for existing stockholders.

- We may borrow to finance business combination and investment transactions, and the amount and terms of any potential future acquisition-related or other borrowings, as well as other factors, could affect our liquidity and financial condition.

- Our effective tax rate on an ongoing basis is uncertain, and business combination and investment transactions could adversely impact our effective tax rate.

Table of Contents

- An announced business combination and investment transaction may not close timely or at all, which may cause our financial results to differ from expectations in a given quarter.

- Business combination and investment transactions may lead to litigation.

- If we fail to identify and successfully complete and integrate business combination and investment transactions that further our strategic objectives, we may be required to expend resources to develop products, services and technology internally, which may put us at a competitive disadvantage.

We have incurred and will incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with business combination and investment transactions, and, to the extent that the value of goodwill or intangible assets acquired in connection with a business combination and investment transaction becomes impaired, we may be required to incur additional material charges relating to the impairment of those assets. For example, in our third fiscal quarter of 2012, we recorded an $8.0 billion impairment charge relating to the goodwill associated with our enterprise services reporting unit within our former Services segment and a $1.2 billion impairment charge as a result of an asset impairment analysis of the "Compaq" trade name acquired in 2002. In addition, in our fourth fiscal quarter of 2012, we recorded an $8.8 billion impairment charge relating to the goodwill and intangible assets associated with Autonomy. If there are future decreases in our stock price or significant changes in the business climate or results of operations of our reporting units, we may incur additional charges, which may include goodwill impairment or intangible asset charges.

Integration issues are often complex, time-consuming and expensive and, without proper planning and implementation, could significantly disrupt our business and the acquired business. The challenges involved in integration include:

- combining product and service offerings and entering or expanding into markets in which we are not experienced or are developing expertise;

- convincing customers and distributors that the transaction will not diminish client service standards or business focus, persuading customers and distributors to not defer purchasing decisions or switch to other suppliers (which could result in our incurring additional obligations in order to address customer uncertainty), minimizing sales force attrition and expanding and coordinating sales, marketing and distribution efforts;

- consolidating and rationalizing corporate IT infrastructure, which may include multiple legacy systems from various acquisitions and integrating software code and business processes;

- minimizing the diversion of management attention from ongoing business concerns;

- persuading employees that business cultures are compatible, maintaining employee morale and retaining key employees, engaging with employee works councils representing an acquired company's non-U.S. employees, integrating employees into HP, correctly estimating employee benefit costs and implementing restructuring programs;

- coordinating and combining administrative, manufacturing, research and development and other operations, subsidiaries, facilities and relationships with third-parties in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures;

- achieving savings from supply chain integration; and

- managing integration issues shortly after or pending the completion of other independent transactions.

While we do not currently plan to divest any of our major businesses, we do regularly evaluate the potential disposition of assets and businesses that may no longer help us meet our objectives. When we decide to sell assets or a business, we may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the achievement of our strategic objectives. We may also dispose of a business at a price or on terms that are less desirable than we had anticipated. In addition, we may experience greater dis-synergies than expected, and the impact of the divestiture on our revenue growth may be larger than projected. After reaching an agreement with a buyer or seller for the acquisition or disposition of a business, we are subject to satisfaction of pre-closing conditions as well as to necessary regulatory and governmental approvals on acceptable terms, which, if not satisfied or obtained, may prevent us from completing the transaction. Dispositions may also involve continued financial involvement in the divested business, such as through continuing equity ownership, guarantees, indemnities or other financial obligations. Under these arrangements, performance by the divested businesses or other conditions outside of our control could affect our future financial results.

Our revenue, cost of sales, and expenses may suffer if we cannot continue to license or enforce the intellectual property rights on which our businesses depend or if third parties assert that we violate their intellectual property rights.

We rely upon patent, copyright, trademark and trade secret laws in the United States, similar laws in other countries, and agreements with our employees, customers, suppliers and other parties, to establish and maintain intellectual property rights in the products and services we sell, provide or otherwise use in our operations. However, any of our intellectual property rights could be challenged, invalidated, infringed or circumvented, or such intellectual property rights may not be sufficient to permit us to take advantage of current market trends or to otherwise provide competitive advantages, either of which could result in costly product redesign efforts, discontinuance of certain product offerings or other harm to our competitive position. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions we may be unable to protect our proprietary technology adequately against unauthorized third-party copying or use; this, too, could adversely affect our competitive position.

Because of the rapid pace of technological change in the information technology industry, much of our business and many of our products rely on key technologies developed or licensed by third-parties. We may not be able to obtain or continue to obtain licenses and technologies from these third-parties at all or on reasonable terms, or such third-parties may demand cross-licenses to our intellectual property. In addition, it is possible that as a consequence of a merger or acquisition, third-parties may obtain licenses to some of our intellectual property rights or our business may be subject to certain restrictions that were not in place prior to the transaction. Consequently, we may lose a competitive advantage with respect to these intellectual property rights or we may be required to enter into costly arrangements in order to terminate or limit these rights.

Third-parties also may claim that we or customers indemnified by us are infringing upon their intellectual property rights. For example, individuals and groups may purchase intellectual property assets for the purpose of asserting claims of infringement and attempting to extract settlements from companies such as HP and its customers. The number of these claims has increased in recent periods and may continue to increase in the future. If we cannot or do not license infringed intellectual property at all or on reasonable terms, or if we are required to substitute similar technology from another source, our operations could be adversely affected. Even if we believe that intellectual property claims are without merit, they can be time-consuming and costly to defend against and may divert management's attention and resources away from our business. Claims of intellectual property infringement also might require us to redesign affected products, enter into costly settlement or license agreements, pay costly damage awards, or face a temporary or permanent injunction prohibiting us from importing, marketing or selling certain of our products. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable or unwilling to uphold its contractual obligations to us.

Table of Contents

Finally, our results of operations and cash flows have been and could continue to be affected in certain periods and on an ongoing basis by the imposition, accrual and payment of copyright levies or similar fees. In certain countries (primarily in Europe), proceedings are ongoing or have been concluded involving HP in which groups representing copyright owners have sought or are seeking to impose upon and collect from HP levies upon equipment (such as PCs, MFDs and printers) alleged to be copying devices under applicable laws. Other such groups have also sought to modify existing levy schemes to increase the amount of the levies that can be collected from us. Other countries that have not imposed levies on these types of devices are expected to extend existing levy schemes, and countries that do not currently have levy schemes may decide to impose copyright levies on these types of devices. The total amount of the copyright levies will depend on the types of products determined to be subject to the levy, the number of units of those products sold during the period covered by the levy, and the per unit fee for each type of product, all of which are affected by several factors, including the outcome of ongoing litigation involving us and other industry participants and possible action by the legislative bodies in the applicable countries, and could be substantial. Consequently, the ultimate impact of these copyright levies or similar fees, and our ability to recover such amounts through increased prices, remains uncertain.

Our revenue and profitability could suffer if we do not manage the risks associated with our services business properly.

The risks that accompany our services business differ from those of our other businesses and include the following:

- The success of our services business is to a significant degree dependent on our ability to retain our significant services clients and maintain or increase the level of revenues from these clients. We may lose clients due to their merger or acquisition, business failure, contract expiration or their selection of a competing service provider or decision to in-source services. In addition, we may not be able to retain or renew relationships with our significant clients. As a result of business downturns or for other business reasons, we are also vulnerable to reduced processing volumes from our clients, which can reduce the scope of services provided and the prices for those services. We may not be able to replace the revenue and earnings from any such lost clients or reductions in services. In addition, our contracts may allow a client to terminate the contract for convenience, and we may not be able to fully recover our investments in such circumstances.

- The pricing and other terms of some of our IT services agreements, particularly our long-term IT outsourcing services agreements, require us to make estimates and assumptions at the time we enter into these contracts that could differ from actual results. Any increased or unexpected costs or unanticipated delays in connection with the performance of these engagements, including delays caused by factors outside our control, could make these agreements less profitable or unprofitable, which could have an adverse effect on the profit margin of our IT services business.

- Some of our IT services agreements require significant investment in the early stages that is expected to be recovered through billings over the life of the agreement. These agreements often involve the construction of new IT systems and communications networks and the development and deployment of new technologies. Substantial performance risk exists in each agreement with these characteristics, and some or all elements of service delivery under these agreements are dependent upon successful completion of the development, construction and deployment phases. Any failure to perform satisfactorily under these agreements may expose us to legal liability, result in the loss of customers and harm our reputation, which could decrease the revenues and profitability of our IT services business.

Table of Contents

Some of our outsourcing services agreements contain pricing provisions that permit a client to request a benchmark study by a mutually acceptable third-party. The benchmarking process typically compares the contractual price of our services against the price of similar services offered by other specified providers in a peer comparison group, subject to agreed upon adjustment and normalization factors. Generally, if the benchmarking study shows that our pricing has a difference outside a specified range, and the difference is not due to the unique requirements of the client, then the parties will negotiate in good faith any appropriate adjustments to the pricing. This may result in the reduction of our rates for the benchmarked services performed after the implementation of those pricing adjustments, which could decrease the cash flows of our IT services business.

If we do not hire, train, motivate and effectively utilize employees with the right mix of skills and experience in the right geographic regions to meet the needs of our services clients, our profitably could suffer. For example, if our employee utilization rate is too low, our profitability and the level of engagement of our employees could suffer. If that utilization rate is too high, it could have an adverse effect on employee engagement and attrition and the quality of the work performed, as well as our ability to staff projects. If we are unable to hire and retain a sufficient number of employees with the skills or backgrounds to meet current demand, we might need to redeploy existing personnel, increase our reliance on subcontractors or increase employee compensation levels, all of which could also negatively affect our profitability. In addition, if we have more employees than we need with certain skill sets or in certain geographies, we may incur increased costs as we work to rebalance our supply of skills and resources with client demand in those geographies.

Failure to comply with our customer contracts or government contracting regulations could adversely affect our revenue and results of operations.

Our contracts with our customers may include unique and specialized performance requirements. In particular, our contracts with federal, state, provincial and local governmental customers are subject to various procurement regulations, contract provisions and other requirements relating to their formation, administration and performance. Any failure by us to comply with the specific provisions in our customer contracts or any violation of government contracting regulations could result in the imposition of various civil and criminal penalties, which may include termination of contracts, forfeiture of profits, suspension of payments and, in the case of our government contracts, fines and suspension from future government contracting. In addition, we have in the past been, and may in the future be, subject to qui tam litigation brought by private individuals on behalf of the government relating to our government contracts, which could include claims for up to treble damages. Further, any negative publicity related to our customer contracts or any proceedings surrounding them, regardless of its accuracy, may damage our business by affecting our ability to compete for new contracts. If our customer contracts are terminated, if we are suspended or disbarred from government work, or if our ability to compete for new contracts is adversely affected, we could suffer a reduction in expected revenue.

HP's stock price has historically fluctuated and may continue to fluctuate, which may make future prices of HP's stock difficult to predict.

HP's stock price, like that of other technology companies, can be volatile. Some of the factors that could affect our stock price are:

speculation, coverage or sentiment in the media or the investment community about, or actual changes in, our business, strategic position, market share, organizational structure, operations, financial condition, financial reporting and results, effectiveness of cost-cutting efforts, value or liquidity of our investments, exposure to market volatility, prospects, business combination or

Table of Contents

investment transactions, future stock price performance, board of directors, executive team, our competitors or our industry in general;

the announcement of new, planned or contemplated products, services, technological innovations, acquisitions, divestitures or other significant transactions by HP or its competitors;

quarterly increases or decreases in revenue, gross margin, earnings or cash flows, changes in estimates by the investment community or financial outlook provided by HP and variations between actual and estimated financial results;

announcements of actual and anticipated financial results by HP's competitors and other companies in the IT industry;

developments relating to pending investigations, claims and disputes; and

the timing and amount of share repurchases by HP.

General or industry specific market conditions or stock market performance or domestic or international macroeconomic and geopolitical factors unrelated to HP's performance also may affect the price of HP stock. For these reasons, investors should not rely on recent or historical trends to predict future stock prices, financial condition, results of operations or cash flows. In addition, as discussed in Note 15 to the Consolidated Financial Statements, we are involved in several securities class action litigation matters. Additional volatility in the price of our securities could result in the filing of additional securities class action litigation matters, which could result in substantial costs and the diversion of management time and resources.

Failure to maintain our credit ratings could adversely affect our liquidity, capital position, borrowing costs and access to capital markets.

Our credit risk is evaluated by the major independent rating agencies. Two of those rating agencies, Moody's Investors Service and Standard & Poor's Ratings Services, downgraded our ratings once during fiscal 2012, and a third rating agency, Fitch Ratings, downgraded our ratings twice during that fiscal year. In addition, Moody's Investors Service downgraded our ratings again in November 2012. Our credit ratings remain under negative outlook by Moody's Investors Service. Past downgrades have increased the cost of borrowing under our credit facilities, have reduced market capacity for our commercial paper, and may require the posting of additional collateral under some of our derivative contracts. There can be no assurance that we will be able to maintain our current credit ratings, and any additional actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, may further impact us in a similar manner and may have a negative impact on our liquidity, capital position and access to capital markets.

We make estimates and assumptions in connection with the preparation of HP's Consolidated Financial Statements, and any changes to those estimates and assumptions could adversely affect our results of operations.

In connection with the preparation of HP's Consolidated Financial Statements, we use certain estimates and assumptions based on historical experience and other factors. Our most critical accounting estimates are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report. In addition, as discussed in Note 15 to the Consolidated Financial Statements, we make certain estimates, including decisions related to provisions for legal proceedings and other contingencies. While we believe that these estimates and assumptions are reasonable under the circumstances, they are subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could adversely affect our results of operations.

Table of Contents

Unanticipated changes in our tax provisions, the adoption of new tax legislation or exposure to additional tax liabilities could affect our profitability.

We are subject to income and other taxes in the United States and numerous foreign jurisdictions. Our tax liabilities are affected by the amounts we charge in intercompany transactions for inventory, services, licenses, funding and other items. We are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. In addition, our effective tax rate in the future could be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. In particular, the carrying value of deferred tax assets, which are predominantly in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, there are proposals for tax legislation that have been introduced or that are being considered that could have a significant adverse effect on our tax rate, the carrying value of deferred tax assets, or our deferred tax liabilities. Any of these changes could affect our profitability.

In order to be successful, we must attract, retain, train, motivate, develop and transition key employees, and failure to do so could seriously harm us.

In order to be successful, we must attract, retain, train, motivate, develop and transition qualified executives and other key employees, including those in managerial, technical, sales, marketing and IT support positions. Identifying, developing internally or hiring externally, training and retaining qualified executives, engineers, skilled solutions providers in the IT support business and qualified sales representatives are critical to our future, and competition for experienced employees in the IT industry can be intense. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash- and share-based compensation. Our share-based incentive awards include stock options, restricted stock units and performance-based restricted units, some of which contain conditions relating to HP's stock price performance and HP's long-term financial performance that make the future value of those awards uncertain. If the anticipated value of such share-based incentive awards does not materialize, if our share-based compensation otherwise ceases to be viewed as a valuable benefit, if our total compensation package is not viewed as being competitive, or if we do not obtain the shareholder approval needed to continue granting share-based incentive awards in the amounts we believe are necessary, our ability to attract, retain, and motivate executives and key employees could be weakened. The failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. Further, changes in our management team may be disruptive to our business, and any failure to successfully transition and assimilate key new hires or promoted employees could adversely affect our business and results of operations.

System security risks, data protection breaches, cyber attacks and systems integration issues could disrupt our internal operations or information technology services provided to customers, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third-parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and

Table of Contents

deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third-parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business. In addition, our outsourcing services business routinely processes, stores and transmits large amounts of data for our clients, including sensitive and personally identifiable information. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us, our clients or customers, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us, our customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. We also could lose existing or potential customers of outsourcing services or other IT solutions or incur significant expenses in connection with our customers' system failures or any actual or perceived security vulnerabilities in our products and services. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time-consuming, disruptive and resource intensive. Such disruptions could adversely impact our ability to fulfill orders and respond to customer requests and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.

Terrorist acts, conflicts, wars and geopolitical uncertainties may seriously harm our business and revenue, costs and expenses and financial condition and stock price.

Terrorist acts, conflicts or wars (wherever located around the world) may cause damage or disruption to our business, our employees, facilities, partners, suppliers, distributors, resellers or customers or adversely affect our ability to manage logistics, operate our transportation and communication systems or conduct certain other critical business operations. The potential for future attacks, the national and international responses to attacks or perceived threats to national security, and other actual or potential conflicts or wars have created many economic and political uncertainties. In addition, as a major multinational company with headquarters and significant operations located in the United States, actions against or by the United States may impact our business or employees. Although it is impossible to predict the occurrences or consequences of any such events, if they occur, they could result in a decrease in demand for our products, make it difficult or impossible to provide services or deliver products to our customers or to receive components from our suppliers, create delays and inefficiencies in our supply chain and result in the need to impose employee travel restrictions. We are predominantly uninsured for losses and interruptions caused by terrorist acts, conflicts and wars.

Table of Contents

Unforeseen environmental costs could adversely affect our business and results of operations.

We are subject to various federal, state, local and foreign laws and regulations concerning environmental protection, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, the content of our products and the recycling, treatment and disposal of our products, including batteries. In particular, we face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the chemical and materials composition of our products, their safe use, the energy consumption associated with those products, climate change laws and regulations, and product take-back legislation. If we were to violate or become liable under environmental laws or if our products become non- compliant with environmental laws, we could incur substantial costs or face other sanctions, which may include restrictions on our products entering certain jurisdictions. Our potential exposure includes fines and civil or criminal sanctions, third-party property damage, personal injury claims and clean-up costs. Further, liability under some environmental laws relating to contaminated sites can be imposed retroactively, on a joint and several basis, and without any finding of noncompliance or fault. The amount and timing of costs to comply with environmental laws are difficult to predict.

Some anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

We have provisions in our certificate of incorporation and bylaws, each of which could have the effect of rendering more difficult or discouraging an acquisition of HP deemed undesirable by our Board of Directors. These include provisions:

- authorizing blank check preferred stock, which we could issue with voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- specifying that our stockholders may take action only at a duly called annual or special meeting of stockholders and otherwise in accordance with our bylaws and limiting the ability of our stockholders to call special meetings;
- requiring advance notice of proposals by our stockholders for business to be conducted at stockholder meetings and for nominations of candidates for election to our Board of Directors; and
- controlling the procedures for conduct of our Board of Directors and stockholder meetings and election, appointment and removal of our directors.

These provisions, alone or together, could deter or delay hostile takeovers, proxy contests and changes in control or management of HP. As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock.

Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control of HP could limit the opportunity for our stockholders to receive a premium for their shares of HP stock and also could affect the price that some investors are willing to pay for HP stock.

ITEM 1B. Unresolved Staff Comments.

None.

Table of Contents

ITEM 2. Properties.

As of October 31, 2014, we owned or leased approximately 66 million square feet of space worldwide, a summary of which is provided below. We believe that our existing properties are in good condition and are suitable for the conduct of our business.

	As of October 31, 2014		
	Owned	**Leased**	**Total**
	Square feet in millions		
Administration and support	11	19	30
	37%	63%	100%
Core data centers, manufacturing plants, research and development facilities, and warehouse operations	15	14	29
	52%	48%	100%
Total[1]	26	33	59
	44%	56%	100%

(1) Excludes 7 million square feet of vacated space, of which 2 million square feet is leased to third parties.

We have seven business segments: Personal Systems, Printing, the Enterprise Group, Enterprise Services, Software, HP Financial Services and Corporate Investments. Because of the interrelation of these segments, a majority of these segments use substantially all of the properties at least in part, and we retain the flexibility to use each of the properties in whole or in part for each of the segments.

Principal Executive Offices

Our principal executive offices, including our global headquarters, are located at 3000 Hanover Street, Palo Alto, California, United States of America.

Headquarters of Geographic Operations

The locations of our geographic headquarters at October 31, 2014 were as follows:

Americas	***Europe, Middle East, Africa***	***Asia Pacific***
Houston, United States	Geneva, Switzerland	Singapore
Miami, United States		Tokyo, Japan
Mississauga, Canada		

Table of Contents

Product Development, Services and Manufacturing

The locations of our major product development, manufacturing, data centers, and HP Labs facilities at October 31, 2014, were as follows:

Americas

Canada Markham, Mississauga

Puerto Rico Aguadilla

United States Alpharetta, Andover, Auburn Hills, Austin, Blue Ash, Boise, Charlotte, Colorado Springs, Corvallis, Des Moines, Fort Collins, Hockley, Houston, Indianapolis, LaVergne, Palo Alto, Plano, Rancho Cordova, Roseville, San Diego, Sandston, Suwanee, Tulsa

Europe, Middle East, Africa

France Grenoble

Ireland Leixlip

Israel Kiryat-Gat, Nes Ziona, Netanya

Spain Sant Cugat del Valles

United Kingdom Billingham, Erskine, Norwich, Sunderland

Asia Pacific

India Udham Singh Nagar

Japan Tokyo

New Zealand Auckland

Singapore Singapore

Taiwan Taipei

HP Labs

Israel Haifa

United Kingdom Bristol

United States Palo Alto

ITEM 3. Legal Proceedings.

Information with respect to this item may be found in Note 15 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

ITEM 4. Mine Safety Disclosures.

Not applicable.

Table of Contents

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Information regarding the market prices of HP common stock and the markets for that stock may be found in the "Quarterly Summary" in Item 8 and on the cover page of this Annual Report on Form 10-K, respectively, which are incorporated herein by reference. We have declared and paid cash dividends each fiscal year since 1965. Dividends declared and paid per share by fiscal quarter in 2014 and 2013 were as follows:

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Dividends declared		$ 0.32		$ 0.29		$ 0.29		$ 0.26
Dividends paid	$ 0.16	$ 0.16	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.13	$ 0.13

As of November 30, 2014, there were approximately 95,719 stockholders of record. Additional information concerning dividends may be found in "Selected Financial Data" in Item 6 and Note 13 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities in fiscal 2014.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
	In thousands, except per share amounts			
Month #1 (August 2014)		$		$ 5,666,443
Month #2 (September 2014)		$		$ 5,666,443
Month #3 (October 2014)	21,661	$ 34.61	21,661	$ 4,916,793
Total	21,661	$ 34.61	21,661	

On July 21, 2011, HP's Board of Directors authorized a $10.0 billion share repurchase program. HP may choose to repurchase shares when sufficient liquidity exists and the shares are trading at a discount relative to estimated intrinsic value. This program, which does not have a specific expiration date, authorizes repurchases in the open market or in private transactions. All share repurchases settled in the fourth quarter of fiscal 2014 were open market transactions. As of October 31, 2014, HP had remaining authorization of $4.9 billion for future share repurchases.

Stock Performance Graph and Cumulative Total Return

The graph below shows the cumulative total stockholder return assuming the investment of $100 at the market close on October 31, 2009 (and the reinvestment of dividends thereafter) in each of HP common stock, the S&P 500 Index, and the S&P Information Technology Index. The comparisons in the graph below are based on historical data and are not indicative of, or intended to forecast, future performance of our common stock.

	10/09	10/10	10/11	10/12	10/13	10/14
Hewlett-Packard Company	100.00	89.19	57.17	30.45	55.10	82.69
S&P 500 Index	100.00	116.51	125.93	145.06	184.48	216.31
S&P Information Technology Index	100.00	118.23	128.59	142.37	170.72	214.60

Table of Contents

ITEM 6. Selected Financial Data.

The information set forth below is not necessarily indicative of results of future operations and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Consolidated Financial Statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K, which are incorporated herein by reference, in order to understand further the factors that may affect the comparability of the financial data presented below.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
Selected Financial Data

	For the fiscal years ended October 31				
	2014	**2013**	**2012**	**2011**	**2010**
	In millions, except per share amounts				
Net revenue	$ 111,454	$ 112,298	$ 120,357	$ 127,245	$ 126,033
Earnings (loss) from operations[1]	$ 7,185	$ 7,131	$ (11,057)	$ 9,677	$ 11,479
Net earnings (loss)[1]	$ 5,013	$ 5,113	$ (12,650)	$ 7,074	$ 8,761
Net earnings (loss) per share					
Basic	$ 2.66	$ 2.64	$ (6.41)	$ 3.38	$ 3.78
Diluted	$ 2.62	$ 2.62	$ (6.41)	$ 3.32	$ 3.69
Cash dividends declared per share	$ 0.61	$ 0.55	$ 0.50	$ 0.40	$ 0.32
At year-end:					
Total assets[2]	$ 103,206	$ 105,676	$ 108,768	$ 129,517	$ 124,503
Long-term debt	$ 16,039	$ 16,608	$ 21,789	$ 22,551	$ 15,258
Total debt[3]	$ 19,525	$ 22,587	$ 28,436	$ 30,634	$ 22,304

(1) Earnings (Loss) from operations and net earnings (loss) include the following items:

	2014	**2013**	**2012**	**2011**	**2010**
	In millions				
Amortization of intangible assets	$ 1,000	$ 1,373	$ 1,784	$ 1,607	$ 1,484
Impairment of goodwill and intangible assets			18,035	885	
Wind down of webOS device business			(36)	755	
Wind down of non-strategic businesses			108		
Restructuring charges	1,619	990	2,266	645	1,144
Acquisition-related charges	11	22	45	182	293
Total charges before taxes	$ 2,630	$ 2,385	$ 22,202	$ 4,074	$ 2,921
Total charges, net of taxes	$ 2,132	$ 1,825	$ 20,685	$ 3,130	$ 2,105

(2) Total assets decreased in fiscal 2012 due primarily to goodwill and intangible asset impairment charges associated with the Autonomy reporting unit within the Software segment, a goodwill impairment charge associated with the Enterprise Services segment and an intangible asset impairment charge associated with the "Compaq" trade name within the Personal Systems segment. Total assets

increased in fiscal 2011 due primarily to the acquisition of Autonomy.

(3) In fiscal 2014 and 2013, total debt decreased due to maturities. Total debt increased in fiscal 2011 due primarily to acquisitions and repurchases.

Table of Contents

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

**Management's Discussion and Analysis of
Financial Condition and Results of Operations**

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is organized as follows:

Overview. A discussion of our business and overall analysis of financial and other highlights affecting the company to provide context for the remainder of MD&A. The overview analysis compares fiscal 2014 to fiscal 2013.

Critical Accounting Policies and Estimates. A discussion of accounting policies and estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results.

Results of Operations. An analysis of our financial results comparing fiscal 2014 and fiscal 2013 to the prior years. A discussion of the results of operations at the consolidated level is followed by a more detailed discussion of the results of operations by segment.

Liquidity and Capital Resources. An analysis of changes in our cash flows and a discussion of our financial condition and liquidity.

Contractual and Other Obligations. An overview of contractual obligations, retirement and post-retirement benefit plan funding, restructuring plans, uncertain tax positions and off-balance sheet arrangements.

We intend the discussion of our financial condition and results of operations that follows to provide information that will assist the reader in understanding our Consolidated Financial Statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our Consolidated Financial Statements. This discussion should be read in conjunction with our Consolidated Financial Statements and the related notes that appear elsewhere in this document.

October 2014 Announcement of HP Separation Transaction

On October 6, 2014, we announced plans to separate into two independent publicly-traded companies: one comprising our enterprise technology infrastructure, software, services and financing businesses, which will conduct business as Hewlett-Packard Enterprise and one that will comprise our printing and personal systems businesses, which will conduct business as HP Inc. The separation is subject to certain conditions, including, among others, obtaining final approval from HP's Board of Directors, receipt of a favorable opinion and/or rulings with respect to the tax-free nature of the transaction for federal income tax purposes and the effectiveness of a Form 10 filing with the SEC. The separation is expected to be completed by the end of fiscal 2015. Under the separation plan, HP shareholders will own shares of both Hewlett-Packard Enterprise and HP Inc. The following chart provides an overview of the planned separation and segment revenues of the respective businesses based on HP's fiscal 2014 results, excluding Corporate Investments and intercompany eliminations.

Table of Contents

The following Overview, Results of Operations and Liquidity discussions and analysis compare fiscal 2014 to fiscal 2013 and fiscal 2013 to fiscal 2012, unless otherwise noted. The Capital Resources and Contractual and Other Obligations discussions present information as of October 31, 2014, unless otherwise noted.

OVERVIEW

We are a leading global provider of products, technologies, software, solutions and services to individual consumers, small- and medium-sized businesses ("SMBs") and large enterprises, including customers in the government, health and education sectors. Our offerings span the following: personal computing and other access devices; imaging- and printing-related products and services; enterprise information technology ("IT") infrastructure, including enterprise server and storage technology, networking products and solutions, technology support and maintenance; multi-vendor customer services, including technology consulting, outsourcing and support services across infrastructure, applications and business process domains; and IT management software, application testing and delivery software, information management solutions, big data analytics and security intelligence/risk management solutions. We have seven segments for financial reporting purposes: Personal Systems, Printing, the Enterprise Group ("EG"), Enterprise Services ("ES"), Software, HP Financial Services ("HPFS") and Corporate Investments.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The following provides an overview of our key financial metrics by segment for fiscal 2014:

	HP Consolidated	Printing and Personal Systems Group: Personal Systems	Printing and Personal Systems Group: Printing	Printing and Personal Systems Group: Total	Enterprise Group	Enterprise Services	Software	HPFS	Corporate Investments[2]
	Dollars in millions, except per share amounts								
Net revenue[1]	$ 111,454	$ 34,303	$ 22,979	$ 57,282	$ 27,814	$ 22,398	$ 3,933	$ 3,498	$ 302
Year-over-year change %	(0.8)%	6.6%	(3.8)%	2.2%	(1.0)%	(6.9)%	(2.2)%	(3.6)%	NM
Earnings from operations[1]	$ 7,185	$ 1,270	$ 4,185	$ 5,455	$ 4,008	$ 803	$ 872	$ 389	$ (199)
Earnings from operations as a % of net revenue	6.4%	3.7%	18.2%	9.5%	14.4%	3.6%	22.2%	11.1%	NM
Year-over-year change percentage points	0.0pts	0.7pts	1.7pts	0.7pts	(0.8)pts	0.8pts	0.6pts	0.1pts	NM
Net earnings	$ 5,013								
Net earnings per share									
Basic	$ 2.66								
Diluted	$ 2.62								

(1) HP consolidated net revenue excludes intersegment net revenue and other. Segment earnings from operations exclude corporate and unallocated costs, stock-based compensation expense, amortization of intangible assets, restructuring charges and acquisition-related charges.

(2) "NM" represents not meaningful.

HP net revenue declined 0.8% (decreased 0.4% on a constant currency basis) in fiscal 2014 as compared to fiscal 2013. The leading contributors to the HP net revenue decline were key account runoff in ES and lower Printing supplies volume. Partially offsetting the net revenue decline was growth in Personal Systems from commercial personal computers ("PCs"), which experienced growth across all product categories, along with growth in consumer notebooks. HP's gross margin increased by 0.8 percentage points in fiscal 2014 due primarily to service delivery efficiencies and improvements in underperforming contracts in ES and favorable currency impacts from the Japanese Yen and continued cost structure improvements in Printing. We continue to experience gross margin pressures resulting from a competitive pricing environment across our hardware portfolio. HP's operating margin was flat for fiscal 2014 as compared to fiscal 2013 due to the gross margin increase, improved business performance primarily in Printing, ES and Personal Systems, and lower intangible asset amortization, offset by higher restructuring charges, investments in research and development ("R&D"), and higher selling, general and administrative ("SG&A") expenses. The increase in SG&A expenses was partially offset by gains from sales of real estate.

Our business continues to produce significant cash flow from operations, generating $12.3 billion in fiscal 2014. Additionally, we invested $3.0 billion in property, plant and equipment net of proceeds from sales, repurchased $2.7 billion of common stock and paid dividends of $1.2 billion to stockholders. As of October 31, 2014, cash and cash equivalents and short- and long-term investments were $15.5 billion, representing an increase of approximately $3.0 billion from October 31, 2013.

We continue to experience challenges that are representative of trends and uncertainties that may affect our business and results of operations. One set of challenges relates to continuing dynamic and accelerating market trends. Another set of challenges relates to changes in the competitive landscape. Our major competitors are expanding their product and service offerings with integrated products and

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

**Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)**

solutions, our business-specific competitors are exerting increased competitive pressure in targeted areas and are entering new markets, our emerging competitors are introducing new technologies and business models, and our alliance partners in some businesses are increasingly becoming our competitors in others. A third set of challenges relates to business model changes and our go-to-market execution. The macroeconomic weakness we have experienced has moderated in some geographic regions but remains an overall challenge. A discussion of some of these challenges at the segment level is set forth below.

In Personal Systems, we have been negatively impacted by the market shift towards tablet products within mobility products, which has reduced the demand for PCs, particularly consumer notebooks. If benefits from our new product investments in this area do not materialize, we will continue to be negatively impacted by this trend. However, the pace of the market decline is slowing with signs of stabilization and HP is gaining market share. In Personal Systems, we are maintaining our strategic focus on profitable growth through improved market segmentation with respect to multi-OS, multi-architecture, geography, customer segments and other key attributes. In fiscal 2014, Personal Systems experienced revenue growth in commercial PCs with growth across all product categories, particularly notebooks, along with growth in consumer notebooks. The increase in demand was due in part to customers migrating from the Windows XP operating system, benefits from the delayed installed base refresh cycle and new product introductions.

In Printing, we are experiencing the impact of the growth in mobility and demand challenges in consumer and commercial markets, as well as an overall competitive pricing environment. To be successful in addressing these challenges, we need to continue to execute on our key initiatives of focusing on products targeted at high usage categories, developing emerging market opportunities and introducing new revenue delivery models to consumer customers. In fiscal 2014, Printing experienced a revenue decline and an increase in operating profit as we continued our print strategies, with a focus on driving high value printer unit placements. In the consumer market, our Ink in the Office products are driving unit volume due to demand for our OfficeJet Pro product lines, particularly our OfficeJet Pro X printers which leverage our Page-Wide Array technology. The Ink in the Office initiative targets shifting ink into SMBs more profitably. In the commercial market, our focus is on placing higher value printer units which also offer a positive annuity of toner. We are accomplishing this in two growth areas, in multi-function printers with recently introduced products that are increasing demand and in managed print services, which presents a strong after-market supplies opportunity. We plan to continue this focus on replenishing the installed base with value-added units, and expanding our innovative ink and laser programs.

In EG, we are experiencing revenue challenges due to multiple market trends, including the increasing demand for hyperscale computing infrastructure products, the transition to cloud computing and a highly competitive pricing environment. In addition, demand for our Business Critical Systems ("BCS") products continues to weaken along with the overall market for UNIX products and the effect of lower BCS revenue is impacting Technology Services ("TS"). To be successful in overcoming these challenges, we must address business model shifts and go-to-market execution challenges, and continue to pursue new product innovation in areas such as cloud and data center computing, software-defined networking, storage, blade servers and wireless networking. In fiscal 2014, EG experienced a decline in revenue and operating profit due to the previously mentioned challenging market environment, in particular weak market demand in BCS and market shifts impacting Storage. Elsewhere in EG, we experienced areas of

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

**Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)**

growth in Industry Standard Servers ("ISS"), Networking and TS, due in part to product innovation and new product introductions in cloud and data center computing. These products build on our existing capabilities in cloud, security, big data and converged infrastructure and include CloudSystem 8, HP Helion, HP Apollo and support solutions such as Proactive data center and flexible capacity services.

In ES, we are facing execution challenges, including managing the revenue runoff from several large contracts, pressured public sector spending, a competitive pricing environment and market pressures from a mixed economic recovery in Europe, the Middle East and Africa ("EMEA"). To be successful in addressing these challenges, we must execute on the ES multi-year turnaround plan, which includes a cost reduction initiative to align our costs to our revenue trajectory, a focus on new logo wins and Strategic Enterprise Services ("SES") and initiatives to improve execution in sales performance and accountability, contracting practices and pricing. In fiscal 2014 these factors continued to impact both ES revenue and operating profit.

In Software, we are facing challenges, including the market shift to software-as-a-service ("SaaS") and go-to-market execution challenges. To be successful in addressing these challenges, we must improve our go-to-market execution with multiple product delivery models which better address customer needs and achieve broader integration across our overall product portfolio as we work to capitalize on important market opportunities in cloud, big data and security. In fiscal 2014 these factors continued to impact Software revenue and operating profit.

To address these challenges, we continue to pursue innovation with a view towards developing new products and services aligned with market demand, industry trends and the needs of our customers and partners. In addition, we need to continue to improve our operations, with a particular focus on enhancing our end-to-end processes and efficiencies. We also need to continue to optimize our sales coverage models, align our sales incentives with our strategic goals, improve channel execution, strengthen our capabilities in our areas of strategic focus, and develop and capitalize on market opportunities.

For a further discussion of trends, uncertainties and other factors that could impact our operating results, see the section entitled "Risk Factors" in Item 1A, which is incorporated herein by reference.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

General

The Consolidated Financial Statements of HP are prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP"), which require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, net revenue and expenses, and the disclosure of contingent liabilities. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources. Management has discussed the development, selection and disclosure of these estimates with the Audit Committee of HP's Board of Directors. Management believes that the accounting estimates employed and the resulting amounts are reasonable; however, actual results may differ from these estimates. Making estimates and judgments about future events is inherently unpredictable and is subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and cash flows.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

**Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)**

A summary of significant accounting policies is included in Note 1 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. Management believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the sales price or fee is fixed or determinable and collectibility is reasonably assured, as well as other revenue recognition principles, including industry specific revenue recognition guidance.

We enter into contracts to sell our products and services, and while many of our sales agreements contain standard terms and conditions, there are agreements we enter into which contain non-standard terms and conditions. Further, many of our arrangements include multiple elements. As a result, significant contract interpretation may be required to determine the appropriate accounting, including the identification of deliverables considered to be separate units of accounting, the allocation of the transaction price among elements in the arrangement and the timing of revenue recognition for each of those elements.

We recognize revenue for delivered elements as separate units of accounting when the delivered elements have standalone value to the customer. For elements with no standalone value, we recognize revenue consistent with the pattern of the associated deliverables. If the arrangement includes a customer-negotiated refund or return right or other contingency relative to the delivered items and the delivery and performance of the undelivered items is considered probable and substantially within our control, the delivered element constitutes a separate unit of accounting. In arrangements with combined units of accounting, changes in the allocation of the transaction price between elements may impact the timing of revenue recognition for the contract but will not change the total revenue recognized for the contract.

We establish the selling prices used for each deliverable based on vendor-specific objective evidence ("VSOE") of selling price, if available, third-party evidence ("TPE"), if VSOE of selling price is not available, or estimated selling price ("ESP"), if neither VSOE of selling price nor TPE is available. We establish VSOE of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. TPE of selling price is established by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. ESP is established based on management's judgment considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product life cycle. Consideration is also given to market conditions such as competitor pricing strategies and industry technology life cycles. We may modify or develop new go-to-market practices in the future, which may result in changes in selling prices, impacting both VSOE of selling price and ESP. In most arrangements with multiple elements, the transaction price is allocated to the individual units of accounting at inception of the arrangement based on their relative selling price. However, the aforementioned factors may result in a different allocation of the transaction price to deliverables in multiple element arrangements entered into in future periods. This may change the pattern and timing of revenue recognition for identical

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

arrangements executed in future periods, but will not change the total revenue recognized for any given arrangement.

We reduce revenue for customer and distributor programs and incentive offerings, including price protection, promotions, other volume-based incentives and expected returns. Future market conditions and product transitions may require us to take actions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered. For certain incentive programs, we estimate the number of customers expected to redeem the incentive based on historical experience and the specific terms and conditions of the incentive.

For hardware products, we recognize revenue generated from direct sales to end customers and indirect sales to channel partners (including resellers, distributors and value-added solution providers) when the revenue recognition criteria are satisfied. For indirect sales to channel partners, we recognize revenue at the time of delivery when the channel partner has economic substance apart from HP and HP has completed its obligations related to the sale.

For the various software products we sell (e.g., operating system software, network enabling software, IT and management software and enterprise security software), we assess whether the software products were sold standalone or with hardware products. If the software sold with a hardware product is not essential to the functionality of the hardware and is more-than-incidental, we treat it as a software deliverable.

We recognize revenue from the sale of perpetual software licenses at inception of the license term, assuming all revenue recognition criteria have been satisfied. Term-based software license revenue is generally recognized ratably over the term of the license. We use the residual method to allocate revenue to software licenses at inception of the arrangement when VSOE of fair value for all undelivered elements, such as post-contract support, exists and all other revenue recognition criteria have been satisfied. Revenue from maintenance and unspecified upgrades or updates provided on an if-and-when-available basis is recognized ratably over the period during which such items are delivered.

For hosting or SaaS arrangements, we recognize revenue as the service is delivered, generally on a straight-line basis, over the contractual period of performance. In hosting arrangements where software licenses are sold, license revenue is generally recognized according to whether perpetual or term licenses are sold, when all other revenue recognition criteria are satisfied. In hosting arrangements that include software licenses, we consider the rights provided to the customer (e.g., ownership of a license, contract termination provisions and feasibility of the customer to operate the software) in determining when to recognize revenue for the licenses.

We recognize revenue from fixed-price support or maintenance contracts, including extended warranty contracts and software post-contract customer support agreements, ratably over the contract period. For certain fixed-price contracts, such as consulting arrangements, we recognize revenue as work progresses using a proportional performance method. We estimate the total expected labor costs in order to determine the amount of revenue earned to date. We apply a proportional performance method because reasonably dependable estimates of the labor costs applicable to various stages of a contract can be made. On fixed-price contracts for design and build projects (to design, develop and construct software infrastructure and systems), we recognize revenue as work progresses using the percentage-of-completion method. We use the cost-to-cost method to measure progress toward completion as determined by the percentage of cost incurred to date compared to the total estimated costs of the project. Total project costs are subject to revision throughout the life of a fixed-price contract. Provisions for estimated losses on fixed-price contracts are recognized in the period when such

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

**Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)**

losses become known and are recorded as a component of cost of sales. In circumstances when reasonable and reliable cost estimates for a project cannot be made we recognize revenue using the completed contract method.

Outsourcing services revenue is generally recognized in the period when the service is provided and the amount earned is not contingent on the occurrence of any future event. We recognize revenue using an objective measure of output for per unit-priced contracts. Revenue for fixed-price outsourcing contracts with periodic billings is recognized on a straight-line basis if the service is provided evenly over the contract term. Provisions for estimated losses on outsourcing arrangements are recognized in the period when such losses become probable and estimable and are recorded as a component of cost of sales.

Warranty

We accrue the estimated cost of product warranties at the time we recognize revenue. We evaluate our warranty obligations on a product group basis. Our 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. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, we base our estimated warranty obligation 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 our baseline experience. Warranty terms generally range from 90 days to three years for parts and labor, depending upon the product. Over the last three fiscal years, the annual warranty expense and actual warranty costs have averaged approximately 2.7% and 2.9% of annual net product revenue, respectively.

Restructuring

We have engaged in restructuring actions which require management to estimate the timing and amount of severance and other employee separation costs for workforce reduction and enhanced early retirement programs, fair value of assets made redundant or obsolete, and the fair value of lease cancellation and other exit costs. We accrue for severance and other employee separation costs under these actions when it is probable that benefits will be paid and the amount is reasonably estimable. The rates used in determining severance accruals are based on existing plans, historical experiences and negotiated settlements. For a full description of our restructuring actions, refer to our discussions of restructuring in "Results of Operations" below and in Note 3 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

Retirement and Post-Retirement Benefits

Our pension and other post-retirement benefit costs and obligations depend on various assumptions. Our major assumptions relate primarily to discount rates, mortality rates, expected increases in compensation levels and the expected long-term return on plan assets. The discount rate assumption is based on current investment yields of high-quality fixed-income securities with maturities similar to the expected benefits payment period. Mortality rates help predict the expected life of plan participants and are based on a historical demographic study of the plan. As a result of a historical study of the U.S. plans, in fiscal 2014, HP adopted a new mortality rate table which incorporated newly released mortality rates published by the Society of Actuaries. This resulted in an increase to the projected benefit obligation of approximately $870 million for the U.S. defined benefit plans. The

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

expected increase in the compensation levels assumption reflects our long-term actual experience and future expectations. The expected long-term return on plan assets is determined based on asset allocations, historical portfolio results, historical asset correlations and management's expected returns for each asset class. In any fiscal year, significant differences may arise between the actual return and the expected long-term return on plan assets. Historically, differences between the actual return and expected long-term return on plan assets have resulted from changes in target or actual asset allocation, short-term performance relative to expected long-term performance, and to a lesser extent, differences between target and actual investment allocations, the timing of benefit payments compared to expectations, and the use of derivatives intended to effect asset allocation changes or hedge certain investment or liability exposures. For the recognition of net periodic benefit cost, the calculation of the expected long-term return on plan assets uses the fair value of plan assets as of the beginning of the fiscal year.

Our major assumptions vary by plan, and the weighted-average rates used are set forth in Note 4 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. The following table provides the impact changes in the weighted-average assumptions of discount rates, the expected increase in compensation levels and the expected long-term return on plan assets would have had on our net periodic benefit cost for fiscal 2014:

	Change in percentage points	Change in Net Periodic Benefit Cost in millions
Assumptions:		
Discount rate	(25)	$ 83
Expected increase in compensation levels	25	$ 20
Expected long-term return on plan assets	(25)	$ 68

Taxes on Earnings

We calculate our current and deferred tax provisions based on estimates and assumptions that could differ from the final positions reflected in our income tax returns. We adjust our current and deferred tax provisions based on income tax returns which are generally filed in the third or fourth quarters of the subsequent fiscal year.

We recognize deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year in which we expect the differences to reverse.

We record a valuation allowance to reduce deferred tax assets to the amount that we are more likely than not to realize. In determining the need for a valuation allowance, we consider future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent and feasible tax planning strategies. In the event we were to determine that it is more likely than not that we will be unable to realize all or part of our deferred tax assets in the future, we would increase the valuation allowance and recognize a corresponding charge to earnings or other comprehensive income in the period in which we make such a determination. Likewise, if we later determine that we are more likely than not to realize the deferred tax assets, we would reverse the applicable portion of the previously recognized valuation allowance. In order for us to realize our deferred tax assets, we must be able to generate sufficient taxable income in the jurisdictions in which the deferred tax assets are located.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)

Our effective tax rate includes the impact of certain undistributed foreign earnings for which we have not provided U.S. federal taxes because we plan to reinvest such earnings indefinitely outside the U.S. We plan distributions of foreign earnings based on projected cash flow needs as well as the working capital and long-term investment requirements of our foreign subsidiaries and our domestic operations. Based on these assumptions, we estimate the amount we expect to indefinitely invest outside the U.S. and the amounts we expect to distribute to the U.S. and provide the U.S. federal taxes due on amounts expected to be distributed to the U.S. Further, as a result of certain employment actions and capital investments we have undertaken, income from manufacturing activities in certain jurisdictions is subject to reduced tax rates and, in some cases, is wholly exempt from taxes for fiscal years through 2024. Material changes in our estimates of cash, working capital and long-term investment requirements in the various jurisdictions in which we do business could impact how future earnings are repatriated to the U.S., and our related future effective tax rate.

We are subject to income taxes in the U.S. and approximately 105 other countries, and we are subject to routine corporate income tax audits in many of these jurisdictions. We believe that positions taken on our tax returns are fully supported, but tax authorities may challenge these positions, which may not be fully sustained on examination by the relevant tax authorities. Accordingly, our income tax provision includes amounts intended to satisfy assessments that may result from these challenges. Determining the income tax provision for these potential assessments and recording the related effects requires management judgments and estimates. The amounts ultimately paid on resolution of an audit could be materially different from the amounts previously included in our income tax provision and, therefore, could have a material impact on our income tax provision, net income and cash flows. Our accrual for uncertain tax positions is attributable primarily to uncertainties concerning the tax treatment of our international operations, including the allocation of income among different jurisdictions, intercompany transactions and related interest. For a further discussion on taxes on earnings, refer to Note 6 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Inventory

We state our inventory at the lower of cost or market on a first-in, first-out basis. We make adjustments to reduce the cost of inventory to its net realizable value at the product group level for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, technological changes, product life cycle and development plans, component cost trends, product pricing, physical deterioration and quality issues.

Goodwill

We review goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. While we are permitted to conduct a qualitative assessment to determine whether it is necessary to perform a two-step quantitative goodwill impairment test, for our annual goodwill impairment test in the fourth quarter of fiscal 2014, we performed a quantitative test for all of our reporting units.

Goodwill is tested for impairment at the reporting unit level. At the beginning of the first quarter of fiscal 2014, we changed our reporting units. In connection with continued operational synergies and interdependencies between the Enterprise Servers, Storage and Networking reporting unit and the TS reporting unit within the EG segment, we combined these reporting units to create the EG reporting unit. As of October 31, 2014, our reporting units are consistent with the reportable segments identified

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

**Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)**

in Note 2, except for ES, which includes two reporting units: MphasiS Limited; and the remainder of ES.

In the first step of the goodwill impairment test, we compare the fair value of each reporting unit to its carrying amount. We estimate the fair value of our reporting units using a weighting of fair values derived most significantly from the income approach and, to a lesser extent, the market approach. Under the income approach, we estimate the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the reporting unit's ability to execute on the projected cash flows. Under the market approach, we estimate fair value based on market multiples of revenue and earnings derived from comparable publicly-traded companies with operating and investment characteristics similar to the reporting unit. We weight the fair value derived from the market approach depending on the level of comparability of these publicly-traded companies to the reporting unit. When market comparables are not meaningful or not available, we estimate the fair value of a reporting unit using only the income approach. For the MphasiS Limited reporting unit, we utilized the quoted market price in an active market to estimate fair value.

In order to assess the reasonableness of the estimated fair value of our reporting units, we compare the aggregate reporting unit fair value to HP's market capitalization and calculate an implied control premium (the excess of the sum of the reporting units' fair value over HP's market capitalization). We evaluate the control premium by comparing it to observable control premiums from recent comparable transactions. If the implied control premium is not believed to be reasonable in light of these recent transactions, we reevaluate reporting unit fair values, which may result in an adjustment to the discount rate and/or other assumptions. This reevaluation could result in a change to the estimated fair value for certain or all of our reporting units.

Estimating the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and the determination of appropriate comparable publicly-traded companies. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to individual reporting units to determine the carrying amount of each reporting unit.

If the fair value of a reporting unit exceeds the carrying amount of the net assets assigned to that reporting unit, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than its carrying amount, then we perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. In the second step, the reporting unit's assets, including any unrecognized intangible assets, liabilities and non-controlling interests are measured at fair value in a hypothetical analysis to calculate the implied fair value of goodwill for the reporting unit in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than its carrying amount, the difference is recorded as an impairment loss.

Our annual goodwill impairment analysis, which we performed as of the first day of the fourth quarter of fiscal 2014, did not result in any impairment charges. The excess of fair value over carrying amount for our reporting units ranged from 18% to approximately 12,000% of carrying amounts. The Software reporting unit has the lowest excess of fair value over carrying amount at 18%.

Table of Contents

In order to evaluate the sensitivity of the estimated fair value of our reporting units in the goodwill impairment test, we applied a hypothetical 10% decrease to the fair value of each reporting unit. This hypothetical 10% decrease resulted in an excess of fair value over carrying amount for our reporting units ranging from 6% to approximately 10,000% of the carrying amounts with the Software reporting unit having the lowest excess of fair value over carrying amount of 6%. The fair value of the Software reporting unit is estimated using a weighting of both the income and market approaches. Our Software business is facing multiple challenges including the market shift to SaaS and go-to-market execution challenges. If we are not successful in addressing these challenges, our projected revenue growth rates could decline resulting in a decrease in the fair value of the Software reporting unit. The fair value of the Software reporting unit could also be negatively impacted by declines in market multiples of revenue for comparable publicly-traded companies, changes in management's business strategy or significant declines in our stock price, which could result in an indicator of impairment.

Intangible Assets

We review intangible assets with finite lives for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of our finite-lived intangible assets is assessed based on the estimated undiscounted future cash flows expected to result from the use and eventual disposition of the asset. If the undiscounted future cash flows are less than the carrying amount, the finite-lived intangible assets are considered to be impaired. The amount of the impairment loss, if any, is measured as the difference between the carrying amount of the asset and its fair value. We estimate the fair value of finite-lived intangible assets by using an income approach or, when available and appropriate, using a market approach.

Fair Value of Derivative Instruments

We use derivative instruments to manage a variety of risks, including risks related to foreign currency exchange rates and interest rates. We use forwards, swaps and options to hedge certain foreign currency and interest rate exposures. We do not use derivative financial instruments for speculative purposes. At October 31, 2014, the gross notional of our derivative portfolio was $54.7 billion. Assets and liabilities related to derivative instruments are measured at fair value, and were $980 million and $405 million, respectively as of October 31, 2014.

Fair value is the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date. The determination of fair value often involves significant judgments about assumptions such as determining an appropriate discount rate that factors in both risk and liquidity premiums, identifying the similarities and differences in market transactions, weighting those differences accordingly and then making the appropriate adjustments to those market transactions to reflect the risks specific to the asset or liability being valued. We generally use industry standard valuation models to measure the fair value of our derivative positions. When prices in active markets are not available for the identical asset or liability, we use industry standard valuation models to measure fair value. Where applicable, these models project future cash flows and discount the future amounts to present value using market-based observable inputs, including interest rate curves, HP and counterparty credit risk, foreign currency exchange rates, and forward and spot prices.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)

For a further discussion on fair value measurements and derivative instruments, refer to Note 10 and Note 11, respectively, to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

Loss Contingencies

We are involved in various lawsuits, claims, investigations and proceedings including those consisting of IP, commercial, securities, employment, employee benefits and environmental matters that arise in the ordinary course of business. We record a liability when we believe that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Significant judgment is required to determine both the probability of having incurred a liability and the estimated amount of the liability. We review these matters at least quarterly and adjust these liabilities to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other updated information and events, pertaining to a particular case. Based on our experience, we believe that any damage amounts claimed in the specific litigation and contingencies matters further discussed in Note 15 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference, are not a meaningful indicator of HP's potential liability. Litigation is inherently unpredictable. However, we believe we have valid defenses with respect to legal matters pending against us. Nevertheless, cash flows or results of operations could be materially affected in any particular period by the resolution of one or more of these contingencies. We believe we have recorded adequate provisions for any such matters and, as of October 31, 2014, it was not reasonably possible that a material loss had been incurred in excess of the amounts recognized in our financial statements.

ACCOUNTING PRONOUNCEMENTS

For a summary of recent accounting pronouncements applicable to our consolidated financial statements see Note 1 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

RESULTS OF OPERATIONS

Revenue from our international operations has historically represented, and we expect will continue to represent, a majority of our overall net revenue. As a result, our revenue growth has been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. In order to provide a framework for assessing performance excluding the impact of foreign currency fluctuations, we present the year-over-year percentage change in revenue on a constant currency basis, which assumes no change in foreign currency exchange rates from the prior-year period. This information is provided so that revenue can be viewed without the effect of fluctuations in foreign currency exchange rates, which is consistent with how management evaluates our revenue results and trends. This constant currency disclosure is provided in addition to, and not as a substitute for, the year-over-year percentage change in revenue on a GAAP basis. Other companies may calculate and define similarly labeled items differently, which may limit the usefulness of this measure for comparative purposes.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Results of operations in dollars and as a percentage of net revenue were as follows:

	For the fiscal years ended October 31					
	2014		2013		2012	
	Dollars in millions					
Net revenue	$ 111,454	100.0%	$ 112,298	100.0%	$ 120,357	100.0%
Cost of sales[1]	84,839	76.1%	86,380	76.9%	92,385	76.8%
Gross profit	26,615	23.9%	25,918	23.1%	27,972	23.2%
Research and development	3,447	3.1%	3,135	2.8%	3,399	2.8%
Selling, general and administrative	13,353	12.0%	13,267	11.8%	13,500	11.2%
Amortization of intangible assets	1,000	0.9%	1,373	1.2%	1,784	1.5%
Impairment of goodwill and intangible assets[2]					18,035	15.0%
Restructuring charges	1,619	1.5%	990	0.9%	2,266	1.9%
Acquisition-related charges	11		22		45	
Earnings (loss) from operations	7,185	6.4%	7,131	6.4%	(11,057)	(9.2)%
Interest and other, net	(628)	(0.6)%	(621)	(0.6)%	(876)	(0.8)%
Earnings (loss) before taxes	6,557	5.8%	6,510	5.8%	(11,933)	(10.0)%
Provision for taxes	(1,544)	(1.3)%	(1,397)	(1.2)%	(717)	(0.5)%
Net earnings (loss)	$ 5,013	4.5%	$ 5,113	4.6%	$ (12,650)	(10.5)%

(1) Cost of products, cost of services and financing interest.

(2) Fiscal 2012, includes an $8.8 billion goodwill and intangible asset impairment charge associated with the Autonomy reporting unit within the Software segment, an $8.0 billion goodwill impairment within the ES segment and a $1.2 billion intangible asset impairment associated with the "Compaq" trade name within the Personal Systems segment.

Net Revenue

The components of the weighted net revenue change were as follows:

For the fiscal years ended October 31	
2014	2013

	Percentage Points	
Enterprise Services	(1.5)	(1.7)
Printing	(0.8)	(0.5)
Enterprise Group	(0.2)	(1.3)
Software	(0.1)	(0.1)
HP Financial Services	(0.1)	(0.2)
Corporate Investments/Other	0.1	0.1
Personal Systems	1.8	(3.0)
Total HP	(0.8)	(6.7)

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)

Fiscal 2014 compared with Fiscal 2013

In fiscal 2014, total HP net revenue declined 0.8% (decreased 0.4% on a constant currency basis) as compared with fiscal 2013. U.S. net revenue decreased 3.7% to $38.8 billion, while net revenue from outside of the U.S. increased 0.9% to $72.6 billion. The leading contributors to the HP net revenue decline were key account runoff in ES and lower Printing supplies volume. Partially offsetting the net revenue decline was growth in Personal Systems from commercial PCs, which experienced growth across all product categories, along with growth in consumer notebooks.

From a segment perspective, the primary factors contributing to the change in HP net revenue for fiscal 2014 compared with fiscal 2013 are summarized as follows:

- ES net revenue declined due primarily to revenue runoff in key accounts, weak growth in new and existing accounts, particularly in EMEA, and contractual price declines;
- Printing net revenue decreased due primarily to a decline in Supplies;
- EG net revenue decreased due to net revenue declines in TS, BCS and Storage;
- Software net revenue decreased due to lower net revenue from licenses, support and professional services;
- HPFS net revenue decreased due primarily to lower portfolio revenue from lower average portfolio assets and lower asset management activity, primarily in customer buyouts;
- Corporate Investments net revenue increased due to the sale of intellectual property ("IP"); and
- Personal Systems net revenue increased due to growth in commercial PCs, particularly notebooks, along with growth in consumer notebooks.

Fiscal 2013 compared with Fiscal 2012

In fiscal 2013, total HP net revenue declined 6.7% (decreased 5.5% on a constant currency basis) as compared with fiscal 2012. U.S. net revenue decreased 4.4% to $40.3 billion, while net revenue from outside of the U.S. decreased 7.9% to $72.0 billion. The net revenue decline was due primarily to declines of approximately 10%, 7%, 5% and 3% in our Personal Systems, ES, EG and Printing segments, respectively.

From a segment perspective, the primary factors contributing to the change in HP net revenue for fiscal 2013 compared with fiscal 2012 are summarized as follows:

- Personal Systems net revenue declined due to the decline in the overall PC market as a result of a customer shift, particularly consumers, to tablet products;

ES net revenue declined due primarily to net service revenue runoff and contractual price declines in ongoing contracts due in part to weak public sector spending and enterprise IT demand;

EG net revenue declined due to multiple factors, including competitive pricing challenges in ISS, a market decline for UNIX products impacting BCS, declines in TS due in part to lower support for BCS products, product transitions in Storage and overall weak enterprise IT demand;

Printing net revenue declined due to unfavorable currency impacts, particularly the euro, and declines in supplies and commercial printers;

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

- HPFS net revenue decreased due primarily to lower rental revenue from a decrease in operating lease assets; and

- Software net revenue declined due to lower license and professional services revenues from IT/cloud management and information management products.

A more detailed discussion of segment revenue is included under "Segment Information" below.

Gross Margin

Fiscal 2014 compared with Fiscal 2013

HP's gross margin increased by 0.8 percentage points for fiscal year 2014 compared with fiscal 2013. From a segment perspective, the primary factors impacting gross margin performance are summarized as follows:

- ES gross margin increased due primarily to our continued focus on service delivery efficiencies, improving profit performance in under-performing contracts and labor savings as a result of restructuring;

- Printing gross margin increased due primarily to favorable currency impacts from the Japanese Yen, continued cost structure improvements and a favorable mix from a higher proportion of graphics and ink supplies;

- Corporate Investments gross margin increased due to the sale of IP;

- Software gross margin increased due to the shift to more profitable contracts and improved workforce utilization in professional services;

- HPFS gross margin increased due to a higher portfolio margin, primarily from lower bad debt expense, a lower cost of funds and improved margins in remarketing sales;

- Personal Systems gross margin increased due primarily to operational cost improvements, a favorable mix of commercial products and the sale of IP; and

- EG gross margin decreased due primarily to the impact of a higher mix of ISS products, lower mix of BCS products and competitive pricing pressure in ISS and Networking.

Fiscal 2013 compared with Fiscal 2012

HP's gross margin decreased by 0.2 percentage points for fiscal year 2013 compared with fiscal 2012. From a segment perspective, the primary factors impacting gross margin performance are summarized as follows:

EG experienced a gross margin decline due primarily to competitive pricing pressures in ISS, and to a lesser extent, mix impacts from lower BCS and Storage revenue;

Personal Systems experienced a gross margin decline due primarily to unfavorable currency impacts and competitive pricing pressures;

ES gross margin decreased due to net service revenue runoff and contractual price declines;

Software gross margin decreased slightly due to higher development costs in IT/cloud management products;

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

HPFS gross margin increased slightly due primarily to higher portfolio margins from a lower mix of operating leases and higher margins on early buyouts; and

Printing gross margin increased due primarily to improvement in toner gross margins as a result of lower discounting and higher average revenue per unit ("ARU") in consumer printers.

A more detailed discussion of segment gross margins and operating margins is included under "Segment Information" below.

Operating Expenses

Research and Development

R&D expense increased 10% in fiscal 2014 as compared to fiscal 2013 with increases across each of our segments as we make investments in our strategic focus areas of cloud, security, big data and mobility.

R&D expense decreased 8% in fiscal 2013 as compared to fiscal 2012 due primarily to the rationalization of R&D in EG for BCS, cost savings from restructuring and higher value added R&D tax subsidy credits. The decrease was partially offset by increased R&D expense in our Storage and ISS business units and in Software for innovation-focused spending in the areas of converged infrastructure and cloud.

Selling, General and Administrative

SG&A expense increased 1% in fiscal 2014 as compared to fiscal 2013 due primarily to higher compensation costs, litigation expenses and higher selling costs from investments in the areas of cloud, networking and storage, partially offset by gains from sales of real estate and lower program spending in marketing.

SG&A expense decreased 2% in fiscal 2013 as compared to fiscal 2012 due primarily to cost savings associated with our ongoing restructuring efforts that impacted all of our segments. Partially offsetting the decline were higher marketing expenses to support new product introductions and increased administrative expenses due in part to higher consulting project spending.

Amortization of Intangible Assets

Amortization expense decreased in fiscal 2014 due primarily to certain intangible assets associated with prior acquisitions reaching the end of their respective amortization periods.

Amortization expense decreased in fiscal 2013 due primarily to the intangible asset impairment recorded in the fourth quarter of fiscal 2012 related to Autonomy and certain intangible assets associated with prior acquisitions reaching the end of their amortization periods.

Impairment of Goodwill and Intangible Assets

In fiscal 2012, we recorded goodwill impairment charges of $8.0 billion and $5.7 billion associated with ES and the acquisition of Autonomy, respectively. In addition, we recorded intangible asset impairment charges of $3.1 billion and $1.2 billion associated with the acquisition of Autonomy and the "Compaq" trade name, respectively. For more information on our impairment charges, see Note 9 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)

Restructuring Charges

Restructuring charges increased in fiscal 2014 due primarily to higher charges in connection with the multi-year restructuring plan initially announced in May 2012 (the "2012 Plan") and from increases to the 2012 Plan announced in fiscal 2014. During fiscal 2014, HP increased the total for positions expected to be eliminated under the 2012 Plan from 34,000 to 55,000 positions. With these changes, HP expects to recognize additional restructuring charges in fiscal 2015.

Restructuring charges decreased in fiscal 2013 due primarily to the $2.1 billion charge recorded in fiscal 2012 for the 2012 Plan. Restructuring charges for fiscal 2013 were approximately $1.0 billion, which included $1.2 billion of charges related to the 2012 Plan that were partially offset by a reversal of $190 million of severance charges related to our fiscal 2010 ES restructuring plan.

Interest and Other, Net

Interest and other, net expense increased by $7 million in fiscal 2014. The increase was due primarily to higher currency transaction losses partially offset by lower interest expense from a lower average debt balance.

Interest and other, net expense decreased by $255 million in fiscal 2013. The decrease was driven primarily by lower currency transaction losses coupled with lower interest expense due to lower average debt balances and lower investment losses.

Provision for Taxes

Our effective tax rates were 23.5%, 21.5%, and (6.0)% in fiscal 2014, 2013 and 2012, respectively. Our effective tax rate generally differs from the U.S. federal statutory rate of 35% due to favorable tax rates associated with certain earnings from our operations in lower-tax jurisdictions throughout the world. The jurisdictions with favorable tax rates that had the most significant effective tax rate impact in the periods presented were Puerto Rico, Singapore, Netherlands, China and Ireland. We plan to reinvest certain earnings of these jurisdictions indefinitely outside the U.S. and therefore have not provided U.S. taxes on those indefinitely reinvested earnings.

In addition to the above factors, the effective tax rate in fiscal 2012 was impacted by nondeductible goodwill impairments and increases in valuation allowances against certain deferred tax assets.

For a reconciliation of our effective tax rate to the U.S. federal statutory rate of 35% and further explanation of our provision for taxes, see Note 6 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Segment Information

A description of the products and services for each segment can be found in Note 2 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference. Future changes to this organizational structure may result in changes to the segments disclosed.

Effective at the beginning of the first quarter of fiscal 2014, we implemented certain organizational changes to align the segment financial reporting more closely with our current business structure. These organizational changes include:

- transferring the HP Exstream business from the Commercial Hardware business unit within the Printing segment to the Software segment;

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

**Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)**

transferring the Personal Systems trade and warranty support business from the TS business unit within the EG segment to the Other business unit within the Personal Systems segment;

transferring the spare and replacement parts supporting the Personal Systems and Printing segments from the TS business unit within the EG segment to the Other business unit within the Personal Systems segment and the Commercial Hardware business unit within the Printing segment, respectively; and

transferring certain cloud-related incubation activities previously reported in Corporate and unallocated costs and eliminations and in the EG segment to the Corporate Investments segment.

In addition, we transferred certain intrasegment eliminations from the ES segment and the EG segment to corporate intersegment revenue eliminations.

HP has reflected these changes to its segment information retrospectively to the earliest period presented, which has resulted in the transfer of revenue among the Printing, Personal Systems, EG, ES and Software segments and the transfer of operating profit among the Printing, Personal Systems, EG, Software and Corporate Investments segments. These changes had no impact on the previously reported financial results for the HPFS segment. In addition, none of these changes impacted HP's previously reported consolidated net revenue, earnings from operations, net earnings, net EPS or consolidated assets.

Printing and Personal Systems Group

The Personal Systems segment and the Printing segment are structured beneath a broader Printing and Personal Systems Group ("PPS"). We describe the results of the business segments within PPS below.

Personal Systems

	For the fiscal years ended October 31		
	2014	2013	2012
	Dollars in millions		
Net revenue	$ 34,303	$ 32,179	$ 35,843
Earnings from operations	$ 1,270	$ 980	$ 1,724
Earnings from operations as a % of net revenue	3.7%	3.0%	4.8%

The components of the weighted net revenue change by business unit were as follows:

	For the fiscal years ended October 31	
	2014	2013
	Percentage Points	
Notebook PCs	4.7	(7.8)
Desktop PCs	1.1	(2.9)
Workstations	0.2	
Other	0.6	0.5
Total Personal Systems	6.6	(10.2)

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

**Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)**

Fiscal 2014 compared with Fiscal 2013

Personal Systems net revenue increased 6.6% (increased 7.2% on a constant currency basis) in fiscal 2014. While the Personal Systems business continues to be challenged by the market shift towards mobility products, the pace of the PC market decline is slowing with signs of stabilization driven by growth in commercial PCs, the effects of which were partially offset by weakness in consumer PCs. The revenue increase in Personal Systems was due to growth in commercial PCs, particularly notebooks, along with growth in consumer notebooks. Personal Systems experienced revenue growth across all regions led by double digit revenue growth in EMEA, which experienced improved demand. The revenue increase was driven by an 8.2% increase in unit volume, the effects of which were partially offset by a 1.5% decline in average selling prices ("ASPs"). The unit volume increase was primarily led by growth in commercial notebooks as well as strength in commercial desktops, consumer notebooks and thin client products. The decline in ASPs was due primarily to a competitive pricing environment and unfavorable currency impacts, the effects of which were partially offset by a favorable mix of commercial PCs. Net revenue for commercial clients increased 10.2% due primarily to the benefits from the delayed installed base refresh cycle, the effects of customers migrating from the Windows XP operating system and growth in all product categories partly driven by new product introductions, including the HP Elite products. Net revenue for consumer clients remained flat as growth in consumer notebooks, partly driven by our new product lineup including Chromebooks and hybrid products, was offset by a decline in consumer desktops. For fiscal 2014, net revenue for Notebook PCs increased 9%, Desktop PCs increased 3%, Workstations increased 3% and Other net revenue increased 16%. The net revenue increase in Other was due to the sale of IP and growth in mobility products, primarily consumer tablets which were introduced in the second half of fiscal 2013.

Personal Systems earnings from operations as a percentage of net revenue increased 0.7 percentage points for fiscal 2014. The increase was driven by an increase in gross margin and a decline in operating expenses as a percentage of net revenue. The increase in gross margin was due primarily to operational cost improvements, a favorable commercial mix and the sale of IP, the effects of which were partially offset by unfavorable currency impacts. Operating expenses as a percentage of net revenue decreased due primarily to our cost structure optimization efforts, the effects of which were partially offset by increased research and development investments for commercial, mobility and immersive computing products, as well as higher administrative expenses driven by lower bad debt recoveries as compared to fiscal 2013.

Fiscal 2013 compared with Fiscal 2012

Personal Systems net revenue decreased 10.2% (decreased 9.0% on a constant currency basis) in fiscal 2013. The Personal Systems business continued to experience significant challenges due to the overall PC market decline as a result of a customer shift, particularly consumers, to tablet products. The business also experienced broad-based regional demand weakness, particularly in the EMEA region. The decline in Personal Systems revenue was driven by an 8% decline in unit volume along with a 3% decline in ASPs. The unit volume decrease was led by declines in consumer and notebook products as a result of the market shift to tablet products. The decline in ASPs was due primarily to a competitive pricing environment. Net revenue for consumer clients decreased 19%, while net revenue for commercial clients decreased 4%. Notebook PCs net revenue decreased 15%, while Desktop PCs net revenue decreased 8%. Workstations net revenue growth was flat, while Other net revenue increased 19%. The net revenue increase in Other was related to increased sales of extended warranties and third-party branded options and sales of consumer tablets.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)

Personal Systems earnings from operations as a percentage of net revenue decreased 1.8 percentage points in fiscal 2013. The decrease was driven by a decline in gross margin combined with an increase in operating expenses as a percentage of net revenue. The decline in gross margin was due to unfavorable currency impacts and competitive pricing pressures. These unfavorable impacts to gross margin were partially offset by lower component and warranty costs and a favorable mix of higher-margin commercial products. Operating expenses as a percentage of net revenue increased due primarily to the size of the revenue decline as well as slightly higher R&D costs. However, operating expenses declined across most other expense categories as a result of benefits from our ongoing restructuring efforts.

Printing

	For the fiscal years ended October 31		
	2014	2013	2012
	Dollars in millions		
Net revenue	$ 22,979	$ 23,896	$ 24,538
Earnings from operations	$ 4,185	$ 3,933	$ 3,612
Earnings from operations as a % of net revenue	18.2%	16.5%	14.7%

The components of the weighted net revenue change by business unit were as follows:

	For the fiscal years ended October 31	
	2014	2013
	Percentage Points	
Supplies	(3.3)	(1.8)
Consumer Hardware	(0.4)	
Commercial Hardware	(0.1)	(0.8)
Total Printing	(3.8)	(2.6)

Fiscal 2014 compared with Fiscal 2013

In fiscal 2014, Printing experienced a decline in revenue and an increase in operating profit as we continued to push our print strategies, which includes driving high value printer unit placements and expanding our graphics products and managed print services portfolio. Printing net revenue decreased 3.8% (decreased 3.4% on a constant currency basis) for fiscal 2014. The decline in net revenue was primarily driven by a decline in Supplies, the effects of which were partially offset by growth in graphics products and managed print services. Net revenue for Supplies decreased 5% driven by demand weakness in toner and ink, and a reduction in channel inventory in the fourth quarter of fiscal 2014, the effects of which were partially offset by growth in graphics supplies. Printer unit volume remained flat while average revenue per unit ("ARU") decreased 1%. Printer unit volume was flat due primarily to our continued efforts to target high value areas of the market, which resulted in a decline in home printer units and low-value LaserJet printer units, the effects of which were offset by increased units in SMB, multifunction laser and graphics printers. The decline in ARU was due primarily to increased discounting driven by competitive pricing pressures. Net revenue for Commercial Hardware was flat as a 3% increase in printer unit volume was offset by a 3% decline in printer ARU. The unit volume in Commercial Hardware increased due primarily to growth in our multifunction laser printers and graphics printers. The ARU decline in Commercial Hardware was due primarily to a decline in

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

LaserJet and graphics printers driven by a competitive pricing environment. Net revenue for Consumer Hardware decreased 4% driven by a 1% decline in printer unit volume and a 1% decline in ARU, along with a decline in other peripheral printing solutions. The unit volume decline in Consumer Hardware was due to lower sales of home printers, the effects of which were partially offset by growth in SMB printers. The ARU decline in Consumer Hardware was due primarily to increased discounting for SMB printers due to a competitive pricing environment, the effects of which were partially offset by a favorable mix of high value home printers.

Printing earnings from operations as a percentage of net revenue increased by 1.7 percentage points for fiscal 2014 as an increase in gross margin more than offset an increase in operating expenses as a percentage of net revenue. The gross margin increase was due to favorable currency impacts primarily driven by the Japanese Yen, continued cost structure improvements and a favorable mix from a higher proportion of graphics and ink supplies, the effects of which were partially offset by a competitive pricing environment. Operating expenses as a percentage of net revenue increased due primarily to higher R&D expenses as a result of our investments in enterprise products and 3-D printing, the effects of which were partially offset by reduced marketing expenses.

Fiscal 2013 compared with Fiscal 2012

Printing net revenue decreased 2.6% (decreased 1% on a constant currency basis) in fiscal 2013. The decrease was driven by unfavorable currency impacts, particularly weakness in the euro, and declines in supplies and commercial printers. Net revenue for Supplies decreased 3% due to unfavorable currency impacts and lower volumes of toner and ink supplies. These effects were partially offset by growth in large format printing supplies. Printer unit volumes declined by 3% while ARU increased by 1%. Printer unit volumes decreased largely due to declines in low-end consumer printers as we continued our focus on higher-value Ink in the Office and Ink Advantage products. The increase in ARU was driven by a mix shift to high-value consumer printers, the effect of which was partially offset by higher discounting in commercial printers. Net revenue for Commercial Hardware decreased 3%, which was driven by a 6% decline in ARU that was partially offset by a volume increase of 2%. The decline in Commercial Hardware net revenue was partially offset by net revenue growth in the graphics services and managed print services businesses. Net revenue for Consumer Hardware remained flat due to a 7% increase in ARU, the effect of which was offset by a 5% reduction in volume. Unit volume and ARU increased within high-value consumer printers as a result of our continued focus on those more profitable printers.

Printing earnings from operations as a percentage of net revenue increased by 1.8 percentage points in fiscal 2013 due to an increase in gross margin combined with lower operating expenses as a percentage of net revenue. The gross margin increase was due to improvement in toner gross margins resulting from lower discounting, higher ARU in consumer printers, and lower cost of sales in toner and commercial printers due to a favorable currency impact from the Japanese Yen. These positive effects were partially offset by an unfavorable mix of lower-margin consumer printers. Operating expenses as a percentage of net revenue decreased due to lower administrative, R&D and field selling costs as a result of benefits from our ongoing restructuring efforts. These effects were partially offset by higher marketing expenses to support new product introductions.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)

Enterprise Group

	For the fiscal years ended October 31		
	2014	**2013**	**2012**
	Dollars in millions		
Net revenue	$ 27,814	$ 28,081	$ 29,643
Earnings from operations	$ 4,008	$ 4,259	$ 5,123
Earnings from operations as a % of net revenue	14.4%	15.2%	17.3%

The components of the weighted net revenue change by business unit were as follows for the following fiscal years ended October 31:

	For the fiscal years ended October 31	
	2014	**2013**
	Percentage Points	
Technology Services	(1.1)	(1.3)
Business Critical Systems	(0.9)	(1.4)
Storage	(0.6)	(1.1)
Networking	0.3	0.1
Industry Standard Servers	1.3	(1.6)
Total Enterprise Group	(1.0)	(5.3)

Fiscal 2014 compared with Fiscal 2013

EG net revenue decreased 1.0% (decreased 0.6% on a constant currency basis) in fiscal 2014. In EG, we continue to experience revenue challenges due to market trends, including the transition to cloud computing, as well as product and technology transitions, along with a highly competitive pricing environment. The decline in EG net revenue was due to net revenue declines in TS, BCS and Storage partially offset by net revenue growth in ISS and Networking.

TS net revenue decreased 4% due primarily to a continued reduction in support for BCS, traditional storage products and lower support in networking services, partially offset by growth in support solutions for converged storage solutions and ISS. BCS net revenue decreased 22% as a result of ongoing pressures from the overall UNIX market contraction. Storage net revenue decreased by 5% as we continue to experience multiple challenges including product transitions from traditional storage products which include our tape, storage networking and legacy external disk products, to converged solutions, which include our 3PAR StoreServ, StoreOnce, and StoreVirtual products, other challenges include market weakness in high-end converged solutions and sales execution challenges, the effects of which were partially offset by revenue growth in our Converged Storage solutions. Networking net revenue increased 4% due to higher switching product revenue as a result of growth in our data center products, partially offset by lower revenue from wireless local area network products. ISS net revenue increased by 3% due primarily to higher volume and higher average unit prices in rack and blade server products driven by higher option attach rates for memory, processors and hard drives.

EG earnings from operations as a percentage of net revenue decreased by 0.8 percentage points in fiscal 2014 due to a decrease in gross margin coupled with an increase in operating expenses as a percentage of net revenue. The gross margin decline was due primarily to a higher mix of ISS products, a lower mix of BCS products and competitive pricing pressure in ISS and Networking, partially offset

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

**Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)**

by supply chain cost optimization and improved cost management in TS. The increase in operating expenses as a percentage of net revenue was driven by higher R&D investments in storage, networking and ISS, partially offset by continued cost savings associated with our ongoing restructuring efforts.

Fiscal 2013 compared with Fiscal 2012

EG net revenue decreased 5.3% (decreased 4.2% on a constant currency basis) in fiscal 2013 due primarily to the macroeconomic demand challenges the business faced during the fiscal year. Additionally, new product and technology transitions in Storage and ISS and a competitive pricing environment contributed to the revenue decline. EG also experienced execution challenges that impacted revenue growth in fiscal 2013, although those challenges moderated in the fourth quarter due to improved sales execution. Each of the business units within EG experienced year-over-year revenue declines in fiscal 2013 except Networking. ISS net revenue decreased by 4% due to competitive pricing and soft demand. Within ISS, we experienced a revenue decline in our core mainstream products that was partially offset by revenue growth in our hyperscale server products. TS net revenue decreased by 4% due to revenue declines in the support and consulting businesses and, to a lesser extent, to unfavorable currency impacts. Support revenue declined due to a reduction in support for BCS products. The consulting revenue decline was a result of unfavorable currency impacts, the divestiture of a service product line and a shift to more profitable services such as data center and storage consulting. BCS net revenue decreased by 26% as a result of ongoing pressures from the decline in the overall UNIX market along with lower demand for our Itanium-based servers. Storage net revenue decreased by 9% due to declines in traditional storage products, which include our tape, storage networking, and legacy external disk products, the effects of which were partially offset by growth in Converged Storage solutions, which include our 3PAR, StoreOnce, StoreVirtual and StoreAll products. Networking revenue increased by 2% due to higher demand for our switching, routing, and wireless products, the effect of which was partially offset by the impact of the divestiture of our video surveillance business in the first quarter of fiscal 2012.

EG earnings from operations as a percentage of net revenue decreased by 2.1 percentage points in fiscal 2013 driven by a decrease in gross margin and, to a lesser extent, an increase in operating expenses as a percentage of net revenue. The gross margin decrease was due primarily to competitive pricing pressures in ISS and, to a lesser extent, pricing pressures in Storage and mix impacts from lower BCS revenue. Operating expenses as a percentage of net revenue increased due to the decline in EG net revenue and increased field selling costs and administrative expenses. R&D expenses as a percentage of net revenue decreased due primarily to the rationalization of R&D specifically for BCS and a value-added tax subsidy credit in BCS. EG also benefited from cost savings resulting from our ongoing restructuring efforts.

Enterprise Services

	For the fiscal years ended October 31		
	2014	2013	2012
	Dollars in millions		
Net revenue	$ 22,398	$ 24,061	$ 25,993
Earnings from operations	$ 803	$ 679	$ 1,045
Earnings from operations as a % of net revenue	3.6%	2.8%	4.0%

Table of Contents

The components of the weighted net revenue change by business unit were as follows:

	For the fiscal years ended October 31	
	2014	2013
	Percentage Points	
Infrastructure Technology Outsourcing	(4.9)	(3.7)
Application and Business Services	(2.0)	(3.7)
Total Enterprise Services	(6.9)	(7.4)

Fiscal 2014 compared with Fiscal 2013

ES net revenue decreased 6.9% (decreased 6.8% on a constant currency basis) in fiscal 2014. Performance in ES remains challenged by the impact of several large contracts winding down and lower public sector spending in EMEA, particularly in the United Kingdom, and several other countries in EMEA. The net revenue decrease in ES was due primarily to revenue runoff in key accounts, weak growth in new and existing accounts, particularly in EMEA, and contractual price declines. These effects were partially offset by net revenue growth in our SES portfolio, which includes information management and analytics, security and cloud services. Net revenue in Infrastructure Technology Outsourcing ("ITO") decreased by 8% in fiscal 2014 due to revenue runoff in key accounts, weak growth in new and existing accounts, particularly in EMEA, and contractual price declines in ongoing contracts partially offset by growth in cloud and security revenue and favorable currency impacts. Net revenue in Application and Business Services ("ABS") decreased by 5% in fiscal 2014, due to revenue runoff in a key account, weak growth in new and existing accounts, particularly in EMEA, and unfavorable currency impacts, partially offset by growth in information management and analytics and cloud revenue.

ES earnings from operations as a percentage of net revenue increased 0.8 percentage points in fiscal 2014. The increase in operating margin was due to an increase in gross margin, partially offset by an increase in operating expenses as a percentage of net revenue. Gross margin increased due primarily to our continued focus on service delivery efficiencies, improving profit performance in under-performing contracts and labor savings as a result of restructuring, partially offset by unfavorable impacts from revenue runoff in key accounts and weak growth in new and existing accounts. The increase in operating expenses as a percentage of net revenue was primarily driven by the size of the revenue decline and higher administrative expenses and field selling costs. The increase in current year administrative expenses was due to the prior-year period containing higher bad debt recoveries and insurance recoveries. The increase in selling costs was the result of expanding the sales force coverage as we transition from a reactive sales model to a more proactive approach.

Fiscal 2013 compared with Fiscal 2012

ES net revenue decreased 7.4% (decreased 6.3% on a constant currency basis) in fiscal 2013. Revenue performance in ES continues to be challenged by several factors that impact the demand environment, including weak public sector spending in the U.S. and austerity measures in other countries, particularly in the United Kingdom, and weak IT services spend due to the mixed global recovery, particularly in the EMEA region. The net revenue decrease in ES was driven primarily by net service revenue runoff, contractual price declines in ongoing contracts and unfavorable currency impacts. ITO net revenue decreased by 6% in fiscal 2013, due to net service revenue runoff,

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)

contractual price declines in ongoing contracts and unfavorable currency impacts, the effects of which were partially offset by net revenue growth in security and cloud offerings. ABS net revenue declined 10% in fiscal 2013. The net revenue decline was due primarily to net service revenue runoff and unfavorable currency impacts, the effects of which were partially offset by revenue growth in cloud and information and analytics offerings. Revenue in ABS was also negatively impacted by weakness in public-sector spending.

ES earnings from operations as a percentage of net revenue decreased 1.2 percentage points in fiscal 2013. The decrease was due to a decline in gross margin combined with an increase in operating expenses as a percentage of net revenue. Gross margin declined due primarily to net service revenue runoff and contractual price declines. These unfavorable impacts to gross margin were partially offset by our continued focus on improving resource management and profit improvements on under-performing contracts. Operating expenses as a percentage of net revenue increased due to higher administrative, marketing and R&D costs. These effects were partially offset by reduced field selling costs due to lower headcount-related costs during the year and other savings from our ongoing restructuring efforts.

Software

	For the fiscal years ended October 31		
	2014	2013	2012
	Dollars in millions		
Net revenue	$ 3,933	$ 4,021	$ 4,171
Earnings from operations	$ 872	$ 868	$ 836
Earnings from operations as a % of net revenue	22.2%	21.6%	20.0%

Fiscal 2014 compared with Fiscal 2013

Software net revenue decreased 2.2% (decreased 2.1% on a constant currency basis) in fiscal 2014. Revenue growth in Software is being challenged by the overall market and customer shift to SaaS solutions, which is impacting growth in license and support revenue. In fiscal 2014, net revenue from licenses, support and professional services decreased by 3%, 2% and 5% respectively, while SaaS net revenue increased by 5%.

The decline in license net revenue was due to the market and customer shift to SaaS solutions, which resulted in lower revenue from IT/cloud management and information management products, partially offset by strength in some of our key focus areas of big data analytics and security. The decrease in support net revenue was due to past declines in license revenue. Professional services net revenue decreased as we continue our focus on higher-margin engagements. These declines were partially offset by higher SaaS revenue due to improving demand for our SaaS solutions in IT/cloud management products and security products.

In fiscal 2014, Software earnings from operations as a percentage of net revenue increased by 0.6 percentage points due to an increase in gross margin, the effect of which was partially offset by an increase in operating expenses as a percentage of net revenue. The increase in gross margin was due to the shift to more profitable contracts and improved workforce utilization in professional services. The increase in operating expenses as a percentage of net revenue was due primarily to investments in R&D partially offset by lower SG&A expenses due to cost savings associated with our ongoing restructuring efforts and improved operational expense management.

Table of Contents

Fiscal 2013 compared with Fiscal 2012

Software net revenue decreased 3.6% (decreased 2.6% on a constant currency basis) in fiscal 2013. Net revenue from licenses and professional services decreased by 16% and 13%, respectively, while net revenue from SaaS and support increased by 10% and 7%, respectively.

The decline in software revenue was driven primarily by lower license revenue from IT/cloud management and information management products, due primarily to a large deal entered into in the prior year and the market shift to SaaS offerings. The revenue decline was also due to lower professional services revenue from IT/cloud management and information management products as we manage the professional services portfolio to focus on higher-margin solutions. These declines were partially offset by higher growth in support revenue from our information management and security products and higher revenue growth in our SaaS offerings from IT/cloud management and information management products as we shift with the market to providing more SaaS offerings.

Software earnings from operations as a percentage of net revenue increased by 1.6 percentage points in fiscal 2013 due to a decrease in operating expense as a percentage of net revenue, the effect of which was partially offset by a decrease in gross margin. The decrease in gross margin was due primarily to higher development costs in IT/cloud management products and the comparative impact of a highly profitable software deal entered into in the prior year. These decreases were partially offset by a lower mix of lower-margin professional services revenue. The decrease in operating expense as a percentage of revenue was driven primarily by lower field selling costs due to cost savings associated with our ongoing restructuring efforts.

HP Financial Services

	For the fiscal years ended October 31		
	2014	2013	2012
		Dollars in millions	
Net revenue	$ 3,498	$ 3,629	$ 3,819
Earnings from operations	$ 389	$ 399	$ 388
Earnings from operations as a % of net revenue	11.1%	11.0%	10.2%

Fiscal 2014 compared with Fiscal 2013

HPFS net revenue decreased by 3.6% (decreased 3.3% on a constant currency basis) in fiscal 2014 due primarily to lower portfolio revenue from lower average portfolio assets and lower asset management activity, primarily in customer buyouts.

HPFS earnings from operations as a percentage of net revenue increased by 0.1 percentage points in fiscal 2014. The increase was due primarily to an increase in gross margin, partially offset by an increase in operating expenses as a percentage of net revenue. The increase in gross margin was the result of a higher portfolio margin, primarily from lower bad debt expense and a lower cost of funds and improved margins in remarketing sales. The increase in operating expenses as a percentage of net revenue was due primarily to higher go-to-market investments.

Fiscal 2013 compared with Fiscal 2012

HPFS net revenue decreased by 5.0% (decreased 4.2% on a constant currency basis) in fiscal 2013 due primarily to lower rental revenue from a decrease in average operating lease assets, lower asset recovery services revenue, and unfavorable currency impacts. These effects were partially offset by higher revenue from remarketing sales and higher finance income from an increase in finance lease assets.

Table of Contents

HPFS earnings from operations as a percentage of net revenue increased by 0.8 percentage points in fiscal 2013. The increase was due primarily to an increase in gross margin, the effect of which was partially offset by an increase in operating expenses as a percentage of net revenue as a result of higher IT investments. The increase in gross margin was the result of higher portfolio margin from a lower mix of operating leases, higher margin on early buyouts and lower bad debt expense.

Financing Originations

	For the fiscal years ended October 31		
	2014	2013	2012
	Dollars in millions		
Total financing originations	$ 6,425	$ 5,603	$ 6,590

New financing originations, which represent the amount of financing provided to customers for equipment and related software and services, including intercompany activity, increased 14.7% in fiscal 2014 and decreased 15.0% in fiscal 2013, respectively. The increase in fiscal 2014 was driven by higher financing associated with HP product sales and related services offerings, while the decrease in fiscal 2013 was primarily driven by lower financing associated with HP product sales and services offerings, and to a lesser extent unfavorable currency impacts.

Portfolio Assets and Ratios

The HPFS business model is asset intensive and uses certain internal metrics to measure its performance against other financial services companies, including a segment balance sheet that is derived from our internal management reporting system. The accounting policies used to derive HPFS amounts are substantially the same as those used by HP. However, intercompany loans and certain accounts that are reflected in the segment balances are eliminated in our Consolidated Financial Statements.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The portfolio assets and ratios derived from the segment balance sheet for HPFS were as follows:

	As of October 31	
	2014	2013
	Dollars in millions	
Financing receivables, gross	$ 6,670	$ 7,153
Net equipment under operating leases	2,595	2,370
Capitalized profit on intercompany equipment transactions[1]	783	715
Intercompany leases[1]	2,199	2,202
Gross portfolio assets	12,247	12,440
Allowance for doubtful accounts[2]	111	131
Operating lease equipment reserve	68	76
Total reserves	179	207
Net portfolio assets	$ 12,068	$ 12,233
Reserve coverage	1.5%	1.7%
Debt-to-equity ratio[3]	7.0x	7.0x

(1) Intercompany activity is eliminated in consolidation.

(2) Allowance for doubtful accounts for financing receivables includes both the short- and long-term portions.

(3) Debt attributable to HPFS consists of intercompany equity that is treated as debt for segment reporting purposes, intercompany debt, and borrowing- and funding-related activity associated with HPFS and its subsidiaries. Debt attributable to HPFS totaled $10.7 billion and $10.8 billion at October 31, 2014 and October 31, 2013, respectively. HPFS equity at both October 31, 2014 and October 31, 2013 was $1.5 billion. We believe the HPFS debt-to-equity ratio is comparable to that of other similar financing companies.

At October 31, 2014 and October 31, 2013, HPFS cash balances were $829 million and $697 million, respectively.

Net portfolio assets at October 31, 2014 decreased 1.3% from October 31, 2013. The decrease generally resulted from unfavorable currency impacts, partially offset by new financing volume in excess of portfolio runoff.

HPFS recorded net bad debt expenses and operating lease equipment reserves of $40 million, $50 million and $62 million in fiscal 2014, 2013 and 2012, respectively.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

**Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)**

Corporate Investments

	For the fiscal years ended October 31		
	2014	2013	2012
	Dollars in millions		
Net revenue	$ 302	$ 24	$ 58
Loss from operations	$ (199)	$ (316)	$ (233)
Loss from operations as a % of net revenue[1]	(66.0)%	NM	NM

(1) "NM" represents not meaningful.

Fiscal 2014 compared with Fiscal 2013

The revenue increase for fiscal 2014 was due primarily to the sale of IP related to the Palm acquisition.

The decrease in the loss from operations for fiscal 2014 was due primarily to the sale of IP, the benefits of which were partially offset by higher expenses associated with cloud-related incubation activities, corporate strategy, HP Labs and global alliances.

Fiscal 2013 compared with Fiscal 2012

In fiscal 2013, Corporate Investments net revenue was primarily related to licensing revenue from HP Labs. Net revenue decreased from fiscal 2012 due primarily to lower residual activity from the webOS device business and lower revenue from business intelligence products.

Costs and expenses in Corporate Investments are due to activities in the segment from residual activity related to the webOS device business, HP Labs, certain incubation projects, corporate strategy, and global alliances.

LIQUIDITY AND CAPITAL RESOURCES

We use cash generated by operations as our primary source of liquidity. We believe that internally generated cash flows are generally sufficient to support our operating businesses, capital expenditures, restructuring activities, maturing debt, income tax payments and the payment of stockholder dividends, in addition to investments and share repurchases. We are able to supplement this short-term liquidity, if necessary, with broad access to capital markets and credit facilities made available by various domestic and foreign financial institutions. Our access to capital markets may be constrained and our cost of borrowing may increase under certain business, market and economic conditions; however, our access to a variety of funding sources to meet our liquidity needs is designed to facilitate continued access to capital resources under all such conditions. Our liquidity is subject to various risks including the risks identified in the section entitled "Risk Factors" in Item 1A and market risks identified in the section entitled "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A, which is incorporated herein by reference.

Our cash balances are held in numerous locations throughout the world, with substantially all of those amounts held outside of the U.S. We utilize a variety of planning and financing strategies in an effort to ensure that our worldwide cash is available when and where it is needed. Our cash position remains strong, and we expect that our cash balances, anticipated cash flow generated from operations and access to capital markets will be sufficient to cover our expected near-term cash outlays.

Table of Contents

Amounts held outside of the U.S. are generally utilized to support non-U.S. liquidity needs, although a portion of those amounts may from time to time be subject to short-term intercompany loans into the U.S. Most of the amounts held outside of the U.S. could be repatriated to the U.S. but, under current law, some would be subject to U.S. federal income taxes, less applicable foreign tax credits. Repatriation of some foreign earnings is restricted by local law. Except for foreign earnings that are considered indefinitely reinvested outside of the U.S., we have provided for the U.S. federal tax liability on these earnings for financial statement purposes. Repatriation could result in additional income tax payments in future years. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is that cash balances would remain outside of the U.S. and we would meet liquidity needs through ongoing cash flows, external borrowings, or both. We do not expect restrictions or potential taxes incurred on repatriation of amounts held outside of the U.S. to have a material effect on our overall liquidity, financial condition or results of operations.

Liquidity

Our cash and cash equivalents, total debt and available borrowing resources were as follows:

	As of October 31		
	2014	2013	2012
		In billions	
Cash and cash equivalents	$ 15.1	$ 12.2	$ 11.3
Total debt	$ 19.5	$ 22.6	$ 28.4
Available borrowing resources[1]	$ 17.8	$ 17.8	$ 17.4

(1) In addition to these available borrowing resources, we are able to offer for sale, from time to time, in one or more offerings, an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants under a shelf registration statement filed with the Securities and Exchange Commission in May 2012 (the "2012 Shelf Registration Statement").

Our key cash flow metrics were as follows:

	For the fiscal years ended October 31		
	2014	2013	2012
		In millions	
Net cash provided by operating activities	$ 12,333	$ 11,608	$ 10,571
Net cash used in investing activities	(2,792)	(2,803)	(3,453)
Net cash used in financing activities	(6,571)	(7,943)	(3,860)
Net increase in cash and cash equivalents	$ 2,970	$ 862	$ 3,258

Operating Activities

Net cash provided by operating activities increased by $0.7 billion for fiscal 2014 as compared to fiscal 2013, due primarily to improvements in working capital management. Net cash provided by operating activities increased by $1.0 billion for fiscal 2013 compared to fiscal 2012, due primarily to improvements in working capital management and a reduction in payments associated with webOS contract cancellations.

72

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Our key working capital metrics were as follows:

	As of October 31		
	2014	**2013**	**2012**
Days of sales outstanding in accounts receivable	44	49	49
Days of supply in inventory	27	24	25
Days of purchases outstanding in accounts payable	(67)	(56)	(53)
Cash conversion cycle	4	17	21

Days of sales outstanding in accounts receivable ("DSO") measures the average number of days our receivables are outstanding. DSO is calculated by dividing ending accounts receivable, net of allowance for doubtful accounts, by a 90-day average of net revenue. For fiscal 2014, the decrease in DSO was due primarily to the impact of currency and the expansion of our factoring programs.

Days of supply in inventory ("DOS") measures the average number of days from procurement to sale of our product. DOS is calculated by dividing ending inventory by a 90-day average of cost of goods sold. For fiscal 2014, the increase in DOS was due to a higher inventory balance in Personal Systems due in part to strategic and advanced buys.

Days of purchases outstanding in accounts payable ("DPO") measures the average number of days our accounts payable balances are outstanding. DPO is calculated by dividing ending accounts payable by a 90-day average of cost of goods sold. For fiscal 2014, the increase in DPO was primarily the result of an extension of payment terms with our product suppliers.

The cash conversion cycle is the sum of DSO and DOS less DPO. The cash conversion cycle ended fiscal 2014 below what we expect to be a long-term sustainable rate. Items which may cause the cash conversion cycle in a particular period to differ from a long-term sustainable rate include, but are not limited to, changes in business mix, changes in payment terms, extent of receivables factoring, seasonal trends and the timing of revenue recognition and inventory purchases within the period.

Investing Activities

Net cash used in investing activities was flat for fiscal 2014 as compared to fiscal 2013, due primarily to higher cash utilization for purchases of property, plant and equipment offset by cash generated from sales of available-for-sale securities. Net cash used in investing activities decreased by $0.7 billion for fiscal 2013 as compared to fiscal 2012, due primarily to lower investments in property, plant and equipment and higher net sales and maturities of available-for-sale securities.

Financing Activities

Net cash used in financing activities decreased by approximately $1.4 billion for fiscal 2014 as compared to fiscal 2013. The decrease was due primarily to proceeds from the issuance of U.S. Dollar Global Notes in January 2014, partially offset by higher debt repayments and repurchases of common stock. Net cash used in financing activities increased by $4.1 billion for fiscal 2013 as compared to fiscal 2012. The increase was due primarily to higher maturities of debt and net repayments of commercial paper. For more information on our share repurchase programs, see Item 5 and Note 13 to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

**Management's Discussion and Analysis of
Financial Condition and Results of Operations (Continued)**

Capital Resources

Debt Levels

	As of October 31		
	2014	2013	2012
	Dollars in millions		
Short-term debt	$ 3,486	$ 5,979	$ 6,647
Long-term debt	$ 16,039	$ 16,608	$ 21,789
Debt-to-equity ratio	0.72x	0.82x	1.25x
Weighted-average interest rate	2.7%	3.0%	3.0%

We maintain debt levels that we establish through consideration of a number of factors, including cash flow expectations, cash requirements for operations, investment plans (including acquisitions), share repurchase activities, our cost of capital and targeted capital structure.

Short-term debt and long-term debt decreased by $2.5 billion and $0.6 billion, respectively, for fiscal 2014 as compared to fiscal 2013. The net decrease in total debt was due primarily to maturities of debt. During fiscal 2014, we issued $2.0 billion of U.S. Dollar Global Notes under the 2012 Shelf Registration Statement which mature in 2019 and repaid $4.9 billion of U.S. Dollar Global Notes. We also issued $11.6 billion and repaid $11.5 billion of commercial paper in fiscal 2014. Short-term debt and long-term debt decreased by $0.6 billion and $5.2 billion, respectively, for fiscal 2013 as compared to fiscal 2012. Both net decreases were due primarily to maturities of debt and net repayments of commercial paper. The issuances and repayments of commercial paper were $16.1 billion and $16.2 billion in fiscal 2013 and $12.2 billion and $15.0 billion in fiscal 2012, respectively.

During fiscal 2015, $2.5 billion of U.S. Dollar Global Notes are scheduled to mature, of which $650 million matured in December 2014. For more information on our borrowings, see Note 12 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Our debt-to-equity ratio is calculated as the carrying amount of debt divided by total stockholders' equity. Our debt-to-equity ratio decreased by 0.10x in fiscal 2014, due to a decrease in total debt balances of $3.1 billion partially offset by a decrease in stockholders' equity by $0.5 billion at the end of fiscal 2014. Our debt-to-equity ratio decreased by 0.43x in fiscal 2013, due to a decrease in total debt balances of $5.8 billion coupled with an increase in stockholders' equity by $4.8 billion at the end of fiscal 2013.

For more information on our borrowings, see Note 12 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Our weighted-average interest rate reflects the effective interest rate on our borrowings prevailing during the period and reflects the effect of interest rate swaps. For more information on our interest rate swaps, see Note 11 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Available Borrowing Resources

We had the following resources available to obtain short- or long-term financing if we need additional liquidity:

	As of October 31, 2014
	In millions
2012 Shelf Registration Statement	Unspecified
Commercial paper programs	$16,202
Uncommitted lines of credit	$ 1,587

For more information on our available borrowings resources, see Note 12 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Credit Ratings

Our credit risk is evaluated by major independent rating agencies based on publicly available information as well as information obtained in our ongoing discussions with them. Our credit ratings as of October 31, 2014, were as follows:

	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings Services
Short-term debt ratings	A-2	Prime-2	F2
Long-term debt ratings	BBB+	Baa1	A-

After the announcement of our separation in October 2014, our credit ratings were assigned a negative outlook by Standard & Poor's Rating Services and Fitch Rating Services. Additionally, Moody's Investors Service placed us under review for downgrade. In December 2013, Moody's Investors Service affirmed its negative outlook assigned in November 2012. While we do not have any rating downgrade triggers that would accelerate the maturity of a material amount of our debt, previous downgrades have increased the cost of borrowing under our credit facilities, have reduced market capacity for our commercial paper and have required the posting of additional collateral under some of our derivative contracts. In addition, any further downgrade to our credit ratings by any of these rating agencies may further impact us in a similar manner, and, depending on the extent of the downgrade, could have a negative impact on our liquidity and capital position. We can rely on alternative sources of funding, including drawdowns under our credit facilities or the issuance of debt or other securities under our existing 2012 Shelf Registration Statement, if necessary, to offset potential reductions in the market capacity for our commercial paper.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

CONTRACTUAL AND OTHER OBLIGATIONS

Our contractual and other obligations as of October 31, 2014, were as follows:

		Payments Due by Period			
	Total	1 Year or Less	1-3 Years	3-5 Years	More than 5 Years
			In millions		
Principal payments on long-term debt[1]	$ 18,539	$ 2,647	$ 5,938	$ 2,785	$ 7,169
Interest payments on long-term debt[2]	3,990	480	793	601	2,116
Operating lease obligations	3,001	721	951	534	795
Purchase obligations[3]	2,113	1,383	518	212	
Capital lease obligations	48	8	12	7	21
Total[4][5][6]	$ 27,691	$ 5,239	$ 8,212	$ 4,139	$ 10,101

(1) Amounts represent the principal cash payments relating to our long-term debt and do not include any fair value adjustments, discounts or premiums.

(2) Amounts represent the expected interest payments relating to our long-term debt. We have outstanding interest rate swap agreements accounted for as fair value hedges that have the economic effect of changing fixed interest rates associated with some of our U.S. Dollar Global Notes to variable interest rates. The impact of our outstanding interest rate swaps at October 31, 2014 was factored into the calculation of the future interest payments on long-term debt.

(3) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. These purchase obligations are related principally to inventory and other items. Purchase obligations exclude agreements that are cancelable without penalty. Purchase obligations also exclude open purchase orders that are routine arrangements entered into in the ordinary course of business as they are difficult to quantify in a meaningful way. Even though open purchase orders are considered enforceable and legally binding, the terms generally allow us the option to cancel, reschedule, and adjust terms based on our business needs prior to the delivery of goods or performance of services.

(4) In fiscal 2015, HP anticipates making contributions of $686 million to its non-U.S. pension plans, expects to pay benefits of $35 million to its U.S. non-qualified pension plan participants and expects to pay claims of $47 million under its post-retirement benefit plans. Our policy is to fund our pension plans so that we meet at least the minimum contribution requirements, as established by local government, funding and taxing authorities. Expected contributions and payments to our pension and post-retirement benefit plans are excluded from the contractual obligations table because they do not represent contractual cash outflows as they are dependent on numerous factors which may result in a wide range of outcomes. For more information on our retirement and post-retirement benefit plans, see Note 4 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

(5) We expect future cash payments of $1.8 billion in connection with our approved restructuring plans which includes $1.0 billion expected to be paid in fiscal 2015 with the remaining approximately $800 million cash payments to be made through fiscal 2021.

Payments for restructuring have been

Table of Contents

excluded from the contractual obligations table, because they do not represent contractual cash outflows and there is uncertainty as to the timing of these payments. For more information on our restructuring activities, see Note 3 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

(6) As of October 31, 2014, we had approximately $3.5 billion of recorded liabilities and related interest and penalties pertaining to uncertain tax positions. These liabilities and related interest and penalties include $27 million expected to be paid within one year. For the remaining amount, we are unable to make a reasonable estimate as to when cash settlement with the tax authorities might occur due to the uncertainties related to these tax matters. Payments of these obligations would result from settlements with taxing authorities. For more information on our uncertain tax positions, see Note 6 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

OFF-BALANCE SHEET ARRANGEMENTS

As part of our ongoing business, we have not participated in transactions that generate material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

We have third-party revolving short-term financing arrangements intended to facilitate the working capital requirements of certain customers. The total aggregate maximum capacity of the financing arrangements was $3.0 billion as of October 31, 2014, including an aggregate maximum capacity of $1.1 billion in non-recourse financing arrangements and an aggregate maximum capacity of $1.9 billion in partial-recourse facilities. For more information on our third-party revolving short-term financing arrangements, see Note 7 to the Consolidated Financial Statements in Item 8, which is incorporated herein by reference.

Table of Contents

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

In the normal course of business, we are exposed to foreign currency exchange rate and interest rate risks that could impact our financial position and results of operations. Our risk management strategy with respect to these market risks may include the use of derivative financial instruments. We use derivative contracts only to manage existing underlying exposures. Accordingly, we do not use derivative contracts for speculative purposes. Our risks, risk management strategy and a sensitivity analysis estimating the effects of changes in fair value for each of these exposures is outlined below.

Actual gains and losses in the future may differ materially from the sensitivity analyses based on changes in the timing and amount of foreign currency exchange rate and interest rate movements and our actual exposures and derivatives in place at the time of the change, as well as the effectiveness of the derivative to hedge the related exposure.

Foreign currency exchange rate risk

We are exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. We transact business in approximately 75 currencies worldwide, of which the most significant foreign currencies to our operations for fiscal 2014 were the euro, the British pound, Chinese yuan renminbi and the Japanese Yen. For most currencies, we are a net receiver of the foreign currency and therefore benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency. Even where we are a net receiver of the foreign currency, a weaker U.S. dollar may adversely affect certain expense figures, if taken alone.

We use a combination of forward contracts and options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in our forecasted net revenue and, to a lesser extent, cost of sales and intercompany loans denominated in currencies other than the U.S. dollar. In addition, when debt is denominated in a foreign currency, we may use swaps to exchange the foreign currency principal and interest obligations for U.S. dollar-denominated amounts to manage the exposure to changes in foreign currency exchange rates. We also use other derivatives not designated as hedging instruments consisting primarily of forward contracts to hedge foreign currency balance sheet exposures. Alternatively, we may choose not to hedge the risk associated with our foreign currency exposures, primarily if such exposure acts as a natural hedge for offsetting amounts denominated in the same currency or if the currency is too difficult or too expensive to hedge.

We have performed sensitivity analyses as of October 31, 2014 and 2013, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of foreign currency exchange rates relative to the U.S. dollar, with all other variables held constant. The analyses cover all of our foreign currency derivative contracts offset by underlying exposures. The foreign currency exchange rates we used in performing the sensitivity analysis were based on market rates in effect at October 31, 2014 and 2013. The sensitivity analyses indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in a foreign exchange fair value loss of $62 million and $80 million at October 31, 2014 and October 31, 2013, respectively.

Interest rate risk

We also are exposed to interest rate risk related to debt we have issued and our investment portfolio and financing receivables.

We issue long-term debt in either U.S. dollars or foreign currencies based on market conditions at the time of financing. We often use interest rate and/or currency swaps to modify the market risk exposures in connection with the debt to achieve U.S. dollar LIBOR-based floating interest expense.

Table of Contents

The swap transactions generally involve the exchange of fixed for floating interest payments. However, we may choose not to swap fixed for floating interest payments or may terminate a previously executed swap if we believe a larger proportion of fixed-rate debt would be beneficial.

In order to hedge the fair value of certain fixed-rate investments, we may enter into interest rate swaps that convert fixed interest returns into variable interest returns. We may use cash flow hedges to hedge the variability of LIBOR-based interest income received on certain variable-rate investments. We may also enter into interest rate swaps that convert variable rate interest returns into fixed-rate interest returns.

We have performed sensitivity analyses as of October 31, 2014 and 2013, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of interest rates across the entire yield curve, with all other variables held constant. The analyses cover our debt, investments, financing receivables and interest rate swaps. The analyses use actual or approximate maturities for the debt, investments, financing receivables and interest rate swaps. The discount rates used were based on the market interest rates in effect at October 31, 2014 and 2013. The sensitivity analyses indicated that a hypothetical 10% adverse movement in interest rates would result in a loss in the fair values of our debt, investments and financing receivables, net of interest rate swaps, of $80 million at October 31, 2014 and $95 million at October 31, 2013.

Table of Contents

ITEM 8. Financial Statements and Supplementary Data.

Table of Contents

Quarterly Summary

170

80

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Hewlett-Packard Company

We have audited the accompanying consolidated balance sheets of Hewlett-Packard Company and subsidiaries as of October 31, 2014 and 2013, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hewlett-Packard Company and subsidiaries at October 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hewlett-Packard Company's internal control over financial reporting as of October 31, 2014, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated December 17, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
December 17, 2014

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Hewlett-Packard Company

We have audited Hewlett-Packard Company's internal control over financial reporting as of October 31, 2014, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Hewlett-Packard Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hewlett-Packard Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Hewlett-Packard Company and subsidiaries as of October 31, 2014 and 2013, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2014 and our report dated December 17, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
December 17, 2014

Table of Contents

Management's Report on Internal Control Over Financial Reporting

HP's management is responsible for establishing and maintaining adequate internal control over financial reporting for HP. HP's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. HP's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of HP; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of HP are being made only in accordance with authorizations of management and directors of HP; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of HP's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

HP's management assessed the effectiveness of HP's internal control over financial reporting as of October 31, 2014, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework (1992 framework). Based on the assessment by HP's management, we determined that HP's internal control over financial reporting was effective as of October 31, 2014. The effectiveness of HP's internal control over financial reporting as of October 31, 2014 has been audited by Ernst & Young LLP, HP's independent registered public accounting firm, as stated in their report which appears on page 82 of this Annual Report on Form 10-K.

/s/ MARGARET C. WHITMAN	/s/ CATHERINE A. LESJAK
Margaret C. Whitman	Catherine A. Lesjak
Chairman, President and Chief Executive Officer	*Executive Vice President and Chief Financial Officer*
December 17, 2014	December 17, 2014

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings

	For the fiscal years ended October 31		
	2014	2013	2012
	In millions, except per share amounts		
Net revenue:			
Products	$ 73,726	$ 72,398	$ 77,887
Services	37,327	39,453	42,008
Financing income	401	447	462
Total net revenue	111,454	112,298	120,357
Costs and expenses:			
Cost of products	56,469	55,632	59,468
Cost of services	28,093	30,436	32,600
Financing interest	277	312	317
Research and development	3,447	3,135	3,399
Selling, general and administrative	13,353	13,267	13,500
Amortization of intangible assets	1,000	1,373	1,784
Impairment of goodwill and intangible assets			18,035
Restructuring charges	1,619	990	2,266
Acquisition-related charges	11	22	45
Total operating expenses	104,269	105,167	131,414
Earnings (loss) from operations	7,185	7,131	(11,057)
Interest and other, net	(628)	(621)	(876)
Earnings (loss) before taxes	6,557	6,510	(11,933)
Provision for taxes	(1,544)	(1,397)	(717)
Net earnings (loss)	$ 5,013	$ 5,113	$ (12,650)
Net earnings (loss) per share:			
Basic	$ 2.66	$ 2.64	$ (6.41)

Diluted	$	2.62	$	2.62	$	(6.41)
Weighted-average shares used to compute net earnings (loss) per share:						
Basic		1,882		1,934		1,974
Diluted		1,912		1,950		1,974

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

	For the fiscal years ended October 31		
	2014	**2013**	**2012**
		In millions	
Net earnings (loss)	$ 5,013	$ 5,113	$ (12,650)
Other comprehensive (loss) income before taxes:			
Change in unrealized gains on available-for-sale securities:			
Unrealized gains arising during the period	7	52	25
Gains reclassified into earnings	(1)	(49)	
	6	3	25
Change in unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses) arising during the period	337	(243)	335
Losses (gains) reclassified into earnings	151	106	(399)
	488	(137)	(64)
Change in unrealized components of defined benefit plans:			
(Losses) gains arising during the period	(2,756)	1,953	(2,457)
Amortization of actuarial loss and prior service benefit	259	326	172
Curtailments, settlements and other	51	25	122
	(2,446)	2,304	(2,163)
Change in cumulative translation adjustment	(85)	(150)	(47)
Other comprehensive (loss) income before taxes	(2,037)	2,020	(2,249)
(Provision) benefit for taxes	(66)	(239)	188
Other comprehensive (loss) income, net of taxes	(2,103)	1,781	(2,061)
Comprehensive income (loss)	$ 2,910	$ 6,894	$ (14,711)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

	As of October 31	
	2014	2013
	In millions, except par value	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,133	$ 12,163
Accounts receivable	13,832	15,876
Financing receivables	2,946	3,144
Inventory	6,415	6,046
Other current assets	11,819	13,135
Total current assets	50,145	50,364
Property, plant and equipment	11,340	11,463
Long-term financing receivables and other assets	8,454	9,556
Goodwill	31,139	31,124
Intangible assets	2,128	3,169
Total assets	$ 103,206	$ 105,676
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 3,486	$ 5,979
Accounts payable	15,903	14,019
Employee compensation and benefits	4,209	4,436
Taxes on earnings	1,017	1,203
Deferred revenue	6,143	6,477
Accrued restructuring	898	901
Other accrued liabilities	12,079	12,506
Total current liabilities	43,735	45,521
Long-term debt	16,039	16,608
Other liabilities	16,305	15,891
Commitments and contingencies		
Stockholders' equity:		
HP stockholders' equity		
Preferred stock, $0.01 par value (300 shares authorized; none issued)		
	18	19

Common stock, $0.01 par value (9,600 shares authorized; 1,839 and 1,908 shares issued and outstanding at October 31, 2014 and October 31, 2013, respectively)		
Additional paid-in capital	3,430	5,465
Retained earnings	29,164	25,563
Accumulated other comprehensive loss	(5,881)	(3,778)
Total HP stockholders' equity	26,731	27,269
Non-controlling interests	396	387
Total stockholders' equity	27,127	27,656
Total liabilities and stockholders' equity	$ 103,206	$ 105,676

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	For the fiscal years ended October 31		
	2014	2013	2012
		In millions	
Cash flows from operating activities:			
Net earnings (loss)	$ 5,013	$ 5,113	$ (12,650)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,334	4,611	5,095
Impairment of goodwill and intangible assets			18,035
Stock-based compensation expense	560	500	635
Provision for doubtful accounts	55	61	142
Provision for inventory	211	275	277
Restructuring charges	1,619	990	2,266
Deferred taxes on earnings	(34)	(410)	(711)
Excess tax benefit from stock-based compensation	(58)	(2)	(12)
Other, net	81	443	265
Changes in operating assets and liabilities (net of acquisitions):			
Accounts receivable	2,017	530	1,687
Financing receivables	420	484	(418)
Inventory	(580)	(4)	890
Accounts payable	1,912	541	(1,414)
Taxes on earnings	310	417	(320)
Restructuring	(1,506)	(904)	(840)
Other assets and liabilities	(2,021)	(1,037)	(2,356)
Net cash provided by operating activities	12,333	11,608	10,571
Cash flows from investing activities:			
Investment in property, plant and equipment	(3,853)	(3,199)	(3,706)
Proceeds from sale of property, plant and equipment	843	653	617
Purchases of available-for-sale securities and other investments	(1,086)	(1,243)	(972)
Maturities and sales of available-for-sale securities and other investments	1,347	1,153	662
Payments made in connection with business acquisitions, net of cash acquired	(49)	(167)	(141)
Proceeds from business divestiture, net	6		87
Net cash used in investing activities	(2,792)	(2,803)	(3,453)
Cash flows from financing activities:			
Short-term borrowings with original maturities less than 90 days, net	148	(154)	(2,775)
Issuance of debt	2,875	279	5,154
Payment of debt	(6,037)	(5,721)	(4,333)
Issuance of common stock under employee stock plans	297	288	716
Repurchase of common stock	(2,728)	(1,532)	(1,619)
Excess tax benefit from stock-based compensation	58	2	12
Cash dividends paid	(1,184)	(1,105)	(1,015)

Net cash used in financing activities		(6,571)		(7,943)		(3,860)
Increase in cash and cash equivalents		2,970		862		3,258
Cash and cash equivalents at beginning of period		12,163		11,301		8,043
Cash and cash equivalents at end of period	$	15,133	$	12,163	$	11,301
Supplemental cash flow disclosures:						
Income taxes paid (net of refunds)	$	1,267	$	1,391	$	1,750
Interest expense paid		678		837		856
Supplemental schedule of non-cash investing and financing activities:						
Purchase of assets under capital leases	$	113	$	3	$	12

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Common Stock				Accumulated Other			
	Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Comprehensive (Loss) Income	Total HP Stockholders' Equity	Non-controlling Interests	Total
	In millions, except number of shares in thousands							
Balance October 31, 2011	1,990,506	$ 20	$ 6,837	$ 35,266	$ (3,498)	$ 38,625	$ 379	$ 39,004
Net loss				(12,650)		(12,650)		(12,650)
Other comprehensive loss					(2,061)	(2,061)		(2,061)
Comprehensive loss						(14,711)		(14,711)
Issuance of common stock in connection with employee stock plans and other	39,068		682	1		683		683
Repurchases of common stock	(66,736)		(1,525)	(101)		(1,626)		(1,626)
Tax deficiency from employee stock plans			(175)			(175)		(175)
Cash dividends declared				(995)		(995)		(995)
Stock-based compensation expense			635			635		635
Changes in non-controlling interest							18	18
Balance October 31, 2012	1,962,838	$ 20	$ 6,454	$ 21,521	$ (5,559)	$ 22,436	$ 397	$ 22,833
Net earnings				5,113		5,113		5,113
Other comprehensive income					1,781	1,781		1,781
Comprehensive income						6,894		6,894
Issuance of common stock in connection with employee stock plans and other	22,950		210	(2)		208		208
Repurchases of common stock	(77,905)	(1)	(1,550)	5		(1,546)		(1,546)
Tax deficiency from employee stock plans			(149)			(149)		(149)
Cash dividends declared				(1,074)		(1,074)		(1,074)
Stock-based compensation expense			500			500		500
Changes in non-controlling interest							(10)	(10)
Balance October 31, 2013	1,907,883	$ 19	$ 5,465	$ 25,563	$ (3,778)	$ 27,269	$ 387	$ 27,656
Net earnings				5,013		5,013		5,013
Other comprehensive income					(2,103)	(2,103)		(2,103)
Comprehensive income						2,910		2,910
Issuance of common stock in connection with employee stock plans and other	23,785		142	1		143		143

Repurchases of common stock	(92,380)	(1)	(2,694)	(262)		(2,957)		(2,957)
Tax deficiency from employee stock plans			(43)			(43)		(43)
Cash dividends declared				(1,151)		(1,151)		(1,151)
Stock-based compensation expense			560			560		560
Changes in non-controlling interest							9	9
Balance October 31, 2014	1,839,288	$ 18	$ 3,430	$ 29,164	$ (5,881)	$ 26,731	$ 396	$ 27,127

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Hewlett-Packard Company ("HP") and the subsidiaries and affiliates in which HP has a controlling financial interest or is the primary beneficiary. HP accounts for investments in companies over which HP has the ability to exercise significant influence but does not hold a controlling interest under the equity method, and HP records its proportionate share of income or losses in Interest and other, net in the Consolidated Statements of Earnings. HP presents non-controlling interests as a separate component within Total stockholder's equity in the Consolidated Balance Sheets. Net earnings attributable to the non-controlling interests are eliminated within Interest and other, net in the Consolidated Statements of Earnings and are not presented separately as they were not material for any period presented. HP has eliminated all intercompany accounts and transactions.

Reclassifications

HP has made certain segment and business unit realignments in order to optimize its operating structure. Reclassifications of certain prior-year segment and business unit financial information have been made to conform to the current-year presentation. None of the changes impacts HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share ("EPS"). See Note 2 for a further discussion of HP's segment reorganization.

Use of Estimates

The preparation of financial statements in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in HP's Consolidated Financial Statements and accompanying notes. Actual results could differ materially from those estimates.

Foreign Currency Translation

HP predominately uses the U.S. dollar as its functional currency. Assets and liabilities denominated in non-U.S. dollars are remeasured into U.S. dollars at current exchange rates for monetary assets and liabilities and at historical exchange rates for nonmonetary assets and liabilities. Net revenue, costs and expenses denominated in non-U.S. dollars are recorded in U.S. dollars at monthly average exchange rates prevailing during the period. HP includes gains or losses from foreign currency remeasurement in Interest and other, net in the Consolidated Statements of Earnings. Certain non-U.S. subsidiaries designate the local currency as their functional currency, and HP records the translation of their assets and liabilities into U.S. dollars at the balance sheet date as translation adjustments and includes them as a component of Accumulated other comprehensive loss in the Consolidated Balance Sheets.

Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. HP is required to adopt the amendments in the first quarter of fiscal 2018. Early adoption is

Table of Contents

not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. HP is currently evaluating the impact of these amendments and the transition alternatives on its Consolidated Financial Statements.

In April 2014, the FASB issued guidance which changes the criteria for identifying a discontinued operation. The guidance limits the definition of a discontinued operation to the disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. HP is required to adopt the guidance in the first quarter of fiscal 2016, with early adoption permitted for transactions that have not been reported in financial statements previously issued.

In July 2013, the FASB issued a new accounting standard requiring the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. HP is required to adopt this new standard on a prospective basis in the first quarter of fiscal 2015; however, early adoption is permitted as is retrospective application. HP will adopt the new standard in the first fiscal quarter of 2015 on a prospective basis. Adoption of the new standard is not expected to have a material effect on HP's Consolidated Financial Statements.

Revenue Recognition

General

HP recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the sales price or fee is fixed or determinable, and collectibility is reasonably assured. Additionally, HP recognizes hardware revenue on sales to channel partners, including resellers, distributors or value-added solution providers at the time of delivery when the channel partners have economic substance apart from HP, and HP has completed its obligations related to the sale. HP generally recognizes revenue for its standalone software sales to channel partners on receipt of evidence that the software has been sold to a specific end user. HP limits the amount of revenue recognized for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified refund or return rights.

HP reduces revenue for customer and distributor programs and incentive offerings, including price protection, rebates, promotions, other volume-based incentives and expected returns. Future market conditions and product transitions may require HP to take actions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered. For certain incentive programs, HP estimates the number of customers expected to redeem the incentive based on historical experience and the specific terms and conditions of the incentive.

In instances when revenue is derived from sales of third-party vendor products or services, HP records revenue on a gross basis when HP is a principal to the transaction and on a net basis when HP is acting as an agent between the customer and the vendor. HP considers several factors to determine whether it is acting as a principal or an agent, most notably whether HP is the primary obligor to the customer, has established its own pricing and has inventory and credit risks.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

HP reports revenue net of any taxes collected from customers and remitted to government authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Multiple element arrangements

When a sales arrangement contains multiple elements or deliverables, such as hardware and software products, and/or services, HP allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") of selling price, if available, third party evidence ("TPE") if VSOE of selling price is not available, or estimated selling price ("ESP") if neither VSOE of selling price nor TPE is available. HP establishes VSOE of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. HP establishes TPE of selling price by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. HP establishes ESP based on management judgment considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product life cycle. Consideration is also given to market conditions, such as competitor pricing strategies and technology life cycles. In arrangements with multiple elements, HP allocates the transaction price to the individual units of accounting at inception of the arrangement based on their relative selling price.

In multiple element arrangements that include software that is more-than-incidental, HP allocates the transaction price to the individual units of accounting for the non-software deliverables and to the software deliverables as a group using the relative selling price of each of the deliverables in the arrangement based on the selling price hierarchy. If the arrangement contains more than one software deliverable, the transaction price allocated to the group of software deliverables is then allocated to each component software deliverable.

HP evaluates each deliverable in an arrangement to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value to the customer. For elements with no standalone value, HP recognizes revenue consistent with the pattern of the associated deliverables. If the arrangement includes a customer-negotiated refund or return right or other contingency relative to the delivered items, and the delivery and performance of the undelivered items is considered probable and substantially within HP's control, the delivered element constitutes a separate unit of accounting. In arrangements with combined units of accounting, changes in the allocation of the transaction price between elements may impact the timing of revenue recognition for the contract but will not change the total revenue recognized for the contract.

Product revenue

Hardware

Under HP's standard terms and conditions of sale, HP transfers title and risk of loss to the customer at the time product is delivered to the customer and recognizes revenue accordingly, unless customer acceptance is uncertain or significant obligations to the customer remain. HP reduces revenue for estimated customer returns, price protection, rebates and other programs offered under sales agreements established by HP with its distributors and resellers. HP records revenue from the sale of equipment under sales-type leases as product revenue at the inception of the lease. HP accrues the

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

estimated cost of post-sale obligations, including standard product warranties, based on historical experience at the time HP recognizes revenue.

Software

HP recognizes revenue from perpetual software licenses at the inception of the license term, assuming all revenue recognition criteria have been satisfied. Term-based software license revenue is generally recognized ratably over the term of the license. HP uses the residual method to allocate revenue to software licenses at inception of the arrangement when VSOE of fair value for all undelivered elements, such as post-contract support, exists and all other revenue recognition criteria have been satisfied. HP recognizes revenue from maintenance and unspecified upgrades or updates provided on a when-and-if-available basis ratably over the period during which such items are delivered.

HP recognizes revenue for hosting or software-as-a-service ("SaaS") arrangements as the service is delivered, generally on a straight-line basis, over the contractual period of performance. In hosting arrangements where software licenses are sold, HP recognizes the license revenue according to whether perpetual or term licenses are sold, when all other revenue recognition criteria are satisfied. In hosting arrangements that include software licenses, HP considers the rights provided to the customer (e.g., ownership of a license, contract termination provisions and the feasibility of the customer to operate the software) in determining when to recognize revenue for the licenses.

Services revenue

HP recognizes revenue from fixed-price support or maintenance contracts, including extended warranty contracts and software post-contract customer support agreements, ratably over the contract period and recognizes the costs associated with these contracts as incurred. For time and material contracts, HP recognizes revenue as services are rendered and recognizes costs as they are incurred.

HP recognizes revenue from certain fixed-price contracts, such as consulting arrangements, as work progresses over the contract period on a proportional performance basis, as determined by the percentage of labor costs incurred to date compared to the total estimated contract labor costs of a contract. HP recognizes revenue on fixed-price contracts for design and build projects (to design, develop and construct software and systems) using the percentage-of-completion method. HP uses the cost-to-cost method to measure progress toward completion as determined by the percentage of cost incurred to date compared to the total estimated costs of the project. Estimates of total project costs for fixed-price contracts are regularly revised during the life of a contract. Provisions for estimated losses on fixed-priced contracts are recognized in the period when such losses become known. If reasonable and reliable cost estimates for a project cannot be made, HP uses the completed contract method and recognizes revenue and costs upon service completion.

HP generally recognizes outsourcing services revenue in the period when the service is provided and the amount earned is not contingent on the occurrence of any future event. HP recognizes revenue using an objective measure of output for unit-priced contracts. Revenue for fixed-price outsourcing contracts with periodic billings is recognized on a straight-line basis if the service is provided evenly during the contract term. Provisions for estimated losses on outsourcing arrangements are recognized in the period when such losses become probable and estimable.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

HP recognizes revenue from operating leases on a straight-line basis as service revenue over the rental period.

Financing income

Sales-type and direct-financing leases produce financing income, which HP recognizes at consistent rates of return over the lease term.

Deferred revenue and deferred costs

HP records amounts invoiced to customers in excess of revenue recognized as deferred revenue until the revenue recognition criteria are satisfied. HP records revenue that is earned and recognized in excess of amounts invoiced on services contracts as trade receivables.

Deferred revenue represents amounts invoiced in advance for product support contracts, software customer support contracts, outsourcing startup services work, consulting and integration projects, product sales or leasing income.

HP recognizes costs associated with outsourcing contracts as incurred, unless such costs are considered direct and incremental to the startup phase of the contract, in which case HP defers these costs during the startup phase and subsequently amortizes such costs over the period that outsourcing services are provided, once those services commence. HP amortizes deferred contract costs on a straight-line basis over the remaining term of the contract unless facts and circumstances of the contract indicate a shorter period is more appropriate. Based on actual and projected contract financial performance indicators, HP analyzes the recoverability of deferred contract costs using the undiscounted estimated cash flows of the contract over its remaining term. If such undiscounted cash flows are insufficient to recover the carrying amount of deferred contract costs and long-lived assets directly associated with the contract, the deferred contract costs are first impaired. If a cash flow deficiency remains after reducing the carrying amount of the deferred contract costs to zero, HP evaluates any remaining long-lived assets related to that contract for impairment.

Shipping and Handling

HP includes costs related to shipping and handling in cost of sales.

Stock-Based Compensation

HP determines stock-based compensation expense based on the measurement date fair value of the award. HP recognizes compensation cost only for those awards expected to meet the service and performance vesting conditions on a straight-line basis over the requisite service period of the award. HP determines compensation costs at the aggregate grant level for service-based awards and at the individual vesting tranche level for awards with performance and/or market conditions. HP estimates the forfeiture rate based on its historical experience.

Retirement and Post-Retirement Plans

HP has various defined benefit, other contributory and noncontributory retirement and post-retirement plans. HP generally amortizes unrecognized actuarial gains and losses on a straight-line basis over the average remaining estimated service life of participants. In some cases, HP amortizes actuarial

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

gains and losses using the corridor approach. See Note 4 for a full description of these plans and the accounting and funding policies.

Advertising

Costs to produce advertising are expensed as incurred during production. Costs to communicate advertising are expensed when the advertising is first run. Such costs totaled approximately $784 million in fiscal 2014, $878 million in fiscal 2013 and $1.0 billion in fiscal 2012.

Restructuring

HP records charges associated with management-approved restructuring plans to reorganize one or more of HP's business segments, to remove duplicative headcount and infrastructure associated with business acquisitions or to simplify business processes and accelerate innovation. Restructuring charges can include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations, and contract cancellation costs. HP records restructuring charges based on estimated employee terminations and site closure and consolidation plans. HP accrues for severance and other employee separation costs under these actions when it is probable that benefits will be paid and the amount is reasonably estimable. The rates used in determing severance accruals are based on existing plans, historical experiences and negotiated settlements.

Taxes on Earnings

HP recognizes deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. HP records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

HP records accruals for uncertain tax positions when HP believes that it is not more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. HP makes adjustments to these accruals when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. The provision for income taxes includes the effects of adjustments for uncertain tax positions, as well as any related interest and penalties.

Accounts Receivable

HP establishes an allowance for doubtful accounts for accounts receivable. HP records a specific reserve for individual accounts when HP becomes aware of specific customer circumstances, such as in the case of a bankruptcy filing or deterioration in the customer's operating results or financial position. If there are additional changes in circumstances related to the specific customer, HP further adjusts estimates of the recoverability of receivables. HP maintains bad debt reserves for all other customers based on a variety of factors, including the use of third-party credit risk models that generate quantitative measures of default probabilities based on market factors, the financial condition of customers, the length of time receivables are past due, trends in the weighted-average risk rating for the portfolio, macroeconomic conditions, information derived from competitive benchmarking, significant one-time events and historical experience. The past due or delinquency status of a receivable is based on the contractual payment terms of the receivable.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

HP has third-party revolving short-term financing arrangements intended to facilitate the working capital requirements of certain customers. These financing arrangements, which in certain cases provide for partial recourse, result in the transfer of HP's trade receivables to a third party. HP reflects amounts transferred to, but not yet collected from, the third party in accounts receivable in the Consolidated Balance Sheets. For arrangements involving an element of recourse, the fair value of the recourse obligation is measured using market data from similar transactions and reported as a current liability in the Consolidated Balance Sheets.

Concentrations of Risk

Financial instruments that potentially subject HP to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, receivables from trade customers and contract manufacturers, financing receivables and derivatives.

HP maintains cash and cash equivalents, investments, derivatives and certain other financial instruments with various financial institutions. These financial institutions are located in many different geographic regions, and HP's policy is designed to limit exposure from any particular institution. As part of its risk management processes, HP performs periodic evaluations of the relative credit standing of these financial institutions. HP has not sustained material credit losses from instruments held at these financial institutions. HP utilizes derivative contracts to protect against the effects of foreign currency and interest rate exposures. Such contracts involve the risk of non-performance by the counterparty, which could result in a material loss.

HP sells a significant portion of its products through third-party distributors and resellers and, as a result, maintains individually significant receivable balances with these parties. If the financial condition or operations of these distributors' and resellers' aggregated business deteriorates substantially, HP's operating results could be adversely affected. The ten largest distributor and reseller receivable balances, which were concentrated primarily in North America and Europe, collectively represented approximately 20% and 21% of gross accounts receivable at October 31, 2014 and 2013, respectively. No single customer accounts for more than 10% of gross accounts receivable. Credit risk with respect to other accounts receivable and financing receivables is generally diversified due to the large number of entities comprising HP's customer base and their dispersion across many different industries and geographic regions. HP performs ongoing credit evaluations of the financial condition of its third-party distributors, resellers and other customers and may require collateral, such as letters of credit and bank guarantees, in certain circumstances.

HP utilizes outsourced manufacturers around the world to manufacture HP-designed products. HP may purchase product components from suppliers and sell those components to its outsourced manufacturers thereby creating receivable balances from the outsourced manufacturers. The three largest outsourced manufacturer receivable balances collectively represented 90% and 82% of HP's supplier receivables of $1.0 billion and $1.0 billion at October 31, 2014 and 2013, respectively. HP includes the supplier receivables in Other current assets in the Consolidated Balance Sheets on a gross basis. HP's credit risk associated with these receivables is mitigated wholly or in part, by the amount HP owes to these outsourced manufacturers, as HP generally has the legal right to offset its payables to the outsourced manufacturers against these receivables. HP does not reflect the sale of these components in revenue and does not recognize any profit on these component sales until the related products are sold by HP, at which time any profit is recognized as a reduction to cost of sales.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

HP obtains a significant number of components from single source suppliers due to technology, availability, price, quality or other considerations. The loss of a single source supplier, the deterioration of HP's relationship with a single source supplier, or any unilateral modification to the contractual terms under which HP is supplied components by a single source supplier could adversely affect HP's revenue and gross margins.

Inventory

HP values inventory at the lower of cost or market. Cost is computed using standard cost which approximates actual cost on a first-in, first-out basis. Adjustments to reduce the cost of inventory to its net realizable value are made, if required, for estimated excess, obsolete or impaired balances.

Property, Plant and Equipment

HP states property, plant and equipment at cost less accumulated depreciation. HP capitalizes additions and improvements and expenses maintenance and repairs as incurred. Depreciation expense is recognized on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives are five to 40 years for buildings and improvements and three to 15 years for machinery and equipment. HP depreciates leasehold improvements over the life of the lease or the asset, whichever is shorter. HP depreciates equipment held for lease over the initial term of the lease to the equipment's estimated residual value. The estimated useful lives of assets used solely to support a customer services contract generally do not exceed the term of the customer contract. On retirement or disposition, the asset cost and related accumulated depreciation are removed from the Consolidated Balance Sheets with any gain or loss recognized in the Consolidated Statements of Earnings.

HP capitalizes certain internal and external costs incurred to acquire or create internal use software, principally related to software coding, designing system interfaces and installation and testing of the software. HP amortizes capitalized internal use software costs using the straight-line method over the estimated useful lives of the software, generally from three to five years.

Software Development Costs

HP capitalizes costs incurred to acquire or develop software for resale subsequent to establishing technological feasibility for the software, if significant. HP amortizes capitalized software development costs using the greater of the straight-line amortization method or the ratio that current gross revenues for a product bear to the total current and anticipated future gross revenues for that product. The estimated useful life for capitalized software for resale is generally three years or less. Software development costs incurred subsequent to establishing technological feasibility are generally not significant.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

Business Combinations

HP includes the results of operations of acquired businesses in HP's consolidated results prospectively from the date of acquisition. HP allocates the fair value of purchase consideration to the assets acquired, liabilities assumed, and non-controlling interests in the acquired entity generally based on their fair values at the acquisition date. The excess of the fair value of purchase consideration over the fair value of these assets acquired, liabilities assumed and non-controlling interests in the acquired entity is recorded as goodwill. The primary items that generate goodwill include the value of the synergies between the acquired company and HP and the value of the acquired assembled workforce, neither of which qualifies for recognition as an intangible asset. Acquisition-related expenses and post-acquisition restructuring costs are recognized separately from the business combination and are expensed as incurred.

Goodwill

HP reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. While HP is permitted to conduct a qualitative assessment to determine whether it is necessary to perform a two-step quantitative goodwill impairment test, for its annual goodwill impairment test in the fourth quarter of fiscal 2014, HP performed a quantitative test for all of its reporting units.

Goodwill is tested for impairment at the reporting unit level. At the beginning of its first quarter of fiscal 2014, HP made a change to its reporting units. In connection with continued operational synergies and interdependencies between the Enterprise Servers, Storage and Networking reporting unit and the Technology Services ("TS") reporting unit within the Enterprise Group ("EG") segment, HP combined these reporting units to create the EG reporting unit. As of October 31, 2014, HP's reporting units are consistent with the reportable segments identified in Note 2, except for Enterprise Services ("ES"), which consists of two reporting units: MphasiS Limited and the remainder of ES.

In the first step of the impairment test, HP compares the fair value of each reporting unit to its carrying amount. HP estimates the fair value of its reporting units using a weighting of fair values derived most significantly from the income approach, and to a lesser extent, the market approach. Under the income approach, HP estimates the fair value of a reporting unit based on the present value of estimated future cash flows. HP bases cash flow projections on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. HP bases the discount rate on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the reporting unit's ability to execute on the projected cash flows. Under the market approach, HP estimates fair value based on market multiples of revenue and earnings derived from comparable publicly-traded companies with similar operating and investment characteristics as the reporting unit. HP weights the fair value derived from the market approach depending on the level of comparability of these publicly-traded companies to the reporting unit. When market comparables are not meaningful or not available, HP estimates the fair value of a reporting unit using only the income approach. For the MphasiS Limited reporting unit, HP utilized the quoted market price in an active market to estimate fair value.

In order to assess the reasonableness of the estimated fair value of HP's reporting units, HP compares the aggregate reporting unit fair value to HP's market capitalization and calculates an implied control premium (the excess of the sum of the reporting units' fair value over HP's market

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

capitalization). HP evaluates the control premium by comparing it to observable control premiums from recent comparable transactions. If the implied control premium is not believed to be reasonable in light of these recent transactions, HP reevaluates reporting unit fair values, which may result in an adjustment to the discount rate and/or other assumptions. This reevaluation could result in a change to the estimated fair value for certain or all reporting units.

If the fair value of a reporting unit exceeds the carrying amount of the net assets assigned to that reporting unit, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than its carrying amount, then HP performs the second step of the goodwill impairment test to measure the amount of impairment loss, if any. In the second step, HP measures the reporting unit's assets, including any unrecognized intangible assets, liabilities and non-controlling interests at fair value in a hypothetical analysis to calculate the implied fair value of goodwill for the reporting unit in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than its carrying amount, the difference is recorded as an impairment loss.

Intangible Assets and Long-Lived Assets

HP reviews intangible assets with finite lives and long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. HP assesses the recoverability of assets based on the estimated undiscounted future cash flows expected to result from the use and eventual disposition of the asset. If the undiscounted future cash flows are less than the carrying amount, the asset is impaired. HP measures the amount of impairment loss, if any, as the difference between the carrying amount of the asset and its fair value using an income approach or, when available and appropriate, using a market approach. HP amortizes intangible assets with finite lives using the straight-line method over the estimated economic lives of the assets, ranging from one to ten years.

Debt and Marketable Equity Securities Investments

Debt and marketable equity securities are generally considered available-for-sale and are reported at fair value with unrealized gains and losses, net of applicable taxes, in Accumulated other comprehensive loss in the Consolidated Balance Sheets. Realized gains and losses for available-for-sale securities are calculated based on the specific identification method and included in Interest and other, net in the Consolidated Statements of Earnings. HP monitors its investment portfolio for potential impairment on a quarterly basis. When the carrying amount of an investment in debt securities exceeds its fair value and the decline in value is determined to be other-than-temporary (i.e., when HP does not intend to sell the debt securities and it is not more likely than not that HP will be required to sell the debt securities prior to anticipated recovery of its amortized cost basis), HP records an impairment charge to Interest and other, net in the amount of the credit loss and the balance, if any, is recorded in Accumulated other comprehensive loss in the Consolidated Balance Sheets.

Derivatives

HP uses derivative financial instruments, primarily forwards, swaps, and options, to hedge certain foreign currency and interest rate exposures. HP also may use other derivative instruments not designated as hedges, such as forwards used to hedge foreign currency balance sheet exposures. HP

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

does not use derivative financial instruments for speculative purposes. See Note 11 for a full description of HP's derivative financial instrument activities and related accounting policies.

Loss Contingencies

HP is involved in various lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. HP records a liability for contingencies when it believes it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. See Note 15 for a full description of HP's loss contingencies and related accounting policies.

Note 2: Segment Information

HP is a leading global provider of products, technologies, software, solutions and services to individual consumers, small- and medium-sized businesses ("SMBs") and large enterprises, including customers in the government, health and education sectors. HP's offerings span personal computing and other access devices; imaging- and printing-related products and services; enterprise information technology ("IT") infrastructure, including enterprise server and storage technology, networking products and solutions, and technology support and maintenance; multi-vendor customer services, including technology consulting, outsourcing and support services across infrastructure, applications and business process domains; and IT management software, application testing and delivery software, information management solutions, big data analytics, security intelligence and risk management solutions.

HP's operations are organized into seven segments for financial reporting purposes: Personal Systems, Printing, the EG, ES, Software, HP Financial Services ("HPFS") and Corporate Investments. HP's organizational structure is based on a number of factors that management uses to evaluate, view and run its business operations, which include, but are not limited to, customer base and homogeneity of products and technology. The segments are based on this organizational structure and information reviewed by HP's management to evaluate segment results.

The Personal Systems segment and the Printing segment are structured beneath a broader Printing and Personal Systems Group ("PPS"). While PPS is not a reportable segment, HP may provide financial data aggregating the Personal Systems and the Printing segments in order to provide a supplementary view of its business.

A summary description of each segment follows.

The *Printing and Personal Systems Group's* mission is to leverage the respective strengths of the Personal Systems business and the Printing business by creating a unified organization that is customer-focused and poised to capitalize on rapidly shifting industry trends. Each of the segments within PPS is described below.

Personal Systems provides commercial Personal Computers ("PCs"), consumer PCs, workstations, thin clients, tablets, retail point-of-sale systems, calculators and other related accessories, software, support and services for the commercial and consumer markets. HP groups commercial notebooks, commercial desktops, commercial tablets, workstations and thin clients into commercial clients and consumer notebooks, consumer desktops and consumer tablets into consumer clients when describing performance in these markets. Described below are HP's global business capabilities within Personal Systems.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 2: Segment Information (Continued)

Commercial PCs are optimized for use by customers, including enterprise and SMB customers, and for connectivity, reliability and manageability in networked environments.

Consumer PCs include the HP Spectre, HP ENVY, HP Pavilion, HP Chromebook, HP Split and HP Slate series of multi-media consumer notebooks, consumer tablets, hybrids and desktops.

Printing provides consumer and commercial printer hardware, supplies, media, software and services, as well as scanning devices. Printing is also focused on imaging solutions in the commercial markets. HP groups LaserJet, large format printers and commercial inkjet printers into commercial hardware and consumer inkjet printers into consumer hardware when describing performance in these markets. Described below are HP's global business capabilities within Printing.

LaserJet and Enterprise Solutions deliver HP's LaserJet and enterprise products, services and solutions to the SMB and enterprise segments. Managed Print Services provides printing equipment, supplies, support, workflow optimization and security services for SMB and enterprise customers around the world, utilizing proprietary HP tools and fleet management solutions as well as third-party software.

Inkjet and Printing Solutions deliver HP's consumer and SMB inkjet solutions (hardware, supplies, media, and web-connected hardware and services). Ongoing initiatives and programs such as Ink in the Office and Ink Advantage and newer initiatives such as Instant Ink provide innovative printing solutions to consumers and SMBs.

Graphics Solutions delivers large format printers (Designjet, Large Format Production, and Scitex Industrial), specialty printing, digital press solutions (Indigo and Inkjet Webpress), supplies and services to print service providers and design & rendering customers.

Software and Web Services delivers a suite of offerings, including photo-storage and printing offerings (such as Snapfish), document storage, entertainment services, web-connected printing, and PC back-up and related services.

The *Enterprise Group* provides servers, storage, networking and technology services that, when combined with HP's Cloud solutions, enable customers to manage applications across public cloud, virtual private cloud, private cloud and traditional IT environments. Described below are HP's business units and capabilities within EG.

Industry Standard Servers offers a range of products from entry-level servers through premium ProLiant servers, which run primarily Windows, Linux and virtualization platforms from software providers such as Microsoft and VMware and open sourced software from other major vendors while leveraging x86 processors from Intel and AMD.

Business Critical Systems offers HP Integrity servers based on the Intel® Itanium® processor, HP Integrity NonStop solutions and mission-critical x86 ProLiant servers.

Storage offers traditional storage and Converged Storage solutions. Traditional storage includes tape, storage networking and legacy external disk products such as EVA and XP. Converged Storage solutions include 3PAR StoreServ, StoreOnce and StoreVirtual products.

Networking offers switches, routers, wireless local area network and network management products that span the data center, campus and branch environments and deliver software-defined networking and unified communications capabilities.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 2: Segment Information (Continued)

Technology Services provides support services and technology consulting optimizing EG's hardware platforms, and focuses on cloud, mobility and big data. These services are available in the form of service contracts, pre-packaged offerings or on a customized basis.

Enterprise Services provides technology consulting, outsourcing and support services across infrastructure, applications and business process domains. ES is comprised of Infrastructure Technology Outsourcing, Application and Business Services.

Infrastructure Technology Outsourcing delivers comprehensive services that encompass the management of data centers, IT security, cloud computing, workplace technology, networks, unified communications and enterprise service management.

Application and Business Services helps clients develop, revitalize and manage their applications and information assets.

Software provides IT management, application testing and delivery, information management, big data analytics, security intelligence and risk management solutions for businesses and enterprises of all sizes. Our software offerings include licenses, support, professional services and SaaS.

HP Financial Services provides flexible investment solutions, such as leasing, financing, utility programs and asset management services, for customers to enable the creation of unique technology deployment models and acquire complete IT solutions, including hardware, software and services from HP and others. Providing flexible services and capabilities that support the entire IT lifecycle, HPFS partners with customers globally to help build investment strategies that enhance their business agility and support their business transformation. HPFS offers a wide selection of investment solution capabilities for large enterprise customers and channel partners, along with an array of financial options to SMBs and educational and governmental entities.

Corporate Investments includes HP Labs and certain cloud-related business incubation projects among others.

Segment Policy

HP derives the results of the business segments directly from its internal management reporting system. The accounting policies HP uses to derive segment results are substantially the same as those the consolidated company uses. Management measures the performance of each segment based on several metrics, including earnings from operations. Management uses these results, in part, to evaluate the performance of, and to allocate resources to, each of the segments.

Segment revenue includes revenues from sales to external customers and intersegment revenues that reflect transactions between the segments on an arm's-length basis. Intersegment revenues primarily consist of sales of hardware and software that are sourced internally and, in the majority of the cases, are financed as operating leases by HPFS. HP's consolidated net revenue is derived and reported after the elimination of intersegment revenues from such arrangements.

HP periodically engages in intercompany licensing arrangements that may result in advance payments between subsidiaries. Revenues from intercompany licensing arrangements are deferred and recognized ratably over the term of the arrangement by the legal entities involved in such transactions; however, these payments are eliminated from revenues as reported by HP and its business segments. As disclosed in Note 6, during fiscal 2014, HP executed a multi-year intercompany licensing

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 2: Segment Information (Continued)

arrangement on which advanced royalty payments of $10.4 billion were received in the U.S. from a foreign consolidated affiliate. Deferred intercompany royalty revenues of $9.9 billion will be recognized over the life of the arrangement through 2029 in the respective legal entities, but eliminated from both HP consolidated and segment revenues.

Financing interest in the Consolidated Statements of Earnings reflects interest expense on debt attributable to HPFS. Debt attributable to HPFS consists of intercompany equity that is treated as debt for segment reporting purposes, intercompany debt, and borrowing- and funding-related activity associated with HPFS and its subsidiaries.

HP does not allocate to its segments certain operating expenses, which it manages at the corporate level. These unallocated costs include certain corporate governance costs, stock-based compensation expense, amortization of intangible assets, impairment of goodwill and intangible assets, restructuring charges and acquisition-related charges.

Segment Realignment

Effective at the beginning of its first quarter of fiscal 2014, HP implemented certain organizational changes to align its segment financial reporting more closely with its current business structure. These organizational changes include:

- transferring the HP Exstream business from the Commercial Hardware business unit within the Printing segment to the Software segment;

- transferring the Personal Systems trade and warranty support business from the TS business unit within the EG segment to the Other business unit within the Personal Systems segment;

- transferring the spare and replacement parts business supporting the Personal Systems and Printing segments from the TS business unit within the EG segment to the Other business unit within the Personal Systems segment and the Commercial Hardware business unit within the Printing segment, respectively;

- transferring certain cloud-related incubation activities previously reported in Corporate and unallocated costs and eliminations and in the EG segment to the Corporate Investments segment.

In addition, HP transferred certain intrasegment eliminations from the ES segment and the EG segment to corporate intersegment revenue eliminations.

HP has reflected these changes to its segment information retrospectively to the earliest period presented, which has resulted in the transfer of revenue among the Printing, Personal Systems, EG, ES and Software segments and the transfer of operating profit among the Printing, Personal Systems, EG, Software and Corporate Investments segments. These changes had no impact on the previously reported financial results for the HPFS segment. In addition, none of these changes impacted HP's previously reported consolidated net revenue, earnings from operations, net earnings or net EPS.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 2: Segment Information (Continued)

Segment Operating Results

	Printing and Personal Systems: Personal Systems	Printing and Personal Systems: Printing	Enterprise Group	Enterprise Services	Software	HP Financial Services	Corporate Investments	Total
	In millions							
2014								
Net revenue	$ 33,304	$ 22,719	$ 26,809	$ 21,297	$ 3,607	$ 3,416	$ 302	$ 111,454
Intersegment net revenue and other	999	260	1,005	1,101	326	82		3,773
Total segment net revenue	$ 34,303	$ 22,979	$ 27,814	$ 22,398	$ 3,933	$ 3,498	$ 302	$ 115,227
Earnings (loss) from operations	$ 1,270	$ 4,185	$ 4,008	$ 803	$ 872	$ 389	$ (199)	$ 11,328
2013								
Net revenue	$ 31,232	$ 23,685	$ 27,045	$ 23,041	$ 3,701	$ 3,570	$ 24	$ 112,298
Intersegment net revenue and other	947	211	1,036	1,020	320	59		3,593
Total segment net revenue	$ 32,179	$ 23,896	$ 28,081	$ 24,061	$ 4,021	$ 3,629	$ 24	$ 115,891
Earnings (loss) from operations	$ 980	$ 3,933	$ 4,259	$ 679	$ 868	$ 399	$ (316)	$ 10,802
2012								
Net revenue	$ 34,892	$ 24,317	$ 28,349	$ 25,090	$ 3,868	$ 3,784	$ 57	$ 120,357
Intersegment net revenue and other	951	221	1,294	903	303	35	1	3,708

Total segment net revenue	$ 35,843	$ 24,538	$ 29,643	$ 25,993	$ 4,171	$ 3,819	$ 58	$ 124,065
Earnings (loss) from operations	$ 1,724	$ 3,612	$ 5,123	$ 1,045	$ 836	$ 388	$ (233)	$ 12,495

The reconciliation of segment operating results to HP consolidated results was as follows:

	For the fiscal years ended October 31		
	2014	2013	2012
		In millions	
Net Revenue:			
Total segments	$ 115,227	$ 115,891	$ 124,065
Elimination of intersegment net revenue and other	(3,773)	(3,593)	(3,708)
Total HP consolidated net revenue	$ 111,454	$ 112,298	$ 120,357
Earnings before taxes:			
Total segment earnings from operations	$ 11,328	$ 10,802	$ 12,495
Corporate and unallocated costs and eliminations	(953)	(786)	(787)
Stock-based compensation expense	(560)	(500)	(635)
Amortization of intangible assets	(1,000)	(1,373)	(1,784)
Impairment of goodwill and intangible assets			(18,035)
Restructuring charges	(1,619)	(990)	(2,266)
Acquisition-related charges	(11)	(22)	(45)
Interest and other, net	(628)	(621)	(876)
Total HP consolidated earnings (loss) before taxes	$ 6,557	$ 6,510	$ (11,933)

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 2: Segment Information (Continued)

Segment Assets

HP allocates assets to its business segments based on the segments primarily benefiting from the assets. Total assets by segment and the reconciliation of segment assets to HP consolidated assets were as follows:

	As of October 31	
	2014	2013[1]
	In millions	
Personal Systems	$ 12,104	$ 11,690
Printing	10,063	11,088
Printing and Personal Systems Group	22,167	22,778
Enterprise Group	27,236	29,759
Enterprise Services	13,472	16,217
Software	11,575	11,940
HP Financial Services	13,529	12,746
Corporate Investments	34	105
Corporate and unallocated assets	15,193	12,131
Total HP consolidated assets	$ 103,206	$ 105,676

(1) HP has revised the presentation for the fiscal year ended October 31, 2013 in order to present comparable information with the current year period.

Major Customers

No single customer represented 10% or more of HP's total net revenue in any fiscal year presented.

Geographic Information

Net revenue by country is based upon the sales location that predominately represents the customer location. For each of the fiscal years of 2014, 2013 and 2012, other than the U.S., no country represented more than 10% of HP net revenue.

Net revenue by country in which HP operates was as follows:

	For the fiscal years ended October 31		
	2014	2013	2012
	In millions		
U.S.	$ 38,805	$ 40,284	$ 42,140
Other countries	72,649	72,014	78,217
Total net revenue	$ 111,454	$ 112,298	$ 120,357

As of October 31, 2014, the U.S., Netherlands and Ireland each represented more than 10% of net assets. As of October 31, 2013, the U.S., the Cayman Islands and Ireland each represented 10% or more of net assets.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 2: Segment Information (Continued)

Net property, plant and equipment by country in which HP operates was as follows:

	As of October 31	
	2014	2013
	In millions	
U.S.	$ 5,668	$ 5,546
The United Kingdom.	1,053	1,090
Other countries	4,619	4,827
Total net property, plant and equipment	$ 11,340	$ 11,463

Net revenue by segment and business unit was as follows:

	For the fiscal years ended October 31		
	2014	2013	2012
		In millions	
Notebooks	$ 17,540	$ 16,029	$ 18,830
Desktops	13,197	12,844	13,888
Workstations	2,218	2,147	2,148
Other	1,348	1,159	977
Personal Systems	34,303	32,179	35,843
Supplies	14,917	15,716	16,151
Commercial Hardware	5,717	5,744	5,946
Consumer Hardware	2,345	2,436	2,441
Printing	22,979	23,896	24,538
Total Printing and Personal Systems Group	57,282	56,075	60,381
Industry Standard Servers	12,474	12,102	12,582
Technology Services	8,466	8,788	9,152
Storage	3,316	3,475	3,815
Networking	2,629	2,526	2,482
Business Critical Systems	929	1,190	1,612

Enterprise Group	27,814	28,081	29,643
Infrastructure Technology Outsourcing	14,038	15,223	16,176
Application and Business Services	8,360	8,838	9,817
Enterprise Services	22,398	24,061	25,993
Software	3,933	4,021	4,171
HP Financial Services	3,498	3,629	3,819
Corporate Investments	302	24	58
Total segment net revenue	115,227	115,891	124,065
Eliminations of intersegment net revenue and other	(3,773)	(3,593)	(3,708)
Total net revenue	$ 111,454	$ 112,298	$ 120,357

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 3: Restructuring

Summary of Restructuring Plans

HP's restructuring activities in fiscal 2014 summarized by plan were as follows:

		Fiscal 2014				As of October 31, 2014	
	Balance, October 31, 2013	Charges	Cash Payments	Other Adjustments and Non-Cash Settlements	Balance, October 31, 2014	Total Costs Incurred to Date	Total Expected Costs to Be Incurred
				In millions			
Fiscal 2012 Plan							
Severance and EER	$ 945	$ 1,357	$ (1,233)	$ (114)	$ 955	$ 4,393	$ 5,000
Infrastructure and other	40	268	(208)	(2)	98	515	540
Total 2012 Plan	985	1,625	(1,441)	(116)	1,053	4,908	5,540
Other Plans:							
Severance	10		(3)		7	2,629	2,629
Infrastructure	122	(6)	(62)		54	1,433	1,437
Total Other Plans	132	(6)	(65)		61	4,062	4,066
Total restructuring plans	$ 1,117	$ 1,619	$ (1,506)	$ (116)	$ 1,114	$ 8,970	$ 9,606
Reflected in Consolidated Balance Sheets:							
Accrued restructuring	$ 901				$ 898		
Other liabilities	$ 216				$ 216		

Fiscal 2012 Restructuring Plan

On May 23, 2012, HP adopted a multi-year restructuring plan (the "2012 Plan") designed to simplify business processes, accelerate innovation and deliver better results for customers, employees and stockholders. As of October 31, 2013, HP estimated that it would eliminate approximately 34,000 positions in connection with the 2012 Plan through fiscal 2014, with a portion of those employees exiting the company as part of voluntary enhanced early retirement ("EER") programs in the U.S. and in certain other countries. As of October 31, 2013, HP estimated that it would recognize approximately $4.1 billion in aggregate charges in connection with the 2012 Plan.

In fiscal 2014, HP increased the expected number of positions to be eliminated to 55,000 as HP continued to optimize the workforce and reengineer business processes to be more competitive and meet its objectives. As a result, as of October 31, 2014, HP estimates that it will recognize approximately $5.5 billion in aggregate charges in connection with the 2012 Plan. As of October 31, 2014, HP had recorded $4.9 billion in aggregate charges of which $4.4 billion related to workforce reductions and $515 million related to infrastructure, including data center and real estate consolidation, and other items. As of October 31, 2014, HP had eliminated approximately 40,900 positions for which a severance payment has been or will be made as part of the 2012 Plan. The severance- and infrastructure-related cash payments associated with the 2012 Plan are expected to be paid out through fiscal 2021.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 3: Restructuring (Continued)

Other Plans

Restructuring plans initiated by HP in fiscal 2008 and 2010 were substantially completed as of October 31, 2014. Severance- and infrastructure-related cash payments associated with the other plans are expected to be paid out through fiscal 2019.

Note 4: Retirement and Post-Retirement Benefit Plans

Defined Benefit Plans

HP sponsors a number of defined benefit pension plans worldwide, of which the most significant are in the United States. Both the HP Pension Plan ("Pension Plan"), a defined benefit pension plan under which benefits are based on pay and years of service, and the HP Company Cash Account Pension Plan ("Cash Account Pension Plan"), under which benefits are accrued pursuant to a formula based on a percentage of pay plus interest, were frozen effective January 1, 2008. The Cash Account Pension Plan was merged into the HP Pension Plan in 2005 for certain funding and investment purposes. Effective October 30, 2009 the Electronic Data Systems Corporation ("EDS") U.S. qualified pension plan was also merged into the Pension Plan. The EDS pension plan was frozen effective January 1, 2009.

HP reduces the benefit payable to certain U.S. employees under the Pension Plan for service before 1993, if any, by any amounts due to the employee under HP's frozen defined contribution Deferred Profit-Sharing Plan ("DPSP"). HP closed the DPSP to new participants in 1993. The DPSP plan obligations are equal to the plan assets and are recognized as an offset to the Pension Plan when HP calculates its defined benefit pension cost and obligations. The fair value of plan assets and projected benefit obligations for the U.S. defined benefit plans combined with the DPSP were as follows:

	For the fiscal years ended October 31			
	2014		2013	
	Plan Assets	Projected Benefit Obligation	Plan Assets	Projected Benefit Obligation
	In millions			
U.S. defined benefit plans	$ 11,979	$ 13,756	$ 10,866	$ 11,866
DPSP	828	828	837	837
Total	$ 12,807	$ 14,584	$ 11,703	$ 12,703

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

Post-Retirement Benefit Plans

HP sponsors retiree health and welfare benefit plans, of which the most significant are in the U.S. Under the HP Retiree Welfare Benefits Plan, certain pre-2003 retirees and grandfathered participants with continuous service to HP since 2002 are eligible to receive partially-subsidized medical coverage based on years of service at retirement. Former grandfathered employees of Digital Equipment Corporation also receive partially-subsidized medical benefits that are not service-based. HP's share of the premium cost is capped for all subsidized medical coverage provided under the HP Retiree Welfare Benefits Plan. HP currently leverages the employer group waiver plan process to provide HP Retiree Welfare Benefits Plan post-65 prescription drug coverage under Medicare Part D, thereby giving HP access to federal subsidies to help pay for retiree benefits.

Certain employees not grandfathered under the above programs, as well as employees hired after 2002 but before August 2008, are eligible for credits under the HP Retirement Medical Savings Account Plan ("RMSA") upon attaining age 45. Credits offered after September 2008 are provided in the form of matching credits on employee contributions made to a voluntary employee beneficiary association. On retirement, former employees may use these credits for the reimbursement of certain eligible medical expenses, including premiums required for coverage.

Defined Contribution Plans

HP offers various defined contribution plans for U.S. and non-U.S. employees. Total defined contribution expense was $573 million in fiscal 2014, $603 million in fiscal 2013 and $628 million in fiscal 2012. U.S. employees are automatically enrolled in the Hewlett-Packard Company 401(k) Plan ("HP 401(k) Plan") when they meet eligibility requirements, unless they decline participation.

The quarterly employer matching contributions in the HP 401(K) Plan are 100% of an employee's contributions, up to a maximum of 4% of eligible compensation.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

Pension and Post-Retirement Benefit Expense

HP's net pension and post-retirement benefit (credit) cost recognized in the Consolidated Statements of Earnings was as follows:

	For the fiscal years ended October 31								
	2014	2013	2012	2014	2013	2012	2014	2013	2012
	U.S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans			Post-Retirement Benefit Plans		
	In millions								
Service cost	$ 1	$ 1	$ 1	$ 308	$ 337	$ 294	$ 5	$ 6	$ 7
Interest cost	569	560	566	737	676	690	32	31	35
Expected return on plan assets	(811)	(845)	(793)	(1,140)	(1,007)	(816)	(34)	(34)	(38)
Amortization and deferrals:									
Actuarial loss (gain)	15	77	43	318	341	235	(10)	2	(3)
Prior service benefit				(23)	(27)	(24)	(41)	(67)	(79)
Net periodic benefit (credit) cost	(226)	(207)	(183)	200	320	379	(48)	(62)	(78)
Curtailment (gain) loss				(7)	(3)	4		(7)	(30)
Settlement loss (gain)	1	12	11	12	18	(18)			
Special termination benefits			833	50	31	17	32	(5)	227
Net benefit (credit) cost	$ (225)	$ (195)	$ 661	$ 255	$ 366	$ 382	$ (16)	$ (74)	$ 119

The weighted-average assumptions used to calculate net benefit (credit) cost were as follows:

	For the fiscal years ended October 31								
	2014	2013	2012	2014	2013	2012	2014	2013	2012
	U.S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans			Post-Retirement Benefit Plans		
Discount rate	4.9%	4.1%	4.8%	3.9%	3.8%	4.5%	3.9%	3.0%	4.4%
Expected increase in compensation levels	2.0%	2.0%	2.0%	2.4%	2.4%	2.5%			
Expected long-term return on plan assets	7.7%	7.8%	7.6%	7.0%	7.2%	6.4%	8.9%	9.0%	10.0%

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

Funded Status

The funded status of the defined benefit and post-retirement benefit plans was as follows:

	As of October 31					
	2014	2013	2014	2013	2014	2013
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	In millions					
Change in fair value of plan assets:						
Fair value beginning of year	$ 10,866	$ 11,536	$ 16,083	$ 14,021	$ 396	$ 395
Acquisition/addition of plans			8	7		
Actual return on plan assets	1,648	629	1,814	1,842	83	32
Employer contributions	27	54	1,019	634	92	102
Participant contributions			64	63	54	72
Benefits paid	(558)	(1,320)	(568)	(504)	(167)	(205)
Settlement	(4)	(33)	(49)	(96)		
Currency impact			(801)	116		
Fair value end of year	11,979	10,866	17,570	16,083	458	396
Change in benefit obligation:						
Projected benefit obligation beginning of year	11,866	14,237	19,152	18,097	867	1,056
Acquisition/addition of plans			10	14		
Service cost	1	1	308	337	5	6
Interest cost	569	560	737	676	32	31
Participant contributions			64	63	54	72
Actuarial loss (gain)	1,882	(1,579)	2,500	343	22	(85)
Benefits paid	(558)	(1,320)	(568)	(504)	(167)	(205)
Plan amendments				6		
Curtailment			(49)	13		
Settlement	(4)	(33)	(49)	(100)		
Special termination benefits			50	31	32	(5)
Currency impact			(935)	176	(5)	(3)
Projected benefit obligation end of year	13,756	11,866	21,220	19,152	840	867
Funded status at end of year	$ (1,777)	$ (1,000)	$ (3,650)	$ (3,069)	$ (382)	$ (471)
Accumulated benefit obligation	$ 13,755	$ 11,865	$ 20,207	$ 18,254		

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

The weighted-average assumptions used to calculate the projected benefit obligations were as follows:

	For the fiscal years ended October 31					
	2014	2013	2014	2013	2014	2013
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
Discount rate	4.4%	4.9%	3.2%	3.9%	3.6%	3.9%
Expected increase in compensation levels	2.0%	2.0%	2.5%	2.4%		

For the U.S. defined benefit plan, HP adopted a new mortality rate table in fiscal 2014 to better reflect expected lifetimes of its U.S. plan participants. The table used is based on a historical demographic study of the plans and increased the projected benefit obligation by approximately $870 million. The increase in the projected benefit obligation was recognized as a part of the net actuarial loss as included in the other comprehensive loss which will be amortized over the remaining estimated life of plan participants (approximately 26.5 years).

The net amounts recognized for HP's defined benefit and post-retirement benefit plans in HP's Consolidated Balance Sheets were as follows:

	As of October 31					
	2014	2013	2014	2013	2014	2013
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	In millions					
Noncurrent assets	$	$	$ 421	$ 479	$	$
Current liabilities	(35)	(33)	(43)	(46)	(47)	(109)
Noncurrent liabilities	(1,742)	(967)	(4,028)	(3,502)	(335)	(362)
Funded status at end of year	$ (1,777)	$ (1,000)	$ (3,650)	$ (3,069)	(382)	$ (471)

The following table summarizes the pretax net actuarial loss (gain) and prior service benefit recognized in accumulated other comprehensive loss for the defined benefit and post-retirement benefit plans:

	For the fiscal year ended October 31, 2014		
	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans
	In millions		
Net actuarial loss (gain)	$ 1,405	$ 5,423	$ (115)
Prior service benefit		(186)	(119)
Total recognized in accumulated other comprehensive loss	$ 1,405	$ 5,237	$ (234)

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

The following table summarizes the net actuarial loss (gain) and prior service benefit that are expected to be amortized from accumulated other comprehensive loss (income) and recognized as components of net periodic benefit cost (credit) during the next fiscal year.

	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans
		In millions	
Net actuarial loss (gain)	$ 54	$ 452	$ (10)
Prior service benefit		(22)	(20)
Total expected to be recognized in net periodic benefit cost (credit)	$ 54	$ 430	$ (30)

Defined benefit plans with projected benefit obligations exceeding the fair value of plan assets were as follows:

	As of October 31			
	2014	2013	2014	2013
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans	
	In millions			
Aggregate fair value of plan assets	$ 11,979	$ 10,866	$ 12,701	$ 10,462
Aggregate projected benefit obligation	$ 13,756	$ 11,866	$ 16,774	$ 14,010

Defined benefit plans with accumulated benefit obligations exceeding the fair value of plan assets were as follows:

	As of October 31			
	2014	2013	2014	2013
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans	
	In millions			
Aggregate fair value of plan assets	$ 11,979	$ 10,866	$ 12,578	$ 9,926
Aggregate accumulated benefit obligation	$ 13,755	$ 11,865	$ 15,797	$ 12,703

Retirement Incentive Program

As part of the 2012 restructuring plan, the company announced a voluntary enhanced early retirement program for its U.S employees. Participation in the EER program was limited to those employees whose combined age and years of service equaled 65 or more. Approximately 8,500 employees elected to participate in the EER program and left the company on dates designated by the company, with the majority of the EER participants having left the company on August 31, 2012 and others exiting through August 31, 2013. The HP Pension Plan was amended to provide for an EER benefit from the plan for electing EER participants who were current participants in the plan. The retirement incentive benefit was calculated as a lump sum and ranged between five and fourteen months of pay depending on years of service at the time of retirement under the program. As a result of this retirement incentive, HP recognized a special termination benefit ("STB") of $833 million, which reflected the present value of all additional benefits that HP would distribute from the HP Pension Plan. HP recorded these expenses as a restructuring charge. In addition, the HP Pension Plan was remeasured on June 30, 2012, which resulted in no material change to the 2012 net periodic benefit cost or funded status.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

HP extended to all employees participating in the EER program the opportunity to continue health care coverage at active employee contribution rates for up to 24 months following retirement. In addition, for employees not grandfathered into certain employer-subsidized retiree medical plans, HP provided up to $12,000 in employer credits under the RMSA. These items resulted in an additional special termination benefit STB expense of $227 million, which was offset by net curtailment gains of $37 million, due primarily to the resulting accelerated recognition of the existing prior service benefit. The entire STB and approximately $30 million in curtailment gains were recognized in fiscal 2012. HP reported this net expense as a restructuring charge in the Consolidated Statements of Earnings.

Fair Value of Plan Assets

The table below sets forth the fair value of plan assets by asset category within the fair value hierarchy.

	As of October 31, 2014											
	U.S. Defined Benefit Plans				Non-U.S. Defined Benefit Plans				Post-Retirement Benefit Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	In millions											
Asset Category:												
Equity securities												
U.S.	$ 1,787	$	$	$ 1,787	$ 2,935	$ 30	$	$ 2,965	$	$	$	$
Non-U.S.	1,268			1,268	4,050	742	80	4,872				
Debt securities												
Corporate		3,283	7	3,290		2,935		2,935		20		20
Government[1]		2,204		2,204		1,787		1,787		22		22
Alternative Investments												
Private Equity[2]			1,284	1,284		2	51	53			271	271
Hybrids[3]			3	3	114	2,466	43	2,623			1	1
Hedge Funds[4]		346	263	609		103	285	388				
Real Estate Funds					220	277	543	1,040				
Insurance Group Annuity Contracts						44	79	123				
Common Collective Trusts and 103-12 Investment Entities[5]		854		854						55		55
Registered Investment Companies[6]	68	314		382					86	1		87
Cash and Cash Equivalents[7]	161	66		227	573			573		6		6
Other[8]	(24)	95		71	79	130	2	211	(4)			(4)
Total	$ 3,260	$ 7,162	$ 1,557	$ 11,979	$ 7,971	$ 8,516	$ 1,083	$ 17,570	$ 82	$ 104	$ 272	$ 458

(1) Includes debt issued by national, state and local governments and agencies.

(2) Includes limited partnerships such as equity, buyout, venture capital, real estate and other similar funds that invest in the U.S. and internationally where foreign currencies are hedged.

(3)

Includes a fund that invests in both private and public equities primarily in the U.S. and the United Kingdom, as well as emerging markets across all sectors. The fund also holds fixed income and derivative instruments to hedge interest rate and inflation risk. In addition, the fund includes units in transferable securities, collective investment schemes, money market funds, cash and deposits.

(4) Includes limited partnerships that invest both long and short primarily in common stocks and credit, relative value, event driven equity, distressed debt and macro strategies. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks and bonds, and from a net long position to a net short position.

(5) Department of Labor 103-12 IE (Investment Entity) designation is for plan assets held by two or more unrelated employee benefit plans which includes limited partnerships and venture capital partnerships.

(6) Includes publicly and privately traded Registered Investment Entities.

(7) Includes cash and cash equivalents such as short-term marketable securities.

(8) Includes international insured contracts, derivative instruments and unsettled transactions.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

Changes in fair value measurements of Level 3 investments were as follows:

	For the fiscal year ended October 31, 2014															
	U.S. Defined Benefit Plans					Non-U.S. Defined Benefit Plans								Post-Retirement Benefit Plans		
	Debt Securities	Alternative Investments				Equity	Alternative Investments							Alternative Investments		
	Corporate Debt	Private Equity	Hybrids	Hedge Funds	Total	Non U.S. Equities	Private Equity	Hedge Funds	Hybrids	Real Estate	Insurance Group Annuities	Other	Total	Private Equity	Hybrids	Total
	In millions															
Beginning balance at October 31, 2013	$	$ 1,250	$ 2	$ 113	$ 1,365	$ 77	$ 48	$ 204	$	$ 325	$ 81	$ 2	$ 737	$ 234	$ 1	$ 235
Actual return on plan assets:																
Relating to assets still held at the reporting date		92	1	10	103	3	2	14		46	(8)		57	51		51
Relating to assets sold during the period		169			169		2	(1)					1	21		21
Purchases, sales, and settlements (net)	7	(227)		140	(80)		(1)	68	43	108	(2)		216	(35)		(35)
Transfers in and/or out of Level 3										64	8		72			
Ending balance at October 31, 2014	$ 7	$ 1,284	$ 3	$ 263	$ 1,557	$ 80	$ 51	$ 285	$ 43	$ 543	$ 79	$ 2	$ 1,083	$ 271	$ 1	$ 272

The table below sets forth the fair value of plan assets by asset category within the fair value hierarchy.

	As of October 31, 2013											
	U.S. Defined Benefit Plans				Non-U.S. Defined Benefit Plans				Post-Retirement Benefit Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	In millions											
Asset Category:												
Equity securities												
U.S.	$ 1,711	$	$	$ 1,711	$ 2,456	$ 31	$	$ 2,487	$	$	$	$
Non-U.S.	1,274			1,274	4,059	670	77	4,806				
Debt securities												
Corporate		3,028		3,028		3,347		3,347		17		17
Government[1]		1,849		1,849		1,751		1,751	5	17		22
Alternative Investments												
Private Equity[2]			1,250	1,250		2	48	50			234	234
Hybrids[3]			2	2		1,223		1,223			1	1
Hedge Funds[4]			113	113		226	204	430				
Real Estate Funds					470	237	325	1,032				
Insurance Group Annuity Contracts						50	81	131				
		1,233		1,233						42		42

Common Collective Trusts and 103-12 Investment Entities(5)												
Registered Investment Companies(6)	61	329		390					79			79
Cash and Cash Equivalents(7)	11	62		73	648	4		652		3		3
Other(8)	(37)	(20)		(57)	110	62	2	174	(2)			(2)
Total	$ 3,020	$ 6,481	$ 1,365	$ 10,866	$ 7,743	$ 7,603	$ 737	$ 16,083	$ 82	$ 79	$ 235	$ 396

(1) Includes debt issued by national, state and local governments and agencies.

(2) Includes limited partnerships such as equity, buyout, venture capital, real estate and other similar funds that invest in the U.S. and internationally where foreign currencies are hedged.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

(3) Includes a fund that invests in both private and public equities primarily in the U.S. and the United Kingdom, as well as emerging markets across all sectors. The fund also holds fixed income and derivative instruments to hedge interest rate and inflation risk. In addition, the fund includes units in transferable securities, collective investment schemes, money market funds, cash and deposits.

(4) Includes limited partnerships that invest both long and short primarily in common stocks and credit, relative value, event driven equity, distressed debt and macro strategies. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks and bonds, and from a net long position to a net short position.

(5) Department of Labor 103-12 IE (Investment Entity) designation is for plan assets held by two or more unrelated employee benefit plans which includes limited partnerships and venture capital partnerships.

(6) Includes publicly and privately traded Registered Investment Entities.

(7) Includes cash and cash equivalents such as short-term marketable securities.

(8) Includes international insured contracts, derivative instruments and unsettled transactions.

Changes in fair value measurements of Level 3 investments were as follows:

	For the fiscal year ended October 31, 2013														
	U.S. Defined Benefit Plans					Non-U.S. Defined Benefit Plans							Post-Retirement Benefit Plans		
	Debt Securities	Alternative Investments				Equity	Alternative Investments						Alternative Investments		
	Corporate Debt	Private Equity	Hybrids	Hedge Funds	Total	Non U.S. Equities	Private Equity	Hedge Funds	Real Estate	Insurance Group Annuities	Other	Total	Private Equity	Hybrids	Total
	In millions														
Beginning balance at October 31, 2012	$ 1	$ 1,300	$ 2	$ 65	$ 1,368	$ 76	$ 21	$ 233	$ 194	$ 88	$ 2	$ 614	$ 235	$ 1	$ 236
Actual return on plan assets:															
Relating to assets still held at the reporting date		(9)		13	4	1	8		16	(5)		20	5		5
Relating to assets sold during the period		143			143			11				11	21		21
Purchases, sales, and settlements (net)		(184)		35	(149)		19	(40)	115	(2)		92	(27)		(27)
Transfers in and/or out of Level 3	(1)				(1)										
Ending balance at October 31, 2013	$	$ 1,250	$ 2	$ 113	$ 1,365	$ 77	$ 48	$ 204	$ 325	$ 81	$ 2	$ 737	$ 234	$ 1	$ 235

The following is a description of the valuation methodologies used to measure plan assets at fair value. There have been no changes in the methodologies used during the reporting period.

Investments in publicly-traded equity securities are valued using the closing price on the measurement date as reported on the stock exchange on which the individual securities are traded. For corporate, government and asset-backed debt securities, fair value is based on observable inputs of comparable market transactions. For corporate and government debt securities traded on active exchanges, fair value is based on observable quoted prices. The valuation of alternative investments, such as limited partnerships and joint ventures, may require significant management judgment. For alternative investments, valuation is based on net asset value ("NAV") as reported by the Asset Manager and adjusted for cash flows, if necessary. In making such an assessment, a variety of factors are reviewed by management, including, but not limited to, the timeliness of NAV as reported by the asset manager and changes in general economic and market conditions subsequent to the last NAV reported by the asset manager. Depending on the amount of management judgment, the lack of near-term liquidity, and the absence of quoted market prices, these assets are classified in Level 2 or Level 3 of the fair value hierarchy. Further, depending on how quickly HP can redeem its hedge fund investments, and the extent of any adjustments to NAV, hedge funds are classified in either Level 2 or Level 3 of the fair value hierarchy. Common collective trusts, interests in 103-12 entities and registered investment companies are valued at NAV. The valuation for some of these assets requires judgment due

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

to the absence of quoted market prices, and these assets are generally classified in Level 2 of the fair value hierarchy. Cash and cash equivalents includes money market funds, which are valued based on NAV. Other assets, including insurance group annuity contracts, were classified in the fair value hierarchy based on the lowest level input (e.g., quoted prices and observable inputs) that is significant to the fair value measure in its entirety.

Plan Asset Allocations

The weighted-average target and actual asset allocations across the benefit plans at the respective measurement dates were as follows:

	U.S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans			Post-Retirement Benefit Plans		
	2014 Target	Plan Assets		2014 Target	Plan Assets		2014 Target	Plan Assets	
Asset Category	**Allocation**	**2014**	**2013**	**Allocation**	**2014**	**2013**	**Allocation**	**2014**	**2013**
Public equity securities		31.3%	36.7%		46.8%	48.0%		10.2%	9.5%
Private/other equity securities		15.8%	12.6%		15.2%	7.9%		58.6%	59.1%
Real estate and other		0.6%			7.1%	7.5%			
Equity-related investments	47.5%	47.7%	49.3%	67.7%	69.1%	63.4%	71.1%	68.8%	68.6%
Debt securities	52.5%	49.2%	48.2%	31.6%	27.6%	32.5%	27.0%	27.5%	29.0%
Cash		3.1%	2.5%	0.7%	3.3%	4.1%	1.9%	3.7%	2.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Investment Policy

HP's investment strategy is to seek a competitive rate of return relative to an appropriate level of risk depending on the funded status of each plan and the timing of expected benefit payments. The majority of the plans' investment managers employ active investment management strategies with the goal of outperforming the broad markets in which they invest. Risk management practices include diversification across asset classes and investment styles and periodic rebalancing toward asset allocation targets. A number of the plans' investment managers are authorized to utilize derivatives for investment or liability exposures, and HP may utilize derivatives to effect asset allocation changes or to hedge certain investment or liability exposures.

The target asset allocation selected for each U.S. plan reflects a risk/return profile HP believes is appropriate relative to each plan's liability structure and return goals. HP conducts periodic asset-liability studies for U.S. plans in order to model various potential asset allocations in comparison to each plan's forecasted liabilities and liquidity needs. HP invests a portion of the U.S. defined benefit plan assets and post-retirement benefit plan assets in private market securities such as private equity funds to provide diversification and a higher expected return on assets.

Outside the U.S., asset allocation decisions are typically made by an independent board of trustees for the specific plan. As in the U.S., investment objectives are designed to generate returns that will enable the plan to meet its future obligations. In some countries, local regulations may restrict asset allocations, typically leading to a higher percentage of investment in fixed income securities than would otherwise be deployed. HP reviews the investment strategy and provides a recommended list of investment managers for each country plan, with final decisions on asset allocation and investment managers made by the board of trustees for the specific plan.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

Basis for Expected Long-Term Rate of Return on Plan Assets

The expected long-term rate of return on plan assets reflects the expected returns for each major asset class in which the plan invests and the weight of each asset class in the target mix. Expected asset returns reflect the current yield on government bonds, risk premiums for each asset class and expected real returns which considers each country's specific inflation outlook. Because HP's investment policy is to employ primarily active investment managers who seek to outperform the broader market, the expected returns are adjusted to reflect the expected additional returns net of fees.

Future Contributions and Funding Policy

In fiscal 2015, HP expects to contribute approximately $686 million to its non-U.S. pension plans and approximately $35 million to cover benefit payments to U.S. non-qualified plan participants. HP expects to pay approximately $47 million to cover benefit claims for HP's post-retirement benefit plans. HP's policy is to fund its pension plans so that it makes at least the minimum contribution required by local government, funding and taxing authorities.

Estimated Future Benefits Payments

As of October 31, 2014, HP estimates that the future benefits payments for the retirement and post-retirement plans are as follows:

Fiscal year	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans
		In millions	
2015	$ 801	$ 567	$ 91
2016	588	528	94
2017	613	560	82
2018	648	606	71
2019	694	659	68
Next five fiscal years to October 31, 2024	3,850	3,980	278

Note 5: Stock-Based Compensation

HP's stock-based compensation plans include incentive compensation plans and an employee stock purchase plan ("ESPP").

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 5: Stock-Based Compensation (Continued)

Stock-Based Compensation Expense and Related Income Tax Benefits

Stock-based compensation expense and the resulting tax benefits were as follows:

	For the fiscal years ended October 31		
	2014	2013	2012
	In millions		
Stock-based compensation expense	$ 560	$ 500	$ 635
Income tax benefit	(179)	(158)	(197)
Stock-based compensation expense, net of tax	$ 381	$ 342	$ 438

Cash received from option exercises and purchases under the Hewlett-Packard Company 2011 Employee Stock Purchase Plan (the "2011 ESPP") was $0.3 billion in fiscal 2014, $0.3 billion in fiscal 2013 and $0.7 billion in fiscal 2012. The benefit realized for the tax deduction from option exercises in fiscal 2014, 2013 and 2012 was $51 million, $13 million and $57 million, respectively.

Stock-Based Incentive Compensation Plans

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

Restricted stock awards are non-vested stock awards that may include grants of restricted stock or restricted stock units. Restricted stock awards and cash-settled awards 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 has the same dividend and voting rights as common stock and is considered to be issued and outstanding upon grant. The dividends paid on restricted stock are non-forfeitable. Restricted stock units have forfeitable dividend equivalent rights equal to the dividend paid on common stock. Restricted stock units do not have the voting rights of common stock, and the shares underlying restricted stock units are not considered issued and outstanding upon grant. However, shares underlying restricted stock units are included in the calculation of diluted net EPS. HP expenses the fair value of restricted stock awards ratably over the period during which the restrictions lapse.

Stock options granted under the principal equity plans are generally non-qualified stock options, but the principal equity plans permit some options granted to qualify as incentive stock options under the U.S. Internal Revenue Code. 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 HP's stock on the option grant date. The majority of stock options issued by HP contain only service vesting conditions. However, starting in fiscal 2011, HP began granting performance-contingent stock options that vest only on the satisfaction of both service and market conditions prior to the expiration of the awards.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 5: Stock-Based Compensation (Continued)

Restricted Stock Awards

A summary of restricted stock awards activity is as follows:

	As of October 31					
	2014		2013		2012	
	Shares In thousands	Weighted-Average Grant Date Fair Value Per Share	Shares In thousands	Weighted-Average Grant Date Fair Value Per Share	Shares In thousands	Weighted-Average Grant Date Fair Value Per Share
Outstanding at beginning of year	32,262	$ 21	25,532	$ 31	16,813	$ 39
Granted	26,036	$ 28	20,707	$ 15	20,316	$ 27
Vested	(14,253)	$ 24	(10,966)	$ 33	(8,521)	$ 38
Forfeited	(3,237)	$ 22	(3,011)	$ 24	(3,076)	$ 34
Outstanding at end of year	40,808	$ 24	32,262	$ 21	25,532	$ 31

The total grant date fair value of restricted stock awards vested in fiscal 2014, 2013 and 2012 was $234 million, $247 million and $229 million, respectively, net of taxes. As of October 31, 2014, total unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards was $511 million, which is expected to be recognized over the remaining weighted-average vesting period of 1.4 years.

Stock Options

HP utilizes the Black-Scholes-Merton option pricing formula to estimate the fair value of stock options subject to service-based vesting conditions. HP estimates the fair value of stock options subject to performance-contingent vesting conditions using a combination of a Monte Carlo simulation model and a lattice model as these awards contain market conditions. The weighted-average fair value and the assumptions used to measure fair value were as follows:

	For the fiscal years ended October 31		
	2014	2013	2012
Weighted-average fair value[(1)]	$7	$4	$9
Expected volatility[(2)]	33.1%	41.7%	41.9%
Risk-free interest rate[(3)]	1.8%	1.1%	1.2%
Expected dividend yield[(4)]	2.1%	3.6%	1.8%
Expected term in years[(5)]	5.7	5.9	5.6

(1)

The weighted-average fair value was based on stock options granted during the period.

(2)

For awards granted in fiscal 2014, expected volatility for awards subject to service-based vesting was estimated using the implied volatility derived from options traded on HP's common stock, whereas for performance-contingent awards, expected volatility was estimated using the historical volatility of HP's common stock. For awards granted in fiscal 2013 and fiscal 2012, expected

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 5: Stock-Based Compensation (Continued)

volatility for all awards was estimated using the implied volatility derived from options traded on HP's common stock.

(3) The risk-free interest rate was estimated based on the yield on U.S. Treasury zero-coupon issues.

(4) The expected dividend yield represents a constant dividend yield applied for the duration of the expected term of the award.

(5) For awards subject to service-based vesting, the expected term was estimated using historical exercise and post-vesting termination patterns; and for performance-contingent awards, the expected term represents an output from the lattice model.

A summary of stock option activity is as follows:

	As of October 31											
	2014				2013				2012			
	Shares In thousands	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term In years	Aggregate Intrinsic Value In millions	Shares In thousands	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term In years	Aggregate Intrinsic Value In millions	Shares In thousands	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term In years	Aggregate Intrinsic Value In millions
Outstanding at beginning of year	84,042	$ 27			87,296	$ 29			120,243	$ 28		
Granted	9,575	$ 28			25,785	$ 15			7,529	$ 27		
Exercised	(11,145)	$ 18			(10,063)	$ 19			(29,683)	$ 20		
Forfeited/cancelled/expired	(24,619)	$ 31			(18,976)	$ 25			(10,793)	$ 35		
Outstanding at end of year	57,853	$ 27	4.3	$ 629	84,042	$ 27	3.9	$ 303	87,296	$ 29	3.0	$ 15
Vested and expected to vest at end of year	54,166	$ 27	4.1	$ 571	80,004	$ 27	3.7	$ 274	85,935	$ 29	2.9	$ 15
Exercisable at end of year	30,459	$ 33	2.3	$ 197	49,825	$ 33	1.8	$ 58	68,437	$ 31	1.9	$ 12

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that option holders would have received had all option holders exercised their options on the last trading day of fiscal 2014, 2013 and 2012. The aggregate intrinsic value is the difference between HP's closing stock price on the last trading day of the fiscal year and the exercise price, multiplied by the number of in-the-money options. The total intrinsic value of options exercised in fiscal 2014, 2013 and 2012 was $151 million, $36 million and $176 million, respectively. The total grant date fair value of options vested in fiscal 2014, 2013 and 2012 was $53 million, $64 million and $104 million, respectively, net of taxes.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 5: Stock-Based Compensation (Continued)

The following table summarizes significant ranges of outstanding and exercisable stock options:

	As of October 31, 2014				
	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Term	Weighted-Average Exercise Price	Shares Exercisable	Weighted-Average Exercise Price
	In thousands	In years		In thousands	
$0-$9.99	324	3.7	$ 7	323	$ 7
$10-$19.99	18,387	5.8	$ 14	3,620	$ 14
$20-$29.99	21,077	5.8	$ 26	9,358	$ 25
$30-$39.99	2,502	3.5	$ 36	1,628	$ 36
$40-$49.99	14,910	0.4	$ 43	14,877	$ 43
$50-$59.99	511	2.3	$ 52	511	$ 52
$60 and over	142	0.1	$ 71	142	$ 71
	57,853	4.3	$ 27	30,459	$ 33

As of October 31, 2014, total unrecognized pre-tax stock-based compensation expense related to stock options was $61 million, which is expected to be recognized over a weighted-average vesting period of 2.0 years.

Employee Stock Purchase Plan

HP sponsors the 2011 ESPP, pursuant to which eligible employees may contribute up to 10% of base compensation, subject to certain income limits, to purchase shares of HP's common stock.

Pursuant to the terms of the 2011 ESPP, employees purchase stock under the 2011 ESPP at a price equal to 95% of HP's closing stock price on the purchase date. No stock-based compensation expense was recorded in connection with those purchases because the criteria of a non-compensatory plan were met.

Shares Reserved

Shares available for future grant and shares reserved for future issuance under the stock-based incentive compensation plans and the 2011 ESPP were as follows:

	As of October 31		
	2014	2013	2012
	In thousands		
Shares available for future grant	246,852	300,984	152,837

Shares reserved for future issuance	344,848	417,642	270,498

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 6: Taxes on Earnings

Provision for Taxes

The domestic and foreign components of earnings (loss) before taxes were as follows:

	For the fiscal years ended October 31		
	2014	2013	2012
	In millions		
U.S.	$ 2,565	$ 2,618	$ (3,192)
Non-U.S.	3,992	3,892	(8,741)
	$ 6,557	$ 6,510	$ (11,933)

The provision for (benefit from) taxes on earnings was as follows:

	For the fiscal years ended October 31		
	2014	2013	2012
	In millions		
U.S. federal taxes:			
Current	$ 381	$ 475	$ 330
Deferred	210	(666)	81
Non-U.S. taxes:			
Current	984	1,275	1,139
Deferred	(42)	89	(787)
State taxes:			
Current	212	57	(41)
Deferred	(201)	167	(5)
	$ 1,544	$ 1,397	$ 717

The differences between the U.S. federal statutory income tax rate and HP's effective tax rate were as follows:

	For the fiscal years ended October 31		
	2014	2013	2012[(1)]
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	0.4%	0.1%	0.5%
Lower rates in other jurisdictions, net	(12.9)%	(24.5)%	13.9%

Valuation allowance	1.7%	3.8%	(14.0)%
Nondeductible goodwill			(40.3)%
Uncertain tax positions	(2.3)%	4.1%	(1.4)%
Other, net	1.6%	3.0%	0.3%
	23.5%	21.5%	(6.0)%

(1) Positive numbers represent tax benefits and negative numbers represent tax expense as HP recorded income tax expense on a pretax loss.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 6: Taxes on Earnings (Continued)

The jurisdictions with favorable tax rates that have the most significant impact on HP's effective tax rate in the periods presented include Puerto Rico, Singapore, Netherlands, China and Ireland. HP plans to reinvest some of the earnings of these jurisdictions indefinitely outside the U.S. and therefore has not provided U.S. taxes on those indefinitely reinvested earnings.

In fiscal 2014, HP recorded $53 million of net income tax charges related to items unique to the year.

In fiscal 2013, HP recorded $471 million of net income tax charges related to items unique to the year. These amounts included $214 million of net increases to valuation allowances, $406 million of tax charges for adjustments to uncertain tax positions and the settlement of tax audit matters and $47 million of tax charges for various prior period adjustments. In addition, HP recorded $146 million of tax benefits from adjustments to prior year foreign income tax accruals and a tax benefit of $50 million arising from the retroactive research and development credit resulting from the American Taxpayer Relief Act of 2012, which was signed into law in January 2013.

In fiscal 2012, HP recorded a $1.3 billion income tax charge to record valuation allowances on certain U.S. deferred tax assets related to the ES segment, which was unique to the year. Other unique items included charges of $297 million for various foreign valuation allowances, as well as $26 million of income tax benefits related to adjustments to prior year foreign income tax accruals, settlement of tax audit matters, and miscellaneous other items.

As a result of certain employment actions and capital investments HP has undertaken, income from manufacturing and services in certain countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, through 2024. The gross income tax benefits attributable to these actions and investments were estimated to be $1.2 billion ($0.61 diluted net EPS) in fiscal 2014, $827 million ($0.42 diluted net EPS) in fiscal 2013 and $900 million ($0.46 diluted net EPS) in fiscal 2012.

Uncertain Tax Positions

A reconciliation of unrecognized tax benefits is as follows:

	As of October 31		
	2014	2013	2012
		In millions	
Balance at beginning of year	$ 3,484	$ 2,573	$ 2,118
Increases:			
For current year's tax positions	304	290	209
For prior years' tax positions	593	997	651
Decreases:			
For prior years' tax positions	(125)	(146)	(321)
Statute of limitations expiration	(46)	(11)	(1)
Settlements with taxing authorities	(82)	(219)	(83)
Balance at end of year	$ 4,128	$ 3,484	$ 2,573

Up to $2.2 billion, $1.9 billion and $1.4 billion of HP's unrecognized tax benefits at October 31, 2014, 2013 and 2012, respectively, would affect HP's effective tax rate if realized.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 6: Taxes on Earnings (Continued)

HP recognizes interest income from favorable settlements and interest expense and penalties accrued on unrecognized tax benefits in Provision for taxes in the Consolidated Statements of Earnings. HP had accrued $254 million and $196 million for interest and penalties as of October 31, 2014 and October 31, 2013, respectively.

HP engages in continuous discussion and negotiation with taxing authorities regarding tax matters in various jurisdictions. HP does not expect complete resolution of any U.S. Internal Revenue Service ("IRS") audit cycle within the next 12 months. However, it is reasonably possible that certain federal, foreign and state tax issues may be concluded in the next 12 months, including issues involving transfer pricing and other matters. Accordingly, HP believes it is reasonably possible that its existing unrecognized tax benefits may be reduced by an amount up to $1.4 billion within the next 12 months.

HP is subject to income tax in the U.S. and approximately 105 other countries and is subject to routine corporate income tax audits in many of these jurisdictions. In addition, HP is subject to numerous ongoing audits by federal, state and foreign tax authorities. The IRS is conducting an audit of HP's 2009, 2010 and 2011 income tax returns. HP has received from the IRS Notices of Deficiency for its fiscal 1999, 2000, 2003, 2004 and 2005 tax years, and Revenue Agent Reports ("RAR") for its fiscal 2001, 2002, 2006, 2007 and 2008 tax years. The proposed IRS adjustments for these tax years would, if sustained, reduce the benefits of tax refund claims HP has filed for net operating loss carrybacks to earlier fiscal years and tax credit carryforwards to subsequent years by approximately $445 million. In addition, HP expects the IRS to issue an RAR for 2009 relating to certain tax positions taken on the filed tax returns, including matters related to the U.S. taxation of certain intercompany loans. While the RAR may be material in amount, HP believes it has valid positions supporting its tax returns and, if necessary, it will vigorously defend such matters.

HP has filed petitions with the U.S. Tax Court regarding certain proposed IRS adjustments regarding tax years 1999 through 2003 and is continuing to contest additional adjustments proposed by the IRS for other tax years. The U.S. Tax Court ruled in May 2012 against HP regarding one of the IRS adjustments for which HP has filed a formal Notice of Appeal. The Court proceedings are expected to begin in fiscal 2015.

Pre-acquisition tax years of HP's U.S. group of subsidiaries providing enterprise services through 2004 have been audited by the IRS, and all proposed adjustments have been resolved. RARs have been received for tax years 2005, 2006, 2007 and the short period ended August 26, 2008, proposing total tax deficiencies of $274 million. HP is contesting certain of these issues.

The IRS began an audit in fiscal 2013 of the 2010 income tax return for HP's U.S. group of subsidiaries providing enterprise services, and has issued an RAR for the short period ended October 31, 2008 and the period ending October 31, 2009 proposing a total tax deficiency of $62 million. HP is contesting certain of these issues.

With respect to major foreign and state tax jurisdictions, HP is no longer subject to tax authority examinations for years prior to 1999. HP is subject to a foreign tax audit concerning an intercompany transaction for fiscal 2009. The relevant taxing authority has proposed an assessment of approximately $680 million. HP is contesting this proposed assessment.

HP believes it has provided adequate reserves for all tax deficiencies or reductions in tax benefits that could result from federal, state and foreign tax audits. HP regularly assesses the likely outcomes of these audits in order to determine the appropriateness of HP's tax provision. HP adjusts its uncertain

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 6: Taxes on Earnings (Continued)

tax positions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular audit. However, income tax audits are inherently unpredictable and there can be no assurance that HP will accurately predict the outcome of these audits. The amounts ultimately paid on resolution of an audit could be materially different from the amounts previously included in the Provision for taxes and therefore the resolution of one or more of these uncertainties in any particular period could have a material impact on net income or cash flows.

HP has not provided for U.S. federal income and foreign withholding taxes on $42.9 billion of undistributed earnings from non-U.S. operations as of October 31, 2014 because HP intends to reinvest such earnings indefinitely outside of the U.S. If HP were to distribute these earnings, foreign tax credits may become available under current law to reduce the resulting U.S. income tax liability. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. HP will remit non-indefinitely reinvested earnings of its non-U.S. subsidiaries for which deferred U.S. federal and withholding taxes have been provided where excess cash has accumulated and HP determines that it is advantageous for business operations, tax or cash management reasons.

Deferred Income Taxes

The significant components of deferred tax assets and deferred tax liabilities were as follows:

	As of October 31			
	2014		2013	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
	In millions			
Loss carryforwards	$ 9,476	$	$ 9,807	$
Credit carryforwards	2,377		4,261	
Unremitted earnings of foreign subsidiaries		7,828		7,469
Inventory valuation	152	8	128	13
Intercompany transactions profit in inventory	136		125	
Intercompany transactions excluding inventory	4,403		1,923	
Fixed assets	383	74	289	72
Warranty	616		622	
Employee and retiree benefits	2,790	57	2,350	11
Accounts receivable allowance	107	1	185	1
Intangible assets	212	596	224	886
Restructuring	354		340	
Deferred revenue	1,143	12	1,119	19
Other	1,573	1,145	1,443	759
Gross deferred tax assets and liabilities	23,722	9,721	22,816	9,230
Valuation allowance	(11,915)		(11,390)	
Net deferred tax assets and liabilities	$ 11,807	$ 9,721	$ 11,426	$ 9,230

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 6: Taxes on Earnings (Continued)

Current and long-term deferred tax assets and liabilities included in the Consolidated Balance Sheets as follows:

	As of October 31	
	2014	2013
	In millions	
Current deferred tax assets	$ 2,754	$ 3,893
Current deferred tax liabilities	(284)	(375)
Long-term deferred tax assets	740	1,346
Long-term deferred tax liabilities	(1,124)	(2,668)
Net deferred tax assets net of deferred tax liabilities	$ 2,086	$ 2,196

Tax deficits of approximately $43 million, $149 million and $175 million were recorded as a result of employee stock program activity and exercise of employee stock options, as a decrease in stockholders' equity in fiscal 2014, 2013 and 2012, respectively.

HP periodically engages in intercompany licensing arrangements that may result in advance payments between subsidiaries in different tax jurisdictions. When the local tax treatment of the intercompany licensing arrangements differs from their U.S. GAAP treatment, deferred taxes are recognized. During fiscal 2014, HP executed a multi-year intercompany licensing arrangement on which advanced royalty payments of $10.4 billion were received in the U.S., the result of which was the recognition of net U.S. long-term deferred tax assets of $1.3 billion. The remaining intercompany royalty revenues of $9.9 billion will be recognized over the life of the arrangement through 2029 in the respective legal entities and eliminated in consolidation. The amortization expense related to the licensing rights will also be eliminated in consolidation. The decrease in deferred tax assets for credit carryforwards and increase in deferred tax assets for intercompany transactions excluding inventory include the deferred tax attributable to this transaction. This results in an increase in long-term deferred tax assets which is presented as a component of HP's long-term deferred tax liabilities due to the effects of jurisdictional netting.

As of October 31, 2014, HP had $858 million, $4.2 billion and $29.7 billion of federal, state and foreign net operating loss carryforwards, respectively. Amounts included in federal net operating loss carryforwards will begin to expire in fiscal 2021 and amounts included in state and foreign net operating loss carryforwards will begin to expire in 2015. HP also has a capital loss carryforward of approximately $272 million which will expire in fiscal 2015. HP has provided a valuation allowance of $133 million and $8.7 billion for deferred tax assets related to state and foreign net operating losses carryforwards, respectively and $104 million for deferred tax assets related to capital loss carryforwards that HP does not expect to realize.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 6: Taxes on Earnings (Continued)

As of October 31, 2014, HP had recorded deferred tax assets for various tax credit carryforwards as follows:

	Carryforward	Valuation Allowance	Initial Year of Expiration
	In millions		
U.S. foreign tax credits	$ 1,321	$ 47	2021
U.S. research and development and other credits	662		2018
Tax credits in state and foreign jurisdictions	394	204	2015
Balance at end of year	$ 2,377	$ 251	

Deferred Tax Asset Valuation Allowance

The deferred tax asset valuation allowance and changes were as follows:

	As of October 31		
	2014	2013	2012
	In millions		
Balance at beginning of year	$ 11,390	$ 10,223	$ 9,057
Income tax expense	184	1,644	865
Other comprehensive income, currency translation and charges to other accounts	341	(477)	301
Balance at end of year	$ 11,915	$ 11,390	$ 10,223

Total valuation allowances increased by $525 million and $1.2 billion in fiscal 2014 and 2013, respectively. These increases were associated primarily with foreign net operating losses.

Note 7: Balance Sheet Details

Balance sheet details were as follows:

Accounts Receivable, Net

	As of October 31	
	2014	2013
	In millions	
Accounts receivable	$ 14,064	$ 16,208
Allowance for doubtful accounts	(232)	(332)
	$ 13,832	$ 15,876

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 7: Balance Sheet Details (Continued)

The allowance for doubtful accounts related to accounts receivable and changes were as follows:

	As of October 31		
	2014	2013	2012
	In millions		
Balance at beginning of year	$ 332	$ 464	$ 470
Provision for doubtful accounts	25	23	100
Deductions, net of recoveries	(125)	(155)	(106)
Balance at end of year	$ 232	$ 332	$ 464

HP has third-party revolving short-term financing arrangements intended to facilitate the working capital requirements of certain customers. In the second quarter of fiscal 2014, HP expanded its revolving short-term financing arrangements, adding $1.6 billion of capacity. The maximum, utilized and available program capacity under these revolving short-term financing arrangements was as follows:

	As of October 31	
	2014	2013
	In millions	
Non-recourse arrangements:		
Maximum program capacity	$ 1,083	$ 764
Utilized capacity[(1)]	(613)	(314)
Available capacity	$ 470	$ 450
Partial-recourse arrangements:		
Maximum program capacity	$ 1,877	$ 631
Utilized capacity[(1)]	(1,500)	(454)
Available capacity	$ 377	$ 177
Total arrangements:		
Maximum program capacity	$ 2,960	$ 1,395
Utilized capacity[(1)]	(2,113)	(768)
Available capacity	$ 847	$ 627

(1) Utilized capacity represents the receivables sold to third parties, but not collected from the customer by the third parties. Transferred trade receivables included in the utilized capacity that HP has not collected from third parties are as follows:

	As of October 31	
	2014	2013
	In millions	
Non-recourse arrangements	$ 78	$ 54
Partial-recourse arrangements	381	118
Total arrangements	$ 459	$ 172

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 7: Balance Sheet Details (Continued)

The activity related to HP's revolving short-term financing arrangements was as follows:

	As of October 31		
	2014	2013	2012
	In millions		
Balance at beginning of period[1]	$ 172	$ 228	$ 245
Trade receivables sold[2]	9,627	4,241	3,510
Cash receipts[2]	(9,306)	(4,305)	(3,510)
Foreign currency and other	(34)	8	(17)
Balance at end of period[1]	$ 459	$ 172	$ 228

(1) Beginning and ending balance represents amounts for trade receivables sold but not yet collected.

(2) HP has revised the presentation for the trade receivables sold and the cash received under the short-term financing arrangements for the fiscal years ended October 31, 2013 and 2012 in order to present comparable information with the current year period.

Inventory

	As of October 31	
	2014	2013
	In millions	
Finished goods	$ 3,973	$ 3,847
Purchased parts and fabricated assemblies	2,442	2,199
	$ 6,415	$ 6,046

Other Current Assets

	As of October 31	
	2014	2013
	In millions	
Deferred tax assets short-term	$ 2,754	$ 3,893
Value-added taxes receivable	2,169	2,425
Supplier and other receivables	2,378	2,579

Prepaid and other current assets	4,518	4,238
	$ 11,819	$ 13,135

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 7: Balance Sheet Details (Continued)

Property, Plant and Equipment

	As of October 31	
	2014	2013
	In millions	
Land	$ 540	$ 626
Buildings and leasehold improvements	9,048	8,942
Machinery and equipment, including equipment held for lease	16,664	16,565
	26,252	26,133
Accumulated depreciation	(14,912)	(14,670)
	$ 11,340	$ 11,463

Depreciation expense was $3.3 billion, $3.2 billion and $3.3 billion in fiscal 2014, 2013 and 2012, respectively. The change in gross property, plant and equipment was due primarily to purchases of $3.9 billion, which were partially offset by sales and retirements totaling $3.5 billion. Accumulated depreciation associated with the assets sold and retired in fiscal 2014 was $2.9 billion.

Long-Term Financing Receivables and Other Assets

	As of October 31	
	2014	2013
	In millions	
Financing receivables, net	$ 3,613	$ 3,878
Deferred tax assets long-term	740	1,346
Deferred costs long-term	755	999
Other	3,346	3,333
	$ 8,454	$ 9,556

Other Accrued Liabilities

	As of October 31	
	2014	2013
	In millions	

Accrued taxes other	$	2,269	$	2,703
Warranty		1,325		1,390
Sales and marketing programs		2,986		2,823
Other		5,499		5,590
	$	12,079	$	12,506

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 7: Balance Sheet Details (Continued)

Other Liabilities

	As of October 31	
	2014	2013
	In millions	
Pension, post-retirement, and post-employment liabilities	$ 6,379	$ 5,098
Deferred revenue long-term	3,931	3,907
Deferred tax liability long-term	1,124	2,668
Tax liability long-term	2,861	2,213
Other long-term liabilities	2,010	2,005
	$ 16,305	$ 15,891

Note 8: Financing Receivables and Operating Leases

Financing receivables represent sales-type and direct-financing leases of HP and third-party products. These receivables typically have terms ranging from two to five years and are usually collateralized by a security interest in the underlying assets. Financing receivables also include billed receivables from operating leases. The components of financing receivables were as follows:

	As of October 31	
	2014	2013
	In millions	
Minimum lease payments receivable	$ 6,982	$ 7,505
Unguaranteed residual value	235	252
Unearned income	(547)	(604)
Financing receivables, gross	6,670	7,153
Allowance for doubtful accounts	(111)	(131)
Financing receivables, net	6,559	7,022
Less: current portion[1]	(2,946)	(3,144)
Amounts due after one year, net[1]	$ 3,613	$ 3,878

(1) HP includes the current portion in Financing receivables and amounts due after one year, net in Long-term financing receivables and other assets in the accompanying Consolidated Balance Sheets.

As of October 31, 2014, scheduled maturities of HP's minimum lease payments receivable were as follows for the fiscal years ended October 31:

	2015	2016	2017	2018	2019	Thereafter	Total
				In millions			
Scheduled maturities of minimum lease payments receivable	$ 3,220	$ 1,959	$ 1,112	$ 483	$ 174	$ 34	$ 6,982

131

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 8: Financing Receivables and Operating Leases (Continued)

Credit Quality Indicators

Due to the homogenous nature of its leasing transactions, HP manages its financing receivables on an aggregate basis when assessing and monitoring credit risk. Credit risk is generally diversified due to the large number of entities comprising HP's customer base and their dispersion across many different industries and geographic regions. HP evaluates the credit quality of an obligor at lease inception and monitors that credit quality over the term of a transaction. HP assigns risk ratings to each lease based on the creditworthiness of the obligor and other variables that augment or mitigate the inherent credit risk of a particular transaction. Such variables include the underlying value and liquidity of the collateral, the essential use of the equipment, the term of the lease, and the inclusion of credit enhancements, such as guarantees, letters of credit or security deposits.

The credit risk profile of gross financing receivables, based on internally assigned ratings, was as follows:

	As of October 31	
	2014	2013
	In millions	
Risk Rating:		
Low	$ 3,536	$ 3,948
Moderate	3,022	3,084
High	112	121
Total	$ 6,670	$ 7,153

Accounts rated low risk typically have the equivalent of a Standard & Poor's rating of BBB- or higher, while accounts rated moderate risk generally have the equivalent of BB+ or lower. HP classifies accounts as high risk when it considers the financing receivable to be impaired or when management believes there is a significant near-term risk of impairment.

Allowance for Doubtful Accounts

The allowance for doubtful accounts for financing receivables is comprised of a general reserve and a specific reserve. HP maintains general reserve percentages on a regional basis and bases such percentages on several factors, including consideration of historical credit losses and portfolio delinquencies, trends in the overall weighted-average risk rating of the portfolio, current economic conditions and information derived from competitive benchmarking. HP excludes accounts evaluated as part of the specific reserve from the general reserve analysis. HP establishes a specific reserve for financing receivables with identified exposures, such as customer defaults, bankruptcy or other events, that make it unlikely HP will recover its investment. For individually evaluated receivables, HP determines the expected cash flow for the receivable, which includes consideration of estimated proceeds from disposition of the collateral, and calculates an estimate of the potential loss and the probability of loss. For those accounts where a loss is considered probable, HP records a specific reserve. HP generally writes off a receivable or records a specific reserve when a receivable becomes 180 days past due, or sooner if HP determines that the receivable is not collectible.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 8: Financing Receivables and Operating Leases (Continued)

The allowance for doubtful accounts related to financing receivables and changes were as follows:

	As of October 31		
	2014	2013	2012
	In millions		
Balance at beginning of year	$ 131	$ 149	$ 130
Provision for doubtful accounts	30	38	42
Deductions, net of recoveries	(50)	(56)	(23)
Balance at end of year	$ 111	$ 131	$ 149

The gross financing receivables and related allowance evaluated for loss were as follows:

	As of October 31	
	2014	2013
	In millions	
Gross financing receivables collectively evaluated for loss	$ 6,378	$ 6,773
Gross financing receivables individually evaluated for loss	292	380
Total	$ 6,670	$ 7,153
Allowance for financing receivables collectively evaluated for loss	$ 92	$ 95
Allowance for financing receivables individually evaluated for loss	19	36
Total	$ 111	$ 131

Non-Accrual and Past-Due Financing Receivables

HP considers a financing receivable to be past due when the minimum payment is not received by the contractually specified due date. HP generally places financing receivables on non-accrual status, which is suspension of interest accrual, and considers such receivables to be non-performing at the earlier of the time at which full payment of principal and interest becomes doubtful or the receivable becomes 90 days past due. Subsequently, HP may recognize revenue on non-accrual financing receivables as payments are received, which is on a cash basis, if

HP deems the recorded financing receivable to be fully collectible; however, if there is doubt regarding the ultimate collectability of the recorded financing receivable, all cash receipts are applied to the carrying amount of the financing receivable, which is the cost recovery method. In certain circumstances, such as when HP deems a delinquency to be of an administrative nature, financing receivables may accrue interest after becoming 90 days past due. The non-accrual status of a financing receivable may not impact a customer's risk rating. After all of a customer's delinquent principal and interest balances are settled, HP may return the related financing receivable to accrual status.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 8: Financing Receivables and Operating Leases (Continued)

The following table summarizes the aging and non-accrual status of gross financing receivables:

	As of October 31	
	2014	2013
	In millions	
Billed[1]:		
Current 1-30 days	$ 243	$ 217
Past due 31-60 days	46	50
Past due 61-90 days	12	15
Past due >90 days	49	46
Unbilled sales-type and direct-financing lease receivables	6,320	6,825
Total gross financing receivables	$ 6,670	$ 7,153
Gross financing receivables on non-accrual status[2]	$ 130	$ 199
Gross financing receivables 90 days past due and still accruing interest[2]	$ 162	$ 181

(1) Includes billed operating lease receivables and billed sales-type and direct-financing lease receivables.

(2) Includes billed operating lease receivables and billed and unbilled sales-type and direct-financing lease receivables.

Operating Leases

Operating lease assets included in machinery and equipment in the Consolidated Balance Sheets were as follows:

	As of October 31	
	2014	2013
	In millions	
Equipment leased to customers	$ 3,977	$ 3,822
Accumulated depreciation	(1,382)	(1,452)

	$ 2,595	$ 2,370

As of October 31, 2014, minimum future rentals on non-cancelable operating leases related to leased equipment were as follows for the fiscal years ended October 31:

	2015	2016	2017	2018	2019	Thereafter	Total
				In millions			
Minimum future rentals on non-cancelable operating leases	$ 1,487	$ 958	$ 467	$ 156	$ 50	$ 6	$ 3,124

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 9: Acquisitions, Goodwill and Intangible Assets

Acquisitions

In fiscal 2014, HP completed two acquisitions with a combined purchase price of $55 million, of which $12 million was recorded as goodwill and $25 million was recorded as intangible assets related to these acquisitions. In fiscal 2013, MphasiS Limited, a majority-owned subsidiary of HP, acquired Digital Risk LLC for $174 million. HP recorded $112 million of goodwill and $48 million of intangible assets related to this acquisition.

Goodwill

Goodwill allocated to HP's reportable segments and changes in the carrying amount of goodwill were as follows:

	Personal Systems	Printing	Enterprise Group	Enterprise Services[(3)]	Software	HP Financial Services	Corporate Investments	Total
				In millions				
Balance at October 31, 2012[(1)(2)]	$ 2,588	$ 2,591	$ 16,825	$	$ 8,921	$ 144	$	$ 31,069
Goodwill acquired during the period				112				112
Goodwill adjustments			39	(15)	(81)			(57)
Balance at October 31, 2013[(1)(2)]	$ 2,588	$ 2,591	$ 16,864	$ 97	$ 8,840	$ 144	$	$ 31,124
Goodwill acquired during the period					12			12
Goodwill adjustments			3					3
Balance at October 31, 2014[(1)]	$ 2,588	$ 2,591	$ 16,867	$ 97	$ 8,852	$ 144	$	$ 31,139

(1) Goodwill is net of accumulated impairment losses of $14.5 billion. Of that amount, $8.0 billion relates to the ES segment, $5.7 billion relates to Software, and the remaining $0.8 billion relates to Corporate Investments.

(2) Effective at the beginning of its first quarter of fiscal 2014, HP implemented certain organizational changes to align its segment financial reporting more closely with its current business structure. As a result of these organizational realignments, HP transferred $126 million of goodwill related to the transfer of the Printing spare and replacement parts business from the EG segment to the Printing segment, $48 million of goodwill related to the transfer of the Personal Systems spare and replacement parts business from the EG segment to the Personal Systems segment, $42 million of goodwill related to the transfer of the Personal Systems trade and warranty support business from the EG segment to the Personal Systems segment and $22 million of goodwill related to the transfer of the HP Exstream business from the Printing segment to the Software segment. See Note 2 for a full description of the segment

realignments.

(3) Goodwill relates to the MphasiS Limited reporting unit.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 9: Acquisitions, Goodwill and Intangible Assets (Continued)

Goodwill is tested for impairment at the reporting unit level. At the beginning of its first quarter of fiscal 2014, HP made a change to its reporting units. In connection with continued operational synergies and interdependencies between the Enterprise Servers, Storage and Networking reporting unit and the TS reporting unit within the EG segment, HP combined these reporting units to create the EG reporting unit. As of October 31, 2014, HP's reporting units are consistent with the reportable segments identified in Note 2, except for ES, which includes two reporting units: MphasiS Limited; and the remainder of ES.

Based on the results of its annual impairment tests, HP determined that no impairment of goodwill existed as of August 1, 2014. However, future goodwill impairment tests could result in a charge to earnings. HP will continue to evaluate goodwill on an annual basis as of the beginning of its fourth fiscal quarter and whenever events or changes in circumstances indicate there may be a potential impairment.

Goodwill impairments

There were no goodwill impairments in fiscal 2014 and 2013.

During fiscal 2012, HP determined that sufficient indicators of potential impairment existed to require an interim goodwill impairment analysis for the ES reporting unit. These indicators included the trading values of HP's stock at the time of the impairment test, coupled with market conditions and business trends within ES. The fair value of the ES reporting unit was based on the income approach. The decline in the fair value of the ES reporting unit resulted from lower projected revenue growth rates and profitability levels as well as an increase in the risk factor that was included in the discount rate used to calculate the discounted cash flows. The increase in the discount rate was due to the implied control premium resulting from trading values of HP stock at the time of the impairment test. The resulting adjustments to discount rates caused a significant reduction in the fair value for the ES reporting unit. Based on the step one and step two analyses, HP recorded an $8.0 billion goodwill impairment charge in fiscal 2012, and there was no remaining goodwill in the ES reporting unit as of October 31, 2012. Prior to completing the goodwill impairment test, HP tested the recoverability of the ES long-lived assets (other than goodwill) and concluded that such assets were not impaired.

Also during fiscal 2012, the Software segment included two reporting units, which were Autonomy and the legacy HP Software business. HP initiated its annual goodwill impairment analysis in the fourth quarter of fiscal 2012 and concluded that fair value was below carrying amount for the Autonomy reporting unit. The fair value of the Autonomy reporting unit was based on the income approach.

The decline in the estimated fair value of the Autonomy reporting unit resulted from lower projected revenue growth rates and profitability levels as well as an increase in the risk factor that was included in the discount rate used to calculate the discounted cash flows. The increase in the discount rate was due to the implied control premium that resulted from trading values of HP stock at the time of the impairment test. The lower projected operating results reflected changes in assumptions related to organic revenue growth rates, market trends, business mix, cost structure, expected deal synergies and other expectations about the anticipated short-term and long-term operating results of the Autonomy business. These assumptions incorporated HP's analysis of what it believes were accounting improprieties, incomplete disclosures and misrepresentations at Autonomy that occurred prior to the Autonomy acquisition with respect to Autonomy's pre-acquisition business and related operating results. In addition, as noted above, when estimating the fair value of a reporting unit HP may need to adjust

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 9: Acquisitions, Goodwill and Intangible Assets (Continued)

discount rates and/or other assumptions in order to derive a reasonable implied control premium when comparing the sum of the fair values of HP's reporting units to HP's market capitalization. Due to the trading values of HP stock at the time of the impairment test, the resulting adjustments to the discount rate to arrive at an appropriate control premium caused a significant reduction in the fair value for the Autonomy reporting unit as well as the fair values for HP's other reporting units.

Prior to conducting step one of the goodwill impairment test for the Autonomy reporting unit, HP first evaluated the recoverability of the long-lived assets, including intangible assets. When indicators of impairment are present, HP tests long-lived assets (other than goodwill) for recoverability by comparing the carrying amount of an asset group to its undiscounted cash flows. HP considered the lower-than-expected revenue and profitability levels over a sustained period of time, the trading values of HP stock and downward revisions to management's short- and long-term forecasts for the Autonomy business to be indicators of impairment for the Autonomy long-lived assets. Based on the results of the recoverability test, HP determined that the carrying amount of the Autonomy asset group exceeded its undiscounted cash flows and was therefore not recoverable. HP then compared the fair value of the asset group to its carrying amount and determined the impairment loss. The impairment loss was allocated to the carrying values of the long-lived assets but not below their individual fair values. Based on the analysis, HP recorded an impairment charge of $3.1 billion on intangible assets, which resulted in a remaining carrying amount of approximately $0.8 billion as of October 31, 2012. The decline in the fair value of the Autonomy intangible assets was attributable to the same factors as discussed above for the fair value of the Autonomy reporting unit.

The decline in the fair value of the Autonomy reporting unit and Autonomy intangibles, as well as fair value changes for other assets and liabilities in the step two goodwill impairment test, resulted in an implied fair value of goodwill substantially below the carrying amount of the goodwill for the Autonomy reporting unit. As a result, HP recorded a goodwill impairment charge of $5.7 billion, which resulted in a $1.2 billion remaining carrying amount of Autonomy goodwill as of October 31, 2012. Both the goodwill impairment charge and the intangible assets impairment charge, totaling $8.8 billion, were included in the Impairment of goodwill and intangible assets line item in the Consolidated Statements of Earnings.

Subsequent to the Autonomy purchase price allocation period, which concluded in the first quarter of fiscal 2012, and in conjunction with HP's annual goodwill impairment testing, HP identified certain indicators of impairment. The indicators of impairment included lower-than-expected revenue and profitability levels over a sustained period of time, the trading values of HP stock and downward revisions to management's short- and long-term forecasts for the Autonomy business. HP revised its multi-year forecast for the Autonomy business, and the timing of this forecast revision coincided with the timing of HP's overall forecasting process for all reporting units, which is completed each year in the fourth fiscal quarter in conjunction with the annual goodwill impairment analysis. The change in assumptions used in the revised forecast and the fair value estimates utilized in the impairment testing of the Autonomy goodwill and long-lived assets incorporated insights gained from having owned the Autonomy business for the preceding year. The revised forecast reflected changes related to organic revenue growth rates, current market trends, business mix, cost structure, expected deal synergies and other expectations about the anticipated short- and long-term operating results of the Autonomy business, driven by HP's analysis regarding certain accounting improprieties, incomplete disclosures and misrepresentations at Autonomy that occurred prior to the Autonomy acquisition with respect to Autonomy's pre-acquisition business and related operating results. Accordingly, the change in fair values represented a change in accounting estimate that occurred outside the purchase price allocation period, resulting in the recorded impairment charge.

Based on the results of the annual impairment test for all other reporting units, HP concluded that no other goodwill impairment existed as of August 1, 2012, apart from the impairment charges discussed above.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 9: Acquisitions, Goodwill and Intangible Assets (Continued)

Intangible Assets

HP's intangible assets are composed of:

	As of October 31, 2014				As of October 31, 2013			
	Gross	Accumulated Amortization	Accumulated Impairment Loss	Net	Gross	Accumulated Amortization	Accumulated Impairment Loss	Net
	In millions							
Customer contracts, customer lists and distribution agreements	$ 5,289	$ (3,228)	$ (856)	$ 1,205	$ 5,321	$ (2,709)	$ (856)	$ 1,756
Developed and core technology and patents	4,266	(1,301)	(2,138)	827	5,331	(1,966)	(2,138)	1,227
Trade name and trade marks	1,693	(261)	(1,336)	96	1,730	(211)	(1,336)	183
In-process research and development					3			3
Total intangible assets	$ 11,248	$ (4,790)	$ (4,330)	$ 2,128	$ 12,385	$ (4,886)	$ (4,330)	$ 3,169

For fiscal 2014, $855 million of intangible assets became fully amortized and have been eliminated from gross intangible assets and accumulated amortization. HP also eliminated gross intangible assets and accumulated amortization related to the sale of a portfolio of intellectual property ("IP") in the first quarter of fiscal 2014.

For fiscal 2013, the majority of the decrease in gross intangible assets was related to $1.7 billion of fully amortized intangible assets that were eliminated from both the gross and accumulated amounts.

In fiscal 2012, HP recorded total intangible asset impairment charges of $4.3 billion, of which $3.1 billion was related to the Autonomy reporting unit as described above. The remaining $1.2 billion was related to a change in the Compaq branding strategy. In May 2012, HP approved a change to its branding strategy for PCs, which has resulted in a more limited and focused use of the "Compaq" trade name acquired in fiscal 2002. In conjunction with the change in branding strategy, HP revised its assumption as to the useful life of that intangible asset, which resulted in a reclassification of the asset from an indefinite-lived intangible to a finite- lived intangible. These changes triggered an impairment review of the "Compaq" trade name intangible asset. In conducting an impairment review of an intangible asset, HP compares the fair value of the asset to its carrying amount. If the fair value of the asset is less than the carrying amount, the difference is recorded as an impairment loss. HP estimated the fair value of the "Compaq" trade name by calculating the present value of the royalties saved that would have been paid to a third party had HP not owned the trade name. Following the completion of that analysis, HP determined that the fair value of the trade name asset was less than the carrying amount due primarily to the change in the useful life assumption and a decrease in expected future revenues related to Compaq-branded products resulting from the more focused branding strategy. As a result, HP recorded an impairment charge of $1.2 billion in the third quarter of fiscal 2012, which was included in the Impairment of goodwill and intangible assets line item in the Consolidated Statements of Earnings.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 9: Acquisitions, Goodwill and Intangible Assets (Continued)

The weighted-average useful lives of intangible assets are as follows:

Finite-Lived Intangible Assets	As of October 31, 2014 Weighted-Average Useful Lives
	In years
Customer contracts, customer lists and distribution agreements	8
Developed and core technology and patents	8
Trade name and trade marks	7

As of October 31, 2014, estimated future amortization expense related to finite-lived intangible assets was as follows:

Fiscal year	In millions
2015	$ 872
2016	653
2017	244
2018	147
2019	110
Thereafter	102
Total	$ 2,128

Note 10: Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date.

Fair Value Hierarchy

HP uses valuation techniques that are based upon observable and unobservable inputs. Observable inputs are developed using market data such as publicly available information and reflect the assumptions market participants would use, while unobservable inputs are developed using the best information available about the assumptions market participants would use. Assets and liabilities are classified in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 Unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to observable inputs and lowest priority to unobservable inputs.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 10: Fair Value (Continued)

The following table presents HP's assets and liabilities that are measured at fair value on a recurring basis:

	As of October 31, 2014 Fair Value Measured Using				As of October 31, 2013 Fair Value Measured Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	In millions							
Assets								
Cash Equivalents and Investments:								
Time deposits	$	$ 2,865	$	$ 2,865	$	$ 2,221	$	$ 2,221
Money market funds	9,857			9,857	6,819			6,819
Mutual funds		244		244		313		313
Marketable equity securities	14	5		19	10	5		15
Foreign bonds	9	367		376	9	387		396
Other debt securities		1	46	47		2	47	49
Derivatives:								
Interest rate contracts		105		105		156		156
Foreign exchange contracts		862	6	868		284	3	287
Other derivatives		7		7		9		9
Total assets	$ 9,880	$ 4,456	$ 52	$ 14,388	$ 6,838	$ 3,377	$ 50	$ 10,265
Liabilities								
Derivatives:								
Interest rate contracts	$	$ 55	$	$ 55	$	$ 107	$	$ 107
Foreign exchange contracts		348	2	350		547	2	549
Total liabilities	$	$ 403	$ 2	$ 405	$	$ 654	$ 2	$ 656

For the year ended October 31, 2014, there were no transfers between levels within the fair value hierarchy.

Valuation Techniques

Cash Equivalents and Investments: HP holds time deposits, money market funds, mutual funds, other debt securities primarily consisting of corporate and foreign government notes and bonds, and common stock and equivalents. HP values cash equivalents and equity investments using quoted market prices, alternative pricing sources, including NAV, or models utilizing market observable inputs. The fair value of debt investments was based on quoted market prices or model-driven valuations using inputs primarily derived from or corroborated by observable market data, and, in certain instances, valuation models that utilize assumptions which cannot be corroborated with observable market data.

Derivative Instruments: HP uses forward contracts, interest rate and total return swaps and option contracts to hedge certain foreign currency and interest rate exposures. HP uses industry standard valuation models to measure fair value. Where applicable, these models project future cash flows and discount the future amounts to present value using market-based observable inputs, including interest rate curves, HP and counterparty credit risk, foreign exchange rates, and forward and spot prices for currencies and interest rates. See Note 11 for a further discussion of HP's use of derivative instruments.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 10: Fair Value (Continued)

Other Fair Value Disclosures

Short- and Long-Term Debt: HP estimates the fair value of its debt primarily using an expected present value technique, which is based on observable market inputs using interest rates currently available to companies of similar credit standing for similar terms and remaining maturities, and considering its own credit risk. The portion of HP's debt that is hedged is reflected in the Consolidated Balance Sheets as an amount equal to the debt's carrying amount and a fair value adjustment representing changes in the fair value of the hedged debt obligations arising from movements in benchmark interest rates. The estimated fair value of HP's short- and long-term debt was $19.9 billion at October 31, 2014, compared to its carrying amount of $19.5 billion at that date. The estimated fair value of HP's short- and long-term debt was $22.7 billion at October 31, 2013, compared to its carrying amount of $22.6 billion at that date. If measured at fair value in the Consolidated Balance Sheets, short- and long-term debt would be classified in Level 2 of the fair value hierarchy.

Other Financial Instruments: For the balance of HP's financial instruments, primarily accounts receivable, accounts payable and financial liabilities included in other accrued liabilities, the carrying amounts approximate fair value due to their short maturities. If measured at fair value in the Consolidated Balance Sheets, these other financial instruments would be classified in Level 2 or Level 3 of the fair value hierarchy.

Non-Marketable Equity Investments and Non-Financial Assets: HP's non-marketable equity investments and non-financial assets, such as intangible assets, goodwill and property, plant and equipment, are recorded at fair value in the period an impairment charge is recognized. If measured at fair value in the Consolidated Balance Sheets, these would generally be classified in Level 3 of the fair value hierarchy.

In fiscal 2012, HP recognized a goodwill and intangible asset impairment charge of $8.8 billion associated with the Autonomy reporting unit, a goodwill impairment charge of $8.0 billion associated with the ES reporting unit, and an intangible asset impairment charge of $1.2 billion associated with the Compaq trade name. The fair value of these reporting units was classified in Level 3 of the fair value hierarchy due to the significance of unobservable inputs developed using company-specific information. HP used the income approach to measure the fair value of the ES and Autonomy reporting units. Under the income approach, HP calculated the fair value of a reporting unit based on the present value of the estimated future cash flows. Cash flow projections were based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used was based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows. The discount rate also reflected adjustments required when comparing the sum of the fair values of HP's reporting units to HP's market capitalization as discussed in Note 9. The unobservable inputs used to estimate the fair value these reporting units included projected revenue growth rates, profitability and the risk factor added to the discount rate.

The inputs used to estimate the fair value of the intangible assets of Autonomy and the "Compaq" trade name were largely unobservable, and, accordingly, these measurements were classified in Level 3 of the fair value hierarchy. The fair value of the intangible assets for Autonomy were estimated using an income approach, which is based on management's cash flow projections of revenue growth rates and operating margins, taking into consideration industry and market conditions. HP estimated the fair value of the "Compaq" trade name by calculating the present value of the royalties saved that would

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 10: Fair Value (Continued)

have been paid to a third party had HP not owned the trade name. The discount rates used in the fair value calculations for the Autonomy intangibles and the "Compaq" trade name were based on a weighted average cost of capital adjusted for the relevant risk associated with those assets. The unobservable inputs used in these valuations include projected revenue growth rates, operating margins, royalty rates and the risk factor added to the discount rate. The discount rates ranged from 11% to 16%. Projected revenue growth rates ranged from (61)% to 13%. The (61)% rate reflected the significant decline in expected future revenues for Compaq-branded products from fiscal 2013 to fiscal 2014 due to the change in branding strategy discussed in Note 9.

Note 11: Financial Instruments

Cash Equivalents and Available-for-Sale Investments

Cash equivalents and available-for-sale investments were as follows:

	As of October 31, 2014				As of October 31, 2013			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	In millions							
Cash Equivalents:								
Time deposits	$ 2,720	$	$	$ 2,720	$ 2,207	$	$	$ 2,207
Money market funds	9,857			9,857	6,819			6,819
Mutual funds	110			110	13			13
Total cash equivalents	12,687			12,687	9,039			9,039
Available-for-Sale Investments:								
Debt securities:								
Time deposits	145			145	14			14
Foreign bonds	286	90		376	310	86		396
Other debt securities	61		(14)	47	64		(15)	49
Total debt securities	492	90	(14)	568	388	86	(15)	459
Equity securities:								
Mutual funds	134			134	300			300
Equity securities in public companies	8	7		15	5	6		11
Total equity securities	142	7		149	305	6		311
Total available-for-sale investments	634	97	(14)	717	693	92	(15)	770

Total cash equivalents and available-for-sale investments	$	13,321	$	97	$	(14)	$	13,404	$	9,732	$	92	$	(15)	$	9,809

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 11: Financial Instruments (Continued)

All highly liquid investments with original maturities of three months or less at the date of acquisition are considered cash equivalents. As of October 31, 2014 and October 31, 2013, the carrying amount of cash equivalents approximated fair value due to the short period of time to maturity. Interest income related to cash, cash equivalents and debt securities was approximately $136 million in fiscal 2014, $148 million in fiscal 2013 and $155 million in fiscal 2012. Time deposits were primarily issued by institutions outside the U.S. as of October 31, 2014 and October 31, 2013. The estimated fair value of the available-for-sale investments may not be representative of values that will be realized in the future.

The gross unrealized loss as of October 31, 2014 and October 31, 2013 was due primarily to decline in the fair value of a debt security of $14 million and $15 million, respectively, that has been in a continuous loss position for more than twelve months. HP does not intend to sell this debt security, and it is not likely that HP will be required to sell this debt security prior to the recovery of the amortized cost.

Contractual maturities of investments in available-for-sale debt securities were as follows:

	As of October 31, 2014	
	Amortized Cost	Fair Value
	In millions	
Due in one year	$ 129	$ 129
Due in one to five years	3	3
Due in more than five years	360	436
	$ 492	$ 568

Equity securities in privately held companies include cost basis and equity method investments and are included in Long-term financing receivables and other assets in the Consolidated Balance Sheets. These amounted to $97 million and $50 million at October 31, 2014 and October 31, 2013, respectively.

Derivative Instruments

HP is a global company exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of its business. As part of its risk management strategy, HP uses derivative instruments, primarily forward contracts, option contracts, interest rate swaps and total return swaps, to hedge certain foreign currency, interest rate and, to a lesser extent, equity exposures. HP's objective is to offset gains and losses resulting from these exposures with losses and gains on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting the fair value of assets and liabilities. HP does not have any leveraged derivatives and does not use derivative contracts for speculative purposes. HP may designate its derivative contracts as fair value hedges, cash flow hedges or hedges of the foreign currency exposure of a net investment in a foreign operation ("net investment hedges"). Additionally, for derivatives not designated as hedging instruments, HP categorizes those economic hedges as other derivatives. HP recognizes all derivative instruments at fair value in the Consolidated Balance Sheets. HP classifies cash flows from its derivative programs as operating activities in the Consolidated Statements of Cash Flows.

As a result of its use of derivative instruments, HP is exposed to the risk that its counterparties will fail to meet their contractual obligations. To mitigate counterparty credit risk, HP has a policy of only entering into derivative contracts with carefully selected major financial institutions based on their

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 11: Financial Instruments (Continued)

credit ratings and other factors, and HP maintains dollar risk limits that correspond to each financial institution's credit rating and other factors. HP's established policies and procedures for mitigating credit risk include reviewing and establishing limits for credit exposure and periodically re-assessing the creditworthiness of its counterparties. Master netting agreements further mitigate credit exposure to counterparties by permitting HP to net amounts due from HP to counterparty against amounts due to HP from the same counterparty under certain conditions.

To further mitigate credit exposure to counterparties, HP has collateral security agreements that allow HP to hold collateral from, or require HP to post collateral to, counterparties when aggregate derivative fair values exceed contractually established thresholds which are generally based on the credit ratings of HP and its counterparties. If HP's or the counterparty's credit rating falls below a specified credit rating, either party has the right to request full collateralization of the derivatives' net liability position. Collateral is generally posted within two business days. The fair value of derivatives with credit contingent features in a net liability position was $38 million and $207 million at October 31, 2014 and October 31, 2013, respectively, all of which were fully collateralized within two business days.

Under HP's derivative contracts, the counterparty can terminate all outstanding trades following a covered change of control event affecting HP that results in the surviving entity being rated below a specified credit rating. This credit contingent provision did not affect HP's financial position or cash flows as of October 31, 2014 and October 31, 2013.

Fair Value Hedges

HP issues long-term debt in U.S. dollars based on market conditions at the time of financing. HP may enter into fair value hedges, such as interest rate swaps, to reduce the exposure of its debt portfolio to changes in fair value resulting from changes in interest rates by achieving a primarily U.S. dollar LIBOR-based floating interest expense. The swap transactions generally involve principal and interest obligations for U.S. dollar-denominated amounts. Alternatively, HP may choose not to swap fixed for floating interest payments or may terminate a previously executed swap if it believes a larger proportion of fixed-rate debt would be beneficial.

When investing in fixed-rate instruments, HP may enter into interest rate swaps that convert the fixed interest payments into variable interest payments and may designate these swaps as fair value hedges.

For derivative instruments that are designated and qualify as fair value hedges, HP recognizes the change in fair value of the derivative instrument, as well as the offsetting change in the fair value of the hedged item, in Interest and other, net in the Consolidated Statements of Earnings in the period of change.

Cash Flow Hedges

HP uses a combination of forward contracts and option contracts designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in its forecasted net revenue and, to a lesser extent, cost of sales, operating expenses, and intercompany loans denominated in currencies other than the U.S. dollar. HP's foreign currency cash flow hedges mature generally within twelve months; however, hedges related to longer term procurement arrangements extend several years and forward contracts associated with sales-type and direct-financing leases and intercompany loans extend for the duration of the lease or loan term, which typically range from two to five years.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 11: Financial Instruments (Continued)

For derivative instruments that are designated and qualify as cash flow hedges, HP initially records changes in fair value for the effective portion of the derivative instrument in Accumulated other comprehensive loss as a separate component of stockholders' equity in the Consolidated Balance Sheets and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized in earnings. HP reports the effective portion of its cash flow hedges in the same financial statement line item as changes in the fair value of the hedged item.

Net Investment Hedges

HP uses forward contracts designated as net investment hedges to hedge net investments in certain foreign subsidiaries whose functional currency is the local currency. HP records the effective portion of such derivative instruments together with changes in the fair value of the hedged items in Cumulative translation adjustment as a separate component of stockholders' equity in the Consolidated Balance Sheets.

Other Derivatives

Other derivatives not designated as hedging instruments consist primarily of forward contracts used to hedge foreign currency-denominated balance sheet exposures. HP also uses total return swaps and, to a lesser extent, interest rate swaps, based on equity or fixed income indices, to hedge its executive deferred compensation plan liability.

For derivative instruments not designated as hedging instruments, HP recognizes changes in fair value of the derivative instrument, as well as the offsetting change in the fair value of the hedged item, in Interest and other net in the Consolidated Statements of Earnings in the period of change.

Hedge Effectiveness

For interest rate swaps designated as fair value hedges, HP measures hedge effectiveness by offsetting the change in fair value of the hedged instrument with the change in fair value of the derivative. For foreign currency options and forward contracts designated as cash flow or net investment hedges, HP measures hedge effectiveness by comparing the cumulative change in fair value of the hedge contract with the cumulative change in fair value of the hedged item, both of which are based on forward rates. HP recognizes any ineffective portion of the hedge in the Consolidated Statements of Earnings in the same period in which ineffectiveness occurs. Amounts excluded from the assessment of effectiveness are recognized in the Consolidated Statements of Earnings in the period they arise.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 11: Financial Instruments (Continued)

Fair Value of Derivative Instruments in the Consolidated Balance Sheets

The gross notional and fair value of derivative instruments in the Consolidated Balance Sheets was as follows:

	As of October 31, 2014					As of October 31, 2013				
	Outstanding Gross Notional	Other Current Assets	Long-Term Financing Receivables and Other Assets	Other Accrued Liabilities	Long-Term Other Liabilities	Outstanding Gross Notional	Other Current Assets	Long-Term Financing Receivables and Other Assets	Other Accrued Liabilities	Long-Term Other Liabilities
	In millions									
Derivatives designated as hedging instruments										
Fair value hedges:										
Interest rate contracts	$ 10,800	$ 3	$ 102	$	$ 55	$ 11,100	$ 31	$ 125	$	$ 107
Cash flow hedges:										
Foreign currency contracts	20,196	539	124	131	94	22,463	79	40	341	80
Net investment hedges:										
Foreign currency contracts	1,952	44	47	10	8	1,920	30	40	20	12
Total derivatives designated as hedging instruments	32,948	586	273	141	157	35,483	140	205	361	199
Derivatives not designated as hedging instruments										
Foreign currency contracts	21,384	82	32	82	25	16,048	72	26	76	20
Other derivatives	361	6	1			344	8	1		
Total derivatives not designated as hedging instruments	21,745	88	33	82	25	16,392	80	27	76	20
Total derivatives	$ 54,693	$ 674	$ 306	$ 223	$ 182	$ 51,875	$ 220	$ 232	$ 437	$ 219

Offsetting of Derivative Instruments

HP recognizes all derivative instruments on a gross basis in the Consolidated Balance Sheets. HP does not offset the fair value of its derivative instruments against the fair value of cash collateral posted under its collateral security agreements. As of October 31, 2014 and October 31, 2013,

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 11: Financial Instruments (Continued)

information related to the potential effect of HP's master netting agreements and collateral security agreements was as follows:

	As of October 31, 2014					
	In the Consolidated Balance Sheets					
	(i)	(ii)	(iii) = (i)-(ii)	(iv)	(v)	(vi) = (iii)-(iv)-(v)
				Gross Amounts Not Offset		
	Gross Amount Recognized	Gross Amount Offset	Net Amount Presented	Derivatives	Financial Collateral	Net Amount
	In millions					
Derivative assets	$ 980	$	$ 980	$ 361	$ 452	$ 167
Derivative liabilities	$ 405	$	$ 405	$ 361	$ 29(1)	$ 15

(1) Collateral posted through re-use of counterparty cash collateral.

	As of October 31, 2013					
	In the Consolidated Balance Sheets					
	(i)	(ii)	(iii) = (i)-(ii)	(iv)	(v)	(vi) = (iii)-(iv)-(v)
				Gross Amounts Not Offset		
	Gross Amount Recognized	Gross Amount Offset	Net Amount Presented	Derivatives	Financial Collateral	Net Amount
	In millions					
Derivative assets	$ 452	$	$ 452	$ 372	$ 30	$ 50
Derivative liabilities	$ 656	$	$ 656	$ 372	$ 283(1)	$ 1

(1) Of the $283 million of collateral posted, $30 million was through re-use of counterparty cash collateral and $253 million was in cash.

Effect of Derivative Instruments on the Consolidated Statements of Earnings

The pre-tax effect of derivative instruments and related hedged items in a fair value hedging relationship for fiscal years ended October 31, 2014, 2013 and 2012 was as follows:

	(Loss) Gain Recognized in Income on Derivative and Related Hedged Item								
Derivative Instrument	Location	2014	2013	2012	Hedged Item	Location	2014	2013	2012
		In millions					In millions		
Interest rate contracts	Interest and other, net	$ 1	$ (270)	$ (130)	Fixed-rate debt	Interest and other, net	$ (1)	$ 270	$ 134

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 11: Financial Instruments (Continued)

The pre-tax effect of derivative instruments in cash flow and net investment hedging relationships for fiscal years ended October 31, 2014, 2013 and 2012 was as follows:

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)			Gain (Loss) Reclassified from Accumulated OCI Into Earnings (Effective Portion)			
	2014	2013	2012	Location	2014	2013	2012
	In millions				In millions		
Cash flow hedges:							
Foreign currency contracts	$ 593	$ (53)	$ 415	Net revenue	$ (21)	$ 48	$ 423
Foreign currency contracts	(203)	(192)	(65)	Cost of products	(71)	(165)	(15)
Foreign currency contracts	7	(19)	(7)	Other operating expenses	(9)	1	(6)
Foreign currency contracts	(60)	21	(8)	Interest and other, net	(50)	10	(3)
Total currency hedges	$ 337	$ (243)	$ 335		$ (151)	$ (106)	$ 399
Net investment hedges:							
Foreign currency contracts	$ 57	$ 38	$ 37	Interest and other, net	$	$	$

As of October 31, 2014 and October 31, 2013, no portion of the hedging instruments' gain or loss was excluded from the assessment of effectiveness for fair value, cash flow or net investment hedges. As of October 31, 2012 the portion of the hedging instruments' gain or loss excluded from the assessment of effectiveness was not material for fair value, cash flow or net investment hedges. Hedge ineffectiveness for fair value, cash flow and net investment hedges was not material for fiscal 2014, 2013 and 2012.

As of October 31, 2014, HP expects to reclassify an estimated net Accumulated other comprehensive gain of approximately $185 million, net of taxes, to earnings in the next twelve months along with the earnings effects of the related forecasted transactions associated with cash flow hedges.

The pre-tax effect of derivative instruments not designated as hedging instruments on the Consolidated Statements of Earnings for fiscal years ended October 31, 2014, 2013 and 2012 was as follows:

Gain (Loss) Recognized in Income on Derivatives

	Location	2014	2013	2012
			In millions	
Foreign currency contracts	Interest and other, net	$ 56	$ 166	$ 171
Other derivatives	Interest and other, net		11	(32)
Interest rate contracts	Interest and other, net		3	13
Total		$ 56	$ 180	$ 152

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 12: Borrowings

Notes Payable and Short-Term Borrowings

Notes payable and short-term borrowings, including the current portion of long-term debt, were as follows:

	2014		2013	
	As of October 31			
	Amount Outstanding	Weighted-Average Interest Rate	Amount Outstanding	Weighted-Average Interest Rate
	In millions		In millions	
Current portion of long-term debt	$ 2,655	2.2%	$ 5,226	2.8%
Commercial paper[1]	298	0.5%	327	0.4%
Notes payable to banks, lines of credit and other[1]	533	4.0%	426	1.7%
	$ 3,486		$ 5,979	

(1) Commercial paper includes $298 million and $327 million and Notes payable to banks, lines of credit and other includes $404 million and $368 million at October 31, 2014 and October 31, 2013, respectively, of borrowing- and funding-related activity associated with HPFS and its subsidiaries.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 12: Borrowings (Continued)

Long-Term Debt

	As of October 31	
	2014	2013
	In millions	
U.S. Dollar Global Notes(1)		
2006 Shelf Registration Statement:		
$500 issued at discount to par at a price of 99.694% in February 2007 at 5.4%, due March 2017	$ 500	$ 499
$750 issued at discount to par at a price of 99.932% in March 2008 at 5.5%, due March 2018	750	750
$2,000 issued at discount to par at a price of 99.561% in December 2008 at 6.125%, paid March 2014		1,999
$1,500 issued at discount to par at a price of 99.993% in February 2009 at 4.75%, paid June 2014		1,500
2009 Shelf Registration Statement:		
$1,100 issued at discount to par at a price of 99.887% in September 2010 at 2.125%, due September 2015	1,100	1,100
$650 issued at discount to par at a price of 99.911% in December 2010 at 2.2%, due December 2015	650	650
$1,350 issued at discount to par at a price of 99.827% in December 2010 at 3.75%, due December 2020	1,349	1,349
$500 issued at par in May 2011 at three-month USD LIBOR plus 0.4%, paid May 2014		500
$500 issued at discount to par at a price of 99.971% in May 2011 at 1.55%, paid May 2014		500
$1,000 issued at discount to par at a price of 99.958% in May 2011 at 2.65%, due June 2016	1,000	1,000
$1,250 issued at discount to par at a price of 99.799% in May 2011 at 4.3%, due June 2021	1,248	1,248
$350 issued at par in September 2011 at three-month USD LIBOR plus 1.55%, paid September 2014		350
$750 issued at discount to par at a price of 99.977% in September 2011 at 2.35%, due March 2015	750	750
$1,300 issued at discount to par at a price of 99.784% in September 2011 at 3.0%, due September 2016	1,298	1,298
$1,000 issued at discount to par at a price of 99.816% in September 2011 at 4.375%, due September 2021	999	999
$1,200 issued at discount to par at a price of 99.863% in September 2011 at 6.0%, due September 2041	1,199	1,198
$650 issued at discount to par at a price of 99.946% in December 2011 at 2.625%, paid December 2014	650	650
$850 issued at discount to par at a price of 99.790% in December 2011 at 3.3%, due December 2016	849	849
$1,500 issued at discount to par at a price of 99.707% in December 2011 at 4.65%, due December 2021	1,496	1,496
$1,500 issued at discount to par at a price of 99.985% in March 2012 at 2.6%, due September 2017	1,500	1,500
$500 issued at discount to par at a price of 99.771% in March 2012 at 4.05%, due September 2022	499	499
2012 Shelf Registration Statement:		
$750 issued at par in January 2014 at three-month USD LIBOR plus 0.94%, due January 2019	750	
$1,250 issued at discount to par at a price of 99.954% in January 2014 at 2.75%, due January 2019	1,250	
	17,837	20,684
EDS Senior Notes(1)		
$300 issued October 1999 at 7.45%, due October 2029	313	314
Other, including capital lease obligations, at 0.00%-8.30%, due in calendar years 2014-2024(2)	424	689
Fair value adjustment related to hedged debt	120	147
Less: current portion	(2,655)	(5,226)
Total long-term debt	$ 16,039	$ 16,608

(1) HP may redeem some or all of the fixed-rate U.S. Dollar Global Notes and EDS Senior Notes at any time in accordance with the terms thereof. The U.S. Dollar Global Notes and EDS Senior Notes are senior unsecured debt.

(2)

Other, including capital lease obligations includes $123 million and $244 million as of October 31, 2014 and 2013, respectively, of borrowing- and funding-related activity associated with HPFS and its subsidiaries that are collateralized by receivables and underlying assets associated with the related capital and operating leases. For both the periods presented, the carrying amount of the assets approximated the carrying amount of the borrowings.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 12: Borrowings (Continued)

As disclosed in Note 11, HP uses interest rate swaps to mitigate the exposure of its debt portfolio to changes in fair value resulting from changes in interest rates by achieving a primarily U.S. dollar LIBOR-based floating interest expense. Interest rates shown in the table of long-term debt have not been adjusted to reflect the impact of any interest rate swaps.

In May 2012, HP filed a shelf registration statement (the "2012 Shelf Registration Statement") with the Securities and Exchange Commission ("SEC") to enable the company to offer for sale, from time to time, in one or more offerings, an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants.

HP's Board of Directors has authorized the issuance of up to $16.0 billion in aggregate principal amount of commercial paper by HP. HP's subsidiaries are authorized to issue up to an additional $1.0 billion in aggregate principal amount of commercial paper. HP maintains two commercial paper programs, and a wholly-owned subsidiary maintains a third program. HP's U.S. program provides for the issuance of U.S. dollar-denominated commercial paper up to a maximum aggregate principal amount of $16.0 billion. HP's euro commercial paper program provides for the issuance of commercial paper outside of the U.S. denominated in U.S. dollars, euros or British pounds up to a maximum aggregate principal amount of $3.0 billion or the equivalent in those alternative currencies. The combined aggregate principal amount of commercial paper outstanding under those programs at any one time cannot exceed the $16.0 billion authorized by HP's Board of Directors. The HP subsidiary's Euro Commercial Paper/Certificate of Deposit Programme provides for the issuance of commercial paper in various currencies of up to a maximum aggregate principal amount of $500 million.

HP maintains senior unsecured committed credit facilities primarily to support the issuance of commercial paper. HP has a $3.0 billion five-year credit facility that expires in March 2017 and a $4.5 billion five-year credit facility that expires in April 2019. The $4.5 billion credit facility expiring in April 2019 was executed in the second quarter of fiscal 2014 and replaced a previous $4.5 billion credit facility that was to expire in February 2015. Both facilities support the U.S. commercial paper program and the euro commercial paper program. Commitment fees, interest rates and other terms of borrowing under the credit facilities vary based on HP's external credit ratings. HP's ability to have an outstanding U.S. commercial paper balance that exceeds the $7.5 billion supported by these credit facilities is subject to a number of factors, including liquidity conditions and business performance. In addition, the $3.0 billion five-year credit facility was amended in September 2012 to permit borrowings in euros and British pounds, with the amounts available in euros and British pounds being limited to the U.S. dollar equivalent of $2.2 billion and $300 million, respectively.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 12: Borrowings (Continued)

HP's and the HP subsidiary's resources available to obtain short- or long-term financing were as follows:

	As of October 31, 2014
	In millions
2012 Shelf Registration Statement[1]	Unspecified
Commercial paper programs	$16,202
Uncommitted lines of credit	$ 1,587

(1) HP has the capacity to issue an unspecified amount of additional debt securities, common stock, preferred stock, depositary shares and warrants under the 2012 Shelf Registration Statement.

The extent to which HP is able to utilize the 2012 Shelf Registration Statement and the commercial paper programs as sources of liquidity at any given time is subject to a number of factors, including market demand for HP securities and commercial paper, HP's financial performance, HP's credit ratings and market conditions generally.

As of October 31, 2014, aggregate future maturities of long-term debt at face value (excluding a fair value adjustment related to hedged debt of $120 million, a premium on debt issuance of $13 million and a discount on debt issuance of $13 million) were as follows:

	2015	2016	2017	2018	2019	Thereafter	Total
	In millions						
Aggregate future maturities of debt outstanding including capital lease obligations	$ 2,652	$ 3,027	$ 2,920	$ 786	$ 2,003	$ 7,186	$ 18,574

Interest expense on borrowings recognized in the Consolidated Statements of Earnings during the fiscal years was as follows:

Expense	Location	2014	2013	2012
		In millions		
Financing interest	Financing interest	$ 277	$ 312	$ 317
Interest expense	Interest and other, net	344	426	514
Total interest expense		$ 621	$ 738	$ 831

Note 13: Stockholders' Equity

Dividends

The stockholders of HP common stock are entitled to receive dividends when and as declared by HP's Board of Directors. Dividends declared were $0.61 per common share in fiscal 2014, $0.55 per common share in fiscal 2013 and $0.50 per common share in fiscal 2012.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 13: Stockholders' Equity (Continued)

Share Repurchase Program

HP's share repurchase program authorizes both open market and private repurchase transactions. In fiscal 2014, HP executed share repurchases of 92 million shares which were settled for $2.7 billion and included 7 million shares expected to settle in the first quarter of fiscal 2015. In fiscal 2013, HP executed share repurchases of 77 million shares which were settled for $1.5 billion. In fiscal 2012, HP executed share repurchases of 67 million shares which were settled for $1.6 billion. The shares repurchased and settled in fiscal 2014, fiscal 2013 and fiscal 2012 were all open market repurchase transactions. As of October 31, 2014, HP had remaining authorization of $4.9 billion for future share repurchases under the $10.0 billion repurchase authorization approved by HP's Board of Directors on July 21, 2011.

Taxes related to Other Comprehensive (Loss) Income

	For the fiscal years ended October 31		
	2014	2013	2012
		In millions	
Tax (provision) benefit on change in unrealized gains on available-for-sale securities:			
Tax (provision) benefit on unrealized gains arising during the period	$ (1)	$ (14)	$ 25
	(1)	(14)	25
Tax (provision) benefit on change in unrealized gains (losses) on cash flow hedges:			
Tax (provision) benefit on unrealized gains (losses) arising during the period	(174)	97	(137)
Tax (benefit) provision on losses (gains) reclassified into earnings	(18)	(49)	143
	(192)	48	6
Tax benefit (provision) on change in unrealized components of defined benefit plans:			
Tax benefit (provision) on (losses) gains arising during the period	181	(258)	261
Tax benefit on amortization of actuarial loss and prior service benefit	(18)	(35)	(31)
Tax provision on curtailments, settlements and other	(9)	(5)	(48)
	154	(298)	182
Tax (provision) benefit on change in cumulative translation adjustment	(27)	25	(25)
Tax (provision) benefit on other comprehensive (loss) income	$ (66)	$ (239)	$ 188

153

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 13: Stockholders' Equity (Continued)

Changes and reclassifications related to Other Comprehensive (Loss) Income, net of taxes

	For the fiscal years ended October 31		
	2014	2013	2012
	In millions		
Other comprehensive (loss) income, net of taxes:			
Change in unrealized gains on available-for-sale securities:			
Unrealized gains arising during the period	$ 6	$ 38	$ 50
Gains reclassified into earnings	(1)	(49)	
	5	(11)	50
Change in unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses) arising during the period	163	(146)	198
Losses (gains) reclassified into earnings(1)	133	57	(256)
	296	(89)	(58)
Change in unrealized components of defined benefit plans:			