

Statement of Funding Principles: 2017

Hewlett-Packard Limited Retirement Benefits Plan (the Plan) - Hewlett-Packard Section

Status

This statement was prepared by Hewlett Packard Enterprise UK Pension Trustee Limited (the Trustee) for the purposes of the actuarial valuation as at 31 October 2015 after obtaining the advice of David Eteen, the Scheme Actuary to the Plan. This statement applies to the Hewlett-Packard Section.

The Statutory Funding Objective

This statement sets out the Trustee's policy for ensuring that the Statutory Funding Objective (SFO) is met. The SFO is defined in section 222 of the Pensions Act 2004, which states that every scheme must have sufficient and appropriate assets to cover its Technical Provisions.

The assumptions are intended to provide a prudent estimate of the future experience of the Hewlett-Packard Section, with a modest allowance for the future potential outperformance over gilts from continued investment in more risky asset sectors such as equities, properties and corporate bonds. The modest outperformance allowance is included in the discount rate, which is based on gilt yields, increased by an agreed amount.

In order to meet the Statutory Funding Objective, the Trustee will ensure that a Schedule of Contributions is in place that the Scheme Actuary can certify is expected to remove the funding shortfall calculated as at the effective date of the actuarial valuation, based on market conditions as at that date.

There is an underlying assumption that the Hewlett-Packard Section will continue to be supported by the Employer, as well as Hewlett Packard Enterprise Company under the terms of the guarantee dated 21 October 2015. It is therefore assumed that the Plan will continue to pay benefits from the Hewlett-Packard Section as they fall due.

*For the purposes of this document Employer means the participating employers under the Plan as follows:
Hewlett-Packard Limited (Principal Employer)*

The Technical Provisions

Definition

The Technical Provisions are the amount that will be needed to pay benefits that relate to service up to the date of the actuarial valuation, if the assumptions made are borne out in practice.

Actuarial Method

The actuarial method to be used in the calculation of the Technical Provisions is the Projected Unit Method with a one-year control period.

Assumptions

The assumptions used in the calculation of the Technical Provisions are set out in Appendix A.

Frequency of actuarial valuations and circumstances for extra actuarial valuations

Actuarial valuations will, in normal circumstances, be carried out at least once every three years, with the latest actuarial valuation being carried out as at 31 October 2015. In addition, an annual review will be carried out each 31 October when an actuarial valuation is not carried out. Ongoing Funding Obligation Contributions will be recalculated as part of each actuarial valuation or annual review and a new Schedule of Contributions will be prepared, as appropriate. The Trustee may as a result of any annual review commission a full actuarial valuation. The Trustee will also monitor the funding position quarterly, using approximate updates supplied by the Scheme Actuary.

The Trustee may call for a full actuarial valuation during any year at a date other than 31 October when, after considering the Scheme Actuary's advice, it is of the opinion that events have made it unsafe to continue to rely on the results of the previous actuarial valuation as the basis for future contributions. However, the Trustee will consult the Employer before doing so.

Monitoring employer covenant

The Trustee has appointed an independent covenant advisor, Lincoln Pensions, who has assessed the covenant of the Employer and Hewlett Packard Enterprise Company. The Trustee will also monitor the covenant on a quarterly basis using updates provided by Lincoln Pensions.

Policy on discretionary increases

Pensions may be increased from time to time once in payment, above guaranteed levels of increase, at the discretion of the Employer and with the consent of the Trustee having taken actuarial advice.

If discretionary increases to benefits are made, the cost of the discretionary increases will be reflected in the Ongoing Funding Obligation Contributions recalculated as part of the following actuarial valuation or annual review, unless the Trustee and the Employer agree otherwise.

Discretionary increases are not taken into account in the calculation of Technical Provisions. One-off augmentations are treated similarly to discretionary increases.

Policy on general benefit changes

Where there are general benefit changes, the cost of the changes will be assessed.

Changes to future service benefits or past service benefits will be reflected in the Ongoing Funding Obligation Contributions recalculated as part of the following actuarial valuation or annual review, unless the Trustee and the Employer agree otherwise.

Policy on addressing a failure to meet the statutory funding objective

For actuarial valuations or annual reviews carried out as at a date on or after 31 October 2015 pre-existing deficits will not be re-amortised at subsequent actuarial valuations or annual reviews, unless re-amortising the whole deficit would result in higher Ongoing Funding Obligation Contributions.

Any new funding shortfall revealed at an actuarial valuation or annual review carried out as at a date on or after 31 October 2015 will be amortised as follows:

- The amount of any deficit below 85% of the Technical Provisions is amortised over 1 year from the date of the actuarial valuation or annual review
- The amount of any deficit between 85% and 95% of the Technical Provisions is amortised over 3 years from the date of the actuarial valuation or annual review
- The amount of any deficit between 95% and 100% of the Technical Provisions is amortised over 5 years from the date of the actuarial valuation or annual review

Policy on surpluses

The Trustee and the Employer have agreed that any future funding surplus (compared with the Technical Provisions) as identified at a future actuarial valuation or annual review will be used to reduce employer contributions in accordance with the terms listed below relating to the effective date of that actuarial valuation or annual review.

For actuarial valuations or annual reviews carried out as at a date on or after 31 October 2015

- The amount of any surplus above 115% of the Technical Provisions is amortised over 1 year from the date of the actuarial valuation or annual review
- The amount of any surplus between 105% and 115% of the Technical Provisions is amortised over 3 years from the date of the actuarial valuation or annual review
- The amount of any surplus between 100% and 105% of the Technical Provisions is amortised over 5 years from the date of the actuarial valuation or annual review

At subsequent actuarial valuations or annual reviews, any pre-existing surpluses will not be re-amortised.

Calculation of Ongoing Funding Obligation Contributions

For the Hewlett-Packard Section, the Ongoing Funding Obligation Contributions will be calculated as follows:

- The future cost of accrual of benefits calculated using assumptions underlying the Technical Provisions; plus
- An allowance for administrative expenses and Pension Protection Fund (PPF) levies; less
- The amount by which the expected return on the assets for the year exceeds the amount of interest on the assets for the year assumed in calculating the Technical Provisions; plus
- An adjustment (either positive or negative) to allow for deficit or surplus as outlined above

The above calculation is subject to a minimum contribution of zero.

Ongoing Funding Obligation Contributions will be recalculated as at each 31 October and a new Schedule of Contributions will be put in place as appropriate. Ongoing Funding Obligation Contributions are payable by the 30 April following the date of the actuarial valuation or annual review. If following an annual review the updated Schedule of Contributions cannot be certified as at the date of the latest actuarial valuation (which is likely to be due to an improvement in the funding level since the date of the actuarial valuation) an additional contribution will be added to the final year of the Schedule of Contributions in order that the Schedule can be certified as at the effective date of the latest actuarial valuation.

Further details of the Ongoing Funding Obligation Contributions calculated as part of the actuarial valuation as at 31 October 2015 are set out in Appendix B.

Assumption for expected return on assets

The assumption for the expected return on the Hewlett-Packard Section's assets is the expected return on assets used for Hewlett Packard Enterprise Company's ASC 715 calculations as at the same date of the actuarial valuation/annual review.

For the actuarial valuation as at 31 October 2015, the expected return on assets assumed to calculate the Ongoing Funding Obligation Contribution for the Plan Year from 1 November 2015 to 31 October 2016 was 6.33% p.a. The expected return on assets assumed to calculate the Ongoing Funding Obligation Contribution for the Plan Year from 1 November 2016 to 31 October 2017 was 4.95% p.a.

Salary Sacrifice Funding Obligation Contributions

In addition to the Ongoing Funding Obligation Contributions calculated above, Salary Sacrifice Funding Obligation Contributions are payable monthly by the Employer. These are the member ordinary contributions that would have otherwise been payable by the members which the Employer will pay to the Hewlett-Packard Section as a result of the salary sacrifice arrangements. For the avoidance of doubt, the Salary Sacrifice Funding Obligation Contributions are always payable monthly for so long as the Employer is operating a salary sacrifice arrangement and are payable even if the Ongoing Funding Obligation Contributions calculated above are zero.

Payments to the Employer from the Hewlett-Packard Section

If the Hewlett-Packard Section is not being wound up but surplus assets exceed a certain level, the Plan's Trust Deed and Rules currently allow for a refund of surplus assets to be paid to the Employer, subject to legislation. If this happens, the Trustee may pay all or part of the surplus (less tax) to the employers participating in the Section, in such proportions as the Trustee, after consulting with the Employer, considers appropriate.

Funding Agreement

This Statement of Funding Principles is consistent with the Hewlett-Packard Limited Retirement Benefits Plan Funding Agreement for Digital and Hewlett-Packard Section dated 27 April 2012 as amended between the Trustee of the Plan and Hewlett-Packard Limited ('the Funding Agreement'). This Statement of Funding Principles has been prepared on the basis that the Hewlett-Packard Section has not been terminated as at the date of signing. The Funding Agreement signed by the Trustee and the Employer requires additional payments to be made to the Hewlett-Packard Section over and above the Employer contributions required under this Statement of Funding Principles in the event that the Hewlett-Packard Section is terminated.

Policy on reduction of cash equivalent transfer values (CETVs)

The Trustee will ask the Scheme Actuary to advise them at or following each actuarial valuation of the extent to which assets are sufficient to provide CETVs for all non-pensioners without adversely affecting the security of the benefits of other members and beneficiaries.

If, after obtaining advice from the Scheme Actuary, the Trustee is of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustee will commission a report from the Scheme Actuary regarding the extent to which CETVs should be reduced or additional Employer contributions required in order to avert such action.

Other points

A guarantee has been provided by Hewlett Packard Enterprise Company (registered in the State of Delaware, United States of America) which may require Hewlett Packard Enterprise Company to make contributions to the Hewlett-Packard Section in the event that the Employer does not pay certain contributions due to the Hewlett-Packard Section. In the event that Hewlett Packard Enterprise Company is required to contribute to the Hewlett-Packard Section it may appoint one or more of its directly or indirectly wholly owned subsidiaries to make a payment on its behalf. This guarantee is seen by the Trustee as an important part of the Employer covenant supporting the Hewlett-Packard Section.

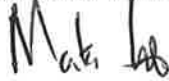
A guarantee has also been provided by Hewlett-Packard The Hague B.V. (incorporated under the laws of the Netherlands) which may require Hewlett-Packard The Hague B.V. to make contributions to the Hewlett-Packard Section in the event that the Employer does not pay any contributions due to the Hewlett-Packard Section. This guarantee was originally put in place to help reduce PPF levies.

Review

The Trustee will review this statement at least every three years. The Trustee will take advice from the Scheme Actuary and consult with the Employer over any changes to the statement.

This statement has been agreed by Hewlett-Packard Limited:

Signed on behalf of Hewlett-Packard Limited:



Name: Martin Coomb

Position: Director

Date: 30th June 2017

This statement was agreed by the Trustee:

Signed on behalf of the Trustee:

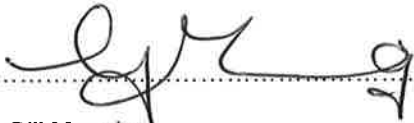


Name: Jonathan Lord

Position: Chairman of the Trustee

Date: 12 July 17

Signed:



Name: Gill Manning

Position: Trustee director

Date: 12.7.17.

This Statement is dated 30 June 2017.

Appendix A – Assumptions used to calculate the Technical Provisions

Derivation of assumptions

The details below set out how the assumptions were derived as part of the actuarial valuation, together with the assumptions derived as at 31 October 2015. Assumptions will be derived in the same manner at future annual reviews.

Financial assumptions

Discount rate:

The discount rate will be set equal to the single equivalent yield on UK gilts plus 0.7% p.a. The single equivalent discount rate used at each actuarial valuation and/or annual review will be such that the value placed on the liabilities using this discount rate is broadly the same as the value that would be placed on the liabilities had the discount rate applied to each cashflow of a particular term been set equal to the relevant term-dependent yields on the UK gilt curve plus 0.7% p.a.

For the actuarial valuation as at 31 October 2015 the discount rate is 3.24% p.a.

Retail Price Index (RPI) inflation:

25% of RPI linked liabilities are valued in line with market implied RPI (or the proportion of RPI linked liabilities that have been hedged if greater) and 75% of RPI linked liabilities are valued assuming RPI equals 3.00% p.a. (or the appropriate lesser percent if more than 25% of RPI linked liabilities are valued in line with market implied retail price inflation).

70% of RPI linked liabilities were hedged as at 31 October 2015 and for the actuarial valuation as at 31 October 2015 the assumed increase in RPI is 3.26% p.a.

Consumer Price Index (CPI) inflation:

CPI inflation is assumed to increase in line with the RPI assumption less a deduction of 0.9% p.a.

For the actuarial valuation as at 31 October 2015, CPI is assumed to increase at 2.36% p.a.

Increases to pensions in deferment:

Assumptions for increases in deferment on pension in excess of GMP linked to CPI are set equal to the CPI inflation assumption derived as above, but adjusted for any maximum or minimum that may apply. No assumption is needed for increases in GMP in deferment as GMPs increase at a fixed rate.

For the actuarial valuation as at 31 October 2015 it is assumed increases in deferment linked to CPI are equal to 2.36% p.a. in future with an allowance made for any collars and caps that apply over the period of deferment.

Increases to pension in payment:

For increases in payment linked to RPI or CPI the pension increase in payment assumption is derived from the relevant price inflation derived above allowing for any maximum or minimum that might apply. For this purpose an allowance is made for any maximum and/or minimum that may apply based on the inflation volatility as at the date of that actuarial valuation or annual review as advised by the Scheme Actuary.

For the actuarial valuation as at 31 October 2015, the rates assumed are as follows:

Members who retired before 1 April 1997

- 0% p.a. for GMP accrued before 6 April 1988
- 2.11% p.a. for GMP accrued from 6 April 1988 (CPI min 0% p.a. max 3% p.a.)
- 2.12% p.a. for pension in excess of GMP (2/3rds of {RPI min 0% p.a. max 5% p.a.})

Members who left service before 1 April 1997 and retired on or after 1 April 1997

- 0% p.a. for GMP accrued before 6 April 1988
- 2.11% p.a. for GMP accrued from 6 April 1988 (CPI min 0% p.a. max 3% p.a.)
- 0% p.a. for pension in excess of GMP

Active members and members who left service on or after 1 April 1997:

- 0% p.a. for GMP accrued before 6 April 1988
- 2.11% p.a. for GMP accrued from 6 April 1988 (CPI min 0% p.a. max 3% p.a.)
- 2.12% p.a. multiplied by the relevant "Q factor" for each member as calculated under Rule 12.2.3 on pension in respect of pre 1 April 1997 service in excess of GMP (Q x 2/3rds of {RPI min 0% p.a. max 5% p.a.})
- 3.18% p.a. for pensions in respect of post 1 April 1997 service (RPI min 0% p.a. max 5% p.a.)

Annual salary increases:

Annual salaries are assumed to increase at the rate of 2.50% p.a. This includes an allowance for promotional increases.

Basic state pension increases:

The Basic State Pension is assumed to increase at the rate of 4.00% p.a.

Demographic assumptions

Mortality: before retirement

70% of AM92 standard tables for males and AF92 standard tables for females.

Mortality: after retirement

Male members: 98% of standard SAPS S2 'Light' tables based on year of birth making allowance for future mortality improvements in line with CMI_2016 projections with a long term rate of 1.25% p.a. and a period smoothing parameter of 8.0

Female members: 91% of standard SAPS S2 'Light' tables based on year of birth making allowance for future mortality improvements in line with CMI_2016 projections with a long term rate of 1.25% p.a. and a period smooth parameter of 8.0

At future annual reviews or actuarial valuations the latest CMI projections will be adopted unless agreed otherwise by the Trustee and the Employer.

For illustration, this results in the following life expectancies for retired members, measured in 2015, and members expected to be retired in 2035:

Expectation of life:

	Cohort	Period
Life expectancy for a male aged 65 now	88.6	87.0
Life expectancy at age 65 for a male aged 45 now	89.9	-
Life expectancy for a female aged 65 now	90.1	88.4
Life expectancy at age 65 for a female aged 45 now	91.6	-

The Employer will pay due consideration to any proposal put forward by the Trustee to update the long term mortality improvement assumption as part of the next actuarial valuation to ensure it remains a best estimate assumption in light of Aon Hewitt's latest house guidance and the latest evidence on mortality trends at that time. The next actuarial valuation is required to be carried out no later than as at 31 October 2018.

The period smoothing parameter will also be reviewed as part of the next actuarial valuation and may be updated with the agreement of the Trustee and the Employer.

Mortality Reserve:

2% is added to the liabilities by way of a reserve for possible adverse future mortality experience.

Leaving service:

Allowance is made for active members to withdraw from pensionable service before their Normal Pension Date. The rates are given below.

Withdrawal rates for active members – proportion of members assumed to leave each year:

Age	Withdrawal rate (Males and Females)
Below age 50	6.5%
Age 50 to age 60	4.5%
60 and over	100%

As part of future actuarial valuations this assumption will be updated to reflect experience over the 6 year period ending on, or near to, the effective date of the actuarial valuation.

Retirement – Active Members:

Allowance is made for active members to retire directly from active service before their Normal Pension Date. The rates are given below.

Early retirement rates for active members - proportion of members assumed to retire each year:

Age	Early retirement rate (Males and Females)
Below 55	0%
55	15%
56	10%
57	10%
58	10%
59	10%
60 or over	100%

As part of future actuarial valuations this assumption will be updated to reflect experience over the 6 year period ending on, or near to, the effective date of the actuarial valuation.

Retirement - Deferred Members:

Allowance is made for deferred members to retire before their Normal Pension Date. The rates are given below:

Early retirement rates for deferred members - proportion of members assumed to retire each year:

Years before Normal Pension Date	Early retirement rate (Males and Females)
>5	0%
5	9%
4	4.5%
3	4.5%
2	4.5%
1	4.5%
0	100%

As part of future actuarial valuations this assumption will be updated to reflect experience over the 6 year period ending on, or near to, the effective date of the actuarial valuation.

Age difference of spouse:

A male member is assumed to be three years older than his spouse. The spouse is assumed to be female.

A female member is assumed to be one year younger than her spouse. The spouse is assumed to be male.

Percentage married:

95% of male members are assumed to be married at retirement or earlier death. It is assumed that the spouse is female.

77% of female members are assumed to be married at retirement or earlier death. It is assumed that the spouse is male.

New entrants:

No allowance is made for new entrants to the Hewlett-Packard Section.

Commutation:

Allowance is made, assuming that all non-pensioner members will commute 15% of their pension on retirement for cash sums. It is assumed that commutation factors in force as at the actuarial valuation or annual review continue to apply in the future without change.

As part of future actuarial valuations this assumption will be updated to reflect experience over the 6 year period ending on, or near to, the effective date of the actuarial valuation.

Pension increase exchange:

No allowance to be made.

As part of the actuarial valuation as at 31 October 2018 an allowance will be introduced to reflect the experience of any bulk exercises that have been carried out and the experience over the 3 year period ending on, or near to, the effective date of the actuarial valuation. For subsequent actuarial valuations this assumption will be updated to reflect experience over the 6 year period ending on, or near to, the effective date of the actuarial valuation.

The first Ongoing Funding Obligation Contribution calculation to make an allowance for pension increase exchange will be the first one to be carried out following the completion of the actuarial valuation as at 31 October 2018.

Cash equivalent transfer values:

No allowance to be made.

There is an agreement in principle that the Trustee and Employer will adopt an appropriate allowance as part of the actuarial valuation as at 31 October 2018 if experience shows a material increase in the level of transfers.

If an allowance is to be made for cash equivalent transfer values, the first Ongoing Funding Obligation Contribution calculation to make such an allowance will be the first one to be carried out following the completion of the actuarial valuation as at 31 October 2018.

Administration Expenses and Levies:

An allowance is made for administration expenses and levies when calculating Ongoing Funding Obligation Contributions.

The allowance made for administration expenses is based on the level of administration expenses incurred by the Hewlett-Packard Section over the year ending on the date of the actuarial valuation or annual review.

The allowance for levies will include the PPF levy charged (or expected to be charged) for the PPF year (1 April to 31 March) spanning the date of the actuarial valuation or annual review. Allowance will

also be made for any other levies expected to be charged in the year following the actuarial valuation or annual review, including the Pensions Regulator's General Levy and the PPF's Administration Levy.

The allowance for administration expenses and levies is reviewed each year.

When calculating the Ongoing Funding Obligation Contributions for the Plan Year from 1 November 2015 to 31 October 2016 it was assumed that administration expenses and levies would be £2,100,000 over the year. When calculating the Ongoing Funding Obligation Contributions for the Plan Year from 1 November 2016 to 31 October 2017 it was assumed that administration expenses and levies would be £2,900,000 over the year.

Appendix B - Calculation of contributions as part of the actuarial valuation as at 31 October 2015

Ongoing Funding Obligation Contributions

The Ongoing Funding Obligation Contribution for the Plan Year from 1 November 2015 to 31 October 2016 was confirmed as £34,300,000 and paid into the Hewlett-Packard Section in March 2016. This was calculated based on the position as at 31 October 2015 before allowing for any assumption changes agreed as part of the actuarial valuation as at 31 October 2015.

The Ongoing Funding Obligation Contribution for the Plan Year from 1 November 2016 to 31 October 2017 was confirmed as £45,200,000 and paid into the Hewlett-Packard Section in March 2017. This was calculated based on the position as at 31 October 2016 before allowing for any assumption changes agreed as part of the actuarial valuation as at 31 October 2015.

As agreed with the Employer, the Ongoing Funding Obligation Contribution for the Plan Year from 1 November 2015 to 31 October 2016 was subject to a cap. A further £5,000,000 was paid in March 2017 to reflect this. An interest payment of £257,000 is required to be paid by 31 October 2017.

The Ongoing Funding Obligation Contributions payable in future Plan Years set out in the Schedule of Contributions agreed as part of the actuarial valuation as at 31 October 2015 will be calculated allowing for the assumptions set out in this Statement of Funding Principles. When calculating these contributions it will also be assumed that:

- Market conditions as at 31 October 2015 remain unchanged, including that the UK gilt curve will unwind in line with the implied forward rates as at 31 October 2015. This means that the discount rate expected to be used at future actuarial valuations and annual reviews will vary
- 70% of RPI linked liabilities remain hedged throughout the period covered by the Schedule of Contributions
- The increase in Technical Provisions as a result of assumption changes agreed as part of the actuarial valuation as at 31 October 2015 is amortised over 5 years from 31 October 2016
- The expected return on assets at future actuarial valuations and annual reviews will reduce as the investment strategy is expected to de-risk in accordance with the Funding Level Triggers set out in the Funding Agreement. The actual returns to be assumed are as follows:
 - 6.33% p.a. from 31 October 2015 to 31 October 2016
 - 5.53% p.a. from 31 October 2016 to 31 October 2017
 - 4.16% p.a. from 31 October 2017 to 31 October 2018
 - 4.09% p.a. from 31 October 2018 to 31 October 2019
 - 3.93% p.a. from 31 October 2019 to 31 October 2020
 - 3.93% p.a. from 31 October 2020 to 31 October 2021
- Administration expenses and levies incurred each year will be £2,100,000, increasing in line with RPI inflation each year

The Scheme Actuary will certify the Schedule Contributions based on market conditions as at the date of the actuarial valuation, allowing for the expected return on assets sets out above.

In practice, the Ongoing Funding Obligation Contributions will be re-calculated each 31 October as part of an actuarial valuation or annual review and a new Schedule of Contributions will be put in place as appropriate. However, the interest payment of £257,000 is not subject to change and will be required to be paid irrespective of the outcome of the annual review carried out as at 31 October 2017.