PRINCIPAL FINANCIAL GROUP INC
Form 10-Q
May 04, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

1-16725

(Commission file number)

PRINCIPAL FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**42-1520346**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

711 High Street, Des Moines, Iowa 50392

(Address of principal executive offices)

(515) 247-5111

(Registrant s telephone number, including area code)

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 x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	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 Exchange Act). Yes o No x

The total number of shares of the registrant s Common Stock, $0.01 par value, outstanding as of April 27, 2011, was 321,318,850.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Principal Financial Group, Inc.

Consolidated Statements of Financial Position

	March 31, 2011 (Unaudited)	December 31, 2010
	(in millions)	
Assets		
Fixed maturities, available-for-sale (2011 and 2010 include $262.9 million and $257.9 million related to consolidated variable interest entities)	**$ 48,305.5**	$ 48,636.3
Fixed maturities, trading (2011 and 2010 include $135.0 million and $131.4 million related to consolidated variable interest entities)	**1,006.3**	1,120.3
Equity securities, available-for-sale	**175.8**	169.9
Equity securities, trading (2011 and 2010 include $218.6 million and $158.6 million related to consolidated variable interest entities)	**389.7**	316.9
Mortgage loans	**10,900.0**	11,125.1
Real estate	**1,010.0**	1,063.5
Policy loans	**893.0**	903.9
Other investments (2011 and 2010 include $122.5 million and $128.7 million related to consolidated variable interest entities, of which $122.2 million and $128.3 million are measured at fair value under the fair value option)	**2,676.4**	2,641.6
Total investments	**65,356.7**	65,977.5
Cash and cash equivalents (2011 and 2010 include $113.7 million and $100.0 million related to consolidated variable interest entities)	**1,984.2**	1,877.4
Accrued investment income	**675.6**	666.1
Premiums due and other receivables	**1,309.9**	1,063.0
Deferred policy acquisition costs	**3,549.9**	3,529.8
Property and equipment	**448.7**	458.7
Goodwill	**344.5**	345.4
Other intangibles	**829.3**	834.6
Separate account assets	**71,724.5**	69,555.3
Other assets	**1,326.4**	1,323.3
Total assets	**$ 147,549.7**	$ 145,631.1
Liabilities		
Contractholder funds	**$ 36,609.3**	$ 37,301.1
Future policy benefits and claims	**19,975.3**	20,046.3
Other policyholder funds	**607.5**	592.2
Short-term debt	**106.8**	107.9
Long-term debt	**1,579.8**	1,583.7
Income taxes currently payable	**3.6**	6.2
Deferred income taxes	**542.7**	409.9
Separate account liabilities	**71,724.5**	69,555.3
Other liabilities (2011 and 2010 include $517.7 million and $433.6 million related to consolidated variable interest entities, of which $106.4 million and $114.5 million are	**6,027.4**	6,143.5

measured at fair value under the fair value option)				
Total liabilities		**137,176.9**		135,746.1
Stockholders equity				
Series A preferred stock, par value $.01 per share with liquidation preference of $100 per share 3.0 million shares authorized, issued and outstanding in 2011 and 2010				
Series B preferred stock, par value $.01 per share with liquidation preference of $25 per share 10.0 million shares authorized, issued and outstanding in 2011 and 2010		**0.1**		0.1
Common stock, par value $.01 per share 2,500.0 million shares authorized, 449.6 million and 448.5 million shares issued, and 321.3 million and 320.4 million shares outstanding in 2011 and 2010		**4.5**		4.5
Additional paid-in capital		**9,580.1**		9,563.8
Retained earnings		**4,808.6**		4,612.3
Accumulated other comprehensive income		**525.5**		272.4
Treasury stock, at cost (128.3 million and 128.1 million shares in 2011 and 2010)		**(4,731.2)**		(4,725.3)
Total stockholders equity attributable to Principal Financial Group, Inc.		**10,187.6**		9,727.8
Noncontrolling interest		**185.2**		157.2
Total stockholders equity		**10,372.8**		9,885.0
Total liabilities and stockholders equity	**$**	**147,549.7**	$	145,631.1

See accompanying notes.

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Principal Financial Group, Inc.
Consolidated Statements of Operations
(Unaudited)

	For the three months ended March 31, 2011	2010
	(in millions, except per share data)	
Revenues		
Premiums and other considerations	$ **797.1**	$ 878.9
Fees and other revenues	**620.8**	567.6
Net investment income	**859.9**	863.0
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	**(5.6)**	33.7
Total other-than-temporary impairment losses on available-for-sale securities	**(14.0)**	(84.6)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income	**(38.4)**	5.4
Net impairment losses on available-for-sale securities	**(52.4)**	(79.2)
Net realized capital losses	**(58.0)**	(45.5)
Total revenues	**2,219.8**	2,264.0
Expenses		
Benefits, claims and settlement expenses	**1,191.5**	1,275.3
Dividends to policyholders	**53.6**	56.5
Operating expenses	**691.2**	675.9
Total expenses	**1,936.3**	2,007.7
Income before income taxes	**283.5**	256.3
Income taxes	**60.4**	52.7
Net income	**223.1**	203.6
Net income attributable to noncontrolling interest	**18.6**	4.6
Net income attributable to Principal Financial Group, Inc.	**204.5**	199.0
Preferred stock dividends	**8.2**	8.2
Net income available to common stockholders	$ **196.3**	$ 190.8
Earnings per common share		
Basic earnings per common share	$ **0.61**	$ 0.60
Diluted earnings per common share	$ **0.60**	$ 0.59

See accompanying notes.

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Principal Financial Group, Inc.
Consolidated Statements of Stockholders Equity
(Unaudited)

	Series A preferred stock	Series B preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest	Total stockholders equity
					(in millions)				
Balances at January 1, 2010	$	$ 0.1	$ 4.5	$ 9,492.9	$ 4,160.7	$ (1,042.0)	$ (4,722.7)	$ 122.9	$ 8,016.4
Common stock issued				8.3					8.3
Stock-based compensation and additional related tax benefits				11.3					11.3
Treasury stock acquired, common							(1.7)		(1.7)
Dividends to preferred stockholders					(8.2)				(8.2)
Distributions to noncontrolling interest								(1.0)	(1.0)
Contributions from noncontrolling interest								5.9	5.9
Effects of implementation of accounting change related to variable interest entities, net					(10.7)	10.7			
Comprehensive income:									
Net income					199.0			4.6	203.6
Net unrealized gains, net						449.1			449.1
Noncredit component of impairment losses on fixed maturities, available-for-sale, net						(3.0)			(3.0)
Foreign currency translation adjustment, net of related income taxes						(2.6)		0.2	(2.4)
Unrecognized postretirement benefit obligation, net of related income taxes						9.9			9.9
Comprehensive income									657.2
Balances at March 31, 2010	$	$ 0.1	$ 4.5	$ 9,512.5	$ 4,340.8	$ (577.9)	$ (4,724.4)	$ 132.6	$ 8,688.2
Balances at January 1, 2011	**$**	**$ 0.1**	**$ 4.5**	**$ 9,563.8**	**$ 4,612.3**	**$ 272.4**	**$ (4,725.3)**	**$ 157.2**	**$ 9,885.0**
Common stock issued				**9.1**					**9.1**
Stock-based compensation and additional related tax benefits				**9.2**					**9.2**
Treasury stock acquired, common							**(5.9)**		**(5.9)**
Dividends to preferred stockholders					**(8.2)**				**(8.2)**
Distributions to noncontrolling interest								**(2.4)**	**(2.4)**
Contributions from noncontrolling interest								**14.3**	**14.3**
Purchase of subsidiary shares from noncontrolling interest				**(2.0)**				**(2.5)**	**(4.5)**
Comprehensive income:									
Net income					**204.5**			**18.6**	**223.1**
Net unrealized gains, net						**164.6**			**164.6**
Noncredit component of impairment losses on fixed maturities, available-for-sale,						**16.6**			**16.6**

net									
Foreign currency translation adjustment, net of related income taxes						**22.7**			**22.7**
Unrecognized postretirement benefit obligation, net of related income taxes						**49.2**			**49.2**
Comprehensive income									**476.2**
Balances at March 31, 2011	**$**	**$ 0.1**	**$ 4.5**	**$ 9,580.1**	**$ 4,808.6**	**$ 525.5**	**$ (4,731.2)**	**$ 185.2**	**$ 10,372.8**

See accompanying notes.

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Principal Financial Group, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	For the three months ended March 31, 2011	2010
	(in millions)	
Operating activities		
Net income	**$ 223.1**	$ 203.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred policy acquisition costs	**55.5**	72.8
Additions to deferred policy acquisition costs	**(127.0)**	(123.8)
Accrued investment income	**(9.5)**	(32.1)
Net cash flows for trading securities	**65.3**	(148.8)
Premiums due and other receivables	**(42.4)**	(12.0)
Contractholder and policyholder liabilities and dividends	**314.2**	255.9
Current and deferred income taxes	**48.9**	37.6
Net realized capital losses	**58.0**	45.5
Depreciation and amortization expense	**31.4**	29.9
Mortgage loans held for sale, acquired or originated	**(25.9)**	(15.9)
Mortgage loans held for sale, sold or repaid, net of gain	**15.9**	13.7
Real estate sold through operating activities	**76.9**	3.1
Stock-based compensation	**9.2**	10.7
Other	**501.9**	313.0
Net adjustments	**972.4**	449.6
Net cash provided by operating activities	**1,195.5**	653.2
Investing activities		
Available-for-sale securities:		
Purchases	**(1,666.4)**	(2,228.5)
Sales	**536.4**	707.2
Maturities	**1,725.6**	828.5
Mortgage loans acquired or originated	**(123.9)**	(219.1)
Mortgage loans sold or repaid	**323.7**	451.5
Real estate acquired	**(7.0)**	(9.7)
Net purchases of property and equipment	**(4.1)**	(4.2)
Net change in other investments	**(68.4)**	12.3
Net cash provided by (used in) investing activities	**$ 715.9**	$ (462.0)

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Principal Financial Group, Inc.
Consolidated Statements of Cash Flows (continued)
(Unaudited)

	For the three months ended March 31, 2011	2010
	(in millions)	
Financing activities		
Issuance of common stock	**$ 9.1**	$ 8.3
Acquisition of treasury stock	**(5.9)**	(1.7)
Proceeds from financing element derivatives	**19.4**	16.6
Payments for financing element derivatives	**(12.1)**	(13.2)
Excess tax benefits from share-based payment arrangements	**1.6**	0.4
Dividends to preferred stockholders	**(8.2)**	(8.2)
Issuance of long-term debt	**0.6**	0.2
Principal repayments of long-term debt	**(1.7)**	(3.4)
Net proceeds from short-term borrowings	**0.2**	31.2
Investment contract deposits	**893.3**	1,051.0
Investment contract withdrawals	**(2,674.2)**	(1,920.7)
Net increase (decrease) in banking operation deposits	**(25.8)**	38.7
Other	**(0.9)**	(1.1)
Net cash used in financing activities	**(1,804.6)**	(801.9)
Net increase (decrease) in cash and cash equivalents	**106.8**	(610.7)
Cash and cash equivalents at beginning of period	**1,877.4**	2,240.4
Cash and cash equivalents at end of period	**$ 1,984.2**	$ 1,629.7

See accompanying notes.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2011
(Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Principal Financial Group, Inc. (PFG), its majority-owned subsidiaries and its consolidated variable interest entities (VIEs), have been prepared in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2011, are not necessarily indicative of the results that may be expected for the year ended December 31, 2011. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2010, included in our Form 10-K for the year ended December 31, 2010, filed with the United States Securities and Exchange Commission (SEC). The accompanying consolidated statement of financial position as of December 31, 2010, has been derived from the audited consolidated statement of financial position but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance which clarifies when creditors should classify a loan modification as a troubled debt restructuring (TDR). A TDR occurs when a creditor grants a concession to a debtor experiencing financial difficulties. Loans denoted as a TDR are considered impaired and are specifically reserved for when calculating the allowance for credit losses. This guidance also ends the indefinite deferral issued in January 2011 surrounding new disclosures on loans classified as a TDR required as part of the credit quality disclosures guidance issued in July 2010. This guidance will be effective for us on July 1, 2011, and will be applied retrospectively to restructurings occurring on or after January 1, 2011. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In October 2010, the FASB issued authoritative guidance that modifies the definition of the types of costs incurred by insurance entities that can be capitalized in the successful acquisition of new or renewal insurance contracts. Capitalized costs should include incremental direct costs of contract acquisition, as well as certain costs related directly to acquisition activities such as underwriting, policy issuance and processing, medical and inspection and sales force contract selling. This guidance will be effective for us on January 1, 2012, with retrospective application permitted but not required. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In July 2010, the FASB issued authoritative guidance that requires new and expanded disclosures related to the credit quality of financing receivables and the allowance for credit losses. Reporting entities are required to provide qualitative and quantitative disclosures on the allowance for credit losses, credit quality, impaired loans, modifications and nonaccrual and past due financing receivables. The disclosures are required to be presented on a disaggregated basis by portfolio segment and class of financing receivable. Disclosures required by the guidance that relate to the end of a reporting period were effective for us in our December 31, 2010, consolidated financial statements. Disclosures required by the guidance that relate to an activity that occurs during a reporting period were effective for us on January 1, 2011, and did not have a material impact on our consolidated financial statements. See Note 3, Investments, for further details.

In April 2010, the FASB issued authoritative guidance addressing how investments held through the separate accounts of an insurance entity affect the entity s consolidation analysis. This guidance clarifies that an insurance entity should not consider any separate account interests held for the benefit of policyholders in an investment to be the insurer s interests and should not combine those interests with its general account interest in the same investment when assessing the investment for consolidation. This guidance was effective for us on January 1, 2011, and did not have a material impact on our consolidated financial statements.

In March 2010, the FASB issued authoritative guidance that amends and clarifies the guidance on evaluation of credit derivatives embedded in beneficial interests in securitized financial assets, including asset-backed securities (ABS), credit-linked notes, collateralized loan obligations and collateralized debt obligations (CDOs). This guidance eliminates the scope exception for bifurcation of embedded credit derivatives in interests in securitized financial assets, unless they are created solely by subordination of one financial instrument to another. We adopted this guidance effective July 1, 2010, and within the scope of this guidance reclassified fixed maturities with a fair value of $75.3 million, from available-for-sale to trading. The cumulative change in accounting principle related to unrealized losses on these fixed maturities resulted in a net $25.4 million decrease to retained earnings, with a corresponding increase to accumulated other comprehensive income (AOCI).

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2011
(Unaudited)

1. Nature of Operations and Significant Accounting Policies (continued)

In January 2010, the FASB issued authoritative guidance that requires new disclosures related to fair value measurements and clarifies existing disclosure requirements about the level of disaggregation, inputs and valuation techniques. Specifically, reporting entities now must disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, in the reconciliation for Level 3 fair value measurements, a reporting entity should present separately information about purchases, sales, issuances and settlements. The guidance clarifies that a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities for disclosure of fair value measurement, considering the level of disaggregated information required by other applicable U.S. GAAP guidance and should also provide disclosures about the valuation techniques and inputs used to measure fair value for each class of assets and liabilities. This guidance was effective for us on January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the reconciliation for Level 3 fair value measurements, which were effective for us on January 1, 2011. This guidance did not have a material impact on our consolidated financial statements. See Note 9, Fair Value Measurements, for further details.

In June 2009, the FASB issued authoritative guidance related to the accounting for VIEs, which amends prior guidance and requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise with (1) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. In addition, this guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. Furthermore, we are required to enhance disclosures that will provide users of financial statements with more transparent information about an enterprise s involvement in a VIE. We adopted this guidance prospectively effective January 1, 2010. Due to the implementation of this guidance, certain previously unconsolidated VIEs were consolidated and certain previously consolidated VIEs were deconsolidated. The cumulative change in accounting principle from adopting this guidance resulted in a net $10.7 million decrease to retained earnings and a net $10.7 million increase to AOCI. In February 2010, the FASB issued an amendment to this guidance. The amendment indefinitely defers the consolidation requirements for reporting enterprises interests in entities that have the characteristics of investment companies and regulated money market funds. This amendment was effective January 1, 2010, and did not have a material impact to our consolidated financial statements. The required disclosures are included in our consolidated financial statements. See Note 2, Variable Interest Entities, for further details.

Separate Accounts

At March 31, 2011 and December 31, 2010, the separate accounts include a separate account valued at $209.7 million and $221.7 million, respectively, which primarily includes shares of our stock that were allocated and issued to eligible participants of qualified employee benefit plans administered by us as part of the policy credits issued under our 2001 demutualization. These shares are included in both basic and diluted earnings per share calculations. In the consolidated statements of financial position, the separate account shares are recorded at fair value and are reported as separate account assets with a corresponding separate account liability to eligible participants of the qualified plan. Changes in fair value of the separate account shares are reflected in both the separate account assets and separate account liabilities and do not impact our results of operations.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2011
(Unaudited)

2. Variable Interest Entities

We have relationships with and may have a variable interest in various types of special purpose entities. Following is a discussion of our interest in entities that meet the definition of a VIE. When we are the primary beneficiary, we are required to consolidate the entity in our financial statements. The primary beneficiary of a VIE is defined as the enterprise with (1) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. We assess whether we are the primary beneficiary of VIEs we have relationships with on an ongoing basis.

Consolidated Variable Interest Entities

Grantor Trusts

We contributed undated subordinated floating rate notes to three grantor trusts. The trusts separated the cash flows by issuing an interest-only certificate and a residual certificate related to each note contributed. Each interest-only certificate entitles the holder to interest on the stated note for a specified term, while the residual certificate entitles the holder to interest payments subsequent to the term of the interest-only certificate and to all principal payments. We retained the interest-only certificates and the residual certificates were subsequently sold to third parties. We have determined these grantor trusts are VIEs due to insufficient equity to sustain them. We determined we are the primary beneficiary as a result of our contribution of securities into the trusts and our continuing interest in the trusts.

Collateralized Private Investment Vehicles

We invest in synthetic CDOs, collateralized bond obligations, collateralized loan obligations, collateralized commodity obligations and other collateralized structures, which are VIEs due to insufficient equity to sustain the entities (collectively known as collateralized private investment vehicles). The performance of the notes of these structures is primarily linked to a synthetic portfolio by derivatives; each note has a specific loss attachment and detachment point. The notes and related derivatives are collateralized by a pool of permitted investments. The investments are held by a trustee and can only be liquidated to settle obligations of the trusts. These obligations primarily include derivatives, financial guarantees and the notes due at maturity or termination of the trusts. We determined we are the primary beneficiary for certain of these entities because we act as the investment manager of the underlying portfolio and we have an ownership interest.

Commercial Mortgage-Backed Securities

In September 2000, we sold commercial mortgage loans to a real estate mortgage investment conduit trust. The trust issued various commercial mortgage-backed securities (CMBS) certificates using the cash flows of the underlying commercial mortgages it purchased. This is considered a VIE due to insufficient equity to sustain itself. We have determined we are the primary beneficiary as we retained the special servicing role for the assets within the trust as well as the ownership of the bond class which controls the unilateral kick out rights of the special servicer.

Hedge Funds

We are a general partner with an insignificant equity ownership in various hedge funds. These entities are deemed VIEs due to the equity owners not having decision-making ability. We have determined we are the primary beneficiary of these entities due to our control through our management relationship, related party ownership and our fee structure in certain of these funds.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2011
(Unaudited)

2. Variable Interest Entities (continued)

The carrying amounts of our consolidated VIE assets, which can only be used to settle obligations of consolidated VIEs, and liabilities of consolidated VIEs for which creditors do not have recourse are as follows:

	Grantor trusts	Collateralized private investment vehicles	CMBS (in millions)	Hedge funds (2)	Total
March 31, 2011					
Fixed maturities, available-for-sale	**$ 248.0**	**$ 14.9**	**$**	**$**	**$ 262.9**
Fixed maturities, trading		**135.0**			**135.0**
Equity securities, trading				**218.6**	**218.6**
Other investments			**122.2**	**0.3**	**122.5**
Cash and cash equivalents		**55.0**		**58.7**	**113.7**
Accrued investment income	**0.9**	**0.1**	**0.8**		**1.8**
Premiums due and other receivables		**1.5**		**48.1**	**49.6**
Total assets	**$ 248.9**	**$ 206.5**	**$ 123.0**	**$ 325.7**	**$ 904.1**
Deferred income taxes	**$ 2.3**	**$**	**$**	**$**	**$ 2.3**
Other liabilities (1)	**140.2**	**140.8**	**88.3**	**148.4**	**517.7**
Total liabilities	**$ 142.5**	**$ 140.8**	**$ 88.3**	**$ 148.4**	**$ 520.0**
December 31, 2010					
Fixed maturities, available-for-sale	$ 243.1	$ 14.8	$	$	$ 257.9
Fixed maturities, trading		131.4			131.4
Equity securities, trading				158.6	158.6
Other investments			128.4	0.3	128.7
Cash and cash equivalents		55.0		45.0	100.0
Accrued investment income	0.7	0.1	0.8		1.6
Premiums due and other receivables		1.6		13.9	15.5
Total assets	$ 243.8	$ 202.9	$ 129.2	$ 217.8	$ 793.7
Deferred income taxes	$ 2.4	$	$	$	$ 2.4
Other liabilities (1)	135.8	132.6	94.1	71.1	433.6
Total liabilities	$ 138.2	$ 132.6	$ 94.1	$ 71.1	$ 436.0

(1) Grantor trusts contain an embedded derivative of a forecasted transaction to deliver the underlying securities; collateralized private investment vehicles include derivative liabilities, financial guarantees and obligation to redeem notes at maturity or termination of the trust; CMBS includes obligation to the bondholders; and hedge funds include liabilities to securities brokers.

(2) The consolidated statements of financial position included a $176.5 million and $145.9 million noncontrolling interest for hedge funds as of March 31, 2011 and December 31, 2010, respectively.

We did not provide financial or other support to investees designated as VIEs for the three months ended March 31, 2011 and 2010.

Unconsolidated Variable Interest Entities

Invested Securities

We hold a variable interest in a number of VIEs where we are not the primary beneficiary. Our investments in securities issued by these VIEs are reported in fixed maturities, available-for-sale and fixed maturities, trading in the consolidated statements of financial position and are described below.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2011
(Unaudited)

2. Variable Interest Entities (continued)

VIEs include CMBS, residential mortgage-backed pass-through securities (RMBS) and ABS. All of these entities were deemed VIEs because the equity within these entities is insufficient to sustain them. We determined we are not the primary beneficiary in any of the entities within these categories of investments. This determination was based primarily on the fact we do not own the class of security that controls the unilateral right to replace the special servicer or equivalent function.

As previously discussed, we invest in several types of collateralized private investment vehicles, which are VIEs. These include cash and synthetic structures that we do not manage. We have determined we are not the primary beneficiary of these collateralized private investment vehicles primarily because we do not control the economic performance of the entities and were not involved with the design of the entities.

We have invested in various VIE trusts as a debt holder. All of these entities are classified as VIEs due to insufficient equity to sustain them. We have determined we are not the primary beneficiary primarily because we do not control the economic performance of the entities and were not involved with the design of the entities.

The carrying value and maximum loss exposure for our unconsolidated VIEs, were as follows:

	Asset carrying value	Maximum exposure to loss (1)
	(in millions)	
March 31, 2011		
Fixed maturities, available-for-sale:		
Corporate	**$ 444.0**	**$ 382.5**
Residential mortgage-backed pass-through securities	**3,168.6**	**3,066.7**
Commercial mortgage-backed securities	**3,940.2**	**4,278.0**
Collateralized debt obligations	**300.3**	**359.8**
Other debt obligations	**3,197.5**	**3,243.8**
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	**122.4**	**122.4**
Commercial mortgage-backed securities	**47.9**	**47.9**
Collateralized debt obligations	**78.3**	**78.3**
Other debt obligations	**88.3**	**88.3**
December 31, 2010		
Fixed maturities, available-for-sale:		
Corporate	$ 429.0	$ 367.7
Residential mortgage-backed pass-through securities	3,196.2	3,077.9

Commercial mortgage-backed securities	3,842.2	4,424.9
Collateralized debt obligations	293.0	380.5
Other debt obligations	3,114.1	3,184.9
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	215.5	215.5
Commercial mortgage-backed securities	5.1	5.1
Collateralized debt obligations	87.2	87.2
Other debt obligations	118.8	118.8

(1) Our risk of loss is limited to our initial investment measured at amortized cost for fixed maturities, available-for-sale and to fair value for our fixed maturities, trading.

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Principal Financial Group, Inc.
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2. Variable Interest Entities (continued)

Sponsored Investment Funds

We are the investment manager for certain money market mutual funds that are deemed to be VIEs. We are not the primary beneficiary of these VIEs since our involvement is limited primarily to being a service provider, and our variable interest does not absorb the majority of the variability of the entities net assets. As of March 31, 2011 and December 31, 2010, these VIEs held $1.6 billion and $1.7 billion in total assets, respectively. During 2010, we chose to contribute $3.2 million to these VIEs for competitive reasons and have no contractual obligation to further contribute to the funds.

We provide asset management and other services to certain investment structures that are considered VIEs as we generally earn management fees and in some instances performance-based fees. We are not the primary beneficiary of these entities as we do not have the obligation to absorb losses of the entities that could be potentially significant to the VIE or the right to receive benefits from these entities that could be potentially significant.

3. Investments

Fixed Maturities and Equity Securities

Fixed maturities include bonds, ABS, redeemable preferred stock and certain nonredeemable preferred stock. Equity securities include mutual funds, common stock and nonredeemable preferred stock. We classify fixed maturities and equity securities as either available-for-sale or trading at the time of the purchase and, accordingly, carry them at fair value. See Note 9, Fair Value Measurements, for methodologies related to the determination of fair value. Unrealized gains and losses related to available-for-sale securities, excluding those in fair value hedging relationships, are reflected in stockholders equity, net of adjustments related to deferred policy acquisition costs (DPAC), sales inducements, unearned revenue reserves, derivatives in cash flow hedge relationships and applicable income taxes. Unrealized gains and losses related to hedged portions of available-for-sale securities in fair value hedging relationships and mark-to-market adjustments on certain trading securities are reflected in net realized capital gains (losses). We also have trading securities portfolios that support investment strategies that involve the active and frequent purchase and sale of fixed maturities. Mark-to-market adjustments related to these trading securities are reflected in net investment income.

The cost of fixed maturities is adjusted for amortization of premiums and accrual of discounts, both computed using the interest method. The cost of fixed maturities and equity securities classified as available-for-sale is adjusted for declines in value that are other than temporary.

Impairments in value deemed to be other than temporary are primarily reported in net income as a component of net realized capital gains (losses), with noncredit impairment losses for certain fixed maturities, available-for-sale reported in other comprehensive income (OCI). For loan-backed and structured securities, we recognize income using a constant effective yield based on currently anticipated cash flows.

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Principal Financial Group, Inc.
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3. Investments (continued)

The amortized cost, gross unrealized gains and losses, other-than-temporary impairments in AOCI and fair value of fixed maturities and equity securities available-for-sale are summarized as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses (in millions)	Other-than-temporary impairments in AOCI (1)	Fair value
March 31, 2011					
Fixed maturities, available-for-sale:					
U.S. government and agencies	**$ 532.6**	**$ 18.7**	**$ 0.3**	**$**	**$ 551.0**
Non-U.S. governments	**731.3**	**99.0**	**2.1**		**828.2**
States and political subdivisions	**2,625.3**	**63.2**	**23.4**		**2,665.1**
Corporate	**32,227.6**	**1,860.5**	**416.5**	**17.0**	**33,654.6**
Residential mortgage-backed pass-through securities	**3,066.7**	**111.6**	**9.7**		**3,168.6**
Commercial mortgage-backed securities	**4,278.0**	**140.4**	**301.5**	**176.7**	**3,940.2**
Collateralized debt obligations	**359.8**	**2.7**	**45.6**	**16.6**	**300.3**
Other debt obligations	**3,243.8**	**54.9**	**15.4**	**85.8**	**3,197.5**
Total fixed maturities, available-for-sale	**$ 47,065.1**	**$ 2,351.0**	**$ 814.5**	**$ 296.1**	**$ 48,305.5**
Total equity securities, available-for-sale	**$ 174.0**	**$ 11.8**	**$ 10.0**		**$ 175.8**
December 31, 2010					
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 748.5	$ 21.0	$ 0.2	$	$ 769.3
Non-U.S. governments	744.7	127.9			872.6
States and political subdivisions	2,615.0	64.7	23.3		2,656.4
Corporate	32,523.8	1,913.7	527.0	18.0	33,892.5
Residential mortgage-backed pass-through securities	3,077.9	124.2	5.9		3,196.2
Commercial mortgage-backed securities	4,424.9	118.0	506.1	194.6	3,842.2
Collateralized debt obligations	380.5	1.7	51.8	37.4	293.0
Other debt obligations	3,184.9	53.7	40.0	84.5	3,114.1
Total fixed maturities, available-for-sale	$ 47,700.2	$ 2,424.9	$ 1,154.3	$ 334.5	$ 48,636.3
Total equity securities, available-for-sale	$ 180.0	$ 8.1	$ 18.2		$ 169.9

(1) Excludes $124.0 million and $58.6 million as of March 31, 2011 and December 31, 2010, respectively, of net unrealized gains on impaired fixed maturities, available-for-sale related to changes in fair value subsequent to the impairment date.

The amortized cost and fair value of fixed maturities available-for-sale at March 31, 2011, by expected maturity, were as follows:

	Amortized cost	Fair value
	(in millions)	
Due in one year or less	$ 2,292.9	$ 2,341.1
Due after one year through five years	13,295.6	13,854.3
Due after five years through ten years	8,771.2	9,218.1
Due after ten years	11,757.1	12,285.4
Subtotal	36,116.8	37,698.9
Mortgage-backed and other asset-backed securities	10,948.3	10,606.6
Total	$ 47,065.1	$ 48,305.5

Actual maturities may differ because borrowers may have the right to call or prepay obligations. Our portfolio is diversified by industry, issuer and asset class. Credit concentrations are managed to established limits.

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Principal Financial Group, Inc.
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3. Investments (continued)

Net Realized Capital Gains and Losses

Net realized capital gains and losses on sales of investments are determined on the basis of specific identification. In general, in addition to realized capital gains and losses on investment sales and periodic settlements on derivatives not designated as hedges, we report gains and losses related to the following in net realized capital gains (losses): other-than-temporary impairments of securities and subsequent recoveries, mark-to-market adjustments on certain trading securities, mark-to-market adjustments on certain seed money investments, fair value hedge and cash flow hedge ineffectiveness, mark-to-market adjustments on derivatives not designated as hedges, changes in the mortgage loan valuation allowance provision and subsequent commercial mortgage loan recoveries and impairments of real estate held for investment. Investment gains and losses on sales of certain real estate held for sale, which do not meet the criteria for classification as a discontinued operation and mark-to-market adjustments on trading securities that support investment strategies that involve the active and frequent purchase and sale of fixed maturities are reported as net investment income and are excluded from net realized capital gains (losses). The major components of net realized capital gains (losses) on investments are summarized as follows:

	For the three months ended March 31, 2011	2010
	(in millions)	
Fixed maturities, available-for-sale:		
Gross gains	**$ 12.5**	$ 19.0
Gross losses	**(23.3)**	(93.6)
Other-than-temporary impairment losses reclassified to (from) OCI	**(38.4)**	5.4
Hedging, net	**(30.2)**	46.7
Fixed maturities, trading	**(4.6)**	10.5
Equity securities, available-for-sale:		
Gross gains	**2.2**	7.5
Gross losses		(1.5)
Equity securities, trading	**30.1**	7.9
Mortgage loans	**(9.9)**	(26.0)
Derivatives	**8.9**	(49.7)
Other	**(5.3)**	28.3
Net realized capital losses	**$ (58.0)**	$ (45.5)

Proceeds from sales of investments (excluding call and maturity proceeds) in fixed maturities, available-for-sale were $0.5 billion and $0.6 billion for the three months ended March 31, 2011 and 2010, respectively.

Other-Than-Temporary Impairments

We have a process in place to identify fixed maturity and equity securities that could potentially have a credit impairment that is other than temporary. This process involves monitoring market events that could impact issuers credit ratings, business climate, management changes, litigation and government actions and other similar factors. This process also involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues.

Each reporting period, all securities are reviewed to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events; (4) for structured securities, the adequacy of the expected cash flows; (5) for fixed maturities, our intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and (6) for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value. To the extent we determine that a security is deemed to be other than temporarily impaired, an impairment loss is recognized.

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3. Investments (continued)

Impairment losses on equity securities are recognized in net income and are measured as the difference between amortized cost and fair value. The way in which impairment losses on fixed maturities are recognized in the financial statements is dependent on the facts and circumstances related to the specific security. If we intend to sell a security or it is more likely than not that we would be required to sell a security before the recovery of its amortized cost, we recognize an other-than-temporary impairment in net income for the difference between amortized cost and fair value. If we do not expect to recover the amortized cost basis, we do not plan to sell the security and if it is not more likely than not that we would be required to sell a security before the recovery of its amortized cost, the recognition of the other-than-temporary impairment is bifurcated. We recognize the credit loss portion in net income and the noncredit loss portion in OCI (bifurcated OTTI).

Total other-than-temporary impairment losses, net of recoveries from the sale of previously impaired securities, were as follows:

	For the three months ended March 31, 2011	2010
	(in millions)	
Fixed maturities, available-for-sale	**$ (16.2)**	$ (88.6)
Equity securities, available-for-sale	**2.2**	4.0
Total other-than-temporary impairment losses, net of recoveries from the sale of previously impaired securities	**(14.0)**	(84.6)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) OCI (1)	**(38.4)**	5.4
Net impairment losses on available-for-sale securities	**$ (52.4)**	$ (79.2)

(1) Represents the net impact of (1) gains resulting from reclassification of noncredit impairment losses for fixed maturities with bifurcated OTTI from net realized capital gains (losses) to OCI and (2) losses resulting from reclassification of previously recognized noncredit impairment losses from OCI to net realized capital gains (losses) for fixed maturities with bifurcated OTTI that had additional credit losses or fixed maturities that previously had bifurcated OTTI that have now been sold or are intended to be sold.

We estimate the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The methodology and assumptions for establishing the best estimate cash flows vary depending on the type of security. The ABS cash flow estimates are based on security specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds and structural support, including subordination and guarantees. The corporate security cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or liquidations using bond specific facts and circumstances including timing, security interests and loss severity.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
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3. Investments (continued)

The following table provides a rollforward of accumulated credit losses for fixed maturities with bifurcated credit losses. The purpose of the table is to provide detail of (1) additions to the bifurcated credit loss amounts recognized in net realized capital gains (losses) during the period and (2) decrements for previously recognized bifurcated credit losses where the loss is no longer bifurcated and/or there has been a positive change in expected cash flows or accretion of the bifurcated credit loss amount.

	For the three months ended March 31, 2011	2010
	(in millions)	
Beginning balance	**$ (325.7)**	$ (204.7)
Credit losses for which an other-than-temporary impairment was not previously recognized	**(2.2)**	(54.8)
Credit losses for which an other-than-temporary impairment was previously recognized	**(34.5)**	(22.2)
Reduction for credit losses previously recognized on fixed maturities now sold or intended to be sold	**51.2**	18.6
Reduction for positive changes in cash flows expected to be collected and amortization (1)	**(0.9)**	0.4
Ending balance	**$ (312.1)**	$ (262.7)

(1) Amounts are recognized in net investment income.

Gross Unrealized Losses for Fixed Maturities and Equity Securities

For fixed maturities and equity securities available-for-sale with unrealized losses, including other-than-temporary impairment losses reported in OCI, the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are summarized as follows:

	March 31, 2011					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Carrying value	Gross unrealized losses	Carrying value	Gross unrealized losses	Carrying value	Gross unrealized losses
	(in millions)					
Fixed maturities, available-for-sale:						

U.S. government and agencies	$	**43.0**	$	**0.3**	$		$		$	**43.0**	$	**0.3**
Non-U.S. governments		**37.8**		**2.1**						**37.8**		**2.1**
States and political subdivisions		**766.8**		**17.0**		**45.4**		**6.4**		**812.2**		**23.4**
Corporate		**2,352.0**		**57.5**		**3,406.8**		**376.0**		**5,758.8**		**433.5**
Residential mortgage-backed pass-through securities		**641.9**		**9.4**		**5.5**		**0.3**		**647.4**		**9.7**
Commercial mortgage-backed securities		**456.5**		**7.5**		**1,147.7**		**470.7**		**1,604.2**		**478.2**
Collateralized debt obligations		**9.3**		**0.2**		**226.5**		**62.0**		**235.8**		**62.2**
Other debt obligations		**435.0**		**7.3**		**526.6**		**93.9**		**961.6**		**101.2**
Total fixed maturities, available-for-sale	$	**4,742.3**	$	**101.3**	$	**5,358.5**	$	**1,009.3**	$	**10,100.8**	$	**1,110.6**
Total equity securities, available-for-sale	$	**9.1**	$	**0.3**	$	**83.3**	$	**9.7**	$	**92.4**	$	**10.0**

Of the total amounts, Principal Life s consolidated portfolio represented $9,672.6 million in available-for-sale fixed maturities with gross unrealized losses of $1,067.5 million. Principal Life s consolidated portfolio consists of fixed maturities where 78% were investment grade (rated AAA through BBB-) with an average price of 90 (carrying value/amortized cost) at March 31, 2011. Gross unrealized losses in our fixed maturities portfolio decreased during the three months ended March 31, 2011, due to a tightening of credit spreads primarily in the corporate and commercial mortgage-backed securities sectors, partially offset by an increase in interest rates.

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3. Investments (continued)

For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life s consolidated portfolio held 567 securities with a carrying value of $4,437.0 million and unrealized losses of $90.6 million reflecting an average price of 98 at March 31, 2011. Of this portfolio, 96% was investment grade (rated AAA through BBB-) at March 31, 2011, with associated unrealized losses of $83.1 million. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

For those securities that had been in a continuous unrealized loss position greater than or equal to twelve months, Principal Life s consolidated portfolio held 699 securities with a carrying value of $5,235.6 million and unrealized losses of $976.9 million. The average rating of this portfolio was BBB with an average price of 84 at March 31, 2011. Of the $976.9 million in unrealized losses, the commercial mortgage-backed securities sector accounts for $470.8 million in unrealized losses with an average price of 71 and an average credit rating of BBB-. The remaining unrealized losses consist primarily of $343.7 million within the corporate sector at March 31, 2011. The average price of the corporate sector was 91 and the average credit rating was BBB. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because we expected to recover our amortized cost, it was not our intent to sell the fixed maturity available-for-sale securities with unrealized losses and it was not more likely than not that we would be required to sell these securities before recovery of the amortized cost, which may be maturity, we did not consider these investments to be other-than-temporarily impaired at March 31, 2011.

	December 31, 2010					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Carrying value	Gross unrealized losses	Carrying value	Gross unrealized losses	Carrying value	Gross unrealized losses
	(in millions)					
Fixed maturities, available-for-sale:						
U.S. government and agencies	$ 224.5	$ 0.2	$	$	$ 224.5	$ 0.2
Non-U.S. governments	7.9				7.9	
States and political subdivisions	771.0	18.4	44.2	4.9	815.2	23.3
Corporate	2,457.4	69.1	3,948.9	475.9	6,406.3	545.0
Residential mortgage-backed pass-through securities	384.9	5.9			384.9	5.9
Commercial mortgage-backed securities	340.1	4.9	1,186.4	695.8	1,526.5	700.7
Collateralized debt obligations	10.4	0.5	233.0	88.7	243.4	89.2
Other debt obligations	401.5	8.4	578.4	116.1	979.9	124.5
Total fixed maturities, available-for-sale	$ 4,597.7	$ 107.4	$ 5,990.9	$ 1,381.4	$ 10,588.6	$ 1,488.8

Total equity securities, available-for-sale	$	47.3	$	7.2	$	77.0	$	11.0	$	124.3	$	18.2

Of the total amounts, Principal Life s consolidated portfolio represented $9,914.2 million in available-for-sale fixed maturities with gross unrealized losses of $1,445.3 million. Principal Life s consolidated portfolio consists of fixed maturities where 77% were investment grade (rated AAA through BBB-) with an average price of 87 (carrying value/amortized cost) at December 31, 2010. Gross unrealized losses in our fixed maturities portfolio decreased during the year ended December 31, 2010, due to a decline in interest rates and a tightening of credit spreads primarily in the corporate and commercial mortgage-backed securities sectors.

For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life s consolidated portfolio held 534 securities with a carrying value of $4,112.3 million and unrealized losses of $95.7 million reflecting an average price of 98 at December 31, 2010. Of this portfolio, 94% was investment grade (rated AAA through BBB-) at December 31, 2010, with associated unrealized losses of $88.7 million. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
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3. Investments (continued)

For those securities that had been in a continuous unrealized loss position greater than or equal to twelve months, Principal Life s consolidated portfolio held 773 securities with a carrying value of $5,801.9 million and unrealized losses of $1,349.6 million. The average rating of this portfolio was BBB with an average price of 81 at December 31, 2010. Of the $1,349.6 million in unrealized losses, the commercial mortgage-backed securities sector accounts for $695.8 million in unrealized losses with an average price of 63 and an average credit rating of BBB. The remaining unrealized losses consist primarily of $444.1 million within the corporate sector at December 31, 2010. The average price of the corporate sector was 89 and the average credit rating was BBB. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because we expected to recover our amortized cost, it was not our intent to sell the fixed maturity available-for-sale securities with unrealized losses and it was not more likely than not that we would be required to sell these securities before recovery of the amortized cost, which may be maturity, we did not consider these investments to be other-than-temporarily impaired at December 31, 2010.

Net Unrealized Gains and Losses on Available-for-Sale Securities and Derivative Instruments

The net unrealized gains and losses on investments in fixed maturities available-for-sale, equity securities available-for-sale and derivative instruments are reported as a separate component of stockholders equity. The cumulative amount of net unrealized gains and losses on available-for-sale securities and derivative instruments net of adjustments related to DPAC, sales inducements, unearned revenue reserves, changes in policyholder liabilities and applicable income taxes was as follows:

	March 31, 2011	December 31, 2010
	(in millions)	
Net unrealized gains on fixed maturities, available-for-sale (1)	**$ 1,536.5**	$ 1,197.7
Noncredit component of impairment losses on fixed maturities, available-for-sale	**(296.1)**	(334.5)
Net unrealized gains (losses) on equity securities, available-for-sale	**1.8**	(10.1)
Adjustments for assumed changes in amortization patterns	**(350.5)**	(273.8)
Adjustments for assumed changes in policyholder liabilities	**(186.7)**	(212.4)
Net unrealized gains on derivative instruments	**44.3**	53.5
Net unrealized gains on equity method subsidiaries and noncontrolling interest adjustments	**144.4**	145.2
Provision for deferred income taxes	**(279.8)**	(169.0)
Effects of implementation of accounting change related to variable interest entities, net		10.7
Effects of electing fair value option for fixed maturities upon implementation of accounting changes related to embedded credit derivatives, net		25.4

Net unrealized gains on available-for-sale securities and derivative instruments	**$ 613.9**	$ 432.7

(1) Excludes net unrealized gains (losses) on fixed maturities, available-for-sale included in fair value hedging relationships.

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Principal Financial Group, Inc.
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3. Investments (continued)

Mortgage Loans

Mortgage loans consist of commercial and residential mortgage loans. We evaluate risks inherent in our commercial mortgage loans in two classes: (1) brick and mortar property loans, where we analyze the property s rent payments as support for the loan, and (2) credit tenant loans (CTL), where we rely on the credit analysis of the tenant for the repayment of the loan. We evaluate risks inherent in our residential mortgage loan portfolio in two classes: (1) home equity mortgages and (2) first lien mortgages. The carrying amount of our mortgage loan portfolio was as follows:

	March 31, 2011	December 31, 2010
	(in millions)	
Commercial mortgage loans	**$ 9,515.5**	$ 9,689.6
Residential mortgage loans	**1,509.2**	1,556.6
Total amortized cost	**11,024.7**	11,246.2
Valuation allowance	**(124.7)**	(121.1)
Total carrying value	**$ 10,900.0**	$ 11,125.1

We periodically purchase mortgage loans as well as sell mortgage loans we have originated. We purchased $42.1 million of residential mortgage loans during the three months ended March 31, 2011. We sold $16.0 million of residential mortgage loans during the three months ended March 31, 2011.

Our commercial mortgage loan portfolio consists primarily of non-recourse, fixed rate mortgages on fully or near fully leased properties. Commercial mortgage loans represent a primary area of credit risk exposure.

Our commercial mortgage loan portfolio is diversified by geographic region and specific collateral property type as follows:

	March 31, 2011		December 31, 2010	
	Amortized cost	Percent of total	Amortized cost	Percent of total
	($ in millions)			
Geographic distribution				

New England	**$**	**428.1**	**4.5%**	$	430.3	4.5%
Middle Atlantic		**1,657.4**	**17.4**		1,648.4	17.0
East North Central		**815.2**	**8.6**		841.1	8.7
West North Central		**429.3**	**4.5**		466.7	4.8
South Atlantic		**2,267.7**	**23.8**		2,358.1	24.3
East South Central		**229.9**	**2.4**		231.5	2.4
West South Central		**560.8**	**5.9**		548.6	5.7
Mountain		**655.6**	**6.9**		691.0	7.1
Pacific		**2,462.4**	**25.9**		2,464.5	25.4
International		**9.1**	**0.1**		9.4	0.1
Total	**$**	**9,515.5**	**100.0%**	$	9,689.6	100.0%
Property type distribution						
Office	**$**	**2,788.9**	**29.3%**	$	2,886.2	29.8%
Retail		**2,473.9**	**26.0**		2,503.0	25.8
Industrial		**2,326.1**	**24.4**		2,334.5	24.1
Apartments		**1,099.1**	**11.6**		1,138.1	11.7
Hotel		**464.2**	**4.9**		471.8	4.9
Mixed use/other		**363.3**	**3.8**		356.0	3.7
Total	**$**	**9,515.5**	**100.0%**	$	9,689.6	100.0%

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2011
(Unaudited)

3. Investments (continued)

Our residential mortgage loan portfolio is composed of home equity mortgages with an amortized cost of $688.9 million and $719.3 million and first lien mortgages with an amortized cost of $820.3 million and $837.3 million as of March 31, 2011 and December 31, 2010, respectively. Most of our residential home equity mortgages are concentrated in the United States and are generally second lien mortgages comprised of closed-end loans and lines of credit. The majority of our first lien loans are concentrated in the Chilean market.

Mortgage Loan Credit Monitoring

Commercial Credit Risk Profile Based on Internal Rating

We actively monitor and manage our commercial mortgage loan portfolio. All commercial mortgage loans are analyzed regularly and substantially all are internally rated, based on a proprietary risk rating cash flow model, in order to monitor the financial quality of these assets. The model stresses expected cash flows at various levels and at different points in time depending on the durability of the income stream, which includes our assessment of factors such as location (macro and micro markets), tenant quality and lease expirations. Our internal rating analysis results in expected credit losses comparable to equivalent bond ratings. Internal ratings on commercial mortgage loans are updated at least annually and potentially more often for certain loans with material changes in collateral value or occupancy and for loans on an internal watch list .

Commercial mortgage loans that require more frequent and detailed attention than other loans in our portfolio are identified and placed on an internal watch list . Among the criteria that would indicate a potential problem are imbalances in ratios of loan to value or contract rents to debt service, major tenant vacancies or bankruptcies, borrower sponsorship problems, late payments, delinquent taxes and loan relief/restructuring requests.

Our commercial mortgage loan portfolio by credit risk, as determined by our internal rating system expressed in terms of an S&P bond equivalent rating, was as follows:

	March 31, 2011		
	Brick and mortar	CTL	Total
	(in millions)		
A- and above	$ 4,806.7	$ 316.2	$ 5,122.9
BBB+ thru BBB-	2,405.0	237.9	2,642.9

BB+ thru BB-		**703.1**		**38.0**		**741.1**
B+ and below		**1,004.8**		**3.8**		**1,008.6**
Total	**$**	**8,919.6**	**$**	**595.9**	**$**	**9,515.5**

	December 31, 2010					
	Brick and mortar		CTL (in millions)		Total	
A- and above	$	4,781.8	$	324.7	$	5,106.5
BBB+ thru BBB-		2,636.1		249.5		2,885.6
BB+ thru BB-		726.1		38.5		764.6
B+ and below		929.0		3.9		932.9
Total	$	9,073.0	$	616.6	$	9,689.6

Residential Credit Risk Profile Based on Performance Status

Our residential mortgage loan portfolio is monitored based on performance of the loans. Monitoring on a residential mortgage loan increases when the loan is delinquent or earlier if there is an indication of impairment. We define non-performing residential mortgage loans as loans 90 days or greater delinquent or on non-accrual status.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2011
(Unaudited)

3. Investments (continued)

Our performing and non-performing residential mortgage loans were as follows:

	March 31, 2011		
	Home equity	First liens	Total
	(in millions)		
Performing	**$ 673.1**	**$ 794.3**	**$ 1,467.4**
Nonperforming	**15.8**	**26.0**	**41.8**
Total	**$ 688.9**	**$ 820.3**	**$ 1,509.2**

	December 31, 2010		
	Home equity	First liens	Total
	(in millions)		
Performing	$ 705.0	$ 811.6	$ 1,516.6
Nonperforming	14.3	25.7	40.0
Total	$ 719.3	$ 837.3	$ 1,556.6

Non-Accrual Mortgage Loans

Commercial and residential mortgage loans are placed on non-accrual status if we have concern regarding the collectability of future payments or if a loan has matured without being paid off or extended. Factors considered may include conversations with the borrower, loss of major tenant, bankruptcy of borrower or major tenant, decreased property cash flow for commercial mortgage loans or number of days past due for residential mortgage loans. Based on an assessment as to the collectability of the principal, a determination is made to apply any payments received either against the principal or according to the contractual terms of the loan. When a loan is placed on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income. Accrual of interest resumes after factors resulting in doubts about collectability have improved. Residential first lien mortgages in the Chilean market are carried on accrual for longer than domestic loans as assessment of collectability is based on the nature of the loans and collection practices in that market.

Mortgage loans on non-accrual status were as follows:

	March 31, 2011	December 31, 2010
	(in millions)	
Commercial:		
Brick and mortar (1)	**$ 170.3**	$ 67.1

Residential:				
Home equity		**15.8**		14.3
First liens		**14.7**		15.7
Total	**$**	**200.8**	$	97.1

(1) The increase from December 31, 2010, was primarily due to certain loans that matured but were not paid off or extended during the three months ended March 31, 2011, for which resolution is pending and anticipated in the next quarter through either payoff, extension or foreclosure.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
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(Unaudited)

3. Investments (continued)

The aging of mortgage loans and mortgage loans that were 90 days or more past due and still accruing interest were as follows:

	March 31, 2011						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due (in millions)	Current	Total loans	Recorded investment 90 days or more and accruing
Commercial-brick and mortar	$ 65.0	$ 28.6	$	$ 93.6	$ 8,826.0	$ 8,919.6	$
Commercial-CTL					595.9	595.9	
Residential-home equity	8.0	4.6	8.9	21.5	667.4	688.9	
Residential-first liens	21.9	8.0	24.6	54.5	765.8	820.3	11.3
Total	$ 94.9	$ 41.2	$ 33.5	$ 169.6	$ 10,855.1	$ 11,024.7	$ 11.3

	December 31, 2010						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due (in millions)	Current	Total loans	Recorded investment 90 days or more and accruing
Commercial-brick and mortar	$	$ 22.5	$ 9.1	$ 31.6	$ 9,041.4	$ 9,073.0	$
Commercial-CTL					616.6	616.6	
Residential-home equity	9.3	4.5	9.2	23.0	696.3	719.3	
Residential-first liens	19.1	8.5	23.0	50.6	786.7	837.3	10.0
Total	$ 28.4	$ 35.5	$ 41.3	$ 105.2	$ 11,141.0	$ 11,246.2	$ 10.0

Mortgage Loan Valuation Allowance

We establish a valuation allowance to provide for the risk of credit losses inherent in our portfolio. The valuation allowance includes loan specific reserves for loans that are deemed to be impaired as well as reserves for pools of loans with similar risk characteristics where a property risk or market specific risk has not been identified but for which we anticipate a loss may occur. Mortgage loans on real estate are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to contractual terms of the loan agreement. When we determine that a loan is impaired, a valuation allowance is established equal to the difference between the carrying amount of the mortgage loan and the estimated value reduced by the cost to sell. Estimated value is based on either the present value of the expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or fair value of the collateral.

Subsequent changes in the estimated value are reflected in the valuation allowance. Amounts on loans deemed to be uncollectible are charged off and removed from the valuation allowance. The change in the valuation allowance provision and subsequent commercial mortgage loan recoveries is included in net realized capital gains (losses) on our consolidated statements of operations.

The valuation allowance is maintained at a level believed adequate by management to absorb estimated probable credit losses. Management s periodic evaluation and assessment of the valuation allowance adequacy is based on known and inherent risks in the portfolio, adverse situations that may affect a borrower s ability to repay, the estimated value of the underlying collateral, composition of the loan portfolio, portfolio delinquency information, underwriting standards, peer group information, current economic conditions, loss experience and other relevant factors. The evaluation of our impaired loan component is subjective, as it requires the estimation of timing and amount of future cash flows expected to be received on impaired loans.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2011
(Unaudited)

3. Investments (continued)

We review our commercial mortgage loan portfolio and analyze the need for a valuation allowance for any loan that is delinquent for 60 days or more, in process of foreclosure, restructured, on the internal watch list or that currently has a valuation allowance. In addition to establishing allowance levels for specifically identified impaired commercial mortgage loans, management determines an allowance for all other loans in the portfolio for which historical experience and current economic conditions indicate certain losses exist. These loans are segregated by major product type and/or risk level with an estimated loss ratio applied against each product type and/or risk level. The loss ratio is generally based upon historic loss experience for each loan type as adjusted for certain environmental factors management believes to be relevant.

For our residential mortgage loan portfolio, we separate the loans into several homogeneous pools, each of which consist of loans of a similar nature including but not limited to loans similar in collateral, term and structure and loan purpose or type. We evaluate loan pools based on aggregated risk ratings, estimated specific loss potential in the different classes of credits, and historical loss experience by pool type. We adjust these quantitative factors for qualitative factors of present conditions. Qualitative factors include items such as economic and business conditions, changes in the portfolio, value of underlying collateral, and concentrations. Residential mortgage loan pools exclude loans that have been restructured or impaired, as those loans are evaluated individually.

A rollforward of our valuation allowance and ending balances of the allowance and loan balance by basis of impairment method was as follows for the three months ended March 31, 2011:

	Commercial	Residential	Total
		(in millions)	
Beginning balance	$ 80.6	$ 40.5	$ 121.1
Provision	6.9	6.3	13.2
Charge-offs	(2.4)	(8.0)	(10.4)
Recoveries		0.9	0.9
Effect of exchange rates		(0.1)	(0.1)
Ending balance	$ 85.1	$ 39.6	$ 124.7
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	$ 9.3	$ 4.1	$ 13.4
Collectively evaluated for impairment	75.8	35.5	111.3
Allowance ending balance	$ 85.1	$ 39.6	$ 124.7
Loan balance by basis of impairment method:			
Individually evaluated for impairment	$ 40.1	$ 21.9	$ 62.0
Collectively evaluated for impairment	9,475.4	1,487.3	10,962.7
Loan ending balance	$ 9,515.5	$ 1,509.2	$ 11,024.7

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
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3. Investments (continued)

Impaired Mortgage Loans

Impaired mortgage loans are loans with a related specific valuation allowance, loans whose carrying amount has been reduced to the expected collectible amount because the impairment has been considered other than temporary or a loan modification has been classified as a TDR. Based on an assessment as to the collectability of the principal, a determination is made to apply any payments received either against the principal or according to the contractual terms of the loan. Our recorded investment in and unpaid principal balance of impaired loans along with the related loan specific allowance for losses, if any, as of March 31, 2011, and the average recorded investment and interest income recognized during the time the loans were impaired for the three months ended March 31, 2011, were as follows:

	Recorded investment	Unpaid principal balance	Related allowance (in millions)	Average recorded investment	Interest income recognized
With no related allowance recorded:					
Commercial-brick and mortar	$ 23.9	$ 27.3	$	$ 23.2	$ 0.3
Residential-first liens	3.8	3.7		4.6	
With an allowance recorded:					
Commercial-brick and mortar	40.1	40.0	9.3	35.0	0.2
Residential-home equity	11.9	11.6	2.3	11.7	0.1
Residential-first liens	10.0	9.9	1.8	9.9	0.1
Total:					
Commercial	$ 64.0	$ 67.3	$ 9.3	$ 58.2	$ 0.5
Residential	$ 25.7	$ 25.2	$ 4.1	$ 26.2	$ 0.2

Securities Posted as Collateral

We posted $1,059.1 million in fixed maturities, available-for-sale securities at March 31, 2011, to satisfy collateral requirements primarily associated with our derivative credit support annex (collateral) agreements and a reinsurance arrangement. In addition, we posted $1,649.9 million in commercial mortgage loans as of March 31, 2011, to satisfy collateral requirements associated with our obligation under funding agreements with the Federal Home Loan Bank of Des Moines. Since we did not relinquish ownership rights on these securities, they are reported as fixed maturities, available-for-sale and commercial mortgage loans, respectively, on our consolidated statements of financial position.

4. Derivative Financial Instruments

Derivatives are generally used to hedge or reduce exposure to market risks associated with assets held or expected to be purchased or sold and liabilities incurred or expected to be incurred. Derivatives are used to change the characteristics of our asset/liability mix consistent with our risk management activities. Derivatives are also used in asset replication strategies.

Types of Derivative Instruments

Interest Rate Contracts

Interest rate risk is the risk that we will incur economic losses due to adverse changes in interest rates. Sources of interest rate risk include the difference between the maturity and interest rate changes of assets with the liabilities they support, timing differences between the pricing of liabilities and the purchase or procurement of assets and changing cash flow profiles from original projections due to prepayment options embedded within asset and liability contracts. We use various derivatives to manage our exposure to fluctuations in interest rates.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2011
(Unaudited)

4. Derivative Financial Instruments (continued)

Interest rate swaps are contracts in which we agree with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts based upon designated market rates or rate indices and an agreed upon notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party. Cash is paid or received based on the terms of the swap. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty at each due date. We use interest rate swaps primarily to more closely match the interest rate characteristics of assets and liabilities and to mitigate the risks arising from timing mismatches between assets and liabilities (including duration mismatches). We also use interest rate swaps to hedge against changes in the value of assets we anticipate acquiring and other anticipated transactions and commitments. Interest rate swaps are used to hedge against changes in the value of the guaranteed minimum withdrawal benefit (GMWB) liability. The GMWB rider on our variable annuity products provides for guaranteed minimum withdrawal benefits regardless of the actual performance of various equity and/or fixed income funds available with the product.

Interest rate caps and interest rate floors, which can be combined to form interest rate collars, are contracts that entitle the purchaser to pay or receive the amounts, if any, by which a specified market rate exceeds a cap strike interest rate, or falls below a floor strike interest rate, respectively, at specified dates. We have entered into interest rate collars whereby we receive amounts if a specified market rate falls below a floor strike interest rate, and we pay if a specified market rate exceeds a cap strike interest rate. We use interest rate collars to manage interest rate risk related to guaranteed minimum interest rate liabilities in our individual annuities contracts.

A swaption is an option to enter into an interest rate swap at a future date. We purchase swaptions to offset existing exposures. Swaptions provide us the benefit of the agreed-upon strike rate if the market rates for liabilities are higher, with the flexibility to enter into the current market rate swap if the market rates for liabilities are lower. Swaptions not only hedge against the downside risk, but also allow us to take advantage of any upside benefits.

In exchange-traded futures transactions, we agree to purchase or sell a specified number of contracts, the values of which are determined by the values of designated classes of securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. We enter into exchange-traded futures with regulated futures commissions merchants who are members of a trading exchange. We have used exchange-traded futures to reduce market risks from changes in interest rates and to alter mismatches between the assets in a portfolio and the liabilities supported by those assets.

Foreign Exchange Contracts

Foreign currency risk is the risk that we will incur economic losses due to adverse fluctuations in foreign currency exchange rates. This risk arises from foreign currency-denominated funding agreements we issue, foreign currency-denominated fixed maturities we invest in and our investment in and net income of our international operations. We may use currency swaps and currency forwards to hedge foreign currency risk.

Currency swaps are contracts in which we agree with other parties to exchange, at specified intervals, a series of principal and interest payments in one currency for that of another currency. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party. The interest payments are primarily fixed-to-fixed rate; however, they may also be fixed-to-floating rate or floating-to-fixed rate. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty for payments made in the same currency at each due date. We use currency swaps to reduce market risks from changes in currency exchange rates with respect to investments or liabilities denominated in foreign currencies that we either hold or intend to acquire or sell.

Currency forwards are contracts in which we agree with other parties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. We use currency forwards to reduce market risks from changes in currency exchange rates with respect to investments or liabilities denominated in foreign currencies that we either hold or intend to acquire or sell. We have also used currency forwards to hedge the currency risk associated with net investments in foreign operations. We did not use any currency forwards during 2011 or 2010 to hedge our net investment in foreign operations.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2011
(Unaudited)

4. Derivative Financial Instruments (continued)

Equity Contracts

Equity risk is the risk that we will incur economic losses due to adverse fluctuations in common stock. We use various derivatives to manage our exposure to equity risk, which arises from products in which the interest we credit is tied to an external equity index as well as products subject to minimum contractual guarantees.

We may sell an investment-type insurance contract with attributes tied to market indices (an embedded derivative as noted below), in which case we write an equity call option to convert the overall contract into a fixed-rate liability, essentially eliminating the equity component altogether. We purchase equity call spreads to hedge the equity participation rates promised to contractholders in conjunction with our fixed deferred annuity products that credit interest based on changes in an external equity index. We use exchange-traded futures and equity put options to hedge against changes in the value of the GMWB liability related to the GMWB rider on our variable annuity product, as previously explained. The premium associated with certain options is paid quarterly over the life of the option contract.

Credit Contracts

Credit risk relates to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest. We use credit default swaps to enhance the return on our investment portfolio by providing comparable exposure to fixed income securities that might not be available in the primary market. They are also used to hedge credit exposures in our investment portfolio. Credit derivatives are used to sell or buy credit protection on an identified name or names on an unfunded or synthetic basis in return for receiving or paying a quarterly premium. The premium generally corresponds to a referenced name s credit spread at the time the agreement is executed. In cases where we sell protection, at the same time we enter into these synthetic transactions, we buy a quality cash bond to match against the credit default swap. When selling protection, if there is an event of default by the referenced name, as defined by the agreement, we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced security in a principal amount equal to the notional value of the credit default swap.

Other Contracts

Embedded Derivatives. We purchase or issue certain financial instruments or products that contain a derivative instrument that is embedded in the financial instrument or product. When it is determined that the embedded derivative possesses economic characteristics that are not clearly or closely related to the economic characteristics of the host contract and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host instrument for measurement purposes. The embedded derivative, which is reported with the host instrument in the consolidated statements of financial position, is carried at fair value.

We sell investment-type insurance contracts in which the return is tied to an external equity index, a leveraged inflation index or leveraged reference swap. We economically hedge the risk associated with these investment-type insurance contracts.

We offer group benefit plan contracts that have guaranteed separate accounts as an investment option. We also offer a guaranteed fund as an investment option in our defined contribution plans in Hong Kong.

We have structured investment relationships with trusts we have determined to be VIEs, which are consolidated in our financial statements. The notes issued by these trusts include obligations to deliver an underlying security to residual interest holders and the obligations contain an embedded derivative of the forecasted transaction to deliver the underlying security.

We have fixed deferred annuities that credit interest based on changes in an external equity index. We also have certain variable annuity products with a GMWB rider, which provides that the contractholder will receive at least their principal deposit back through withdrawals of up to a specified annual amount, even if the account value is reduced to zero. Declines in the equity market may increase our exposure to benefits under contracts with the GMWB. We economically hedge the exposure in these annuity contracts, as previously explained.

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Principal Financial Group, Inc.
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4. Derivative Financial Instruments (continued)

Exposure

Our risk of loss is typically limited to the fair value of our derivative instruments and not to the notional or contractual amounts of these derivatives. Risk arises from changes in the fair value of the underlying instruments. We are also exposed to credit losses in the event of nonperformance of the counterparties. Our current credit exposure is limited to the value of derivatives that have become favorable to us. This credit risk is minimized by purchasing such agreements from financial institutions with high credit ratings and by establishing and monitoring exposure limits. We also utilize various credit enhancements, including collateral and credit triggers to reduce the credit exposure to our derivative instruments.

Our derivative transactions are generally documented under International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements. Management believes that such agreements provide for legally enforceable set-off and close-out netting of exposures to specific counterparties. Under such agreements, in connection with an early termination of a transaction, we are permitted to set off our receivable from a counterparty against our payables to the same counterparty arising out of all included transactions. For reporting purposes, we do not offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparties under master netting agreements.

We posted $320.5 million and $376.8 million in cash and securities under collateral arrangements as of March 31, 2011 and December 31, 2010, respectively, to satisfy collateral requirements associated with our derivative credit support agreements.

Certain of our derivative instruments contain provisions that require us to maintain an investment grade rating from each of the major credit rating agencies on our debt. If the rating on our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value, inclusive of accrued interest, of all derivative instruments with credit-risk-related contingent features that were in a liability position without regard to netting under derivative credit support annex agreements as of March 31, 2011 and December 31, 2010, was $1,150.0 million and $1,262.0 million, respectively. With respect to these derivatives, we posted collateral of $320.5 million and $376.8 million as of March 31, 2011 and December 31, 2010, respectively, in the normal course of business, which reflects netting under derivative credit support annex agreements. If the credit-risk-related contingent features underlying these agreements were triggered on March 31, 2011, we would be required to post an additional $41.2 million of collateral to our counterparties.

As of March 31, 2011 and December 31, 2010, we had received $253.3 million and $249.2 million, respectively, of cash collateral associated with our derivative credit support annex agreements. The cash collateral is included in other assets on the consolidated statements of financial position, with a corresponding liability reflecting our obligation to return the collateral recorded in other liabilities.

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Principal Financial Group, Inc.
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(Unaudited)

4. Derivative Financial Instruments (continued)

Notional amounts are used to express the extent of our involvement in derivative transactions and represent a standard measurement of the volume of our derivative activity. Notional amounts represent those amounts used to calculate contractual flows to be exchanged and are not paid or received, except for contracts such as currency swaps. Credit exposure represents the gross amount owed to us under derivative contracts as of the valuation date. The notional amounts and credit exposure of our derivative financial instruments by type were as follows:

	March 31, 2011	December 31, 2010
	(in millions)	
Notional amounts of derivative instruments		
Interest rate contracts:		
Interest rate swaps	$ **20,050.6**	$ 19,803.0
Interest rate collars	**500.0**	500.0
Swaptions	**68.5**	68.5
Futures	**336.3**	0.8
Foreign exchange contracts:		
Foreign currency swaps	**4,366.4**	4,615.2
Currency forwards	**Services**	

HP recognizes revenue from fixed-price support or maintenance contracts ratably over the contract period and recognizes the costs associated with these contracts as incurred.

Deferred revenue

HP records amounts invoiced to customers in excess of revenue recognized as deferred revenue until the revenue recognition criteria are satisfied. Deferred revenue represents amounts invoiced in advance for product support contracts and product sales.

Shipping and Handling

HP includes costs related to shipping and handling in Cost of revenue.

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 non-contributory 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 limited cases, HP amortizes actuarial gains and losses using the corridor approach. See Note 4, “Retirement and Post-Retirement Benefit Plans” for a full description of these plans and the accounting and funding policies.

Advertising cost

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 $568 million in fiscal year 2018, $544 million in fiscal year 2017 and $586 million in fiscal year 2016.

Restructuring and Other Charges

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 determining severance accruals are based on existing plans, historical experiences and negotiated settlements. Other charges include non-recurring costs, including those as a result of Separation, and are distinct from ongoing operational costs. These costs primarily relate to information technology costs such as advisory, consulting and non-recurring labor costs.

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.

HP has third-party 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 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. The likelihood of which HP deems to be remote.

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 39% and 34% of gross accounts receivable as of October 31, 2018 and 2017, respectively. No single customer accounts for more than 10% of gross accounts receivable as of October 31, 2018 or 2017. Credit risk with respect to other accounts receivable is generally diversified due to HP’s large 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 72% and 70% of HP's supplier receivables of $1,074 million and $951 million as of October 31, 2018 and 2017, 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 net 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 revenue.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 1: Overview and 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 net revenue and gross margins.

Upon completion of the Separation on November 1, 2015, HP recorded net income tax indemnification receivables from Hewlett Packard Enterprise for certain income tax liabilities that HP is jointly and severally liable for, but for which it is indemnified by Hewlett Packard Enterprise under the tax matters agreement ("TMA"). The actual amount that Hewlett Packard Enterprise may be obligated to pay HP could vary depending on the outcome of certain unresolved tax matters, which may not be resolved for several years. The net receivable as of October 31, 2018 and 2017 was $1.0 billion and $1.7 billion, respectively.

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, if required, to reduce the cost of inventory to market (net realizable value) are made, for estimated excess, obsolete or impaired balances.

Property, Plant and Equipment, Net

HP reflects 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. 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.

Internal Use Software and Cloud Computing Arrangements

HP capitalizes external costs and directly attributable internal costs to acquire or create internal use software which are incurred subsequent to the completion of the preliminary project stage. These costs relate to activities such as software design, configuration, coding, testing, and installation. Costs related to post-implementation activities such as training and maintenance are expensed as incurred. Once the software is substantially complete and ready for its intended use, capitalized development costs are amortized straight-line over the estimated useful life of the software, not to exceed five years.

HP also enters into certain cloud-based software hosting arrangements that are accounted for as service contracts. The most significant of these relates to its current implementation of a cloud-based enterprise resource planning system. For internal-use software obtained through a hosting arrangement that is in the nature of a service contract, HP incurs certain implementation costs such as integrating, configuring, and software customization, which are consistent with costs incurred during the application development stage for on-premise software. HP applies the same guidance to determine costs that are eligible for capitalization. For these arrangements, HP amortizes the capitalized development costs straight-line over the fixed, non-cancellable term of the associated hosting arrangement plus any reasonably certain renewal periods. HP also applies the same impairment model to both internal-use software and capitalized implementation costs in a software hosting arrangement that is in the nature of a service contract.

Business Combinations

HP includes the results of operations of the acquired business in HP's consolidated results prospectively from the acquisition date. HP allocates the 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 qualify for recognition as an intangible asset. Acquisition-related charges are recognized separately from the business combination and are expensed as incurred. These charges primarily include, direct third-party professional and legal fees, and integration-related costs.

Goodwill

HP reviews goodwill for impairment annually during its fourth quarter and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. HP can elect to perform a qualitative assessment to test a reporting unit's goodwill for impairment or HP can directly perform the quantitative impairment test. Based on the qualitative assessment, if HP determines that the fair value of a reporting unit is more likely than not (i.e., a likelihood of more than 50 percent) to be less than its carrying amount, a quantitative impairment test will be performed.

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HP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 1: Overview and Summary of Significant Accounting Policies (Continued)

In the quantitative impairment test, HP compares the fair value of each reporting unit to its carrying amount with the 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.

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 on an overall basis and calculates an implied control premium (the excess of the sum of the reporting units' fair value over HP's market capitalization on an overall basis). HP evaluates the control premium by comparing it to observable control premiums from recent comparable transactions. If the implied control premium is determined to not be reasonable in light of these recent transactions, HP re-evaluates its reporting unit fair values, which may result in an adjustment to the discount rate and/or other assumptions. This re-evaluation 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. If the fair value of the reporting unit is less than its carrying amount, goodwill is impaired and the excess of the reporting unit's carrying value over the fair value is recognized as an impairment loss.

Debt and Marketable Equity Securities Investments

HP determines the appropriate classification of its investments at the time of purchase and re-evaluates the classifications at each balance sheet date. Debt and marketable equity securities are generally considered available-for-sale. All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Marketable debt securities with maturities of twelve months or less are classified as short-term investments and marketable debt securities with maturities greater than twelve months are classified based on their availability for use in current operations. Marketable equity securities, including mutual funds, are classified as either short-term or long-term based on the nature of each security and its availability for use in current operations. Debt and marketable equity securities 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 on 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 remaining amount, if any, is recorded in Accumulated other comprehensive loss in the Consolidated Balance Sheets.

Derivatives

HP uses derivative instruments, primarily forwards, swaps, and at times, 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 does not use derivative instruments for speculative purposes. See Note 10, "Financial Instruments" for a full description of HP's derivative 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 14, “Litigation and Contingencies” for a full description of HP’s loss contingencies and related accounting policies.

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Note 2: Segment Information

HP is a leading global provider of personal computing and other access devices, imaging and printing products, and related technologies, solutions and services. HP sells to individual consumers, SMBs and large enterprises, including customers in the government, health and education sectors.

HP's operations are organized into three reportable segments: Personal Systems, Printing and Corporate Investments. HP's organizational structure is based on many factors that the chief operating decision maker 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 chief operating decision maker to evaluate segment results. The chief operating decision maker uses several metrics to evaluate the performance of the overall business, including earnings from operations, and uses these results to allocate resources to each of the segments.

A summary description of each segment is as follows:

Personal Systems offers Commercial and Consumer desktop and notebook PCs, Workstations, thin clients, Commercial mobility devices, retail POS systems, displays and other related accessories, software, support and services. HP groups Commercial notebooks, Commercial desktops, Commercial services, Commercial mobility devices, Commercial detachables and convertibles, Workstations, retail POS systems and thin clients into Commercial PCs and Consumer notebooks, Consumer desktops, Consumer services and Consumer detachables into Consumer PCs when describing performance in these markets. Described below are HP's global business capabilities within Personal Systems:

- Commercial PCs are optimized for use by customers, including enterprise, public sector and SMB customers, with a focus on robust designs, security, serviceability, connectivity, reliability and manageability in networked and cloud based environments. Additionally, HP offers a range of services and solutions to enterprise, public sector and SMB customers to help them manage the lifecycle of their PC and mobility installed base.
- Consumer PCs are optimized for consumer usage, focusing on gaming, consuming multi-media for entertainment, personal life activities, staying connected, sharing information, getting things done for work including creating content, staying informed and security.

Personal Systems groups its global business capabilities into the following business units when reporting business performance:

- Notebooks consists of Consumer notebooks, Commercial notebooks, Mobile workstations and Commercial mobility devices;
- Desktops includes Consumer desktops, Commercial desktops, thin clients, and retail POS systems;
- Workstations consists of desktop, workstations and accessories; and
- Other consists of Consumer and Commercial services as well as other Personal Systems capabilities.

Printing provides Consumer and Commercial printer hardware, Supplies, solutions and services, as well as scanning devices. Printing is also focused on imaging solutions in the commercial and industrial markets. Described below are HP's global business capabilities within Printing.

- Office Printing Solutions delivers HP's office printers, Supplies, services and solutions to SMBs and large enterprises. It also includes Samsung- branded and OEM hardware, supplies and solutions. HP goes to market through its extensive channel network and directly with HP sales. Ongoing key initiatives include the design and deployment of A3 products and solutions for the copier and multifunction printer market, printer security solutions, PageWide solutions and award-winning JetIntelligence LaserJet products.
- Home Printing Solutions delivers innovative printing products and solutions for the home, home business and micro business customers utilizing both HP's Ink and Laser technologies. Initiatives such as Instant Ink and Continuous Ink Supply System provide business model innovation to benefit and expand HP's existing customer base, while new technologies like Photo Lifestyle products drive print relevance for a mobile generation.
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Graphics Solutions delivers large-format, commercial and industrial solutions to print service providers and packaging converters through a wide portfolio of printers and presses (HP DesignJet, HP Latex, HP Scitex, HP Indigo and HP PageWide Web Presses).

- 3D Printing delivers the HP Multi-Jet Fusion 3D Printing Solution designed for prototyping and production of functional parts and functioning on an open platform facilitating the development of new 3D printing materials.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 2: Segment Information (Continued)

Printing groups its global business capabilities into the following business units when reporting business performance:

- Commercial Hardware consists of Office Printing Solutions, Graphics Solutions and 3D Printing, excluding supplies;
- Consumer Hardware includes Home Printing Solutions, excluding supplies; and
- Supplies comprises a set of highly innovative consumable products, ranging from Ink and Laser cartridges to media, graphics supplies, 3D printing supplies and Samsung-branded A4 and A3 supplies and OEM supplies, for recurring use in Consumer and Commercial Hardware.

Corporate Investments includes HP Labs and certain business incubation projects.

The accounting policies HP uses to derive segment results are substantially the same as those used by HP in preparing these financial statements. HP derives the results of the business segments directly from its internal management reporting system.

HP does not allocate certain operating expenses, which it manages at the corporate level, to its segments. These unallocated amounts include certain corporate governance costs and market-related retirement credits, stock-based compensation expense, restructuring and other charges, acquisition-related charges, amortization of intangible assets and defined benefit plan settlement charges.

Realignment

Effective at the beginning of its first quarter of fiscal year 2018, HP implemented an organizational change to align its segment and business unit financial reporting more closely with its current business structure. The organizational change resulted in the transfer of long life consumables from Commercial to Supplies within the Printing segment. Certain revenues related to service arrangements, which are being eliminated for the purposes of reporting HP’s consolidated net revenue, have now been reclassified from Other to segments. HP has reflected this change to its segment and business unit information in prior reporting periods on an as-if basis. The reporting change had no impact on previously reported consolidated net revenue, earnings from operations, net earnings or net EPS.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 2: Segment Information (Continued)

Segment Operating Results from Continuing Operations and the reconciliation to HP consolidated results were as follows:

	For the fiscal years ended October 31,		
	2018	2017	2016
		In millions	
Net revenue:			
Personal Systems	$ 37,661	$ 33,321	$ 29,946
Printing	20,805	18,728	18,123
Corporate Investments	5	8	7
Total segments	$ 58,471	$ 52,057	$ 48,076
Other [1]	1	(1)	162
Total net revenue	$ 58,472	$ 52,056	$ 48,238
Earnings from continuing operations before taxes:			
Personal Systems	$ 1,411	$ 1,210	$ 1,150
Printing	3,323	3,146	3,114
Corporate Investments	(82)	(87)	(98)
Total segment earnings from operations	$ 4,652	$ 4,269	$ 4,166
Corporate and unallocated costs and other	22	(33)	(28)
Stock-based compensation expense	(268)	(224)	(182)
Restructuring and other charges	(132)	(362)	(205)
Acquisition-related charges	(123)	(125)	(7)
Amortization of intangible assets	(80)	(1)	(16)
Defined benefit plan settlement charges	(7)	(5)	(179)
Interest and other, net	(1,051)	(243)	212
Total earnings from continuing operations before taxes	$ 3,013	$ 3,276	$ 3,761

(1) For the fiscal year 2016, the amount includes the recognition of revenue previously deferred in relation to sales to the pre-Separation finance entity.

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	
	2018	2017
	In millions	
Personal Systems	$13,447	$12,156
Printing	13,706	10,548
Corporate Investments	5	3
Corporate and unallocated assets	7,464	10,206
Total assets	$34,622	$32,913

Major Customers

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

Geographic Information

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 2: Segment Information (Continued)

Net revenue by country is based upon the sales location that predominately represents the customer location. For each of the fiscal years of 2018, 2017 and 2016, other than the United States, 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		
	2018	2017	2016
		In millions	
United States	$ 20,602	$ 19,321	$ 18,042
Other countries	37,870	32,735	30,196
Total net revenue	$ 58,472	$ 52,056	$ 48,238

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

	As of October 31	
	2018	2017
	In millions	
United States	$ 935	$ 866
Singapore	371	372
Other countries	892	640
Total property, plant and equipment, net	$ 2,198	$ 1,878

No single country other than those represented above exceeds 10% or more of HP’s total net property, plant and equipment in any fiscal year presented.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 2: Segment Information (Continued)

Net revenue by segment and business unit was as follows:

	For the fiscal years ended October 31		
	2018	2017	2016
		In millions	
Notebooks	$ 22,547	$ 19,782	$ 16,982
Desktops	11,567	10,298	9,956
Workstations	2,246	2,042	1,870
Other	1,301	1,199	1,138
Personal Systems	37,661	33,321	29,946
Supplies	13,575	12,524	11,981
Commercial Hardware	4,674	3,792	3,792
Consumer Hardware	2,556	2,412	2,350
Printing	20,805	18,728	18,123
Corporate Investments	5	8	7
Total segment net revenue	58,471	52,057	48,076
Other	1	(1)	162
Total net revenue	$ 58,472	$ 52,056	$ 48,238

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 3: Restructuring and Other Charges

Summary of Restructuring Plans

HP's restructuring activities in fiscal years 2018, 2017 and 2016 summarized by plan were as follows:

	Fiscal 2017 Plan		Fiscal 2015 Plan		Fiscal 2012 Plan		
	Severance	Infrastructure and other[1]	Severance and PRP[2]	Infrastructure and other	Severance	Infrastructure and other	Total
	In millions						
Accrued balance as of October 31, 2015	$—	$ —	$39	$ —	$21	$ 3	$63
Charges	24	—	117	27	7	—	175
Cash payments	—	—	(122)	(4)	(30)	(1)	(157)
Non-cash and other adjustments	—	—	(13)	(19)	9	—	(23)
Accrued balance as of October 31, 2016	24	—	21	4	7	2	58
Charges	117	94	15	—	1	—	227
Cash payments	(68)	(23)	(36)	(2)	(5)	—	(134)
Non-cash and other adjustments	3	(52)	6	—	—	—	(43)
Accrued balance as of October 31, 2017	76	19	6	2	3	2	108
Charges (reversals)	112	(13)	—	—	—	—	99
Cash payments	(136)	(35)	(1)	(2)	(1)	—	(175)
Non-cash and other adjustments	(2)	29	—	—	—	—	27
Accrued balance as of October 31, 2018	$50	$ —	$5	$ —	$2	$ 2	$59
Total costs incurred to date as of October 31, 2018	$253	$ 81	$171	$ 27	$1,075	$ 44	$1,651
Reflected in Consolidated Balance Sheets:							
Other accrued liabilities	$50	$ —	$5	$ —	$2	$ 1	$58
Other non-current liabilities	$—	$ —	$—	$ —	$—	$ 1	$1

(1) Infrastructure and other includes adjustment of carrying amount of held for sale assets of $52 million in fiscal year 2017 and reversal of adjustments of $29 million for the fiscal year 2018 associated with the consolidation of manufacturing into global hubs.

(2) PRP represents Phased Retirement Program.

Fiscal 2017 Plan

On October 10, 2016, HP's Board of Directors approved a restructuring plan (the "Fiscal 2017 Plan") which HP expected would be implemented through fiscal year 2019.

On May 26, 2018, HP's Board of Directors approved amending the Fiscal 2017 Plan. HP expects approximately 4,500 to 5,000 employees to exit by the end of fiscal year 2019. HP estimates that it will incur aggregate pre-tax charges of approximately $700 million relating to labor and non-labor actions. HP estimates that approximately half of the expected cumulative pre-tax costs will relate to severance and the remaining costs will relate to infrastructure, non-labor actions and other charges.

Fiscal 2015 Plan

In connection with the Separation, on September 14, 2015, HP's Board of Directors approved a cost savings plan (the "Fiscal 2015 Plan") which included labor and non-labor actions. The Fiscal 2015 Plan was considered substantially complete as of October 31, 2016 and HP does not expect any further activity associated with this plan.

Fiscal 2012 Plan

HP initiated a restructuring plan in fiscal year 2012 (the “Fiscal 2012 Plan”), which included severance and infrastructure costs. The Fiscal 2012 Plan was considered substantially complete as of October 31, 2016 and HP does not expect any further activity associated with this plan.

Other charges

Other charges include non-recurring costs, including those as a result of the Separation, and are distinct from ongoing operational costs. These costs primarily relate to information technology costs such as advisory, consulting and non-recurring labor costs. HP incurred $33 million, $135 million and $30 million of other charges in fiscal year 2018, 2017 and 2016, respectively.

Note 4: Retirement and Post-Retirement Benefit Plans

Defined Benefit Plans

HP sponsors a number of defined benefit pension plans worldwide. The most significant defined benefit plan, the HP Inc. Pension Plan ("Pension Plan") is a frozen plan in the United States.

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"). At October 31, 2018 and 2017, the fair value of plan assets of the DPSP was $536 million and $580 million, respectively. The DPSP 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 Pension Plan and the DPSP both remain entirely with HP post-Separation.

Post-Retirement Benefit Plans

HP sponsors retiree health and welfare benefit plans, of which the most significant are in the United States. Under the HP Inc. 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. HP's share of the premium cost is capped for all subsidized medical coverage provided under the HP Inc. Retiree Welfare Benefits Plan. HP currently leverages the employer group waiver plan process to provide HP Inc. 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 for partially subsidized medical coverage under the above programs, and employees hired after 2002 but before August 2008, are eligible for credits under the HP Inc. Retiree Welfare Benefits Plan. Credits offered after September 2008 are provided in the form of matching credits on employee contributions made to a voluntary employee beneficiary association upon attaining age 45 or as part of early retirement programs. 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 $110 million in fiscal year 2018, $103 million in fiscal year 2017 and $100 million in fiscal year 2016.

U.S. employees are automatically enrolled in the HP Inc. 401(k) Plan when they meet eligibility requirements, unless they decline participation. The employer matching contributions in the HP Inc. 401(k) Plan is 100% of an employee's contributions, up to a maximum of 4% of eligible compensation.

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HP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Pension and Post-Retirement Benefit Expense

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

	For the fiscal years ended October 31								
	2018	2017	2016	2018	2017	2016	2018	2017	2016
	U.S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans			Post-Retirement Benefit Plans		
	In millions								
Service cost	$—	$—	$—	$55	$48	$47	$1	$1	$1
Interest cost	452	469	543	24	18	20	15	18	20
Expected return on plan assets	(717)	(677)	(732)	(39)	(31)	(36)	(23)	(26)	(33)
Amortization and deferrals:									
Actuarial loss (gain)	58	73	55	28	40	28	(17)	(17)	(12)
Prior service credit	—	—	—	(3)	(3)	(3)	(18)	(19)	(17)
Net periodic (credit) benefit cost	(207)	(135)	(134)	65	72	56	(42)	(43)	(41)
Curtailment gain	—	—	—	—	—	(1)		—	—
Settlement loss	2	3	180	5	2	3	—	—	—
Special termination benefits	—	—	—	—	—	—	—	—	4
Total (credit) benefit cost	$(205)	$(132)	$46	$70	$74	$58	$(42)	$(43)	$(37)

Lump sum program

During fiscal year 2016, HP offered certain terminated vested participants of the Pension Plan the option of receiving their pension benefit in a one-time voluntary lump sum during a specific window. Approximately 16,000 plan participants elected to receive their benefits and as a result the pension plan trust paid $977 million in lump sum payments to these participants in fiscal year 2016. As a result of the lump sum program, HP recognized a settlement expense of approximately $177 million in October 2016. The resulting re-measurement coincided with annual year end plan re-measurement and no additional net periodic pension cost was incurred in fiscal year 2016.

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

	For the fiscal years ended October 31								
	2018	2017	2016	2018	2017	2016	2018	2017	2016
	U.S. Defined Benefit Plans			Non-U.S. Defined Benefit Plans			Post-Retirement Benefit Plans		
Discount rate	3.8%	4.0%	4.4%	2.1%	1.6%	2.3%	3.5%	3.4%	3.6%
Expected increase in compensation levels	2.0%	2.0%	2.0%	2.5%	2.7%	2.5%	—	—	—
Expected long-term return on plan assets	6.9%	6.9%	6.9%	4.5%	4.4%	5.6%	7.1%	7.3%	8.0%

Funded Status

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

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

	As of October 31					
	2018	2017	2018	2017	2018	2017
	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 of assets — beginning of year	$10,838	$10,176	$815	$692	$351	$390
Acquisition of plan	—	—	40	—	—	—
Actual return on plan assets	(267)	1,223	(2)	86	76	26
Employer contributions	33	33	33	27	4	9
Participant contributions	—	—	11	10	59	53
Benefits paid	(575)	(583)	(10)	(14)	(102)	(127)
Settlement	(11)	(11)	(18)	(6)	—	—
Currency impact	—	—	(19)	20	—	—
Fair value of assets — end of year	$10,018	$10,838	$850	$815	$388	$351
Change in benefits obligation						
Projected benefit obligation — beginning of year	$12,266	$12,144	$1,132	$1,120	$463	$535
Acquisition of plan	—	—	40	—	—	—
Service cost	$—	$—	$55	$48	$1	$1
Interest cost	452	469	24	18	15	18
Participant contributions	$—	$—	$11	$10	$59	$53
Actuarial (gain) loss	(965)	247	21	(77)	(39)	(17)
Benefits paid	$(575)	$(583)	$(10)	$(14)	$(102)	$(127)
Plan amendments	—	—	—	(3)	—	—
Settlement	(11)	(11)	(13)	(6)	—	—
Currency impact	—	—	(33)	36	—	—
Projected benefit obligation — end of year	$11,167	$12,266	$1,227	$1,132	$397	$463
Funded status at end of year	$(1,149)	$(1,428)	$(377)	$(317)	$(9)	$(112)
Accumulated benefit obligation	$11,167	$12,266	$1,099	$1,014		

The weighted-average assumptions used to calculate the projected benefit obligations for the fiscal years ended October 31, 2018 and 2017 were as follows:

	For the fiscal years ended October 31					
	2018	2017	2018	2017	2018	2017
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
Discount rate	4.5%	3.8%	2.0%	2.0%	4.4%	3.5%
Expected increase in compensation levels	2.0%	2.0%	2.5%	2.4%	—	—

The net amounts of non-current assets and current and non-current liabilities for HP's defined benefit and post-retirement benefit plans recognized on HP's Consolidated Balance Sheet were as follows:

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HP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

	As of October 31					
	2018	2017	2018	2017	2018	2017
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post-Retirement Benefit Plans	
	In millions					
Non-current assets	$—	$—	$ 10	$ 18	$ 11	$ 7
Current liabilities	(32)	(33)	(9)	(5)	(6)	(7)
Non-current liabilities	(1,117)	(1,395)	(378)	(330)	(14)	(112)
Funded status at end of year	$(1,149)	$(1,428)	$ (377)	$ (317)	$ (9)	$ (112)

The following table summarizes the pre-tax net actuarial loss (gain) and prior service benefit recognized in Accumulated other comprehensive loss for the defined benefit and post-retirement benefit plans.

	As of October 31, 2018		
	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans
	In millions		
Net actuarial loss (gain)	$1,285	$ 311	$ (180)
Prior service benefit	—	(17)	(74)
Total recognized in Accumulated other comprehensive loss (gain)	$1,285	$ 294	$ (254)

The following table summarizes HP's pre-tax net actuarial loss (gain) and prior service benefit that are expected to be amortized from Accumulated other comprehensive loss 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)	$59	$ 32	$ (31)
Prior service benefit	—	(3)	(13)
Total expected to be recognized in net periodic benefit cost (credit)	$59	$ 29	$ (44)

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

	As of October 31			
	2018	2017	2018	2017
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans	
	In millions			
Aggregate fair value of plan assets	$10,018	$10,838	$ 800	$ 750
Aggregate projected benefit obligation	$11,167	$12,266	$ 1,194	$ 1,085

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

	As of October 31			
	2018	2017	2018	2017
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans	
	In millions			
Aggregate fair value of plan assets	$10,018	$10,838	$ 734	$ 554
Aggregate accumulated benefit obligation	$11,167	$12,266	$ 1,007	$ 777

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HP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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, 2018. Refer to Note 9, "Fair Value" for details on fair value hierarchy. Per ASU 2015-07, certain investments that are measured at fair value using the Net Asset Value (NAV) per share as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table provide a reconciliation of the fair value hierarchy to the total value of plan assets.

	As of October 31, 2018											
	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[1]	$794	$48	$ —	$842	$ 114	$ 6	$ —	$ 120	$ 1	$ —	$ —	$ 1
Debt securities[2]												
Corporate	—	4,941	—	4,941	—	110	—	110	—	40	—	40
Government	—	1,637	—	1,637	—	28	—	28	—	54	—	54
Real Estate Funds	—	—	—	—	3	60	—	63	—	—	—	—
Insurance Contracts	—	—	—	—	—	50	—	50	—	—	—	—
Common Collective Trusts and 103-12s[3]	—	—	—	—	—	7	—	7	—	—	—	—
Investment Funds[4]	253	—	—	253	—	279	—	279	55	—	—	55
Cash and Cash Equivalents[5]	5	139	—	144	19	—	—	19	—	4	—	4
Other[6]	(108)	(233)	—	(341)	2	13	—	15	(13)	—	—	(13)
Net plan assets subject to leveling	$944	$6,532	$ —	$7,476	$ 138	$ 553	$ —	$ 691	$ 43	$ 98	$ —	$ 141
Investments using NAV as a Practical Expedient:												
Alternative Investments[7]				1,319				14				220
Common Contractual Funds[8]				—				110				—
Common Collective Trusts and 103-12 Investment Entities[3]				683				—				21
Investment Funds[4]				540				35				6
Investments at Fair Value				$10,018				$ 850				$ 388

The table below sets forth the fair value of plan assets by asset category within the fair value hierarchy as of October 31, 2017.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 4: Retirement and Post-Retirement Benefit Plans (Continued)

	As of October 31, 2017											
	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(1)	$3,174	$40	$—	$3,214	$124	$6	$—	$130	$—	$—	$—	$—
Debt securities(2)												
Corporate	—	3,379	—	3,379	—	119	—	119	—	25	—	25
Government	—	2,513	—	2,513	—	32	—	32	—	41	—	41
Real Estate Funds	—	—	—	—	2	51	—	53	—	—	—	—
Insurance Contracts	—	—	—	—	—	7	—	7	—	—	—	—
Common Collective Trusts and 103-12 Investments Entities(3)	—	—	—	—	—	7	—	7	—	—	—	—
Investment Funds(4)	89	—	—	89	—	284	—	284	54	—	—	54
Cash and Cash Equivalents(5)	8	64	—	72	21	—	—	21	—	2	—	2
Other(6)	(172)	(561)	—	(733)	2	9	1	12	(12)	—	—	(12)
Net plan assets subject to leveling	$3,099	$5,435	$—	$8,534	$149	$515	$1	$665	$42	$68	$—	$110
Investments using NAV as a Practical Expedient:												
Alternative Investments(7)				1,444				13				198
Common Contractual Funds(8)				13				102				—
Common Collective Trusts and 103-12 Investment Entities(3)				732				—				39
Investment Funds(4)				115				35				4
Investments at Fair Value				$10,838				$815				$351

(1) 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.

(2) The fair value of corporate, government and asset-backed debt securities is based on observable inputs of comparable market transactions. Also included in this category is debt issued by national, state and local governments and agencies.

(3) 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. Certain common collective trusts and interests in 103-12 entities are valued using NAV as a practical expedient.

(4) Includes publicly traded funds of investment companies that are registered with the SEC, funds that are not publicly traded and a non-U.S. fund-of-fund arrangement. The non-U.S. fund-of-fund arrangement is a custom portfolio valued at NAV consisting primarily of fixed income and common contractual funds.

(5) Includes cash and cash equivalents such as short-term marketable securities. Cash and cash equivalents include money market funds, which are valued based on NAV. Other assets 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.

(6) Includes primarily reverse repurchase agreements, unsettled transactions, and derivative instruments.

(7) Alternative Investments primarily include private equities and hedge funds. The valuation of alternative investments, such as limited partnerships and joint ventures, may require significant management judgment. For alternative investments, valuation is based on NAV as reported by the asset manager or investment company 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.

- Private equities include limited partnerships such as equity, buyout, venture capital, real estate and other similar funds that invest in the United States and internationally where foreign currencies are hedged.
- Hedge funds include 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.

(8) The Common Contractual Fund is an investment arrangement in which institutional investors pool their assets. Units may be acquired in different sub-funds focused on equities, fixed income, alternative investments and emerging markets. Each sub-fund is invested in accordance with the fund's investment objective and units are issued in relation to each sub-fund. While the sub-funds are not publicly traded, the custodian strikes a NAV either once or twice a month, depending on the sub-fund. These assets are valued using NAV as a practical expedient.

Plan Asset Allocations

Refer to the fair value hierarchy table above for actual assets allocations across the benefit plans. The weighted-average target asset allocations across the benefit plans represented in the fair value tables above were as follows:

	2018 Target Allocation		
Asset Category	U.S. Defined Benefit Plans	Non-U.S. Defined Benefit Plans	Post-Retirement Benefit Plans
Equity-related investments	30.3 %	41.6 %	64.1 %
Debt securities	69.7 %	36.4 %	21.5 %
Real estate	—	6.1 %	— %
Cash and cash equivalents	—	3.1 %	14.4 %
Other	—	12.8 %	—
Total	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 affect 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 to model various potential asset allocations in comparison to each plan's forecasted liabilities and liquidity needs and to develop a policy glide path which adjusts the asset allocation with funded status. A 2018 asset-liability study reconfirmed the current policy glide path for the U.S. pension plan. Due to higher interest rates and capital market performance, the U.S. pension plan funded ratio increased and therefore, the investment portfolio risk was reduced by increasing fixed income holdings in accordance with the policy glide path. 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 United States, asset allocation decisions are typically made by an independent board of trustees for the specific plan. As in the United States, 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.

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

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HP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

In fiscal year 2019, HP expects to contribute approximately $46 million to its non-U.S. pension plans, $32 million to cover benefit payments to U.S. non-qualified plan participants and $6 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, 2018, 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		
2019	$687	$ 42	$ 44
2020	644	36	40
2021	664	42	37
2022	687	40	34
2023	719	43	32
Next five fiscal years to October 31, 2028	3,758	298	155

Note 5: Stock-Based Compensation

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

Stock-Based Compensation Expense and Related Income Tax Benefits for Operations

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

	For the fiscal years ended October 31		
	2018	2017	2016
	In millions		
Stock-based compensation expense	$268	$224	$182
Income tax benefit	(59)	(71)	(63)
Stock-based compensation expense, net of tax	$209	$153	$119

In connection with the Separation and in accordance with the employee matters agreement, HP has made certain adjustments to the exercise price and number of stock-based compensation awards with the intention of preserving the intrinsic value of the awards prior to the Separation. Exercisable and non-exercisable stock options have been converted to similar awards of the entity where the employee is working post-separation. Restricted stock unit awards and performance-contingent awards have been adjusted to provide holders with restricted stock units awards and performance-contingent awards in the company that employs such employee following the Separation. The pre-tax stock-based compensation expense due to the adjustments was $2 million in fiscal year 2016. All outstanding restricted stock units and stock options for employees transferred to Hewlett Packard Enterprise were canceled in connection with the Separation.

Cash received from option exercises and purchases under the HP Inc. 2011 Employee Stock Purchase Plan (the "2011 ESPP") was $158 million in fiscal year 2018, $118 million in fiscal year 2017 and $48 million in fiscal year 2016. The benefit realized for the tax deduction from option exercises in fiscal years 2018, 2017 and 2016 was $23 million, $15 million and $9 million, respectively.

Stock-Based Incentive Compensation Plans

HP's stock-based incentive compensation plans include equity plans adopted in 2004 and 2000, as amended and restated ("principal equity plans"), as well as various equity plans assumed through acquisitions under which stock-based awards are outstanding. Stock-based awards granted under 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. The aggregate number of shares of HP's stock authorized for issuance under the 2004 principal equity plan is 593.1 million. No further grants may be made under the 2000 principal equity plan and all outstanding awards under this plan will remain outstanding according to the terms of the plan.

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 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. Restricted stock units have forfeitable dividend equivalent rights equal to the dividend paid on common stock. HP expenses the fair value of restricted stock awards ratably over the period during which the restrictions lapse. The majority of restricted stock units issued by HP contain only service vesting conditions. However, starting in fiscal year 2014, HP began granting performance-adjusted restricted stock units that vest only on the satisfaction of both service and the achievement of certain performance goals including market conditions prior to the expiration of the awards.

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 year 2011 through fiscal year 2016, HP granted performance-contingent stock options that vest only on the satisfaction of both service and market conditions prior to the expiration of the awards.

Restricted Stock Units

HP uses the closing stock price on the grant date to estimate the fair value of service-based restricted stock units. HP estimates the fair value of restricted stock units subject to performance-adjusted vesting conditions using a combination of the closing stock price on the grant date and the Monte Carlo simulation model. The weighted-average fair value and the assumptions used to measure the fair value of restricted stock units subject to performance-adjusted vesting conditions in the Monte Carlo simulation model were as follows:

	For the fiscal years ended October 31		
	2018	2017	2016
Weighted-average fair value[(1)]	$24	$20	$13
Expected volatility[(2)]	29.5%	30.5%	32.5%
Risk-free interest rate[(3)]	1.9 %	1.4 %	1.2 %
Expected performance period in years[(4)]	2.9	2.9	2.9

(1) The weighted-average fair value was based on performance-adjusted restricted stock units granted during the period.

(2) The expected volatility was estimated using the historical volatility derived from 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 performance period was estimated based on the length of the remaining performance period from the grant date.

A summary of restricted stock units activity is as follows:

	As of October 31					
	2018		2017		2016	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
	In thousands		In thousands		In thousands	
Outstanding at beginning of year	31,822	$ 14	28,710	$ 13	29,717	$ 32
Granted	16,364	$ 21	15,858	$ 16	29,286	$ 10
Vested	(15,339)	$ 15	(11,915)	$ 14	(4,161)	$ 13
Awards canceled due to Separation	—	$ —	—	$ —	(23,926)	$ 32
Forfeited	(2,063)	$ 17	(831)	$ 14	(2,206)	$ 14
Outstanding at end of year	30,784	$ 18	31,822	$ 14	28,710	$ 13

The total grant date fair value of restricted stock units vested in fiscal years 2018, 2017 and 2016 was $224 million, $162 million and $54 million, respectively. As of October 31, 2018, total unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock units for operations was $238 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:

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HP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 5: Stock-Based Compensation (Continued)

	For the fiscal years ended October 31		
	2018	2017	2016
Weighted-average fair value[(1)]	$ 5	$ 4	$ 4
Expected volatility[(2)]	29.4%	28.0%	36.2%
Risk-free interest rate[(3)]	2.5 %	1.9 %	1.8 %
Expected dividend yield[(4)]	2.6 %	2.8 %	3.5 %
Expected term in years[(5)]	5.0	5.5	6.0

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

(2) For all awards granted in fiscal year 2018, expected volatility was estimated based on a blended volatility (50% historical volatility and 50% implied volatility from traded options on HP's common stock). For the awards granted in fiscal year 2017 and 2016, expected volatility was estimated using the leverage-adjusted average of the term-matching volatilities of peer companies due to the lack of volume of forward traded options, which precluded the use of implied volatility.

(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, due to the lack of historical exercise and post-vesting termination patterns of the post-Separation employee base, the expected term was estimated using a simplified method; and for performance-contingent awards, the expected term represents an output from the lattice model.

A summary of stock options activity is as follows:

	As of October 31											
	2018				2017				2016			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggreg Intrins Value
	In thousands		In years	In millions	In thousands		In years	In millions	In thousands		In years	In million
Outstanding at beginning of year	18,067	$13			28,218	$12			36,278	$26		
Granted and assumed through acquisition	54	$21			104	$19			25,425	$6		
Exercised	(10,644)	$13			(9,407)	$11			(4,714)	$8		
Awards canceled due to Separation	—	$—			—	$—			(26,252)	$26		
Forfeited/canceled/expired	(391)	$16			(848)	$17			(2,519)	$17		
Outstanding at end of year	7,086	$14	4.2	$73	18,067	$13	4.2	$152	28,218	$12	5.0	$73
Vested and expected to vest	7,084	$14	4.2	$73	17,692	$13	4.1	$149	26,850	$12	4.9	$71
Exercisable	4,707	$14	3.7	$49	10,898	$12	3.1	$102	15,418	$11	3.7	$62

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that option holders would have realized had all option holders exercised their options on the last trading day of fiscal years 2018, 2017 and 2016. 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 years 2018, 2017 and 2016 was $109 million, $77 million and $26 million, respectively. The total grant date fair value of options vested in fiscal years 2018, 2017 and 2016 was $12 million, $19 million and $11 million, respectively.

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HP INC. 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, 2018				
	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	451	2.3	$7	451	$ 7
$10-$19.99	6,522	4.3	$14	4,143	$ 14
$20-$29.99	113	5.3	$23	113	$ 23
	7,086			4,707	

As of October 31, 2018, total unrecognized pre-tax stock-based compensation expense related to stock options for operations was $0.1 million, which is expected to be recognized over a weighted-average vesting period of less than 1 month.

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. The aggregate number of shares of HP’s stock authorized for issuance under the 2011 ESPP is 100 million.

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		
	2018	2017	2016
	In thousands		
Shares available for future grant	305,767	419,071	453,865
Shares reserved for future issuance	343,076	468,531	510,176

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Note 6: Taxes on Earnings

Provision for Taxes

On December 22, 2017, the TCJA was signed by the President of the United States and enacted into law. The law includes significant changes to the U.S. corporate income tax system, including a federal corporate rate reduction from 35% to 21%, limitations on the deductibility of interest expense and executive compensation, and the transition of U.S. international taxation from a worldwide tax system to a territorial tax system. ASC 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions is for tax years beginning after December 31, 2017 (the “Effective Date”), or in the case of certain other provisions, January 1, 2018.

When a U.S. federal tax rate change occurs during a fiscal year, taxpayers are required to compute a weighted daily average rate for the fiscal year of enactment. As a result of the TCJA, HP has calculated a blended U.S. federal statutory corporate income tax rate of 23% for the fiscal year ending October 31, 2018. The blended U.S. federal statutory corporate income tax rate of 23% is the weighted daily average rate between the pre-enactment U.S. federal statutory tax rate of 35% applicable to HP’s 2018 fiscal year prior to the Effective Date and the post-enactment U.S. federal statutory tax rate of 21% applicable to the 2018 fiscal year thereafter. HP expects the U.S. federal statutory rate to be 21% for fiscal years beginning after October 31, 2018.

Given the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts during a one year “measurement period”. During the measurement period, impacts of the TCJA are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed.

SAB 118 summarizes a three-step process to be applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with law prior to the enactment of the TCJA.

As of October 31, 2018, HP has not completed its accounting for the tax effects of the TCJA, however, in certain cases HP has made a reasonable estimate of the effects for remeasurement on its existing deferred tax balances and the one-time transition tax, updated for recently proposed treasury regulations. With respect to the Global Intangible Low Taxed Income (“Global Minimum Tax”) provisions, further discussed below, HP has not been able to make a reasonable estimate and continues to account for this item based on its existing accounting under ASC 740, Income Taxes, and the provisions of the tax laws that were in effect immediately prior to enactment. The impact of the TCJA may differ materially from this estimate due to changes in interpretations and assumptions HP has made, additional guidance that may be issued and actions HP may take as a result of the TCJA. The impacts of HP's estimates are described further below.

While HP has not yet completed its analysis to the impact on its deferred tax balances, as of October 31, 2018 HP recorded provisional income tax expense of $1.2 billion related to the remeasurement of its deferred tax assets and liabilities at the new statutory rate and $317 million related to remeasurement of its U.S. deferred tax assets that are expected to be realized at a lower rate by recording a valuation allowance. HP is still analyzing certain aspects of the TCJA and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

The TCJA also includes a one-time mandatory deemed repatriation transition tax on the net accumulated post-1986 earnings and profits (“E&P”) of a U.S. taxpayer’s foreign subsidiaries. HP has computed a provisional deemed repatriation tax of approximately $3.3 billion, of which more than half is expected to be offset with tax attributes, reducing HP’s cash outlay. The U.S. Treasury Department recently issued proposed regulations related to this one-time mandatory deemed repatriation. While HP has not yet completed its analysis of these proposed regulations, it believes there will be no material changes to its provisional amounts as reported for the period ending October 31, 2018. Once HP completes its evaluation of the potential impact of the proposed regulations, HP will finalize its provisional amount next quarter when the measurement period is closed. Companies may elect to pay this tax over 8 years, and HP intends to make this election. HP has not yet completed its calculation of the total post-1986 E&P for its foreign subsidiaries. Further, the transition tax is based, in part, on the amount of those earnings held in cash and other specified assets. This amount may change when HP finalizes the calculation of post-1986 E&P previously deferred from U.S. federal taxation and finalizes the amounts held in cash or other specified assets. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in these entities, as these amounts continue to be indefinitely reinvested in foreign operations.

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Note 6: Taxes on Earnings (Continued)

As a result of the deemed repatriation tax noted above, which is based on HP's total post-1986 deferred foreign income, HP redetermined $5.6 billion of its U.S. deferred tax liability on those unremitted earnings with a provisional tax payable of $3.3 billion, as noted above. This resulted in a net benefit. This tax benefit is provisional as HP is still analyzing certain aspects of the legislation and refining calculations, which could potentially materially affect the measurement of these amounts.
HP has not yet completed the accounting for the realizability of deferred tax assets. To calculate the realizability of deferred tax assets, HP has estimated when the existing deferred taxes will be settled or realized. The realizability of deferred tax assets included in the financial statements will be subject to further revisions if the current estimates are different from the actual future operating results.
In January 2018, the FASB released guidance on the accounting for tax on the Global Minimum Tax provisions of TCJA. The Global Minimum Tax provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to Global Minimum Tax inclusions or to treat any taxes on Global Minimum Tax inclusions as period cost are both acceptable methods subject to an accounting policy election. HP is still evaluating whether to make a policy election to treat the Global Minimum Tax as a period cost or to provide U.S. deferred taxes on foreign temporary differences that are expected to generate Global Minimum Tax income when they reverse in future years. There could be additional changes to HP's deferred taxes once it completes its evaluations.
The domestic and foreign components of earnings from continuing operations before taxes were as follows:

	For the fiscal years ended October 31		
	2018	2017	2016
	In millions		
U.S.	$242	$(14)	$468
Non-U.S.	2,771	3,290	3,293
	$3,013	$3,276	$3,761

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

	For the fiscal years ended October 31		
	2018	2017	2016
	In millions		
U.S. federal taxes:			
Current	$751	$189	$439
Deferred	(3,132)	197	470
Non-U.S. taxes:			
Current	528	302	288
Deferred	(563)	4	(123)
State taxes:			
Current	61	20	(35)
Deferred	41	38	56
	$(2,314)	$750	$1,095

As a result of U.S. tax reform, HP revised its estimated annual effective tax rate to reflect the change in the U.S. federal statutory tax rate from 35% to 21%. Since HP has a fiscal year ending October 31, it is subject to transitional tax rate rules. Therefore, a blended rate of 23% was computed as effective for the current fiscal year.

The differences between the U.S. federal statutory income tax rate and HP’s effective tax rate were as follows:

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Note 6: Taxes on Earnings (Continued)

	For the fiscal years ended October 31		
	2018	2017	2016
U.S. federal statutory income tax rate from continuing operations	23.3 %	35.0 %	35.0 %
State income taxes from continuing operations, net of federal tax benefit	0.5 %	1.4 %	1.1 %
Lower rates in other jurisdictions, net	(10.9)%	(13.2)%	(9.3)%
U.S. Tax Reform impacts	(35.8)%	— %	— %
Research and development ("R&D") credit	(0.7)%	(0.5)%	(2.4)%
Valuation allowances	(9.3)%	(1.9)%	(1.2)%
Uncertain tax positions and audit settlements	(50.3)%	0.4 %	11.7 %
Indemnification related items	5.2 %	(0.3)%	(4.1)%
Other, net	1.2 %	2.0 %	(1.7)%
	(76.8)%	22.9 %	29.1 %

The jurisdictions with favorable tax rates that have the most significant effective tax rate impact in the periods presented include Puerto Rico, Singapore, China, Malaysia and Ireland. The gross income tax benefits related to these favorable tax rates are in addition to transitional impacts of U.S. tax reform and resolution of various audits and tax litigation. To the extent that HP reinvest certain earnings of these jurisdictions indefinitely outside the United States, U.S. taxes have not been provided on those indefinitely reinvested earnings.

In fiscal year 2018, HP recorded $2.8 billion of net income tax benefits related to discrete items in the provision for taxes which include impacts of the TCJA. As noted above HP has not yet completed its analysis of the full impact of the TCJA. However, as of October 31, 2018, HP recorded a provisional tax benefit of $760 million related to $5.6 billion net benefit for the decrease in its deferred tax liability on unremitted foreign earnings, partially offset by $3.3 billion net expense for the deemed repatriation tax payable in installments over eight years, a $1.2 billion net expense for the remeasurement of its deferred assets and liabilities to the new U.S. statutory tax rate and a $317 million valuation allowance on net expense related to deferred tax assets that are expected to be realized at a lower rate. HP also recorded tax benefits related to audit settlements of $1.5 billion and valuation allowance releases of $601 million pertaining to a change in our ability to utilize certain foreign and U.S. deferred tax assets due to a change in our geographic earnings mix. These benefits were partially offset by other net tax charges of $34 million. In fiscal year 2018, in addition to the discrete items mentioned above, HP recorded excess tax benefits of $42 million on stock options, restricted stock units and performance-adjusted restricted stock units.

In fiscal year 2017, HP recorded $72 million of net income tax benefits related to discrete items in the provision for taxes. These amounts primarily include tax benefits of $84 million related to restructuring and other charges, $12 million related to U.S. federal provision to return adjustments, $45 million related to Samsung acquisition-related charges, and $13 million of other net tax benefits. In addition, HP recorded tax charges of $11 million related to changes in state valuation allowances, $22 million of state provision to return adjustments, and $49 million related to uncertain tax positions. In fiscal year 2017, in addition to the discrete items mentioned above, HP recorded excess tax benefits of $19 million on stock options, restricted stock units and performance-adjusted restricted stock units, which are reflected in the Consolidated Statements of Earnings as a component of the provision for income taxes.

In fiscal year 2016, HP recorded $301 million of net income tax charges related to discrete items in the provision for taxes for continuing operations. These amounts primarily include uncertain tax positions charges of $525 million related to pre-separation tax matters. In addition, HP recorded $62 million of net tax benefits on restructuring and other charges, $52 million of net tax benefits related to the release of foreign valuation allowances and $41 million of net tax benefits arising from the retroactive research and development credit provided by the Consolidated Appropriations Act of 2016 signed into law in December 2015 and $70 million of other tax benefit.

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 2027. The gross income tax benefits attributable to these actions and investments were estimated to be $578 million ($0.35 diluted EPS) in fiscal year 2018, $471 million ($0.28 diluted net EPS) in fiscal year 2017 and $341 million ($0.20 diluted net EPS) in fiscal year 2016.

Uncertain Tax Positions

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Note 6: Taxes on Earnings (Continued)

A reconciliation of unrecognized tax benefits is as follows:

	As of October 31		
	2018	2017	2016
	In millions		
Balance at beginning of year	$10,808	$10,858	$6,546
Increases:			
For current year's tax positions	66	52	468
For prior years' tax positions	101	85	4,004
Decreases:			
For prior years' tax positions	(248)	(181)	(62)
Statute of limitations expirations	(3)	(1)	—
Settlements with taxing authorities	(2,953)	(5)	(98)
Balance at end of year	$7,771	$10,808	$10,858

As of October 31, 2018, the amount of unrecognized tax benefits was $7.8 billion, of which up to $1.5 billion would affect HP's effective tax rate if realized. As of October 31, 2017, the amount of unrecognized tax benefits was $10.8 billion of which up to $3.9 billion would affect HP's effective tax rate if realized. The amount of unrecognized tax benefits decreased by $3.0 billion primarily related to the resolution of various audits. HP recognizes interest income from favorable settlements and interest expense and penalties accrued on unrecognized tax benefits in the provision for taxes in the Consolidated Statements of Earnings. As of October 31, 2018, 2017 and 2016, HP had accrued $160 million, $257 million and $193 million, respectively, for interest and penalties.

HP engages in continuous discussion and negotiation with taxing authorities regarding tax matters in various jurisdictions. HP expects to complete resolution of certain tax years with various tax authorities within the next 12 months. It is also possible that other federal, foreign and state tax issues may be concluded within the next 12 months. HP believes it is reasonably possible that its existing unrecognized tax benefits may be reduced by an amount up to $6.4 billion within the next 12 months. These unrecognized tax benefits have associated gain contingencies which would be settled in the same period resulting in a net release of $740 million.

HP is subject to income tax in the United States and approximately 60 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 U.S. Internal Revenue Service is conducting an audit of HP's 2013, 2014 and 2015 income tax returns.

The U.S. Tax Court ruled in May 2012 against HP related to certain tax attributes claimed by HP for the tax years 1999 through 2003. HP appealed the U.S. Tax Court determination by filing a formal Notice of Appeal with the Ninth Circuit Court of Appeals. This case was argued before the Ninth Circuit in November 2016. The Ninth Circuit Court of Appeals issued its opinion in November 2017 affirming the Tax Court determinations. HP decided against further appeal.

With respect to major state and foreign tax jurisdictions, HP is no longer subject to tax authority examinations for years prior to 1999. No material tax deficiencies have been assessed in major state or foreign tax jurisdictions as of October 31, 2018.

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 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 $5.4 billion of undistributed earnings from non-U.S. operations as of October 31, 2018 because HP intends to reinvest such earnings indefinitely outside of the United States. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. The TCJA taxed HP’s historic earnings and profits of its non-U.S. subsidiaries. HP will remit these taxed reinvested earnings for which

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Notes to Consolidated Financial Statements (Continued)
Note 6: Taxes on Earnings (Continued)

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	
	2018	2017
	In millions	
Deferred Tax Assets		
Loss and credit carryforwards	$8,204	$9,914
Intercompany transactions—excluding inventory	994	1,901
Fixed assets	151	256
Warranty	194	219
Employee and retiree benefits	401	519
Deferred Revenue	164	231
Other	422	511
Gross Deferred Tax Assets	10,530	13,551
Valuation allowances	(7,906)	(8,807)
Net Deferred Tax Assets	2,624	4,744
Deferred Tax Liabilities		
Unremitted earnings of foreign subsidiaries	(31)	(5,554)
Intangible assets	(229)	(209)
Other	(33)	(49)
Total Deferred Tax Liabilities	(293)	(5,812)
Net Deferred Tax Assets (Liabilities)	$2,331	$(1,068)

Long-term deferred tax assets and liabilities included in the Consolidated Balance Sheets as follows:

	As of October 31	
	2018	2017
	In millions	
Long-term deferred tax assets	$2,431	$342
Long-term deferred tax liabilities	(100)	(1,410)
Total	$2,331	$(1,068)

As of October 31, 2018, HP had recorded deferred tax assets for net operating loss carryforwards as follows:

	Gross NOLs	Deferred Taxes on NOLs	Valuation allowance	Initial Year of Expiration
	In millions			
Federal	$456	$ 96	—	2023
State	2,644	163	(71)	2018
Foreign	26,438	7,743	(7,247)	2020
Balance at end of year	$29,538	$ 8,002	$ (7,318)	

As of October 31, 2018, HP had recorded deferred tax assets for various tax credit carryforwards as follows:

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 6: Taxes on Earnings (Continued)

	Carryforward	Valuation Allowance	Initial Year of Expiration
	In millions		
U.S. foreign tax credits	$ 7	$ —	2027
U.S. R&D and other credits	3	—	2020
Tax credits in state and foreign jurisdictions	313	(94)	2021
Balance at end of year	$ 323	$ (94)	

Deferred Tax Asset Valuation Allowance

The deferred tax asset valuation allowance and changes were as follows:

	As of October 31		
	2018	2017	2016
	In millions		
Balance at beginning of year	$ 8,807	$ 8,520	$ 7,114
Income tax (benefit) expense	(897)	297	1,421
Other comprehensive income, currency translation and charges to other accounts	(4)	(10)	(15)
Balance at end of year	$ 7,906	$ 8,807	$ 8,520

Gross deferred tax assets as of October 31, 2018, 2017 and 2016, were reduced by valuation allowances of $7.9 billion, $8.8 billion and $8.5 billion, respectively. Total valuation allowance decreased by $901 million in fiscal year 2018, associated primarily with foreign net operating losses and U.S. deferred tax assets that are anticipated to be realized at a lower effective rate than the federal statutory tax rate due to certain future U.S. international tax reform implications, and increased by $287 million and $1.4 billion in fiscal years 2017 and 2016, respectively, associated primarily with foreign net operating losses.

Note 7: Supplementary Financial Information
Accounts Receivable, net

	As of October 31	
	2018	2017
	In millions	
Accounts receivable	$ 5,242	$ 4,515
Allowance for doubtful accounts	(129)	(101)
	$ 5,113	$ 4,414

The allowance for doubtful accounts related to accounts receivable and changes were as follows:

	As of October 31		
	2018	2017	2016
	In millions		
Balance at beginning of year	$ 101	$ 107	$ 80
Provision for doubtful accounts	57	30	65
Deductions, net of recoveries	(29)	(36)	(38)
Balance at end of year	$ 129	$ 101	$ 107

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 7: Supplementary Financial Information (Continued)

HP has third-party arrangements, consisting of revolving short-term financing, which provide liquidity to certain partners to facilitate their working capital requirements. These financing arrangements, which in certain circumstances may contain partial recourse, result in a transfer of HP's receivables and risk, to the third-party. As these transfers qualify as true sales under the applicable accounting guidance, the receivables are derecognized from the Consolidated Balance Sheets upon transfer, and HP receives a payment for the receivables from the third-party within a mutually agreed upon time period. For arrangements involving an element of recourse, the recourse obligation is measured using market data from the similar transactions and reported as a current liability in the Consolidated Balance Sheets. The recourse obligations as of October 31, 2018 and 2017 were not material. The costs associated with the sales of trade receivables for fiscal year 2018, 2017 and 2016 were not material.
The following is a summary of the activity under these arrangements:

	As of October 31		
	2018	2017	2016
	In millions		
Balance at beginning of year [1]	$147	$149	$93
Trade receivables sold	10,224	9,553	8,222
Cash receipts	(10,202)	(9,562)	(8,160)
Foreign currency and other	(4)	7	(6)
Balance at end of year [1]	$165	$147	$149

[1] Amounts outstanding from third parties reported in Accounts Receivable in the Consolidated Balance Sheets.

Inventory

	As of October 31	
	2018	2017
	In millions	
Finished goods	$4,019	$3,857
Purchased parts and fabricated assemblies	2,043	1,929
	$6,062	$5,786

Other Current Assets

	As of October 31	
	2018	2017
	In millions	
Value-added taxes receivable	$865	$857
Available-for-sale investments [1]	711	1,149
Supplier and other receivables	2,025	1,891
Prepaid and other current assets	1,445	1,224
	$5,046	$5,121

[1] See Note 9, "Fair Value" and Note 10, "Financial Instruments" for detailed information.

Property, Plant and Equipment, Net

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HP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 7: Supplementary Financial Information (Continued)

	As of October 31	
	2018	2017
	In millions	
Land, buildings and leasehold improvements	$1,893	$2,082
Machinery and equipment, including equipment held for lease	4,216	3,876
	6,109	5,958
Accumulated depreciation	(3,911)	(4,080)
	$2,198	$1,878

Depreciation expense was $448 million, $353 million and $316 million in fiscal years 2018, 2017 and 2016, respectively.

Other Non-Current Assets

	As of October 31	
	2018	2017
	In millions	
Tax indemnifications receivable[1]	$ 953	$ 1,695
Deferred tax assets[2]	2,431	342
Other[3][4]	1,685	1,058
	$ 5,069	$ 3,095

(1) During the twelve months ended October 31, 2018, HP adjusted $676 million of indemnification receivable, pursuant to resolution of various income tax audit settlements. See Note 15, “Guarantees, Indemnifications and Warranties” for further information.

(2) See Note 6, “Taxes on Earnings” for detailed information.

(3) Includes Intangible assets of $453 million as at October 31, 2018, primarily from the acquisition of Samsung’s printer business, see Note 8, “Goodwill and Intangible Assets” for further information.

(4) Includes marketable equity securities and mutual funds classified as available-for-sale investments of $53 million and $61 million at October 31, 2018 and 2017, respectively.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 7: Supplementary Financial Information (Continued)

Other Accrued Liabilities

	As of October 31	
	2018	2017
	In millions	
Other accrued taxes	$ 982	$ 895
Warranty	673	660
Deferred revenue	1,095	1,012
Sales and marketing programs	2,758	2,441
Other	1,868	1,945
	$ 7,376	$ 6,953

Other Non-Current Liabilities

	As of October 31	
	2018	2017
	In millions	
Pension, post-retirement, and post-employment liabilities	$ 1,645	$ 1,999
Deferred tax liability[(1)]	100	1,410
Tax liability[(1)]	2,063	2,005
Deferred revenue	1,005	921
Other	793	827
	$ 5,606	$ 7,162

(1) See Note 6, “Taxes on Earnings” for detailed information.

Interest and other, net

	For the fiscal years ended October 31		
	2018	2017	2016
	In millions		
Interest expense on borrowings	$ (312)	$ (309)	$ (273)
Loss on extinguishment of debt	(126)	—	—
Tax indemnifications[(1)]	(662)	47	472
Other, net	49	19	13
	$ (1,051)	$ (243)	$ 212

(1) For the fiscal year ended October 31, 2018, includes an adjustment of $676 million of indemnification receivable, pursuant to resolution of various income tax audit settlements. See Note 15, “Guarantees, Indemnifications and Warranties” for further information.

Note 8: Goodwill and Intangible Assets

Goodwill

Goodwill allocated to HP’s reportable segments and changes in the carrying amount of goodwill were as follows:

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Notes to Consolidated Financial Statements (Continued)

Note 8: Goodwill and Intangible Assets (Continued)

	Personal Systems	Printing	Total
	In millions		
Balance at October 31, 2016[1]	$2,593	$3,029	$5,622
Acquisitions	—	—	—
Balance at October 31, 2017[1]	2,593	3,029	5,622
Acquisitions	7	339	346
Balance at October 31, 2018[1]	$2,600	$3,368	$5,968

[1] Goodwill is net of accumulated impairment losses of $0.8 billion related to Corporate Investments.

Goodwill is tested for impairment at the reporting unit level. As of October 31, 2018, our reporting units are consistent with the reportable segments identified in Note 2, "Segment Information". There were no goodwill impairments in fiscal years 2018, 2017 and 2016. Personal Systems had a negative carrying amount of net assets as of October 31, 2018 and 2017, primarily as a result of a favorable cash conversion cycle. HP will continue to evaluate goodwill on an annual basis as of the first day of its fourth fiscal quarter and whenever events or changes in circumstances indicate there may be a potential impairment.

Intangible Assets

HP's acquired intangible assets were composed of:

	Weighted-Average Useful Lives	As of October 31, 2018			As of October 31, 2017		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	In years	In millions					
Customer contracts, customer lists and distribution agreements	8	$112	$ 88	$24	$85	$ 84	$ 1
Technology and patents	7	601	172	429	98	96	2
Total intangible assets		$713	$ 260	$453	$183	$ 180	$ 3

For fiscal year 2018, the increase in gross intangible assets was primarily due to intangible assets resulting from the acquisition of Samsung's printer business.

As of October 31, 2018, estimated future amortization expense related to intangible assets was as follows:

Fiscal year	In millions
2019	81
2020	81
2021	80
2022	79
2023	79
Thereafter	53
Total	453

Note 9: 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.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 9: Fair Value (Continued)

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.
The following table presents HP's assets and liabilities that are measured at fair value on a recurring basis:

	As of October 31, 2018 Fair Value Measured Using				As of October 31, 2017 Fair Value Measured Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	In millions							
Assets:								
Cash Equivalents:								
Corporate debt	$—	$1,620	$ —	$1,620	$—	$1,390	$ —	$1,390
Financial institution instruments	—	9	—	9	—	6	—	6
Government debt[(1)]	2,217	150	—	2,367	3,902	100	—	4,002
Available-for-Sale Investments:								
Corporate debt	—	366	—	366	—	629	—	629
Financial institution instruments	—	32	—	32	—	78	—	78
Government debt[(1)]	—	313	—	313	—	442	—	442
Mutual funds	47	—	—	47	49	—	—	49
Marketable equity securities	6	—	—	6	6	6	—	12
Derivative Instruments:								
Interest rate contracts	—	—	—	—	—	—	—	—
Foreign currency contracts	—	508	7	515	—	110	10	120
Other derivatives	—	—	—	—	—	1	—	1
Total Assets	$2,270	$2,998	$ 7	$5,275	$3,957	$2,762	$ 10	$6,729
Liabilities:								
Derivative Instruments:								
Interest rate contracts	$—	$23	$ —	$23	$—	$12	$ —	$12
Foreign currency contracts	—	164	—	164	—	358	2	360
Other derivatives	—	8	—	8	—	—	—	—
Total Liabilities	$—	$195	$ —	$195	$—	$370	$ 2	$372

(1) Government debt includes instruments such as U.S. treasury notes, U.S. agency securities and non-U.S. government bonds. Money market funds invested in government debt and trade in active markets are included in Level 1.

There were no transfers between levels within the fair value hierarchy during fiscal years 2018 and 2017.
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.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 9: Fair Value (Continued)

Derivative Instruments: From time to time, HP uses forward contracts, interest rate and total return swaps and at times, 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 10, "Financial Instruments" for a further discussion of HP's use of derivative instruments.

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 $6.0 billion at October 31, 2018 compared to its carrying amount of $6.0 billion at that date. The estimated fair value of HP's short- and long-term debt was $8.1 billion as compared to its carrying value of $7.8 billion at October 31, 2017. 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 within Level 3 of the fair value hierarchy.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 10: Financial Instruments
Cash Equivalents and Available-for-Sale Investments

	As of October 31, 2018				As of October 31, 2017			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	In millions							
Cash Equivalents:								
Corporate debt	$1,620	$ —	$ —	$1,620	$1,390	$ —	$ —	$1,390
Financial institution instruments	9	—	—	9	6	—	—	6
Government debt	2,367	—	—	2,367	4,002	—	—	4,002
Total cash equivalents	3,996	—	—	3,996	5,398	—	—	5,398
Available-for-Sale Investments:								
Corporate debt[1]	368	—	(2)	366	629	—	—	629
Financial institution instruments[1]	32	—	—	32	78	—	—	78
Government debt[1]	314	—	(1)	313	443	—	(1)	442
Marketable equity securities	4	2	—	6	5	7	—	12
Mutual funds	38	9	—	47	39	10	—	49
Total available-for-sale investments	756	11	(3)	764	1,194	17	(1)	1,210
Total cash equivalents and available-for-sale investments	$4,752	$ 11	$ (3)	$4,760	$6,592	$ 17	$ (1)	$6,608

(1) HP classifies its marketable debt securities as available-for-sale investments within Other current assets on the Consolidated Balance Sheets, including those with maturity dates beyond one year, based on their highly liquid nature and availability for use in current operations.

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, 2018 and 2017, 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 $116 million in fiscal year 2018, $66 million in fiscal year 2017, and $24 million in fiscal year 2016. The estimated fair value of the available-for-sale investments may not be representative of values that will be realized in the future.

Contractual maturities of investments in available-for-sale debt securities were as follows:

	As of October 31, 2018	
	Amortized Cost	Fair Value
	In millions	
Due in one year or less	$ 694	$ 691
Due in one to five years	20	20
	$ 714	$ 711

Equity securities in privately held companies include cost basis and equity method investments and are included in Other non-current assets in the Consolidated Balance Sheets. These amounted to $36 million and $37 million as of October 31, 2018 and 2017, respectively.

Derivative Instruments

HP uses derivatives to offset business exposure to foreign currency and interest rate risk on expected future cash flows and on certain existing assets and liabilities. As part of its risk management strategy, HP uses derivative instruments, primarily forward contracts, interest rate swaps, total return swaps and, at times, option contracts to hedge certain foreign currency, interest rate and, to a lesser extent, equity exposures. HP may designate its derivative contracts as fair value hedges or cash flow hedges. HP classifies cash flows from its designated derivative contracts with the activities that correspond to the underlying hedged items. 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.

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. Master netting agreements 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 limit credit risk, 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. The fair value of derivatives with credit contingent features in a net liability position was $68 million and $258 million as of October 31, 2018 and 2017, 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, 2018 and 2017.

Fair Value Hedges

HP enters 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 London Interbank Offered Rate ("LIBOR")-based floating interest expense.

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 forward contracts and at times, 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 revenue, 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 intercompany loans extend for the duration of the lease or loan term, which typically range from two to five years.

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' deficit 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.

Other Derivatives

Other derivatives not designated as hedging instruments consist primarily of forward contracts used to hedge foreign currency-denominated balance sheet exposures. HP uses total return swaps 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 item with the change in fair value of the derivative. For foreign currency options and forward contracts designated as cash flow 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.

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HP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Note 10: 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, 2018					As of October 31, 2017				
	Outstanding Gross Notional	Other Current Assets	Other Non-Current Assets	Other Accrued Liabilities	Other Non-Current Liabilities	Outstanding Gross Notional	Other Current Assets	Other Non-Current Assets	Other Accrued Liabilities	Other Non-Current Liabilities
	In millions									
Derivatives designated as hedging instruments										
Fair value hedges:										
Interest rate contracts	$1,000	$ —	$ —	$ —	$ 23	$2,500	$ —	$ —	$ —	$ 12
Cash flow hedges:										
Foreign currency contracts	17,147	386	107	86	52	16,149	92	12	245	100
Total derivatives designated as hedging instruments	18,147	386	107	86	75	18,649	92	12	245	112
Derivatives not designated as hedging instruments										
Foreign currency contracts	5,437	22	—	26	—	5,801	16	—	15	—
Other derivatives	71	—	—	8	—	123	1	—	—	—
Total derivatives not designated as hedging instruments	5,508	22	—	34	—	5,924	17	—	15	—
Total derivatives	$23,655	$ 408	$ 107	$ 120	$ 75	$24,573	$ 109	$ 12	$ 260	$ 112

In March 2018, HP terminated several interest rate swaps with a notional amount of $1.5 billion that were de-designated as fair value hedges of certain fixed rate debt securities. See Note 11, "Borrowings" for detailed information.

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, 2018 and 2017, information related to the potential effect of HP's master netting agreements and collateral security agreements was as follows:

	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						
As of October 31, 2018							
Derivative assets	$515	$ —	$ 515	$ 112	$ 299	(1)	$ 104
Derivative liabilities	$195	$ —	$ 195	$ 112	$ 69	(2)	$ 14
As of October 31, 2017							
Derivative assets	$121	$ —	$ 121	$ 108	$ 4	(1)	$ 9
Derivative liabilities	$372	$ —	$ 372	$ 108	$ 219	(2)	$ 45

(1)

Represents the cash collateral posted by counterparties as of the respective reporting date for HP's asset position, net of derivative amounts that could be offset, as of, generally, two business days prior to the respective reporting date.

(2) Represents the collateral posted by HP in cash or through re-use of counterparty cash collateral as of the respective reporting date for HP's liability position, net of derivative amounts that could be offset, as of, generally, two business days prior to the respective reporting date.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 10: Financial Instruments (Continued)

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, 2018, 2017 and 2016 was as follows:

	(Loss) Gain Recognized in Income on Derivative Instruments and Related Hedged Items								
Derivative Instrument	Location	2018	2017	2016	Hedged Item	Location	2018	2017	2016
		In millions					In millions		
Interest rate contracts	Interest and other, net	$(11)	$(60)	$ 10	Fixed-rate debt	Interest and other, net	$11	$ 60	$(10)

The pre-tax effect of derivative instruments in cash flow hedging relationships for fiscal years ended October 31, 2018, 2017 and 2016 was as follows:

Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)				(Loss) Gain Reclassified from Accumulated OCI Into Earnings (Effective Portion)			
	2018	2017	2016		2018	2017	2016
	In millions				In millions		
Cash flow hedges:							
Foreign currency contracts	$341	$(651)	$199	Net revenue	$(239)	$(156)	$20
				Cost of revenue	(18)	(35)	(84)
				Other operating expenses	(1)	1	1
				Interest and other, net	—	(9)	—
Total	$341	$(651)	$199	Total	$(258)	$(199)	$(63)

As of October 31, 2018, 2017 and 2016, no portion of the hedging instruments' gain or loss was excluded from the assessment of effectiveness for fair value or cash flow hedges. Hedge ineffectiveness for fair value and cash flow hedges was not material for fiscal years 2018, 2017 and 2016.

As of October 31, 2018, HP expects to reclassify an estimated net Accumulated other comprehensive income of approximately $248 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 2018, 2017 and 2016 was as follows:

	Gain (Loss) Recognized in Income on Derivatives			
	Location	2018	2017	2016
		In millions		
Foreign currency contracts	Interest and other, net	$35	$(32)	$(34)
Other derivatives	Interest and other, net	(9)	3	(6)
Total		$26	$(29)	$(40)

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 11: Borrowings

Notes Payable and Short-Term Borrowings

	As of October 31				
	2018		2017		
	Amount Outstanding	Weighted-Average Interest Rate	Amount Outstanding	Weighted-Average Interest Rate	
	In millions		In millions		
Commercial paper	$854	2.5 %	$943	1.8 %	
Current portion of long-term debt	565	3.1 %	96	3.5 %	
Notes payable to banks, lines of credit and other	44	1.7 %	33	1.5 %	
	$1,463		$1,072		

Long-Term Debt

	As of October 31	
	2018	2017
	In millions	
U.S. Dollar Global Notes[1]		
2009 Shelf Registration Statement:		
$1,350 issued at discount to par at a price of 99.827% in December 2010 at 3.75%, due December 2020	$648	$648
$1,250 issued at discount to par at a price of 99.799% in May 2011 at 4.3%, due June 2021	667	1,249
$1,000 issued at discount to par at a price of 99.816% in September 2011 at 4.375%, due September 2021	538	999
$1,500 issued at discount to par at a price of 99.707% in December 2011 at 4.65%, due December 2021	694	1,498
$500 issued at discount to par at a price of 99.771% in March 2012 at 4.05%, due September 2022	499	499
$1,200 issued at discount to par at a price of 99.863% in September 2011 at 6.0%, due September 2041	1,199	1,199
2012 Shelf Registration Statement:		
$750 issued at par in January 2014 at three-month USD LIBOR plus 0.94%, due January 2019	102	102
$1,250 issued at discount to par at a price of 99.954% in January 2014 at 2.75%, due January 2019	300	300
	4,647	6,494
Other, including capital lease obligations, at 0.51%- 8.48%, due in calendar years 2019-2025	487	360
Fair value adjustment related to hedged debt	(28)	8
Unamortized debt issuance cost	(17)	(19)
Current portion of long-term debt	(565)	(96)
Total long-term debt	$4,524	$6,747

(1) HP may redeem some or all of the fixed-rate U.S. Dollar Global Notes at any time in accordance with the terms thereof. The U.S. Dollar Global Notes are senior unsecured debt.

In December 2016, HP filed a shelf registration statement with the 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.

As disclosed in Note 10, “Financial Instruments”, HP uses interest rate swaps to mitigate some of 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.

As of October 31, 2018, aggregate future maturities of debt at face value (excluding unamortized debt issuance cost of $17 million and discounts on debt issuance of $3 million less fair value adjustment related to hedged debt of $28 million), including capital lease obligations were as follows:

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 11: Borrowings (Continued)

Fiscal year	In millions
2019	$ 1,463
2020	151
2021	1,952
2022	1,239
2023	25
Thereafter	1,205
Total	$ 6,035

Extinguishment of Debt

In March 2018, HP commenced and completed a cash tender offer (the “Tender Offer") to purchase approximately $1.85 billion in aggregate principal amount of outstanding U.S. Dollar 4.650% Global Notes due December 9, 2021, 4.375% Global Notes due September 15, 2021 and 4.300% Global Notes due June 1, 2021. In connection with the Tender Offer, HP also solicited consents from holders of its 4.650% Notes due December 2021, (the “4.650% Notes”) to amend the indenture under which the 4.650% Notes were issued to, among other things, eliminate substantially all of the restrictive covenants of the indenture (the “Proposed Amendments”). Holders of a majority in principal amount of the outstanding 4.650% Notes consented to the Proposed Amendments, and as a result, a supplemental indenture was executed on March 26, 2018 to effect the Proposed Amendments. This extinguishment of debt resulted in a loss of $126 million , which was recorded as "Interest and other, net" on the Consolidated Statements of Earnings for the year ended October 31, 2018.

Commercial Paper

On November 1, 2015, HP’s Board of Directors authorized HP to borrow up to a total outstanding principal balance of $4.0 billion, or the equivalent in foreign currencies for the use and benefit of HP and HP’s subsidiaries, by the issuance of commercial paper or through the execution of promissory notes, loan agreements, letters of credit, agreements for lines of credit or overdraft facilities. HP increased the issuance authorization under its commercial paper program from $4.0 billion to $6.0 billion in November 2017. As of October 31, 2018, HP maintained two commercial paper programs. HP’s U.S. program provides for the issuance of U.S. dollar-denominated commercial paper up to a maximum aggregate principal amount of $6.0 billion. HP’s euro commercial paper program provides for the issuance of commercial paper outside of the United States denominated in U.S. dollars, euros or British pounds up to a maximum aggregate principal amount of $6.0 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 $6.0 billion authorized by HP’s Board of Directors.

Credit Facility

As of October 31, 2018, HP maintained a $4.0 billion senior unsecured committed revolving credit facility to support the issuance of commercial paper or for general corporate purposes. Commitments under the revolving credit facility will be available until March 30, 2023. Commitment fees, interest rates and other terms of borrowing under the credit facilities vary based on HP’s external credit ratings. As of October 31, 2018, HP was in compliance with the financial covenants in the credit agreement governing the revolving credit facility.

In December 2017, HP also entered into an additional revolving credit facility with certain institutional lenders that provided HP with $1.5 billion of available borrowings until November 30, 2018. HP elected to terminate this $1.5 billion revolving credit facility early, effective August 17, 2018.

Available Borrowing Resources

As of October 31, 2018, HP and HP’s subsidiaries had available borrowing resources of $667 million from uncommitted lines of credit in addition to the senior unsecured committed revolving credit facility discussed above.

Note 12: Stockholders’ Deficit

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 $0.56 per share of common stock in fiscal year 2018, $0.53 per share of common stock in fiscal year 2017 and $0.50 per share of common stock in fiscal year 2016.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 12: Stockholders' Deficit (Continued)

Share Repurchase Program
HP's share repurchase program authorizes both open market and private repurchase transactions. In fiscal year 2018, HP executed share repurchases of 111 million shares and settled total shares for $2.6 billion. In fiscal year 2017, HP executed share repurchases of 80 million shares and settled total shares for $1.4 billion. In fiscal year 2016, HP executed share repurchases of 100 million shares and settled total shares for $1.2 billion. Share repurchases executed during fiscal years 2018 and 2017 included 1.0 million shares and 1.5 million shares settled in November 2018 and November 2017, respectively. There were no outstanding shares executed during fiscal year 2016 settled in November 2016.
The shares repurchased in fiscal years 2018, 2017 and 2016 were all open market repurchase transactions. On June 19, 2018, HP's Board of Directors authorized an additional $4.0 billion for future repurchases of its outstanding shares of common stock. As of October 31, 2018, HP had approximately $3.9 billion remaining under the share repurchase authorizations approved by HP's Board of Directors.
Taxes related to Other Comprehensive Income (Loss)

	For the fiscal years ended October 31		
	2018	2017	2016
	In millions		
Tax effect on change in unrealized components of available-for-sale securities:			
Tax benefit (provision) on unrealized (losses) gains arising during the period	$ 1	$ (1)	$ (3)
Tax effect on change in unrealized components of cash flow hedges:			
Tax (provision) benefit on unrealized gains (losses) arising during the period	(42)	42	32
Tax benefit on losses reclassified into earnings	(26)	(16)	(1)
	(68)	26	31
Tax effect on change in unrealized components of defined benefit plans:			
Tax (provision) benefit on gains (losses) arising during the period	—	(140)	242
Tax provision on amortization of actuarial loss and prior service benefit	(11)	(21)	(12)
Tax (provision) benefit on curtailments, settlements and other	(2)	72	(213)
	(13)	(89)	17
Tax (provision) benefit on other comprehensive income (loss)	$ (80)	$ (64)	$ 45

HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
Note 12: Stockholders' Deficit (Continued)

Changes and reclassifications related to Other Comprehensive Income (Loss), net of taxes

	For the fiscal years ended October 31		
	2018	2017	2016
	In millions		
Other comprehensive income (loss), net of taxes:			
Change in unrealized components of available-for-sale securities:			
Unrealized (losses) gains arising during the period	$ (2)	$ 3	$ (2)
Gains reclassified into earnings	(5)	—	—
	(7)	3	(2)
Change in unrealized components of cash flow hedges:			
Unrealized gains (losses) arising during the period	299	(609)	231
Losses reclassified into earnings	232	183	62
	531	(426)	293
Change in unrealized components of defined benefit plans:			
Gains (Losses) arising during the period	11	315	(517)
Amortization of actuarial loss and prior service benefit[1]	37	53	39
Curtailments, settlements and other	1	75	(30)
	49	443	(508)
Other comprehensive income (loss), net of taxes	$ 573	$ 20	$ (217)

(1) These components are included in the computation of net pension and post-retirement benefit (credit) charges in Note 4,
"Retirement and Post-Retirement Benefit Plans".

The components of accumulated other comprehensive loss, net of taxes as of October 31, 2018 and changes during fiscal year 2018 were as follows:

	Net unrealized gain on available-for-sale securities	Net unrealized (loss) gain on cash flow hedges	Unrealized components of defined benefit plans	Accumulated other comprehensive loss
	In millions			
Balance at beginning of period	$ 12	$ (240)	$ (1,190)	$ (1,418)
Other comprehensive (loss) income before reclassifications	(2)	299	11	308
Reclassifications of (gain) loss into earnings	(5)	232	38	265
Balance at end of period	$ 5	$ 291	$ (1,141)	$ (845)

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 13: Earnings Per Share
HP calculates basic net EPS using net earnings and the weighted-average number of shares outstanding during the reporting period. Diluted net EPS includes any dilutive effect of restricted stock units, stock options, performance-based awards and shares purchased under the 2011 employee stock purchase plan.
A reconciliation of the number of shares used for basic and diluted net EPS calculations is as follows:

	For the fiscal years ended October 31		
	2018	2017	2016
	In millions, except per share amounts		
Numerator:			
Net earnings from continuing operations	$ 5,327	$ 2,526	$ 2,666
Net loss from discontinued operations	—	—	(170)
Net earnings	$ 5,327	$ 2,526	$ 2,496
Denominator:			
Weighted-average shares used to compute basic net EPS	1,615	1,688	1,730
Dilutive effect of employee stock plans	19	14	13
Weighted-average shares used to compute diluted net EPS	1,634	1,702	1,743
Basic net earnings per share:			
Continuing operations	$ 3.30	$ 1.50	$ 1.54
Discontinued operations	—	—	(0.10)
Basic net earnings per share	$ 3.30	$ 1.50	$ 1.44
Diluted net earnings per share:			
Continuing operations	$ 3.26	$ 1.48	$ 1.53
Discontinued operations	—	—	(0.10)
Diluted net earnings per share	$ 3.26	$ 1.48	$ 1.43
Anti-dilutive weighted-average options[1]	—	1	13

(1) HP excludes stock options and restricted stock units where the assumed proceeds exceed the average market price from the calculation of diluted net EPS, because their effect would be anti-dilutive. The assumed proceeds of a stock option include the sum of its exercise price, and average unrecognized compensation cost. The assumed proceeds of a restricted stock unit represent unrecognized compensation cost.

Note 14: Litigation and Contingencies

HP is involved in lawsuits, claims, investigations and proceedings, including those identified below, consisting of IP, commercial, securities, employment, employee benefits and environmental matters that arise in the ordinary course of business. HP accrues a liability when management believes that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. HP believes it has recorded adequate provisions for any such matters and, as of October 31, 2018, it was not reasonably possible that a material loss had been incurred in excess of the amounts recognized in HP's financial statements. HP reviews these matters at least quarterly and adjusts its accruals to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Pursuant to the separation and distribution agreement, HP shares responsibility with Hewlett Packard Enterprise for certain matters, as indicated below, and Hewlett Packard Enterprise has agreed to indemnify HP in whole or in part with respect to certain matters. Based on its experience, HP believes that any damage amounts claimed in the specific matters discussed below are not a meaningful indicator of HP's potential liability. Litigation is inherently unpredictable. However, HP believes it has valid defenses with respect to legal matters pending against it. 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.

Litigation, Proceedings and Investigations

Copyright Levies. Proceedings are ongoing or have been concluded involving HP in certain European countries, including litigation in Belgium and other countries, seeking to impose or modify levies upon IT equipment (such as multifunction devices ("MFDs") and PCs), alleging that these devices enable the production of private copies of copyrighted materials. The levies are generally based upon the number of products sold and the per-product amounts of the levies, which vary. Some European countries that do not yet have levies on digital devices are expected to implement similar legislation to enable them to extend existing levy schemes, while other European countries have phased out levies or are expected to limit the scope of levy schemes and applicability in the digital hardware environment, particularly with respect to sales to business users. HP, other companies and various industry associations have opposed the extension of levies to the digital environment and have advocated alternative models of compensation to rights holders.

Reprobel, a collecting society administering the remuneration for reprography to Belgian copyright holders, requested by extrajudicial means that HP amend certain copyright levy declarations submitted for inkjet MFDs sold in Belgium from January 2005 to December 2009 to enable it to collect copyright levies calculated based on the generally higher copying speed when the MFDs are operated in draft print mode rather than when operated in normal print mode. In March 2010, HP filed a lawsuit against Reprobel in the Court of First Instance of Brussels seeking a declaratory judgment that no copyright levies are payable on sales of MFDs in Belgium or, alternatively, that payments already made by HP are sufficient to comply with its obligations. The Court of Appeal in Brussels (the "Court of Appeal") stayed the proceedings and referred several questions to the Court of Justice of the European Union ("CJEU"). On November 12, 2015, the CJEU published its judgment providing that a national legislation such as the Belgian one at issue in the main proceedings is incompatible with EU law on multiple legal points, as argued by HP, and returned the proceedings to the referring court. On May 12, 2017, the Court of Appeal held that (1) reprographic copyright levies are due notwithstanding the lack of conformity of the Belgian system with EU law in certain aspects and (2) the applicable levies are to be calculated based on the objective speed of each MFD as established by an expert appointed by the Court of Appeal. HP appealed this decision before the Belgian Supreme Court on January 18, 2018.

Based on industry opposition to the extension of levies to digital products, HP's assessments of the merits of various proceedings and HP's estimates of the number of units impacted and the amounts of the levies, HP has accrued amounts that it believes are adequate to address the ongoing disputes.

Hewlett-Packard Company v. Oracle Corporation. On June 15, 2011, HP filed suit against Oracle Corporation ("Oracle") in California Superior Court in Santa Clara County in connection with Oracle's March 2011 announcement that it was discontinuing software support for HP's Itanium-based line of mission critical servers. HP asserted, among other things, that Oracle's actions breached the contract that was signed by the parties as part of the settlement of the litigation relating to Oracle's hiring of Mark Hurd. The matter eventually progressed to trial, which was bifurcated into two phases. HP prevailed in the first phase of the trial, in which the court ruled that the contract at issue required Oracle to continue to offer its software products on HP's Itanium-based servers for as long as HP decided to sell such servers. The second phase of the trial was then postponed by Oracle's appeal of the trial court's denial of Oracle's "anti-SLAPP" motion, in which Oracle argued that HP's damages claim infringed on Oracle's First Amendment rights. On August 27, 2015, the California Court of Appeals rejected Oracle's appeal. The matter was remanded to the trial court for the second phase of the trial, which began on May 23, 2016 and was submitted to the jury on June 29, 2016. On June 30, 2016, the jury returned a verdict in favor of HP, awarding HP approximately $3.0 billion in damages, which included approximately $1.7 billion for past lost profits and $1.3 billion for future lost profits. On October 20, 2016, the court entered judgment for HP for this amount with interest accruing until the judgment is paid. Oracle's motion for new trial was denied on December 19, 2016, and Oracle filed its notice of appeal from the trial court's judgment on January 17, 2017. On February 2, 2017, HP filed a notice of cross-appeal challenging the trial court's denial of prejudgment interest. The schedule for appellate briefing and argument has not yet been established. HP expects that the appeals process could take several years to complete. Litigation is unpredictable, and there can be no assurance that HP will recover damages, or that any award of damages will be for the amount awarded by the jury's verdict. The amount ultimately awarded, if any, would be recorded in the period received. No adjustment has been recorded in the financial statements in relation to this potential award. Pursuant to the terms of the separation and distribution agreement, HP and Hewlett Packard Enterprise will share equally in any recovery from Oracle once Hewlett Packard Enterprise has been reimbursed for all costs incurred in the prosecution of the action prior to the Separation.

Forsyth, et al. vs. HP Inc. and Hewlett Packard Enterprise. This is a purported class and collective action filed on August 18, 2016 in the United States District Court, Northern District of California, against HP and Hewlett Packard Enterprise alleging the defendants violated the Federal Age Discrimination in Employment Act ("ADEA"), the California Fair Employment and Housing Act, California public policy and the California Business and Professions Code by terminating older workers and replacing them with younger workers. Plaintiffs seek to certify a nationwide collective class action under the ADEA comprised of all U.S. residents employed by defendants who had their employment terminated pursuant to a workforce reduction ("WFR") plan on or after May 23, 2012 and who were 40 years of age or older. Plaintiffs also seek to represent a Rule 23 class under California law comprised of all persons 40 years or older employed by defendants in the state of California and terminated pursuant to a WFR plan on or after May 23, 2012. Following a partial motion to dismiss, a motion to strike and a motion to compel arbitration that the defendants filed in November 2016, the plaintiffs amended their complaint. New plaintiffs were added, but the plaintiffs agreed that the class period for the nationwide collective action should be shortened and now starts on December 9, 2014. On January 30, 2017, the defendants filed another partial motion to dismiss and motions to compel arbitration as to several of the plaintiffs. On March 20, 2017, the defendants filed additional motions to compel arbitration as to a number of the opt-in plaintiffs. On September 20, 2017, the Court granted the motions to compel arbitration as to the plaintiffs and opt-ins who signed WFR release agreements, and also stayed the entire case until the arbitrations are completed. On November 30, 2017, three named plaintiffs and twelve opt-in plaintiffs filed a single arbitration demand. An additional arbitration claimant was added later by stipulation. On December 22, 2017, the defendants filed a motion to (1) stay the case pending arbitrations and (2) enjoin the demanded arbitration and require each plaintiff to file a separate arbitration demand. On February 6, 2018, the Court granted the motion to stay and denied the motion to enjoin. Pre-arbitration mediation proceedings took place on October 4 and 5, 2018, and the claims of all 16 arbitration claimants were resolved. The case will now return to federal court for the remaining named and opt-in plaintiffs.

Jackson, et al. v. HP Inc. and Hewlett Packard Enterprise. This putative nationwide class action was filed on July 24, 2017 in federal district court in San Jose, California. The plaintiffs purport to bring the lawsuit on behalf of themselves and other similarly situated African-Americans and individuals over the age of forty. The plaintiffs allege that the defendants engaged in a pattern and practice of racial and age discrimination in lay-offs and promotions. The plaintiffs filed an amended complaint on September 29, 2017. On January 12, 2018, the defendants moved to transfer the matter to the federal district court in the Northern District of Georgia. The defendants also moved to dismiss the claims on various grounds and to strike certain aspects of the proposed class definition. The Court dismissed the action on the basis of improper venue. On July 23, 2018, the plaintiffs refiled the case in the Northern District of Georgia. On August 9, 2018, the plaintiffs also filed a notice of appeal of the dismissal order with the United States Court of Appeals for the Ninth Circuit. On October 1, 2018, the Georgia court granted the plaintiffs' unopposed motion to stay and administratively close the Georgia action until the Ninth Circuit appeal is decided.

India Directorate of Revenue Intelligence Proceedings. On April 30 and May 10, 2010, the India Directorate of Revenue Intelligence (the "DRI") issued show cause notices to Hewlett-Packard India Sales Private Limited ("HP India"), a subsidiary of HP, seven HP India employees and one former HP India employee alleging that HP India underpaid customs duties while importing products and spare parts into India and seeking to recover an aggregate of approximately $370 million, plus penalties. Prior to the issuance of the show cause notices, HP India deposited approximately $16 million with the DRI and

agreed to post a provisional bond in exchange for the DRI's agreement to not seize HP India products and spare parts and to not interrupt the transaction of business by HP India.
On April 11, 2012, the Bangalore Commissioner of Customs issued an order on the products-related show cause notice affirming certain duties and penalties against HP India and the named individuals of approximately \$386 million, of which HP India had already deposited \$9 million. On December 11, 2012, HP India voluntarily deposited an additional \$10 million in connection with the products-related show cause notice. The differential duty demand is subject to interest. On April 20, 2012, the Commissioner issued an order on the parts-related show cause notice affirming certain duties and penalties against HP India and certain of the named individuals of approximately \$17 million, of which HP India had already deposited \$7 million. After the order, HP India deposited an additional \$3 million in connection with the parts-related show cause notice so as to avoid certain penalties.

HP India filed appeals of the Commissioner's orders before the Customs Tribunal along with applications for waiver of the pre-deposit of remaining demand amounts as a condition for hearing the appeals. The Customs Department has also filed cross-appeals before the Customs Tribunal. On January 24, 2013, the Customs Tribunal ordered HP India to deposit an additional \$24 million against the products order, which HP India deposited in March 2013. The Customs Tribunal did not order any additional deposit to be made under the parts order. In December 2013, HP India filed applications before the Customs Tribunal seeking early hearing of the appeals as well as an extension of the stay of deposit as to HP India and the individuals already granted until final disposition of the appeals. On February 7, 2014, the application for extension of the stay of deposit was granted by the Customs Tribunal until disposal of the appeals. On October 27, 2014, the Customs Tribunal commenced hearings on the cross-appeals of the Commissioner's orders. The Customs Tribunal rejected HP India's request to remand the matter to the Commissioner on procedural grounds. The hearings scheduled to reconvene on April 6, 2015 and again on November 3, 2015 and April 11, 2016 were cancelled at the request of the Customs Tribunal. A hearing on the merits of the appeal has been scheduled for January 15, 2019. Pursuant to the separation and distribution agreement, Hewlett Packard Enterprise has agreed to indemnify HP in part, based on the extent to which any liability arises from the products and spare parts of Hewlett Packard Enterprise's businesses.

Class Actions re Authentication of Supplies. Five purported consumer class actions were filed against HP, arising out of the supplies authentication protocol in certain OfficeJet printers. This authentication protocol rejects some third-party ink cartridges that use non-HP security chips. Two of the cases were dismissed, and the remaining cases have been consolidated in the United States District Court for the Northern District of California, captioned In re HP Printer Firmware Update Litigation. The remaining plaintiffs' consolidated amended complaint was filed on February 15, 2018, alleging eleven causes of action: (1) unfair and unlawful business practices in violation of the Unfair Competition Law, Cal. Bus. & Prof. Code § 17200, et seq.; (2) fraudulent business practices in violation of the Unfair Competition Law, Cal. Bus. & Prof. Code § 17200, et seq.; (3) violations of the False Advertising Law, Cal. Bus. & Prof. Code § 17500, et seq.; (4) violations of the Consumer Legal Remedies Act, Cal. Civ. Code § 1750, et seq.; (5) violations of the Texas Deceptive Trade Practices Consumer Protection Act, Tex. Bus. & Com. Code Ann. § 17.01, et seq.; (6) violations of the Washington Consumer Protection Act, Wash. Rev. Code Ann. § 19.86.010, et seq.; (7) violations of the New Jersey Consumer Fraud Act, New Jersey Statutes Ann. 56:8-1, et seq.; (8) violations of the Computer Fraud and Abuse Act, 18 U.S.C. § 1030, et seq.; (9) violations of the California Computer Data Access and Fraud Act, Cal. Penal Code § 502; (10) Trespass to Chattels; and (11) Tortious Interference with Contractual Relations and/or Prospective Economic Advantage. On February 7, 2018, the plaintiffs moved to certify an injunctive relief class of "[a]ll persons in California who own a Class Printer" under the "unfair" prong of the California unfair competition statute and a class of "[a]ll persons in the United States who purchased a Class Printer and experienced a print failure while using a non-HP aftermarket cartridge during the period between March 1, 2015 and December 31, 2017" under the Computer Fraud and Abuse Act and common law trespass to chattels. On March 29, 2018, the court granted in part and denied in part HP's motion to dismiss. The court dismissed the plaintiffs' claim under the "unfair" prong of the California unfair competition statute, claims under the non-California consumer protection statutes, and claim for tortious interference with contractual relations and/or prospective economic advantage. The court also dismissed in part the plaintiffs' fraud-based claims under the California consumer protection statutes and computer hacking claims under the Computer Fraud and Abuse Act and California Computer Data Access and Fraud Act. The court denied HP's motion to dismiss with respect to the plaintiffs' claim for trespass to chattels and claim under the "unlawful" prong of the California unfair competition statute. The court granted the plaintiffs leave to amend on all of the dismissed claims, except the California Computer Data Access and Fraud Act claim to the extent it was based on two specific subsections of that statute. On September 18, 2018, the parties entered into a Settlement Agreement and Release pursuant to which the plaintiffs agreed to dismiss all claims against HP in exchange for a $1.5 million payment to the

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class and an agreement that HP would not reinstall the authentication protocol on the printers at issue. The settlement is subject to the approval of the court. The plaintiffs filed a motion for preliminary approval of the settlement, which was granted by the court on November 19, 2018. Notice of the settlement will be given to the class beginning on January 7, 2019, and class members will have 120 days in which to opt out of or object to the settlement. A final approval hearing is scheduled for April 25, 2019.

Autonomy-Related Legal Matters

Investigations. As a result of the findings of an ongoing investigation, HP has provided information to the U.K. Serious Fraud Office, the U.S. Department of Justice ("DOJ") and the SEC related to the accounting improprieties, disclosure failures and misrepresentations at Autonomy that occurred prior to and in connection with HP's acquisition of Autonomy. On January 19, 2015, the U.K. Serious Fraud Office notified HP that it was closing its investigation and had decided to cede jurisdiction of the investigation to the U.S. authorities. On November 14, 2016, the DOJ announced that a federal grand jury indicted Sushovan Hussain, the former CFO of Autonomy. Mr. Hussain was charged with conspiracy to commit wire fraud, securities fraud, and multiple counts of wire fraud. The indictment alleged that Mr. Hussain engaged in a scheme to defraud purchasers and sellers of securities of Autonomy and HP about the true performance of Autonomy's business, its financial condition, and its prospects for growth. A jury trial commenced on February 26, 2018. On April 30, 2018, the jury found Mr. Hussain guilty of all charges against him. On November 15, 2016, the SEC announced that Stouffer Egan, the former CEO of Autonomy's U.S.-based operations, settled charges relating to his participation in an accounting scheme to meet internal sales targets and analyst revenue expectations. On November 29, 2018, the DOJ announced that a federal grand jury indicted Michael Lynch, former CEO of Autonomy, and Stephen Chamberlain, former VP of Finance of Autonomy. Dr. Lynch and Mr. Chamberlain were charged with conspiracy to commit wire fraud and multiple counts of wire fraud. HP is continuing to cooperate with the ongoing enforcement actions.

Autonomy Corporation Limited v. Michael Lynch and Sushovan Hussain. On April 17, 2015, four former-HP subsidiaries that became subsidiaries of Hewlett Packard Enterprise at the time of the Separation (Autonomy Corporation Limited, Hewlett Packard Vision BV, Autonomy Systems, Limited, and Autonomy, Inc.) initiated civil proceedings in the U.K. High Court of Justice against two members of Autonomy's former management, Michael Lynch and Sushovan Hussain. The Particulars of Claim seek damages in excess of $5 billion from Messrs. Lynch and Hussain for breach of their fiduciary duties by causing Autonomy group companies to engage in improper transactions and accounting practices. On October 1, 2015, Messrs. Lynch and Hussain filed their defenses. Mr. Lynch also filed a counterclaim against Autonomy Corporation Limited seeking $160 million in damages, among other things, for alleged misstatements regarding Lynch. The Hewlett Packard Enterprise subsidiary claimants filed their replies to the defenses and the asserted counter-claim on March 11, 2016. The parties are actively engaged in the disclosure process. A six-month trial is scheduled to begin on March 25, 2019.

Environmental

HP's operations and products 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 HP's products and the recycling, treatment and disposal of those products. In particular, HP faces increasing complexity in its product design and procurement operations as it adjusts to new and future requirements relating to the chemical and materials composition of its products, their safe use, and the energy consumption associated with those products, including requirements relating to climate change. HP is 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"). HP could incur substantial costs, its products could be restricted from entering certain jurisdictions, and it could face other sanctions, if it were to violate or become liable under environmental laws or if its products become noncompliant with environmental laws. HP's potential exposure includes fines and civil or criminal sanctions, third-party property damage or personal injury claims and clean-up costs. The amount and timing of costs to comply with environmental laws are difficult to predict.

HP is party to, or otherwise involved in, proceedings brought by U.S. or state environmental agencies under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), known as "Superfund," or state laws

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similar to CERCLA, and may become a party to, or otherwise involved in, proceedings brought by private parties for contribution towards clean-up costs. HP is also conducting environmental investigations or remediations at several current or
former operating sites pursuant to administrative orders or consent agreements with state environmental agencies.

The separation and distribution agreement includes provisions that provide for the allocation of environmental liabilities between HP and Hewlett Packard Enterprise including certain remediation obligations; responsibilities arising from the chemical and materials composition of their respective products, their safe use and their energy consumption; obligations under product take back legislation that addresses the collection, recycling, treatment and disposal of products; and other environmental matters. HP will generally be responsible for environmental liabilities related to the properties and other assets, including products, allocated to HP under the separation and distribution agreement and other ancillary agreements. Under these agreements, HP will indemnify Hewlett Packard Enterprise for liabilities for specified ongoing remediation projects, subject to certain limitations, and Hewlett Packard Enterprise has a payment obligation for a specified portion of the cost of those remediation projects. In addition, HP will share with Hewlett Packard Enterprise other environmental liabilities as set forth in the separation and distribution agreement. HP is indemnified in whole or in part by Hewlett Packard Enterprise for liabilities arising from the assets assigned to Hewlett Packard Enterprise and for certain environmental matters as detailed in the separation and distribution agreement.

Note 15: Guarantees, Indemnifications and Warranties

Guarantees

In the ordinary course of business, HP may issue performance guarantees to certain of its clients, customers and other parties pursuant to which HP has guaranteed the performance obligations of third parties. Some of those guarantees may be backed by standby letters of credit or surety bonds. In general, HP would be obligated to perform over the term of the guarantee in the event a specified triggering event occurs as defined by the guarantee. HP believes the likelihood of having to perform under a material guarantee is remote.

Cross-Indemnifications with Hewlett Packard Enterprise

Under the separation and distribution agreement, HP agreed to indemnify Hewlett Packard Enterprise, each of its subsidiaries and each of their respective directors, officers and employees from and against all liabilities relating to, arising out of or resulting from, among other matters, the liabilities allocated to HP as part of the Separation. Hewlett Packard Enterprise similarly agreed to indemnify HP, each of its subsidiaries and each of their respective directors, officers and employees from and against all liabilities relating to, arising out of or resulting from, among other matters, the liabilities allocated to Hewlett Packard Enterprise as part of the Separation. HP expects Hewlett Packard Enterprise to fully perform under the terms of the separation and distribution agreement.

In connection with the Separation, HP entered into the tax matters agreement ("TMA") with Hewlett Packard Enterprise, effective on November 1, 2015. The TMA provides that HP and Hewlett Packard Enterprise will share certain pre-Separation income tax liabilities. In addition, if the distribution of Hewlett Packard Enterprise's common shares to the HP stockholders is determined to be taxable, Hewlett Packard Enterprise and HP would share the tax liability equally, unless the taxability of the distribution is the direct result of action taken by either Hewlett Packard Enterprise or HP subsequent to the distribution, in which case the party causing the distribution to be taxable would be responsible for any taxes imposed on the distribution.

For information on the cross indemnifications related to litigations effective upon the Separation on November 1, 2015, see Note 14, "Litigation and Contingencies", respectively.

Indemnifications

In the ordinary course of business, HP enters into contractual arrangements under which HP may agree to indemnify a third party to such arrangement from any losses incurred relating to the services they perform on behalf of HP or for losses arising from certain events as defined within the particular contract, which may include, for example, litigation or claims relating to past performance. HP also provides indemnifications to certain vendors and customers against claims of intellectual property infringement made by third parties arising from the vendors' and customers' use of HP's software products and services and certain other matters. Some indemnifications may not be subject to maximum loss clauses. Historically, payments made related to these indemnifications have been immaterial.

HP records tax indemnification receivables from various third parties for certain tax liabilities that HP is jointly and severally liable for, but for which it is indemnified by those same third parties under existing legal agreements. The actual

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amount that the third parties pay may be obligated to pay HP could vary depending on the outcome of certain unresolved tax matters, which may not be resolved for several years. The net receivable as of October 31, 2018 was $1.0 billion.

Warranties

HP accrues the estimated cost of product warranties at the time it recognizes revenue. HP engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers; however, 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 failures outside of HP's baseline experience, affect the estimated warranty obligation.

HP's aggregate product warranty liabilities and changes were as follows:

	As of October 31	
	2018	2017
	In millions	
Balance at beginning of year	$ 898	$ 980
Accruals for warranties issued	1,042	925
Adjustments related to pre-existing warranties (including changes in estimates)	(15)	(8)
Settlements made (in cash or in kind)	(1,010)	(999)
Balance at end of year	$ 915	$ 898

Note 16: Commitments

Lease Commitments

HP leases certain real and personal property under non-cancelable operating leases. Certain leases require HP to pay property taxes, insurance and routine maintenance and include renewal options and escalation clauses. Rent expense from continuing operations was approximately $0.2 billion in each of fiscal years 2018, 2017 and 2016.

As of October 31, 2018, future minimum operating lease commitments were as follows:

Fiscal year	In millions
2019	$ 317
2020	256
2021	200
2022	162
2023	141
Thereafter	411
Less: Sublease rental income	(129)
Total	$ 1,358

Unconditional Purchase Obligations

As of October 31, 2018, HP had unconditional purchase obligations of $704 million. These unconditional purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on HP 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 unconditional purchase obligations are primarily related to inventory and service support. Unconditional purchase obligations exclude agreements that are cancelable without penalty.

As of October 31, 2018, unconditional purchase obligations were as follows:

Fiscal year	In millions
2019	$ 434
2020	180
2021	64
2022	24
2023	2
Thereafter	—
Total	$ 704

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 17: Discontinued Operations
On November 1, 2015, HP completed the Separation of Hewlett Packard Enterprise. After the Separation, HP does not beneficially own any shares of Hewlett Packard Enterprise common stock.
The following table presents the financial results of HP's discontinued operations:

	For the fiscal years ended October 31,		
	2018	2017	2016
	In millions		
Expenses[1]	$ —	$ —	$ 201
Interest and other, net[2]	—	(47)	(208)
Earnings from discontinued operations before taxes	$ —	$ 47	$ 7
Provision for taxes[2]	—	(47)	(177)
Net loss from discontinued operations	$ —	$ —	$ (170)

[1] Expenses for fiscal year 2016 were primarily related to separation costs.
In connection with the TMA, Interest and other, net for fiscal year 2017 and fiscal year 2016 relates to changes in the tax indemnifications amounts. Provision for taxes for fiscal year 2017 and fiscal year 2016 includes the tax impact relating to the above described changes of $47 million and $201 million, respectively. For further information on tax indemnifications and the TMA, see Note 15, "Guarantees, Indemnifications and Warranties".

Note 18: Acquisitions and Divestitures
Acquisitions in Fiscal Year 2018
On November 1, 2017, HP completed the acquisition of Samsung's printer business. With this acquisition, HP now offers the industry's strongest portfolio of A3 multifunction printers that deliver the simplicity of printers with the high performance of copiers. The fully integrated portfolio, including next-generation PageWide technologies, offers opportunities to grow managed print and document services as sales models shift from transactional to contractual. HP reports the financial results of the above business in the Printing segment.
The table below presents the purchase price allocation.

	In millions
Goodwill	$ 339
Amortizable intangible assets	521
Net assets assumed	191
Total fair value of consideration	$ 1,051

Divestitures in prior years
During fiscal year 2016, HP entered into agreements to divest certain technology assets, including licensing and distribution rights, for certain software offerings to Open Text Corporation, an enterprise information management company for $475 million. These divestitures were substantially completed during the fourth quarter of fiscal year 2016. The technology assets sold were previously reported within the Commercial Hardware business unit within the Printing segment. The total gain recognized from the divestitures was $401 million. The gains associated with these divestitures were included in Selling, general and administrative expenses in the Consolidated Statements of Earnings.

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HP INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Note 19: Subsequent Events
On November 1, 2018, HP made a cash payment of $422 million in connection with the acquisition of the Apogee group, a U.K. based office equipment dealer (“OED”) and provider of print, outsourced services, and document and process technology. The cash payment is subject to customary closing and other adjustments and would be finalized in future periods.

HP INC. AND SUBSIDIARIES
Quarterly Summary
(Unaudited)
(In millions, except per share amounts)

	For the three-month fiscal periods ended in fiscal year 2018			
	January 31	April 30	July 31	October 31
Net revenue	$14,517	$14,003	$14,586	$ 15,366
Cost of revenue	11,935	11,301	11,898	12,669
Earnings from operations	973	964	1,080	1,047
Net earnings	$1,938	$1,058	$880	$ 1,451
Net earnings per share:(1)				
Basic	$1.17	$0.65	$0.55	$ 0.92
Diluted	$1.16	$0.64	$0.54	$ 0.91
Cash dividends paid per share	$0.14	$0.14	$0.14	$ 0.14

	For the three-month fiscal periods ended in fiscal year 2017			
	January 31	April 30	July 31	October 31
Net revenue	$12,684	$12,385	$13,060	$ 13,927
Cost of revenue	10,436	10,002	10,633	11,407
Earnings from operations	856	818	955	890
Net earnings	$611	$559	$696	$ 660
Net earnings per share:(1)				
Basic	$0.36	$0.33	$0.41	$ 0.40
Diluted	$0.36	$0.33	$0.41	$ 0.39
Cash dividends paid per share	$0.13	$0.14	$0.13	$ 0.13

(1) Net EPS for each quarter is computed using the weighted-average number of shares outstanding during that quarter, while EPS for the fiscal year is computed using the weighted-average number of shares outstanding during the year. Hence, the sum of the EPS for each of the four quarters may not equal the EPS for the fiscal year.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
None.
ITEM 9A. Controls and Procedures.
Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report (the “Evaluation Date”). Based on this evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to HP, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to HP’s management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.
Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter. Based on that evaluation, our principal executive officer and principal financial officer concluded that there has not been any change in our internal control over financial reporting during the fourth quarter of fiscal year 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.
See Management’s Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm on our internal control over financial reporting in Item 8, which are incorporated herein by reference.
ITEM 9B. Other Information.
None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

The names of the executive officers of HP and their ages, titles and biographies as of the date hereof are incorporated by reference from Part I, Item 1, above.

The following information is included in HP's Proxy Statement related to its 2019 Annual Meeting of Stockholders to be filed within 120 days after HP's fiscal year end of October 31, 2018 (the "Proxy Statement") and is incorporated herein by reference:

- Information regarding directors of HP who are standing for reelection and any persons nominated to become directors of HP is set forth under "Corporate Governance—Management Proposal No. 1 Election of Directors."
- Information regarding HP's Audit Committee and designated "audit committee financial experts" is set forth under "Corporate Governance—Management Proposal No. 1 Election of Directors—Audit Committee."
- Information on HP's code of business conduct and ethics for directors, officers and employees, also known as "Integrity at HP", is set forth under "Corporate Governance—Management Proposal No. 1 Election of Directors—Code of Conduct" and information on HP's Corporate Governance Guidelines is set forth under "—Director Nominees and Director Nominees' Experience and Qualifications","—Recent Corporate Governance Updates" and "—Director Independence."
- Information regarding Section 16(a) beneficial ownership reporting compliance is set forth under "Ownership of Our Stock—Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. Executive Compensation.

The following information is included in the Proxy Statement and is incorporated herein by reference:

- Information regarding HP's compensation of its named executive officers is set forth under "Executive Compensation."
- Information regarding HP's compensation of its directors is set forth under "Corporate Governance—Management Proposal No. 1 Election of Directors—Director Compensation and Stock Ownership Guidelines."
- The report of HP's HR and Compensation Committee is set forth under "Executive Compensation—Management Proposal No. 3 Advisory Vote to Approve Executive Compensation—HR and Compensation Committee Report on Executive Compensation."

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following information is included in the Proxy Statement and is incorporated herein by reference:

- Information regarding security ownership of certain beneficial owners, directors and executive officers is set forth under "Ownership of Our Stock—Common Stock Ownership of Certain Beneficial Owners and Management."
- Information regarding HP's equity compensation plans, including both stockholder approved plans and non-stockholder approved plans, is set forth in the section entitled "Executive Compensation—Management Proposal No. 3 Advisory Vote to Approve Executive Compensation—Equity Compensation Plan Information."

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

The following information is included in the Proxy Statement and is incorporated herein by reference:

- Information regarding transactions with related persons is set forth under "Corporate Governance—Management Proposal No. 1 Election of Directors—Fiscal 2017 Related Person Transactions."
- Information regarding director independence is set forth under "Corporate Governance—Management Proposal No. 1 Election of Directors—Director Independence."

ITEM 14. Principal Accounting Fees and Services.

Information regarding principal accounting fees and services is set forth under “Audit Matters—Management Proposal No. 2 Ratification of Independent Registered Public Accounting Firm—Principal Accounting Fees and Services” in the Proxy Statement, which information is incorporated herein by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this report:

1. All Financial Statements:

The following financial statements are filed as part of this report under Item 8—"Financial Statements and Supplementary Data."

2. Financial Statement Schedules:

All schedules are omitted as the required information is not applicable or the information is presented in the Consolidated Financial Statements and notes thereto in Item 8 above.

3. Exhibits:

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
2(a)	Separation and Distribution Agreement, dated as of October 31, 2015, by and among Hewlett-Packard Company, Hewlett Packard Enterprise Company and the Other Parties Thereto.**	8-K	001-04423	2.1	November 5, 2015
2(b)	Transition Services Agreement, dated as of November 1, 2015, by and between Hewlett-Packard Company and Hewlett Packard Enterprise Company.**	8-K	001-04423	2.2	November 5, 2015
2(c)	Tax Matters Agreement, dated as of October 31, 2015, by and between Hewlett-Packard Company and Hewlett Packard Enterprise Company.**	8-K	001-04423	2.3	November 5, 2015
2(d)	Employee Matters Agreement, dated as of October 31, 2015, by and between Hewlett-Packard Company and Hewlett Packard Enterprise Company.**	8-K	001-04423	2.4	November 5, 2015
2(e)	Real Estate Matters Agreement, dated as of October 31, 2015, by and between Hewlett-Packard Company and Hewlett Packard Enterprise Company.**	8-K	001-04423	2.5	November 5, 2015
3(a)	Registrant's Certificate of Incorporation.	10-Q	001-04423	3(a)	June 12, 1998
3(b)	Registrant's Amendment to the Certificate of Incorporation.	10-Q	001-04423	3(b)	March 16, 2001
3(c)	Registrant's Certificate of Amendment to the Certificate of Incorporation.	8-K	001-04423	3.2	October 22, 2015
3(d)	Registrant's Certificate of Amendment to the Certificate of Incorporation.	8-K	001-04423	3.1	April 7, 2016
3(e)	Registrant's Amended and Restated Bylaws.	8-K	001-04423	3.1	July 26, 2017
4(a)	Form of Senior Indenture	S-3	333-215116	4.1	December 15, 2016
4(b)	Form of Subordinated Indenture.	S-3	333-21516	4.2	December 15, 2016
4(c)	Form of Registrant's 3.750% Global Note due December 1, 2020 and form of related Officers' Certificate.	8-K	001-04423	4.2 and 4.3	December 2, 2010
4(d)	Form of Registrant's 4.300% Global Note due June 1, 2021 and form of related Officers' Certificate.	8-K	001-04423	4.5 and 4.6	June 1, 2011
4(e)	Form of Registrant's 4.375% Global Note due September 15, 2021 and 6.000% Global Note due September 15, 2041 and form of related Officers' Certificate.	8-K	001-04423	4.4, 4.5 and 4.6	September 19, 2011
4(f)	Form of Registrant's 4.650% Global Note due December 9, 2021 and related Officers' Certificate.	8-K	001-04423	4.3 and 4.4	December 12, 2011
4(g)	Form of Registrant's 4.050% Global Note due September 15, 2022 and related Officers' Certificate.	8-K	001-04423	4.2 and 4.3	March 12, 2012

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
4(h)	Form of Registrant's 2.750% Global Note due January 14, 2019 and Floating Rate Global Note due January 14, 2019 and related Officers' Certificate.	8-K	001-04423	4.1, 4.2 and 4.3	January 14, 2014
4(i)	Specimen certificate for the Registrant's common stock.	8-K/A	001-04423	4.1	June 23, 2006
4(j)	First Supplemental Indenture, dated as of March 26, 2018, to the Indenture, dated as of June 1, 2000, by and between the Registrant and The Bank of New York Mellon Trust Company, N.A.	10-Q	001-04423	4(j)	June 5, 2018
10(a)	Registrant's 2004 Stock Incentive Plan.*	S-8	333-114253	4.1	April 7, 2004
10(b)	Registrant's Excess Benefit Retirement Plan, amended and restated as of January 1, 2006.*	8-K	001-04423	10.2	September 21, 2006
10(c)	Hewlett-Packard Company Cash Account Restoration Plan, amended and restated as of January 1, 2005.*	8-K	001-04423	99.3	November 23, 2005
10(d)	Registrant's 2005 Pay-for-Results Plan, as amended.*	10-K	001-04423	10(h)	December 14, 2011
10(e)	Registrant's Executive Severance Agreement.*	10-Q	001-04423	10(u)(u)	June 13, 2002
10(f)	Registrant's Executive Officers Severance Agreement.*	10-Q	001-04423	10(v)(v)	June 13, 2002
10(g)	Form letter regarding severance offset for restricted stock and restricted units.*	8-K	001-04423	10.2	March 22, 2005
10(h)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California).*	8-K	001-04423	10.2	January 24, 2008
10(i)	Form of Agreement Regarding Confidential Information and Proprietary Developments (Texas).*	10-Q	001-04423	10(o)(o)	March 10, 2008
10(j)	Form of Stock Option Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(p)(p)	March 10, 2008
10(k)	Form of Option Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(t)(t)	June 6, 2008
10(1)	Form of Common Stock Payment Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(u)(u)	June 6, 2008
10(m)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*	10-K	001-04423	10(y)(y)	December 18, 2008

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
10(n)	First Amendment to the Hewlett-Packard Company Excess Benefit Retirement Plan.*	10-Q	001-04423	10(b)(b)(b)	March 10, 2009
10(o)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*	10-K	001-04423	10(i)(i)(i)	December 15, 2010
10(p)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California—new hires).*	10-K	001-04423	10(j)(j)(j)	December 15, 2010
10(q)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California—current employees).*	10-K	001-04423	10(k)(k)(k)	December 15, 2010
10(r)	Second Amended and Restated Hewlett-Packard Company 2004 Stock Incentive Plan, as amended effective February 28, 2013.*	8-K	001-04423	10.2	March 21, 2013
10(s)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*	10-Q	001-04423	10(u)(u)	March 11, 2014
10(t)	Form of Stock Notification and Award Agreement for awards of foreign stock appreciation rights.*	10-Q	001-04423	10(v)(v)	March 11, 2014
10(u)	Form of Stock Notification and Award Agreement for long-term cash awards.*	10-Q	001-04423	10(w)(w)	March 11, 2014
10(v)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*	10-Q	001-04423	10(x)(x)	March 11, 2014
10(w)	Form of Grant Agreement for grants of performance-adjusted restricted stock units.*	10-Q	001-04423	10(y)(y)	March 11, 2014
10(x)	Form of Stock Notification and Award Agreement for awards of restricted stock.*	10-Q	001-04423	10(z)(z)	March 11, 2014
10(y)	Form of Stock Notification and Award Agreement for awards of performance-contingent non-qualified stock options.*	10-Q	001-04423	10(a)(a)(a)	March 11, 2014

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
10(z)	Form of Grant Agreement for grants of performance-contingent non-qualified stock options.*	10-Q	001-04423	10(b)(b)(b)	March 11, 2014
10(a)(a)	Form of Grant Agreement for grants of restricted stock units.*	10-Q	001-04423	10(c)(c)(c)	March 11, 2015
10(b)(b)	Form of Grant Agreement for grants of foreign stock appreciation rights.*	10-Q	001-04423	10(d)(d)(d)	March 11, 2015
10(c)(c)	Form of Grant Agreement for grants of long-term cash awards.*	10-Q	001-04423	10(e)(e)(e)	March 11, 2015
10(d)(d)	Form of Grant Agreement for grants of non-qualified stock options.*	10-Q	001-04423	10(f)(f)(f)	March 11, 2015
10(e)(e)	Form of Grant Agreement for grants of performance-adjusted restricted stock units.*	10-Q	001-04423	10(g)(g)(g)	March 11, 2015
10(f)(f)	Form of Grant Agreement for grants of restricted stock awards.*	10-Q	001-04423	10(h)(h)(h)	March 11, 2015
10(g)(g)	Form of Grant Agreement for grants of performance-contingent non-qualified stock options.*	10-Q	001-04423	10(i)(i)(i)	March 11, 2015
10(h)(h)	Term Loan Agreement, dated as of April 30, 2015, among the Registrant, the lenders named therein and JPMorgan Chase Bank, N.A., as administrative agent.	10-Q	001-04423	10(b)(b)(b)	June 8, 2015
10(i)(i)	Amendment, dated as of June 1, 2015, to the Term Loan Agreement, dated as of April 30, 2015, among the Registrant, the lenders named therein and JPMorgan Chase Bank, N.A., as administrative agent.	10-Q	001-04423	10(c)(c)(c)	June 8, 2015
10(j)(j)	Second Amended and Restated Five-Year Credit Agreement, dated as of April 2, 2014, as Amended and Restated as of November 1, 2015, as further Amended and Restated as of March 30, 2018, among the Registrant, the lenders named therein and Citibank, N.A., as administrative processing agent and co-administrative agent, and JPMorgan Chase Bank, N.A., as co-administrative agent.	10-Q	001-04423	10(j)(j)	June 5, 2018

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
10(k)(k)	Form of Grant Agreement for grants of foreign stock appreciation rights.*	10-K	001-04423	10(e)(e)(e)	December 16, 2015
10(l)(l)	Form of Grant Agreement for grants of performance-contingent non-qualified stock options.*	10-K	001-04423	10(f)(f)(f)	December 16, 2015
10(m)(m)	Form of Grant Agreement for grants of non-qualified stock options.*	10-K	001-04423	10(g)(g)(g)	December 16, 2015
10(n)(n)	Registrant's 2005 Executive Deferred Compensation Plan, amended and restated effective November 1, 2015.*	10-K/A	001-04423	10(n)(n)	December 15, 2017
10(o)(o)	Registrant's Severance and Long-Term Incentive Change in Control Plan for Executive Officers, amended and restated effective November 1, 2015.*	10-Q	001-04423	10(o)(o)	March 3, 2016
10(p)(p)	Form of Stock Notification and Award Agreement for awards of performance-contingent non-qualified stock options (launch grant).*	10-Q	001-04423	10(p)(p)	March 3, 2016
10(q)(q)	Form of Stock Notification and Award Agreement for awards of restricted stock units (launch grant).*	10-Q	001-04423	10(q)(q)	March 3, 2016
10(r)(r)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*	10-Q	001-04423	10(r)(r)	March 3, 2016
10(s)(s)	Form of Stock Notification and Award Agreement for awards of performance-adjusted restricted stock units.*	10-Q	001-04423	10(s)(s)	March 3, 2016
10(t)(t)	Form of Amendment to Award Agreements for awards of restricted stock units or performance-adjusted restricted stock units, effective January 1, 2016.*	10-Q	001-04423	10(t)(t)	March 3, 2016
10(u)(u)	First Amendment to Severance and Long-Term Incentive Change in Control Plan for Executive Officers, as amended and restated effective November 1, 2015.*	10-K	001-04423	10(u)(u)	December 15, 2016
10(v)(v)	Second Amendment to Severance and Long-Term Incentive Change in Control Plan for Executive Officers, as amended and restated effective November 1, 2015.*	10-Q	001-04423	10(v)(v)	March 2, 2017
10(w)(w)	2017 Amendment to the Hewlett-Packard Company Cash Account Restoration Plan.*	10-Q	001-04423	10(w)(w)	March 2, 2017
10(x)(x)	Second Amendment to the Hewlett-Packard Company Excess Benefit Retirement Plan.*	10-Q	001-04423	10(x)(x)	March 2, 2017
10(y)(y)	Second Amended and Restated HP Inc. 2004 Stock Incentive Plan, as amended and restated effective January 23, 2017.*	10-Q	001-04423	10(y)(y)	March 2, 2017
10(z)(z)	Form of Grant Agreement for grants of performance-adjusted restricted stock units (for use from November 1, 2016).*	10-Q	001-04423	10(z)(z)	March 2, 2017
10(a)(a)(a)	Form of Grant Agreement for grants of restricted stock units (for use from November 1, 2016).*	10-Q	001-04423	10(a)(a)(a)	March 2, 2017
10(b)(b)(b)	Second Amended and Restated HP Inc. 2004 Stock Incentive Plan (as amended effective January 29, 2018).*	10-Q	001-04423	10(b)(b)(b)	March 1, 2018

10(c)(c)(c)	Form of Grant Agreement for grants of restricted stock units (for use from November 1, 2017).*	10-Q	001-04423	10(c)(c)(c)	March 1, 2018

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
10(d)(d)(d)	Form of Grant Agreement for grants of performance-adjusted restricted stock units (for use from November 1, 2017).*	10-Q	001-04423	10(d)(d)(d)	March 1, 2018
10(e)(e)(e)	Form of Grant Agreement for grants of restricted stock units for directors (for use from November 1, 2017).*	10-Q	001-04423	10(e)(e)(e)	March 1, 2018
10(f)(f)(f)	Form of Grant Agreement for grants of stock options for directors (for use from November 1, 2017).*	10-Q	001-04423	10(f)(f)(f)	March 1, 2018
10(g)(g)(g)	Form of Grant Agreement for grants of restricted stock units (for use from November 1, 2018).*†				
10(h)(h)(h)	Form of Grant Agreement for grants of performance-adjusted restricted stock units (for use from November 1, 2018).*†				
21	Subsidiaries of the Registrant as of October 31, 2018.†				
23	Consent of Independent Registered Public Accounting Firm.†				
24	Power of Attorney (included on the signature page).				
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.‡				
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.‡				
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
101.INS	XBRL Instance Document.‡				
101.SCH	XBRL Taxonomy Extension Schema Document.‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.‡				

* Indicates management contract or compensatory plan, contract or arrangement.
** Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Registration S-K. A copy of any omitted schedule and/or exhibit will be furnished supplementally to the SEC upon request.
† Filed herewith.
†† Furnished herewith.

The registrant agrees to furnish to the Commission supplementally upon request a copy of (1) any instrument with respect to long-term debt not filed herewith as to which the total amount of securities authorized thereunder does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis and (2) any omitted schedules to any material plan of acquisition, disposition or reorganization set forth above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: December 13, 2018 HP INC.
By: /s/ STEVE FIELER
Steve Fieler
Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Steve Fieler, Kim Rivera and Ruairidh Ross, or any of them, his or her attorneys-in-fact, for such person in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ DION J. WEISLER Dion J. Weisler	President and Chief Executive Officer and Director (Principal Executive Officer)	December 13, 2018
/s/ STEVE FIELER Steve Fieler	Chief Financial Officer (Principal Financial Officer)	December 13, 2018
/s/ MARIE E. MYERS Marie E. Myers	Global Controller and Head of Finance Services (Principal Accounting Officer)	December 13, 2018
/s/ AIDA ALVAREZ Aida Alvarez	Director	December 13, 2018
/s/ SHUMEET BANERJI Shumeet Banerji	Director	December 13, 2018
/s/ ROBERT R. BENNETT Robert R. Bennett	Director	December 13, 2018
/s/ CHARLES V. BERGH Charles V. Bergh	Director	December 13, 2018
/s/ STACY BROWN-PHILPOT Stacy Brown-Philpot	Director	December 13, 2018
/s/ STEPHANIE BURNS Stephanie Burns	Director	December 13, 2018
/s/ MARY ANNE CITRINO Mary Anne Citrino	Director	December 13, 2018
/s/ STACEY MOBLEY Stacey Mobley	Director	December 13, 2018
/s/ SUBRA SURESH	Director	December 13, 2018

Subra Suresh

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ITEM 16. Form 10-K Summary

None.