Driving Results

Committed, progressive partner moving the County forward through innovation and continuous improvement

HP Enterprise Services' Response to the County of San Diego Request for Proposals (RFP) 7189 – Information Technology & Telecommunications Services

Final Submission

October 2016

Volume III - Pricing Proposal

Executive Summary

In recent years, the County of San Diego has transformed the way residents and visitors receive valuable services, obtain information and interact with County officials. With successful efforts to provide digital government, mobility services, business continuity and workforce optimization, the County has been recognized as one of the nation's most technologically advanced counties, achieving numerous awards and accolades. Whereas recognition is notable, the beneficial impact to County employees, taxpayers and residents is what is truly impressive. HPES is proud to have been your partner over the past 10 years in this drive to achieve operational excellence.

HPES understands the County's mission to improve the lives of San Diegans through Safe Communities, Sustainable Environments, Healthy Families, and Operational Excellence. The technology foundation enabling the support of these initiatives relies on systems and services delivered and maintained by our team. Our approach and performance provides the County peace of mind that IT is being managed properly so you can focus on that noblest of motives, the public good.

We must also continue to address the challenges facing County residents, particularly those in danger of being disenfranchised, Veterans, foster children, the homeless, and those suffering from mental illness. We view our role in the County, not just in the context of technology, but as a key enabler to better business outcomes as you strive to "connect the unconnected."

San Diego County has a proud military heritage. Our team will implement programs to support military residents and returning Veterans. Working with groups such as Mission Edge San Diego (Three Wise Men), we will develop training programs tailored for military personnel with the goal of providing the technology skills required to be competitive in the job market.

The County has been successful in raising the "IT IQ" of County personnel. We embrace this concept and will, in collaboration with CTO and support from key providers like Adobe and Microsoft, deliver training programs for County personnel focused on transformative learning that will enable them to most effectively utilize the capabilities and functionality of software and services in which the County is investing.

Our approach to providing IT services to the County has always been to deliver the right solution at the best price, in line with County's strategic objectives. Our commitment is to build on that approach. We have strong relationships with top tier providers including EMC, Oracle and IBM. Whether a technology comes from a strategic partner or a perceived competitor, we will bring the best solution to the County to achieve the best business outcome. The delivery of reliable, predictable and quality results, with high end-user satisfaction, is of utmost importance to us. We are pleased to note that together with County CTO, we achieved the highest rating to date in the annual Gartner IT customer satisfaction survey, reaching the top category, "Best in Class".

Operational excellence requires the pursuit of continuous improvement. At all levels across our organization, our focus on problem solving, teamwork and leadership will ensure we consistently identify and seize opportunities to provide optimal results. The transformative specifics in our proposal provide mechanisms the County can leverage to foster new ways of thinking and spark creativity among our teams across the County, industry partners, and constituents. We will ensure a sound foundation from which the County can address current challenges as well as provide services to the next generation resident - one who is proactive, connected, and aspiring to contribute. Like the County, we believe that "Good Government Demands the Intelligent Interest of Every Citizen" and we will collaborate with the

County to identify and implement technologies and programs to encourage that interest, and enable every citizen to be engaged.

Building on the vision established by the CTO, HPES developed a local Innovation Council. The council's charter is to address real business needs, increase efficiency and reduce County spend. Once a year, we host Innovation Day at the COC for all interested County users where these innovation ideas are showcased. Since 2014, the Innovation Council has presented 26 ideas, 10 of which have been implemented into production. These solutions have had a positive impact on County users and citizen-centric services.

HPES is honored to be a Live Well San Diego partner. Our commitment to the community is also demonstrated through engagements like election night support, fielding a team for the Live Well San Diego 5K, sponsoring and attending the State of the County address, and providing speakers and technical support for County events such as Passport to Life Career & Education Expo and the Dick Wayman Technology Center Ribbon Cutting Ceremony at the Ramona Library. At numerous other County events you will find the employees of HPES and our partner AT&T in the mix; participating, supporting and occasionally sponsoring. We are engaged and involved on a personal level.

And for good reason: We live here. Our highly qualified team is primarily comprised of San Diego County residents. We understand what we do matters, to our families, our friends, our neighbors, and the entire San Diego region.

You will see many familiar names in our list of 20 Key Personnel; individuals who have worked shoulder to shoulder with the County delivering consistent results, solving problems and building a relationship of trust. The team will continue to be led by Cathy Varner, our current and proposed Account Executive, who has been supporting the County since 2006. Our telecommunications partner, AT&T, will continue to be led by Grant Morgan, who has also supported the County for 10 years. Together, our team has a broad set of skills uniquely suited to supporting the County. From architects and engineers to service desk and desk side support, we are steadfast in our commitment. We are knowledgeable of County business and culture and we demonstrate that knowledge in every aspect of our performance.

It has been a privilege for HPES to support the County's IT and Telecommunications for the past 10 years. We do not take for granted the trust the County has placed in us. Our core tenet has been and will continue to be, "we must earn the opportunity to do business with the County". As the incumbent, our knowledge and experience presents the lowest risk transition. We will continue to consistently deliver the County's IT operations while we transition and transform to the technologies required by the new scope of work and beyond.

The new frontier for our partnership will be a model of excellence in reliability, continuous improvement, transformation, and strategic alignment, advancing the gauge for County staff, constituents, and visitors.

As we move forward in our partnership, you can be assured that your reputation as the best managed local government in America will continue to be affirmed.

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3. Pricing

3.1 Volume III Checklist

Proposal Item	Offeror Agrees to Meet?	
Item 1: Offeror's agrees to meet all the requirements in SCHEDULE 16.1 FEES provided. The Offeror must check "Yes" indicating agreement, or "No" indicating non-agreement with the requirements.	YES ☒	NO ☐
Item 2: Offeror's must complete and submit EXHIBIT 16.1-1 RESOURCE UNIT PRICE SUMMARY provided. The Offeror must check "Yes" on indicating compliance, or "No" on the non-compliance with the requirement.	YES ☒	NO ☐
Item 3: Offeror's must complete and submit EXHIBIT 16.1-2 RESOURCE UNIT PRICE DECOMPOSITION provided. The Offeror must check "Yes" on indicating compliance, or "No" on the non-compliance with the requirement.	YES ☒	NO ☐
Item 4: Offeror's must complete and submit EXHIBIT 16.1-3 MAXIMUM ANNUAL FEE provided. The Offeror must check "Yes" on indicating compliance, or "No" on the non-compliance with the requirement.	YES ☒	NO ☐
Item 5: Offeror's must complete and submit EXHIBIT 16.1-5 FIRM FIXED PRICE FOR APPLICATIONS M&O provided. The Offeror must check "Yes" on indicating compliance, or "No" on the non-compliance with the requirement.	YES ☒	NO ☐
Item 6: Offeror's must complete and submit EXHIBIT 16.1-5B FIRM FIXED PRICE FOR APPLICATIONS M&O provided. The Offeror must check "Yes" on indicating compliance, or "No" on the non-compliance with the requirement.	YES ☒	NO ☐
Item 7: Offeror agrees to meet all the requirements in EXHIBIT 16.1-4 LABOR CATEGORIES FEE provided. The Offeror must check "Yes" indicating agreement, or "No" indicating non-agreement with the requirements.	YES ☒	NO ☐
Item 8: Offeror agrees to meet all the requirements in EXHIBIT 16.8 FEE REDUCTIONS provided. The Offeror must check "Yes" indicating agreement, or "No" indicating non-agreement with the requirements.	YES ☒	NO ☐
Item 9: Offeror agrees to meet all the requirements in SCHEDULE 3.2 FORM BILL OF SALE provided. The Offeror must check "Yes" indicating agreement, or "No" indicating non-agreement with the requirements.	YES ☒	NO ☐
Item 10: Offeror agrees to meet all the requirements in Schedule 16.7 – BENCHMARKING METHODOLOGY. The Offeror must check "Yes" indicating agreement, or "No" indicating non-agreement with the requirements.	YES ☒	NO ☐

3.2 Offeror Responses to Pricing Questionnaire

Section left blank intentionally to maintain document structure.

3.3 Terms & Conditions

ITEM #	TECHNICAL REFERENCE (SECTION, PAGE, PARAGRAPH)	EXCEPTION (SHORT DESCRIPTION OF TEXT OR REQUIREMENT)	OFFEROR PROPOSED SOLUTION/RATIONALE AND BENEFITS OF PROPOSED SOLUTION TO THE COUNTY	EXCEPTION AMOUNT

The following table represents our proposed Termination for Convenience during Transition. These amounts would be offset by any payments received against Transition Milestones.

Table 1. Termination Fees by Month

MONTH	AMOUNT
1	$ 1,222,912
2	$ 2,485,663
3	$ 3,936,137
4	$ 5,585,573
5	$ 7,488,248
6	$ 9,279,999
7	$ 10,252,618
8	$ 11,163,589
9	$ 12,172,527

3.4 Financial Position

3.4.1 Prime Contractor Financial Information

Attached are Hewlett Packard Enterprise's (HPE) 2013, 2014, and 2015 Annual Reports. We extracted the audited financial sections from each report so they are concise, economical, and easy to find. Upon request, we will be happy to provide electronic pdf files or complete hard copies of HPE financial reports for the past 3 years. Please note that the total three years information is over 650 pages.

A complete copy of the 2013 HP Annual Report can be found here: http://h30261.www3.hp.com/~/media/Files/H/HP-IR/documents/reports/2014/hpq-annual-report-2013.pdf

A complete copy of the 2014 HP Annual Report can be found here: http://h30261.www3.hp.com/~/media/Files/H/HP-IR/documents/reports/2015/hpq-annual-report-2014.pdf

On November 1, 2015, HP Enterprise Service' former corporate parent, the Hewlett-Packard Company (HPCo), separated into two publicly traded Fortune 50 companies. One company consists of HPCo's enterprise technology infrastructure, software, and services businesses and is now an independent, publicly traded company, the Hewlett Packard Enterprise Company (HPE). The other company, HP Inc., (formerly known as Hewlett-Packard Company) consists of HPCo's printing and personal systems businesses and retains the HP logo. As part of the planning for this transaction, HPCo took steps to maintain the strength and reliability of HP Enterprise Services, LLC, and other entities.

HP Enterprise Services, LLC (HPES, LLC) is a fully owned subsidiary of Hewlett Packard Enterprise Company (HPE). HPE is well capitalized with high, investment-grade credit ratings.

A complete copy of the 2015 Hewlett Packard Enterprise Annual Report can be found here: http://proxy.investors.hpe.com/~/media/Files/H/HPE-Proxy/documents/proxy-statement-2015-annual-report.pdf.

3.4.1.2. Provide your organization's annual revenue for the past three (3) years.

Hewlett Packard Enterprise's annual net revenue for the past three 3 years as shown in Table 1 (2013 and 2014 reflect annual revenue of our predecessor company, Hewlett Packard Company prior to separation).

Table 2. Hewlett Packard Enterprise's Annual Net Revenue

2013	2014	2015
$112.298 billion	$111.454 billion	$52.107 billion

3.4.2 Subcontractor Financial Information

Please see attachments for AT&T's Annual Reports for 2013, 2014, and 2015. We extracted the audited financial sections from each report so they are concise, economical, and easy to find. Upon request, we will be happy to provide electronic pdf files or complete hard copies of AT&T's financial reports for the past 3 years. Please note that the total three years information is over 300 pages.

3.4.2.2. Provide each subcontractor's annual revenue for the past three (3) years.

AT&T's annual operating revenue is shown in Table 3.

Table 3. AT&T's Annual Operating Revenue

2013	2014	2015
$128.752 billion	$132.447 billion	$146.801 billion

3.5 Resource Unit Pricing

3.5.1 Pricing Concepts

HPES has used the pricing template as defined in Exhibits 16.1-1 as the basis for pricing. In the section below, HPES provides insight into the pricing concepts we used to develop the Resource Unit (RU) pricing.

Cross-Functional

For the Cross-Functional services, we performed a bottom-up pricing effort to build up the per month price. The major cost drivers for each RU are listed below:

- Contract and Acquisition Management Services – Basis includes all resources who perform contract and subcontract management, as well as those who perform acquisition (procurement) services.
- Integrated Asset Management Services – Basis includes all resources performing asset management services. Tool costs, which are driven by volume, are associated with the appropriate RU.
- Billing Management Services – Basis includes resources who perform billing management services, billing, and charge back/invoicing services associated with the appropriate RU.
- Security Management Services – Includes all resources, tools, and core infrastructure providing security management services. This also includes response to the annual audit request that we provide today. Security Management Services costs, which are driven by volume, are associated with the appropriate RU.
- Service Delivery Management Services – Basis is the Service Delivery Managers listed in the key personnel section of the technical proposal.
- Project Management Services – Project Management Office (PMO) for intake and governance of applications and infrastructure work requests. HPES has also taken this opportunity to offer additional value to the CoSD customer by consolidating Infrastructure Project Management efforts, which were previously part of the monthly server RUs, into our project management service. This will provide value to our customer while continuing to facilitate HPES's goal to integrate all project management services under one set of best practices.
- Integration and Testing Services – Engineering resources who perform integration and testing services in support of infrastructure services.
- Incident Management Services – Resources to manage governance of processes for Incident Management.
- Problem Management Services – Resources to manage governance of processes for Problem Management.
- Change Management Services – Resources to manage governance of processes for Change Management.
- Release Management Services – Resources to manage governance of processes for Release Management.
- Configuration Management – Resources to manage governance of processes for Configuration Management.
- Capacity Planning and Performance Management Services – Resources to manage governance of processes for Capacity Planning, and Capacity and Performance Management.
- Disaster Recovery (DR) Management Services – Basis includes the resources who maintain DR plans and coordinate DR tests and network connectivity, as well as the subscription cost to cover all of the infrastructure required to provide Disaster Recovery environments for those applications that have designated Recovery Time and Recovery Point Objectives as of this submission. The subscriptions costs include the following: Per server costs based on size of server, storage costs charged per TB, Continuous Data Protection, Network Infrastructure costs, Internet bandwidth, and DR exercise coordination. As DR requirements and application infrastructure composition changes, this RU will be revisited. As an alternative pricing structure for DR, to provide greater flexibility, HPES suggests

the County consider using this RU to cover the cost of planning, testing, and network services only, and then create a set of RUs to cover the incremental per server and storage Disaster Recovery subscription services. This would more accurately reflect usage and results in savings to the County. In addition, this alternative pricing structure will align with the County's goal that changes in scale will be addressed via volume changes rather than RU changes.

- Identity Access Management (IDAM) Services – Basis is resources and tools providing the IDAM service, including Symantec PKI and the Oracle IDAM Platform support. This includes maintenance of end-user accounts, password resets, and managing permissions.
- Reporting Management Services – Basis is the resources who manage the process to produce and publish reports, and meet with the County to review, refine, and identify new requirements.
- Domain Name Management Services – Basis is the resources to provide management of Domain Names.
- Business Analyst Services – Basis is five Full-Time Equivalents (FTEs) to provide the services as described.
- Chief Technical Architect Services – Basis is one FTE (Key Personnel) to provide the services as described.
- Enterprise Applications Architect Services – Basis is one FTE (Key Personnel) to provide the Services as described.
- Innovation Management Services – Basis is one FTE (Key Personnel) to serve as Innovation Officer.
- The basis for the breakdown of the Cross Functional Resource Units is based on the labor and tools required to provide each service.

Service Desk

HPES has priced this RU to support the HPES-proposed service levels at the current call volumes actual cost reflects an average with an anticipated reduction built in based on self service.

End User

All of the End-User Services RUs include hardware, software, and resources to support each type of platform. Refresh has been included at the required intervals and the price includes the remaining lease cost from the existing contract. The subscription costs for Office 365 is included in our pricing.

The following RUs have additional information:

- Mobile Device Support Services – Resources and tools to support mobile devices.
- Early Refresh - Mobile PC and Early Refresh - Desktop – This RU contains the sum of the future hardware decomposition fees (remaining lease).
- County Retained Device, Desktop – DCSS, Laptop - DCSS – These RUs include the software and resources to support the device, with no hardware component or refresh.

Network

HPES has teamed with AT&T to continue to provide fast, highly secure mobile connectivity and network services to the County.

Network Access – Static Wired Service is provided on a fixed monthly fee per active account. Unit pricing includes the cabling and switching systems (5-year refresh), routing (4-year refresh), security (4-year refresh), Wide Area Network (WAN) circuits, Internet access, and VTC QOS/infrastructure access.

Network Access – Wired/Wireless – Unit prices provided are per active account and include cabling, switching systems (5-year refresh), routing (4-year refresh), security (4-year refresh), WAN circuits, Internet access, VTC QOS/infrastructure access, and wifi secured access. Additional unit pricing is provided for units that are greater or less than 10% above or below the baseline volume band provided.

Virtual Private Network (VPN) Access Level 1 is provided on a fixed monthly fee per access. Unit pricing includes SSL VPN infrastructure and licensing, maintenance and support, to enable network persistent, secure access.

Virtual Private Network (VPN) Access Level 2 - Basis is the software maintenance and support cost for application persistence. This RU is an optional uplift to Network Access Wire/Wireless, and cannot be purchased as a stand-alone. Note that new users will need to order a license as a one-time purchase from the OIC.

Voice Services are provided on a fixed monthly fee per unit. Units proposed include seconds, calls, phones (for pay phones), active lines, and active accounts. There are no charges for on- and off-net resource units (calls) supported by PBX/VoIP services. The following voice services are individually priced (except where noted).

- Calls – Casual Use – Calls not originated as direct dial or inbound requiring special handling charges, including operator-assisted calls both inbound and outbound
- Calls – Conference Bridge – Conference Bridge support
- Calls – Directory Assistance – charges apply to 411 dialed calls only
- Calls – International – charges apply to direct dialed international calls only
- Calls – Off-Net Local – No charges
- Calls: Off-Net Toll – No charges
- Calls – Off-Net Long Distance (CA) – No charges
- Calls – Off-Net Long Distance (USA) – No charges
- Calls – On-Net – No charges
- Calls – 800 Service (CA) – Prices provided are for PBX/VoIP supported sites
- Calls – Toll Free 800 (San Diego and Imperial) – Prices provided are for PBX/VoIP supported sites
- Calls – Toll Free 800 (USA) – Prices provided are for PBX/VoIP supported sites
- Pay Phones – Prices provided are per phone per month and include PSTN circuit connection and cabling. Pay phones are coin/card operated and owned by the provider (not a County retained/purchased asset)
- Voice – Analog Line – Unit prices provided are per active line and include telephone set break-fix support, ATA/Gateways (to support VoIP environment), circuit and BVoIP infrastructure to eliminate outbound direct distance dialing usage charges for domestic calls. Existing telephones will be used as much as possible.
- Voice – Single Line – Unit prices provided are per active line and include telephone set break-fix support, Gateways for PSTN connectivity, circuits, and BVoIP infrastructure to eliminate outbound direct distance dialing usage charges associated with domestic calls. Existing VoIP telephones will be used as much as possible and will replace TDM-based phones and cabling (Cat 3 to Cat 5E as required).
- Voice – Multi-Line – Unit prices provided are per active line and include telephone set break-fix support, Gateways for PSTN connectivity, circuits, and BVoIP infrastructure to eliminate outbound direct distance dialing usage charges associated with domestic calls. Existing VoIP telephones will be used as much as possible and will replace TDM-based phones and cabling (Cat 3 to Cat 5E as required).
- Voicemail – Unit prices provided are per active account and include Unified Communications (UC) capabilities of integration with UC services from multiple manufacturers. Includes geo redundant architecture with no single point of failure.
- Voicemail to Email Services – Unit prices provided are per active account and include service administration and support, and cloud-based licensing and maintenance/support for the Mutare service. Available to all voice single-line, multi-line subscribers.

- **Interactive Voice Services** – Unit prices provide include infrastructure (hardware and software), circuitry, and limited software development of the IVS applications. Additional charges will apply should external databases/systems require access or custom development. Unit prices are based on complexity of the service and features utilized. Three RU categories have been defined: Small, Medium and Large.
- **Interactive Voice Services** – Support for County Retained – Unit prices provided include trunking and PSTN connectivity to County owned IVS systems not included in this Agreement.

Video Conferencing Services – Unit prices provided are per system and include codec and head end infrastructure, software, and administration needed to support and maintain services. Two categories of VTC have been priced, Room System Video Teleconferencing Services and Personal Video Teleconferencing Services.

The Bluejeans integrated video teleconferencing offer included in this proposal includes a 100 host license, where designated video conferencing hosts will be identified by the County. Additional licensing options are available up to an enterprise scale, allowing all users on the County domain the ability to host a multi-platform video conference. The Bluejeans service has been allocated across the Network Access RU and will not have a separate price point. Changes to this licensing model could materially impact the RU price offered under this solution.

Town Hall Services – Unit prices provided includes 12+ VM Servers with Storage Area Network and 4 Video Network Edge appliances (CDN) and AVMS/QUMU application license and VNE/CDN licenses with a 5 year refresh cycle. Labor includes Application, Content Distribution and Portal support, Townhall administrator and Portal updates. Origination and distribution bandwidth and Originator connectivity limited to available facilities.**Video Streaming and Archiving** – Unit prices provided are per system and include access and circuitry for the existing Granicus webcasting solution at the current subscribed level.

Wireless Access Point (WAP) – Unit prices provided are per access point and include support, LAN andconnectivity, equipment, and infrastructure required to install and maintain wireless access points at official County sites. Outdoor WAPs are included; however, mounts and cabling are limited to "on existing building." Additional unit pricing is provided for units that are greater or less than 10% above or below the baseline volume band provided.

Third-Party Network Access Services – Unit prices provided are fixed monthly prices for the associated network. Pricing includes leased-line-based access to the County data network, administration, maintenance, support, cross-connects, DMZ, and firewall interface for a third-party-provided leased line in the AT&T POP. The following third-party network access services are leased-line-based:

- Category 1
- Category 2
- Category 3.

The following third-party network access services are Internet based and include access via ISP and peering configuration on firewall in the AT&T POP, administration, maintenance, and support:

- IP Sec (5 Mbps)
- IP Sec (10 Mbps)

The following third-party network access services are virtual and include access for third parties occupying County facilities and providing access to either external services or specified County access via the firewall. Prices include administration, support, and maintenance.

- Virtual Access (1 Mbps)
- Virtual Access (2 Mbps)
- Virtual Access (3 Mbps)
- Virtual Access (4 Mbps)
- Virtual Access (5 Mbps)
- Virtual Access (6-10 Mbps)
- Virtual Access (20 Mbps)
- Virtual Access (30 Mbps)
- Virtual Access (40 Mbps)
- Virtual Access (50 Mbps)

External DNS Management – Unit prices are fixed monthly fees per unit and include all administration and support of the Akamai Fast DNS Cloud Solution.

New Site Installation Services – Unit prices are fixed rates that can be decoupled based on the County's selection of optional services. The following are the new installation services provided and priced:

- Base services (the fixed component), will include activities such as pre-field work and requirements gathering, network design, circuit design/provisioning, installation of network hardware and project management that are required regardless of the cabling vendor used.
- The optional services (the variable component), will include all cabling vendor activities as well as contractor project management oversight. These optional components are broken into two work categories in an effort to allow the County to select either all or a subset of the cabling work necessary at the new site. The first component within the optional services will be identified as "Riser Cabling". This component will include the placement of pathway and rack infrastructure as well as the placement and testing of fiber/copper based cabling runs between MPOE and MDF, and between MDF and IDF rooms/floors. Trenching is not included in this service and will be the obligation of the County or its contractor to provide. The second optional component of the service will be identified as "Horizontal Cabling". Included in this service will be the placement and testing of all wall jacks, patch panels and plenum cabling between the IDF and the workstations or designated end points.
- Should the County elect to move one or both of these optional service components to a vendor of their choice, the resource unit will be decomposed to provide adequate cost recovery for the remaining New Site services.

Data Center

The basis of the RU pricing for Data Center Services follows:

- Mainframe – Basis is the cost to continue operating the current workload on the current mainframe environment without refresh (per CPU hour).
- Physical Servers – Basis is all hardware, software, tools, and support resources for a physical server. Sizing is based on the current definitions in Report 49.
- Virtual Guest Servers – Basis includes support resources and an allocation of certain hardware/software, tools, and facilities costs to run the environment. The cost of hardware and software for the physical host on which the virtual guest resides is priced separately as either a medium or a large UNIX server.

As an alternative to the current approach, HPES suggests creating sized RUs for Virtual Servers similar to Physical Servers (Extra-Small, Small, Medium, Large, Extra-Large). This would permit the cost of the physical server infrastructure to be allocated equitably into the Virtual Servers based on how much resource each Virtual consumes. Physical infrastructure would be automatically ordered and added as needed to support expansion of the Virtual Server environment without the County having to order and fund these servers explicitly.

- AS/400 – Basis is the cost to continue operating the current server without refresh.
- Infrastructure Services – Basis includes all hardware, software, network, facility, and support resources to manage the services explicitly listed in Schedule 4.3, Section 6.8. These services include WAN Acceleration, Load Balancing, core Data Center Network elements (firewalls, switches, all Servers and Storage used to support underpinning services (such as Active Directory, Distributed File Systems, ADFS, . A portion of the MPC costs associated with supporting the infrastructure have been allocated to this RU.
- Development and Test Environment – Basis includes all hardware, software, network, and labor to support non-production environments used for new development projects. A portion of the MPC environment, calculated based on the current mix of Development vs M&O infrastructure, is allocated to this RU.

  There are two alternative pricing approaches that the County may wish to consider. Either or a combination of both may be applied at the County’s discretion:
  - Include the infrastructure and support for the on-demand managed private cloud in this RU, and all other development/test environments (anything not cloud compatible) would be funded on a per-server basis as they are today.
  - Include all Applications M&O environments in this RU, so that as applications move from development to M&O, the environments used for them do not have to change in their accounting/reporting structure – this would prevent the scenario of potentially having to re-price both RUs when a large application moves into production.
- Email Services – Basis is licensing and resources supporting the email portion of Office 365 with Exchange Online Advanced Threat Protection and Archiving. It also includes hardware, software, and support resources for Data Loss Prevention, RightFax™, and SMTP relay. Because encryption is included in the service, Email Encryption Services are not separately priced. Also included is the cost of HPES Enhanced Support for Office 365, which is a bridge service between the HPES Service Desk and Microsoft Support.
- Office 365 Network Enabler – This new Service has been added as a New Capability in Exhibit 16-1.1. The basis for the price is Netbond and MS Azure ExpressRoute service for Office 365 connectivity.

Storage

Storage RU does not include Disaster Recovery, storage in the Disaster Recovery site is covered by the Disaster Recovery Cross-Functional RU. Under the current tier definitions, any tier may also be presented as Network Attached Storage.

- Attached Storage – WINTEL- Basis is 1 GB of direct-attached storage, RAID – Protected.
- Attached Storage – UNIX - Basis is one GB of direct-attached storage, RAID – Protected.
- Storage - Document Processing Center (DPC) – Basis is one 5 TB dedicated storage array, and all hardware, software, and support resources for the server environment supporting this service. This also includes the cost of replication and VTL-based backups under current retention requirements.
- Storage - Primary Tier – Basis is hardware, software, and support resources for 1 GB 3PAR storage (SSD +10K drives), thick provisioned in the highest performing RAID configuration. This also includes the cost of VTL-based backups under current retention requirements.

- Storage - Secondary Tier – Basis is hardware, software, and support resources for 1 GB 3PAR storage (10K drives), thin provisioned. This also includes the cost of VTL-based backups under current retention requirements.
- Storage - Archive Tier – Basis is hardware, software, and support resources for 1 GB 3PAR storage (7200 RPM drives), thin provisioned. This also includes the cost of VTL-based backups under current retention requirements.
- Storage - Immutable Tier (1 TB) – Basis is hardware, software, and support resources to manage 1 TB storage on an EMC Centera or similar technology.
- Storage - Immutable Tier (500 GB) – Basis is hardware, software, and support resources to manage 500 GB storage on an EMC Centera or similar technology.

Print

- Print per 1,000 images (Paper) – Basis is printer hardware and software, forms, materials, and support resources to manage the centralized Print Services environment (per 1,000 images)
- Microfiche Originals – Basis is service to create fiche, support resources, and materials to manage the service.
- Microfiche Duplicates – Basis is service to duplicate fiche, support resources, and materials to manage the service.

Third-Party Agreements

Please refer to Section 3.5.4, Three-Tiered Resource Unit Approach, in this volume, for a description of these RUs.

Application Services

Applications Development Time and Materials (T&M) hours represent 1 hour of time for a person who meets the qualifications as defined in Exhibit EE/16.1-4, Labor Categories. Application Maintenance and Operations Services include resources and the development/test tools to support the environment. The pricing developed for Exhibit FF: Exhibit 16.1-5, Firm Fixed Price for Applications M&O includes all infrastructure, including a portion of the MPC, used to support this activity. The price does not include the effort for the Applications marked as retired in Exhibit 16.1-5 Applications.

Based on the hours included in Exhibit AA: Exhibit 16.1-1, Resource Unit Price Summary, price sheets, it appears the hours for Applications Maintenance and Operations support are also included in the evaluation volumes, and that Exhibit FF: Exhibit 16.1-5, Firm Fixed Price for Applications M&O, would duplicate the costs.

Transition Services

Each framework transition includes the cost to make process changes, develop new reports, update existing reports, set-up to measure and report new or modified service levels and post artifacts to the service portal. One-time costs to implement specific projects are included in the frameworks as required by Schedule 2.1, Transition Services, as listed below:

- Transition Services – Service Desk Framework – Resources and tools cost to implement the Service Portal.
- Transition Services – Application Services Framework - Resources to transition the SaaS applications.
- Transition Services – End-User Services Framework – No projects required.
- Transition Services – Network Services Framework - No projects required.

- Transition Services - Data Center Services Framework – Consolidation to one data center, implementation of new DR strategy and infrastructure, migration to MS Office 365, implementation of the on-demand Development and Test Environment, Storage Architecture.
- Transition Services – Cross-Functional Services Framework – Implementation of component-level management plans, and implementation of new DR Plans, Service Levels, Reporting, and Security requirements for the other Frameworks. The Cross Functional transition also includes some specific initiatives:
  - replacement of myRequests
  - implementation of the Application Performance Management Suite of tools (this is included in Cross Functional because it crosses and supports multiple frameworks)
  - Implementation of a number of Identity Management capabilities required by the Statement of Work.
- Transition Services – Transition Completion – No additional projects required.

Transformation Services

All transformation activities described include those projects specifically requested. All pricing provided is based on high-level assumptions and a notional project scope. As requirements are received, we will validate or refine the solution accordingly. Basis information for these projects follows.

- Desktop Services – Basis is infrastructure, software, and labor to implement and support an Application Virtualization environment for a widely used candidate application, such as Kronos. We estimated a starting user base of 200, with per-user pricing beyond that volume. A possible alternative would be to implement a small-scale pilot first, then develop a design targeted for specific applications.
- User Data Services – Basis is enhanced support for OneDrive for Business on a per-user basis. Data encryption in transit and at rest is included; however, no uplifted security or data protection design has been applied, beyond the native file versioning available from Microsoft.
- IT Application Portfolio Management Services – Basis is resources, hardware, and software to implement a project to implement the Mega tool, including consultants to install, customize, and configure the IT Portfolio Management Plus Solution - Advanced Edition solution and train HPES and County users. Notional solution basis (license volume) is:
  - One WorkBench User (Solutions)
  - One Administrator User (Solutions)
  - 30 ITPM Plus Solution - Contributors
  - 10 ITPM Plus Solution - Portfolio Manager - Advanced Edition Users
  - 5 ITPM Plus Solution - Portfolio Manager Users
- Network Transformation – Basis is AT&T Netbond dedicated, scalable, secure connection service to a third-party cloud provider. The following tiers are offered:
  - NetBond 1 Mbps
  - NetBond 3 Mbps
  - NetBond 10 Mbps
  - NetBond 25 Mbps
  - NetBond 40 Mbps
  - NetBond 100 Mbps
  - NetBond 155 Mbps
  - NetBond 300 Mbps
  - NetBond 600 Mbps
  - NetBond 800 Mbps
  - NetBond 1,000 Mbps
  - NetBond 2,000 Mbps
  - NetBond 3,000 Mbps

- NetBond 4,000 Mbps
- NetBond 5,000 Mbps

Note that connectivity to each cloud provider will require both a NetBond component and that cloud provider's equivalent.

- Voice Services Transformation – Included in Network Base Services under the Voice RU's. Not separately priced.
- Storage Architecture – Basis includes implementation and ongoing management of the ControlPoint software environment, based on an estimated 100 TB of unstructured data, and a pilot implementation (one-time cost only) of Structured Data Management. There are numerous other types of storage that could be offered for the County's consideration.
- E911 – Included in Network Base Services under the Voice RU's. Not separately priced.
- Identity Federated Services – Basis is tiered pricing for HPES Identity and Access Management as a Service (IAMaaS). Based on actual expected user volumes, we can modify the tier structure.
  - Identity Federated Services - up to 50k bundle
  - Identity Federated Services - up to 100k bundle
  - Identity Federated Services - up to 150k bundle
  - Identity Federated Services - up to 250k bundle
  - Identity Federated Services - up to 500k bundle
  - Identity Federated Services - up to 999k bundle
  - Identity Federated Services - up to 1,500k bundle

Two additional projects were suggested in the transformation volume of this proposal:

- Enterprise Information Management (EIM) – a consulting engagement focused on defining the vision and strategy for EIM as well as documenting the roadmap for subsequent implementation.
- Comprehensive Applications Threat Analysis (CATA) Services – these services can be ordered in the following ways:
  - Standard CATA Review includes a Security Requirements Gap Analysis (SRGA) and Architectural Threat Analysis (ATA) for one Application Architecture, for that Application's first review.
  - Delta CATA Review includes the same services as a Standard CATA Review, for one Application Architecture, for subsequent reviews, due to (for example) application changes or changes in security policy. A Standard CATA Review must have been completed at some previous time.
  - Time and Materials – Rates are provided for Strategist, Master, and Expert levels. These rates may be used for code assessments, application vulnerability assessments, and Penetration Testing, or other application security services, as required.

Additional or Alternative Resource Units

Hybrid Cloud Environment Add-On RUs - The following optional resource units are offered for the County's consideration. These are add-ons to the hybrid cloud environment, and cannot be implemented independently. Pricing for these options includes the ability to provision and monitor the instances, and does not include the cost of the instance resources themselves, nor underlying infrastructure as noted in the sub-bullets.

- Option to provision virtual server environments in Amazon Web Services or Microsoft Azure public or Government clouds.
  - Cost of Netbond-type connectivity will be priced and offered separately once the County's bandwidth requirement for this service is determined.

- Option to provision Oracle VM Server for SPARC VMs in the Tulsa Data Center.
  - Cost of underlying infrastructure (Oracle physical servers and operating software) would be priced separately as part of the underlying resource units' infrastructure, as with traditionally hosted environments

Disaster Recovery (DR) Management Services RUs - To assist with one of the County's goals of having changes in scale addressed through volume changes, HPES is proposing an alternative RU structure for the Disaster Recovery (DR) Management Services. HPES proposes the following RU's:

- DR Labor – Represents the Labor to manage and update DR process and plans. This RU also contains the labor for DR Exercise Coordination and providing Exercise Collateral.
- DR Infrastructure – Represents the Hardware, Software, and Labor to support the DR Infrastructure. This costs includes the cost of the BRS Site Service Charge, Base Network and circuit costs, Recovery Management and Configuration Servers, and 100MBPs Internet Bandwidth.
- DR Small Windows/Linux – 72 Hour RTO – Represents the server subscription price for small physical servers. Servers falling under this band will contain 1-2 cores and includes ProLiant BL460, and PowerEdge 2850s.
- DR Medium Windows/Linux – 72 Hour RTO – Represents the server subscription price for medium physical servers. Servers falling under this band will contain 4-8 cores include ProLiant BL660, and PowerEdge 1950s.
- DR Large Windows/Linux – 72 Hour RTO – Represents the server subscription price for large physical servers. Servers falling under this band will contain 8-16 cores.
- DR X-Large Windows/Linux – 72 Hour RTO – Represents the server subscription price for extra large physical servers. Servers falling under this band will contain greater than 16 cores and includes ProLiant DL580e G9 or the equivalent.
- DR Medium Solaris – 72 Hour RTO – Represents the server subscription price for small physical servers. Servers falling under this band will contain 16 cores and includes SPARC T4-1 or SPARC T4-4
- DR Large Solaris – 72 Hour RTO – Represents the server subscription price for small physical servers. Servers falling under this band will contain 16-32 cores and includes SPARC Enterprise M5000
- DR X-Large Solaris – 72 Hour RTO – Represents the server subscription price for small physical servers. Servers falling under this band includes SPARC Enterprise M3000
- DR VTL Based Storage – 72 Hour RTO – Includes the hardware, software and labor support for VTL storage.
- DR Small Virtual – 48 Hour RTO - Represents the server subscription price for small physical servers. Servers falling under this band will contain 1-2 cores
- DR Medium Virtual – 48 Hour RTO Represents the server subscription price for small physical servers. Servers falling under this band will contain 4 cores
- DR Large Virtual – 48 Hour RTO Represents the server subscription price for small physical servers. Servers falling under this band will contain 8 cores
- DR 3PAR Based Storage – 48 Hour RTO – Includes the hardware, software and labor support for storage. Includes Continuous Data Protection.

3.5.2 Resource Unit Fee Modification

HPES has provided the banded pricing as defined in Exhibit BB:Exhibit 16.1-1a, Fees Sample Calculation.

3.5.3 Third-Party Applications

Under the Applications M&O Services, these 169 cloud-based applications have been included as M&O bundles in Exhibit FF. HPES will create help desk scripts as required for Tier 1 support. The application information will be entered and maintained in the applications CMDB.

Cloud-Based Retained Assets can be submitted for transfer to HPES as third-party software using the existing County and HPES Contract Transfer Request Form. Cloud-Based Retained Assets transferred as Third-Party Software will incur the Third-Party Agreement fees.

3.5.4 Three-Tiered Resource Unit Approach

HPES is proposing the following pricing tiers based on our experience supporting the County of San Diego as shown in Table 4. . These fees are applicable as defined in Schedule 16.1-1, Section 8.1.1 and distinct from the Contract and Acquisition Management Services resource unit.

Table 4. Pricing Tiers

RESOURCE UNIT	FEE	DESCRIPTION
Third Party – Tier 1	$10,000 per occurrence	Negotiation of an agreement with a New Third-Party Vendor, as defined below,in excess of $500,000
Third Party – Tier 2	$5,000 per occurrence	Negotiation of an agreement with a New Third-Party Vendor up to $500,000
Third Party – Tier 3	5% of transaction amount with a minimum fee of $100 and maximum fee of $50,000	Fee applied to the below transactions for products and services which are not provided by services for which Contractor is paid a Resource Unit Fee • Portfolio Software - Perpetual License Purchase • Portfolio Software - Perpetual License Maintenance Renewal • Portfolio Software - SaaS Subscription Licenses Purchase/Renewal • Portfolio Software - Cloud/ASP Subscription • Labor SOW • Labor Agency Contractor • Hardware • Hardware Maintenance

Tier 1 or Tier 2 is assessed on execution of a signed contract between HPES and the New Third-Party Vendor. A New Third-Party Vendor is defined as a vendor with whom HPE does not have a current agreement applicable to the transaction, whether never existed or expired, for which new terms and conditions must be negotiated.

Tier 3 is assessed, in addition to Tier 1 or Tier 2 if those are applicable, upon receipt of invoices from third-party vendor. The Tier 3 fee is assessed on the total transaction amount including shipping costs and taxes.

Below are examples of the application of above Resource Units:

- County requests HPES to contract with company AAA for labor services in the amount of $100,000. Company AAA is a third-party vendor currently contracted by HPES in support of the Services.

The total fees are:

- (1) "Third Party – Tier 3" for 5% of transaction amount of $100,000 equaling $5,000.

- County requests HPES to contract and purchase software licenses from company BBB. Company BBB is not a third-party vendor currently contracted by HPES in support of the Services. The vendor price of the software is $80,000 plus $20,000 for the first year of software maintenance.

The fees are:

- (1) "Third Party – Tier 2" for $5,000 plus
- (1) "Third Party – Tier 3" for 5% of transaction amount of $100,000 equaling $5,000.

Total fees are $10,000.

1. County requests HPES to transact a software maintenance renewal from company BBB Company. Company BBB is a third-party vendor currently contracted by HPES in support of the Services. The vendor price for the software maintenance renewal is $20,000.

The total fees are:

- (1) "Third Party – Tier 3" for 5% of transaction amount of $20,000 equaling $1,000.

2. County requests HPES to purchase a large scanner not available in the OIC catalog or as a Resource Unit. The price of the scanner is $10,000. The scanner can be purchased by HPES through a third-party vendor currently contracted by HPES in support of the Services.

The total fees are:

- "Third Party – Tier 3" for 5% of transaction amount of $10,000 equaling $500.

The following table shows County's historical third-party spend through the ITO Contract, including licenses, license maintenance, ISRs (labor, hardware), and the OIC catalog.

Table 5. Historical ITO Third-Party Resale Spend

HISTORICAL ITO THIRD-PARTY RESALE SPEND

Period: May 2011 - June 2016						
In $000's						
	FY Ending June 30, 2011	FY Ending June 30, 2012	FY Ending June 30, 2013	FY Ending June 30, 2014	FY Ending June 30, 2015	FY Ending June 30, 2016
3rd Party COTS Licenses	90	2,292	5,038	4,310	4,430	3,077
3rd Party COTS Maint	826	7,805	12,493	9,822	10,875	10,856
Individual Service Request	1,489	5,514	7,755	7,819	5,993	5,398
OIPC Catalog	344	1,816	1,850	1,439	1,708	1,627
Grand Total	2,749	17,427	27,137	23,389	23,005	20,957

3.5.5 Applications Services

Left blank intentionally

3.5.6 Pricing Appendix

See Appendix 3.8, Exhibit AA: Exhibit 16.1-1 Resource Unit Price Summary, and Exhibit CC: Exhibit 16.1-2, Resource Unit Price Decomposition, for required exhibit.

3.5.6.3. Complete and submit in Microsoft Word Exhibit 16.1-3 Maximum Annual Fee as follows:

See Appendix 3.8, Exhibit DD: Exhibit 16.1-3 Maximum Annual Fee, for required exhibit.

3.5.6.4. Complete and submit in Microsoft Excel Exhibit 16.1-5 Fixed Price for Applications Maintenance & Operations as follows based on instructions in the 'Exhibit 16.1-5 Questions' tab.

See Appendix 3.8, Exhibit FF: Exhibit 16.1-5 Firm Fixed Price for Applications M&O, for required exhibit.

3.5.6.5. Complete and submit in Microsoft Word Exhibit 16.1-5b Fixed Price for Applications Maintenance & Operations as follows:

See Appendix 3.8, Exhibit GG: Exhibit 16.1-5b Firm Fixed Price for Applications M&O, for required exhibit.

3.6 Assumptions

ITEM #	REFERENCE (SECTION, PAGE, PARAGRAPH)	DESCRIPTION	RATIONALE
1.	General	The County and HPES will execute a letter agreement regarding Telecom Transport Services similar to the existing agreement dated 4/12/2011 or otherwise incorporate such changes into the RFP terms and conditions prior to contract signature.	This will support HPES compliance with Federal law regarding certain regulated telecommunications services and allow for more favorable pricing to the County

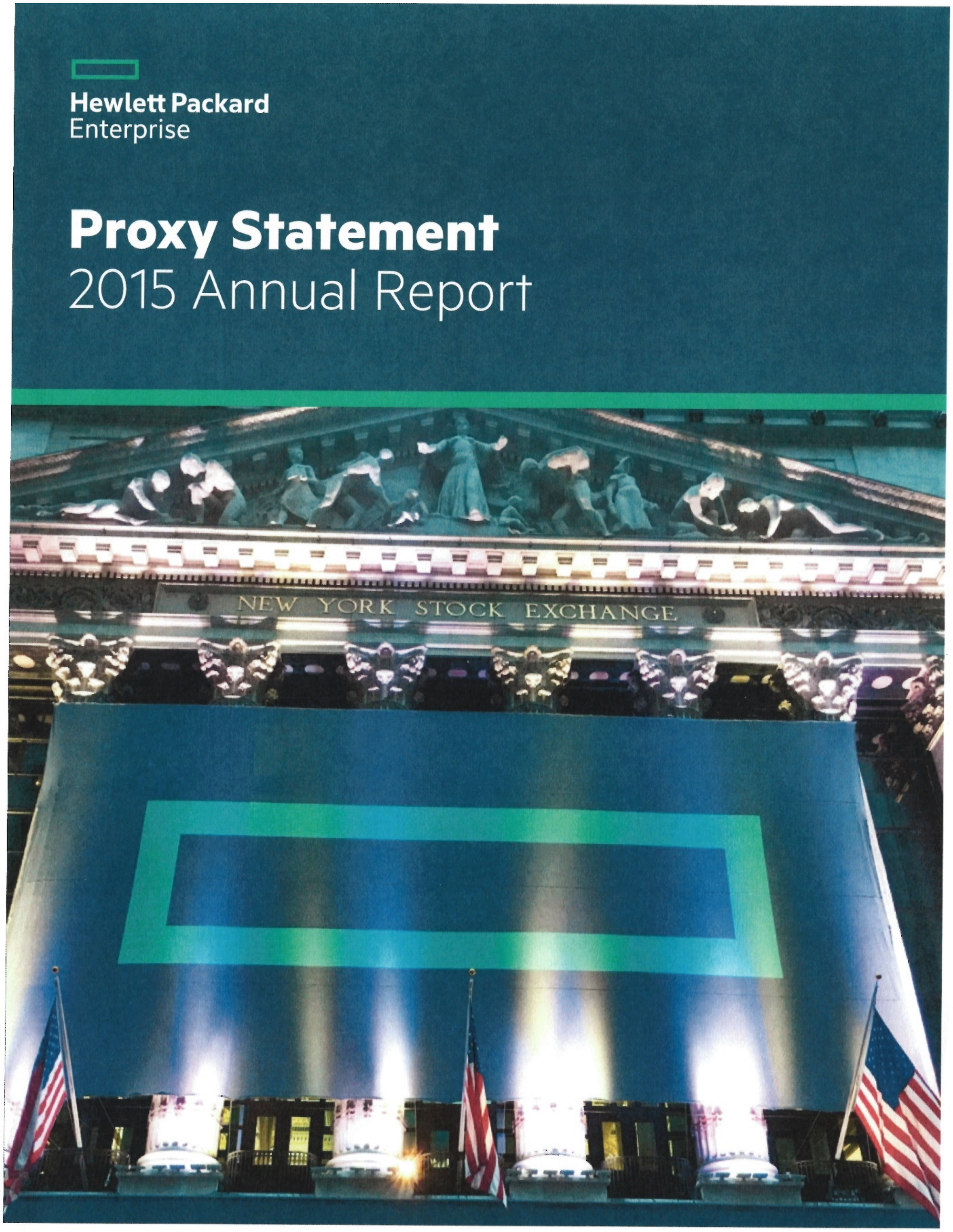
3.7 Offeror Response to Pricing Exceptions

ITEM #	REFERENCE (SECTION, PAGE, PARAGRAPH)	EXCEPTION	OFFEROR PROPOSED SOLUTION/RATIONALE AND BENEFITS OF PROPOSED SOLUTION TO THE COUNTY
1.			
2.			
3.			

HPES has no pricing exceptions.

3.8 Appendix

HPES 3-year Audited Financials


Hewlett Packard
Enterprise
Proxy Statement
2015 Annual Report
NEW YORK STOCK EXCHANGE

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying combined and consolidated balance sheets of Hewlett Packard Enterprise Company and subsidiaries (the "Company") as of October 31, 2015 and 2014, and the related combined and consolidated statements of earnings, comprehensive income, cash flows, and equity for each of the three years in the period ended October 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined and consolidated financial position of Hewlett Packard Enterprise Company and subsidiaries at October 31, 2015 and 2014, and the combined and consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Jose, California
December 17, 2015

HEWLETT PACKARD ENTERPRISE COMPANY AND SUBSIDIARIES

Combined and Consolidated Statements of Earnings

	For the fiscal years ended October 31		
	2015	2014	2013
	In millions, except per share amounts		
Net revenue:			
Products	$19,635	$19,171	$19,383
Services	32,111	35,551	37,541
Financing income	361	401	447
Total net revenue	52,107	55,123	57,371
Costs and expenses:			
Cost of products	12,978	12,394	12,360
Cost of services	23,950	26,815	28,958
Financing interest	240	277	312
Research and development	2,338	2,197	1,956
Selling, general and administrative	8,025	8,717	8,601
Amortization of intangible assets	852	906	1,228
Restructuring charges	954	1,471	983
Acquisition and other related charges	89	11	21
Separation costs	797	—	—
Defined benefit plan settlement charges	225	—	—
Impairment of data center assets	136	—	—
Total costs and expenses	50,584	52,788	54,419
Earnings from operations	1,523	2,335	2,952
Interest and other, net	(53)	(91)	(81)
Earnings before taxes	1,470	2,244	2,871
Benefit (provision) for taxes	991	(596)	(820)
Net earnings	$ 2,461	$ 1,648	$ 2,051
Net earnings per share[(1)]:			
Basic	$ 1.36	$ 0.91	$ 1.14
Diluted	$ 1.34	$ 0.90	$ 1.12
Number of shares used to compute net earnings per share[(1)]:			
Basic	1,804	1,804	1,804
Diluted	1,834	1,834	1,834

(1) On November 1, 2015, HP Inc. (formerly Hewlett-Packard Company) distributed a total of 1.8 billion shares of Hewlett Packard Enterprise common stock to HP Inc. stockholders as of the record date. The number of shares used to compute basic and diluted net earnings per share ("EPS") for the period ended October 31, 2015 is used for the calculation of net EPS for all periods presented. See Note 16, "Net Earnings Per Share", for further details.

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

HEWLETT PACKARD ENTERPRISE COMPANY AND SUBSIDIARIES

Combined and Consolidated Statements of Comprehensive Income

	For the fiscal years ended October 31		
	2015	2014	2013
	In millions		
Net earnings	$ 2,461	$1,648	$2,051
Other comprehensive (loss) income before taxes:			
Change in unrealized (losses) gains on available-for-sale securities:			
Unrealized (losses) gains arising during the period	(10)	5	44
Gains reclassified into earnings	—	(1)	(49)
	(10)	4	(5)
Change in unrealized gains (losses) on cash flow hedges:			
Unrealized gains arising during the period	481	111	36
(Gains) losses reclassified into earnings	(480)	60	(53)
	1	171	(17)
Change in unrealized components of defined benefit plans:			
(Losses) gains arising during the period	(382)	(794)	115
Amortization of actuarial loss and prior service benefit	214	82	86
Curtailments, settlements and other	4	18	9
Plans transferred from Parent during the period	(2,607)	—	—
Merged into Parent's Shared plans during the period	—	61	142
	(2,771)	(633)	352
Change in cumulative translation adjustment	(198)	(85)	(150)
Other comprehensive (loss) income before taxes	(2,978)	(543)	180
Benefit (provision) for taxes	211	(10)	(76)
Other comprehensive (loss) income, net of taxes	(2,767)	(553)	104
Comprehensive (loss) income	$ (306)	$1,095	$2,155

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

HEWLETT PACKARD ENTERPRISE COMPANY AND SUBSIDIARIES

Combined and Consolidated Balance Sheets

	As of October 31	
	2015	2014
	In millions	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,842	$ 2,319
Accounts receivable	8,538	8,423
Financing receivables	2,918	2,974
Inventory	2,198	1,884
Other current assets	7,677	6,431
Total current assets	31,173	22,031
Property, plant and equipment	9,886	8,520
Long-term financing receivables and other assets	11,020	6,503
Goodwill	27,261	25,960
Intangible assets	1,930	2,057
Total assets	$81,270	$65,071
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 691	$ 894
Accounts payable	5,828	4,889
Employee compensation and benefits	2,902	2,737
Taxes on earnings	634	706
Deferred revenue	5,154	5,129
Accrued restructuring	628	711
Other accrued liabilities	6,314	4,694
Total current liabilities	22,151	19,760
Long-term debt	15,103	485
Other liabilities	10,098	7,654
Commitments and contingencies		
Equity:		
Parent company investment	38,550	39,024
Retained earnings	—	—
Accumulated other comprehensive loss	(5,015)	(2,248)
Equity attributable to the Company	33,535	36,776
Non-controlling interests	383	396
Total equity	33,918	37,172
Total liabilities and equity	$81,270	$65,071

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

HEWLETT PACKARD ENTERPRISE COMPANY AND SUBSIDIARIES

Combined and Consolidated Statements of Cash Flows

	For the fiscal years ended October 31		
	2015	2014	2013
	In millions		
Cash flows from operating activities:			
Net earnings	$ 2,461	$ 1,648	$ 2,051
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	3,947	4,144	4,396
Stock-based compensation expense	565	427	374
Provision for doubtful accounts	52	80	81
Provision for inventory	155	125	161
Restructuring charges	954	1,471	983
Deferred taxes on earnings	(2,522)	(304)	(248)
Excess tax benefit from stock-based compensation	(100)	(44)	(1)
Other, net	376	11	325
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	9	986	580
Financing receivables	(393)	428	478
Inventory	(424)	69	(251)
Accounts payable	868	611	472
Taxes on earnings	956	404	532
Restructuring	(1,021)	(1,239)	(733)
Other assets and liabilities	(2,222)	(1,906)	(461)
Net cash provided by operating activities	3,661	6,911	8,739
Cash flows from investing activities:			
Investment in property, plant and equipment	(3,344)	(3,620)	(2,497)
Proceeds from sale of property, plant and equipment	380	606	370
Purchases of available-for-sale securities and other investments	(243)	(940)	(938)
Maturities and sales of available-for-sale securities and other investments	298	1,023	1,005
Payments made in connection with business acquisitions, net of cash acquired	(2,644)	(49)	(167)
Proceeds from business divestitures, net	140	6	—
Net cash used in investing activities	(5,413)	(2,974)	(2,227)
Cash flows from financing activities:			
Short-term borrowings with original maturities less than 90 days, net	(39)	18	(121)
Issuance of debt	866	852	1,083
Payment of debt	(1,077)	(1,135)	(2,200)
Net transfers from (to) Parent	9,440	(3,542)	(5,196)
Issuance of Senior Notes relating to separation	14,546	—	—
Distribution of net proceeds of Senior Notes relating to separation to Parent	(14,529)	—	—
Cash dividends paid to non-controlling interests	(32)	(37)	(31)
Excess tax benefit from stock-based compensation	100	44	1
Net cash provided by (used in) financing activities	9,275	(3,800)	(6,464)
Increase in cash and cash equivalents	7,523	137	48
Cash and cash equivalents at beginning of period	2,319	2,182	2,134
Cash and cash equivalents at end of period	$ 9,842	$ 2,319	$ 2,182
Supplemental cash flow disclosures:			
Income taxes paid, net of refunds	$ 192	$ 302	$ 354
Interest expense paid	$ 291	$ 357	$ 374
Supplemental schedule of non-cash investing and financing activities:			
Net transfers of property, plant and equipment from Parent	$ 1,788	$ —	$ —

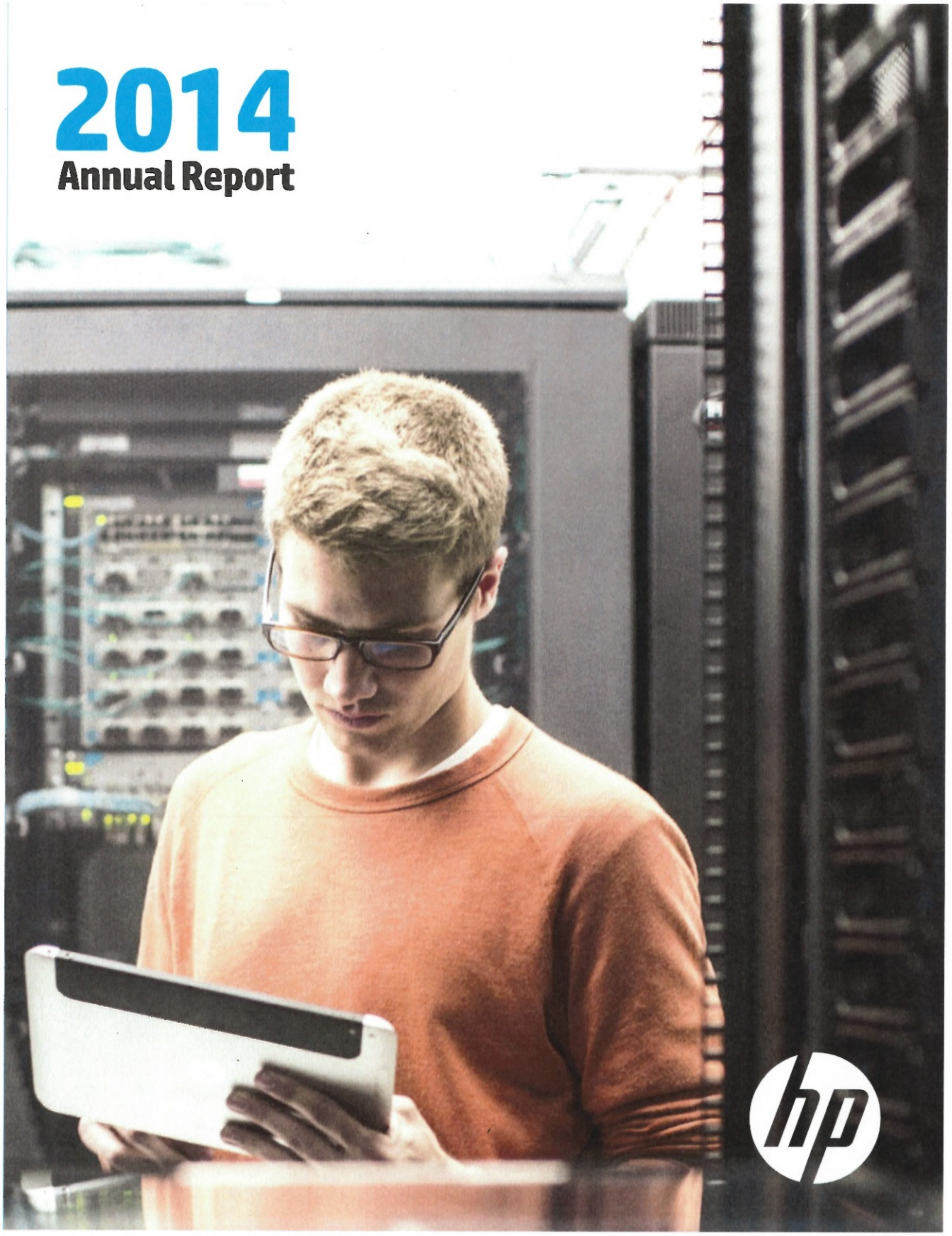
The accompanying notes are an integral part of these Combined and Consolidated Financial Statements.

HEWLETT PACKARD ENTERPRISE COMPANY AND SUBSIDIARIES

Combined and Consolidated Statements of Equity

	Parent Company Investment	Accumulated Other Comprehensive Loss	Equity Attributable to the Company	Non-controlling Interests	Total Equity
			In millions		
Balance at October 31, 2012	$ 40,971	$(1,799)	$ 39,172	$397	$ 39,569
Net earnings	2,051		2,051		2,051
Other comprehensive income		104	104		104
Comprehensive income			2,155		2,155
Net transfers to Parent	(3,339)		(3,339)		(3,339)
Changes in non-controlling interests				(10)	(10)
Balance at October 31, 2013	39,683	(1,695)	37,988	387	38,375
Net earnings	1,648		1,648		1,648
Other comprehensive loss		(553)	(553)		(553)
Comprehensive income			1,095		1,095
Net transfers to Parent	(2,307)		(2,307)		(2,307)
Changes in non-controlling interests				9	9
Balance at October 31, 2014	39,024	(2,248)	36,776	396	37,172
Net earnings	2,461		2,461		2,461
Other comprehensive loss		(2,767)	(2,767)		(2,767)
Comprehensive income			(306)		(306)
Net transfers from Parent	11,594		11,594		11,594
Distribution of net proceeds of Senior Notes to Parent	(14,529)		(14,529)		(14,529)
Changes in non-controlling interests				(13)	(13)
Balance at October 31, 2015	$ 38,550	$(5,015)	$ 33,535	$383	$ 33,918

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


2014
Annual Report
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Report of Independent Registered Public Accounting Firm

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

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

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

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

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

/s/ ERNST & YOUNG LLP

San Jose, California
December 17, 2014

Report of Independent Registered Public Accounting Firm

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

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

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

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

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

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

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

/s/ ERNST & YOUNG LLP

San Jose, California
December 17, 2014

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Management's Report on Internal Control Over Financial Reporting

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

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

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

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings

	For the fiscal years ended October 31		
	2014	2013	2012
	In millions, except per share amounts		
Net revenue:			
Products	$ 73,726	$ 72,398	$ 77,887
Services	37,327	39,453	42,008
Financing income	401	447	462
Total net revenue	111,454	112,298	120,357
Costs and expenses:			
Cost of products	56,469	55,632	59,468
Cost of services	28,093	30,436	32,600
Financing interest	277	312	317
Research and development	3,447	3,135	3,399
Selling, general and administrative	13,353	13,267	13,500
Amortization of intangible assets	1,000	1,373	1,784
Impairment of goodwill and intangible assets	—	—	18,035
Restructuring charges	1,619	990	2,266
Acquisition-related charges	11	22	45
Total operating expenses	104,269	105,167	131,414
Earnings (loss) from operations	7,185	7,131	(11,057)
Interest and other, net	(628)	(621)	(876)
Earnings (loss) before taxes	6,557	6,510	(11,933)
Provision for taxes	(1,544)	(1,397)	(717)
Net earnings (loss)	$ 5,013	$ 5,113	$ (12,650)
Net earnings (loss) per share:			
Basic	$ 2.66	$ 2.64	$ (6.41)
Diluted	$ 2.62	$ 2.62	$ (6.41)
Weighted-average shares used to compute net earnings (loss) per share:			
Basic	1,882	1,934	1,974
Diluted	1,912	1,950	1,974

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

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

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

	As of October 31	
	2014	2013
	In millions, except par value	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,133	$ 12,163
Accounts receivable	13,832	15,876
Financing receivables	2,946	3,144
Inventory	6,415	6,046
Other current assets	11,819	13,135
Total current assets	50,145	50,364
Property, plant and equipment	11,340	11,463
Long-term financing receivables and other assets	8,454	9,556
Goodwill	31,139	31,124
Intangible assets	2,128	3,169
Total assets	$103,206	$105,676
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 3,486	$ 5,979
Accounts payable	15,903	14,019
Employee compensation and benefits	4,209	4,436
Taxes on earnings	1,017	1,203
Deferred revenue	6,143	6,477
Accrued restructuring	898	901
Other accrued liabilities	12,079	12,506
Total current liabilities	43,735	45,521
Long-term debt	16,039	16,608
Other liabilities	16,305	15,891
Commitments and contingencies		
Stockholders' equity:		
HP stockholders' equity		
Preferred stock, $0.01 par value (300 shares authorized; none issued)	—	—
Common stock, $0.01 par value (9,600 shares authorized; 1,839 and 1,908 shares issued and outstanding at October 31, 2014 and October 31, 2013, respectively)	18	19
Additional paid-in capital	3,430	5,465
Retained earnings	29,164	25,563
Accumulated other comprehensive loss	(5,881)	(3,778)
Total HP stockholders' equity	26,731	27,269
Non-controlling interests	396	387
Total stockholders' equity	27,127	27,656
Total liabilities and stockholders' equity	$103,206	$105,676

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	For the fiscal years ended October 31		
	2014	2013	2012
		In millions	
Cash flows from operating activities:			
Net earnings (loss)	$ 5,013	$ 5,113	$(12,650)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,334	4,611	5,095
Impairment of goodwill and intangible assets	—	—	18,035
Stock-based compensation expense	560	500	635
Provision for doubtful accounts	55	61	142
Provision for inventory	211	275	277
Restructuring charges	1,619	990	2,266
Deferred taxes on earnings	(34)	(410)	(711)
Excess tax benefit from stock-based compensation	(58)	(2)	(12)
Other, net	81	443	265
Changes in operating assets and liabilities (net of acquisitions):			
Accounts receivable	2,017	530	1,687
Financing receivables	420	484	(418)
Inventory	(580)	(4)	890
Accounts payable	1,912	541	(1,414)
Taxes on earnings	310	417	(320)
Restructuring	(1,506)	(904)	(840)
Other assets and liabilities	(2,021)	(1,037)	(2,356)
Net cash provided by operating activities	12,333	11,608	10,571
Cash flows from investing activities:			
Investment in property, plant and equipment	(3,853)	(3,199)	(3,706)
Proceeds from sale of property, plant and equipment	843	653	617
Purchases of available-for-sale securities and other investments	(1,086)	(1,243)	(972)
Maturities and sales of available-for-sale securities and other investments	1,347	1,153	662
Payments made in connection with business acquisitions, net of cash acquired	(49)	(167)	(141)
Proceeds from business divestiture, net	6	—	87
Net cash used in investing activities	(2,792)	(2,803)	(3,453)
Cash flows from financing activities:			
Short-term borrowings with original maturities less than 90 days, net	148	(154)	(2,775)
Issuance of debt	2,875	279	5,154
Payment of debt	(6,037)	(5,721)	(4,333)
Issuance of common stock under employee stock plans	297	288	716
Repurchase of common stock	(2,728)	(1,532)	(1,619)
Excess tax benefit from stock-based compensation	58	2	12
Cash dividends paid	(1,184)	(1,105)	(1,015)
Net cash used in financing activities	(6,571)	(7,943)	(3,860)
Increase in cash and cash equivalents	2,970	862	3,258
Cash and cash equivalents at beginning of period	12,163	11,301	8,043
Cash and cash equivalents at end of period	$15,133	$12,163	$ 11,301
Supplemental cash flow disclosures:			
Income taxes paid (net of refunds)	$ 1,267	$ 1,391	$ 1,750
Interest expense paid	678	837	856
Supplemental schedule of non-cash investing and financing activities:			
Purchase of assets under capital leases	$ 113	$ 3	$ 12

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Common Stock							
	Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total HP Stockholders' Equity	Non-controlling Interests	Total
			In millions, except number of shares in thousands					
Balance October 31, 2011	1,990,506	$20	$ 6,837	$ 35,266	$(3,498)	$ 38,625	$379	$ 39,004
Net loss				(12,650)		(12,650)		(12,650)
Other comprehensive loss					(2,061)	(2,061)		(2,061)
Comprehensive loss						(14,711)		(14,711)
Issuance of common stock in connection with employee stock plans and other	39,068		682	1		683		683
Repurchases of common stock	(66,736)		(1,525)	(101)		(1,626)		(1,626)
Tax deficiency from employee stock plans			(175)			(175)		(175)
Cash dividends declared				(995)		(995)		(995)
Stock-based compensation expense			635			635		635
Changes in non-controlling interest							18	18
Balance October 31, 2012	1,962,838	$20	$ 6,454	$ 21,521	$(5,559)	$ 22,436	$397	$ 22,833
Net earnings				5,113		5,113		5,113
Other comprehensive income					1,781	1,781		1,781
Comprehensive income						6,894		6,894
Issuance of common stock in connection with employee stock plans and other	22,950		210	(2)		208		208
Repurchases of common stock	(77,905)	(1)	(1,550)	5		(1,546)		(1,546)
Tax deficiency from employee stock plans			(149)			(149)		(149)
Cash dividends declared				(1,074)		(1,074)		(1,074)
Stock-based compensation expense			500			500		500
Changes in non-controlling interest							(10)	(10)
Balance October 31, 2013	1,907,883	$19	$ 5,465	$ 25,563	$(3,778)	$ 27,269	$387	$ 27,656
Net earnings				5,013		5,013		5,013
Other comprehensive income					(2,103)	(2,103)		(2,103)
Comprehensive income						2,910		2,910
Issuance of common stock in connection with employee stock plans and other	23,785		142	1		143		143
Repurchases of common stock	(92,380)	(1)	(2,694)	(262)		(2,957)		(2,957)
Tax deficiency from employee stock plans			(43)			(43)		(43)
Cash dividends declared				(1,151)		(1,151)		(1,151)
Stock-based compensation expense			560			560		560
Changes in non-controlling interest							9	9
Balance October 31, 2014	1,839,288	$18	$ 3,430	$ 29,164	$(5,881)	$ 26,731	$396	$ 27,127

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

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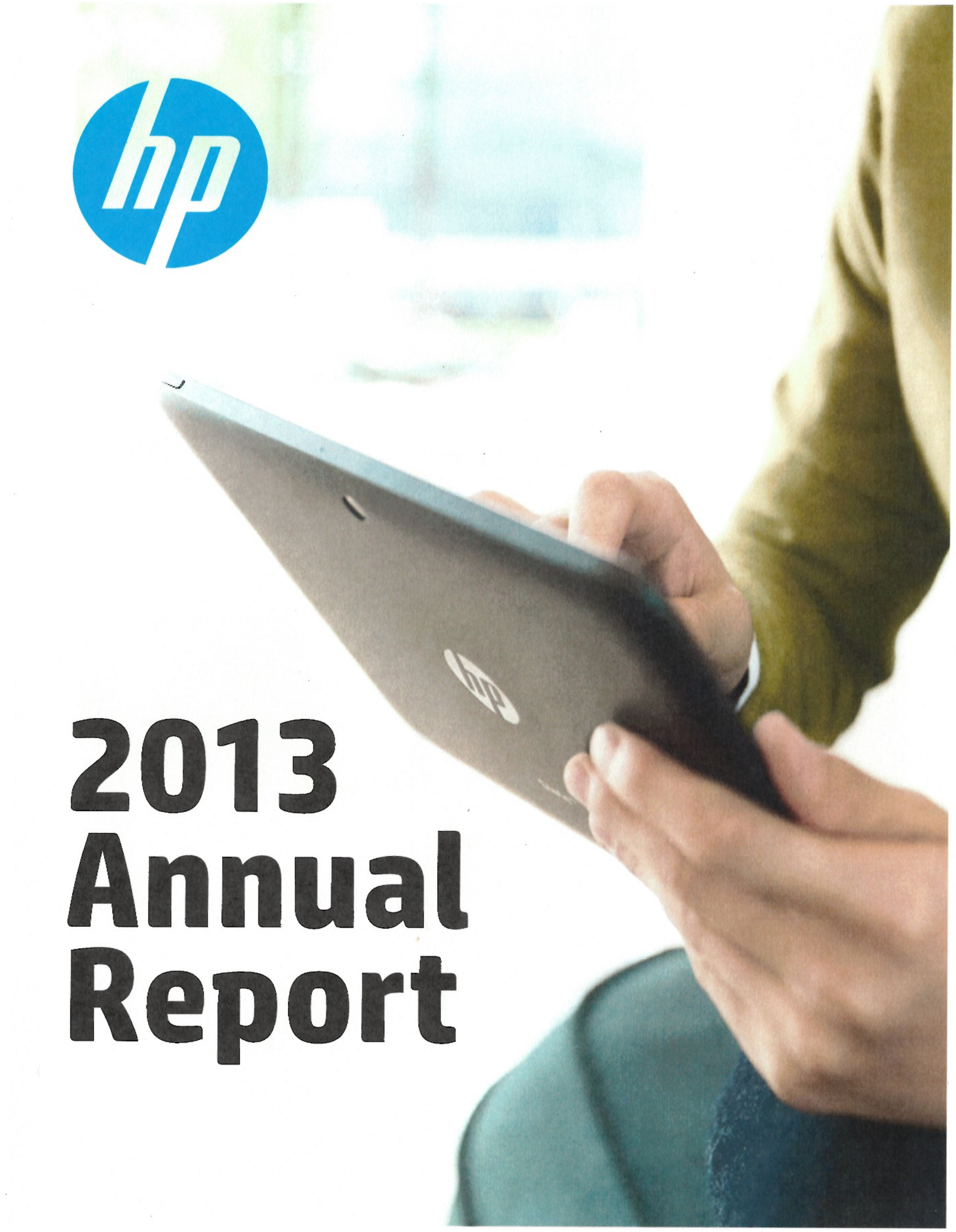
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Annual
Report

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Hewlett-Packard Company and subsidiaries as of October 31, 2013 and 2012, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hewlett-Packard Company and subsidiaries at October 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hewlett-Packard Company's internal control over financial reporting as of October 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated December 27, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
December 27, 2013

Report of Independent Registered Public Accounting Firm

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

We have audited Hewlett-Packard Company's internal control over financial reporting as of October 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Hewlett-Packard Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Hewlett-Packard Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Hewlett-Packard Company and subsidiaries as of October 31, 2013 and 2012, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2013 and our report dated December 27, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
December 27, 2013

Management's Report on Internal Control Over Financial Reporting

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

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

HP's management assessed the effectiveness of HP's internal control over financial reporting as of October 31, 2013, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (1992 framework). Based on the assessment by HP's management, we determined that HP's internal control over financial reporting was effective as of October 31, 2013. The effectiveness of HP's internal control over financial reporting as of October 31, 2013 has been audited by Ernst & Young LLP, HP's independent registered public accounting firm, as stated in their report which appears on page 78 of this Annual Report on Form 10-K.

/s/ MARGARET C. WHITMAN

Margaret C. Whitman
President and Chief Executive Officer
December 27, 2013

/s/ CATHERINE A. LESJAK

Catherine A. Lesjak
Executive Vice President and Chief Financial Officer
December 27, 2013

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Earnings

	For the fiscal years ended October 31		
	2013	2012	2011
	In millions, except per share amounts		
Net revenue:			
Products	$ 72,398	$ 77,887	$ 84,757
Services	39,453	42,008	42,039
Financing income	447	462	449
Total net revenue	112,298	120,357	127,245
Costs and expenses:			
Cost of products	55,632	59,468	65,167
Cost of services	30,436	32,600	31,945
Financing interest	312	317	306
Research and development	3,135	3,399	3,254
Selling, general and administrative	13,267	13,500	13,577
Amortization of intangible assets	1,373	1,784	1,607
Impairment of goodwill and intangible assets	—	18,035	885
Restructuring charges	990	2,266	645
Acquisition-related charges	22	45	182
Total operating expenses	105,167	131,414	117,568
Earnings (loss) from operations	7,131	(11,057)	9,677
Interest and other, net	(621)	(876)	(695)
Earnings (loss) before taxes	6,510	(11,933)	8,982
Provision for taxes	(1,397)	(717)	(1,908)
Net earnings (loss)	$ 5,113	$ (12,650)	$ 7,074
Net earnings (loss) per share:			
Basic	$ 2.64	$ (6.41)	$ 3.38
Diluted	$ 2.62	$ (6.41)	$ 3.32
Weighted-average shares used to compute net earnings (loss) per share:			
Basic	1,934	1,974	2,094
Diluted	1,950	1,974	2,128

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

	For the fiscal years ended October 31		
	2013	2012	2011
		In millions	
Net earnings (loss)	$5,113	$(12,650)	$7,074
Other comprehensive income (loss) before tax:			
Change in unrealized gains on available-for-sale securities:			
Unrealized gains arising during the period	52	25	17
Gains reclassified into earnings	(49)	—	—
	3	25	17
Change in unrealized (losses) gains on cash flow hedges:			
Unrealized (losses) gains arising during the period	(243)	335	(374)
Losses (gains) reclassified into earnings	106	(399)	658
	(137)	(64)	284
Change in unrealized components of defined benefit plans:			
Gains (losses) arising during the period	1,953	(2,457)	(289)
Amortization of actuarial loss and prior service benefit	326	172	174
Curtailments, settlements and other	25	122	2
	2,304	(2,163)	(113)
Change in cumulative translation adjustment	(150)	(47)	66
Other comprehensive income (loss) before taxes	2,020	(2,249)	254
(Provision) benefit for taxes	(239)	188	85
Other comprehensive income (loss), net of tax	1,781	(2,061)	339
Comprehensive income (loss)	$6,894	$(14,711)	$7,413

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

	As of October 31 2013	As of October 31 2012
	In millions, except par value	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,163	$ 11,301
Accounts receivable	15,876	16,407
Financing receivables	3,144	3,252
Inventory	6,046	6,317
Other current assets	13,135	13,360
Total current assets	50,364	50,637
Property, plant and equipment	11,463	11,954
Long-term financing receivables and other assets	9,556	10,593
Goodwill	31,124	31,069
Intangible assets	3,169	4,515
Total assets	$105,676	$108,768
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and short-term borrowings	$ 5,979	$ 6,647
Accounts payable	14,019	13,350
Employee compensation and benefits	4,436	4,058
Taxes on earnings	1,203	846
Deferred revenue	6,477	7,494
Accrued restructuring	901	771
Other accrued liabilities	12,506	13,500
Total current liabilities	45,521	46,666
Long-term debt	16,608	21,789
Other liabilities	15,891	17,480
Commitments and contingencies		
Stockholders' equity:		
HP stockholders' equity		
Preferred stock, $0.01 par value (300 shares authorized; none issued)	—	—
Common stock, $0.01 par value (9,600 shares authorized; 1,908 and 1,963 shares issued and outstanding, respectively)	19	20
Additional paid-in capital	5,465	6,454
Retained earnings	25,563	21,521
Accumulated other comprehensive loss	(3,778)	(5,559)
Total HP stockholders' equity	27,269	22,436
Non-controlling interests	387	397
Total stockholders' equity	27,656	22,833
Total liabilities and stockholders' equity	$105,676	$108,768

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	For the fiscal years ended October 31		
	2013	2012	2011
		In millions	
Cash flows from operating activities:			
Net earnings (loss)	$ 5,113	$(12,650)	$ 7,074
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,611	5,095	4,984
Impairment of goodwill and intangible assets	—	18,035	885
Stock-based compensation expense	500	635	685
Provision for doubtful accounts	61	142	81
Provision for inventory	275	277	217
Restructuring charges	990	2,266	645
Deferred taxes on earnings	(410)	(711)	166
Excess tax benefit from stock-based compensation	(2)	(12)	(163)
Other, net	443	265	(46)
Changes in operating assets and liabilities (net of acquisitions):			
Accounts receivable	530	1,687	448
Financing receivables	484	(418)	(675)
Inventory	(4)	890	(1,252)
Accounts payable	541	(1,414)	275
Taxes on earnings	417	(320)	610
Restructuring	(904)	(840)	(1,002)
Other assets and liabilities	(1,037)	(2,356)	(293)
Net cash provided by operating activities	11,608	10,571	12,639
Cash flows from investing activities:			
Investment in property, plant and equipment	(3,199)	(3,706)	(4,539)
Proceeds from sale of property, plant and equipment	653	617	999
Purchases of available-for-sale securities and other investments	(1,243)	(972)	(96)
Maturities and sales of available-for-sale securities and other investments	1,153	662	68
Payments in connection with business acquisitions, net of cash acquired	(167)	(141)	(10,480)
Proceeds from business divestiture, net	—	87	89
Net cash used in investing activities	(2,803)	(3,453)	(13,959)
Cash flows from financing activities:			
Repayment of commercial paper and notes payable, net	(154)	(2,775)	(1,270)
Issuance of debt	279	5,154	11,942
Payment of debt	(5,721)	(4,333)	(2,336)
Issuance of common stock under employee stock plans	288	716	896
Repurchase of common stock	(1,532)	(1,619)	(10,117)
Excess tax benefit from stock-based compensation	2	12	163
Cash dividends paid	(1,105)	(1,015)	(844)
Net cash used in financing activities	(7,943)	(3,860)	(1,566)
Increase (decrease) in cash and cash equivalents	862	3,258	(2,886)
Cash and cash equivalents at beginning of period	11,301	8,043	10,929
Cash and cash equivalents at end of period	$12,163	$ 11,301	$ 8,043
Supplemental cash flow disclosures:			
Income taxes paid (net of refunds)	$ 1,391	$ 1,750	$ 1,134
Interest expense paid	837	856	451

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

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Common Stock							
	Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total HP Stockholders' Equity	Non-controlling Interests	Total
			In millions, except number of shares in thousands					
Balance October 31, 2010	2,203,898	$22	$11,569	$ 32,695	$(3,837)	$ 40,449	$332	$ 40,781
Net earnings				7,074		7,074		7,074
Other comprehensive income					339	339		339
Comprehensive income						7,413		7,413
Issuance of common stock in connection with employee stock plans and other	45,461	1	751			752		752
Repurchases of common stock	(258,853)	(3)	(6,296)	(3,669)		(9,968)		(9,968)
Tax benefits from employee stock plans			128			128		128
Cash dividends declared				(834)		(834)		(834)
Stock-based compensation expense			685			685		685
Changes in non-controlling interest							47	47
Balance October 31, 2011	1,990,506	$20	$ 6,837	$ 35,266	$(3,498)	$ 38,625	$379	$ 39,004
Net loss				(12,650)		(12,650)		(12,650)
Other comprehensive loss					(2,061)	(2,061)		(2,061)
Comprehensive loss						(14,711)		(14,711)
Issuance of common stock in connection with employee stock plans and other	39,068		682	1		683		683
Repurchases of common stock	(66,736)		(1,525)	(101)		(1,626)		(1,626)
Tax deficiency from employee stock plans			(175)			(175)		(175)
Cash dividends declared				(995)		(995)		(995)
Stock-based compensation expense			635			635		635
Changes in non-controlling interest							18	18
Balance October 31, 2012	1,962,838	$20	$ 6,454	$ 21,521	$(5,559)	$ 22,436	$397	$ 22,833
Net earnings				5,113		5,113		5,113
Other comprehensive income					1,781	1,781		1,781
Comprehensive income						6,894		6,894
Issuance of common stock in connection with employee stock plans and other	22,950		210	(2)		208		208
Repurchases of common stock	(77,905)	(1)	(1,550)	5		(1,546)		(1,546)
Tax deficiency from employee stock plans			(149)			(149)		(149)
Cash dividends declared				(1,074)		(1,074)		(1,074)
Stock-based compensation expense			500			500		500
Changes in non-controlling interest							(10)	(10)
Balance October 31, 2013	1,907,883	$19	$ 5,465	$ 25,563	$(3,778)	$ 27,269	$387	$ 27,656

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

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HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Principles of Consolidation

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

Reclassifications and Segment Reorganization

HP has made certain segment and business unit realignments in order to optimize its operating structure. Reclassifications of certain prior-year segment and business unit financial information have been made to conform to the current-year presentation. None of the changes impacts HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share. See Note 18 for a further discussion of HP's segment reorganization.

Use of Estimates

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

Revenue Recognition

HP derives net revenue primarily from the sale of products and services. The following revenue recognition policies define the manner in which HP accounts for sales transactions.

HP recognizes revenue when persuasive evidence of a sales arrangement exists, delivery has occurred or services are rendered, the sales price or fee is fixed or determinable, and collectibility is reasonably assured. Additionally, HP recognizes hardware revenue on sales to channel partners, including resellers, distributors or value-added solution providers at the time of delivery when the channel partners have economic substance apart from HP, and HP has completed its obligations related to the sale. HP generally recognizes revenue for its stand-alone software sales to channel partners upon receiving evidence that the software has been sold to a specific end user.

When a sales arrangement contains multiple elements, such as hardware and software products, licenses and/or services, HP allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") of selling price, if available, third party evidence ("TPE") if VSOE of selling price is not available, or estimated selling price ("ESP") if neither VSOE of selling price nor TPE is available. HP establishes VSOE of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. HP establishes TPE of selling price

AT&T 3-year Audited Financials


mobilizing our world
AT&T INC. 2013 ANNUAL REPORT

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AT&T Inc.

We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework (1992 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2014 expressed an unqualified opinion thereon.

Ernst + Young LLP

Dallas, Texas
February 21, 2014

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Stockholders of AT&T Inc.

We have audited AT&T Inc.'s (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 and our report dated February 21, 2014 expressed an unqualified opinion thereon.

Ernst + Young LLP

Dallas, Texas
February 21, 2014

Consolidated Statements of Income

Dollars in millions except per share amounts

	2013	2012	2011
Operating Revenues	**$128,752**	$127,434	$126,723
Operating Expenses			
Cost of services and sales (exclusive of depreciation and amortization shown separately below)	**51,464**	55,228	54,904
Selling, general and administrative	**28,414**	41,066	41,314
Impairment of intangible assets	**—**	—	2,910
Depreciation and amortization	**18,395**	18,143	18,377
Total operating expenses	**98,273**	114,437	117,505
Operating Income	**30,479**	12,997	9,218
Other Income (Expense)			
Interest expense	**(3,940)**	(3,444)	(3,535)
Equity in net income of affiliates	**642**	752	784
Other income (expense) – net	**596**	134	249
Total other income (expense)	**(2,702)**	(2,558)	(2,502)
Income Before Income Taxes	**27,777**	10,439	6,716
Income tax expense	**9,224**	2,900	2,532
Net Income	**18,553**	7,539	4,184
Less: Net Income Attributable to Noncontrolling Interest	**(304)**	(275)	(240)
Net Income Attributable to AT&T	**$ 18,249**	$ 7,264	$ 3,944
Basic Earnings Per Share Attributable to AT&T	**$ 3.39**	$ 1.25	$ 0.66
Diluted Earnings Per Share Attributable to AT&T	**$ 3.39**	$ 1.25	$ 0.66

The accompanying notes are an integral part of the consolidated financial statements.

AT&T Inc. | 39

Consolidated Statements of Comprehensive Income

Dollars in millions

	2013	2012	2011
Net income	**$18,553**	$7,539	$4,184
Other comprehensive income, net of tax:			
Foreign Currency:			
Foreign currency translation adjustments (includes \$(2), \$0 and \$(1) attributable to noncontrolling interest), net of taxes of \$(78), \$48 and \$(117)	**(140)**	87	(219)
Reclassification adjustment included in net income, net of taxes of \$30, \$0 and \$183	**55**	—	341
Available-for-sale securities:			
Net unrealized gains (losses), net of taxes of \$137, \$64, and \$(21)	**257**	118	(41)
Reclassification adjustment included in net income, net of taxes of \$(42), \$(36) and \$(29)	**(79)**	(68)	(54)
Cash flow hedges:			
Net unrealized gains (losses), net of taxes of \$286, \$154 and \$(140)	**525**	283	(256)
Reclassification adjustment included in net income, net of taxes of \$16, \$15 and \$8	**30**	28	15
Defined benefit postretirement plans:			
Net actuarial loss from equity method investees arising during period, net of taxes of \$0, \$(32) and \$0	**—**	(53)	—
Reclassification adjustment included in net income, net of taxes of \$7, \$0 and \$0	**11**	—	—
Net prior service credit arising during period, net of taxes of \$1,695, \$1,378 and \$699	**2,765**	2,249	1,140
Amortization of net prior service credit included in net income, net of taxes of \$(480), \$(361) and \$(282)	**(782)**	(588)	(460)
Other	**—**	—	1
Other comprehensive income	**2,642**	2,056	467
Total comprehensive income	**21,195**	9,595	4,651
Less: Total comprehensive income attributable to noncontrolling interest	**(302)**	(275)	(239)
Total Comprehensive Income Attributable to AT&T	**$20,893**	$9,320	$4,412

The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Balance Sheets
Dollars in millions except per share amounts

	December 31, 2013	2012
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,339**	$ 4,868
Accounts receivable – net of allowances for doubtful accounts of $483 and $547	**12,918**	12,657
Prepaid expenses	**960**	1,035
Deferred income taxes	**1,199**	1,036
Other current assets	**4,780**	3,110
Total current assets	**23,196**	22,706
Property, Plant and Equipment – Net	**110,968**	109,767
Goodwill	**69,273**	69,773
Licenses	**56,433**	52,352
Customer Lists and Relationships – Net	**763**	1,391
Other Intangible Assets – Net	**5,016**	5,032
Investments in and Advances to Equity Affiliates	**3,860**	4,581
Other Assets	**8,278**	6,713
Total Assets	**$277,787**	$272,315
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	**$ 5,498**	$ 3,486
Accounts payable and accrued liabilities	**21,107**	20,494
Advanced billings and customer deposits	**4,212**	4,225
Accrued taxes	**1,774**	1,026
Dividends payable	**2,404**	2,556
Total current liabilities	**34,995**	31,787
Long-Term Debt	**69,290**	66,358
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**36,308**	28,491
Postemployment benefit obligation	**29,946**	41,392
Other noncurrent liabilities	**15,766**	11,592
Total deferred credits and other noncurrent liabilities	**82,020**	81,475
Stockholders' Equity		
Common stock ($1 par value, 14,000,000,000 authorized at December 31, 2013 and 2012: issued 6,495,231,088 at December 31, 2013 and 2012)	**6,495**	6,495
Additional paid-in capital	**91,091**	91,038
Retained earnings	**31,141**	22,481
Treasury stock (1,268,914,913 at December 31, 2013 and 913,836,325 at December 31, 2012, at cost)	**(45,619)**	(32,888)
Accumulated other comprehensive income	**7,880**	5,236
Noncontrolling interest	**494**	333
Total stockholders' equity	**91,482**	92,695
Total Liabilities and Stockholders' Equity	**$277,787**	$272,315

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows
Dollars in millions

	2013	2012	2011
Operating Activities			
Net income	**$ 18,553**	$ 7,539	$ 4,184
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**18,395**	18,143	18,377
Undistributed earnings from investments in equity affiliates	**(324)**	(615)	(623)
Provision for uncollectible accounts	**954**	1,117	1,136
Deferred income tax expense	**6,242**	1,747	2,929
Net (gain) loss from sale of investments, net of impairments	**(492)**	(19)	(89)
Impairment of intangible assets	**—**	—	2,910
Actuarial (gain) loss on pension and postretirement benefits	**(7,584)**	9,994	6,280
Changes in operating assets and liabilities:			
Accounts receivable	**(1,329)**	(1,365)	(1,164)
Other current assets	**412**	1,017	(397)
Accounts payable and accrued liabilities	**(152)**	1,798	(341)
Retirement benefit funding	**(209)**	—	(1,000)
Other – net	**330**	(180)	2,541
Total adjustments	**16,243**	31,637	30,559
Net Cash Provided by Operating Activities	**34,796**	39,176	34,743
Investing Activities			
Construction and capital expenditures:			
Capital expenditures	**(20,944)**	(19,465)	(20,110)
Interest during construction	**(284)**	(263)	(162)
Acquisitions, net of cash acquired	**(4,113)**	(828)	(2,368)
Dispositions	**1,923**	812	1,301
Sales (purchases) of securities, net	**—**	65	62
Return of advances to and investments in equity affiliates	**301**	—	—
Other	**(7)**	(1)	27
Net Cash Used in Investing Activities	**(23,124)**	(19,680)	(21,250)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**20**	1	(1,625)
Issuance of other short-term borrowings	**1,476**	—	—
Repayment of other short-term borrowings	**(1,476)**	—	(28)
Issuance of long-term debt	**12,040**	13,486	7,936
Repayment of long-term debt	**(7,698)**	(8,733)	(7,574)
Issuance of other long-term financing obligations	**4,796**	—	—
Purchase of treasury stock	**(13,028)**	(12,752)	—
Issuance of treasury stock	**114**	477	237
Dividends paid	**(9,696)**	(10,241)	(10,172)
Other	**251**	89	(423)
Net Cash Used in Financing Activities	**(13,201)**	(17,673)	(11,649)
Net (decrease) increase in cash and cash equivalents	**(1,529)**	1,823	1,844
Cash and cash equivalents beginning of year	**4,868**	3,045	1,201
Cash and Cash Equivalents End of Year	**$ 3,339**	$ 4,868	$ 3,045

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Dollars and shares in millions except per share amounts

	2013		2012		2011	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	6,495	$ 6,495	6,495	$ 6,495	6,495	$ 6,495
Issuance of stock	—	—	—	—	—	—
Balance at end of year	6,495	$ 6,495	6,495	$ 6,495	6,495	$ 6,495
Additional Paid-In Capital						
Balance at beginning of year		$ 91,038		$ 91,156		$ 91,731
Issuance of treasury stock		(8)		120		132
Share-based payments		62		(78)		(118)
Share of equity method investee capital transactions		—		(160)		(290)
Change related to acquisition of interests held by noncontrolling owners		(1)		—		(299)
Balance at end of year		$ 91,091		$ 91,038		$ 91,156
Retained Earnings						
Balance at beginning of year		$ 22,481		$ 25,453		$ 31,792
Net income attributable to AT&T ($3.39, $1.25 and $0.66 per diluted share)		18,249		7,264		3,944
Dividends to stockholders ($1.81, $1.77 and $1.73 per share)		(9,589)		(10,236)		(10,283)
Balance at end of year		$ 31,141		$ 22,481		$ 25,453
Treasury Stock						
Balance at beginning of year	(914)	$(32,888)	(568)	$ (20,750)	(584)	$ (21,083)
Repurchase of common stock	(366)	(13,028)	(371)	(12,752)	—	—
Issuance of treasury stock	11	297	25	614	16	333
Balance at end of year	(1,269)	$(45,619)	(914)	$ (32,888)	(568)	$ (20,750)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax:						
Balance at beginning of year		$ 5,236		$ 3,180		$ 2,712
Other comprehensive income attributable to AT&T		2,644		2,056		468
Balance at end of year		$ 7,880		$ 5,236		$ 3,180
Noncontrolling Interest:						
Balance at beginning of year		$ 333		$ 263		$ 303
Net income attributable to noncontrolling interest		304		275		240
Distributions		(231)		(205)		(220)
Contributions		51		—		—
Acquisitions of noncontrolling interests		44		—		—
Acquisition of interests held by noncontrolling owners		(5)		—		(59)
Translation adjustments attributable to noncontrolling interest, net of taxes		(2)		—		(1)
Balance at end of year		$ 494		$ 333		$ 263
Total Stockholders' Equity at beginning of year		$ 92,695		$105,797		$111,950
Total Stockholders' Equity at end of year		$ 91,482		$ 92,695		$105,797

The accompanying notes are an integral part of the consolidated financial statements.


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AT&T INC. 2014 Annual Report

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AT&T Inc.

We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 20, 2015 expressed an unqualified opinion thereon.

Ernst + Young LLP

Dallas, Texas
February 20, 2015

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Stockholders of AT&T Inc.

We have audited AT&T Inc.'s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 and our report dated February 20, 2015 expressed an unqualified opinion thereon.

Ernst + Young LLP

Dallas, Texas
February 20, 2015

Consolidated Statements of Income

Dollars in millions except per share amounts

	2014	2013	2012
Operating Revenues			
Service	**$118,437**	$119,252	$118,506
Equipment	**14,010**	9,500	8,928
Total operating revenues	**132,447**	128,752	127,434
Operating Expenses			
Cost of services and sales (exclusive of depreciation and amortization shown separately below)	**60,611**	51,464	55,228
Selling, general and administrative	**39,697**	28,414	41,066
Abandonment of network assets	**2,120**	—	—
Depreciation and amortization	**18,273**	18,395	18,143
Total operating expenses	**120,701**	98,273	114,437
Operating Income	**11,746**	30,479	12,997
Other Income (Expense)			
Interest expense	**(3,613)**	(3,940)	(3,444)
Equity in net income of affiliates	**175**	642	752
Other income (expense) – net	**1,652**	596	134
Total other income (expense)	**(1,786)**	(2,702)	(2,558)
Income Before Income Taxes	**9,960**	27,777	10,439
Income tax expense	**3,442**	9,224	2,900
Net Income	**6,518**	18,553	7,539
Less: Net Income Attributable to Noncontrolling Interest	**(294)**	(304)	(275)
Net Income Attributable to AT&T	**$ 6,224**	$ 18,249	$ 7,264
Basic Earnings Per Share Attributable to AT&T	**$ 1.19**	$ 3.39	$ 1.25
Diluted Earnings Per Share Attributable to AT&T	**$ 1.19**	$ 3.39	$ 1.25

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Dollars in millions

	2014	2013	2012
Net income	**$6,518**	$18,553	$7,539
Other comprehensive income, net of tax:			
Foreign Currency:			
Foreign currency translation adjustments (includes $0, $(2) and $0 attributable to noncontrolling interest), net of taxes of $(45), $(78) and $48	**(75)**	(140)	87
Reclassification adjustment included in net income, net of taxes of $224, $30 and $0	**416**	55	—
Available-for-sale securities:			
Net unrealized gains, net of taxes of $40, $137, and $64	**64**	257	118
Reclassification adjustment included in net income, net of taxes of $(10), $(42) and $(36)	**(16)**	(79)	(68)
Cash flow hedges:			
Net unrealized gains, net of taxes of $140, $286 and $154	**260**	525	283
Reclassification adjustment included in net income, net of taxes of $18, $16 and $15	**36**	30	28
Defined benefit postretirement plans:			
Net actuarial loss from equity method investees arising during period, net of taxes of $0, $0 and $(32)	**—**	—	(53)
Reclassification adjustment included in net income, net of taxes of $11, $7 and $0	**26**	11	—
Net prior service credit arising during period, net of taxes of $262, $1,695 and $1,378	**428**	2,765	2,249
Amortization of net prior service credit included in net income, net of taxes of $(588), $(480) and $(361)	**(959)**	(782)	(588)
Other comprehensive income	**180**	2,642	2,056
Total comprehensive income	**6,698**	21,195	9,595
Less: Total comprehensive income attributable to noncontrolling interest	**(294)**	(302)	(275)
Total Comprehensive Income Attributable to AT&T	**$6,404**	$20,893	$9,320

The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Balance Sheets
Dollars in millions except per share amounts

	December 31,	
	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	**$ 8,603**	$ 3,339
Accounts receivable – net of allowances for doubtful accounts of $454 and $483	**14,527**	12,918
Prepaid expenses	**831**	960
Deferred income taxes	**1,142**	1,199
Other current assets	**6,925**	4,780
Total current assets	**32,028**	23,196
Property, Plant and Equipment – Net	**112,898**	110,968
Goodwill	**69,692**	69,273
Licenses	**60,824**	56,433
Other Intangible Assets – Net	**6,139**	5,779
Investments in Equity Affiliates	**250**	3,860
Other Assets	**10,998**	8,278
Total Assets	**$292,829**	$277,787
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	**$ 6,056**	$ 5,498
Accounts payable and accrued liabilities	**23,592**	21,107
Advanced billings and customer deposits	**4,105**	4,212
Accrued taxes	**1,091**	1,774
Dividends payable	**2,438**	2,404
Total current liabilities	**37,282**	34,995
Long-Term Debt	**76,011**	69,290
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**37,544**	36,308
Postemployment benefit obligation	**37,079**	29,946
Other noncurrent liabilities	**17,989**	15,766
Total deferred credits and other noncurrent liabilities	**92,612**	82,020
Stockholders' Equity		
Common stock ($1 par value, 14,000,000,000 authorized at December 31, 2014 and 2013: issued 6,495,231,088 at December 31, 2014 and 2013)	**6,495**	6,495
Additional paid-in capital	**91,108**	91,091
Retained earnings	**27,736**	31,141
Treasury stock (1,308,318,131 at December 31, 2014 and 1,268,914,913 at December 31, 2013, at cost)	**(47,029)**	(45,619)
Accumulated other comprehensive income	**8,060**	7,880
Noncontrolling interest	**554**	494
Total stockholders' equity	**86,924**	91,482
Total Liabilities and Stockholders' Equity	**$292,829**	$277,787

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Dollars in millions

	2014	2013	2012
Operating Activities			
Net income	**$ 6,518**	$ 18,553	$ 7,539
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**18,273**	18,395	18,143
Undistributed earnings from investments in equity affiliates	**(27)**	(324)	(615)
Provision for uncollectible accounts	**1,032**	954	1,117
Deferred income tax expense	**1,772**	6,242	1,747
Net gain from sale of investments, net of impairments	**(1,532)**	(492)	(19)
Actuarial loss (gain) on pension and postretirement benefits	**7,869**	(7,584)	9,994
Abandonment of network assets	**2,120**	—	—
Changes in operating assets and liabilities:			
Accounts receivable	**(2,651)**	(1,329)	(1,365)
Other current assets	**(962)**	412	1,017
Accounts payable and accrued liabilities	**2,412**	(152)	1,798
Retirement benefit funding	**(560)**	(209)	—
Other – net	**(2,926)**	330	(180)
Total adjustments	**24,820**	16,243	31,637
Net Cash Provided by Operating Activities	**31,338**	34,796	39,176
Investing Activities			
Construction and capital expenditures:			
Capital expenditures	**(21,199)**	(20,944)	(19,465)
Interest during construction	**(234)**	(284)	(263)
Acquisitions, net of cash acquired	**(3,141)**	(4,113)	(828)
Dispositions	**8,123**	1,923	812
(Purchases) sales of securities, net	**(1,890)**	—	65
Return of advances to and investments in equity affiliates	**4**	301	—
Other	**—**	(7)	(1)
Net Cash Used in Investing Activities	**(18,337)**	(23,124)	(19,680)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**(16)**	20	1
Issuance of other short-term borrowings	**—**	1,476	—
Repayment of other short-term borrowings	**—**	(1,476)	—
Issuance of long-term debt	**15,926**	12,040	13,486
Repayment of long-term debt	**(10,400)**	(7,698)	(8,733)
Issuance of other long-term financing obligations	**107**	4,796	—
Purchase of treasury stock	**(1,617)**	(13,028)	(12,752)
Issuance of treasury stock	**39**	114	477
Dividends paid	**(9,552)**	(9,696)	(10,241)
Other	**(2,224)**	251	89
Net Cash Used in Financing Activities	**(7,737)**	(13,201)	(17,673)
Net increase (decrease) in cash and cash equivalents	**5,264**	(1,529)	1,823
Cash and cash equivalents beginning of year	**3,339**	4,868	3,045
Cash and Cash Equivalents End of Year	**$ 8,603**	$ 3,339	$ 4,868

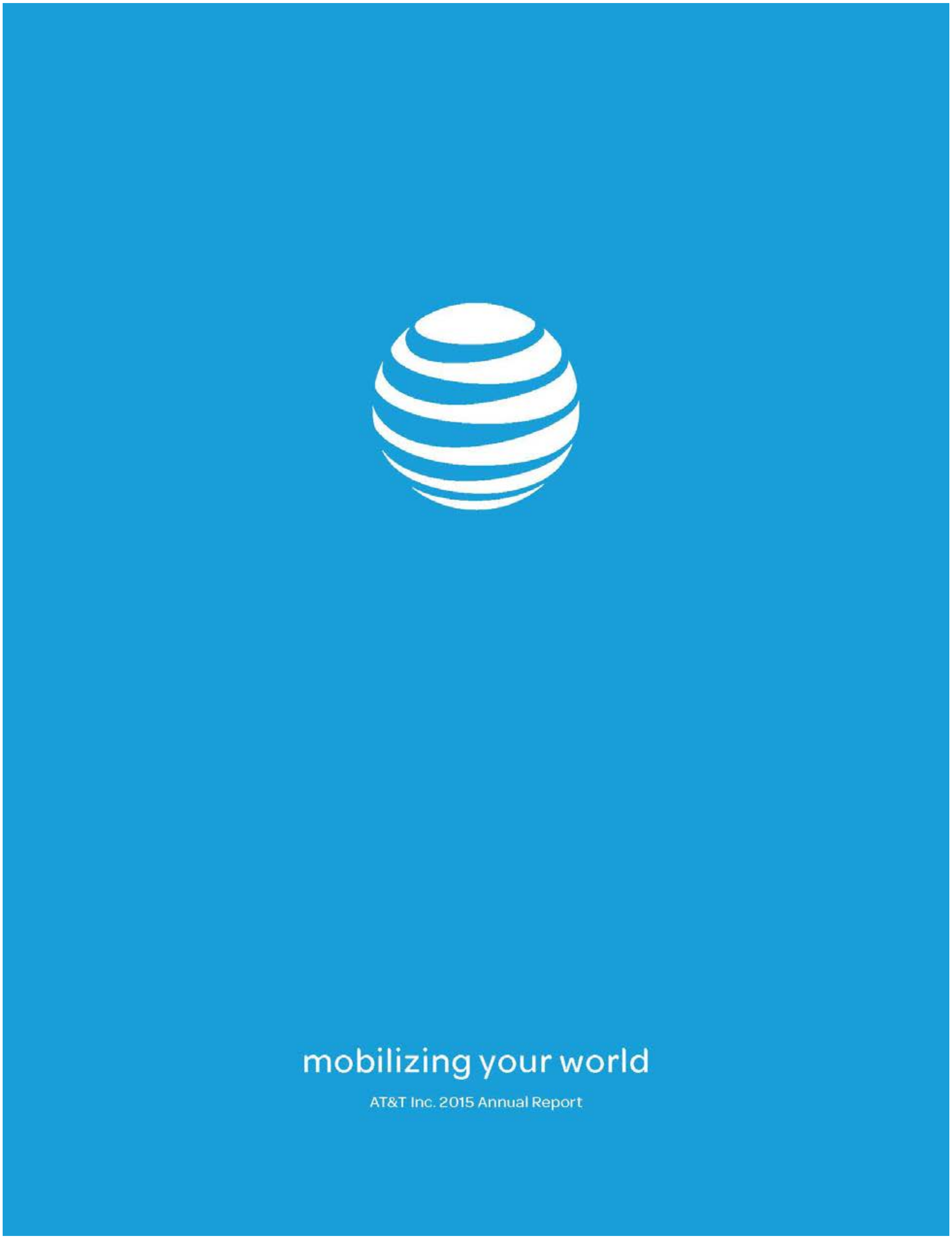
The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Dollars and shares in millions except per share amounts

	2014		2013		2012	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Issuance of stock	**—**	**—**	—	—	—	—
Balance at end of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Additional Paid-In Capital						
Balance at beginning of year		**$ 91,091**		$ 91,038		$ 91,156
Issuance of treasury stock		**4**		(8)		120
Share-based payments		**47**		62		(78)
Share of equity method investee capital transactions		**—**		—		(160)
Change related to acquisition of interests held by noncontrolling owners		**(34)**		(1)		—
Balance at end of year		**$ 91,108**		$ 91,091		$ 91,038
Retained Earnings						
Balance at beginning of year		**$ 31,141**		$ 22,481		$ 25,453
Net income attributable to AT&T ($1.19, $3.39 and $1.25 per diluted share)		**6,224**		18,249		7,264
Dividends to stockholders ($1.85, $1.81 and $1.77 per share)		**(9,629)**		(9,589)		(10,236)
Balance at end of year		**$ 27,736**		$ 31,141		$ 22,481
Treasury Stock						
Balance at beginning of year	**(1,269)**	**$(45,619)**	(914)	$(32,888)	(568)	$ (20,750)
Repurchase of common stock	**(48)**	**(1,617)**	(366)	(13,028)	(371)	(12,752)
Issuance of treasury stock	**9**	**207**	11	297	25	614
Balance at end of year	**(1,308)**	**$(47,029)**	(1,269)	$(45,619)	(914)	$ (32,888)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax:						
Balance at beginning of year		**$ 7,880**		$ 5,236		$ 3,180
Other comprehensive income attributable to AT&T		**180**		2,644		2,056
Balance at end of year		**$ 8,060**		$ 7,880		$ 5,236
Noncontrolling Interest:						
Balance at beginning of year		**$ 494**		$ 333		$ 263
Net income attributable to noncontrolling interest		**294**		304		275
Distributions		**(233)**		(231)		(205)
Contributions		**—**		51		—
Acquisitions of noncontrolling interests		**69**		44		—
Acquisition of interests held by noncontrolling owners		**(70)**		(5)		—
Translation adjustments attributable to noncontrolling interest, net of taxes		**—**		(2)		—
Balance at end of year		**$ 554**		$ 494		$ 333
Total Stockholders' Equity at beginning of year		**$ 91,482**		$ 92,695		$105,797
Total Stockholders' Equity at end of year		**$ 86,924**		$ 91,482		$ 92,695

The accompanying notes are an integral part of the consolidated financial statements.



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AT&T Inc. 2015 Annual Report

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AT&T Inc.

We have audited AT&T Inc.'s (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

As indicated in the accompanying Report of Management, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of its DIRECTV and Mexico wireless businesses, which are included in the December 31, 2015 consolidated financial statements of the Company. DIRECTV constituted 20.3% of total assets and 9.9% of total revenues for the year then ended. The Mexico wireless businesses constituted 1.6% of total assets and 1.3% of total revenues for the year then ended. Our audit of internal control over financial reporting of the Company did not include an evaluation of the internal control over financial reporting of DIRECTV or the Mexico wireless businesses.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 18, 2016 expressed an unqualified opinion thereon.

Ernst + Young LLP

Dallas, Texas
February 18, 2016

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Stockholders of AT&T Inc.

We have audited AT&T Inc.'s (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 and our report dated February 21, 2014 expressed an unqualified opinion thereon.

Ernst + Young LLP

Dallas, Texas
February 21, 2014

Consolidated Statements of Income

Dollars in millions except per share amounts

	2015	2014	2013
		As Adjusted	
Operating Revenues			
Service	**$131,677**	$118,437	$119,252
Equipment	**15,124**	14,010	9,500
Total operating revenues	**146,801**	132,447	128,752
Operating Expenses			
Cost of services and sales			
Equipment	**19,268**	18,946	16,644
Broadcast, programming and operations	**11,996**	4,075	3,308
Other cost of services (exclusive of depreciation and amortization shown separately below)	**35,782**	37,124	31,239
Selling, general and administrative	**32,954**	39,697	28,414
Abandonment of network assets	**—**	2,120	—
Depreciation and amortization	**22,016**	18,273	18,395
Total operating expenses	**122,016**	120,235	98,000
Operating Income	**24,785**	12,212	30,752
Other Income (Expense)			
Interest expense	**(4,120)**	(3,613)	(3,940)
Equity in net income of affiliates	**79**	175	642
Other income (expense) – net	**(52)**	1,581	596
Total other income (expense)	**(4,093)**	(1,857)	(2,702)
Income Before Income Taxes	**20,692**	10,355	28,050
Income tax expense	**7,005**	3,619	9,328
Net Income	**13,687**	6,736	18,722
Less: Net Income Attributable to Noncontrolling Interest	**(342)**	(294)	(304)
Net Income Attributable to AT&T	**$ 13,345**	$ 6,442	$ 18,418
Basic Earnings Per Share Attributable to AT&T	**$ 2.37**	$ 1.24	$ 3.42
Diluted Earnings Per Share Attributable to AT&T	**$ 2.37**	$ 1.24	$ 3.42

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Dollars in millions

	2015	2014	2013
		As Adjusted	
Net income	**$13,687**	$6,736	$18,722
Other comprehensive income, net of tax:			
Foreign Currency:			
Translation adjustments (includes $(16), $0 and $(2) attributable to noncontrolling interest), net of taxes of $(595), $(45) and $(78)	**(1,188)**	(75)	(140)
Reclassification adjustment included in net income, net of taxes of $0, $224 and $30	**—**	416	55
Available-for-sale securities:			
Net unrealized gains, net of taxes of $0, $40, and $137	**—**	65	258
Reclassification adjustment included in net income, net of taxes of $(9), $(10) and $(42)	**(15)**	(16)	(79)
Cash flow hedges:			
Net unrealized (losses) gains, net of taxes of $(411), $140 and $286	**(763)**	260	525
Reclassification adjustment included in net income, net of taxes of $20, $18 and $16	**38**	36	30
Defined benefit postretirement plans:			
Amortization of net prior service credit included in net income, net of taxes of $(523), $(588) and $(480)	**(860)**	(959)	(782)
Net prior service credit arising during period, net of taxes of $27, $262 and $1,695	**45**	428	2,765
Reclassification adjustment included in net income, net of taxes of $0, $11 and $7	**—**	26	11
Other comprehensive income (loss)	**(2,743)**	181	2,643
Total comprehensive income	**10,944**	6,917	21,365
Less: Total comprehensive income attributable to noncontrolling interest	**(326)**	(294)	(302)
Total Comprehensive Income Attributable to AT&T	**$10,618**	$6,623	$21,063

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31, 2015	December 31, 2014 As Adjusted
Assets		
Current Assets		
Cash and cash equivalents	$ 5,121	$ 8,603
Accounts receivable – net of allowances for doubtful accounts of $704 and $454	16,532	14,527
Prepaid expenses	1,072	831
Other current assets	13,267	9,645
Total current assets	35,992	33,606
Property, Plant and Equipment – Net	124,450	112,898
Goodwill	104,568	69,692
Licenses	93,093	60,824
Customer Lists and Relationships – Net	18,208	812
Other Intangible Assets – Net	9,409	5,327
Investments in Equity Affiliates	1,606	250
Other Assets	15,346	13,425
Total Assets	$402,672	$296,834
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	$ 7,636	$ 6,056
Accounts payable and accrued liabilities	30,372	23,592
Advanced billings and customer deposits	4,682	4,105
Accrued taxes	2,176	1,091
Dividends payable	2,950	2,438
Total current liabilities	47,816	37,282
Long-Term Debt	118,515	75,778
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	56,181	38,436
Postemployment benefit obligation	34,262	37,079
Other noncurrent liabilities	22,258	17,989
Total deferred credits and other noncurrent liabilities	112,701	93,504
Stockholders' Equity		
Common stock ($1 par value, 14,000,000,000 authorized at December 31, 2015 and 2014: issued 6,495,231,088 at December 31, 2015 and 2014)	6,495	6,495
Additional paid-in capital	89,763	91,108
Retained earnings	33,671	31,081
Treasury stock (350,291,239 at December 31, 2015 and 1,308,318,131 at December 31, 2014, at cost)	(12,592)	(47,029)
Accumulated other comprehensive income	5,334	8,061
Noncontrolling interest	969	554
Total stockholders' equity	123,640	90,270
Total Liabilities and Stockholders' Equity	$402,672	$296,834

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Dollars in millions

	2015	2014	2013
		As Adjusted	
Operating Activities			
Net income	**$ 13,687**	$ 6,736	$ 18,722
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**22,016**	18,273	18,395
Undistributed earnings from investments in equity affiliates	**(49)**	(27)	(324)
Provision for uncollectible accounts	**1,416**	1,032	954
Deferred income tax expense	**4,117**	1,948	6,345
Net loss (gain) from sale of investments, net of impairments	**91**	(1,461)	(492)
Actuarial (gain) loss on pension and postretirement benefits	**(2,152)**	7,869	(7,584)
Abandonment of network assets	**—**	2,120	—
Changes in operating assets and liabilities:			
Accounts receivable	**(535)**	(2,651)	(1,329)
Other current assets	**(1,789)**	(974)	445
Accounts payable and accrued liabilities	**1,291**	2,412	(152)
Retirement benefit funding	**(735)**	(560)	(209)
Other – net	**(1,478)**	(3,379)	25
Total adjustments	**22,193**	24,602	16,074
Net Cash Provided by Operating Activities	**35,880**	31,338	34,796
Investing Activities			
Construction and capital expenditures:			
Capital expenditures	**(19,218)**	(21,199)	(20,944)
Interest during construction	**(797)**	(234)	(284)
Acquisitions, net of cash acquired	**(30,759)**	(3,141)	(4,113)
Dispositions	**83**	8,123	1,923
Sales (purchases) of securities, net	**1,545**	(1,890)	—
Return of advances to and investments in equity affiliates	**1**	4	301
Other	**1**	—	(7)
Net Cash Used in Investing Activities	**(49,144)**	(18,337)	(23,124)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**(1)**	(16)	20
Issuance of other short-term borrowings	**—**	—	1,476
Repayment of other short-term borrowings	**—**	—	(1,476)
Issuance of long-term debt	**33,969**	15,926	12,040
Repayment of long-term debt	**(10,042)**	(10,400)	(7,698)
Issuance of other long-term financing obligations	**—**	107	4,796
Purchase of treasury stock	**(269)**	(1,617)	(13,028)
Issuance of treasury stock	**143**	39	114
Dividends paid	**(10,200)**	(9,552)	(9,696)
Other	**(3,818)**	(2,224)	251
Net Cash Provided by (Used in) Financing Activities	**9,782**	(7,737)	(13,201)
Net (decrease) increase in cash and cash equivalents	**(3,482)**	5,264	(1,529)
Cash and cash equivalents beginning of year	**8,603**	3,339	4,868
Cash and Cash Equivalents End of Year	**$ 5,121**	$ 8,603	$ 3,339

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Dollars and shares in millions except per share amounts

	2015		2014		2013	
	Shares	**Amount**	Shares	Amount	Shares	Amount
			As Adjusted			
Common Stock						
Balance at beginning of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Issuance of stock	**—**	**—**	—	—	—	—
Balance at end of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Additional Paid-In Capital						
Balance at beginning of year		**$ 91,108**		$ 91,091		$ 91,038
Issuance of treasury stock		**(1,597)**		4		(8)
Share-based payments		**252**		47		62
Change related to acquisition of interests held by noncontrolling owners		**—**		(34)		(1)
Balance at end of year		**$ 89,763**		$ 91,108		$ 91,091
Retained Earnings						
Balance at beginning of year		**$ 31,081**		$ 34,269		$ 25,440
Net income attributable to AT&T ($2.37, $1.24 and $3.42 per diluted share)		**13,345**		6,442		18,418
Dividends to stockholders ($1.89, $1.85 and $1.81 per share)		**(10,755)**		(9,630)		(9,589)
Balance at end of year		**$ 33,671**		$ 31,081		$ 34,269
Treasury Stock						
Balance at beginning of year	**(1,308)**	**$ (47,029)**	(1,269)	$(45,619)	(914)	$(32,888)
Repurchase of common stock	**(8)**	**(278)**	(48)	(1,617)	(366)	(13,028)
Issuance of treasury stock	**966**	**34,715**	9	207	11	297
Balance at end of year	**(350)**	**$ (12,592)**	(1,308)	$(47,029)	(1,269)	$(45,619)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax:						
Balance at beginning of year		**$ 8,061**		$ 7,880		$ 5,235
Other comprehensive income (loss) attributable to AT&T		**(2,727)**		181		2,645
Balance at end of year		**$ 5,334**		$ 8,061		$ 7,880
Noncontrolling Interest:						
Balance at beginning of year		**$ 554**		$ 494		$ 333
Net income attributable to noncontrolling interest		**342**		294		304
Distributions		**(294)**		(233)		(231)
Contributions		**—**		—		51
Acquisitions of noncontrolling interests		**383**		69		44
Acquisition of interests held by noncontrolling owners		**—**		(70)		(5)
Translation adjustments attributable to noncontrolling interest, net of taxes		**(16)**		—		(2)
Balance at end of year		**$ 969**		$ 554		$ 494
Total Stockholders' Equity at beginning of year		**$ 90,270**		$ 94,610		$ 95,653
Total Stockholders' Equity at end of year		**$123,640**		$ 90,270		$ 94,610

The accompanying notes are an integral part of the consolidated financial statements.

Exhibit Z: Schedule 16.1 Fees

File submitted separately as Vol III Exhibit Z-Schedule 16.1 Fees_Final_20161027.docx

Exhibit AA: Exhibit 16.1-1 Resource Unit Price Summary

File submitted separately as Vol III Exhibit AA-Exhibit 16.1-1 Resource Unit Price Summary_Final_20161027.docx

Exhibit CC: Exhibit 16.1-2 Resource Unit Price Decomposition

File submitted separately as Vol III Exhibit CC-Exhibit 16.1-2 Resource Unit Price Decomposition_Final_20161027.xlsx

Exhibit DD: Exhibit 16.1-3 Maximum Annual Fee

File submitted separately as Vol III Exhibit DD-Exhibit 16.1-3 Maximum Annual Fee_Final_20161027.docx

Exhibit FF: Exhibit 16.1-5 Firm Fixed Price for Applications M&O

Three files submitted separately as:

- Vol III Exhibit FF-Exhibit 16.1-5 Firm Fixed Price for Apps M and O_County_Final_20161027.xlsx
- Vol III Exhibit FF-Exhibit 16.1-5 Firm Fixed Price for Apps M and O_Department_Final_20161027.xlsx
- Vol III Exhibit FF-Exhibit 16.1-5 Firm Fixed Price for Apps M and O_Group_Final_20161027.xlsx

Exhibit GG: Exhibit 16.1-5b Firm Fixed Price for Applications M&O

File submitted separately as Vol III Exhibit GG-Exhibit 16.1-5b Firm Fixed Price for App M and O_Final_20161027.docx