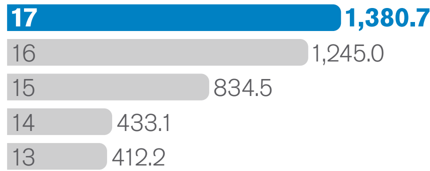
MICRO FOCUS®

Customer centred innovation

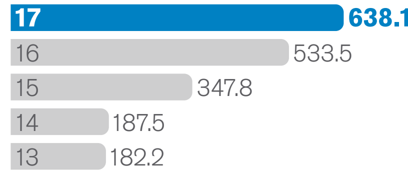
Annual Report and Accounts 2017

Key highlights

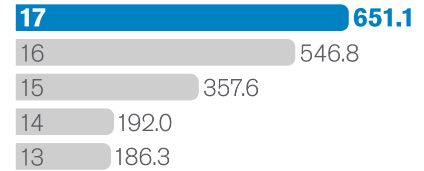
Revenue ($m)
$1,380.7m



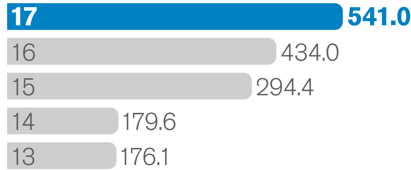
Adjusted Operating Profit ($m)
$638.1m



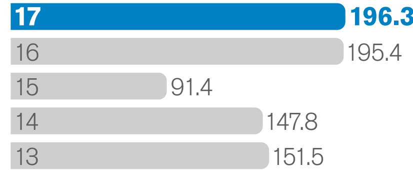
Adjusted EBITDA ($m)
$651.1m



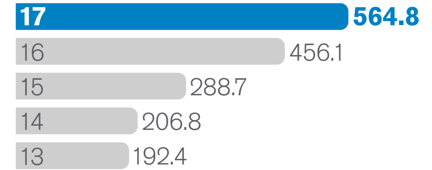
Adjusted profit before tax ($m)
$541.0m



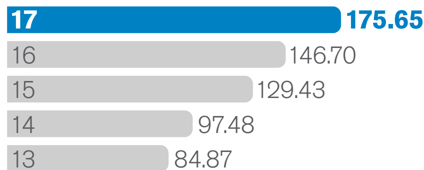
Profit before tax ($m)
$196.3m



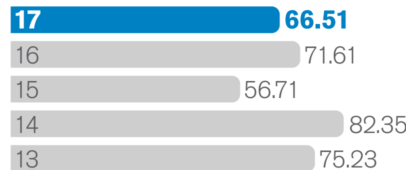
Cash generated from continuing operations ($m)
$564.8m



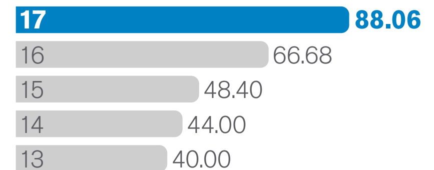
Diluted Adjusted earnings per share (c)
175.65c



Diluted earnings per share (c)
66.51c



Total dividend per share (c)
88.06c



Our four phase plan

Phase 1 FY17: Assessment

Actions:
- Deliver plans for FY17
- Detailed review of combined businesses
- Invigorate Product Management

Phase 2 FY18: Integration

Actions:
- Standardize systems
- Rationalize Properties
- Rationalize Legal entities
- New Go to Market ("GTM") model
- Maintain/improve cash conversion
- Rationalize underperforming elements
- New market initiatives

Phase 3 FY19: Stabilization

Actions:
- Stabilize top line
- Improve GTM productivity
- Growth from new areas
- Improved profitability
- Standardize systems
- Rationalize Legal entities

Phase 4 FY20: Growth

Actions:
- Top line growth
- Click and repeat!

Who we are

Micro Focus specializes in managing predominantly mature infrastructure software assets which have been delivering value to significant numbers of customers over long periods of time.

A global infrastructure software business focused on operational effectiveness and scale, with revenues of $1,380.7m and Underlying Adjusted EBITDA of $640.9m.

What we do

Our customer centred innovation helps organizations bridge the old and the new, enabling them to leverage additional value from their investments in critical IT infrastructure and business applications.

By enabling our customers to link their investments in established technology with the latest innovation, Micro Focus helps organizations gain incremental and sustainable returns on investments they have already made and to preserve and protect their data and business logic.

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Strategic report

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Executive Chairman's statement

The year ended 30 April 2017 was a significant year for the Group. On 7 September 2016 the Company and Hewlett Packard Enterprise ("HPE"), announced that they had agreed that Micro Focus would acquire HPE's software business segment ("HPE Software") by way of merger ("Merger") with a wholly owned subsidiary of HPE incorporated to hold the business of HPE Software. This major transaction is on track to close at the beginning of September this year with the listing of consideration shares on the London Stock Exchange ("LSE") and the simultaneous listing of American Depositary Shares ("ADS") on the New York Stock Exchange ("NYSE") ("Completion"). Micro Focus existing shareholders will also be entitled to receive a Return of Value which in total will be $500m that will be declared immediately prior to Completion.

This will create a global infrastructure software business with pro-forma revenues in the 12 months to 30 April 2017 of approximately $4.4 billion and Underlying Adjusted EBITDA of approximately $1.4 billion making it one of the largest dedicated software companies in the world and a leading technology stock on the LSE. Following Completion we will align our financial year end to 31 October and will initially report an 18 month financial period ending 31 October 2018. This will enable us to launch the new Company's financial year with effect from 1 November 2017.

During the year ended 30 April 2017 the Micro Focus business traded in line with the expectations we had set at the beginning of the year. This was achieved during a year of significant change and distraction as we;

- Completed the acquisition of Serena Software Inc. ("Serena") together with three other smaller acquisitions;
- Integrated Serena into the Micro Focus Product Portfolio;
- Entered the FTSE 100 on 6 September 2016;
- Became the spin/merge partner for HPE Software;
- Began to work on the plan for integrating HPE Software;
- Completed required regulatory filings in the UK, USA and elsewhere;
- Refinanced the Company's existing debt; and
- Raised new banking facilities to enable the Completion of the HPE Software transaction and the Return of Value.

We have believed for some time that there are significant segments of the infrastructure software market that have matured. The response to this is consolidation. To be successful in this stage of a market both operational effectiveness and scale are critical. We believe that Micro Focus is now well positioned to lead in this space.

There is a clear customer requirement for a company that can innovate and extend the life of mature software assets.

Like the Attachmate Group ("TAG") and Serena acquisitions, the combination with HPE Software has clear business logic to extend Micro Focus' market presence in mature infrastructure software segments; to increase the operational efficiency of the combined Group; to deliver effective product management focused on customer centred innovation and improve sales productivity. It is 100% consistent with the Company's strategy which, as you will see in the following pages, has not had any significant changes from the plan laid out five and a half years ago. Micro Focus sets out to deliver consistent long-term shareholder returns of between 15% and 20% per annum. The board is confident that medium-term low single digit revenue growth, industry leading margins and strong cash conversion will ensure that Micro Focus can deliver on that strategy. These returns can be further enhanced by the appropriate deployment of capital in value enhancing acquisitions.

The Company has a business strategy, a financial strategy, an operating plan and an incentive strategy that all support our objective to achieve 15% to 20% compound annual return for shareholders. Since IPO in 2005 until 30 April 2017, the annual compound shareholder return over 12 years has been 29.3%. Adjusted diluted earnings per share have grown from 14.23 cents in 2006 to 175.65 cents in 2017 and dividends per share have grown from 6 cents to 88.06 cents with respective compound annual growth rates of 25.7% and 27.7% respectively.

When we announced the acquisition of TAG on 15 September 2014 we set out the four phase plan on page 4 for the combination of the businesses whilst continuing to deliver sustainable shareholder returns.

The only changes to this original plan which are reflected in the table on page 4 are that our detailed review concluded that the integration of systems supporting the new business will extend throughout the four year period and the rationalization of legal entities will extend through FY17 and beyond. This has now been superseded by the plan to adopt new systems being implemented in HPE Software. This software stack will give us one of the most up to date system stacks in the industry and serve as a scale platform for further Mergers and Acquisition ("M&A") integration.

We have set out a new four phase plan on page 4 for the combination of the Micro Focus and HPE Software businesses whilst continuing to deliver sustainable shareholder returns.

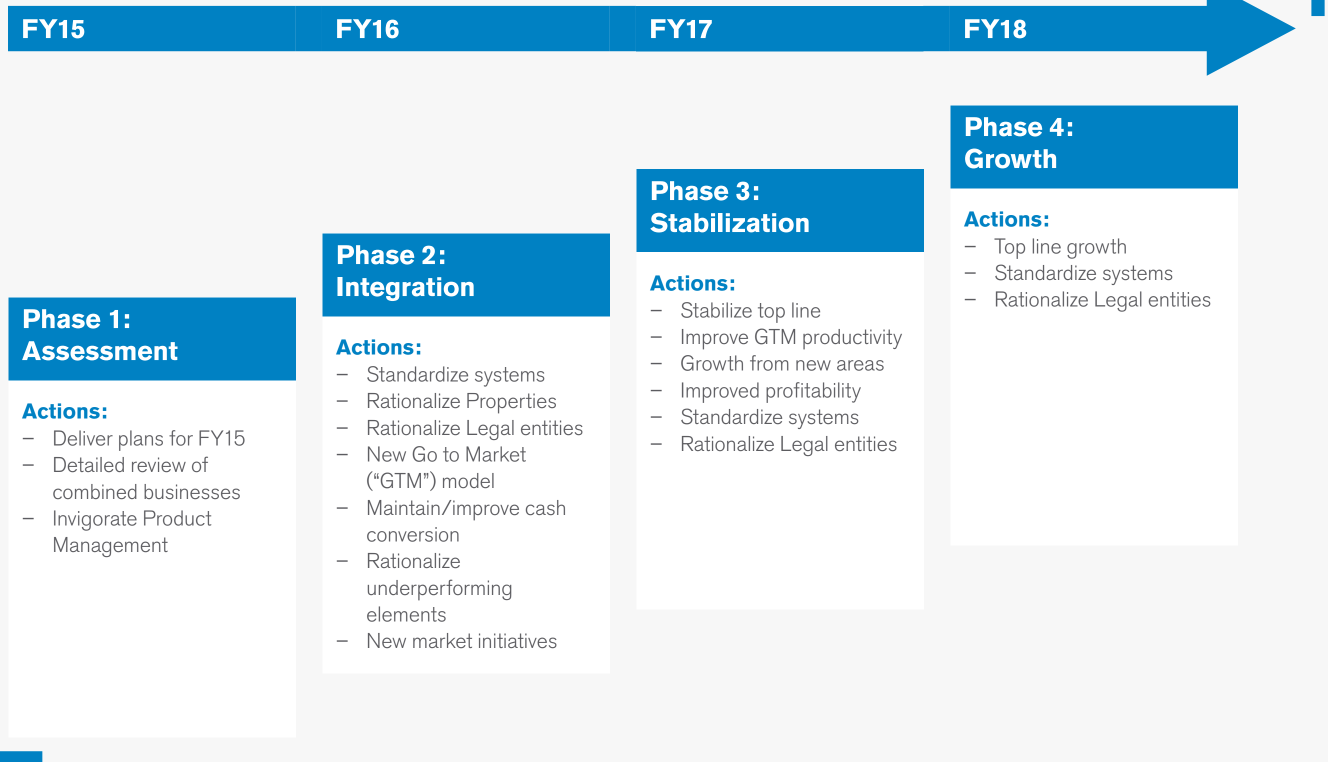
The acquisition of HPE Software may delay the return to revenue growth as we consolidate the HPE Software products. As with prior transactions we expect HPE Software's revenue trend to continue its historical decline until significant change has been implemented. This integration will be delivered by the four year plan that will consolidate and strengthen the combined business, with the goal of delivering modest revenue growth in the medium-term as well as underpinning our margin improvement objectives.

We are building a strong platform with the addition of HPE Software. Once we achieve our target cash conversion ratio for the Enlarged Group of 90% to 95% we will generate significant free cash flows from which we can deliver significant returns of value to our shareholders and/or further highly accretive acquisitions.

Following our integration review in 2015 we decided that the Group should operate two product portfolios, Micro Focus and SUSE, and have reported the business this way since 1 May 2015.

Since April 2011, I have held the roles of both Chairman and Chief Executive Officer ("CEO"). In December 2015 we announced that effective from 1 February 2016, I would be Executive Chairman and that Stephen Murdoch and Nils Brauckmann would become CEO of Micro Focus and CEO of SUSE respectively. Stephen and Nils discuss the operating performance of their respective portfolios for the year completed in the CEO reports.

Executive Chairman's statement
continued



Our Business Model – strong and established technology franchises

As the Linux market and Open Source business have unique characteristics, we have a dedicated focus on the SUSE Product Portfolio. This focus is essential if we are to capitalize on the growth potential of these offerings and be responsive to the Open Source community and strong heritage of SUSE. In 2017 we continued to increase the headcount dedicated to development, customer care and sales and marketing of the SUSE Portfolio and made the first acquisitions in this product portfolio. This investment has delivered revenue growth ahead of the market and so we will be further increasing this investment in 2018.

Micro Focus specializes in managing mature infrastructure software assets which have been delivering value to significant numbers of customers over long periods of time. Our product portfolios have some or all of the following attributes:

1. Broad based – covering all industrial sectors
2. Significant numbers of customers
3. Significant maintenance streams
4. Relatively high switching costs
5. Significant market positions

In any IT system the customers' business logic and data remain critical to their competitive advantage. The key is unlocking this competitive advantage through exploitation of the latest technology innovation such as "OpenStack", "Software-defined Distributed Storage", "mobility", "big data", "virtualization" and "cloud". All of this needs to be done with the appropriate security to ensure customer data, company data and intellectual property are protected at all times. Typically customers would be forced into costly, disruptive and risky change to make this possible but with Micro Focus, customers can take a different approach that we characterize as bridging the old and the new. We focus on Customer Centred Innovation that enables customers to exploit new technologies without undue disruption.

By enabling our customers to link their investments in established technology with the latest innovation, Micro Focus helps customers gain incremental returns on investments they have already made and to preserve and protect their data and business logic. The most striking example of this is that an application written in Micro Focus COBOL 40 years ago – before anyone had thought of Linux, Windows, virtualization, cloud or wireless communications – will work today in all of those environments. Micro Focus has made this a reality. By contrast, if a COBOL application had been rewritten in another language, to execute in Java or .NET the customer would have to undertake additional incremental re-writes and incur significant costs every time there was a major technology change.

Our acquisitions broaden the range and depth of our core infrastructure software solutions and bring outstanding new capabilities in Linux, OpenStack Cloud Infrastructure and security, the combination of which enables us to further extend the philosophy of "bridging the old and the new" across much more of our customer's I.T. "footprint".

Current portfolio – underpinning the business model with clear execution and investment discipline

The typical stages of a product life cycle are from new product introduction through to high growth to broad adoption and maturity, to decline and ultimately obsolescence.

Product Lifecycle

Micro Focus area of primary focus –
Customer Focused Innovation

New tech models

"Me too" models

Potential change in trajectory (return to growth)

Reduce rates of decline

Introduction | Growth | Maturity | Decline

Nature of software
- Innovative and often disruptive technologies
- High capex and R&D
- User base rapidly expanding products repeatedly enhanced

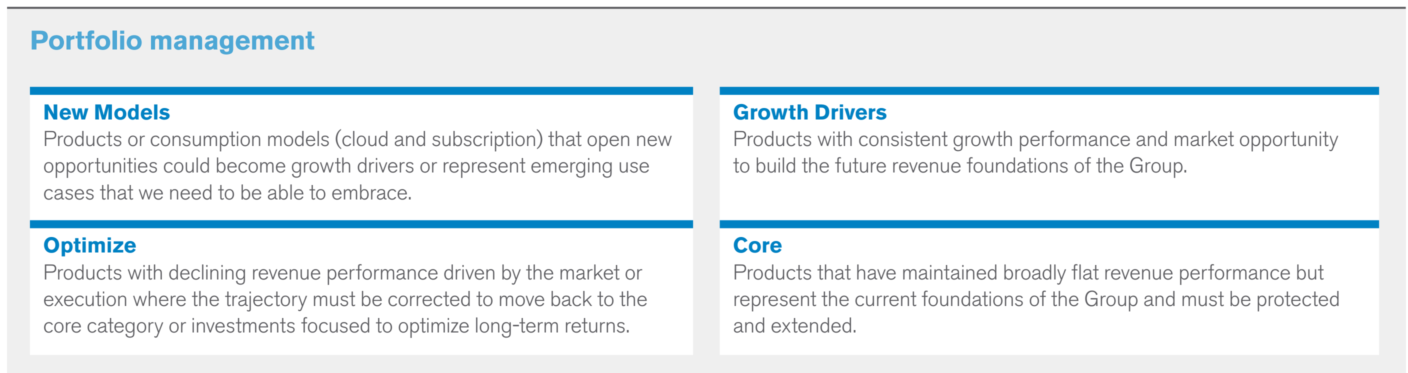
Investment strategy and valuation
- Investing in growth = valuation and returns
- Rich valuations

Nature of software
- Infrastructure software: embedded products with high switching costs
- Limited growth capex
- Margin expansion and efficiency opportunities

Investment strategy and valuation
- Returns driven by maximising cash flow
- Lower valuations

Micro Focus is a software company focusing on operational efficiency and scale to lead consolidation in the mature infrastructure software market

When considering investment priorities, both organic and inorganic, we evaluate our options against a set of characteristics mapped to each stage of this adoption cycle enabling the categorization of our product portfolio into one of the four quadrants represented in the chart (FOUR-BOX MODEL).



Portfolio management

New Models
Products or consumption models (cloud and subscription) that open new opportunities could become growth drivers or represent emerging use cases that we need to be able to embrace.

Growth Drivers
Products with consistent growth performance and market opportunity to build the future revenue foundations of the Group.

Optimize
Products with declining revenue performance driven by the market or execution where the trajectory must be corrected to move back to the core category or investments focused to optimize long-term returns.

Core
Products that have maintained broadly flat revenue performance but represent the current foundations of the Group and must be protected and extended.

Our approach to each category is summarized below:

- New Models: here our focus is on identifying new innovation in the marketplace that is applicable to our core and growth driver propositions. This is the case where new innovation is needed to connect or leverage existing IT or application assets to deliver returns or open new opportunities. An example of this is Silk Performer Cloudburst, a cloud based implementation of our highly successful on premise Silk Performer product. This combination enables customers to execute a hybrid on premise/cloud solution ensuring day-to-day operations are handled effectively on premise but offering broadly unlimited additional capacity as and when needed to support business operational peaks, underpinned by the flexibility and ease of use of a common solution in both cases. In SUSE our investments in OpenStack Cloud Infrastructure and Software-defined Distributed Storage are also clear examples.

- Growth Drivers and Core: this represents the majority of our revenue and investment focus. We look to identify critical technologies that have delivered significant value for customers and where the costs and risks of replacement or re-write are high and the returns from such activities are questionable. We determine how to enable these technologies for the latest IT innovations whether new operating environments such as Linux, OpenStack, JAVA or .NET or new use cases such as the cloud or mobile. For example, Visual COBOL enables customers to take COBOL applications forward with confidence into the next phase of IT industry innovation, specifically cloud and mobile, whilst protecting their investments in business logic and data built up through prior investments. Security is a major focus area for customers as they seek to balance being open and accessible to their customers with the need to protect confidential data and intellectual property. Through our suite of identity, access and security solutions we offer industry leading capabilities to help customers find this balance. These capabilities span multiple portfolios and significant opportunities for leverage and cross portfolio synergies exist.

- Optimize: as the I.T. landscape shifts in response to new opportunities or challenges some technologies require repositioning or to be re-focused to identify and exploit remaining or new growth potential. This requires much more granular analysis and targeted investment. Our model forces this discipline. Inevitably, some technologies eventually approach end of life as some customers replace them with new solutions. For the remaining customers they still represent significant value. Our approach is to continue to offer flexible commercial and support models to enable customer access to the intellectual property and capabilities of these technologies for extended periods, again ensuring protection of customer investment for as long as possible technically and commercially.

Within this overall portfolio we have some products that are growing significantly and others that are stable or in decline. Our business model means the way we manage the portfolio is analogous to a "fund of funds" with the objective of generating moderate growth over the medium-term, delivering high levels of profitability and strong cash generation and cash conversion ratio with a balanced portfolio approach. We will continue to focus investment in growth and core products and will not dispose of declining products unless we can achieve greater than the discounted cash flow they would generate in our ownership.

In addition to strengthening and developing our strong franchises across the product portfolio, we are uniquely positioned to help customers solve key challenges as they seek to be more effective, more competitive and more efficient. Decades of technology innovation has opened up tremendous opportunities for companies in almost every market but typically this has resulted in very complex IT environments. Most organizations operate infrastructure and applications which have emerged over time, often years apart, such that core legacy platforms sit alongside distributed systems, which more recently have been extended further again with web, cloud and mobile technologies.

This is set to continue as today's business environment is characterized by unprecedented levels of change. Companies need to embrace this change in a way that protects their most prized assets – their intellectual property; their business logic; and their business data.

Our core objective is to deliver consistent shareholder returns of 15% to 20% over the long-term

The underlying premise behind Micro Focus' business strategy is that the Company should consistently and over the long-term deliver shareholder returns of at least 15% to 20% per annum. To deliver this objective the Company has adopted an operational and financial strategy underpinned by consistent and effective management and reward systems. This strategy is capable of execution over the long-term.

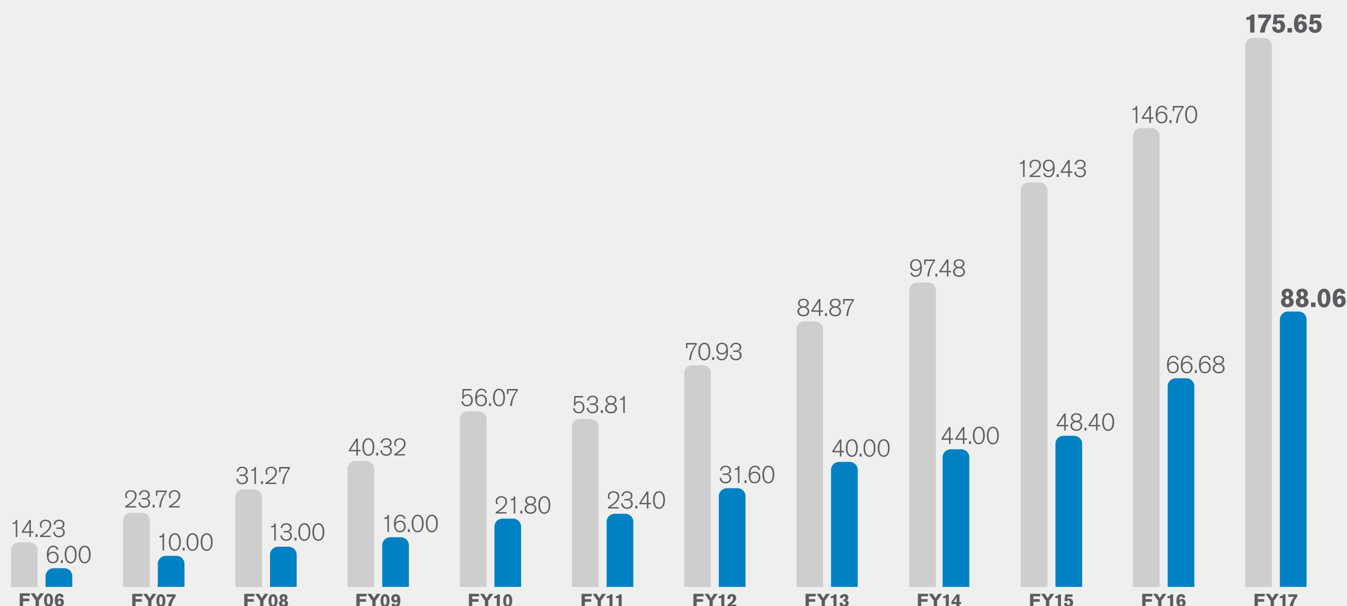
The Company was listed on the London Stock Exchange on 12 May 2005 at a price of 130 pence and in the year ended 30 April 2006 Diluted Adjusted EPS was 14.23 cents and total dividends for the year of 6 cents per share was declared. In the year ended 30 April 2017 Diluted Adjusted EPS is 175.65 cents and the proposed full year dividend is 88.06 cents representing a compound annual growth rate of 25.7% and 27.7% respectively.

Dividends paid on our shares since the IPO to 30 April 2017 have totaled 228.64 pence (350.21 cents) and in addition since January 2012 we have made four Returns of Value totaling 215 pence per share. On 30 April 2017 our share price had increased to 2,588 pence. A shareholder who invested at the time of the IPO and had reinvested the Returns of Value would have grown their investment by 2,167% which is a compound annual return of 29.3%. In addition the Company has announced that there will be a Return of Value of $500m payable to existing Micro Focus shareholders on the register immediately before closing the HPE Software transaction.

On 28 March 2011, on the back of two profit warnings and poor performance in the year ended 30 April 2011, the Company announced a share buy-back programme. The closing share price on 25 March 2011, the day before the announcement, was 308.6 pence and the dividends received since IPO at that time were 43.56 pence. The annual rate of return for the shareholder from IPO to 25 March 2011 was 18.5% per annum. The Company's market capitalization on that date was £635.0m and by 30 April 2017 this had increased to £5,944.0m.

The Company made cash returns to shareholders during this period of £764.9m, consisting of share buy-backs of £65.0m, ordinary dividends of £360.3m and Returns of Value of £339.6m. These cash returns represent 120.5% of the market capitalization of the Company on 25 March 2011 and the annual compound return for shareholders from that date to 30 April 2017 is 29.3% per annum.

Micro Focus intends to remain a high growth company in terms of returns to shareholders.



Our performance in the year

Micro Focus Group delivered revenues and Underlying Adjusted EBITDA of $1,380.7m and $640.9m respectively (2016: $1,245.0m and $532.5m). On a pro-forma constant currency ("pro-forma CCY") basis the revenue reduced by 0.9% which is just above the mid-point of the guidance range given at the beginning of the year and re-confirmed at the interims.

Our net debt at 30 April 2017 was $1,410.6m and represents a multiple of 2.1 times Facility EBITDA of $673.4m, against our target of 2.5 times.

We would like to thank our employees for their continued dedication, commitment and hard work in delivering the full year results.

For the year ended 30 April 2017 bonuses will be paid to executive management and non-commissioned staff in Micro Focus in line with the improvement in Underlying Adjusted EBITDA of the Group on a pro-forma CCY basis excluding the impact of in year acquisitions. Staff bonuses will be paid at 45.0% of their on target amount reflecting a 4.5% increase in Underlying Adjusted EBITDA of Micro Focus on a CCY basis excluding the impact of in-year acquisitions. Executive Management received the same percentage.

Non-commissioned staff fully aligned with SUSE, were targeted 50% on improvement in Underlying Adjusted EBITDA of the Group on a CCY basis excluding the impact of in year acquisitions and 50% on delivery of Annual Contract Value ("ACV") growth targets in SUSE. Their bonus payment is 75.5% of their on target amount, reflecting stronger than targeted achievement in the ACV component.

The amount charged to the consolidated statement of comprehensive income in respect of the Corporate Bonus plan in the actual results for the year ended 30 April 2017 was $20.8m (2016: $45.6m).

Operational strategy to deliver our core objective

Operational excellence

Micro Focus has set out to be the most effective company at managing a portfolio of mature infrastructure software assets. This shows in our industry leading EBITDA margins and our strong cash conversion. We believe that our proven ability to execute not only delivers significant amounts of cash and consequently great flexibility, but also a competitive advantage in the acquisition of other similar assets as demonstrated this year.

The aims of our portfolio focus and operational strategy are:

1. Revenue growth;
2. Operating leverage; and
3. Significant cash generation.

Our key areas of operational focus in order to deliver single digit revenue growth to achieve our core objective are Financial Discipline in M&A, Go-to-Market ("GTM") (including indirect channels) and Product Development.

Financial discipline, mergers and acquisitions ("M&A")

Micro Focus has a strong financial discipline around the uses of cash. The Company has a base case model that estimates the returns to shareholders from organic execution and the return of excess cash. This gives a sound basis on which to evaluate M&A where any acquisition contemplated would need to generate a risk adjusted return greater than the base case. Successful execution of M&A has been instrumental in achieving an annual compound total shareholder return of 29.3% since IPO compared to a base case target of 15% to 20%. The TAG and Serena acquisitions demonstrate this strong discipline and the returns that are achievable.

Industry and market dynamics mean that there are significant numbers of potential assets that could fit with our business model. These are either:

1. Bolt-on transactions like those completed in FY13, FY14, FY16 and FY17;
2. Significant transactions such as Serena in FY17; or
3. Transformational deals such as the acquisition of TAG in FY15 and HPE Software.

Each year the world of IT gets another year older (and we should remember that IT is still a relatively young industry). Whilst the vast majority of companies will choose to focus on the "new and exciting"; we believe that there will be an increasing opportunity to help clients derive value from their existing and often highly complex IT investments.

Since the Completion of the TAG acquisition, the Company continues to receive significant numbers of approaches from owners of companies who would be interested in becoming part of the larger Group.

GTM and Product Development are covered in the CEO reports.

Linkage of management incentive to shareholder returns

Micro Focus has deployed a simple model to link management incentives to the delivery of shareholder returns. This model has worked successfully in motivating management to deliver exceptional returns to shareholders and is well understood and supported by our investment manager population.

The annual cash bonus applies to all members of staff in Micro Focus (excluding those on sales incentives). If the Group's Underlying Adjusted EBITDA is no greater than the prior year's CCY comparative at budgeted exchange rates there is no bonus. The bonus for executive directors and operating committee members is maximized on achieving 10% growth over the prior year CCY Underlying Adjusted EBITDA with a straight line between the two points and for other staff there is no maximum. The staff neither benefits nor loses from elements outside of their control such as exchange rates with the board taking a view that these items balance out over the business cycle. In year acquisitions are not included for bonus purposes.

The board sees no value in bonuses being based on "soft" or non-financial measures as evidence would suggest that these tend to serve to increase bonuses to levels not merited by financial performance. Such targets are best achieved by executives managing and having appropriate management and control systems in place.

The normal stock plan starts to vest at EPS annual growth over the performance period of RPI plus 3%, with maximum vesting at RPI plus 9%. With RPI per annum over the three years to 30 April 2017 of approximately 1.9% full vesting required 10.9% growth in EPS and dividend yield of approximately 3% this means that full vesting is aligned to lower end of the overall objective of 15% to 20% shareholder returns.

At the time of the TAG acquisition shareholder approval was obtained for an Additional Share Grant ("ASG") of up to 5,412,240 ordinary shares, representing a maximum of 2.5% of the enlarged Group's share capital at announcement which could be awarded to up to 15 senior managers in the 18 months following Completion. The performance period expires on 1 November 2017 and vesting is dependent upon shareholder return of between 50% and 100% over the performance period, with straight-line vesting of the ASG between 50% and 100% of shareholder return.

As at 30 April 2017 ASGs are outstanding over only 3,262,420 ordinary shares granted to seven senior managers representing 1.4% of the voting rights of the Company at 30 April 2017. As it is more than 18 months since the Completion of the acquisition, no further ASGs relating to TAG will be made. This means that if, at the date of vesting, the share price is a minimum of 1,490.27 pence per share or more, then 100% of the shares granted would become exercisable. This is based on the current dividend per share of 148.58 pence for the relevant period.

The ASG was essential to the delivery of value and has proven to be a very effective incentive from a shareholder perspective. Shareholders voted to repeat this scheme for the HPE Software transaction which received 99.98% support at the general meeting on 26 May 2017. If successfully executed, the plan will deliver approximately an increase in shareholders' investment of £7.9 billion including ordinary dividends for full vesting of the ASG from the base price of 1,817 pence per share.

As we look to the consolidation of the market the Company will be at a disadvantage to US listed companies and private equity firms when negotiating acquisitions if it is not free to negotiate appropriate management compensation.

Key performance indicators to check that we are on track are Underlying Adjusted EBITDA (absolute amount and growth percentage), cash conversion (absolute amount and conversion percentage), free cash flow and earnings per share.

Delivering value to shareholders

The board has adopted a very clear plan of value creation.

Our priority is to improve the performance of the business in order to maximize the opportunity to generate modest revenue growth in the medium-term. At the same time we have created flexibility to allow value creation to shareholders through cash distributions or acquisitions as appropriate. We deliver value to our customers through customer centred innovation. We will do nothing that will constrain our ability to achieve organic growth and we are currently investing significant amounts on activities designed to enhance growth.

The TAG and HPE Software transactions are transformational in terms of the size of the Group from an operating point of view. It involves the type of transformation that many companies would have said that they needed to go private to achieve out of the public eye. The board and management of Micro Focus believe that it is quite possible to do this on the public market and deliver the resulting increase in value to existing shareholders.

The HPE Software transaction was also transformational in terms of market capitalization. The day before the announcement of the transaction Micro Focus had a market capitalization of £4,480.7m which had increased to £5,944.0m by 30 April 2017. This increased scale drew the attention of a new set of public company institutional investors and also meant that some existing institutional investors would be unable to hold their investments as we had become too big. We will also list in the USA, through an ADS, which further expands Micro Focus relevant investor base.

Executive Chairman's statement
continued

Working with our brokers, Numis Securities, we set about establishing a significant increase in our investor relations and outreach to the HPE shareholder base. Following this activity approximately 30% of the Company's shares are now held in North America.

The board continues to target a net debt to Facility EBITDA multiple of approximately 2.5 times. This is a modest level of gearing for a company with the cash generating qualities of Micro Focus. We are confident that this level of debt will not reduce our ability to deliver growth, invest in products and/or make appropriate acquisitions. As the integration of the businesses continues the board will keep the appropriate level of debt under review.

In order to complete the acquisition of HPE Software the Company has extended its revolving credit facility from $375.0m to $500.0m, refinanced its term loan debt of $1,515.2m with an improved repayment profile and raised new term loan debt of $3,485m to complete the transaction and make the Return of Value.

At 30 April 2017 we had net debt of $1,410.6m representing a net debt to Facility EBITDA of 2.1 times. On closing of the HPE Software transaction net debt will be approximately $4.6 billion representing approximately 3.3 times net debt to pro-forma Facility EBITDA for the 12 months ended 30 April 2017.

The board has adopted a dividend policy of being two times covered by the adjusted earnings of the Group. This policy has delivered a proposed second interim dividend of 58.33 cents (2016: 49.74 cents per share), which represents a 17.3% increase on last year's final dividend and gives a total proposed dividend for the year of 88.06 cents per share (2016: 66.68 cents), an increase of 32.1%.

The dividend will be paid in Sterling equivalent to 45.22 pence per share, based on an exchange rate of £1 = $1.29, the rate applicable on 11 July 2017, the date on which the board resolved to pay the dividend. The dividend will be paid on 25 August 2017 to shareholders on the register at 4 August 2017.

Board changes and succession planning

At the Completion of the HPE Software transaction the board has announced that Chris Hsu will become CEO and Stephen Murdoch will become Chief Operating Officer ("COO"). Nils Brauckmann will continue as CEO of SUSE. To ensure delivery of the integration the board has agreed that I will remain Executive Chairman until the announcement of the first full year results after Completion. This is currently expected to be January 2019.

During the year there were a number of other board changes which arose due to the conditions of the agreement to acquire HPE Software ("Merger Agreement").

Effective 15 May 2017, Silke Scheiber and Darren Roos joined the board as two of the three independent Non-Executive Directors nominated by HPE pursuant to the Merger Agreement. Upon Completion, John Schultz, the Executive Vice President and General Counsel of HPE, will join the board as the Non-Executive Director nominated by HPE. The board has determined that Mr Schultz will not be independent. In addition, Chris Hsu, who will become CEO of Micro Focus upon Completion, will join the board at that time. An additional independent Non-Executive Director nominated by HPE and to be approved by the Micro Focus Nomination Committee, is expected to be appointed after Completion.

Steve Schuckenbrock and Tom Virden both resigned as Directors of Micro Focus, effective 25 April 2017, to ensure that the composition of the board remained in line with the UK corporate governance code and met the requirements of the Merger Agreement. We would like to thank Steve and Tom for their significant contributions to Micro Focus.

Stephen Murdoch remains CEO of Micro Focus until Completion and will then become COO and simultaneously step down from the board. Stephen will remain a key member of the management team going forward and was instrumental in operationalizing our FOUR-BOX MODEL during the integration of TAG. We would like to thank him for his contributions as a board member and his continued commitment to Micro Focus as COO.

We welcome the new members of our board and biographical details of all board members are available on pages 52 and 53.

Outlook

Following completion of the acquisition of HPE Software, the Group intends to align its financial year end to 31 October and will report an 18 month financial period ending 31 October 2018. Assuming the transaction remains on schedule, the first six months will comprise six months of the current Micro Focus business and two months of the HPE Software business. There will then be a full 12 months trading of both businesses.

We anticipate revenues for the current Micro Focus Group business for the six months to 31 October 2017 will be broadly flat on the comparative period. In anticipation of the impending integration of the Micro Focus and HPE Software businesses in November we have put on hold any operational changes in the existing Micro Focus business. We will provide guidance for the combined 12 month period to 31 October 2018 when we report in January 2018 on the Group's performance in the six months ending 31 October 2017.

Having delivered 12 years of approximately 29.3% compound annual returns to investors we believe we have a strong operational and financial model that can continue to scale and provide excellent returns to our shareholders.

Kevin Loosemore
Executive Chairman
17 July 2017

Financial review

Group results presented for the year ended 30 April 2017 include the post-acquisition period results for Serena, GWAVA, OpenATTIC and OpenStack. Due to the significant size of the Serena acquisition the directors believe that the Group results are better understood by looking at the comparative results on a pro-forma basis for the combination of Base Micro Focus and Serena. The directors do not consider the other acquisitions to be of a significant size and therefore have not presented their results in the pro-forma comparatives.

Serena had a 31 January year end date prior to acquisition. Similar to other software companies with a perpetual licence model Serena's revenues were weighted to the end of each financial quarter and were weighted to the final financial quarter of the year. Micro Focus' experience is that when the financial year end is changed following acquisition the weighting of financial performance moves to the new financial year end. Consequently, in order to provide a meaningful comparison in the pro-forma results for the year ended 30 April 2017 the directors have combined the unaudited financials for Serena for the year ended 31 January 2016 with the audited figures for Base Micro Focus for the year ended 30 April 2016. From the date of acquisition, 2 May 2016 to 30 April 2017, Serena contributed $144.8m to revenue and $72.2m to profit, before any allocation of management costs and tax.

A reconciliation between the GAAP and Non-GAAP performance measures is given on page 13 (Revenue), page 16 (Adjusted Operating Profit, Adjusted EBITDA and Underlying Adjusted EBITDA) and note 4. The Group operates two product portfolios (i) Micro Focus and (ii) SUSE. These are the reporting segments and the cash generating units for the Group.

The Micro Focus Product Portfolio contains our mature infrastructure software products that are managed on a portfolio basis akin to a "fund of funds" investment portfolio. This portfolio is being managed with a single product development group that makes and maintains the software, whilst the software is sold and supported through a geographic Go-to-Market ("GTM") organization. Products are organized into five sub-portfolios based on industrial logic. During the year Serena's product set was added to the Development & IT Operations Management Tools sub-portfolio and towards the end of the year GWAVA was added to Collaboration & Networking.

SUSE's characteristics are different due to the Open Source nature and the growth profile of its offerings. During the year SUSE made its first acquisition of OpenATTIC, a storage management software solution, and then took over assets and staff from HPE related to OpenStack Infrastructure as a Service ("IaaS") and Cloud Foundry Platform as a Service ("PaaS") technology.

Our revenue guidance at the beginning of the year was for Group revenues for the full year to grow between zero% and minus 2% when compared to the pro-forma CCY revenues of the comparable period with growth in SUSE expected to partially offset the anticipated decline in the Micro Focus Product Portfolio based on the revenue trends in the sub-portfolios.

Reconciliation between Adjusted Operating Profit and Adjusted EBITDA and Underlying Adjusted EBITDA

	Year ended 30 April 2017 As reported Actual			Year ended 30 April 2016 Pro-forma CCY[1]			Year ended 30 April 2016 As reported Actual		
	Micro Focus $m	**SUSE $m**	**Group $m**	Micro Focus $m	SUSE $m	Group $m	Micro Focus $m	SUSE $m	Group $m
Segment revenue	**1,077.3**	**303.4**	**1,380.7**	1,142.3	250.4	1,392.7	991.2	253.8	1,245.0
Directly managed costs	**(564.1)**	**(178.5)**	**(742.6)**	(633.0)	(143.2)	(776.2)	(566.4)	(145.1)	(711.5)
Allocation of centrally managed costs	**26.2**	**(26.2)**	**–**	27.3	(27.3)	–	28.9	(28.9)	–
Total Adjusted Operating Costs	**(537.9)**	**(204.7)**	**(742.6)**	(605.7)	(170.5)	(776.2)	(537.5)	(174.0)	(711.5)
Adjusted Operating Profit	**539.4**	**98.7**	**638.1**	536.6	79.9	616.5	453.7	79.8	533.5
Margin	**50.1%**	**32.5%**	**46.2%**	47.0%	31.9%	44.3%	45.8%	31.4%	42.9%
Adjusted Operating Profit	**539.4**	**98.7**	**638.1**	536.6	79.9	616.5	453.7	79.8	533.5
Depreciation of property, plant and equipment	**9.7**	**2.1**	**11.8**	10.0	1.7	11.7	9.7	1.7	11.4
Amortization of software intangibles	**1.1**	**0.1**	**1.2**	1.6	0.1	1.7	1.7	0.2	1.9
Adjusted EBITDA	**550.2**	**100.9**	**651.1**	548.2	81.7	629.9	465.1	81.7	546.8
Foreign exchange credit	**(2.9)**	**(2.0)**	**(4.9)**	(3.0)	(0.3)	(3.3)	(2.6)	(0.3)	(2.9)
Net capitalization of product development costs	**(5.3)**	**–**	**(5.3)**	(11.3)	–	(11.3)	(11.4)	–	(11.4)
Underlying Adjusted EBITDA	**542.0**	**98.9**	**640.9**	533.9	81.4	615.3	451.1	81.4	532.5

1 unaudited.

Financial review

continued

The performance in the year was in line with management's guidance with overall revenues declining by 0.9% when compared to pro-forma CCY revenues.

The portfolios have directly controlled costs and then an allocation of the costs of the support functions that are centrally managed. Set out in the table below are the profitability metrics for our two product portfolios including the breakdown of Adjusted Operating Profit for the year and the reconciliation between Adjusted Operating Profit, Adjusted EBITDA and Underlying Adjusted EBITDA (note 4):

The breakdown in revenue within the two product portfolios by revenue type in the year to 30 April 2017 compared to the pro-forma CCY and reported revenues in the year to 30 April 2016 is shown in the table below:

Revenue by Product Portfolio on a CCY basis

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Growth/ (Decline) %	Year ended 30 April 2016 As reported Actual $m
Micro Focus Product Portfolio				
Licence	**308.4**	333.0	(7.4%)	304.8
Maintenance	**720.7**	754.5	(4.5%)	644.5
Subscription	**–**	–	–	–
Consultancy	**48.2**	54.8	(12.0%)	41.9
	1,077.3	**1,142.3**	**(5.7%)**	**991.2**
SUSE Product Portfolio				
Licence	**–**	–	–	–
Maintenance	**–**	–	–	–
Subscription	**298.7**	245.5	21.7%	248.9
Consultancy	**4.7**	4.9	(4.1%)	4.9
	303.4	**250.4**	**21.2%**	**253.8**
Total revenue				
Licence	**308.4**	333.0	(7.4%)	304.8
Maintenance	**720.7**	754.5	(4.5%)	644.5
Subscription	**298.7**	245.5	21.7%	248.9
Consultancy	**52.9**	59.7	(11.4%)	46.8
Revenue	**1,380.7**	**1,392.7**	**(0.9%)**	**1,245.0**

[1] unaudited.

The table below provides the proportion of revenue delivered during FY17 by each of the portfolios and the comparison to the pro-forma CCY and reported FY16 revenues with Micro Focus broken out into its sub-portfolios:

Proportion of pro-forma revenue delivered during FY17 by each of the Product Portfolios

	Percentage of FY17 Revenues As reported	Percentage of FY16 Revenues Pro-forma CCY[1]	Percentage of FY16 Revenues As reported
COBOL Development & Mainframe Solutions	**19.2%**	18.5%	20.8%
Host Connectivity	**12.7%**	14.1%	15.9%
Identity, Access & Security	**15.0%**	15.4%	17.4%
Development & IT Operations Management Tools	**20.6%**	22.7%	12.6%
Collaboration & Networking	**10.5%**	11.3%	12.9%
Micro Focus Portfolio	**78.0%**	**82.0%**	**79.6%**
SUSE Portfolio	**22.0%**	**18.0%**	**20.4%**
Micro Focus Group	**100.0%**	**100.0%**	**100.0%**

[1] unaudited.

We provide additional Key Performance Indicators ("KPIs") for the SUSE Product Portfolio. Total Contract Value ("TCV") is the amount invoiced to customers (excluding sales tax) in respect of new contracts and renewals completed in the year. The weighted average contract length expressed in months, reflecting the duration of the TCV is also being provided as growth in TCV alone without this information is potentially misleading. Finally we provide Annual Contract Value ("ACV") which aims to normalize contract length by only including the first 12 months of each new contract or renewal included within TCV. Where the contract length is less than 12 months all of the TCV is included in ACV.

We are not providing renewal rate information for SUSE or Micro Focus. Our methodology is still being refined in order to accommodate data from our multiple systems and we will seek to standardize on a single measure after Completion and integration with the HPE Software business. Once we have a common methodology and are content with the data we will provide clear explanations of both. In the meantime we believe that following the trends on the maintenance revenue for the Micro Focus sub-portfolios and subscription revenues for SUSE provides the best guidance on performance.

The table below shows revenues for the year by region for the year to 30 April 2017 compared to the pro-forma CCY revenue and reported revenue for the year ended 30 April 2016:

Revenue by region

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Growth/ (Decline) %	Year ended 30 April 2016 As reported Actual $m
Micro Focus				
North America	**591.4**	627.1	(5.7%)	525.2
International	**389.7**	415.0	(6.1%)	377.0
Asia Pacific & Japan	**96.2**	100.2	(4.0%)	89.0
Total	**1,077.3**	**1,142.3**	**(5.7%)**	**991.2**
SUSE				
North America	**121.8**	108.7	12.1%	108.6
International	**142.8**	111.6	28.0%	115.6
Asia Pacific & Japan	**38.8**	30.1	28.9%	29.6
Total	**303.4**	**250.4**	**21.2%**	**253.8**
Group				
North America	**713.2**	735.8	(3.1%)	633.8
International	**532.5**	526.6	1.1%	492.6
Asia Pacific & Japan	**135.0**	130.3	3.6%	118.6
Total revenue	**1,380.7**	**1,392.7**	**(0.9%)**	**1,245.0**

[1] unaudited.

Detailed analysis of the revenue performance of each of the product portfolios is provided in the CEO reports.

Reconciliation of pro-forma CCY revenues to reported revenues for the year ended 30 April 2016

	Year ended 30 April 2016 $m
Micro Focus	
As reported	991.2
Serena	162.4
Currency impact	(11.3)
Pro-forma CCY	**1,142.3**
SUSE	
As reported	253.8
Currency impact	(3.4)
Pro-forma CCY	**250.4**
Total Revenue	
As reported	1,245.0
Serena	162.4
Currency impact	(14.7)
Pro-forma CCY	**1,392.7**

Operating costs

The operating costs (including exceptional costs of $97.3m) for the year ended 30 April 2017 compared with pro-forma CCY and reported operating costs* for the year ended 30 April 2016 are shown below:

Operating costs

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Increase/ (Decrease) %	Year ended 30 April 2016 As reported Actual* $m
Cost of goods sold	**237.2**	252.5	(6.1%)	230.2
Selling and distribution	**467.1**	440.9	5.9%	416.3
Research and development	**180.1**	181.2	(0.6%)	164.6
Administrative expenses	**202.9**	140.3	44.6%	139.0
Total operating costs	**1,087.3**	**1,014.9**	**7.1%**	**950.1**

[1] unaudited.

*Re-classification of costs for Consolidated Statement of Comprehensive Income Presentation

As part of the HPE Software transaction the Company's shares and ADS will be listed on the LSE and NYSE respectively. As part of the regulatory filing process in the USA the Group has reviewed its consolidated statement of comprehensive income presentation and has decided to re-classify both amortization of product development costs and amortization of acquired

technology intangibles from research and development expenses to cost of sales. This presentation complies with IFRS and, in the view of the Company's Audit Committee, provides investors with a consolidated statement of comprehensive income presentation that is more comparable with other software companies listed on both markets.

Cost of goods sold

On a pro-forma CCY basis, cost of goods sold for the year decreased by $15.3m to $237.2m (2016: pro-forma CCY $252.5m) of which the exceptional costs were $2.9m (2016: pro-forma CCY $2.8m). The costs in this category predominantly relate to our consulting and helpline support operations, amortization of product development costs and amortization of acquired technology intangibles. Excluding exceptional items, amortization of product development costs of $22.4m (2016: pro-forma CCY $19.5m) and amortization of acquired technology intangibles of $69.1m (2016: pro-forma CCY $75.2m) cost of goods sold decreased by $12.2m to $142.8m (2016: pro-forma CCY $155.0m). The decrease is due primarily to a $7.2m reduction in staff related costs and the year-on-year impact of the reduction in Consultancy revenues.

On a reported basis, costs of goods sold in the year increased by $7.0m to $237.2m (2016: reported* $230.2m). Cost of sales increased primarily due to the acquisition of Serena and GWAVA ($17.7m and $0.7m respectively) and exceptional items of $0.7m to $2.9m (2016: reported $2.2m) offset by exchange rate differences of $1.4m and a reduction in staff related costs of $8.6m. Exceptional items are discussed later in this section.

Selling and distribution costs

On a pro-forma CCY basis, selling and distribution costs increased by $26.2m to $467.1m (2016: pro-forma CCY $440.9m). Excluding the amortization of purchased trade names and customer relationships intangible assets of $143.8m (2016: pro-forma CCY $106.7m), selling and distribution costs were decreased by $10.9m to $323.3m (2016: pro-forma CCY $334.2m). Within these costs were exceptional costs of $5.5m (2016: pro-forma CCY $3.8m), thus the underlying costs were $317.8m (2016: pro-forma CCY $330.4m), a reduction of $12.6m (3.8%) on the prior year on a pro-forma CCY basis. Reductions include travel and office costs of $4.2m, staff related costs of $2.1m and marketing costs of $1.9m.

On a reported basis, selling and distribution costs in the year increased by $50.8m to $467.1m (2016: reported $416.3m).The acquisition of Serena and GWAVA increased selling and distribution costs by $21.7m and $1.4m respectively. Excluding the acquisitions in the year, selling and distribution costs increased by $27.7m to $444.0m (2016: reported $416.3m). This increase in selling and distribution costs includes an increase in exceptional items of $1.1m to $5.5m (2016: reported $4.4m), an increase in the amortization of purchased intangibles of $37.1m to $143.8m (2016: reported $106.7m) primarily offset by a reduction in staff related costs of $6.2m, a reduction in marketing costs of $2.0m and exchange rate differences of $5.2m. Exceptional items are discussed later in this section.

Research and development expenses

On a pro-forma CCY basis, research and development costs decreased by $1.1m to $180.1m (2016: pro-forma CCY $181.2m). Excluding exceptional costs of $6.8m (2016: pro-forma CCY $5.8m), the resultant costs were $173.3m (2016: pro-forma CCY $175.4m) a decrease of $2.1m (1.2%). Research and development costs are equivalent to approximately 13.0% of revenue (2016: pro-forma CCY 13.0%).

On a reported basis, research and development expenses in the year increased by $15.5m to $180.1m (2016: reported $164.6m).The acquisition of Serena and GWAVA increased research and product development costs by $17.3m and $1.1m respectively. Excluding acquisitions in the year research and development expenses decreased by $2.9m to $161.7m (2016: reported $164.6m). The decrease related to a reduction in staff related costs of $8.6m and exchange rate differences $2.8m offset by an increase in exceptional items of $5.5m to $6.8m (2016: reported $1.3m) and a decrease in the capitalization of product development costs of $3.2m to $27.7m (2016: $30.9m). Exceptional items are discussed later in this section.

At 30 April 2017 the net book value of capitalized product development costs on the consolidated statement of financial position was $49.1m (2016: $43.2m). The impact of net capitalization of internal product development costs was $5.3m (2016: net capitalization pro-forma CCY $11.4m).

Administrative expenses

On a pro-forma CCY basis, administrative expenses increased by $62.6m to $202.9m (2016: pro-forma CCY $140.3m). Excluding share based compensation of $34.5m (2016: pro-forma CCY $30.2m), exceptional costs of $82.0m (2016: pro-forma CCY $12.5m) and an exchange gain of $4.9m (2016: pro-forma CCY gain of $3.3m), administrative expenses decreased by $9.6m (9.5%) to $91.3m (2016: pro-forma CCY $100.9m). The decrease has arisen mostly from a reduction in staff related costs of $8.5m.

Share based compensation was $34.5m (2016: pro-forma CCY $30.2m), being ASG costs of $13.6m (2016: pro-forma CCY $10.4m), LTIP costs of $19.8m (2016: pro-forma CCY $18.9m) and Sharesave Scheme costs of $1.1m (2016: pro-forma CCY $0.9m).

On a reported basis, administrative expenses in the year increased by $63.9m to $202.9m (2016: reported $139.0m). The acquisition of Serena and GWAVA increased administrative expenses by $10.4m and $2.2m respectively. Exceptional items included in administrative expenses increased $61.9m to $82.0m (2016: reported $20.1m), share-based payments increased by $5.7m to $34.5m (2016: reported $28.8m) and exchange gains increased by $2.0m to $4.9m (2016: reported $2.9m). Excluding acquisitions in the year, exceptional items, share-based payments and exchange gains, administrative expenses decreased by $14.3m to $78.7m (2016: reported $93.0m). The decrease relates primarily to a reduction in staff related costs of $12.2m. Exceptional items are discussed later in this section.

Amortization of intangibles for the year was $236.4m (2016: reported $203.3m). This growth is as a result of the acquisition of Serena and GWAVA during the year.

Exceptional items

Exceptional items in the year were $97.3m (2016: pro-forma CCY $24.9m, reported $27.9m) including:

Exceptional items

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Year ended 30 April 2016 As reported Actual $m
Integration costs	**27.7**	21.4	23.6
Acquisition costs	**2.6**	0.5	0.5
Pre-acquisition costs	**58.0**	5.1	5.6
Property costs	**5.5**	6.1	6.0
Severance and legal costs	**3.5**	(5.2)	(4.8)
Royalty provision releases	**–**	(3.0)	(3.0)
	97.3	**24.9**	**27.9**

[1] unaudited.

On a reported basis exceptional items increased by $69.4m, or 248.7% to $97.3m in the year ended 30 April 2017 (2016: reported $27.9m). The increase was as a result of an increase in pre-acquisition costs of $52.4m relating to the proposed combination with HPE Software, an increase in integration costs of $4.1m in bringing acquired businesses together with the heritage Micro Focus business, an increase in severance costs of $8.3m primarily related to the Serena acquisition, an increase in acquisition costs of $2.1m, the non-recurrence of the $3.0m royalty provision release, offset by a decrease in property costs of $0.5m.

The pre-acquisition costs relate to the acquisition of HPE Software which was announced in September 2016 and is currently expected to complete on 1 September 2017. These costs relate to accounting, legal and commercial due diligence work, legal work on the various agreements, professional advisors fees and pre-integration costs relating to activities in readiness for the HPE Software acquisition across all functions of the existing Micro Focus business.

The integration costs relate to work done in bringing together the base Micro Focus, TAG, Serena and GWAVA organizations into one organization.

The acquisition costs relate to due diligence work, legal work on the acquisition agreements and professional advisors fees on the acquisition of Serena and GWAVA.

Currency impact

During the year to 30 April 2017, 62.4% of our revenues were contracted in US dollars, 21.2% in Euros, 4.5% in Sterling, 3.6% in Yen and 8.3% in other currencies. In comparison, 50.7% of our costs are US dollar denominated, 12.2% in Sterling, 19.6% in Euros, 1.7% in Yen and 15.8% in other currencies.

This weighting of revenue and costs means that if the US$: Euro or US$: Yen exchange rates move during the year, the revenue impact is greater than the cost impact, whilst if US$: Sterling rate moves during the year the cost impact exceeds the revenue impact. Consequently, actual US$ EBITDA can be impacted by significant movements in US$ to Euro, Yen and Sterling exchange rates.

The currency movement for the US dollar against Sterling and Euro was a strengthening of 13.9% and 1.5% respectively and the Yen weakened by 10.1% when looking at the average exchange rates in the year ended 30 April 2017 compared to those in the year ended 30 April 2016. In order to provide CCY comparatives, we have restated the pro-forma results of the Group for the 12 months ended 30 April 2016 at the same average exchange rates as those used in reported results for the year ended 30 April 2017.

Intercompany loan arrangements within the Group are typically denominated in the local currency of the overseas affiliate. Consequently, any movement in the respective local currency and US$ will have an impact on the converted US$ value of the loans. This foreign exchange movement is taken to the consolidated statement of comprehensive income. The Group's UK Corporation Tax liability is denominated in Sterling and any movement of the US$: Sterling rate will give rise to a foreign exchange gain or loss which is also taken to the consolidated statement of comprehensive income. The foreign exchange gain for the period is approximately $4.9m (2016: pro-forma CCY gain of $3.3m).

Adjusted Operating Costs and Total Operating Costs

Adjusted Operating Costs were $742.6m (2016: pro-forma CCY $776.2m) a fall of $33.6m. The reduction in Adjusted Operating Costs arose mostly from a reduction in staff related costs of $23.9m. Total Operating costs were $1,087.3m (2016: pro-forma CCY $1,014.9m) an increase of $72.4m.

Adjusted EBITDA and Underlying Adjusted EBITDA

Adjusted EBITDA in the year increased by $21.2m to $651.1m (2016: pro-forma CCY $629.9m).

Underlying Adjusted EBITDA in the year increased by $25.6m to $640.9m (2016: pro-forma CCY $615.3m) at a margin of 46.4% (2016: pro-forma CCY 44.2%). The increase in Underlying Adjusted EBITDA is larger than the increase in Adjusted EBITDA as Adjusted EBITDA does not include the impact of net capitalization of product development costs and foreign exchange gains or losses.

Adjusted EBITDA and Underlying Adjusted EBITDA

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Growth/ (Decline) %	Year ended 30 April 2016 As reported Actual $m
Revenue	**1,380.7**	1,392.7	(0.9%)	1,245.0
Adjusted EBITDA	**651.1**	**629.9**	**3.4%**	**546.8**
Foreign exchange gain	**(4.9)**	(3.3)		(2.9)
Net (capitalization)/ amortization of product development costs	**(5.3)**	(11.3)		(11.4)
Underlying Adjusted EBITDA	**640.9**	**615.3**	**4.2%**	**532.5**
Underlying Adjusted EBITDA Margin	**46.4%**	**44.2%**	**5.0%**	**42.8%**

[1] unaudited.

Both revenue and EBITDA in the year ended 30 April 2017 have been reduced by the unwinding of the fair value deferred revenue haircut of $10.1m (2016: pro-forma CCY $16.6m, reported $16.6m) that was applied as part of the acquisitions of TAG, Serena and GWAVA.

Reconciliation of pro-forma CCY Adjusted EBITDA and Underlying Adjusted EBITDA to reported Adjusted EBITDA and Underlying Adjusted EBITDA for the year ended 30 April 2016.

	Adjusted Operating Profit $m	Adjusted EBITDA $m	Underlying Adjusted EBITDA $m
Micro Focus			
As reported	453.7	465.1	451.1
Serena	80.5	81.3	80.9
Currency impact	2.4	1.8	1.9
Pro-forma CCY	**536.6**	**548.2**	**533.9**
SUSE			
As reported	79.8	81.7	81.4
Currency impact	0.1	–	–
Pro-forma CCY	**79.9**	**81.7**	**81.4**
Total			
As reported	533.5	546.8	532.5
Serena	80.5	81.3	80.9
Currency Impact	2.5	1.8	1.9
Pro-forma CCY	**616.5**	**629.9**	**615.3**

Operating profit

Operating profit was $293.4m (2016: pro-forma CCY $377.8m). Within the operating profit is $97.3m (2016: pro-forma CCY $24.9m) of exceptional costs. Adjusted operating profit was $638.1m (2016: pro-forma CCY $616.5m).

Net finance costs

Net finance costs were $95.8m (2016: pro-forma CCY $97.5m) including:

- The amortization of $14.2m of prepaid facility arrangement, original issue discounts and facility fees incurred on the Group's loan facilities (2016: pro-forma CCY $13.9m);
- Loan interest and commitment fees of $81.9m (2016: pro-forma CCY $84.0m);
- Interest on pension liability $0.6m (2016: pro-forma CCY $0.5m);
- Other interest costs of $0.1m (2016: pro-forma CCY $0.1m); offset by
- $1.0m (2016: pro-forma CCY $1.0m) of interest received.

Net finance costs have decreased by $1.7m on a pro-forma CCY basis, mostly due to reduced loan interest and commitment fees ($2.1m) offset by an increase in the amortization of prepaid facility arrangement, original issue discounts and facility fees ($0.2m).

Profit before tax and adjusted profit before tax

Profit before tax for the year ended 30 April 2017 was $196.3m (2016: pro-forma CCY $278.1m). The profit before tax has decreased by $81.8m in the year when compared to the 2016 pro-forma CCY as a result of an increase in exceptional costs of $72.4m, an increase in the amortization of purchased intangibles following the Serena and GWAVA acquisitions of $29.3m, an increase in the share based compensation charge of $4.3m, offset by an improvement in Underlying Adjusted EBITDA margin of 46.4% (2016: pro-forma CCY 44.2%).

Profit before tax increased by $0.9m on a reported basis from $195.4m in the year ended 30 April 2016 to $196.3m for the year ended 30 April 2017.

Adjusted profit before tax was $541.0m (2016: pro-forma CCY $516.8m, reported $434.0m) and the table below shows the reconciliation between profit before tax and adjusted profit before tax:

Adjusted profit before tax

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Growth/ (Decline) %	Year ended 30 April 2016 As reported Actual $m
Profit before tax	**196.3**	278.1	(29.4%)	195.4
Share based compensation	**34.5**	30.2	14.2%	28.8
Amortization of purchased intangibles	**212.9**	183.6	16.0%	181.9
Exceptional costs	**97.3**	24.9	290.8%	27.9
Adjusted profit before tax	**541.0**	**516.8**	**4.7%**	**434.0**

[1] unaudited.

Taxation

The tax charge for the period was $38.5m (2016: $32.4m) with the Group's effective tax rate ("ETR") being 19.6% (2016: 16.6%). The ETR on adjusted profit before tax ("Adjusted ETR") was 22.9% (2016: 23.1%) as set out in the table below.

In computing adjusted profit before tax, $344.7m of adjustments have been made for the items shown in the adjusted profit before tax section, of which the associated tax is $85.5m. The adjusted ETR for the year ended 30 April 2017 of 22.9% is consistent with 2016 (23.1%).

The Group is forecasting an Adjusted ETR in the medium-term, including HPE Software, of approximately 33%. The increase compared to previous medium-term guidance, excluding HPE Software, of 23% to 27% is due primarily to the expected higher proportion of profits subject to higher US tax rates, including US taxes arising on the repatriation of profits from subsidiaries of HPE Software through the US to the UK. The Group is guiding to a cash tax rate on "Cash Profits" (Underlying Adjusted EBITDA less exceptional items, capital expenditure and interest) for the Enlarged Group of 30%.

The forecast Adjusted ETR is subject to various factors, including:

- Changes in tax legislation in the main jurisdictions in which the Group operates (for example, discussions are ongoing in relation to potentially significant tax reforms in the US);
- The geographical mix of profits (as mentioned above, the proportion of profits subject to US tax is likely to increase following the HPE Software acquisition);
- The risk of challenge from tax authorities to the allocation of profits across the Group in response to the OECD's Base Erosion and Profit Shifting project;
- Investigations and proposals of the European Commission;
- The tax consequences arising from the UK's exit from the European Union; and
- The resolution of open issues with tax authorities.

The Group's cash taxes paid in the period were $24.6m (2016: $79.3m). Cash tax payments in the current year were lower than in the prior year for the following reasons:

- In 2016 the Group paid $24.5m in respect of an Accelerated Payment Notice issued by HMRC in relation to the historic tax issue disclosed in previous years, which impacts UK tax returns from 2009 until 2015; and
- In 2016 the Group paid $27.2m in respect of forecast US Federal income tax liabilities. Following a recalculation in 2016 of the impact of temporary differences, including the offset of brought forward deferred tax assets, these liabilities were significantly lower than was initially anticipated. Of the resulting overpayment, $8m was refunded in 2017 and the remainder has been offset against current year Federal Tax liabilities.

The forecast cash tax rate is an average over the medium-term. The cash tax rate, when compared to the Adjusted ETR, is likely to fluctuate significantly year-on-year due to various factors, including the following:

- As a general matter, temporary differences often result in substantial shifts of cash tax payments from one period to another;
- In particular, the rate at which recognized deferred tax assets (brought forward tax losses and credits) are utilized is likely to vary significantly year-on-year, with the rate of utilization currently forecast to decrease significantly over the medium term period;
- The final tax liability for a particular territory and year can often vary significantly from the estimates on which instalment payments have been made, resulting in under and over payments (such as the overpayment mentioned above in the US in 2016); and
- The timing of the settlement of open issues with tax authorities is uncertain and can lead to significant one-off increases in the cash tax rate (such as the one mentioned above in the UK in 2016).

Tax liabilities are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. Tax provisions are based on management's interpretation of country specific tax law and are measured using the single best estimate of likely outcome approach. Management uses in-house tax experts, professional advisors and previous experience when assessing tax risks. Within current tax liabilities is $49.1m (2016: $27.9m) in respect of provisions for uncertain tax positions, the majority of which relates to the risk of challenge from tax authorities to the geographic allocation of profits across the Group. The Group does not anticipate that there will be any material reversal of these provisions in the next 12 months. Due to the uncertainty associated with such tax items, it is possible that at a future date, on conclusion of open tax matters, the final outcome may vary significantly.

Effective tax rate

	Year ended 30 April 2017			Year ended 30 April 2016		
	Actual $m	**Adjustments $m**	**Adjusted measures $m**	Actual $m	Adjustments $m	Adjusted measures $m
Profit before tax	**196.3**	**344.7**	**541.0**	195.4	238.6	434.0
Taxation	**(38.5)**	**(85.5)**	**(124.0)**	(32.4)	(67.8)	(100.2)
Profit after tax	**157.8**	**259.2**	**417.0**	163.0	170.8	333.8
Effective tax rate	**19.6%**		**22.9%**	16.6%		23.1%

As disclosed previously, the Group benefited from a lower cash rate of tax in recent years as a result of an on-going claim with HMRC in the UK, based on tax legislation, impacting its tax returns for the years ended 30 April 2009 through to 2015. The Group maintains a provision for the potential liability in its consolidated financial statements. The remaining provision at 30 April 2017 is $5.2m (including interest on overdue tax of $3.0m) compared to $5.6m at 30 April 2016. Subsequent to 30 April 2017 the Group paid a further $2.2m to HMRC following the receipt of a further Accelerated Payment Notice. When the tax position is agreed with HMRC, then to the extent that the tax liability is lower than that provided in the consolidated statement of financial position, there would be a positive benefit to the tax charge in the consolidated statement of comprehensive income in the year of settlement and a refund of any amounts paid under the Accelerated Payment Notices in excess of the agreed liability.

Profit after tax

Profit after tax decreased by 3.2% to $157.8m (2016: $163.0m reported).

Goodwill

The largest item on the consolidated statement of financial position is goodwill at $2,828.6m (2016: $2,436.2m) arising from acquisitions made by the Group. In the year goodwill has increased due to the acquisition of Serena ($379.6m) and GWAVA ($12.8m). There was no goodwill increase relating to the acquisitions of OpenATTIC and OpenStack.

Capital structure of the Group

As at 30 April 2017 the market capitalization of the Group was £5,944.0m (2016: £3,496.5m), equivalent to $7,667.8m ($5,104.9m) at an exchange rate of $1.29 to £1 (2016: $1.46 to £1). The net debt of the Group was $1,410.6m (2016: pro-forma including Serena $1,625.0m), all denominated in US$, resulting in an Enterprise Value of $9,078.4m (2016: $6,729.9m). The board believes that this capital structure is appropriate for the Group's requirements.

The debt facilities of the Group were put in place at the time of the acquisition of TAG on 20 November 2014 and totaled $2,000.0m under a credit agreement comprising a $1,275.0m seven year Term Loan B, a $500.0m five year Term Loan C and a $225.0m Revolving Facility (together "the Existing Facilities"). As part of the Serena acquisition additional Revolving Facilities commitments of $150.0m in total were obtained on 2 May 2016 from Barclays, HSBC and The Royal Bank of Scotland.

During the current financial year mandatory repayments of $9.6m of the Term Loan B and $37.5m of the Term Loan C were made together with a draw-down of $180.0m and repayment of $325.0m of the Revolving Facility. As part of the debt raising relating to the HPE Software transaction the Term Loan C was rolled into the Term Loan B-2 facility on 28 April 2017.

At 30 April 2017, $80.0m of the Revolving Facility was drawn together with $1,515.2m of Term Loan B-2 giving gross debt of $1,595.2m drawn.

During the year ended 30 April 2017 the Group renegotiated its debt facilities.

On 1 August 2016 the Company allocated a re-pricing of its senior secured Term Loan B which reduced its ongoing interest payments. The interest rate was reduced from 4.25% to 3.75% and the LIBOR floor was reduced from 1.00% to 0.75%. All other terms of the Group's Credit Facilities remained the same.

The terms of the Micro Focus debt facilities from 1 August 2016 to 28 April 2017 were as follows:

- Syndicated senior secured tranche B term loan facility ("Term Loan B"), with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), repayable at 1.00% per annum, with an original issue discount of 1.00% and a seven year term;
- A syndicated senior secured tranche C term loan facility ("Term Loan C"), with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), repayable at 10.00% per annum, with an original issue discount of 1.5% and a five year term; and
- A senior secured revolving credit facility of $375.0m, ("Revolving Facility"), with an interest rate of 3.50% above LIBOR on amounts drawn (and 0.50% on amounts undrawn) thereunder and an original issue discount of 0.50%.

The Revolving Facility was increased from $225.0m to $375.0m on 2 May 2016 as part of the funding for the Serena acquisition (note 37).

New Facilities

The Company announced on 21 April 2017 the successful syndication of the new credit facilities (the "New Facilities") on behalf of both MA FinanceCo, LLC, a wholly owned subsidiary of Micro Focus, and Seattle SpinCo. Inc., a wholly owned subsidiary of HPE that will hold HPE Software. At Completion of the HPE Software transaction, currently anticipated to be 1 September 2017, Seattle SpinCo. Inc. will be merged with a wholly owned subsidiary of Micro Focus in the Transaction.

The New Facilities comprise a $500.0m Revolving Credit Facility at LIBOR plus 3.50% (subject to a LIBOR floor of 0.00%) placed with a number of financial institutions and $5,000.0m of term loans. The new term loans are priced as follows:

New Facilities drawn as at 30 April 2017:

- In relation to the existing senior secured term loans issued by MA FinanceCo, LLC the lenders in the Term Loan C of $412.5m due November 2019 were offered a cashless roll of their investment into the existing Term Loan B, becoming Term Loan B-2, due November 2021 and this loan was re-priced to LIBOR plus 2.50% (subject to a LIBOR floor of 0.00%) and as a result of the cashless rollover increased in size from $1,102.7m to $1,515.2m, effective from 28 April 2017.

New Facilities not drawn as at 30 April 2017 were as follows:

HPE Software Facilities:
- The new $2,600.0m senior secured seven year term loan B issued by Seattle SpinCo. Inc. is priced at LIBOR plus 2.75% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%;

Micro Focus Facilities:
- The new $385.0m senior secured seven year term loan B issued by MA FinanceCo LLC is also priced at LIBOR plus 2.75% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%; and
- The new Euro 470.0m (equivalent to approximately $500.0 million) senior secured seven year term loan B issued by MA FinanceCo LLC is priced at EURIBOR plus 3.00% (subject to a EURIBOR floor of 0.00%) with an original issue discount of 0.25%.

The above new facilities are a modification only of the existing facilities and the unamortized prepaid facility arrangement fees and original issue discounts have not been accelerated as a result. The remaining unamortized prepaid facility arrangement fees and original issue discounts will be recognized over the life of the new debt.

As part of the HPE Software transaction, the New Facilities will be used to:

(i) Fund the pre-Completion cash payment by Seattle SpinCo. Inc. to HPE of $2,500.0m (subject to certain adjustments in limited circumstances);

(ii) Fund the Return of Value to Micro Focus' existing Shareholders of $500.0m; and

(iii) Pay transaction costs relating to the acquisition of HPE Software.

The balance will be used for general corporate and working capital purposes.

Micro Focus is already benefitting from the reduced interest rate margin and repayment terms on the existing term loans. The only financial covenant attaching to these facilities relates to the Revolving Facility, which is subject to an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end.

At 30 April 2017, $80.0m of the available Revolving Facility of $375.0m was drawn, representing 21.3%. The facility was less than 35% drawn at 30 April 2017 and therefore no covenant test is applicable.

Total equity

The total equity of the Group is $1,613.5m (2016: $1,593.7m) with a merger reserve of $338.1m (2016: $988.1m).

Cash flow and net debt

The Group's cash generated from operations was $564.8m (2016: $456.1m). This represented a cash conversion ratio when compared to Adjusted EBITDA less exceptional items of 102.0% (2016: 87.9%).

Cash conversion ratio

	2017 $m	2016 $m
Cash generated from operations	**564.8**	456.1
Adjusted EBITDA	**651.1**	546.8
Less: Exceptional items	**(97.3)**	(27.9)
	553.8	518.9
Cash conversion ratio	**102.0%**	87.9%

Cash generated from operations increased by $108.7m in the year ended 30 April 2017 primarily due to an increase in adjusted EBITDA of $104.2m.

As at 30 April 2017 the net debt of the Group was $1,410.6m (2016: $1,078.0m) comprising gross debt of $1,595.2m (2016: $1,787.25m), cash balances of $151.0m (2016: $667.2m) and pre-paid loan arrangements fees of $33.6m (2016: $42.0m).

The most significant cash outflows during the year were:

- The payment of the final dividend for the year ended 30 April 2016 of $111.0m;
- An interim dividend of $66.5m;
- Payments of $547.5m in respect of the acquisitions of Serena, GWAVA and OpenATTIC (including $316.7m repayment of bank borrowings on acquisition of Serena and net of $68.2m cash acquired);
- Bank loan net repayments of $192.1m;
- Corporate taxes payments of $24.6m;
- Payment for tangible assets of $11.7m;
- Payment for intangible assets of $31.4m; and
- Interest and loan payments of $87.8m.

Dividend

The board had adopted a dividend policy such that it is two times covered by the adjusted earnings of the Group. In light of the impending HPE Software transaction the directors are paying a second interim dividend for the year of 58.33 cents (2016: final dividend 49.74 cents per share), which represents a 17.3% increase on last year's final dividend and gives a total proposed dividend for the year of 88.06 cents per share (2016: 66.68 cents), an increase of 32.1% compared to last year.

The dividend will be paid in Sterling equivalent to 45.22 pence per share, based on an exchange rate of £1 = $1.29 being the rate applicable on 11 July 2017, the date on which the board resolved to propose the dividend. The dividend will be paid on 25 August 2017 to shareholders on the register at 4 August 2017.

Group risk factors

As with all businesses, the Group is affected by certain risks, not wholly within our control, which could have a material impact on the Group's long-term performance and cause actual results to differ materially from forecast and historic results.

The principal risks and uncertainties facing the Group are set out on pages 36 to 43.

Mike Phillips
Chief Financial Officer
17 July 2017

CEO Review – Micro Focus Product Portfolio

Introduction

The Micro Focus Product Portfolio represents 78.0% of total Group revenue in FY17 (2016: pro-forma CCY 82.0%) and comprises the following sub-product portfolios, which are shown with their percentage of FY17 overall product portfolios revenues:

Proportion of revenue delivered during FY17 by each of the Product Portfolio

	Product portfolio Revenues $m	Percentage of FY17 Revenues As reported %
COBOL Development & Mainframe Solutions ("CDMS")	265.2	24.6
Host Connectivity ("HC")	175.4	16.3
Identity, Access & Security ("IAS")	207.0	19.2
Development & IT Operations Management Tools ("Development & ITOM")	285.2	26.5
Collaboration & Networking ("C&N")	144.5	13.4
Micro Focus Portfolio	**1,077.3**	**100.0**

From within the Micro Focus Product Portfolio we also manage, for the Group overall, the corporate support functions of HR, IT, Facilities, Finance, Legal and the Project Management Office ("PMO") for acquisitions and integration. In addition we manage the delivery of a shared service for other elements of support to the SUSE portfolio enabling SUSE to directly control what they need to execute with speed and flexibility whilst leveraging the larger Group where effective as SUSE builds scale. During FY17 this shared service approach was phased out to further enable the SUSE team to execute autonomously such that in FY18 only the corporate support functions are shared with all other resources dedicated to either SUSE or Micro Focus. Wherever practical the corporate support functions staff are dedicated to product portfolios, including SUSE, in order to provide the additional benefit of specialization whilst leveraging the scale of the shared function.

Progress in FY17

During 2017 our main priority has been completing the integration of the different businesses into a more coherent whole, focused on consistent and sustained financial performance and the delivery of innovation that matters to customers – what we call customer centred innovation. This means helping customers solve the real world challenges they face today as they wrestle with balancing the ever increasing requirements for I.T. to deliver new capabilities and support new business models with the demands of securing and running day to day operations. We achieve this through the rigorous application of our FOUR-BOX MODEL which has at its core direct engagement with customers to enable highly targeted product development and delivery.

Highlights include:

- Our focus on delivering customer centred innovation continued to gather momentum:
  - Delivered 185 product releases or significant enhancements in FY17 with each sub-portfolio improving the levels of customer engagement and cadence of product delivery;
  - Integration of Serena and acquisition and integration of GWAVA completed on time and now executing as integral parts of the Micro Focus Product Portfolio, adding further depth and new capabilities within Development & ITOM and C&N respectively; and
  - Removed dependency on third party intellectual property in key strategic elements of our IAS portfolio.
- Integration of the business into a coherent whole is now broadly complete as evidenced by the progress on removing sub-branding, completely redesigning our websites, transitioning to a geographic Go-to-Market ("GTM") model globally and creating an integrated approach to product development and management. The remaining focus area is on IT systems where our stated goal of driving standardization will take longer to deliver than originally anticipated. As a result of the planned merger with HPE Software we have decided to implement the new set of systems being built for HPE Software for the Group as a whole. This will enable more effective integration of the existing Group with HPE Software and the creation of a more flexible platform from which to execute our strategy but it remains a very significant undertaking.
- Financial performance in the year was in line with expectations, with progress in Maintenance Fee Revenue being somewhat offset by performance in Licence Fee Revenue where the loss to a competitor of an entire sales team and management structure caused three to five months of disruption which impacted our Host Connectivity business principally.

The Micro Focus Portfolio Group in FY17

Product Group

We now execute as one global organization covering the five sub-portfolios.

During FY17 we delivered major product releases across each sub-portfolio and more than 185 releases in total. We have established standard processes for market and opportunity analysis through product development to product launch and sales and partner enablement. Best practices in areas such as development methodologies, pricing and licence management have been identified and are now adopted across the Group.

The FOUR-BOX MODEL approach was applied across all products to optimize returns and ensure product roadmaps reflect the appropriate priorities based on the individual products life cycle and portfolio management position.

This more unified approach to product development and management has presented new opportunities for delivering more value to customers through sharing technology and best practice focused on specific customer use cases or challenges. For example, we have delivered advanced security capabilities from our IAS portfolio within our leading Host Connectivity solutions to bring significantly enhanced functionality for customers to secure mainframe application access.

We continue to invest in product development and sharpen our focus in product management. We are excited by the significant enhancements to existing products, the new products released in the past year and the product roadmaps for the future.

Go to Market ("GTM") – sales, services and marketing

The transition of the GTM approach from global business units measured on annual bookings to a geographic organization focused on quarterly revenue is now complete.

This realignment of structure and approach was executed to enable closer engagement with the customer base and drive behaviour change at both the management and individual level to underpin the move to a more granular, quarterly cadence of sales forecasting and execution.

In services we have changed the direction and objectives to align fully with our strategy of "making, selling and supporting software". The teams have been reorganized with compensation and incentives changed to be targeted on delivering successful software implementations rather than more standalone services engagements. This change also enables better alignment with our channel partners. We have an extensive partner network that is a fundamental part of our long-term plans and it is important we ensure consistency of direction and focus to ensure objectives are aligned and mutual success is achieved in support of our customers.

Our approach to and our engagement with our channel partners was improved during FY17. Channel programmes were completely revamped to focus on those partners who were adding most value to our customers through the investment in complementary skills and technologies. Underpinning this is a completely redesigned Channel Portal to simplify how we collaborate and to provide improved visibility and analytics.

Systems and Processes

The decision to switch the focus of our long term strategic approach to internal systems to leverage the HPE Software internal systems has had a short term impact on our ability to make the fundamental structural improvements we believe will underpin our long term strategy. In the interim we switched focus to tackling other areas of process or technology inefficiencies. Key examples include the continued simplification of sales compensation plans, rationalization of websites, marketing support systems and social media platforms, improvements to our core data and voice infrastructure and improvements to our business intelligence and data analytics capabilities.

We believe the changes made enable us to better serve our customers but we still have a great deal to do across systems (beyond the main strategic project), processes and people to deliver the levels of sales productivity desired and possible.

We aim to increase sales productivity and predictability further by continuing to simplify the underlying processes and systems we use to run the business and improve customer insight by generating closer interaction between Sales and Marketing, Product Management and Product Development. All of which is key to effective operation today and faster integration with HPE Software in the future.

Micro Focus Product Portfolio

Details of our five sub portfolios are provided below.

COBOL Development & Mainframe Solutions ("CDMS") – 19.2% of FY17 Group revenues (2016: pro-forma CCY 18.5%)

We have continued to invest in our core COBOL development ("CD") products that primarily target the off-mainframe distributed development market. The CD products enable programmers to develop and deploy applications written in COBOL across multiple platforms including Windows, UNIX, Linux and the cloud. Visual COBOL provides the fastest way for customers to move enterprise mainframe application workloads partially or wholly to Java Virtual Machine ("JVM"), .NET or cloud environments whilst protecting their existing investments and intellectual property.

COBOL applications continue to be at the heart of the world's business transactions and to power the majority of large organizations' key business operations. Maintaining our leadership position in CD is at the core of our value proposition. By embedding our products in industry standard development environments specifically Visual Studio and Eclipse, we have addressed the perceived skill issues, and expect that COBOL will provide a stable base and strong cash flow for the Group over the coming decades.

CEO Review – Micro Focus Product Portfolio
continued

Our Mainframe Solutions ("MS") product set addresses a customer's need to get the most value out of their mainframe environment. These technologies allow customers flexibility in deciding the platform choice for development, testing and deployment of their business applications. Various business and technical drivers would determine if it is best to do these functions either within the mainframe environment or outside of it on distributed Windows, UNIX and Linux machines. We offer customers the choice to do either or both, enabling the optimum balance of cost, risk and speed of execution across their mainframe and distributed computing platforms. Increasingly businesses are seeking to re-use existing business logic and data, while also looking to exploit new innovations in technology such as mobile and cloud. Our mainframe solutions allow customers to accomplish both by enabling the re-deployment of enterprise mainframe applications to distributed systems, virtualized mobile platforms, and the cloud. We estimate that the mainframe COBOL development market opportunity is approximately three times as large as that for off mainframe distributed COBOL development.

Micro Focus will maintain its leadership positions in CDMS through products such as Visual COBOL and Enterprise Developer. The continued stable revenue performance in this portfolio is showing that our strategy is working.

Host Connectivity – 12.7% of FY17 Group revenues (2016: pro-forma CCY 14.1%)

The Host Connectivity product portfolio helps customers improve user productivity as they extend host access to new web and mobile use cases while ensuring that modern security practices around encryption, authorization, and authentication can be enforced. We specialize in environments with heterogeneous systems or platforms and this product set has, in one form or another, assisted in these tasks for over 30 years.

The Host Connectivity capabilities are extended by other products that provide legacy integration technologies that enable businesses to put their mainframe assets to work in new ways by exposing applications and data to modern development environments and business analytics systems. There are additional Secure Shell ("SSH") based file transfer solutions that solve a range of tactical and strategic problems for securely transferring files of any size, enabling businesses to work seamlessly with partners and customers.

In Host Connectivity we will seek to build on our existing strengths in terms of technology and customer base combined with our innovations in security to establish a true leadership position in this area.

Identity Access & Security ("IAS") – 15.0% of FY17 Group revenues (2016: pro-forma CCY 15.4%)

This product set offers a broad set of proven solutions for Identity Governance and Administration, Access Management and Authentication, and Security Management. Our customers span all sectors with particular strength in regulated industries, including Healthcare, Finance, Government, Retail, Manufacturing, and Energy. In addition companies in non-regulated industries also implement our IAS products as a best practice for protecting intellectual property or other sensitive information, and to make their organizations more efficient.

Customers use our Identity & Access Management ("IAM") solutions to apply integrated policies across local, mobile, and cloud environments to govern access to information, administer and manage the identity and access lifecycle of users, and demonstrate compliance with regulations or mandates. We provide solutions that address identity lifecycle management, risk-based authentication, single sign-on ("SSO"), access governance, and multi-factor authentication.

Our Security Management solutions build upon this identity centric approach by integrating identity and other contextual information with security monitoring, ensuring organizations have the security intelligence they need, when they need it, to detect and respond to abnormal activity that signals a data breach or compliance gap. Our Security Management solutions provide privileged user management, secure configuration management and visibility and control over user activities, security events, and critical systems across an organization to enable them to quickly address evolving threats.

Key trends driving growth in this area include the continued expansion and diversity of security threats to organizations and the growth of the resulting financial risk, the increasing demand for organizations to demonstrate that they have the processes in place to manage access, and the continued expansion of virtualization and cloud deployments increasing the level of complexity of the applications and information over which organizations need to manage access and monitor activity. Additionally organizations have an opportunity cost, effectively to implement stronger authentication methods than traditional username/password to help minimize data breaches.

Our IAS solutions are well suited to address these trends, using unique identity-powered technologies to help organizations govern and manage user privileges, facilitate and control access to applications and data, and monitor user and system activities. Although well positioned from a technology and capability perspective in this growth market there are many niche players who have point solutions and the trend in the market seems to be for customers to look for the potentially quicker fix of a single point solution rather than a company-wide integrated solution. Our focus is to build on existing strengths but transition the portfolio to enable these strengths to be packaged for easier consumption and deployment giving the customer better longer term balance between speed of deployment as part of a more integrated solution versus disparate point solutions from multiple vendors.

Development & IT Operations Management Tools – 20.6% of FY17 Group revenues (2016: pro-forma CCY 22.7%)

On 2 May 2016 we added important new capabilities and depth to this product portfolio through the acquisition of Serena, a leading provider of Application Lifecycle Management products enhancing both our expertise in mainframe computing and distributed software change management. Consistent with our philosophy of customer centred innovation we have continued to develop the full suite of Serena products and started the process of leveraging existing Micro Focus capabilities to the benefit of Serena products and customers and vice versa.

The Application Delivery and Testing products offer a range of DevOps solutions which span an organizations software development lifecycle – from definition (requirements capture) through to delivery (testing and change management). Organizations competing in a global marketplace must deliver innovative applications that meet customer expectations anytime, anywhere. Greater agility is required as software teams rapidly adapt to the volume and velocity of evolving business requirements and the demand to work in more diverse environments including mobile and cloud. Our Application Delivery and Testing solutions improve communication and collaboration between business, test, and development teams for continuous delivery of a superior applications and user experience across all their device and platform combinations.

Our Data Centre Management solutions integrate service management, application management, and systems management to give organizations a holistic view of their IT environment and business services, enabling companies to manage increased complexity and capacity with the right balance of cost, risk and speed of execution. We provide application performance management, IT process automation, business service management, and systems management solutions.

Our Workload Migration and Disaster Recovery products help organizations complete data centre transformation and migration projects quickly and efficiently with automatic, unattended high-speed physical-to-virtual, virtual-to-virtual, or anywhere-to-cloud workload migrations. Additionally, our high-performance disaster recovery solutions offer warm-standby recovery speeds similar to mirroring but at the lower cost points more associated with tape backup for all server workloads: physical and virtual, Windows and Linux.

Endpoint Management products enable IT staff to handle the complexities of securing and managing a large footprint of PC's, Macs, tablets and smartphones to give the proper and secure working environment to each employee.

Using a unified management console, these tools enable all devices to be patched, compliant, secure and properly equipped. Due to the multifarious and complex nature of the user and system endpoints within today's large organizations, this can be a burdensome and costly undertaking, and accordingly the toolset is both broad and deep. The capabilities include service desk; application virtualization; asset management; configuration management; software distribution; full disk encryption; mobile device management; and patch management.

We offer a very broad set of solutions and capabilities for customers. Our focus is on delivering the targeted innovation our customers need as they seek to solve complex, real world and ever changing challenges in building, operating and securing complex IT applications and infrastructure.

Collaboration & Networking – 10.5% of FY17 Group revenues (2016: pro-forma CCY 11.3%)

Our collaboration products enable organizations to build and operate work environments that are more secure and easier to manage, regardless of how or where people work. The products form a complete collaboration solution that has long been praised by customers and industry watchers for security and reliability. Key capabilities include email, calendaring, instant messaging, contact management, task management; team workspaces with document management, and workflows.

On 30 September 2016 we completed the acquisition of GWAVA Inc. ("GWAVA"), a leading provider of email security and enterprise information archiving ("EIA") solutions based in the US, Canada and Germany. GWAVA has a full suite of products, including their award winning EIA product Retain, that enable customers to protect, optimize, secure and ensure compliance for email, mobile and social data across multiple platforms including Micro Focus GroupWise, Microsoft Office and Google.

Collaboration brings people, projects, and processes together in one secure place to enhance team productivity and this fits closely with additional products that offer file, print, and networking services designed to enable organizations to securely print and share files both inside and outside their organization. The products can automate the configuration and management of high availability collaboration and networking servers, that are simple to resource manage and maintain. Suitable for small workgroups, right through to global enterprise deployments, the end-user value proposition includes dynamic file services which automates policies data storage; file access; secure file sharing; file reporting; mobile access; and online, offline and mobile printing.

Fully distributed networking services such as centralized server management; secure file storage; and storage management, provide full enterprise distributed networking environments suitable for small workgroups, right through to global enterprise deployments.

This product set also includes the CORBA based network and data transport products which provide unrivalled functionality and performance to companies with a requirement for high speed, and secure transfer of data between systems on their multi-platform networks. This technology is deployed across thousands of customers supporting more than a billion transactions per day.

We have been delivering value to our customer base with these products for decades and are committed to delivering the practical innovation and support our customers want and need to continue to leverage these investments.

Micro Focus will maintain its existing and seek to develop new leadership positions through continued investment in customer centred innovation. We will maintain our leadership in COBOL Development & Mainframe Solutions through products such as Visual COBOL and Enterprise Developer. In Host Connectivity we will seek to build on our existing strengths in terms of technology and customer base combined with our innovations in security to establish a true leadership position. In Development & ITOM and Collaboration & Networking the strength of our existing franchises can be built upon through targeted innovation and customer engagement. By continuing to sharpen our focus in IAS we are well positioned for growth over the longer term.

CEO Review – Micro Focus Product Portfolio
continued

Revenue for the year ended 30 April 2017 by product portfolio compared to pro-forma CCY and reported revenue for the year ended 30 April 2016 is shown in the table below:

Micro Focus Product Portfolio revenue

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Growth/ (Decline) %	Year ended 30 April 2016 As reported Actual $m
CDMS				
Licence	**106.0**	104.2	1.7%	104.7
Maintenance	**149.7**	145.0	3.2%	145.2
Consultancy	**9.5**	8.8	8.0%	8.9
	265.2	258.0	2.8%	258.8
Host connectivity				
Licence	**69.2**	89.0	(22.2%)	89.9
Maintenance	**104.4**	105.2	(0.8%)	105.4
Consultancy	**1.8**	2.8	(35.7%)	2.9
	175.4	197.0	(11.0%)	198.2
Identity, Access & Security				
Licence	**48.6**	51.7	(6.0%)	52.4
Maintenance	**140.0**	140.6	(0.4%)	142.2
Consultancy	**18.4**	22.0	(16.4%)	22.1
	207.0	214.3	(3.4%)	216.7
Development & IT Operations Management Tools				
Licence	**55.4**	64.4	(14.0%)	33.9
Maintenance	**215.9**	235.9	(8.5%)	121.3
Consultancy	**13.9**	15.5	(10.3%)	2.2
	285.2	315.8	(9.7%)	157.4
Collaboration & Networking				
Licence	**29.2**	23.7	23.2%	23.9
Maintenance	**110.7**	127.8	(13.4%)	130.4
Consultancy	**4.6**	5.7	(19.3%)	5.8
	144.5	157.2	(8.1%)	160.1
Micro Focus Product Portfolio				
Licence	**308.4**	333.0	(7.4%)	304.8
Maintenance	**720.7**	754.5	(4.5%)	644.5
Consultancy	**48.2**	54.8	(12.0%)	41.9
	1,077.3	1,142.3	(5.7%)	991.2

[1] unaudited.

Revenue for the Micro Focus Product Portfolio declined by 5.7% on a pro-forma CCY basis.

Licence revenue

Licence revenue declined by 7.4% (2016: 4.8%) on a pro-forma CCY basis. There was year-on-year Licence revenue growth in CDMS and Collaboration & Networking offset by declines in the other sub-portfolios.

Maintenance revenue

Maintenance revenues declined by 4.5% (2016: 6.1%) on a pro-forma CCY basis. This was primarily in Development & ITOM Tools and Collaboration & Networking. The fair value deferred revenue haircut reduced maintenance by $6.9m (2016: $10.2m). Excluding this, underlying maintenance revenues fell by 4.9% (2016: 6.2%).

Consultancy revenue

Consultancy revenues declined by 12.0% (2016: 15.2%) on a pro-forma CCY basis as we completed the implementation of the established Micro Focus policy of focusing only on consulting business that supports our licence business.

CDMS revenues were $265.2m; a growth of 2.8% on a pro-forma CCY basis compared with the year to 30 April 2016. This portfolio continues to show annual revenue growth underpinned by Visual COBOL and Enterprise Developer which highlights the continuing value customers derive from our CDMS products in support of their mission critical applications. Licence revenues grew by 1.7% ($1.8m), Maintenance revenues grew by 3.2% ($4.7m) and Consulting revenues grew by 8.0% ($0.7m).

Host Connectivity revenues declined by 11.0% ($21.6m) in the year on a pro-forma CCY basis. Licence revenues declined by 22.2% ($19.8m) mostly as a result of the loss to a competitor of an entire sales team and management structure. Maintenance revenues declined marginally by 0.8% ($0.8m) and there was a decline in Consulting revenues of 35.7% ($1.0m).

Identity, Access & Security ("IAS") revenues declined by 3.4% ($7.3m) in the year on a pro-forma CCY basis. Licence revenues declined by 6.0% on pro-forma CCY basis due to a lack of large scale projects in customers which is an area of real strength for our products and increased competition in this market from niche players for the smaller more point solutions. We will continue to drive for growth in this area but expect that this will take time to be delivered. Maintenance revenues declined by 0.4% ($0.6m).

Development & IT Operations Management Tools revenues which now include Serena were $285.2m; a 9.7% ($30.6m) decline on pro-forma CCY basis. $20.0m of the decline was in Maintenance revenues which declined by 8.5% compared with 11.3% in the prior year. Licence revenues declined in the period by $9.0m partly due to lower sales of our Serena products which had a number of large licence sales in the prior year. Consulting revenues declined by 10.3% ($1.6m).

Collaboration & Networking revenues which now include GWAVA were $144.5m a decline of 8.1% ($12.7m) on pro-forma CCY basis. Licence revenue grew by 23.2% ($5.5m). Maintenance revenue declined by 13.4% ($17.1m) in the period compared with 15.8% in the prior year.

Regional revenue performance

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Growth/ (Decline) %	Year ended 30 April 2016 As reported Actual $m
North America	**591.4**	627.1	(5.7%)	525.2
International	**389.7**	415.0	(6.1%)	377.0
Asia Pacific & Japan	**96.2**	100.2	(4.0%)	89.0
	1,077.3	1,142.3	(5.7%)	991.2

[1] unaudited.

North America started the year promisingly but had a disappointing third quarter which resulted in year-on-year revenue decline of 5.7% (2016: 6.4% decline) for the full year. The Federal business performed very well and CDMS execution improved throughout the year to deliver year-on-year growth within which Mainframe Solutions won exciting new customers and projects. Host Connectivity was down significantly mostly due to disruption and the impact of losing an entire sales team and management structure to a competitor causing both performance and pipeline development issues.

International had a challenging year with revenue decline year on year of 6.1% (2016: 4.6% decline). This region like in North America experienced challenges in the Host Connectivity and IAS markets. CDMS was broadly flat. France performed well and Germany and Nordics improved significantly in the second half but this was not enough to make up for weaknesses in the other territories.

Asia Pacific & Japan saw a 4.0% year on year revenue decline (2016: 10.6% decline). Licence revenues were marginally ahead of last year and maintenance revenues were in line with trend. Strength in Japan and Australia was offset by weakness in India & Asia. The Australia business was rebuilt to ensure that the correct teams were in place to execute consistently and improve the overall capabilities locally and these changes started to deliver improvements from very early in FY17. There were some excellent wins in IAS that demonstrate what can be delivered when skill and execution levels are maintained.

Adjusted Operating Profit and Underlying Adjusted EBITDA

The table below shows the Adjusted Operating Profit for the portfolio together with a comparison to the pro-forma CCY and reported figures for the year ended 30 April 2016:

Adjusted Operating Profit

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Year ended 30 April 2016 As reported Actual $m
Segment revenue	**1,077.3**	1,142.3	991.2
Directly managed costs	**(564.1)**	(633.0)	(566.4)
Allocation of centrally managed costs to SUSE	**26.2**	27.3	28.9
Total Adjusted Operating costs	**(537.9)**	(605.7)	(537.5)
Adjusted Operating Profit	**539.4**	536.6	453.7
Margin	**50.1%**	47.0%	45.8%

[1] unaudited.

The directly managed costs are those costs specifically managed by the CEO of the Micro Focus Product Portfolio. In the year ended 30 April 2017 some of the management of the Asia Pacific and Japan ("APJ") sales organization moved under the direct management of SUSE. All the Group central support costs are managed by the Micro Focus Product Portfolio group and the allocation of these costs to SUSE is based on an appropriate methodology. In the year ended 30 April 2018, SUSE will directly manage all of their own consulting services and maintenance renewals activities.

The adjusted operating profit was $539.4m, delivering a margin of 50.1% which compares with the margin in the pro-forma CCY numbers for the year ended 30 April 2016 of 47.0%. The increase in margin arises because of the continuing actions taken in managing costs.

CEO Review – Micro Focus Product Portfolio
continued

The table below shows the reconciliation between Adjusted Operating Profit and Underlying Adjusted EBITDA with a comparative of the pro-forma CCY and reported figures for the year ended 30 April 2016:

Adjusted EBITDA and Underlying Adjusted EBITDA

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Year ended 30 April 2016 As reported Actual $m
Adjusted Operating Profit	**539.4**	536.6	453.7
Depreciation of property, plant and equipment	**9.7**	10.0	9.7
Amortization of software intangibles	**1.1**	1.6	1.7
Adjusted EBITDA	**550.2**	548.2	465.1
Foreign exchange credit	**(2.9)**	(3.0)	(2.6)
Net capitalization of product development costs	**(5.3)**	(11.3)	(11.4)
Underlying Adjusted EBITDA	**542.0**	533.9	451.1

[1] unaudited.

The Underlying Adjusted EBITDA improved by $8.1m in the year on a pro-forma CCY basis primarily due to the staff related cost actions taken during the year.

Outlook

We have achieved a great deal over the last 12 months and enter the new financial year with stronger foundations than a year ago. We continue to focus on improving the way in which we operate to maximize the efficiency of the organization.

The Group has undergone huge change in FY16 and FY17 but the one constant has been clarity of strategy and the associated focus on aligning operational execution to the delivery of that strategy. Looking forward to FY18 this focus will continue with our key priorities being:

– Delivery of our financial plan;

– Continuing to operationalize the FOUR-BOX MODEL to better align resources to optimize the performance of each sub-portfolio; and

– Planning for and subsequent integration with HPE Software following Completion of the transaction.

Stephen Murdoch
Chief Executive Officer
Micro Focus
17 July 2017

CEO Review – SUSE Product Portfolio

Introduction

The SUSE Product Portfolio represented 22.0% of the total Group revenue in FY17 (2016: pro-forma CCY revenue 18.0%).

SUSE has continued with the mandate to deliver "accelerated, sustainable and profitable revenue growth" and has continued to invest in the business to support this vision. FY17 has been another successful year for SUSE with growth in revenue, Annual Contract Value ("ACV"), Total Contract Value ("TCV") and Underlying Adjusted EBITDA.

SUSE created additional capacity with the objective of sustainable profitable growth, by expanding the SUSE headcount across all of the key disciplines and SUSE also completed two technology led acquisitions during the fiscal year. Closer alignment of critical support functions continued during the year, as we aligned SUSE Services and SUSE Renewals to have dedicated leaders reporting into SUSE Sales leadership. In FY17, we continued to strengthen our partner eco system, with continued investment in broadening and deepening the partnership with Alliances, OEM, two tier distributors, value add resellers, cloud service providers and system integrators. We continue with our concerted effort to broaden the ISV partnership and accredit SUSE offerings on critical and relevant business applications. SUSE continues to rely on sustained growing contribution from these strategic partnerships for its overall success.

Technology acquisitions during the year:

During the year, SUSE acquired OpenStack IaaS and Cloud Foundry based PaaS technology from HPE together with a workforce of 105 Engineers. This will strengthen SUSE's existing OpenStack Cloud (IaaS) offering and also SUSE's Cloud Foundry PaaS offering when brought to market. The acquisition also enables SUSE to broaden its Original Equipment Maintenance ("OEM") partnership with HPE to now include SUSE's OpenStack Infrastructure as a Service ("IaaS"), Enterprise Linux and Software Defined Storage solutions as well as fast track provision of more comprehensive offerings in the OpenStack IaaS and Cloud Foundry Platform as a Service ("PaaS") space to all of its IHVs and alliance partners.

SUSE also acquired distributed storage management technology from OpenATTIC together with eight Engineers, which was a group within IT Novum GmBH, a German registered company. This will enable SUSE to strengthen SUSE Enterprise Storage and its open source software defined distributed storage offering by adding advanced storage management capabilities to the solution.

We continued to extend SUSE's presence and contribution in key Open Source projects and relevant industry groups both in support of strengthening our contribution to Open Source innovation and development efforts as well as in support of our partner and enterprise customer relationships.

SUSE

SUSE provides and supports enterprise-grade Open Source software defined infrastructure solutions and Linux with exceptional service, value and flexibility. Founded in 1992, for almost 20 years, SUSE has collaborated with partners and Open Source communities to innovate, adapt and secure Open Source technologies and create solutions for the world's most computer intensive and data intensive IT environments across physical, virtual, containerized and multi-cloud platforms.

Thousands of customers around the world rely on SUSE for their Open Source, software-defined infrastructure needs ranging from enterprise Linux to OpenStack private cloud to software defined, distributed storage and container based application delivery – all combined with comprehensive management capabilities for the complete software defined infrastructure architecture.

By harnessing the power, reliability and flexibility of SUSE solutions, our customers and partners are able to operate more efficiently, create new products and services faster and ultimately to compete better and win.

In a world of rapid and continuous technology change, SUSE customers can confidently embrace new development and operational models such as Dev/Ops, containers, Iaas and PaaS solutions while simultaneously leveraging the benefits of well-established mission critical paradigms and platforms.

The SUSE Product Portfolio comprises:

- **SUSE Linux Enterprise Server and Extensions**
  SUSE Linux Enterprise Server ("SLES") is the industry's original enterprise Linux distribution. Optimized for mission-critical workloads, certified on all major hardware platforms and available for on demand use from the world's leading public cloud providers. The SLES product family also includes specialized extensions and services for High Availability clustering, Real-time precision computing needs and Live Kernel Patching for maximizing system uptime.

- **SUSE OpenStack Cloud**
  SUSE OpenStack Cloud is an enterprise-grade solution for building and managing highly scalable infrastructure as service private clouds. The support for all major hardware platforms and hypervisors, automated installation, non-disruptive upgrades and true high-availability configuration capabilities makes SUSE OpenStack Cloud the ideal solution for creating business-critical private clouds that are ready for today's software-defined compute, storage and networking needs.

- **SUSE Enterprise Storage**
  Built on Ceph technology, SUSE Enterprise Storage is a resilient and scalable software-defined storage solution. Support for industry standard hardware combined with intelligent self-management and self-healing capabilities provides customers a feature-rich yet economically scalable solution for growing data needs.

- **SUSE Manager**
  SUSE Manager provides integrated management capabilities across the entire range of SUSE products and solutions whether they are deployed on premise or in the cloud. From server provisioning to application deployment, from automated patching to configuration management, SUSE Manager simplifies administration and enables the secure, compliant systems management practices today's enterprises require.

- **SUSE Linux Enterprise Desktop and Workstation Extension**
  High quality Linux workstation solution designed for interoperability with other operating systems and infrastructures including Windows, Mac and UNIX.

- **SUSE Container as a Service ("CaaS") Platform**
  SUSE CaaS Platform, is a development and hosting platform for container-based applications and services. The solution lets IT operations and developers provision, manage and scale container-based applications and services to improve business agility by adopting a software-defined infrastructure approach to support containerization of their existing and cloud native applications. SUSE CaaS Platform consists of three key components – orchestration using Kubernetes, a purpose-built operating system (SUSE MicroOS) for microservices and containers, and configuration capabilities.

SUSE Product Portfolio

Open Source Software

SUSE products and solutions are developed from Open Source technologies and brought to market with an Open Source business model. Open Source software source code is made available in the public domain under a number of different licensing models (such as GPL) which fosters collaboration and rapid innovation by developers around the world working as private individuals, for Enterprise customers and from within many of the industry's largest IT companies.

SUSE actively utilizes and engages in a wide range of Open Source projects and related industry initiatives where we work together with communities and partners to drive the new innovation and create meaningful industry standards. These projects include the Linux Foundation, OpenStack, Ceph, Cloud Foundry, openHPC, OPNFV, Open Mainframe Project, Open Container Initiative, the Cloud Native Computing Foundation (CNCF) and many more.

Additional detail can be found at: https://www.suse.com/company/open-source

Enterprise Linux

Linux is one of the first and most successful Open Source software projects in the industry and has now become a well-established choice in the enterprise operating system market but also in numerous other use cases including mobile devices, Internet of Things ("IoT"), cloud computing, big data analytics and more. All of the industry's major software-defined infrastructure innovations are being developed on and for the Linux operating system.

SUSE was the industry's first provider of an enterprise distribution of the Linux operating system and are the preferred choice on platforms such as IBM z Systems and for workloads such as SAP applications and SAP HANA.

Some of the key drivers behind the continued demand for enterprise Linux solutions such as SUSE Linux Enterprise Server include:

- UNIX to Linux migrations – the movement of workloads from proprietary UNIX operating systems on specialized hardware to Linux on industry standard hardware platforms but also IBM z Systems and Power.
- Data Center consolidation and virtualization – maximizing hardware investments by running multiple operating system instances on the same physical server.
- Cloud computing infrastructure – the most prevalent OS for the cloud infrastructure and also widely used as the OS for the workloads running on the private and public clouds.
- High Performance Computing – the world's top supercomputing clusters and the growing use of high performance computing systems leverage the flexibility and performance of Linux operating systems.
- Software-defined innovations – Linux has become the de-facto standard OS for the industry's infrastructure software innovations from IoT, Big Data analytics and software-defined storage, IaaS and private cloud, Containers and orchestration, PaaS, NFV and software-defined networking.

OpenStack Private Cloud

OpenStack has become the industry's clear Open Source standard for IaaS cloud with active engagement from dozens of leading IT companies and enterprises. This technology provides a highly flexible alternative to proprietary solutions which both commercial companies and end-customer enterprises can directly engage with through the OpenStack project in addition to utilizing distributions such as SUSE OpenStack Cloud.

SUSE was a founding platinum member of the OpenStack Foundation and has held the Foundation's board Chair position since its creation. SUSE OpenStack Cloud's streamlined installation capabilities, unattended upgrades, high availability features and support for all leading hyper-visors makes it an ideal choice for enterprise private cloud.

Some of the key drivers creating demand for OpenStack private cloud solutions such as SUSE OpenStack Cloud include:

- Data center evolution to Software Defined Infrastructure ("SDI") – the next step beyond data center consolidation and virtualization is to embrace the flexibility and agility of cloud capabilities such as self-service, direct integration with software-defined storage and networking.
- On demand services and business agility – in a world that expects instant access to everything, the ability to rapidly stand up new products and services for both internal and external customers is essential to competing effectively.
- Cost and value – traditional solutions lag in innovation and don't bring the economic scalability in both CAPEX and OPEX costs needed to support modern business models the way Open Source solutions can.

Software-defined Storage

Enterprises across all industry segments and sizes are struggling to control and manage the impact of explosive data growth at the very time that effectively using information is rapidly becoming the key to competitive differentiation. With more data to store in increasingly large and complex formats for longer periods of time, traditional storage solutions are not able to adequately address all the user cases and needs.

SUSE Storage, built on Ceph technology, is a unique solution with resilient self-managing and self-healing capabilities combined with flexibility to dynamically utilize both existing hardware as well as today's latest industry standard hardware components.

Some of the key drivers creating demand for Open Source software-defined storage solutions like SUSE Storage include:

- Massive data growth – more data volume, complex, large data formats and requirements to keep data for longer periods of time for analytics and regulatory compliance.
- Need for flexibility and elasticity – replacing traditional static storage appliances when more capacity is needed is simply not tenable in many cases. Enterprises require the ability to dynamically add capacity using industry standard hardware.
- Cost and value – traditional storage solutions are often not economically scalable when faced with the massive data growth, larger complex data formats and need for longer term storage.

Systems Management

For mid-sized or larger computing environments, comprehensive systems management is a critical factor that many enterprises still struggle to address. Considering the complexity of multiple hardware platforms, a wide variety of infrastructure technologies and the increasing use of combinations of on premise, hosted and public cloud resources, the business challenges are significant as are the potential benefits.

SUSE Manager is designed with a deep understanding of today's Linux-based, Open Source enterprise infrastructure technologies whether those are used on premise, virtualized or in a cloud deployment. SUSE Manager is a powerful tool for integrated management and orchestrations of system provisioning, monitoring, configuration management, automated patching – all designed to support the most complex enterprise and supercomputing scale deployments.

The key drivers behind the demand for systems management solutions like SUSE Manager include:

– Managing complexity – growth in systems (physical, virtual and cloud) and new infrastructure technologies like IaaS, Containers, PaaS creates needs for new management methodologies (Dev/Ops) and new tooling to manage effectively.

– Maintaining security, Service Level Agreements ("SLAs") and uptime – to be most effective, systems and servers, wherever they are deployed, must be secure and able to meet stringent SLAs with maximum uptime.

– Reducing Operating Expenses ("OPEX") – the days of manual systems management processes are past for any enterprise that needs to also innovate and compete. Automation is essential to free up resources and control systems management OPEX.

– Meeting regulatory compliance requirements – to stay compliant, enterprises must have comprehensive monitoring, configuration management controls and remediation capabilities in place.

Application Containers

Organizations can improve business agility by adopting a software-defined infrastructure approach to support containerization of their applications. Container innovation helps to develop and deploy next-generation, cloud native container-based applications and to progressively migrate traditional and existing apps.

SUSE CaaS Platform, is a development and hosting platform for container-based applications and services. The solution lets IT operations and developers provision, manage and scale container-based applications and services. The solutions consist of three key components – orchestration using Kubernetes, a purpose-built operating system (SUSE MicroOS) for microservices and containers, and configuration capabilities.

Some of the key drivers creating demand for Application Containers and solutions like SUSE CaaS Platform include:

– Reduced time to market using out-of-the-box container platform capabilities that enable customers to implement container orchestration using production grade Kubernetes, deploy resilient container services, maximize portability, and develop in a trusted computing environment;

– Increased operational efficiency with automation of deployment management tasks and full application lifecycle support of containers; and

– Faster and more automated application releases across different infrastructure. Enablement of DevOps for improved application lifecycle management. Bridging developers and operations using a single, unified container platform that helps save development and operations time. Deployment of microservices and coexistence of configuration and code.

SUSE – Key Performance Metrics

SUSE provides technical support together with rights to updates, patches and security fixes for its Open Source solutions on a subscription basis with revenues being recognized rateably over the period of the contract. The key metrics are Revenue, TCV and ACV of the TCV. The ACV represents the value of the first 12 months of each contract reported as TCV.

Revenue

The table below provides a breakdown of the revenue for the year and a comparison to FY16 on a pro-forma CCY basis and as reported.

SUSE Product Portfolio

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Growth/ (Decline) %	Year ended 30 April 2016 As reported Actual $m
Subscription	**298.7**	245.5	21.7%	248.9
Consultancy	**4.7**	4.9	(4.1%)	4.9
	303.4	250.4	21.2%	253.8

[1] unaudited.

The SUSE Product Portfolio revenue increased by 21.2% to $303.4m compared with the pro-forma CCY revenues for FY16 of $250.4m, with the Subscription revenue increasing by 21.7% to $298.7m (2016: pro-forma CCY $245.5m). The Subscription revenue is net of the fair value deferred revenue haircut of $3.2m (2016: $6.4m). Prior to this adjustment Subscription revenue grew by 19.8%.

CEO Review – SUSE Product Portfolio
continued

Regional revenue performance

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Growth %	Year ended 30 April 2016 As reported Actual $m
North America	**121.8**	108.7	12.1%	108.6
International	**142.8**	111.6	28.0%	115.6
Asia Pacific & Japan	**38.8**	30.1	28.9%	29.6
	303.4	250.4	21.2%	253.8

1 unaudited.

International and Asia Pacific & Japan regions have shown strong growth in revenue of 28.0% and 28.9% respectively. Growth in these regions was derived across all routes to markets together with securing new business with large enterprise accounts. We are pleased to note that the change to specializing and aligning the field sales and marketing resources to SUSE in the Asia Pacific & Japan has enabled setting the foundation for sustained profitable revenue growth.

Revenue growth in North America was lower than expected, with some of the larger transactions not closing within the fiscal year as expected. We expect to see continuing growth in FY18.

TCV and ACV

TCV represents the gross billings for the year of $339.1m, an increase of 11.6% from the pro-forma CCY for FY16 of $303.8m. The weighted average contract duration marginally reduced to 28 months in FY17 from 29 months in FY16. The 'in fiscal year yield' from TCV to revenue remained broadly the same at 34% in FY17 as it was in FY16. 'In fiscal year yield' represents the proportion of TCV generated in the fiscal year that can be recognized as Subscription Fee Revenue ("SFR") in the same fiscal year. As the weighted average contract duration reduces, we would generally expect to get a higher 'in fiscal year yield'. Net new subscription TCV increased by 12.4% year-on-year and renewal subscriptions TCV grew by 10.4% year-on-year. Net new subscription contracts are derived from sale of subscriptions to new logo customers and existing customers expanding footprint of existing product portfolio or subscribing to new product solutions.

ACV measures the first 12 months duration equivalent of TCV. ACV grew to $220.1m, an increase of 15.7% from the pro-forma CCY for FY16 of $190.3m. ACV removes the impact of multi-year TCV and is a cleaner KPI on the performance of the business. Where subscription term is less than 12 months, all of the subscription TCV billing is included in the ACV measure.

Regional TCV performance

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Growth/ (Decline) %	Year ended 30 April 2016 As reported Actual $m
North America	**117.3**	137.3	(14.6%)	137.3
International	**175.4**	131.1	33.8%	128.9
Asia Pacific & Japan	**46.4**	35.4	31.1%	35.1
	339.1	303.8	11.6%	301.3

1 unaudited.

Regional ACV performance

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Growth/ (Decline) %	Year ended 30 April 2016 As reported Actual $m
North America	**84.2**	88.4	(4.8%)	81.7
International	**99.7**	75.6	31.9%	67.8
Asia Pacific & Japan	**36.2**	26.3	37.6%	25.3
	220.1	190.3	15.7%	174.8

1 unaudited.

North America had below expected performance on TCV and ACV, declining by 14.6% and 4.8% respectively. Timing of some of the larger enterprise multi-year renewals together with deferral of some of the larger enterprise deals contributed to this decline.

International achieved strong TCV and ACV growth at 33.8% and 31.9% respectively. Good solid performance across all countries in the region together with closing of some large enterprise deals contributed to this outstanding growth.

Asia Pacific & Japan had very strong performance in TCV and ACV, growing by 31.1% and 37.6% respectively. We continue to have strong performance in China and Japan, and are also continuing to win new accounts in some of the other key markets in the region. The region continues to get good traction and growing revenue streams on local OEM relationships and also by leveraging the global agreements we have in place with key independent hardware vendors and cloud service providers.

ACV contribution by route to market

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Growth/ (Decline) %	Year ended 30 April 2016 As reported Actual $m
Direct	**47.3**	41.5	14.0%	37.2
Indirect	**87.1**	72.3	20.5%	61.8
Global Service Partners	**80.2**	70.6	13.6%	63.8
OEM (Embedded Systems)	**5.5**	5.9	(6.8%)	12.0
	220.1	190.3	15.7%	174.8

1 unaudited.

Direct represents customers that have a master licence agreement with SUSE and subscribe directly with SUSE or via authorized fulfillment partners.

Indirect represents customers that subscribe via the SUSE Value Added Reseller network and predominantly through a two tier distribution model.

Global Service Partners represents primarily Independent Hardware Vendors who sell SUSE subscriptions alongside the sale of their respective hardware and subscriptions generated from cloud service providers.

OEM (Embedded Systems) represents entities that embed SUSE subscriptions within the sale of their respective specialized appliance offerings.

We continue to see significant growth in Direct, Indirect and Global Service Partners routes to market, growing by 14.0%, 20.5% and 13.6% respectively.

We also see a trend of customers, who purchased subscriptions at the outset direct and through Value Added Resellers, subsequently subscribing through Global Service Partners. We continue to see strength in the Value Added Reseller network, where we have seen significant growth in ACV during the fiscal year.

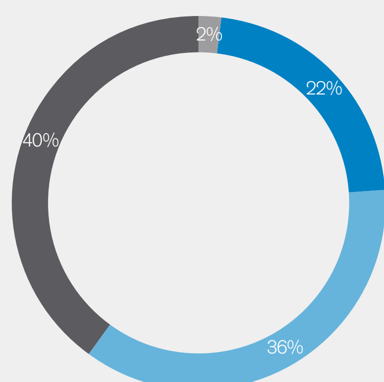
OEM (Embedded Systems) transactions tend to be large, custom, specialized and binary in nature, and thus year-on-year fluctuations in ACV generated are to be expected.

In aggregate the ACV mix by route to market remains stable in the year ended 30 April 2017 compared to the year ended 30 April 2016 as we saw homogenous contribution to SUSE's growth from the various routes to market.

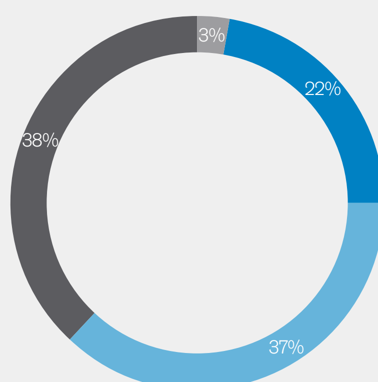
The diagrams below show the percentage share of ACV by the different routes to market in FY17 compared to FY16 pro-forma CCY.

Percentage share of ACV bookings by different routes to market

FY17 total



FY16 total



OEM
Direct
Global Service Partners
Indirect

SUSE Adjusted Operating Profit and Adjusted EBITDA

The table below shows the Adjusted Operating Profit for the SUSE product portfolio and compares it against the pro-forma CCY numbers for FY16:

Adjusted Operating Profit

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Year ended 30 April 2016 As reported Actual $m
Revenue	**303.4**	250.4	253.8
Directly managed costs	**(178.5)**	(143.2)	(145.1)
Allocation of centrally managed costs from Micro Focus	**(26.2)**	(27.3)	(28.9)
Total Adjusted Operating Costs	**(204.7)**	(170.5)	(174.0)
Adjusted Operating Profit	**98.7**	79.9	79.8
Margin	**32.5%**	31.9%	31.4%

1 unaudited.

SUSE Adjusted Operating Profit for the year was $98.7m at a profit margin of 32.5%. This is compared to the year ended 30 April 2016 pro-forma CCY Adjusted Operating Profit of $79.9m, which is an increase of $18.8m (23.5%). Profit margin improved to 32.5%, an increase of 0.6% (2016: 31.9%). We have seen a significant increase in directly managed costs in SUSE that is consistent with the continuation of investments being made to deliver the SUSE growth charter. Reduction in allocation of centrally managed costs is a combination of Asia Pacific & Japan moving to directly managed costs from allocated costs in FY16 together with some synergy benefits and efficiencies driving reduced allocation of costs for centrally managed functions.

The table below shows the reconciliation between Adjusted Operating Profit and Underlying Adjusted EBITDA for SUSE:

Adjusted EBITDA and Underlying Adjusted EBITDA

	Year ended 30 April 2017 As reported Actual $m	Year ended 30 April 2016 Pro-forma CCY[1] $m	Year ended 30 April 2016 As reported Actual $m
Adjusted Operating Profit	**98.7**	79.9	79.8
Depreciation of property, plant and equipment	**2.1**	1.7	1.7
Amortization of software intangibles	**0.1**	0.1	0.2
Adjusted EBITDA	**100.9**	81.7	81.7
Foreign exchange credit	**(2.0)**	(0.3)	(0.3)
Net capitalization of product development costs	**–**	–	–
Underlying Adjusted EBITDA	**98.9**	81.4	81.4

1 unaudited.

Deferred revenue

We continue to have year on year steady growth in the deferred revenue balance. At 30 April 2017 SUSE's total deferred revenue balance was $374.3m (2016: $326.8m), an increase of $47.5m (14.5%) year-on-year. 56.4% of this increase in deferred revenue balance is recognizable revenue in the next 12 months and 82.6% recognizable in 24 months.

Headcount

At the end of April 2016, direct headcount in SUSE was 641 increasing to 936 by 30 April 2017, a net increase of 295 heads (46.0%) in the fiscal year, which includes the additional heads joining from the OpenATTIC acquisition in November 2016 and from the acquisition of OpenStack and Cloud Foundry assets in March 2017. The increased investment in direct headcount is primarily in Engineering, Product Management, Sales, Marketing, Product Marketing and Alliances to address the opportunity we see in the market for SUSE's existing offerings together with new opportunities in OpenStack IaaS, Software Defined Distributed Storage based on Ceph technology and with public cloud service providers.

In addition to the direct headcount, the SUSE portfolio received in the year ended 30 April 2017 support from SUSE dedicated employees, who are organizationally aligned in the shared service functions of the Group. Most prominently in Renewal Sales, Consulting, Customer Care, Sales Operations and other corporate operations functions. These add up to approximately 201 full-time equivalents ("FTEs"), which brings the total SUSE dedicated headcount supporting the SUSE business and customers to approximately 1,137 FTEs at the end of April 2017.

Recruitment and on-boarding

The successful execution of the growth charter and investment plan for SUSE depends on the ability to fill the new, incremental positions in a timely fashion and thus ramping up our capacity in key areas of the business.

To build on the momentum of this year we need to improve our ability to grow our team. To this end changes have been initiated, that will have a positive impact on the recruitment and on-boarding of new employees to the SUSE business as well as ongoing, quality HR management of the enlarged team that shall benefit from those changes. This includes hiring of a VP HR dedicated to the SUSE business in Q3 FY17, closer alignment of shared HR service functions with the SUSE business and organization as well as deploying additional HR management and recruitment employees paired with an increase of third party recruitment spending.

Outlook "Sustainable, Profitable Revenue Growth"

We will continue to invest in building out the organization to ensure continuing improvements in execution capacity across all major business functions and geographies as well as further investment in marketing program spend to drive demand generation and build brand awareness for SUSE.

The SUSE portfolio will expand in FY18 to provide a broader range of open source SDI solutions paired with improved and more complete management tools for the SDI architecture as demanded by our enterprise customers and technology partners. Examples include:

- SUSE OpenStack Cloud Monitoring (launched in May 2017);
- SUSE Container as a Service Platform (launched in June 2017); and
- SUSE Cloud Foundry PaaS (scheduled to launch in Q3 of CY 2017).

For FY18 SUSE will focus on the successful execution of SUSE's mandate for sustainable, profitable revenue growth. The objective is to grow revenue ahead of growth rates for relevant markets.

Nils Brauckmann
Chief Executive Officer
SUSE
17 July 2017

Key performance indicators

The Company uses several key performance indicators ("KPIs") internally to monitor the performance of the business against our strategy. The movements year-on-year have been explained in the preceding pages. The KPIs that are used with a brief description on how they are calculated and the results for the year are as follows:

Shareholder returns

Description	Metrics		Performance
Compound Annual growth rate:	**2017:**	**2016:**	These ratios demonstrate the compound annual growth rate in shareholder returns assuming reinvestment of Return of Values, but not ordinary dividends. The periods covered are to 30 April 2017 from the IPO in May 2005, over the last five years from 30 April 2012, over the last three years from 30 April 2014 and over the last year from 30 April 2016. We continue to believe that with low single digit revenue growth, our industry leading margins and strong cash conversion we are able to deliver shareholder returns of 15% to 20% per annum over the long-term.
– Since IPO	**29.3%**	26.4%	
– Over last five years	**42.7%**	34.8%	
– Over last three years	**51.7%**	34.1%	
– Over last year	**73.3%**	24.2%	

Financial performance

Our financial performance KPIs helped us to monitor our progress towards our 2017 revenue and EBITDA growth targets.

Description	Metrics		Performance
Revenue decline	**2017:** **(0.9)%**	**2016:** (2.0)%	Revenue comprises total revenues compared with the prior year at pro-forma constant currency ("CCY").
Adjusted EBITDA margin	**2017:** **47.2%**	**2016:** 45.2%	Adjusted EBITDA is the Adjusted Operating Profit prior to depreciation and amortization of purchased software. The Adjusted EBITDA margin represents Adjusted EBITDA divided by revenue for the year on a pro-forma CCY.
Underlying Adjusted EBITDA margin	**2017:** **46.4%**	**2016:** 44.2%	Underlying Adjusted EBITDA removes the impact of net capitalization of product development costs and foreign currency gains and losses from Adjusted EBITDA. The Underlying Adjusted EBITDA margin represents Underlying Adjusted EBITDA divided by revenue for the year on a pro-forma CCY.
Cash conversion	**2017:** **102.0%**	**2016:** 87.9%	This ratio is calculated using the cash flows generated from operations divided by Adjusted EBITDA less exceptional items – the result indicates that the Group is generating cash from its on-going business which can be used to reinvest in the development of the business including financing acquisitions, funding liabilities and paying dividends to shareholders.
Free cash flow	**2017:** **$409.2m**	**2016:** $238.5m	Free cash flow is defined as cash generated from operations less interest paid, bank loan costs, tax paid and payment for intangible assets and property, plant and equipment.
Free cash flow per fully diluted share	**2017:** **$1.724**	**2016:** $1.046	Free cash flow divided by the weighted average number of fully diluted shares.
Diluted Adjusted EPS	**2017:** **175.65c**	**2016:** 146.70c	Diluted Adjusted EPS is calculated by taking profit after tax, prior to exceptional items, amortization of purchased intangibles and share based compensation charges, and tax attributable to these charges divided by the weighted average number of fully diluted ordinary shares in issue during the year. This measure indicates the ability of the Company to continue to adopt a progressive dividend policy.

Financial strength and capital discipline

Our financial strength and capital discipline KPIs are used to monitor our gearing and interest cover levels. Our target Net Debt to Facility EBITDA ratio is 2.5 times.

Description	Metrics		Performance
Net debt to Facility EBITDA	**2017: 2.1 times**	**2016:** 1.9 times	Net value of borrowings less cash and prepaid facility arrangements fees expressed as a multiple of the Facility EBITDA. For FY16 this is the calculated position at 30 April 2016 prior to the Completion of the acquisition of Serena Software Inc. Once completed the pro-forma net debt to Facility EBITDA multiple at 2 May 2016 increased to 2.51 times.
Interest cover	**2017: 6.6 times**	**2016:** 5.4 times	Adjusted Operating Profit expressed as a multiple of finance costs.
Revolving Facility Covenant	**2017: Not applicable as less than 35% of facility drawn**	**2016:** >140% headroom	The Group is subject to an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end.

Growth metrics – medium term

Following the announcement of the acquisition of TAG, we set out a four phase plan that envisaged a reduction in revenue in FY16, stabilization of revenue in FY17 and growth in FY18. Our strategy is to grow overall revenue by low single digit in the medium-term.

The table below includes the seven key areas where we are focusing on for revenue growth.

Description	Metrics		Performance
Group Revenue	**2017: $1,380.7m**	**2016:** $1,392.7m	Revenue comprises total revenues compared with the prior year at pro-forma CCY. This represents a reduction of 0.9% which is at the top of management's guidance range of zero to minus 2% given at the beginning of the financial year.
SUSE revenue	**2017: $303.4m**	**2016:** $250.4m	This is the total revenues for the SUSE Product Portfolio compared with the prior year at pro-forma CCY.
SUSE – TCV	**2017: $339.1m**	**2016:** $303.8m	Total Contract Value ("TCV") represents the gross billings in the year compared with the prior year at pro-forma CCY.
SUSE – ACV	**2017: $220.1m**	**2016:** $190.3m	Annual Contract Value ("ACV") measures the first 12 months duration of TCV compared with the prior year at pro-forma CCY.
Visual COBOL revenue	**2017: $44.3m**	**2016:** $36.2m	This is the total revenues for the Visual COBOL products compared with the prior year at CCY.
Enterprise revenue	**2017: $51.9m**	**2016:** $45.7m	This is the total revenues for the Enterprise suite of products within Mainframe Solutions compared with the prior year at CCY.
Identity Access & Security Licence revenue	**2017: $48.6m**	**2016:** $51.7m	This is the total Licence revenues for the relevant suite of products compared with the prior year at pro-forma CCY.

Principal risks and uncertainties

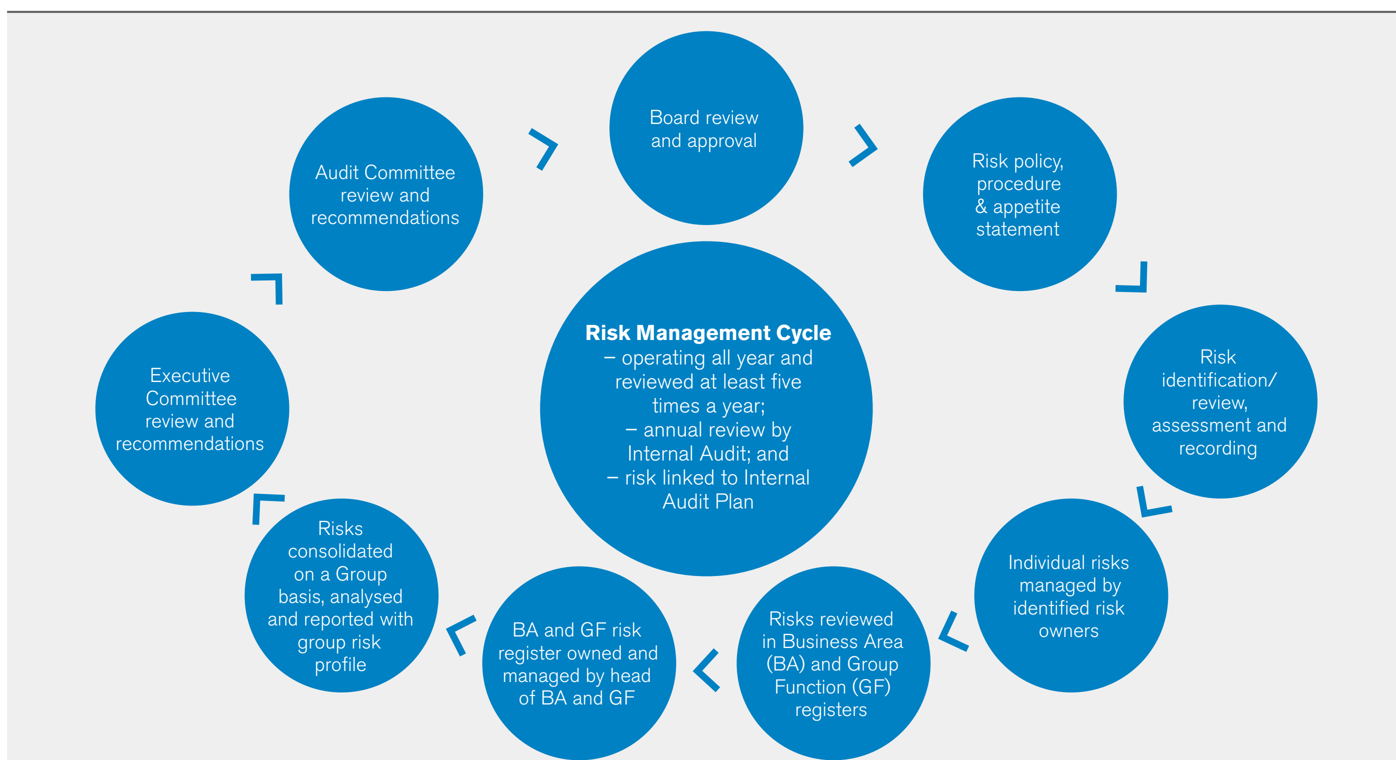
Risk management overview

The board's role is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. During the year the board continued to enhance the risk management process to ensure that it is robust. Underpinning the operation of, and central to, the risk management process is the culture of the Group, led by the board, of openness, transparency, trust and accountability. On behalf of the board the Audit Committee reviews and challenges the effectiveness of the risk management process.

The board manages risk in accordance with the Risk Management Framework ("RMF") under the Group's Risk Management Policy and Procedure. The RMF is aligned to the business objectives and strategy. A key component of the RMF for the board is that, whilst the RMF enables a robust assessment of risk, it is also practical and proportionate. This ensures that the RMF is embedded into the day to day business processes across the Group, to drive risk awareness and risk culture. The board continues to build upon the RMF to respond to any future change in the Group's risk profile. In the year the board developed its risk appetite work and agreed a set of Group level risk appetite statements aligned to the Group's principal risk areas. The statements set out the board's risk taking approach to ensure a balanced view between risk aversion, opportunity and gains, against a background of maintaining reputation, financial stability and compliance. As part of the assurance for the board the operation of the RMF is facilitated by an Internal Risk Management function. Individual risks are also mapped onto the Internal Audit plan for the year (see page 65 for the report on internal control). As part of the risked based internal audit process, the internal audit team assesses the gross and net risk ranking assigned by the risk owners to underpin the robustness of the operation of the RMF. The RMF is also subject to an annual review by Internal Audit. A key area of focus for the forthcoming year is to strengthen the three lines of defence (i) risk ownership (ii) risk management and compliance, and (iii) internal audit.

Risks are identified, assessed and recorded by the Micro Focus and SUSE Product Portfolios and the Group functions. Each product portfolio director and Group function head is responsible for the identification, assessment and management of risk in their area. Each risk is owned by an individual in that area. The process includes the use of risk registers, one to one interviews with product portfolio directors, Group function heads and board members. Risks are assessed on a gross and net basis against a consistent set of criteria defined by the board. The criteria measures likelihood of occurrence against potential impact to the Group including financial results, strategic plans, operations and reputation. Each risk is allocated a risk appetite category and a risk tolerance; changes in the risk profile are tracked at each reporting point in the year. The assessment includes current and emerging risks, as well as internal and external threats. Existing controls and improvement actions are recorded on the risk register for each risk.

The RMF contains a continuous cycle of review and reporting over the year. No fewer than five times a year, following one to one interviews with the business area directors and Group function heads, the individual risk registers are consolidated to form the Group risk profile. The Group risk profile is reported to the Executive Directors for monitoring, review and challenge. A report is made to every Audit Committee meeting in the year for review and to challenge the effectiveness of the RMF and then approval by the board. As part of the RMF an annual review of risk is also undertaken, this is aligned with the annual review of Internal Audit. These annual reviews focus on areas for improvement in the process, as well as the key emerging areas of risk for the Group in the year ahead. The board and the Audit Committee also received detailed risk assessments as part of reports on material projects. The RMF is set out below.



On 7 September 2016 the Group announced the intention to acquire the software business of HPE. This will be a transformational transaction for the Group and is currently expected to complete on 1 September 2017. The transaction is significantly complex as it involves the carve-out of HPE Software from HPE, as well as the integration with the Group. To assist in managing the risks associated with the transaction the board engaged specialist external resources and has set up a dedicated Integration Management Office ("IMO"). Risks are identified, owned, assessed and reviewed in accordance with the RMF. The IMO runs detailed deep dive integration sessions and risk assessments. The Completion of the acquisition, and integration, of HPE Software is a key area of principal risks in the forthcoming year.

The Group faces a number of risks in this area which may include but is not restricted to;

- Integration of HPE Software with the existing businesses carried on by the Group may be more time consuming and costly than anticipated;
- Closing is subject to a number of conditions which may not be satisfied or waived;
- The Group is obliged to pay a termination payment if the Merger Agreement is terminated under certain circumstances;
- Cost and expenses related to the transaction could exceed amounts currently estimated;
- The Group will not be able to recover damages from HPE for any losses suffered as a result of a breach of warranty by HPE under the Merger Agreement following Completion;
- There can be no guarantee that the Group Return of Value will be executed as planned or at all;
- The development of IT systems for the HPE Software and the integration of the Group's existing IT systems with HPE Software's IT systems could be subject to delays or difficulties;
- The Group may fail to realize the anticipated benefits of the Merger;
- HPE Software may not perform in line with expectations prior to or following the Completion;
- Integration and implementation of the business strategies of the Group and HPE Software could fail or not achieve the objectives of the Group;
- The transaction may result in a loss of customers for the Group;
- Third parties may terminate or seek to modify existing contracts with HPE Software as a result of transaction;
- The Group could incur operational difficulties or losses if HPE were unable to perform under the agreements entered into as part of the separation of HPE software from HPE;
- The Group may be negatively affected if HPE Software is unable to obtain the same types and level of benefits, services and resources that historically have be provided by HPE, or may be unable to obtain them at the same cost;
- The Group will have an ongoing relationship with HPE following the Completion and, as a result, the future state of actions of HPE or any successor of HPE could adversely affect the Group;
- The Group is exposed to funding risks in relation to its pension schemes;
- The Group will be listing ADS's on the NYSE which may result in liquidity in the market being adversely effected by maintaining two exchange listings;
- Any future issue of shares may further dilute the holdings of the Group shareholders and could adversely affect the market price of the Group's shares;
- The Group may in certain circumstances be obliged to indemnify HPE for tax liabilities relating to the separation of HPE Software from HPE, which could be material;
- The Group will be subject to potentially significant restrictions relating to tax issues that could limit the Group's ability to undertake certain corporate actions (such as the issuance of Micro Focus Shares or Micro Focus ADSs or the undertaking of a merger or consolidation) that otherwise could be advantageous to the Group;
- The U.S. tax authorities may seek to treat the Group as a U.S. corporation for U.S. federal income tax purposes following the Merger, which could result in material additional tax costs to the Group;
- Legislative or other governmental action in the U.S. could adversely affect the Group's business; and
- The tax rate that will apply to the Group is uncertain and may vary from expectations.

Following Completion of the acquisition of HPE Software, the Group intends to change its financial year end to 31 October and will report an 18 month financial period ending 31 October 2018.

As a consequence of Completion the Group will also be listed on the NYSE and, subject to Completion and the proposed change in financial year end to 31 October, the Group will need to put in place a system of internal controls which is compliant with the Sarbanes Oxley Act 2002 (SOX) by 31 October 2019. The Group has engaged specialist external resource to assist with the planning and implementation of SOX compliant internal controls. Preliminary work on SOX compliant internal controls has commenced as mentioned on page 66 in the report on internal controls. There may be other risks which emerge in the future.

The risks above may result in an adverse impact on the principal risks and uncertainties for the Group set out below.

Principal risks and uncertainties

The Group, in common with all businesses, could be affected by risks and uncertainties that may have a material effect on its business operations and achieving its strategic objectives including its business model, future performance, solvency or liquidity. These risks could cause actual results to differ materially from forecasts or historic results. The board is mindful of the interdependencies of some risks. Where possible, the Group seeks to mitigate these risks through its RMF and internal controls, but this can only provide reasonable assurance and not absolute assurance against material losses.

Principal risks and uncertainties
continued

The following are the principal risks and uncertainties, potential impacts and mitigations that are relevant to the Group as a provider of software products and associated services at this time. The risk movement from the prior year has been assessed and noted against each risk as has the alignment with the business, in accordance with the key below. There may be other risks which could emerge in the future.

Please also refer to the section on internal controls within the corporate governance report on pages 65 to 66.

Risk movement from the prior year

Risk increased

Risk decreased

Risk remained the same

Products

Risk

To remain successful the Group must ensure that its products continue to meet the requirements of customers. Investment in research and innovation in product development is essential to meet customer and partner requirements in order to maximize revenues and corporate performance. The Group has a large number of products, at differing stages of their life cycle. The extent of investment in each product set needs to be managed and prioritized considering the expected future prospects, to ensure an effective balance between growth and legacy products.

Potential impact

If products do not meet the requirements of customers they will seek alternative solutions, resulting in the loss of new revenue opportunities and the cancellation of existing contracts. Insufficient focus on key research and development projects may damage the long-term growth prospects of the Group.

Mitigation

The Group continued to improve the interaction between Product Management, Product Development, Sales and Marketing. The Group's structured approach to managing its products was further enhanced during the year to ensure alignment to the Four Box Model.

The Group operates as two product portfolios Micro Focus and SUSE. All of Micro Focus's products are managed through the global product management and development organization, with a geographic GTM organization. To capitalize on the growth potential of the SUSE Product Portfolio these are managed separately and dedicated resources concentrate on the development, customer care and sales, marketing and engineering.

At Micro Focus on 2 May 2016 we completed the acquisition of Serena, a leading provider of Application Lifecycle Management products. On 30 September 2016 we completed the acquisition of GWAVA a leading company in email security and enterprise information archiving based in the US, Canada and Germany.

At SUSE on 1 November 2016 we acquired OpenATTIC storage management and engineering talent from the company it-novum. On 7 September 2016 it was announced that SUSE was to become HPE's preferred Linux partner and explore additional collaboration. On 30 November 2016 it was announced that it had reached agreement with HPE on the acquisition of technology and talent to expand SUSE's OpenStack Infrastructure-as-a-service solution and accelerate SUSE's entry to the Cloud Foundry Platform-as-a-service market. The acquisition was completed on 8 March 2017. SUSE also appointed a dedicated Chief Technology Officer in the year.

Go to Market ("GTM") models

Risk

For the Group to succeed in meeting revenue and growth targets it requires successful GTM models across the full product portfolio, with effective strategies and plans to exploit channel opportunities and focus the sales force on all types of customer categories. In addition, effective GTM models may be more successful if accompanied by compelling Micro Focus and SUSE brand awareness programmes.

Potential impact

Poor execution of GTM plans may limit the success of the Group by targeting the wrong customers through the wrong channels and using the wrong product offerings.

Mitigation

The business operates under a global product group with geographic GTM sales organizations. Revenue plans are supported by a range of measures to monitor and drive improvements in GTM operating models in both Micro Focus and SUSE. The dedicated sales teams operate by portfolio but management are targeted on the sales of both Micro Focus and SUSE Product Portfolios. Operationally there are quarterly business reviews with all geographies and monthly reviews with regional presidents, the President of Sales for Micro Focus and SUSE participate in their respective weekly management team meetings to review sales performance and GTM priorities.

Customer sales cycles are reviewed regularly and a bid review process is in place to monitor and maximize customer revenue opportunities. In addition to sales performance reviews, marketing and product development programmes are assessed regularly to optimize levels of qualified pipeline and ensure that marketing programmes are supported by appropriate product offerings.

A series of measures are in place to focus the direction of the sales force towards a broad range of customer categories. These measures include detailed bid management, tailored quota targets and robust pre-sales management.

In addition, brand awareness programmes are in place and reviewed on an on-going basis to draw on differentiated and consistent PR plans across key geographies. These are supported by targeted industry analyst relations to reach and raise Micro Focus and SUSE brand awareness through key marketplace influencers. Brand building is also supported by growing a customer reference programme and online programmes such as effective search engine optimization, use of social media and improved corporate websites.

The Product to Market process is standardized so that execution is on a consistent basis. Micro Focus continued to run the internal sales certification programme, to improve the level of expertise across the sales force and the Micro Focus Sales Academy, the initiative through which it hires graduate sales representatives to enhance the sales capability and train up new talent with the potential to progress within the sales organization.

At SUSE a President of Global Sales was appointed in the year. A new Partner Programme strategy was also implemented across the business.

Principal risks and uncertainties
continued

Competition

Risk
Comprehensive information about the markets in which Micro Focus and SUSE operate is required for the Group to assess competitive risks effectively and to perform successfully.

Potential impact	Mitigation
Failure to understand the competitive landscape adequately and thereby identify where competitive threats exist may damage the successful sales of the Group's products.	Group product plans contain analysis of competitive threats and subscriptions to industry analyst firms are leveraged to better understand market dynamics and competitor strategies. In addition, customer contact programmes are analyzed for competitive intelligence. Micro Focus and SUSE continue to monitor and review intelligence on market threats to focus on offering best in class service to customers.

Employees

Risk
The retention and recruitment of highly skilled and motivated employees, at all levels of the Group, is critical to the success and future growth of the Group in all countries in which it operates. Employees require clear business objectives, and a well communicated vision and values, for the Group to achieve alignment and a common sense of corporate purpose among the workforce.

Potential impact	Mitigation
Failure to retain and develop skill sets, particularly in sales and research and development may hinder the Group's sales and development plans. Weak organizational alignment and inadequate incentivization may lead to poor performance and instability. It could also have an adverse impact on the realization of strategic plans.	The Group has policies in place to help ensure that it is able to attract and retain employees of a high calibre with the required skills. These policies include training, career development and long-term financial incentives. Leadership training schemes are in place to support management development and succession plans. The Group also has in place a performance management and appraisal system. The measures for talent management will continue to be enhanced to ensure a rigorous recruitment and retention process which is aligned to business as usual as well as the strategic plans for the Group. Succession plans have been developed and are in place for key leadership positions within the Company. In the year the Group took significant action to develop its management capability both internally, by training and promotions, and through external hires. In the year the Group appointed a dedicated HR Talent Manager.

Business strategy and change management

Risk

The Group is engaged in a number of major change projects including acquisitions to grow the business by strengthening the portfolio of products and capabilities, IT projects and projects to standardize systems and processes. The successful integration of businesses will build a solid base for further expansion. These projects expose the Group to transformation risks. The acquisition of HPE Software is a complex transaction with a range of integration risks.

Potential impact

Failure to analyze, execute and co-ordinate the various projects successfully may result in the disruption of the ongoing business without delivering the benefits of the operational efficiencies and/or commensurate increase in revenues. In addition this may affect the ability to execute strategic plans for growth.

The risk increased in the year to reflect the risks associated with the acquisition of HPE Software.

Mitigation

The Group has an established acquisition strategy and focus on efficient execution in the mature infrastructure software products. The Group announced the acquisition of HPE Software on 7 September 2016 and Completion is currently expected to be 1 September 2017.

The project is run in the dedicated IMO by an appropriately experienced team, utilizing external resources as required. There are detailed and robust governance disciplines around each project. The board monitors and reviews progress. The Group has a dedicated Group Business Operations and Integration Director to ensure that execution of the various projects are successfully aligned so as to minimize any disruption to business as usual.

On 17 January 2017 Chris Hsu was announced as the CEO of the Enlarged Group (following Completion of the acquisition of HPE Software) at the same time Stephen Murdoch will become COO of the Enlarged Group, part of a strong and fully aligned leadership team to deliver the full potential of the transaction.

IT systems and information

Risk

The Group's operations, as most businesses, are dependent on maintaining and protecting the integrity and security of the IT systems and management of information. The Group may experience a major breach of system security or cyber-attack. The external threat profile is generally increasing as are the regulations around data protection.

Potential impact

Disruption to the IT systems could adversely affect business and Group operations in a variety of ways, which may result in an adverse impact on revenues and reputational damage.

The risk increased in the year to reflect the increase in the general external cyber risk environment.

Mitigation

The Group has in place a highly skilled technology team which constantly monitors and reviews the performance and availability of the Group IT systems including any risk of cyber-attack. Policies and processes are in place for the protection of business and personal information. The Group has in place well established and tested business continuity plans. The Group seeks to mitigate cyber risks with a range of measures including monitoring of threats and testing of cyber response procedures and equipment.

Legal and regulatory compliance

Risk

The Group operates across a number of jurisdictions. Compliance with national and regional laws and regulations is essential to successful business operations.

Potential impact

Failure to comply could result in civil or criminal sanctions as well as possible fines and reputational damage.

Mitigation

The Group has in place policies and procedures to mitigate these risks. The Group's legal and regulatory team, enhanced by specialist external advisors as required, monitor and review compliance. There is a Compliance Committee and a Market Abuse and Insider Dealing Committee which report into the board. All staff are subject to mandatory compliance training. During the year the Group established an executive Financial Reporting Group (FRG) to monitor, review and manage the risks associated with financial reporting across the Group. The FRG reports to the audit committee.

Intellectual property

Risk

Failure to adequately protect the Group's Intellectual Property and brands. Some of the Group's products utilize Open Source technology which is dependent upon third party developers.

Potential impact

Failure could adversely affect the ability of the Group to compete in the market place and affect the Group's revenue and reputation.

Mitigation

There are procedures in place across the Group to ensure the appropriate protection and use of the Group's brands and intellectual property, which are monitored by the IP Panel and Legal team.

Treasury

Risk

The Group operates across a number of jurisdictions and so is exposed to currency fluctuations.

The risk of foreign exchange fluctuations may be increased as a result of Brexit.

The Group targets a Net Debt to Facility EBITDA ratio of 2.5 times and may require additional debt funding in order to execute its acquisition strategy.

Potential impact

The relative values of currencies can fluctuate and may have a significant impact on business results.

Insufficient access to funding could limit the Group's ability to achieve its desired capital structure or to complete acquisitions.

Mitigation

The Group's operations are diversified across a number of currencies. Changes in foreign exchange rates are monitored and exposures regularly reviewed and actions taken to reduce exposures where necessary. The Group provides extensive constant currency reporting to enable investors to better understand the underlying business performance.

The Group has significant committed facilities in place, the earliest of which matures in November 2021 and sufficient headroom to meet its operational requirements.

The Group seeks to maintain strong relationships with its key banking partners and lenders and to proactively monitor the loan markets.

The Group also has strong engagement with the providers of equity capital, which represents an alternative source of capital.

Tax

Risk

The tax treatment of the Group's cross-border operations is subject to the risk of challenge under tax rules and initiatives targeting multinationals' tax arrangements, including the OECD's Base Erosion and Profit Shifting project and EU state aid rules.

Potential impact

Tax liabilities in various territories in which the Group operates could be significantly higher than expected.

Mitigation

Tax laws, regulations and interpretations are kept under ongoing review by the Group and its advisors. The Group reviews its operations, including the structuring of intra-group arrangements, on a periodic basis to ensure that risks are identified and mitigated accordingly. External professional advice is obtained to support positions taken in financial statements and local tax returns where there is significant uncertainty or risk of challenge.

Macro-economic environment

Risk

The Group operates a global business and is exposed to a variety of external economic and political risks which may affect the Group's business operations and execution of the strategy.

Potential impact

Adverse economic conditions could affect sales, and other external economic or political matters, such as price controls, could affect the business and revenues.

The risk increased in the year to reflect Brexit and the potential general external political environment.

Mitigation

The spread of jurisdictions allows the Group to be flexible to adapt to changing localized risk to a certain extent. The Group has business continuity plans and crisis management procedures in place in the event of political events or natural disasters.

The Group have a Brexit Working Group with processes in place to assess, respond, monitor and track the impact of Brexit on our businesses, and associated risks, as matters progress and how the business can seek to mitigate these risks.

Viability statement

The context for the assessment

The Group's business model and strategy are central to an understanding of its prospects, and details can be found on pages 3 to 10.

The Group's current overall strategy has been in place for several years and there are no planned changes to this strategy. The Group delivered an Underlying Adjusted EBITDA of $640.9m in the year and management and staff are incentivized to grow this in future years.

The board continues to take a conservative approach to the Group's strategy where the focus is about stabilization of revenues in FY18 and a small revenue growth thereafter coupled with a focus on cost control. Decisions relating to major new projects and investments are made with a low appetite for risk and are subject to escalating system of approvals, including short payback periods. Acquisitions will be considered but they need to meet the Group's stringent return on investment criteria.

In performing the below analysis, the Directors have made certain assumptions around the availability of future funding options including the ability to raise future finance. Furthermore, the analysis was based on the existing Micro Focus International plc before the proposed merger with HPE Software. In preparation for the proposed merger with HPE Software we have completed a due diligence process including a review of the strategy, risks and cash flows of the business and do not consider that the proposed merger, including its funding, will have an impact on the overall viability of the Group.

The assessment process and key assumptions

The Group's prospects are assessed primarily through its strategic plan and annual budget process. This process includes an annual review of the ongoing plan, led by the executive directors and all relevant functions are involved, including GTM, Product Group, Marketing, Finance, IT, Human Resources, Legal, Treasury and Risk. The board participates fully in the annual process by means of discussion at the September, February and April board meetings, with the September meeting being a two day event. Part of the board's role is to consider whether the plan continues to take appropriate account of the external environment including macroeconomic and technological changes.

The output of the annual review process produces an annual budget for next year and financial forecasts for the subsequent two years assuming no further acquisitions. The latest updates to the strategic plan were finalized in April 2017 following this year's review and as part of the debt refinancing and fund raising. This considered the Group's current position and development of the business as a whole over the next three years.

As a result of this focus, financial forecasts were prepared for a three year period and these were discussed at the board meeting in April 2017. The first year of the financial forecasts forms the Group's operating budget and is subject to a re-forecast at the end of every quarter.

The key assumptions in the financial forecasts, reflecting the overall strategy include:

– Continued significant revenue growth in the SUSE Product Portfolio with continued cost investment;

– Continued revenue decline in the Micro Focus Product Portfolio with cost savings being achieved each year; and

– Successful Completion of the debt refinancing.

In assessing the Group's viability the board has considered the principal risks as set out on pages 36 to 43.

Assessment of viability

Although the strategic plan represents the directors' best estimate of the future prospects of the business, they have also tested the potential impact on the Group of a number of scenarios over and above those included in the plan, by quantifying their financial impact and overlaying this on the detailed financial forecasts in the plan. These scenarios included various 'severe but plausible' circumstances that the Group could experience, including:

– Lower revenue growth in the SUSE Product Portfolio;

– Higher revenue decline in the Micro Focus Product Portfolio; and

– Lower EBITDA growth.

The results of this stress testing showed that, due to the stability of the core business, the Group would be able to withstand the impact of these scenarios occurring over the next three years by making adjustments to its operating plans within the normal course of business.

The Group also considered a number of scenarios that would represent serious threats to its liquidity. None of these were considered to be plausible.

This viability assessment takes into account all the committed expenditure of the Group together with corporate transaction costs securing the Completion of the proposed merger with HPE Software. As noted above, it does not include the financial results, position and prospects of HPE entities subject of the merger nor the New Facilities as mentioned on pages 18 and 19 that have been arranged in connection with the proposed merger. However, as noted above, in preparation for the proposed merger with HPE Software we have completed a due diligence process including a review of the strategy, risks and cash flows of the business and do not consider that the proposed merger, including its funding, will have an impact on the overall viability of the Group.

Viability statement

Based on their assessments of prospects and viability above, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three year period ending 30 April 2020.

Going concern

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the accounting policies in the financial statements.

Corporate social responsibility

During the year ended 30 April 2017, Micro Focus' Corporate Social Responsibility ("CSR") programme has developed to address the additional scale of the Company following the acquisition of Serena. This focus follows the trend of the prior year to 30 April 2016, in which CSR activities were planned and driven primarily by the integration of TAG. The TAG acquisition quadrupled Micro Focus' workforce and trebled its revenues. Looking forward, following the acquisition of HPE Software which is currently expected to complete on 1 September 2017, Micro Focus' CSR programme will need to scale further and address the expanded operations of the Group. Post Completion, Micro Focus will again more than treble its workforce and revenues. The CSR Committee is developing an appropriate programme to address the forthcoming integration challenges, recognize the increased relevance and impact of the Group and monitor, improve and report on progress going forward.

CSR activities are monitored and planned in four key areas: the Environment, Charity and Community Support, the Marketplace and Suppliers, and Employees and Ethics. The Corporate Responsibility Policy can be found on the Micro Focus website (www.microfocus.com/about/responsibility). Micro Focus is committed to complying with relevant CSR legislation across its global operations and strives to achieve standards over and above required levels.

During the year ended 30 April 2017 the CSR committee met twice to agree priorities and progress activities and the CSR programme was reviewed at two board meetings during the year. Karen Slatford, the senior independent non-executive director, is responsible at board level for CSR and also chairs CSR committee meetings. Tom Virden, formerly, a non-executive director, also participated in the CSR committee to provide additional board level input until he resigned on 25 April 2017.

Micro Focus products can help customers to reduce their IT carbon footprint and these benefits feature in conversations with existing customers, prospects, partners and suppliers. Employees regularly participate in CSR initiatives and internal communications regularly feature CSR topics.

Micro Focus continues to work with the Carbon Trust and as a result of changes to our operational boundaries and increased acquisition activity Micro Focus narrowly missed achieving the "Carbon Trust Standard" this time round. However, Micro Focus has continued to build on our success and is committed to reducing our environmental emissions.

Micro Focus continues to be a member of the FTSE4Good Index, the responsible investment index calculated by global index provider FTSE Group.

Outlined below is the CSR progress that Micro Focus has made in the year ended 30 April 2017 across the four focus areas.

CSR progress in the year ended 30 April 2017

Environment

This financial year is the second to incorporate environmental reporting that relates to the enlarged operations resulting from the acquisition of TAG, an organization that, historically, did not collect the data required for environmental disclosure. In addition the group has seen further expansion through the acquisitions of Serena, GWAVA, OpenATTIC and OpenStack.

Micro Focus products and services help customers to reduce their carbon footprint and adopt carbon friendly IT strategies by enabling greater efficiency and longer life from existing technology and equipment. In turn, Micro Focus continues to develop its own policies to record, monitor and achieve improvements in its own carbon footprint.

Micro Focus' energy conservation is focused on energy efficiencies to drive down total energy consumption. The importance of reducing energy consumption levels is underlined within the Group by sharing data and seeking employee guidance on how to reduce our consumption within the boundaries of our operational control. For example, all staff are encouraged to turn off all electrical equipment at weekends and over the holiday periods – a scheme which has been adopted worldwide. In the last reporting year we extended our partnership with the Carbon Trust and entered into the UK Energy Savings Opportunity Scheme ("ESOS") as early adopters to ensure we maximize the benefits that an ESOS Audit can produce. We used the audit findings in our energy roadmap for driving down our carbon output during the year ended 30 April 2017, achieving an overall reduction across the expanded Group.

Corporate social responsibility
continued

Key points for the 12 months to 30 April 2017:

- Building on previous success in reducing environmental emissions, Micro Focus continued its commitment to the Carbon Trust by applying for re-certification despite the increased level of operational activity across the expanded Group during the financial year;

- Micro Focus will complete its ninth year of commitment to the Carbon Disclosure Project ("CDP"), underlining the Group's commitment to further raise awareness of the importance of and manage emission reductions across global facilities;

- CDP scores have improved year-on-year since joining CDP in 2009. In this reporting period Micro Focus will once again, report a decrease in absolute year-on-year emissions within this year's CDP submission. This is the result of the operational boundary changes that impacted the previous reporting period across the enlarged Group;

- Scope 1 and Scope 2 emissions reported to CDP;

- On-going commitment to promote electronic product distribution has delivered the Group's highest ever result for the year. This reporting period 98.84% of software products were distributed electronically, with just over 1% delivered to customers via physical distribution;

- Further improvements across all locations either by moving to more modern and efficient office environments or by improving the office environments already in use. Part of Micro Focus' decision making process when sourcing locations is to identify LEED ratings wherever possible. In recent years four office relocations have been from buildings with no LEED rating to sites with Silver, Gold and Platinum ratings;

- Continued landlord performance monitoring in all locations where Micro Focus operations are sited in multi-tenant premises;

- Despite the increase in the size of the Group, further progress has been made continuing the consolidation of the data-centre power programme, thereby improving efficiencies and reducing cost and consumption. This includes the reduction of the quantity of dedicated server "environments" across the wider Group to significantly lessen the footprint impact; and

- Additional capital carbon projects took place in this reporting period. Lighting upgrade projects were evaluated and delivered, including the completion of the initial pilot that took place in the Belfast office. Following on from this successful project, Micro Focus' headquarters office in Newbury is now on a pilot for evaluation.

Greenhouse Gas Emissions ("GGE")

For this reporting year we have maintained our methodology for reporting Scope 1 and Scope 2 emissions. On a like for like basis, across the entire Group, Micro Focus achieved a 3.6% reduction in energy consumption for this reporting year. On an actual comparison of the reported Group in FY16, due to organizational boundary changes, the UK, China and the US made a strong contribution to the overall decrease in consumption from the previous period.

This section includes Micro Focus' mandatory reporting of GGE pursuant to the Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013.

Reporting year

The Green House Gas ("GHG") reporting year is the same as Micro Focus' fiscal year being 1 May 2016 to 30 April 2017 to align with Financial Reporting and the relevant CDP Reporting timeframe.

Organizational boundary and responsibility

In accordance with the definitional requirements of the "regulations", in respect of emissions for which Micro Focus is responsible, emissions data is reported using an Operational Control approach to define the Organizational Boundary.

All material emission sources over which Micro Focus deems to have operational control are in scope. These sources are defined as the purchase of electricity, heat, steam or cooling for the operation of facilities and the combustion of fuel for that operation of facilities. Processes are being established to track other sources of emissions such as commercial flights for business travel, which is not presently covered in this data.

Methodology

The methodology used to calculate emissions is based on the most current set of regulations published by the Department for Environment and Rural Affairs ("DEFRA") relating to relevant reporting periods. For consistency, in this reporting period our emissions have been calculated solely using DEFRA's conversion tables published on their website, rather than as in previous periods where the energy company's individual fuel mix was used.

Scope of reporting emissions

Following the acquisition of TAG in November 2014, Micro Focus' operational infrastructure approximately trebled in size. On a like-for-like basis Micro Focus' energy consumption was lower in the 12 months to 30 April 2017 than during the previous reporting year by 0.1%, with best practice across the entire real estate and targeted employee communication, staff focused on reducing emissions.

Since TAG had no environmental reporting requirements or tools to monitor and measure energy consumption, the Company has, where possible, implemented the same systems and processes that heritage Micro Focus used in the past to have these operational across the entire organization. This work is helping with the ability to monitor and report on year-on-year comparisons going forward.

During the year ended 30 April 2017, Micro Focus made progress on reducing the merged Company's carbon footprint by reducing the overall real estate of the wider Group, integrating locations wherever possible. This delivered a net reduction across all operations. Total UK data for the Group delivered a 9.9% reduction in absolute consumption, a direct result of the integration strategy.

Micro Focus reports emissions data on all locations where available, irrespective of the size of the Micro Focus facility. For smaller locations where no such data is available from managed serviced offices, or where Micro Focus is part of a multi-tenant occupancy building, or where staffing levels are less than 10, the mean average per head is extrapolated out from all other locations.

Locations and approach taken:

Actual emissions data used – Bangalore (India), Beijing (China), Belfast (Northern Ireland), Cambridge (US), Dublin (Ireland), Düsseldorf (Germany), Ennis (Ireland), Galway (Ireland), Haifa (Israel), Hillsboro (US), Hong Kong (China), Johannesburg (South Africa), Kiev (Ukraine), Lisle (US), Milan (Italy), Mumbai (India), New Delhi (India), Newbury (UK), Nuremburg (Germany), Paris x 2, (France), Prague (Czech Republic), Provo (US), Rockville (US), Singapore (Singapore), Sofia (Bulgaria), Stockholm (Sweden), St. Albans (UK) and Troy (US).

The following locations are out of scope due to size and or lack of availability of information:

Where the data is not available, the same intensity ratio is used for the location on a headcount basis. Average UK CO_2/head multiplied by headcount – Alphen den Rijn (Netherlands), Austin (US), Bellingham (US), Brasilia (Brazil), Brighton (US), Burlington (US), Cape Town (South Africa), Linz (Austria), Lyon (France), Columbus (US), Costa Mesa (US), Dubai (UAE), Edinburgh (UK), Geneva (Switzerland), Hanau (Germany), Horscholm (Denmark), Houston (US), Ismaning (Germany), Lisbon (Portugal), Loveland (US), Madrid (Spain), Melbourne (Australia), Mount Pleasant (US), New York (US), Oslo (Norway), Rome (Italy), Rotterdam (Netherlands), Santa Clara (US), São Paulo (Brazil), Seattle (US), Seoul (South Korea), Shanghai (China), Shenzhen (China), South Euclid (US), Sydney (Australia), The Hague (Netherlands), Taipei (Taiwan), Tokyo (Japan) and Toronto (Canada).

The following locations are a multi-tenanted site which is sub-let in their entirety and is out of scope for this year's report: Bracknell and Richmond (UK).

Intensity ratio

To achieve a global picture of emissions, whilst recognizing that not all locations can be in scope, an intensity ratio of CO_2 per tonne/per head has been used. As not all entities are revenue generating and not all can calculate emissions, this ratio should demonstrate a more comprehensive assessment.

2017 targets

During the year ended 30 April 2017, despite the complexities of the increased operational boundaries due to the acquisitions of Serena, GWAVA, OpenATTIC and OpenStack. Micro Focus improved on its target to reduce year on year emissions.

During this reporting year we have continued our commitment to both CDP and the Carbon Trust. We have maintained our capital budget for investment in energy saving initiatives to help us drive further reductions. We continued to raise awareness locally across all sites.

Year-on-year comparisons for energy consumed and carbon emissions

	FY17	FY16[1]	Change %
Total energy consumption (metered) MWhrs	**22,548**	23,437	(3.8%)
Energy consumed (metered) KWhrs per employee	**5,339**	5,872	(9.1%)
GHG emissions (tonnes e-CO_2)	**9,113**	9,397	(3.0%)
GHG emissions per employee (tonnes e-CO_2)	**2.68**	2.98	(10.1%)
Total estimated GHG emissions (Ktons e-CO_2)	**10.4**	10.7	(2.8%)

1 The FY16 comparatives have been restated to reflect the impact of Serena.

Corporate social responsibility
continued

Charity and community support

Micro Focus donated over $80,000 (2016: $82,000) to selected charities and community support projects during the financial year 2017.

The Company encourages employees to help local communities and support relevant charities, chosen in line with agreed criteria and along the guidelines of education and local community support. A Charity Committee consisting of a range of employees from across the company manages these initiatives in two ways:

- Firstly, on a funds-matching basis for individual employee charitable pursuits and awarding community project grants to initiatives put forward by employees; and
- Secondly, by allocating a number of employee days per month to teams or individuals to directly benefit a chosen charity or community initiative.

The programme focused on local community initiatives for the entire year, a change from the usual format, encouraging staff to support projects in their communities and causes they are actively involved in. In prior years, a portion of the Group's charitable giving has been allocated to global causes. This change has been made to recognize employee feedback.

Out of the total level of funds raised, $80,000 supported local and national causes across 11 countries in Australia, Bulgaria, China, Germany, India, Ireland, Singapore, South Africa, Spain, UK and USA.

This is the fifth year that the local "project grants" initiative has been in place and in the year ended 30 April 2017, 50 charity or community organizations benefited across multiple geographies across Micro Focus Group operations around the world. Projects included:

- In Germany, providing computer equipment to aid and promote educating children in computing;
- In India, supporting a charity project to provide four Indian schools and approximately 1,000 children with new shoes and another project providing equipment such as school bags and necessary textbooks for under-privileged children;
- Participating in an initiative in Africa to build a community centre for education and health education purposes;
- In the US, supporting the following projects:
  - A Boy Scout Troop in its work with the homeless in the Maryland area;
  - A World Youth Foundation project helping with education and community initiatives in the Houston area; and
  - Support material and resources for a community arts program in Paso Robles, California.
- Supporting the development of a Visual and Performing Arts Education Program to help children avoid drugs and gang life in Santa Clara;
- Participating in a community project in Troy to provide food to disadvantaged children to assist with study outside of school hours; and
- In the UK, supporting the following projects:
  - Funding much needed equipment for a youth football team;
  - Supporting two projects providing recreational space for children;
  - Providing computing equipment to a local school in Newbury; and
  - Helping a project in Northern Ireland in the Belfast area delivering computer science knowledge to children aged between nine and 11.

Throughout the financial year, employees are regularly updated about community support and charity initiatives to keep them informed, encourage participation, and to provide feedback on the chosen initiatives through regular updates on the front page of the Company's intranet and a dedicated charity page.

In the coming financial year, assuming Completion of the HPE Software transaction, Micro Focus will develop its charity and community initiatives to recognize the increased scale and impact of the Company's enlarged operations on local communities, drawing on the experience of HPE Software employees' engagement in these areas.

Marketplace and suppliers

Micro Focus products and services continue to help organizations lower their energy impact and often customers benefit from a lower carbon footprint. Our product portfolio encourages organizations to extract more value from their existing technology, avoiding expensive and more carbon intensive 'rip and replace' product introductions.

Employees and ethics

During the year ended 30 April 2017, Micro Focus has continued its integration to bring together employees of TAG and those of heritage Micro Focus. The TAG acquisition transformed the size of the organization and this has been increased further by the subsequent acquisitions of Serena, GWAVA, OpenATTIC and OpenStack. Employee numbers have grown from approximately 1,200 employees in October 2014 to more than 4,800 by the year ending 30 April 2017. The TAG integration has provided valuable experience for the Serena integration which has taken place during FY17. Furthermore, this experience is proving very valuable in setting the platform for the forthcoming integration of new employees after the Completion of the HPE Software transaction scheduled for 1 September 2017, which will at least treble staff numbers.

The substantial integration initiatives progressed in FY17 have been combined with recruitment and retention programs through multiple training and performance management initiatives across the organization, to support and develop employees through a time of substantial change. These HR initiatives are designed to develop a culture that provides a rewarding and enjoyable working environment for employees who in turn are able to develop their careers in a professional and successful organization.

- **Key HR metrics at 30 April 2017**
  - Total number of employees worldwide – 4,826 (4,287 full time equivalent "FTE");
  - Total Worldwide Workforce – 6,123 including temporary/contractors (5,919 FTE);
  - Percentage of women – employees worldwide – 1,081 (2016: 957) employees 22.4% (2016: 22.3%);
  - Percentage of women – senior management – 128 employees (2016: 125 employees) 11.98% (2016: 13.2%); and
  - Percentage of women – governance body – 37.5% (including Company Secretary, three out of eight (2016: 22.2%, two out of nine). This has increased to 40.0% (four out of ten) following the appointment of Darren Roos and Silke Scheiber from 15 May 2017.

- Micro Focus continues to strive for a diverse range of candidates for new roles;

- A half year bonus was paid to 3,181 eligible non-commissionable employees. A full year bonus will be paid to approximately 3,410 eligible non-commissionable employees at the end of July 2017;

- Comprehensive six monthly and full year performance management reviews of all non-sales employees were carried out. 81.9% of the employee population completed a half year performance management plan ("PMP"), which was a small improvement on last year. PMPs for the full year are on-going (current completion is 93%) with the "Wingspan" global performance review process now fully operational across the whole Company;

- International Sharesave & ESPP programme launches were put on hold following the HPE Software announcement to ensure that both organizations' share schemes are integrated. These schemes are active across 30 countries, comprising of 97.6% of our employees worldwide, and our overall participation rates remain steady at 27.8% of eligible employees;

- Employee communications activities have been enhanced to further support the TAG and Serena integration programmes, with an increased focus on local office group meetings as well as expanded Group employee communications initiatives, including a mix of All Hands meetings, improved intranet communications, targeted email updates and multiple webcasts and recordings of management interviews;

- An excellent record in health and safety matters for all employees (no reportable incidents in the last 12 months);

- Commitment to ensuring compliance with anti-bribery, data protection and market abuse and insider dealing laws has continued. This has included our Global Anti-Bribery and Corruption, Market Abuse and Fraud Awareness training continuing to be rolled out and completed by all employees across the Group, and the continuance of on-going compliance checks during the period;

- A review of the Group's compliance programme is being carried out to ensure it is appropriate for the increased size of the Group taking into account the Group's activities and risk profile. The review encompasses all compliance areas including employee training and communications; and

- In October 2016 the Group published its first modern slavery and human trafficking statement on its website in accordance with the requirements of the Modern Slavery Act 2015. Also the Group's Worldwide Code of Business Conduct and Ethics was updated to include an Anti-Slavery and Human Trafficking Policy.

Strategic Report

This 2017 Strategic Report on pages 3 to 49 is hereby approved and signed on behalf of the board,

Kevin Loosemore
Executive Chairman
17 July 2017

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Executive Chairman's introduction

The board of Micro Focus International plc is committed to delivering outstanding shareholder returns and believes this is underpinned by high standards of corporate governance and a strong corporate governance framework. To support this framework, the board has established and embedded procedures and processes throughout the whole Group.

During the financial year ended 30 April 2017, the key board achievements were:

Shareholder engagement

There has been extensive shareholder engagement that has resulted in significant new additions to the register, with 30% of our shares now being held in North America. In addition there has been engagement with shareholders of HPE in anticipation of the merger with HPE Software.

The Company's market capitalization at 30 April 2017 was £5,944.0m and the Micro Focus shareholders prior to the acquisition of TAG who now own approximately 56.8% of the Company have seen their investment increase from £1,178.6m to £3,376.2m over a period of 32 months. During that period they have also received a Return of Value of £83.9m and ordinary dividends of £119.6m.

Integration of acquired businesses

The Company acquired TAG in November 2014 and Serena in May 2016. Since then we have been working hard to ensure shareholders realize the benefits of these acquisitions. The key achievements over the last year have been the delivery of financial results in line with management expectations and the announcement and commencement of integration planning for the HPE Software transaction.

Acquisition of HPE Software

On 7 September 2016 we announced the intention to acquire the software business of HPE. Since that time significant effort has been spent on seeking required regulatory approvals. This transaction has featured high on the board agenda both pre and post announcement. It has also necessitated a refinancing and raising of in excess of $5bn of debt. In addition to the HPE transaction we have completed three further 'tuck-in' acquisitions.

Talent development and succession planning

On 17 January 2017 we announced that Chris Hsu will become CEO on Completion of the merger. The board and I have agreed that I will remain as Executive Chairman until the publication of the first set of Audited Financial Statements following Completion. As we move to a 31 October year end this will be for the 18 month period ending 31 October 2018, the results of which will be published in January 2019.

I believe that the board continues to be well balanced, with a broad range of skills and a good understanding of the market in which we operate and the challenges which we face.

Board performance evaluation

During the year we completed a board performance evaluation. I have received feedback from all of the directors confirming that the process has been extremely valuable to the board. The results have been reviewed and a number of improvement areas prioritized for 2017/18.

Board meetings and strategy sessions

Every year in September, an extended board meeting is devoted to reviewing aspects of the Group's strategy and operation in more detail. The strategy sessions are an important and valuable part of the Group's continued development.

Kevin Loosemore
Executive Chairman
17 July 2017

Board of directors

Executive directors

Non-executive directors

Board committee memberships as at 17 July 2017:

- ● Audit committee
- ■ Remuneration committee
- ╲ Nomination committee

1 Kevin Loosemore, 58
(Executive Chairman)

Kevin is our Executive Chairman and a member of the Micro Focus board. He was appointed non-executive Chairman of Micro Focus in 2005 and Executive Chairman in April 2011.

Kevin was previously non-executive Chairman of Morse plc, a non-executive director of Nationwide Building Society and a non-executive director of the Big Food Group plc. His most recent executive roles were as Chief Operating Officer of Cable & Wireless plc, President of Motorola Europe, Middle East and Africa and before that, he was Chief Executive of IBM U.K. Limited.

He has a degree in politics and economics from Oxford University.

2 Mike Phillips, 54
(Chief Financial Officer)

Mike is our Chief Financial Officer and a member of the Micro Focus board, positions he has held since joining Micro Focus on 7 September 2010.

Mike was previously Chief Executive Officer at Morse plc, following his initial role as Group Finance Director. Mike left Morse plc in July 2010 following the turnaround and successful corporate sale to 2e2 in June 2010.

From 1998 to 2007, Mike was Group Finance Director at Microgen plc and played a lead role in its transformation to an international software and services business with sustainable and profitable growth.

Earlier roles include seven years of corporate finance work at Smith & Williamson, as well as two years at PricewaterhouseCoopers where he led the U.K. technology team, reporting to the global Head of Corporate Finance for the Technology Sector. Mike began his career at Peat Marwick Mitchell & Co (now KPMG). Mike was a non-executive director of Parity Group plc from November 2011 to September 2013.

3 Stephen Murdoch, 50
(Chief Executive Officer Micro Focus)

Stephen is currently our Chief Executive Officer, Micro Focus and a member of the Micro Focus board, positions he has held since 1 February 2016. Before his appointment as CEO, Micro Focus Stephen served as General Manager of Products and Marketing Strategy from November 2012 to April 2014 and then as Chief Operating Officer from April 2014 to February 2016.

Stephen has a 25-year track record of success in the IT industry, spanning hardware, software, and services. He has held senior executive positions in general management, sales, and strategy with IBM and Dell. Most recently, he was the General Manager of Europe, Middle East, & Africa for Dell's Public Sector and Large Commercial Enterprise business unit.

4 Nils Brauckmann, 53
(Chief Executive Officer SUSE)

Nils is our Chief Executive Officer, SUSE and a member of the Micro Focus board. Nils has led SUSE since May 2011 and was appointed to the Micro Focus board on 1 February 2016.

Prior to this, Nils gained more than 20 years of management and leadership experience in the IT industry, serving in cross-functional and international management positions in companies such as WRQ (acquired by the Attachmate Group in 2004), Novell, and Siemens Nixdorf, where he started his technology career.

5 Karen Slatford, 60
(Senior independent non-executive director) ● ■ ╲

Karen is Chair of Draper Esprit plc, an AIM listed venture capital firm, The Foundry, a leading special effects software company, and Citation Ltd, which provides HR and Health and Safety support to small and medium-sized enterprises. Karen is also non-executive director of Intelliflo Ltd and Accesso Technology Group plc. Karen began her career at ICL before spending 20 years at Hewlett-Packard Company, where in 2000 she became Vice President and General Manager Worldwide Sales & Marketing for the Business Customer Organization, responsible for sales of all Hewlett-Packard products, services and software to business customers globally. Karen holds a BA Honours degree in European Studies from Bath University and a Diploma in Marketing.

6 Richard Atkins, 65
(Independent non-executive director) ● ■ ╲

Richard is Chairman of Acora, an IT Services outsourcing company; Entanet International, a wholesale voice and data communications company; and Miles 33, a publishing software company. He is also a non-executive director at Aon, the U.K.'s largest insurance broker.

He has spent the majority of his career within the IT industry. Previously, he was a Director at Data Sciences where he led its leveraged buyout from Thorn EMI in 1991 and then managed its successful sale to IBM in 1996. His final role at IBM was as General Manager for IBM Global Services Northern Europe where he was also a member of the IBM worldwide senior leadership team. Since leaving IBM in 2005 he has acted as a non-executive director for several companies including Compel, Message Labs, Global Crossing, Morse and Easynet. Richard qualified as a Chartered Accountant with Ernst & Young.

7 Amanda Brown, 48
(Independent non-executive director) ● ■ ╲

Amanda is currently Group Human Resources Director at Hiscox Ltd, a FTSE 250 business and specialist insurer with offices in 14 countries.

Amanda has more than 20 years of international HR experience in a variety of industries, including consumer goods, leisure, hospitality, and financial services. Prior to Hiscox, Amanda held a number of leadership roles with Mars, PepsiCo, and Whitbread plc. She has expertise in human resources, remuneration strategy, and managing organizations through periods of significant change.

8 Darren Roos, 42
(Independent non-executive director)

Darren is a technology leader who has spent nearly 20 years building businesses worldwide. Darren spent nine years with Software AG and served on its board. Over the past three years with SAP he has been responsible for the SAP Northern European business. Darren is currently the President of SAP's S/4HANA ERP Cloud business, where he guides SAP's customers on their journey to innovation through digital transformation.

9 Silke Scheiber, 44
(Independent non-executive director)

Silke was an investment professional at Kohlberg Kravis Roberts & Co. Partners LLP, London, UK from July 1999 and became a member in 2012. She retired from KKR in 2015. Prior to KKR, Silke worked at Goldman, Sachs & Company oHG, Frankfurt, Germany from 1996 to 1999. Silke, who is Austrian, graduated from the University of St. Gallen, Switzerland. Silke is a director of CNH Industrial N.V., the Netherlands and Jungbunzlauer Holding AG, Basel, Switzerland.

Corporate governance report

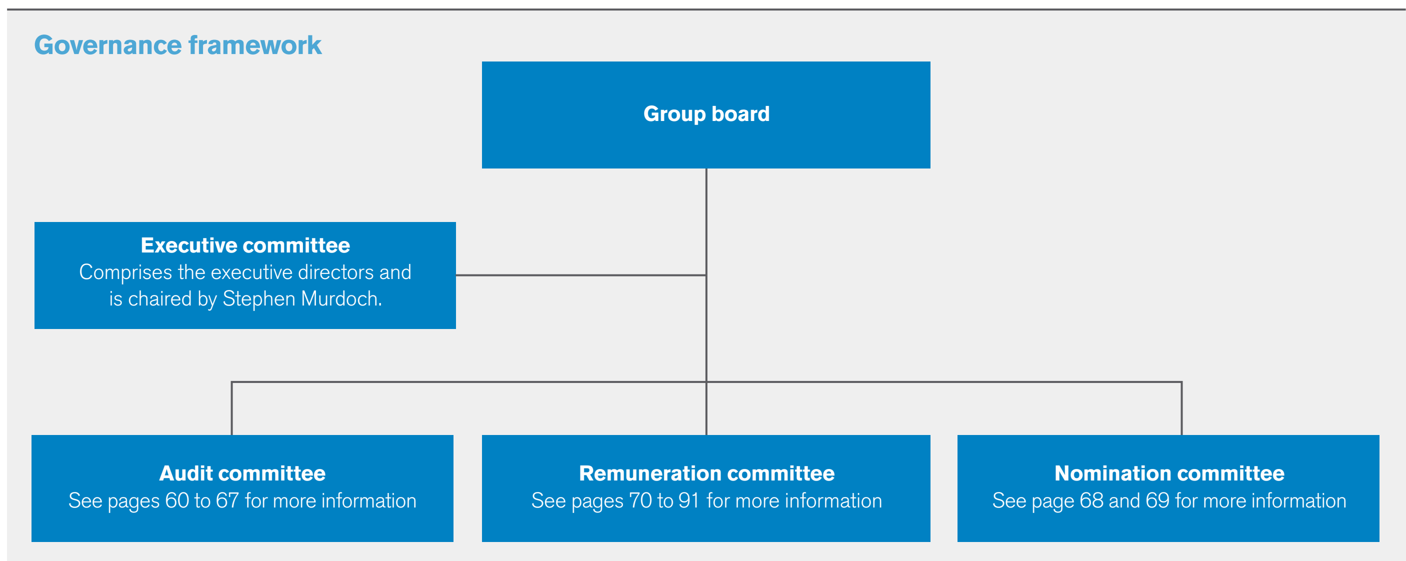
The principal corporate governance guidance that applies to companies listed with the UK Listing Authority during the year reported on is contained in the UK Corporate Governance Code 2014 (the "Corporate Governance Code") published by the Financial Reporting Council in September 2014, which is available at www.frc.org.uk.

Compliance statement

The directors are committed to ensuring that the Company works towards compliance with the main principles of the Corporate Governance Code and throughout the year reported on the Company has been in full compliance with the Corporate Governance Code.

Key corporate governance activities in 2016/2017	Details
Appointment of new non-executive director	Appointment of Amanda Brown
An internally facilitated board review	This provided positive feedback and useful suggestions, see page 58 for details
Risk management review	A renewal of the Group's overall risk management framework was undertaken, see pages 36 to 43 for details

On 15 May 2017, Darren Roos and Silke Scheiber were appointed as new non-executive directors.



The principles set out in the Corporate Governance Code cover five areas: leadership, effectiveness, accountability, remuneration and relations with shareholders. With the exception of remuneration (which is dealt with separately in the remuneration report on pages 70 to 91) the following section sets out how the board has applied these principles.

Leadership

The board

The biographies of each director can be found on pages 52 and 53. As at 17 July 2017, the board comprised nine directors:

Name	Role
Kevin Loosemore	Executive Chairman
Mike Phillips	Chief Financial Officer
Stephen Murdoch	CEO Micro Focus
Nils Brauckmann	CEO SUSE
Karen Slatford	Senior independent non-executive director
Richard Atkins	Independent non-executive director
Amanda Brown	Independent non-executive director
Darren Roos	Independent non-executive director (appointed 15 May 2017)
Silke Scheiber	Independent non-executive director (appointed 15 May 2017)

In accordance with the Company's articles of association, all directors are subject to election by the shareholders at the first AGM of the Company after their appointment and to re-election by the shareholders on an annual basis at each AGM. Therefore all directors will retire, and seek election or re-election, as applicable, at the forthcoming AGM. This practice complies with the recommendations of the Corporate Governance Code. All the proposed appointees (other than Silke Scheiber and Darren Roos who joined the board on 15 May 2017) have been subject to a formal evaluation procedure in the last 12 months. Following that procedure the Executive Chairman confirms the continuing commitment and effective contribution of the Directors and recommends their re-election. In addition, the Directors confirm the continuing commitment and effective contribution of the Executive Chairman and recommend his re-election. The board also believes in relation to the non-executive directors that their skills and experience enable them to continue to provide valuable contributions to the board. The board is satisfied that the non-executive directors exercise rigorous and objective judgment.

Role of the board

The Company is controlled by the board, which is principally responsible for promoting the long-term success of the Group and its system of corporate governance. Although the board does delegate some matters to its committees (such as the remuneration, nomination and audit committees), as part of its leadership and control of the Company, the board has agreed a list of items that are specifically reserved for its consideration. These include business strategy, financing arrangements, material acquisitions and divestments, approval of the annual budget, major capital expenditure projects, risk management, treasury policies and establishing and monitoring internal controls. At each meeting, the board reviews progress of the Group towards its objectives and receives papers on key subjects in advance of each board meeting. These typically cover:

- Strategy and budgets;
- Business and financial performance;
- Product plans and development;
- Corporate activities;
- Human resources; and
- Investor relations.

While the board retains overall responsibility for, and control of the Company, day-to-day management of the business is conducted by the executive directors. Review of the Group's principal business activities is the responsibility of the executive committee. The executive committee comprises the executive directors and is chaired by Stephen Murdoch, the CEO of Micro Focus.

Powers of the directors in relation to share capital

Details of the powers of the directors in relation to share capital can be found on page 95 of the Directors' report.

Independent advice

The board has agreed procedures for directors to follow if they believe they require independent professional advice in the furtherance of their duties and these procedures allow the directors to take such advice at the Company's expense.

Board meetings

For the current period, the board has scheduled meetings on a regular basis, approximately every two months with additional meetings when circumstances and business dictate. In months in which the board does not meet, update calls are scheduled to review progress. All directors receive an agenda and board papers in advance of meetings to help them make an effective contribution at the meetings. The board makes full use of appropriate technology as a means of updating and informing all its members. Board papers are circulated electronically to a tablet device, allowing directors to access documentation more easily and securely. The executive directors ensure regular informal contact is maintained with non-executive directors who are invited to accompany the executive directors when visiting the Group's offices. The non-executive directors have unrestricted access to anyone in the Company. The Executive Chairman also meets separately with the non-executive directors.

In the financial year under review the board met formally on five occasions. The board also met on a further nine occasions to receive interim updates or consider matters arising between formal meetings.

Attendance at board and committee meetings

The number of board and committee meetings attended by each director in the year ended 30 April 2017 was as follows:

	Board		Audit committee		Remuneration committee		Nomination committee	
	Held*	Attended	Held*	Attended	Held*	Attended	Held*	Attended
Kevin Loosemore	14	14	–	–	–	–	–	–
Mike Phillips	14	14	–	–	–	–	–	–
Stephen Murdoch	14	14	–	–	–	–	–	–
Nils Brauckmann	14	14	–	–	–	–	–	–
Karen Slatford	14	14	8	8	8	8	12	12
Tom Virden[1]	14	13	8	6	8	8	–	–
Richard Atkins	14	14	8	8	8	8	12	12
Steve Schuckenbrock[1]	14	12	8	6	–	–	–	–
Amanda Brown[2]	12	12	8	8	8	8	12	12

* During period of appointment.
1 Tom Virden and Steve Schuckenbrock resigned from the board on 25 April 2017.
2 Amanda Brown was appointed to the board on 1 July 2016.

Directors are normally provided with the agenda and supporting papers for board and committee meetings in the week prior to the meeting. If unable to attend a meeting, a director will provide feedback to the Executive Chairman, the chair of the committee or the Company Secretary and their comments are then communicated to the meeting.

Roles	Responsibilities
Executive Chairman	The Executive Chairman, Kevin Loosemore, leads the board and the Company in its relationships with all stakeholders and customers. The Executive Chairman has responsibility for setting the board agenda (in conjunction with the senior independent director and the Company Secretary), the delivery of strategy and M&A activities and investor relations. He is also responsible for chairing board and general meetings, facilitating the effective contribution of non-executive directors, ensuring effective communication with shareholders and upholding the highest standards of integrity and probity.
Senior independent director	The senior independent director, Karen Slatford, chairs the nomination committee and is therefore responsible for succession planning. Also, in her role as senior independent non-executive director, Karen Slatford leads on governance issues, including the annual review of overall board effectiveness and of the Executive Chairman's performance. The senior independent non-executive director also acts as an intermediary, if necessary, between non-executive directors and the Executive Chairman and between the Company and its shareholders, providing a point of contact for those shareholders who wish to raise issues with the board, other than through the Executive Chairman.
Executive directors	The executive directors are responsible for developing the Group's strategy and proposing the budget for board approval. They are also responsible for the financial and operational performance of the Group and, in conjunction with the executive committee; they are collectively responsible for the day to day running of the business.
Non-executive directors	The role of the non-executive directors is to ensure that independent judgment is brought to board deliberations and decisions. They promote the highest standards of integrity, probity and corporate governance throughout the Company. The non-executive directors possess a wide range of skills and experience, relevant to the development of the Company, which complement those of the executive directors.
Company Secretary	The Company Secretary is accountable to the board through the Executive Chairman to whom she reports. It is the responsibility of the Company Secretary to ensure that board procedures are followed and all rules and regulations are complied with. The Company Secretary's responsibilities include facilitating the induction and professional development of directors and ensuring the smooth flow of information between board members, between the board and its committees and between non-executive directors and senior management. In addition, all directors have direct access to the advice and services of the Company Secretary.

Karen Slatford, the senior independent non-executive director, Richard Atkins, Amanda Brown, Darren Roos[1] and Silke Scheiber[1] each a non-executive director, are considered by the board to be independent as they are free from any business or other relationship which could materially interfere with the exercise of their judgment. They are also considered to be independent as they have all served less than nine years on the board, they receive no additional benefits from the Group and they have not previously held an executive role within the Group.

[1] Appointed on 15 May 2017.

Non-executive directors are appointed for specific terms. Full details of their appointment are on page 82 of the remuneration report. The letters of appointment for the non-executive directors are available for inspection by any person at the Company's registered office during normal business hours and at the AGM (during, and for 15 minutes prior to, the meeting).

Board agenda and key activities throughout the financial year

The table below sets out matters that the board discussed at each meeting and the key activities that have taken place throughout this period.

Matters considered at all scheduled board meetings	Key activities for the board throughout 2016/2017
– Key Project status and progress – Strategy – Financial reports and statements – Operational reports, issues and highlights – Investor relations and capital markets update – Key legal updates – Key transactions – Assurance and risk management	– Compliance with debt covenants and liquidity – Risk and long-term viability review – Evolution of Risk Management Framework – 2017 budget review and 2018 budget approval – Periodic updates on corporate regulatory changes and reporting requirements – Project assurance processes – Internally facilitated board review – Execution of the HPE Software Transaction and integration planning – Debt re-pricing in August 2016 – Debt refinancing and new facilities in April 2017 – Review and implementation of a new share dealing code following the introduction of the Market Abuse Regulation – Approval of a new anti-slavery and human trafficking policy following the introduction of the Modern Slavery Act 2015 and publication of the required website statement

Corporate governance report
continued

Management structure
A clearly defined organizational structure exists within which individual responsibilities are identified and can be monitored. The management of the Group as a whole is delegated to the Executive Chairman and the executive committee.

The executive committee, chaired by Stephen Murdoch, and comprising the executive directors, meets regularly to agree strategy, monitor operational performance and consider key business issues. As part of its review, it considers the risks associated with the delivery of strategy and important governance issues within the Group's operating companies.

There are a number of Group administrative functions such as Finance, Treasury, Human Resources, IT, Corporate Communications and Legal. These functions report to the board through the executive committee.

A number of Group-wide policies, issued and administered centrally, have been set to ensure compliance with key governance standards. These policies include areas such as finance, contract approvals, data protection, share dealing, business conduct, ethics and anti-bribery and corruption and anti-slavery and human trafficking.

The conduct of Micro Focus' individual businesses is delegated to local and regional executive management teams subject to a chart of approvals policy which is communicated to all employees in the Group. These teams are accountable for the conduct and performance of their businesses within the agreed business strategy.

Effectiveness

Induction of new directors
Each new director receives a comprehensive, formal and tailored induction into the Company's operations. The directors can request that appropriate training is available as required. New directors' inductions include briefings on the Company's business, strategy, constitution and decision making process, the roles and responsibilities of a director and the legislative framework. New directors also meet with the Group's senior product and other managers and with the Company's shareholders at the AGM. A comprehensive induction pack is available to directors at all times on a tablet device.

Board evaluation
A comprehensive evaluation of the performance of the board, its committees and each of its directors is carried out annually. The process is led by the senior independent non-executive director and supported by the Company Secretary. The outcome of the evaluation is discussed in detail by the board and any key recommendations are reviewed and implemented during the following year. As previously reported the 2016 board evaluation was externally facilitated by JCA Group. The 2017 board evaluation was internally facilitated and took the form of surveys completed by members of the board with respect to the performance of the board and each of its committees, as well as individual director surveys. The surveys included assessment of the effectiveness of the performance of the board and its committees and compliance with corporate governance principles. The evaluation process was conducted between March and April 2017. All directors have endorsed the internal evaluation process as being a valuable exercise.

Stage 1 – Comprehensive questionnaires – This year's questionnaires focused on board composition, skills, expertise and diversity as well as board dynamics and operation, succession planning, strategic oversight and board support. They also covered progress on items raised in the prior years' external evaluation.

Stage 2 – Compilation of results – a report was compiled by the Company Secretary which consolidated the directors' responses.

Stage 3 – Reporting and discussion – the report was discussed with the Executive Chairman and the board reviewed the report in detail at its meeting in April 2017.

Conclusions and outcomes
The evaluation found the performance of each director to be effective, that each director had demonstrated commitment to the role and that the board had provided effective leadership and control. The evaluation established that the board had a strong foundation with a positive dynamic and benefitted from significant experience.

The results of the evaluation are being used to assist the board in developing its approach going forward and include recommendations for understanding the culture of the HPE Software business and for maintaining the important Micro Focus cultural elements, recognizing that cultures would need to evolve for the Enlarged Group. In particular, recognizing that the key things to preserve are the company's measurement and compensation system, its EBITDA targets to 2020, the leadership team and the Company's product management process.

Progress on previous recommendations

Recommendation	Action taken
Ensure clarity of new structure, particularly the roles the Executive Chairman and executive directors will play and their interaction with and contribution to the board.	Chris Hsu has been appointed as CEO of the Enlarged Group, subject to Completion of the transaction. Other board changes have been announced.
Continuing risk management review with a particular focus on ensuring that the Company has appropriate senior management talent to support the Company's strategy.	A Director of Risk and Internal Audit was appointed to oversee the on-going internal process of identifying, evaluating and managing the significant risks faced by the Group in association with the work performed by the outsourced internal audit function. This process is regularly reviewed by the board and accords with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting September 2014.
Ensuring appropriate longer term succession and smooth board succession.	This was one of the key activities of the nomination committee during the year.

The senior independent non-executive director meets with the non-executive and executive directors at least once a year to review the Executive Chairman's performance.

Accountability and audit

The board is responsible for the preparation of the Annual Report and Accounts. The board considers the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility is administered primarily by the audit committee and details of how this is done are described in the audit committee report on pages 60 to 67.

Internal Control and Risk Management

Details of the Company's internal control and risk management systems in relation to the financial reporting process can be found on pages 36 to 43.

Conflicts of interest

In accordance with the Companies Act 2006, the Company has put in place procedures to deal with conflicts of interests, which have operated effectively. The board is aware of the other commitments of its directors and is satisfied that these do not conflict with their duties as directors of the Company. Any changes to these commitments are reported to the board.

Anti-bribery and corruption

Following the introduction of the Bribery Act 2010 the Group revised its Worldwide Code of Business Conduct and Ethics (the '**Code of Conduct**') and has in place several policies covering anti-bribery and corruption.

As part of the Group's anti-bribery and corruption programme, new employees are required to familiarize themselves with the Code of Conduct and complete an online anti-bribery and corruption training course. This course has also been completed by all existing employees and is rolled out to employees of newly acquired businesses. Additionally, certain employees in higher risk countries have taken part in face-to-face workshops which provides them with more focused and interactive training.

The Code of Conduct also includes policies on whistleblowing, gifts and hospitality, charitable donations and third party due diligence and sets out the appropriate level of behaviour expected from all staff.

Anti-slavery and human trafficking

During the year the Group introduced a new anti-slavery and human trafficking policy following the introduction of the Modern Slavery Act 2015 (the '**MSA**') which has been incorporated into the Code of Conduct and also published the statement required by the MSA on its website.

Shareholder relations

The Company values the views of shareholders and recognizes their interests in the Group's strategy and performance.

Substantial shareholdings

Details of the substantial shareholdings can be found on page 93 of the Directors' report.

Rights and obligations attaching to shares

Details of the rights and obligations attaching to shares can be found on page 94 of the Directors' report.

Shareholder communications

The Company currently reports formally to shareholders twice a year, in July (preliminary announcement of annual results) and December (interim statement). The annual report is made available and mailed to shareholders at least 20 business days before the AGM. Separate announcements of all material events are made as necessary. Regular communications are maintained with institutional shareholders and presentations are given to shareholders when the half year and full year financial results are announced and at other times. In addition to the Executive Chairman and Chief Financial Officer, who have regular contact with investors, Karen Slatford (the senior independent non-executive director) and the other non-executive directors are available to meet with the Company's shareholders as and when required in order to develop a balanced understanding of the issues and concerns particularly of major shareholders. The whole board is kept up to date at its regular meetings with the views of shareholders and analysts. External analysts' reports are also circulated to directors.

The Company's website (www.microfocus.com) provides an overview of the business including its strategy, products and objectives.

All Group announcements are available on the Company's website and new announcements are published without delay. The terms of reference of each of the board's three committees and other important corporate governance documents are available on the website and from the Company Secretary. Additionally, the Executive Chairman, Chief Financial Officer and Director – Corporate Communications and Investor Relations provide focal points for shareholders' enquiries and dialogue throughout the year.

Announcements

All major announcements are approved by the executive directors and circulated to the board for approval prior to issue. The Group also has internal and external checks to guard against unauthorized release of information.

AGM

The Company's AGM will be held on 4 September 2017 at 9am (UK time) at the Company's Headquarters at The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN. It will provide an opportunity for the board to meet with all shareholders and the participation of shareholders is encouraged. At the meeting, in addition to the statutory business, the board will be available for questions from shareholders.

In accordance with the Corporate Governance Code recommendations, a resolution will be proposed for each substantive issue and the chairs of the audit, remuneration and nomination committees will be available to answer questions.

Audit committee report

Committee Chairman's introduction

Dear fellow shareholders,

I am pleased to present the audit committee report for 2017. The report details the activities of the committee during the year ended 30 April 2017.

In this report I have detailed how the committee has discharged its responsibilities in relation to the 2014 UK Corporate Governance Code and in particular how the committee has focused on internal control and risk management.

Composition of the committee

The committee was chaired during the year by myself, Richard Atkins, with other independent non-executive directors, Karen Slatford, Tom Virden, Steve Schuckenbrock and Amanda Brown being members of the committee, with Jane Smithard acting as Secretary to the Committee. Amanda Brown was appointed to the Committee on 1 July 2016 and Steve Schuckenbrock and Tom Virden resigned from the Committee on 25 April 2017. By virtue of my former executive and current non-executive responsibilities (full details of which are set out on page 53) the board considers that I have recent and relevant financial experience.

All members of the committee are independent non-executive directors. Executive directors attend the meetings together with The Head of Tax and Treasury, the Director of Internal Audit and Risk and the Director of Finance. Representatives of PricewaterhouseCoopers LLP ("PwC") (External Auditor), KPMG LLP ("KPMG") (Internal Auditor) and Deloitte LLP ("Deloitte") (External Tax Advisors) also attend the committee meetings.

A note on the change in external and internal auditor for FY18 is set out on pages 64 and 65. PwC are currently the external auditors and will remain so until the completion of the HPE Software transaction. KPMG were the internal auditors until 30 April 2017. Deloitte are acting as internal auditors until PwC step down as external auditors and are appointed internal auditors.

Audit committee

		Number of meetings for which eligible to attend	Number of meetings attended
Members:			
Richard Atkins	Chairman	8	8
Karen Slatford	Independent non-executive director	8	8
Tom Virden (resigned 25 April 2017)	Independent non-executive director	8	6
Steve Schuckenbrock (resigned 25 April 2017)	Independent non-executive director	8	6
Amanda Brown (appointed 1 July 2016)	Independent non-executive director	8	8
Secretary:			
Jane Smithard	(Company Secretary)	8	8
Attendees by invitation:			
Kevin Loosemore	Executive Chairman	8	8
Mike Phillips	Chief Financial Officer	8	8
Rob Ebrey	Head of Tax and Treasury	8	7
Suzanne Chase	Director of Internal Audit and Risk	8	8
Graham Norton	Director of Finance – Micro Focus	2	2
Darren Fisher	Director of Finance	8	8
PwC	External Auditors	8	8
KPMG	Internal Auditors	8	8
Deloitte	External Tax Advisors	8	8

Role and responsibilities of the committee

The committee is responsible for:

- Reviewing the Group's Annual Report and Accounts and Interim Report prior to submission to the full board for approval;
- Monitoring the Group's accounting policies, internal financial control systems and financial reporting procedures;
- Providing a forum through which the Group's external and internal auditors and external tax advisors report to the board. The external and internal auditors together with the tax advisor attend all meetings of the committee and also meet privately with committee members in the absence of executive management prior to each committee meeting;
- Overseeing the relationship with the external auditors, including the independence and objectivity of the auditors (taking into account UK professional and regulatory requirements and the relationship with the audit firm as a whole) and the consideration of audit fees and fees for non-audit work; and
- The process for employees of the Company to raise, in confidence, concerns about possible impropriety in matters of financial reporting or other matters which are contained in the committee's terms of reference.

The written terms of reference of the committee are reviewed annually. The committee is satisfied that the terms of reference enable it to fulfil its responsibilities. The terms of reference include, among other things, the following responsibilities:

- To report to the board on its proceedings, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken;
- To monitor the integrity of the financial statements of the Company and ensure that the interests of shareholders are properly protected in relation to financial reporting and internal controls;
- To assist the board in fulfilling its oversight responsibilities by reviewing and monitoring the Company's internal financial controls and internal control and risk management systems and at least annually carry out a review of its effectiveness;
- To ensure that a robust assessment of the principal risks facing the Company has been undertaken and provide advice on the management and mitigation of those risks;
- To keep under review the effectiveness of the Company's internal controls and risk management systems;
- To review and challenge where necessary the going concern assessment and the longer term viability statement;
- To review the Company's procedures for preventing and detecting fraud, the Company's systems and controls for the prevention of bribery, the adequacy and effectiveness of the Company's anti-money laundering systems and the Company's arrangements for its employees to raise concerns about possible wrongdoing in financial reporting or other matters;
- To monitor and review the need for, and the effectiveness of, the Company's internal audit function in the context of the Company's overall risk management system;
- To report to the board as to whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable; and
- To oversee the relationship with the Company's auditors, ensuring the independence and objectivity of the auditors, considering audit fees and fees for non-audit work and making recommendations to the board in relation to the appointment, reappointment and removal of the Company's external auditor.

The audit committee's terms of reference can be found on the Company's website at: http://investors.microfocus.com/corporate-governance.

What the committee did during the year ended 30 April 2017

The committee met eight times during the financial year ended 30 April 2017. In addition to standing items on the agenda, the committee:

- Received and considered, as part of the review of interim and annual report and accounts, reports from the external auditor in respect of the auditors' review of the interim results, the audit plan for the year and the results of the annual audit. These reports included the scope of the interim review and annual audit, the approach to be adopted by the auditors to address and conclude upon key estimates and other key audit areas, the basis on which the auditors assess materiality, the terms of engagement for the auditors and an on-going assessment of the impact of future accounting developments for the Group;
- Considered the Annual Report and Accounts in the context of being fair, balanced and understandable and reviewed the content of a paper prepared by management with regard to this principle in relation to the 2017 Annual Report and Accounts. Further details can be found on page 64;
- Considered the effectiveness and independence of the external audit;
- Considered the effectiveness and independence of the external tax advisors and internal auditors;
- Considered and agreed the annual internal audit plan and reviewed reports of the work done by the internal auditors in respect of those plans;
- Reviewed the risk management process and put in place a new risk appetite statement to enhance the risk management framework ("RMF");
- Considered the review of material business risks, including reviewing internal control processes used to identify and monitor principal risks and uncertainties;
- Reviewed the proposed PwC audit strategy in relation to the 2017 audit;
- Overseeing the external and internal audit tender processes (set out on pages 64 and 65);

- Reviewed the external specialist SOX Readiness Assessment and agreed the frame work SOX implementation plan, for the requirement to be SOX compliant mentioned on page 37.
- Reviewed and agreed the implementation plan in response to the auditor's findings in respect of their review under the Public Company Accounting Oversight Board ("PCAOB") auditing standards (set out on page 66). This was performed in connection with the annual consolidated financial statements, to be included in the registration statement on the Form F-4 to be filed by Micro Focus with the SEC in connection with the merger;
- Reviewed the company's income statement presentation and management recommendation to reclassify both amortization of capitalized product development costs and acquired technology intangibles from research and development expenses to cost of sales;
- Reviewed and approved the governance around the integration planning for the Group following the announcement of the merger with HPE Software and the appointment of Deloitte to assist in that program of work;
- Reviewed reports on the debt financing;
- Reviewed and approved an updated tax strategy;
- Reviewed and discussed reports provided by the Group's tax department regarding significant ongoing tax issues and projects;
- Review and approved tax projects and associated professional fee expenditure in line with the Group's tax strategy and tax policies;
- Reviewed the reporting of tax within the interim and annual report and accounts;
- Reviewed and approved an updated treasury policy;
- Reviewed the committee's composition and confirmed that there is sufficient expertise and resource for the committee to fulfil its responsibilities effectively; and
- Reviewed and approved the process and advised management of the information that would be required for the board to sufficiently review the Company's viability for the next three years. Further information can be found on page 44;
- Banking Credit Facilities Review;
- Integrations; and
- Transaction Documentations and Due Diligence reports.

In carrying this out, the committee considered the work and recommendations of the Group finance team, executive management and their own understanding of the business. In addition, the committee received reports from the external auditors setting out their view on the accounting treatments and judgments included in the annual report and accounts. The external auditors' reports are based on a full audit of the annual report and accounts and a review of the interim financial statement.

The Chairman of the committee has regular contact outside of the formal meetings with the partners of professional firms responsible for external and internal audit and tax advice.

Significant issues considered in relation to the annual report and accounts

The annual report and accounts were assessed by the committee, together with the appropriateness and application of accounting policies and areas of significant judgment. The significant issues considered by the committee were as follows:

Revenue recognition

The Group has a detailed policy on revenue recognition for each category of revenue; Licence, Maintenance, Subscription and Consultancy. This includes the application of rules relating to the allocation of fair values between these categories in accordance with the policy and the timing of their recognition. It also identifies the different types of commercial contracts that the Group enters into and confirmation that the revenue recognition is in line with IFRS. As is the case with many technology companies, the profile of sales is weighted to the end of the financial quarter. Other than in the case of Subscription, Maintenance and Consultancy revenue, the impact on recognized revenue is also weighted to the end of each financial quarter. This can lead to the risk of misstatement of revenues from one period to the next.

The committee received a paper from management on key revenue recognition judgments made during the year and reviewed the appropriateness of allocation of fair values between Licence, Maintenance, Subscription and Consulting as presented in the annual report and accounts, which concluded that no change to the allocation of fair values was necessary. The committee also considered the controls that management has in place to ensure that the fair value allocation of revenue is appropriate. The external auditors reported that they tested in detail all larger deals above a certain threshold and had not identified any exceptions. They had also tested a sample of transactions from the remaining population and no issues were identified.

A close relationship between revenue recognition and cash collection is a good indicator of solid revenue recognition policies and the Group has a very satisfactory cash conversion ratio, low level of debtor days for which sales are outstanding and a low level of bad debt provisions.

On the basis of the above the committee concluded that the Group's revenue recognition was appropriate.

Exceptional Items and Integration/Restructuring Provisions

The Group has completed four acquisitions during 2017 including Serena, GWAVA, OpenATTIC, and OpenStack and has announced its intention to merge with the HPE Software business which is in track to complete on 1 September 2017. Significant costs have been incurred during 2017 to acquire, integrate, restructure, and prepare for integration (in the case of the HPE Software business) which management have deemed to be exceptional items.

Restructuring and integration provisions additions in the year ended 30 April 2017 includes severance and integration work undertaken in bringing together the base Micro Focus, TAG, Serena and GWAVA organizations into one organization. Restructuring and integration provisions also include provisions relating to activities in readiness for the HPE Software acquisition across all functions of the existing Micro Focus business.

The committee reviewed the classification of costs treated as exceptional items and whether such costs meet the criteria set by management. The committee considered the presentation of exceptional items on the face of the Consolidated Income Statement and whether this approach is line with IAS 1 "Presentation of Financial Statements". The committee determined that the approach adopted by management was both appropriate and in accordance with the relevant accounting literature.

The committee also received a report from management and discussed the assumptions with both management and the external auditors and concluded that the provisions made by management were reasonable and appropriate.

Provision for income taxes

The Group's approach to providing for uncertain tax positions is set out on pages 17 and 18 of the Financial Review section.

Details of the Group's tax provisions were included in the report prepared for the committee by the Group's tax department in relation to the annual report and accounts. The provisions were reviewed by the committee and discussed with the Group's Head of Tax and Treasury, Chief Financial Officer and external tax advisors. The committee determined that the level of the Group's tax provisions was appropriate. This was confirmed by the Group's external auditors.

Development expenditure

The costs incurred on development projects relating to the development of new computer software programmes and significant enhancement of existing computer software programmes are recognized as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. The costs are written off to the consolidated statement of comprehensive income over a period of three years from the point that the product is generally available. This results in a significant amount of costs being capitalized each year although the overall impact on the consolidated statement of comprehensive income is currently small as the capitalization of cost in the year is similar to the amortization of previously capitalized costs. The net book value of product development costs at the end of the year was $49.1m (2016: $43.2m).

The committee considered the method of testing for potential impairment used by management and the reasonableness of the assumptions applied. The committee addressed this through the consideration of a report from management covering these areas and detailing both the capitalization and amortization processes applied and the new expenditure that was capitalized. It also looked at the levels that were capitalized in relation to Licence revenue generated and capitalized costs as a percentage of the total research and product development costs of the Group in the year and also in relation to prior years. The committee further discussed this with the external auditors and concluded that the assumptions made by management were reasonable and the carrying value of capitalized product development costs was appropriate.

Potential impairment of goodwill and intangible assets

Management has carried out an impairment review of its purchased intangibles and goodwill. The net book value of the purchased intangibles is $1,031.6m (2016: $921.3m) and goodwill is $2,828.6m (2016: $2,436.2m).

The committee received a report from management and having considered this concluded that no impairment was necessary.

Business Combinations

There were a number of changes to the Group's structure during the year, which included four acquisitions. As detailed in note 37, the total consideration paid during the year was $299.1m, which resulted in an increase of goodwill ($392.4m) and acquired intangibles ($328.1m).

The committee considered the risk that acquisitions are not accounted for correctly in line with IFRS 3 'Business combinations' including:

- The recording of fair value adjustments; and
- The identification and valuation of acquired intangibles.

Valuations of the acquired intangible assets of all material acquisitions were performed by external valuation experts. Management determined this to be appropriate due to the size and complexity of these acquisitions. For smaller acquisitions, management deems it appropriate for the valuation of acquired intangibles to be performed in-house. Valuation and accounting papers prepared by Management and external experts were reviewed and considered appropriate by the Audit Committee. This included consideration of the following:

- Cash flows and discount rates used in business valuations;
- Models and key inputs used in intangible asset valuations including expected useful lives;
- Fair value adjustments made by management to arrive at the fair values of the assets and liabilities acquired; and
- The approach taken to identify intangibles.

Fair, balanced and understandable

The committee is satisfied that the Annual Report and Accounts, taken as a whole, provide a fair, balanced and understandable assessment of the Company's position at 30 April 2017 and the information necessary for shareholders to assess the Company's performance, business model and strategy. A paper prepared by management provided the committee with the supporting detail to ensure that it was in a position to report to the board that the 2017 Annual Report and Accounts when taken as a whole were fair, balanced and understandable.

The committee reached the conclusion on the basis that the description of the business agrees with its own understanding, the risks reflect the issues that concern it, appropriate weight has been given to the 'good and bad' news, the discussion of performance properly reflects the performance of the year and there is a clear and well-articulated link between all areas of disclosure.

The committee assisted the board in its assessment by considering the robustness of the processes used to prepare the Group's Annual Report and Accounts 2017. The processes used included the following:

- Review of papers provided by the executive and senior management on all areas where significant judgments have been applied;
- Review of the process of preparation and review by the senior management, executive directors and the finance management team; and
- Review by the audit committee and discussions with the external auditors, senior management and executive directors on the fair, balanced and understandable assessment.

Viability statement

The committee assisted the board in relation to producing the Group's viability statement. The committee reviewed the Group's risk management process which had risk movement tracking and a new risk appetite statement to enhance the RMF to ensure a robust system of identifying, assessing and managing the Group's key risks. Further information on this can be found on pages 36 to 43.

At the committee's meeting in July 2017, the viability statement was considered, including a review of the risks and stress testing which had been carried out. Following this review the committee recommended to the board that the viability statement should be made for a three year period and that the Group was viable and there was negligible risk that it would breach any covenants or exceed its borrowing facilities. The viability statement can be found on page 44.

Assessment of effectiveness of external audit

The committee reviewed the performance of the external auditors taking into account the fulfilment of the agreed audit plan and amendments to it, input from management, responses to questions from the committee and audit findings reported to the committee. As part of this process the committee reviewed the feedback from the 'Public Report on the Audit Quality Inspection of PricewaterhouseCoopers LLP', issued by the Financial Reporting Council ("FRC") in June 2017. Based on this information the committee concluded that the external audit process was operating effectively and PwC continued to prove effective in their role as external auditor.

Independence and objectivity of the external auditors

The committee has developed a robust policy designed to ensure that the auditors' objectivity and independence is not compromised by it undertaking inappropriate non-audit work. This policy is reviewed annually and was last reviewed in April 2017.

Auditor objectivity was safeguarded by the committee considering several factors: the standing and experience of the external audit partner; the nature and level of services provided by the external auditors and confirmation from the external auditors that they have complied with relevant UK independence standards and fully considered any threats and safeguards in the performance of non-audit work.

Non-audit fees

The committee approves all non-audit work greater than £25,000 commissioned from the external auditors. During the year the fees paid to the auditor were:

- $3.5m (2016: $3.5m) for audit services;
- $2.6m (2016: $0.8m) for audit related assurance services;
- $0.1m (2016: $0.1m) for services related to taxation; and
- $7.5m (2016: $1.8m) for other non-audit services.

Audit related services in the year ended 30 April 2017 related primarily to the additional audit procedures required to be performed in respect of the Group's historic financial statements that are included in the US filings associated with the HPE Software transaction.

The majority of work of other non-audit services provided by the auditors was in respect of their role as Reporting Accountants and due diligence provider in respect of the acquisition of HPE software. Other services in the year included ad hoc tax compliance, tax advice and customer license forensic services. The committee concluded that it was in the interests of the Group to use the auditors for this work as they were considered to be best placed to provide these services.

External audit appointment and tender

The committee reviews and makes recommendations with regard to the reappointment of the external auditors. In making these recommendations, the committee considers auditor effectiveness and independence, partner rotation and any other factors that may impact the external auditors' reappointment. The current external auditors, PwC, have been auditors since the Company's IPO in 2005 and they require that the audit partner rotates every five years. The most recent change in audit partner happened in the year ended 30 April 2013 when Andrew Paynter took over as the lead audit partner. Partner rotation was therefore due in the year ended 30 April 2018 which coincided with the period for which Micro Focus is required to go out to tender under the EU Audit Directive and Regulation and the provisions of the UK Corporate Governance Code 2014. The committee is confident that the effectiveness and independence of the external auditors was not impaired in any way.

Due to the size and complexity of the acquisition of the HPE Software Business, the company applied for and was granted permission by the Competition Markets Authority and the Financial Reporting Council to defer their audit tender for a period of two years. Subsequently, the company became aware of a Joint Business Arrangement between PwC and HPE Software which would compromise their independence from the date of completion of the acquisition, targeted for 1 September 2017.

As a result the committee undertook a competitive audit tender process for the financial period commencing on 1 May 2017 in the period from January to April 2017, with the tender outcome recommendation decision being made at the audit committee meeting in April 2017. I led the tendering process chairing a steering group. The aim of the tender process was to recommend an audit firm who will provide the highest quality, most effective and efficient audits. Critical success factors included sector experience and knowledge, cultural fit, geographical coverage, the audit record of the lead partner and firm as well as the use of technology. In conducting the tender process the audit committee followed the FRC's guidance Audit Tenders Notes on Best Practice February 2017 (and its predecessor). Having first formally assessed and confirmed their ability to be independent in the time frame required, appropriate firms were invited to tender in January 2017. The tender process encompassed a range of activities including a data room, management interviews (including HPE Software), written proposals, tender presentations and a review process incorporating the use of scorecards. Members of the audit committee were involved throughout the process, provided with updates, copies of material documents, including the tender proposals and invited to attend the tender presentations. Internal stakeholders participating in the management interviews were invited to give feedback to the committee. The tender process culminated in a presentation day on 28 March 2017.

Each participating firm was asked to comment on the tender process. All of the firms expressed satisfaction with the tender process which had allowed them to understand the Group's business to prepare their proposals effectively.

Following a period of due consideration of a report and recommendation from the committee, the board announced on 11 April 2017 its intention to appoint KPMG LLP to become Micro Focus' external auditors and PwC will be stepping down as external auditors.

There are no contractual restrictions on the choice of external auditors and therefore a resolution proposing the appointment of KPMG LLP as external auditors will be put to the shareholders at the 2017 Annual General Meeting.

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 – statement of compliance

The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the year ended 30 April 2017.

Internal audit

An outsourced internal audit function was provided by KPMG during the year. The Group's Director of Internal Audit and Risk provides oversight and co-ordination of internal audit. In order to ensure independence, internal audit has a direct reporting line to the committee and to me its chairman.

The committee monitored and reviewed the scope and results of the internal auditors' activities as well as its effectiveness during the year. The annual internal audit plan is approved by the committee at the beginning of the financial year, with any subsequent changes to the plan requiring committee approval. The nature and scope of the internal auditors' work is reviewed and approved and the results of the audits are assessed alongside management's responses. Issues with the audit reports which are graded as needing improvement are considered in detail by the committee along with the appropriateness of mitigation plans to resolve the issues identified.

At each meeting, the committee received reports from KPMG in order to ascertain in completing the internal audit plan and to review results of the audits.

Following a tender for internal audit services, led by me in parallel with the external audit tender process outlined above in the period January to April 2017, the board will appoint PwC to provide outsourced internal audit services as soon as PwC are able to be released from the independence requirements as external auditor for FY17. Internal audit services in the intervening period will be provided by Deloitte.

Effective internal control and risk management

Following the annual cycle of work of the committee, it concluded that sound risk management and internal control systems had been maintained during the year. With respect to risk management, under the risk management framework the committee receives and reviews a report at each meeting on the principal risks across the Group which is discussed with senior management. The committee was satisfied with the process and risks identified. It was also satisfied that there was a high level of assurance provided by the internal auditors, the external review conducted by PwC at the half year and their full year audit, together with the input of the Group's tax advisors, Deloitte. In this year Deloitte have also provided services relating to integration, IT and PMO and integration planning following the announcement of the HPE Software Transaction.

The board is ultimately responsible for establishing and monitoring internal control systems throughout the Group and reviewing their effectiveness. It carries out a review, at least annually, covering all material controls including financial, operational and compliance controls and risk management systems.

It recognizes that rigorous systems of internal control are critical to the Group's achievement of its business objectives, that those systems are designed to manage rather than eliminate risk and that they can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee has reviewed and discussed this position with its auditors and satisfied itself that the current control environment is effective.

There is an on-going internal process under the risk management framework for identifying, evaluating and managing the significant risks faced by the Group in association with the work performed by the outsourced internal audit function. This process has been in place throughout the year and up to the date of approval of the Annual Report and Accounts and it is regularly reviewed by the board and accords with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting September 2014.

As part of the process that the Group has in place to review the effectiveness of the internal control system, there are procedures designed to capture and evaluate failings and weaknesses and, in the case of those categorized by the board as 'significant', procedures exist to ensure that necessary action is taken to remedy any such failings. The review covers all material controls, including financial, operational and compliance controls.

The committee reports on a regular basis to the board on the Group's internal financial control procedures and makes recommendations to the board in this area.

The external auditors provide a supplementary, independent and autonomous perspective on those areas of the internal control system which they assess in the course of their work. Their findings are regularly reported to both the committee and the board.

Audit committee report
continued

The key elements of the control system are:

- The Group operates a structured, objectives-driven approach to fulfil its core purpose and goals in respect of sustained profitability and growth;
- Systems and procedures are in place for all major transaction types with appropriate authorization controls;
- All contracts are reviewed. The level of review depends on the size and complexity of the contracts and associated risks. There are formal limits above which the review level is escalated;
- Reconciliations are performed on a timely basis for all major accounts; and
- Research and development and capital expenditure programmes are subject to formal review and monitoring procedures.

The board recognizes the need to understand and control the variety of risks to which the Group is exposed. During the year, in order to address this on behalf of the board, the committee oversaw the executive management's risk management activities under the RMF. The executive management took responsibility for regular evaluation of generic and specific risks within the business and the implementation of mitigation plans to address them.

Risks are assessed with reference to the achievement of the Group's business objectives and according to current market and economic issues. The continuous monitoring of strategic and operational risks is the responsibility of the board and executive management respectively. The risk process has been in place for the year under review and is up to date at the time of this report.

The committee considers any significant control matters raised in reports from management and by the internal and external auditors. It then reports its findings to the board. Where weaknesses are identified, the committee requires appropriate action to be taken by management and may request internal audit to perform a specific review into these areas if required.

Micro Focus' internal controls over financial reporting were for the first time subject to review under the PCAOB auditing standards in connection with the audit of Micro Focus' annual consolidated financial statements for the three years ended 30 April 2016 to be included in the registration statement on Form F4 to be filed by Micro Focus with the SEC in connection with the Merger. The PCAOB auditing standards are US standards that registered public accounting firms are required to follow in connection with the audit of Micro Focus' consolidated financial statements. As a result of the work undertaken, certain deficiencies in Micro Focus' internal controls for the purposes of Section 404 have been identified. These relate to the fact that Micro Focus did not, for the financial periods under audit nor the year ended 30 April 2017, have sufficient formally documented and implemented processes and review procedures, nor did it have sufficient formality and evidence of controls over key reports and spreadsheets. Micro Focus has already begun to implement measures to address and remediate these deficiencies.

Whilst the Directors are satisfied that the Micro Focus Group has been and will continue to be in compliance with the internal control and related financial reporting requirements under the Code and the Listing Rules, the PCAOB requirements in connection with Section 404 reporting are more detailed and evidence based.

Financial reporting

In addition to the general internal controls and risk management processes described above, the Group also has specific internal controls and risk management systems to govern the financial reporting process:

- There are Group policies covering what is reported monthly to the board and the executive committee. The Group's financial reporting system has been guided by the requirement to ensure consistency and visibility of management information to enable the board and the executive team to review the Group's worldwide operations effectively. During the year the Group set up an executive Financial Reporting Group (FRG) to monitor, review and manage the risks associated with financial reporting across the Group. The FRG reports to the committee;
- Cash flow forecasts are produced monthly by all operations. These are reviewed by the Group treasury function to ensure effective cash management by the Group;
- Management representations covering compliance with Group policies and the accuracy of financial information are collected on a quarterly basis;
- All the major trading entities completed a self-assessment on the effectiveness of their internal control environment;
- The consolidation process entails the combining and adjusting of financial information contained in the individual financial statements of the Company and its subsidiary undertakings in order to prepare consolidated annual report and accounts that present financial information for the Group as a single economic entity. The Group accounting policies, sets out the basis of preparation and consolidation, including the elimination of inter-company transactions, balances and unrealized gains between Group companies;
- Financial information from subsidiaries is reviewed for accuracy by internal review and externally audited where required; and
- The consolidated financial statements are completed in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and in conformity with IFRS as adopted by the European Union (collectively "IFRS"), IFRS Interpretations committee, the Companies Act 2006 and Article 4 of the IAS Regulation.

There have been no significant changes in the Company's internal control over financial reporting during the year under review that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

The board, with advice from the committee, is satisfied that an effective system of internal control and risk management processes are in place which enable the Company to identify, evaluate and manage keys risks and which accord with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting September 2014. These processes have been in place since the start of the financial year up to the date of approval of the Annual Report and Accounts. Further details of the risks faced by the Group are set out on pages 36 to 43.

Whistleblowing

The Group has a whistleblowing policy which forms part of the Group's Worldwide Code of Conduct and Business Ethics. This allows employees to raise issues of concern in relation to dishonesty or malpractice on an entirely confidential basis. The committee receives regular reports as to whether any matters have been raised within the Group and any applicable details.

Accountability

The board is responsible for the preparation of the Annual Report and Accounts which, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. As set out in the Directors' report, the directors consider that the Company's business is a going concern.

Richard Atkins
Chairman, audit committee
17 July 2017

Nomination committee report

Composition of the committee

At the beginning of the financial year, the nomination committee (the "committee") was comprised of Karen Slatford (senior independent non-executive director) as chair of the committee and Richard Atkins (independent non-executive director). Amanda Brown (independent non-executive director) was appointed to the committee on 6 July 2016. The committee now comprises Karen Slatford who continues to chair the committee, Richard Atkins and Amanda Brown. The committee met 12 times during the financial year. The committee will meet at least twice during the coming financial year. The number of committee meetings attended by each member of the committee in the year ended 30 April 2017 was as follows:

Nomination committee

	Number of eligible meetings during the year	Number of meetings attended
Members:		
Karen Slatford (Chair)	12	12
Richard Atkins	12	12
Amanda Brown (from 1 July 2016)	12	12

Role and responsibilities

The committee is responsible to the board for proposing candidates to the board, having regard to the balance and structure of the board and takes into consideration the benefits of diversity in terms of both gender and ethnicity. The committee uses consultants to identify suitable candidates and diversity is included in the criteria set for selecting appropriate candidates.

The terms of reference of the committee include, among other matters, the following responsibilities:

- To review the structure, size and composition (including the skills, knowledge, experience and diversity) required of the board and make recommendations to the board with regard to any changes;
- To identify and nominate, for the approval of the board, candidates to fill board vacancies as and when they arise;
- To give full consideration to succession planning for directors and other senior executives;
- To keep under review the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace; and
- To review annually the time required from non-executives, evaluating whether they are spending enough time to fulfil their duties.

The committee's terms of reference can be found on the Company's website: www.microfocus.com.

Diversity

The board has considered diversity in broader terms than just gender and believes it is also important to reach the correct balance of skills, experience, independence and knowledge on the board. All board appointments are made on merit with the aim of achieving a correct balance. The board has now moved to a composition where in excess of 25% of members are female while maintaining the above principle of a correct balance not being compromised. The Group has formal policies in place to promote equality of opportunity across the whole organization.

Following the resignations of Steve Schuckenbrock and Tom Virden as non-executive directors on 25 April 2017 and the appointments of Darren Roos and Silke Scheiber as non-executive directors on 15 May 2017, the board currently comprises six men (66.67%) (2016: 77.77%) and three women (33.33%) (2016: 22.23%). The Company Secretary is also a woman. As opportunities arise the board will seek to increase the diversity on the board consistent with the above policy.

What the committee did during the year ended 30 April 2017

Key activities

- A review of the committee's membership;
- Board and senior executive succession planning and appointments;
- Review of committee's terms of reference; and
- Review of the Executive Chairman's letter of appointment.

Board changes

During the year there have been several changes to the board:

Resignations

Steve Schuckenbrock and Tom Virden resigned as independent non-executive directors on 25 April 2017.

Appointments

Amanda Brown was appointed as an independent non-executive director on 1 July 2016.

In addition, Darren Roos and Silke Scheiber were appointed as independent non-executive directors on 15 May 2017. On Completion of the HPE Software transaction, Chris Hsu will be appointed as CEO of Micro Focus and Stephen Murdoch will then become COO and simultaneously step down from the board; and HPE have nominated John Schultz, Executive Vice President and General Counsel of HPE, to be appointed as a non-independent non-executive director.

An additional independent non-executive director, nominated by HPE and approved by the Nomination Committee, is expected to be appointed after Completion of the acquisition of HPE Software.

Recruitment process

The committee was responsible for the search and selection process which culminated in Amanda Brown's appointment. The committee also interviewed the candidates nominated by HPE and recommended the appointments of Darren Roos and Silke Scheiber. The process for these appointments was led by the senior independent non-executive director and committee chair, Karen Slatford and was formal, rigorous and transparent.

In relation to the appointment of Amanda Brown, the committee appointed executive search consultancy, JCA Group and the following process was undertaken for the appointment:

- A job description and required capabilities brief were prepared against which potential candidates were considered;
- A long list of potential candidates was identified by JCA Group and presented to the committee for review;
- The committee considered the candidates against the objective criteria set out in the job description and required capabilities brief, having due regard for the benefits of board diversity;
- The committee was asked to suggest additional names that should be added to the list of potential candidates for consideration;
- A shortlist of preferred candidates was selected from the list of potential candidates;
- The shortlisted candidates were subjected to a rigorous process of interviews and comprehensive reference checks;
- A preferred candidate recommendation was made by the committee to the board for consideration; and
- The board considered and approved the appointment.

JCA Group adheres to the Voluntary Code of Conduct for Executive Search Firms.

Additionally, the committee also recommended the appointment of Chris Hsu as CEO of the Enlarged Group and as an executive director of the Company after the Completion of the HPE Software transaction.

Succession planning

During the year the committee reviewed the board succession plan. Retention of individuals within the executive committee and top talent/critical employees within the Group was reviewed by the Remuneration Committee during the year. A review of succession plans for the executive committee and top talent/critical employees within the Group was conducted during the year following the organizational changes resulting from the TAG acquisition.

The committee also reviewed the role of the Executive Chairman and assuming the HPE Software transaction completes, Kevin Loosemore will continue as Executive Chairman until the publication of the Annual Report for the 18 month period ending 31 October 2018. The Executive Chairman will have responsibility for the delivery of strategy, M&A activities, investor relations and executive development.

Karen Slatford
Chair, Nomination committee
17 July 2017

Directors' Remuneration report

Annual Statement from the Chairman of the Remuneration Committee

Dear Shareholders,

On behalf of the board I am pleased to present our Directors' Remuneration Report at the end of another highly successful year, the highlight of which has been the announcement of the planned merger with HPE Software (due to complete on 1 September 2017). The Directors Remuneration Report sets out the amounts earned in respect of the year ended 30 April 2017 and the remuneration policy for Directors of Micro Focus.

The Directors Remuneration report is presented in two sections:

The Annual Report on Remuneration provides details on the amounts earned in respect of the year ended 30 April 2017 and how the Remuneration Policy will be implemented for the year ending 30 April 2018. This will be subject to an advisory vote at the AGM to be held on 4 September 2017.

The existing Remuneration Policy was approved by shareholders at the 2014 AGM with additions to the Policy approved at the 2016 AGM. It was also endorsed by 99.98% of shareholders when they approved the merger with HPE Software on 26 May 2017. As the policy has been in place for three years it will be subject to a binding shareholder vote at our 2017 AGM in line with the three year cycle.

Policy review

Micro Focus has a clear strategy that defines an operating and financial model designed to deliver superior shareholder return, and we believe that our remuneration framework continues to underpin this strategy. We will continue to strongly align the remuneration of senior managers with the requirements and interests of shareholders through:

- A simple, transparent remuneration model which is understood by executives and shareholders;

- Output-based incentive schemes which ultimately motivate senior management to deliver sustainable shareholder returns of between 15% and 20% per annum; and

- A framework that rewards our employees for delivering significant value through transformational acquisitions.

Given the requirement to seek re-approval for our Policy in 2017, the committee reviewed the continued appropriateness of the current approach to remuneration at Micro Focus and its ability to drive superior shareholder returns. The committee concluded that the current approach has been successful in driving strong performance against our key indicators of EBITDA, EPS and shareholder returns.

The review was also carried out in the context of the HPE Software transaction which will be transformational for Micro Focus, and is wholly consistent with our long-term business strategy to be the most disciplined global provider of infrastructure software, creating significant value for our shareholders.

Given the timing of the review, the committee does not consider it appropriate to make fundamental changes to the Remuneration Policy in advance of the Completion of the transaction. In addition, no increases are being made to base salaries to reflect the increase in the size and scope of the organization as a result of the transaction at this point in time. Instead, a further review will be carried out following the integration of the new business to ensure the Remuneration Policy remains fit for purpose for the enlarged and evolving group. It may therefore be necessary to revert to shareholders within three years for approval of changes to the Remuneration Policy.

Although our overall remuneration approach remains the same, the views of our shareholders are important to us and feedback received during FY17 was considered carefully by the committee during the review and resulted in the following changes being made to the Remuneration Policy:

- To further strengthen the alignment between executive directors and shareholders, for the upcoming year, shareholding guidelines will be increased to 200% of salary (from 150% of salary);

- The clarification statements which were made in respect of the recruitment policy of the previous remuneration policy have now been fully reflected in the proposed Remuneration Policy;

- The incorporation of resolutions approved by the shareholders at the 2016 AGM (and subsequent clarification statements) in respect of;

  - the introduction of deferral under the annual bonus (including further clarification on the operation of malus and claw back); and
  - the ability to make ASG awards and in line with shareholder feedback at the time of the AGM, future ASG awards will be pro-rated for time and performance on a change of control;

- Following discussions with our shareholders, we have included a discretion for the committee to incorporate a measure of malus and claw back in respect of future ASG awards. Specifically, the Committee will have the ability to reduce the level of award which will ultimately vest/become exercisable in the case of a material misstatement in the audited financial accounts in respect of the relevant performance period. This will apply to the relevant post vesting holding period; and

- The removal of the ability to award Additional Responsibility Allowances.

Business performance in FY17 and incentive out-turns

Despite FY17 being a significant period of change both in terms of the integration of Serena and the other acquisitions completed in the year, together with announcement of the HPE Software transaction and the commencement of planning to integrate HPE Software, the business traded in line with the expectations set at the beginning of the year. Specifically, total revenue was slightly above the mid-point of the guidance range of zero to minus 2% compared with the pro-forma CCY revenue for FY16 including Serena. Underlying Adjusted EBITDA (excluding the impact of in year acquisitions) grew by 4.5% during the year when compared with the CCY FY16 number.

Shareholders saw the full benefit of the improved operational performance with Diluted Adjusted EPS grew by 19.7% to 175.65 cents (2016: 146.70) and the full year dividend increased by 32.1% to 88.06 cents (2016: 66.68 cents).

Despite the strong performance in the year, the stretching nature of the targets set under the annual bonus resulted in a pay-out of the maximum opportunity of 45.0% and 75.5% for non-commissioned staff in Micro Focus and SUSE respectively.

However, the sustained strong performance of the Company over the last three years has seen Diluted Adjusted EPS grow from 97.48 cents in the year ended 30 April 2014 to 175.65 cents, a compound annual growth rate of 21.7% exceeding the upper end of the LTIP's EPS performance criteria. This resulted in the LTIP awards granted three years ago vesting in full.

Application of Policy in FY18

We have provided full details on the implementation of our Policy for FY18, subject to shareholder approval, on pages 72 to 78 which will consist of the following remuneration elements linked to generation and delivery of real returns to shareholders:

- Base salary
- Pension
- Annual Bonus
- Long-term incentive
- ASG awards

Subject to Completion of the HPE Software transaction, Chris Hsu will become CEO of the Enlarged Group from the date of Completion. Full details of Chris' package were disclosed in the Circular to shareholders in respect of the transaction. His base salary will be $1,000,000 on appointment. He will be eligible for participation in the incentive plans on the same basis as other executive directors, with a maximum annual bonus opportunity of 150% of salary and a maximum LTIP opportunity of 200% of salary.

Stephen Murdoch will become COO and will simultaneously step down from the board at Completion. I would like to echo Kevin Loosemore's words earlier in this report, and thank Stephen for his hard work and dedication as a board member of Micro Focus.

For Mike Phillips and Stephen Murdoch, the committee considered it appropriate to increase salaries by 2.5%, in the context of continued returns to shareholders over recent years and the contribution of the management team in achieving this success. This increase was in line with the average salary increase for the wider workforce.

For Nils Brauckmann the committee decided to award a 10% increase reflecting the rapid growth and value of the SUSE business under Nils' leadership, his performance and development in role and his positioning compared to direct competitors.

The wider Company

As part of its role, the committee monitors the remuneration arrangements across the wider Company as an integral part of the strong performance culture driving our business. As well as all employees being eligible to participate in our all employee share plans, all non-commission employees participate in a bonus scheme which operates on the same metrics for all levels in the Company. Additionally around 100 of our senior managers and key employees receive LTIP awards subject to the same performance metrics that apply to executive directors.

Shareholder Engagement

We remain committed to maintaining an open and transparent engagement with our investors. We believe that a clear objective of the Directors Remuneration Report is to communicate clearly how much our executive directors are earning and how this is clearly linked to performance. Members of the remuneration committee are engaged in an ongoing dialogue with corporate governance advisory agencies and investors in order to better understand their views on Micro Focus' approach to executive remuneration which are then taken into account when determining the remuneration arrangements for the executive directors.

We believe we have demonstrated the strong link between our Policy and value creation over the past six years; therefore I hope to receive your support at our upcoming AGM.

Amanda Brown
Chairman of the Remuneration Committee
17 July 2017

Compliance statement

This Directors' Remuneration report has been prepared on behalf of the board by the committee and complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report has been prepared in line with the recommendations of the UK Corporate Governance Code and the requirements of the UKLA Listing Rules.

Directors' Remuneration Policy

This section of the report sets out the Remuneration Policy for executive directors in accordance with Section 439A of the Companies Act 2006 ("the Act"). A binding shareholder resolution to approve the Remuneration Policy will be proposed at the 2017 Annual General Meeting ("AGM") on 4 September 2017 and will be effective from that date subject to shareholder approval. No significant changes are proposed to the Policy previously approved by shareholders, with the exception of those highlighted in the Letter from the Chairman of the Remuneration Committee at the beginning of this report. The Policy will be available to view at www.microfocus.com.

The Company's policy on the remuneration of executive directors and their direct reports is established by the committee and approved by the board. The individual remuneration package of each executive director is determined by the committee. No executive director or employee participates in discussions relating to the setting of their own remuneration.

The objective of the Group's remuneration policies is that all employees, including executive directors, should receive appropriate remuneration for their performance, responsibility, skills and experience. Remuneration packages are designed to enable the Group to attract and retain key employees by ensuring they are remunerated appropriately and competitively and that they are motivated to achieve the highest level of Group performance in line with the best interests of shareholders.

Policies on remuneration take account of the pay structure, employment conditions and relativities within the Group and also the industry sector. They also take into consideration that individuals may have different levels of experience, capability, and market demand for their services. To determine the elements and level of remuneration appropriate to each executive director, the committee considers benchmark remuneration data for selected comparable technology companies as well as a broader Group of companies of a similar size to the Company.

It is intended that a significant proportion of remuneration will continue to be performance-related. Conditions for performance-related bonuses and long-term incentives, i.e. Underlying Adjusted EBITDA and EPS respectively, will represent challenging targets which are designed to increase shareholder value and are linked to the Company's financial and operational strategy. The committee will review the performance conditions annually to ensure that they remain demanding and appropriate.

In line with the Investment Association's guidelines on responsible investment disclosure, the committee will ensure that the incentive structure for executive directors and senior management will not raise environmental, social or governance ("ESG") risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the committee that prevents it from taking into account corporate governance on ESG matters.

The Companies Act 2006 requires the auditors to report to the Company's members on the 'auditable part' of the Directors' Remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 2006. The report has therefore been divided into separate sections for audited and unaudited information.

Terms of reference

The committee is responsible for reviewing remuneration arrangements for members of the board and for providing general guidance on aspects of Remuneration Policy throughout the Group. Its terms of reference include the following:

- Determine and agree with the board the framework or broad policy for the remuneration of the Company's Chairman, CEO and other executive directors, the Company Secretary and other members of the executive management team (as appointed from time to time);
- Determine the total individual remuneration package of each executive director and other senior executives including bonuses, incentive payments, share options and any other share awards;
- Determine the policy for, and scope of, pension arrangements for each executive director and other senior executives;
- Approve the framework of salaries for senior managers, determine targets for any performance-related pay schemes operated by the Company and approve the total annual payments;
- Review the design of all share incentive plans for approval by the board and shareholders;
- Oversee any major changes in employee benefit structures throughout the Company or Group; and
- Review the ongoing appropriateness and relevance of the Remuneration Policy.

The full terms of reference of the committee are available from the Company Secretary and are on the Company's website http://investors.microfocus.com/corporate-governance.

The table below sets out the Remuneration Policy that shareholders will be asked to approve at the AGM on 4 September 2017. For these purposes, 'payments' includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Remuneration Policy table

Base salary

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
Supports the recruitment and retention of executive directors of the calibre required to deliver the Group's strategy. Rewards executives for the performance of their role. Set at a level that allows fully flexible operation of our variable pay plans.	Normally reviewed annually. Increases generally apply from the first quarter of the financial year. When determining base salary levels, consideration is given to the following: – Pay increases for other employees of the Group; – The individual's skills, experience and responsibilities; – Pay at companies of a similar size, complexity and international scope, in particular those within the technology sector, the FTSE 100, US listed technology companies and privately owned software companies; and – Corporate and individual performance.	Ordinarily, salary increases will be in line with increases awarded to other employees of the Group. However, increases may be made above this level at the committee's discretion to take account of individual circumstances such as: – Increase in scope and responsibility; – Increase to reflect the individual's development and performance in role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level); and – Alignment with market level.	None, although overall performance of the individual is considered by the committee when setting and reviewing salaries annually.

Benefits

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
Provides a competitive and cost-effective benefits package to executives to assist them to carry out their duties effectively.	The Group provides a range of benefits which may include a car benefit (or cash equivalent), private medical insurance, permanent health insurance and life assurance. Additional benefits may also be provided in certain circumstances which may include (but are not limited to) relocation expenses, housing allowance, school fees, incremental overseas tax of the directors and fees for a temporary increase in responsibilities. Other benefits may be offered if considered appropriate and reasonable by the committee.	Set at a level which the committee considers: – Appropriately positioned against comparable roles in relevant comparators in companies of a similar size and complexity in the relevant market; and – Provides a sufficient level of benefit based on the role and individual circumstances, such as relocation.	None.

Pension

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Defined contribution plan (with Company contributions set as a percentage of base salary). An individual may elect to receive some or all of their pension contribution as a cash allowance.	20% of base salary.	None.

Annual bonus

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
Rewards and incentivizes the achievement of annual financial and strategic targets.	Measures and targets are set for each financial period and pay out levels are determined by the committee based on performance against those targets. All executive directors with the exception of the Executive Chairman are required to defer one-third of their bonus into an award over Company shares. The deferral period will normally be for a period of three years. Kevin Loosemore is exempt as his annual bonus has been 150% since 2011 and its treatment was covered in his service contract which predates the remuneration policy The committee may, in exceptional circumstances, amend the bonus pay out should the formulaic outcome not, in the view of the committee, reflect overall business performance or individual contribution. Any such adjustments would be disclosed in the relevant year's Annual Report on Remuneration and bonuses would not exceed the stated maximum. Claw back provisions may be applied to the cash bonus up to one year following payment. Malus provisions will apply during the three year deferral and deferred shares will also be subject to claw back up to one year after vesting. Dividend equivalents are payable over the vesting period in respect of the bonus share awards which vest.	The maximum opportunity is 150% of salary for all Executive Directors in any 12 month period.	The measures and targets are set by the committee. Targets are set that drive improvement in the underlying performance of the business ensuring a link to shareholder return. Currently measures are limited to growth in Underlying Adjusted EBITDA excluding the impact of in year acquisitions and currency. The maximum bonus will be achieved by growing the Underlying Adjusted EBITDA by 10% year on year excluding the impact of in year acquisitions and currency on straight line basis. This may change if needed to support a change in business strategy.

Long-Term Incentive Plan (LTIP)

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
Motivates and rewards the achievement of long-term business goals. Supports the creation of shareholder value through the delivery of strong market performance aligned with the long-term business strategy, both organic and inorganic. Supports achievement of our strategy by targeting performance under our key financial performance indicators of revenue growth and EPS growth. Aligns executive interest with those of long-term shareholders.	Conditional share awards or nil-cost options are typically made annually with vesting dependent upon the achievement of performance conditions normally over three years. Malus may be applied up to vesting and claw back may be applied for up to one year after vesting. The committee has discretion to decide whether and to what extent targets have been met, and if an exceptional event occurs that causes the committee to consider that the targets are no longer appropriate, the committee may adjust them, provided the new conditions are no tougher or easier than the original conditions at the time they were set. The committee has the discretion to adjust the LTIP outcomes to ensure alignment of pay with performance to ensure the outcome is a true reflection of the performance of the Company. Any such adjustments would be disclosed in the relevant year's Annual Report on remuneration.	The maximum face value of awards to be granted in respect of any 12 month period is 200% of salary.	The performance measures and respective weightings may vary year on year to reflect strategic priorities, subject to retaining at least 50% on EPS. Details of the measure and performance targets used for specific LTIP grants are included in the Annual Report on Remuneration. Threshold performance will result in 25% vesting.

All-employee share plans

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
Provides an opportunity for directors to voluntarily invest in the Company.	UK resident executive directors are entitled to participate in a tax approved all-employee plan, The Micro Focus Sharesave Plan 2006, under the same terms as other employees. Under this plan they make monthly savings over a period of three years linked to the grant of an option over Micro Focus shares with an option price which can be at a discount of up to 20% of the market value of shares on grant. Options may be adjusted to reflect the impact of any variation of share capital.	Participation limits are those set by the local tax authorities from time to time.	Not applicable.

Additional Share Grant

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
Additional Share Grant Aligns executive interest with those of long-term shareholders and ensures the success of a material acquisition (by whatever means) of a business or entity made by the Group.	ASGs take the form of conditional share awards or nil cost options which may be awarded during the first 18 months from the date of Completion of the acquisition (by whatever means), with vesting dependent upon the achievement of a performance condition. Performance is typically measured over three years. Holders of ASGs are required, subject to continued employment on the vesting date, to hold ASGs or ordinary shares acquired on exercise (net of any sales to meet fiscal charges) for a minimum of 12 months following the vesting date. For the replicated ASG programme which was approved by shareholders at the 2016 AGM, the Remuneration Committee will have discretion to include a malus and claw back clause to the effect that malus may be applied up to the vesting date and claw back may be applied during the 12 month period post the vesting date in the case of a material misstatement of the financial statements in respect of the performance period.	The number of Ordinary Shares issued or issuable pursuant to ASGs granted pursuant to a single ASG programme may not exceed 2.5% of the issued Ordinary Share capital of the Company at the time of completion of the acquisition. Within this limit, the number of Ordinary Shares that can be awarded to any individual under the relevant ASG programme may not exceed 0.5% of the issued Ordinary Share capital of the Company at the time of completion of the acquisition.	The percentage of the ASG which will Vest is: (i) 0% if the Shareholder Return Percentage is 50 per cent. or less; (ii) 100% if the Shareholder Return Percentage is 100 per cent. or more; and (iii) a percentage determined on a straight line basis between (i) and (ii) above. The 'Shareholder Return Percentage' will reflect dividends paid and any increase in share price from a reference price fixed at, or following, the commencement of discussions relating to the relevant transaction to the average of the closing share price on the 20 Business Days prior to the Vesting Date. The Vesting Date is the third anniversary of the date of grant or an earlier date determined by the committee.

Shareholding guidelines

Element of pay and alignment with strategy	Operation
To align directors' interests with those of our shareholders.	Executive directors are required to build a holding in Group shares equivalent to two times salary.

Non-executive director policy table

Fees for non-executive directors are determined by the Chairman and Executive Directors after taking appropriate advice.

The section below details the Company's policy on how the non-executive directors, including a non-executive Chairman, will be remunerated.

Non-executive director fees

Element of pay and alignment with strategy	Operation
Non-executive director fees Provides an appropriate reward to attract and retain high-calibre individuals.	The non-executive directors are paid a basic fee. Additional fees are paid for chairmanship of board committees and for the roles of senior independent director and Deputy Chairman. Fees are currently paid in cash but the Company may choose to provide some of the fees in shares Fees are set at a level which: – Reflects the commitment and contribution that is expected from the non-executive directors; and – Is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market, especially companies of a similar size and international scope to the Company, in particular those within the technology sector, the FTSE 100, US listed technology companies and privately owned software companies. Fees are reviewed periodically. Increases will typically be in line with market levels of fee inflation. In exceptional circumstances (including, but not limited to, material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil the relevant non-executive director role) the Chairman and Executive Directors have discretion to make appropriate adjustments to fee levels to ensure they remain market competitive. Non-executive directors may also be reimbursed for all necessary and reasonable expenses incurred in performance of their duties and tax thereon. Aggregate fees paid to non-executive directors will remain within the limit stated in the Company's articles of association, currently £1m. Actual fee levels are disclosed in the Directors' Annual Report on Remuneration for the relevant financial year. Non-executive directors do not participate in any incentive scheme.

Notes to the remuneration policy table

The committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments), notwithstanding that they are not in line with the policy set out above, where the terms of the payment were agreed:

(i) Before 25 September 2014 (the date the Company's first shareholder approved policy came into effect);
(ii) Before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or
(iii) At a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company.

For these purposes "payments" includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The committee will operate the annual bonus, DSBP and LTIP according to their respective rules (or relevant documents) and in accordance with the Listing Rules where relevant. The committee retains discretion, consistent with market practice, with regard to the operation and administration of these plans. These include, but are not limited to the following in relation to the LTIP and DSBP;

– The participants; the timing for granting awards; the size of an award subject to maximum limits set out in the policy table; and the determination of vesting;

– Discretion required when dealing with a change of control or restructuring of the Group;

– Determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;

– Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends);

– The annual review of performance measures and weighting, and targets for the LTIP from year to year;

– The operation of malus and claw back; and

– To settle awards in cash.

In relation to the annual bonus plan, the committee retains discretion over:

- The participants; the determination of the bonus payment; the timing of payment; and dealing with a change of control;
- Determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- The annual review of performance measures and weighting, and targets for the annual bonus plan from year to year; and
- The operation of malus and claw back.

Awards under the ASG will operate as approved by shareholders and the committee retains the discretion in relation to (but not limited to) the following:

- The participants; the timing for granting awards; the size of an award subject to the maximum limits set out in the policy table and the determination of vesting;
- To settle awards in cash; and
- How to take account of any variations in share capital of the Company.

In relation to both the Company’s LTIP and annual bonus plan, the committee retains the ability to adjust the targets and/or set different measures if events occur (e.g. material acquisition and/or divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company’s major shareholders.

Malus and/or claw back provisions may be applied to awards under the annual bonus, DSBP and LTIP for up to one year following payment or vesting as appropriate. These provisions may be applied in the case of material miss-statement of results, an error in calculation, fraud and gross misconduct, conduct leading to serious harm to the Group’s reputation or a significant financial loss or a material failure of risk management.

In addition, ASG awards under the reciprocal programme which was approved by shareholders at the 2016 AGM may be subject to malus up to the vesting date and claw back during the 12 month period following the vesting date in the circumstances of a material misstatement of the financial accounts during the performance period.

The use of discretion in relation to the Company’s Sharesave and approved section of the LTIP will be as permitted under HMRC rules and the Listing Rules. Details of share awards granted to existing executive directors are set out on pages 89 to 91 of the Annual Report on Remuneration. These remain eligible to vest based on their original award terms.

Performance measures and targets

The Company’s core objective is to continue to deliver shareholder returns of 15% to 20% per annum over the long-term. The committee continues to believe that a combination of Underlying Adjusted EBITDA, Revenue Growth, Cash flow, EPS and Total Shareholder Return remain the most appropriate measures of long-term performance of the Company. The performance measures used under the annual bonus are selected annually to help the Group achieve its core objective. The annual bonus plan is currently linked to growth in Underlying Adjusted EBITDA. Vesting of LTIP awards is currently linked to growth in EPS as the committee believes that this aligns with the Company’s focus on shareholder value. ASG’s pay out to the extent value is delivered to our shareholders. The committee believes that a combination of the measures under our incentive plans provides a strong line of sight for the executives and supports the long-term strategy.

Performance targets are set to be stretching and achievable, taking into account the Group’s strategic priorities and the economic environment in which the Group operates.

Consideration of employment conditions elsewhere in the Group

The remuneration policy for other employees is based on broadly consistent principles to those for executive directors. Salary reviews take into account Group performance, local pay and market conditions and salary levels for similar roles in comparable companies. All non-commission employees participate in a bonus scheme which operates on the same metrics for all levels in the Company from entry level employees to executive directors.

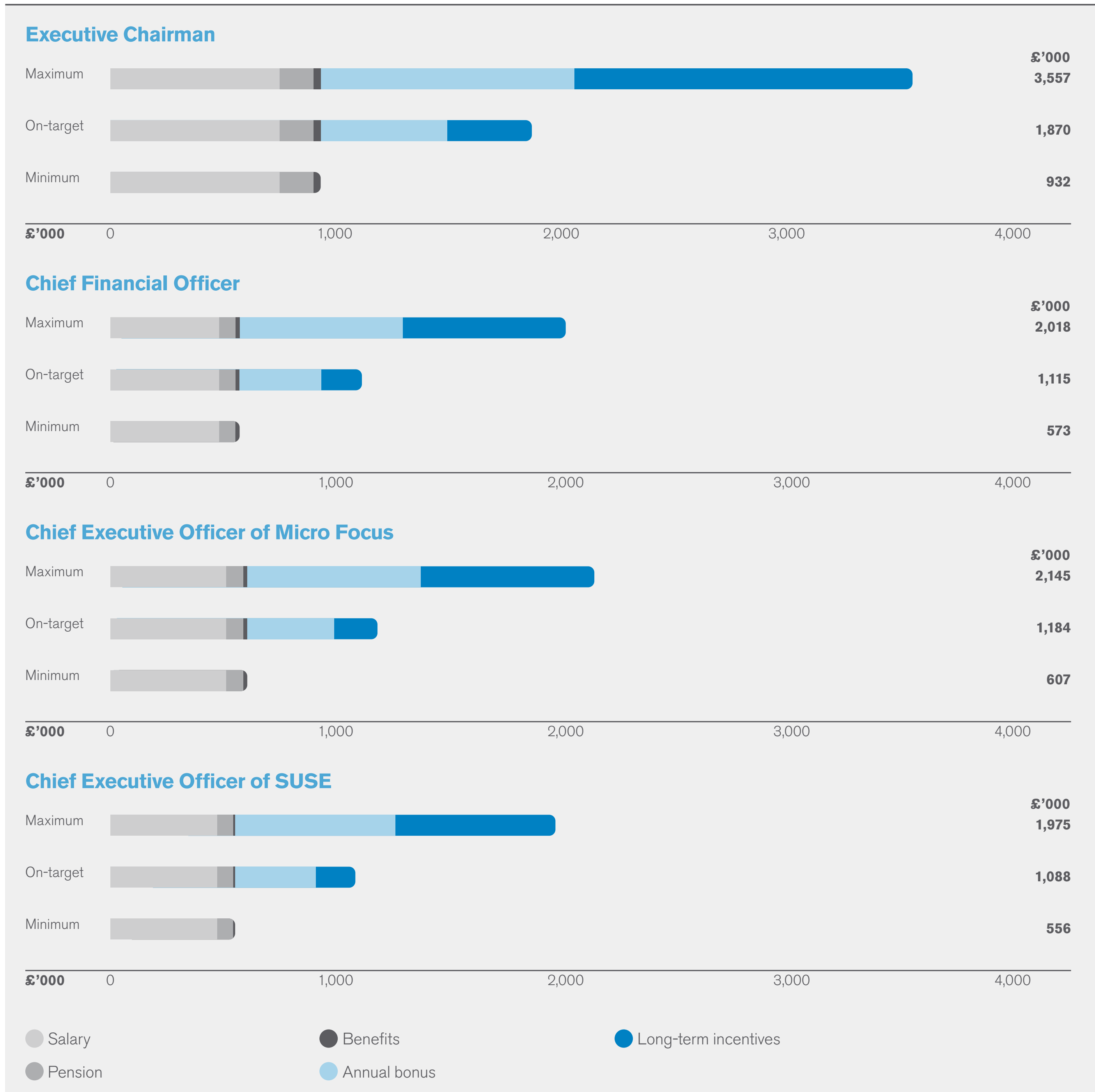
Around 100 of our senior managers and other key employees also receive LTIP awards. Performance conditions are consistent for all participants, while award sizes vary by individual. All UK employees are eligible to participate in the all-employee share plans on the same terms. The plans are available to 22 other countries worldwide.

All of our UK employees are able to participate in our Flexible Benefits programme.

ASGs in relation to the 2014 acquisition of TAG were made by the remuneration committee in the first 18 months following the acquisition to certain senior managers or employees of the Enlarged Group and new joiners who were deemed critical to the delivery of the acquisition and integration of TAG and Base Micro Focus, with the total number of recipients (including executive directors) not exceeding fifteen.

Illustrations of the application of Remuneration Policy

The following charts provide an estimate of the potential future reward opportunities for the executive directors and the potential split between the different elements of pay under three different performance scenarios: 'minimum', 'on-target' and 'maximum'.



Note: Assumes exchange rate of £0.79 to €1 for CEO of SUSE, based on a three month average rate to 30 April 2017.

The 'minimum' scenario shows salary, pension and benefits only. These are the elements of the executive directors' remuneration packages that are not at risk.

The 'on-target' scenario shows fixed remuneration as above, plus a pay-out of 50% of the maximum annual bonus and 25% vesting for long-term incentives (excluding ASG awards).

The 'maximum' scenario reflects fixed remuneration, plus full pay-out of all incentives (excluding ASG awards).

Share price movements and the payment of dividends are excluded. ASGs have not been included in the analysis as they are one-off awards which do not form part of the on-going annual remuneration arrangements. Further details of outstanding ASG awards are provided on page 91.

Recruitment of executive directors

The remuneration package for a new executive director would be set in accordance with the terms of the approved remuneration policy in force at the time of appointment and taking account of the experience and skills of the individual and prevailing market conditions. In determining the appropriate remuneration structure and levels, the committee will take into consideration all relevant factors to ensure that the arrangements are in the best interests of the Company and its shareholders. The committee would seek not to pay more than is necessary to secure the right candidate. The maximum aggregate value of incentives (excluding buyouts) on appointment will be 500% salary.

The committee may make an award in respect of a new appointment to 'buy-out' incentive arrangements forfeited on leaving a previous employer and may exercise the discretion available under the relevant Listing Rule to facilitate this, i.e. in the event that a structure that is different from those detailed in the Remuneration Policy would be required. For example, the committee may offer additional cash and/or share-based elements as part of the buy-out when it considers these to be in the best interests of the Company and, therefore, of its shareholders.

Any such buy-out payments would be:

- Based solely on remuneration lost when leaving the former employer;
- Would be no higher than the commercial value forfeited; and
- Would typically reflect the delivery mechanism (i.e. cash, shares and options), time horizons and performance requirements attaching to that remuneration.

Internal appointment of executive directors

In the case of an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms on grant. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are disclosed in the following year's Annual Report on Remuneration. For external and internal appointments, the committee may agree that the Company will meet certain relocation expenses, as appropriate and within the limits set by the committee.

Appointment of interim executive directors

The committee also recognizes that there may be times when it is appropriate to appoint an interim Executive Director or in exceptional circumstance require that a non-executive director takes on an executive function on a short-term basis. Remuneration for interim executive directors will be determined within the existing Remuneration Policy.

In exceptional circumstances where a non-executive director takes on an executive function on an interim basis, the director will receive an increase to their cash fee (reflecting the market rate for that role) only for the duration of the appointment.

Non-executive directors will not be eligible for an annual bonus or LTIP in the event of a significant merger or acquisition. The committee commits to consulting with and seeking approval from shareholders in advance of operating outside these policy limits.

Executive directors appointed as a result of mergers and acquisitions

As merger and acquisition activity is part of the Company's strategy, the committee recognizes that such activity may give rise to situations where there are exceptional circumstances in relation to executive directors and certain senior management. Should it be necessary to match compensation in an acquired company and/or adjust compensation of existing management to deliver significant shareholder benefits then the Company may wish to offer awards of variable remuneration in excess of the maximum levels stated in the policy table. However, the Company will only do so after consulting with, and seeking approval from shareholders in advance of operating outside these limits.

Executive directors' service agreements

The executive director service contract for Kevin Loosemore was entered into before 27 June 2012 and has not been renewed following its execution. There are accordingly areas where this contract is not consistent with the policy for new executive directors as set out below.

The Company's policy is that executive directors' service agreements normally continue until the director's agreed retirement date or such other date as the parties agree are terminable on no more than six months' notice and provide no entitlement to the payment of a pre-determined amount on termination of employment in any circumstances. In addition, in some limited cases, career counselling may be provided after the cessation of employment for a defined period.

The table below provides details of the main terms of the executive directors' service contracts and termination payments not otherwise set out in this report.

Provision	Detailed terms
Normal remuneration arrangements	Base salary, pension and benefits; Company car or cash allowance; Private health insurance; Life assurance; 25 days' paid annual leave; Participation in annual bonus plan, subject to plan rules; and Participation in LTIP, subject to plan rules.
Change of control	No special contractual provisions apply in the event of a change of control. Details of the treatment of DSBP, LTIP and ASG awards are provided on pages 89 to 91.
Notice period	A maximum of six months' notice from the Company or the director.
Termination payment	Payment in lieu of notice equal to: – A maximum of six months' base salary; – Pension supplement; and – Cash supplement in lieu of other benefits.
Restrictive covenants	During employment and for a maximum of 12 months after leaving.

Executive director	Date of service contract	Notice period
Kevin Loosemore[1]	14 April 2011	The agreement is terminable by either party on six months' notice
Mike Phillips	7 September 2010	The agreement is terminable by either party on six months' notice
Stephen Murdoch[2]	16 April 2014	The agreement is terminable by either party on six months' notice
Nils Brauckmann	27 January 2016	The agreement is terminable by either party on six months' notice

Chris Hsu has entered into a service agreement with Micro Focus (US) Inc. dated 16 January 2017 which will come into effect subject to Completion of the transaction, at which point Chris will become Chief Executive Officer of the Enlarged Group.

1 Subject to the below, set out in the loss of office payments section, Kevin Loosemore's notice period decreases by one month for each complete month served after 31 October 2017 until it reaches zero on 1 May 2018.

2 Stephen Murdoch will become Chief Operating Officer on Completion of the transaction and will step down from the board simultaneously.

If an executive director commits any crime or act of dishonesty or, other than Kevin Loosemore, commits any material breach of their service contract or any act of gross misconduct, the Company is entitled to summarily terminate the service contract without notice or payment in lieu of notice or other compensation. In the case of Kevin Loosemore, his employment may be terminated by the Company without notice if, in the opinion of the board acting reasonably and after giving Kevin Loosemore reasonable opportunity to comment before such opinion is reached, it is determined that he has committed any serious breach of his service contract which is incapable of remedy or he is guilty of any gross misconduct, or gross incompetence, in the discharge of his duties of his employment. Any such contract terms cannot however, as a rule of law, affect the executive director's statutory rights such as rights in respect of unfair dismissal.

Loss of office payments and notice period

For executive directors, other than Kevin Loosemore, there are no predetermined special provisions with regard to compensation in the event of loss of office; compensation is based on what would be earned by way of salary, pension entitlement and other contractual benefits over the notice period. In the event that a contract is to be terminated, and a payment in lieu of notice made, payments to the executive director may be staged over the notice period, at the same interval as salary would have been paid.

In respect of Kevin Loosemore, his loss of office compensation is equal to £735,000 in the event his employment is terminated prior to 1 May 2018. Subject to Kevin Loosemore being granted an ASG on the same terms as the TAG ASG deed granted on 18 September 2014 (or as mutually agreed between the Company and Kevin Loosemore, subject to compliance with the terms of the ASG programme approved by the Company's shareholders on 22 September 2016) over at least 947,100 Ordinary Shares within one week of Completion (or within one week of Micro Focus being permitted to grant such ASGs) his existing notice provisions (including any right to a payment in lieu of notice of £735,000) as detailed above, will be replaced in their entirety with a six month notice period. If the Company and Kevin Loosemore are not able to mutually agree the terms of an ASG deed such that the ASG is issued within the required time frame, then Kevin Loosemore's notice period will not change and as at 1 May 2018 his notice period will be down to zero.

Executive directors must take all reasonable steps to obtain alternative employment during the notice period and payments made by the Company will be reduced to reflect any payments received in respect of alternative employment.

There is no automatic entitlement to an annual bonus and this is at the discretion of the committee. Where an executive director ceases to be employed by reason of death, disability, ill-heath or any other reason at the committee's discretion they may receive a pro-rata bonus for the year of cessation, paid on the normal payment date (with committee discretion to accelerate), based on performance against predetermined targets and time served during the year.

The treatment of leavers under our DSBP and LTIP is determined by the rules of the relevant plan. The committee will determine when and if awards vest and the period during which awards may be exercised.

Awards under the LTIP and DSBP typically lapse if the participant leaves employment in case of termination for cause or resignation. In other cases, normally including death and ill health, injury or disability, redundancy and retirement, or any other reason at the committee's discretion, awards would typically vest early and be pro-rated for time and performance where relevant. Although the committee may determine that awards should continue to their normal vesting date. On death, awards typically vest immediately.

ASG awards will normally lapse if a participant leaves prior to the vesting date following voluntary resignation, breach of contract, gross misconduct or gross incompetence, subject to committee discretion. In the circumstances of fair dismissal other than those listed above, then the ASG will normally vest, subject to time pro-rating and subject to satisfaction of the performance condition, and will become exercisable on the normal vesting date for a period of six months. In all other cases, the ASG will normally vest, subject to the performance condition, and become exercisable on the normal date for a period of six months.

Change of control

The rules of the DSBP and LTIP provide that, in the event of a change of control or a scheme of arrangement of the company, awards vest to the extent that the performance conditions (where applicable) are satisfied at the date of such event. Any such early vesting would generally be on a time pro-rata basis. The committee may vary the level of vesting, if it believes that exceptional circumstances warrant this, taking into account any other factors it believes to be relevant in deciding to what extent an award will vest.

The directors may exchange their awards over Company shares for awards in shares of the acquiring company if the terms of the offer allow this.

Awards held under all-employee plans would be expected to vest on a change of control and those which have to meet specific requirements to benefit from permitted tax benefits would vest in accordance with those requirements.

For the replicated ASG programme which was approved by shareholders at the 2016 AGM, on a change of control or scheme of arrangement of the company, outstanding ASGs will normally vest subject to time pro-rating from the effective date of grant (namely the announcement of the relevant transaction) and assessment of performance achieved. For the ASG programme in connection with The Attachmate Group acquisition, on a change of control or scheme of arrangement of the company, outstanding ASG's will normally vest in full.

Policy in respect of external board appointments

We recognize that external non-executive directorships are beneficial for both the executive director concerned and the Company. With prior approval from the board, each serving executive director can undertake external non-executive directorships. At the discretion of the board, executive directors are permitted to retain fees received in respect of any such non-executive directorship.

Non-executive directors' terms of appointment

The non-executive directors' terms of appointment are recorded in letters of appointment. The required notice from the Company is 90 days in all cases. The non-executive directors are not entitled to any compensation for loss of office and stand for election or re-election as appropriate at each AGM. Details of the letters of appointment of each non-executive director who has served as a director of the Company at any time during the financial year are set out below:

Non-executive director	Appointment or re-appointment date	Expiration date
Karen Slatford	5 July 2016	5 July 2019
Tom Virden*	5 January 2015	5 January 2018
Richard Atkins	16 April 2017	16 April 2020
Amanda Brown	1 July 2016	1 July 2019
Steve Schuckenbrock*	1 February 2016	1 February 2019

* Tom Virden and Steve Schuckenbrock resigned on 25 April 2017.
Silke Scheiber and Darren Roos were appointed to the board on 15 May 2017 and their contracts expire on 15 May 2020.

All appointments of non-executive directors are subject to election by shareholders at the first AGM of the Company after appointment and to re-election on an annual basis thereafter. All the directors will be offering themselves for election or re-election at the AGM to be held on 4 September 2017.

Consultation with employees

Although the committee does not consult directly with employees on the Directors' Remuneration Policy, the committee does consider the general basic salary increase, the benchmarking of employee compensation and benefits, remuneration arrangements and employment conditions for the broader employee population when determining Remuneration Policy for the executive directors.

Consideration of shareholder views

The committee also considers developments in institutional investors' best practice expectations and the views expressed by shareholders when setting Directors' remuneration. We remain committed to shareholder dialogue and take an active interest in voting outcomes. Prior to the proposed renewal of our policy at the 2017 AGM, we consulted with major shareholders and investor bodies and were pleased with the response we received. If any of these shareholders express concerns relating to our policy, we would endeavour to meet with them, as appropriate, to understand and respond to any issues they may have.

Annual Report on Remuneration

The following section provides the details of how the Remuneration Policy was implemented during the year.

Remuneration Committee membership during the year ended 30 April 2017

During the year the committee comprised only of independent non-executive directors which we see as fundamental to ensuring that the remuneration of executive directors and senior executives is set by people who are independent and have no personal financial interest, other than as shareholders, in the matters discussed. The committee met eight times during the year under review. The number of committee meetings attended by each director in the year ended 30 April 2017 was as follows:

Committee member	Held	Number of meetings attended
Amanda Brown (Chair) *	8	8
Karen Slatford	8	8
Tom Virden**	8	8
Richard Atkins	8	8

* Amanda Brown was appointed on 6 July 2016 and became Chair of the committee on 22 September 2016.
** Tom Virden resigned on 25 April 2017.

The committee invited the Executive Chairman, the Chief Financial Officer and the Group Human Resources Director during the year to provide views and advice on specific questions raised by the committee and on matters relating to the performance and remuneration of senior managers. They did not participate in discussions relating to their own remuneration. The Company Secretary attended each meeting as secretary to the committee.

Agenda during the year ended 30 April 2017

The key activities of the committee were as follows:

- Approval of the Directors' Remuneration report for the year ended 30 April 2016;
- Reviewed salaries of the executive directors and the Executive Chairman's direct reports;
- Reviewed bonus payments and LTIP vesting against targets;
- Conducted annual review and ratification of remuneration packages for executive directors and senior executives, incorporating institutional investor feedback;
- Considered current guidelines on executive compensation from advisory bodies' and institutional investors;
- Reviewed Group-wide pay and benefits;
- Established targets for annual cash bonuses for the year ending 30 April 2018;
- Considered the award of ASG's in light of the HPE Software transaction; and
- Reviewed the performance and terms of reference of the committee.

External advisers

The committee last reviewed their external advisers in 2012 and appointed Kepler Associates (a brand of Mercer) ("Kepler"). Kepler attends committee meetings where appropriate and provides advice on remuneration for executives, analysis on all elements of the Remuneration Policy and regular market and best practice updates. Kepler reports directly to the committee chair, and is a signatory to the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). Kepler's parent, Mercer, does not provide any other services to the Company. The committee is satisfied that the advice it receives from Kepler is independent. The terms of Kepler's engagement are available from the Company Secretary and they are paid on a time and materials fee for projects outside the scope of their retainer. The committee seeks advice on legal matters from a number of firms as appropriate. The committee continually assesses ongoing advice provided by its advisers on remuneration matters. The fees incurred with Kepler in the year under review were £14,250 (2016: £23,755), plus VAT. Management, in their advisory role to the committee have also worked with Deloitte during the year on various issues that have been presented to the committee.

Single figure for total remuneration (audited)

The following table sets out the single figure for total remuneration for directors for the financial year ended 30 April 2017 and 2016.

Executive directors		Base salary, ARA and fees[1] (£'000)	Benefits in kind[2] (£'000)	Annual bonus[3] (£'000)	LTIP[4] (£'000)	Pension[5] (£'000)	Total (£'000)
Kevin Loosemore	**2017**	**750**	**32**	**506**	**2,788**	**150**	**4,226**
	2016	750	31	1,125	2,175	150	4,231
Mike Phillips	**2017**	**470**	**19**	**317**	**1,493**	**71**	**2,370**
	2016	470	16	470	979	59	1,994
Stephen Murdoch[6]	**2017**	**500**	**18**	**338**	**1,365**	**75**	**2,296**
	2016	125	5	125	610	19	884
Nils Brauckmann[6]	**2017**	**423**	**12**	**285**	**619**	**63**	**1,402**
	2016	98	17	98	–	–	213
Non-executive directors							
Tom Skelton	**2017**	**–**	**–**	**–**	**–**	**–**	**–**
	2016	25	–	–	–	–	25
Karen Slatford[7]	**2017**	**103**	**–**	**–**	**–**	**–**	**103**
	2016	82	–	–	–	–	82
Tom Virden	**2017**	**62**	**–**	**–**	**–**	**–**	**62**
	2016	50	–	–	–	–	50
Richard Atkins	**2017**	**78**	**–**	**–**	**–**	**–**	**78**
	2016	60	–	–	–	–	60
Karen Geary	**2017**	**–**	**–**	**–**	**–**	**–**	**–**
	2016	48	–	–	–	–	48
Steve Schuckenbrock[8]	**2017**	**71**	**–**	**–**	**–**	**–**	**71**
	2016	17	–	–	–	–	17
Amanda Brown[9]	**2017**	**68**	**–**	**–**	**–**	**–**	**68**
	2016	–	–	–	–	–	–
Total	**2017**	**2,525**	**81**	**1,446**	**6,265**	**359**	**10,676**
	2016	1,725	69	1,818	3,764	228	7,604

Notes:

1. Base salary, ARA and fee: amount earned for the year.
2. Taxable benefits: include car benefits, private medical insurance, permanent health insurance and life assurance.
3. Annual bonus: payment for performance during the year. For executive directors other than the Executive Chairman, one-third of the annual bonus is deferred into shares for three years.
4. LTIP: the value at vesting of awards vesting on performance over the three year periods ended 30 April 2017 and 30 April 2016. The 2016 figures are based on the share price on the date of vesting (26 June 2016) of 1,530 pence. The 2017 figures are based on the share price on the date of vesting (27 June 2017) of 2,420 pence.
5. Pension: the Company's pension contribution or cash allowance during the year.
6. Stephen Murdoch and Nils Brauckmann were appointed to the board on 1 February 2016. Their 2016 remuneration includes salary, pension and benefits in respect of service as executive directors, their full-year bonus and full-year LTIP.
7. Karen Slatford's 2016 fees include £80,000 in respect of the year and £2,000 back-dated fees.
8. Steve Schuckenbrock was appointed to the board on 1 February 2016 and resigned on 25 April 2017.
9. Amanda Brown was appointed to the board on 1 July 2016 and her director's fees are paid to her employer.

Annual bonus for the year ended 30 April 2017 (audited)

For the year ended 30 April 2017, the maximum bonus opportunity was 150% of salary for all executive directors.

The executive directors are on the same bonus plan as all non-commissioned employees and their bonuses are capped at the percentages above. There is no bonus pay out if Underlying Adjusted EBITDA on a constant currency basis, excluding the impact of in year acquisitions, is the same as the previous year and maximum bonuses are earned if the increase in this measure is 10% or more.

Underlying Adjusted EBITDA (excluding the impact of in year acquisitions) grew by 4.5% during the year on a constant currency basis which resulted in a bonus payment of 45% of the maximum. With effect from 1 May 2016, one third of the Annual Bonus for Messrs. Brauckmann, Murdoch and Phillips will be deferred into shares for a period of three years for all executive directors except for Kevin Loosemore.

Executive director	Underlying Adjusted EBITDA growth threshold	EBITDA growth maximum	Underlying Adjusted EBITDA growth achieved	Maximum bonus £'000	% of maximum	Bonus for 2017 £'000
Kevin Loosemore	0%	10%	4.5%	1,125	45%	506
Mike Phillips	0%	10%	4.5%	705	45%	317
Stephen Murdoch	0%	10%	4.5%	750	45%	338
Nils Brauckmann	0%	10%	4.5%	634	45%	285

Vesting of long-term incentives for performance to the year ended 30 April 2017

The awards granted on 27 June 2014 to the executive directors vested on 27 June 2017. The award to Nils Brauckmann will vest on 16 December 2017 subject to continued employment. Vesting of the awards was based on annualized EPS growth in excess of RPI over the three years ended 30 April 2017, as set out in the table below.

Annualized EPS growth of the Company in excess of RPI over the performance period	Vesting percentage of the shares subject to an award
Less than 3% p.a.	0%
Equal to 3% p.a.	25%
Between 3% and 9% p.a.	Between 25% and 100% on a straight-line basis
Equal to or above 9% p.a.	100%

The annualized Diluted Adjusted EPS growth rate over the performance period of 21.7% exceeded the performance criteria of 10.91% being EPS of 9% plus RPI 1.91% p.a. The table below details the executive directors' 2014 awards. The awards have been valued based on the closing price on the date of vesting, 27 June 2017, of 2,420 pence.

Executive director	Interest held	% vesting	Interest vesting	Vesting date	Estimated value
Kevin Loosemore	115,192	100%	115,192	27 June 2017	2,787,646
Mike Phillips	61,710	100%	61,710	27 June 2017	1,493,382
Stephen Murdoch[1]	56,421	100%	56,421	27 June 2017	1,365,388
Nils Brauckmann[2]	27,159	100%	27,159	16 December 2017	619,497

1 Stephen Murdoch's awards were made to him prior to his appointment to the board.
2 The estimated value has been calculated using the average share price over the three months ended 30 April 2017.

Directors' Remuneration report
continued

Share interest awards made during the year (audited)

On 13 September 2016, all executive directors were granted awards of nil-cost options under the LTIP as set out in the table below.

Executive director	Date of grant	Awards made during the year	Middle Market closing price at date of award	Face value at date of award	Face value at date of award (% of salary)
Kevin Loosemore	13 September 2016	69,156	£21.69	£1,499,994	200%
Mike Phillips	13 September 2016	37,262	£21.69	£808,213	172%
Stephen Murdoch	13 September 2016	39,640	£21.69	£859,792	172%
Nils Brauckmann	13 September 2016	33,476	£21.69	£726,094	172%

Awards will be eligible to vest on the third anniversary of the date of grant subject to the following EPS performance criteria which will be measured over the three year period from 1 May 2016 to 30 April 2019.

Annualized EPS growth of the Company in excess of RPI over the performance period	Vesting percentage of the shares subject to an award
Less than 3% p.a.	0%
Equal to 3% p.a.	25%
Between 3% and 9% p.a.	Between 25% and 100% on a straight-line basis
Equal to or above 9% p.a.	100%

Percentage change in Executive Chairman remuneration

The table below shows the percentage change in the Executive Chairman's remuneration from the prior year compared to the average percentage change in remuneration for all staff that were on the corporate bonus scheme in both years and were employed at the beginning and end of the financial year. We have selected our staff on the corporate bonus scheme (unchanged from last year) for this comparison as it is considered to be the most relevant for structure of remuneration.

	Executive Chairman £'000			Other employees
Base package and ARA	**2017**	2016	% change	% change
Salary	**750**	750	0%	+2.3%
Taxable benefits	**32**	31	+3.2%	+0.4%
Annual performance bonus	**506**	1,125	-55.0%	-48.7%
Total	**1,288**	**1,906**	**-32.4%**	**-4.8%**

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (i.e. dividends and share buy-backs) from the financial year ended 30 April 2016 to the financial year ended 30 April 2017.

	2017 $m	2016 $m	% change
Distribution to shareholders			
– Dividends paid	**177.5**	105.2	+68.7%
Employee remuneration	**554.0**	509.7	+8.7%

The directors are proposing a second interim dividend for the year ended 30 April 2017 of 58.33 cents (45.22 pence) per share (2016: final dividend of 49.74 cents 37.40 pence).

Payments for loss of office (audited)

There were no payments for loss of office during the year.

Payments to past directors (audited)

There were no payments made to past directors during the year.

Other directorships

None of the executive directors held any other directorships outside the Group during the year.

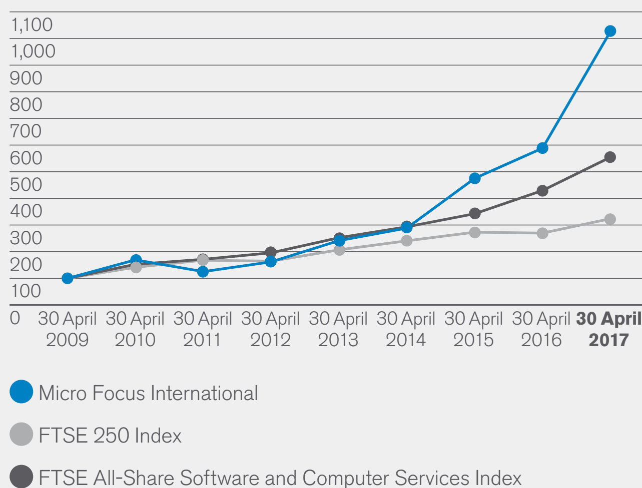
Review of past performance

The remuneration package is structured to help ensure alignment with shareholders. The graph and table below show how the Chief Executive Officer's or Executive Chairman's pay compares to total shareholder returns (TSR) over the last eight years.

The graph below shows the value, by 30 April 2017, of £100 invested in Micro Focus International plc on 30 April 2009 compared with the value of £100 invested in the FTSE 250 and the FTSE All-Share Software and Computer Services Indices. The intervening points are at the Company's financial year ends. The FTSE 250 and the FTSE All-Share Software and Computer Services Indices have been chosen as they are considered the most relevant indices for comparison with the Company.

Historical TSR performance

Growth in the value of a hypothetical £100 holding over the eight years to 30 April 2017



The table below details the Executive Chairman's or, prior to his appointment on 14 April 2011, the Chief Executive Officer's single total figure of remuneration over the same period:

	Year ended 30 April							
	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	**2017 £'000**
Kevin Loosemore								
Single total figure of remuneration		23	1,291	1,304	12,468	4,315	4,231	**4,226**
Annual bonus outcome (% of maximum)		Nil	90%	92%	100%	100%	100%	**45%**
LTIP vesting (% of maximum)		Nil	Nil	Nil	199%	100%	100%	**100%**
Nigel Clifford								
Single total figure of remuneration		628						
Annual bonus outcome (% of maximum)		Nil						
LTIP vesting (% of maximum)		Nil						
Stephen Kelly								
Single total figure of remuneration	3,696							
Annual bonus outcome (% of maximum)	Nil							
LTIP vesting (% of maximum)	100%							

Implementation of Remuneration Policy for the year ending 30 April 2018

Subject to Completion of the HPE Software transaction, the following executive director changes will take place.

- Chris Hsu will become Chief Executive Officer of the Enlarged Group. Details of his remuneration arrangements following Completion of the transaction and his appointment to the board are included below; and
- Stephen Murdoch will step down from the board but remain an employee of the Group in the role of Chief Operating Officer. Details of his remuneration arrangements whilst he remains an executive director are included below.

Base salary

The table below shows the salaries for the executive directors as at 1 May 2017.

Executive director	**At 1 May 2017**	At 1 May 2016	% change
Kevin Loosemore	**£750,000**	£750,000	n/a
Mike Phillips	**£481,750**	£470,000	+2.5%
Stephen Murdoch[1]	**£512,500**	£500,000	+2.5%
Nils Brauckmann[2]	**€550,000**	€500,000	+10.0%

1 Stephen Murdoch will step down from the board following Completion of the HPE Software transaction.
2 As previously discussed with shareholders, due to this being Nils Brauckmann's first board appointment his initial salary was set at a relatively low level with the intention to increase this over time as he develops in the role. The 10% salary increase is reflective of Nils's strong performance to date and the role continuing to increase in size and complexity as the business grows.

As disclosed in the shareholder circular, Chris Hsu will receive a base salary of $1,000,000 following his appointment as CEO to the board subject to the Completion of the HPE Software transaction.

The average basic salary increase across the Group for 2017 is 2.3%.

Pension

Executive directors will continue to receive a pension contribution or payment in lieu of pension. The Executive Chairman receives a payment in lieu of pension of 20% of base salary whilst other executive directors receive a contribution of 15% of base salary.

Annual bonus

The annual bonus will continue to be based on growth in Underlying Adjusted EBITDA on a constant currency basis excluding the impact of in year acquisitions. There will be zero payment if there is no growth increasing on a straight-line basis to a maximum payment at 10% year-on-year growth.

Subject to completion of the HPE Software transaction the Company is intending to align its year end to 31 October. This will result in an 18 month financial period ending 31 October 2018 with the "New" financial year for the Enlarged Group commencing on 1 November 2018. In this "New" financial year ending 31 October 2018, the bonus will operate on a similar basis as for the year ended 30 April 2017 and the maximum bonus opportunity for all executive directors will be 150% of salary for the period. In the period to 31 October 2017 the current executive directors' bonus entitlement will be determined by the improvement in Underlying Adjusted EBITDA for the existing business when compared to the six months ended 31 October 2016 whilst the bonus opportunity for Chris Hsu is subject to the performance of HPE Software in the year ending 31 October 2017.

For all executive directors (with the exception of the Executive Chairman) one-third of any bonus earned will be deferred into Company shares, to maximize long-term shareholder alignment, support retention in a highly competitive and global talent pool, and be in line with typical market practice. Two-thirds of the bonus will continue to be paid in cash. The Executive Chairman is exempt as his annual bonus has been 150% since 2011 and its treatment was covered in his service contract which predates the remuneration policy. Deferred bonus awards will vest in full after three years, subject to continued employment.

For those subject to the changes, malus and claw back provisions will apply to awards under the Deferred Bonus Plan, as well as to the cash bonus.

LTIP

In the context of the HPE Software transaction, the committee has determined that no LTIP or ASG awards will be made until the transaction has completed. Any awards made will be in line with the approved remuneration policy. At present it is anticipated that the performance measures and targets will be on a similar basis as for awards made in 2016. However, further details of the awards will be made at the time awards are granted and full details in respect of the awards will be provided in next year's remuneration report.

Implementation of non-executive director remuneration for the year ending 30 April 2018

Following the annual review of non-executive director fees, it was determined that the fees should be increased to reflect the increased size, scope and responsibilities of the roles, in the context of the transaction with HPE software and the Enlarged Group going forwards. The approach to non-executive directors' fees is set out in the table below:

Independent non-executive director base fee	£70,000 p.a.
Additional fee for chairing a committee	£20,000 p.a.
Fee for the SID (including chairing committees)	£120,000 p.a.

Directors' shareholdings and share interests (audited) as at 30 April 2017

		Nil-cost options held		Options				
Director	Shares held (owned outright)	Vested but not exercised	Unvested and subject to performance	Vested but not exercised	Unvested and subject to performance	Shareholding requirement (% of salary)	Current shareholding (% of salary)	Requirement met?
Kevin Loosemore[1]	701,483	334,289	1,242,763	–	–	200%	2,420%	Yes
Mike Phillips[2]	147,158	150,430	827,800	–	–	150%	810%	Yes
Stephen Murdoch[3]	–	136,121	572,512	–	–	150%	–	Not yet due
Nils Brauckmann[3]	–	–	510,298	–	–	150%	–	Not yet due
Karen Slatford	–	–	–	–	–	–	–	n/a
Tom Virden[4]	4,207	–	–	–	–	–	–	n/a
Richard Atkins[5]	6,867	–	–	–	–	–	–	n/a
Amanda Brown	5,000	–	–	–	–	–	–	n/a
Steve Schuckenbrock[4]	6,700	–	–	–	–	–	–	n/a

1 47,918 shares are held by Kevin Loosemore's wife, Joy Loosemore.
2 122,077 shares are held by Mike Phillips' wife, Josephine Phillips.
3 Stephen Murdoch and Nils Brauckmann are required to have a 150% shareholding within three years of joining as directors on 1 February 2016.
4 Steve Schuckenbrock and Tom Virden resigned on 25 April 2017.
5 2,756 shares are held by Richard Atkins' wife, Julie Atkins.

Between 1 May 2017 and 17 July 2017 there had been no changes to these interests.

Micro Focus International plc Incentive Plan 2005 ("Plan")

The executive directors as at 30 April 2017 held awards granted under the terms of the Plan. The movements in these awards during the financial year are shown below.

	Number at 1 May 2016	Number granted in financial year	Number exercised in financial year	Number lapsed in financial year	**Number at 30 April 2017**	Exercise price	Date for exercise
Kevin Loosemore[1]	192,157	–	–	–	**192,157**	0.0p	27 June 2015 to 26 June 2022
Kevin Loosemore[2]	142,132	–	–	–	**142,132**	0.0p	26 June 2016 to 25 June 2023
Kevin Loosemore[3]	115,192	–	–	–	**115,192**	0.0p	27 June 2017 to 26 June 2024
Kevin Loosemore[4]	111,275	–	–	–	**111,275**	0.0p	17 July 2018 to 16 July 2025
Kevin Loosemore[4]	–	69,156	–	–	**69,156**	0.0p	26 July 2019 to 25 July 2026
Mike Phillips[1]	86,471	–	–	–	**86,471**	0.0p	27 June 2015 to 26 June 2022
Mike Phillips[2]	63,959	–	–	–	**63,959**	0.0p	26 June 2016 to 25 June 2023
Mike Phillips[3]	61,710	–	–	–	**61,710**	0.0p	27 June 2017 to 26 June 2024
Mike Phillips[4]	52,299	–	–	–	**52,299**	0.0p	17 July 2018 to 16 July 2025
Mike Phillips[4]	–	37,262	–	–	**37,262**	0.0p	26 July 2019 to 25 July 2026
Stephen Murdoch[5]	96,237	–	–	–	**96,237**	0.0p	27 December 2015 to 26 December 2022
Stephen Murdoch[2]	39,884	–	–	–	**39,884**	0.0p	26 June 2016 to 25 June 2023
Stephen Murdoch[3]	56,421	–	–	–	**56,421**	0.0p	27 June 2017 to 26 June 2024
Stephen Murdoch[4]	44,510	–	–	–	**44,510**	0.0p	17 July 2018 to 16 July 2025
Stephen Murdoch[4]	26,024	–	–	–	**26,024**	0.0p	23 March 2019 to 22 March 2026
Stephen Murdoch[4]	–	39,640	–	–	**39,640**	0.0p	26 July 2019 to 25 July 2026
Nils Brauckmann[4]	27,159	–	–	–	**27,159**	0.0p	16 December 2017 to 15 December 2024
Nils Brauckmann[4]	17,722	–	–	–	**17,722**	0.0p	17 July 2018 to 16 July 2025
Nils Brauckmann[4]	26,024	–	–	–	**26,024**	0.0p	23 March 2019 to 22 March 2026
Nils Brauckmann[4]	–	33,476	–	–	**33,476**	0.0p	26 July 2019 to 25 July 2026

1 In the year ended 30 April 2015, the LTIP awards to Kevin Loosemore and Mike Phillips did not vest until 27 June 2015 but the committee believed that the performance measures had been substantially completed by the year end.
2 In the year ended 30 April 2016, the LTIP awards to Kevin Loosemore, Mike Phillips and Stephen Murdoch did not vest until 27 June 2016 but the committee believed that the performance measures had been substantially completed by the year end.
3 In the year ended 30 April 2017, the LTIP awards to Kevin Loosemore, Mike Phillips and Stephen Murdoch did not vest until 27 June 2017 but the committee believed that the performance measures had been substantially completed by the year end.
4 Performance condition requires that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 3% per annum (at which point 25% of awards will vest) and for full vesting the cumulative EPS growth will be required to be RPI plus 9% per annum. Straight-line vesting will apply between these points. Performance against these objectives is determined by the committee based on the Company's audited results.
5 This award vested in full on 27 December 2015.

Additional Share Grant

The executive directors as at 30 April 2017 hold the following awards of ASGs. The movements in these awards during the financial year are shown below.

	Number at 1 May 2016	Number granted in financial year	Number exercised in financial year	Number lapsed in financial year	**Number at 30 April 2017**	Exercise price	Date of exercise
Kevin Loosemore	947,140	–	–	–	**947,140**	0.0p	1 November 2017 to 31 October 2024
Mike Phillips	676,529	–	–	–	**676,529**	0.0p	1 November 2017 to 31 October 2024
Stephen Murdoch	405,917	–	–	–	**405,917**	0.0p	1 November 2017 to 31 October 2024
Nils Brauckmann	405,917	–	–	–	**405,917**	0.0p	1 November 2017 to 31 October 2024

The performance condition is that the percentage of ordinary shares subject to the ASG which may be acquired on exercise on or after the vesting date is as follows:
(i) 0% if the Shareholder Return Percentage (as defined below) is 50% or less;
(ii) 100% if the Shareholder Return Percentage is 100% or more; and
(iii) A percentage determined on a straight line basis between (i) and (ii) above.

The 'Shareholder Return Percentage' will be calculated by deducting 819.425 pence per share (the 'Reference Price'), being the average of the 20 days before 3 June 2014 (being the date of the heads of agreement relating to the proposed combination of Micro Focus and TAG between Micro Focus, Wizard, Golden Gate Capital and Francisco Partners Management LLC), from the sum of the 'Vesting Price' (calculated as the average closing share price over the period of 20 days ending on the day prior to the vesting date) plus the total of all dividends per share between Completion and the vesting date. This will be divided by the Reference Price, multiplying the resulting figure by 100 to obtain the Shareholder Return Percentage.

Sharesave

In relation to the Sharesave Scheme, Mike Phillips joined the Company scheme on 21 August 2013 at an option price of £5.98 over 1,504 shares that are exercisable from 1 October 2016. These were exercised during the year.

Share option schemes

Details of the Company's share option schemes are given in note 33 of the financial statements.

The mid-market closing price of the shares at 30 April 2017 was 2,588p per share and during the financial year ended 30 April 2017 the mid-market closing price varied between 1,416p and 2,558p per share.

Statement of shareholding voting

The following table shows the results of the advisory vote on the 2016 Directors' remuneration report at the AGM held on 22 September 2016:

Votes for		Votes against			
Number	Percentage	Number	Percentage	Votes cast	Votes withheld
152,751,869	85.65%	25,598,599	14.35%	178,363,736	12,268

The current Remuneration Policy was approved by shareholders with a 91.75% vote 'for' at the 2014 AGM, and the amendment to the Remuneration Policy was approved with a 60.56% vote 'for' at the 2014 GM. The Remuneration Policy was further amended in relation to the operation of the annual bonus and the replicated ASG programme at the 2016 AGM where shareholders approved the changes with a 77.78% vote 'for'. The reasons for the voting outcome at the 2014 AGM and GM and actions taken by the committee to engage with shareholders were set out in last year's report.

On behalf of the board,

Amanda Brown
Chair of Remuneration Committee
17 July 2017

Directors' report

The directors of Micro Focus International plc (the 'Company') present their report and the audited consolidated financial statements of the Company for the year ended 30 April 2017.

Strategic report

The Group is required by the Companies Act 2006 to present a fair review of the business during the year ended 30 April 2017 and of the position of the Group at the end of the financial year along with a description of the principal risks and uncertainties faced by the Group. In addition, the Group is also required to present the future developments of the Company. The information that fulfils these requirements can be found on pages 3 to 49 of the Strategic Report.

Corporate governance

The Group is required to produce a corporate governance statement pursuant to the Financial Conduct Authority ("FCA") Disclosure and Transparency Rules. The information that fulfils this requirement can be found in this Directors' report and in the Corporate governance section on pages 54 to 59 which is incorporated into this Directors' report by reference.

Under listing rule 9.8.4.R the Company is required to make the following disclosures:

Areas for disclosure	Location of details in the Annual Report and Accounts
Interest capitalized	Not applicable
Publication of unaudited financial information	Financial Review, CEO Review – Micro Focus Product Portfolio, CEO Review – SUSE Product Portfolio
Detail of any long-term incentive schemes	Directors' Remuneration report
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable
Non pre-emptive issues of equity for cash	Note 29 to the Group's consolidated financial statements
Non pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	Not applicable
Parent company participation in a placing by a listed subsidiary	Not applicable
Contracts of significance to which the Company is a party and in which a director is materially interested	Not applicable
Contracts of significance between a Company and a controlling shareholder	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waiver of dividends	Not applicable
Shareholder waiver of future dividends	Not applicable
Agreements with controlling shareholders	Not applicable

Dividends

The board has a dividend policy to award a level of full year dividend covered approximately two times by Adjusted after tax earnings of the Group.

For the year ended 30 April 2017 the directors have recommended a second interim dividend of 58.33 cents per share, which, taken together with the interim dividend of 29.73 cents per share paid in January 2017, gives a total dividend in respect of the 2017 financial year of 88.06 cents per share. This second interim dividend is 17.3% higher than the final dividend paid last year. The second interim dividend will be paid on 25 August 2017 to shareholders on the register on 4 August 2017.

Dividends will be paid in sterling based on an exchange rate of £1 = $1.29, equivalent to approximately 45.22 pence per share, being the rate applicable on 11 July 2017, the date on which the board resolved to propose to pay the second interim dividend.

Interests in share capital

Directors and their interests

The following individuals were directors of the Company for the year reported on and up to the date of signing this report unless otherwise stated:

Executive	
Kevin Loosemore	(Executive Chairman)
Mike Phillips	(Chief Financial Officer)
Stephen Murdoch	(Chief Executive Officer of Micro Focus)
Nils Brauckmann	(Chief Executive Officer of SUSE)
Non-executive	
Karen Slatford	(Senior independent non-executive director)
Tom Virden	(Independent non-executive director) (resigned 25 April 2017)
Richard Atkins	(Independent non-executive director)
Steve Schuckenbrock	(Independent non-executive director) (resigned 25 April 2017)
Amanda Brown	(Independent non-executive director) (appointed 1 July 2016)
Darren Roos	(Independent non-executive director) (appointed 15 May 2017)
Silke Scheiber	(Independent non-executive director) (appointed 15 May 2017)

Details of the interests of the directors and their families in the ordinary shares of the Company are given in the Directors Remuneration report on page 89.

None of the directors had a material interest in any contract of significance to which the Company or a subsidiary was a party during the financial year, as disclosed in note 36 'Related party transactions'.

Directors' insurance and indemnity provisions

The Company maintains insurance cover for all directors and officers of Group companies against liabilities which may be incurred by them while acting as directors and officers of any Group company.

During the financial year reported on, and as at the date of this report, qualifying third party indemnities are in force under which the Company has agreed to indemnify the directors, to the extent permitted by law and by the Articles of Association of the Company (the **'Articles'**), against liabilities they may incur in the execution of their duties as directors of the Company. A copy of the Articles is available for review at the registered office of the Company.

Substantial shareholding

At 30 April 2017 the following percentage interests in the ordinary share capital of the Company, required to be disclosed under the FCA's Disclosure and Transparency Rules, have been notified to the Company:

Name of holder	Ordinary shares of 10 pence each	% Percentage of issued capital
FMR LLC	22,559,483	9.82
Old Mutual plc	15,786,879	6.87
Artemis Investment Management LLP	8,117,983	3.53

Employment policy

The Group endeavours to appoint employees with appropriate skills, knowledge and experience for the roles they undertake. The Group has a range of policies which are aimed at retaining and providing incentives for key staff. Objectives are set for departments and employees derived from the Group's business objectives. Performance is formally measured against these objectives twice each year. The Group has a clear and well-understood organizational structure and each employee knows his or her line of accountability.

Equal opportunities

The Group operates an equal opportunities policy. Full consideration is given to all job applicants, irrespective of gender, age, marital status, disability, sexuality, race, colour, religion, ethnic or national origin or any other conditions not relevant to the performance of the job, who can demonstrate that they have the necessary skills and abilities.

All employees accept the commitment within this policy that the Group will not allow discrimination or harassment by employees or others acting on the Group's behalf, in respect of sex, age, marital status, race, colour, nationality, disability or religious or political beliefs.

Disabled employees

With regard to existing employees and those who may become disabled, the Group's policy is to examine ways and means to provide continuing employment under its existing terms and conditions and to provide training and career development, including promotion, wherever appropriate.

Employee involvement

The Group believes it is important that employees are aware of the Group's business strategy and the objectives which are in place to assist them to focus on working towards these goals. Communications at the time of key announcements, including presentations by directors to all employees, together with briefings throughout the year, are part of the communication and consultation programme. The programme is designed to provide employees with awareness of the financial and economic factors affecting the Group's performance and also to provide employees with information on employment related matters which may be of interest.

In addition, regular meetings are held with staff and managers, both to raise issues and to assist with the two-way flow of information. The Group also has an online process which enables employees to express views and suggest improvements.

Further education and training

Continuing education, training and development are important to ensure the future success of the Group. The Group supports individuals who wish to obtain relevant and appropriate further education qualifications and reimburses tuition fees up to a specified level. Training needs of all employees are also analyzed during the annual and half yearly appraisal process, at which time a training plan is agreed as part of each individual's on-going development.

At appropriate times throughout the course of a year, the directors are briefed on recent changes to legislation, regulations and codes of practice which are relevant to their duties and the operations of the Group's business. Where appropriate, the directors are provided with copies of the underlying documentation and/or written summaries of the principal changes.

The board has undertaken a formal and rigorous process for the evaluation of its own performance and that of its committees and individual directors. Further information with regard to the evaluation can be found in the corporate governance report on pages 54 to 59.

Share option schemes

The directors remain committed to the principle that selected employees should be able to participate in the Group's progress through share based compensation schemes. Details of the Group's share based compensation schemes are given in note 33.

Statutory and other disclosures

Greenhouse Gas emissions

All disclosures concerning the Group's greenhouse gas emissions (as required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' report) Regulations 2013)) are contained in the corporate social responsibility report on pages 45 to 49.

Financial instruments

The exposure of the Group to financial risks, including the use of financial instruments and policies for hedging and the exposure to price, credit, cash flow and liquidity risk, can be found in note 27 to the financial statements.

Research and development

All expenditure on research is expensed as incurred. The Group capitalizes development expenditure from the point that all the relevant criteria are met. The capitalized cost is then amortized over the useful life of the software. During the year to 30 April 2017, $173.3m was charged to the consolidated statement of comprehensive income (2016: $259.4m) in the research and development expenses category. This charge is after capitalization of internal development expenditure of approximately $27.7m (2016: $30.9m). Within the cost of sales category $22.4m of amortization of development costs (2016:$19.5m) and $69.1m of amortization of purchased intangibles technology (2016: $75.3m) were charged to the consolidated statement of comprehensive income.

Political donations

The Group's policy is to make no donations or contributions to political parties (2016: $nil).

Budgetary process

A comprehensive budgeting system allows managers to submit detailed budgets which are reviewed and amended by executive directors prior to submission to the board for approval.

Insurance

The Group keeps under review, with its insurance brokers, its portfolio of insurance policies to ensure that the policies are appropriate to the Group's activities and exposure.

Share capital

The Company has a single class of share capital which is divided into ordinary shares of 10 pence each. During the year 968,269 ordinary shares were issued and 29,924 ordinary shares were transferred out of treasury to satisfy obligations under employee share plans. The Company no longer holds any ordinary shares in treasury. As at 30 April 2017 the total number of voting rights in the Company was 229,674,479.

Rights and obligations attaching to shares

Voting

At a General Meeting of the Company:

- On a show of hands, every member present in person and every proxy duly appointed by a member shall have one vote; and
- On a poll, every member who is present in person or by proxy shall have one vote for every share of which he or she is the holder.

No member shall be entitled to vote at any general meeting or class meeting in respect of shares held by him or her if any call or other sum then payable by him or her in respect of that share remains unpaid. Currently, all issued shares are fully paid.

Deadlines for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting (the 'AGM') to be held on 4 September 2017 are set out in the Notice of Meeting which accompanies this report.

Dividends and distributions

Subject to the provisions of the Companies Act 2006, the Company may, by ordinary resolution, declare a dividend to be paid to members but no dividend shall exceed the amount recommended by the board. The board may pay interim dividends and any fixed rate dividend whenever the profits of the Company, in the opinion of the board, justifies its payment. All dividends shall be apportioned and paid pro-rata according to the amounts paid up on the shares.

Transfer of shares

Subject to the Articles, any member may transfer all or any of his or her certificated shares in writing by an instrument of transfer in any usual form or in any other form which the board may approve. The board may, in its absolute discretion and without giving any reasons, decline to register any instrument of transfer of a certificated share which is not a fully paid share provided that, where any such shares are admitted to the Official List maintained by the UK Listing Authority, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The board may decline to recognize any instrument of transfer relating to shares in certificated form unless it is in respect of only one class of share and is lodged (duly stamped if required) at the Transfer Office (as defined in the Articles) accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person to do so). In the case of a transfer of shares in certificated form by a recognized clearing house or a nominee of a recognized clearing house or of a recognized investment exchange the lodgment of share certificates will only be necessary if and to the extent that certificates have been issued in respect of the shares in question. The directors may also refuse to register an allotment or transfer of shares (whether fully-paid or not) in favour of more than four persons jointly. Subject to the Articles and the CREST Rules (as defined in the Uncertificated Securities Regulations, as amended), and apart from any class of wholly dematerialized security, the board may permit any class of shares in the Company to be held in uncertificated form and, subject to the Articles, title to uncertificated shares to be transferred by means of a relevant system.

Repurchase of shares

The Company obtained shareholder authority at the last AGM (held on 22 September 2016) to buy back up to 14.99% of its issued share capital. At that time this amounted to 34,346,931 ordinary shares, and the authority remains outstanding until the conclusion of the next AGM on 4 September 2017. The minimum price which must be paid for such shares is 10 pence per ordinary share and the maximum price which may be paid for each ordinary share shall not be more than the maximum price (exclusive of expenses) stipulated by the Listing Rules from time to time in force published by the Financial Conduct Authority.

Amendment to the Articles

Any amendments to the Articles may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

Appointment and replacement of directors

Directors shall be no less than three and no more than 11 in number. Directors may be appointed by the Company by ordinary resolution or by the board. A director appointed by the board holds office only until the next AGM and is then eligible for election or re-election by the shareholders annually thereafter.

The board may from time to time appoint one or more directors to hold employment or executive office for such period (subject to the Companies Act 2006) and on such terms as they may determine and may revoke or terminate any such employment.

The Company by ordinary resolution, of which special notice has been given and the board, by unanimous decision, may remove any director before the expiration of his or her term of office and the Company may elect or the board may appoint another person in place of a director so removed from office.

The office of director shall be vacated if:
(i) He or she in writing resigns or offers to resign and the directors accept such offer;
(ii) An order is made by any court claiming that he or she is or may be suffering from a mental disorder;
(iii) He or she is absent without permission of the board from meetings for six months and the board resolves that his or her office is vacated;
(iv) He or she becomes bankrupt or compounds with his or her creditors generally;
(v) He or she is prohibited by law from being a director; or
(vi) He or she is removed from office pursuant to the Articles.

Powers of the directors in relation to share capital

The business of the Company will be managed by the board who may exercise all the powers of the Company, including the power to authorize the issue and/or market purchase of the Company's shares subject to the provisions of the Articles, the Companies Act 2006 and any resolution of the Company. There was one occasion in the year under review when shareholders delegated powers to the Directors in relation to share capital:

- At the AGM held on 22 September 2016 the directors were granted the powers to allot equity securities with a nominal value of up to £15,275,486 (provided that any amount in excess of £7,637,743 was applied to fully pre-emptive rights issues only) and to make market purchases of the Company's shares.

Shares held in the Employee Benefit Trust

Where the trustee of the Micro Focus Employee Benefit Trust (the 'Trust') holds shares in the Company and the beneficial interest in those shares has not been transferred to a beneficiary of the Trust, the trustee may not vote in relation to those shares at any meeting of shareholders of the Company.

Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

The Company announced on 21 April 2017 the successful syndication of the new credit facilities (the "New Facilities") on behalf of both MA FinanceCo, LLC, a wholly owned subsidiary of Micro Focus, and Seattle SpinCo, Inc., a wholly owned subsidiary of HPE that will hold HPE Software and be merged with a wholly owned subsidiary of Micro Focus in the Transaction.

The New Facilities comprise a $500.0m Revolving Credit Facility at LIBOR plus 3.50% (subject to a LIBOR floor of 0.00%) placed with a number of financial institutions and $5,000.0m of term loans. The new term loans are priced as follows:

- In relation to the existing senior secured term loans issued by MA FinanceCo, LLC the lenders in the term loan C of $412m due November 2019 were offered a cashless roll of their investment into the existing term loan B-2 due November 2021 and this loan will be re-priced to LIBOR plus 2.50% (subject to a LIBOR floor of 0.00%) and as a result of the cashless rollover increased in size from $1,102.7m to $1,515.2m, effective from 28 April 2017.

Facilities not drawn as at 30 April 2017 were as follows:

HPE Software facilities

- The new $2,600.0m senior secured seven year term loan B issued by Seattle SpinCo, Inc. is priced at LIBOR plus 2.75% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%;

Micro Focus facilities

- The new $385.0m senior secured seven year term loan B issued by MA FinanceCo LLC is also priced at LIBOR plus 2.75% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%; and

- The new Euro 470m (equivalent to $500.0 million) senior secured seven year term loan B issued by MA FinanceCo LLC is priced at EURIBOR plus 3.00% (subject to a EURIBOR floor of 0.00%) with an original issue discount of 0.25%.

The above new facilities are a modification only of the existing facilities and the unamortized prepaid facility arrangement fees and original issue discounts have not been accelerated as a result. The remaining unamortized prepaid facility arrangement fees and original issue discounts will be recognized over the life of the new debt.

The New Facilities will be used to;
(i) Fund the pre-Completion cash payment by Seattle SpinCo, Inc. to HPE of $2,500.0m (subject to certain adjustments in limited circumstances),
(ii) Fund the Return of Value to Micro Focus' existing Shareholders of $500.0m and
(iii) Pay transaction costs. The balance will be used for general corporate and working capital purposes.

Micro Focus is already benefitting from the reduced interest rate margin and repayment terms on the existing term loans. The only financial covenant attaching to these facilities relates to the Revolving Facility, which is subject to an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end.

As 30 April 2017, $80.0m of the Revolving Facility of $375.0m was drawn, representing 21.3%. The facility was less than 35% drawn at 30 April 2017 and therefore no covenant test is applicable.

The strategic report does not contain any information about persons with whom the Company has contractual or other arrangements which are essential to the business of the Company as, in the view of the directors, there are no such arrangements.

Branches

The Group continues to operate overseas branches or representative offices in Chile, Denmark, Finland, Hong Kong, Italy, Japan, Mexico, Portugal, South Korea, Sweden, Switzerland and the People's Republic of China.

Annual General Meeting

The notice convening the AGM of the Company together with the explanatory notes on the resolutions proposed at the AGM accompanies this report. The meeting will be held at the Company's Headquarters at The Lawn, 22-30 Old Bath Road, Newbury, Berkshire, RG14 1QN on 4 September 2017 at 9am (UK time).

Independent auditors and disclosure of information to auditors

So far as they are aware, the directors at the date of this report confirm that there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware and that the directors have taken all reasonable steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Following the Audit Tender process KPMG LLC have indicated their willingness to become the Auditors of the Group and a resolution regarding their appointment will be proposed at the AGM.

Going concern

The directors, having made enquiries and produced a Viability Statement (page 44), consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore it is appropriate to maintain the going concern basis in preparing the financial statements.

Post balance sheet events

Post balance sheet events have been reported in note 38 in this Annual Report and Accounts.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and in conformity with IFRS as adopted by the European Union (collectively "IFRS") and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and in conformity with IFRS as adopted by the European Union (collectively "IFRS") have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- Make judgments and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the board of directors section confirm that, to the best of their knowledge:

- The company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company;
- The group financial statements, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and in conformity with IFRS as adopted by the European Union (collectively "IFRS"), give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- The Directors' Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' Report is approved:

- So far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the board,

Jane Smithard
Company Secretary
17 July 2017

Micro Focus International plc
Registered office:
The Lawn, 22-30 Old Bath Road
Newbury
Berkshire RG14 1QN
Registered in England
Company number: 5134647

Section
Number

4 —

Consolidated financial statements and notes

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Independent auditors' report to the members of Micro Focus International plc

Report on the Group financial statements

Our opinion

In our opinion, Micro Focus International plc's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 30 April 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the 'Summary of significant accounting policies', the group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the financial statements comply with IFRSs as issued by the IASB.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Consolidated statement of financial position as at 30 April 2017;
- the Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of cash flows for the year then ended;
- the Consolidated statement of changes in equity for the year then ended;
- the Summary of significant accounting policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

- Overall Group materiality: $16.8m which represents approximately 3.5% of profit before tax, exceptional items and amortisation of purchased intangibles.

- The Micro Focus Group has finance functions in three principal locations around the world, being the UK, US and Ireland. One of these is the Group's head office located in the UK where our work on the Group consolidation was conducted. Local teams in the US and Ireland audited the primary business components accounted for from those locations, with the Group audit team visiting these locations during the year both to direct and supervise the work of local teams and to make sure we had a full and complete understanding of their work – particularly in so far as it related to the identified areas of focus.
- In total, locations where we performed audit work accounted for 75% of the Group revenues and 70% of the Group's revenues.

- Revenue recognition
- Fair value of acquisition accounting
- Exceptional costs and restructuring provisions
- Taxation

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Revenue recognition

Area of focus

Refer also to notes 1 and 2 (pages 119 to 121)

We focused on this area because the allocation of revenue to each component of a sale (Licence, Maintenance, Subscription and Consulting), when sold together in a bundle, requires the application of judgment in allocating revenue between the components of the bundle. We assessed this risk to be greatest in larger transactions, where there is increased likelihood of unusual sales arrangements containing bespoke terms.

Given that Licence revenue is generally recognised up front in full, whereas Maintenance and Subscription revenue is spread over the duration of the contact term, the risk of there being inappropriate allocation of revenue also becomes more relevant in the period immediately prior to the year end.

We also addressed how processes and controls may have been circumvented and manual adjustments made to revenue.

How our audit addressed the area of focus

Our testing focused on the larger and more complex revenue transactions throughout the year and on sales made around the year end to check that revenue was accounted for in the correct period. In aggregate, the contracts tested accounted for approximately 27% of total Licence revenue during the year.

In respect of sales contracts tested, we checked that the fair value allocation of revenue between the Licence, Maintenance, Subscription and Consulting components at deal inception was in line with the terms of the sales contracts and Group accounting policies. This included considering any unusual terms in the sales contracts and the period during which Maintenance is to be provided to the customer. We tested the basis upon which management calculate the fair value attributable to the components of revenue by reference to the sales price achieved when components are sold on a standalone basis, which we found to be consistent.

In order to identify where processes and controls may have been circumvented and inappropriate manual adjustments made to revenue, we used data analysis techniques to identify revenue postings in certain significant reporting entities not generated by cash or trade receivables or a release from deferred income.

Having identified those transactions, we traced a sample to supporting documentary evidence that, without exception, supported their validity.

Fair value of acquisition accounting

Area of focus

Refer also to note 37 (pages 157 to 163)

We focused on this area because the fair value adjustments (which included the creation of intangible assets, associated deferred tax liabilities, and a reduction in deferred income) in relation to the Serena acquisition were judgmental in nature and also material or potentially material.

Serena Software Inc. ("Serena") was acquired on 2 May 2016 for $277.6m, payable in cash at completion. At the acquisition date, the carrying value of its net assets totaled $147.3m. Adjustments to record the assets and liabilities at fair value (as is required by accounting standards) decreased the value of the acquired net assets by $249.3m. As a result goodwill totaling $379.7m was established.

How our audit addressed the area of focus

Our testing focused on the larger and more judgmental fair value adjustments that were recorded. Particular adjustments we tested were:

Intangible assets – intangible assets of $317.7m were valued, representing customer relationships, trade names and technology. The directors obtained external valuations for the acquired intangible assets. Using our own valuations expertise, we evaluated the valuation methodologies used for each type of asset and satisfied ourselves that the methodology was appropriate and consistent with market practice. We also examined the key assumptions used as inputs to the valuation models to assess whether these were consistent with our understanding of the Serena business, its historical performance and the markets in which it operates. These assumptions included revenue and profit forecasts, discount rates, customer attrition rates, technology obsolescence rates and royalty rates. We found that the key valuation assumptions were within our expected range and that the valuation methodologies applied were appropriate.

Deferred tax – In accordance with accounting standards, the creation of these intangible assets resulted in the creation of deferred tax liabilities on acquisition of $109.2m. We examined and satisfied ourselves with the methodology and tax rates used to calculate these liabilities. This involved reference to the tax jurisdictions in which Serena operates, levels of business in those jurisdictions and the manner in which profits are expected to be repatriated and taxed.

Deferred income – Adjustments totalling $4.6m were recorded reducing the value of deferred income. The purpose of this adjustment was to record the liability at the fair value for which it could be settled between knowledgeable willing parties in an arm's length transaction. We checked that the methodology used to calculate the fair value was appropriate under the accounting standards, consistent with market practice for this type of transaction and consistent with recent transactions entered into by the Group. We found this to be the case. We also tested the appropriate unwinding of the deferred income adjustment in line with the revenue profile. This reduction in deferred income resulted in $3.8m less revenue recognised in the post-acquisition period than there would have been if no adjustment had been made.

Exceptional costs and restructuring provisions

Area of focus

Refer also to notes 3 and 24 (pages 121 to 123 and 142 to 143)

Consistent with the prior year, restructuring activities have occurred in relation to both the integration of The Attachmate Group Inc. ("TAG") and Serena Software Inc. ("Serena") businesses, which has led to $27.7m of integration costs. In addition, pre-acquisition costs of $58.0m have been incurred in relation to the future acquisition of HPE Software. These costs mostly relate to due diligence work, legal work on the acquisition agreements, professional advisors on the transaction and pre-integration costs relating to activities in readiness for the HPE Software acquisition across all functions of the existing Micro Focus business.

The presentation of restructuring and pre-acquisition costs in the Consolidated statement of comprehensive income as exceptional expenses required additional consideration, as the classification of an expense as exceptional depends on judgments made by the directors in identifying such items. Consistency in identifying and disclosing items as exceptional is important in order to maintain comparability of the results year on year.

Provisions as at 30 April 2017 primarily comprise $16.2m for onerous lease and dilapidation and $12.1m for restructuring and integration. Additions in the year primarily comprised $4.6m in respect of changes in the estimated time to sublease a North American property, and $48.5m in relation to severance and integration activities in bringing together the Base Micro Focus, TAG, Serena and GWAVA organisations into one organisation. There have been $43.5m of provision utilisations in the year.

The extent of restructuring and integration costs/credits provided for in the financial statements involves the exercise of judgment regarding the estimate of future costs and the extent to which a constructive obligation exists. The estimate of onerous lease provisions also requires judgment – in particular, where the directors intend to sub-let the property, given uncertainties regarding the expected rental income and the time delay in securing a sub-tenant.

How our audit addressed the area of focus

We tested the presentation of exceptional items by assessing whether the classification in the Consolidated statement of comprehensive income was in line with the Group's accounting policy set out on page 125 and whether the accounting policy was consistent with IFRS. We found no issues regarding the accounting policy or its application. Where provisions were recorded that were in respect of exceptional items, we reconciled the exceptional charge recorded in the Consolidated statement of comprehensive income to the movement in the related provision.

We selected a sample of items in respect of which restructuring and pre-acquisition costs had been recognised, focusing in particular on the more significant costs. For the sample selected we found that the costs recognised were consistent with supporting documentation and were appropriately classified.

We tested the onerous lease and dilapidation provisions by agreeing details of property obligations to underlying rental contracts for a selection of properties. For properties that the Group expects to sub-let, we noted that the Group had engaged third parties in the active marketing of properties and we compared the period of assumed vacancy prior to the expected sub-let date to supporting documentation. We also assessed whether the sub-let income assumed was commensurate with rental rates under negotiation with potential sub-let tenants. We found management's estimates to be consistent with these observations.

Taxation

Area of focus

Refer also to notes 6, 21 and 28 (pages 124 and 125, 141, 149 and 150)

The existing Group structure is complex and the Group also has a significant presence in jurisdictions that have more complex tax legislation. This brings with it an increased level of complexity and uncertainty in relation to the appropriate level of provisioning required throughout the Group.

How our audit addressed the area of focus

We used our tax specialists to evaluate the judgments and calculations made by management in estimating the provisions held in respect of uncertain tax positions. In doing so we assessed the provisions recognised in the financial statements by reference to the outcome of prior tax audits conducted on the Group, correspondence between the Group and relevant tax authorities, the view of the Group's tax advisors and our own experience in these areas. We found the provisions to be within an acceptable range.

We used our local tax expertise in the UK and US to understand the key judgments made by the Group in relation to ongoing integration activities within the Group. We held meetings with senior management and read correspondence from the Group's external tax advisors and considered their views on these matters. We assessed and formed our own views on the key judgments made by the Group and found that the judgments made were materially consistent with our own views in respect of the significant tax exposures.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting unit in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgment in the financial results. We also considered the changes to the overall Group as a result of the acquisition and ongoing integration of Serena Software Inc. in the year and where the key business activities and transactions reside.

Following this assessment, we determined that we needed to focus our audit work at the Group's head office. We also instructed PwC US and PwC Ireland, as component auditors, to perform audits of financial information of the significant reporting units accounted for locally in those territories. We visited these locations during the year to ensure we obtained a full understanding of the operational activities, and appropriately scoped risks and agreed responses to those risks. We also attended audit clearance meetings in these locations and took an active part in reviewing the work undertaken by PwC US and PwC Ireland on the areas of significant risk and areas of focus relevant to their locations. This, together with additional procedures performed at the Group level over the consolidation process, gave us the evidence we needed for our opinion on the financial statements as a whole.

In total, locations where we performed audit work accounted for 75% of Group revenues and 70% of the Group's cost base.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	$16.8m (2016: $14.8m).
How we determined it	3.5% of profit before tax, exceptional items and amortisation of purchased intangibles.
Rationale for benchmark applied	We applied this benchmark to eliminate volatility and preserve the link between materiality and the performance of the underlying business.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $840,000 (2016: $700,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 96, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Independent auditors' report to the members of Micro Focus International plc
continued

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

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

– the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

– the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

– information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
– the statement given by the directors on page 96, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
– the section of the Annual Report on pages 61 to 64, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

– the directors' confirmation on page 36 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
– the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
– the directors' explanation on page 44 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 96, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgments against available evidence, forming our own judgments, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Company financial statements of Micro Focus International plc for the year ended 30 April 2017 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Paynter
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
17 July 2017

Consolidated statement of comprehensive income
for the year ended 30 April 2017

	Note	Year ended 30 April 2017 Before exceptional items $'000	Year ended 30 April 2017 Exceptional items $'000	Year ended 30 April 2017 Total $'000	Year ended 30 April 2016* Before exceptional items $'000	Year ended 30 April 2016* Exceptional items $'000	Year ended 30 April 2016* Total $'000
Revenue	1,2	**1,380,702**	**–**	**1,380,702**	1,245,049	–	1,245,049
Cost of sales comprising:							
Cost of sales (excluding amortization of product development costs and acquired technology intangibles)		**(142,724)**	**(2,949)**	**(145,673)**	(133,260)	(2,172)	(135,432)
– Amortization of product development costs	10	**(22,398)**	**–**	**(22,398)**	(19,515)	–	(19,515)
– Amortization of acquired technology intangibles	10	**(69,098)**	**–**	**(69,098)**	(75,227)	–	(75,227)
Cost of sales		**(234,220)**	**(2,949)**	**(237,169)**	(228,002)	(2,172)	(230,174)
Gross profit		**1,146,482**	**(2,949)**	**1,143,533**	1,017,047	(2,172)	1,014,875
Selling and distribution costs		**(461,605)**	**(5,479)**	**(467,084)**	(411,961)	(4,372)	(416,333)
Research and development expenses comprising:							
– Expenditure incurred in the year		**(200,976)**	**(6,792)**	**(207,768)**	(194,265)	(1,258)	(195,523)
– Capitalization of product development costs	10	**27,664**	**–**	**27,664**	30,877	–	30,877
Research and development expenses		**(173,312)**	**(6,792)**	**(180,104)**	(163,388)	(1,258)	(164,646)
Administrative expenses		**(120,864)**	**(82,038)**	**(202,902)**	(118,911)	(20,051)	(138,962)
Operating profit		**390,701**	**(97,258)**	**293,443**	322,787	(27,853)	294,934
Analyzed as:							
Adjusted Operating Profit		**638,068**	**–**	**638,068**	533,514	–	533,514
Share based compensation		**(34,506)**	**–**	**(34,506)**	(28,793)	–	(28,793)
Amortization of purchased intangibles	10	**(212,861)**	**–**	**(212,861)**	(181,934)	–	(181,934)
Exceptional items	3	**–**	**(97,258)**	**(97,258)**	–	(27,853)	(27,853)
Operating profit	4	**390,701**	**(97,258)**	**293,443**	322,787	(27,853)	294,934
Share of loss of associates and gain on dilution of investment	14	**(1,254)**	**–**	**(1,254)**	(2,190)	–	(2,190)
Finance costs	5	**(96,824)**	**–**	**(96,824)**	(98,357)	–	(98,357)
Finance income	5	**979**	**–**	**979**	1,009	–	1,009
Net finance costs	5	**(95,845)**	**–**	**(95,845)**	(97,348)	–	(97,348)
Profit before tax	3	**293,602**	**(97,258)**	**196,344**	223,249	(27,853)	195,396
Taxation	6	**(50,174)**	**11,633**	**(38,541)**	(39,259)	6,835	(32,424)
Profit for the financial year		**243,428**	**(85,625)**	**157,803**	183,990	(21,018)	162,972
Attributable to:							
Equity shareholders of the parent		**243,531**	**(85,625)**	**157,906**	183,912	(21,018)	162,894
Non-controlling interests	32	**(103)**	**–**	**(103)**	78	–	78
Profit for the financial year		**243,428**	**(85,625)**	**157,803**	183,990	(21,018)	162,972

	Note	Year ended 30 April 2017 Before exceptional items $'000	Year ended 30 April 2017 Exceptional items $'000	Year ended 30 April 2017 Total $'000	Year ended 30 April 2016* Before exceptional items $'000	Year ended 30 April 2016* Exceptional items $'000	Year ended 30 April 2016* Total $'000
Profit for the financial year		**243,428**	**(85,625)**	**157,803**	183,990	(21,018)	162,972
Other comprehensive (expense)/income:							
Items that will not be reclassified to profit or loss							
Actuarial gain on pension liabilities schemes	25	**402**	**–**	**402**	2,697	–	2,697
Actuarial gain on non-plan pension assets	25	**130**	**–**	**130**	3,104	–	3,104
Deferred tax movement on pensions	6	**(325)**	**–**	**(325)**	(1,745)	–	(1,745)
Items that may be subsequently reclassified to profit or loss							
Currency translation differences		**(5,953)**	**–**	**(5,953)**	(3,458)	–	(3,458)
Other comprehensive (expense)/income for the year		**(5,746)**	**–**	**(5,746)**	598	–	598
Total comprehensive income for the year		**237,682**	**(85,625)**	**152,057**	184,588	(21,018)	163,570
Attributable to:							
Equity shareholders of the parent		**237,785**	**(85,625)**	**152,160**	184,510	(21,018)	163,492
Non-controlling interests	32	**(103)**	**–**	**(103)**	78	–	78
Total comprehensive income for the year		**237,682**	**(85,625)**	**152,057**	184,588	(21,018)	163,570

	Note	2017 cents	2016 cents
Earnings per share expressed in cents per share:			
– basic	8	**68.88**	74.50
– diluted	8	**66.51**	71.61

	Note	2017 pence	2016 pence
Earnings per share expressed in pence per share:			
– basic	8	**53.25**	49.59
– diluted	8	**51.42**	47.66

* In the year ended 30 April 2017, the Company has reviewed its consolidated statement of comprehensive income presentation and has decided to re-classify both amortization of product development costs and amortization of acquired technology intangibles from research and development expenses to cost of sales. The year ended 30 April 2016 comparatives have also been re-classified (see accounting policies).

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

Consolidated statement of financial position
as at 30 April 2017

	Note	2017 $'000	2016 $'000
Non-current assets			
Goodwill	9	**2,828,604**	2,436,168
Other intangible assets	10	**1,089,370**	966,555
Property, plant and equipment	12	**40,956**	40,867
Investments in associates	14	**11,457**	12,711
Long-term pension assets	25	**22,031**	22,272
Other non-current assets	15	**3,093**	4,002
Deferred tax assets	28	**208,253**	198,757
		4,203,764	3,681,332
Current assets			
Inventories	16	**64**	93
Trade and other receivables	17	**289,509**	268,186
Current tax receivables	21	**1,637**	18,016
Cash and cash equivalents	18	**150,983**	667,178
Assets classified as held for sale	11	**–**	888
		442,193	954,361
Total assets		**4,645,957**	4,635,693
Current liabilities			
Trade and other payables	19	**170,042**	188,090
Borrowings	20	**71,184**	275,256
Provisions	24	**20,142**	10,545
Current tax liabilities	21	**42,679**	22,426
Deferred income	22	**640,650**	565,480
		944,697	1,061,797
Non-current liabilities			
Deferred income	23	**223,786**	196,483
Borrowings	20	**1,490,352**	1,469,953
Retirement benefit obligations	25	**30,773**	31,669
Long-term provisions	24	**11,937**	14,354
Other non-current liabilities	26	**4,191**	3,671
Deferred tax liabilities	28	**326,731**	264,038
		2,087,770	1,980,168
Total liabilities		**3,032,467**	3,041,965
Net assets		**1,613,490**	1,593,728
Capital and reserves			
Share capital	29	**39,700**	39,573
Share premium account	30	**192,145**	190,293
Merger reserve	31	**338,104**	988,104
Capital redemption reserve	31	**163,363**	163,363
Retained earnings		**902,183**	228,344
Foreign currency translation deficit		**(22,959)**	(17,006)
Total equity attributable to owners of the parent		**1,612,536**	1,592,671
Non-controlling interests	32	**954**	1,057
Total equity		**1,613,490**	1,593,728

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

The consolidated financial statements on pages 106 to 177 were approved by the board of directors on 17 July 2017 and were signed on its behalf by:

Kevin Loosemore
Executive Chairman

Mike Phillips
Chief Financial Officer

Registered number: 5134647

Consolidated statement of changes in equity
for the year ended 30 April 2017

	Note	Share capital $'000	Share premium account $'000	Retained (deficit)/ earnings $'000	Foreign currency translation reserve/ (deficit) $'000	Capital redemption reserves $'000	Merger reserve $'000	Total equity attributable to owners of the parent $'000	Non-controlling interests $'000	Total equity $'000
Balance as at 1 May 2015		39,555	16,087	(96,479)	(13,548)	163,363	1,168,104	1,277,082	979	1,278,061
Profit for the financial year		–	–	162,894	–	–	–	162,894	78	162,972
Other comprehensive income for the year		–	–	4,056	(3,458)	–	–	598	–	598
Total comprehensive income		–	–	166,950	(3,458)	–	–	163,492	78	163,570
Transactions with owners:										
Dividends	7	–	–	(105,159)	–	–	–	(105,159)	–	(105,159)
Share options:										
Issue of share capital	29, 30	18	950	(70)	–	–	–	898	–	898
Movement in relation to share options		–	–	23,582	–	–	–	23,582	–	23,582
Corporation tax on share options		–	–	1,545	–	–	–	1,545	–	1,545
Deferred tax on share options		–	–	8,490	–	–	–	8,490	–	8,490
Share placement:										
Issue of share capital – share placement	30	–	176,235	49,485	–	–	–	225,720	–	225,720
Share placement issue costs	37	–	(2,979)	–	–	–	–	(2,979)	–	(2,979)
Reallocation of merger reserve	31	–	–	180,000	–	–	(180,000)	–	–	–
Total movements for the year		**18**	**174,206**	**324,823**	**(3,458)**	**–**	**(180,000)**	**315,589**	**78**	**315,667**
Balance as at 30 April 2016		**39,573**	**190,293**	**228,344**	**(17,006)**	**163,363**	**988,104**	**1,592,671**	**1,057**	**1,593,728**
Profit for the financial year		**–**	**–**	**157,906**	**–**	**–**	**–**	**157,906**	**(103)**	**157,803**
Other comprehensive expense for the year		**–**	**–**	**207**	**(5,953)**	**–**	**–**	**(5,746)**	**–**	**(5,746)**
Total comprehensive income/ (expense)		**–**	**–**	**158,113**	**(5,953)**	**–**	**–**	**152,160**	**(103)**	**152,057**
Transactions with owners:										
Dividends	7	**–**	**–**	**(177,535)**	**–**	**–**	**–**	**(177,535)**	**–**	**(177,535)**
Treasury shares purchased		**–**	**–**	**(7,678)**	**–**	**–**	**–**	**(7,678)**	**–**	**(7,678)**
Share options:										
Issue of share capital – share options	29,30	**127**	**1,852**	**(90)**	**–**	**–**	**–**	**1,889**	**–**	**1,889**
Movement in relation to share options		**–**	**–**	**23,952**	**–**	**–**	**–**	**23,952**	**–**	**23,952**
Corporation tax on share options		**–**	**–**	**4,081**	**–**	**–**	**–**	**4,081**	**–**	**4,081**
Deferred tax on share options		**–**	**–**	**22,996**	**–**	**–**	**–**	**22,996**	**–**	**22,996**
Reallocation of merger reserve	31	**–**	**–**	**650,000**	**–**	**–**	**(650,000)**	**–**	**–**	**–**
Total movements for the year		**127**	**1,852**	**673,839**	**(5,953)**	**–**	**(650,000)**	**19,865**	**(103)**	**19,762**
Balance as at 30 April 2017		**39,700**	**192,145**	**902,183**	**(22,959)**	**163,363**	**338,104**	**1,612,536**	**954**	**1,613,490**

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

Consolidated statement of cash flows
for the year ended 30 April 2017

	Note	2017 $'000	2016* $'000
Profit after tax		**157,803**	162,972
Adjustments for:			
Net interest	5	**95,845**	97,348
Taxation	6	**38,541**	32,424
Share of results of associates	14	**1,254**	2,190
Operating profit		**293,443**	294,934
Research and development tax credits		**(2,998)**	(2,041)
Depreciation	12	**11,794**	11,419
Loss on disposal of property, plant and equipment	12	**520**	109
Amortization of intangibles	10	**236,434**	203,313
Share-based compensation	33	**34,506**	28,793
Exchange movements		**(4,890)**	(2,915)
Provisions movements	24	**47,266**	12,985
Changes in working capital:			
Inventories		**29**	28
Trade and other receivables		**10,224**	(49,175)
Payables and other liabilities		**(33,252)**	30,923
Provisions utilization	24	**(43,476)**	(55,639)
Deferred income		**15,375**	(16,603)
Pension funding in excess of charge to operating profit		**(183)**	(18)
Cash generated from operations		**564,792**	456,113
Interest paid		**(81,115)**	(91,807)
Bank loan costs		**(6,654)**	(1,805)
Tax paid		**(24,644)**	(79,282)
Net cash generated from operating activities		**452,379**	283,219
Cash flows from investing activities			
Payments for intangible assets	10	**(31,438)**	(34,488)
Purchase of property, plant and equipment	12	**(11,727)**	(10,281)
Interest received		**979**	1,009
Payment for acquisition of business	37	**(299,061)**	(9,960)
Repayment of bank borrowings on acquisition of businesses	37	**(316,650)**	–
Net cash acquired with acquisitions	37	**68,173**	106
Net cash used in investing activities		**(589,724)**	(53,614)
Cash flows from financing activities			
Investment in non-controlling interest	32	**(2)**	–
Proceeds from issue of ordinary share capital	29	**1,979**	968
Purchase of treasury shares		**(7,678)**	–
Proceeds from share capital placement		**–**	225,720
Costs associated with share placement		**–**	(2,979)
Repayment of bank borrowings	20	**(372,062)**	(157,750)
Proceeds from bank borrowings	20	**180,000**	245,000
Dividends paid to owners	7	**(177,535)**	(105,159)
Net cash (used in)/generated from financing activities		**(375,298)**	205,800
Effects of exchange rate changes		**(3,552)**	(9,551)
Net (decrease)/increase in cash and cash equivalents		**(516,195)**	425,854
Cash and cash equivalents at beginning of year		**667,178**	241,324
Cash and cash equivalents at end of year	18	**150,983**	667,178

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

* Provision utilization consisting of cash payments of $55.6m for the year ended 30 April 2016, has been revised from provision movements to working capital movements with a corresponding impact on the effects of exchange rate changes line. Subsequent to the revision, the remaining amounts presented in provision movements represent expenses net of reversals recorded within the Consolidated Statement of Comprehensive Income. The presentation of bank loan costs paid of $1.8m for the year ended 30 April 2016, has been revised from cash flows from financing activities to cash flows from operating activities as management determined they were inappropriately presented within cash flows from financing activities. Management does not believe these corrections are material, individually or in the aggregate, to the Consolidated Financial Statements in any periods. The revision did not impact the Consolidated Statements of Comprehensive Income, Consolidated Statements of Financial Position and Consolidated Statements of Changes in Equity in any periods.

The principal non-cash transaction in the year ended 30 April 2017 was the cashless rollover of Term Loan C to Term Loan B-2.

Summary of significant accounting policies
for the year ended 30 April 2017

General information
Micro Focus International plc ("Company") is a public limited Company incorporated and domiciled in the UK. The address of its registered office is, The Lawn, 22-30 Old Bath Road, Newbury, RG14 1QN, UK. Micro Focus International plc and its subsidiaries (together "Group") provide innovative software to clients around the world enabling them to dramatically improve the business value of their enterprise applications. As at 30 April 2017, the Group had a presence in 40 countries (2016: 39) worldwide and employed approximately 4,800 people (2016: 4,200).

The Company is listed on the London Stock Exchange.

Following Completion of the acquisition of HPE Software, the Group intends to align its financial year end to 31 October and will report an 18 month financial period ending 31 October 2018.

The Group consolidated financial statements were authorized for issuance by the board of directors on 11 July 2017.

Significant Accounting policies
A Basis of preparation
The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and in conformity with IFRS as adopted by the European Union (collectively "IFRS"). The consolidated financial statements have been prepared on a going concern basis under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below in II, 'Critical accounting estimates and assumptions'.

The principal accounting policies adopted by the Group in the preparation of the consolidated financial statements are set out below. Other than as described below, the accounting policies adopted are consistent with those of the Annual Report and Accounts for the year ended 30 April 2016, apart from standards, amendments to or interpretations of published standards adopted during the year, certain cash flow classification described in consolidated statements of cash flows; and the re-classification of costs in the consolidated statement of comprehensive income.

Re-classification of costs for Consolidated Statement of Comprehensive Income Presentation
As part of the HPE Software transaction the Company's shares and ADS will be listed on the LSE and NYSE respectively. As part of the regulatory filing process in the USA the Group has reviewed its consolidated statement of comprehensive income presentation and has decided to re-classify both amortization of product development costs and amortization of acquired technology intangibles from research and development expenses to cost of sales. This presentation complies with IFRS and, in the view of the Company's Audit Committee, provides investors with a consolidated statement of comprehensive income presentation that is more comparable with other software companies listed on both markets. The year ended 30 April 2016 comparatives have also been re-classified and additional detail is provided on the face of the consolidated statement of comprehensive income this year.

B Consolidation
The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company, its subsidiaries and the Group's share of its interests in associates prepared at the consolidated statement of financial position date.

Subsidiaries
Subsidiaries are entities controlled by the Group. The Group has control over an entity where the Group is exposed to, or has rights to, variable returns from its involvement within the entity and it has the power over the entity to effect those returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing control. Control is presumed to exist when the Group owns more than half of the voting rights (which does not always equal percentage ownership) unless it can be demonstrated that ownership does not constitute control. The results of subsidiaries are consolidated from the date on which control passes to the Group. The results of disposed subsidiaries are consolidated up to the date on which control passes from the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, with costs directly attributable to the acquisition being expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Where new information is obtained within the 'measurement period' (defined as the earlier of the period until which the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable, or one year from the acquisition date) about facts and circumstances that existed as at the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date, the Group recognizes these adjustments to the acquisition balance sheet with an equivalent offsetting adjustment to goodwill. Where new information is obtained after this measurement period has closed, this is reflected in the post-acquisition period.

For partly owned subsidiaries, the allocation of net assets and net earnings to outside shareholders is shown in the line 'Attributable to non-controlling interests' on the face of the consolidated statement of comprehensive income and the consolidated statement of financial position.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

At 30 April 2017, the Group had a 74.7% (2016: 71.5%) interest in Novell Japan Ltd.

Associates
An associate is an entity, that is neither a subsidiary or a joint venture, over whose operating and financial policies the Group exercises significant influence. Significant influence is presumed to exist where the Group has between 20% and 50% of the voting rights, but can also arise where the Group holds less than 20% if it has the power to be actively involved and influential in policy decisions affecting the entity.

Summary of significant accounting policies for the year ended 30 April 2017
continued

B Consolidation (continued)
Associates are accounted for under the equity method, where the consolidated statement of comprehensive income and the consolidated financial position includes the Group's share of their profits and losses and net assets, less any impairment in value. This involves recording the investment initially at cost to the Group, which therefore includes any goodwill on acquisition and then, in subsequent periods, adjusting the carrying amount of the investment to reflect the Group's share of the associates' post-acquisition profits and losses, which is recognized in the consolidated statement of comprehensive income, and its share of post-acquisition comprehensive income, which is recognized in the consolidated statement of comprehensive income. Unrealized gains arising from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates.

At 30 April 2017 the Group had a 12.5% interest ($10.5m) (2016: 14.3%, $12.7m) investment in Open Invention Network LLC ("OIN"). There are eight (2016: seven) equal shareholders of OIN, all holding 12.5% (2016: 14.3%) interest, and each shareholder has one board member and one alternative board member. The Group exercises significant influence over OIN's operation and therefore accounts for its investment in OIN as an associate.

C Revenue recognition
The Group recognizes revenues from sales of software Licences (including Intellectual Property and Patent rights, to end-users, resellers and Independent Software Vendors ("ISV")), software maintenance, subscription, technical support, training and professional services, upon firm evidence of an arrangement, delivery of the software and determination that collection of a fixed or determinable fee is reasonably assured. ISV revenue includes fees based on end usage of ISV applications that have our software embedded in their applications. When the fees for software upgrades and enhancements, maintenance, consulting and training are bundled with the Licence fee, they are unbundled using the Group's objective evidence of the fair value of the elements represented by the Group's customary pricing for each element in separate transactions. If evidence of fair value exists for all undelivered elements and there is no such evidence of fair value established for delivered elements, revenue is first allocated to the elements where fair value has been established and the residual amount is allocated to the delivered elements. If evidence of fair value for any undelivered element of the arrangement does not exist, all revenue from the arrangement is deferred until such time that there is evidence of delivery.

If the arrangement includes acceptance criteria, revenue is not recognized until the Group can objectively demonstrate that the acceptance criteria have been met, or the acceptance period lapses, whichever is earlier.

The Group recognizes Licence revenue derived from sales to resellers upon delivery to resellers, provided that all other revenue recognition criteria are met; otherwise revenue is deferred and recognized upon delivery of the product to the end-user. Where the Group sells access to a Licence for a specified period of time and collection of a fixed or determinable fee is reasonably assured, Licence revenue is recognized upon delivery, except in instances where future substantive upgrades or similar performance obligations are committed to. Where these future performance obligations are specified in the Licence agreement, and fair value can be attributed to those upgrades, revenue for the future performance obligations is deferred and recognized on the basis of the fair value of the upgrades in relation to the total estimated sales value of all items covered by the licence agreement. Where the future performance obligations are unspecified in the Licence agreement, revenue is deferred and recognized rateably over the specified period.

For Subscription revenue where access and performance obligations are provided evenly over a defined term, the revenue is deferred and recognized rateably over the specified period.

Maintenance revenue is recognized on a straight-line basis over the term of the contract, which in most cases is one year. Revenue from consulting and training services is recognized on a percentage of completion basis as the services are performed. The stage of completion is measured on the basis of services performed to date as a percentage of the total services to be performed. Amounts collected prior to satisfying the above revenue recognition criteria are included in deferred income.

Rebates paid to partners as part of a contracted program are netted against revenue where the rebate paid is based on the achievement of sales targets made by the partner, unless the Company receives an identifiable good or service from the partner that is separable from the sales transaction and for which the Group can reasonably estimate fair value.

D Cost of sales
Cost of sales includes costs related to the amortization of product development costs, amortization of acquired technology intangibles, costs of the consulting business and helpline support and royalties payable to third parties.

E Segment reporting
In accordance with IFRS 8, 'Operating Segments', the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker ("the Executive Committee"). Operating segments are consistent with those used in internal management reporting and the measure used by the Executive Committee is the Adjusted Operating Profit for the Group as a whole as set out in note 4. The Group has two operating segments: Micro Focus Product Portfolio and SUSE Product Portfolio. Details of the Group's operating segments can be found in the Strategic Report.

F Exceptional items
Exceptional items are those significant items which are separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance. Management of the Group first evaluates group strategic projects such as acquisitions, divestitures and integration activities, company tax restructuring and other one off events such as restructuring programs. In determining whether an event or transaction is exceptional, management of the Group considers quantitative and qualitative factors such as its expected size, precedent for similar items and the commercial context for the particular transaction, while ensuring consistent treatment between favourable and unfavourable transactions impacting revenue, income and expense. Examples of transactions which may be considered of an exceptional nature include major restructuring programmes, cost of acquisitions or the cost of integrating acquired businesses.

G Employee benefit costs
a) Pension obligations and long-term pension assets
The Group operates various pension schemes, including both defined contribution and defined benefit pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

G Employee benefit costs (continued)

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement. This is usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. Certain long-term pension assets do not meet the definition of plan assets as they have not been pledged to the plan and are subject to the creditors of the Group. Such assets are recorded separately in the consolidated statement of financial position as long-term pension assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to mature approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income.

The current service cost of the defined benefit plan, recognized in the consolidated statement of comprehensive income in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of comprehensive income.

Long-term pension assets relate to the reimbursement right under insurance policies held in the Group with guaranteed interest rates that do not meet the definition of a qualifying insurance policy as they have not been pledged to the plan and are subject to the creditors of the Group. Such reimbursement rights assets are recorded in the consolidated statement of financial position as long-term pension assets. Fair value of the reimbursement right asset is deemed to be the present value of the related obligation because the right to reimbursement under the insurance policies exactly matches the amount and timing of some or all of the benefits payable under the defined benefit plan.

b) Share based compensation

The Group operated various equity-settled, share based compensation plans during the year.

The fair value of the employee services received in exchange for the grant of the shares or options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or options granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Market vesting conditions are taken into account when determining the fair value of the options at grant date. At each consolidated statement of financial position date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.

The shares are recognized when the options are exercised and the proceeds received allocated between ordinary shares and share premium account. Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. The Additional Share Grants have been valued using the Monte-Carlo simulation pricing model.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

c) Employee benefit trust

Transactions, assets and liabilities of the Group sponsored Employee Benefit Trust are included in the consolidated financial statements as it is considered to be an intermediate payment arrangement. In particular, the Trust's purchases of shares in the Company remain deducted from shareholders' funds until they vest unconditionally with employees.

H Foreign currency translation

a) Functional and presentation currency

The presentation currency of the Group is US dollars. Items included in the financial statements of each of the Group's entities are measured in the functional currency of each entity. The Group uses the local currency as the functional currency, except for two entities based in Ireland (Novell Ireland Software Limited and Novell Ireland Real Estate Limited) and the parent company, where the functional currency is the US dollar.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;

ii) Income and expenses for each consolidated statement of comprehensive income item are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

iii) All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate, with the exception for goodwill arising before 1 May 2004 which is treated as an asset of the Company and expressed in the Company's functional currency.

Summary of significant accounting policies for the year ended 30 April 2017
continued

H Foreign currency translation (continued)

d) Exchange rates

The most important foreign currencies for the Group are Pounds Sterling, the Euro and Japanese Yen. The exchange rates used are as follows:

	2017		2016	
	Average	**Closing**	Average	Closing
£1 = $	**1.29**	**1.29**	1.50	1.46
€1 = $	**1.09**	**1.09**	1.11	1.14
100 Yen = 1	**0.93**	**0.90**	0.84	0.94

I Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each area of operation by each primary reporting segment.

b) Computer software

Computer software licences are capitalized on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortized using the straight-line method over their estimated useful lives of three to five years.

c) Research and development

Research expenditure is recognized as an expense as incurred in the consolidated statement of comprehensive income in research and development expenses. Costs incurred on product development projects relating to the developing of new computer software programmes and significant enhancement of existing computer software programmes are recognized as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Only direct costs are capitalized which are the software development employee costs and third party contractor costs. Product development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Product development costs are amortized from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, typically being three years, and are included in costs of sales in the consolidated statement of comprehensive income.

d) Intangible assets – arising on business combinations

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization. Amortization is charged to the consolidated statement of comprehensive income on a straight-line basis over the estimated useful life of each intangible asset. Intangible assets are amortized from the date they are available for use. The estimated useful lives will vary for each category of asset acquired and to date are as follows:

Purchased software	Three to five years
Trade names	Three to 20 years
Technology	Three to 10 years
Customer relationships	Two to 10 years

Amortization of purchased software intangibles is included in administrative expenses, of technology intangibles in cost of sales and of trade names and customer relationships intangibles in selling and distribution costs in the consolidated statement of comprehensive income.

J Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred. Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life as follows:

Buildings	30 years
Leasehold improvements	Three to 10 years
Fixtures and fittings	Two to seven years
Computer equipment	One to five years

Freehold land is not depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the consolidated statement of comprehensive income.

Property held for sale is measured at the lower of its carrying amount or estimated fair value less costs to sell.

K Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows being cash-generating units. Any non-financial assets other than goodwill which have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Assets that are subject to amortization and depreciation are also reviewed for any possible impairment at each reporting date.

L Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of finished goods comprises software for resale and packaging materials. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

When work has been performed and the revenue is not yet recognized, the direct costs of third party contractors and staff will be treated as work in progress where the probability of invoicing and evidence of collectability can be demonstrated.

M Trade receivables
Trade receivables are initially recognized at fair value and subsequently measured at amortized cost less provisions for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the consolidated statement of comprehensive income.

N Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

O Borrowings
Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statement of comprehensive income over the period of borrowing on an effective interest basis.

P Leases
Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Q Taxation
Current and deferred tax are recognized in the consolidated statement of comprehensive income, except when the tax relates to items charged or credited directly to equity, in which case the tax is also dealt with directly in equity.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax is recognized based on the amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date.

R Ordinary shares, share premium and dividend distribution
Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Dividend distributions to the Company's shareholders are recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognized when they are paid.

S Financial instruments and hedge accounting
Financial assets and liabilities are recognized in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provision of the instrument. Trade receivables are non-interest bearing and are stated at their fair value less the amount of any appropriate provision for irrecoverable amounts. Trade payables are non-interest bearing and are stated at their fair value. In accordance with its treasury policy as at 30 April 2017 and 2016, the Group does not typically hold or issue derivative financial instruments for hedge accounting or trading purposes.

T Provisions
Provisions for onerous leases, restructuring costs and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as an interest expense.

Summary of significant accounting policies for the year ended 30 April 2017

continued

U Adoption of new and revised International Financial Reporting Standards

The accounting policies adopted in these consolidated financial statements are consistent with those of the annual financial statements for the year ended 30 April 2016, with the exception of the following standards, amendments to or interpretations of published standards adopted during the year:

(a) The following standards, interpretations and amendments to existing standards are now effective and have been adopted by the Group:

- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortization applies for periods beginning on or after 1 January 2016. In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

- Annual Improvements 2014 includes amendments to IFRS 5, 'Non-current Assets Held For Sale and Discontinued Operations', IFRS 7, 'Financial Instruments: Disclosures', IAS 19, 'Employee Benefits' and IAS 34, 'Interim Financial Reporting' applies for periods beginning on or after 1 January 2016.

- Amendment to IAS 1, 'Presentation of financial statements' as part of the IASB initiative to improve presentation and disclosure in financial reports, effective for annual periods beginning on or after 1 January 2016.

- Amendment to IAS 27, 'Separate financial statements' on the equity method applies to periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The amendments above do not have a material impact to the consolidated financial statements.

(b) The following standards, interpretations and amendments to existing standards are not yet effective and have not been adopted early by the Group:

- IFRS 15 'Revenue from contracts with customers' establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2018 onwards. Earlier application is permitted. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations clarifications. Please refer to below for a more detailed assessment to-date on implementing this standard.

- IFRS 9 'Financial instruments'. This standard replaces the guidance in IAS 39 and applies to periods beginning on or after 1 January 2018. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit loss model that replaces the current incurred loss impairment model.

- Amendments to IAS 7, 'Statement of cash flows' on disclosure initiative are effective on periods beginning on or after 1 January 2017, subject to EU endorsement. This amendment introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities and is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

- Amendments to IAS 12, 'Income taxes' on recognition of deferred tax assets for unrealized losses are effective on periods beginning on or after 1 January 2017, subject to EU endorsement. These amendments clarify how to account for deferred tax assets originated from unrealized loss in debt instruments measured at fair value.

- Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share based payment transactions are effective on periods beginning on or after 1 January 2018, subject to EU endorsement. These amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payment and pay that amount to the tax authority.

- IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted if the entity is adopting IFRS 15 'Revenue from contracts with customers' at the same time, subject to EU endorsement.

- Annual improvements 2014–2016 include amendments to IFRS 1, 'First-time adoption of IFRS', IFRS 12, 'Disclosure of interests in other entities' and IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value applies for periods beginning on or after 1 January 2018, subject to EU endorsement.

- IFRIC 22, 'Foreign currency transactions and advance consideration' addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made, effective for annual periods beginning on or after 1 January 2018, subject to EU endorsement.

- Clarifications to IFRS 15 'Revenue from Contracts with Customers' are effective on periods beginning on or after 1 January 2018, subject to EU endorsement. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation).

- IFRIC 23, 'Uncertainty over Income Tax Treatments' clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation. This interpretation is effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement.

U Adoption of new and revised International Financial Reporting Standards (continued)

For IFRS 9, IFRS 16, IFRIC 22 and IFRIC 23, it is too early to determine how significant the effect on reported results and financial position will be. The impact of IFRS 15 is discussed below. The impact of the other standards, amendments and interpretations listed above will not have a material impact on the consolidated financial statements.

Impact of IFRS 15 'Revenue from contracts with customers'

On 28 May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The new revenue recognition standard will be effective for the Group starting 1 November 2018, following the announcement of the new year-end date. We do not plan to adopt IFRS 15 early. The standard permits two possible transition methods for the adoption of the new guidance:

- Retrospectively to each prior reporting period presented in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", or
- Retrospectively with the cumulative effect of initially applying the standard recognized on the date of the initial application (cumulative catch-up approach).

We currently plan to adopt the new standard using the cumulative catch-up approach. We are in the process of assessing the impact developing our future IFRS 15 revenue recognition policies and adjusting the relevant business processes to adopt these new policies. We have established a project across Micro Focus' business to review the impacts of IFRS 15 and as part of this effort, the most notable difference to date is in relation to certain incremental costs of obtaining a contract. IFRS 15 requires the capitalization and amortization of certain in-scope sales commissions and third party costs to match the recognition of the associated revenue. An evaluation study is underway to determine the potential impact on the consolidated financial statements in the year of adoption. There will be no impact to cash flows.

IFRS 15 may also change the way we allocate on a transaction price to individual performance obligations which can impact the classification and timing of revenues. Further analysis of the requirements is currently being undertaken to understand the possible impact, if any.

In addition to the effects on our consolidated statement of comprehensive income, we expect changes to our consolidated statement of financial position (in particular due to the recognition of contract assets/contract liabilities, the differentiation between contract assets and trade receivables, the capitalization and amortization of costs of obtaining a contract and an impact in retained earnings from the initial adoption of IFRS 15) and changes to the quantitative and qualitative disclosure included.

We will continue to assess all of the impacts that the application of IFRS 15 will have on our consolidated financial statements in the period of initial application, which will also significantly depend on our business and Go-to-Market strategy in FY18. The impacts, if material, will be disclosed, including statements on if and how we apply any of the practical expedients available in the standard.

II Critical accounting estimates and assumptions

In preparing the consolidated financial statements, the Group has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Group regularly reviews these estimates and updates them as required. Actual results could differ from these estimates. Unless otherwise indicated, the Group does not believe that it is likely that materially different amounts would be reported related to the accounting estimates and assumptions described below. The Group considers the following to be a description of the most significant estimates, which require the Group to make subjective and complex judgments, and matters that are inherently uncertain.

A Potential impairment of goodwill and other intangible assets

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy K. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The valuation of goodwill and other intangibles is tested annually or whenever there are changes in circumstances indicating that the carrying amounts may not be recoverable. These tests require the use of estimates. Details of the Group's impairment review and sensitivities to changes in assumptions are disclosed in note 9.

B Provision for income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated settlement of tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group carries appropriate provision, based on best estimates, until tax computations are agreed with the taxation authorities.

C Business combinations

When making acquisitions, the Group has to make judgments and best estimates about the fair value allocation of the purchase price. Where acquisitions are significant, appropriate advice is sought from professional advisors before making such allocations otherwise valuations are done by management using consistent methodology used on prior year acquisitions where appropriate professional advice was sought.

D Development expenditure

The Group invests in the product development of future products in accordance with the accounting policy I(c). The assessment as to whether this expenditure will achieve a complete product for which the technical feasibility is assured is a matter of judgment, as is the forecasting of how the product will generate future economic benefit. Finally, the period of time over which the economic benefit associated with the expenditure occurred will arise is also a matter of judgment. These judgments are made by evaluating the development plan prepared by the research and development department and approved by management, regularly monitoring progress by using an established set of criteria for assessing technical feasibility and benchmarking to other products.

Summary of significant accounting policies for the year ended 30 April 2017

continued

E Revenue recognition

The key areas of judgment in respect of recognizing revenue are the timing of recognition and the fair value allocation between Licence and Maintenance revenue, specifically in relation to recognition and deferral of revenue on support contracts where management assumptions and estimates are necessary.

F Exceptional Items and Integration/Restructuring Provisions

The Group classifies items as exceptional in line with accounting policy F. The classification of these items as an exceptional is a matter of judgment. This judgment is made by management after evaluating each item deemed to be exceptional against the criteria set out within the defined accounting policy.

G Provisions

The Group has made key judgments relating to provisions. Provisions include onerous leases and dilapidations, restructuring and integration, legal and other. Key judgments included determining the time to sublet vacant properties, restructuring and integration liabilities and the potential outcome of legal cases.

III Financial risk factors

The Group's multi-national operations expose it to a variety of financial risks that include the effects of changes in credit risk, foreign currency risk, interest rate risk and liquidity risk. Risk management is carried out by a central treasury department under policies approved by the board of directors. Group treasury identifies and evaluates financial risks alongside the Group's operating units. The board provides written principles for risk management together with specific policies covering areas such as foreign currency risk, interest rate risk, credit risk and liquidity risk, use of derivative financial instruments and non-derivative financial instruments as appropriate, and investment of excess funds.

In accordance with the treasury policy as at 30 April 2017 and 2016, the Group does not typically hold or issue derivative financial instruments.

A Credit risk

Financial instruments which potentially expose the Group to a concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash equivalents are deposited with high-credit quality financial institutions. The Group provides credit to customers in the normal course of business. Collateral is not required for those receivables, but on-going credit evaluations of customers' financial conditions are performed. The Group maintains a provision for impairment based upon the expected collectability of accounts receivable. The Group sells products and services to a wide range of customers around the world and therefore believes there is no material concentration of credit risk.

B Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the UK Pound Sterling, Japanese Yen and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions, recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

There were no hedging transactions in place at 30 April 2017 and 2016. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

C Interest rate risk

The Group's income and cash generated from operations are substantially independent of changes in market interest rates. The Group's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group does not use interest rate swaps to manage its cash flow interest rate risk at the present time due to low market rates.

D Liquidity risk

Central treasury carries out cash flow forecasting for the Group to ensure that it has sufficient cash to meet operational requirements and to allow the repayment of the bank facility. Surplus cash in the operating units over and above what is required for working capital needs is transferred to Group treasury. These funds are used to repay bank borrowings or invested in interest bearing current accounts, time deposits or money market deposits of the appropriate maturity period determined by consolidated cash forecasts.

Trade payables arise in the normal course of business and are all current. Onerous lease provisions are expected to mature between less than 12 months and nine years.

At 30 April 2017 gross borrowings of $1,595.2m (2016: $1,787.3m) related to our senior secured debt facilities (see note 20). $142.8m (2016: $287.8m) is current of which $80.0m (2016: $225.0m) is the revolving credit facility. The borrowings disclosed in the balance sheet are net of pre-paid facility costs.

Notes to the consolidated financial statements
for the year ended 30 April 2017

1 Segmental reporting
In accordance with IFRS 8, 'Operating Segments', the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker ("the Executive Committee") for the purposes of resource allocation and assessment of segment performance. The Group's reportable segments under IFRS 8 are as follows:

Micro Focus – The Micro Focus Product Portfolio segment contains mature infrastructure software products that are managed on a portfolio basis akin to a "fund of funds" investment portfolio. This portfolio is managed with a single product group that makes and maintains the software, whilst the software is sold and supported through a geographic Go-to-Market organization. The products within the Micro Focus Product Portfolio are grouped together into five sub-portfolios based on industrial logic: CDMS, Host Connectivity, IAS, Development & ITOM and Collaboration & Networking.

SUSE – The characteristics of the SUSE Product Portfolio segment are different from the Micro Focus Product Portfolio due to the Open Source nature of its offerings and the growth profile of those offerings. SUSE provides and supports enterprise-grade Linux and Open Source solutions. The SUSE Product Portfolio comprises: SUSE Linux Enterprise Server and Extensions, SUSE OpenStack Cloud, SUSE Enterprise Storage, SUSE Manager and SUSE Linux Enterprise Desktop and Workstation Extension.

Operating segments are consistent with those used in internal management reporting and the profit measure used by the Executive Committee is Adjusted Operating Profit. Centrally managed costs are allocated between Micro Focus and SUSE segments based on identifiable segment costs with the remainder allocated based on other criteria including revenue and headcount.

Operating segments for the year ended 30 April 2017:

	Note	Micro Focus $'000	SUSE $'000	Total $'000
Segment revenue		**1,077,273**	**303,429**	**1,380,702**
Directly managed costs		**(564,072)**	**(178,562)**	**(742,634)**
Allocation of centrally managed costs		**26,196**	**(26,196)**	**–**
Total segment costs		**(537,876)**	**(204,758)**	**(742,634)**
Adjusted Operating Profit	4	**539,397**	**98,671**	**638,068**
Exceptional items	3			**(97,258)**
Share based compensation charge	33			**(34,506)**
Amortization of purchased intangibles	10			**(212,861)**
Operating profit	4			**293,443**
Share of results of associates	14			**(1,254)**
Net finance costs				**(95,845)**
Profit before tax				**196,344**
Total assets				**4,645,957**
Total liabilities				**3,032,467**

Notes to the consolidated financial statements for the year ended 30 April 2017

continued

1 Segmental reporting continued

Operating segments for the year ended 30 April 2016:

	Note	Micro Focus $'000	SUSE $'000	Total $'000
Segment revenue		991,233	253,816	1,245,049
Directly managed costs		(566,406)	(145,129)	(711,535)
Allocation of centrally managed costs		28,883	(28,883)	–
Total segment costs		(537,523)	(174,012)	(711,535)
Adjusted Operating Profit	4	453,710	79,804	533,514
Exceptional items	3			(27,853)
Share based compensation charge	33			(28,793)
Amortization of purchased intangibles	10			(181,934)
Operating profit	4			294,934
Share of results of associates	14			(2,190)
Net finance costs				(97,348)
Profit before tax				195,396
Total assets				4,635,693
Total liabilities				3,041,965

No measure of total assets and total liabilities for each reportable segment has been reported as such amounts are not regularly provided to the Chief Operating Decision Maker. The operating segment split of depreciation on property, plant and equipment and the amortization of purchased software intangibles is as follows.

	2017			2016		
	Micro Focus $'000	**SUSE $'000**	**Total $'000**	Micro Focus $'000	SUSE $'000	Total $'000
Depreciation of property, plant and equipment	**9,704**	**2,090**	**11,794**	9,736	1,683	11,419
Amortization of purchased software intangibles	**1,070**	**105**	**1,175**	1,679	185	1,864

Analysis by geography

The Group is domiciled in the UK. The Group's revenue from external customers by geographical location are detailed below:

	2017 $'000	2016 $'000
UK	**68,998**	69,406
USA	**667,534**	576,589
Germany	**148,801**	136,334
France	**50,676**	49,691
Japan	**49,980**	45,179
Other	**394,713**	367,850
Total	**1,380,702**	1,245,049

The total of non-current assets other than financial instruments and deferred tax assets as at 30 April 2017 located in the UK is $147.7m (2016: $152.1m), the total in the USA is $3,778.7m (2016: $3,264.9m) and the total of such non-current assets located in other countries is $67.3m (2016: $65.6m). They exclude trade and other receivables, derivative financial instruments and deferred tax.

2 Supplementary information

Set out below is an analysis of revenue recognized between the principal product portfolios for the year ended 30 April 2017.

	Micro Focus							
	CDMS $'000	**Host Connectivity $'000**	**Identity, Access & Security $'000**	**Development & IT Operations Management Tools $'000**	**Collaboration & Networking $'000**	**Total Micro Focus $'000**	**SUSE $'000**	**Total $'000**
Licence	**105,962**	**69,158**	**48,635**	**55,464**	**29,175**	**308,394**	**–**	**308,394**
Maintenance	**149,668**	**104,400**	**140,032**	**215,843**	**110,726**	**720,669**	**–**	**720,669**
Subscription	**–**	**–**	**–**	**–**	**–**	**–**	**298,651**	**298,651**
Consulting	**9,530**	**1,857**	**18,354**	**13,860**	**4,609**	**48,210**	**4,778**	**52,988**
Total	**265,160**	**175,415**	**207,021**	**285,167**	**144,510**	**1,077,273**	**303,429**	**1,380,702**

Set out below is an analysis of revenue recognized between the principal product portfolios for the year ended 30 April 2016.

	Micro Focus							
	CDMS $'000	Host Connectivity $'000	Identity, Access & Security $'000	Development & IT Operations Management Tools $'000	Collaboration & Networking $'000	Total Micro Focus $'000	SUSE $'000	Total $'000
Licence	104,737	89,862	52,360	33,918	23,943	304,820	–	304,820
Maintenance	145,180	105,381	142,209	121,310	130,371	644,451	–	644,451
Subscription	–	–	–	–	–	–	248,903	248,903
Consulting	8,911	2,920	22,083	2,219	5,829	41,962	4,913	46,875
Total	258,828	198,163	216,652	157,447	160,143	991,233	253,816	1,245,049

3 Profit before tax

Profit before tax is stated after charging/(crediting) the following operating costs/(gains) classified by the nature of the costs/(gains):

	Note	**2017 $'000**	2016 $'000
Staff costs	33	**588,541**	538,526
Depreciation of property, plant and equipment			
– owned assets	12	**11,794**	11,419
Loss on disposal of property, plant and equipment	12	**520**	109
Amortization of intangibles	10	**236,434**	203,313
Inventories			
– cost of inventories recognized as a credit (included in cost of sales)	16	**(71)**	(72)
Operating lease rentals payable			
– plant and machinery		**3,566**	1,702
– property		**22,726**	21,711
Provision for receivables impairment	17	**2,023**	2,531
Foreign exchange gains	4	**(4,890)**	(2,915)

3 Profit before tax continued

Exceptional items

The exceptional costs of $97.3m for the year ended 30 April 2017 (2016: $27.9m) shown in the consolidated statement of comprehensive income relate to costs incurred on the acquisition costs relating to Serena and GWAVA (note 37), pre-acquisition costs relating to HPE Software and integration costs for acquired businesses.

	2017 $'000	2016 $'000
Reported within Operating profit:		
Integration costs	**27,696**	23,634
Acquisition costs	**2,597**	531
Pre-acquisition costs	**58,004**	5,569
Property costs	**5,525**	5,964
Severance and legal costs	**3,436**	(4,845)
Royalty provision release	**–**	(3,000)
	97,258	27,853

Integration costs of $27.7m for the year ended 30 April 2017 (2016: $23.6m) arose from the work done in bringing together the Base Micro Focus, TAG, Serena and GWAVA organizations into one organization. Other activities include: development of a new Group intranet and website, system integration costs.

The acquisition costs of $2.6m for the year ended 30 April 2017 are external costs in evaluating and completing the acquisitions of Serena Software Inc., GWAVA Inc. and OpenATTIC completed during the year ended 30 April 2017 (2016: acquisition of Authasas BV $0.5m). The costs mostly relate to due diligence work, legal work on the acquisition agreements and professional advisors on the transaction.

Pre-acquisition costs of $58.0m for the year ended 30 April 2017 (2016: $5.6m) relate to the acquisition of HPE Software, which was announced in September 2016 and is expected to complete in the third quarter of calendar year 2017 (note 38). The costs mostly relate to due diligence work, legal work on the acquisition agreements, professional advisors on the transaction and pre-integration costs relating to activities in readiness for the HPE Software acquisition across all functions of the existing Micro Focus business.

The property costs of $5.5m for the year ended 30 April 2017 (2016: $6.0m) relate to the cost of exiting entire buildings or floors of buildings which the Group are leasing following the integration of the TAG and Serena businesses. The majority of the costs relate to TAG and Serena properties in North America.

Severance and legal costs of $3.4m for the year ended 30 April 2017 (2016: $4.8m releases) relate mostly to termination costs for senior Serena executives after acquisition.

Royalty provision releases of $3.0m for the year ended 30 April 2016 related to provisions no longer required as a result of new contracts being concluded with a third party.

The estimated total tax effect of exceptional items is a credit to the income statement of $11.6m for the year ended 30 April 2017 (2016: $6.8m).

Services provided by the Group's auditors and network of firms

During the year the Group obtained the following services from the Group's auditors as detailed below:

	2017 $'000	2016 $'000
Audit of Company	**1,032**	563
Audit of subsidiaries	**2,494**	2,895
Total audit	**3,526**	3,458
Audit related assurance services	**2,634**	782
Tax compliance services	**49**	60
Tax advisory services	**53**	70
Services relating to taxation	**102**	130
Other non-audit services	**7,470**	1,842
Total	**13,732**	6,212

3 Profit before tax continued

Audit related assurance services in the year ended 30 April 2017 related primarily to the additional audit procedures required to be performed on the Micro Focus International plc financial statements that are included in US filings associated with the HPE Software acquisition and the interim review.

Other non-audit services in the year relate primarily to the auditors' work as Reporting Accountants and due diligence in respect of the acquisition of HPE Software. Other services in the year included tax compliance, tax advice and customer licence compliance forensic services.

4 Reconciliation of operating profit to EBITDA

	Note	2017 $'000	2016 $'000
Operating profit	1	**293,443**	294,934
Exceptional items	3	**97,258**	27,853
Share-based compensation charge		**34,506**	28,793
Amortization of purchased intangibles	10	**212,861**	181,934
Adjusted Operating Profit		**638,068**	533,514
Depreciation of property, plant and equipment	12	**11,794**	11,419
Amortization of purchased software intangibles	10	**1,175**	1,864
Adjusted EBITDA		**651,037**	546,797
Amortization and impairment of product development costs	10	**22,398**	19,515
Facility EBITDA		**673,435**	566,312

	Note	2017 $'000	2016 $'000
Operating profit	1	**293,443**	294,934
Amortization of intangible assets	10	**236,434**	203,313
Depreciation of property, plant and equipment	12	**11,794**	11,419
EBITDA		**541,671**	509,666
Amortization and impairment of product development costs	10	**(22,398)**	(19,515)
Share-based compensation charge		**34,506**	28,793
Exceptional items	3	**97,258**	27,853
Adjusted EBITDA		**651,037**	546,797
Foreign exchange credit		**(4,890)**	(2,915)
Net capitalization of internal product development costs*	10	**(5,266)**	(11,362)
Underlying Adjusted EBITDA		**640,881**	532,520

* Net capitalization of internal product development costs of $5.3m (2016: $11.4m capitalization) is calculated as additions to intangible product development costs of $28.3m (2016: $31.4m), excluding external consultants product development costs of $0.6m (2016: $0.5m) less amortization and impairment of the product development costs intangibles in the year of $22.4m (2016: $19.5m).

The table below provides the operating segments split for the year ended 30 April 2017 and 30 April 2016:

	2017			2016		
	Micro Focus $'000	SUSE $'000	Total $'000	Micro Focus $'000	SUSE $'000	Total $'000
Adjusted Operating Profit	**539,397**	**98,671**	**638,068**	453,710	79,804	533,514
Depreciation of property, plant and equipment	**9,704**	**2,090**	**11,794**	9,736	1,683	11,419
Amortization of purchased software intangibles	**1,070**	**105**	**1,175**	1,679	185	1,864
Adjusted EBITDA	**550,171**	**100,866**	**651,037**	465,125	81,672	546,797
Foreign exchange credit	**(2,901)**	**(1,989)**	**(4,890)**	(2,584)	(331)	(2,915)
Net capitalization of product development costs	**(5,266)**	**–**	**(5,266)**	(11,362)	–	(11,362)
Underlying Adjusted EBITDA	**542,004**	**98,877**	**640,881**	451,179	81,341	532,520

4 Reconciliation of operating profit to EBITDA continued

The directors use the Adjusted Operating Profit as the performance measure of the business.

The use of these alternative performance measures is consistent with those used by sell-side equity analysts who write research on the Group and how institutional investors consider the performance of the Group.

Facility EBITDA was the measure used under the Group's $420m Revolving Credit Facility to determine the Net Debt to Facility EBITDA covenant calculation. Whilst the $420m facility was repaid and cancelled as part of the refinancing on the acquisition of TAG, for consistency the directors will continue to use the metric Net Debt to Facility EBITDA. These measures are not defined in IFRS and thus may not be comparable to similarly titled measures by other companies.

5 Finance income and finance costs

	Note	2017 $'000	2016 $'000
Finance costs			
Finance costs on bank borrowings		**81,157**	82,369
Commitment fees		**796**	1,108
Amortization of facility costs and original issue discounts		**14,219**	13,762
Finance costs on bank borrowings		**96,172**	97,239
Interest on tax provisions		**–**	525
Net interest expense on retirement obligations	25	**565**	467
Other		**87**	126
Total		**96,824**	98,357

	Note	2017 $'000	2016 $'000
Finance income			
Bank interest		**438**	377
Interest on non-plan pension assets	25	**404**	333
Other		**137**	299
Total		**979**	1,009
Net finance cost		**95,845**	97,348

6 Taxation

	2017 $'000	2016 $'000
Current tax		
Current year	**65,005**	40,894
Adjustments to tax in respect of previous years	**1,698**	(20,570)
Impact of change in tax rates	**–**	–
	66,703	20,324
Deferred tax		
Origination and reversal of timing differences	**(22,426)**	(4,145)
Adjustments to tax in respect of previous years	**(4,445)**	17,030
Impact of change in tax rates	**(1,291)**	(785)
	(28,162)	12,100
Total	**38,541**	32,424

6 Taxation continued

A deferred tax credit of $23.0m (2016: $8.5m credit) as at 30 April 2017 and corporation tax credit of $4.1m (2016: $1.5m) as at 30 April 2017 have been recognized in equity in the year in relation to share options. A deferred tax debit of $0.3m (2016: $1.7m debit) as at 30 April 2017 has been recognized in the consolidated statement of comprehensive income in the year in relation to the defined benefit pension schemes.

The tax charge for the year ended 30 April 2017 is lower than the standard rate of corporation tax in the UK of 19.92% (2016: 20.0%). The differences are explained below:

	2017 $'000	2016 $'000
Profit before taxation	**196,344**	195,396
Tax at UK corporation tax rate 19.92% (2016: 20.0%)	**39,112**	39,079
Effects of:		
Tax rates other than the UK standard rate	**18,740**	15,002
Intra-group financing	**(15,636)**	(14,445)
UK patent box benefit	**(7,634)**	(7,593)
US R&D tax credit incentives	**(2,200)**	(1,800)
Movement in deferred tax not recognized	**200**	(759)
Effect of change in tax rates	**(1,291)**	(237)
Expenses not deductible	**9,997**	7,737
	41,288	36,984
Adjustments to tax in respect of previous years:		
Current tax	**1,698**	(20,570)
Deferred tax	**(4,445)**	16,010
	(2,747)	(4,560)
Total taxation	**38,541**	32,424

Tax rates, other than the UK standard rate, includes an increase in provisions of $14.8m (2016: $0.8m) for uncertain tax positions relating to the risk of challenge from tax authorities to the geographic allocation of profits across the Group. Excluding these provisions, the net impact of the higher foreign tax rates is $3.9m (2016: $14.2m). This reduction in the year ended 30 April 2017 is primarily attributable to a lower level of profits subject to US tax.

The Group realized benefits in relation to intra-group financing of $15.6m for the year ended 30 April 2017 (2016: $14.4m). The benefits mostly relate to arrangements put in place to facilitate the acquisitions of TAG and Serena.

Benefits from the UK patent box regime amounted to $7.6m for the year ended 30 April 2017 (2016: $7.6m).

The movement in deferred tax assets and liabilities during the year is analyzed in note 28.

The Finance Act 2016, which provides for a reduction in the main rate of UK corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date and has reduced the tax charge in the consolidated statement of comprehensive income by $1.3m. This reflects the net impact of the re-measurement of deferred tax balances, in particular liabilities relating to intangibles.

The expenses not deductible increase the tax charge in the consolidated statement of comprehensive income by $10.0m (2016: $7.7m). The increase is due to non-deductible costs incurred in relation to the acquisitions of Serena and GWAVA and costs incurred in relation to the forthcoming HPE Software transaction.

The Group realized a net credit in relation to the true-up of prior year current and deferred tax estimates of $2.7m for the year ended 30 April 2017 (2016: $4.6m). In the year ended 30 April 2016, there was a significant movement between current and deferred tax in the US as a result of the Group being able to utilize significantly higher deferred tax assets (losses and tax credits) against prior year current (federal and state) tax liabilities than previously anticipated.

Notes to the consolidated financial statements for the year ended 30 April 2017
continued

7 Dividends

Equity – ordinary	2017 $'000	2016 $'000
2016 final paid 49.74 cents (2015: 33.00 cents) per ordinary share	**111,023**	70,015
2017 interim paid 29.73 cents (2016: 16.94 cents) per ordinary share	**66,512**	35,144
Total	**177,535**	105,159

The directors are proposing a second interim dividend in respect of the year ended 30 April 2017 of 58.33 cents per share which will utilize approximately $134.0m of total equity. The directors have concluded that the Company has sufficient distributable reserves to pay the dividend. It has not been included as a liability in these financial statements as it has not yet been approved by shareholders.

8 Earnings per share

The calculation of the basic earnings per share has been based on the earnings attributable to owners of the parent and the weighted average number of shares for each year.

	Year ended 30 April 2017				Year ended 30 April 2016			
	Total earnings $'000	Weighted average number of shares '000	Per share amount Cents	Per share amount Pence	Total earnings $'000	Weighted average number of shares '000	Per share amount Cents	Per share amount Pence
Basic EPS								
Earnings attributable to ordinary shareholders[1]	**157,906**	**229,238**	**68.88**	**53.25**	162,894	218,635	74.50	49.59
Effect of dilutive securities								
Options		**8,165**				8,847		
Diluted EPS								
Earnings attributable to ordinary shareholders	**157,906**	**237,403**	**66.51**	**51.42**	162,894	227,482	71.61	47.66
Supplementary EPS								
Basic EPS	**157,906**	**229,238**	**68.88**	**53.25**	162,894	218,635	74.50	49.59
Adjusted items[2]	**344,625**				238,580			
Tax relating to above items	**(85,527)**				(67,766)			
Basic EPS – adjusted	**417,004**	**229,238**	**181.91**	**140.63**	333,708	218,635	152.63	101.60
Diluted EPS	**157,906**	**237,403**	**66.51**	**51.42**	162,894	227,482	71.61	47.66
Adjusted items[2]	**344,625**				238,580			
Tax relating to above items	**(85,527)**				(67,766)			
Diluted EPS – adjusted	**417,004**	**237,403**	**175.65**	**135.80**	333,708	227,482	146.70	97.65

1 Earnings attributable to ordinary shareholders is the profit for the year ended 30 April 2017 of $157,803,000 (2016: $162,972,000), excluding the loss attributable to non-controlling interests of $103,000 (2016: profit of $78,000).

2 Adjusted items comprise amortization of purchased intangibles $212,861,000 (2016: $181,934,000), share-based compensation $34,506,000 (2016: $28,793,000) and exceptional items $97,258,000 (2016: $27,853,000). Estimated tax relief on these items is as shown above.

The weighted average number of shares excludes treasury shares that do not have dividend rights (note 29).

Earnings per share, expressed in pence, has used the average exchange rate for the year ended 30 April 2017 of $1.29 to £1 (2016: $1.50 to £1).

9 Goodwill

	Note	2017 $'000	2016 $'000
Cost and net book amount			
At 1 May		**2,436,168**	2,421,745
Hindsight adjustment	37	**–**	5,583
Acquisitions	37	**392,436**	8,840
At 30 April		**2,828,604**	2,436,168

A segment-level summary of the goodwill allocation is presented below:			
Micro Focus		**1,969,038**	1,576,602
SUSE		**859,566**	859,566
At 30 April		**2,828,604**	2,436,168

The Group has two operating segments: Micro Focus Product Portfolio and SUSE Product Portfolio.

The hindsight period adjustments in the year ended 30 April 2016 relate to transactions that occurred within 12 months of the acquisition date and are attributable to TAG acquired during the year ended 30 April 2015 (note 37).

The additions to goodwill in the year ended 30 April 2017 relate to the acquisition of Spartacus Acquisition Holdings Corp. the holding company of Serena Software Inc. ("Serena") and GWAVA Inc. ("GWAVA") (note 37).

Of the additions to goodwill, there is no amount that is expected to be deductible for tax purposes.

Goodwill acquired through business combinations has been allocated for impairment testing purposes to each individual cash generating unit ("CGU"). The Group conducts annual impairment tests on the carrying value of goodwill, based on the net present value on the recoverable amount of the CGU to which goodwill has been allocated. It has been determined that the Group has two CGUs being the two product portfolio groups: Micro Focus and SUSE.

An impairment test is a comparison of the carrying value of the assets of the CGU with their recoverable amount, where the recoverable amount is less than the carrying value, an impairment results. The Group has carried out its annual impairment testing at 30 April each year.

During the year, all goodwill was tested for impairment, with no impairment charge resulting (2016: $nil).

The recoverable amounts of the two CGUs are determined based on the value in use ("VIU") calculations. The determination of whether or not the goodwill of the two CGUs has been impaired requires an estimate to be made of the VIU of the CGUs to which that goodwill has been allocated.

The VIU calculation includes estimates about the future financial performance of the CGUs. The cash flow projections in the three following financial years reflect management's expectation of the medium and long-term operating performance of the CGU and growth prospects in the CGU's market.

Key assumptions

The key assumptions in the VIU calculations are:

- The discount rate applied to each CGU;
- Operating margin; and
- The long-term growth rate of net operating cash flows.

In determining the key assumptions, management has taken into consideration the current economic climate, the resulting impact on expected growth and discount rates and the pressure these place on the impairment calculations.

The directors have considered combinations of a reduction in the operating margins across the two CGUs combined with a reasonably possible increase in the absolute discount rate and a reasonably possible decrease in the long-term growth rates and no impairment would occur in these scenarios.

9 Goodwill continued

Discount rate applied

The Group based its estimate for the pre-tax discount rate on its weighted average cost of capital ("WACC") and using long-term market and industry data to derive the appropriate inputs to the calculation. The discount rate applied to the two CGUs represents a pre-tax rate that reflects market assessment of the time value of money at the consolidated statement of financial position date which has been adjusted for risks specific to each CGU. For the purposes of the impairment review the directors have calculated discount rates for both CGUs and then applied the higher discount rate of 11.4% (2016: 11.6%).

The directors have assessed that a 2.0% (2016: 2.0%) change in the absolute discount rate is the maximum change that could be considered as reasonably possible. If the estimated pre-tax discount rates applied to the discounted cash flows of all of the two CGUs were 2.0% (2016: 2.0%) higher in absolute terms than the management's estimate, the Group would not have any impairment charge.

Operating margins

The operating margin for each CGU is primarily based upon past performance adjusted as appropriate where management believes that past operating margins are not indicative of future operating margins.

The operating margins for each of the two CGUs is primarily based upon past performance adjusted as appropriate where management believes that past operating margin are not indicative of future operating margin. The operating margins applied to the Micro Focus CGU is c.50% (2016: 55%) and the SUSE CGU is 31% (2016: 32%).

The directors consider that a reduction of 4.0% for Micro Focus and 2.0% for SUSE in the absolute value of operating margins would be the limit of what could be considered to be reasonably possible on the basis that the Group's cost base is flexible and could quickly respond to market changes. The Group is spread across a range of geographies and sectors and also offers customer cost saving solutions, which help to insulate it from more significant changes. If the operating margin used in the VIU calculations for all CGUs were 4.0% for Micro Focus and 2.0% for SUSE lower in absolute terms than management's estimates, the Group would not have any impairment charge. If the operating margins remain in perpetuity at the current year levels then there would also not be any impairment charge.

Long-term growth rate

The VIU calculations are based on five years projections and then a terminal value calculation. The long-term growth rates of net operating cash flows are assumed to be 1% for the Micro Focus CGU (2016: 1%) and 5% for the SUSE CGU (2016: 5%).

The Group considers that the long-term growth rates could change and that a change to 0% for Micro Focus and 2.0% for SUSE is reasonably possible. If the absolute value of the long-term growth used in the VIU calculations for all CGUs were 0% for Micro Focus and 2.0% for SUSE lower than management's estimates, the Group would not have recognized any goodwill impairment charge.

10 Other intangible assets

	Purchased software $'000	Product development costs $'000	Purchased intangibles			Total $'000
			Technology $'000	Trade names $'000	Customer relationships $'000	
Cost						
At 1 May 2016	**22,028**	**185,546**	**303,672**	**217,510**	**761,634**	**1,490,390**
Acquisitions (note 37)	**–**	**–**	**95,245**	**22,111**	**210,744**	**328,100**
Additions	**3,162**	**27,664**	**–**	**–**	**–**	**30,826**
Additions – external consultants	**–**	**612**	**–**	**–**	**–**	**612**
Exchange adjustments	**(555)**	**–**	**–**	**–**	**–**	**(555)**
At 30 April 2017	**24,635**	**213,822**	**398,917**	**239,621**	**972,378**	**1,849,373**
Accumulated amortization						
At 1 May 2016	**20,061**	**142,297**	**153,888**	**22,854**	**184,735**	**523,835**
Charge for the year	**1,175**	**22,398**	**69,098**	**15,995**	**127,768**	**236,434**
Exchange adjustments	**(266)**	**–**	**–**	**–**	**–**	**(266)**
At 30 April 2017	**20,970**	**164,695**	**222,986**	**38,849**	**312,503**	**760,003**
Net book amount at 30 April 2017	**3,665**	**49,127**	**175,931**	**200,772**	**659,875**	**1,089,370**
Net book amount at 30 April 2016	**1,967**	**43,249**	**149,784**	**194,656**	**576,899**	**966,555**

	Purchased software $'000	Product development costs $'000	Purchased intangibles				Total $'000
			Technology $'000	Trade names $'000	Customer relationships $'000	Non-compete agreements $'000	
Cost							
At 1 May 2015	19,283	154,151	301,127	217,510	760,823	1,303	1,454,197
Acquisition of Authasas BV (note 37)	–	–	2,545	–	811	–	3,356
Additions	3,093	30,877	–	–	–	–	33,970
Additions – external consultants	–	518	–	–	–	–	518
Disposals	–	–	–	–	–	(1,303)	(1,303)
Exchange adjustments	(348)	–	–	–	–	–	(348)
At 30 April 2016	22,028	185,546	303,672	217,510	761,634	–	1,490,390
Accumulated amortization							
At 1 May 2015	18,348	122,782	78,661	7,814	93,068	1,303	321,976
Charge for the year	1,864	19,515	75,227	15,040	91,667	–	203,313
Disposals	–	–	–	–	–	(1,303)	(1,303)
Exchange adjustments	(151)	–	–	–	–	–	(151)
At 30 April 2016	20,061	142,297	153,888	22,854	184,735	–	523,835
Net book amount at 30 April 2016	1,967	43,249	149,784	194,656	576,899	–	966,555
Net book amount at 30 April 2015	935	31,369	222,466	209,696	667,755	–	1,132,221

Intangible assets, with the exception of purchased software and internally generated product development costs, relate to identifiable assets purchased as part of the Group's business combinations. Intangible assets are amortized on a straight-line basis over their expected useful economic life – see Group accounting policy I(d).

Expenditure for the year ended 30 April 2017 totaling $31.4m (2016: $34.5m) was made in the year, including $28.3m in respect of product development costs and $3.2m of purchased software. The acquisitions of Serena, GWAVA and OpenATTIC in the year ended 30 April 2017 gave rise to an addition of $328.1m to purchased intangibles (note 37).

Of the $28.3m of additions to product development costs, $27.7m (2016: $30.9m) relates to internal product development costs and $0.6m (2016: $0.5m) to external consultants' product development costs.

At 30 April 2017, the unamortized lives of technology assets were in the range of two to 10 years, customer relationships in the range of one to 10 years and trade names in the range of 10 to 20 years.

10 Other intangible assets continued

Included in the consolidated statement of comprehensive income for the year ended 30 April 2017 and 2016 was:

	2017 $'000	2016 $'000
Cost of sales:		
– amortization of product development costs	**22,398**	19,515
– amortization of acquired purchased technology	**69,098**	75,227
Selling and distribution:		
– amortization of acquired purchased trade names and customer relationships	**143,763**	106,707
Administrative expenses:		
– amortization of purchased software	**1,175**	1,864
Total amortization charge for the year	**236,434**	203,313
Research and development:		
– capitalization of product development costs	**(27,664)**	(30,877)

In the year ended 30 April 2017, the Company has reviewed its consolidated statement of comprehensive income presentation and has decided to re-classify both amortization of capitalized product development costs and amortization of acquired technology intangibles from research and development expenses to costs of sales. The year ended 30 April 2016 comparatives have also been re-classified and additional detail is provided on the face of the consolidated statement of comprehensive income.

The reconciliation of previously reported cost of sales to the presentation after the reclassification in the year ended 30 April 2016:

	Cost of sales $'000	Research and development expenses $'000
As previously reported	**135,432**	**259,388**
Amortization of product development costs	19,515	(19,515)
Amortization of acquired technology intangibles	75,227	(75,227)
After re-classification	**230,174**	**164,646**

11 Assets classified as held for sale

	2017 $'000	2016 $'000
At 1 May	**888**	888
Reclassified to property, plant and equipment	**(888)**	–
Assets classified as held for sale	**–**	888

At 30 April 2016, the Group had $0.9m in property held-for-sale consisting of a building in South Africa. During the year ended 30 April 2017, the decision was made to utilize the property in the future and as a result the property has been reclassified as property, plant and equipment.

12 Property, plant and equipment

	Freehold land and buildings $'000	Leasehold improvements $'000	Computer equipment $'000	Fixtures and fittings $'000	Total $'000
Cost					
At 1 May 2016	**15,183**	**23,418**	**25,455**	**5,604**	**69,660**
Reclassified from assets held for sale	**888**	**–**	**–**	**–**	**888**
Acquisition – Serena (note 37)	**–**	**1,068**	**648**	**211**	**1,927**
Acquisition – GWAVA (note 37)	**–**	**–**	**111**	**84**	**195**
Additions	**75**	**3,536**	**7,739**	**377**	**11,727**
Disposals	**–**	**(450)**	**(589)**	**(218)**	**(1,257)**
Exchange adjustments	**(1,783)**	**(303)**	**(749)**	**(21)**	**(2,856)**
At 30 April 2017	**14,363**	**27,269**	**32,615**	**6,037**	**80,284**
Accumulated depreciation					
At 1 May 2016	**1,571**	**8,814**	**16,741**	**1,667**	**28,793**
Charge for the year	**454**	**4,170**	**6,132**	**1,038**	**11,794**
Disposals	**–**	**(79)**	**(560)**	**(98)**	**(737)**
Exchange adjustments	**(174)**	**(154)**	**(250)**	**56**	**(522)**
At 30 April 2017	**1,851**	**12,751**	**22,063**	**2,663**	**39,328**
Net book amount at 30 April 2017	**12,512**	**14,518**	**10,552**	**3,374**	**40,956**
Net book amount at 1 May 2016	**13,612**	**14,604**	**8,714**	**3,937**	**40,867**

	Freehold land and buildings $'000	Leasehold improvements $'000	Computer equipment $'000	Fixtures and fittings $'000	Total $'000
Cost					
At 1 May 2015	15,888	20,385	20,556	5,046	61,875
Acquisition of Authasas BV (note 37)	–	–	14	–	14
Additions	–	3,636	5,386	1,259	10,281
Disposals	–	(434)	(397)	(658)	(1,489)
Exchange adjustments	(705)	(169)	(104)	(43)	(1,021)
At 30 April 2016	15,183	23,418	25,455	5,604	69,660
Accumulated depreciation					
At 1 May 2015	1,235	5,740	11,051	953	18,979
Charge for the year	403	3,541	6,127	1,348	11,419
Disposals	–	(434)	(344)	(602)	(1,380)
Exchange adjustments	(67)	(33)	(93)	(32)	(225)
At 30 April 2016	1,571	8,814	16,741	1,667	28,793
Net book amount at 30 April 2016	13,612	14,604	8,714	3,937	40,867
Net book amount at 1 May 2015	14,653	14,645	9,505	4,093	42,896

Depreciation for the year ended 30 April 2017 of $11.8m (2016: $11.4m) is included within administrative expenses in the consolidated statement of comprehensive income.

Notes to the consolidated financial statements for the year ended 30 April 2017
continued

13 Group entities
Subsidiaries
Details of subsidiaries as at 30 April 2017 are provided below.

Company name	Country of incorporation	Principal activities	Key to Registered Office address
Holding companies:			
Micro Focus Midco Limited	UK	Holding company	1
Micro Focus Group Limited	UK	Holding company	1
Micro Focus CHC Limited	UK	Holding company	1
Micro Focus MHC Limited	UK	Holding company	1
Micro Focus Holdings Limited	UK	Holding company	1
Micro Focus (IP) Limited	UK	Holding company	1
Micro Focus (US) Holdings Unlimited	UK	Holding company	1
Micro Focus IP Limited	Cayman Islands	Holding company	21
Novell Holdings Deutschland GmbH	Germany	Holding company	33
Micro Focus Finance Ireland Limited	Ireland	Holding company	44
Micro Focus Group Holdings Unlimited	Ireland	Holding company	44
Micro Focus International Holdings Limited	Ireland	Holding company	44
NetIQ Ireland Limited	Ireland	Holding company	44
Novell Cayman Software Unlimited Company	Ireland	Holding company	44
Novell Cayman Software International Limited Company	Ireland	Holding company	44
Novell Ireland Real Estate Unlimited	Ireland	Holding company	44
SUSE Linux Holdings Limited	Ireland	Holding company	44
Novell Software International Limited	Ireland	Holding company	44
Micro Focus Finance S.à.r.l.	Luxembourg	Holding company	56
Minerva Finance S.à.r.l.	Luxembourg	Holding company	56
Borland Corporation	USA	Holding company	2
Micro Focus (US) Group Inc.	USA	Holding company	2
M A Finance Co LLC	USA	Holding company	2
The Attachmate Group Inc.	USA	Holding company	2
Novell Holdings, Inc.	USA	Holding company	2
Novell International Holdings Inc.	USA	Holding company	2
Micro Focus (US) International Holdings Inc.	USA	Holding company	2
Trading companies:			
Attachmate Sales Argentina S.R.L.	Argentina	Sale and support of software	6
Attachmate Group Australia Pty Limited	Australia	Sale and support of software	8
Borland Australia Pty Limited	Australia	Sale and support of software	8
Micro Focus Pty Limited	Australia	Sale and support of software	8
Attachmate Group Austria GmbH	Austria	Sale and support of software	10
Borland Entwicklung GmbH	Austria	Development of software	11
Attachmate Group Belgium BVBA	Belgium	Sale and support of software	12
Micro Focus NV	Belgium	Sale and support of software	13
Borland Latin America Ltda	Brazil	Sale and support of software	14
Micro Focus Programacao de Computadores Ltda	Brazil	Sale and support of software	14
Novell do Brazil Software Limited	Brazil	Sale and support of software	14
Micro Focus APM Solutions EOOD	Bulgaria	Development of software	17
Micro Focus (Canada) Limited	Canada	Development, sale and support of software	18
Micro Focus Software (Canada) Inc.	Canada	Sale and support of software	20
Novell Software (Beijing) Ltd	China	Development, sale and support of software	22
SUSE Linux s.r.o	Czech Republic	Development, sale and support of software	24
Attachmate Group Denmark A/S	Denmark	Sale and support of software	25
Micro Focus Middle East FZ-LLC	Dubai	Sale and support of software	26
Attachmate Group France S.à.r.l.	France	Sale and support of software	28

13 Group entities continued

Company name	Country of incorporation	Principal activities	Key to Registered Office address
Borland France S.à.r.l.	France	Sale and support of software	29
Micro Focus SAS	France	Sale and support of software	29
Attachmate Group Germany GmbH	Germany	Sale and support of software	31
Micro Focus GmbH	Germany	Sale and support of software	32
SUSE Linux GmbH	Germany	Development, sale and support of software	33
Attachmate Group Hong Kong Limited	Hong Kong	Sale and support of software	37
NetIQ Asia Ltd	Hong Kong	Sale and support of software	39
Micro Focus India Private Limited	India	Support of software	41
Micro Focus Software India Private Limited (formerly Novell Software Development (India) Private Limited)	India	Development, sale and support of software	41
Relativity Technologies Private Limited	India	Sale and support of software	41
Attachmate Ireland Limited	Ireland	Sale and support of software	43
Micro Focus Ireland Limited	Ireland	Development, sale and support of software	44
Micro Focus Software (Ireland) Limited	Ireland	Development, sale and support of software	45
NetIQ Europe Limited	Ireland	Sale and support of software	43
Micro Focus Israel Limited	Israel	Development and support of software	46
Attachmate Group Italy Srl	Italy	Sale and support of software	49
Micro Focus Srl	Italy	Sale and support of software	49
Borland Co. Limited	Japan	Sale and support of software	50
Micro Focus KK	Japan	Sale and support of software	51
Novell Japan Ltd	Japan	Sale and support of software	52
NetIQ KK	Japan	Sale and support of software	53
Novell Corporation (Malaysia) Sdn Bhd	Malaysia	Sale and support of software	57
Attachmate Group Netherlands BV	Netherlands	Sale and support of software	59
Authasas BV	Netherlands	Sale and support of software	59
Borland BV	Netherlands	Sale and support of software	59
Micro Focus NV	Netherlands	Sale and support of software	59
Novell New Zealand Limited	New Zealand	Sale and support of software	60
Micro Focus AS	Norway	Sale and support of software	61
Novell Portugal Informatica Lda	Portugal	Sale and support of software	62
Attachmate Group Singapore Pte Ltd	Singapore	Sale and support of software	63
Borland (Singapore) Pte. Ltd	Singapore	Sale and support of software	64
Micro Focus Pte Limited	Singapore	Sale and support of software	65
Attachmate Group South Africa (Proprietary) Limited	South Africa	Sale and support of software	66
Micro Focus South Africa (Pty) Ltd	South Africa	Sale and support of software	67
Micro Focus Korea Limited	South Korea	Sale and support of software	54
Novell Korea Co. Ltd	South Korea	Sale and support of software	55
Attachmate Group Spain SL	Spain	Sale and support of software	68
Micro Focus S.L.U.	Spain	Sale and support of software	69
Attachmate Group Sweden AB	Sweden	Sale and support of software	71
Attachmate Group Schweiz AG	Switzerland	Sale and support of software	72
Micro Focus AG	Switzerland	Sale and support of software	73
Novell (Taiwan) Co. Ltd	Taiwan	Sale and support of software	74
Attachmate Teknoloji Satis ve Pazarlama Ltd Sti.	Turkey	Sale and support of software	75
Attachmate Sales UK Ltd	UK	Sale and support of software	1
Micro Focus IP Development Limited	UK	Development and support of software	1
Micro Focus Limited	UK	Sale and support of software	1
Novell U.K. Ltd	UK	Sale and support of software	1
Novell UK Software Limited	UK	Sale and support of software	1
Micro Focus Software Inc. (formerly Novell Inc.)	USA	Development, sale and support of software	2
Attachmate Corporation	USA	Development, sale and support of software	3

Notes to the consolidated financial statements for the year ended 30 April 2017
continued

13 Group entities continued

Company name	Country of incorporation	Principal activities	Key to Registered Office address
Micro Focus (US) Inc.	USA	Development, sale and support of software	2
NetIQ Corporation	USA	Development, sale and support of software	2
SUSE LLC	USA	Development, sale and support of software	5
Borland Software Corporation	USA	Development, sale and support of software	2
Dormant companies:			
Cambridge Technology Partners do Brasil s.c.Ltda	Brazil	Dormant	15
NetManage Canada Inc.	Canada	Dormant	18
Borland Canada, Inc.	Canada	Dormant	18
Micro Focus International Limited	Cayman Islands	Dormant	21
NetIQ Software International Ltd	Cyprus	Dormant	23
NOVL Czech s.r.o	Czech Republic	Dormant	24
Attachmate Middle East LLC	Egypt	Dormant	27
Borland GmbH	Germany	Dormant	34
Attachmate (Hong Kong) Ltd	Hong Kong	Dormant	37
Borland (H.K) Limited	Hong Kong	Dormant	38
Attachmate India Private Ltd	India	Dormant	40
Borland Software India Private Limited	India	Dormant	41
Cambridge Technology Partners India Private Limited	India	Dormant	41
Novell India Pvt. Ltd.	India	Dormant	42
SUSE Linux Ireland Limited	Ireland	Dormant	44
N.Y. NetManage (Yerushalayim) Ltd	Israel	Dormant	47
Novell Israel Software Limited	Israel	Dormant	48
Cambridge Technology Partners (Mexico) S.A. de C.V.	Mexico	Dormant	58
CTP Mexico Services SA de CV	Mexico	Dormant	58
Authasas Advanced Authentication BV	Netherlands	Dormant	59
Borland (Holding) UK Ltd	UK*	Dormant	1
Borland (UK) Limited	UK*	Dormant	1
Micro Focus APM Solutions Limited	UK*	Dormant	1
Micro Focus UK Limited	UK*	Dormant	1
NetIQ Ltd	UK*	Dormant	1
Ryan McFarland Ltd	UK*	Dormant	1
XDB (UK) Limited	UK*	Dormant	1
Borland Technology Corporation	USA	Dormant	2
CJDNLD LLC	USA	Dormant	2
Acquisitions in the year ended 30 April 2017:			
Serena:			
Spartacus Acquisition Holdings Corp.	USA	Holding	4
Spartacus Acquisition Corp.	USA	Holding	4
Serena Software Inc.	USA	Holding	4
Serena Holdings	UK	Holding	1
Merant Holdings	UK	Holding	1
Serena Software Pty Limited	Australia	Sale and support of software	9
Serena Software Benelux BVBA	Belgium	Sale and support of software	13
Serena Software Do Brasil Ltda	Brazil	Sale and support of software	16
Serena Software SAS	France	Sale and support of software	30
Serena Software GmbH	Germany	Sale and support of software	36
Serena Software Japan KK	Japan	Sale and support of software	50
Serena Software Pte. Ltd	Singapore	Sale and support of software	63
Serena Software SA	Spain	Sale and support of software	70

13 Group entities continued

Company name	Country of incorporation	Principal activities	Key to Registered Office address
Serena Software Europe Limited	UK	Sale and support of software	1
Serena Software Ukraine LLC	Ukraine	Sale and support of software	76
GWAVA:			
GWAVA Inc.	Canada	Holding	19
GWAVA Technologies Inc.	USA	Sale and support of software	4
GWAVA EMEA GmbH	Germany	Sale and support of software	35
New companies incorporated in the year ended 30 April 2017:			
Seattle Holdings Inc.	USA	Holding	4
Seattle MergerSub Inc.	USA	Holding	4
Miami Escrow Borrower LLC	USA	Holding	2
Micro Focus (IP) Holdings Limited	UK	Dormant	1
Micro Focus (IP) Ireland Limited	Ireland	Dormant	44

* The above companies incorporated in the UK are exempt from audit and from preparing Annual Accounts.

These companies, with the exception of Novell Japan Ltd (note 32) are all 100% owned, operate principally in the country in which they are incorporated and are all included in the consolidated statement of comprehensive income.

Registered office addresses:

1 The Lawn, 22-30 Old Bath Road, Newbury, Berkshire, United Kingdom, RG14 1QN
2 The Corporation Trust Company, Corporation Trust Center 1209 Orange St, Wilmington, New Castle, DE19801, U.S.A.
3 505 Union Ave SE STE120, Olympia, WA 98501, U.S.A.
4 The Company Corporation, 2711 Centerville Rd, STE 400, Wilmington, New Castle, DE19808, U.S.A.
5 CT Corporation, 155 Federal St. Suite 700, Boston, MA02110, U.S.A
6 Paraguay 1866, C1121ABB – Bs.As Argentina
7 Level 18, 201 Miller Street, North Sydney, NSU, 2060 AS, Australia
8 Level 23, Northpoint Tower, 100 Miller Street, North Sydney, NSW 2060, Australia
9 C/O Teamwork Accounting Pty Ltd, Sanctuary Lakes Shopping Centre, Shop 28A, 300 Point Cook Road, Point Cook, Vic 3030, Australia
10 Parkring 2, 1010, Vienna, Austria
11 DonauCentre, Haupstrasse 4-10, Linz, 4040, Austria
12 Bourgetlaan 40, 1130 Brussels 13, Belgium
13 EU Parliament, 4th Floor, 37 De Meeussquare, Brussels, 1000, Belgium
14 Rua Joaquim Floriano, 466-12 Ander, Sao Paulo, CEP 04534-002 Brazil
15 Rua Arizonia, 1349 10th Floor, Sao Paulo, 04567-003, Brazil
16 Rua Dom Jose de Barros, 177, 3rd Floor, Suite 302, Villa Buarque, Sao Paulo 01038-100 Brazil
17 76A James Bourchier Blvd, Lozenetz, Sofia, 1407, Bulgaria
18 199 Bay Street, Suite 4000, Toronto, Ontario, M5L 1A9, Canada
19 100 Alexis Nihon, Suite 500, St Laurent QC, H4M 251, Canada
20 340 King Street East, Suite 200, Toronto, Ontario, M5A 1K8, Canada
21 PO Box 309, Ugland House, South Church Street, George Town, South Cayman, KY1-1104, Cayman Islands
22 3603-3606 Off Tow A, No.7, Dongsanhuan, Beijing, 100020, People's Republic of China
23 54 Digeni Akrita, Akrita 2nd Floor, Office 201-202, PC 1061, Nicosia, Cyprus
24 Krizikova 148/34, Karlin, 186 00 Praha 8, Czech Republic
25 Lyngsø Alle 3b, Hørsholm, 2970, Denmark
26 Dubai Internet City, DIC Building 2, 3rd Floor, Suite 315, Dubai, UAE
27 19 Helmy Elmasry Street, Almaza, Cairo, Egypt
28 Tour Franklin, La Défense 8, Cedex, Paris, 92042, France
29 Tour Atlantique, La Défense 9, 1 Place de la Pyramide, La Défense, Cedex, Paris 92911, France
30 Immeuble Jean Monnet, 11 Place des Vosges, 92400 Courbevoie, La Défense 5, Paris, France
31 Amtsgericht, München, Germany
32 Fraunhoferstrasse 7, Ismaning, 85737, Germany
33 Amtsgericht, Nürnberg, Germany
34 Ismaning, Landkries, München, Germany
35 Industrietstrasse 15, Ahaus, 48683, Germany
36 Nöerdlicher Zubringer 9-11, 40470, Düsseldorf, Germany
37 Unit 2002A, 20th Floor, The Centrium, 60 Wyndham, Central Hong Kong, Hong Kong
38 Level 54, Hopewell Centre, 183 Queens Road East, Hong Kong, Hong Kong
39 4/F Three Pacific Place, 1 Queen's Road East, Hong Kong
40 U&I Corporation Centre, 47 Echelon, Sector 32, Gurgaon Harayana, India
41 Laurel, Block D, 65/2, Bagmane Tech Park, C.V. Raman Nagar, Byrasandra Post Bangalore – 560093, India
42 Leela Galleria, 1st Floor, Andheri Kurla Road, Andheri (East), Mumbai – 400059, India
43 Building 2, 2nd Floor, Parkmore East Business Park, Galway, Ireland
44 70 Sir John Rogerson's Quay, Dublin 2, Ireland
45 Corrig Court, Corrig Road, Sandyford Industrial Estate, Sandyford, Dublin 18, Ireland
46 Matam Advanced Tech Center, Building 5/1, Haifa, 31 905, Israel
47 Scientific Industries Center, Haifa, 33262, Israel
48 17 Hatidhar St, Raannana, 43665, Israel
49 Via Enrico Cialdini 16, Milan, 20161, Italy
50 Sumitomo Fudosan Roppongi-dori, Building 9F, 7-18-18 Roppongi, Minato-ku, Tokyo, 106-0032, Japan
51 Simitomo-Fudosan Takanawa Park Tower 6F, 30-20-14 Higashi-Gotanda, Shinagawa-ku, Tokyo, 141-0022, Japan
52 Akaska Biz Tower 29F, 5-3-1 Akasaka, Minatato-ku, Tokyo, 107-6329, Japan
53 1-1 Ichigayahonmuracho, Shinjuku-ku, Tokyo, Japan
54 41/F Gangnam Finance Center, 737 Yeoksam-dong, Gangnam-gu, Seoul, 135 984, Korea, Republic of South Korea
55 13th Floor, Hanwha Sec. Building, 23-5, Yoido-Dong, Seoul, Republic of South Korea
56 20, rue des Peupliers, 2328, Luxembourg
57 Unit 501 Level 5 Uptown 1, 1 Jalan SS2, Selangor Darul Ehsan, Malaysia
58 Homero 440-773, col, Palanco, Mexico, D.F. 11560, Mexico
59 Raoul Wallenbergplein 23, 2404 ND Alphen a/d Rijn, Netherlands
60 Level 27, Lumley Centre, 88 Shortland Street Auckland 1141, New Zealand
61 7th Floor, Dronning Eufemias gate 16, 0191 Oslo, Norway
62 Centro Empresarial Torres de Lisboa, Torre G 1* Andar Sala 111, Rue Tomas da Fonseca, Lisboa, Portugal
63 80 Robinson Road #02-00, 068898, Singapore
64 24 Raffles Place, #15-00 Clifford Centre, 048621, Singapore
65 77 Robinson Road, #13-00 Robinson 77, 068896, Singapore
66 Morning View Office Park 255 Rivonia Road, Morningside, South Africa
67 4th Floor Aloe Grove, Houghton Estate Office Park, 2 Osborn Road, Houghton, 2198, South Africa
68 C/Jose Echegaray 8, Las Rozas, Madrid 28230, Spain
69 Paseo de la Castellana 42, Madrid, 28046, Spain
70 Ronda General Mitre 28-30, Barcelona 08017, Spain
71 Kronborgsgränd 1, 164 46 Kista, Stockholm, Sweden
72 Office Center 1, Flughafenstrasse 90, 8058 Zurich-Flughafen, Switzerland
73 Lindenstrasse 26, Zurich, 8008, Switzerland
74 Room B 26/F #26 Tun-Hwa S Road Sec, Taipei ROC 106, Taiwan
75 Palladium Ofis Binasi, Halk Cad, No.8/A Kat 2, Atasehir 34748, Istanbul, Turkey
76 13 Pimonenko str, building 1, Office 1B/22, Kiev 04050, Ukraine

14 Investments in associates

Open Invention Network LLC ("OIN"), a strategic partnership for the Group, licences its global defensive patent pool in exchange for a pledge of non-aggression which encourages freedom of action in Linux and the sharing of new ideas and inventions. There are no significant restrictions on the ability of associated undertakings to transfer funds to the parent. There are no contingent liabilities to the Group's interest in associates.

At 30 April 2017 the Group had a 12.5% interest ($11.5m) (2016: 14.3%, $12.7m) investment in OIN. There are eight (2016: seven) equal shareholders of OIN, all holding 12.5% (2016: 14.3%) interest, and each shareholder has one board member and one alternative board member. The Group exercises significant influence over OIN's operation and therefore accounts for its investment in OIN as an associate.

The Group uses the equity method of accounting for its interest in associates. The following table shows the aggregate movement in the Group's investment in associates:

	2017 $'000	2016 $'000
At 1 May	12,711	14,901
Gain on dilution of investment	966	–
Share of post-tax loss of associates	(2,220)	(2,190)
Share of post-tax loss of associates	(1,254)	(2,190)
At 30 April	**11,457**	12,711

Details of the Group's principal associates are provided below.

Company name	Country of incorporation and principal place of business	Proportion held	Principal activities
Open Invention Network LLC	USA	12.5%	Sale and support of software

The accounting year end date of the associate consolidated within the Group's financial statements is 31 December, and we obtain its results on a quarterly basis. The Group records an adjustment within the consolidated financial statements to align the reporting period of the associate and the Group. The assets, liabilities, and equity of the Group's associate as at 31 March and the revenue and loss of the Group's associate for the period ended 31 March with the corresponding adjustment to align the reporting period was as follows:

	31 March 2017 $'000	31 March 2016 $'000
Non-current assets	43,649	45,666
Current assets	50,137	44,058
Current liabilities	(604)	(584)
Non-current liabilities	(527)	(270)
Equity	(92,655)	(88,870)

	31 March 2017 $'000	31 March 2016 $'000
Revenue	–	–
Net loss	16,212	15,867

	2017 $'000	2016 $'000
Loss attributable to the Group for the period ended 31 March (14.3% ownership to 6 June 2016, 12.5% thereafter)	2,095	2,267
Adjustment on estimated April result attributable to the Group	125	(77)
Loss attributable to the Group for the period ended 30 April (14.3% ownership to 6 June 2016, 12.5% thereafter)	2,220	2,190

15 Other non-current assets

	2017 $'000	2016 $'000
Long-term rent deposits	2,844	3,697
Other	249	305
	3,093	4,002

16 Inventories

	2017 $'000	2016 $'000
Work in progress	**13**	42
Finished goods	**51**	51
	64	93

The Group utilized $71k (2016: $72k) of inventories included in cost of sales during the year.

17 Trade and other receivables

	2017 $'000	2016 $'000
Trade receivables	**266,225**	248,759
Less: provision for impairment of trade receivables	**(2,599)**	(4,486)
Trade receivables net	**263,626**	244,273
Prepayments	**23,239**	21,694
Other receivables	**1,534**	1,651
Accrued income	**1,110**	568
	289,509	268,186

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. The Group considers the credit quality of trade and other receivables on a customer by customer basis. The Group considers that the carrying value of the trade and other receivables that is disclosed below gives a fair presentation of the credit quality of the assets. This is considered to be the case as there is a low risk of default due to the high number of recurring customers and credit control policies. In determining the recoverability of a trade receivable, the Group considers the ageing of each debtor and any change in the circumstances of the individual receivable. Due to this, management believes there is no further credit risk provision required in excess of the normal provision for doubtful receivables. At 30 April 2017 and 2016, the carrying amount approximates the fair value of the instrument due to the short-term nature of the instrument.

At 30 April 2017, trade receivables of $39.9m (2016: $28.8m) were past due but not impaired. These relate to a large number of independent companies for whom there is no recent history of default. The amounts are regarded as recoverable. The average age of these receivables was 24 days in excess of due date (2016: 20 days).

As at 30 April 2017, trade receivables of $2.6m (2016: $4.5m) were either partially or fully impaired. The amount of the provision was $2.6m (2016: $4.5m). The ageing of these receivables is as follows:

	2017 $'000	2016 $'000
Up to three months	**48**	233
Three to four months	**731**	473
Over four months	**1,820**	3,780
	2,599	4,486

Movements in the Group provision for impairment of trade receivables were as follows:

	2017 $'000	2016 $'000
At 1 May	**4,486**	2,520
Provision for receivables impairment	**2,023**	2,531
Receivables written off as uncollectable	**(1,271)**	(361)
Receivables previously provided for but now collected	**(2,542)**	(244)
Exchange adjustments	**(97)**	40
At 30 April	**2,599**	4,486

The creation and release of provision for impaired receivables have been included in selling and distribution costs in the consolidated statement of comprehensive income. Amounts charged in the allowance account are generally written off when there is no expectation of recovering additional cash. The Group does not hold any collateral as security.

18 Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank and in hand	**146,832**	662,757
Short-term bank deposits	**4,151**	4,421
Cash and cash equivalents	**150,983**	667,178

At 30 April 2017 and 2016, the carrying amount approximates to the fair value. The Group's credit risk on cash and cash equivalents is limited as the counterparties are well established banks with high credit ratings. The credit quality of cash and cash equivalents is as follows:

	2017 $'000	2016 $'000
S&P/Moody's/Fitch rating:		
AAA	**33,057**	–
AA-	**69,814**	615,941
A+	**25,221**	9,499
A	**6,355**	16,669
A-	**5,820**	3,977
BBB+	**471**	16,798
BBB	**903**	130
BBB-	**165**	338
BB+	**357**	218
BB	**283**	900
BB-	**8,221**	1,925
B+	**24**	160
CCC+	**193**	525
Not Rated	**99**	98
	150,983	667,178

19 Trade and other payables – current

	2017 $'000	2016 $'000
Trade payables	**16,891**	20,793
Tax and social security	**3,032**	10,425
Accruals	**150,119**	156,872
	170,042	188,090

At 30 April 2017 and 2016, the carrying amount approximates to the fair value. Accruals include employee taxes, acquisition fees, vacation and payroll accruals including bonuses and commissions.

20 Borrowings

	2017 $'000	2016 $'000
Bank loan secured	**1,595,188**	1,787,250
Unamortized prepaid facility arrangement fees and original issue discounts	**(33,652)**	(42,041)
	1,561,536	1,745,209

20 Borrowings continued

Reported within:	2017 Bank loan secured $'000	2017 Unamortized prepaid facility arrangement fees and original issue discounts $'000	2017 Total $'000	2016 Bank loan secured $'000	2016 Unamortized prepaid facility arrangement fees and original issue discounts $'000	2016 Total $'000
Current liabilities	**83,788**	**(12,604)**	**71,184**	287,750	(12,494)	275,256
Non-current liabilities	**1,511,400**	**(21,048)**	**1,490,352**	1,499,500	(29,547)	1,469,953
	1,595,188	**(33,652)**	**1,561,536**	1,787,250	(42,041)	1,745,209

	2017 $'000	2016 $'000
Cash and cash equivalents	**150,983**	667,178
Less borrowings	**(1,561,536)**	(1,745,209)
Net debt	**(1,410,553)**	(1,078,031)

During the year ended 30 April 2017 the Group renegotiated its debt facilities.

On 1 August 2016 the Company allocated a re-pricing of its senior secured Term Loan B which reduced its ongoing interest payments. The interest rate was reduced from 4.25% to 3.75% and the LIBOR floor was reduced from 1.00% to 0.75%. All other terms of the Group's Credit Facilities remained the same. The terms of the Micro Focus debt facilities from 1 August 2016 to 28 April 2017 were as follows:

- Syndicated senior secured tranche B term loan facility ("Term Loan B"), with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), repayable at 1.00% per annum, with an original issue discount of 1.00% and a seven year term;
- A syndicated senior secured tranche C term loan facility ("Term Loan C"), with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), repayable at 10.00% per annum, with an original issue discount of 1.50% and a five year term; and
- A senior secured revolving credit facility of $375.0m, ("Revolving Facility"), with an interest rate of 3.50% above LIBOR on amounts drawn (and 0.50% on amounts undrawn) thereunder and an original issue discount of 0.50%.

The Revolving Facility was increased from $225.0m to $375.0m on 2 May 2016 as part of the funding for the Serena acquisition (note 37).

New Facilities

The Company announced on 21 April 2017 the successful syndication of the new credit facilities (the "New Facilities") on behalf of both MA FinanceCo, LLC, a wholly owned subsidiary of Micro Focus, and Seattle SpinCo, Inc., a wholly owned subsidiary of HPE that will hold HPE Software. Post 30 April 2017, Seattle SpinCo Inc. will be merged with a wholly owned subsidiary of Micro Focus in the HPE Software Transaction.

The New Facilities comprise a $500.0m Revolving Credit Facility effective on Completion at LIBOR plus 3.50% (subject to a LIBOR floor of 0.00%) placed with a number of financial institutions and $5,000.0m of term loans. The new term loans are priced as follows:

New facilities drawn as at 30 April 2017:

- In relation to the existing senior secured term loans issued by MA FinanceCo, LLC the lenders in the Term Loan C of $412.5m due November 2019 were offered a cashless roll of their investment into the existing Term Loan B, becoming Term Loan B-2, due November 2021 and this loan was re-priced to LIBOR plus 2.50% (subject to a LIBOR floor of 0.00%) and as a result of the cashless rollover increased in size from $1,102.7m to $1,515.2m, effective from 28 April 2017.

Facilities not drawn down as at 30 April 2017 were as follows:

HPE Software facilities:

- The new $2,600.0m senior secured seven year Term Loan B issued by Seattle SpinCo, Inc. is priced at LIBOR plus 2.75% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%;

20 Borrowings continued

Micro Focus facilities:

- The new $385.0m senior secured seven year Term Loan B issued by MA FinanceCo LLC is also priced at LIBOR plus 2.75% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%; and
- The new Euro 470.0m (equivalent to $500.0m) senior secured seven year Term Loan B issued by MA FinanceCo LLC is priced at EURIBOR plus 3.00% (subject to a EURIBOR floor of 0.00%) with an original issue discount of 0.25%.

The above new facilities are a modification only of the existing facilities and the unamortized prepaid facility arrangement fees and original issue discounts have not been accelerated as a result. The remaining unamortized prepaid facility arrangement fees and original issue discounts will be recognized over the life of the new debt.

As part of the HPE Software merger, due to complete in the third quarter of calendar year 2017, the New Facilities will be used to:

(i) Fund the pre-Completion cash payment by Seattle SpinCo Inc. to HPE of $2,500.0m (subject to certain adjustments in limited circumstances);

(ii) Fund the Return of Value to Micro Focus' existing Shareholders of $500.0m; and

(iii) Pay transaction costs relating to the acquisition of HPE Software.

The balance will be used for general corporate and working capital purposes.

The only financial covenant attaching to these facilities relates to the Revolving Facility, which is subject to an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end.

At 30 April 2017, $80.0m of the available Revolving Facility of $375.0m was drawn, representing 21.3%. The facility was less than 35% drawn at 30 April 2017 and therefore no covenant test is applicable.

The movements on the Group loans in the year were as follows:

	Term Loan B-2 $'000	Term Loan B $'000	Term Loan C $'000	Revolving Facility $'000	Total $'000
At 1 May 2016	–	1,112,250	450,000	225,000	1,787,250
Repayments	–	(9,562)	(37,500)	(325,000)	(372,062)
Draw downs	–	–	–	180,000	180,000
Transfer	1,515,188	(1,102,688)	(412,500)	–	–
At 30 April 2017	1,515,188	–	–	80,000	1,595,188

Borrowings are stated after deducting unamortized prepaid facility fees and original issue discounts. Facility arrangement costs and original issue discounts are amortized between four and six years. The fair value of borrowings equals their carrying amount.

Maturity of borrowings

The maturity profile of the anticipated future cash flows including interest in relation to the Group's borrowings on an undiscounted basis which, therefore, differs from both the carrying value and fair value, is as follows:

	Term Loan B-2 $'000	Revolving Facility $'000	Total $'000
Within one year	60,168	80,000	140,168
In one to two years	71,181	–	71,181
In two to three years	70,769	–	70,769
In three to four years	70,053	–	70,053
In four to five years	1,497,867	–	1,497,867
	1,770,038	80,000	1,850,038
Unamortized prepaid facility arrangement fees and original issue discounts	(29,059)	(4,593)	(33,652)
At 30 April 2017	1,740,979	75,407	1,816,386

20 Borrowings continued

	Term Loan B $'000	Term Loan C $'000	Revolving Facility $'000	Total $'000
Within one year	71,702	69,683	233,983	375,368
In one to two years	71,023	67,402	–	138,425
In two to three years	70,344	65,120	–	135,464
In three to four years	69,666	307,444	–	377,110
In four to five years	68,987	–	–	68,987
In more than five years	1,135,434	–	–	1,135,434
	1,487,156	509,649	233,983	2,230,788
Unamortized prepaid facility arrangement fees and original issue discounts	(28,088)	(10,183)	(3,770)	(42,041)
At 30 April 2016	**1,459,068**	**499,466**	**230,213**	**2,188,747**

Assets pledged as collateral

As part of the new facilities above that became available on 28 April 2017, the assets pledged as collateral was changed. An all assets security has been granted in the US and England & Wales by certain members of the Micro Focus Group organized in such jurisdictions, including security over intellectual property rights and shareholdings of such members of the Micro Focus Group.

Prior to the renegotiation of the debt facilities, all asset security was granted in US, Canada, England & Wales and Ireland by certain members of the Micro Focus Group. Additional security over specific shareholdings of members of the Micro Focus Group incorporated in England and Ireland has also been provided, together with security over certain types of intellectual property rights in the US. In the Cayman Islands, Luxembourg, France and Germany security was granted over shares in certain members of the Micro Focus Group incorporated in each jurisdiction. Additionally, pledges over receivables, financial securities accounts and certain property, plant, and equipment and intangible assets of certain members of the Micro Focus Group were given in France and pledges over receivables were also granted in Luxembourg.

21 Current tax receivables and liabilities

Current tax receivables

	2017 $'000	2016 $'000
Corporation tax	**1,637**	18,016

The current tax receivable is $1.6m (2016: $18.0m). The brought forward current tax receivable balance relates mainly to the US and has been partially refunded, with the balance offset against current year tax liabilities.

Current tax liabilities

	2017 $'000	2016 $'000
Corporation tax	**42,679**	22,426

The current tax creditor is $42.7m (2016: $22.4m). The current tax creditor includes liabilities in respect of uncertain tax positions, net of overpayments. The increase in the year relates mainly to various tax provision movements.

22 Deferred income – current

	2017 $'000	2016 $'000
Deferred income	**640,650**	565,480

Revenue not recognized in the consolidated statement of comprehensive income under the Group's accounting policy for revenue recognition is classified as deferred income in the consolidated statement of financial position to be recognized in future periods. Deferred income primarily relates to undelivered maintenance and subscription services on billed contracts.

23 Deferred income – non-current

	2017 $'000	2016 $'000
Deferred income	**223,786**	196,483

Revenue not recognized in the consolidated statement of comprehensive income under the Group's accounting policy for revenue recognition is classified as deferred income in the consolidated statement of financial position to be recognized in future periods in excess of one year. Deferred income primarily relates to undelivered maintenance and subscription services on multi-year billed contracts.

24 Provisions

	2017 $'000	2016 $'000
Onerous leases and dilapidations	**16,243**	18,176
Restructuring and integration	**12,132**	3,523
Legal	**3,220**	1,920
Other	**484**	1,280
Total	**32,079**	24,899
Current	**20,142**	10,545
Non-current	**11,937**	14,354
Total	**32,079**	24,899

	Onerous leases and dilapidations $'000	Restructuring and integration $'000	Legal $'000	Other $'000	Total $'000
At 1 May 2016	**18,176**	**3,523**	**1,920**	**1,280**	**24,899**
Additional provision in the year	**4,584**	**48,498**	**98**	**501**	**53,681**
Acquisitions (note 37)	**–**	**1,201**	**2,844**	**–**	**4,045**
Utilization of provision	**(5,527)**	**(37,712)**	**(120)**	**(117)**	**(43,476)**
Released	**(857)**	**(2,886)**	**(1,492)**	**(1,180)**	**(6,415)**
Exchange adjustments	**(133)**	**(492)**	**(30)**	**–**	**(655)**
At 30 April 2017	**16,243**	**12,132**	**3,220**	**484**	**32,079**
Current	**4,406**	**12,132**	**3,220**	**384**	**20,142**
Non-current	**11,837**	**–**	**–**	**100**	**11,937**
Total	**16,243**	**12,132**	**3,220**	**484**	**32,079**

	Onerous leases and dilapidations $'000	Restructuring and integration $'000	Legal $'000	Other $'000	Total $'000
At 1 May 2015	22,630	30,921	3,065	10,637	67,253
Additional provision in the year	7,735	26,897	–	–	34,632
Acquisitions (note 37)	–	–	677	–	677
Utilization of provision	(10,049)	(43,867)	(1,258)	(465)	(55,639)
Released	(1,771)	(10,594)	(390)	(8,892)	(21,647)
Unwinding of discount	6	–	–	–	6
Exchange adjustments	(375)	166	(174)	–	(383)
At 30 April 2016	18,176	3,523	1,920	1,280	24,899
Current	5,056	3,523	966	1,000	10,545
Non-current	13,120	–	954	280	14,354
Total	**18,176**	**3,523**	**1,920**	**1,280**	**24,899**

Onerous leases and dilapidations provisions

The onerous lease and dilapidations provision relates to leased Group properties and this position is expected to be fully utilized within nine years. The provision was increased by $4.6m, mostly due to a lengthening in the estimated time to sublease a North American property.

The provision was increased by $7.7m in the year ended 30 April 2016 due to a lengthening in the estimated time to sublease certain properties and reduced by $1.8m due to the shortening in the estimated time to sublease two properties.

24 Provisions continued

Restructuring and integration provisions

Restructuring and integration provision additions in the year ended 30 April 3017 includes severance and integration work undertaken in bringing together the Base Micro Focus, TAG, Serena and GWAVA organizations into one organization. This includes, amongst other activities; development of a new Group intranet and website and system integration costs. Restructuring and integration provisions also included provisions relating to activities in readiness for the HPE Software acquisition across all functions of the existing Micro Focus business. Releases in the period relate to IT programs no longer continuing in light of the HPE Software acquisition (none of which was capitalized) and the release of provisions established for the Group reorganization in March 2016. The provisions as at 30 April 2017 are expected to be fully utilized within 12 months.

In the year ended 30 April 2016, restructuring and integration provisions related mostly to severance and integration work undertaken during the year. Integration provisions arose from the work done in bringing together the Base Micro Focus and TAG organizations into one organization. This includes, amongst other activities; email migration, system integration and legal entity reorganization. Severance releases in the year ended 30 April 2016 related to the change in estimates made for integrating the TAG business in the year ended 30 April 2015, including the redeployment of staff previously notified of redundancy.

Legal provisions

Legal provisions in the year ended 30 April 2017 and 2016 include management's best estimate of the likely outflow of economic benefits associated with a number of small ongoing legal matters. Releases of legal provisions in the year ended 30 April 2017 relate to legal matters now resolved.

Other provisions

Other provisions as at 30 April 2017 include primarily:

- $0.5m relating to potential future fees;
- $nil relating to tax due for pension and bonus payments prior to July 2011 for a subsidiary in Brazil (2016: $0.2m); and
- $nil remaining provision for potential customer claims (2016: $1.0m).

Releases of other provisions in the year ended 30 April 2017 related to the potential customer claims and Brazil tax matters now resolved.

25 Pension commitments

a) Defined contribution

The Group has established a number of pension schemes around the world covering many of its employees. The principal funds are those in the US, UK and Germany. These were funded schemes of the defined contribution type. Outside of these territories, the schemes are also of the defined contribution type, except for France and Japan which is a defined benefit scheme, but which has few members and therefore is not significant to the Group.

Pension costs for defined contribution schemes are as follows:

	2017 $'000	2016 $'000
Defined contribution schemes (note 33)	13,483	12,848

b) Defined benefit

	2017 $'000	2016 $'000
Within non-current assets:		
Long-term pension assets	22,031	22,272
Within non-current liabilities:		
Retirement benefit obligations	(30,773)	(31,669)

There are four (2016: three) defined benefit plans in Germany under broadly similar regulatory frameworks. All of the plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life in the case of retirement, disability and death. The level of benefits provided depends not only on the final salary but also on member's length of service, social security ceiling and other factors. Final pension entitlements are calculated by our Actuary at Swiss Life. They also complete calculations for cases of death in service and disability. There is no requirement for the appointment of Trustees in Germany. The schemes are administered locally with the assistance of German pension experts. All four plans were closed for new membership. During the year ended 30 April 2017 a pension scheme arrangement in Germany was identified as requiring reclassification under German law from a defined contribution scheme to a defined benefit scheme.

25 Pension commitments continued

Long-term pension assets

Long-term pension assets relate to the reimbursement right under insurance policies held by the Company with guaranteed interest rates that do not meet the definition of a qualifying insurance policy as they have not been pledged to the plan and are subject to the creditors of the Group. Such reimbursement rights assets are recorded in the consolidated statement of financial position as long-term pension assets. Fair value of the reimbursement right asset is deemed to be the present value of the related obligation because the right to reimbursement under the insurance policies exactly matches the amount and timing of some or all of the benefits payable under the defined benefit plan.

The movement on the long-term pension asset is as follows:

	2017 $'000	2016 $'000
As at 1 May	**22,272**	14,076
Hindsight adjustment (note 37)	**–**	3,917
Interest on non-plan assets (note 5)	**404**	333
Benefits paid	**(110)**	(8)
Contributions	**442**	475
Included within other comprehensive income:		
– Actuarial (loss)/gain on non-plan assets	**(2,134)**	3,104
– Reclassification from defined contribution scheme to defined benefit scheme	**2,264**	–
	130	3,104
Foreign currency exchange (loss)/gain	**(1,107)**	375
As at 30 April	**22,031**	22,272

The non-plan assets were not subject to an actuarial revaluation until after 30 April 2015 and therefore a hindsight adjustment has been made in respect of this and reflected in last year's consolidated statement of comprehensive income.

Retirement benefit obligations

The following amounts have been included in the consolidated statement of comprehensive income in respect of the German defined benefit pension arrangements:

	2017 $'000	2016 $'000
Current service charge (note 33)	**625**	760
Charge to operating profit	**625**	760
Interest on pension scheme liabilities	**660**	546
Interest on pension scheme assets	**(95)**	(79)
Charge to finance costs (note 5)	**565**	467
Total charge to consolidated statement of comprehensive income	**1,190**	1,227

The contributions for the year ended 30 April 2018 are expected to be broadly in line with the current year.

25 Pension commitments continued

The following amounts have been recognized as movements in equity:

	2017 $'000	2016 $'000
Actuarial return on assets excluding amounts included in interest income	9	108
Experience gains and losses arising on scheme liabilities		
Changes in assumptions underlying the present value of scheme liabilities:		
– Demographic	–	–
– Financial	2,821	2,024
– Experience	568	565
	3,389	2,589
Reclassification from defined contribution scheme to defined benefit scheme Exchange rate movement	(2,996)	–
Exchange rate movement	–	–
Movement in the year	402	2,697

The key assumptions used for the German scheme were:

	2017	2016
Rate of increase in final pensionable salary	2.00%	2.60%
Rate of increase in pension payments	2.00%	2.00%
Discount rate	1.95%	1.70%
Inflation	2.00%	2.00%

The net present value of the defined benefit obligations of the German scheme is sensitive to both the actuarial assumptions used and to market conditions. If the discount rate assumption was 0.5% lower, the obligation would be expected to increase by $4.5m as at 30 April 2017 (2016: $4.8m) and if it was 0.5% higher, they would be expected to decrease by $3.9m (2016: $4.1m). If the inflation assumption was 0.25% lower, the obligations would be expected to decrease by $1.2m as at 30 April 2017 (2016: $1.3m) and if it was 0.25% higher, they would be expected to increase by $1.3m (2016: $1.4m).

The mortality assumptions for the German scheme are set based on actuarial advice in accordance with published statistics and experience in the territory, specifically German pension table 'Richttafeln 2005 G' by Prof. Dr. Klaus Heubeck.

These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2017	2016
Retiring at age 65 at the end of the reporting year:		
Male	19	19
Female	23	23
Retiring 15 years after the end of the reporting year:		
Male	19	19
Female	24	24

The net present value of the defined benefit obligations of the German Schemes are sensitive to the life expectancy assumption. If there was an increase of one year to this assumption the obligation would be expected to increase by $1.1m (2.9%) as at 30 April 2017 (2016: $1.1m, 2.9%).

The net liability included in the consolidated statement of financial position arising from obligations in respect of defined benefit schemes is as follows:

	2017 $'000	2016 $'000
Present value of funded obligations	36,480	37,524
Fair value of plan assets	(5,707)	(5,855)
	30,773	31,669

25 Pension commitments continued

The retirement benefit obligation has moved as follows:

	2017			2016		
	Defined benefit obligations $'000	**Scheme assets $'000**	**Retirement benefit obligations $'000**	Defined benefit obligations $'000	Scheme assets $'000	Retirement benefit obligations $'000
At 1 May	**37,524**	**(5,855)**	**31,669**	38,224	(5,482)	32,742
Current service cost	**625**	**–**	**625**	760	–	760
Benefits paid	**(197)**	**87**	**(110)**	(100)	84	(16)
Contributions by plan participants	**–**	**(114)**	**(114)**	–	(126)	(126)
Interest cost/(income) (note 5)	**660**	**(95)**	**565**	546	(79)	467
Included within other comprehensive income:						
Remeasurements – actuarial losses:						
– Demographic	**–**	**–**	**–**	–	–	–
– Financial	**(2,821)**	**–**	**(2,821)**	(2,024)	–	(2,024)
– Experience	**(568)**	**–**	**(568)**	(565)	–	(565)
– Actuarial return on assets excluding amounts included in interest income	**–**	**(9)**	**(9)**	–	(108)	(108)
Reclassification from defined contribution scheme to defined benefit scheme	**2,996**	**–**	**2,996**	–	–	–
	(393)	**(9)**	**(402)**	(2,589)	(108)	(2,697)
Foreign currency exchange changes	**(1,739)**	**279**	**(1,460)**	683	(144)	539
At 30 April	**36,480**	**(5,707)**	**30,773**	37,524	(5,855)	31,669

None of the plan assets are represented by financial instruments of the Group. None of the plan assets are occupied or used by the Group. The plan assets comprise of re-insurance with guaranteed interest rates. The majority of the plan assets have guaranteed interest rates of 4.0%, with the remaining at 3.25% or 2.75%.

Through its defined benefit schemes the Group is exposed to a number of risks, the most significant of which are detailed below:

- Changes in bond yields – A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the pledged and unpledged re-insurance holdings.
- Inflation – Some of the Group pension obligations are linked to inflation, and higher inflation will lead to higher liabilities. There is a cap on the level of inflationary increase on one of the plans which protects the plan against extreme inflation. The majority of the plan assets are either unaffected by or loosely correlated with inflation, meaning an increase in inflation will also increase the deficit.
- Life expectancy – The majority of the plan obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan liabilities.
- In the case of the defined benefit plans, the Company ensures that the investment positions are managed within an asset liability matching ("ALM") that has been developed by the Company to achieve long-term investments that are in line with the obligations under the pension schemes. In addition to the plan assets outlined above, the Company had re-insurance assets valued at $22.1m as at 30 April 2017 (2016: $22.3m). These assets are designated to fund the pension obligation and do not qualify as plan assets as they have not been pledged to the plan and are subject to the creditors of the Company. Within this framework the Company's objective is to match assets to the pension obligations by investing in re-insurances that match the benefit payments as they fall due and in the appropriate currency.

Sensitivities

The table below provides information on the sensitivity of the defined benefit obligation to changes to the most significant actuarial assumptions. The table shows the impact of changes to each assumption in isolation, although, in practice, changes to assumptions may occur at the same time and can either offset or compound the overall impact on the defined benefit obligation.

25 Pension commitments continued

These sensitivities have been calculated using the same methodology as used for the main calculations. The weighted average duration of the defined benefit obligation is 25 years.

	Change in assumption	Change in defined benefit obligation
Discount rate for scheme liabilities	**0.50%**	**(10.6%)**
Price inflation	**0.25%**	**3.60%**
Salary growth rate	**0.50%**	**1.40%**

An increase of one year in the assumed life expectancy for both males and females would increase the defined benefit obligation by 2.9% as at 30 April 2017 (2016: 2.9%). The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous years.

26 Other non-current liabilities

	2017 $'000	2016 $'000
Accruals	**4,191**	3,671

Other non-current liabilities relates to deferred rent accruals and employee taxes on share-based payments.

27 Financial instruments

The table below sets out the values of financial assets and liabilities.

	Financial 2017 $'000	Non-financial 2017 $'000	Total 2017 $'000	Financial 2016 $'000	Non-financial 2016 $'000	Total 2016 $'000
Financial assets – loans and receivables						
Current						
Cash and cash equivalents (note 18)	**150,983**	**–**	**150,983**	667,178	–	667,178
Trade and other receivables (note 17)	**263,626**	**25,883**	**289,509**	244,273	23,913	268,186
At 30 April	**414,609**	**25,883**	**440,492**	911,451	23,913	935,364

	Financial 2017 $'000	Non-financial 2017 $'000	Total 2017 $'000	Financial 2016 $'000	Non-financial 2016 $'000	Total 2016 $'000
Financial liabilities – financial liabilities at amortized cost						
Non-current						
Borrowings (note 20)	**1,511,400**	**–**	**1,511,400**	1,499,500	–	1,499,500
Provisions (note 24)	**11,837**	**100**	**11,937**	13,120	1,234	14,354
Current						
Borrowings (note 20)	**83,788**	**–**	**83,788**	287,750	–	287,750
Trade and other payables (note 19)	**16,891**	**153,151**	**170,042**	20,793	167,297	188,090
Provisions (note 24)	**4,406**	**15,736**	**20,142**	5,056	5,489	10,545
At 30 April	**1,628,322**	**168,987**	**1,797,309**	1,826,219	174,020	2,000,239

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 30 April 2017 was:

	2017 $'000	2016 $'000
Trade receivables (note 17)	**263,626**	244,273
Cash and cash equivalents (note 18)	**150,983**	667,178
Total	**414,609**	911,451

Market risk

The Group's treasury function aims to reduce exposures to interest rate, foreign exchange and other financial risks, to ensure liquidity is available as and when required, and to invest cash assets safely and profitably. The Group does not typically engage in speculative trading in financial instruments. The treasury function's policies and procedures are reviewed and monitored by the audit committee and are subject to internal audit review.

Notes to the consolidated financial statements for the year ended 30 April 2017
continued

27 Financial instruments continued

Foreign exchange risk

The Group's currency exposures comprise those that give rise to net currency gains and losses to be recognized in the consolidated statement of comprehensive income as well as gains and losses on consolidation which go to reserves. Such exposures reflect the monetary assets and liabilities of the Group that are not denominated in the operating or functional currency of the operating unit involved and the Group's investment in net assets in currencies other than US$. Note 3 shows the impact on the consolidated statement of comprehensive income of foreign exchange gains in the year ended 30 April 2017 (2016: gain).

Sensitivity analysis

The Group's principal exposures in relation to market risks are the changes in the exchange rates between the US dollar and the Euro, British Pound and Japanese Yen as well as changes in US Dollar LIBOR interest rates. The table below illustrates the sensitivities of the Group's results to changes in these key variables as at the consolidated statement of financial position date. The analysis covers only financial assets and liabilities held at the consolidated statement of financial position date.

	2017		2016	
	Consolidated statement of comprehensive income $'000	Equity $'000	Consolidated statement of comprehensive income $'000	Equity $'000
Euro/USD exchange rate +5%	**457**	**1,205**	2,449	1,639
GBP/USD exchange rate +5%	**530**	**1,747**	1,340	1,227
YEN/USD exchange rate +5%	**161**	**1,424**	161	818
US Dollar LIBOR +1%	**(15,952)**	**–**	(17,873)	–

Capital risk management

The Group's objective when managing its capital structures is to minimize the cost of capital while maintaining adequate capital to protect against volatility in earnings and net asset values. The strategy is designed to maximize shareholder return over the long-term. The relative proportion of debt to equity will be adjusted over the medium-term depending on the cost of debt compared to equity and the level of uncertainty facing the industry and the Group.

The only financial covenant attaching to these new facilities relates to the Revolving Facility, which is subject to an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end. The facility was less than 35% drawn at 30 April 2017 and therefore no covenant test is applicable.

The capital structure of the Group at the consolidated statement of financial position date is as follows:

	2017 $'000	2016 $'000
Bank and other borrowings (note 20)	**1,561,536**	1,745,209
Less cash and cash equivalents (note 18)	**(150,983)**	(667,178)
Total net debt	**1,410,553**	1,078,031
Total equity	**1,613,490**	1,593,728
Debt/equity %	**87.42%**	67.64%

The cash and cash equivalents as at 30 April 2016 includes amounts held which were paid on the acquisition of Serena on 2 May 2016.

28 Deferred tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2017 $'000	2016 $'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**144,063**	123,876
– Deferred tax asset to be recovered within 12 months	**64,190**	74,881
	208,253	198,757
Deferred tax liabilities:		
– Deferred tax liability to be settled after more than 12 months	**(273,151)**	(212,067)
– Deferred tax liability to be settled within 12 months	**(53,580)**	(51,971)
	(326,731)	(264,038)
Deferred tax liability	**(118,478)**	(65,281)

	2017 $'000	2016 $'000
Net deferred tax liability		
At 1 May	**(65,281)**	(54,706)
Credited/(debited) to consolidated statement of comprehensive income	**26,871**	(12,885)
Credited directly to equity	**22,996**	8,490
Debited to other comprehensive income	**(325)**	(1,745)
Acquisition of subsidiaries (note 37)	**(97,615)**	(966)
Hindsight adjustments (note 37)	**–**	(4,255)
Foreign exchange adjustment	**(6,415)**	–
Effect of change in tax rates – charged to consolidated statement of comprehensive income	**1,291**	786
At 30 April	**(118,478)**	(65,281)

	Tax losses $'000	Share-based payments $'000	Deferred revenue $'000	Tax credits $'000	Intangible fixed assets $'000	Other temporary differences $'000	Total $'000
Deferred tax assets							
At 1 May 2015	96,860	11,859	69,133	28,873	6,451	36,710	249,886
Hindsight adjustment (note 37)	(6,617)	–	–	5,595	–	62	(960)
(Charged)/credited to consolidated statement of comprehensive income	(39,294)	2,746	(31,171)	19,192	45	(8,104)	(56,586)
Credited directly to equity	–	8,490	–	–	–	–	8,490
Debited to other comprehensive income	–	–	–	–	–	(1,745)	(1,745)
Effect of change in tax rates – credited to consolidated statement of comprehensive income	–	(328)	–	–	–	–	(328)
At 30 April 2016	50,949	22,767	37,962	53,660	6,496	26,923	198,757
At 1 May 2016	**50,949**	**22,767**	**37,962**	**53,660**	**6,496**	**26,923**	**198,757**
Acquisition of subsidiaries (note 37)	**10,619**	**–**	**2,471**	**152**	**–**	**2,105**	**15,347**
(Charged)/credited to consolidated statement of comprehensive income	**(4,894)**	**4,405**	**4,057**	**(20,024)**	**(609)**	**(4,964)**	**(22,029)**
Credited directly to equity	**–**	**22,996**	**–**	**–**	**–**	**–**	**22,996**
Debited to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(325)**	**(325)**
Foreign exchange adjustment	**–**	**(6,415)**	**–**	**–**	**–**	**–**	**(6,415)**
Effect of change in tax rates – credited to consolidated statement of comprehensive income	**–**	**(78)**	**–**	**–**	**–**	**–**	**(78)**
At 30 April 2017	**56,674**	**43,675**	**44,490**	**33,788**	**5,887**	**23,739**	**208,253**

28 Deferred tax continued

A deferred tax credit to equity of $23.0m (2016: $8.5m) arises during the year in relation to share based payments. The increase in this credit as compared to the prior year is due to the significant increase in the company's share price during the year ended 30 April 2017.

The deferred tax asset relating to other temporary differences of $23.7m as at 30 April 2017 (2016: $26.9m) includes temporary differences arising on fixed assets, short-term timing differences and the defined benefit pension scheme.

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the utilization of future taxable profits is probable. The Group did not recognize deferred tax assets in relation to the following gross temporary differences, the expiration of which is determined by the tax law of each jurisdiction:

	Expiration: 2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Thereafter $'000	No expiry $'000	Total $'000
At 30 April 2017								
Type of temporary difference:								
Losses	**1,107**	**635**	**972**	**–**	**–**	**–**	**19,773**	**22,487**
Credits	**2,131**	**2,147**	**1,909**	**2,138**	**1,334**	**5,583**	**8,338**	**23,580**
Other	**–**	**–**	**–**	**–**	**–**	**–**	**23,859**	**23,859**
Total	**3,238**	**2,782**	**2,881**	**2,138**	**1,334**	**5,583**	**51,970**	**69,926**

	Expiration: 2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	Thereafter $'000	No expiry $'000	Total $'000
At 30 April 2016								
Type of temporary difference:								
Losses	1,536	191	9,646	157	–	6,415	22,830	40,775
Credits	2,131	2,147	1,909	2,138	1,334	5,070	5,576	20,305
Other	–	–	–	–	–	–	23,859	23,859
Total	3,667	2,338	11,555	2,295	1,334	11,485	52,265	84,939

	Intangible fixed assets $'000	Other temporary differences $'000	Total $'000
Deferred tax liabilities			
At 1 May 2015	(296,677)	(7,915)	(304,592)
Hindsight adjustments (note 37)	(3,295)	–	(3,295)
Acquisition of subsidiary (note 37)	(966)	–	(966)
Charged/(credited) to consolidated statement of comprehensive income	44,666	(965)	43,701
Effect of change in tax rates – charged to consolidated statement of comprehensive income	1,114	–	1,114
At 30 April 2016	**(255,158)**	**(8,880)**	**(264,038)**
At 1 May 2016	**(255,158)**	**(8,880)**	**(264,038)**
Acquisition of subsidiary (note 37)	**(110,334)**	**(2,628)**	**(112,962)**
Charged/(credited) to consolidated statement of comprehensive income	**52,438**	**(3,538)**	**48,900**
Effect of change in tax rates – charged to consolidated statement of comprehensive income	**1,369**	**–**	**1,369**
At 30 April 2017	**(311,685)**	**(15,046)**	**(326,731)**

No deferred tax liability was recognized in respect of unremitted earnings of overseas subsidiaries as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The deferred tax liability relating to other temporary differences of $15.1m (2016: $8.9m) includes temporary differences on capitalized research and development expenditure of $14.9m as at 30 April 2017 (2016: $11.1m).

29 Share capital

Ordinary shares at 10 pence each as at 30 April 2017 (2016: 10 pence each)

	2017		2016	
	Shares	**$'000**	Shares	$'000
Issued and fully paid				
At 1 May	**228,706,210**	**39,573**	228,587,397	39,555
Shares issued to satisfy option awards	**968,269**	**127**	118,313	18
Share placement issues	**–**	**–**	500	–
At 30 April	**229,674,479**	**39,700**	228,706,210	39,573

Shares issued during the year

During the year ended 30 April 2017, 968,269 ordinary shares of 10 pence each (2016: 118,313) were issued by the Company to settle exercised share options. The gross consideration received was $2.0m (2016: $1.0m). Shares issued to satisfy option awards options related to exercises of the Incentive Plan 2005 and Sharesave and Employee Stock Purchase Plan 2006. Of these exercises in the year ended 30 April 2017 the majority were settled by new share issues and some were settled by utilizing the remaining treasury shares and shares from an employee benefit trust.

At 30 April 2017 no treasury shares were held (2016: 29,924) such that the voting rights and number of listed shares at 30 April 2017 were 229,674,479 (2016: 228,676,286). Treasury shares were fully utilized during the year to satisfy share option exercises.

Potential issues of shares

Certain employees hold options to subscribe for shares in the Company at prices ranging from nil pence to 1,875.6 pence under the following share option schemes approved by shareholders in 2005 and 2006: the Long-Term Incentive Plan 2005, the Additional Share Grants, the Sharesave Plan 2006 and the Employee Stock Purchase Plan 2006.

The number of shares subject to options at 30 April 2017 was 8,607,889 (2016: 9,264,743). Further information on these options is disclosed in note 33.

30 Share premium account

	2017 $'000	2016 $'000
At 1 May	**190,293**	16,087
Share placement issues	**–**	176,235
Share placement costs	**–**	(2,979)
Movement in relation to share options exercised (note 33)	**1,852**	950
At 30 April	**192,145**	190,293

On 22 March 2016, the Group announced its intention to conduct a placing with institutional investors to raise approximately £150m in order to partially fund the acquisition of Serena Software Inc. which was completed on 2 May 2016 (note 37). 500 new ordinary 10 pence shares and 10,872,680 treasury shares were issued at a price of £14.55. $176.2m of share premium was recorded from this transaction and the costs of $3.0m were deducted from this.

31 Other reserves

	Capital redemption reserve $'000	**Merger reserve $'000**	**Total $'000**
As at 1 May 2015	**163,363**	**1,168,104**	**1,331,467**
Reallocation of merger reserve	–	(180,000)	(180,000)
As at 30 April 2016	**163,363**	**988,104**	**1,151,467**
Reallocation of merger reserve	–	(650,000)	(650,000)
As at 30 April 2017	**163,363**	**338,104**	**501,467**

The Company has transferred an amount from the merger reserve to retained earnings pursuant to the UK company law. The parent company transferred the investment in TAG to a wholly owned sub for an intercompany receivable in the amount of $1,373m. To the extent the loan is settled in qualifying consideration, an amount of £650.0m from the merger reserve is transferred to retained earnings (2016: $180.0m) that is available for dividend distribution to the parent company shareholders.

Notes to the consolidated financial statements for the year ended 30 April 2017
continued

32 Non-controlling interests

On 22 December 2016 a payment of 170,350 JPY ($1,533) was made to a minority shareholder of Novell Japan Ltd to acquire 170,350 ordinary 1 JPY shares held. As a result of this the Group's shareholding increased from 71.5% to 74.7%.

	2017 $'000	2016 $'000
At 1 May	**1,057**	979
Share of (loss)/profit after tax	**(103)**	78
At 30 April	**954**	1,057

Non-controlling interests relate to the companies detailed below:

Company name	Country of incorporation and principal place of business	2017 Proportion held	2016 Proportion held
Novell Japan Ltd	Japan	**74.7%**	71.5%

33 Employees and directors

	2017 $'000	2016 $'000
Staff costs		
Wages and salaries	**474,343**	433,198
Redundancy and termination costs (non-exceptional)	**2,235**	3,722
Social security costs	**63,349**	59,205
Other pension costs	**14,108**	13,608
Cost of employee share schemes	**34,506**	28,793
Total	**588,541**	538,526

	2017 $'000	2016 $'000
Pension costs comprise:		
Defined benefit schemes (note 25)	**625**	760
Defined contribution schemes (note 25)	**13,483**	12,848
Total	**14,108**	13,608

	2017 Number	2016 Number
Average monthly number of people (including executive directors) employed by the Group:		
Sales and distribution	**2,141**	1,958
Research and development	**1,876**	1,676
General and administration	**646**	584
Total	**4,663**	4,218

	2017 $'000	2016 $'000
Key management compensation		
Short-term employee benefits	**8,051**	9,297
Share based payments	**9,391**	10,146
Total	**17,442**	19,443

33 Employees and directors continued

The key management figures above include the executive management team and directors. There are no post-employment benefits. Directors' remuneration is shown below.

This is the share based payment charge arising under IFRS 2 'Share based Payment'.

	2017 $'000	2016 $'000
Directors		
Aggregate emoluments	**4,052**	3,612
Aggregate gains made on the exercise of share options	**6,265**	3,764
Company contributions to money purchase pension scheme	**359**	228
Total	**10,676**	7,604

For further information on the directors of the Company please refer to the Directors Remuneration report on pages 70 to 91.

Share based payments

The Group has various equity-settled share based compensation plans details of which are provided below.

a) Incentive Plan 2005

On 27 April 2005 the remuneration committee approved the rules of the Incentive Plan 2005 ("LTIP") which permits the granting of share options to executive directors and senior management. The total number of options they receive is determined by the performance criteria set by the remuneration committee over a three year performance period. Prior to 18 April 2011 performance conditions required that cumulative EPS growth over a three year vesting period is at least equal to Retail Prices Index ("RPI") plus 11% (at which point 25% of awards will vest), 60% of shares will vest for cumulative EPS growth of RPI plus 13% and for full vesting the cumulative EPS growth will be required to be RPI plus 15% per annum. RPI is the general index of the UK retail prices (for all items) published by the Office of National Statistics or any similar index replacing it. Straight-line vesting will apply between these points.

Awards granted on or after 18 April 2011 are subject to either Absolute Shareholder Returns ("ASR") over a three year period, cumulative EPS growth or a combination of both. ASR is defined as the average closing share price over the period of five days ending on the day prior to the vesting date less the reference price plus the total of all dividends and cash distributions and any other measures as determined by the Remuneration Committee between the award date and the vesting date. Where the cumulative EPS growth over a three year period is at least equal to RPI plus 3% per annum 25% of awards will vest, with full vesting is achieved when the cumulative EPS growth is RPI plus 9% per annum. Straight line vesting will apply between these points. Where the award is subject to ASR, the resulting level of vesting will be reduced by 25% if the ASR is below 150 pence or increased by 50% if ASR is 300 pence or more.

Further details are provided in the remuneration committee report on pages 70 to 91.

	2017		2016	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
Outstanding at 1 May	**5,186,360**	**41**	4,927,511	45
Exercised	**(1,008,721)**	**85**	(506,225)	20
Forfeited	**(120,272)**	**14**	(76,469)	7
Granted	**604,285**	**6**	841,543	–
Outstanding at 30 April	**4,661,652**	**29**	5,186,360	41
Exercisable at 30 April	**1,261,194**	**92**	1,581,754	127

The weighted average share price in the year for options on the date of exercise was 2,027 pence for the year ended 30 April 2017 (2016: 1,406 pence).

33 Employees and directors continued

The amount charged to the consolidated statement of comprehensive income in respect of the scheme was $16.2m for the year ended 30 April 2017 (2016: $15.1m). In addition to this $3.6m (2016: $2.4m) was charged to the consolidated statement of comprehensive income in respect of national insurance on these share options.

	2017			2016		
Range of exercise prices	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years
£0.10 or less	4	3,856	7.4	1	3,776	7.8
£0.11 – £1.00	13	506	6.6	13	761	7.5
£1.01 – £2.00	–	–	–	114	33	0.2
£2.01 – £3.00	281	5	0.5	246	309	2.0
£3.01 – £4.00	358	146	2.2	358	146	3.2
More than £4.00	402	149	3.2	402	161	4.2
	29	4,662	7.0	41	5,186	7.1

The weighted average fair value of options granted during the year ended 30 April 2017 determined using the Black-Scholes valuation model was £18.56 (2016: £12.96). The significant inputs into the model for the year ended 30 April 2017 were weighted average share price of £20.22 (2016: £14.10) at the grant date, exercise price shown above, expected volatility of between 26.96% and 27.98% (2016: between 24.80% and 26.40%), expected dividend yield of between 2.70% and 3.10% (2016: between 2.60% and 3.00%), an expected option life of three years and an annual risk-free interest rate of between 0.71% and 1.09% (2016: between 1.40% and 2.10%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

b) Additional Share Grants

	2017		2016	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
Outstanding at 1 May and 30 April	3,262,420	–	3,262,420	–
Exercisable at 30 April	–	–	–	–

The Remuneration Committee also awarded a number of Additional Share Grants ("ASG"s) to a number of senior managers and executives, critical to delivering the anticipated results of the acquisition of TAG which completed in November 2014. Grants could be made to no more than 15 people within 18 months of the Completion date. ASGs are nil cost options over Ordinary Shares. The number of Ordinary Shares subject to the ASGs will be a maximum of 2.5% of the Share Capital. The ASGs will become exercisable, subject to the satisfaction of the performance condition, on the third anniversary of the TAG acquisition or 1 November 2017, whichever is earlier (the 'vesting date') and will remain exercisable until the tenth anniversary of the TAG acquisition.

The performance condition is that the percentage of Ordinary Shares subject to the ASG which may be acquired on exercise on or after the vesting date is as follows:

(i) 0% if the Shareholder Return Percentage (as defined below) is 50% or less;

(ii) 100% if the Shareholder Return Percentage is 100% or more; and

(iii) A percentage determined on a straight line basis between (i) and (ii) above.

The 'Shareholder Return Percentage' will be calculated by deducting 819.425 pence per share (the "Reference Price"), being the average of the 20 days before 3 June 2014 (being the date of the heads of agreement relating to the proposed combination of Micro Focus and Attachmate between Micro Focus, Wizard, Golden Gate Capital and Francisco Partners Management LP), from the sum of the 'Vesting Price' (calculated as the average closing share price over the period of 20 days ending on the day prior to the vesting date) plus the total of all dividends per share between 20 November 2014 and the vesting date. This will be divided by the Reference Price, multiplying the resulting figure by 100 to obtain the Shareholder Return Percentage.

The amount charged to the consolidated statement of comprehensive income in respect of the scheme was $6.6m for the year ended 30 April 2017 (2016: $7.6m). In addition to this $7.0m (2016: $2.8m) was charged to the consolidated statement of comprehensive income in respect of national insurance on these share options.

33 Employees and directors continued

Range of exercise prices	2017 Weighted average exercise price pence	2017 Number of shares '000	2017 Weighted average remaining contractual life years	2016 Weighted average exercise price pence	2016 Number of shares '000	2016 Weighted average remaining contractual life years
£0.00	**–**	**3,262**	**7.6**	–	3,262	8.6
	–	**3,262**	**7.6**	–	3,262	8.6

No options were granted during the year ended 30 April 2017.

The weighted average fair value of options granted was £6.47, determined using the Monte-Carlo simulation model. The significant inputs into the model were weighted average share price of £11.05 at the grant date, expected volatility of between 25.81% and 26.11%, expected dividend yield of between 2.90% and 3.30%, an expected option life of three years and an annual risk-free interest rate of between 1.71% and 2.08%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

c) Sharesave and Employee Stock Purchase Plan 2006

In August 2006, the Company introduced the Micro Focus Employee Stock Purchase Plan 2006 and the Micro Focus Sharesave Plan 2006, approved by members on 25 July 2006. The Group operates several plans throughout the world but the two main plans are the Sharesave Plan ("Sharesave") primarily for UK employees and the Employee Stock Purchase Plan ("ESPP") for employees in the USA and Canada. The Sharesave and ESPP provide for an annual award of options at a discount to the market price and are open to all eligible Group employees. Under this plan employees make monthly savings over a period of three years linked to the grant of an option over Micro Focus shares with an option price which can be at a discount of up to 20% of the market value of the shares on grant. The option grants are subject to employment conditions and continuous savings.

Further Sharesave and ESPP grants were made during the year to 30 April 2017.

Sharesave	2017 Options	2017 Weighted average exercise price pence	2016 Options	2016 Weighted average exercise price pence
Outstanding at 1 May	**543,657**	**862**	549,229	693
Exercised	**(89,946)**	**618**	(110,236)	464
Forfeited	**(27,815)**	**1,001**	(53,985)	793
Granted	**133,526**	**1,466**	158,649	1,148
Outstanding at 30 April	**559,422**	**1,039**	543,657	862
Exercisable at 30 April	**–**	**–**	4,866	482

Options	Date of grant	Exercise price per share pence	Exercise period
6,466	5 February 2014	612.0	1 May 2017 – 30 September 2017
84,155	1 August 2014	695.0	1 October 2017 – 31 March 2018
196,859	10 February 2015	838.4	1 April 2018 – 30 September 2018
92,723	7 August 2015	1,112.0	1 October 2018 – 31 March 2019
48,515	9 February 2016	1,200.0	1 April 2019 – 30 September 2019
130,704	12 August 2016	1,465.6	1 October 2019 – 1 February 2020
559,422			

33 Employees and directors continued

ESPP	2017 Options	2017 Weighted average exercise price pence	2016 Options	2016 Weighted average exercise price pence
At 1 May	**272,306**	**1,080**	179,919	948
Exercised	**(92,950)**	**998**	(10,082)	663
Forfeited	**(142,461)**	**1,220**	(16,012)	671
Granted	**87,498**	**1,836**	118,481	1,189
Outstanding at 30 April	**124,393**	**1,510**	272,306	1,080
Exercisable at 30 April	**–**	**–**	–	–

Options	Date of grant	Exercise price per share pence	Exercise period
34,879	1 October 2015	1,004.0	1 October 2017 – 31 December 2017
28,637	1 April 2016	1,023.0	1 April 2018 – 30 June 2018
60,877	1 October 2016	1,334.0	1 October 2018 – 31 December 2018
124,393			

The amount charged to the consolidated statement of comprehensive income in respect of the Sharesave and ESPP schemes was $1.1m for the year ended 30 April 2017 (2016: $0.9m).

The weighted average fair value of options granted in the Sharesave and ESPP schemes during the year ended 30 April 2017 determined using the Black-Scholes valuation model was £5.36 (2016: £4.15). The significant inputs into the model were weighted average share price of £20.56 (2016: £14.21) at the grant date, exercise price shown above, expected volatility of 26.95% (2016: between 25.09% and 26.36%), expected dividend yield of 2.60% (2016: between 2.80% and 3.10%), an expected option life of two or three years and an annual risk-free interest rate of 0.61% (2016: between 1.40% and 1.70%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

34 Operating lease commitments – minimum lease payments

At 30 April 2017 the Group has a number of lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years.

	2017 $'000	2016 $'000
Future minimum lease payments under non-cancellable operating leases expiring:		
No later than one year	**28,330**	27,177
Later than one year and no later than five years	**85,008**	73,273
Later than five years	**28,749**	40,583
Total	**142,087**	141,033

The Group leases various offices under non-cancellable operating lease agreements that are included in the table. The leases have various terms, escalation clauses and renewal rights. The minimum lease payments payable under operating leases recognised as an expense in the year to 30 April 2017 were $26.3m (2016: $23.4m).

35 Contingent liabilities

The Company and several of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

HPE Termination Payment

Micro Focus has agreed to pay HPE a termination payment equal to approximately $60m in cash under certain circumstances, including among other circumstances if;

(a) A competing proposal has been publicly announced or communicated to the Micro Focus board and not withdrawn at least five business days prior to the termination of the Merger Agreement, and such competing proposal, or a different competing proposal, is consummated (or a definitive agreement entered into with respect thereto) within 12 months following the Merger Agreement being terminated in specified circumstances; or

(b) The Merger Agreement is terminated as a result of, among other things, Micro Focus breaching in any material respect the specified undertakings in the Merger Agreement prohibiting it and its representatives from soliciting competing proposals.

36 Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. The remuneration of key management personnel of the Group (which is defined as members of the executive committee) including executive directors is set out in note 33.

37 Business combinations

Summary of acquisitions

					Consideration		
	Carrying value at acquisition $'000	Fair value adjustments $'000	Hindsight adjustments $'000	Goodwill $'000	Shares $'000	Cash $'000	Total $'000
Acquisitions in the year ended 30 April 2017:							
Serena Software Inc.	147,260	(249,306)	–	379,669	–	277,623	277,623
GWAVA Inc.	618	3,062	–	12,767	–	16,447	16,447
OpenATTIC	–	4,991	–	–	–	4,991	4,991
OpenStack	–	–	–	–	–	–	–
	147,878	**(241,253)**	**–**	**392,436**	**–**	**299,061**	**299,061**
Acquisitions in the year ended 30 April 2016:							
Authasas BV	1,110	10	–	8,840	–	9,960	9,960
Acquisitions in the year ended 30 April 2015:							
TAG	(501,338)	(225,796)	(5,583)	2,118,933	1,386,216	–	1,386,216
	(352,350)	**(467,039)**	**(5,583)**	**2,520,209**	**1,386,216**	**309,021**	**1,695,237**

Acquisitions in the year ended 30 April 2017

1 Acquisition of Serena Software Inc.

On 2 May 2016, the Group acquired the entire share capital of Spartacus Acquisition Holdings Corp. the holding company of Serena Software Inc. ("Serena") and its subsidiaries for $277.6m, payable in cash at completion. The Group then repaid the outstanding Serena bank borrowings of $316.7m as at 2 May 2016, making the total cash outflow for the Group of $528.5m, net of cash acquired of $65.8m. The transaction costs for the Serena acquisition were $0.9m ($0.5m was incurred in the year ended 30 April 2016).

The acquisition is highly consistent with the Group's established acquisition strategy and focus on the efficient management of mature infrastructure software products.

Serena is a leading provider of enterprise software focused on providing Application Lifecycle Management products for both mainframe and distributed systems. Whilst Serena is headquartered in San Mateo, California the operations are effectively managed from offices in Hillsboro, Oregon and St. Albans in the United Kingdom. It operates in a further 10 countries. The Serena Group's customers are typically highly regulated large enterprises, across a variety of sectors including banking, insurance, telco, manufacturing and retail, healthcare and government.

Serena was integrated into the Micro Focus Product Portfolio and the revenues reported in the Development and IT Operations Management Tools sub-portfolio.

37 Business combinations continued

The transaction was funded through the Group's existing cash resources together with additional debt and equity finance arranged through Barclays, HSBC, the Royal Bank of Scotland and Numis Securities. On 2 May 2016, the Group's existing revolving credit facility was extended from $225m to $375m and the Group raised approximately £158.2m (approximately $225.7m) through a Placing underwritten by Numis Securities incurring $3.0m of costs associated with the Placing in March 2016.

A fair value review was carried out and finalized on the assets and liabilities of the acquired business, resulting in the identification of intangible assets.

Details of the net assets acquired and goodwill are as follows:

	Carrying value at acquisition $'000	Fair value adjustments $'000	**Fair value $'000**
Goodwill	462,400	(462,400)	**–**
Intangible assets – purchased[1]	–	317,700	**317,700**
Intangible assets – other	79	–	**79**
Property, plant and equipment	1,927	–	**1,927**
Other non-current assets	167	–	**167**
Deferred tax asset	15,347	–	**15,347**
Trade and other receivables	27,362	–	**27,362**
Cash and cash equivalent	65,784	–	**65,784**
Borrowings – short-term	(27,712)	–	**(27,712)**
Trade and other payables	(11,766)	–	**(11,766)**
Provisions – short-term	(4,045)	–	**(4,045)**
Current tax liabilities	(3,173)	–	**(3,173)**
Deferred income – short-term[2]	(72,217)	3,761	**(68,456)**
Deferred income – long-term[2]	(14,853)	798	**(14,055)**
Borrowings – long-term	(288,938)	–	**(288,938)**
Other non-current liabilities	(717)	–	**(717)**
Deferred tax liabilities[3]	(2,385)	(109,165)	**(111,550)**
Net assets/(liabilities)	147,260	(249,306)	**(102,046)**
Goodwill (note 9)			**379,669**
Consideration			**277,623**
Consideration satisfied by:			
Cash			**277,623**

The fair value adjustments relate to:

[1] Purchased intangible assets have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of Serena;

[2] Deferred income has been valued taking account of the remaining performance obligations; and

[3] A deferred tax liability has been established relating to the purchase of intangibles.

The purchased intangible assets acquired as part of the acquisition can be analyzed as follows (note 10):

	Fair value $'000
Technology	**86,100**
Customer relationships	**210,200**
Trade names	**21,400**
	317,700

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Company's existing customer base with those of the acquired business.

37 Business combinations continued

The Group has used acquisition accounting for the purchase and the goodwill arising on consolidation of $379.7m has been capitalized.

From the date of acquisition, 2 May 2016 to 30 April 2017, the acquisition contributed $144.8m to revenue and $72.2m to profit, before any allocation of management costs and tax. There is no difference in results between 1 May and 2 May 2016.

2 Acquisition of GWAVA Inc.

On 30 September 2016, the Group acquired the entire share capital of GWAVA Inc. ("GWAVA") and its subsidiaries for $16.4m, payable in cash at completion. The transaction costs for the GWAVA acquisition were $1.5m.

The acquisition is highly consistent with the Group's established acquisition strategy and focus on the efficient management of mature infrastructure software products.

GWAVA is a leading company in email security and enterprise information archiving ("EIA"). GWAVA has approximately 90 employees, based in the US, Canada and Germany. More than a million users across 60 countries rely on its products in over 3,000 customer organizations, supported by GWAVA's global team, with a further 1,000 GWAVA business partners collaborating closely to ensure successful customer solutions. In addition to GWAVA's award winning EIA product Retain, GWAVA has a full suite of products to protect, optimize, secure and ensure compliance for customers running Micro Focus GroupWise.

A provisional fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of intangible assets. At the time these consolidated financial statements were authorized for issue, the Group had not yet fully completed its assessments of the GWAVA acquisition.

Details of the net assets acquired and goodwill are as follows:

	Carrying value at acquisition $'000	Fair value adjustments $'000	**Fair value $'000**
Intangible assets – purchased[1]	–	5,330	**5,330**
Intangible assets – other[2]	1,180	(1,180)	**–**
Property, plant and equipment	195	–	**195**
Trade and other receivables	3,096	–	**3,096**
Cash and cash equivalent	2,389	–	**2,389**
Trade and other payables	(1,331)	–	**(1,331)**
Deferred income – short-term[3]	(4,094)	324	**(3,770)**
Deferred income – long-term	(817)	–	**(817)**
Deferred tax liabilities[4]	–	(1,412)	**(1,412)**
Net assets	618	3,062	**3,680**
Goodwill (note 9)			**12,767**
Consideration			**16,447**
Consideration satisfied by:			
Cash			**16,447**

The fair value adjustments relate to:

1 Purchased intangible assets have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of GWAVA Inc.;
2 Other intangible assets relating to historic IP has been written down to nil;
3 Deferred income has been valued taking account of the remaining performance obligations; and
4 A deferred tax liability has been established relating to the purchase of intangibles.

The purchased intangible assets acquired as part of the acquisition can be analyzed as follows (note 10):

	Fair value $'000
Technology	**4,075**
Customer relationships	**544**
Trade names	**711**
	5,330

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Company's existing customer base with those of the acquired business.

37 Business combinations continued

The Group has used acquisition accounting for the purchase and the goodwill arising on consolidation of $12.8m has been capitalized. From the date of acquisition, 30 September 2016 to 30 April 2017, the acquisition contributed $5.8m to revenue and a profit of $0.4m.

The estimated results of the above acquisition if it had been made at the beginning of the accounting year, 1 May 2016, to 30 April 2017 would have been as follows:

	$m
Revenue	9.6
Profit for the year	0.5

The estimated results of the Group if the acquisition had been made at the beginning of the accounting year, 1 May 2016, to 30 April 2017 would have been as follows:

Pro-forma	$m
Revenue	1,384.5
Profit for the year	157.0

The above figures are based on information provided to Micro Focus by GWAVA and the results since acquisition.

3 Acquisition of OpenATTIC

On 1 November 2016 the Group acquired the OpenATTIC storage management technology and engineering talent from the company it-novum GmbH for a cash consideration of 4.7m Euros ($5.0m). The OpenATTIC technology aligns perfectly with our strategy to provide open source, software defined infrastructure solutions for the enterprise and will strengthen SUSE Enterprise Storage solution by adding enterprise grade storage management capabilities to the portfolio. The transaction costs for the OpenATTIC acquisition were $1.2m.

A provisional fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of intangible assets. The fair value review will be finalized in the next reporting period.

Details of the net assets acquired and goodwill are as follows:

	Carrying value at acquisition $'000	Fair value adjustments $'000	Fair value $'000
Intangible assets – purchased technology	–	4,991	4,991
Net assets	–	4,991	4,991
Goodwill			–
Consideration			4,991
Consideration satisfied by:			
Cash			4,991

From the date of acquisition, 1 November 2016, to 30 April 2017 the acquisition contributed the following:

	$m
Revenue	–
Loss for the period	(0.4)

The estimated results of the Group if the acquisition had been made at the beginning of the accounting year, 1 May 2016, to 30 April 2017 would have been as follows:

Pro-forma	$m
Revenue	1,380.7
Profit for the year	157.1

4 Acquisition of OpenStack

During the year, the Group acquired purchased technology and talent from HPE for $nil consideration that will expand SUSE's OpenStack Infrastructure-as-a-Service ("IaaS") solution and accelerate SUSE's entry into the growing Cloud Foundry Platform-as-a-Service ("PaaS") market, subject to regulatory clearances. The last regulatory clearance was received on 8 March 2017 and the deal was completed then.

37 Business combinations continued

The acquired OpenStack technology assets were integrated into SUSE OpenStack Cloud and the acquired Cloud Foundry and PaaS assets will enable SUSE in the future to bring to market a certified, enterprise-ready SUSE Cloud Foundry PaaS solution for all customers and partners in the SUSE ecosystem. Additionally, SUSE has increased engagement with the Cloud Foundry Foundation, becoming a platinum member and taking a seat on the Cloud Foundry Foundation Board.

As part of the transaction, HPE has named SUSE as its preferred open source partner for Linux, OpenStack IaaS and Cloud Foundry PaaS. HPE's choice of SUSE as their preferred open source partner further cements SUSE's reputation for delivering high-quality, enterprise-grade open source solutions and services.

The Group has carried out a provisional fair value assessment of the OpenStack assets and liabilities, resulting in the identification of intangible assets and liabilities with a $nil value. The Group will continue to assess and finalize this in the next reporting period.

From the date of acquisition, 8 March 2017, to 30 April 2017 the acquisition contributed the following:

	$m
Revenue	0.3
Loss for the period	(2.7)

The estimated results of the Group if the acquisition had been made at the beginning of the accounting year, 1 May 2016, to 30 April 2017 would have been as follows:

Pro-forma	$m
Revenue	1,382.8
Profit for the year	141.5

Acquisitions in the year ended 30 April 2016

1 Acquisition of Authasas BV

On 17 July 2015, the Group acquired the entire share capital of Authasas BV, a company registered in The Hague, the Netherlands. The activities of Authasas BV mainly consist of the developing, producing and publishing/selling of authentication software. The consideration was $10.0m and was satisfied using Micro Focus' existing bank facilities. The acquisition costs incurred of $0.5m were expensed as exceptional items through administrative expenses in the consolidated statement of comprehensive income for the year ended 30 April 2016.

A fair value review was carried out and finalized on the assets and liabilities of the acquired business, resulting in the identification of intangible assets.

Details of the net assets acquired and goodwill are as follows:

	Carrying value at acquisition $'000	Fair value adjustments $'000	Fair value $'000
Intangible assets – purchased[1]	–	3,356	3,356
Intangible assets – other[2]	1,973	(1,973)	–
Property, plant and equipment	14	–	14
Inventory	11	–	11
Deferred tax asset[3]	339	(339)	–
Trade and other receivables	463	–	463
Cash and cash equivalent	106	–	106
Trade and other payables[4]	(1,796)	(68)	(1,864)
Deferred tax liabilities[5]	–	(966)	(966)
Net assets	1,110	10	1,120
Goodwill (note 9)			8,840
Consideration			9,960
Consideration satisfied by:			
Cash			9,960

The fair value adjustments relate to:

1 Purchased intangible assets have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of Authasas BV;
2 Other intangible assets relating to product development costs have been written down to nil;
3 The deferred tax asset on acquisition has been written down to nil;
4 Deferred income has been valued taking account of the remaining performance obligations;
5 A deferred tax liability has been established relating to the purchase of intangibles.

37 Business combinations continued

The purchased intangible assets acquired as part of the acquisition can be analyzed as follows (note 10):

	Fair value $'000
Technology	**2,545**
Customer relationships	**811**
	3,356

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Company's existing customer base with those of the acquired business. The Group has used acquisition accounting for the purchase and the goodwill arising on consolidation of $8.8m has been capitalized. From the date of acquisition, 17 July 2015, to 30 April 2016, the acquisition contributed $0.1m to revenue and a loss of $0.6m to Adjusted EBITDA.

The estimated results of the above acquisition, excluding intercompany royalties, if it had been made at the beginning of the accounting year, 1 May 2015 to 30 April 2016 would have been as follows:

Pro-forma	$m
Revenue	**0.1**
Loss for the year	**(1.0)**
Adjusted EBITDA	**(0.8)**
Underlying Adjusted EBITDA	**(1.3)**

The estimated results of the enlarged Group if the acquisition had been made at the beginning of the accounting year, 1 May 2015 to 30 April 2016 would have been as follows:

Pro-forma	$m
Revenue	**1,245.0**
Profit for the year	**162.8**
Adjusted EBITDA	**546.6**
Underlying Adjusted EBITDA	**532.2**

The above figures are based on information provided to Micro Focus by Authasas BV and the results since acquisition.

2 Acquisition of the Attachmate Group ("TAG")

On 20 November 2014, the Group acquired from Wizard Parent LLC ("Wizard"), TAG, a US Company based in Houston. Information related to TAG is presented here as the Group recorded hindsight adjustments in the year ended 30 April 2016. The Company acquired the entire share capital of TAG, in exchange for the issue of 86.6m Consideration Shares to TAG's parent Company, Wizard. The value of the Consideration Shares allotted to Wizard was $1,386.2m. Of the consideration of $1,386.2m, $13.5m was credited to share capital and $1,372.7m was credited to the merger reserve. The Group qualifies for merger accounting under S612 of the Companies Act 2006.

A fair value review was carried out and finalized on the assets and liabilities of the acquired business, resulting in the identification of intangible assets.

37 Business combinations continued

Details of the net liabilities acquired and goodwill are as follows:

	Carrying value at acquisition $'000	Fair value adjustments $'000	Hindsight period adjustments $'000	**Fair value $'000**
Goodwill	906,052	(906,052)	–	**–**
Intangible assets – purchased[1]	214,222	913,410	–	**1,127,632**
Intangible assets – other[3]	17,282	(5,519)	–	**11,763**
Property, plant and equipment	25,965	–	–	**25,965**
Assets held for sale	888	–	–	**888**
Investment in associates	15,689	–	–	**15,689**
Long-term pension assets	15,472	–	3,917	**19,389**
Other non-current assets	4,952	–	–	**4,952**
Deferred tax assets	204,566	(13,334)	(960)	**190,272**
Non-current assets	**1,405,088**	**(11,495)**	**2,957**	**1,396,550**
Inventories	16	–	–	**16**
Trade and other receivables	158,226	–	–	**158,226**
Current tax recoverable	10,857	–	(2,942)	**7,915**
Cash and cash equivalents	165,946	–	–	**165,946**
Current assets	**335,045**	**–**	**(2,942)**	**332,103**
Trade and other payables[4]	(205,806)	3,344	(1,626)	**(204,088)**
Borrowings	(1,294,726)	–	–	**(1,294,726)**
Short-term provisions	(8,852)	–	(677)	**(9,529)**
Short-term deferred income[2]	(433,261)	29,367	–	**(403,894)**
Current liabilities	**(1,942,645)**	**32,711**	**(2,303)**	**(1,912,237)**
Long-term deferred income[2]	(203,519)	13,301	–	**(190,218)**
Long-term provisions	(2,614)	–	–	**(2,614)**
Retirement benefit obligations	(31,257)	–	–	**(31,257)**
Other non-current liabilities	(9,406)	–	–	**(9,406)**
Deferred tax liabilities[5]	(50,749)	(260,313)	(3,295)	**(314,357)**
Non-current liabilities	**(297,545)**	**(247,012)**	**(3,295)**	**(547,852)**
Non-controlling interest	(1,281)	–	–	**(1,281)**
Net liabilities acquired	**(501,338)**	**(225,796)**	**(5,583)**	**(732,717)**
Goodwill (note 9)				**2,118,933**
Consideration				**1,386,216**
Consideration satisfied by:				
Shares				**1,386,216**

The fair value adjustments relate to:

1. Purchased intangible assets have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of TAG;
2. Deferred income has been valued taking account of the remaining performance obligations;
3. Other intangible assets relating to product development costs have been written down to nil;
4. Deferred rent within 'Trade and other payables' has been reassessed; and
5. A deferred tax liability has been established relating to the purchased intangibles.

As at 30 April 2016 the hindsight adjustments that have been identified are long-term pension assets, accruals and legal provisions. The valuation of long term pension assets was reassessed, additional accruals were identified and additional legal provisions were made relating to a claim. The tax impact of these adjustments has been included. The valuation of current and deferred tax balances has also been reassessed.

Notes to the consolidated financial statements for the year ended 30 April 2017

continued

38 Post Balance Sheet Events

1 Proposed merger with HPE Software

On September 7, 2016, the Group announced that it had entered into a definitive agreement with HPE on the terms of a transaction (the "Transaction") which provided for the combination of HPE's software business segment ("HPE Software") with the Company by way of a merger (the "Merger") with a wholly owned subsidiary of HPE incorporated to hold the business of HPE Software for the purposes of the Transaction. At the time of announcement HPE Software was valued at $8.8bn.

The Transaction is currently expected to complete on 1 September 2017. Our shareholders voted unanimously in favour of the Transaction. They also approved a return of value of $500m which will be declared immediately before Completion.

2 Dividends

The directors announced a second interim dividend of 58.33 cents per share (2016: 49.74 cents per share). The dividend will be paid in Sterling equivalent to 45.22 pence per share, based on an exchange rate of £1 = $1.29 being the rate applicable on 11 July 2017, the date on which the board resolved to propose the dividend. The dividend will be paid on 25 August 2017 to shareholders on the register at 4 August 2017.

Section Number

5 —

Company financial statements and notes

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Independent auditors' report to the members of Micro Focus International plc

Report on the Company financial statements

Our opinion

In our opinion, Micro Focus International plc's company financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 30 April 2017 and of its cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Company Balance Sheet as at 30 April 2017;
- the Company statement of cash flows for the year then ended;
- the Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 96, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgments against available evidence, forming our own judgments, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Group financial statements of Micro Focus International plc for the year ended 30 April 2017.

Andrew Paynter
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
17 July 2017

Company balance sheet
as at 30 April 2017

	Note	2017 $'000	2016 $'000
Fixed assets			
Investments	VIII	**328,556**	312,211
		328,556	312,211
Current assets			
Deferred tax assets		**2,787**	5,970
Debtors	IX	**1,218,471**	1,385,438
Cash at bank and in hand		**667**	1,567
		1,221,925	1,392,975
Creditors: amounts falling due within one year	X	**(72,190)**	(21,536)
Net current assets		**1,149,735**	1,371,439
Total assets less current liabilities		**1,478,291**	1,683,650
Capital and reserves			
Called up share capital	XII	**39,700**	39,573
Share premium account	XII	**192,145**	190,293
Capital redemption reserve		**163,363**	163,363
Merger reserve		**365,189**	1,015,189
Retained earnings		**717,894**	275,232
Total equity		**1,478,291**	1,683,650

The loss for the financial year before dividends for the Company was $41.7m (2016: loss of $20.1m).

The Company financial statements on pages 168 to 177 were approved by the board of directors on 17 July 2017 and were signed on its behalf by:

Kevin Loosemore
Executive Chairman

Mike Phillips
Chief Financial Officer

Registered number: 5134647

Company statement of changes in equity
for the year ended 30 April 2017

	Note	Called up share capital $'000	Share premium account $'000	Retained earnings $'000	Merger reserves[2] $'000	Capital redemption reserves[1] $'000	Total equity $'000
Balance as at 1 May 2015		39,555	16,087	145,114	1,195,189	163,363	1,559,308
Loss for the year		–	–	(20,066)	–	–	(20,066)
Other comprehensive income for the year		–	–	–	–	–	–
Total comprehensive expense for the year		–	–	(20,066)	–	–	(20,066)
Dividends	V	–	–	(105,159)	–	–	(105,159)
Issue of share capital		18	950	(70)	–	–	898
Issue of share capital – placement		–	176,235	49,485	–	–	225,720
Issue of share capital – placement fees		–	(2,979)	–	–	–	(2,979)
Reallocation of merger reserve[3]		–	–	180,000	(180,000)	–	–
Movement in relation to share options:							
– Value of subsidiary employee services		–	–	16,425	–	–	16,425
– Value of services provided	VI	–	–	6,369	–	–	6,369
Deferred tax on share options		–	–	3,134	–	–	3,134
Total changes in equity		**18**	**174,206**	**130,118**	**(180,000)**	**–**	**124,342**
Balance as at 30 April 2016		**39,573**	**190,293**	**275,232**	**1,015,189**	**163,363**	**1,683,650**
Loss for the year		**–**	**–**	**(41,699)**	**–**	**–**	**(41,699)**
Other comprehensive income for the year		–	–	–	–	–	–
Total comprehensive expense for the year		**–**	**–**	**(41,699)**	**–**	**–**	**(41,699)**
Dividends	V	**–**	**–**	**(177,535)**	**–**	**–**	**(177,535)**
Issue of share capital		**127**	**1,852**	**(90)**	**–**	**–**	**1,889**
Reallocation of merger reserve[3]		**–**		**650,000**	**(650,000)**		**–**
Movement in relation to share options:							
– Value of subsidiary employee services	VIII	**–**	**–**	**16,345**	**–**	**–**	**16,345**
– Value of services provided	VI	**–**	**–**	**6,453**	**–**	**–**	**6,453**
Treasury shares acquired		**–**	**–**	**(7,678)**	**–**	**–**	**(7,678)**
Deferred tax on share options		**–**	**–**	**(3,134)**	**–**		**(3,134)**
Total changes in equity		**127**	**1,852**	**442,662**	**(650,000)**	**–**	**(205,359)**
Balance as at 30 April 2017		**39,700**	**192,145**	**717,894**	**365,189**	**163,363**	**1,478,291**

1 In January 2012 a Return of Value was made to all shareholders amounting to $129.0m in cash after including a foreign exchange contract gain of $0.6m. As a result of this a capital redemption reserve was created following the redemption of the B shares. In November 2012 a further return of value was made to all shareholders amounting to $128.8m in cash after including a foreign exchange contract gain of $2.4m. In September 2012, a further $47,079,000 was added to the capital redemption reserve following the redemption of the B shares. In November 2014, a further $59,380,000 was added to the capital redemption reserve following the redemption of B shares.

2 On 20 November 2014 the TAG acquisition was completed. As a result of this a merger reserve was created of $1.4bn. The acquisition of TAG was structured by way of a share for share exchange, this transaction fell within the provisions of section 612 of the Companies Act 2006 (merger relief) such that no share premium was recorded in respect of the shares issued. The Company chose to record its investment in TAG at fair value and therefore recorded a merger reserve equal to the value of the share premium which would have been recorded had section 612 of the Companies Act 2006 not been applicable (i.e. equal to the difference between the fair value of TAG and the aggregate nominal value of the shares issued). This merger reserve was initially considered unrealized on the basis it was represented by the investment in TAG, which is not considered to represent qualifying consideration (in accordance with Tech 02/17 BL (Guidance on the determination of realized profits and losses in the context of distributions under the Companies Act 2006)). Immediately following the acquisition of TAG, the Company's investment in TAG was transferred to another Group Company in exchange for an intercompany loan. To the extent this loan is settled in qualifying consideration, the related proportion of the merger reserve is considered realized.

3 The merger reserve is an unrealized profit until it can be realized by the settlement of the intercompany loan by qualifying consideration. $650.0m of the intercompany loan is expected to be settled in qualifying consideration during the year to 30 April 2018 (2016: $180.0m) and as such an equivalent proportion of the merger reserve is considered realized and therefore has been transferred to the profit and loss account.

As at 30 April 2017 the value of distributable reserves was $660,164,000.

Company statement of cash flows
for the year ended 30 April 2017

	Note	2017 $'000	2016 $'000
Loss for the financial year		**(41,699)**	(20,066)
Adjustments for:			
Net interest		**(14)**	(86)
Taxation		**(198)**	(487)
Share-based payment charge		**10,297**	8,409
Exchange movements		**550**	407
Changes in working capital:			
Decrease in amounts owed from Group undertakings		**163,355**	109,894
Increase in amounts owed to Group undertakings		**30,202**	2,620
Decrease/(increase) in other debtors		**3,611**	(5,797)
Increase in creditors		**16,216**	8,200
Cash generated from operations		**182,320**	103,094
Interest paid		**–**	–
Taxation (paid)/received		**–**	–
Net cash generated from operating activities		**182,320**	103,094
Cash flows from investing activities			
Acquisition of subsidiaries		**–**	(295,772)
Proceeds from the sale of investment in subsidiaries to another Group undertaking		**–**	75,447
Interest received		**14**	86
Net cash generated from/(used in) investing activities		**14**	(220,239)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**1,979**	968
Proceeds from share placement		**–**	225,720
Costs associated with share placement		**–**	(2,979)
Treasury shares acquired		**(7,678)**	–
Dividends paid to owners	V	**(177,535)**	(105,159)
Net cash (used in)/generated from financing activities		**(183,234)**	118,550
Effects of exchange rate changes		**–**	–
Net (decrease)/increase in cash and cash equivalents		**(900)**	1,405
Cash and cash equivalents at beginning of year		**1,567**	162
Cash and cash equivalents at end of year		**667**	1,567

Notes to the Company financial statements
for the year ended 30 April 2017

I Statement of compliance
The Company financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006.

II Summary of significant accounting policies
The basis of preparation and the principal accounting policies adopted in the preparation of the Company financial information are set out below. These policies have been applied consistently to all years presented. The Company has adopted FRS 102 in these financial statements.

A Basis of preparation
The Company financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and all applicable UK accounting standards.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note III.

B Going concern
The directors, having made enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future, and therefore it is appropriate to maintain the going concern basis in preparing the financial statements.

C Exemptions for qualifying entities under FRS 102
FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has not taken advantage of any available exemption for qualifying entities.

D Foreign currency translation
The functional currency of the Company is US dollars. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

E Employee benefits
a) Short-term benefits
Short-term benefits, including holiday pay and other similar non-monetary benefits, are recognized as an expense in the period in which the service is received.

b) Defined contribution pension plan
The Company operates a defined contribution plan for which it pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

c) Share-based payments
The Company operated various equity-settled, share based compensation plans during the year.

The fair value of the employee services received in exchange for the grant of the shares or options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or options granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account and a corresponding adjustment to equity over the remaining vesting period.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself and the charge is treated as a cash-settled transaction.

The shares are recognized when the options are exercised and the proceeds received allocated between called up share capital and share premium account.

d) Employee benefit trust
Transactions, assets and liabilities of the Company sponsored Employee Benefit Trust are included in the Company Financial Statements as it is considered to be an intermediate payment arrangement. In particular, the Trust's purchases of shares in the Company remain deducted from shareholders' funds until they vest unconditionally with employees.

F Taxation
Corporation tax is payable on taxable profits at amounts expected to be paid, or recovered, under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognized to take account of timing differences between the treatment of transactions for financial reporting purposes and their treatment for tax purposes. A deferred tax asset is only recognized when it is probable that there will be a suitable taxable profit from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

G Investments in subsidiaries
Investments in subsidiaries are held at cost less any accumulated impairment losses. Costs incurred relating to acquisition of subsidiaries, yet to be completed, are included within prepayments. Upon Completion these costs are transferred to investments in subsidiaries.

H Financial instruments
The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Notes to the Company financial statements for the year ended 30 April 2017

continued

II Summary of significant accounting policies continued

a) Financial assets

Basic financial instruments, including cash at bank and in hand and amounts owed by Group undertakings, are initially recognized at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortized cost using the effective interest rate method.

At the end of each reporting period, financial assets measured at amortized cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss, which is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate, is recognized in profit or loss.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, are settled or substantially all the risks and rewards are transferred to another party.

b) Financial liabilities

Basic financial liabilities, including amounts owed to Group undertakings, are initially recognized at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future payments discounted at a market rate of interest. Such liabilities are subsequently carried at amortized cost using the effective interest rate method.

Financial liabilities are derecognized when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

I Called up share capital, share premium and dividend distribution

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognized when declared.

J Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned.

III Critical accounting judgments and estimation uncertainty

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Critical judgments in applying the Company's accounting policies

The Company makes an estimate of the recoverable value of investments in subsidiaries. When assessing impairment of investments management consider both internal and external indicators. There have been no other critical judgments made in applying the Company's accounting policies.

b) Critical accounting estimates and assumptions

In preparing the consolidated financial statements, the Group has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Group regularly reviews these estimates and updates them as required. Actual results could differ from these estimates. Unless otherwise indicated, the Group does not believe that it is likely that materially different amounts would be reported related to the accounting estimates and assumptions described below. The Group considers the following to be a description of the most significant estimates, which require the Group to make subjective and complex judgments, and matters that are inherently uncertain.

A Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated settlement of tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group carries appropriate provision, based on best estimates, until tax computations are agreed with the taxation authorities.

B Acquisitions

When making acquisitions, the Group has to make judgments and best estimates about the fair value allocation of the purchase price. Where acquisitions are significant, appropriate advice is sought from professional advisors before making such allocations otherwise valuations are done by management using consistent methodology used on prior year acquisitions where appropriate professional advice was sought. The valuation of goodwill and other intangibles is tested annually or whenever there are changes in circumstances indicating that the carrying amounts may not be recoverable. These tests require the use of estimates. Note 9 gives details of the Group's impairment reviews.

C Development expenditure

The Group invests in the development of future products in accordance with the accounting policy I(c). The assessment as to whether this expenditure will achieve a complete product for which the technical feasibility is assured is a matter of judgment, as is the forecasting of how the product will generate future economic benefit. Finally, the period of time over which the economic benefit associated with the expenditure occurred will arise is also a matter of judgment. These judgments are made by evaluating the development plan prepared by the research and development department and approved by management, regularly monitoring progress by using an established set of criteria for assessing technical feasibility and benchmarking to other products.

D Revenue recognition

The key areas of judgment in respect of recognizing revenue are the timing of recognition and the fair value allocation between Licence and Maintenance revenue, specifically in relation to recognition and deferral of revenue on support contracts where management assumptions and estimates are necessary.

E Provisions

The Group has made key judgments relating to provisions. Provisions include onerous leases and dilapidations, restructuring and integration, legal and other. Key judgments included determining the time to sublet vacant properties, restructuring and integration liabilities and the potential outcome of legal cases.

IV Profit and recognized gains and losses attributable to the Company

As permitted by Section 408 of the Companies Act 2006, no separate statement of comprehensive income is presented in respect of the Company. The Company has also taken advantage of legal dispensation contained in S408 of the Companies Act 2006 allowing it not to publish a separate statement of comprehensive income.

The loss for the financial year before dividends for the Company was $41.7m (2016: loss of $20.1m).

V Dividends

Equity – ordinary	2017 $'000	2016 $'000
2016 final paid 49.74 cents (2015: 33.00 cents) per ordinary share	111,023	70,015
2017 interim paid 29.73 cents (2016: 16.94 cents) per ordinary share	66,512	35,144
Total	**177,535**	105,159

The directors are proposing a second interim dividend in respect of the year ended 30 April 2017 of 58.33 cents per share which will utilize approximately $134.0m of total equity. The directors have concluded that the Company has sufficient reserves to pay the dividend. It has not been included as a liability in these financial statements as it has not yet been approved by shareholders.

VI Employees and directors

Staff costs for the Company during the year:

	2017 $'000	2016 $'000
Wages and salaries	3,381	4,968
Social security costs	4,381	2,835
Other pension costs	–	35
Cost of employee share schemes	6,453	6,369
Total	**14,215**	14,207

The average monthly number of employees of the Company, including remunerated directors, during the year was nine (2016: nine). Nils Brauckmann is remunerated by another Group Company. For further information on the directors of the Company please refer to the Remuneration Report on pages 70 to 91.

Key management personnel costs for the Company during the year

All the key management of the Company are directors and are therefore included in the Remuneration Report.

VII Share-based payments

The Company has various equity-settled share-based compensation plans, details of which are provided in note 33 of the Group's consolidated financial statements on pages 152 to 156. The only employees of the Company are the directors and the interests of the executive directors in share options are as below.

a) Incentive Plan 2005

On 27 April 2005 the remuneration committee approved the rules of the Incentive Plan 2005 ("LTIP") which permits the granting of share options to executive directors and senior management. The total number of options they receive is determined by the performance criteria set by the remuneration committee over a three year performance period.

Awards granted on or after 18 April 2011 are subject to either Absolute Shareholder Returns ("ASR") over a three year period, cumulative EPS growth or a combination of both. ASR is defined as the average closing share price over the period of five days ending on the day prior to the vesting date less the reference price plus the total of all dividends and cash distributions and any other measures as determined by the Remuneration Committee between the award date and the vesting date. Where the cumulative EPS growth over a three year period is at least equal to Retail Prices Index ("RPI") plus 3% per annum 25% of awards will vest, with full vesting achieved when the cumulative EPS growth is RPI plus 9% per annum. Straight line vesting will apply between these points. RPI is the general index of the UK retail prices index (for all items) published by the Office of National Statistics or any similar index replacing it. Where the award is subject to ASR, the resulting level of vesting will be reduced by 25% if the ASR is below 150 pence or increased by 50% if ASR is 300 pence or more.

Further details are provided in the Remuneration Committee report on pages 70 to 91.

	2017		2016	
	Options	**Weighted average exercise price pence**	Options	Weighted average exercise price pence
At 1 May	**825,195**	**–**	661,621	–
Granted	**106,418**	**–**	163,574	–
Outstanding at 30 April	**931,613**	**–**	825,195	–
Exercisable at 30 April	**484,719**	**–**	278,628	–

No options were exercised during the year or the year ended 30 April 2016.

The amount charged to the statement of comprehensive income in respect of the scheme was $2.5m for the year ended 30 April 2017 (2016: $2.5m). In addition to this $1.6m (2016: $0.9m) was charged to the statement of comprehensive income in respect of national insurance on these options.

	2017			2016		
Range of exercise prices	**Weighted average exercise price pence**	**Number of shares '000**	**Weighted average remaining contractual life years**	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years
£0.00	**–**	**932**	**6.8**	–	825	7.4
	–	**932**	**6.8**	–	825	7.4

106,418 (2016: 163,574) options were granted in the year. The weighted average fair value of options granted during the year ended 30 April 2017 determined using the Black-Scholes valuation model for the year ended 30 April 2017 was £20.02 (2016: £12.65). The significant inputs into the model were weighted average share price of £21.69 (2016: £13.68) at the grant date, exercise price shown above, volatility of 27.98% (2016: 24.89%), dividend yield of 2.80% (2016: 2.60%), an expected option life of three years and an annual risk-free interest rate of 0.89% (2016: 2.06%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

VII Share-based payments continued

b) Additional Share Grants

The Remuneration Committee also awarded a number of Additional Share Grants ("ASGs") to a number of senior managers and executives, critical to delivering the anticipated results of the acquisition of TAG which completed in November 2014. Grants could be made to no more than 15 people within 18 months of the Completion date. ASGs are nil cost options over Ordinary Shares. The number of Ordinary Shares subject to the ASGs will be a maximum of 2.5% of the Enlarged Share Capital. The ASGs will become exercisable, subject to the satisfaction of the performance condition, on the third anniversary of the date of Completion or 1 November 2017, whichever is earlier (the 'vesting date') and will remain exercisable until the tenth anniversary of Completion.

The performance condition is that the percentage of Ordinary Shares subject to the ASG which may be acquired on exercise on or after the vesting date is as follows:

(i) 0% if the Shareholder Return Percentage (as defined below) is 50% or less;

(ii) 100% if the Shareholder Return Percentage is 100% or more; and

(iii) A percentage determined on a straight line basis between (i) and (ii) above.

The 'Shareholder Return Percentage' will be calculated by deducting 819.425 pence per share (the "Reference Price"), being the average of the 20 days before 3 June 2014 (being the date of the heads of agreement relating to the proposed combination of Micro Focus and Attachmate between Micro Focus, Wizard, Golden Gate Capital and Francisco Partners Management LP), from the sum of the 'Vesting Price' (calculated as the average closing share price over the period of 20 days ending on the day prior to the vesting date) plus the total of all dividends per share between Completion and the vesting date. This will be divided by the Reference Price, multiplying the resulting figure by 100 to obtain the Shareholder Return Percentage.

	2017		2016	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
Outstanding at 1 May and 30 April	**1,623,669**	**–**	1,623,669	–
Exercisable at 30 April	**–**	**–**	–	–

The amount charged to the statement of comprehensive income in respect of the scheme was $3.8m for the year ended 30 April 2017 (2016: $3.9m). In addition to this $2.4m (2016: $1.2m) was charged to the statement of comprehensive income in respect of national insurance on these share options.

	2017			2016		
Range of exercise prices	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years
£0.00	**–**	**1,624**	**–**	–	1,624	–
	–	**1,624**	**–**	–	1,624	–

The weighted average fair value of options granted during the year determined using the Monte-Carlo simulation model was £nil. The significant inputs into the model were weighted average share price of £11.24 at the grant date, exercise price shown above, expected volatility of 26.11%, expected dividend yield of 3.2%, an expected option life of three years and an annual risk-free interest rate of 2.08%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

c) Sharesave Plan

In August 2006, the Company introduced the Micro Focus Sharesave Plan 2006, approved by members on 25 July 2006. The Sharesave Plan ("Sharesave") is primarily for UK employees. The Sharesave provides for an annual award of options at a discount to the market price and are open to all eligible Group employees. Under this plan employees make monthly savings over a period of three years linked to the grant of an option over Micro Focus shares with an option price which can be at a discount of up to 20% of the market value of the shares on grant. The option grants are subject to employment conditions and continuous savings.

Notes to the Company financial statements for the year ended 30 April 2017
continued

VII Share-based payments continued

	2017		2016	
Sharesave	**Options**	**Weighted average remaining contractual life years**	Options	Weighted average remaining contractual life years
Outstanding at 1 May	**1,504**	**598p**	1,504	598p
Exercised	**(1,504)**	**598p**	–	–
Outstanding at 30 April	**–**	**–**	1,504	598p
Exercisable at 30 April	**–**	**–**	–	–

The amount charged to the statement of comprehensive income in respect of the Sharesave scheme was $nil for the year ended 30 April 2017 (2016: $1k). No employees have participated in any further Group Sharesave schemes.

The weighted average fair value of options granted in the Sharesave schemes during the year ended 30 April 2017 determined using the Black-Scholes valuation model was £2.41 (2016: £2.41). The significant inputs into the model were weighted average share price of £7.62 (2016: £7.62) at the grant date, exercise price shown above, expected volatility of 43.6% (2016: 43.6%), expected dividend yield of 4.1% (2016: 4.1%), an expected option life of three years and an annual risk-free interest rate of 2.2% (2016: 2.2%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

VIII Investments

	$'000
Cost and net book value:	
At 1 May 2016	**312,211**
Additions	**16,345**
At 30 April 2017	**328,556**

Additions of $16.3m (2016: $16.5m) relating to capital contributions arising from share based payments were made in the year (note VII).

A full list of subsidiary undertakings, joint ventures and associates at 30 April 2017 is included in note 13 of the Group financial statements. Only Micro Focus Midco Limited is directly owned by the Company with all other subsidiaries being indirectly owned.

These companies operate principally in the country in which they are incorporated. Our subsidiaries in Brazil and Bulgaria have a financial year end of 31 December. Our subsidiaries in India have an accounting year end of 31 March. These are due to historic reasons and were their year-end on acquisition.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

IX Debtors

	2017 $'000	2016 $'000
Amounts owed by Group undertakings	**1,215,473**	1,378,828
Other debtors	**–**	1,047
Prepayments	**2,998**	5,563
Total	**1,218,471**	1,385,438

The amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

X Creditors: amounts falling due within one year

	2017 $'000	2016 $'000
Amounts owed to Group undertakings	**33,033**	2,831
Other creditors including taxation and social security	**112**	151
Accruals and deferred income	**39,045**	18,554
Total	**72,190**	21,536

The amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

XI Financial instruments

The Company has the following financial instruments:

	2017 $'000	2016 $'000
Financial assets measured at amortized cost		
Amounts owed by Group undertakings	**1,215,473**	1,378,828
Other debtors	**–**	1,047
Total	**1,215,473**	1,379,875

	2017 $'000	2016 $'000
Financial liabilities measured at amortized cost		
Amounts owed to Group undertakings	**33,033**	2,831
Accruals	**39,045**	18,554
Total	**72,078**	21,385

XII Called up share capital and share premium account

Information on share capital is provided in note 29 of the Group financial statements. Information on share premium is provided in note 30 of the Group financial statements. At 30 April 2017 no treasury shares were held (2016: 29,924).

XIII Contingent liabilities

The Company has guaranteed certain contracts in the normal course of business and bank borrowings of its subsidiaries.

XIV Related party transactions

The Company has taken advantage of the exemption under FRS 102 paragraph 33.1A, from disclosing transactions with other members of the Group headed by Micro Focus International plc. There are no related party transactions or other external related parties.

XV Controlling party

The Company is ultimate controlling party of the Micro Focus International plc Group.

XVI Post Balance Sheet Events

Please refer to note 38 in the Group's consolidated financial statements.

Section
Number

6 —

Additional information

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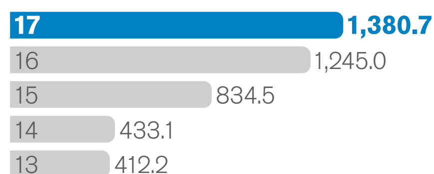
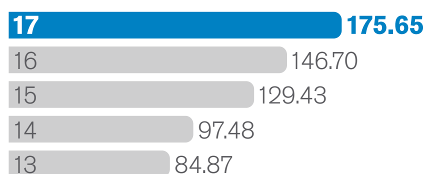
Historical summary

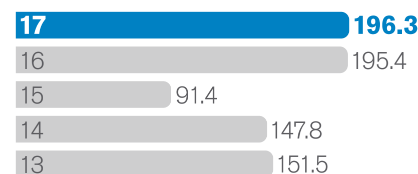
Revenue ($m)
$1,380.7m



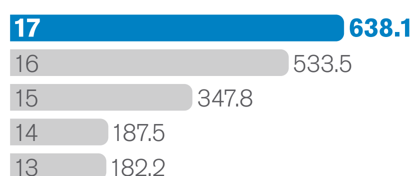
Diluted Adjusted Earnings per share (c)
175.65c



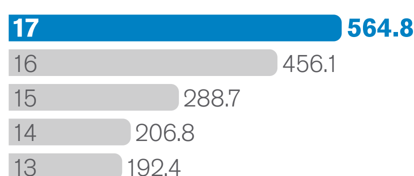
Profit before tax ($m)
$196.3m



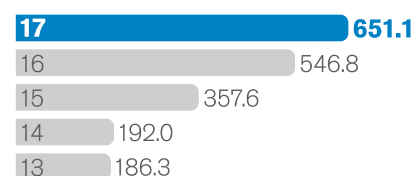
Adjusted Operating profit ($m)
$638.1m



Cash generated from continuing operations ($m)
$564.8m



Adjusted EBITDA ($m)
$651.1m



Summarized Group consolidated statement of comprehensive income for the year ended 30 April

	2017 $'000	2016 $'000
Revenue	**1,380,702**	1,245,049
Adjusted Operating profit	**638,068**	533,514
Share based compensation	**(34,506)**	(28,793)
Amortization of purchased intangibles	**(212,861)**	(181,934)
Exceptional items	**(97,258)**	(27,853)
Operating profit	**293,443**	294,934
Profit before tax	**196,344**	195,396

Earnings per share		
Basic (cents)	**68.88**	74.50
Diluted (cents)	**66.51**	71.61

Summarized Group consolidated statement of financial position as at 30 April

	2017 $'000	2016 $'000
Non-current assets	**4,203,764**	3,681,332
Current assets	**442,193**	954,361
Current liabilities	**(944,697)**	(1,061,797)
Non-current liabilities	**(2,087,770)**	(1,980,168)
Total Equity	**1,613,490**	1,593,728

Key dates and share management

Key dates for 2017

Annual General Meeting	4 September 2017

Dividend payments

Second interim payable – year ended 30 April 2017	25 August 2017
Interim payable – six months ending 31 October 2017	January/February 2018
Interim payable – six month ending 30 April 2018	August 2018
Final dividend – 18 months period ending 31 October 2018	March/April 2019

Results announcements

Interim results – six months ending 31 October 2017	January 2018
Interim results – six months ending 30 April 2018	July 2018
Final results – 18 months ending 31 October 2018	January 2019

Managing your shares

Share dealing services

Shareview Dealing is a telephone and internet service provided by Equiniti and provides a simple and convenient way of buying and selling Micro Focus International plc shares.

Log on to www.shareview.co.uk/dealing or call 0845 603 7037 between 8.30am and 4.30pm Monday to Friday, for more information about this service and for details of the rates and changes.

A weekly postal dealing service is also available and a form together with terms and conditions can be obtained by calling 0371 384 2734. Commission is 1% with a minimum of £10.

ShareGift

ShareGift is a charity share donation scheme for shareholders, administered by The Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small number of shares whose value makes it uneconomical to sell on a commission basis.

Further information can be obtained at www.sharegift.org.uk or from Equiniti.

Shareholder enquiries

Equiniti maintain the register of members of the Company. If you have any queries concerning your shareholding, or if any of your details change, please contact the Registrars:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0371 384 2734
Fax: 0371 384 2100

Textphone for shareholders with hearing difficulties: 0371 384 2255

Equiniti also offer a range of shareholder information online at www.shareview.co.uk.

Company information

Directors

Kevin Loosemore
(Executive Chairman)

Mike Phillips
(Chief Financial Officer)

Stephen Murdoch
(CEO – Micro Focus)

Nils Brauckmann
(CEO – SUSE)

Karen Slatford
(Senior independent non-executive director)

Richard Atkins
(Independent non-executive director)

Amanda Brown
(Independent non-executive director)

Darren Roos
(Independent non-executive director)

Silke Schieber
(Independent non-executive director)

Company Secretary, Registered and Head Office

Jane Smithard
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London EC4M 7LT
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Forward-looking statements

Certain statements contained in this Annual Report, including those under the captions entitled Executive Chairman's statement, Financial review, CEO Review – Micro Focus Product Portfolio, CEO Review – SUSE Product Portfolio, Directors' report, Corporate governance report and Remuneration report constitute 'forward-looking statements', including, without limitation, those regarding the Company's financial condition, business strategy, plans and objectives. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative or other variations or comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward looking-statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Such risks, uncertainties and other factors include, among others: the level of expenditure committed to development and deployment applications by organizations; the level of deployment-related revenue expected by the Company; the degree to which organizations adopt web-enabled services; the rate at which large organizations mitigate applications from the mainframe environment; the continued use and necessity of the mainframe for business critical applications; the degree of competition faced by Micro Focus; growth in the information technology services market; general economic and business conditions, particularly in the United States; changes in technology and competition; and the Company's ability to attract and retain qualified personnel. These forward-looking statements are made by the directors in good faith based on the information available to them at the time of their approval of this Annual Report. Except as required by the Financial Conduct Authority, or by law, the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

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