MICRO FOCUS®

Delivering shareholder returns

Annual Report and Accounts 2016

Key highlights

Revenue ($m)
$1,245.0m

16	1,245.0
15	834.5
14	433.1
13	412.2
12	434.1

Adjusted Operating Profit ($m)
$533.5m

16	533.5
15	347.8
14	187.5
13	182.2
12	174.7

Adjusted EBITDA ($m)
$546.8m

16	546.8
15	357.6
14	192.0
13	186.3
12	179.1

Adjusted profit before tax ($m)
$434.0m

16	434.0
15	294.4
14	179.6
13	176.1
12	173.5

Profit before tax ($m)
$195.4m

16	195.4
15	91.4
14	147.8
13	151.5
12	148.6

Cash generated from continuing operations ($m)
$455.7m

16	455.7
15	288.7
14	206.8
13	192.4
12	196.7

Diluted Adjusted earnings per share (c)
146.70c

16	146.70
15	129.43
14	97.48
13	84.87
12	70.93

Diluted earnings per share (c)
71.61c

16	71.61
15	56.71
14	82.35
13	75.23
12	63.81

Total dividend per share (c)
66.68c

16	66.68
15	48.4
14	44.0
13	40.0
12	31.6

Our four phase plan

Implementation: four phase plan whilst delivering sustainable shareholder returns

Phase 1
FY15: Assessment ✓

Actions:
- Deliver plans for FY15
- Detailed review of combined businesses
- Invigorate Product Management

Phase 2
FY16: 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
FY17: Stabilization

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

Phase 4
FY18: Growth

Actions:
- Top line growth
- Standardize systems
- Rationalize legal entities

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 with revenues of $1,245.0m and Underlying Adjusted EBITDA of $532.5m.

What we do

We help our customers 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 customers gain incremental returns on investments they have already made and to preserve and protect their data and business logic.

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Executive Chairman's statement

2016 was the first full year of operations for the new organization formed following the acquisition of The Attachmate Group ("TAG"). This created a Global Infrastructure Software business with revenues of $1,245.0m and EBITDA of $532.5m which has since traded in line with our expectations of revenue and ahead of expectations for EBITDA. This was achieved during a year of significant change as we began implementation of the outputs from our integration review. In addition, we announced the acquisition of Serena Software Inc. ("Serena") on 22 March 2016 which was subsequently completed on 2 May 2016. Serena was acquired for an enterprise value of $540m having delivered $162.3m of revenue and $80.9m of Underlying Adjusted EBITDA in the year ended 31 January 2016.

It is increasingly clear that there are significant segments of the infrastructure software market that have matured. The likely 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.

Like the TAG acquisition, the acquisition of Serena 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 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 four 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 2016 the annual compound shareholder return over 11 years has been 26.4%. Adjusted diluted earnings per share have grown from 14.23 cents in 2006 to 146.70 cents in 2016 and dividends per share have grown from 6 cents to 66.68 cents with respective compound annual growth rates of 26.3% and 27.2% respectively.

When we announced the acquisition of TAG on 15 September 2014 we set out a four phase plan (see inside front cover) for the combination of the businesses whilst continuing to deliver sustainable shareholder returns.

The only changes to this plan 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.

The acquisition of Serena does not change this plan but may slightly delay the return to revenue growth as we consolidate the Serena products. As with prior transactions we expect Serena's revenue trend to continue its historic decline until significant change has been implemented. This further integration will be included in the remaining two stages of the plan that will consolidate and strengthen the combined business, with the goal of delivering modest revenue growth in the medium-term. We are building a strong platform and with the addition of Serena we have annual pro-forma cash generated from operations in the year ended 30 April 2016 of approximately $524m per annum and free cash flows of approximately $274m, from which we can achieve 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. In December 2015 we announced that effective from 1 February 2016 Stephen Murdoch would become Chief Executive Officer ("CEO") of the Micro Focus Portfolio and Nils Brauckmann CEO of the SUSE Portfolio. Stephen and Nils discuss the operating performance of their respective portfolios in their CEO reports.

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 2016 we increased the headcount dedicated to development, customer care and sales and marketing of the SUSE Portfolio. Following a year of significant growth we will be further increasing this investment in 2017.

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.

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 39 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.

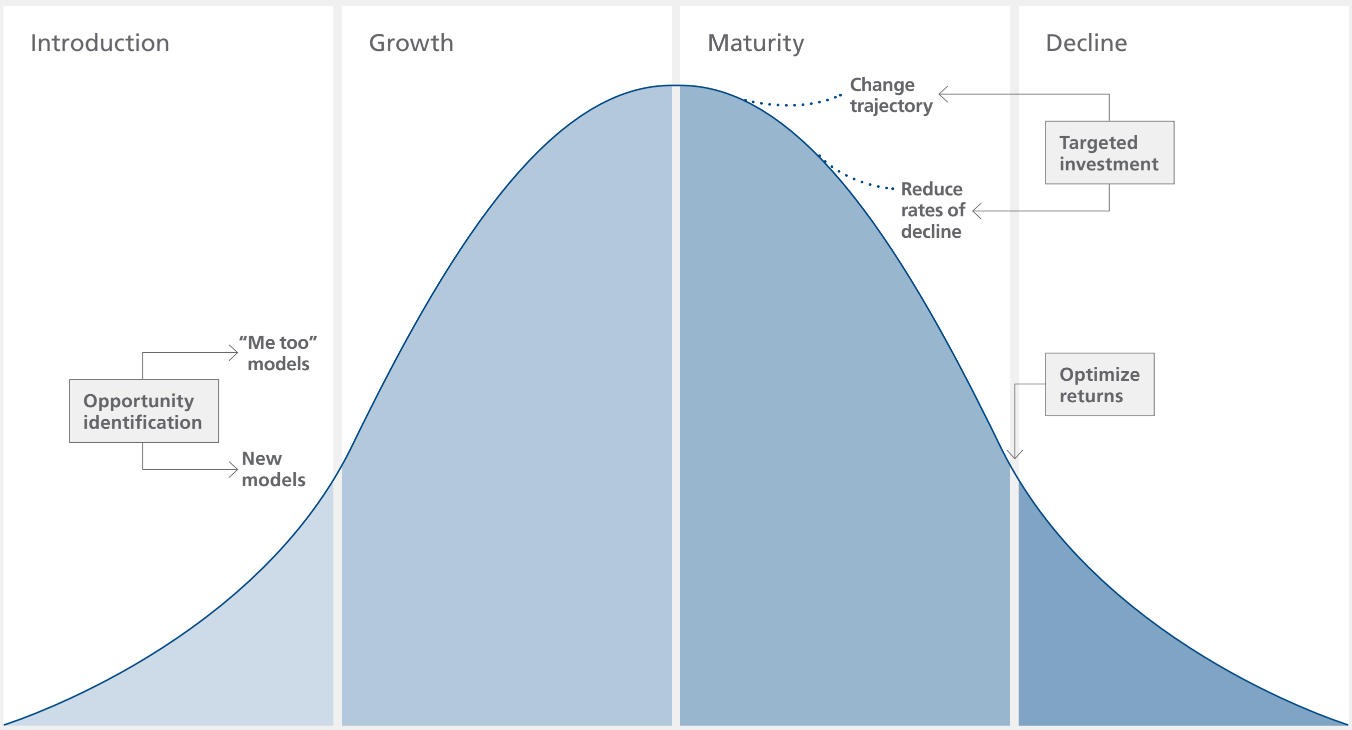
Executive Chairman's statement
continued

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 life cycle: Industry maturity stages



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 below.

Portfolio management – FOUR BOX MODEL

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 were declared. In the year ended 30 April 2016 Diluted Adjusted EPS is 146.70 cents and the proposed full year dividend is 66.68 cents representing a compound annual growth rate of 26.3% and 27.2% respectively.

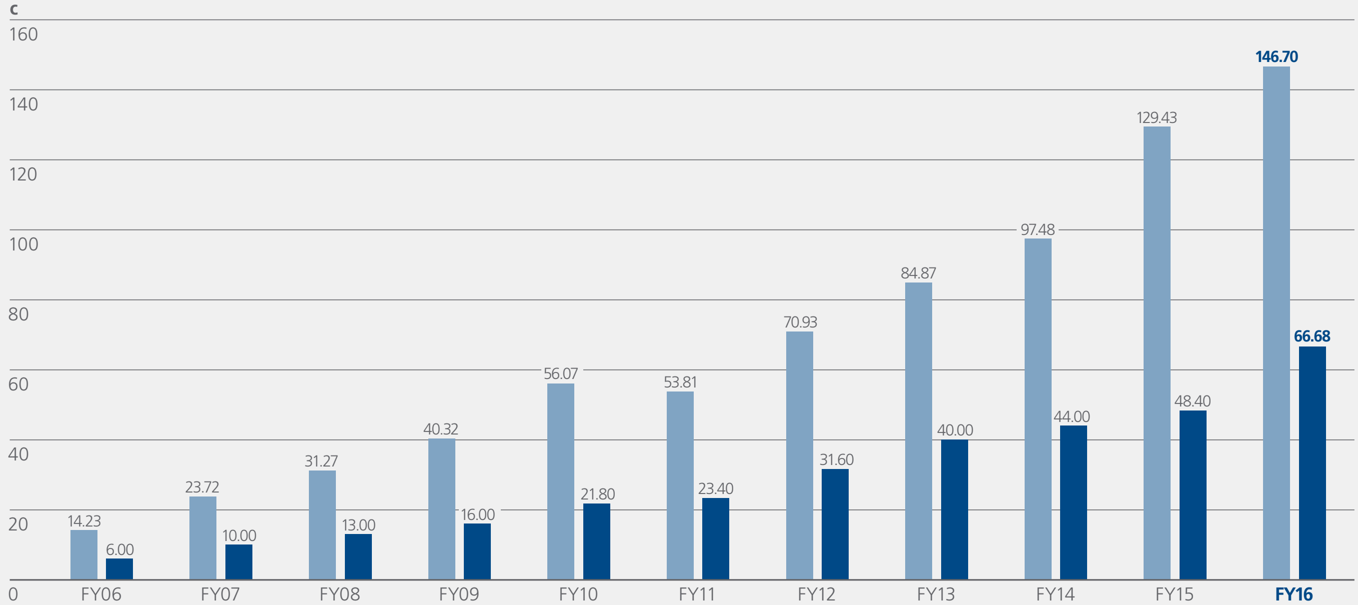
Dividends paid on our shares since the IPO to 30 April 2016 have totaled 167.64 pence (270.74 cents) and in addition since January 2012 we have made four Returns of Value totaling 215 pence per share. On 30 April 2016 our share price had increased to 1,529 pence. A shareholder who invested at the time of the IPO and had reinvested the Returns of Value would have grown their investment by 1,205% which is a compound annual return of 26.37%.

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 2016 this had increased to £3,496.5m. The Company made cash returns to shareholders during this period of £625.1m, consisting of share buy-backs of £65.0m, ordinary dividends of £220.5m and Returns of Value of £339.6m. These cash returns represent 98.4% of the market capitalization of the Company on 25 March 2011 and the annual compound return for shareholders from that date to 30 April 2016 is 38.9% per annum.

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

Executive Chairman's statement
continued

Adjusted diluted earnings per share and dividend per share in cents



CAGR – FY2006 to FY2016

Adjusted diluted EPS – 26.3%

Dividend per share – 27.2%

Our performance in the year

Micro Focus Group delivered revenues and Underlying Adjusted EBITDA of $1,245.0m and $532.5m respectively which is at the top end of the guidance given at the beginning of the year. Our net debt at 30 April 2016 was $1,078.0m and once we had completed the acquisition of Serena this had increased to $1,625.0m on a pro-forma basis.

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 2016 bonuses were 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 constant currency ("CCY") basis excluding the impact of in year acquisitions. Staff bonuses were paid at 100% of their on target amount reflecting a 10.0% increase in Underlying Adjusted EBITDA of Micro Focus at their budgeted exchange rates and this applied also to executive management who are capped at 100%. Non-commissioned staff fully aligned with SUSE were targeted 50% on improvement in Underlying Adjusted EBITDA of the Group and 50% on delivery of Annual Contract Value ("ACV") growth targets in SUSE. Their bonus payment was 126% 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 2016 was $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, 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 return of 26.4% 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 and FY14;
2. Significant transactions such as Serena; or
3. Transformational deals such as the acquisition of TAG.

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 chose 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 Company'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 executive 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 benefit nor lose 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. As the Serena acquisition was announced in FY16 and completed on the first business day of FY17 it will be included in the FY17 bonus calculation with its FY16 performance added into the base for measurement 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 of approximately 2.15% and dividends of approximately 3% this means that full vesting is aligned to the overall objective of 15% to 20% 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 2016 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 2016. As it is more than 18 months since the completion of the acquisition, no further ASGs will be made.

The ASG was essential to the delivery of value and has proven to be a very effective incentive from a shareholder perspective (costing far less than schemes operated by other companies).

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 with targets. To mitigate this risk, the board will be seeking shareholder approval to use the ASG mechanism again if appropriate.

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) 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 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 transaction was 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 provide the increase in value to existing shareholders.

The transaction was also transformational in terms of market capitalization. The day before the announcement of the transaction Micro Focus had a market capitalization of £1,178.6m which had increased to £2,296.0m by the date of completion. 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 also knew that Wizard Parent LLC ("Wizard"), the consortium of four private equity companies that owned TAG prior to the Micro Focus acquisition and who owned 40% of the Enlarged Group, were unlikely to be long-term holders of those shares due to the underlying nature of their investors.

Executive Chairman's statement
continued

Working with our brokers, Numis Securities, we set about establishing a significant increase in our investor relations activities in order to address the needs of the newly interested public company investors and the potential perceived overhang from the Wizard shareholding. In July 2015 we announced that following the completion of the integration review and given the strong outlook for the Company the independent board released Wizard from its restriction on trading during the 365 day period following completion of the transaction. Subsequent to that release Wizard has placed the vast majority of its holding through four placings with institutional investors. In May 2016, Wizard's remaining holding of 2.6% of the Company has been distributed to a subset of the underlying investors such that Wizard is no longer on our share register.

Separate from the Wizard placings the Company raised additional funding of $222.7m net of expenses through a 5% share placing in March 2016 to partially fund the acquisition of Serena.

Following this activity 30% of the Company's shares are now held in North America.

The Company's market capitalization at 30 April 2016 was £3,496.5m. The original Micro Focus shareholders prior to the announcement of the TAG transaction who now own 56.8% of the Company have seen their total investment increase from £1,178.6m to £1,986.0m over a period of 19 months and during that period have received a Return of Value of £83.9m and ordinary dividends of £55.0m.

The board is targeting 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 would 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 Serena the Company extended its revolving credit facility from $225.0m to $375.0m on 2 May 2016 and raised money from shareholders for the first time since the IPO in May 2005 when it placed 10.9m shares with institutional investors raising $222.7m net of expenses in March 2016.

At 30 April 2016 we had net debt of $1,078.0m which was prior to the completion of the Serena acquisition. Once the transaction completed the pro-forma net debt was $1,625.0m representing a pro-forma net debt to pro-forma Facility EBITDA of 2.51 times.

On completion of the TAG acquisition the board adopted a progressive dividend policy whilst the net debt to Facility EBITDA was above 2.5 times. Absent a significant acquisition, share buy-back opportunity or unforeseen circumstances the net debt to Facility EBITDA multiple will be below 2.5 times at the end of April 2017 and so the board is proposing an increase in the dividend payout such that it is two times covered by the adjusted earnings of the Group. This policy will take effect from the proposed final dividend of 49.74 cents (2015: 33.00 cents per share), which represents a 50.7% increase on last year's final dividend and gives a total proposed dividend for the year of 66.68 cents per share (2015: 48.40 cents), an increase of 37.8%.

The dividend will be paid in Sterling equivalent to 37.40 pence per share, based on an exchange rate of £1 = $1.33, the rate applicable on 13 July 2016, the date on which the board resolved to propose the dividend. The dividend will be paid on 7 October 2016 to shareholders on the register at 2 September 2016.

In line with our target net debt to Facility EBITDA multiple of 2.5 times and consistent with our shareholder return policy it is the board's current intention, absent a significant acquisition, share buy-back opportunity or unforeseen circumstances, to make a further Return of Value to shareholders in calendar year 2017.

Board changes and succession planning

Since April 2011 I had held the roles of both Chairman and Chief Executive. In December 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.

During the year there were a number of other board changes.

At the AGM in September 2015, Tom Skelton stepped down from the board after serving as a non-executive director for nine years. We would like to thank Tom for his contribution to the success of Micro Focus. Karen Geary who joined the board as a non-executive in January 2015 has now become Group HR Director and a member of the senior management team. Prescott Ashe and David Golob stepped down from the board on 1 February 2016 in anticipation of Wizard's shareholding reducing below 15%.

Stephen Murdoch and Nils Brauckmann joined the board on 1 February 2016 as CEOs of Micro Focus and SUSE respectively, whilst on the same day Steve Schuckenbrock joined as an independent non-executive director.

Finally, we were delighted to welcome Amanda Brown to the board on 1 July 2016 as a non-executive director.

We welcome the new members of our board and biographical details of all board members are available on pages 46 and 47.

Outlook

During FY17, in accordance with our four phase plan, we intend to stabilize revenues around a solid core from which we aim to grow in FY18. As a result we anticipate revenues in FY17 being in the range of minus 2% to 0% on FY16 on a CCY basis, pro-forma for the acquisition of Serena as set out in the Financial review section on page 9.

Having delivered 11 years of approximately 26.4% compound 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
13 July 2016

Financial review

Due to the significant size of the TAG acquisition the directors believe that the full year results are better understood by comparing the actual results in the year with the pro-forma CCY results of the combination of TAG and Base Micro Focus in the comparable period. In arriving at pro-forma CCY results for the comparable period of the 12 months ended 30 April 2015 the directors have combined the unaudited internal management information for TAG for the period from 1 May 2014 to 19 November 2014 and then added in the Base Micro Focus results for the 12 months ended 30 April 2015 with the TAG audited results from 20 November 2014 to 30 April 2015 converted at the same average monthly exchange rates experienced in the year to 30 April 2016.

Following our integration review in FY15 we decided that the Group should operate two product portfolios from 1 May 2015 (i) Micro Focus and (ii) SUSE. These are the reporting segments and the cash generating units for the Group going forward.

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 group that makes and maintains the software, whilst the software is sold and supported through a geographic GTM organization. As part of the Integration Review we have grouped the products together into five sub-portfolios based on industrial logic. There was significant organizational change in the Micro Focus Product Portfolio in bringing together the prior organizations and we have been delighted with progress during FY16.

In comparison, the SUSE Product Portfolio experienced much less change at the beginning of the financial year in the way that it operated. SUSE's characteristics are different due to the Open Source nature of its offerings and the growth profile of those offerings.

Our revenue guidance at the beginning of the year and after the Interim results in December 2015 was for revenues to decline by between 2% and 4% 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. The guidance took account of the fair value deferred revenue accounting haircut of $16.6m (2015: $17.0m) taken at the time of the acquisition of TAG.

The performance in the year was at the top of management's guidance with overall revenues declining by 2.0% when compared to pro-forma CCY revenues.

The breakdown in revenue within the two product portfolios by revenue type compared to the pro-forma CCY revenues in the year to 30 April 2016 and the year ended 30 April 2015 is shown in the table above right:

Revenue by Product Portfolio on a CCY basis

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m	Year ended 30 April 2016 Pro-forma CCY (Decline)/ Growth %	Year ended 30 April 2015 Actual $m
Micro Focus Product Portfolio				
Licence	304.8	320.3	(4.8%)	261.0
Maintenance	644.5	686.3	(6.1%)	440.6
Consultancy	41.9	49.4	(15.2%)	31.8
	991.2	**1,056.0**	**(6.1%)**	**733.4**
SUSE Product Portfolio				
Licence	–	–	–	–
Maintenance	–	–	–	–
Subscription	248.9	210.5	18.2%	98.2
Consultancy	4.9	4.2	16.7%	2.9
	253.8	**214.7**	**18.2%**	**101.1**
Total revenue				
Licence	304.8	320.3	(4.8%)	261.0
Maintenance	644.5	686.3	(6.1%)	440.6
Subscription	248.9	210.5	18.2%	98.2
Consultancy	46.8	53.6	(12.7%)	34.7
Revenue	**1,245.0**	**1,270.7**	**(2.0%)**	**834.5**

[1] unaudited.

The table below provides the proportion of revenue delivered during FY16 by each of the portfolios and the comparison to the pro-forma FY15 CCY revenues with Micro Focus broken out into its sub-portfolios:

Proportion of pro-forma revenue delivered during FY16 by each of the Product Portfolios

	Percentage of FY16 revenues	Percentage of FY15 Pro-forma CCY revenues[1]
COBOL Development & Mainframe Solutions	20.8%	20.1%
Host Connectivity	15.9%	16.1%
Identity, Access & Security	17.4%	17.1%
Development & IT Operations Management Tools	12.6%	14.3%
Collaboration & Networking	12.9%	15.5%
Micro Focus Product Portfolio	**79.6%**	**83.1%**
SUSE Product Portfolio	**20.4%**	**16.9%**
Micro Focus Group	**100.0%**	**100.0%**

[1] unaudited.

Financial review
continued

We are providing additional Key Performance Indicators ("KPIs") for the SUSE Product Portfolio for the first time in this set of results. 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 are providing 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 within this set of results. Our methodology is still being refined in order to accommodate data from our multiple systems. 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 provide the best guidance on performance.

The table below shows revenues for the year by region and the pro-forma CCY revenue for the year to 30 April 2015 and the reported revenue for the year ended 30 April 2015:

Revenue by region

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m	Year ended 30 April 2015 Pro-forma CCY (Decline)/ Growth %	Year ended 30 April 2015 Actual $m
Micro Focus				
North America	525.2	561.4	(6.4%)	367.3
International	377.0	395.1	(4.6%)	289.8
Asia Pacific & Japan	89.0	99.5	(10.6%)	76.3
Total	**991.2**	**1,056.0**	**(6.1%)**	**733.4**
SUSE				
North America	108.6	87.4	24.3%	41.2
International	115.6	98.4	17.5%	47.2
Asia Pacific & Japan	29.6	28.9	2.4%	12.7
Total	**253.8**	**214.7**	**18.2%**	**101.1**
Group				
North America	633.8	648.8	(2.3%)	408.5
International	492.6	493.5	(0.2%)	337.0
Asia Pacific & Japan	118.6	128.4	(7.6%)	89.0
Total revenue	**1,245.0**	**1,270.7**	**(2.0%)**	**834.5**

[1] unaudited.

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

Operating costs

The operating costs (including exceptional costs of $27.9m) for the year compared with the prior year on a pro-forma basis at CCY and the prior year reported costs are shown below:

Operating costs

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m	Year ended 30 April 2016 Pro-forma CCY (Growth)/ Decline %	Year ended 30 April 2015 Actual $m
Cost of goods sold	135.4	161.3	16.1%	91.5
Selling and distribution	416.3	433.8	4.0%	290.5
Research and development	259.4	254.2	(2.0%)	162.3
Administrative expenses	139.0	265.8	47.7%	143.0
Total operating costs	**950.1**	**1,115.1**	**14.8%**	**687.3**

[1] unaudited.

On a pro-forma CCY basis, cost of goods sold for the year decreased by $25.9m to $135.4m (2015: pro-forma CCY $161.3m) of which the exceptional costs were $2.2m (2015: pro-forma CCY $4.6m). The reduction is partly as a result of lower consulting revenues and cost saving actions taken at the end of the prior year. The costs in this category predominantly relate to our consulting and helpline support operations.

Selling and distribution costs, excluding the amortization of purchased trade names and customer relationships intangible assets of $106.7m (2015: pro-forma CCY $79.6m), were $309.6m (2015: pro-forma CCY $354.2m). Within these costs were exceptional costs of $4.4m (2015: pro-forma CCY $19.8m), thus the underlying costs were $305.2m (2015: pro-forma CCY $334.4m), a reduction of 8.7% on the prior year on a pro-forma CCY basis. The reduction was due mostly to cost saving actions taken at the end of FY15.

Research and development expenses, excluding the amortization of purchased technology intangible assets of $75.2m (2015: pro-forma CCY $43.8m), were $184.2m (2015: pro-forma CCY $210.4m), and after exceptional costs of $1.3m (2015: pro-forma CCY $3.1m), the resultant costs were $182.9m (2015: pro-forma CCY $207.3m) a reduction of 11.8% on the prior year on a pro-forma CCY basis.

This figure is equivalent to approximately 14.7% of revenue (2015: pro-forma CCY 16.5%). The impact of net capitalization of internal development costs was $11.4m (2015: net amortization pro-forma CCY $0.1m). Research and development costs prior to amortization of purchased intangibles, exceptional items and the capitalization and amortization of internal development costs were $194.3m (2015: pro-forma CCY $207.2m) a decline of 6.2% as a result of the cost saving actions taken in the second half of FY15. At 30 April 2016 the net book value of capitalized development costs on the consolidated statement of financial position was $43.2m (2015: $31.4m).

Administrative expenses were $139.0m (2015: pro-forma CCY $265.8m). Excluding share-based compensation of $28.8m (2015: pro-forma CCY $15.5m), exceptional costs of $20.1m (2015: pro-forma CCY $161.3m) and an exchange gain of $2.9m (2015: pro-forma CCY gain of $12.6m), administrative expenses decreased by 8.5% to $93.0m (2015: pro-forma CCY $101.6m). The decrease has arisen mostly from the reduction in managers and fewer properties. Share-based compensation was $28.8m (2015: pro-forma CCY $15.5m), being ASG cost of $10.4m (2015: pro-forma CCY $3.7m), LTIP cost of $17.5m (2015: pro-forma CCY $11.3m) and Sharesave Scheme costs of $0.9m (2015: pro-forma CCY $0.5m).

Amortization of purchased intangibles for the year was $181.9m (2015: pro-forma CCY $123.4m). This growth is as a result of the TAG acquisition being completed part way through the prior year.

Adjusted Operating Costs were $711.5m (2015: pro-forma CCY $787.3m) a fall of $75.8m. The reduction in Adjusted Operating Costs arose mostly from efficiencies from the restructuring exercise taken at the end of the last financial year, the rationalization of the property portfolio, capitalization of some of TAG's development costs following the introduction of a suitable time recording system and a tighter control over discretionary costs offset by the increased investment in SUSE directly controlled costs.

The exceptional costs in the year were $27.9m (2015: pro-forma CCY $188.8m) including:

Exceptional costs

	Year ended 30 April 2016 Actual %	Year ended 30 April 2015 Pro-forma CCY[1] $m
Integration costs	23.6	7.7
Acquisition and pre-acquisition costs	6.1	116.8
Severance costs	(4.8)	30.7
Property costs	6.0	18.2
Impairment of intangible assets	–	15.4
Royalty provision releases	(3.0)	–
	27.9	**188.8**

[1] unaudited.

Currency impact

During the year to 30 April 2016, 61.6% of our revenues were contracted in US dollars, 20.9% in Euros, 5.0% in Sterling, 3.6% in Yen and 8.9% in other currencies. In comparison, 51.9% of our costs are US dollar denominated, 12.7% in Sterling, 18.9% in Euros, 1.6% in Yen and 14.9% in other currencies.

This weighting of revenue and costs means that if the US$:Euro or US$:Yen exchange rates move during the period, the revenue impact is greater than the cost impact, whilst if US$:Sterling rate moves during the period the cost impact exceeds the revenue impact. Consequently, actual US$ 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, Euro and Yen was a strengthening of 6.4%, 12.2% and 7.5% respectively when looking at the average exchange rates in the year ended 30 April 2016 compared to those in the year ended 30 April 2015. In order to provide CCY comparatives, we have restated the pro-forma results of the Group for the 12 months ended 30 April 2015 at the same average exchange rates as those used in reported results for the year ended 30 April 2016. Consequently, revenues reduce from $1,320.7m to $1,270.7m, a reduction of 3.8%, and Underlying Adjusted EBITDA reduces from $503.0m to $486.8m, a reduction of 3.2%.

The United Kingdom's referendum vote in favour of leaving the European Union ("Brexit") on 23 June 2016 has created significant changes in the US dollar exchange rates with Sterling, Euro and Yen. Compared with the average exchange rates experienced in FY16, as at 7 July 2016 Sterling has weakened from $1.50 to $1.29, the Euro has remained at $1.11 and the Yen has strengthened from $0.0084 to $0.0099. If these exchange rates were experienced for the remainder of FY17 ("FY17 Exchange Rates") then the CCY number for FY16 would be revenue of $1,247.1m and Underlying Adjusted EBITDA of $543.8m compared with reported revenue of $1,245.0m and reported Underlying Adjusted EBITDA of $532.5m. A 1% weakening in the exchange rate on these 7 July 2016 exchange rates would have the following impact on the FY16 CCY numbers:

Currency impact

		Impact of a 1% movement in USD Exchange Rate			
Currency	7 July 2016	USD Exchange Rate	Revenue $m	Costs $m	Underlying Adjusted EBITDA $m
Sterling	1.295	1.282	(0.3)	0.6	0.3
Euro	1.108	1.097	(1.2)	1.1	(0.1)
Yen	0.00991	0.00981	(0.3)	0.1	(0.2)

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 year is approximately $2.9m (2015: pro-forma CCY gain of $12.6m).

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Adjusted EBITDA and Underlying Adjusted EBITDA

Adjusted EBITDA in the year increased by $47.5m to $546.8m (2015: pro-forma CCY $499.3m). The increase in Adjusted EBITDA is as a result of a reduction in Adjusted Operating Costs which arose mostly from efficiencies from the restructuring exercise taken at the end of the last financial year, the rationalization of the property portfolio, capitalization of some of TAG's development costs following the introduction of a suitable time recording system and a tighter control over discretionary costs offset by a reduction in foreign exchange credit. Underlying Adjusted EBITDA in the year increased by $45.7m to $532.5m (2015: pro-forma CCY $486.8m) at a margin of 42.8% (2015: pro-forma CCY 38.3%). The increase in Underlying Adjusted EBITDA is smaller as it does not benefit from the net capitalization of development costs nor suffer from the reduction in foreign exchange credit.

Adjusted EBITDA and Underlying Adjusted EBITDA

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m	Year ended 30 April 2016 Pro-forma CCY (Decline)/ Growth %	Year ended 30 April 2015 Actual $m
Revenue	**1,245.0**	**1,270.7**	**(2.0%)**	**834.5**
Adjusted EBITDA	546.8	499.3	9.5%	357.6
Foreign exchange gain	(2.9)	(12.6)		(9.4)
Net (capitalization)/ amortization of development costs	(11.4)	0.1		0.1
Underlying Adjusted EBITDA	**532.5**	**486.8**	**9.4%**	**348.3**
Underlying Adjusted EBITDA Margin	**42.8%**	**38.3%**	**4.5%**	**41.7%**

[1] unaudited.

Both revenue and EBITDA in the current period have been reduced by the unwinding of the fair value deferred revenue haircut of $16.6m (2015: pro-forma CCY $17.0m, reported $17.0m) that was applied as part of the acquisition of TAG.

We are providing profitability metrics for our two product portfolios for the first time in this set of results. The portfolios have directly controlled costs and then an allocation of costs of the functions that are managed within the Micro Focus Portfolio and provide services to both portfolios together with centrally managed support function costs. Note 4 provides the breakdown to Adjusted Operating Profit for the period and the table on page 13 summarizes the reconciliation between Adjusted Operating Profit and Adjusted EBITDA and Underlying Adjusted EBITDA and is also in note 4.

Operating profit

Operating profit was $294.9m (2015: pro-forma CCY $155.6m). Within the operating profit is $27.9m (2015: pro-forma CCY $188.8m) of exceptional costs. Adjusted operating profit was $533.5m (2015: pro-forma CCY $483.4m).

Net finance costs

Net finance costs were $97.3m (2015: pro-forma CCY $120.6m) including the amortization of $13.8m (2015: pro-forma CCY $9.2m) of prepaid facility arrangement, original issue discounts and facility fees incurred on the Group's loan facilities, loan interest and commitment fees of $83.5m (2015: pro-forma CCY $112.6m), interest on pension liability $0.5m (2015: pro-forma CCY $0.7m) and other interest costs of $0.5m (2015: pro-forma CCY $0.1m) offset by $1.0m (2015: pro-forma CCY $2.0m) of interest received. Net finance costs have decreased by $23.3m, mostly due to reduced loan interest and commitment fees ($29.1m) offset by an increase in the amortization of prepaid facility arrangement, original issue discounts and facility fees ($4.6m).

Profit before tax and adjusted profit before tax

Profit before tax was $195.4m (2015: pro-forma CCY $48.3m). The profit before tax has primarily increased in the year when compared to the 2015 pro-forma CCY as a result of improved Adjusted EBITDA ($47.5m), a reduction in pro-forma CCY exceptional costs of $160.9m offset by an increase in the amortization of purchased intangibles following the TAG acquisition of $58.5m, lower net finance costs of $23.3m, no repeat of other income of $14.9m received by TAG prior to the acquisition date and an increase in the share-based compensation charge of $13.3m.

Adjusted profit before tax was $434.0m (2015: pro-forma CCY $386.2m) and the table below shows the reconciliation between profit before tax and adjusted profit before tax:

Adjusted profit before tax

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m	Year ended 30 April 2016 Pro-forma CCY Growth/ (Decline) %	Year ended 30 April 2015 Actual $m
Profit before tax	195.4	48.3	304.6%	91.4
Share-based compensation	28.8	15.5	85.8%	15.5
Amortization of purchased intangibles	181.9	123.4	47.4%	88.3
Exceptional costs	27.9	188.8	(85.2%)	96.7
Exceptional finance costs	–	10.2	(100.0%)	2.4
Adjusted profit before tax	**434.0**	**386.2**	**12.4%**	**294.3**

[1] unaudited.

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

	Year ended 30 April 2016 Actual			Year ended 30 April 2015 Pro-forma CCY[1]		
	Micro Focus $m	**SUSE $m**	**Group $m**	Micro Focus $m	SUSE $m	Group $m
Segment revenue	**991.2**	**253.8**	**1,245.0**	1,056.0	214.7	1,270.7
Directly managed costs	**(566.4)**	**(145.1)**	**(711.5)**	(663.4)	(123.9)	(787.3)
Allocation of centrally managed costs	**28.9**	**(28.9)**	**–**	32.1	(32.1)	–
Total Adjusted Operating Costs	**(537.5)**	**(174.0)**	**(711.5)**	(631.3)	(156.0)	(787.3)
Adjusted Operating Profit	**453.7**	**79.8**	**533.5**	424.7	58.7	483.4
Margin	**45.8%**	**31.4%**	**42.9%**	40.2%	27.3%	38.0%
Adjusted Operating Profit	**453.7**	**79.8**	**533.5**	424.7	58.7	483.4
Depreciation of property, plant and equipment	**9.7**	**1.7**	**11.4**	11.4	2.0	13.4
Amortization of software intangibles	**1.7**	**0.2**	**1.9**	2.1	0.4	2.5
Adjusted EBITDA	**465.1**	**81.7**	**546.8**	438.2	61.1	499.3
Foreign exchange credit	**(2.6)**	**(0.3)**	**(2.9)**	(11.7)	(0.9)	(12.6)
Net capitalization of development costs	**(11.4)**	**–**	**(11.4)**	0.1	–	0.1
Underlying Adjusted EBITDA	**451.1**	**81.4**	**532.5**	426.6	60.2	486.8

1 unaudited.

Taxation

The tax charge for the period was $32.4m (2015: credit of $10.0m) with the Group's effective tax rate ("ETR") being 16.6% (2015: minus 11.0%). The ETR on adjusted profit before tax ("Adjusted ETR") was 23.1% (2015: 21.2%) as set out in the table below.

In computing adjusted profit before tax, $238.6m of adjustments have been made for the items shown in the adjusted profit before tax section on page 12, of which the associated tax is $67.8m.

The Adjusted ETR for the year ended 30 April 2016 (2015: 23.1%) is higher than the previous year (21.2%). This is due to the fact that the Group's adjusted profit includes a full year of profit from TAG, which is taxed at higher rates, particularly in the US (where a proportion of earnings of non-US subsidiaries of TAG have also been taxed). This increase is partly offset by a full year's worth of benefit from the intra-group financing arrangement, which was put in place as part of the acquisition of TAG.

The Group continues to benefit from the UK's Patent Box regime. Benefits during the year are $7.6m compared to $6.0m in the previous year.

The Group's medium-term Adjusted ETR is expected to be between 23% and 27% of the Group's adjusted profit before tax. The increase compared to the forecast at 30 April 2015 of 21% to 25% is due to the impact of changes with regards to the deductibility of interest expense in the UK, which are expected to come into effect from April 2017, and wider uncertainty around the future impact of the OECD's Base Erosion and Profit Shifting ("BEPS") initiative. The acquisition of Serena is not expected to have a significant impact on the Group's medium-term ETR. The enacted reductions in the UK's corporation tax rate from 20% currently to 19% from 1 April 2017 and 18% from 1 April 2020 are not expected to give rise to a material reduction in the ETR.

Effective tax rate

	Year ended 30 April 2016			Year ended 30 April 2015			
	Actual $m	**Adjustments $m**	**Adjusted measures $m**	Actual $m	Adjustments $m	Other tax items $m	Adjusted measures $m
Profit before tax	**195.4**	**238.6**	**434.0**	91.4	202.9	–	294.3
Taxation	**(32.4)**	**(67.8)**	**(100.2)**	10.0	(62.5)	(9.9)	(62.4)
Profit after tax	**163.0**	**170.8**	**333.8**	101.4	140.4	(9.9)	231.9
Effective tax rate	**16.6%**		**23.1%**	(11.0%)			21.2%

Financial review
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The Group's cash taxes paid in the period were $79.3m (2015: net repayment of $1.8m) reflecting the following factors:

1. 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. Further details are set out below.

2. The Group paid $27.2m in respect of forecast US Federal income tax liabilities for the current and previous year. Following a recalculation of the impact of temporary differences, including the offset of brought forward deferred tax assets, these liabilities are now expected to be significantly lower than previously anticipated. This accounts for the majority of the current tax receivables shown on the balance sheet of $18.0m.

3. In the previous year, TAG received $17.0m of cash in the post-acquisition period relating to the settlement of tax audits and historic overpayments of tax in the US.

As disclosed previously, the Group has 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. A payment of $24.5m was made in accordance with an Accelerated Payment Notice issued by HMRC which covers the years up to 30 April 2014. The remaining provision at 30 April 2016 is $5.6m (including interest on overdue tax of $3.1m) compared to $31.2m at 30 April 2015.

The Group is one of a number of companies that have submitted similar claims. During the year, a test case chosen to establish the correct interpretation of the legislation was heard by the First-tier Tribunal, which ruled in favour of HMRC. The precise implications for the Group's claim are subject to further discussion with HMRC.

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 notice in excess of the agreed liability.

Profit after tax
Profit after tax increased by 60.6% to $163.0m (2015: $101.5m reported).

Goodwill
The largest item on the consolidated statement of financial position is goodwill at $2,436.2m (2015: $2,421.7m) arising from acquisitions made by the Group. In the year goodwill has increased due to the acquisition of Authasas BV ($8.9m) and hindsight adjustments from the acquisition of TAG ($5.6m) (note 9).

Capital structure of the Group
As at the 30 April 2016 the market capitalization of the Group was £3,496.5m, equivalent to $5,104.9m at an exchange rate of $1.46 to £1. The pro-forma net debt of the Group following completion of the Serena acquisition was $1,625.0m resulting in an Enterprise Value of $6,729.8m. 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 New 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 $12.75m of the Term Loan B and $50.0m of the Term Loan C were made together with a draw-down of $245.0m and repayment of the $95.0m of the Revolving Facility.

At 30 April 2016, $225.0m of the Revolving Facility was drawn, in anticipation of the completion of the Serena acquisition, together with $1,112.25m of Term Loan B and $450.0m of Term Loan C giving gross debt of $1,787.25m drawn. On 2 May 2016 the Revolving Facility was extended by $150.0m and this increased the total facilities available to the Group to $1,937.25m.

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. At 30 April 2016 $225.0m of the Revolving Facility available at that time was drawn representing 100%, reducing to 60% on 2 May 2016 when the facility was extended. The covenant calculation indicates that the Group had in excess of 140% headroom against the covenant test.

The terms of Micro Focus's existing Facilities are as follows:

(a) In relation to the senior secured Term Loan B of $1,275.0m: an interest rate of 4.25% above LIBOR (subject to a LIBOR floor of 1.00%), amortizing at 1.00% per annum, with an original issue discount of 1.00% and a 7 year term;

(b) In relation to the senior secured Term Loan C of $500.0m: an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), amortizing at 10.00% per annum, with an original issue discount of 1.50% and a 5 year term; and

(c) In relation to the senior secured revolving credit facility of $225.0m: an initial interest rate of 3.50% above LIBOR, and an original issue discount of 0.50%.

The Revolving Facility was increased to $375.0m on 2 May 2016 as part of the funding for the Serena acquisition (note 40).

Total equity

The total equity of the Group is $1,593.7m with a merger reserve of $988.1m.

Cash flow and net debt

The Group's cash generated from operations was $455.7m (2015: $288.7m). This represented a cash conversion ratio when compared to Adjusted EBITDA less exceptional items of 87.8% (2015: 110.6%). The decline in the ratio is mainly related to negative working capital impacts arising from having a higher trade receivables at the year end and the settlements during the year of prior year restructuring provisions. Trade receivables are higher due to the change in the TAG year end in FY16 from March to April.

As at 30 April 2016 the net debt of the Group was $1,078.0m (2015: $1,403.5m) comprising gross debt of $1,787.25m (2015: $1,700.0m), cash balances of $667.2m (2015: $241.3m) and pre-paid loan arrangements fees of $42.0m (2015: $55.1m). An equity placement of 10.9m shares in March 2016 raised $222.7m (net of expenses). The most significant cash outflows during the period were the payment of the final dividend for last year of $70.0m, interim dividend of $35.1m, $10.0m in respect of the acquisition of Authasas BV, bank loan net repayments of $157.8m, corporate taxes of $79.3m, payment for tangible and intangible assets of $44.8m and interest and loan costs of $93.6m.

Dividend

On completion of the TAG acquisition the board adopted a progressive dividend policy whilst the net debt to Facility EBITDA was above 2.5 times. Absent a significant acquisition, share buy-back opportunity or unforeseen circumstances the net debt to Facility EBITDA multiple will be below 2.5 times at the end of April 2017 and so the board is proposing an increase in the dividend payout such that it is two times covered by the adjusted earnings of the Group. This policy will take effect from the proposed final dividend of 49.74 cents (2015: 33.00 cents per share), which represents a 50.7% increase on last year's final dividend and gives a total proposed dividend for the year of 66.68 cents per share (2015: 48.40 cents), an increase of 37.8%.

The dividend will be paid in Sterling equivalent to 37.40 pence per share, based on an exchange rate of £1 = $1.33 being the rate applicable on 13 July 2016, the date on which the board resolved to propose the dividend. The dividend will be paid on 7 October 2016 to shareholders on the register at 2 September 2016.

FY16 pro-forma figures for Serena

In their financial year ended 31 January 2016, Serena delivered unaudited revenues of $162.3m and Underlying Adjusted EBITDA of $80.9m. Applying the FY17 Exchange Rates to these numbers reduces revenue to $161.1m and increases Underlying Adjusted EBITDA to $81.0m. Adding these numbers to the FY16 CCY numbers at FY17 Exchange Rates for the Group revenues of $1,247.1m and Underlying Adjusted EBITDA of $543.8m would give pro-forma FY16 CCY numbers for the Enlarged Group at FY17 Exchange Rates of revenue of $1,408.2m and Underlying Adjusted EBITDA of $624.8m.

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 32 to 37.

Mike Phillips
Chief Financial Officer
13 July 2016

CEO Review – Micro Focus Product Portfolio

Introduction

The Micro Focus Product Portfolio represents 79.6% of total Group revenue in FY16 (2015: pro-forma CCY 83.1%) and comprises the following sub-product portfolios, which are shown with their percentage of FY16 overall product portfolios revenues:

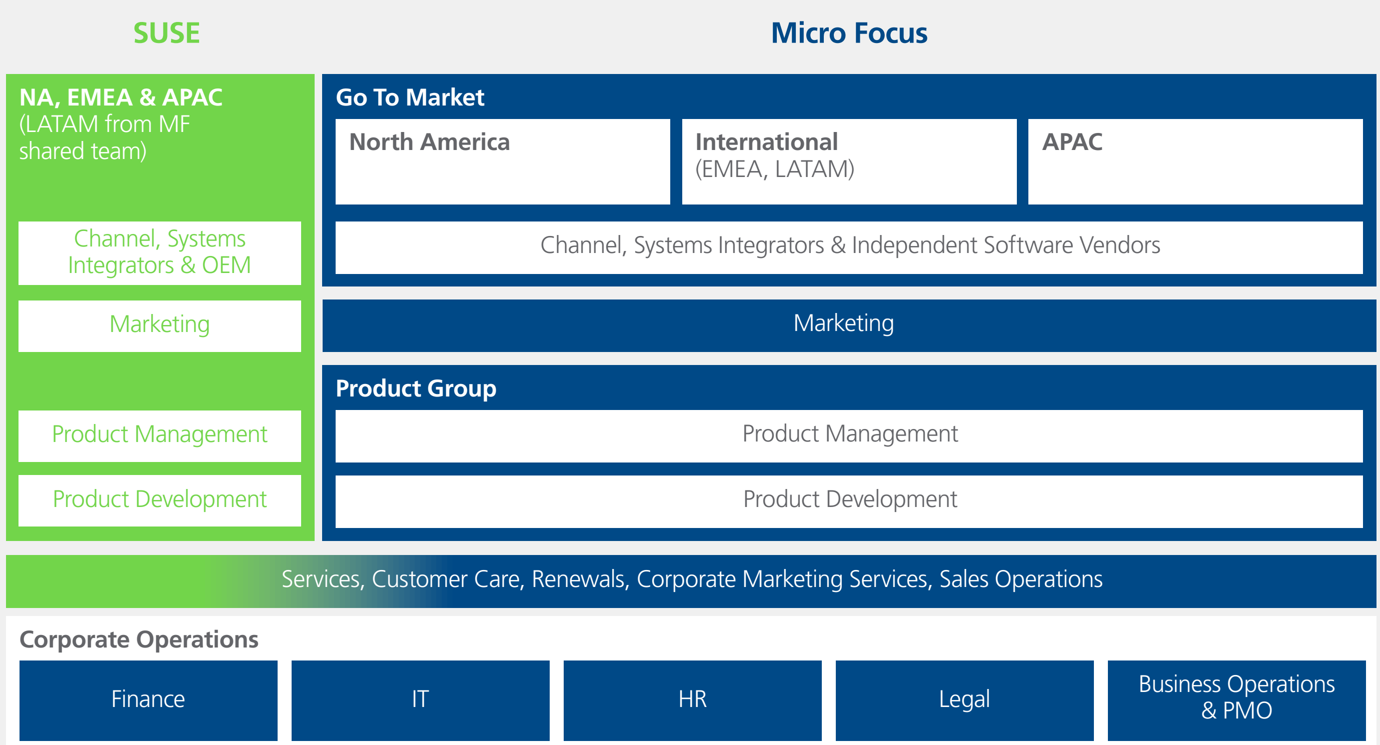
Proportion of revenue delivered during FY16 by each of the Product Portfolio

	Product portfolio revenue $m	Percentage of FY16 revenues
COBOL Development & Mainframe Solutions	258.8	26.0%
Host Connectivity	198.2	20.0%
Identity, Access & Security	216.7	21.9%
Development & IT Operations Management Tools	157.4	15.9%
Collaboration & Networking	160.1	16.2%
Micro Focus Product Portfolio	**991.2**	**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 infrastructure support to the SUSE Product Portfolio. This enables the Group to operate effectively and SUSE to directly control what they need to execute with speed and flexibility whilst leveraging the larger Group where effective. Wherever practical the shared functions staffs are dedicated to product portfolios, including SUSE, in order to provide the additional benefit of specialization whilst leveraging the scale of the shared function. The chart below illustrates this organizational model.

In creating this organizational model we separated the SUSE Product Portfolio and brought together the original Micro Focus Company together with Net IQ, Attachmate and Novell business units from the TAG acquisition to create the Micro Focus Product Portfolio. This resulted in, one company with two operating portfolios (Micro Focus and SUSE) each built around clear business logic and a recognition that effective execution requires that we balance the need for specialization and focus with the need for efficiency and effectiveness overall. For example sales, product development and product management are managed separately for each of the Micro Focus and SUSE Portfolios to ensure the correct focus and to reflect the collaborative nature of the Open Source community but our infrastructure (systems, facilities, etc.) is managed once for the Group. This approach to finding the right balance between specialization and collaboration is a continuous process and wherever compromise is required we favor specialization.

Micro Focus organizational business structure



Progress in FY16

During 2016 our focus has been on integrating the different businesses into a more coherent whole. This has involved significant volumes and complexity of work spanning structure, people, processes, systems and infrastructure across multiple operational entities.

Highlights include:

— Completion of the initial restructuring work to ensure stability and focus on delivery of our financial commitments;

— Delivery of significant levels of synergies;

— Simplification of the branding to Micro Focus and SUSE from Micro Focus, SUSE, Borland, Net IQ, Attachmate and Novell underpinned by two completely new web domains of microfocus.com and suse.com;

— Creation of dedicated GTM organizations for SUSE and Micro Focus focused on quarterly instead of annual performance;

— Rationalization of our property portfolio from 128 offices in November 2014 to 83 offices at 30 April 2016; and

— Creation of a comprehensive IT systems strategy for the Group.

Much of the above is on-going, most notably in the area of systems where our stated goal of standardizing systems will take longer to deliver than originally anticipated. Progress has been made throughout the year in our systems programme, for example reducing from five customer relationship management ("CRM") systems to one. We now have a comprehensive plan built on detailed analysis work to define and map our processes and build target enterprise application and technical infrastructure environments. This will enable us to move to the execution phase from a much improved position in terms of clarity and stability but is still a very significant undertaking.

The above touches on the breadth of work underway and there remains a huge amount to do. However, progress is encouraging and the foundations required for on-going delivery of our business model are beginning to emerge.

On 2 May 2016 we completed the acquisition of Serena. Serena is a leading provider of Application Lifecycle Management products. Its product offering will be integrated into the existing Micro Focus Development & IT Operations Management Tools ("Development & ITOM") portfolio, further enhancing both our expertise in mainframe computing and distributed software change management. We intend to continue developing the full portfolio of Serena's products, and we will aim to identify how additional customer value and capability can be realized for Serena customers, leveraging related Micro Focus software development and software quality solutions.

The Micro Focus Portfolio Group in FY16

The degree of change required to create the Micro Focus Portfolio Group was significant as we had to merge the original Micro Focus business with the Net IQ, Attachmate and Novell business units from the TAG acquisition, all of which were run as highly autonomous operating units from product development and marketing through to GTM. We brought together four businesses and created one operating unit with five focused portfolios built around clear industrial logic and a consistent approach to execution and delivery. This is key to our drive for operational excellence in support of the business model.

Underpinning this drive for operational excellence is our FOUR-BOX MODEL which forces a much more granular focus at the product level based on the realities of where the product is in the technology adoption lifecycle. This granularity then informs product development priorities and from this marketing and GTM alignment decisions. Effective execution requires that we balance the need for specialization and focus with the need for efficiency and effectiveness overall.

To execute the above we created a single, global product organization ("Product Group") to drive our product development and product management approach, a single marketing organization to build the brand and improve our product positioning and sales enablement and re-organized the GTM teams to be geographically aligned.

Product Group

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

During FY16 we delivered major product releases across each portfolio and more than 180 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 being 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 is also beginning to present 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 just delivered capabilities for advanced authentication from our IAS portfolio into our Host Connectivity solutions enabling customers to bring state of the art security techniques to their critical mainframe applications. We have also established more robust processes for customer engagement and feedback gathering, for example the creation of a customer ideas portal for our Collaboration products. This enables customers to both tell us directly what they think and need but also vote on priorities. Shortly after launch we reworked an upcoming release to incorporate the top requests from this feedback.

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

During FY16 we have combined the geographic approach from the original Micro Focus GTM organization and the Business Unit based TAG GTM organization into one geographically aligned team. We moved from a focus on annual bookings to a focus on quarterly revenue and from the sales teams being compensated broadly (licence, maintenance and consulting) to a more focused approach with teams dedicated to the opportunities specific to each sub-portfolio.

CEO Review – Micro Focus Product Portfolio
continued

This has meant realignment of structure, sales territories and compensation plans and the need for significant behaviour change at both the management and individual level. For example, sales management now needs to drive to a quarterly cadence, delivering more detailed forecasts and ensuring more targeted execution plans.

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.

Over the longer term, this realignment will enable us to address the root causes of the underlying complexity inhibiting sales productivity and effectiveness. For example, we have reduced the number of sales compensation plans from more than 100 to less than 20 and the move from five CRM systems to one will improve our effectiveness in the longer term but will not deliver fully until the related systems for the rest of the lifecycle of a sale are standardized. In the meantime the common CRM is providing a platform for us to improve the depth and consistency of the customer data we collect and use to support our installed base. The combination of the bookings rather than revenue focus previously in TAG with the lack of standardized systems or approach between business units means that less historical data is available than was the case in the original Micro Focus business and less than is desired to run the business with the precision required. This is a particular challenge in the Maintenance Fee Revenue ("MFR") line where the historical data lacks depth. This has been corrected looking forward and work is on-going to provide for the best possible workaround historically.

We have simplified our branding such that we are now using the Micro Focus and SUSE brands and have broadly "retired" the Novell, Attachmate, NetIQ and Borland brand names. This has involved an extensive programme of work to align our marketing to raise brand awareness, build understanding of our product propositions and increasingly target the right audiences to generate qualified leads for new business opportunities. The next phase of this work further simplifies and improves our approach by rationalizing the historical web domains and moving the content to the new microfocus.com domain. The Micro Focus Portfolio is rich in capability and well positioned to deliver value to customers today and into the future. Ensuring our sales teams are enabled to position this value is key. Our simplified branding and associated improvements in product positioning and focus are the foundations we will build from.

We believe the changes made enable us to better serve our customers but we still have a great deal to do across systems, 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. We are committed to the completion of the significant work required to make our systems and processes consistent and easier for our sales teams and partners to use.

Micro Focus Product Portfolio

Details of our five sub-portfolios are provided below.

COBOL Development & Mainframe Solutions ("CDMS") – 20.8% of FY16 Group revenues

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.

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 COBOL Development & Mainframe Solutions through products such as Visual COBOL and Enterprise Developer.

Host Connectivity – 15.9% of FY16 Group revenues

The Host Connectivity solution set is the combination of the Attachmate products from TAG and the Micro Focus Rumba products. We believe that this combination gives us the number two position in terms of market share (behind IBM) in the provision of host connectivity solutions. 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.

At the core of the product set are the Reflection and Rumba terminal emulation product families that enable IT organizations to modernize and secure access to their host-based applications. Our products help IT 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. During FY16 we have delivered capabilities from Refection to the Rumba customers and vice versa. In addition we have built on our strengths in security to add capabilities from the rest of the Micro Focus Portfolio to deliver even more value for customers who have invested in our Host Connectivity products.

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.

Identity Access & Security ("IAS") – 17.4% of FY16 Group revenues

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 to cost effectively 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. Through helping our customers balance between innovation and risk and by sharpening our focus in IAS we are well positioned for growth over the longer term.

Development & IT Operations Management Tools – 12.6% of FY16 Group revenues

This product set is the combination of the Application Development and Testing products from the original Micro Focus; the Data Center Management and Workload Migration products from the heritage NetIQ brand; and the Endpoint management software from the heritage Novell brand.

The Application Delivery and Testing products offer a range of DevOps solutions which span an organization's software supply chain – 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 Center 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 product suite help organizations complete data center 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 low costs similar to tape backup for all server workloads: physical and virtual, Windows and Linux.

Additionally, the IT Operations Management Tools include the endpoint management products that enable IT staff to handle the complexities of securing and managing a large footprint of PCs, Macs, tablets and smartphones to give the proper 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.

CEO Review – Micro Focus Product Portfolio
continued

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 – 12.9% of FY16 Group revenues
This product set has the balance of the Novell products together with CORBA from the original Micro Focus business.

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.

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 a full enterprise distributed networking environment 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 leadership positions 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 sharpening our focus in IAS we are well positioned for growth over the longer term.

Revenue for the year by product portfolio at actual exchange rates and CCY pro-forma and reported comparatives are shown in the table below:

Micro Focus Product Portfolio revenue

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m	Year ended 30 April 2016 Pro-forma CCY (Decline)/ Growth %	Year ended 30 April 2015 Actual $m
CDMS				
Licence	**104.7**	105.9	(1.1%)	111.6
Maintenance	**145.2**	141.9	2.3%	149.6
Consultancy	**8.9**	8.1	9.9%	8.8
	258.8	255.9	1.1%	270.0
Host connectivity				
Licence	**89.9**	94.6	(5.0%)	71.6
Maintenance	**105.4**	105.8	(0.4%)	55.3
Consultancy	**2.9**	4.0	(27.5%)	2.1
	198.2	204.4	(3.0%)	129.0
Identity, Access & Security				
Licence	**52.4**	43.1	21.6%	20.5
Maintenance	**142.2**	147.0	(3.3%)	65.9
Consultancy	**22.1**	27.6	(19.9%)	13.7
	216.7	217.7	(0.5%)	100.1
Development & IT Operations Management Tools				
Licence	**33.9**	41.8	(18.9%)	27.8
Maintenance	**121.3**	136.7	(11.3%)	62.9
Consultancy	**2.2**	2.8	(21.4%)	3.6
	157.4	181.3	(13.2%)	94.3
Collaboration & Networking				
Licence	**23.9**	34.9	(31.5%)	29.5
Maintenance	**130.4**	154.9	(15.8%)	106.9
Consultancy	**5.8**	6.9	(15.9%)	3.6
	160.1	196.7	(18.6%)	140.0
Micro Focus Product Portfolio				
Licence	**304.8**	320.3	(4.8%)	261.0
Maintenance	**644.5**	686.3	(6.1%)	440.6
Consultancy	**41.9**	49.4	(15.2%)	31.8
	991.2	1,056.0	(6.1%)	733.4

[1] unaudited.

As anticipated Licence revenue declined by 4.8% on a pro-forma CCY basis compared with the year to 30 April 2015. There was a strong Licence revenue performance in Identity, Access & Security offset by declines in all the other portfolios. Maintenance revenues declined by 6.1% on a pro-forma CCY basis. This was primarily in Development & ITOM Tools and Collaboration & Networking which is in line with prior year trends. The fair value deferred revenue haircut reduced maintenance by $10.2m (2015: $11.9m). Excluding this, underlying maintenance revenues fell by 6.2%.

Consultancy revenues declined by 15.2% on a pro-forma CCY basis as we implemented the established Micro Focus policy of focusing only on consulting business that supports our licence business.

As previously mentioned there were significant changes to the organization on the Micro Focus Portfolio at the beginning of the year and these can be seen to impact the performance in the year. We changed the sales compensation plan of the former TAG organization away from bookings as the primary target towards revenue and introduced quarterly targets compared to the former TAG approach of annual targets.

CDMS revenues were $258.8m; a growth of 1.1% on a pro-forma CCY basis compared with the year to 30 April 2015. The reduction in Licence revenues was 1.1% ($1.2m) offset by a growth in Maintenance revenues of 2.3% ($3.3m) and Consulting revenue growth of 9.9% ($0.8m). Visual COBOL revenues continued to grow strongly.

Host Connectivity revenues declined by 3.0% in the year on a pro-forma CCY basis. Licence revenues declined by 5.0% ($4.7m). The split of Licence revenue between the first half and second half of last year in the pro-forma CCY numbers was 28.3% and 71.7% respectively whereas the performance this year was 53.9% in the first half and 46.1% in the second half and can mostly be explained by the change in compensation structure which lead to a more balanced half-on-half performance in the current year. This also reflects the generally shorter sales cycle in this portfolio. Maintenance revenues declined by 0.4% ($0.4m) and there was a decline in Consulting revenues of 27.5% ($1.1m).

Identity, Access & Security ("IAS") revenues declined by 0.5% ($1.0m). Licence revenue grew by 21.6% on a CCY basis partly due to some significant changes in the approach to the product portfolio and the successful closure of some key transactions. There is also a longer sales cycle on these transactions. We acquired Authasas, a Dutch company, in the period for $10.0m. Authasas provides Multi Factor Authentication for the security market and TAG had previously embedded the Authasas offering in their products on an Original Equipment Manufacturer ("OEM") basis. Micro Focus has a preference for owning its Intellectual Property wherever possible and when we had the opportunity to acquire the Authasas technology we did so. We believe that IAS has the potential for further growth as the market it operates in continues to grow. We will continue to drive for consistent and sustainable growth in this area but expect that this will take time to be delivered. Maintenance declined by 3.3% ($4.8m) because of a few contract cancellations that were known about when TAG was acquired and Consulting revenues declined by 19.9% ($5.5m) due to proactive change in direction outlined previously.

Development & IT Operations Management Tools revenues were $157.4m; a 13.2% ($23.9m) decline on a pro-forma CCY basis. $15.4m of the decline was in Maintenance revenues which declined by 11.3% in line with management expectations. Licence revenues declined in the period by $7.9m partly due to lower sales of our App Manager products which had some large licence sales in the prior year.

Collaboration & Networking revenues were $160.1m, a 18.6% ($36.6m) decline on a pro-forma CCY basis. Maintenance declined by 15.8% ($24.5m) in the year in line with management expectations and consistent with the prior year trend.

Regional revenue performance

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m	Year ended 30 April 2016 Pro-forma CCY Decline %	Year ended 30 April 2015 Actual $m
North America	**525.2**	561.4	(6.4%)	367.3
International	**377.0**	395.1	(4.6%)	289.8
Asia Pacific & Japan	**89.0**	99.5	(10.6%)	76.3
Total	**991.2**	1,056.0	(6.1%)	733.4

1 unaudited.

Progress in North America was encouraging with execution levels improving through the strengthening of leadership talent and associated improvements in execution and discipline. Host Connectivity delivered a strong performance throughout the year and a much more balanced performance in terms of H1 and H2 phasing. IAS was challenged overall but delivered significant new customer wins and much improved alignment and engagement with partner channels. Development & ITOM suffered from significant levels of attrition that took time to stabilize and begin to correct. Collaboration & Networking was down consistent with prior performance and trends. CDMS execution improved throughout the year to deliver an acceptable performance overall with Mainframe Solutions delivering exciting new customer wins and improving pipeline.

International region (EMEA and LATAM) had a challenging year. EMEA took a significant time to stabilize as the restructuring actions worked through local legislative and consultation requirements. This was compounded by attrition in the key market of Germany and some portfolios leading to increased levels of disruption overall. Despite this IAS delivered a strong performance and there were notable wins in Development & ITOM and CDMS. LATAM was impacted by the economic situation in Brazil and in the rest of LATAM we moved to a distribution led model rather than direct sales resulting in an additional level of transition and disruption to be managed. Execution levels across International improved throughout the year.

CEO Review – Micro Focus Product Portfolio
continued

Asia Pacific & Japan was mixed. Strength in Japan broadly across the board was offset by weakness in Asia. In Australia it was necessary to rebuild the business to ensure that the correct teams were in place to execute consistently the Micro Focus approach and improve the overall capabilities locally. There were some excellent wins in Mainframe Solutions and 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 figures for FY15:

Adjusted Operating profit

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m
Segment revenue	**991.2**	1,056.0
Directly managed costs	**(566.4)**	(663.4)
Allocation of centrally managed costs to SUSE	**28.9**	32.1
Total Adjusted Operating costs	**(537.5)**	(631.3)
Adjusted Operating Profit	**453.7**	424.7
Margin	**45.8%**	40.2%

1 unaudited.

The directly managed costs are those costs specifically managed by the CEOs of the Micro Focus Product Portfolio and SUSE Product Portfolio. All the Group central support costs are managed by the Micro Focus Portfolio group and the allocation of these costs to SUSE is based on an appropriate methodology.

The Adjusted Operating Profit was $453.7m, delivering a margin of 45.8% which compares with the margin in the pro-forma CCY numbers for FY15 of 40.2%. The increase in margin arises because of the cost saving actions that were taken at the end of FY15 when we integrated the original Micro Focus business with TAG. These savings were mostly in staff and property costs.

The table above right, shows the reconciliation between Adjusted Operating Profit and Underlying Adjusted EBITDA with a comparative of the pro-forma CCY figures for FY15:

Adjusted EBITDA and Underlying Adjusted EBITDA

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m
Adjusted Operating Profit	**453.7**	424.7
Depreciation of property, plant and equipment	**9.7**	11.4
Amortization of software intangibles	**1.7**	2.1
Adjusted EBITDA	**465.1**	438.2
Foreign exchange credit	**(2.6)**	(11.7)
Net capitalization of development costs	**(11.4)**	0.1
Underlying Adjusted EBITDA	**451.1**	426.6

1 unaudited.

The Underlying Adjusted EBITDA improved by $24.5m in the year on a pro-forma CCY basis primarily due to cost saving actions taken at the end of FY15.

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 when the integration and change programme was just commencing. 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 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 FY17 this focus will continue with our key priorities being:

- Delivery of our financial plan;
- The work to standardize systems and simplify the underlying operations of the business;
- Accelerating progress on improving the effectiveness of our GTM teams; and
- Continuing to operationalize the FOUR-BOX MODEL to better align resources to optimize the performance of each sub-portfolio.

Stephen Murdoch
Chief Executive Officer
Micro Focus
13 July 2016

CEO Review – SUSE Product Portfolio

Introduction

The SUSE Product Portfolio represented 20.4% of the total Group revenue in FY16 (2015: pro-forma CCY revenue 16.9%). Following the acquisition of TAG by Micro Focus the SUSE Product Portfolio was given a mandate to deliver "accelerated, sustainable and profitable revenue growth" and was provided with the support and initial investments to support this vision. FY16 was a successful year for SUSE with growth in revenue, Annual Contract Value ("ACV"), Total Contract Value ("TCV") and Adjusted Operating Profit.

To create additional capacity to grow we expanded the SUSE headcount across different business functions and geographies and aligned the critical supporting organizations of customer care, renewals and sales operations much more tightly with the SUSE business. This will continue in FY17 as SUSE assumes the execution responsibility for sales and marketing in APAC and for the SUSE channel. In FY16 we broadened and deepened our Alliance, OEM, Business Partner and cloud service provider relationships and see on-going strong contribution from these routes to market to our overall success.

We also extended 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 Linux and Open Source solutions with exceptional service, value and flexibility. For over 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 compute intensive and data intensive IT environments across physical, virtual, containerized and 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 – all combined with comprehensive management capabilities.

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, Infrastructure as a Service ("IaaS") and Platform as a Service ("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.

CEO Review – SUSE Product Portfolio
continued

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 both as private individuals and from within many of the industry's largest IT companies such as Intel, IBM, Microsoft, SAP and many others.

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, CloudFoundry, openHPC, OPNFV, Open Mainframe Project, Open Container Initiative 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 the 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 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 use 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, 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 OPEX costs – 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 OPEX systems management costs.

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

SUSE – key financial 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 FY15 on a pro-forma CCY basis and as reported.

SUSE Product Portfolio revenue

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m	Year ended 30 April 2016 Pro-forma CCY Growth %	Year ended 30 April 2015 Actual $m
Subscription	**248.9**	210.5	18.2%	98.2
Consultancy	**4.9**	4.2	16.7%	2.9
	253.8	214.7	18.2%	101.1

[1] unaudited.

The SUSE Product Portfolio revenue increased by 18.2% to $253.8m compared with the pro-forma CCY revenues for FY15 of $214.7m, with the Subscription revenue increasing by 18.2% to $248.9m (2015: pro-forma CCY $210.5m). The Subscription revenue is net of the fair value deferred revenue haircut of $6.4m (2015: $5.1m). Prior to this adjustment Subscription revenue grew by 18.4%.

Regional revenue performance

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m	Year ended 30 April 2016 Pro-forma CCY (Decline)/ Growth %
North America	**108.6**	87.4	24.3%
International	**115.6**	98.4	17.5%
Asia Pacific & Japan	**29.6**	28.9	2.4%
Total	**253.8**	214.7	18.2%

[1] unaudited.

North America and International have had successful years in terms of subscription revenue, growing at 24.3% and 17.5% respectively compared with the pro-forma CCY revenues for FY15.

Asia Pacific & Japan, whilst showing a small increase of 2.4% compared with the pro-forma CCY revenues for FY15, has a solid foundation to grow from in the coming years. SUSE, now with a dedicated GTM sales organization in this region, is already starting to show promise evidenced by strong TCV and ACV performance as referenced on page 26.

CEO Review – SUSE Product Portfolio
continued

TCV and ACV

TCV represents the gross billings for the year of $301.3m, an increase of 14.3% from the pro-forma CCY for FY15. The weighted average contract duration decreased from 33 months to 28 months. This has resulted in the "in fiscal year yield" from TCV to revenue to increase from 32% in FY15 to 34% in FY16. "In fiscal year yield" represents the proportion of TCV generated in the fiscal year that can be recognized as SFR in the same fiscal year. As the weighted average contract duration reduces, we would expect to get a higher "in fiscal year yield". Net new subscription TCV increased by 9.6% year-on-year and renewal subscriptions TCV grew by 22.7% year-on-year. Net new subscription contracts are derived from the 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 $174.8m, an increase of 17.9% from the pro-forma CCY for FY15. 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 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m	Year ended 30 April 2015 Pro-forma CCY (Decline)/ Growth %
North America	**137.3**	103.3	32.9%
International	**128.9**	132.5	(2.7%)
Asia Pacific & Japan	**35.1**	27.7	26.7%
Total	**301.3**	263.5	14.3%

[1] unaudited.

Regional ACV performance

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m	Year ended 30 April 2015 Pro-forma CCY Growth %
North America	**81.7**	62.9	29.9%
International	**67.8**	63.7	6.4%
Asia Pacific & Japan	**25.3**	21.6	17.1%
Total	**174.8**	148.2	17.9%

[1] unaudited.

North America had very strong performance in TCV and ACV for the year, growing by 32.9% and 29.9% respectively.

International, whilst showing a 2.7% decline in TCV, has shown 6.4% growth in ACV and as referenced above has grown revenues by 19.4% compared with the pro-forma CCY FY15 revenues. International TCV and ACV performance was lower as a strong performance in the prior year gave a tough compare.

Asia Pacific & Japan had very strong performance in TCV and ACV, growing by 26.7% and 17.1% respectively. We continue to have strong performance in China and Japan, and are also winning new accounts in some of the other key markets in the region. The region is also starting to get good traction by leveraging the global agreements we have in place with key independent hardware vendors and cloud service providers.

ACV contribution to route by market

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m	Year ended 30 April 2016 Pro-forma CCY Growth/ (Decline) %
Direct	**37.2**	32.8	13.4%
Indirect	**61.8**	47.1	31.2%
Global Service Partners	**63.8**	54.2	17.7%
OEM (Embedded Systems)	**12.0**	14.1	(14.9%)
Total	**174.8**	148.2	17.9%

[1] unaudited.

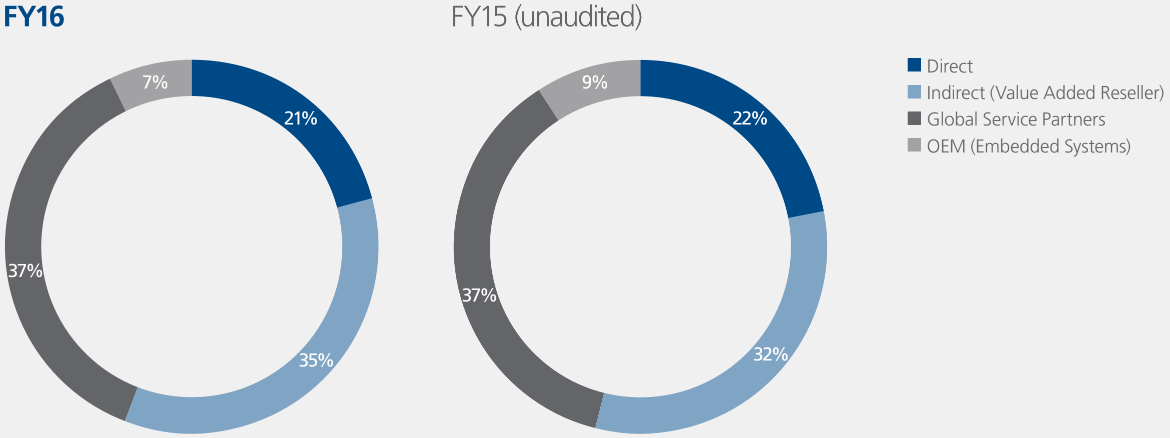
Direct represents customers that have a master licence agreement with SUSE and subscribe directly with SUSE or via authorized fulfilment partners.

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.

Percentage share of ACV bookings by different routes to market



We continue to see significant growth in Direct, Indirect and Global Service Partners routes to market, growing by 13.4%, 31.2% and 17.7% respectively.

We also see a trend of customers, who purchased subscriptions direct, subsequently subscribing through Global Service Partners. This partially contributes to ACV from Global Service Partners growing more significantly relative to Direct and Indirect. 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.

The chart above shows the percentage share of ACV by the different routes to market in FY16 compared to FY15 (unaudited).

In aggregate the ACV mix by route to market remains stable in FY16 compared to FY15 as we saw homogenous contribution to SUSE's growth from the various routes to market.

SUSE Adjusted Operating Profit and Adjusted EBITDA

The table opposite shows the Adjusted Operating Profit for the SUSE Product Portfolio and compares it against the pro-forma CCY numbers for FY15.

Adjusted Operating Profit

	Year ended 30 April 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m
Revenue	**253.8**	214.7
Directly managed costs	**(145.1)**	(123.9)
Allocation of centrally managed costs from Micro Focus	**(28.9)**	(32.1)
Total Adjusted Operating Costs	**(174.0)**	(156.0)
Adjusted Operating Profit	**79.8**	58.7
Margin	**31.4%**	27.3%

1 unaudited.

SUSE Adjusted Operating Profit for the year was $79.8m at a profit margin of 31.4%. Compared to the pro-forma CCY FY15, this is an increase of $21.1m (35.9%) and a profit margin improvement of 4.1%. We have seen a significant increase in directly managed costs in SUSE that is consistent with the investment being made to deliver the SUSE growth charter. We are also seeing the benefit of a reduced allocation of centrally managed costs which is being delivered from the efficiencies in the Micro Focus Product Portfolio.

CEO Review – SUSE Product Portfolio
continued

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 2016 Actual $m	Year ended 30 April 2015 Pro-forma CCY[1] $m
Adjusted Operating Profit	**79.8**	58.7
Depreciation of property, plant and equipment	**1.7**	2.0
Amortization of software intangibles	**0.2**	0.4
Adjusted EBITDA	**81.7**	61.1
Foreign exchange credit	**(0.3)**	(0.9)
Net capitalization of development costs	**–**	–
Underlying Adjusted EBITDA	**81.4**	60.2

1 unaudited.

Deferred revenue
We continue to have year-on-year steady growth in the deferred revenue balance. At 30 April 2016 total deferred revenue balance was $326.8m (2015: $265.0m), an increase of $61.8m year-on-year. 60.8% of this increase in deferred revenue balance is recognizable revenue in the next 12 months and 88.7% recognizable in 24 months.

Headcount
At the end of April 2015, direct headcount in SUSE was 522 increasing to 641 by 30 April 2016, a net increase of 119 in the fiscal year. 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 Product Portfolio received in FY16 support from SUSE dedicated employees, who are organizationally aligned in the shared service functions of the Group, most prominently in APJ Sales, Renewal Sales, Consulting, Customer Care, Sales Operations and other corporate operations functions. These add up to approximately 224 full-time equivalents ("FTEs"), which brings the total SUSE dedicated headcount supporting the SUSE business and customers to approximately 865 FTEs at the end of April 2016.

Organizational changes
Our focus has been on developing the SUSE leadership team to be able to deliver on the mission of growing the business ahead of the market. Micro Focus announced in December 2015 with effect from 1 February 2016 my appointment as CEO of SUSE and to the board of Micro Focus International plc. This represents a significant endorsement of the SUSE business by Micro Focus and a tremendous opportunity for increased visibility, greater awareness and understanding of the SUSE business model, opportunities and requirements. This will enable the board to better support the SUSE charter for continued growth.

In February 2016 SUSE announced the creation of several new, critical leadership positions in the business to evolve the structure and expand leadership capacity. This will position SUSE for sustainable growth and enables the business to better support the growing momentum in both its core Linux operating system business and its more recent cloud infrastructure and storage solutions.

To this end we have created a global sales function, re-aligned responsibilities to ensure increased focus on the critical areas of Alliances, OEM and Public Cloud and also created a CTO function.

On 1 April 2016 SUSE announced that Dr. Thomas Di Giacomo has joined the Company in the role of chief technology officer ("CTO") as the latest addition to SUSE's executive leadership team and reporting directly to the SUSE CEO. This new executive role further bolsters the rapid innovation, growth and momentum of SUSE's business and expanding solution portfolio. Our CTO will engage in active, strategic dialogue with our customers, our partners and our many important Open Source communities as we continuously adapt to help our customers succeed. In this function his industry and community engagement will extend well beyond Linux to include NFV, PaaS, IaaS, containers and orchestration, where the Open Source development model is driving continuous and rapid innovation.

These senior executive roles are critical to the global expansion of our business as we continue to grow both our organization and our solution portfolio to meet the increasing demand from customers around the world; we also need to increase the depth and breadth of our executive leadership team.

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 on-going, quality HR management of the enlarged team that shall benefit from those changes. This includes 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.

SUSECON

SUSECON is an annual global event for SUSE customers, partners and Open Source enthusiasts. In 2015, SUSECON was held in Amsterdam, Netherlands with nearly 1,000 attendees. SUSECON creates an interactive forum for our community of technically knowledgeable participants from around the world who come together each year to share their passion for SUSE technology and the latest Open Source innovations.

In addition to nearly 100 SUSE led sessions, the event includes active participation from partners and customers who join in engaging keynotes and deliver deeply technical sessions on topics including Enterprise Linux, Mission Critical Computing, Private, Public and Hybrid Cloud Computing, Dev/Ops and Enterprise Systems Management, Platform as a Service, Containers and Orchestration, Software-defined Storage, NFV and Software-defined Networking and much more. For hands-on technical attendees, the event also provides a wide range of industry certification exams that can be taken on site.

There is a highly regarded and well attended Partner Summit as well as extensive, dedicated sessions for both industry analysts and press attendees with direct engagement from SUSE executives and technical experts.

Each year, together with customers and partners, SUSE makes a number of key announcements at the SUSECON event ranging from new product innovations to new Open Source projects and initiatives to strategic partnerships and alliances.

Outlook "sustainable, profitable revenue growth"

For FY17 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.

The SUSE business enters FY17 with the tailwind of good business momentum from FY16. The deferred revenue balance, which will be recognized in FY17, grew and is a good foundation for on-going revenue growth in the future. 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.

Strategy for accelerated growth

At a high level SUSE's strategy for accelerated growth and expansion consists of the following key elements:

— Protect and nurture existing strategic revenue streams (Enterprise Linux, SUSE Manager);

— Succeed with new solution revenue growth drivers (OpenStack IaaS, Software Defined Storage);

— Effectively capture and embrace new technology and market trends in relevant areas;

— Potentially further expansion into closely adjacent solutions/markets;

— Evolve the organization to better align with growth and innovation; and

— Explore alternatives/complements to our current approach of organic growth.

More specifically for FY17 this is broken down to:

— New subscription/net new customer growth;

— Optimized renewal business;

— Routes-to-market growth (public cloud);

— Growth from underleveraged geographies;

— Timely execution on headcount growth plans; and

— Global, unified sales organization – strategy and execution.

Nils Brauckmann
Chief Executive Officer
SUSE
13 July 2016

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: — Since IPO — Over last five years — Over last three years — Over last year	**2016:** 26.4% 34.8% 34.1% 24.2%	These ratios demonstrate the compound annual growth rate in shareholder returns assuming reinvestment of Return of Value, but not ordinary dividends. The periods covered are to 30 April 2016 from the IPO in May 2005, over the last five years from 30 April 2011, over the last three years from 30 April 2013 and over the last year from 30 April 2015. 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.

Financial performance

Our financial performance KPIs helped us to monitor our progress towards our 2016 revenue and EBITDA growth targets.

Description	Metrics		Performance
Revenue growth	**2016:** (2.0)%	**2015:** (2.4)%	Revenue comprises total revenues compared with the prior year at pro-forma constant currency ("CCY").
Adjusted EBITDA margin	**2016:** 43.9%	**2015:** 39.3%	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	**2016:** 42.8%	**2015:** 38.3%	Underlying Adjusted EBITDA removes the impact of net capitalization of 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	**2016:** 87.8%	**2015:** 110.6%	This ratio is calculated using the cash flows generated from operating activities 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.
Diluted Adjusted EPS	**2016:** 146.70c	**2015:** 129.43c	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	**2016:** 1.9 times	**2015:** 2.6 times	Net value of borrowings less cash and prepaid facility arrangements fees expressed as a multiple of the Facility EBITDA. 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 increased to 2.51 times.
Interest cover	**2016:** 5.4 times	**2015:** 4.0 times	Adjusted Operating Profit expressed as a multiple of finance costs.
Revolving Facility Covenant	**2016:** >140% headroom	**2015:** n/a	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

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 six key areas where we are focusing on for revenue growth.

Description	Metrics		Performance
Revenue	**2016:** $1,245.0m	**2015:** $1,270.7m	Revenue comprises total revenues compared with the prior year at pro-forma CCY. This represents a reduction of 2% which is at the top of management's guidance range of minus 2% to minus 4% given at the beginning of the financial year.
SUSE revenue	**2016:** $253.8m	**2015:** $214.7m	This is the total revenues for the SUSE Product Portfolio compared with the prior year at pro-forma CCY.
Visual COBOL revenue	**2016:** $36.1m	**2015:** $30.5m	This is the total revenues for the Visual COBOL products compared with the prior year at CCY.
Enterprise revenue	**2016:** $46.3m	**2015:** $45.9m	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	**2016:** $52.4m	**2015:** $43.1m	This is the total Licence revenues for the relevant suite of products compared with the prior year at pro-forma CCY.
Research and development as a percentage of revenue	**2016:** 16.2%	**2015:** 17.0%	This ratio measures the amount spent on research and development prior to the impact of capitalization and amortization of development costs, amortization of purchased technology intangible assets and exceptional items divided into Group revenue (excluding Consulting revenue) compared with the prior year at pro-forma CCY.

Principal risks and uncertainties

Risk management overview

The board is responsible for ensuring the effective identification, assessment and management of risk across the Group. As the Group has grown following the transformational acquisition of TAG in November 2014, so the board has enhanced 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.

A review of the Group's overall risk management framework was undertaken at the start of the year. In the year the board put in place a new Risk Management Policy and Procedure which included a revised Risk Management Framework ("RMF"). A key component of the RMF for the board was 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. Going forward the board will continue to build upon the RMF to respond to any future change in the Group's risk profile. As part of the assurance for the board the operation of the RMF is facilitated by an independent Internal Risk Management function. Individual risks are also mapped onto the Internal Audit plan for the year (see pages 58 to 59 for the report on internal control). The RMF is also subject to an annual review by Internal Audit.

Risks are identified, assessed and recorded by the Micro Focus and SUSE businesses and the Group functions. Each business area 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 business area 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 given a risk tolerance. The assessment includes current and emerging risks, as well as internal and external threats. The board is responsible for determining the risk appetite for the Group and takes a balanced approach to risk to ensure an appropriate position between risk aversion, opportunities and gains in pursuit of its strategic objectives. 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. An area of focus in the forthcoming year is to strengthen the approach to risk appetite and so ensure a consistent risk based decision making process across the Group.

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.

Following the UK vote on 23 June 2016 to leave the EU there is likely to be a protracted period for many months of uncertainty and negotiation whilst the political and legal issues are resolved. We have put in place a Brexit Working Group and have 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. The uncertainty has created an immediate impact on the financial markets in currency fluctuations and this is reflected in our Treasury risk on page 37.

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 list of principal risks includes risks reported in the FY15 and the FY16 interims relating to Products, Go to Market models, Competition, Employees and Macro-economic environment as well as newly reported risks in relation to Change Management, IT Systems and Information, Legal and regulatory compliance, Intellectual property, Treasury and Tax as part of the new RMF referred to under the Risk management overview above. 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 48 to 53.

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. Poor cross-selling of Micro Focus and SUSE products could reduce the prospects for additional revenue streams going forward.

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. Following the TAG acquisition, to build a strong plan and foundation on which to deliver the Group's potential, the Group carried out a detailed analysis of the individual products, their markets, customers and growth potential.

As from the start of the year the Group has operated as two product portfolios, Micro Focus and SUSE. All of the Group's products are managed through the global product management and development organization, with a geographic Go to Market organization. The Micro Focus, NetIQ, Attachmate and Novell products are managed as a portfolio under Micro Focus, with a defined strategy, target market and growth profile for each product. To capitalize on the growth potential of the SUSE Product Portfolio these are managed separately and dedicated resources concentrate on development, customer care and sales, marketing and engineering.

To ensure appropriate leadership and the continued evolution of the two product portfolios, on 1 February 2016 Chief Executive Officers for Micro Focus and SUSE were appointed to the board. On 17 July 2015 the Group acquired Authasas BV, a Dutch entity proving Multi Factor Authentication for the security market which is embedded in TAG products. On 22 March 2016 the board announced the acquisition of Spartacus Acquisition Holdings Corp, the holding company of Serena Software Inc. ("Serena"), which will become part of the Micro Focus Product Portfolio, to further enhance the strategy of efficient management of mature infrastructure software products. Serena's position in the Source Code Change Management segment will be integrated into the IT Development and Operational Management Tools sub-portfolio of Micro Focus, which will complement the Micro Focus Product Portfolio in COBOL Development, Host Connectivity and CORBA. At SUSE there was an increase in headcount in the year focused on the development, customer care and sales, marketing and engineering of the SUSE Product Portfolio.

Principal risks and uncertainties
continued

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 will 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
Following the integration review the Group undertook a major restructuring to create 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. To ensure appropriate leadership and the continued evolution of the two businesses, on 1 February 2016 Chief Executive Officers for Micro Focus and SUSE were appointed to the board. 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 both 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 programme such as effective search engine optimization, use of social media and improved corporate websites.

In the year the Product to Market process was standardized so that execution was on a more 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.

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
Failure to understand the competitive landscape adequately and thereby identify where competitive threats exist may damage the successful sales of the Group's products.

Mitigation
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

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.

Mitigation

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. On 1 March 2016 the Group appointed a dedicated Group Human Resources Director; previously the role had been combined with business operations.

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, 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.

Potential impact

Failure to analyze, execute and co-ordinate the various projects successfully may result in the disruption of the on-going 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.

Mitigation

The Group has an established acquisition strategy and focus on efficient execution in mature infrastructure software products. The Group undertook the transformational acquisition of TAG which was followed by the comprehensive Integration Review. In March 2016 the Group announced the acquisition of Serena. All projects are run in a dedicated Programme Management Office 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 against all of the projects. On 1 March 2016 the Group appointed a dedicated Group Business Operations and Integration Director (previously the role had been combined with Group HR) to ensure that execution of the various projects are successfully aligned so as to minimize any disruption to business as usual.

Principal risks and uncertainties
continued

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

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.

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. In the year the Group enhanced this team and reviewed the IT Security Management System. 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.

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 market abuse and insider dealing committee which report into the board. All staff are subject to mandatory compliance training.

Intellectual property

Risk
Failure to adequately protect the Group's intellectual property and brands.

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 2019, 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 on-going 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.

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.

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 8.

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 $532.5m in the year and expects this profit measure to continue to grow 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 FY17 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 an 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.

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 on-going plan, led by the executive directors and all relevant functions are involved, including Go to Market, 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 2016 following this year's review. 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 2016. 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 Portfolio with continued cost investment;

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

— No debt refinancing.

In assessing the Group's viability the board has considered the principal risks as set out in pages 32 to 37.

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 Portfolio;

— Higher revenue decline in the Micro Focus 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.

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 2019.

Going concern

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in note 1 to the financial statements.

Corporate social responsibility

During the 12 months to 30 April 2016, Micro Focus' Corporate social responsibility ("CSR") programme has focused on expanding existing CSR initiatives to address the additional scale of operations arising from the acquisition of TAG. TAG was approximately three times larger than Micro Focus in terms of employee numbers and more than twice as large in terms of revenues generated on an annual basis.

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.

TAG's operations were structurally merged with those of Micro Focus with effect from 1 May 2015, five months after the acquisition completed. As a result of this timing, a priority area for the CSR team during FY16 has been to understand and integrate any CSR activities already underway at TAG, adopting best practice across the enlarged programme. Research into TAG CSR activities quickly revealed that, as a privately owned organization, TAG had no CSR activities of any scale, and any existing activities were uncoordinated. Consequently, the CSR team has reviewed the suitability of the Micro Focus CSR programme to, where possible, expand activities across the enlarged Group. For example, TAG had no environmental reporting requirements or tools to monitor and measure energy consumption. We are now working to implement the same systems and processes that Micro Focus has been using in this area to have these operational across the entire organization. In FY16, we targeted reducing our energy consumption wherever possible across the entire property estate and staff will once again be targeted to reduce emissions. The objective is to have as many systems and measures in place to enable year-on-year comparisons for the FY17 reporting year. Other CSR areas such as Charity & Community Support, and Employees & Ethics are being similarly expanded to address our increased organizational scale.

During the year ended 30 April 2016 the CSR committee met three times 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, a non-executive director, also participates in the CSR committee to provide additional board level input.

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

Micro Focus has applied for "Carbon Trust Standard" re-certification as a result of continued progress to reduce environmental emissions and as part of an on-going commitment to the Carbon Trust. If the re-certification is successful this will be for the third year in succession.

Outlined below is the CSR progress that Micro Focus has made in the year ended 30 April 2016 across the four focus areas.

CSR progress in the year ended 30 April 2016

Environment

This financial year is the first 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.

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 12 months to 30 April 2016, achieving a 9% reduction in a single location.

Key points for the 12 months to 30 April 2016:

- Recognition of Micro Focus' continued success in reducing environmental emissions, resulting in an application for re-certification of the "Carbon Trust Standard" for a third consecutive period, following two successful applications previously;
- Following an ESOS audit, the findings have been integrated into Micro Focus' energy roadmap, for example prompting an upgrade to the Newbury headquarters' Building Management System to help achieve corporate climate optimization targets as a result of enhanced controls and zoning;
- Seventh year of commitment to the Carbon Disclosure Project ("CDP"), underlining our commitment to further promote and manage emission reductions across global facilities;

Corporate social responsibility
continued

- Scope 1 and Scope 2 emissions reported to CDP;
- CDP scores have improved year-on-year since joining in 2009. In this reporting period Micro Focus will report a reduction in year-on-year emissions within this year's CDP submission, and Micro Focus' response has been extended to include Supply Chain and Water measures;
- On-going commitment to promote electronic product distribution has translated into 98.2% of all distribution electronically, with only 1.8% delivered to customers via physical distribution of products;
- Continued programme of positive global procurement in sourcing, replacing and refurbishing facility energy systems in accordance with energy efficiency standards (EN656);
- Further improvements across all locations either by moving to more modern and efficient office environments or by improving the assets already deployed. 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;
- Further work has been undertaken to continue the consolidation of our data-centre power optimization thereby improving efficiencies and reducing cost and consumption, including the reduction of the quantity of dedicated server "environments" across the wider Group to significantly lessen the footprint impact;
- During this reporting year Micro Focus has continued to roll out recycling initiatives across the organization and processes are being adapted to monitor, measure and report these results in the future; and
- Lighting projects during the period include LED replacements to assist in energy consumption reduction, with an initial pilot in Belfast being assessed ahead of a further roll out, and secondly, a survey to assess the benefits of photo-voltaic panels for further energy savings.

Greenhouse Gas Emissions ("GGE")
Our GGE objective is to reduce our emissions year-on-year. During the 12 months to 30 April 2016, we received the findings of our ESOS Audit report and have incorporated its findings into our programmes where relevant, to maximize the benefit from the audit and to comply with legislation.

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 2% reduction in energy consumption for this reporting year. On an actual comparison of the reported Group in FY15, due to organizational boundary changes, in Singapore, Australia, Austria and the UK, the decrease in consumption from the previous period produced a decrease of 0.3%.

Processes continue to be developed to measure elements of our global Scope 3 emissions and once our expense system migration has completed, we will be able to capture and report this data going forward. The acquisition of TAG in the 2015 financial year, as anticipated, led to increased business travel and this trend has continued to support the integration of new operations.

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 2015 to 30 April 2016 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, Micro Focus' operational infrastructure approximately trebled in size. On a like-for-like basis Micro Focus' energy consumption was lower than 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 12 months to 30 April 2016, 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 work continues. Total UK data for the Group delivered a 1.6% increase in absolute consumption however; this would have been a 2.3% increase had we not integrated the Bracknell office into our Head Office.

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 where this approach has been taken are:

Actual emissions data used – Bangalore (India), Beijing (China), Belfast (Northern Ireland), Bracknell (UK), Cambridge (US), Dublin (Ireland), Düsseldorf (Germany), Ennis (Ireland), Galway (Ireland), Guangzhou (China), Haifa (Israel), Hong Kong (China), Johannesburg (South Africa), Linz (Austria), Lisle (US), Milan (Italy), Mumbai (India), New Delhi (India), Newbury (UK), Nuremburg (Germany), Paris (France), Prague (Czech Republic), Provo (US), Rockville (US), Singapore (Singapore), Sofia (Bulgaria), Stockholm (Sweden) 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), 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 location is a multi-tenanted site which is sub-let in its entirety and is out of scope for this year's report: Richmond (UK).

Intensity ratio

To achieve a global picture of emissions, whilst recognising 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.

2016 targets

In the prior reporting year Micro Focus beat its target of a 1% reduction in emissions compared to the previous year. During the 12 months to 30 April 2016, despite the complexities and distractions of the acquisition of TAG, the organization targeted a similar reduction and delivered a 2% overall reduction.

During this reporting year we have continued our commitment to both CDP and the Carbon Trust, applying for recertification with the Carbon Trust. We have maintained our capital budget for investment in energy saving initiatives to help us drive further reductions.

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

	FY16	FY15[1]	Change %
Total energy consumption (metered) MWhrs	**22,307**	22,759	(2.0%)
Energy consumed (metered) KWhrs per employee	**5,774**	6,462	(10.6%)
GHG emissions (tonnes e-CO_2)	**8,933**	10,154	(12.0%)
GHG emissions per employee (tonnes e-CO_2)	**2.99**	3.78	(20.9%)
Total estimated GHG emissions (Ktons e-CO_2)	**10.5**	11.7	(10.3%)

1 The FY15 comparatives have been restated to reflect the impact of TAG, FY15 was reported as Heritage Micro Focus only.

Charity and community support

During the financial year 2016, Micro Focus donated more than $82,000 for selected charities and community support projects.

The Company encourages employees to help local communities and support relevant charities, chosen in line with agreed criteria and guidelines of education and local community support. These initiatives are managed in two ways:

— Firstly, on a funds-matching basis for selected charity initiatives and awarding a monthly community project grant to initiatives put forward by employees.

— Secondly, by allocating a number of employee days per month by teams or individuals to directly benefit a chosen charity or community initiative.

The programme followed the same approach as in recent years, with Micro Focus' charity committee selecting a global charity to support for the first half of the year, with the focus in the second six months turning to a number of local charities. The split allows for a balance between international and country level fundraising initiatives. All initiatives follow core themes of education and local community support.

As mentioned above, the total level of funds raised and contributed was more than $82,000: $40,000 on local causes across six countries, $24,000 on international causes and the remainder on national causes in UK, USA, Bulgaria, Italy, Ireland and South Africa.

Corporate social responsibility
continued

This is the fourth year that the local "project grants" initiative has been in place and in the last 12 months approximately $40,000 supported 16 charity or community organizations with wide geographic spread across Micro Focus Group operations around the world. Projects included:

— Supporting a charity project in India to provide four Indian schools and approximately 1,000 children with new shoes;

— Participating in an initiative in Africa to build a community centre for education and health education purposes;

— Helping a project in Northern Ireland in the Belfast area delivering computer science knowledge to children aged between nine and 11;

— In the US, supporting the following projects:

- A Boy Scout Troop in their work with the homeless in the Maryland area;
- A World Youth Foundation project helping with education and community initiatives in the Houston area;
- Supporting the development of a Visual and Performing Arts Education Program to help children avoid drugs and gang life in Santa Clara; and
- Participating in a community project in Troy to provide food to disadvantaged children to assist with study outside of school hours.

Global charity fundraising in the first six months was focused on humanitarian crisis raising a total of $24,000 to support the various natural disasters around the world.

During the second half of the year fundraising covered a broad range of local charities and initiatives supported around Micro Focus operations in six countries, selected within the corporate guidelines of education and community support.

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

Marketplace and suppliers

Micro Focus products and services can help organizations lower their energy impact and customers often benefit from a lower carbon footprint.

Suppliers to the Group are sent Micro Focus' Corporate Social Responsibility charter and are encouraged to follow carbon responsible practices. In addition, the Company operates a Supplier Review Program and part of that program is to request the details of the supplier's Environmental credentials. At initial engagement with all suppliers information is requested to improve understanding of their environmental position and policies. Further work will be done on this across the enlarged Group in the forthcoming year.

Employees and ethics

In April 2015, Micro Focus announced the start of an integration programme to bring together the TAG operations with those of heritage Micro Focus. As previously stated, the acquisition of TAG transformed the size of the organization. Employee numbers grew from approximately 1,200 employees to more than 4,000. The integration of multiple teams, departments and cultures has been a significant program of detailed work during the 12 months to 30 April 2016.

The Company is committed to developing 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. This commitment has been coupled with extensive planning and human resources initiatives to support and develop employees through a time of substantial change. During the year, integration programs have been working alongside recruitment and retention programs through multiple training and performance management initiatives across the organization.

— Key HR metrics at 30 April 2016:

- Total number of employees worldwide – 4,287 (4,258 full time equivalent "FTE");
- Total Workforce Worldwide – 4,770 including temporary/contractors (4,704 FTE);
- Percentage of women – employees worldwide – 22.3% (2015: 27.9%);
- Percentage of women – senior management – 125 employees: 12.2% (2015: 13.2%);
- Percentage of women – governance body – 22.2% (including Company Secretary, two out of nine (2015: 30%). This has reverted to 30% with the appointment of Amanda Brown to the board from 1 July 2016.

- Micro Focus continues to strive for a diverse range of candidates for new roles;
- A half year bonus was paid to 2,970 eligible non-commissionable employees. A full year bonus will be paid to approximately 2,982 eligible non-commissionable employees at the end of July 2016;
- Comprehensive six monthly and full year performance management reviews of all non-sales employees were carried out. 81.4% of the employee population completed a half year performance management plan (“PMP”), a lower percentage achieved than in prior periods as inherited TAG managers and employees joined the review process. PMPs for the full year are on-going (current completion is 91.6%) with the “Wingspan” global performance review process being rolled out across the whole Company;
- International Share Save roll-out continued. Following the TAG acquisition, the scheme was made available to the enlarged workforce. The scheme is now available across 29 countries to 2,593 employees, comprising 96.3% of all employees outside North America where a different scheme is in place. At 30 April 2016 International Share Save participation was at 27.2% of eligible employees in 29 countries worldwide (compared with 78.3% and 27.4% at 30 April 2015). Combined with the Employee Stock Purchase Program in North America, 97.6% of employees globally are able to share in the Company’s success through participation in share programmes;
- Expanded employee communications activities supported the TAG integration programme, with broader sharing of All Hands meetings, increased email updates and intranet features including recordings of management interviews;
- The Group maintained an excellent record in health and safety matters for all employees (one minor reportable incident in the last 12 months);
- There has been continued commitment to ensuring compliance with anti-bribery, data protection and market abuse and insider dealing laws. This has included our Global Anti-Bribery and Corruption, Market Abuse and Fraud Awareness courses being rolled out and completed by all employees across the integrated Company, and the continuance of on-going compliance checks during the period. During FY16 and the beginning of FY17, targeted face-to-face anti-bribery and corruption training was carried out in the following high risk locations: Italy, South Africa, China, India and Brazil. Additionally employees and partners from various high risk countries also attended face-to-face anti-bribery and corruption training sessions at the Company’s sales conference in Dallas, US; and
- The Group is currently in the process of taking steps to ensure that its business and supply chain are free from modern slavery and human trafficking and a statement to this effect will be published on Micro Focus’s website. The steps being taken include an assessment of where the Group is potentially at risk, updating procedures and policies in relation to our supplier programme and updating the Group’s Worldwide Code of Business Conduct and Ethics.

Strategic Report

This 2016 Strategic Report on pages 3 to 43 is hereby approved and signed on behalf of the board,

Kevin Loosemore
Executive Chairman
13 July 2016

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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 2016, the key board achievements were:

Shareholder engagement

As discussed on pages 7 to 8 extensive shareholder engagement has resulted in significant new additions to the register and 30% of our shares now being held in North America.

The Company's market capitalization at 30 April 2016 was £3,496.5m 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 £1,986.1m over a period of 19 months. During that period they have also received a Return of Value of £83.9m and ordinary dividends of $78.0m.

Integration of the TAG business

The Company acquired TAG in November 2014 and since then we have been working hard to ensure shareholders realize the benefits of the acquisition. The key achievements over the last year have been the delivery of financial results in line with management expectations and the establishment of the two separate product portfolios, Micro Focus and SUSE.

Talent development and succession planning

In December 2015, the Company announced that I will continue as Executive Chairman until at least April 2018.

In order to ensure appropriate continuity of leadership and continued focus on performance, Stephen Murdoch and Nils Brauckmann became CEO of Micro Focus and CEO of SUSE respectively, effective from 1 February 2016, and joined the board.

Following these changes and changes to the non-executives covered on page 8, 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.

Externally facilitated performance evaluation

During the year we completed an externally facilitated evaluation process undertaken by JCA Group. The process is described in detail on page 52. 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 2016/17.

Board meetings and strategy sessions

During the year, two board meetings were held at overseas sites, which enabled our non-executive directors to meet and engage with local management teams to help them better understand our local operations. The meetings were held at our SUSE headquarters in Nuremberg, Germany and at our site in Seattle, US. 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
13 July 2016

Board of directors

Executive directors

Non-executive directors

Board committee memberships as at 13 July 2016:

* Audit committee
† Remuneration committee
‡ Nomination committee

1 Kevin Loosemore, 57
(Executive Chairman)
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 UK Limited. Kevin was appointed non-executive Chairman of the Company in 2005 and Executive Chairman in April 2011. He has a degree in politics and economics from Oxford University.

2 Mike Phillips, 53
(Chief Financial Officer)
Mike joined Micro Focus on 7 September 2010 and 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 the transformation of the Company to an international software and services business with sustainable and profitable growth. Earlier roles include seven years' corporate finance work at Smith & Williamson, as well as two years at PricewaterhouseCoopers where he led the UK 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).

3 Stephen Murdoch, 49
(Chief Executive Officer of Micro Focus)
Stephen 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. Stephen joined Micro Focus on 5 November 2012 and previously served as a director from 16 April 2014 before stepping down on 20 November 2014 to assist with the balance between independent and non-independent directors following the acquisition of TAG.

4 Nils Brauckmann, 52
(Chief Executive Officer of SUSE)
Nils is Chief Executive Officer of SUSE which he has led since May 2011. 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 TAG in 2004), Novell, and Siemens Nixdorf, where he started his technology career.

5 Karen Slatford, 59
(Senior independent non-executive director)*†‡
Karen is Chair of The Foundry, a leading special effects software company and Draper Esprit plc, an AIM listed venture capital firm and non-executive director of Intelliflo Ltd and Accesso Technology Group plc. Prior to her current board responsibilities, she has held various roles at board level since 2001 at a range of technology companies, including e-conomic international, Cambridge Broadband Networks Ltd, Portwise AB, Via Networks, Inc., Compel Group plc, HAL Knowledge Systems and Stepstone ASA. Karen began her career at ICL before spending 20 years at Hewlett-Packard, 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, 64
(Independent non-executive director)*†‡
Richard is currently a non-executive director of Aon UK Limited and Chairman of Acora Limited, Entanet International Limited and Miles 33 Limited. He was previously a non-executive director at Compel plc, Morse plc, Global Crossing (UK) Telecommunications Ltd, Global Crossing (UK) Finance plc and Message Labs Ltd. He was previously non-executive Chairman of TripleArc plc, Easynet and 7city. He has spent the majority of his career within the IT industry, most recently at IBM Global Services, where he held a number of senior general management positions. Richard qualified as a Chartered Accountant with Ernst & Young.

7 Tom Virden, 58
(Independent non-executive director)*†
Tom is a non-executive director of technology start-ups VillasDirect Limited and Sweetbeam. He began his career at Apple Inc and held a range of leadership roles in market development and product marketing, including the leadership of the Company's introduction to Small Business and the Music industry. More recently, Tom was a non-executive director of Atari SA and International Business Development Director at lastminute.com with responsibility for International Strategy for the Company and launching subsidiaries and fully localized sites in France, Germany, Sweden, Italy, Spain, the Netherlands, Australia and Ireland. Prior to that, he was Vice President, Marketing at Digidesign, a California company that brought digital multitrack recording and editing to personal computers. Tom has also started and led a number of technology companies including Katz Media SARL, Virtual European Office (VEO), and most recently, Boatbookings.com, the world's leading online yacht charter site, with 12,000 yachts worldwide. He is also an active angel investor and mentor with Social Impact companies in Boulder, Colorado. Tom holds a Bachelor of Arts, Double Major in Psychology and Economics from Stanford University in California.

8 Steve Schuckenbrock, 56
(Independent non-executive director)*
Steve is Chief Executive at CROSSMARK, a leading sales and marketing services company. After more than 30 years of leadership experience in global companies such as Dell, EDS, PepsiCo, Frito-Lay, and IBM, his expertise spans sales, marketing and technology. In his most recent role at Dell, Steve served as President of Dell Services, and prior to that led Dell's Large Enterprise Unit and served as the Chief Information Officer. Most recently, he served as the President and CEO of Accretive Health.

9 Amanda Brown, 47
(Independent non-executive director)*†‡
Amanda is Group Human Resources Director of Hiscox Ltd. Prior to this Amanda worked for Mars, PepsiCo and Whitbread in senior human resources roles in Europe and internationally. Previous roles include Compensation and Benefits Director for PepsiCo's restaurants division in Europe and Africa; Group Compensation and Benefits Director for hotel and restaurant company, Whitbread; and, Human Resources Director for Marriott Hotels in the UK. Amanda began her career at Mars Confectionery where she joined as an English graduate from Reading University.

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 compliance except for the following:

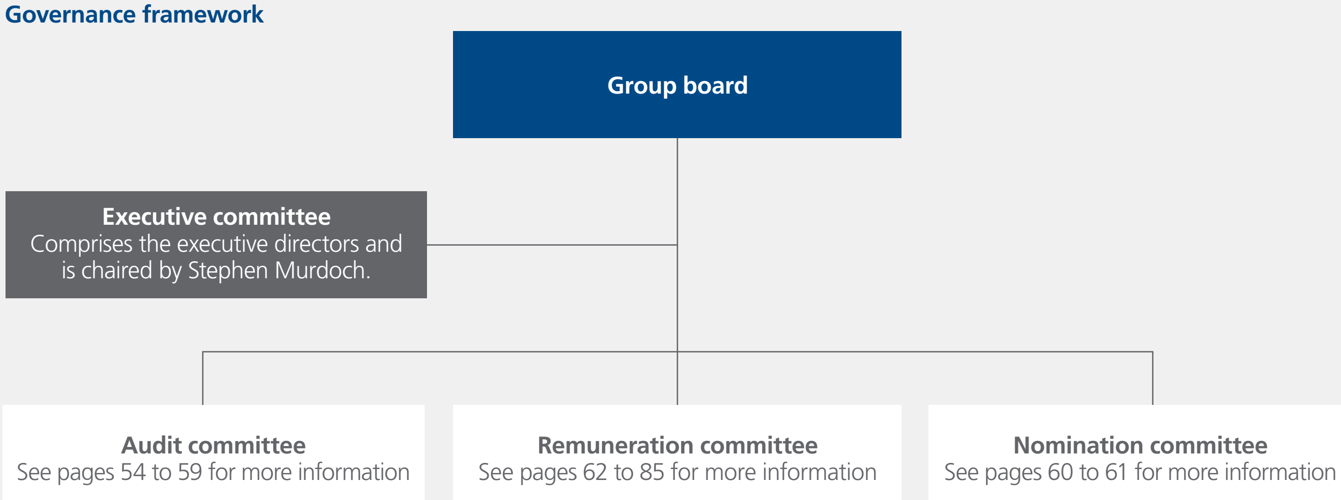
A.2.1 – Chairman and Chief Executive Officer – The Corporate Governance Code requires that the roles of Chairman and Chief Executive Officer should not be exercised by the same individual. For the majority of the year ended 30 April 2016 Kevin Loosemore (formerly non-executive Chairman) held the combined role of Chairman and Chief Executive Officer having been appointed to the role of Executive Chairman on 14 April 2011. In order to mitigate any potential concerns over the combined role, Karen Slatford, the senior independent non-executive director, had separate and defined responsibilities from the Executive Chairman. Karen Slatford chairs the nomination committee and is responsible for succession planning. During the year ended 30 April 2016, Karen Slatford, in her role as senior independent non-executive director, led (and will continue to lead) on governance issues, including the annual review of board effectiveness, and acting 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. The non-executive directors have met without the Executive Chairman present to appraise the Executive Chairman's performance. The meeting was chaired by the senior independent non-executive director, Karen Slatford. A majority of the board is made up of independent non-executive directors.

In December 2015, the Company announced that Stephen Murdoch and Nils Brauckmann would be joining the board as Chief Executive Officer of Micro Focus and Chief Executive Officer of SUSE respectively enabling the roles of Chairman and CEO to be split. Stephen Murdoch and Nils Brauckmann joined the board on 1 February 2016.

As Executive Chairman, Kevin Loosemore has responsibility for the delivery of strategy; ensuring the benefits of the integration of the TAG business are realized; M&A activities; investor relations; and leadership development. Stephen Murdoch and Nils Brauckmann are responsible for the day-to-day operation and execution of the Micro Focus and SUSE businesses respectively. Kevin Loosemore will work to ensure an orderly transition of all executive responsibilities by April 2018.

Key corporate governance activities in 2016	Details
Appointment of new non-executive directors and new executive directors (CEO Micro Focus and CEO SUSE)	Appointment of Stephen Murdoch, Nils Brauckmann, Steve Schuckenbrock and Amanda Brown
An externally facilitated board review	This provided positive feedback and useful suggestions, see page 52 for details
Risk management review	A renewal of the Group's overall risk management framework was undertaken, see page 32 to 37 for details

Governance framework



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 62 to 85) the following section sets out how the board has applied these principles.

Leadership

The board

The biographies of each director can be found on page 47. As at 1 July 2016, the board comprised nine directors:

Name	Role
Kevin Loosemore	Executive Chairman
Mike Phillips	Chief Financial Officer
Stephen Murdoch	CEO Micro Focus (appointed 1 February 2016)
Nils Brauckmann	CEO SUSE (appointed 1 February 2016)
Karen Slatford	Senior independent non-executive director
Tom Virden	Independent non-executive director
Richard Atkins	Independent non-executive director
Steve Schuckenbrock	Independent non-executive director (appointed 1 February 2016)
Amanda Brown	Independent non-executive director (appointed 1 July 2016)

Karen Geary	Independent non-executive director (resigned 1 March 2016)
David Golob	Non-executive director (resigned 1 February 2016)
Prescott Ashe	Non-executive director (resigned 1 February 2016)
Tom Skelton	Non-executive director (resigned 24 September 2015)

In accordance with the Corporate Governance Code, 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. As a result of the board evaluation described on page 52, the Company is satisfied that each director continues to be effective and to show the necessary level of commitment to fulfil his or her role to justify their election or re-election, as applicable. 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 89 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.

Corporate governance report
continued

Board meetings

For the year ended 30 April 2017, 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.

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

Attendance at board and committee meetings

In the financial year under review there were five scheduled board meetings and four additional board meetings.

The number of board and committee meetings attended by each director in the year ended 30 April 2016 was as follows:

	Board		Audit committee		Remuneration committee		Nomination committee	
	Held*	Attended	Held	Attended	Held	Attended	Held	Attended
Kevin Loosemore	9	9	–	–	–	–	2	2
Mike Phillips	9	9	–	–	–	–	–	–
Stephen Murdoch[1]	3	3	–	–	–	–	–	–
Nils Brauckmann[1]	3	3	–	–	–	–	–	–
Tom Skelton[2]	4	4	2	2	2	2	2	2
Karen Slatford	9	9	5	5	4	4	7	7
Tom Virden	9	9	5	5	4	4	–	–
Richard Atkins[6]	9	8	5	5	4	4	5	5
Prescott Ashe[3,6]	6	5	–	–	–	–	–	–
David Golob[3]	6	6	–	–	–	–	–	–
Karen Geary[4]	7	7	–	–	3	3	5	5
Steve Schuckenbrock[5]	3	3	1	1	–	–	–	–

* During period of appointment.
1 Stephen Murdoch and Nils Brauckmann were appointed to the board 1 February 2016.
2 Tom Skelton stepped down from the board on 24 September 2015.
3 Prescott Ashe and David Golob stepped down from the board on 1 February 2016.
4 Karen Geary stepped down from the board on 1 March 2016.
5 Steve Schuckenbrock was appointed to the board on 1 February 2016.
6 Richard Atkins and Prescott Ashe did not attend one board meeting due to a conflict with a prior engagement.

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, currently 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, Tom Virden, Richard Atkins, Steve Schuckenbrock and Amanda Brown, 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.

Non-executive directors are appointed for specific terms.

Full details of their appointment are on page 76 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 board meetings	Key activities for the board throughout 2016
— Key project status and progress	— Compliance with debt covenants and liquidity
— Strategy	— Risk and long-term viability review
— Financial reports and statements	— Evolution of Risk Management Framework
— Operational issues and highlights	— 2016 budget review and 2017 budget approval
— Investor relations and capital markets update	— Periodic updates on corporate regulatory changes and reporting requirements
— Key legal updates	— Project assurance processes
— Key transactions	— Externally facilitated board review
— Assurance and risk management	

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 and senior managers, meets regularly to agree strategy, monitor 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 cover areas such as finance, contract approvals, data protection, share dealing, business conduct, ethics and anti-bribery.

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 evaluations is discussed in detail by the board and any key recommendations are reviewed and implemented during the following year.

The 2016 board evaluation was externally facilitated by JCA Group. The evaluation process was conducted between February and April 2016 and included a series of one-on-one interviews with all directors and observations of board and committee meetings. All directors have endorsed the external evaluation process as being a valuable exercise.

The results of the evaluation were discussed separately with the senior independent non-executive director and the Executive Chairman and were reviewed in detail at the April 2016 board meeting.

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 has a strong foundation with a positive dynamic and benefits from significant experience.

The results of the evaluation are being used to assist the board in developing its approach going forward and include the following recommendations that will be implemented during the financial year ending April 2017:

— 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;

— Continuing risk management review with a particular focus on ensuring that the Company has appropriate senior management talent to support the Company's strategy; and

— Ensuring appropriate longer-term succession and smooth board succession.

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.

Evaluations of the board from 2013 to 2015 were conducted internally 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.

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 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 54 to 59.

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.

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 87 of the Directors' report.

Rights and obligations attaching to shares

Details of the rights and obligations attaching to shares can be found on pages 88 to 89 of the Directors' report.

The Company 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 Head of 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 22 September 2016 at 3pm (UK time). 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, the Company will count all proxy votes and will indicate the level of proxies lodged, the number of proxy votes for and against each such resolution and the number of votes withheld. A resolution will be proposed for each substantive issue and the chairs of the audit, remuneration and nomination committees will attend to answer questions.

Audit committee report

Committee Chairman's introduction

Dear fellow shareholders,
I am pleased to present the audit committee report for 2016. The report details the activities of the committee during the year ended 30 April 2016.

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 Skelton (until 25 September 2015), Tom Virden and Steve Schuckenbrock (from 24 February 2016) being members of the committee, with Jane Smithard acting as Secretary to the committee. Amanda Brown was appointed to the Committee on 12 July 2016. By virtue of my former executive and current non-executive responsibilities (full details of which are set out on page 47) the board considers that I have recent and relevant financial experience. All members of the committee are independent. Executive directors, Kevin Loosemore and Mike Phillips attend the meetings and other directors, Rob Ebrey (Director of Tax, Treasury and Risk), Graham Norton (Director of Finance – Micro Focus), Darren Fisher (Director of Finance from 1 April 2016), are welcome to attend if they wish. There is also a standing invitation to attend to PricewaterhouseCoopers LLP ("PwC") (external auditor), KPMG LLP ("KPMG") (internal auditor) and Deloitte LLP ("Deloitte") (external tax advisors).

Audit committee

	Number of meetings for which eligible to attend	Number of meetings attended
Members:		
Richard Atkins (Chairman)	5	5
Karen Slatford (Independent non-executive director)	5	5
Tom Virden (Independent non-executive director)	5	5
Steve Schuckenbrock (Independent non-executive director) (from 24 February 2016)	1	1
Tom Skelton (Independent non-executive director) (until 24 September 2015)	2	2
Secretary:		
Jane Smithard (Company Secretary)	5	5
Attendees by invitation:		
Kevin Loosemore (Executive Chairman)	5	5
Mike Phillips (Chief Financial Officer)	5	5
Rob Ebrey (Director of Tax, Treasury and Risk)	5	5
Graham Norton (Director of Finance – Micro Focus)	5	5
Darren Fisher (Director of Finance) (from 1 April 2016)	1	1
PwC (external auditors)	5	5
KPMG (internal auditors)	5	5
Deloitte (external tax advisors)	5	5

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 and have been updated to reflect the committee's responsibilities in relation to the viability statement and risk management. 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: investors.microfocus.com/corporate-governance.

What the committee did during the year ended 30 April 2016

The committee met five times during the financial year ended 30 April 2016. In addition to standing items on the agenda, the committee:

- Received and considered, as part of the review of interim and annual financial statements, 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 2016 Annual Report and Accounts. Further details can be found on page 57;

- Considered the effectiveness and independence of the external audit and recommended to the board the re-appointment of PwC as external auditors;

- 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 management policy and procedure with an enhanced risk management framework;

- 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, Deloitte's proposal to continue as tax advisor and KPMG's proposal to continue as internal auditors and agreed each of their proposed fees;

- Reviewed and approved the governance around the integration planning for the Group following the acquisition of TAG and the appointment of Deloitte to assist in that program of work;

- Reviewed reports on the debt financing;

- Reviewed reports provided by the Group's tax department regarding the reporting of tax within the financial statements and other key tax matters;

- 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 38.

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 financial statements. The external auditors' reports are based on a full audit of the annual financial statements and a review of the interim financial statements.

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

Significant issues considered in relation to the financial statements

The financial statements 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 now enters into as a result of the acquisition of TAG 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.

Audit committee report
continued

The committee received a paper from management on revenue recognition methodology and the appropriateness of allocation of fair values between Licence, Maintenance, Subscription and Consulting as presented in the financial statements, 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 the operation of certain key controls over fair value allocation and found these to be operating satisfactorily at the year end.

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 bad debt provisions.

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

Tax provisions

As set out on pages 13 to 14, the Group had net tax payments in the year and a tax charge in the consolidated statement of comprehensive income. The Group also has a number of tax provisions and deferred tax assets that are subject to a degree of judgment in determining the value in the financial statements.

The committee ensures that the internal tax team has sufficient resources to address these areas and received detailed updates on the tax provisions included in the Annual and Interim Reports. The Group predominantly uses Deloitte as tax advisors to the Group and the lead partner attends committee meetings so that the committee has adequate opportunity to discuss and test the assumptions reflected in the financial statements.

During the year Deloitte provided additional assistance to the internal tax team with regards to the tax implications of making changes to the Group's legal structure. Deloitte also advised on a number of integration related projects.

The committee received a paper from management and, following discussions with the tax advisors, Deloitte, and the external auditors concluded that the Group's tax provisions are appropriate.

Capitalization of development costs

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 development costs at the end of the year was $43.2m (2015: $31.4m).

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 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 development costs was appropriate.

Valuation of the intangible assets

Management has carried out an impairment review of its purchased intangibles and goodwill. The net book value of the purchased intangibles is $921.3m and goodwill is $2,436.2m.

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

Restructuring provisions

Following the acquisition of the TAG business, the Group commenced a restructuring programme to improve the operational efficiency of the Group and help improve revenue. This resulted in the recognition of restructuring provisions.

The committee 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.

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 2016 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 2016 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 2016. 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. During the year, the committee reviewed the Group's risk management process and put in place a new risk management policy and procedure with an enhanced risk management framework to ensure a robust system of identifying, assessing and managing the Group's key risks. Further information on this can be found on pages 32 to 37.

At the committee's meeting in July 2016, 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 38.

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 May 2016. 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 2016.

The current external auditors, PwC, have been auditors since Micro Focus became a UK listed company in 2005 at which time they were also the tax advisors to the Group. In 2008 Micro Focus appointed Deloitte as principal tax advisors for the Group and they remain in that position today.

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 (2015: \$3.3m) for audit services, \$0.8m (2015: \$0.1m) for audit related assurance services), \$0.1m (2015: \$0.2m) for services related to taxation and \$1.8m (2015: \$5.1m) for other non-audit services.

The majority of the other non-audit services provided by the auditors were in respect of due diligence work carried out on the acquisition of Serena and customer licence compliance 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.

Audit committee report
continued

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 is therefore due in the year ended 30 April 2018 which coincides 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 is not impaired in any way. There are no contractual restrictions on the choice of external auditors and therefore a resolution proposing the reappointment of PwC as external auditors will be put to the shareholders at the 2016 Annual General Meeting.

The committee will continue to assess the effectiveness and independence of the external auditors.

The committee intends that the audit tender process for the year ending 30 April 2018 will be undertaken in the period from January to April 2017 with a decision being made at the audit committee meeting in April 2017. I will be leading the tendering process and appropriate firms will be invited to tender in January 2017.

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 2016.

Internal audit

An outsourced internal audit function continues to be provided by KPMG. The Group's Chief Financial Officer provides oversight and co-ordination of internal audit. In order to ensure independence, internal audit has a direct reporting line to the committee and 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.

As part of the external audit tender process the committee intends to place the internal audit out for tender as well.

Effective internal control and risk management

Following the annual cycle of work of the audit committee, the committee concluded that sound risk management and internal control systems had been maintained during the year. With respect to risk management, under the new risk management framework the committee now 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, KPMG, 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 around integration, IT and finance transformation.

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.

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.

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 new risk management framework. 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.

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;
- 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 financial statements that present financial information for the Group as a single economic entity. The Group accounting policies set 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 EU endorsed International Financial Reporting Standards, 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 32 to 37.

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
13 July 2016

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, Kevin Loosemore (Executive Chairman) and Tom Skelton (independent non-executive director). On 23 September 2015, Kevin Loosemore and Tom Skelton stepped down from the committee and Richard Atkins and Karen Geary (independent non-executive directors) were appointed to the committee. Mrs Geary stepped down from the committee on 1 March 2016. Amanda Brown was appointed to the committee on 12 July 2016. The committee now comprises Karen Slatford who continues to chair the committee, Richard Atkins and Amanda Brown. The committee met seven 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 2016 was as follows:

Nomination committee

	Number of eligible meetings during the year	Number of meetings attended
Members:		
Karen Slatford (Chair)	7	7
Richard Atkins (from 23 September 2015)	5	5
Kevin Loosemore (until 23 September 2015)	2	2
Tom Skelton (until 23 September 2015)	2	2
Karen Geary (from 23 September 2015 until 1 March 2016)	5	5

Role and responsibilities

The committee is responsible to the full 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/corporate-governance.

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 intends to move in the medium-term to a composition where in excess of 25% of members are female provided that the above principle of correct balance is not compromised. The Group has formal policies in place to promote equality of opportunity, across the whole organization. Following the resignation of Karen Geary as a non-executive director on 1 March 2016 and the appointment of Amanda Brown as a non-executive director on 1 July 2016, the board currently comprises seven men (77.77%) (2015: 77.77%) and two women (22.23%) (2015: 22.23%). The Company Secretary is also a woman. As opportunities arise the board will seek to increase the presence of women on the board consistent with the above policy.

What the committee did during the year ended 30 April 2016

Key activities

— A review of the committee's membership;

— Board and senior executive succession planning;

— 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

— Tom Skelton resigned as an independent non-executive director on 24 September 2015;

— Prescott Ashe and David Golob resigned as non-executive directors on 1 February 2016; and

— Karen Geary resigned as an independent non-executive director on 1 March 2016.

Appointments

— Stephen Murdoch and Nils Brauckmann were appointed as executive directors on 1 February 2016; and

— Steve Schuckenbrock was appointed as an independent non-executive director on 1 February 2016.

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

Recruitment process

The committee was responsible for the search and selection process which culminated in Steve Schuckenbrock's and Amanda Brown's appointments. The process for both appointments was led by the senior independent non-executive director and committee chair, Karen Slatford and was formal, rigorous and transparent.

In relation to both appointments, the committee appointed executive search consultancy, JCA Group and the following process was undertaken for each 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 appointments.

JCA Group adheres to the Voluntary Code of Conduct for Executive Search Firms. JCA Group also undertook the externally facilitated board evaluation review during the year as described on page 52.

Additionally, the committee also recommended the appointments of Stephen Murdoch as CEO Micro Focus and Nils Brauckmann as CEO SUSE, both as executive directors of the Company.

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 on 10 December 2015 the Company announced that Kevin Loosemore would continue as Executive Chairman until at least April 2018 with responsibility for the delivery of strategy; the benefits to shareholders of the TAG acquisition; M&A activities and investor relations; and to ensure an orderly transition of all executive responsibilities by that date. The Company also announced at that time the appointment of Stephen Murdoch as CEO of Micro Focus and Nils Brauckmann as CEO of SUSE, effective 1 February 2016, both reporting to the Executive Chairman. The committee will continue to keep the situation under review and plan for future changes in order to enable the board to provide effective leadership and governance of the Group.

Karen Slatford
Chair, nomination committee
13 July 2016

Directors' Remuneration report

Senior independent director and remuneration committee chair's statement

On behalf of the board, I am pleased to present our Directors' Remuneration report for the financial year ended 30 April 2016. Similarly to last year, this report is split into three sections: the remuneration committee (the "committee") Chairman's Annual Statement, the Directors' Remuneration Policy and the Annual Report on Remuneration.

The Directors' Remuneration Policy (set out on pages 64 to 76) was approved at the AGM on 25 September 2014, was amended at a General Meeting on 27 October 2014 and will next be put to a shareholder vote in 2017 at the latest. However, we will be seeking shareholder approval for an amendment to the operation of the annual bonus plan for the coming year. This amendment incorporates feedback we received from shareholders last year and brings our bonus structure closer to best practice, and we will be seeking a binding shareholder vote on the proposed amendment by a standalone resolution at the forthcoming AGM. We will also be seeking an amendment to enable the Board to utilize an ASG programme in the event of a material acquisition. As the market in mature infrastructure evolves this is necessary to avoid the company finding itself at a competitive disadvantage in executing its strategy.

Corporate performance and business context

The Company has a clear strategy that defines an operating and financial model designed to deliver superior shareholder return. This model is underpinned by a remuneration model that ensures rewards only accrue as value is delivered to shareholders. We believe this tight linkage positively differentiates the Company's approach to governance and value creation.

2016 was the first full year of operation as the new business formed following the acquisition of TAG on 20 November 2014. This created a global infrastructure software business with revenues of $1,245.0m and EBITDA of $532.5m which has traded in line with our expectations of revenue and ahead of expectations for EBITDA. This was achieved during a year of significant change as we began implementation of the outputs from our integration review. In addition, we announced the acquisition of Serena on 22 March 2016 which was subsequently completed on 2 May 2016.

Taking a longer-term view of performance, our reward strategy is highly focused on our objective to achieve 15% to 20% compound annual return for shareholders.

Remuneration decisions in the year ended 30 April 2016

During the year, the committee reviewed the operation of the annual bonus, and is proposing to make a number of amendments to the bonus element of the Directors' Remuneration Policy, for which shareholder approval is required, as follows:

- To introduce a mandatory conversion of one-third of any bonus earned into deferred bonus awards over Company shares for all executive directors (other than the Executive Chairman), to maximize long-term shareholder alignment, support retention in a highly competitive and global talent market and in line with typical market practice. The remaining two-thirds of the bonus will continue to be paid in cash;

- To provide that deferred bonus awards will vest in full after three years, subject to continued employment. Dividend equivalents will be payable over the vesting period in respect of deferred bonus awards that vest;

- To increase the maximum annual bonus opportunity from 100% to 150% of salary for all executive directors (to align with the current maximum opportunity for the Executive Chairman); and

- For those subject to the changes, to introduce malus and claw back provisions to apply to deferred bonus awards, as well as to the cash bonus.

Shareholder approval is also required to replicate the ASG programme.

No change is proposed to Kevin Loosemore's bonus arrangement as his maximum opportunity will remain 150% of salary and is governed by the terms of his appointment in 2011. The committee considers the proposed amendments to the annual bonus to be important and appropriate in the context of the recent changes to our board and the competitive nature of the market for talent. We intend to implement these proposed changes for FY17, subject to shareholder approval. As no other fundamental changes to the Remuneration Policy are proposed at this time, we will be presenting a stand-alone resolution summarising the bonus proposals for a vote at the AGM.

As part of the transaction to acquire TAG, shareholders were asked to approve new incentive arrangements for the senior team to recognize the increased size of the Group and the significant incremental workload involved in integration activities. As set out in last year's report, given the increased footprint and complexity of the business, the committee's intention was to revisit certain aspects of executive remuneration during the year to ensure they remained fit for purpose. Following a review, the committee determined that the Additional Responsibility Allowance ("ARA") would cease for all individuals as of 1 February 2016. Effective from 1 February 2016, Mike Phillips' ARA of £120,000 was rolled into his salary of £350,000 to give a combined salary of £470,000. Kevin Loosemore's ARA of £260,000 was rolled into his salary of £490,000 to give a combined salary of £750,000. Overall, no increase to salary was awarded to either individual. The new salary levels are in line with market comparators for a company of Micro Focus' size, sector and complexity, and reflect the skills, level of experience and calibre of the individual executives.

The committee also determined that the ASGs made in relation to the 2014 acquisition of TAG have been instrumental in motivating the top executive team, ensuring the successful integration of TAG and delivering exceptional shareholder value. 3,262,420 ASGs were awarded and remain outstanding compared with a shareholder approved total of 5,412,240. Given the success of the ASG programme and to increase our flexibility in negotiating transactions that create substantial shareholder value, the Committee now proposes that the ASG programme is replicated on substantially the same terms as those applied as part of the acquisition of TAG, including the same limits on shareholder dilution. The detailed terms of the ASGs implemented at the same time as the acquisition of TAG are set out in the relevant deeds of grant, copies of which are available on the Company's investor relations website. ASGs would be awarded in the event that a material acquisition of a business or entity is made by the Group. Further details on the ARA and ASG are provided in the Remuneration Policy on pages 68 to 69. A summary of the key terms of the replicated ASG programme is set out in the Notice of Annual General Meeting.

On 1 February 2016 Stephen Murdoch and Nils Brauckmann were promoted to the board as CEO of Micro Focus and CEO of SUSE, respectively, under the continued leadership of Kevin Loosemore as Executive Chairman. The committee determined their remuneration packages in line with the approved Remuneration Policy; details are set out on pages 64 to 76.

Calendar of activities

The calendar is driven by the business planning activity of the Group prior to the start of the new financial year. The committee is fully informed of changes in business strategy, which may affect its decision making. The annual timetable for the committee is set out below:

Date	Purpose	Matters reviewed and/or approved
Q1 (May-July)	Annual Report and Payments	Directors' Remuneration report; Bonus payments and any vesting of awards under all plans for the previous year; and Grants of equity awards to executives, top talent and all employee share schemes.
Q2 (August-October)	AGM	Investor engagement; and Review committee agenda for following year.
Q3 (November-January)	Strategic Outlook and Policy Review	Progress of half-year business performance; On-going appropriateness and effectiveness of remuneration and benefits policies/strategy and their linkages to the overall business strategy; Review of external remuneration consultants; Review of revised remuneration reporting regulations; Corporate governance developments; and Business objectives for the following year.
Q4 (February-April)	Year End Remuneration Approvals	Executive director, Company Secretary and executive committee remuneration reviews including benchmarking (where appropriate) of base salaries and benefits; Group-wide pay and benefit reviews; Setting of targets and performance conditions for grants to executives, top talent and employee share plans; Setting of targets for annual performance-related bonus arrangements for executives and employees for forthcoming year; Review of performance and terms of reference of committee; and Review of vesting of long-term incentive awards.

The Annual Report on Remuneration will be subject to an advisory vote at the forthcoming AGM. We continue to value any feedback from shareholders and hope to receive your support at the AGM.

Karen Slatford
Senior independent director
13 July 2016

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"). The Remuneration Policy was approved by shareholders at the 2014 AGM and took effect from that date. It was amended and reapproved by shareholders at the General Meeting on 27 October 2014. The report below is as disclosed in the 2014 Directors' Remuneration report except for a number of minor changes as follows:

— References to financial years have been updated where appropriate;

— The amendments approved by shareholders on 27 October 2014 in respect of ARAs and ASGs have been included;

— Pay-for-performance scenario charts have been updated to reflect latest salaries, benefits, incentive opportunities, and ASGs;

— Malus and claw back provisions have been introduced to the Long Term Incentive Plan awards from July 2015;

— The announcement made by the Company on 22 August 2014 (published on the Company's website) with regard to recruitment awards and appointment of interim executive directors has been included for clarity; and

— Confirmation that the non-executive director fees did not apply to the non-executive directors representing Wizard, the Company's former controlling shareholder.

In addition, the policy has been updated to include the proposed amendments to the operation of the annual bonus, set out on page 66, and the replicated ASG programme, which is summarized at pages 69 to 70 of the Notice of Annual General Meeting which the Company is asking shareholders to approve at the 2016 AGM. It is intended that the revised policy in relation to the annual bonus and replicated ASG programme will come into effect from the date of the AGM.

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 on-going 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 was approved at the AGM on 25 September 2014 and subsequently amended at the General Meeting held on 27 October 2014 to include the ARA and ASGs as part of the shareholder vote to approve the acquisition of TAG.

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 250, 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 and 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 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.

Directors' Remuneration report
continued

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 annually and pay out levels are determined by the committee after the year end based on performance against those targets. 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. Up to and including 2016, the annual bonus was delivered in cash. Effective from the financial year ended 30 April 2016, all executive directors with the exception of the Executive Chairman (who is already a significant shareholder in the Company) are required to defer one-third of their bonus into an award over Company shares for a period of three years. In the case of fraud, misstatement of accounts or misconduct, malus and claw back provisions are in place for a period of up to one year after a bonus payment has been made or a bonus share has vested. Dividend equivalents are payable over the vesting period in respect of the bonus share awards which vest.	Prior to 2016, the maximum annual bonus opportunity was: — 150% of salary and ARA for Executive Chairman; and — 100% of salary and ARA for other executive directors. Effective from the financial year ended 30 April 2017, the maximum opportunity is 150% of salary for all Executive Directors.	The measures and targets are set by the committee each year. The measures that applied for the financial year 2016, and that will apply for the financial year 2017, are described in the Annual Report on Remuneration. 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 a 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.	Contingent awards of performance shares structured as nil-cost options are made annually with vesting dependent upon the achievement of performance conditions over three years. 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.	Maximum opportunity contained within the plan rules is 200% of salary. The maximum face value of annual awards will be 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. Awards granted from the date of this report onwards under the LTIP share scheme are subject to malus and claw back provisions. Those provisions may apply at the discretion of the committee if financial statements are corrected or published that indicate the relevant performance was materially worse than in the financial statements used to assess 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.

Directors' Remuneration report
continued

Additional Responsibility Allowance

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
Ensures the success of the acquisition of TAG by Micro Focus and the successful integration of TAG and the Group. Recognizes the significant incremental workload and responsibility and allows for a revised salary to be determined.	ARAs will be a fixed amount per individual, paid on a monthly basis subject to the recipient being in employment with the Group on the date of payment. Payments will be made during a period of at least six months but not exceeding three years from the date of completion of the acquisition. The ARA does not contain malus or claw back provisions.	— Kevin Loosemore: capped at £260,000 per annum — Mike Phillips: capped at £120,000 per annum — Stephen Murdoch: initially at £100,000 per annum — Other senior managers: in aggregate £520,000 per annum Subject to review every six months for the first 18 months and then at any time thereafter. Any amendment will take effect on three months' notice, except if a revised salary has been determined, in which case any entitlement to the ARA will cease immediately. The maximum amount payable under the ARA to all recipients will be no more than £1.0m per annum in aggregate. Effective from 1 February 2016, the ARA is no longer payable.	None.

Additional Share Grant

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
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 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 over three years. The ASGs do not contain malus or claw back provisions.	In respect of the ASGs granted in respect of the acquisition of TAG, Kevin Loosemore, Mike Phillips and Stephen Murdoch and Nils Brauckmann will receive ASGs over no more than 947,140 ordinary shares, 676,529 ordinary shares, 405,917 ordinary shares and 405,917 ordinary shares respectively (subject to appropriate adjustment in the event of any capitalization issue, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any other variation of capital or demerger of all or part of the business). In respect of the acquisition of TAG the number of ordinary shares subject to ASGs granted to any other one participant could not exceed 1,082,448 (subject to appropriate adjustment in the event of any capitalization issue, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any other variation of capital or demerger of all or part of the business). The replicated ASG programme contains a limit under which the number of ordinary shares subject to ASGs granted pursuant to an individual limit under any specific ASG programme cannot exceed 0.5% of the issued ordinary share capital of the Company at the time of completion of the acquisition. Total dilution pursuant to a single ASG programme would not exceed 2.5% 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% or less; (ii) 100% if the Shareholder Return Percentage is 100% or more; and — 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.

Fees for non-executive directors are determined by the board after taking appropriate advice. The Company currently has an Executive Chairman and two Chief Executive Officers. The section below details the Company's policy on how the non-executive directors, including a non-executive Chairman, will be remunerated.

Directors' Remuneration report
continued

Non-executive directors fees

Element of pay and alignment with strategy	Operation
Provides an appropriate reward to attract and retain high-calibre individuals.	The non-executive Chairman and 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 Chairman and 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 250, 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 a non-executive director role) the board has discretion to make appropriate adjustments to fee levels to ensure they remain market competitive and fair to the director. 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 representing Wizard ("representative directors") are not paid a fee. Non-executive directors and representative directors do not participate in any incentive scheme.

The committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy set out below, where the terms of the payment were agreed (i) before the policy came into effect or (ii) 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.

Selection of performance measures

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, which together with the annual bonus metrics provide 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.

Remuneration policy for other employees

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 15.

The committee will operate the annual bonus 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:

— 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); and

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

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.

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.

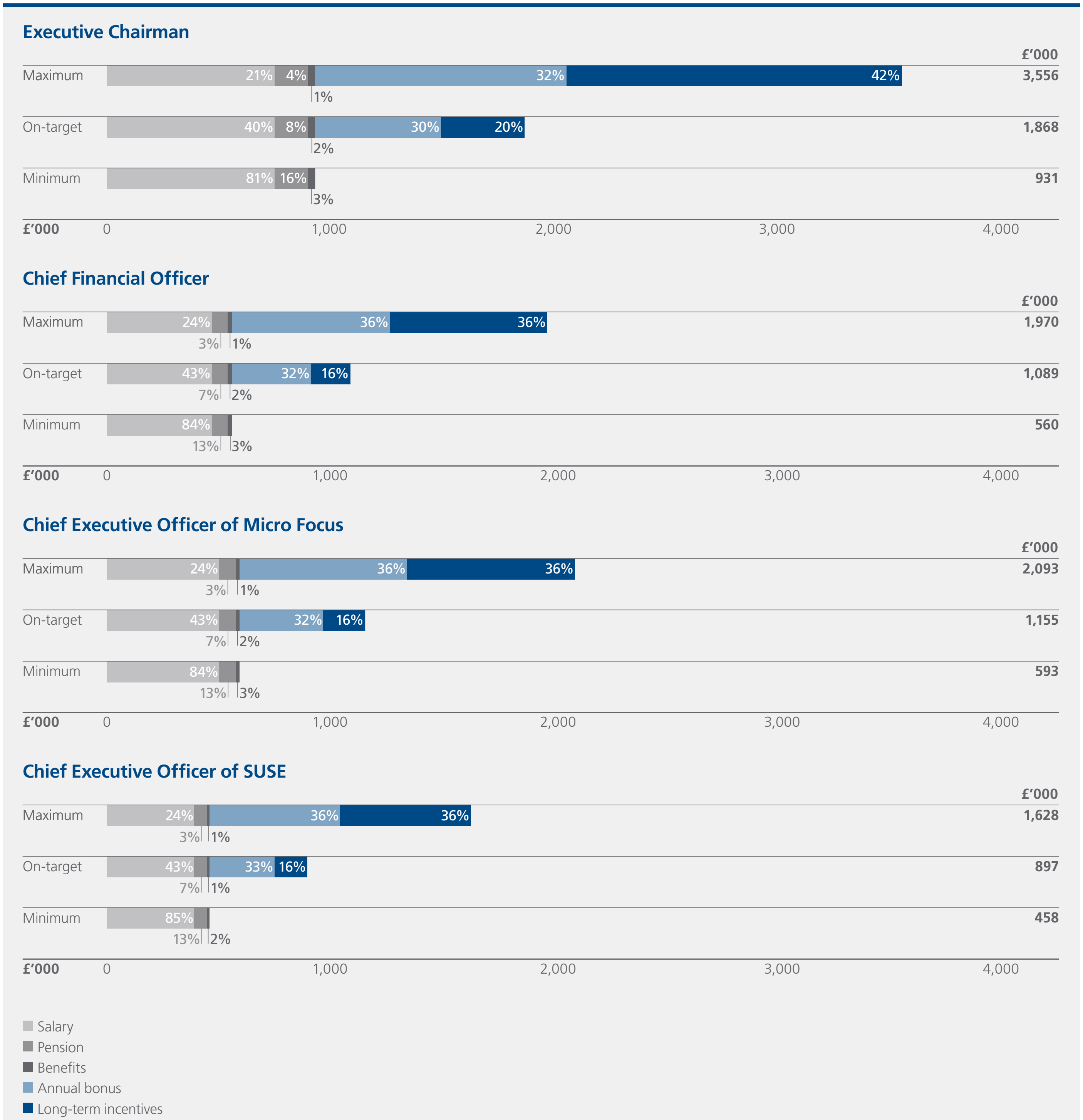
In relation to ARA, the committee has discretion to revise the allowances for Kevin Loosemore and Mike Phillips downwards or for other recipients upwards or downwards following a review but based on current assessment can envisage no circumstances where any would be revised upwards. As of 1 February 2016, the committee has determined to cease ARAs for the executive directors, and to instead roll the ARAs into their base salary.

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 83 to 85 of the Annual Report on Remuneration. These remain eligible to vest based on their original award terms.

Directors' Remuneration report
continued

Illustrations of the application of Remuneration Policy

The following charts provide an estimate of the potential future reward opportunities for the executive directors based on awards made in the year, and the potential split between the different elements of pay under three different performance scenarios: "minimum", "on-target" and "maximum". Potential remuneration opportunities are based on Micro Focus' current Remuneration Policy (including the proposed new bonus opportunity), applied to salaries as at 1 May 2016. Note that no further ASGs will be made in relation to the 2014 acquisition of TAG.



Note: Assumes exchange rate of £0.78 to €1 for CEO of SUSE, based on a three month average to 30 April 2016.

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).

Note that the projected values exclude the impact of any share price movements.

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 may also 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, and would be no higher in fair value terms and would reflect the delivery mechanism (i.e. cash, shares, options), time horizons and performance requirements attaching to that remuneration. However, the committee has the discretion in unforeseen and exceptional circumstances to offer awards of variable remuneration in excess of the maximums stated in the policy table if judged necessary to procure the services of the most appropriate candidate.

The committee published the following announcement on the Company website to clarify the Remuneration Policy when hiring a new executive director:

1. The remuneration package for a new executive director (including incentive opportunities) will normally be consistent with the policy for current executive directors, but in any event the maximum total level of award that may be made under the annual bonus and share plans in any one year will not be above 500% of salary;

2. Buy-out awards (as previously disclosed) will generally be based solely on remuneration lost on leaving a former employer and will have a fair value no greater than the awards forfeited. In doing so the committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the timeframe of awards;

3. The committee does not envisage any cash payment being offered which could be construed as a "golden hello"; and

4. The committee will consult with and seek approval from shareholders in advance of operating outside the maximum limit described above.

In determining appropriate remuneration arrangements on hiring a new executive director, the committee will take into account relevant factors; this may include the calibre of the individual, local market practice, the existing remuneration arrangements for other executives and the business circumstances. The committee seeks to ensure that arrangements are in the best interests of both the Company and its shareholders and not to pay more than is appropriate.

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 on-going 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.

Directors' Remuneration report
continued

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. The committee retains the discretion to make appropriate one-off remuneration arrangements for non-executive directors, including a non-executive Chairman, outside of the standard policy at these times. Any such arrangements will be detailed in the relevant year's Annual Report on Remuneration.

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. As part of the acquisition of TAG during the last financial year two additional incentives were agreed by shareholders to compensate a small number of executives and senior managers for the incremental workload involved in the integration. These two additional incentives, the ARA and ASGs, are described in detail in the policy table.

Executive directors' service agreements
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 one year's 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 above 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 LTIP awards are provided on page 83.
Notice period	A maximum of 12 months' notice from the Company or the director. This will be standardized at six months in 2017.
Termination payment	Payment in lieu of notice equal to: — A maximum of 12 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
Kevin Loosemore	14 April 2011
Mike Phillips	7 September 2010
Stephen Murdoch[1]	16 April 2014
Nils Brauckmann[2]	27 January 2016

1 Stephen Murdoch was appointed as CEO of Micro Focus and appointed to the board on 1 February 2016.
2 Nils Brauckmann was appointed as CEO of SUSE and appointed to the board on 1 February 2016.

If an executive director commits a material breach of their service contract, any crime, or act of gross misconduct or dishonesty, the Company is entitled to summarily terminate the service contract without notice or payment in lieu of notice or other compensation. Such a contract term cannot however, as a rule of law, affect the executive director's statutory rights such as rights in respect of unfair dismissal.

All of the executive directors' service contracts were entered into before 27 June 2012 with the exception of Stephen Murdoch (appointed 16 April 2014) and Nils Brauckmann (21 November 2014) and have not been modified or renewed following their execution. As such, remuneration payments or payments for loss of office that are required to be made under them are not required to be consistent with the policy.

Loss of office payments
Except for Kevin Loosemore, there are no predetermined special provisions for directors 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 150% of his basic pay to reflect the value of salary and benefits. For this purpose, "salary" is based on the sum of his base salary and ARA if applicable.

Other 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 long-term incentive plans is determined by the rules of the relevant plans. The committee will determine when and if awards vest and the period during which awards may be exercised.

Share options 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.

ASG awards will lapse following voluntary resignation, breach of contract, gross misconduct or gross incompetence, subject to committee discretion. In other cases, the ASG will vest, subject to the performance condition, and become exercisable on the normal vesting date for a period of six months.

Change of control
The rules of the LTIP provide that, in the event of a change of control, 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.

ASG awards will vest and become exercisable in full immediately prior to and for one month following a change of control.

Directors' Remuneration report
continued

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 three months 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
Tom Skelton[1]	23 October 2014	24 September 2015
Karen Slatford	5 July 2016	5 July 2019
Tom Virden	5 January 2015	5 January 2018
Richard Atkins	16 April 2014	16 April 2017
Karen Geary[3]	8 January 2015	8 January 2018
Steve Schuckenbrock	1 February 2016	1 February 2019
Amanda Brown	1 July 2016	1 July 2019

1 Tom Skelton stepped down from the board on 24 September 2015.
2 Prescott Ashe and David Golob were appointed to the board pursuant to the Relationship Agreement entered into by the Company, Wizard Parent LLC and the Wizard Shareholders on 20 November 2014. Following a reduction in Wizard's shareholding they both stepped down from the board on 1 February 2016.
3 Karen Geary stepped down as a non-executive director on 1 March 2016 in order to take up an executive position in the Company.

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 22 September 2016.

Karen Slatford is the senior independent non-executive director, and also chairs the nomination committee.

Prescott Ashe and David Golob did not serve on any board committees and did not receive a fee for their services.

Shareholding guidelines
We believe executive directors and other senior managers should be encouraged to hold a substantial portion of their personal wealth in shares of the Company. Over a period of three years from appointment, executive directors are required to build a holding in the Group's shares to a minimum value broadly equivalent to two times base salary for the Executive Chairman; 1.5 times for other executive directors. Failure to meet the minimum shareholding requirement is taken into account when determining eligibility for LTIP awards.

Non-executive directors do not have a shareholding requirement.

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. We consult extensively with our major shareholders when setting our remuneration policy. 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 2016

The committee comprises four 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. Amanda Brown was appointed to the committee on 12 July 2016 and will be appointed Chair after the AGM on 22 September 2016. The committee met four times during the year under review. Attendance by individual committee members at the meetings is detailed below.

Committee member	Membership throughout the year	Number of meetings attended
Karen Slatford (Chair)	Yes	4
Tom Skelton	No[1]	2
Tom Virden	Yes	4
Karen Geary	No[2]	3
Richard Atkins	Yes	4

1 Tom Skelton stepped down from the board on 24 September 2015.
2 Karen Geary was appointed to the board on 8 January 2015 and stepped down on 1 March 2016.

The committee invited the views of each of the Executive Chairman, the Chief Financial Officer and the Group Human Resources Director during the year to provide 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 2016

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, including the on-going appropriateness of the ARA;

— Reviewed bonus payments and LTIP 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;

— Reviewed the ARA in accordance with financial performance and progress of the integration plan;

— Established targets for annual cash bonuses for the year ended 30 April 2017; and

— Reviewed the performance and terms of reference of the committee.

External advisors

The committee last reviewed their external advisors in 2012 and appointed Kepler Associates (a brand of Mercer). 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 on-going advice provided by its advisors on remuneration matters. The fees incurred with Kepler in the year under review were £23,755 (2015: £38,600), plus VAT.

Directors' Remuneration report
continued

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 2016 and 2015.

Executive directors		Base salary, ARA and fees[1] (£000)	Benefits in kind[2] (£000)	Pension[3]	Annual bonus[4] (£000)	LTIP[5] (£000)	Total (£000)
Kevin Loosemore	**2016**	**750**	**31**	**150**	**1,125**	**2,175**	**4,231**
	2015	605	35	121	908	2,646	4,315
Mike Phillips	**2016**	**470**	**16**	**59**	**470**	**979**	**1,994**
	2015	403	14	50	403	1,191	2,061
Stephen Murdoch[6]	**2016**	**125**	**5**	**19**	**125**	**610**	**884**
	2015	176	7	7	176	–	366
Nils Brauckmann[6]	**2016**	**98**	**17**	**–**	**98**	**–**	**213**
	2015	–	–	–	–	–	–
Non-executive directors							
Tom Skelton	**2016**	**25**	**–**	**–**	**–**	**–**	**25**
	2015	50	–	–	–	–	50
Karen Slatford[8]	**2016**	**82**	**–**	**–**	**–**	**–**	**82**
	2015	66	–	–	–	–	66
Tom Virden[7]	**2016**	**50**	**–**	**–**	**–**	**–**	**50**
	2015	50	–	–	–	–	50
Richard Atkins	**2016**	**60**	**–**	**–**	**–**	**–**	**60**
	2015	59	–	–	–	–	59
Prescott Ashe	**2016**	**–**	**–**	**–**	**–**	**–**	**–**
	2015	–	–	–	–	–	–
David Golob	**2016**	**–**	**–**	**–**	**–**	**–**	**–**
	2015	–	–	–	–	–	–
Karen Geary	**2016**	**48**	**–**	**–**	**–**	**–**	**48**
	2015	16	–	–	–	–	16
Steve Schuckenbrock[9]	**2016**	**17**	**–**	**–**	**–**	**–**	**17**
	2015	–	–	–	–	–	–
Total	**2016**	**1,725**	**69**	**228**	**1,818**	**3,764**	**7,604**
	2015	**1,425**	**56**	**178**	**1,487**	**3,837**	**6,983**

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 Pension: the Company's pension contribution or cash allowance during the year.
4 Annual bonus: payment for performance during the year.
5 LTIP: the value at vesting of awards vesting on performance over the three year periods ended 30 April 2016 and 30 April 2015. The 2016 figures are based on the share price on the date of vesting (26 June 2016) of 1,530 pence.
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. Stephen Murdoch also served as an executive director up to 20 November 2014; his 2015 remuneration includes salary, pension and benefits in respect of his service as an executive director, and his full-year bonus and full-year LTIP.
7 Converted at 30 April 2016, using an exchange rate of USD 0.68 to £1.
8 Karen Slatford's base salary, ARA and fees include £80,000 of base salary for the year and £2,000 back-dated base salary.
9 Steve Schuckenbrock was appointed to the board on 1 February 2016.

Base salary

Market positioning of base salary is approached on an individual basis, taking account of advice received from the committee's independent external advisors regarding the salary levels for similar roles in selected groups of comparable companies and the individual performance and experience of each executive. The aim is for base salary to be set with reference to the market median, dependent on the committee's view of individual and Group performance.

Following the acquisition of TAG, the committee approved ARAs to the executive directors with effect from 20 November 2014 on a monthly rate of £21,667 for Kevin Loosemore and £10,000 for Mike Phillips. The ARA is included in the determination of incentive opportunities and pension benefits. Payments are reviewed every six months in line with overall Group financial performance and the progress of the integration plan which covers all aspects of the effort involved in delivering a fully integrated business.

Following a careful review, the committee determined to cease all ARAs as of 1 February 2016 and to roll the ARAs into the base salary. No increase to overall salary was awarded. The salaries are broadly in line with the market for a company of Micro Focus' size and complexity and reflect the skills, experience and calibre of the individual executives. The table below shows the salaries for the executive directors.

Executive director	**At 1 February 2016**	At 1 May 2015	% change
Kevin Loosemore	**£750,000**	£750,000[1]	0%
Mike Phillips	**£470,000**	£470,000[2]	0%
Stephen Murdoch	**£500,000**	n/a	n/a
Nils Brauckmann	**€500,000**	n/a	n/a

1 Comprises base salary of £490,000 and ARA of £260,000.
2 Comprises base salary of £350,000 and ARA of £120,000.

Annual bonus for the year ended 30 April 2016 (audited)

For the year ended 30 April 2016, the maximum bonus opportunity was 150% of salary and ARA for Kevin Loosemore and 100% of salary and ARA for the other 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 10% over the figure for the year ended 30 April 2015 on a constant currency basis and so maximum bonuses were paid.

Executive director	Underlying Adjusted EBITDA growth threshold	EBITDA growth maximum	Underlying Adjusted EBITDA growth achieved	Maximum bonus	% of maximum	Bonus for 2016
Kevin Loosemore	0%	10%	10%	£1,125,000	100%	£1,125,000
Mike Phillips	0%	10%	10%	£470,000	100%	£470,000
Stephen Murdoch	0%	10%	10%	£125,000	100%	£125,000
Nils Brauckmann	0%	10%	10%	£97,891	100%	£97,891

Vesting of long-term incentives for performance to the year ended 30 April 2016

The awards granted on 26 June 2013 to the executive directors vested on 26 June 2016. Vesting of the award was based on annualized EPS growth in excess of RPI over the three years ended 30 April 2016, 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%

Directors' Remuneration report
continued

The annualized Diluted Adjusted EPS growth rate over the performance period exceeded the performance criteria of 10.57% being RPI of (1.57%) plus 9%. The performance criteria have therefore been met and the awards accordingly vested in full on 26 June 2016. The table below details the executive directors' 2013 awards. The awards have been valued based on the closing price on the date of vesting, 24 June 2016, of 1,530 pence.

Executive director	Interest held	% vesting	Interest vesting	Vesting date	Estimated value
Kevin Loosemore	142,132	100%	142,132	26 June 2016	£2,174,620
Mike Phillips	63,959	100%	63,959	26 June 2016	£978,573
Stephen Murdoch[1]	39,884	100%	39,884	26 June 2016	£610,225

1 Stephen Murdoch's awards were made to him prior to his appointment to the board.

Share interest awards made during the year (audited)

On 17 July 2015, Kevin Loosemore and Mike Phillips were granted awards of nil-cost options under the LTIP. On 23 March 2016, Stephen Murdoch and Nils Brauckmann were granted awards of nil-cost options under the LTIP in relation to their promotion to the board. They also received awards on 17 July 2015, prior to their appointment to the board. Details are provided 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	17 July 2015	111,275	£13.68	£1,522,242	203%
Mike Phillips	17 July 2015	52,299	£13.68	£715,450	152%
Stephen Murdoch	17 July 2015	44,510	£13.68	£608,897	122%
	23 March 2016	26,024	£15.54	£404,413	81%
Nils Brauckmann	17 July 2015	17,722	£13.68	£242,437	62%
	23 March 2016	26,024	£15.54	£404,413	104%

In respect of both the 17 July 2015 and 23 March 2016 awards, the three year period over which performance will be measured will be 1 May 2015 to 30 April 2018. The awards are eligible to vest, subject to EPS performance, on the third anniversary of the grant date. The table below sets out targets for the EPS measure and vesting of the awards:

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	**2016**	2015	% change	% change
Salary	**750**	605	+24.0%	+4.9%
Taxable benefits	**31**	35	-11.4%	+1.4%
Annual performance bonus	**1,125**	908	+23.9%	+12.4%
Total	**1,906**	**1,548**	**+23.1%**	**+5.5%**

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 2015 to the financial year ended 30 April 2016.

	2016 $m	2015 $m	% change
Distribution to shareholders			
— Dividends paid	**105.2**	72.7	+44.7%
— Return of Value	**–**	131.6	n/a
Employee remuneration[1]	**509.7**	348.2	+46.4%

1 2015 includes TAG employee emoluments for the post acquisition period only.

The directors are proposing a final dividend for the year ended 30 April 2016 of 49.74 cents (37.40 pence) per share (2015: 33.0 cents 21.2 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.

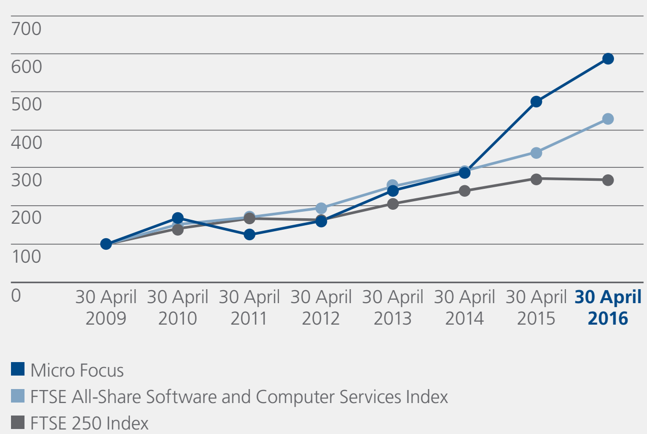
Review of past performance

The remuneration package is structured to help ensure alignment with shareholders. There is no direct correlation between share price movement and the change in value of pay package in any one year (as the remuneration package comprises several components). The graph above right and table on page 82 show how the Chief Executive Officer's or Executive Chairman's pay compares to total shareholder returns (TSR) over the last seven years.

The graph below shows the value, by 30 April 2016, 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 seven years to 30 April 2016



Directors' Remuneration report
continued

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**
Kevin Loosemore							
Single total figure of remuneration		23	1,291	1,304	12,468	4,315	**4,231**
Annual bonus outcome (% of maximum)		Nil	90%	92%	100%	100%	**100%**
LTIP vesting (% of maximum)		Nil	Nil	Nil	199%	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 ended 30 April 2017

Base salary

Following a careful review, the committee decided to cease all ARAs as of 1 February 2016 and to roll the ARAs into the base salary. No increase to overall salary was awarded. The table below shows the salaries for the executive directors.

Executive director	**At 1 February 2016**	At 1 May 2015	% change
Kevin Loosemore	**£750,000**	£750,000[1]	0%
Mike Phillips	**£470,000**	£470,000[2]	0%
Stephen Murdoch	**£500,000**	n/a	n/a
Nils Brauckmann	**€500,000**	n/a	n/a

1 Comprises base salary of £490,000 and ARA of £260,000.
2 Comprises base salary of £350,000 and ARA of £120,000.

The average basic salary increase across the non-commissioned staff of the Group for 2016 is 4.7%.

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 for the financial year ended 30 April 2017 will operate on the same basis as for the year ended 30 April 2016. Subject to shareholder approval, the committee has approved a maximum bonus opportunity of 150% of salary for all executive directors.

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 shareholder approval, for all executive directors with the exception of the Executive Chairman, one-third of any bonus earned will be mandatorily converted 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 will continue to receive his bonus in cash, given his significant shareholding in the Company. 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

The committee expects to make awards of 200% of salary to the Executive Chairman and 150% of salary to the CFO later in 2016. There will be no change to the performance conditions to the LTIP, which are as follows:

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%

Awards will vest three years from the grant date. Further details of the awards will be disclosed in the 2017 Annual Report on Remuneration.

LTIP awards were made to Stephen Murdoch and Nils Brauckmann on their appointment to the board in February 2016 (see below and page 84 for further details).

Implementation of non-executive director remuneration for the year ended 30 April 2017

Following the annual review of non-executive director fees in February 2015, the executive directors determined that there should be no changes in fees for the financial year ended 30 April 2016 except that Karen Slatford's remuneration would be increased with immediate effect to £80,000 per annum to reflect her appointment as senior independent director. This fee would include the fee for chairing any committee or none.

Independent non-executive director base fee	£50,000 p.a.
Additional fee for chairing a committee	£10,000 p.a.
Fee for the SID (including chairing committees)	£80,000 p.a.

Directors' shareholdings and share interests (audited)

		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]	698,520	334,289	1,173,607	–	–	200%	1,166%	Yes
Mike Phillips[2]	145,654	150,430	790,538	–	–	150%	388%	Yes
Stephen Murdoch[4]	–	136,121	532,872	–	–	150%	–	Not yet due
Nils Brauckmann[4]	–	–	476,822	–	–	150%	–	Not yet due
Tom Skelton	–	–	–	–	–	–	–	Yes
Karen Slatford	–	–	–	–	–	–	–	Yes
Tom Virden	4,207	–	–	–	–	–	–	Yes
Richard Atkins[3]	5,464	–	–	–	–	–	–	Yes
Karen Geary[5]	–	–	39,037	–	–	–	–	n/a
Prescott Ashe	–	–	–	–	–	–	–	n/a
David Golob	–	–	–	–	–	–	–	n/a
Steve Schuckenbrock	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 2,055 shares are held by Richard Atkins' wife, Julie Atkins.
4 Stephen Murdoch and Nils Brauckmann are required to have a 150% shareholding within three years of joining as directors on 1 February 2016.
5 Karen Geary's options were awarded whilst an employee of the Company and not when she was a non-executive director.

Between 1 May and 13 July 2016 there had been no changes to these interests.

Directors' Remuneration report
continued

Micro Focus International plc Incentive Plan 2005 ("Plan")

The executive directors as at 30 April 2016 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 2015	Number granted in financial year	Number exercised in financial year	Number lapsed in financial year	**Number at 30 April 2016**	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[3]	–	111,275	–	–	**111,275**	0.0p	17 July 2018 to 16 July 2025
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 26 June 2023
Mike Phillips[3]	61,710	–	–	–	**61,710**	0.0p	27 June 2017 to 26 June 2024
Mike Phillips[3]	–	52,299	–	–	**52,299**	0.0p	17 July 2018 to 16 July 2025
Stephen Murdoch[4]	96,237	–	–	–	**96,237**	0.0p	27 December 2015 to 28 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[3]	–	44,510	–	–	**44,510**	0.0p	17 July 2018 to 16 July 2025
Stephen Murdoch[3]	–	26,024	–	–	**26,024**	0.0p	23 March 2019 to 23 March 2026
Nils Brauckmann[3]	27,159	–	–	–	**27,159**	0.0p	16 December 2017 to 15 December 2024
Nils Brauckmann[3]	–	17,722	–	–	**17,722**	0.0p	17 July 2018 to 16 July 2025
Nils Brauckmann[3]	–	26,024	–	–	**26,024**	0.0p	23 March 2019 to 23 March 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 26 June 2016 but the committee believed that the performance measures had been substantially completed by the year end.
3 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.
4 This award vested in full on 27 December 2015.

Additional Share Grant

The executive directors as at 30 April 2016 hold the following awards of ASGs. The movements in these awards during the financial year are shown below.

	Number at 1 May 2015	Number granted in financial year	Number exercised in financial year	Number lapsed in financial year	**Number at 30 April 2016**	Exercise price	Date of exercise
Kevin Loosemore[1]	947,140	–	–	–	**947,140**	0.0p	1 November 2017 to 31 October 2024
Mike Phillips[1]	676,529	–	–	–	**676,529**	0.0p	1 November 2017 to 31 October 2024
Stephen Murdoch[1]	405,917	–	–	–	**405,917**	0.0p	1 November 2017 to 31 October 2024
Nils Brauckmann[1]	405,917	–	–	–	**405,917**	0.0p	1 November 2017 to 31 October 2024

1 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 819.4 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.

Share option schemes

Details of the Company's share option schemes are given in note 35 of the financial statements.

The mid-market price of the shares at 30 April 2016 was 1,529p per share and during the financial year ended 30 April 2016 the price varied between 1,175p and 1,610p per share.

Statement of shareholding voting

The following table shows the results of the advisory vote on the 2015 Directors' remuneration report at the AGM held on 24 September 2015:

Votes for		Votes against			
Number	Percentage	Number	Percentage	Votes cast	Votes withheld
171,007,625	91.75%	15,380,001	8.25%	186,387,626	2,829,110

The current Remuneration Policy was approved by shareholders with a 90.56% 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 reasons for the voting outcome and actions taken by the committee to engage with shareholders were set out in last year's report.

On behalf of the board,

Karen Slatford
Senior independent non-executive director
13 July 2016

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 2016.

Strategic report

The Group is required by the Companies Act 2006 to present a fair review of the business during the year to 30 April 2016 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 43 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 48 to 53 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 in recent periods had a dividend policy to award a level of full year dividend covered approximately two times on a pre-exceptional earnings basis. Following the completion of the acquisition of TAG, unless the performance of the Group was to fall significantly below the board's expectations, the board has implemented a progressive dividend policy but has suspended further returns of value or share buy backs until such time as the Group's target net debt level of 2.5 times Facility EBITDA is achieved.

For the year ended 30 April 2016 the directors recommend payment of a final dividend in respect of the financial year of 49.74 cents per share, which, taken together with the interim dividend of 16.94 cents per share paid in January 2016, gives a total dividend in respect of 2016 of 66.68 cents per share. This is 50.7% higher than the final dividend paid last year. Subject to shareholder approval, the final dividend will be paid on 7 October 2016 to shareholders on the register on 2 September 2016.

Dividends will be paid in Sterling based on an exchange rate of £1 = $1.33, equivalent to approximately 37.40 pence per share, being the rate applicable on 13 July 2016, the date on which the board resolved to propose the final dividend.

Interests in share capital

Directors and their interests

The directors of the Company who served during the year reported on and up to the date of signing this report are as follows:

Executive	
Kevin Loosemore	(Executive Chairman)
Mike Phillips	(Chief Financial Officer)
Stephen Murdoch	(Chief Executive Officer of Micro Focus) (appointed 1 February 2016)
Nils Brauckmann	(Chief Executive Officer of SUSE) (appointed 1 February 2016)
Non-executive	
Karen Slatford	(Senior independent non-executive director)
Tom Virden	
Richard Atkins	
Steve Schuckenbrock	(appointed 1 February 2016)
Amanda Brown	(appointed 1 July 2016)

Tom Skelton stepped down from the board at the conclusion of the Company's 2015 Annual General Meeting, having served for nearly nine years with the Company. David Golob and Prescott Ashe (representatives of our former significant shareholder, Wizard LLP) stepped down from the board on 1 February 2016 in line with the relationship agreement in anticipation of Wizard LLP's shareholding reducing to below 15%. Karen Geary retired from the board on 1 March 2016 and joined the Company as Group Human Resources Director with effect from that date.

Details of the interests of the directors and their families in the ordinary shares of the Company are given in the remuneration report on page 83.

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 38 "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 2016 the following percentage interests in the ordinary share capital of the Company, disclosable 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
Wizard Parent LLC	30,095,711	13.80
FMR LLC	22,559,483	9.87
Old Mutual plc	15,529,641	6.79
Artemis Investment Management LLP	8,117,983	3.74

The following changes in the interests disclosed to the Company have been notified between 30 April 2016 and 13 July 2016:

On 13 May 2016 Wizard LLC sold 24,078,342 ordinary shares in an accelerated book build process to reduce their holding to 6,017,369 ordinary shares representing 2.6% of the Company's issued share capital. These remaining shares were to be distributed to certain members of Wizard LLC and certain partners and investors of such members so that Wizard LLC would no longer be a shareholder.

Name of holder	Ordinary shares of 10 pence each	% Percentage of issued capital
Old Mutual plc	16,736,002	7.31

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 analysed 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 48 to 53. This evaluation included an assessment of directors' training and development requirements.

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 35.

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 39 to 43.

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 2016, $256.1m was charged to the consolidated statement of comprehensive income (2015: $162.3m) in respect of research and development expenditure. This charge is after net capitalization of internal development expenditure of approximately $11.4m (2015: $0.1m net amortization) consisting of $30.9m (2015: $19.5m) of capitalized development expenditure offset by $19.5m (2015: $19.6m) of amortization and impairment of previously capitalized development expenditure.

Political donations

The Group's policy is to make no donations or contributions to political parties (2015: $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. On 22 March 2016, the Company made a placing of 10,873,180 ordinary shares of 10 pence each. 10,872,680 of these shares were held in treasury, and 500 of the shares were newly issued. The total share capital of the Company following the placing is 228,706,210 ordinary shares of 10 pence, of which 29,924 ordinary shares are held in treasury. Therefore, the total number of voting rights in the Company is 228,676,286. During the year 436,979 shares, other than the 10,872,680 shares used in respect of the above mentioned placing, were transferred out of treasury to meet the Company's obligations under its employee share plans.

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 22 September 2016 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 lodgement 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 24 September 2015) to buy back up to 14.99% of its issued share capital. At that time this amounted to 32,597,794 ordinary shares, and the authority remains outstanding until the conclusion of the next AGM on 22 September 2016. The minimum price which must be paid for such shares is now 10 pence per ordinary share and the maximum price which may be paid for each ordinary share is an amount equal to the higher of (i) 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the shares concerned; and (ii) the higher of the price of the last independent trade of any ordinary share and the highest current bid for an ordinary share as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buyback programmes and stabilization of financial instruments (2273/2003).

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 ordinary 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 24 September 2015 the directors were granted the powers to allot equity securities with a nominal value of up to £7,248,786 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:

On completion of the acquisition of TAG (20 November 2014) the Group had new debt facilities of $2,000.0m comprising:

— A syndicated senior secured tranche B term loan facility of $1,275.0m ("Term Loan B"), with an interest rate of 4.25% above LIBOR (subject to a LIBOR floor of 1.00%), amortizing 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 of $500.0m ("Term Loan C"), with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), amortizing 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 $225.0m ("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 0.5%.

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 $12.75m of the Term Loan B and $50.0m of the Term Loan C were made together with a draw-down of $245.0m and repayment of $95.0m of the Revolving Facility.

At 30 April 2016, $225.0m of the Revolving Facility was drawn, in anticipation of the completion of the Serena acquisition, together with $1,112.25m of Term Loan B and $450.0m of Term Loan C giving gross debt of $1,787.25m drawn. On 2 May 2016 the Revolving Facility was extended by $150.0m and this increased the total facilities available to the Group to $1,937.25m.

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. At 30 April 2016 $225.0m of the Revolving Facility available at that time was drawn representing 100%, reducing to 60% on 2 May 2016 when the facility was extended. The covenant calculation indicates that the Group had in excess of 140% headroom against the covenant test.

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, Mexico, Portugal, Sweden 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 offices at The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN on 22 September 2016 at 3pm (UK time).

Directors' report
continued

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.

PwC have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the AGM.

Going concern

The directors, having made enquiries and produced a Viability Statement (page 38), 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 40 in this Annual Report and Accounts.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration report and the financial statements in accordance with applicable law and regulations.

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 ("IFRSs") as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), comprising Financial Reporting Standard 102, The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), 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 the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

— Select suitable accounting policies and then apply them consistently;

— Make judgments and accounting estimates that are reasonable and prudent;

— State whether IFRSs as adopted by the European Union and applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively;

— Notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and

— Prepares the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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. They are also responsible for safeguarding the assets of the Company and the Group 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 Company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the board of directors section within the corporate governance report on pages 48 to 53 confirm that, to the best of their knowledge:

— The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, 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, together with a description of the principal risks and uncertainties that it faces.

Each of the persons who are a director in office at the date of this report confirms that:

(a) So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) The director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the 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
13 July 2016

Micro Focus International plc
Registered office:
The Lawn, 22-30 Old Bath Road
Newbury
Berkshire RG14 1QN
Registered in England
Company number: 5134647

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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 2016 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.

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 2016;
- 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

Materiality	— Overall Group materiality: $14.6m which represents approximately 4% of profit before tax, exceptional items and amortization of purchased intangibles.
Audit scope	— 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 70% of the Group cost base and 75% of Group revenues.
Areas of focus	— Revenue recognition — Restructuring — 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 111 and 112)

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. 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 recognized up front in full, whereas Maintenance is spread over the duration of the contract 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 28% of total Licence revenue.

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.

For all contracts that we tested, we confirmed that management's calculations of the revenue recognized incorporated all relevant contract terms and an appropriate split of total revenue between different contractual elements.

In order to assess 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 units 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.

Independent auditors' report to the members of Micro Focus International plc
continued

Restructuring

Area of focus

Refer also to notes 3 and 24 (pages 112 to 114, and 129 to 130)

In the prior year, the Group commenced a significant restructuring plan in relation to the integration of The Attachmate Group Inc. ("TAG") business. As part of that plan, the Group announced the closures of a number of properties primarily in the US and the UK, and redundancies of employees across the Group and made provisions in the prior year for restructuring and integration (including severance costs associated with employees), and onerous lease and dilapidations costs on vacated property.

This integration plan has continued during 2016 with a net charge in the Consolidated statement of comprehensive income relating to this plan of $6.0m for property and $18.8m for restructuring and integration, inclusive of a $4.8m credit in respect of severance. The provision that remains at the year end in the Consolidated statement of financial position was $18.2m for onerous leases and dilapidations and $3.5m for restructuring and integration. $53.9m of provision has also been utilized on these activities in the year.

The estimate of severance and integration costs/credits that need to be recognized in the financial statements involves the exercise of judgment around the value of future costs, and the extent to which a constructive obligation exists. The estimate of the onerous lease provisions is also dependent on judgments – in particular, where the directors intend to sub-let the property, the expected rental income and the time delay in securing a sub-tenant.

In addition the presentation of restructuring 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.

How our audit addressed the area of focus

We tested the property provision by agreeing details of rental obligations to underlying rental contracts for a selection of properties. We assessed management's assessment of surplus space by checking that the levels of occupancy and activity correlated with the levels of surplus space included in the provisions calculation, which they did. For properties that the Group expects to be sub-let, we obtained evidence that the Group had engaged third parties in the active marketing of the properties; we compared the period of assumed vacancy before sub-let to what we observe more generally in the market place for the locations concerned; we assessed whether the sub-let income assumed was commensurate with rental rates observed in those local markets; and where properties had been sub-let we agreed the sub-let income assumptions to those sub-rental agreements. We found management's estimates to be consistent with these observations.

We selected a sample of individuals in respect of whom severance provisions had previously been recognized and checked and found that the severance payments being offset against the provision agreed to the severance agreements and bank statements. We noted that there was a $4.5m net credit in respect of severance, with an immaterial amount of additional severance provision being recognized and so we focused our testing on the provision release. We performed testing on individuals where the larger releases had occurred. We found that the release was consistent with the difference between the severance payments made and the provision originally recorded.

We also selected a sample of items in respect of which other integration provisions had been recognized. For the sample selected we checked and found that the provision was consistent with supporting documentation. We also found that the majority of such provisions were utilized in the year against on-going integration activities.

We tested the presentation of exceptional items by assessing whether the classification in the Consolidated statement of comprehensive income is in line with the Group's accounting policy as set out on page 108, and whether the accounting policy is consistent with IFRS (as adopted in the EU). 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 related provision. For those restructuring exceptional costs incurred and expensed in the year, we obtained listings and vouched a sample of these costs to supporting documentation.

Taxation

Area of focus

Refer also to notes 6, 21 and 28 (pages 116 to 117, 129 and 136 to 137)

The existing Group structure is complex and has a significant presence in jurisdictions that have more complex tax legislation. This brings with it an increased complexity to calculating the correct current and deferred tax balances in accordance with local jurisdiction tax rules with a consequential increased risk of error.

How our audit addressed the area of focus

Our testing focused on the following areas:

We used our own tax expertise to evaluate the assessment and calculations performed by management to estimate the provisions held in respect of uncertain tax positions. To do this we assessed the provisions recognized in the financial statements using 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 provision to be within an acceptable range.

We identified local tax rules and considered how they impacted the calculation of current and deferred tax balances, including the impact on the consolidated statement of comprehensive income, in order to check the adequacy of the tax assets and liabilities recognized at the year end. We found that the Group had reflected identified tax rules in their calculations.

We examined the forecasts prepared by management to support the recoverability of deferred tax assets including tax losses. Based on our testing, we found there to be consistency between the assumptions on which the forecasts were based, and our understanding of the business and its historical performance.

We reconciled, without identifying any material reconciling items, the current tax liability position through agreement of the opening position, vouched cash payments and/or refunds and agreement of the current tax credit or charge to the consolidated statement of comprehensive income.

We used our local tax expertise in the UK and US to understand the judgments made by the Group in relation to the on-going integration activities of 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.

Independent auditors' report to the members of Micro Focus International plc
continued

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.

The on-going Group integration activities have led to a change in the composition of the overall Group, with an increased number of business activities and transactions occurring in the US and Ireland. 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 on-going integration activities following the completion of the acquisition of TAG in the prior year and where the key business activities and transactions now 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 70% of the Group cost base and 75% of Group revenues.

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	$14.6m (2015: $10.0m).
How we determined it	4% of profit before tax, exceptional items and amortization of purchased intangibles.
Rationale for benchmark applied	We applied this benchmark, which is different from the benchmark we applied in the prior year, because, following the acquisition of TAG in the prior year, we consider it necessary to do so to eliminate volatility and to preserve the link between materiality and the performance of the underlying business. Recognising that these adjustments increased the value of the benchmark, we reduced the percentage value that we applied.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $0.7m (2015: $0.5m) 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 90, 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.

Other required reporting
Consistency of other information
Companies Act 2006 opinion
In our opinion, 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.

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 90, 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 55 to 57, 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 32 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 38 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.

Independent auditors' report to the members of Micro Focus International plc continued

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 10 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 90, 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.

Other matter

We have reported separately on the Company financial statements of Micro Focus International plc for the year ended 30 April 2016 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
13 July 2016

Consolidated statement of comprehensive income
for the year ended 30 April 2016

		Year ended 30 April 2016			Year ended 30 April 2015		
	Note	Before exceptional items $'000	Exceptional items $'000	Total $'000	Before exceptional items $'000	Exceptional items $'000	Total $'000
Revenue	1,2	**1,245,049**	**–**	**1,245,049**	834,539	–	834,539
Cost of sales		**(133,260)**	**(2,172)**	**(135,432)**	(86,861)	(4,629)	(91,490)
Gross profit		**1,111,789**	**(2,172)**	**1,109,617**	747,678	(4,629)	743,049
Selling and distribution costs		**(411,961)**	**(4,372)**	**(416,333)**	(270,864)	(19,611)	(290,475)
Research and development expenses		**(258,130)**	**(1,258)**	**(259,388)**	(159,280)	(3,069)	(162,349)
Administrative expenses		**(118,911)**	**(20,051)**	**(138,962)**	(73,620)	(69,369)	(142,989)
Operating profit		**322,787**	**(27,853)**	**294,934**	243,914	(96,678)	147,236
Analyzed as:							
Adjusted Operating Profit		**533,514**	**–**	**533,514**	347,773	–	347,773
Share-based compensation		**(28,793)**	**–**	**(28,793)**	(15,561)	–	(15,561)
Amortization of purchased intangibles	10	**(181,934)**	**–**	**(181,934)**	(88,298)	–	(88,298)
Exceptional items	3	**–**	**(27,853)**	**(27,853)**	–	(96,678)	(96,678)
Operating profit	4	**322,787**	**(27,853)**	**294,934**	243,914	(96,678)	147,236
Share of results of associates	14	**(2,190)**	**–**	**(2,190)**	(788)	–	(788)
Finance costs		**(98,357)**	**–**	**(98,357)**	(53,847)	(2,384)	(56,231)
Finance income		**1,009**	**–**	**1,009**	1,210	–	1,210
Net finance costs	5	**(97,348)**	**–**	**(97,348)**	(52,637)	(2,384)	(55,021)
Profit before tax	3	**223,249**	**(27,853)**	**195,396**	190,489	(99,062)	91,427
Taxation	6	**(39,259)**	**6,835**	**(32,424)**	(15,729)	25,753	10,024
Profit for the year		**183,990**	**(21,018)**	**162,972**	174,760	(73,309)	101,451
Attributable to:							
Equity shareholders of the parent		**183,912**	**(21,018)**	**162,894**	175,062	(73,309)	101,753
Non-controlling interests	33	**78**	**–**	**78**	(302)	–	(302)
Profit for the year		**183,990**	**(21,018)**	**162,972**	174,760	(73,309)	101,451
Other comprehensive income:							
Items that will not be reclassified to profit or loss							
Actuarial gain/(loss) on pension liabilities schemes	25	**2,697**	**–**	**2,697**	(4,196)	–	(4,196)
Actuarial gain on non-plan pension assets	25	**3,104**	**–**	**3,104**	–	–	–
Deferred tax movement on pensions	6	**(1,745)**	**–**	**(1,745)**	1,301	–	1,301
Items that may be subsequently reclassified to profit or loss							
Currency translation differences		**(3,458)**	**–**	**(3,458)**	(8,375)	–	(8,375)
Other comprehensive income/(expense) for the year		**598**	**–**	**598**	(11,270)	–	(11,270)
Total comprehensive income for the year		**184,588**	**(21,018)**	**163,570**	163,490	(73,309)	90,181
Attributable to:							
Equity shareholders of the parent		**184,510**	**(21,018)**	**163,492**	163,792	(73,309)	90,483
Non-controlling interests	33	**78**	**–**	**78**	(302)	–	(302)
Total comprehensive income for the year		**184,588**	**(21,018)**	**163,570**	163,490	(73,309)	90,181

		2016 cents	2015 cents
Earnings per share expressed in cents per share:			
– basic	8	**74.50**	58.54
– diluted	8	**71.61**	56.71

		2016 pence	2015 pence
Earnings per share expressed in pence per share:			
– basic	8	**49.59**	36.64
– diluted	8	**47.66**	35.50

Consolidated statement of financial position
as at 30 April 2016

	Note	**2016 $'000**	2015 $'000
Non-current assets			
Goodwill	9	**2,436,168**	2,421,745
Other intangible assets	10	**966,555**	1,132,221
Property, plant and equipment	12	**40,867**	42,896
Investments in associates	14	**12,711**	14,901
Long-term pension assets	25	**22,272**	14,076
Other non-current assets	15	**4,002**	3,909
Deferred tax assets	28	**198,757**	249,886
		3,681,332	3,879,634
Current assets			
Inventories	16	**93**	110
Trade and other receivables	17	**268,186**	218,645
Current tax receivables	21	**18,016**	–
Cash and cash equivalents	18	**667,178**	241,324
Assets classified as held for sale	11	**888**	888
		954,361	460,967
Total assets		**4,635,693**	4,340,601
Current liabilities			
Trade and other payables	19	**188,090**	161,365
Borrowings	20	**275,256**	125,733
Provisions	24	**10,545**	49,334
Current tax liabilities	21	**22,426**	67,895
Deferred income	22	**565,480**	583,703
		1,061,797	988,030
Non-current liabilities			
Deferred income	23	**196,483**	194,863
Borrowings	20	**1,469,953**	1,519,130
Retirement benefit obligations	25	**31,669**	32,742
Long-term provisions	24	**14,354**	17,919
Other non-current liabilities	26	**3,671**	5,264
Deferred tax liabilities	28	**264,038**	304,592
		1,980,168	2,074,510
Total liabilities		**3,041,965**	3,062,540
Net assets		**1,593,728**	1,278,061
Capital and reserves			
Share capital	29	**39,573**	39,555
Share premium account	31	**190,293**	16,087
Merger reserve	32	**988,104**	1,168,104
Capital redemption reserve	32	**163,363**	163,363
Retained earnings/(deficit)		**228,344**	(96,479)
Foreign currency translation reserve/(deficit)		**(17,006)**	(13,548)
Total equity attributable to owners of the parent		**1,592,671**	1,277,082
Non-controlling interests	33	**1,057**	979
Total equity		**1,593,728**	1,278,061

The consolidated financial statements on pages 99 to 149 were approved by the board of directors on 13 July 2016 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 2016

	Note	Share capital $'000	Share premium account $'000	Retained earnings/ (deficit) $'000	Foreign currency translation reserve (deficit) $'000	Capital redemption reserves $'000	Merger reserve $'000	(Deficit)/ equity attributable to the parent $'000	Non-controlling interests $'000	Total (deficit)/ equity $'000
Balance as at 1 May 2014		37,802	14,546	(140,324)	(5,173)	103,983	(27,085)	(16,251)	–	(16,251)
Profit/(loss) for the year		–	–	101,753	–	–	–	101,753	(302)	101,451
Other comprehensive expense for the year		–	–	(2,895)	(8,375)	–	–	(11,270)	–	(11,270)
Total comprehensive income/ (expense)		–	–	98,858	(8,375)	–	–	90,483	(302)	90,181
Non-controlling interests on acquisition of TAG		–	–	–	–	–	–	–	1,281	1,281
Transactions with owners:										
Dividends	7	–	–	(72,707)	–	–	–	(72,707)	–	(72,707)
Share options:										
Issue of share capital		106	1,541	(513)	–	–	–	1,134	–	1,134
Movement in relation to share options		–	–	12,151	–	–	–	12,151	–	12,151
Corporation tax on share options		–	–	4,808	–	–	–	4,808	–	4,808
Deferred tax on share options		–	–	3,591	–	–	–	3,591	–	3,591
Acquisitions:										
Shares issued to acquire TAG	29,32	13,550	–	–	–	–	1,372,666	1,386,216	–	1,386,216
Expenses relating to relisting on the LSE	39	–	–	(723)	–	–	–	(723)	–	(723)
Reallocation of merger reserve	32	–	–	130,000	–	–	(130,000)	–	–	–
Share reorganization and buy-backs:										
Return of Value – share consolidation	29	(37,866)	–	–	–	11,903	–	(25,963)	–	(25,963)
Issue and redemption of B shares	29	–	–	–	–	47,477	(47,477)	–	–	–
Return of Value – new share issues	29	25,963	–	–	–	–	–	25,963	–	25,963
Return of Value to shareholders	30	–	–	(131,565)	–	–	–	(131,565)	–	(131,565)
Expenses relating to Return of Value	30	–	–	(55)	–	–	–	(55)	–	(55)
Total movements for the year		**1,753**	**1,541**	**43,845**	**(8,375)**	**59,380**	**1,195,189**	**1,293,333**	**979**	**1,294,312**
Balance as at 30 April 2015		**39,555**	**16,087**	**(96,479)**	**(13,548)**	**163,363**	**1,168,104**	**1,277,082**	**979**	**1,278,061**
Profit for the year		**–**	**–**	**162,894**	**–**	**–**	**–**	**162,894**	**78**	**162,972**
Other comprehensive income/(expense) for the year		**–**	**–**	**4,056**	**(3,458)**	**–**	**–**	**598**	**–**	**598**
Total comprehensive income/ (expense)		**–**	**–**	**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 – share options		**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	29	**–**	**176,235**	**49,485**	**–**	**–**	**–**	**225,720**	**–**	**225,720**
Share placement issue costs	29	**–**	**(2,979)**	**–**	**–**	**–**	**–**	**(2,979)**	**–**	**(2,979)**
Reallocation of merger reserve	32	**–**	**–**	**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**

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Consolidated statement of cash flows
as at 30 April 2016

	Note	2016 $'000	2015 $'000
Cash generated from operations	34	**455,730**	288,741
Interest paid		**(91,807)**	(50,482)
Tax (paid)/received		**(79,282)**	1,798
Net cash generated from operating activities		**284,641**	240,057
Cash flows from investing activities			
Payments for intangible assets	10	**(34,488)**	(21,240)
Purchase of property, plant and equipment	12	**(10,281)**	(4,972)
Costs associated with relisting on the LSE	39	**–**	(723)
Interest received		**1,009**	320
Payment for acquisition of business	39	**(9,960)**	–
Net cash acquired with acquisitions	39	**106**	165,946
Short-term investments		**–**	(2)
Net cash (used in)/generated from investing activities		**(53,614)**	139,329
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	29	**968**	1,647
Proceeds from share capital placement		**225,720**	–
Costs associated with share placement		**(2,979)**	–
Return of Value paid to shareholders	30	**–**	(131,565)
Costs associated with the Return of Value		**–**	(55)
Repayment of bank borrowings	20	**(157,750)**	(522,000)
Repayment of bank borrowings on the acquisition of TAG	39	**–**	(1,294,726)
Net proceeds from bank borrowings	20	**245,000**	1,903,625
Bank loan costs		**(1,805)**	(40,174)
Dividends paid to owners	7	**(105,159)**	(72,707)
Net cash generated from/(used in) financing activities		**203,995**	(155,955)
Effects of exchange rate changes		**(9,168)**	(14,907)
Net increase in cash and cash equivalents		**425,854**	208,524
Cash and cash equivalents at beginning of year		**241,324**	32,800
Cash and cash equivalents at end of year	18	**667,178**	241,324

Non-cash payments of $1,386.2m were made in the year ended 30 April 2015 in respect of the issue of shares relating to the acquisition of TAG (note 39).

Summary of significant accounting policies
for the year ended 30 April 2016

General information

Micro Focus International plc ("the 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 "the Group") provide innovative software to clients around the world enabling them to dramatically improve the business value of their enterprise applications. The Group has a presence in 39 countries worldwide and employs approximately 4,200 people. Following the completion of the acquisition of Serena on 2 May 2016 headcount had increased to approximately 4,600.

The Company is listed on the London Stock Exchange.

The Group consolidated financial statements were authorized for issue by the board of directors on 13 July 2016.

I Group accounting policies

A Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with EU endorsed International Financial Reporting Standards ("IFRS"), interpretations issued by the IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under 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. These policies have been applied consistently to all periods presented unless stated otherwise.

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 2016, the Group had a 71.5% (2015: 68.3%) 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.

Associates are accounted for under the equity method, where the consolidated statement of comprehensive income and the consolidated statement of 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 within the line item "share of other comprehensive income of equity accounted units" 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.

Summary of significant accounting policies for the year ended 30 April 2016 continued

At 30 April 2016 the Group had a 14.3% interest ($12.7m) (2015: 14.3%, $14.9m) investment in Open Invention Network LLC ("OIN"), which it accounts for as an associate given the Group's significant influence over OIN's operation.

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, unless future substantive upgrades or similar future performance obligations are committed to, in which case revenue is deferred and recognized rateably over the specified period. This is typically the case for Subscriptions where access and performance obligations are performed over a defined term. Maintenance revenue is derived from providing technical support and software updates to customers. 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.

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 2017 onwards (pending EU endorsement). Earlier application is permitted. Revenue is recognized based on a five step model and is based around performance obligations. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The Group is currently assessing the impact of IFRS 15 but it is too early to determine how significant the effect on actual results and financial position will be. We note that the IASB has published an exposure draft to propose the deferral of the effective date of IFRS 15 to 1 January 2018.

Cost of sales includes costs related to the consulting business, helpline support and royalties payable to third parties.

D 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 and Adjusted EBITDA and Underlying Adjusted EBITDA as set out in note 4. Following the Company reorganization on 1 May 2015, the Group has two operating segments: Micro Focus Product Portfolio and SUSE Product Portfolio and previously it had Base Micro Focus (North America, International and Asia Pacific and Japan) and TAG. Details of the Group's operating segments can be found in the Strategic Report.

E 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. 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.

F 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.

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 insurance policies held in the Group that do not qualify as plan assets, as these assets are not pledged to the pension plan and the Group has the right to make decisions in relation to the management of these assets and utilization of benefits from these assets. Gains and losses on long-term pension assets are charged or credited to equity in other comprehensive income in the period in which they arise.

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.

G 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;

Summary of significant accounting policies for the year ended 30 April 2016
continued

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.

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:

	2016		2015	
	Average	**Closing**	Average	Closing
£1 = $	**1.50**	**1.46**	1.60	1.54
€1 = $	**1.11**	**1.14**	1.24	1.10
100 Yen = 1	**0.84**	**0.94**	0.90	0.84

H 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. Costs incurred on 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. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. 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.

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
Development costs	Three years
Trade names	Three to 20 years
Technology	Three to 10 years
Customer relationships	Two to 10 years
Non-compete agreements	Three to five years

I 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.

J 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 to sell 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 an 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.

K Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods comprises software for resale and packaging materials. Net realisable 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.

L 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.

M 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.

N 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.

O 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.

P 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. 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 or 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.

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.

Summary of significant accounting policies for the year ended 30 April 2016
continued

Q 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.

R 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, the Group does not typically hold or issue derivative financial instruments for hedge accounting or trading purposes.

S 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.

T 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 2015, 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:

- Annual Improvements 2013 includes amendments to IFRS 1 "First Time Adoption", IFRS 3 "Business Combinations", IFRS 13 "Fair Value Measurement" and IAS 40 "Investment Property" applies for periods beginning on or after 1 July 2014.

- Amendment to IAS 19 regarding defined benefit plans applies for periods beginning on or after 1 July 2014. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans.

- Annual Improvements 2012 includes amendments to IFRS 2 "Share-based Payment", IFRS 3 "Business Combinations", IFRS 8 "Operating Segments", IFRS 13 "Fair Value Measurement", IAS 16 "Property, Plant and Equipment", IAS 38 "Intangible Assets", IFRS 9 "Financial Instruments", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IAS 39 "Financial Instruments – Recognition and Measurement" applies for periods beginning on or after 1 July 2014.

(b) The following standards, interpretations and amendments to existing standards are not yet effective and have not been adopted early 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 subject to EU endorsement. 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.

- Amendments 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.

- Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures". These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The effective date of this change is to be determined.

- 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.

(c) The following standards, interpretations and amendments to existing standards are not yet effective, have not yet been endorsed by the EU and have not been adopted early by the Group:

- Amendments to IAS 7 "Statement of cash flows on disclosure initiative 1988" 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 relate to the recognition of deferred tax assets for unrealized losses and clarify how to account for deferred tax assets related to debt instruments measured at fair value.

- IFRS 9 "Financial instruments". This standard replaces the guidance in IAS 39 and applies to periods beginning on or after 1 January 2018, subject to EU endorsement. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

- 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 subject to EU endorsement and the entity adopting IFRS 15 "Revenue from contracts with customers" at the same time. The Group is currently assessing the impact of IFRS 16.

- 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 (pending EU endorsement). Earlier application is permitted. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The Group is currently assessing the impact of IFRS 15 but it is too early to determine how significant the effect on reported results and financial position will be.

Apart from IFRS 15 and FRS 16, where it is too early to determine how significant the effect on reported results and financial position will be, the directors anticipate that the future introduction of those standards, amendments and interpretations listed above will not have a material impact on the consolidated financial statements.

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 Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy J. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the Group's impairment review and sensitivities to changes in assumptions are disclosed in note 9.

B 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 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.

Summary of significant accounting policies for the year ended 30 April 2016
continued

D Development expenditure
The Group invests in the development of future products in accordance with the accounting policy H(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.

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.

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, 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 UK Sterling, 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 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 2016 gross borrowings of $1,787.25m (2015: $1,700.00m) related to our senior secured debt facilities (see note 20). $287.75m (2015: $137.80m) is current of which $225.00m (2015: $75.00m) 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 2016

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"). Following the Company reorganization on 1 May 2015, the Group has changed its operating segments to be: Micro Focus and SUSE as set out on page 3. Operating segments are consistent with those used in internal management reporting and the profit measure used by the Executive Committee is the Adjusted Operating Profit for the Group as a whole as set out in note 4. Details of the Group's operating segments can be found in the Strategic Report.

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	35			**(28,793)**
Amortization of purchased intangibles	10			**(181,934)**
Operating profit	4			**294,934**
Share of results of associates				**(2,190)**
Net finance costs				**(97,348)**
Profit before tax				**195,396**
Total assets				**4,635,693**
Total liabilities				**3,041,965**

Operating segments for the year ended 30 April 2015, restated for the new operating segments:

	Note	Micro Focus $'000	SUSE $'000	Total $'000
Segment revenue		733,435	101,104	834,539
Directly managed costs		(427,264)	(59,502)	(486,766)
Allocation of centrally managed costs		15,532	(15,532)	–
Total segment costs		(411,732)	(75,034)	(486,766)
Adjusted Operating Profit	4	321,703	26,070	347,773
Exceptional items	3			(96,678)
Share-based compensation charge	35			(15,561)
Amortization of purchased intangibles	10			(88,298)
Operating profit	4			147,236
Share of results of associates				(788)
Net finance costs				(55,021)
Profit before tax				91,427
Total assets				4,340,601
Total liabilities				3,062,540

The operating segment split of depreciation on property, plant and equipment and the amortization of purchased software intangibles is reported in note 4.

Analysis by geography
The Group is domiciled in the UK. The total revenue from external customers in the UK is $69.4m (2015: $46.6m), the total in the USA is $576.6m (2015: $375.6m) and the total of revenue from external customers from other countries is $599.0m (2015: $412.3m).

The total of non-current assets other than financial instruments and deferred tax assets located in the UK is $152.1m (2015: $149.7m), the total in the USA is $3,264.9m (2015: $3,437.3m) and the total of such non-current assets located in other countries is $65.6m (2015: $42.7m). Segmental non-current assets are based on the location of the assets. They exclude trade and other receivables, derivative financial instruments and deferred tax.

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

2 Supplementary information
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**

Set out below is an analysis of revenue recognized between the principal product portfolios for the year ended 30 April 2015.

	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	111,594	71,533	20,536	27,849	29,492	261,004	–	261,004
Maintenance	149,680	55,270	65,882	62,925	106,925	440,682	–	440,682
Subscription	–	–	–	–	–	–	98,178	98,178
Consulting	8,752	2,152	13,731	3,566	3,548	31,749	2,926	34,675
Total	270,026	128,955	100,149	94,340	139,965	733,435	101,104	834,539

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	**2016 $'000**	2015 $'000
Staff costs	35	**538,526**	363,766
Depreciation of property, plant and equipment			
– owned assets	12	**11,419**	7,674
Amortization of intangibles	10	**203,313**	109,092
Impairment of intangible assets	10	**–**	12,626
Inventories			
– cost of inventories recognized as a credit (included in cost of sales)	16	**(72)**	(4)
Operating lease rentals payable			
– plant and machinery		**1,702**	2,284
– property		**21,711**	16,432
Provision for receivables impairment	17	**2,531**	965
Foreign exchange gains	4	**(2,915)**	(9,445)

3 Profit before tax continued

Exceptional items

The exceptional costs of $27.9m (2015: $99.1m) shown in the consolidated statement of comprehensive income relate to costs incurred as part of the integration of TAG, which was an acquisition completed on 20 November 2014, the acquisition of Authasas BV on 17 July 2015 (note 39) and pre-acquisition costs relating to Serena (note 40). The total cash outflow of exceptional items during the year was $19.7m (2015: $34.6m).

	2016 $'000	2015 $'000
Reported within Operating profit:		
Integration costs	**23,634**	7,585
Acquisition costs	**531**	26,860
Pre-acquisition costs	**5,569**	–
Property costs	**5,964**	18,200
Severance costs	**(4,845)**	30,734
Royalty provision release	**(3,000)**	–
Impairment of intangible assets (note 10)	**–**	11,642
Impairment of prepayments	**–**	1,657
	27,853	96,678
Reported within finance costs:		
Accelerated amortization of facility fees	**–**	2,384
	–	2,384
	27,853	99,062

Integration costs of $23.6m (2015: $7.6m) 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.

The acquisition costs of $0.5m are external costs in evaluating and completing the acquisition of Authasas BV in July 2015 (2015: acquisition of TAG $26.9m). The costs mostly relate to due diligence work, legal work on the acquisition agreements and professional advisors on the transaction.

The pre-acquisition costs of $5.6m (2015: $nil) relate to evaluating the acquisition of Serena which was completed on 2 May 2016 (note 40). The costs mostly relate to due diligence work, legal work on the acquisition agreements and professional advisors on the transaction.

The property costs of $6.0m (2015: $18.2m) relate to the cost of exiting entire buildings or floors of buildings which the Group are leasing following the integration of the TAG business. The majority of the costs relate to TAG properties in North America.

Severance costs releases of $4.8m (2015: $30.7m charge) relate to the reassessment of provisions made for integrating the TAG business in the year ended 30 April 2015, including the redeployment of staff previously notified of redundancy.

Royalty provision releases of $3.0m (2015: $nil) relate to provisions no longer required as a result of new contracts being concluded with a third party.

The one-off impairment of intangible assets of $11.6m and prepayments of $1.7m in the year ended 30 April 2015 related mostly to the write off of TAG computer systems and applications that had no future value for the Group.

The one-off accelerated amortization of facility fees of $2.4m in the year ended 30 April 2015 related to costs that were expensed early as a result of taking on new borrowings to finance the acquisition of TAG.

The estimated total tax effect of exceptional items is a credit to the consolidated statement of comprehensive income of $6.8m (2015: $25.8m).

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

3 Profit before tax continued
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:

	2016 $'000	2015 $'000
Audit of Company	563	538
Audit of subsidiaries	2,895	2,765
Total audit	3,458	3,303
Audit related assurance services	782	56
Tax compliance services	60	22
Tax advisory services	70	180
Services relating to taxation	130	202
Other non-audit services	1,842	5,059
Total	6,212	8,620

The Group's auditors, PwC, provide non-audit services for the Group over and above the external audit, principally tax compliance, restructuring, tax advice, compliance forensic services and due diligence work. The board of directors review the level of non-audit fees and are confident that the objectivity and independence of the auditors is not impaired in any way by reason of its non-audit work.

Audit related assurance services in the year ended 30 April 2016 related primarily to the audit of the TAG 13 month financial statements and the interim review. Other services in the year ended 30 April 2016 related primarily to tax compliance, restructuring, tax advice, customer licence compliance forensic services and the Serena acquisition due diligence costs.

Other services in the year ended 30 April 2015 related primarily to the auditors' work as Reporting Accountants in respect of the Prospectus issued for the acquisition of TAG, corporate advice on the Return of Value and acquisition due diligence costs.

4 Reconciliation of operating profit to EBITDA

	Note	2016 $'000	2015 $'000
Operating profit	1	294,934	147,236
Exceptional items	3	27,853	96,678
Share-based compensation charge		28,793	15,561
Amortization of purchased intangibles	10	181,934	88,298
Adjusted Operating Profit		533,514	347,773
Depreciation of property, plant and equipment	12	11,419	7,674
Amortization of purchased software intangibles	10	1,864	2,189
Adjusted EBITDA		546,797	357,636
Amortization and impairment of development costs	10	19,515	19,589
Facility EBITDA		566,312	377,225
Operating profit	1	294,934	147,236
Amortization of intangible assets	10	203,313	110,076
Depreciation of property, plant and equipment	12	11,419	7,674
EBITDA		509,666	264,986
Amortization and impairment of development costs	10	(19,515)	(19,589)
Share-based compensation charge		28,793	15,561
Exceptional items	3	27,853	96,678
Adjusted EBITDA		546,797	357,636
Foreign exchange credit		(2,915)	(9,445)
Net (capitalization)/amortization of internal development costs*	10	(11,362)	99
Underlying Adjusted EBITDA		532,520	348,290

* Net capitalization of internal development costs of $11.4m (2015: $0.1m amortization) is calculated as additions to intangible development costs of $31.4m (2015: $19.5m), excluding external consultants development costs of $0.5m (2015: $nil) less amortization and impairment of the development costs intangibles in the year of $19.5m (2015: $19.6m).

4 Reconciliation of operating profit to EBITDA continued

The table below provides the operating segments split for the year ended 30 April 2016 and 30 April 2015:

	2016			2015		
	Micro Focus $'000	**SUSE $'000**	**Total $'000**	Micro Focus $'000	SUSE $'000	Total $'000
Adjusted Operating Profit	**453,710**	**79,804**	**533,514**	321,703	26,070	347,773
Depreciation of property, plant and equipment	**9,736**	**1,683**	**11,419**	6,886	788	7,674
Amortization of purchased software intangibles	**1,679**	**185**	**1,864**	1,834	355	2,189
Adjusted EBITDA	**465,125**	**81,672**	**546,797**	330,423	27,213	357,636
Foreign exchange credit	**(2,584)**	**(331)**	**(2,915)**	(9,358)	(87)	(9,445)
Net (capitalization)/amortization of development costs	**(11,362)**	**–**	**(11,362)**	99	–	99
Underlying Adjusted EBITDA	**451,179**	**81,341**	**532,520**	321,164	27,126	348,290

The directors use EBITDA, EBITDA before exceptional items and share-based compensation charge but after amortization and impairment of development costs ("Adjusted EBITDA") and Adjusted EBITDA before foreign exchange gains and losses and net amortization/capitalization of internal development costs ("Underlying Adjusted EBITDA") as key performance measures of the business.

The use of these alternative performance measures are 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.

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	**2016 $'000**	2015 $'000
Finance costs			
Finance costs on bank borrowings		**82,369**	43,559
Commitment fees		**1,108**	826
Amortization of facility costs and original issue discounts		**13,762**	6,362
Interest on tax provisions		**525**	2,643
Net interest expense on retirement obligations	25	**467**	261
Other		**126**	196
		98,357	53,847
Included with exceptional items:			
Accelerated amortization of facility fees	3	**–**	2,384
Total		**98,357**	56,231

	2016 $'000	2015 $'000
Finance income		
Bank interest	**710**	577
Other	**299**	633
Total	**1,009**	1,210

Net finance cost	**97,348**	55,021

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

6 Taxation

	2016 $'000	2015 $'000
Current tax		
Current year	**40,894**	51,194
Adjustments to tax in respect of previous years	**(20,570)**	(7,629)
Impact of change in tax rates	**–**	(38)
	20,324	43,527
Deferred tax		
Origination and reversal of timing differences	**(4,145)**	(51,942)
Adjustments to tax in respect of previous years	**17,030**	(1,524)
Impact of change in tax rates	**(785)**	(85)
	12,100	(53,551)
Total	**32,424**	(10,024)

A deferred tax credit of $8.5m (2015: $3.6m credit) and corporation tax credit of $1.5m (2015: $4.8m credit) have been recognized in equity in the year in relation to share options. A deferred tax debit of $1.7m (2015: $1.3m credit) has been recognized in the consolidated statement of changes in equity in the year in relation to the defined benefit pension schemes.

The tax charge for the year is lower than the standard rate of corporation tax in the UK of 20.0% (2015: 20.9%). The differences are explained below:

	2016 $'000	2015 $'000
Profit before taxation	**195,396**	91,427
Tax at UK corporation tax rate of 20.0% (2015: 20.9%)	**39,079**	19,108
Effects of:		
Tax rates other than the UK standard rate	**15,002**	(708)
Intra-Group financing	**(14,445)**	(9,200)
UK patent box benefit	**(7,593)**	(6,000)
US R&D tax credit incentives	**(1,800)**	(752)
Movement in deferred tax not recognized	**(759)**	(9,026)
Effect of change in tax rates	**(237)**	(123)
Expenses not deductible and other permanent differences	**7,737**	5,830
	36,984	(871)
Adjustments to tax in respect of previous years:		
Current tax – UK patent box	**–**	(4,809)
Current tax – other	**(20,570)**	(2,820)
Deferred tax	**16,010**	(1,524)
	(4,560)	(9,153)
Total taxation	**32,424**	(10,024)

The increase in tax at rates other than the UK standard rate reflects the inclusion of a full year's worth of profits of TAG, which are taxed at higher rates, particularly in the US.

The Group realized benefits in relation to intra-Group financing of $14.4m (2015: $9.2m). The benefits mostly relate to arrangements put in place part-way through the prior year to facilitate the acquisition of TAG.

Benefits from the UK patent box regime amounted to $7.6m (2015: $6.0m current and $4.8m prior year benefit).

US R&D tax credit incentives of $1.8m (2015: $0.8m) reflect the inclusion of a full year of results of TAG.

The net effect of movements in deferred tax not recognized of $0.8m (2015: $9.0m) is significantly lower than the previous year, which included the impact of the one-off recognition of tax credits in the US following the acquisition of TAG.

6 Taxation continued

The Group realized a net credit in relation to the true-up of prior year current and deferred tax estimates of $4.6m (2015: $9.2m). There was a significant movement in current tax of $20.6m partially offset by a movement in deferred tax of $16.0m, mainly 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.

The movement in deferred tax assets and liabilities during the year is analysed in note 28.

The standard rate of corporation tax in the UK has been reduced from 20% currently to 19% from 1 April 2017 and 18% from 1 April 2020. This has reduced the tax charge in the consolidated statement of comprehensive income by $0.8m. This reflects the net impact of the re-measurement of deferred tax balances, in particular liabilities relating to intangibles. There was also a $0.5m debit to equity in relation to the share options deferred tax asset. The further cut in the rate from 1 April 2020 from 18% to 17%, announced in the 2016 Budget, has not yet been substantively enacted and has therefore not been taken into account.

7 Dividends

Equity – ordinary	**2016 $'000**	2015 $'000
2015 final paid 33.00 cents (2014: 30.00 cents) per ordinary share	**70,015**	40,215
2016 interim paid 16.94 cents (2015: 15.40 cents) per ordinary share	**35,144**	32,492
Total	**105,159**	72,707

The directors are proposing a final dividend in respect of the year ended 30 April 2016 of 49.74 cents per share which will utilize approximately $113,744,000 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 2016				Year ended 30 April 2015			
	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]	**162,894**	**218,635**	**74.50**	**49.59**	101,753	173,829	58.54	36.64
Effect of dilutive securities								
Options		**8,847**				5,583		
Diluted EPS								
Earnings attributable to ordinary shareholders	**162,894**	**227,482**	**71.61**	**47.66**	101,753	179,412	56.71	35.50
Supplementary EPS								
Basic EPS	**162,894**	**218,635**	**74.50**	**49.59**	101,753	173,829	58.54	36.64
Tax adjustments[2]	**–**				(9,939)			
Adjusted items[3]	**238,580**				202,921			
Tax relating to above items	**(67,766)**				(62,528)			
Basic EPS – adjusted	**333,708**	**218,635**	**152.63**	**101.60**	232,207	173,829	133.58	83.61
Diluted EPS	**162,894**	**227,482**	**71.61**	**47.66**	101,753	179,412	56.71	35.50
Tax adjustments[2]	**–**				(9,939)			
Adjusted items[3]	**238,580**				202,921			
Tax relating to above items	**(67,766)**				(62,528)			
Diluted EPS – adjusted	**333,708**	**227,482**	**146.70**	**97.65**	232,207	179,412	129.43	81.01

1 Earnings attributable to ordinary shareholders is the profit for the year of $162,972,000 (2015: $101,451,000), excluding amounts attributable to non-controlling interests of $78,000 (2015: $302,000 loss).

2 Tax adjustments comprise a $nil (2015: $5.1m) deferred tax benefit from the recognition of additional US tax attributes as a result of the acquisition of TAG and a prior year current tax benefit of $nil (2015: $4.8m) in respect of the UK Patent Box.

3 Adjusted items comprise amortization of purchased intangibles $181,934,000 (2015: $88,298,000), share-based compensation $28,793,000 (2015: $15,561,000), exceptional items $27,853,000 (2015: $96,678,000) and exceptional interest costs of $nil (2015: $2,384,000). Estimated tax relief on these items is as shown above.

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continued

8 Earnings per share continued
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 of $1.50 to £1 (2015: $1.60 to £1).

9 Goodwill

	Note	2016 $'000	2015 $'000
Cost and net book amount			
At 1 May		**2,421,745**	308,182
Hindsight adjustment	39	**5,583**	213
Acquisitions	39	**8,840**	2,113,350
At 30 April		**2,436,168**	2,421,745
A segment-level summary of the goodwill allocation is presented below:			
Micro Focus		**1,576,602**	1,562,179
SUSE		**859,566**	859,566
At 30 April		**2,436,168**	2,421,745

Following the Company reorganization on 1 May 2015, the Group has two operating segments: Micro Focus Product Portfolio and SUSE Product Portfolio and previously it had Base Micro Focus (North America, International and Asia Pacific and Japan) and TAG. Comparatives have been restated accordingly.

The hindsight period adjustments 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 39).

The additions to goodwill in the year relate to the acquisition of Authasas BV and hindsight period adjustments for the TAG acquisition (note 39). 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.

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 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, the long-term 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 this places on impairment calculations.

9 Goodwill continued

Discount rate applied

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 and risks specific to the CGU. The discount rates applied to both CGUs are considered to be the same at 11.6%. During the previous financial year the Group was run differently than from today and the prior year geographic discount rates are summarized below:

	2015
North America	14%
International	11%
Asia Pacific and Japan	13%

Long-term operating margin

The long-term 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 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 2% for the Micro Focus CGU and 10% for the SUSE CGU.

Summary of results

During the year, all goodwill was tested for impairment, with no impairment charge resulting (2015: $nil).

As the VIU calculation is most sensitive to a change in the long-term operating margin, the directors are of the opinion that it would take a systematic change to the market for long-term operating margins to fall to the level where impairment would be required.

The directors consider that a reduction of 4.0% for Micro Focus and 2.0% for SUSE in the absolute value of long-term 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 long-term margins 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.

The Group based its estimate for the long-term pre-tax discount rate on its weighted average cost of capital ("WACC") and using long-term market data and industry data to derive the appropriate inputs to the calculation. The directors have assessed that a 2.0% (2015: 2.0%) change in the absolute discount rate is the maximum change that could be considered as reasonably possible and this would represent a 27.5% (2015: 17.7%) reduction in the assumption. If the estimated pre-tax discount rates applied to the discounted cash flows of all of the two CGUs were 2.0% (2015: 2.0%) higher in absolute terms than the management's estimates, the Group would not have any impairment charge.

The Group considers that the long-term growth rates could change and that 0% for Micro Focus and 5.0% for SUSE change 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 5% for SUSE lower than management's estimates, the Group would not have recognized any goodwill impairment charge.

The directors have considered combinations of a reduction in the long-term 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.

The medium-term Adjusted EBITDA for each of the two CGUs is primarily based upon past performance adjusted as appropriate where management believes that past Adjusted EBITDA margins are not indicative of future Adjusted EBITDA margins. The long-term Adjusted EBITDA margins applied to the Micro Focus CGU is 55% and the SUSE CGU is 32%. The long-term growth rates of net operating cash flows are assumed to be 2.0% for Micro Focus and 10.0% for SUSE.

The Authasas business has been integrated into the Micro Focus CGU when acquired on 17 July 2015 and the Serena acquisition will be integrated into the Micro Focus CGU from the acquisition date of 2 May 2016. The Serena acquisition has not been included in any impairment review since it was acquired after the end of the financial year.

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10 Other intangible assets

	Purchased software $'000	Development costs $'000	Purchased intangibles: Technology $'000	Purchased intangibles: Trade names $'000	Purchased intangibles: Customer relationships $'000	Purchased intangibles: Non-compete agreements $'000	Total $'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 39)	–	–	2,545	–	811	–	3,356
Additions	3,093	31,395	–	–	–	–	34,488
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

	Purchased software $'000	Development costs $'000	Purchased intangibles: Technology $'000	Purchased intangibles: Trade names $'000	Purchased intangibles: Customer relationships $'000	Purchased intangibles: Non-compete agreements $'000	Total $'000
Cost							
At 1 May 2014	8,021	134,661	76,063	1,175	74,590	1,303	295,813
Acquisition of TAG (note 39)	11,763	–	225,064	216,335	686,233	–	1,139,395
Additions	1,750	19,490	–	–	–	–	21,240
Disposals	(1,751)	–	–	–	–	–	(1,751)
Exchange adjustments	(500)	–	–	–	–	–	(500)
At 30 April 2015	19,283	154,151	301,127	217,510	760,823	1,303	1,454,197
Accumulated amortization							
At 1 May 2014	7,539	103,193	48,209	1,175	41,861	1,303	203,280
Charge for the year	2,189	18,605	30,452	6,639	51,207	–	109,092
Disposals	(2,873)	–	–	–	–	–	(2,873)
Impairment	11,642	984	–	–	–	–	12,626
Exchange adjustments	(149)	–	–	–	–	–	(149)
At 30 April 2015	18,348	122,782	78,661	7,814	93,068	1,303	321,976
Net book amount at 30 April 2015	935	31,369	222,466	209,696	667,755	–	1,132,221
Net book amount at 30 April 2014	482	31,468	27,854	–	32,729	–	92,533

Intangible assets, with the exception of purchased software and internally generated 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 H(d).

Expenditure totaling $34.5m (2015: $21.2m) was made in the year, including $31.4m in respect of development costs and $3.1m of purchased software. The acquisition of Authasas BV gives rise to an addition of $3.4m to purchased intangibles (note 39). Of the $31.4m of additions to development costs, $30.9m (2015: $19.5m) relates to internal development costs and $0.5m (2015: $nil) to external consultants development costs.

At 30 April 2016, the unamortized lives of technology assets were in the range of two to six years, customer relationships in the range of one to seven years and trade names in the range of 10 to 20 years.

Amortization of $106.7m (2015: $51.2m) is included in selling and distribution costs, $94.7m (2015: $55.7m) is included in research and development expense and $1.9m (2015: $2.2m) is included in administrative expenses in the consolidated statement of comprehensive income.

11 Assets classified as held for sale

	2016 $'000	2015 $'000
Assets classified as held for sale	**888**	888

As of 30 April 2016, the Group had $0.9m in property held for sale consisting of a building in South Africa. The Group anticipates selling this building during the year ended 30 April 2017.

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 2015	15,888	20,385	20,556	5,046	61,875
Acquisition of Authasas BV (note 39)	–	–	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

	Freehold land and buildings $'000	Leasehold improvements $'000	Computer equipment $'000	Fixtures and fittings $'000	Total $'000
Cost					
At 1 May 2014	15,738	5,910	11,347	1,542	34,537
Acquisition of TAG (note 39)	1,344	14,256	6,905	3,460	25,965
Additions	–	935	3,533	504	4,972
Disposals	–	(579)	(268)	(429)	(1,276)
Reclassifications	–	(7)	–	7	–
Exchange adjustments	(1,194)	(130)	(961)	(38)	(2,323)
At 30 April 2015	15,888	20,385	20,556	5,046	61,875
Accumulated depreciation					
At 1 May 2014	1,068	3,987	7,582	301	12,938
Charge for the year	448	2,029	4,323	874	7,674
Disposals	–	(531)	(268)	(305)	(1,104)
Reclassifications	–	(3)	–	3	–
Exchange adjustments	(281)	258	(586)	80	(529)
At 30 April 2015	1,235	5,740	11,051	953	18,979
Net book amount at 30 April 2015	14,653	14,645	9,505	4,093	42,896
Net book amount at 1 May 2014	14,670	1,923	3,765	1,241	21,599

Depreciation of $11.4m (2015: $7.7m) is included within administrative expenses in the consolidated statement of comprehensive income.

Notes to the consolidated financial statements for the year ended 30 April 2016
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13 Group entities
Subsidiaries
Details of subsidiaries are provided below.

Company name	Country of incorporation	Principal activities
Holding companies:		
Micro Focus Midco Limited	UK	Holding company
Micro Focus Group Limited	UK	Holding company
Micro Focus CHC Limited	UK	Holding company
Micro Focus MHC Limited	UK	Holding company
Micro Focus Holdings Limited	UK	Holding company
Micro Focus (IP) Limited	UK	Holding company
Micro Focus IP Limited	Cayman Islands	Holding company
Novell Holdings Deutschland GmbH	Germany	Holding company
Micro Focus Finance Ireland Limited	Ireland	Holding company
Micro Focus Group Holdings Limited	Ireland	Holding company
Micro Focus International Holdings Limited	Ireland	Holding company
NetIQ Ireland Limited	Ireland	Holding company
Novell Cayman Software Limited	Ireland	Holding company
Novell Cayman Software International Limited	Ireland	Holding company
Novell Ireland Real Estate Limited	Ireland	Holding company
SUSE Linux Holdings Limited	Ireland	Holding company
Novell Software International Limited	Ireland	Holding company
Micro Focus Finance S.à.r.l.	Luxembourg	Holding company
Minerva Finance S.à.r.l.	Luxembourg	Holding company
Borland Corporation Inc.	USA	Holding company
Micro Focus (US) Group Inc.	USA	Holding company
M A Finance Co LLC	USA	Holding company
Micro Focus (US) Holdings Inc.	USA	Holding company
The Attachmate Group Inc.	USA	Holding company
Novell Holdings, Inc.	USA	Holding company
Novell International Holdings Inc.	USA	Holding company
Micro Focus (US) International Holdings Inc.	USA	Holding company
Trading companies:		
Attachmate Sales Argentina S.R.L.	Argentina	Sale and support of software
Attachmate Group Australia Pty Limited	Australia	Sale and support of software
Borland Australia Pty Limited	Australia	Sale and support of software
Micro Focus Pty Limited	Australia	Sale and support of software
Attachmate Group Austria GmbH	Austria	Sale and support of software
Borland Entwicklung GmbH	Austria	Development of software
Attachmate Group Belgium BV	Belgium	Sale and support of software
Micro Focus SA	Belgium	Sale and support of software
Borland Latin America Ltda	Brazil	Sale and support of software
Micro Focus Programacao de Computadores Ltda	Brazil	Sale and support of software
Novell do Brazil Software Limited	Brazil	Sale and support of software
Micro Focus APM Solutions EOOD	Bulgaria	Development of software
Micro Focus (Canada) Limited	Canada	Development, sale and support of software
Novell Canada Ltd	Canada	Sale and support of software
Novell Software (Beijing) Ltd	China	Development, sale and support of software
NOVL Czech s.r.o	Czech Republic	Sale and support of software
SUSE Linux s.r.o	Czech Republic	Development, sale and support of software
Attachmate Group Denmark A/S	Denmark	Sale and support of software
Micro Focus Middle East FZ-LLC	Dubai	Sale and support of software

13 Group entities continued

Company name	Country of incorporation	Principal activities
Attachmate Group France S.à.r.l.	France	Sale and support of software
Borland France S.à.r.l.	France	Sale and support of software
Micro Focus SAS	France	Sale and support of software
Attachmate Group Germany GmbH	Germany	Sale and support of software
Micro Focus GmbH	Germany	Sale and support of software
SUSE Linux GmbH	Germany	Development, sale and support of software
Attachmate Group Hong Kong Limited	Hong Kong	Sale and support of software
NetIQ Asia Ltd	Hong Kong	Sale and support of software
Micro Focus India Private Limited	India	Support of software
Novell Software Development (India) Private Limited	India	Development, sale and support of software
Relativity Technologies Private Limited	India	Sale and support of software
Attachmate Ireland Limited	Ireland	Sale and support of software
Micro Focus Ireland Limited	Ireland	Development, sale and support of software
Micro Focus Software Ireland Limited	Ireland	Development, sale and support of software
NetIQ Europe Limited	Ireland	Sale and support of software
Micro Focus Israel Limited	Israel	Development and support of software
Attachmate Group Italy Srl	Italy	Sale and support of software
Micro Focus Srl	Italy	Sale and support of software
Borland Co. Limited	Japan	Sale and support of software
Micro Focus KK	Japan	Sale and support of software
Novell Japan Ltd	Japan	Sale and support of software
NetIQ KK	Japan	Sale and support of software
Novell Corporation (Malaysia) Sdn Bhd	Malaysia	Sale and support of software
Attachmate Group Netherlands BV	Netherlands	Sale and support of software
Authasas BV	Netherlands	Sale and support of software
Borland BV	Netherlands	Sale and support of software
Micro Focus NV	Netherlands	Sale and support of software
Novell New Zealand Limited	New Zealand	Sale and support of software
Micro Focus AS	Norway	Sale and support of software
Novell Portugal Informatica Lda.	Portugal	Sale and support of software
Attachmate Group Singapore Pte Ltd	Singapore	Sale and support of software
Borland (Singapore) Pte. Ltd	Singapore	Sale and support of software
Micro Focus Pte Limited	Singapore	Sale and support of software
Attachmate Group South Africa (Proprietary) Limited	South Africa	Sale and support of software
Micro Focus South Africa (Pty) Ltd	South Africa	Sale and support of software
Micro Focus Korea Limited	South Korea	Sale and support of software
Novell Korea Co. Ltd	South Korea	Sale and support of software
Attachmate Group Spain SL	Spain	Sale and support of software
Micro Focus SL	Spain	Sale and support of software
Attachmate Group Sweden AB	Sweden	Sale and support of software
Attachmate Group Schweiz AG	Switzerland	Sale and support of software
Micro Focus AG	Switzerland	Sale and support of software
Novell (Taiwan) Co. Ltd	Taiwan	Sale and support of software
Attachmate Teknoloji Satis ve Pazarlama Ltd Sti.	Turkey	Sale and support of software
Attachmate Sales UK Ltd	UK	Sale and support of software
Micro Focus IP Development Limited	UK	Development and support of software
Micro Focus Limited	UK	Sale and support of software
Novell U.K. Ltd	UK	Sale and support of software
Novell UK Software Limited	UK	Sale and support of software
Micro Focus (US) Inc.	USA	Development, sale and support of software

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13 Group entities continued

Company name	Country of incorporation	Principal activities
Attachmate Corporation Inc.	USA	Development, sale and support of software
Novell Inc.	USA	Development, sale and support of software
NetIQ Corporation Inc.	USA	Development, sale and support of software
SUSE LLC	USA	Development, sale and support of software
Borland Software Corporation Inc.	USA	Development, sale and support of software
Dormant companies:		
Cambridge Technology Partners do Brasil s.c.Ltda	Brazil	Dormant
Netmanage Canada Inc	Canada	Dormant
Borland Canada, Inc.	Canada	Dormant
Micro Focus International Limited	Cayman Islands	Dormant
NetIQ Software International Ltd	Cyprus	Dormant
Borland SRO	Czech Republic	Dormant
Borland GmbH	Germany	Dormant
Attachmate Middle East LLC	Egypt	Dormant
Attachmate (Hong Kong) Ltd	Hong Kong	Dormant
Borland Magyarorszag KFT	Hungary	Dormant
Attachmate India Private Ltd	India	Dormant
Borland Software India Private Limited	India	Dormant
Cambridge Technology Partners India Private Limited	India	Dormant
Novell India Pvt. Ltd.	India	Dormant
SUSE Linux Ireland Limited	Ireland	Dormant
N.Y. NetManage (Yerushalayim) Ltd	Israel	Dormant
Novell Israel Software Limited	Israel	Dormant
Borland (H.K) Limited	Hong Kong	Dormant
Cambridge Technology Partners (Mexico) S.A. de C.V.	Mexico	Dormant
CTP Mexico Services SA de CV	Mexico	Dormant
Authasas Advanced Authentication BV	Netherlands	Dormant
Borland (Holding) UK Ltd	UK[1]	Dormant
Borland (UK) Limited	UK[1]	Dormant
Micro Focus APM Solutions Limited	UK[1]	Dormant
Micro Focus UK Limited	UK[1]	Dormant
NetIQ Ltd	UK[1]	Dormant
Ryan McFarland Ltd	UK[1]	Dormant
XDB UK Limited	UK[1]	Dormant
Borland Technology Corporation Inc.	USA	Dormant
CJDNLD LLC	USA	Dormant

[1] The above companies incorporated in the UK are exempt from audit and from preparing Annual Accounts.

These companies 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.

14 Investments in associates

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:

	2016 $'000	2015 $'000
At 1 May	14,901	–
Acquisition of TAG	–	15,689
Share of post-tax loss of associates	(2,190)	(788)
At 30 April	**12,711**	14,901

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	14.3%	Sale and support of software

The assets, liabilities, revenue and loss of the Group's associate at 31 March 2016 was as follows:

	2016 $'000	2015 $'000
Non-current assets	45,666	54,779
Current assets	44,058	51,488
Current liabilities	(584)	(1,425)
Non-current liabilities	(270)	103
Revenue	–	–
Loss for the year	15,867	3,328

Open Invention Network LLC, 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. The accounting year end date of the associate consolidated within these financial statements was 31 March 2016. 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.

15 Other non-current assets

	2016 $'000	2015 $'000
Long-term rent deposits	3,697	3,214
Other	305	695
	4,002	3,909

16 Inventories

	2016 $'000	2015 $'000
Work in progress	42	61
Finished goods	51	49
Total	**93**	110

The Group utilized $nil (2015: $nil) of inventories included in cost of sales during the year.

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

17 Trade and other receivables

	2016 $'000	2015 $'000
Trade receivables	**248,759**	199,775
Less: provision for impairment of trade receivables	**(4,486)**	(2,520)
Trade receivables net	**244,273**	197,255
Prepayments	**21,694**	20,841
Other receivables	**1,651**	523
Accrued income	**568**	26
Total	**268,186**	218,645

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 2016 and 2015, the carrying amount approximates the fair value of the instrument due to the short-term nature of the instrument.

At 30 April 2016, trade receivables of $28.8m (2015: $34.1m) 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 20 days in excess of due date (2015: 19 days).

As at 30 April 2016, trade receivables of $4.5m (2015: $2.5m) were either partially or fully impaired. The amount of the provision was $4.5m (2015: $2.5m). The ageing of these receivables is as follows:

	2016 $'000	2015 $'000
Up to three months	**233**	–
Three to four months	**473**	473
Over four months	**3,780**	2,047
Total	**4,486**	2,520

Movements in the Group provision for impairment of trade receivables were as follows:

	2016 $'000	2015 $'000
At 1 May	**2,520**	2,000
Acquisition of TAG (note 39)	**–**	124
Provision for receivables impairment	**2,531**	965
Receivables written off as uncollectable	**(361)**	(223)
Receivables previously provided for but now collected	**(244)**	–
Exchange adjustments	**40**	(346)
At 30 April	**4,486**	2,520

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

	2016 $'000	2015 $'000
Cash at bank and in hand	**662,757**	238,405
Short-term bank deposits	**4,421**	2,919
Cash and cash equivalents	**667,178**	241,324

At 30 April 2016 and 2015, 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:

	2016 $'000	2015 $'000
S&P/Moody's/Fitch rating:		
AAA	**–**	150,807
AA-	**615,941**	47,625
A+	**9,499**	10,434
A	**16,669**	15,009
A-	**3,977**	10,064
BBB+	**16,798**	593
BBB	**130**	36
BBB-	**338**	6,303
BB+	**218**	114
BB	**900**	–
BB-	**1,925**	–
B+	**160**	79
B	**–**	85
CCC+	**525**	–
CCC	**–**	66
Not rated	**98**	109
Total	**667,178**	241,324

19 Trade and other payables – current

	2016 $'000	2015 $'000
Trade payables	**20,793**	18,580
Tax and social security	**10,425**	8,962
Accruals	**156,872**	133,823
Total	**188,090**	161,365

At 30 April 2016 and 30 April 2015, the carrying amount approximates to the fair value.

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

20 Borrowings

	2016 $'000	2015 $'000
Bank loan secured	**1,787,250**	1,700,000
Unamortized prepaid facility arrangement fees and original issue discounts	**(42,041)**	(55,137)
	1,745,209	1,644,863

Reported within:	Bank loan secured $'000	Unamortized prepaid facility arrangement fees and original issue discounts $'000	Total $'000
Current liabilities	287,750	(12,494)	275,256
Non-current liabilities	1,499,500	(29,547)	1,469,953
	1,787,250	**(42,041)**	**1,745,209**

	2016 $'000	2015 $'000
Cash at bank and in hand	**667,178**	241,324
Less borrowings	**(1,745,209)**	(1,644,863)
Net debt	**(1,078,031)**	(1,403,539)

The terms of the Micro Focus existing debt facilities are as follows:

— Syndicated senior secured tranche B term loan facility of $1,275.0m ("Term Loan B"), with an interest rate of 4.25% above LIBOR (subject to a LIBOR floor of 1.00%), amortizing 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 of $500.0m ("Term Loan C"), with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), amortizing 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 $225.0m ("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 to $375.0m on 2 May 2016 as part of the funding for the Serena acquisition (note 40).

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. At 30 April 2016 $225.0m of the Revolving Facility available at that time was drawn representing 100%, reducing to 60% on 2 May 2016 when the facility was extended. The covenant calculation indicates that the Group had in excess of 140% headroom against the covenant test.

To fund the acquisition of TAG, the Group drew down $1,875.0m of the new facilities comprising all of the Term Loan B and Term Loan C together with $100.0m of the Revolving Facility. The movements on the Group loans in the year were as follows:

	Term Loan B $'000	Term Loan C $'000	Revolving Facility $'000	Total $'000
At 1 May 2015	1,125,000	500,000	75,000	1,700,000
Repayments	(12,750)	(50,000)	(95,000)	(157,750)
Draw downs	–	–	245,000	245,000
At 30 April 2016	**1,112,250**	**450,000**	**225,000**	**1,787,250**

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.

21 Current tax receivables and liabilities

Current tax receivables

	2016 $'000	2015 $'000
Corporation tax	**18,016**	–

The current tax receivables relate primarily to US Federal income tax instalment payments made during the first half of the year. Following a recalculation of the impact of temporary differences, including the offset of brought forward deferred tax assets, the respective tax liabilities are now expected to be significantly lower than previously anticipated.

Current tax liabilities

	2016 $'000	2015 $'000
Corporation tax	**22,426**	67,895

The reduction in current tax liabilities is mainly due to, firstly, a $24.5m payment made in relation to a UK tax claim following receipt of an Accelerated Payment notice from HMRC and, secondly, a reduction in US current tax liabilities as a result of the offset of deferred tax assets in the prior year (note 6). During the year ended 30 April 2016, the Group accrued interest on tax provisions of $0.5m (2015: $2.6m).

22 Deferred income – current

	2016 $'000	2015 $'000
Deferred income	**565,480**	583,703

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.

23 Deferred income – non-current

	2016 $'000	2015 $'000
Deferred income	**196,483**	194,863

Revenue not recognized in the consolidated statement of comprehensive income under the Group's accounting policy for revenue recognition is classified as deferred revenue in the consolidated statement of financial position to be recognized in future periods in excess of one year.

24 Provisions

	2016 $'000	2015 $'000
Onerous leases and dilapidations	**18,176**	22,630
Restructuring and integration	**3,523**	30,921
Legal	**1,920**	3,065
Other	**1,280**	10,637
Total	**24,899**	67,253
Current	**10,545**	49,334
Non-current	**14,354**	17,919
Total	**24,899**	67,253

Notes to the consolidated financial statements for the year ended 30 April 2016 continued

24 Provisions continued

	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**
Hindsight adjustment (note 39)	**–**	**–**	**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 $'000	Restructuring and integration $'000	Legal $'000	Other $'000	Total $'000
At 1 May 2014	2,252	107	–	6,943	9,302
Acquisition of TAG (note 39)	3,957	650	3,859	3,000	11,466
Additional provision in the year	18,872	31,329	83	3,200	53,484
Utilization of provision	(2,211)	(1,053)	(601)	(1,790)	(5,655)
Released	(153)	(77)	–	(716)	(946)
Unwinding of discount	42	–	–	–	42
Exchange adjustments	(129)	(35)	(276)	–	(440)
At 30 April 2015	22,630	30,921	3,065	10,637	67,253
Current	9,979	30,090	3,065	6,200	49,334
Non-current	12,651	831	–	4,437	17,919
Total	**22,630**	**30,921**	**3,065**	**10,637**	**67,253**

The onerous lease and dilapidations provision relates to leased Group properties and this position is expected to be fully utilized within eight years. The provision was increased by $7.7m 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.

Restructuring and integration provisions relate mostly to severance and integration work undertaken during the year ended 30 April 2016. 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 relate 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. The provisions are expected to be fully utilized within 12 months.

Legal provisions include management's best estimate of the likely outflow of economic benefits associated with on-going legal matters.

Other provisions include primarily:

— Potential liabilities acquired with the Iona acquisition of $nil as no longer required (2015: $3.8m);

— $0.2m relating to tax due for pension and bonus payments prior to July 2011 for a subsidiary in Brazil (2015: $0.6m);

— Provision that was inherited relating to potential software licencing issues of $nil as no longer required (2015: $3.0m); and

— $1.0m remaining provision for potential customer claims (2015: $3.2m).

Of the net additions and releases to provisions in the year, $19.3m (2015: $50.2m) was included in exceptional items.

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 contributions schemes are as follows:

	2016 $'000	2015 $'000
Defined contribution schemes (note 35)	**12,848**	9,815

b) Defined benefit

	2016 $'000	2015 $'000
Within non-current assets:		
Long-term pension assets	**22,272**	14,076
Within non-current liabilities:		
Retirement benefit obligations	**(31,669)**	(32,742)

There are 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 in 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 three plans were closed for new membership.

Long-term pension 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 as follows are recorded separately in the consolidated statement of financial position as long-term pension assets.

The movement on the long-term pension asset is as follows:

	2016 $'000	2015 $'000
As at 1 May	**14,076**	–
Acquisition of TAG (note 39)	**–**	15,472
Hindsight adjustment (note 39)	**3,917**	–
Return on non-plan assets	**333**	–
Benefits paid	**(8)**	–
Contributions	**475**	–
Actuarial gain on non-plan assets included within other comprehensive income	**3,104**	–
Foreign currency exchange changes	**375**	(1,396)
As at 30 April	**22,272**	14,076

The long-term pension asset was acquired as part of the acquisition of TAG. 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 this year's consolidated statement of comprehensive income.

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

25 Pension commitments continued
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:

	2016 $'000	2015 $'000
Current service charge	760	330
Charge to operating profit	**760**	330
Interest on pension scheme liabilities	546	320
Interest on pension scheme assets	(79)	(59)
Charge to finance costs	**467**	261
Total charge to consolidated statement of comprehensive income	**1,227**	591

The contributions for the year ending 30 April 2017 are expected to be broadly in line with the current year.

The following amounts have been recognized as movements in equity:

	2016 $'000	2015 $'000
Actuarial return on assets excluding amounts included in interest income	108	229
Experience gains and losses arising on scheme liabilities		
Changes in assumptions underlying the present value of scheme liabilities:		
– Demographic	–	–
– Financial	2,024	(4,565)
– Experience	565	140
	2,589	(4,425)
Exchange rate movement	–	–
Movement in the year	**2,697**	(4,196)

The key assumptions used for the German scheme were:

	2016	2015
Rate of increase in final pensionable salary	2.60%	2.60%
Rate of increase in pension payments	2.00%	2.00%
Discount rate	1.70%	1.45%
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 $4.8m (2015: $5.2m) and if it was 0.5% higher, they would be expected to decrease by $4.1m (2015: $4.4m). If the inflation assumption was 0.25% lower, the obligations would be expected to decrease by $1.3m (2015: $1.4m) and if it was 0.25% higher, they would be expected to increase by $1.4m (2015: $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:

	2016	2015
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

25 Pension commitments continued

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%) (2015: $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:

	2016 $'000	2015 $'000
Present value of funded obligations	**37,524**	38,224
Fair value of plan assets	**(5,855)**	(5,482)
	31,669	32,742

The retirement benefit obligation has moved as follows:

	2016			2015		
	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	**38,224**	**(5,482)**	**32,742**	–	–	–
Acquisition of TAG	**–**	**–**	**–**	37,128	(5,871)	31,257
Current service cost	**760**	**–**	**760**	330	–	330
Benefits paid	**(100)**	**84**	**(16)**	(68)	16	(52)
Contributions by plan participants	**–**	**(126)**	**(126)**	–	(81)	(81)
Interest cost/(income)	**546**	**(79)**	**467**	320	(59)	261
Remeasurements – actuarial losses:						
– Demographic	**–**	**–**	**–**	–	–	–
– Financial	**(2,024)**	**–**	**(2,024)**	4,565	–	4,565
– Experience	**(565)**	**–**	**(565)**	(140)	–	(140)
– Actuarial return on assets excluding amounts included in interest income	**–**	**(108)**	**(108)**	–	(229)	(229)
Other (transfer to non-plan assets)	**–**	**–**	**–**	–	128	128
Foreign currency exchange changes	**683**	**(144)**	**539**	(3,911)	614	(3,297)
At 30 April	**37,524**	**(5,855)**	**31,669**	38,224	(5,482)	32,742

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 $22.3m at 30 April 2016 (2015: $14.1m). 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.

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

25 Pension commitments continued

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.

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%**	**(11.0%)**
Price inflation	**0.25%**	**3.6%**
Salary growth rate	**0.50%**	**1.7%**

An increase of one year in the assumed life expectancy for both males and females would increase the defined benefit obligation by 2.9% (2015: 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

	2016 $'000	2015 $'000
Accruals	**3,671**	5,264

Other non-current liabilities relate mostly to deferred rent accruals.

27 Financial instruments

The table below sets out the values of financial assets and liabilities.

	Financial 2016 $'000	Non-financial 2016 $'000	Total 2016 $'000	Financial 2015 $'000	Non-financial 2015 $'000	Total 2015 $'000
Financial assets – loans and receivables						
Current						
Cash and cash equivalents (note 18)	**667,178**	**–**	**667,178**	241,324	–	241,324
Trade and other receivables (note 17)	**244,273**	**23,913**	**268,186**	197,255	21,390	218,645
At 30 April	**911,451**	**23,913**	**935,364**	438,579	21,390	459,969

	Financial 2016 $'000	Non-financial 2016 $'000	Total 2016 $'000	Financial 2015 $'000	Non-financial 2015 $'000	Total 2015 $'000
Financial liabilities – financial liabilities at amortized cost						
Non-current						
Borrowings (note 20)	**1,499,500**	**–**	**1,499,500**	1,562,250	–	1,562,250
Provisions (note 24)	**13,120**	**1,234**	**14,354**	12,651	5,268	17,919
Current						
Borrowings (note 20)	**287,750**	**–**	**287,750**	137,750	–	137,750
Trade and other payables (note 19)	**20,793**	**167,297**	**188,090**	18,580	142,785	161,365
Provisions (note 24)	**5,056**	**5,489**	**10,545**	9,979	39,355	49,334
At 30 April	**1,826,219**	**174,020**	**2,000,239**	1,741,210	187,408	1,928,618

27 Financial instruments continued

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 30 April 2016 was:

	2016 $'000	2015 $'000
Trade receivables (note 17)	244,273	197,255
Cash and cash equivalents (note 18)	667,178	241,324
Total	**911,451**	438,579

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.

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 (2015: 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 Yen as well as changes in US 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.

	2016		2015	
	Consolidated statement of comprehensive income $'000	Equity $'000	Consolidated statement of comprehensive income $'000	Equity $'000
Euro/USD exchange rate +/- 5%	2,449	1,639	1,295	162
GBP/USD exchange rate +/- 5%	1,340	1,227	1,658	977
Yen/USD exchange rate +/- 5%	161	818	306	617
US LIBOR +/- 1%	17,873	–	17,000	–

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. At 30 April 2016 $225.0m of the Revolving Facility available at that time was drawn representing 100%, reducing to 60% on 2 May 2016 when the facility was extended. The covenant calculation indicates that the Group had in excess of 140% headroom against the covenant test.

The capital structure of the Group at the consolidated statement of financial position date is as follows:

	2016 $'000	2015 $'000
Bank and other borrowings (note 20)	1,745,209	1,644,863
Less cash and cash equivalents (note 18)	(667,178)	(241,324)
Total net debt	1,078,031	1,403,539
Total equity	1,593,728	1,278,061
Debt/equity %	**67.64%**	109.82%

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

28 Deferred tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016 $'000	2015 $'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**123,876**	161,017
– Deferred tax asset to be recovered within 12 months	**74,881**	88,869
	198,757	249,886
Deferred tax liabilities:		
– Deferred tax liability to be settled after more than 12 months	**(212,067)**	(248,799)
– Deferred tax liability to be settled within 12 months	**(51,971)**	(55,793)
	(264,038)	(304,592)
Deferred tax liability	**(65,281)**	(54,706)

	2016 $'000	2015 $'000
Net deferred tax (liability)/asset		
At 1 May	**(54,706)**	7,345
(Debited)/credited to consolidated statement of comprehensive income	**(12,885)**	53,465
Credited directly to equity	**8,490**	3,591
(Debited)/credited to other comprehensive income	**(1,745)**	1,301
Acquisition of subsidiary (note 39)	**(966)**	(119,830)
Hindsight adjustments (note 39)	**(4,255)**	–
Foreign exchange adjustment	**–**	(663)
Effect of change in tax rates – charged to consolidated statement of comprehensive income	**786**	85
At 30 April	**(65,281)**	(54,706)

	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 2014	25,206	6,172	1,545	3,545	–	6,163	42,631
Reclassification	1,148	–	–	–	–	(1,148)	–
Acquisition of subsidiary (note 39)	78,146	–	48,611	37,662	6,634	20,179	191,232
(Charged)/credited to consolidated statement of comprehensive income	(8,218)	2,066	18,938	(12,334)	(183)	10,602	10,871
Credited directly to equity	–	3,591	–	–	–	–	3,591
Credited to other comprehensive income	–	–	–	–	–	1,301	1,301
Foreign exchange adjustment	(140)	–	–	–	–	(523)	(663)
Effect of change in tax rates – charged/(credited) to consolidated statement of comprehensive income	718	30	39	–	–	136	923
At 30 April 2015	96,860	11,859	69,133	28,873	6,451	36,710	249,886
At 1 May 2015	**96,860**	**11,859**	**69,133**	**28,873**	**6,451**	**36,710**	**249,886**
Hindsight adjustments (note 39)	**(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)**
Foreign exchange adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Effect of change in tax rates – charged/(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**

28 Deferred tax continued

The deferred tax asset relating to other temporary differences of $26.9m (2015: $36.7m) 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:

	Expiration: 2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'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**

	Expiration: 2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	Thereafter $'000	No expiry $'000	Total $'000
At 30 April 2015								
Type of temporary difference:								
Losses	8,218	1,536	191	9,646	157	22,333	7,832	49,913
Credits	323	2,131	2,147	1,909	2,138	12,106	9,176	29,930
Other	–	–	–	–	–	–	23,859	23,859
Total	8,541	3,667	2,338	11,555	2,295	34,439	40,867	103,702

	Intangible fixed assets $'000	Other temporary differences $'000	Total $'000
Deferred tax liabilities			
At 1 May 2014	(25,783)	(9,503)	(35,286)
Charged/(credited) to consolidated statement of comprehensive income	26,632	15,962	42,594
Acquisition of subsidiary (note 39)	(296,688)	(14,374)	(311,062)
Effect of change in tax rates – charged to consolidated statement of comprehensive income	(838)	–	(838)
At 30 April 2015	(296,677)	(7,915)	(304,592)
At 1 May 2015	**(296,677)**	**(7,915)**	**(304,592)**
Hindsight adjustments (note 39)	**(3,295)**	**–**	**(3,295)**
Acquisition of subsidiary (note 39)	**(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)**

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 $8.9m (2015: $7.9m) includes temporary differences on capitalized research and development expenditure of $11.1m (2015: $6.3m).

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

29 Share capital
Ordinary shares at 10 pence each (2015: 10 pence each)

	2016		2015	
	Shares	**$'000**	Shares	$'000
Issued and fully paid				
At 1 May	**228,587,397**	**39,555**	152,419,885	37,802
Shares issued to satisfy option awards	**118,313**	**18**	494,709	106
Share placement issues	**500**	**–**	–	–
Shares issued on the acquisition of TAG	**–**	**–**	86,595,711	13,550
Share reorganization	**–**	**–**	(10,922,908)	(11,903)
At 30 April	**228,706,210**	**39,573**	228,587,397	39,555

Shares issued during the year
During the year, 118,313 ordinary shares of 10 pence each (2015: 464,919 ordinary shares of $13^{13}/_{24}$ pence each and 29,790 ordinary shares of 10 pence) were issued by the Company to settle exercised share options. The gross consideration received was $1.0m (2015: $1.5m).

On the 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 which was completed on 2 May 2016 (note 40). 500 new ordinary 10 pence shares and 10,872,680 treasury shares were issued at a price of £14.55 resulting in gross proceeds of £158.2m ($225.7m) and incurring costs of $3.0m. A $49.5m retained reserves movement relating to the issue of treasury shares reflecting their original issue costs, $176.2m of share premium and transaction costs of $3.0m were recorded.

At 30 April 2016 a total of 29,924 treasury shares were held (2015: 11,339,583) such that the voting rights and number of listed shares at 30 April 2016 were 228,676,286 (2015: 217,247,764).

Potential issues of shares
Certain employees hold options to subscribe for shares in the Company at prices ranging from nil pence to 1,334.0 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 2016 was 9,264,743 (2015: 8,919,079). Further information on these options is disclosed in note 35.

"B" shares at 60 pence each

	2016		2015	
	Shares	**$'000**	Shares	$'000
Issued and fully paid				
At 1 May	**–**	**–**	–	–
Issue of "B" shares	**–**	**–**	50,568,360	47,477
Redemption of "B" shares	**–**	**–**	(50,568,360)	(47,477)
At 30 April	**–**	**–**	–	–

On 20 November 2014, 50,568,360 "B" shares were issued at 60 pence each, resulting in a total of $47.5m being credited to the "B" share capital account. On 20 November 2014, 50,568,360 "B" shares were redeemed at 60 pence each and an amount of $47.5m was deducted from the "B" share capital account.

"C" shares at 0.0000001 pence each

	2016		2015	
	Shares	**$'000**	Shares	$'000
Issued and fully paid				
At 1 May	**–**	**–**	–	–
Issue of "C" shares	**–**	**–**	89,328,151	–
Cancellation of "C" shares	**–**	**–**	(89,328,151)	–
At 30 April	**–**	**–**	–	–

29 Share capital continued

On 20 November 2014, 89,328,151 "C" shares were issued at 0.0000001 pence each, resulting in a total of 14 cents being credited to the "C" share capital account. On 20 November 2014 a dividend of 60 pence per "C" share was declared and was payable on 20 November 2014. The "C" shares were subsequently reclassified as Deferred Shares and repurchased by the Company for an aggregate consideration of 1 pence and then subsequently cancelled and an amount of 14 cents was deducted from the "C" share capital account.

Deferred D shares at 0.041667 pence each

	2016		2015	
	Shares	**$'000**	Shares	$'000
Issued and fully paid				
At 1 May	**–**	**–**	–	–
Issue of Deferred D shares	**–**	**–**	15,606,772,650	11,903
Cancellation of Deferred D shares	**–**	**–**	(15,606,772,650)	(11,903)
At 30 April	**–**	**–**	–	–

On 20 November 2014, as a consequence of the share consolidation, 15,606,772,650 Deferred D shares were issued at 0.041667 pence each, resulting in a total of $11.9m being credited to the Deferred D share capital account. The Deferred D shares were repurchased by the Company for an aggregate consideration of 1 pence and cancelled. An amount of $11.9m was deducted from the Deferred D share capital account.

30 Return of Value to shareholders

There has not been a Return of Value to shareholders in the year ended 30 April 2016.

In December 2014 the Company completed a Return of Value to shareholders amounting to £83.9m ($131.6m) in cash (60 pence per share, equivalent to 94.02 cents per share), by way of a "B" and "C" share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by a 0.9285 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the "B" and "C" shares.

This was the Group's 4th Return of Value to shareholders. Since 25 March 2011 the Company has returned a total of £625.1m to shareholders through share buy-backs, Returns of Value and ordinary dividends which represented 98.4% of the Market Capitalization at that time.

As part of the corporate entity restructuring resulting from the acquisition a merger reserve was created of approximately $1.4bn, which is expected to become a distributable reserve in future periods. This creates flexibility for future Returns of Value once Net Debt to Facility EBITDA is below 2.5 times.

31 Share premium account

	2016 $'000	2015 $'000
At 1 May	**16,087**	14,546
Share placement issues	**176,235**	–
Share placement costs	**(2,979)**	–
Movement in relation to share options exercised (note 35)	**950**	1,541
At 30 April	**190,293**	16,087

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 which was completed on 2 May 2016 (note 40). 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.

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

32 Other reserves

	Note	Capital redemption reserve[2,5] $'000	Merger reserve[1,3,4,5] $'000	Total $'000
As at 1 May 2014		103,983	(27,085)	76,898
Acquisition of TAG[3]	39	–	1,372,666	1,372,666
Return of Value – share consolidation[5]		11,903	–	11,903
Return of Value – new share issues[5]		47,477	(47,477)	–
As at 30 April 2015		**163,363**	**1,168,104**	**1,331,467**
Reallocation of merger reserve[4]		–	(180,000)	(180,000)
As at 30 April 2016		**163,363**	**988,104**	**1,151,467**

1 On 17 May 2005, the Company acquired the entire issued share capital of Micro Focus International Limited by way of a share for share exchange, pursuant to which the previous shareholders of Micro Focus International Limited were issued and allotted three ordinary shares in the capital of the Company for every one ordinary share they previously held in Micro Focus International Limited. This increase in share capital created a merger reserve deficit of $27.1m.

2 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 $128.2m in cash after including a foreign exchange contract gain of $2.4m. In the year ended 30 April 2014 a further $47.1m was added to the capital redemption reserve following the redemption of the B shares.

3 On 20 November 2014 the TAG acquisition was completed (note 39). As a result of this a merger reserve was created of $1.372.7m. 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 02/10 (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.

4 The merger reserve is an unrealized profit until it can be realized by the settlement of the intercompany loan by qualifying consideration. $180.0m of the intercompany loan is expected to be settled in qualifying consideration during the year to 30 April 2017 (2015: $130.0m) and as such an equivalent proportion of the merger reserve is considered realized and therefore has been transferred to the profit and loss account.

5 In December 2014 a Return of Value was made to all shareholders amounting to $131.6m in cash (note 30). The Return of Value was accompanied by a 0.9285 share consolidation and resulted in a net $11.9m reduction in share capital and an $11.9m increase in the capital redemption reserve. In addition $47.5m was transferred from the merger reserve to the capital redemption reserve.

33 Non-controlling interests

	2016 $'000	2015 $'000
At 1 May	**979**	–
Acquisition of TAG	**–**	1,281
Share of loss after tax	**78**	(302)
At 30 April	**1,057**	979

Non-controlling interests relate to the companies detailed below:

Company name	Country of incorporation and principal place of business	**2016 Proportion held**	2015 Proportion held
Novell Japan Ltd	Japan	**71.5%**	68.3%

34 Cash generated from operations

	Note	2016 $'000	2015 $'000
Profit after tax		**162,972**	101,451
Adjustments for:			
Net interest	5	**97,348**	55,021
Taxation	6	**32,424**	(10,024)
Share of results of associates	14	**2,190**	788
Operating profit		**294,934**	147,236
Research and development tax credits		**(2,041)**	(2,135)
Depreciation	12	**11,419**	7,674
Loss on disposal of property, plant and equipment		**109**	41
Gain on disposal of intangible assets		**–**	(1,603)
Amortization of intangibles	10	**203,313**	109,092
Impairment of intangibles	10	**–**	984
Impairment of long-term assets	10	**–**	11,642
Share-based compensation	35	**28,793**	15,561
Exchange movements		**(2,915)**	(87)
Provisions movements	24	**(43,031)**	46,485
Changes in working capital:			
Inventories		**28**	39
Trade and other receivables		**(49,175)**	40,127
Payables and other liabilities		**30,917**	(108,558)
Deferred income		**(16,603)**	21,657
Pension funding in excess of charge to operating profit		**(18)**	586
Cash generated from operations		**455,730**	288,741

35 Employees and directors

	2016 $'000	2015 $'000
Staff costs		
Wages and salaries	**433,198**	300,516
Redundancy and termination costs (non-exceptional)	**3,722**	–
Social security costs	**59,205**	37,544
Other pension costs	**13,608**	10,145
Cost of employee share schemes	**28,793**	15,561
Total	**538,526**	363,766

	2016 $'000	2015 $'000
Pension costs comprise:		
Defined benefit schemes (note 25)	**760**	330
Defined contribution schemes (note 25)	**12,848**	9,815
Total	**13,608**	10,145

	2016 Number	2015 Number
Average monthly number of people (including executive directors) employed by the Group:		
Sales and distribution	**1,958**	1,319
Research and development	**1,676**	897
General and administration	**584**	299
Total	**4,218**	2,515

Notes to the consolidated financial statements for the year ended 30 April 2016 continued

35 Employees and directors continued

	2016 $'000	2015 $'000
Key management compensation		
Short-term employee benefits	**9,297**	9,512
Share-based payments	**10,146**	6,421
Total	**19,443**	15,933

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".

	2016 $'000	2015 $'000
Directors		
Aggregate emoluments	**3,612**	4,814
Aggregate gains made on the exercise of share options	**3,764**	6,139
Company contributions to money purchase pension scheme	**228**	285
Total	**7,604**	11,238

For further information on the directors of the Company please refer to the Directors' Remuneration report on pages 62 to 85.

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 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. 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. 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 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 62 to 85.

	2016		2015	
	Options	**Weighted average exercise price pence**	Options	Weighted average exercise price pence
Outstanding at 1 May	**4,927,511**	**45**	3,938,339	63
Exercised	**(506,225)**	**20**	(765,618)	29
Forfeited	**(76,469)**	**7**	(259,373)	10
Granted	**841,543**	**–**	2,014,163	2
Outstanding at 30 April	**5,186,360**	**41**	4,927,511	45
Exercisable at 30 April	**1,581,754**	**127**	890,844	231

The weighted average share price in the year for options on the date of exercise was 1,406 pence (2015: 991 pence).

The amount charged to the consolidated statement of comprehensive income in respect of the scheme was $15.1m (2015: $8.7m). In addition to this $2.4m (2015: $2.6m) was charged to the consolidated statement of comprehensive income in respect of national insurance on these share options.

35 Employees and directors continued

	2016			2015		
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	**1**	**3,776**	**7.8**	1	3,140	8.3
£0.11 – £1.00	**13**	**761**	**7.5**	12	1,117	8.1
£1.01 – £2.00	**114**	**33**	**0.2**	115	34	0.9
£2.01 – £3.00	**246**	**309**	**2.0**	246	319	3.0
£3.01 – £4.00	**358**	**146**	**3.2**	358	151	4.2
More than £4.00	**402**	**161**	**4.2**	402	166	5.2
	41	**5,186**	**7.1**	45	4,927	7.6

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was £12.96 (2015: £9.14). The significant inputs into the model were weighted average share price of £14.10 (2015: £10.12) at the grant date, exercise price shown above, expected volatility of between 24.80% and 26.40% (2015: between 25.78% and 30.30%), expected dividend yield of between 2.60% and 3.00% (2015: between 2.90% and 3.60%), an expected option life of three years and an annual risk-free interest rate of between 1.40% and 2.10% (2015: between 1.60% and 2.60%). 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

	2016		2015	
	Options	**Weighted average exercise price pence**	Options	Weighted average exercise price pence
Outstanding at 1 May	**3,262,420**	**–**	–	–
Granted	**–**	**–**	3,803,643	–
Forfeited	**–**	**–**	(541,223)	–
Outstanding at 30 April	**3,262,420**	**–**	3,262,420	–
Exercisable at 30 April	**–**	**–**	–	–

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. Grants can 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 819.4 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 $7.6m (2015: $3.0m). In addition to this $2.8m (2015: $0.7m) was charged to the consolidated statement of comprehensive income in respect of national insurance on these share options.

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

35 Employees and directors continued

Range of exercise prices	2016 Weighted average exercise price pence	2016 Number of shares '000	2016 Weighted average remaining contractual life years	2015 Weighted average exercise price pence	2015 Number of shares '000	2015 Weighted average remaining contractual life years
£0.10 or less	**–**	**3,262**	**8.6**	–	3,262	9.6
	–	**3,262**	**8.6**	–	3,262	9.6

The weighted average fair value of options granted during the year determined using the Monte-Carlo simulation model was £6.47 (2015: £6.47). The significant inputs into the model were weighted average share price of £11.05 (2015: £11.05) at the grant date, exercise price shown above, expected volatility of between 25.81% and 26.11% (2015: between 25.81% and 26.11%), expected dividend yield of between 2.90% and 3.30% (2015: 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% (2015: 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. Further Sharesave and ESPP grants were made during the year ended 30 April 2016.

Sharesave	2016 Options	2016 Weighted average exercise price pence	2015 Options	2015 Weighted average exercise price pence
Outstanding at 1 May	**549,229**	**693p**	527,410	364p
Exercised	**(110,236)**	**464p**	(289,592)	231p
Forfeited	**(53,985)**	**793p**	(28,178)	544p
Granted	**158,649**	**1,148p**	339,589	798p
Outstanding at 30 April	**543,657**	**862p**	549,229	693p
Exercisable at 30 April	**4,866**	**482p**	2,669	337p

Options	Date of grant	Exercise price per share pence	Exercise period
4,866	1 April 2013	481.6p	1 April 2016 – 30 September 2016
45,395	1 October 2013	598.4p	1 October 2016 – 31 March 2017
4,368	21 November 2013	649.6p	1 January 2017 – 30 June 2017
38,279	5 February 2014	612.0p	1 May 2017 – 30 September 2017
85,448	1 August 2014	695.0p	1 October 2017 – 31 March 2018
212,363	10 February 2015	838.4p	1 April 2018 – 30 September 2018
98,386	7 August 2015	1,112.0p	1 October 2018 – 31 March 2019
54,552	9 February 2016	1,200.0p	1 April 2019 – 30 September 2019
543,657			

35 Employees and directors continued

ESPP	2016 Options	2016 Weighted average exercise price pence	2015 Options	2015 Weighted average exercise price pence
At 1 May	**179,919**	**948p**	84,342	528p
Exercised	**(10,082)**	**663p**	(30,935)	504p
Forfeited	**(16,012)**	**671p**	(36,964)	499p
Granted	**118,481**	**1,189p**	163,476	980p
Outstanding at 30 April	**272,306**	**1,080p**	179,919	948p
Exercisable at 30 April	**–**	**–**	–	–

Options	Date of grant	Exercise price per share pence	Exercise period
11,439	1 October 2014	899.5p	1 October 2016 – 31 December 2016
142,386	1 April 2015	1,004.0p	1 April 2017 – 30 June 2017
55,356	1 October 2015	1,023.0p	1 October 2017 – 31 December 2017
63,125	1 April 2016	1,334.0p	1 April 2018 – 30 June 2018
272,306			

The amount charged to the consolidated statement of comprehensive income in respect of the Sharesave and ESPP schemes was $0.9m (2015: $0.5m).

The weighted average fair value of options granted in the Sharesave and ESPP schemes during the year determined using the Black-Scholes valuation model was £4.15 (2015: £3.38). The significant inputs into the model were weighted average share price of £14.21 (2015: £11.53) at the grant date, exercise price shown above, expected volatility of between 25.09% and 26.36% (2015: between 25.81% and 27.38%), expected dividend yield of between 2.80% and 3.10% (2015: between 2.90% and 3.60%), an expected option life of two or three years and an annual risk-free interest rate of between 1.40% and 1.70% (2015: between 1.71% and 2.56%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

36 Operating lease commitments – minimum lease payments

At 30 April 2016 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.

	2016 $'000	2015 $'000
Future minimum lease payments under non-cancellable operating leases expiring:		
No later than one year	**27,177**	29,040
Later than one year and no later than five years	**73,273**	79,189
Later than five years	**40,583**	54,883
Total	**141,033**	163,112

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.

37 Contingent liabilities

The Group had contingent liabilities of $nil at 30 April 2016 (2015: $nil).

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.

38 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 35.

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

38 Related party transactions continued

At the beginning of the year Wizard Parent LLC ("Wizard") held 39.9% of the issued share capital of the Company and during the year they reduced their holding to 13.8% by 30 April 2016. On 13 May 2016 Wizard announced that it had sold 24,078,342 ordinary shares in Micro Focus in a placing. Following completion of the placing, Wizard held 6,017,369 ordinary shares in the Company, representing approximately 2.6% of the Company's issued ordinary shares. These remaining shares were to be distributed to certain members of Wizard and certain partners and investors of such members (including entities managing funds for any such member, partner or investor) who wish to retain a residual stake in Micro Focus and benefit from their on-going ownership. There are three major shareholders of Wizard Parent LLC and one of these shareholders held a major shareholding in a technology company with which Micro Focus has traded during the year. These transactions were at arms' length and the goods and services were based on the price lists in force and terms that would be available to third parties. The value of sales made to this third party in the year was $12.2m (2015: $5.0m) and the value of goods purchased was $0.8m (2015: $0.1m).

39 Business combinations

Summary of acquisitions in the year ended 30 April 2016

	Carrying value at acquisition $'000	Fair value adjustments $'000	Hindsight adjustments $'000	Goodwill $'000	Consideration: Shares $'000	Consideration: Cash $'000	Consideration: Total $'000
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
	(500,228)	**(225,786)**	**(5,583)**	**2,127,773**	**1,386,216**	**9,960**	**1,396,176**

Acquisition of Authasas BV

On the 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.

A fair value review was carried out 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 equivalents	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**

Trade and other receivables is net of a bad debt provision of $16,000.

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 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.

39 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.

Acquisition of TAG

On 20 November 2014, the Group acquired from Wizard, TAG, a US company based in Houston. The acquisition of TAG was made as this presented a rare opportunity to achieve a significant increase in the scale and breadth of Micro Focus, with the potential to deliver Total Shareholder Returns that are superior to those likely to be achieved on an organic basis.

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.

The acquisition of TAG was classified as a reverse takeover under the London Stock Exchange Listing Rules. Under the completion of the acquisition the listing on the premium listing segment of the Official List of all the Existing Ordinary Shares was cancelled and an application was made for the immediate readmission of those Existing Ordinary Shares and the admission of the Consideration Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. The relisting fees incurred by the Group were $723,000.

A fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of intangible assets.

Notes to the consolidated financial statements for the year ended 30 April 2016
continued

39 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**

Trade and other receivables is net of a bad debt provision of $124,000.

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 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.

39 Business combinations continued

As at 30 April 2016 the hindsight adjustments that have been identified to finalize the acquisition fair value 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.

40 Post Balance Sheet Events

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 at an enterprise value of $540m, payable in cash at completion. 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 ten 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. Like Micro Focus, Serena benefits from high levels of recurring maintenance revenues and high EBITDA margins, with consistently strong cash generation and no significant customer concentration. Serena's position in the Source Code Change Management ("SCCM") segment complements the Micro Focus Product Portfolio in COBOL Development, Host Connectivity and CORBA.

Serena will be integrated into the Micro Focus Product Portfolio and the revenues will be reported in the Development and IT Operations Management Tools sub-portfolio and, consequently, it will give rise to operational efficiencies. The transaction is expected to enhance the Group's adjusted earnings in the year ending 30 April 2017.

The Group acquired the Serena Group on a cash and debt free basis for an enterprise value of $540m in cash, to be settled through the repayment of the Serena Group's net indebtedness at completion (estimated at approximately $252m) and the purchase of Serena's entire share capital from the vendors (being principally funds managed by US private equity firm HGGC and a trust related to Serena's founder) for the balance of approximately $288m, subject to customary working capital and other adjustments.

The transaction has been funded through the Group's existing cash resources together with additional debt and equity finance arranged through Barclays, HSBC and Numis Securities. On the 2 May 2016, the Group's existing revolving credit facility were 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 (note 29).

The last period for which audited results (KPMG Auditors) are available for the Serena Group is the year ended 31 January 2015. For this period the Serena Group reported revenues of $176.2m (of which Licence, Maintenance and Professional Services represented approximately 19%, 73% and 8% respectively) and profit before tax of $30.3m. The Group expects that Underlying Adjusted EBITDA (as reported on the same basis as Micro Focus) is $87.0m for the Serena Group for the year ended 31 January 2015. As at 31 January 2015 the gross assets of the Serena Group amounted to $558.4m. These figures are audited under US GAAP.

The Group has not yet presented the full IFRS 3 "Business Combinations" disclosures as it is not yet practicable to do so.

As part of its due diligence process Micro Focus has also reviewed unaudited management accounts information for the Serena Group's financial year ended 31 January 2016, presented under US GAAP, which shows revenues of $162.3m and Underlying Adjusted EBITDA of $80.9m. Approximately $8m of the decrease in revenues and $3m of the decrease in Underlying Adjusted EBITDA between FY15 and FY16 are attributable to foreign exchange movements, notably the strengthening of the US dollar.

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 2016 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 2016 (the "Annual Report"), comprise:

— the Company Balance Sheet as at 30 April 2016;

— 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

Companies Act 2006 opinion

In our opinion, 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.

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.

Independent auditors' report to the members of Micro Focus International plc
continued

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, 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.

Other matter

We have reported separately on the Group financial statements of Micro Focus International plc for the year ended 30 April 2016.

Andrew Paynter
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
13 July 2016

Company balance sheet
as at 30 April 2016

	Note	2016 $'000	2015 $'000
Fixed assets			
Investments	VIII	**312,211**	75,447
		312,211	75,447
Current assets			
Deferred tax assets		**5,970**	2,349
Debtors	IX	**1,385,438**	1,489,536
Cash at bank and in hand		**1,567**	162
		1,392,975	1,492,047
Creditors: amounts falling due within one year	X	**(21,536)**	(8,186)
Net current assets		**1,371,439**	1,483,861
Total assets less current liabilities		**1,683,650**	1,559,308
Capital and reserves			
Called up share capital	XII	**39,573**	39,555
Share premium account	XII	**190,293**	16,087
Capital redemption reserve		**163,363**	163,363
Merger reserve		**1,015,189**	1,195,189
Retained earnings		**275,232**	145,114
Total equity		**1,683,650**	1,559,308

The Company financial statements on pages 153 to 162 were approved by the board of directors on 13 July 2016 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 2016

	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 2014		37,802	14,546	230,654	–	103,983	386,985
Loss for the year		–	–	(19,928)	–	–	(19,928)
Other comprehensive income for the year		–	–	–	–	–	–
Total comprehensive expense for the year		–	–	(19,928)	–	–	(19,928)
Dividends	V	–	–	(72,707)	–	–	(72,707)
Issue of share capital		106	1,541	(4,275)	–	–	(2,628)
Shares issued to TAG		13,550	–	–	1,372,666	–	1,386,216
Return of Value to shareholders	XIV	–	–	(131,565)	–	–	(131,565)
Return of Value – share consolidation		(37,866)	–	–	–	11,903	(25,963)
Return of value – new shares issues		25,963	–	–	(47,477)	47,477	25,963
Expenses relating to Return of Value		–	–	(55)	–	–	(55)
Expenses relating to relisting on LSE		–	–	(723)	–	–	(723)
Reallocation of merger reserve[3]		–	–	130,000	(130,000)	–	–
Movement in relation to share options:							
– Value of subsidiary employee services		–	–	7,600	–	–	7,600
– Value of services provided	VI	–	–	4,915	–	–	4,915
Deferred tax on share options		–	–	1,198	–	–	1,198
Total changes in equity		**1,753**	**1,541**	**(85,540)**	**1,195,189**	**59,380**	**1,172,323**
Balance as at 30 April 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**

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 02/10 (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. See note 39 in the Group financial statements.

3 The merger reserve is an unrealized profit until it can be realized by the settlement of the intercompany loan by qualifying consideration. $180.0m of the intercompany loan is expected to be settled in qualifying consideration during the year to 30 April 2017 (2015: $130.0m) 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 2016 the value of distributable reserves was $275,232,000 (2015: $145,114,000).

Company statement of cash flows
for the year ended 30 April 2016

	Note	2016 $'000	2015 $'000
Cash generated from operations	XV	**103,094**	208,758
Interest paid		**–**	–
Taxation (paid)/received		**–**	–
Net cash generated from operating activities		**103,094**	208,758
Cash flows from investing activities			
Acquisition of subsidiaries	VIII	**(295,772)**	(1,386,216)
Acquisition costs relating to TAG		**–**	(5,710)
Proceeds from the sale of investment in subsidiaries to another Group undertaking	VIII	**75,447**	1,386,216
Costs associated with relisting on the London Stock Exchange		**–**	(723)
Interest received		**86**	–
Net cash used in financing activities		**(220,239)**	(6,433)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**968**	1,647
Proceeds from share placement	XII	**225,720**	–
Costs associated with share placement	XII	**(2,979)**	–
Return of Value paid to shareholders		**–**	(131,565)
Costs associated with the Return of Value		**–**	(55)
Dividends paid to owners	V	**(105,159)**	(72,707)
Net cash generated from/(used in) financing activities		**118,550**	(202,680)
Effects of exchange rate changes		**–**	–
Net increase/(decrease) in cash and cash equivalents		**1,405**	(355)
Cash and cash equivalents at beginning of year		**162**	517
Cash and cash equivalents at end of year		**1,567**	162

Non-cash payments of $1,386.2m were made in respect of the issue of shares relating to the acquisition of TAG in 2015.

Notes to the Company financial statements
for the year ended 30 April 2016

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. Details of the transition to FRS 102 are disclosed in note XIX.

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.

No expense is recognized in respect of share options granted before 7 November 2002 and vested before 1 January 2005. For shares or share options granted after 7 November 2002 and vested after 1 January 2005 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.

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.

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 assets 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

There have been no critical judgments made in applying the Company's accounting policies.

b) Critical accounting estimates and assumptions

The critical accounting estimates and assumptions for the Company are as reported by the Group on pages 109 to 110.

IV Profit and recognized gains and losses attributable to the Company

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account 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 $20.1m (2015: loss of $19.9m).

V Dividends

Equity – ordinary	2016 $'000	2015 $'000
2015 final paid 33.00 cents (2014: 30.00 cents) per ordinary share	**70,015**	40,215
2016 interim paid 16.94 cents (2015: 15.40 cents) per ordinary share	**35,144**	32,492
Total	**105,159**	72,707

The directors are proposing a final dividend in respect of the year ended 30 April 2016 of 49.74 cents per share which will utilize approximately $113,744,000 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:

	2016 $'000	2015 $'000
Wages and salaries	**4,968**	4,844
Social security costs	**2,835**	811
Other pension costs	**35**	72
Cost of employee share schemes	**6,369**	4,915
Total	**14,207**	10,642

The average monthly number of employees of the Company, including remunerated directors, during the year was nine (2015: 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 62 to 85.

Key management personnel costs for the Company during the year

Key management includes the directors and members of senior management. All the key management of the Company are directors and are therefore included in the Remuneration Report.

Notes to the Company financial statements for the year ended 30 April 2016
continued

VII Share-based payments
The Company has various equity-settled share-based compensation plans, details of which are provided below. 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. Prior to 18 April 2011 performance conditions required that cumulative EPS growth over a three year vesting period is at least equal to 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. 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. 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 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 62 to 85.

	2016		2015	
	Options	**Weighted average exercise price pence**	Options	Weighted average exercise price pence
At 1 May	**661,621**	**–**	695,479	–
Exercised	**–**	**–**	(210,760)	–
Granted	**163,574**	**–**	176,902	–
Outstanding at 30 April	**825,195**	**–**	661,621	–
Exercisable at 30 April	**278,628**	**–**	–	–

No options were exercised during the year. The weighted average share price in the year for options on the date of exercise during the year ended 30 April 2015 was 949 pence.

The amount charged to the profit and loss account in respect of the scheme was $2.5m (2015: $1.9m). In addition to this $0.9m (2015: $1.1m) was charged to the profit and loss account in respect of National Insurance on these options.

	2016			2015		
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	**–**	**825**	**7.4**	–	662	8.0
	–	**825**	**7.4**	–	662	8.0

163,574 (2015: 176,902) options were granted in the year. The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was £12.65 (2015: £8.97). The significant inputs into the model were weighted average share price of £13.68 (2015: £9.90) at the grant date, exercise price shown above, volatility of 24.89% (2015: 27.38%), dividend yield of 2.60% (2015: 3.55%), an expected option life of three years and an annual risk-free interest rate of 2.06% (2015: 2.56%). 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
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. Grants can 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.

VII Share-based payments continued

The "Shareholder Return Percentage" will be calculated by deducting 819.4 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.

	2016		2015	
	Options	**Weighted average exercise price pence**	Options	Weighted average exercise price pence
Outstanding at 1 May	**1,623,669**	**–**	–	–
Granted	**–**	**–**	1,623,669	–
Outstanding at 30 April	**1,623,669**	**–**	1,623,669	–
Exercisable at 30 April	**–**	**–**	–	–

The amount charged to the profit and loss account in respect of the scheme was $3.9m (2015: $1.60m). In addition to this $1.2m (2015: $0.4m) was charged to the profit and loss account in respect of National Insurance on these share options.

	2016			2015		
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	**–**	**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.

	2016		2015	
Sharesave	**Options**	**Weighted average remaining contractual life years**	Options	Weighted average remaining contractual life years
Outstanding at 1 May/30 April	**1,504**	**598p**	1,504	598p
Exercisable at 30 April	**–**	**–**	–	–

Options	**Date of grant**	**Exercise price per share pence**	**Exercise period**
1,504	1 October 2013	598.4p	1 October 2016 – 31 March 2017

The amount charged to the statement of comprehensive income in respect of the Sharesave scheme was $1,000 (2015: $1,000).

The weighted average fair value of options granted in the Sharesave schemes during the year determined using the Black-Scholes valuation model was £2.41 (2015: £2.41). The significant inputs into the model were weighted average share price of £7.62 (2015: £7.62) at the grant date, exercise price shown above, expected volatility of 43.6% (2015: 43.6%), expected dividend yield of 4.1% (2015: 4.1%), an expected option life of three years and an annual risk-free interest rate of 2.2% (2015: 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.

Notes to the Company financial statements for the year ended 30 April 2016
continued

VIII Fixed asset investments

	$'000
Cost and net book value:	
At 1 May 2015	**75,447**
Additions	**312,211**
Disposals	**(75,447)**
At 30 April 2016	**312,211**

On 14 January 2016, the Company established a new subsidiary, Micro Focus Midco Limited, with an initial investment of $2.

On 18 March 2016, the Company then sold its subsidiary, Micro Focus Group Limited to Micro Focus Midco Limited at a book value of $75.4m in exchange for shares in Micro Focus Midco Limited.

On 28 March 2016, the Company made a further investment in Micro Focus Midco Limited of $220.3m in exchange for ordinary shares in Micro Focus Midco Limited. The total investment in the year was $295.7m.

Additions of $16.5m (2015: $3.8m) relating to capital contributions arising from share-based payments were also made in the year (note VII).

A full list of subsidiary undertakings, joint ventures and associates at 30 April 2016 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 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

	2016 $'000	2015 $'000
Amounts owed by Group undertakings	**1,378,828**	1,488,723
Other debtors	**1,047**	696
Prepayments and accrued income	**5,563**	117
Total	**1,385,438**	1,489,536

The amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

X Creditors: amounts falling due within one year

	2016 $'000	2015 $'000
Amounts owed to Group undertakings	**2,831**	213
Other creditors including taxation and social security	**151**	155
Accruals and deferred income	**18,554**	7,818
Total	**21,536**	8,186

The amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

XI Financial instruments

The Company has the following financial instruments:

	2016 $'000	2015 $'000
Financial assets measured at amortized cost		
Amounts owed by Group undertakings	**1,378,828**	1,488,723
Other debtors	**1,047**	696
	1,379,875	1,489,419
Financial liabilities measured at amortized cost		
Amounts owed to Group undertakings	**2,831**	213
Accruals	**18,554**	7,818
Total	**21,385**	8,031

XII Called up share capital and share premium account

Information on share capital is provided in notes 29 and 30 of the Group financial statements. Information on share premium is provided in note 31 of the Group financial statements.

XIII Share buy-back

The Group obtained shareholder authority at the AGM held on 25 September 2014 to buy back up to 14.99% of its issued share capital, which remained outstanding until the conclusion of the AGM on 24 September 2015.

No shares have been bought back under the terms of the above authority.

At 30 April 2016 a total of 29,924 treasury shares were held (2015: 11,339,583).

XIV Return of Value to shareholders

In December 2014 we completed a Return of Value to shareholders amounting to £83.9m ($131.6m) in cash (60 pence per share, equivalent to 94.02 cents per share), by way of a "B" and "C" share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by 0.9285 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the "B" and "C" shares.

As part of the corporate entity restructuring resulting from the acquisition we have created a merger reserve of approximately $1.4bn, which is expected to become a distributable reserve in future periods. This creates flexibility for future Returns of Value once Net Debt to Facility EBITDA is below 2.5 times.

As at December 2014 this was the Group's 4th Return of Value to shareholders and this brings the total amount returned to shareholders since 25 March 2011 through share buy-backs, Returns of Value and ordinary dividends to £554.4m which represents 87.3% of the Market Capitalization at that time.

XV Cash generated from operating activities

	2016 $'000	2015 $'000
Loss for the financial year	**(20,066)**	(19,928)
Adjustments for:		
Net interest	**(86)**	–
Taxation	**(487)**	9
Share-based payment charge	**8,409**	4,915
Exchange movements	**407**	(223)
Changes in working capital:		
Decrease in amounts owed from Group undertakings	**109,894**	243,958
Increase/(decrease) in amounts owed to Group undertakings	**2,620**	(10,781)
(Increase)/decrease in other debtors	**(5,797)**	268
Increase/(decrease) in creditors	**8,200**	(9,460)
Cash generated from operating activities	**103,094**	208,758

Notes to the Company financial statements for the year ended 30 April 2016
continued

XVI Contingent liabilities
The Company has guaranteed certain contracts in the normal course of business and bank borrowings of its subsidiaries.

XVII 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.

XVIII Controlling party
The Company is ultimate controlling party of the Micro Focus International plc Group.

XIX Transition to FRS 102
This is the first year that the Company has presented their results under FRS 102. The latest financial statements prepared under the previous UK GAAP were for the year ended 30 April 2015. The date of transition to FRS 102 was 1 May 2014.

Upon transition, no adjustments were noted that would create reconciling items between UK GAAP as previously reported and FRS 102 for profit for the financial year ended 30 April 2015 or total equity as at 1 May 2014 and 30 April 2015 and there have been no changes in accounting policies as a result. As such, it has not been necessary to present a reconciliation of equity reported in accordance with previous GAAP to equity in accordance with FRS 102 for the date of transition to FRS 102 and 30 April 2015 in accordance with previous GAAP, nor a reconciliation of the balance sheet in accordance with FRS 102 as at 30 April 2015.

XX Post Balance Sheet Events
Please refer to note 40 in the Group financial statements.

Additional information

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Offices Worldwide

Europe & Middle East

Austria – Linz
Haupstrasse 4-10
Linz 4040
Austria
T: 43 70 33 66 94 0

Austria – Wien
Schwindgasse 4/2
A-1040 Wien
Austria
T: 359 2 987 78 80

Belgium – Brussels – virtual office
EU Parliament 4th Floor
37 Square de Meeus
1000 Brussels
Belgium
T: 32 (0)2 791 77 11

Bulgaria – Sofia
76A James Bourchier Blvd
Lozenetz
Sofia 1407
Bulgaria
T: 359 2 987 78 80

Czech Republic – Prague
Lihovarska 1060-12
Prague 19000
Czech Republic
T: 420 283 007 311

Denmark – Hørsholm
Lyngsø Allé 3B,
2970 Hørsholm
Denmark
T: 45 45160020

France – Lyon
90 Avenue Lanessan 12551
Champagne-au-mont-d'or
Lyon, France
T: 33 155 62 50 00

France – Paris
Micro Focus Sas
Tour Atlantique 22e LA Defense 9
1 Place De La Pyramide
92911 La Defense Cedex
France
T: 33 (0)1 55 70 30 13

Germany – Düsseldorf
Nördlicher Zubringer 9-11
40470 Düsseldorf
Germany
T: 49-211-5631-0

Germany – Hanau
Donaustraße 16
Hanau D-63452
Germany
T: 49 0 6181 189 4771

Germany – Ismaning
Frauenhofer Strasse 7
Ismaning D-85737
Germany
T: 011 49 89 42094 0

Germany – Nuremberg
Maxfeldstrasse 5
Nuremberg 90409
Germany
T: 49 911 740 53 0

Ireland – Dublin
Corrig Court, Corrig Road
Sandyford Industrial Estate
Sandyford, Dublin 18
Ireland
T: 353 (0) 1605 8000

Ireland – Ennis
Information Age Park
Ennis Gort Road
Ennis, County Clare
Ireland
T: 353 65 689 9900

Ireland – Galway
Parkmore East Business Park
Building 2, 2nd floor
Galway
Ireland
T: 353 91 782 600

Israel – Haifa Office
Matam Advanced
Technology Centre
Andrei Sakharov ST: No 9
Building 23
Haifa 31905
Israel
T: 972 4 855 1755

Italy – Milan (SRL)
Micro Focus, Via Enrico
Cialdini 16
Milano, 20161
Italy
T: 39 02 366 349 00

Italy – Rome
Pick Center
Piazza Marconi 15
00144 Roma
Italy
T: 39 06 32 80 36 63

Luxembourg – Luxembourg
Office 2.14
16 Avenue Pasteur
Luxembourg L-2310
Luxembourg
T: 44 (0)7584 487 103

The Netherlands – Alphen aan den Rijn
Raoul Wallenbergplein 23
Alphen aan den Rijn
2404 ND
The Netherlands
T: 31 172 50 55 55

The Netherlands – The Hague
Wilhelmina van Pruisenweg 104
The Hague
The Netherlands
2595 AN
Tel: +31-263736170

The Netherlands – Rotterdam
Alexander Poort B
Marten Meesweg 99
Rotterdam 3068
The Netherlands
T: 31 10 286 4444

Northern Ireland – Belfast
Micro Focus House
2 East Bridge Street
Belfast
BT1 3NQ
N. Ireland
T: 44 (0) 28 9026 0000

Norway – Oslo
Bjørvika, 7th Floor
Dronning Eufemias gt. 16
0191 Oslo
Norway
T: 47 23 89 79 80

Portugal – Lisbon – virtual office
Centro Empresarial
Torres de Lisboa
Torre G 1, Andar Sala 111
Rua Tomas da Fonseca, 1600
Lisbon
Portugal
T: 35 121 723 0630

Spain – Barcelona – virtual office
World Trade Center
Muelle de Barcelona
Edifcio Sur – 2a Planta
Muelle de barcelona
Barcelona 08039
Spain
T: 34 93 545 11 54

Spain – Madrid
Paseo de la Castellana 42; 5º
Madrid 28046
Spain
T: 34 91 781 5004

Sweden – Stockholm
Kronborgsgränd 1
164 46 Kista
Stockholm
Sweden
T: 46 8 752 2500

Switzerland – Zürich
Office Centre 1
Flughafenstrasse 90
Zürich
Switzerland, 8058
T: +41 43 4562300

Switzerland – Zürich – virtual office
Lindenstrasse 26
CH-8008, Zürich
Switzerland
T: 00 800 58102130

UAE – Dubai
Micro Focus Middle East FZ-LLC
Dubai Internet City
DIC Building
1st Floor
Dubai, UAE
T: 44 (0)7584 457 103

United Kingdom – Edinburgh
13 Coates Crescent
Edinburgh
EH3 7AF
United Kingdom
T: 44 131 625 5555

UK – Newbury Office
The Lawn
22-30 Old Bath Road
Newbury
Berkshire
RG14 1QN
United Kingdom
T: 44 (0)1635 565 200

North America

US – Austin
8310 North Capital of Texas Hwy.
Building 1, Suite 155
Austin, TX 78731
USA
T: 1 512 340 2200

US – Bellingham – Washington
2925 Roeder Avenue
Suite 300
Bellingham, WA 98225
USA
T: 1 360 715 1170

US – Burlington – Massachusetts
30 Corporate Drive
Suite 130
Burlington, MA 01803-4252
USA
T: 1 978 341 5300

US – Cambridge – Massachusetts
10 Canal Park
Suite 200
Cambridge, MA 02141
USA
T: 1 713 724 6301

US – Costa Mesa – CA
575 Anton Blvd
Suite 510
Costa Mesa, CA 92626
USA
T: 1 714 455 4000

US – Houston – Texas
515 Post Oak Boulevard
Suite 1200
Houston, TX 77027
USA
T: 1 (713) 548 1700

US – Loveland – Ohio
424 Wards Corner Road
Suite 100
Loveland, OH 45140
USA
T: 1 513 965 8030

US – New York City – New York
One Penn Plaza
36th Floor
New York City, NY 10119
USA
T: 1 646 704 0042

US – Plano – Texas
5700 Granite Parkway
Suite 200
Plano, TX 75024
USA
T: 1 972 731 2553

US – Provo – Utah
1800 South Novell Place
Provo, UT 84606
USA
T: 1 801 861 7000

US – Rockville – MD
One Irvington Center
700 King Farm Boulevard
Suite 400
Rockville MD 20850-5736
USA
T: 1 301 838-5000

US – Santa Clara – CA
5201 Great America Parkway
Suite 320
Santa Clara, CA 95054
USA
T: 1 (408) 562 6123

US – Seattle – Washington
705 5th Avenue South
Suite 1100
Seattle, WA 98107
USA
T: 1 206 217 7100

US – South Euclid – Ohio
1415 Argonne Road
Suite B
South Euclid, OH 44121-2920
USA
T: 1 208 217 7092

US – Troy – MI
50 W. Big Beaver Road
Suite 500
Troy MI 48084
USA
T: 1 248.824 1661

US – Vienna – Virginia
8609 Westwood Center Drive
Suite 700
Vienna, VA 22182
USA
T: 1 703 608 7476

Rest of the World

Australia – Melbourne
Level 4 12-14 Claremont Street
South Yarra
Melbourne VIC 3000
Australia
T: 61 3 9825 2300

Australia – Sydney
Micro Focus Pty Limited
Level 23, Northpoint Tower
100 Miller Street
North Sydney NSW 2060
Australia
T: 61 2 8281 3400

Brazil – São Paulo (B)
Rua Joaquim Floriano
466-12 Andar
Office Corporate
São Paulo CEP 04534-002
Brazil
T: 5511 2165 8000

Canada – Toronto
Suite 206
340 King Street East
Toronto, Ontario M5A 1K8
Canada
T: 1 416 203 6565

China – Beijing
Room 3603-3606
Beijing Fortune Plaza Office
Tower A, No7 Dong
Beijing
China 100020
T: 86 10 6533 9000

China – Hong Kong
Unit 2003A, 20/F
The Centrium
60 Wyndham Street
Central Hong Kong
China
T: 852 3978 2337

China – Shanghai
Regus BEA Finance Tower
No. 1520-21, 15F BEA No.66
Hua Yuan Shi Qiao Road
Pudong District
Shanghai 200120
China
T: 86 21 5174 8788

China – Shenzhen
Unit 1201, 12/F, Tower 2
Kerry Plaza, No1 Zhongxinsi Road
Futian District
ShenZhen 518048
China
T: 86 755 82822655

India – Bangalore
"Laurel", Block "D"
65/2 Bagmane Tech Park
c.v. Raman Nagar
Byrasandra Post
Bangalore 560093
India
T: 91 80 4002 2300

India – Mumbai
Leela Galleria, 1st floor
Andheri Kurla Road
Andheri (E)
Mumbai 400 059
T: 91 22 6127 4180

India – New Delhi
Unit 3 & 4, 1st Floor
Salcon Ras Vilas
District Center
Saket, New Delhi 110017
India
T: 91 011 4006 4006

Japan – Tokyo – HTAG
Sumitomo Ichigaya Building
12/F 1-1 Ichigaya-Honmuracho
Shinjuku-ku, Tokyo 162-0845
Japan
T: 81 3 520 69401

Japan – Tokyo
Sumitomo Fudosan
Roppongi-dori Bldg. 9F
7-18-18 Roppongi
Minato-ku, Tokyo 106-0032
Japan
T: 81 3 5413 4800

Korea – Seoul
Micro Focus
41/F Gangnam Finance Centre
737, Yeoksam-dong
Gangnam-gu
Seoul – 135-984
Korea
T: 82 2 2008 4691

Singapore – Singapore
3 HarbourFront Place
#13-02/04
Harbour Front Tower 2
Singapore 099254
T: 65 6510 4200

South Africa – Cape Town
Suite 202 2nd Level N Block
Boulevard Place Heron Crescent
Century City
Cape Town 7441
South Africa
T: 27 021-555-0761

South Africa – Johannesburg
Morningside Wedge Office Park
255 Rivonia Road
Morningside, Sandton
2057
South Africa
T: 27 011 322 8300

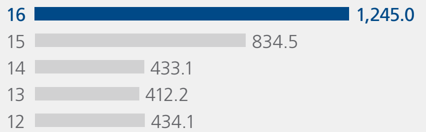
Taiwan – Taipei
Room B, 26th Floor
216 Tunn-Hwa s Road Sec 2
Taipei, Taiwan R.O.C 106
China
T: 886 223760000

Turkey – Istanbul – Asian Side
Palladium Ofis ve Residence
Binasi, Office 220
Barbaros Mahallesi Halk Caddesi
No:8/A Kat:2-3, Atasehir, 34746
Istanbul, Turkey
T: 90 216 663 60 10

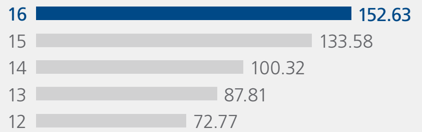
Turkey – Istanbul – European Side
Beytem Paza, Office 545
19 Mayis Mh.
Buyukdere Caddesi
No:22 Floor 5
Mecidiyekoy, Sisli 34381
Istanbul, Turkey
T: 44 (0)7584 487 103

Historical summary

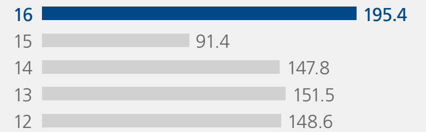
Revenue ($m)
$1,245.0m



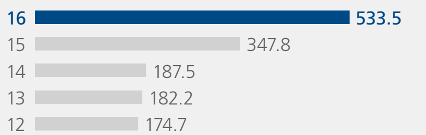
Adjusted Earnings per share basic (c) 152.63c



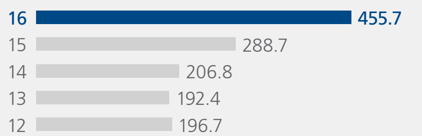
Profit before tax ($m)
$195.4m



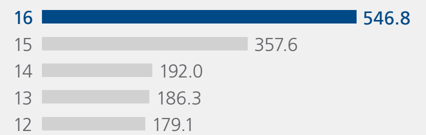
Adjusted Operating profit ($m)
$533.5m



Cash generated from continuing operations ($m)
$455.7m



Adjusted EBITDA ($m)
$546.8m



Summarized Group consolidated statement of comprehensive income for the year ended 30 April

	2016 $'000	2015 $'000
Revenue	**1,245,049**	834,539
Adjusted Operating profit	**533,514**	347,773
Share-based compensation	**(28,793)**	(15,561)
Amortization of purchased intangibles	**(181,934)**	(88,298)
Exceptional items	**(27,853)**	(96,678)
Operating profit	**294,934**	147,236
Profit before tax	**195,396**	91,427

Earnings per share		
Basic (cents)	**74.50**	58.54
Diluted (cents)	**71.61**	56.71

Summarized Group consolidated statement of financial position as at 30 April

	2016 $'000	2015 $'000
Non-current assets	**3,681,332**	3,879,634
Current assets	**954,361**	460,967
Current liabilities	**(1,061,797)**	(988,030)
Non-current liabilities	**(1,980,168)**	(2,074,510)
Total equity	**1,593,728**	1,278,061

Key dates and share management

Key dates for 2016

Annual General Meeting	22 September 2016

Dividend payments

Final payable – year ended 30 April 2016	7 October 2016
Interim payable – period ended 31 October 2016	January 2017

Results announcements

Interim results – period ended 31 October 2016	December 2016
Final results – year ended 30 April 2017	July 2017

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 charges.

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)

Tom Virden
(Independent non-executive director)

Steve Schuckenbrock
(Independent non-executive director)

Amanda Brown
(Independent non-executive director)

Company Secretary, Registered and Head Office
Jane Smithard
The Lawn
22-30 Old Bath Road
Newbury
Berkshire RG14 1QN
United Kingdom

www.microfocus.com
Registered in England number 5134647

Legal advisors
Travers Smith LLP
10 Snow Hill
London EC1A ZAL
United Kingdom

Independent auditors
PricewaterhouseCoopers LLP
3 Forbury Place
23 Forbury Road
Reading
Berkshire RG1 3JH
United Kingdom

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
United Kingdom
www.shareview.co.uk

Brokers
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT
United Kingdom

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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www.gather.london

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Micro Focus International plc

The Lawn
22-30 Old Bath Road
Newbury
Berkshire RG14 1QN
United Kingdom
Tel: +44 (0) 1635 565200
Fax: +44 (0) 1635 33966
www.microfocus.com
Registered No. 5134647