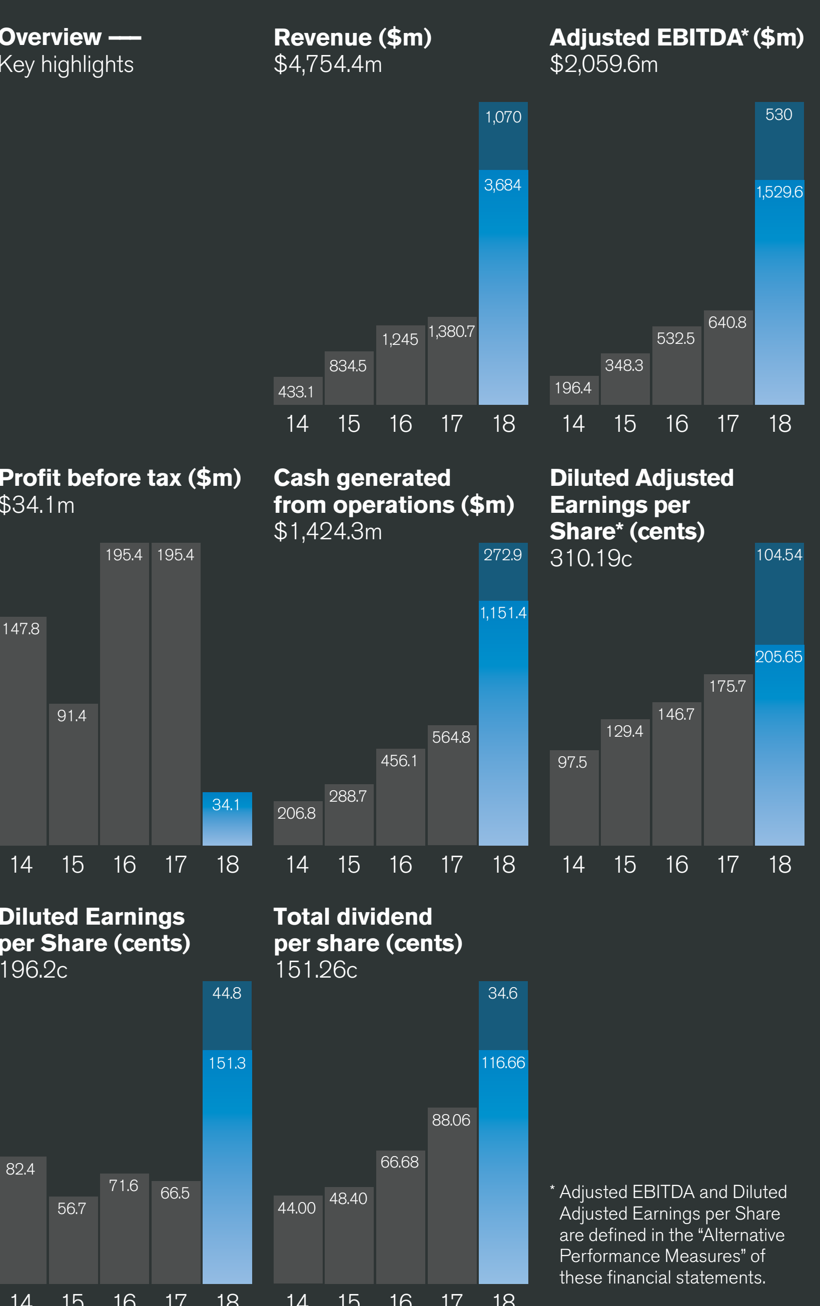
MICRO FOCUS
Bridging now and next —
Annual Report and Accounts 2018



* Adjusted EBITDA and Diluted Adjusted Earnings per Share are defined in the "Alternative Performance Measures" of these financial statements.

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Our focus is delivering innovation that enables customers to bridge existing and emerging technologies; protecting their investments and supporting their digital transformation journey. We call this customer centric innovation.

Our proven financial and operating model is aligned to create value for our shareholders.

Overview

We are proud that our diverse portfolio is used across the globe to underpin mission critical transactions, processes and systems. Day-to-day, we help the world function, from SMS transactions that are powered by CORBA to car manufacturers that use our ADM tools to test their in-car technology. Vertica is used to power some of the data dependent giants of the world and our security portfolio secures the access and data stored by some of the world's largest financial institutions and Governments. Even the Hubble Space Telescope uses Micro Focus technology to manage communications.

Micro Focus in numbers —

1976
Year established

>$4bn
Revenue (approx.)

>40,000
Enterprise customers

>4,000
Partners

>14,000
Employees in 43 countries

>4,800
Software engineers

>300
Business-critical software products

Our heritage —

Attachmate

MERCURY

Novell

Voltage

ArcSight

Who we are —
A global infrastructure software business delivering value to approximately 40,000 customers over our heritage of more than 40 years. Micro Focus is focused on customer centric innovation delivered through operational effectiveness and scale, with revenues of $4,754.4m and Adjusted EBITDA of $2,059.6m for the 18 months ended 31 October 2018.

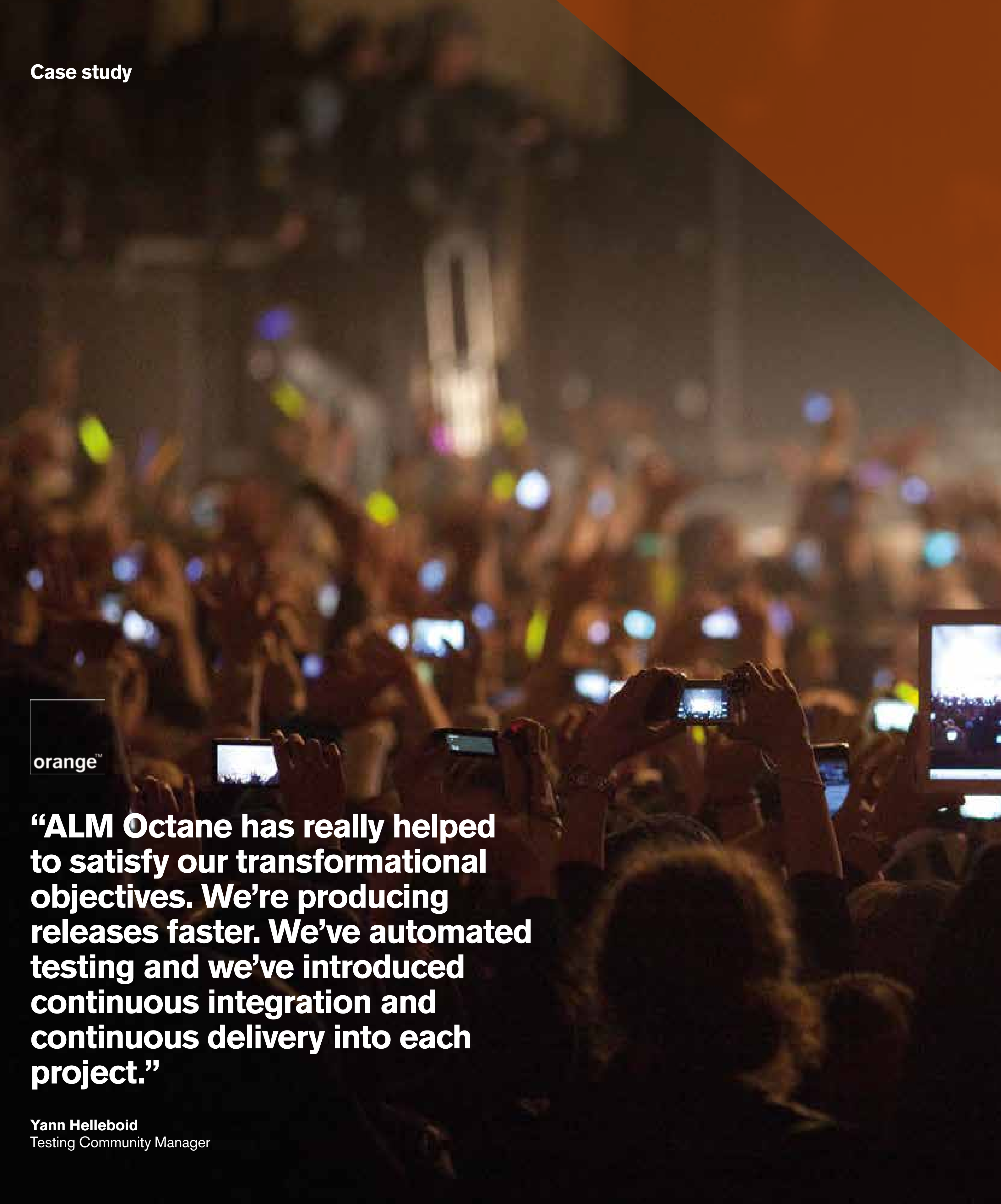
What we do —
Powering customers' digital transformation with solutions spanning four key areas:

- **Enterprise DevOps (Speed)**
  – Build and deliver better software faster
- **Hybrid IT Management (Agility)**
  – Operate with agility
- **Security, Risk & Governance (Security)**
  – Secure what matters most
- **Predictive Analytics (Insights)**
  – Analyse in time to act

Our broad and diversified global customer base —

GUESS

Case study



"ALM Octane has really helped to satisfy our transformational objectives. We're producing releases faster. We've automated testing and we've introduced continuous integration and continuous delivery into each project."

Yann Helleboid
Testing Community Manager

Speed

Orange is now clearly heading towards a full DevOps environment

Micro Focus ALM Octane offered a highly scalable user-friendly enterprise grade solution, generating a real time overview. This boosts application delivery times, accelerating time to market.

Case study

Allianz

"The one platform approach with Micro Focus SBM has really delivered for us. Responsibilities are clearly defined and we have improved the delivery of IT service management, supporting the entire software development lifecycle on a single platform."

Martin Hrazdira
Head of IT, Operations

Agility

Micro Focus brings business and IT closer together through consolidation and automation of key processes.

Use Micro Focus SSM powered by SBM to create a single point of contact into IT and streamline both IT and business processes.

EUR vs EONIA

Case study

Security

Securing traveler information with Micro Focus Security solutions helps revenues take off for Allegiant Travel

Micro Focus Voltage SecureData means 100% of customer transactions can be protected with no credit card details stored.

"IT equals innovation, pure and simple. We are an IT company that happens to fly airplanes. The ability to control the software and the IT piece is something that makes us better."

Maury Gallagher Jr.
CEO and Chairman

Case study

Insights

Auckland Transport expands video analytics and relishes its vision for safer road and more efficient public transportation

Auckland Transport, the transportation agency for the city of Auckland, New Zealand, steered a Big Data project to glean video analytics from almost 3,000 closed-circuit television (CCTV) cameras, using Micro Focus® IDOL. As a result, the city is closer to realising its vision of safer roads and efficient public transportation.

"As a transport agency, our Micro Focus IDOL analytics platform is helping us exceed customer expectations and shape positive perceptions."

Roger Jones
Executive General Manager

Timeline

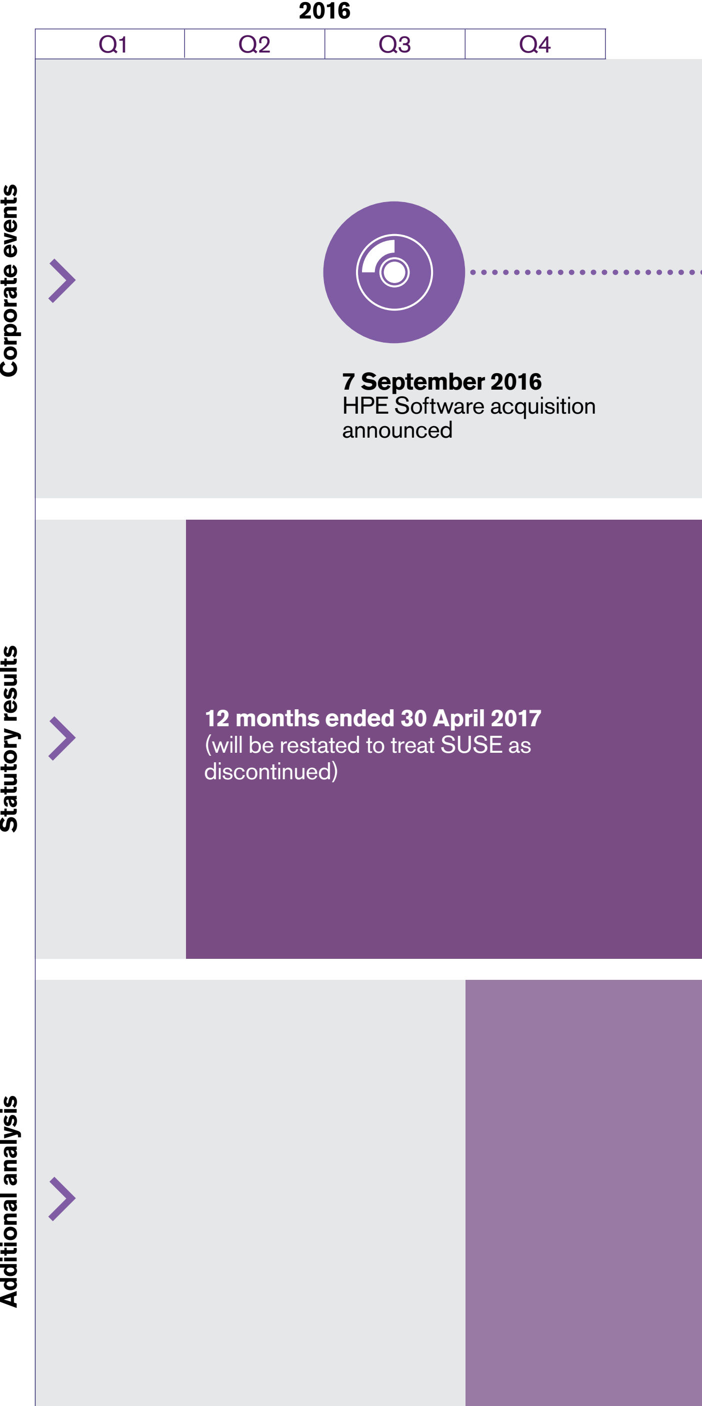
The last two years have been transformational for Micro Focus

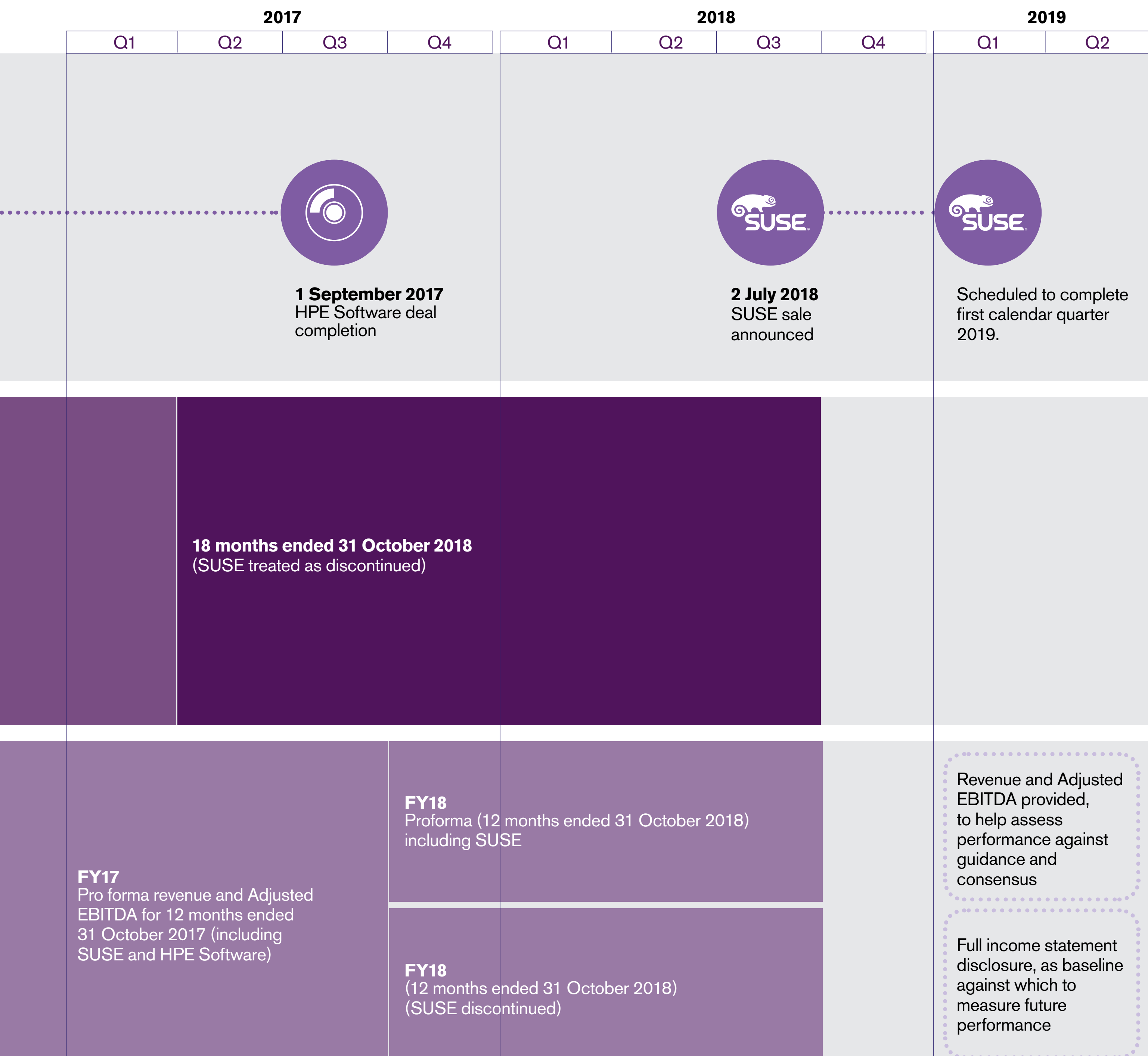
This annual report covers the 18 months ended 31 October 2018 with the comparative period being the 12 months ended 30 April 2017.

The Group has undertaken two material corporate development activities within the 18 months ended 31 October 2018.

- On 1 September 2017, the Group acquired the Software business of Hewlett Packard Enterprise ("HPE Software"), within the Micro Focus Product Portfolio.
- On 21 August 2018, our shareholders approved the sale of our SUSE operating segment. The transaction is expected to complete in the first quarter of calendar year 2019 and SUSE remains under the control of the Group until this point. For the purposes of the Group's financial statements the SUSE business is treated as a discontinued operation.

These transactions have both had a material impact on the trading performance and presentation of the financial statements.




2017
Q1
Q2
Q3
Q4
2018
Q1
Q2
Q3
Q4
2019
Q1
Q2
1 September 2017
HPE Software deal completion
2 July 2018
SUSE sale announced
Scheduled to complete first calendar quarter 2019.
18 months ended 31 October 2018
(SUSE treated as discontinued)
FY17
Pro forma revenue and Adjusted EBITDA for 12 months ended 31 October 2017 (including SUSE and HPE Software)
FY18
Proforma (12 months ended 31 October 2018) including SUSE
FY18
(12 months ended 31 October 2018) (SUSE discontinued)
Revenue and Adjusted EBITDA provided, to help assess performance against guidance and consensus
Full income statement disclosure, as baseline against which to measure future performance

"The board continues to have full confidence in the HPE Software business acquisition, the Micro Focus investment proposition and shareholder returns model."

Kevin Loosemore
Executive Chairman
20 February 2019

The period under review is an 18 month timeframe, as a result of moving our year-end from the end of April to the end of October.

This has been a significant time of change for the Group following our transaction to acquire the HPE Software business, which completed on 1 September 2017. The improved financial and operational performance in the second half of the year to 31 October 2018 is evidence that under the leadership of Stephen Murdoch as CEO we have seen a robust application of the Micro Focus business model after a challenging start to the integration. We are approximately a year behind where we expected to be in terms of the integration programme, and these challenges have been disruptive and difficult at times, but significant progress has been made in stabilising systems and people and instilling customer centric discipline. As a result, the board continues to have full confidence in the HPE Software business acquisition, the Micro Focus investment proposition, and our shareholder returns model.

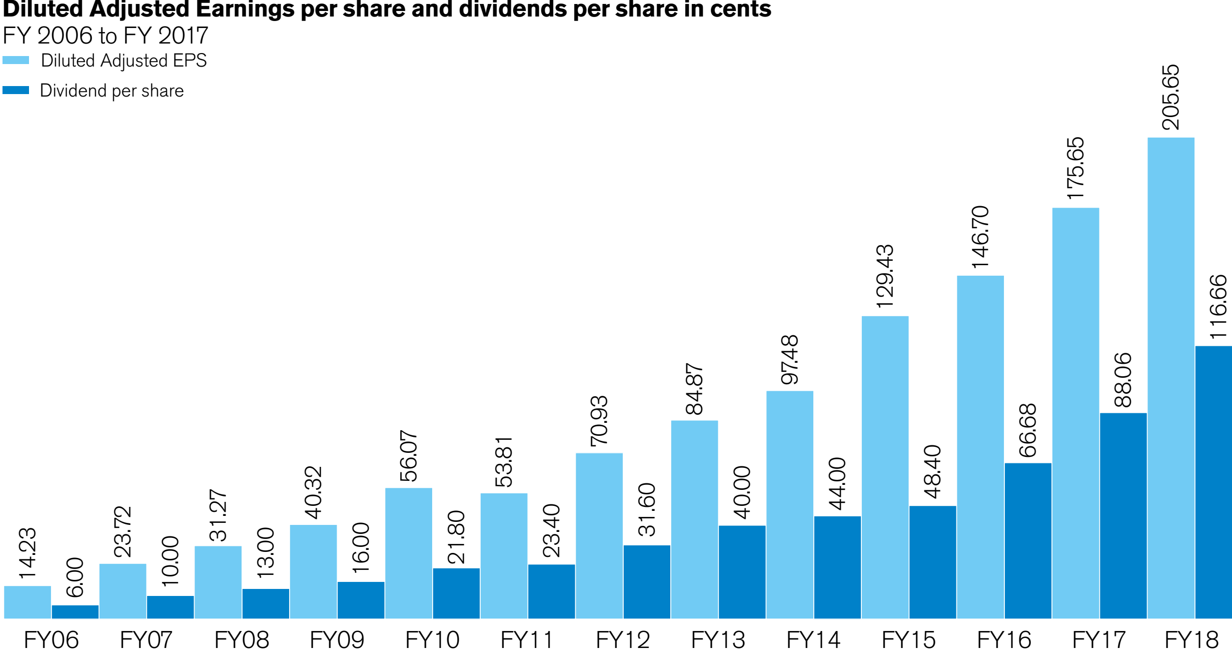
We are a consolidator in the fragmented infrastructure software market, and the HPE Software business transaction is the latest proof point of our strategy to pursue a portfolio management approach designed to deliver strong shareholder returns over time. Announcements of other significant M&A in this market confirm that this consolidation is active and relevant. The board is confident that the Company is well placed to pursue further consolidation in time and apply its established and effective business model to previously inappropriately managed assets, and so generate a sustainable returns model aligned with shareholder interests. As part of our portfolio management, on 2 July 2018 we announced the sale of the SUSE business for $2.5bn. The transaction is expected to complete in the first calendar quarter of 2019. When we acquired the Attachmate Group in November 2014 for $2.35bn, SUSE represented approximately 20% of the revenues of the acquired assets. The sale of SUSE to EQT Partners represents an outstanding return on investment for our shareholders.

Capital allocation and debt position

The leverage target for the Group remains 2.7 times net debt to Adjusted EBITDA. The strong cash generation qualities of the Company support this level of indebtedness with the debt level already having reduced from the time of the completion of the HPE Software business transaction on 1 September 2017 to 2.8 times at 31 October 2018, in line with our initial plans. The forthcoming completion of the sale of SUSE will generate approximately $2 .06bn in net proceeds, which we intend to return to shareholders after any required debt repayment.

Diluted Adjusted Earnings per share and dividends per share in cents

FY 2006 to FY 2017



Notes:
FY18 reflects 12 months ended 31 October 2018 with all other reference dates being 12 months dated 30 April.

In the 18 months ended 31 October 2018, the Group generated a Diluted Adjusted EPS of 310.19 cents of which 205.65 cents has been generated in the last 12 months. This compares to 175.65 cents in the 12 months ended 30 April 2017, demonstrating the level of value accretion already delivered following the acquisition of the HPE Software business.

The board will keep the appropriate level of debt under review and Micro Focus will be consistent in its policy of not holding surplus cash on the balance sheet

On 29 August 2018, the Company announced the start of a share buy-back programme for an initial tranche of up to $200m which was extended on 5 November 2018 to the total value of $400m (including the initial tranche). Up to and including 13 February 2019 the Company had spent $400m and purchased 22,455,121 shares at an average price of £13.82 per share. We are now extending this buy-back programme into a third tranche of up to $110m to be executed in the period from 14 February 2019, up until the day before the AGM which takes place on 29 March 2019 when the current buy-back authority approved by shareholders at the 2017 AGM to make market purchases of up to 65,211,171 ordinary shares will expire.

Board changes

Since the last annual report there has been significant change at board level as well as in the business. Silke Scheiber, Darren Roos and Lawton Fitt joined the board as non-executive directors, all bringing directly relevant skill sets to support the newly enlarged Company. Karen Slatford, Richard Atkins and Amanda Brown, together with myself, provide continuity and long-term experience of the Micro Focus business and strategy.

We enter the new 2019 fiscal year with new Executive leadership on the board; Stephen Murdoch was appointed CEO in March 2018 and re-joined the board at that time. In November 2018, we announced Brian McArthur-Muscroft as CFO-designate. Brian will formally join the board as CFO on 21 February 2019 and Chris Kennedy will step down from the board on that date. The Group has assembled a strong management team comprised of leaders from Micro Focus, the HPE Software business and new hires.

Dividend

During this 18 month transitionary period, we have paid two interim dividends and proposed a final dividend of 58.33 cents, taking total dividend per share to 151.26 cents for the 18 month period. On an annualised basis, this total dividend is 100.84 cents per share which is growth of 14.5% on the full year dividend for the year ended 30 April 2017 of 88.06 cents per share. Notwithstanding the pattern of dividends during the past 18 month period, the dividend policy remains unchanged at two times covered by the adjusted earnings of the Company. In future periods, we will return to our approach of paying a single interim and final dividend for the financial year.

The dividend will be paid in Sterling equivalent to 45.22 pence per share, based on an exchange rate of £1 = $1.29, the rate applicable on 13 February 2019, the date on which the board resolved to propose the dividend. Subject to approval by shareholders, the dividend will be paid on 5 April 2019 to shareholders on the register at 1 March 2019.

Kevin Loosemore
Executive Chairman
20 February 2019

Recent months have seen robust application of the Micro Focus business model and encouraging progress —

Chief Executive’s strategic review

“Systematic application of the Micro Focus business model is now driving better clarity of purpose.”

Stephen Murdoch
Chief Executive
20 February 2019

In the period under review, Micro Focus has become a much larger company with a broader and more diverse portfolio of products that is better able to serve our customers' needs, and with the opportunity to continue to create significant value for our shareholders over the long-term. The path to our current position has been a complex and difficult one over the last year as we worked to integrate the HPE Software business acquisition. Integrations of this scale are always challenging and significant programmes of work are still in progress but we believe the most disruptive issues experienced since completion are now behind us.

In this strategic review, I cover our performance in the period, reiterate the key elements of our strategy and business model, explain how we have addressed the main challenges faced in the integration of the HPE Software business since completion of the transaction on 1 September 2017, and comment on our outlook for the coming financial year.

Performance in the period

The Group reported revenues of $4,754.4m for the 18 months ended 31 October 2018 (12 months ended 30 April 2017: $1,077.3m) and Operating Profit of $376.8m (12 months ended 30 April 2017: $227.4m). Our statutory results are covered in more detail in the Chief Financial Officer 's report.

Due to the transformational nature of the HPE Software business acquisition, and the fact this is an 18 month period under review compared to the preceding 12 month period, comparative financial performance is also presented on a pro-forma basis. The pro-forma results include the discontinued SUSE business and 12 months of results for the acquired HPE Software business in both the 12 months ended 31 October 2018 and the 12 months ended October 2017.

We believe the most disruptive issues experienced since completion are behind us —

Pro-forma revenues of $4,058.0m for the 12 months ended 31 October 2018 represent a decline of 5.3% on a pro-forma constant currency basis (2017: $4,286.8m) against management guidance issued in March 2018 of a decline between 6% and 9%.

Adjusted EBITDA for the Group was $2,059.6m for the 18 months ended 31 October 2018 (12 months ended 30 April 2017: $640.9m). On a pro-forma basis at actual exchange rates, the Group delivered a 9.2% growth in Adjusted EBITDA to $1,529.6m for the 12 months ended 31 October 2018 (2017: $1,401.1m), reflecting good progress in the cost management actions related to the integration programme. This performance translates to a 37.7% Adjusted EBITDA margin.

Recent operational improvements, evidenced by the stabilisation of our revenue performance and the continued expansion in our profit margins, are encouraging signs of early progress. There is a great deal still to do to build the operational foundations and flexibility we want as we drive to capture fully the significant opportunity ahead in both the existing business and the market more broadly.

(For a more detailed review of our financial performance, see the Chief Financial Officer financial review on pages 42 to 59).

The Micro Focus strategy and business model

Micro Focus' strategy and business model are designed to deliver sustained customer value and strong, consistent shareholder returns over the long-term.

The market dynamics that have driven our strategy and business model since 2011 have not changed. We continue to believe the infrastructure software market is fragmented and consolidating. This belief has been supported by significant M&A elsewhere in the market during the 18 month period under review. Micro Focus continues to build the scale and operational efficiency to be a leader in this consolidation over time. Our unwavering focus on delivering customer value through effective long-term product management, coupled with our operational efficiency and consistent, disciplined capital allocation, make us well placed to succeed.

Our strategy is grounded in more than 40 years' experience delivering proven, scalable and robust infrastructure software solutions and we now serve more than 40,000 customers through a global team of approximately 14,000 employees.

The business environment in which our customers operate is increasingly competitive and the systems, applications and infrastructure that underpin their business operations are highly complex. Customers want and need a partner for the long-term that is committed to, and capable of, helping them modernise and protect their existing technology, adopt innovation and exploit new business models while maximising the value of and return from existing investments. Partnership with Micro Focus enables customers to better exploit new opportunities, deal with changing operational and legislative requirements, and increasingly sophisticated cyber threats. From a product portfolio perspective, the foundation of our strategy and business model is direct engagement with customers to ensure we deliver the

products, solutions and deployment options they need – we call this "customer centric innovation".

In essence, we bridge the old and the new to deliver innovation faster at lower risk and are committed to being a consistent, reliable partner for the long-term.

(For a more detailed explanation of the marketplace see pages 26 to 27 and of the Micro Focus business model see pages 22 to 25).

Applying the Micro Focus business model

As the industry continues to consolidate, Micro Focus can draw upon extensive, relevant experience having completed and successfully integrated 15 acquisitions in the past decade. The integration of the HPE Software business has involved additional complexities, largely because it was a carve-out of a division from a larger parent, as opposed to the acquisition of a business that had been operating independently. The HPE Software business was a fully integrated, albeit small division of HPE that relied upon the parent company's strategy, business model and central support functions. As a result, there has been much more work to do on this integration in the areas of go-to-market, business process simplification and IT systems, within a broader challenge on overall style, tone and pace of execution.

Systematic application of the Micro Focus business model is now driving better clarity of purpose, the alignment of goals and the creation of a more dynamic environment where execution is faster, operations simpler and people more accountable.

Product Portfolio

Across the five product portfolios we report against we have more than 300 products. The execution against our goal of customer centric innovation has been strong. Customer commitments and thought leadership have been delivered across the product portfolio with more than 500 product releases in the year, ranging from small functional updates through to completely re-architected solutions and highly innovative new capabilities.

This represents great depth of capability and experience to help our customers address some of the most complex challenges they face. To better enable our customers and partners to exploit this breadth and depth we are re-aligning resources to develop compelling value propositions across four focus areas – Enterprise DevOps; Hybrid IT Management; Security, Risk & Governance; and Predictive Analytics. The strength and competitive differentiation across these areas is significant and I am excited by what we do for customers today and the potential we have to do even more in the future.

(There are examples of how we help customers throughout this report and for a more detailed explanation of our customer propositions and leading products see pages 28 to 29).

Go-to-Market organisation and execution capability

Following completion of the acquisition of the HPE Software business, a combined go-to-market organisation was implemented and launched on 1 November 2017. This design and implementation was overly complex in both structure and processes, and the resulting lack of clarity and accountability led to significant sales execution issues, which were compounded by the IT systems challenges covered later in this report. Both these issues combined to drive significantly elevated levels of attrition within the sales organisation. Correcting organisational design issues and improving execution has been a key priority of the management team since March. Improvement measures have focused on the consistent execution of simpler, more effective sales processes. These have been underpinned by better alignment and accountability within the sales management teams through the removal of unnecessary global structures and management layers.

To improve the quality of customer engagement, we have made organisational changes to align marketing and product teams much more tightly and invested in a consistent approach to enablement globally. In addition, investments were made to re-build an appropriate account management programme to support our largest customers. These capabilities were part of the broader HPE and existing Micro Focus coverage models prior to completion but were not catered for effectively in the initial design post completion.

In April 2018, Micro Focus established a new approach to comply with US federal requirements and to better serve the needs of our classified and controlled US Federal Government customers. This involved a strategic partnership where customer engagement and operations where undertaken by a third party on our behalf.

The hiring engine has been re-engineered and is now functioning effectively. It is anticipated that the combination of more empowerment through clarity of accountability, better enablement and improved hiring and on-boarding will see attrition levels stabilise further and begin to trend down.

A disciplined sales management process has been established globally to drive the consistently high levels of sales execution expected from the organisation and we have strengthened the team at all levels but notably through the appointment of Jon Hunter as Chief Revenue Officer. Jon joins us with extremely relevant experience and a great track-record in leading global sales teams.

There are always improvements to be made in sales execution and this will remain the key focus for Jon and the sales leadership team.

We remain focused on and fully committed to running our enlarged operations as effectively and efficiently as possible —

IT Systems

At the time of the combination of the Micro Focus and the HPE Software businesses, we envisaged that we would migrate the existing Micro Focus business onto a new set of IT systems designed and implemented by HPE to support the carve out and sale of their software business. Unfortunately, challenges with these IT systems have been significant, including issues around data migration, system configuration and the integration of applications. In the six months to 30 April 2018 in particular, this impacted our ability to quote, invoice and collect cash, as well as pay suppliers, partners and our sales teams.

These systems are now stable and able to support the operations of the business but still require more manual intervention than we want. There is significant foundational work underway to address this, focused on the back office organisation to simplify operations and processes, increase automation and improve resilience to drive operational efficiencies. The issues experienced and the subsequent foundational remediation work required have slowed our plan to migrate to a single IT platform.

This is being addressed through a parallel project underway to build the future, simplified systems architecture for the Group, which upon completion will enable further automation of the improved processes and deliver the platform for on-going operational improvements. Until the completion of that project, the Group continues to operate on two IT architectures with the attendant complexity this adds to our business operations and control environment. To maintain the required control environment, the Group relies upon automated, semi-automated and manual controls together with a combination of preventative and detective controls.

Continuous improvement of day-to-day operations

Our business model is focused on delivering targeted, relevant business outcomes for customers and consistent returns for shareholders.

The foundation of this is the development of a Company-wide culture of continuous improvement delivering fit-for-purpose operations and a more dynamic, execution-orientated environment where team members are empowered and accountable and the overall organisation aligned to common goals.

In support of this, we are making additional investments in the enablement and development of our team, increasing focus on people engagement, inclusion and diversity, and developing a more comprehensive Corporate Social Responsibility plan.

We remain focused on and fully committed to running our enlarged operations as effectively and as efficiently as possible while driving our key integration priorities, notably improved IT systems and back office functions, to completion.

Financial discipline

Our focus on operational rigour and effectiveness is coupled with robust financial and capital allocation discipline.

The merger of the Micro Focus and HPE Software business has provided a significant opportunity for operational improvements and cost efficiencies. To date there has been good progress on cost reduction as evidenced by the continued expansion in Adjusted EBITDA margin, with further opportunities ahead.

The on-going optimisation of our operations is designed to deliver strong operating margins through the realisation of these cost efficiencies at pace, balanced with the continued delivery of our core value proposition of making, selling and supporting infrastructure software solutions that customers value and rely on. Effective execution will deliver a platform for further M&A that targets underperforming assets ready to be improved by the application of the Micro Focus business model.

Our net debt represents a modest level of gearing for a company with the cash-generating qualities of Micro Focus, with a target net debt to Adjusted EBITDA multiple of 2.7 times. We are confident that this level of debt will not reduce our ability to deliver our strategy, invest in products and make appropriate acquisitions. Micro Focus has a strong balance sheet and our lenders are supportive of our strategy and business model. At 31 October 2018, we had net debt of $4.25bn representing a net debt to pro-forma Adjusted EBITDA ($1.5bn) of 2.8 times. Without the $171.7m of share buy-backs in the period we would have reached our medium-term target of 2.7 times within 14 months compared with the 24 months which was anticipated at the time of completion of the HPE Software business transaction.

Value creation – SUSE sale
On 2 July 2018, we announced definitive terms, subject to shareholder approval, for the sale of SUSE for a total cash consideration of $2.535bn to EQT. We believe this price represents a highly attractive enterprise valuation for SUSE at a multiple of approximately 7.9 times revenue and 26.7 times Adjusted Operating Profit for the 12 months to 31 October 2017 and reflects an excellent return on the investments we have made to support and grow this business since it was acquired in 2014. In addition to a great value return for shareholders, we see the purchaser, EQT, as a strong long-term investor for SUSE.

In line with our capital allocation strategy we intend to return the net sale proceeds to shareholders after tax, transaction costs and any required debt repayments have been accounted for. This will be effected through a Return of Value to be implemented after completion of the transaction, which is currently anticipated to be towards the end of the first calendar quarter of 2019.

Group outlook
Micro Focus' strategy and business model are designed to deliver strong and consistent shareholder returns over the long-term. We are encouraged by progress over recent months and believe we are getting back on track to focus on our outstanding customer and partner relationships founded on delivering software that is essential to mission-critical business processes, and to provide our investors with consistently strong results going forward. Our technology, expertise and the commitment to enabling customers to both embrace new innovation and leverage their established IT investments is a major positive differentiator in the infrastructure software market.

At the date of the preliminary announcement on 14 February 2019, we issued constant currency revenue guidance for the Micro Focus Product Portfolio ("MFPP") continuing business for the 12 months to 31 October 2019 of minus 4% to minus 6% compared to the 12 months ending 31 October 2018. We continue to target a Net Debt to Adjusted EBITDA target of 2.7 times together with a regular dividend twice covered by adjusted earnings.

Performance in first quarter FY19 (ended 31 January 2019) is in line with this guidance.

The last 18 month period has been transformational for Micro Focus and has been, at times, very challenging and disruptive for our employees. I am proud of their professionalism and hard work and I am delighted to share the progressive sense of common purpose and clear direction that is building within the Company as we move firmly from the one-off transitional effects of the combination with the HPE Software business to the running and continuous improvement of a successful, enlarged operation.

Stephen Murdoch
Chief Executive
20 February 2019

Micro Focus' strategy and business model are designed to deliver strong and consistent shareholder returns over the long-term —

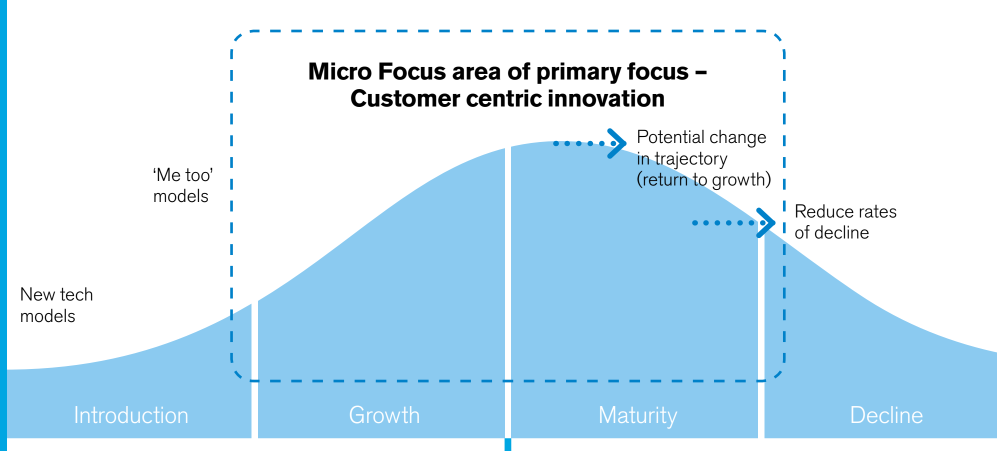
“Micro Focus has a proven financial and operating model which is aligned to create value for both our customers and shareholders.”

Stephen Murdoch
Chief Executive
20 February 2019

Business model

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

Product lifecycle



Market dynamics • Innovative and often disruptive technologies • High capex and R&D • User base rapidly expanding • Products repeatedly enhanced **Investment strategy** • Investing in growth	**Market dynamics** • Infrastructure software: embedded products with high switching costs • Limited growth capex • Margin expansion and efficiency opportunities **Investment strategy** • Returns driven by maximising cash flow

We are an infrastructure software company. We make, sell and support software. Our focus is delivering what we call customer centric innovation. This is innovation that enables customers to bridge existing and emerging technologies, protecting investments and supporting their digital transformation. We seek to be agile and efficient, easy to do business with, and to have a stable, skilled and diverse workforce. Our goal is to deliver consistently high levels of shareholders returns for the long-term.

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

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 categorisation of our product portfolio into one of the four quadrants represented in the table below.

Portfolio management

New models Products or consumption models (cloud and subscription) that open new opportunities could become growth drivers or represent emerging use cases that we need to be able to embrace.	**Growth drivers** Products with consistent growth performance and market opportunity to build the future revenue foundations of the Group.
Optimise Products with declining revenue performance driven by the market or execution. Investments directed to correct trajectory to move back to the core category or focused to optimise 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.

How we run our business

The Micro Focus strategy and proven operating model continues to position this organisation as a financially strong and successful leader in the infrastructure software sector. Key to our strategy is the consistent delivery of "Customer centric innovation" that delivers tangible business impact for customers in all stages of the software lifecycles. This results in enabling new business models or use cases, reducing operational costs and risks, and protecting existing investments so to extend productive use.

By enabling customers to apply the latest innovations to their existing technology investments; Micro Focus helps customers gain additional return on investment they have already made and reduces risk by allowing them to preserve and protect their existing data and business logic.

The customer proposition

What sets us apart

1. Strong products and intellectual property
Our products are deeply embedded in customers' infrastructure and underpin transactions, processes and systems globally.

2. Broad portfolio
Our portfolio delivers solutions across many IT disciplines and provides customers with the opportunity to simplify their vendor landscape.

3. Customer centric innovation
We fully understand the needs of customers and deliver tangible business impact.

4. The four-box model
Our investment priorities consider opportunities in all stages of the product lifecycle to ensure that we maximise the value delivered to the customers over the entire life of a product.

What drives our business

Bridging the now and the next
We bridge the now and the next, enabling mission critical applications and data to continue to be leveraged across the organisation.

Latest innovative features
We build the latest innovative features and capabilities that are enterprise-grade and scalable into our core products.

Easy to do business with
We provide customers with the choices to meet their IT operating objectives and run their business models. This includes flexibility in both deployment and commercial models.

What this means for our customers

Improved return on investment
… so customers can extend productive use and maximise return on investment ("ROI").

Reduce risk
… so customers can run and transform their business through adopting innovation with less risk.

Flexibility
… so customers can select what works for their enterprise and budget. This allows customers to plan for today and tomorrow with flexibility to adapt and change.

What this means for our investors

What sets us apart

1. We operate at size and scale
As a natural consolidator in the market, we have economies of scale leveraging shared functions and resources across our portfolio.

2. People
We have a broad, highly experienced management team, skilled in applying the Micro Focus financial and operating model.

3. Highly cash generative portfolio
We have a broad portfolio of products with significant market positions and high switching costs. This generates significant recurring revenue streams and cash generation.

4. A track record of market consolidation
We have a proven track-record of consolidating the market and successfully executing complex integrations.

What drives our business

A proven financial operating model
Efficient and fit for purpose operating model supported by strong financial discipline.

Value creation through consolidation
Experience in bringing together complex products through market consolidation, delivering better integration and strong value creation.

Efficiency in capital allocation
Efficient investment in capital whether organic or inorganic.

What this means for our investors

Return on investment
Total shareholder returns of between 15% and 20%.

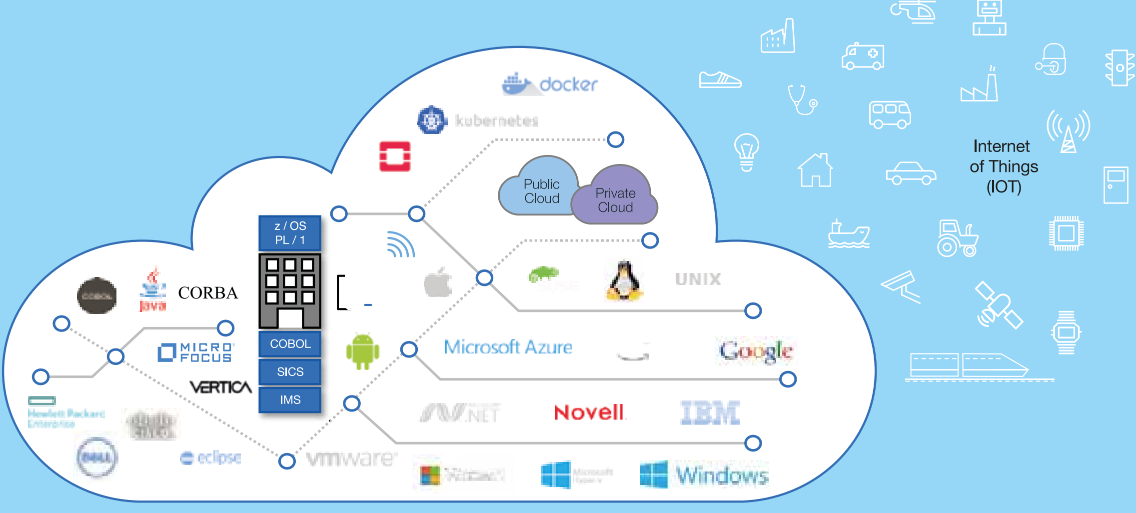
Margins
Industry leading operating margins.

Cash returns
Exceptional levels of cash generation and returns to shareholders.

The market in which we operate

Our customer's IT environment is very complex

Over many years technology and innovation has transformed most organisations, multiple times. It continues today. This repeated transformation in the relatively short history of the IT industry has created very complex environments. Co-located, highly cohesive teams with deep subject matter expertise have become highly distributed, multi-disciplined teams that work at speed. The realisation of new computing platforms, new networking infrastructures and new application access models has produced a very complex picture, and enterprise organisations need to balance many technology and platform combinations simultaneously. Importantly, in order to manage this complexity, companies must exist in multiple paradigms simultaneously – which means connecting mainframes with client server systems with mobile applications: all in a mixture of on-premise and off-premise workloads. With the business environment constantly changing, this becomes very hard to do; and even harder to do at speed and with acceptable levels of risk.



The new normal

The behaviours of IT users have changed substantially over the last decade. These behaviours have created a new set of expectations that IT must continuously deliver while at the same time budgets have been reduced. This "new normal" requires IT to adapt and react to new demands and user expectations while increasing returns and reducing risk.

Enable Mobility & Access

Consumerisation of IT

Analytics & Cross Sell

SaaSify Business Value

Differentiated Client Service & Experience

Above the line mandate: find new revenue

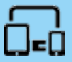
Below the line core mandate: optimise the enterprise

Cost Reduction Driven Rationalisation

Agile Cloud Delivery Models

Common Standardised Infrastructure

Automation & Process Reengineering


Bring Your Device To Work

A drive to digital transformation

Speed

Enterprise DevOps
Build and deliver better software faster

In the digital economy, time-to-market and quality determine success. With our solutions, our customers can unleash the power of DevOps across their hybrid IT landscape — quickly bringing innovative ideas to life at the pace your business demands. Now speed and quality can go hand in hand.

Agility

Hybrid IT Management
Operate with agility

Hybrid IT can be a sprawling, volatile, siloed place that jeopardises our customers' ability to compete. With our solutions, our customers can master hybrid IT with new agility — bridging traditional and transformational IT services from mainframe to mobile, from corporate to cloud. Embracing the future does not mean replacing the past.

Security

Security, Risk & Governance
Secure what matters most – identities, applications, and data

Cyber threats are escalating. Aging applications and both existing and new processes are full of unforeseen risks. Privacy and compliance requirements are mounting and point solutions do not offer the scope, vision, or cross-silo analytics needed for these Company-wide challenges. With our solutions, our customers can take a holistic, analytics-driven approach to securing what matters most — identities, applications, and data.

Insights

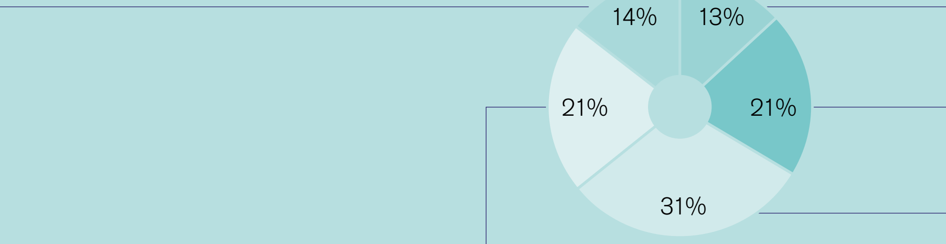
Predictive Analytics
Accurate predictions, actionable insights, and automated discovery

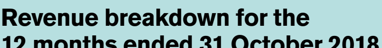
Lakes of data are valuable only if our customers can surface the insights hidden within their depths. With our solutions, they can leverage machine learning to transform unlimited volumes of data into accurate, actionable, automated insights — at the speed of your business. Now they are ready to make predictions and influence business outcomes.

Our product group

Micro Focus has five portfolios with over 300 product lines, which each deliver unique value in areas our customers demand. Our product groups, as set out in the Portfolio Review section, include a combination of stand-alone products that address specific use cases and integrated suites to help our customers run and transform IT infrastructure. This approach means our customers are able to innovate faster with less risk.

5 product portfolios
>25 sub portfolios
>300 product lines





Revenue breakdown for the 12 months ended 31 October 2018

Our product groups
The Micro Focus Product Portfolio consists of five product groups as set out here. Our product groups are uniquely positioned to help customers maximise existing software investments and embrace innovation in a world of hybrid IT – from mainframe to mobile to cloud.

$528.8m

Application Modernisation & Connectivity (AMC)
Micro Focus' Application Modernisation and Connectivity solutions help customers lower cost and improve speed and agility by modernising core business systems. With a combination of COBOL, Mainframe, Host Connectivity and CORBA software, this portfolio helps customers bridge the old and the new and future-proof investments made in technology, applications and processes over time.

Case study:
Empire Life

The challenge
Simplify support and maintenance environment, while achieving cost savings. Empire Life wanted to move towards DevOps and needed to be more responsive to growing business requirements.

Products and services
Micro Focus Enterprise Developer
Micro Focus Enterprise Server

Results
- 30% development productivity increase.
- Annual cost savings of up to $1.15m.
- Ready to move to DevOps.
- Higher quality product and service.
- Increased team collaboration.

$792.7m

Application Delivery Management (ADM)
Micro Focus' Application Delivery Management solutions help our customers to accelerate their application delivery and ensure quality and security at every stage of the application lifecycle from the first backlog item, to the user experience in production. Micro Focus is the only vendor to provide an integrated end-to-end application lifecycle management solution that is built for any methodology, technology, and delivery model.

Case study:
CONA services LLC

The challenge
Ensure SAP platform stability and uninterrupted service while deploying rapidly at a scale during Coca-Cola bottler refranchising effort.

Products and services
Performance Centre SaaS, Application Lifecycle Management, Professional services, Customer Success Manager.

Results
- Performance test SAP applications on shared-instance platform used by North America Coca-Cola bottlers to generate $21bn in annual revenue.
- Scale users and loads without service interruption.
- Support uninterrupted daily operations of more than 80,000 bottler employees.

$1,149.4m

IT Operations Management (ITOM)
Micro Focus' IT Operations Management solutions allow teams to operate with agility to both run and transform their businesses. Providing customers with the capabilities to manage and accelerate the end-to-end service fulfilment lifecycle, enabling them to more efficiently assure and govern services and helping them shift to being an IT service provider that continually provides value and insights. Micro Focus' ITOM portfolio has a broad range of offerings from enterprise service and network monitoring and management through to cloud-native and multi cloud management and migration supported by an integrated platform with a common data layer, analytics and orchestration (AIOps).

Case study:
Allianz Czech Republic

The challenge
Allianz wanted to take a more transparent and collaborative approach to all its key DevOps processes by implementing a single management platform, replacing a home-developed helpdesk system and separate tool for development processes.

Products and services
Use Micro Focus SSM powered by SBM to create a single point of contact into IT and streamline both IT and business processes.

Results
- One unified platform for development and helpdesk requirements
- 30% increase in efficiency and productivity
- Improved helpdesk performance
- Increased insight and transparency + Improved collaboration between IT and business

$762.3m

Security
Micro Focus provides customers with a comprehensive set of cybersecurity solutions that protect data, secure applications and endpoints, manage identities and access, and provide continuous security motoring through an operations centre. Micro Focus Security solutions help customers secure what matters most – identities, applications and data.

Case study:
Allegiant

The challenge
Protect credit card data and customer information while complying with the Payment Card Industry Data Security Standard (PCI DSS).

Products and services
Voltage SecureData, Vottage SecureData Web, Secure Stateless Tokenisation.

Results
- Fast implementation led to enhanced revenues by redeploying development staff to revenue-generating projects
- 100% of customer transactions now protected by Voltage SecureData
- No credit card details stored

$485.9m

Information Management & Governance (IM&G)
Micro Focus' Information Management & Governance solutions help customers access, understand and control data throughout its lifecycle to manage information-borne risk that can manifest itself in the form of fines, sanctions and legal matters. Primary solutions address compliance, governance and privacy requirements.

Case study:
RTVE

The challenge
Significantly reduce TV production times by creating an easily searchable repository containing 50 years' worth of archived content with over 20 million assets.

Products and services
Micro Focus IDOL

Results
- Content searches and retrieval completed in seconds instead of hours or days
- Support corporate digital transformation project.
- Effective collaborative relationship with Micro Focus Professional Services.
- User-friendly search solution for producers and journalists.

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 period are as follows:

Total shareholder returns

Description	Metrics 31 October 2018	30 April 2017	Performance
Compound Annual growth rate:			These ratios demonstrate the compound annual growth rate in shareholder returns assuming reinvestment of Return of Values, but not ordinary dividends. The periods covered are to 31 October 2018 from the IPO in May 2005, over the last five years from 31 October 2013, over the last three years from 31 October 2015 and over the last year from 31 October 2017. We continue to believe that with flat to low single digit revenue decline, our industry leading margins and strong cash conversion we are able to deliver shareholder returns of 15% to 20% per annum over the long-term.
• Since IPO	**20.2%**	29.3%	
• Over last five years	**12.2%**	42.7%	
• Over last three years	**3.7%**	51.7%	
• Over last one year	**51.5%**	73.3%	

Financial performance

Our financial performance KPIs helped us to monitor our progress towards our 2018 revenue and Adjusted EBITDA growth targets.

Description	Metrics 12 months ended 31 October 2018	Restated[1] 12 months ended 30 April 2017	Performance
Pro-forma constant currency revenue decline	**4.0%**	0.9%	Revenue comprises total revenues compared with the prior 12 months at pro-forma constant currency ("CCY").
Adjusted EBITDA margin[1]	**37.7%**	46.4%	Adjusted EBITDA is the EBITDA prior to exceptional items, share-based compensation charge, amortisation of and impairment of product development costs, foreign currency gains/losses and the net capitalisation of product development costs. The Adjusted EBITDA margin represents Adjusted EBITDA divided by the Pro-forma Revenue for the period.
Cash conversion[1]	**105.6%**	103.9%	This ratio is calculated using the cash flows generated from operations divided by Adjusted EBITDA less exceptional items – the result indicates that the Group is generating cash from its on-going business which can be used to reinvest in the development of the business including financing acquisitions, funding liabilities and paying dividends to shareholders.

1 The comparatives for the 12 months ended 30 April 2017 have been restated, where indicated, to reflect the divestiture of the SUSE business segment (note 19).

Financial performance continued

Description	Metrics		Performance
	12 months ended 31 October 2018	Restated[1] 12 months ended 30 April 2017	
Free cash flow	**$755.4m**	$409.2m	Free cash flow is defined as cash generated from operations less interest payments, bank loan costs, tax payments, payments for intangible assets and payments for property, plant and equipment.
DSO (days sales outstanding)	**94 days**	46 days	Days Sales Outstanding ("DSO") is the average number of days that customers take to pay their bill. The Group uses the count back method based on the amount the Group has billed customers. The count back calculation starts by taking the total outstanding gross receivables balance (i.e. before bad debt provisions), then deducting the latest month's total billings from the outstanding gross receivables. If there is a remaining gross receivables balance outstanding after deducting the latest month's billings, then the calculation deducts the total billings from the previous month, then the month before that and so on, until no outstanding balance remains. The DSO value is the total number of days' billings that can be absorbed into the outstanding gross receivables balance without leaving a remainder.
Diluted Adjusted EPS (total)	**205.65 cents**	175.65 cents	Diluted Adjusted EPS is calculated by taking profit after tax, prior to exceptional items, share-based compensation charge, amortisation of purchased intangibles and tax attributable to these charges divided by the weighted average number of fully diluted ordinary shares in issue during the period. 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 Pro-forma Adjusted EBITDA ratio is 2.7 times.

Description	Metrics		Performance
	12 months ended 31 October 2018	Restated[1] 12 months ended 30 April 2017	
Net Debt to Pro-forma Adjusted EBITDA	**2.8 times**	2.1 times	Net borrowings less cash and cash equivalents and finance lease obligations expressed as a multiple of the Pro-forma Adjusted EBITDA.
Interest cover[1]	**5.1 times**	5.6 times	Adjusted EBITDA from continuing operations, expressed as a multiple of finance costs.

1 The comparatives for the 12 months ended 30 April 2017 have been restated, where indicated, to reflect the divestiture of the SUSE business segment (note 19).

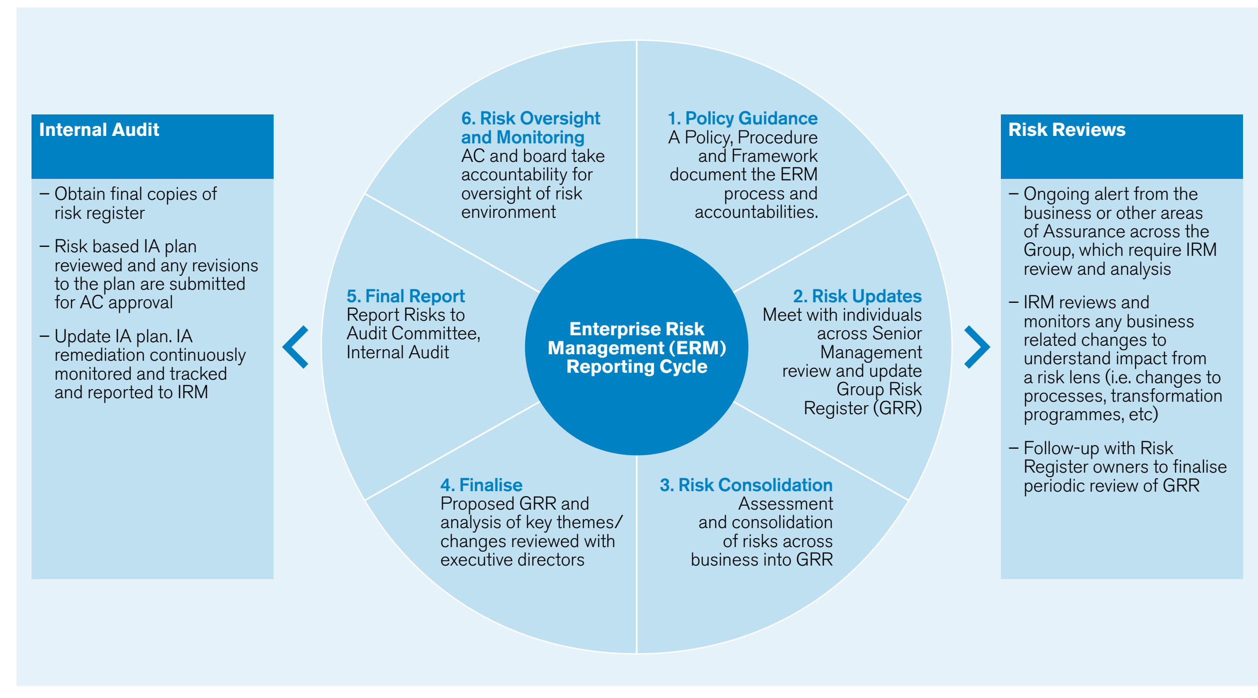
Principal risks and uncertainties

Risk Management overview
Our business model, future performance, solvency, liquidity and reputation are exposed to a variety of risks and uncertainties. The board's role is to determine the principal risks the Group is willing to take to achieve its long-term strategic objectives and enhance the sustainability of value creation. Underpinning the operation of, and central to, the risk management process is the culture of the Group, led by the board, of openness, transparency, debate, trust and accountability. On behalf of the board, the Audit Committee reviews and challenges the effectiveness and robustness of the risk management process.

Risk Management process
The board manages risk in accordance with the enterprise Risk Management Framework ("RMF") under the Group's Risk Management Policy and Procedure. The RMF is aligned to the business objectives and strategy (see page 14). A key component of the RMF for the board is that, whilst the RMF enables an assessment of risk, it is also practical and proportionate. This ensures that the RMF is able to be embedded into the day-to-day business processes across the Group, to drive risk awareness and risk culture. The board continues to build upon the RMF to respond to any future change in the Group's risk profile. During the period, the board continued to assess the gross and net risks against the defined risk appetite statements of the Group and to further align the risks to the Group's strategy. The risk appetite statements set out the board's risk-taking approach to ensure a balanced view between risk aversion, opportunity and gains, against a background of maintaining reputation, financial stability and compliance.

The Group maintains a risk based annual internal audit plan (see pages 85 to 87 for the report on internal controls). During the period, the Group underwent a significant transformational change with the acquisition of the HPE Software business on 1 September 2017 and announced the sale of the SUSE business on 2 July 2018 as set out on page 12. As the risks assessed under the RMF changed during the period, the annual internal audit plan was flexed to ensure appropriate levels of assurance. The Group risk register is reviewed with internal audit during the development of the annual internal audit plan, and subsequently at each update of the Group risk register throughout the period, to ensure alignment of the internal audit plan to the Group's risk profile. To underpin the robustness of the operation of the RMF, as part of the risk based internal audit process, the internal auditors assess the gross and net risk ranking assigned by the risk owners.

The RMF is also subject to an annual review by an external specialist and shared with the internal audit team. A key area of focus for improving the RMF in the forthcoming year is to continue to embed the RMF across the Group. The enterprise risk management reporting cycle and alignment with internal audit and the wider business is as follows:



Risks are identified, assessed and recorded by the Micro Focus and SUSE Product Portfolios 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 and 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 the likelihood of occurrence against the potential impact to the Group including financial results, strategic plans, operations and reputation. Each risk is allocated a risk appetite category and a risk tolerance; changes in the risk profile are tracked at each reporting point during the period. The assessment includes current and emerging risks. Principal risks are categorised into four distinct areas, both externally and internally driven, which include financial, infrastructure, marketplace, and reputational risks. Existing controls and improvement actions are recorded on the risk register for each risk, together with internal audit reviews.

The RMF sets out a continuous cycle of review, reporting and improvement over the period. 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 during the period for review, to challenge the effectiveness of the RMF and then approval by the board. As part of the RMF an annual review of risk is also undertaken, this is aligned with the annual review of internal audit. These annual reviews focus on areas for improvement in the process, as well as the key emerging areas of risk for the Group in the year ahead. The board and the Audit Committee also received detailed risk assessments as part of reports on material projects across the Group.

In the period, we continued to work to improve the way we manage risk and, embed risk methodology into the business at management level. Metrics over risks (i.e. trend analysis) are performed periodically. We reviewed and improved our Fraud Risk Management policy and procedures including a revised anti-fraud policy as part of our integrated Code of Conduct across the Group.

Changes in the period

The risk movement reflects the key activities and challenges across the period. In particular the transformational HPE Software business acquisition and integration, and the preparation for the divestment of the SUSE business. The board is mindful of the interdependencies and speed of some risks. As set out on pages 18 to 19 the HPE Software business integration is significantly complex. In the period, there has been an improvement in integration related risks, with detailed action plans being executed to improve the quality of delivery, speed of decision-making and accountability. The divestment of SUSE also represents a complex process. The governance framework for management of these programmes includes full time dedicated programme management offices that work together to mitigate key areas of principal risks. Details of the complexity and challenges, in particular in relation to IT systems, of the integration and divestment are set out in the Chief Executive's Strategic review on page 20.

Although there continues to be significant uncertainty with Brexit implications, our cross-functional Brexit Working Group continued to monitor developments, as far as possible, for impacts to our business. Areas under review for possible impacts include people, tax, treasury, regulatory and commercial matters. The readiness work and analysis aims to provide confidence to our people, suppliers and customers of our Brexit readiness.

We have included a separate principal risk relating to cyber security. Cyber threats pose a risk to our entire industry. Work continues to further strengthen our resilience in this area and to further develop our cyber defence capabilities.

We have included a narrative relating to risks around internal controls over financial reporting. As part of its disclosure obligations in the United States the Group is required to furnish an annual report by its management on its internal controls over financial reporting and include an attestation report issued by its independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (SOX). The first report will be required to be produced as of 31 October 2019.

Please also refer to the section on internal controls within the corporate governance report on pages 72 to 79.

Principal Risks and Uncertainties

In common with all businesses, the Group could be affected by risks and uncertainties that may have a material adverse effect on its business operations and achieving its strategic objectives including its business model, future performance, solvency, liquidity and/or reputation. These risks could cause actual results to differ materially from forecasts or historic results. Accepting that risk is an inherent part of doing business, the board is mindful of the interdependencies of some risks. Where possible, the Group seeks to mitigate risks through its RMF, internal controls and insurance, but this can only provide reasonable assurance and not absolute assurance against material losses. In particular, insurance policies may not fully cover all of the consequences of any event, including damage to persons or property, business interruptions, failure of counterparties to conform to the terms of an agreement or other liabilities.

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. They do not comprise all of the risks associated with the Group and are not set out in priority order. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the Group.

The net risk movement from the prior period for each principal risk has been assessed and presented as follows:

No change Increased net risk exposure Reduced net risk exposure

Products

Risk Trend

Link to: Business Model: **Make software**

Risk Category: **Marketplace**

Principal Risk Description

To remain successful the Group must ensure that its products continue to meet the requirements of customers and must be effectively balanced between growth and legacy products. Investment in research and innovation in product development is essential to meet customer and partner requirements in order to maximise 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 prioritised considering the expected future prospects, to ensure an effective balance between growth and legacy products. The Group's business and reputation may be harmed by errors or defects in its products.

Potential impact

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

Mitigation

When considering investment priorities, both organic and inorganic, the Group evaluates its options against a set of characteristics mapped to each stage of the product life-cycle enabling the categorisation of its product portfolio into the following: new models, growth drivers, optimise and core (further details are set out on page 23 (Business Model section)).

As set out on page 24 (Business Model section) the Group continues to align resources and develop propositions across four main focus areas: Enterprise DevOps; Hybrid IT Management; Security, Risk & Governance; and Predictive Analytics and to improve the interaction between Product Management, Product Development, Sales and Marketing. The Micro Focus product portfolio consists of five product groups with over 300 product lines, as set out on page 28 (Portfolio Review), which are uniquely positioned to help customers maximise existing software investments and embrace innovation. The Group has improved alignment and applied robust application of the four-box model across the Enlarged Group, as set out on page 23 (Business Model section). The product portfolio is focused on delivering “customer centric innovation” that delivers tangible business impact for customers in all stages of the software life-cycle.

Go-To-Market (“GTM”) Models

Risk Trend

Link to Business Model: **Sell software**

Risk Category: **Marketplace**

Principal Risk Description

For the Group to succeed in meeting revenue and growth targets it requires successful GTM models across the full product portfolio, with effective strategies and plans to exploit channel opportunities and focus the sales force on all types of customer categories. In addition, effective GTM models may be more successful if accompanied by compelling Micro Focus brand awareness programmes. The Group is dependent upon the effectiveness of its sales force and distribution channels to maintain and grow licence, maintenance and consultancy sales.

Potential impact

Poor design and/or 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

As set out on page 19 of the Chief Executive’s Strategic Review, there has been good progress in the development of the Group’s customer and partner proposition. Across the five product categories that the Group reports against, the Group has great depth of capability and experience to help its customers address some of the most complex challenges they face. To best enable the Group’s customers to exploit this breadth and depth it is aligning resources and developing compelling propositions across four focus areas – Enterprise DevOps; Hybrid IT Management; Security, Risk & Governance; and Predictive Analytics.

Sales execution has received considerable attention and improvement measures have focused on the consistent execution of simpler, more effective sales processes, better alignment and accountability within the sales management teams through the removal of unnecessary global structures and management layers, organisational changes to align marketing and product teams much more tightly and investments made to build a consistent approach to enablement globally. We have strengthened the team through the appointment of Jon Hunter as Chief Revenue Officer.

Competition

Risk Trend

Link to Business Model: **Sell software**

Risk Category: **Marketplace**

Principal Risk Description

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. The Group operates in a number of competitive markets and success in those markets depends on a variety of factors.

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. If the Group is not be able to compete effectively against its competitors, it is likely to lose market share which may result in decreased sales and weaker financial performance.

Mitigation

Group product plans contain an 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 analysed 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 and Culture

Risk Trend

Link to Business Model: **Make, Sell, Support software**

Risk Category: **Infrastructure**

Principal Risk Description

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, IT and research and development may hinder the Group's sales and development plans. Weak organisational alignment and inadequate incentivisation may lead to poor performance and instability. It could also have an adverse impact on the realisation of strategic plans.

Mitigation

Successful cultural alignment across the Group is intrinsic to the way we do business and is a key focus for the Group. Leading by example from the top is a key driver. 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. The Group also has in place a performance management and appraisal system. Succession plans have been developed and are in place for key leadership positions within the Company. During the period a new Chief Human Resources Officer was appointed. In the period the Group also took significant action to develop its management capability both internally, by training and promotions, and through external hires.

Tax

Risk Trend

Link to Business Model: **Support software**

Risk Category: **Financial**

Principal Risk Description

The tax treatment of the Group's operations is subject to the risk of challenge by tax authorities in all territories in which it operates. Cross-border transactions may be challenged under tax rules and initiatives targeting multinationals' tax arrangements, including the OECD's Base Erosion and Profit Shifting project and EU state aid rules. As a result of the HPE Software business acquisition, the Group may be required under the tax matters agreement entered into with HPE (the "TMA") to indemnify HPE, if actions undertaken by the Group affect the tax treatment of the separation of HPE Software business from HPE.

Future changes to US and non-US tax laws could adversely affect the Group. The Group will be subject to tax laws of numerous jurisdictions, and the interpretation of those laws is subject to challenge by the relevant governmental authorities.

Potential impact

Tax liabilities in various territories in which the Group operates, particularly as a result of the HPE Software business acquisition, could be significantly higher than expected. The Group may be obliged to make indemnification payments to HPE under the TMA, which, if payable, would likely be substantial.

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 all relevant laws are complied with and that risks are identified and mitigated appropriately. External professional advice is obtained ahead of material structuring activity and to support positions taken in financial statements and local tax returns where there is significant uncertainty or risk of challenge. During the period, a governance framework and process has been developed to remind relevant employees of the requirements and guiding principles to comply with the obligations under the TMA.

Business Strategy and Change Management

Risk Trend

Link to Business Model: **Make, Sell, Support software**

Risk Category: **Marketplace**

Principal Risk Description

The Group is engaged in a number of major change projects including acquisitions and divestments to shape and grow the business by strengthening the portfolio of products and capabilities and IT projects to standardise systems and processes. The successful integration of businesses will build a solid base for further expansion. These projects expose the Group to significant transformation risks. The Group's strategy may involve the making of further acquisitions to protect or enhance its competitive position and failure to identify, manage, complete and integrate acquisitions, divestitures and other significant transactions successfully could have a material adverse effect on the Group's business.

The integration of the HPE Software business and the divestment of SUSE are both complex transactions with a range of integration and separation risks. The integration of the HPE Software business with the existing businesses carried on by the Group may be more time consuming and costly than anticipated. Successful execution of the SUSE divestment may be compromised by adding a new level of complexity to an existing heightened operation environment across the Group and be a distraction to deliver business plans.

Potential impact

Failure to analyse, execute and co-ordinate the various integration, divestment and transformation programmes successfully may result in the disruption of the on-going business without delivering the anticipated strategic and operational benefits of such transactions. In addition, this may affect the ability to execute strategic plans for growth.

Mitigation

As set out on page 15. The Group has an established acquisition strategy and focus on efficient execution in the mature infrastructure software market. The delivery and execution of the HPE Software business integration and the SUSE divestment is controlled and mitigated by respective dedicated full-time programme offices. During the period there have been enhancements made to programme governance. The operating plan is focused on delivering targeted, relevant business outcomes and the simplification of business operations to improve empowerment, speed and accountability of decision-making and drive a heightened sense of urgency across all aspects of execution. Programme risks and interdependencies are managed carefully including the utilisation of detailed deep dives, cross functional integration/divestment walk the walls sessions, a cadence of weekly and daily cross functional calls and risk assessments to ensure that execution of the various projects are successfully aligned to minimise any disruption to business as usual. The integration and harmonisation will continue as a key area of principal risk in the forthcoming year.

Intellectual Property ("IP")

Risk Trend

Link to Business Model: **Make software**

Risk Category: **Marketplace**

Principal Risk Description

The Group is dependent upon its intellectual property, and its rights to such intellectual property may be challenged or infringed by others or otherwise prove insufficient to protect its business. Some of the Group's SUSE products utilise Open Source technology, which is dependent upon third party developers. The Group's products and services depend in part on intellectual property and technology licenced from third parties, and third-party claims of intellectual property infringement against the Group may disrupt its ability to sell its products and services.

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 IP and these are monitored by the IP Panel and Legal team. During the period, the IP Panel and Group IP procedures were updated and extended across the Enlarged Group.

Legal and Regulatory Compliance

Risk Trend

Link to Business Model: **Support software**

Risk Category: **Reputational**

Principal Risk Description

The Group operates across a number of jurisdictions and two regulated exchanges. Compliance with national and regional laws and regulations is essential to successful business operations. The Group may be involved in legal and other proceedings from time to time, and as a result may face damage to its reputation or legal liability. The Group has entered into various acquisitions and a disposal over recent years and may be subject to, or have the benefit of, certain residual representations, warranties, indemnities, covenants or other liabilities, obligations or rights. The Group has a variety of customer contracts in a variety of sectors, including Government clients.

Potential impact

Failure to comply could result in civil or criminal sanctions (i.e. personal liability for directors), as well as possible claims, legal proceedings, fines, loss of revenue 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, which reports into the board. All staff are subject to mandatory compliance training. The Group is committed to ensuring ongoing compliance with anti-bribery and corruption, data protection and market abuse and insider dealing laws. A new, integrated Code of Conduct was rolled out in August 2018, with supporting training materials distributed to all employees during October 2018. Significant work was undertaken during the period to ensure compliance with the General Data Protection Regulation ("GDPR"). This included the approval of four new data protection policies by the board, GDPR Awareness training being circulated to all employees, and regular communications to employees is on-going regarding the importance of compliance with the requirements. Data protection compliance is subject to on-going monitoring by our privacy team. The compliance environment is also strengthened by the implementation of SOX controls, as set out on page 41.

Macro Economic Environment and Brexit

Risk Trend

Link to Business Model: **Sell, Support software**

Risk Category: **Marketplace**

Principal Risk Description

The Group's businesses may be subject to inherent risks arising from the general and sector specific economic and political conditions in one or more of the markets in which the Group operates. This is heightened by the fact the Group sells and distributes its software products globally. Exposure to political developments in the United Kingdom, including the terms and manner of the UK's withdrawal from the EU, could have an adverse effect on the Group.

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 localised risk to a certain extent. The Group has business continuity plans and crisis management procedures in place in the event of political events or natural disasters.

The Group has a cross functional Brexit Working Group with processes in place to assess, respond, monitor and track the impact of Brexit on our businesses, and associated risks, as matters progress and how the business can seek to mitigate these risks. Areas under review for possible impacts include people, tax, treasury, regulatory and commercial matters.

IT Systems and Information

Risk Trend

Link to Business Model: **Support software**

Risk Category: **Infrastructure**

Principal Risk Description

The Group's operations, as with most businesses, are dependent on maintaining and protecting the integrity and security of the IT systems and management of information. Integration of HPE Software business with the existing businesses, including the respective IT systems, may be more time consuming and costly than anticipated, given the amount of change management that is involved. The Group continues to operate on two IT architectures with the attendant complexity to business operations and the control environment.

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 business operations, revenues, customer relations, supplier relations, and reputational damage. Dependency on IT providers could have an adverse impact on revenue and compliance in the event that they cannot resume business operations.

Mitigation

The Group continues to focus its efforts on the stabilisation of the HPE Software business infrastructure. Progress has been made with the system now being stable and able to support the business. To maintain the required control environment the Group relies upon automated, semi-automated and manual controls together with a combination of preventative and detective controls. A Vendor Management process is in place to allow for better involvement and engagement with third party IT providers. In relation to the SUSE divestment a dedicated IT Program Director is in place to lead the SUSE IT separation and execution, working under the Divestment Programme Management office.

There is an on-going programme of simplification being delivered, with a parallel project approved by the board and now underway to build the future, simplified systems architecture for the Group (as set out in the Chief Executive's Strategic Review set out on page 20). The IT control environment is also being improved as part of the implementation of controls to meet Sarbanes-Oxley Act 2002 (SOX) compliance, as set out on page 41.

Cyber Security (previously part of IT systems and information)

Risk Trend:

Link to Business Model: **Support software**

Risk Category: **Infrastructure**

Principal Risk Description

Risk of hacking or other cybersecurity threat leading to data loss and/or disruptions to business. The IT environments of both the Group and its customers may be subject to hacking or other cybersecurity threats, which may harm customer relationships, financial performance and the market perception of the effectiveness of the Group's products.

Potential impact

Data loss, which could harm client and customer relationships, compliance and/or perception of the effectiveness of the Group's products.

Mitigation

The Group works continually to counter the risk posed by the current and emerging cyber security threat landscape. The cyber team manages the security of our data, technology and training programme to protect the performance and availability of the Group IT systems. Group-wide cyber readiness policies and processes are in place. Cyber security testing in critical areas of the business is on-going, Group-specific vulnerabilities are reviewed and continuously managed.

Treasury

Risk Trend Link to Business Model: **Support software** Risk Category: **Financial**

Principal Risk Description

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 Adjusted EBITDA ratio of 2.7 times and may require additional debt funding in order to execute its acquisition strategy. The Group is exposed to interest rate risk related to its variable rate indebtedness, which could cause its indebtedness service obligations to increase significantly.

The Group's operational and financial flexibility may be restricted by its level of indebtedness and covenants and financing costs could increase or financing could cease to be available in the long term. The Group may incur materially significant costs if it breaches its covenants under its banking arrangements.

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.

An increase in interest rates could have a significant impact on business results.

Mitigation

The Group's operations are diversified across a number of currencies, with limited exposure to £ Sterling. Key currency exposures are detailed on page 144. Changes in foreign exchange rates are monitored, exposures regularly reviewed and actions taken to reduce exposures where necessary. The Group provides extensive constant currency reporting to enable investors to better understand the underlying business performance.

The Group has significant committed facilities in place, the earliest of which matures in November 2021 and sufficient headroom to meet its operational requirements. The Group seeks to maintain strong relationships with its key banking partners and lenders and to proactively monitor the loan markets. The Group also has strong engagement with the providers of equity capital, which represents an alternative source of capital. Currency change fluctuations as a result of Brexit are being monitored by the Brexit Working Group.

The Group holds interest rate swaps to hedge against the cash flow risk in the LIBOR rate charged on $2,250.0m of the debt issued by a Group subsidiary company, Seattle Spinco, Inc. from 19 October 2017 to 30 September 2022. Under the terms of the interest rate swaps, the Group pays a fixed rate of 1.94% and receives one month USD LIBOR.

Monitoring policies and procedures are in place to reduce the risk of any covenant breaches under the Group's banking arrangements. At 31 October 2018, $nil of the Revolving Facility was drawn. As a covenant test is only applicable when the Revolving Facility is drawn down by 35% or more, and $nil of Revolving Facility was drawn at 31 October 2018, no covenant test is applicable.

Risks related to Internal Controls over Financial Reporting
As part of its disclosure and reporting obligations in the United States, the Group will be required to furnish an annual report by its management on its internal control over financial reporting and include an attestation report issued by its independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX"). The first report will be required to be produced as of 31 October 2019.

The Group is in the process of implementing a programme of SOX compliant internal controls under its SOX Implementation Programme (SIP) together with a specialist team from its outsourced Internal Audit Partner, PwC. Governance for the SIP includes a cross functional SOX Steering Group (SSG) chaired by the Group's Chief Financial Officer reporting to the Audit Committee. As part of the SIP a new Disclosure Committee, chaired by the Chief Financial Officer, has been set up to assist the Chief Executive Officer and Chief Financial Officer in fulfilling their responsibilities in connection with the accuracy of financial reporting. The SIP is being implemented across the Group during a period of significant change across the organisation. As part of the governance the SSG monitors potential adverse impacts of organisational change to the SIP. During the period, as part of the SIP, end to end process mapping and walkthroughs were carried out of the Group's main processes, Hire to Retire, Quote to Cash, Procurement to Pay and Record to Report, leading to the development of documented controls for each process. Each process and its associated controls are owned by a Global Process Owner. In the period, the Group has also reviewed its entity level controls and commenced implementation of a SOX training plan across relevant parts of the Group. A key work stream of the SIP relates to the adequacy of IT General Controls (ITGCs). The challenges with the IT systems, including controls acquired with the HPE Software business, are set out on page 20. As a consequence, each business will remain on its legacy IT systems, necessitating business process controls and ITGCs across both systems. The work undertaken under the SIP to date has identified a number of areas for improvement in the Group's ITGCs, which now forms part of the SIP. Work in this area is continuing under an IT SOX Compliance Group chaired by the Chief Information Officer reporting to the main SSG. As part of this work, an IT strategy has been developed and is being implemented across the network in both the Group's owned IT systems and those operated by its external cloud partner.

As a requirement for the Group's listing in the United States, its internal controls over financial reporting were for the first time subject to review under the US Public Company Accounting Oversight Board (PCAOB) auditing standards in connection with the audit of Micro Focus' annual consolidated financial statements for the three years ended 30 April 2017. As a result of the work undertaken, certain weaknesses in the Group's internal control over financial reporting were identified, which under PCAOB standards were considered to be material weaknesses. Under the PCAOB standards a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Group's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. The material weaknesses related to the fact that the Group did not have sufficient formally documented and implemented processes and review procedures, nor did it have sufficient formality and evidence of controls over key reports and spreadsheets. Whilst the Group has made significant progress towards remediating the material weaknesses in the heritage Micro Focus systems and processes, the significant challenges with the IT systems acquired with the HPE Software business means that these material weaknesses and other control deficiencies are also relevant for this area of the organisation. The remediation activity includes system upgrades and formal documentation of control and review procedures.

The Group continues its work under the SIP to remediate the material weaknesses and other control deficiencies, and any other matters, which arise during its progress towards SOX compliance. To maintain the required control environment the Group relies upon automated, semi-automated and manual controls together with a combination of preventative and detective controls. The material weaknesses, control deficiencies and other matters may not be able to be remedied by 31 October 2019, and there is a risk that other deficiencies for the purposes of SOX may be identified. Failure to correct the material weaknesses or our failure to discover and address any other material weakness or control deficiencies could result in inaccuracies in our financial statements and impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. It could also result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of the Group's financial statements and could have a material adverse effect on the Group's business, financial condition, results of operation and prospects.

"The Group has undertaken two material corporate development activities within the 18 month reporting period."

Chris Kennedy
Chief Financial Officer
20 February 2019

The Group's statutory financial statements reflect the trading performance of the continuing operations for the 18 months ended 31 October 2018 compared to the 12 months ended 30 April 2017. Within the 18 months, the Group has undertaken two corporate development activities, which have both had a material impact on the Group's reported results:

- On 1 September 2017, the Group acquired the software business of HPE, which is reported within the Micro Focus Product Portfolio. The Group aligned the Micro Focus accounting period end (previously 30 April) to the HPE Software business period end of 31 October resulting in an 18 month accounting period to 31 October 2018 for the combined entity.
- On 21 August 2018, shareholders voted to approve the proposed transaction whereby the Group agreed to sell its SUSE Product Portfolio. Following the approval, the SUSE operating segment meets the definition of a discontinued operation under IFRS 5, which results in the SUSE performance being excluded from the individual line items of the income statement and balance sheet. SUSE is instead included as a single line entitled "profits from discontinued operations" within the income statement and as an "asset held for sale" or "liability held for sale" on the balance sheet. The transaction is expected to complete in the first quarter of calendar year 2019 and SUSE remains under the control of the Group until that point.

Due to the significant size of the two transactions, the directors feel that the Group results are better understood by considering the comparative results on a pro-forma basis. The table below sets out the impact the transactions have had on the Group's financial statements and the additional disclosures which the directors have elected to make in order to improve the understanding of the financial statements:

	Statutory results		**Alternative Performance Measures**		
	12 months ended 30 April 2017 (audited)	**18 months ended 31 October 2018 (audited)**	**12 months ended 31 October 2018 (unaudited)**	**Pro-forma 12 months ended 31 October 2018 (unaudited)**	**Pro-forma 12 months ended 31 October 2017 (unaudited)**
HPE Software	Excluded	14 months post acquisition	Included	Included	Included
SUSE	Restated and excluded from continuing operations	Excluded from continuing operations	Excluded from continuing operations	Included	Included
Purpose	Statutory reporting		Annualised performance of continuing operations		Year-on-year performance on a like-for-like basis

All narrative within this report focuses on the continuing operations unless otherwise stated.

This section refers to a number of Alternative Performance Measures, which are used by the business to supplement those presented under statutory requirements. For further details relating to the definition and relevance of such measures, please refer to the Alternative Performance Measures section of these financial statements.

Micro Focus International – Statutory Results

The Group has adopted an 18 month accounting period, which ended on 31 October 2018. As a result, the comparison to the previously reported 12 months ended 30 April 2017 presents substantial period-on-period increases due to the longer period of account in the current reporting period. In order to aid comparison, this section also sets out the unaudited financial performance in the 12 months ended 31 October 2018.

The statutory presentation excludes the discontinued SUSE business from individual line items for each of the reporting periods presented below. The 18 month period to 31 October 2018 includes 14 months of results for the acquired HPE Software business. The results for the 12 months to 31 October 2018 includes a full year's results for the HPE Software business.

- **The previous 18 months has been a transformational period for the business.**
- **The HPE Software business transaction, SUSE disposal and change in accounting period have added a level of complexity to the financial statements.**
- **The continuing business of the Group generated revenues of $4,754.4m in the 18 months ended 31 October 2018 of which $3,684.3m relates to the last 12 months.**
- **The Group generated a profit before tax of $34.1m in the 18 months ended 31 October 2018, and a loss of $78.5m within the last 12 months.**
- **On an annualised basis, the total dividend per share is 100.84 cents, which is growth of 14.5% on the full year dividend for the year ended 30 April 2017 of 88.06 cents.**

Continuing operations	18 months ended 31 October 2018 (audited) $m	12 months ended 30 April 2017 (audited) $m	12 months ended 31 October 2018 (unaudited) $m
Revenue	**4,754.4**	1,077.3	**3,684.3**
Operating profit (before exceptional items)	**915.0**	324.7	**630.1**
Exceptional items	**(538.2)**	(97.3)	**(439.7)**
Operating profit	**376.8**	227.4	**190.4**
Net finance costs	**(336.9)**	(95.8)	**(268.9)**
Exceptional finance costs	**(5.8)**	–	**–**
Profit/(loss) before tax	**34.1**	131.6	**(78.5)**
Taxation	**673.1**	(7.5)	**700.5**
Profit from continuing operations	**707.2**	124.1	**622.0**
Profit from discontinued operations	**76.9**	33.7	**55.5**
Profit for the period	**784.1**	157.8	**677.5**

Revenue

In the 18 months ended 31 October 2018, the Group generated revenue of $4,754.4m, which represents an increase of 341.3% on the 12 months ended 30 April 2017. The increase in trading is driven by the acquisition of the HPE Software business, which has materially increased the scale of the operations combined with the longer period of account.

In order to fully understand the underlying trading performance of the continuing operations, the Directors feel revenue is better considered on a pro-forma constant currency basis between the 12 months ended 31 October 2018 and the 12 months ended 31 October 2017. Revenue performance presented on a pro-forma constant currency basis can be found later in this report.

Operating profit

In the 18 months ended 31 October 2018, the Group generated operating profit of $376.8m, which represents an increase of 65.7% on the 12 months ended 30 April 2017. On a statutory basis, the operating profit increased due to the 18 month accounting period combined with the impact of the HPE Software business transaction in the current period. The acquisition has been transformational for the business and has substantially increased the scale of the Group's operations. In addition, exceptional costs (included within operating profit) have increased from $97.3m in the 12 months ended 30 April 2017 to $538.2m in the 18 months ended 31 October 2018. Exceptional costs are considered below.

In addition, the amortisation of intangible assets increased from $236.4m in the 12 months ended 30 April 2017 to $903.0m in the 18 months ended 31 October 2018, relating to the amortisation of customer relationships and technology acquired from HPE, combined with the impact of the 18 month period of account.

Exceptional items (included within operating profit)

	18 months ended 31 October 2018 (audited) $m	12 months ended 30 April 2017 (audited) $m	12 months ended 31 October 2018 (unaudited) $m
Exceptional items			
MF/HPE Software business integration related:			
System and IT infrastructure costs	114.4	–	114.4
Integration costs	147.6	–	143.7
Severance	129.1	–	119.9
Property costs	29.9	–	29.9
MF/HPE Software business integration related costs	421.0	–	407.9
SUSE and other divestiture costs	21.3	–	21.3
HPE Software business acquisition/pre-acquisition costs	70.1	58.0	1.3
Integration in respect of previous acquisitions	17.0	27.7	0.8
Other acquisition costs	–	2.6	–
Property costs relating to previous acquisitions	8.2	5.5	8.4
Severance costs relating to previous acquisitions	0.6	3.5	–
Total exceptional costs (reported in Operating profit)	538.2	97.3	439.7

In the 18 months ended 31 October 2018, exceptional costs totalled to $538.2m with $439.7m incurred in the 12 months ended 31 October 2018. Exceptional costs predominantly relate to the integration of the HPE Software business and the costs incurred in the 18 month period include:

- System and IT infrastructure costs of $114.4m principally reflect the cost of implementing and then stabilising the IT platform acquired with the HPE Software business ("FAST");
- Integration costs of $147.6m across a wide range of projects undertaken to conform, simplify and increase efficiency across the two businesses;
- Severance costs of $129.1m in relation to ongoing headcount reductions as we integrate the HPE Software business; and
- Property costs of $29.9m as the Group began the process of simplifying the real estate footprint by exiting 27 offices since the completion of the transaction.

As communicated previously, we anticipate exceptional charges in relation to the HPE Software business integration of $960m of which $421.0m has been incurred to date. The remaining costs will be incurred over the next two financial years, with approximately $420m expected to be charged to the income statement in FY19 and the balance in FY20.

In addition, as disclosed in July 2018, costs associated with the disposal of SUSE are expected to total in the region of $72m. In the 12 months ended 31 October 2018, the Group incurred $20.8m and the remainder are expected in the year ending 31 October 2019.

Net finance costs

Net finance costs were $336.9m in the 18 months ended 31 October 2018, of which $268.9m was incurred in the last 12 months. Finance costs predominantly relate to the associated interest on the new term loans put in place as part of the transaction to acquire the HPE Software business. Included within the $268.9m is $46.9m in relation to the amortisation of facility costs and original issue discounts which were paid on initiation of the term loans.

In the period, the Group's net debt leverage decreased, which means the Group now benefits from a 25 bps improvement in the margin on the Group's debt terms.

The Group hold interest rate swaps to hedge against the cash flow risk in the LIBOR rate charged on $2,250.0m of the debt issued by Seattle Spinco, Inc. (the investment company used to acquire the HPE Software business) from 19 October 2017 to 30 September 2022. Under the terms of the interest rate swaps, the Group pays a fixed rate of 1.94% and receives one month USD LIBOR.

Taxation

The Group's reported tax charge for the 18 months ended 31 October 2018 was a credit of $673.1m (12 months ended 30 April 2017: charge of $7.5m) primarily due to the one-off impact of US tax reforms.

Profit from discontinued operations

Profit from discontinued operations reflect the profits generated from the SUSE portfolio. In the 18 months ended 31 October 2018, SUSE generated revenue of $538.2m compared to $303.4m in the 12 months ended 30 April 2017. Profit before taxation increased to $111.1m from $64.8m. The period-on-period growth driven by the long period of account combined with growth in the SUSE business was approximately 15% per annum.

In the 12 months ended 31 October 2018, SUSE generated revenue of $373.7m and profit after tax $55.5m. The SUSE disposal remains on track for completion in the first calendar quarter of 2019.

Reconciliation from statutory results to Alternative Performance Measures

This section sets out a reconciliation from the statutory results presented above to Alternative Performance Measures used by the business to assess operating performance and liquidity including Adjusted EBITDA, Adjusted Profit before tax and Adjusted EPS. For further details relating to the definition and relevance of such measures, please refer to the Alternative Performance Measures section of these financial statements. The Group believes that these and similar measures are used widely by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

Adjusted EBITDA

A reconciliation between Operating profit and Adjusted EBITDA is shown below:

	18 months ended 31 October 2018 (audited) $m	12 months ended 30 April 2017 (audited) $m	**12 months ended 31 October 2018 (unaudited) $m**
Operating profit	**376.8**	227.4	**190.4**
Add back/(deduct):			
Exceptional items (reported in Operating profit)	**538.2**	97.3	**439.7**
Share-based compensation charge	**64.3**	31.5	**47.5**
Amortisation of intangible assets	**903.0**	206.8	**720.0**
Depreciation of property, plant and equipment	**88.6**	9.7	**73.6**
Product development intangible costs capitalised	**(44.4)**	(27.7)	**(27.4)**
Foreign exchange gains	**(37.3)**	(2.9)	**(30.2)**
Continuing operations Adjusted EBITDA	**1,889.2**	542.1	**1,413.6**
Discontinued operations Adjusted EBITDA	**170.4**	98.8	**116.0**
Adjusted EBITDA	**2,059.6**	640.9	**1,529.6**

In the 12 months ended 31 October 2018, the Group generated Adjusted EBITDA of $1,529.6m, with $1,413.6m generated by the continuing operations of the Group. The pro-forma Adjusted EBITDA of the Group in the 12 months ended 31 October 2017 has been provided later in this section.

Adjusted Profit before tax

Adjusted Profit before tax is defined as profit before tax excluding the effects of share-based compensation, the amortisation of purchased intangible assets, and all exceptional items.

The following tables are reconciliations from profit before tax for the period to Adjusted Profit before tax:

Continuing operations	18 months ended 31 October 2018 (audited) $m	12 months ended 30 April 2017 (audited) $m	12 months ended 31 October 2018 (unaudited) $m
Profit before tax	**34.1**	131.6	(78.5)
Adjusting items:			
Exceptional items	**543.9**	97.3	439.7
Share-based compensation charge	**64.3**	31.5	47.5
Amortisation of purchased intangibles	**830.3**	183.3	661.6
	1,438.5	312.1	1,148.8
Adjusted Profit before tax	**1,472.6**	443.7	1,070.3

Adjusted Effective Tax Rate

The tax charge on Adjusted Profit before tax for the 18 months ended 31 October 2018 was $346.9m (12 months ended 30 April 2017: $83.5m), which represents an effective tax rate ("ETR") on Adjusted Profit before tax ("Adjusted ETR") of 23.6% (12 months ended 30 April 2017: 18.8%). The Group's forecast for Adjusted ETR in the medium-term remains at 25%.

	18 months ended 31 October 2018				12 months ended 30 April 2017		
Effective tax rate (continuing operations)	Actual $m	Adjusting items $m	Exceptional tax items $m	Adjusted measures $m	Actual $m	Adjusting items $m	Adjusted measures $m
Profit before tax	**34.1**	**1,438.5**	**–**	**1,472.6**	131.6	312.0	443.6
Taxation	**673.1**	**(327.7)**	**(692.3)**	**(346.9)**	(7.5)	(76.0)	(83.5)
Profit after tax	**707.2**	**1,110.8**	**(692.3)**	**1,125.7**	124.1	236.0	360.1
Effective tax rate	**(1,973.9)%**			**23.6%**	5.7%		18.8%

In computing Adjusted Profit before tax for the 18 months ended 31 October 2018, $1,438.5m of adjusting items have been added back (see Adjusted Profit before tax section above) and the associated tax is $327.7m. Exceptional tax items of $692.3m (2017: $nil) shown above relate to the impact of US tax reforms, comprised of a credit of $930.6m in respect of the re-measurement of deferred tax liabilities due to the reduction of the US federal tax rate from 35% to 21% and a transition tax charge of $238.3m payable over eight years.

The total cash tax paid in the period was $99.5m (12 months ended 30 April 2017: $24.6m) of which $59.9m related to the continuing operations (12 months ended 30 April 2017: refund of $6.8m). The Group's cash tax paid is lower than the reported tax charge due to the utilisation of US tax attributes in the HPE Software Business and the timing of tax installment payments.

Earnings per share and Adjusted Earnings per share

The table below sets out the Earnings per Share ("EPS") on both a reported and adjusted basis. The Group is also required to present EPS for both the continuing and discontinued operations but note that SUSE is still under the ownership of Group until completion of the transaction (anticipated by the end of the first calendar quarter 2019) and as such, we focus on total EPS.

	18 months ended 31 October 2018		12 months ended 30 April 2017		12 months ended 31 October 2018	
	Basic Cents	Diluted Cents	Basic Cents	Diluted Cents	Basic Cents	Diluted Cents
Continuing operations	181.91	176.92	54.17	52.31	143.01	138.94
Discontinued operations	19.79	19.25	14.71	14.20	12.76	12.39
Total EPS	201.70	196.17	68.88	66.51	155.77	151.33
Adjusted EPS						
Continuing operations	289.57	281.63	157.11	151.70	192.99	187.51
Discontinued operations	29.36	28.56	24.80	23.95	18.67	18.14
Adjusted EPS	318.93	310.19	181.91	175.65	211.66	205.65

The Adjusted EPS is defined as Basic EPS where the earnings attributable to ordinary shareholders are adjusted by adding back exceptional items, share-based compensation charge and the amortisation of purchased intangibles and the tax attributable to these charges. These are presented, as management believe they are important to understanding the impact the underlying trading performance has on the Group's EPS.

In the 18 months ended 31 October 2018, the Group generated an Adjusted EPS of 318.93 cents of which 211.66 cents has been generated in the last 12 months. This compares to 181.91 cents in the 12 months ended 30 April 2017, demonstrating the level of value accretion already delivered following the acquisition of the HPE Software business.

Following the anticipated completion of the SUSE transaction, the Group expects to return a substantial portion of the $2.06bn net proceeds to shareholders after tax, transaction costs and any required debt repayment are accounted for.

Micro Focus International ("MFI") – Pro-forma Alternative Performance Measures results

The Pro-forma Alternative Performance Measures results include the discontinued SUSE business and 12 months results for the acquired the HPE Software business in both the 12 months ended 31 October 2018 and the 12 months ended 31 October 2017. A reconciliation of the Pro-Forma Alternative Performance Measures results can be found in the "Alternative Performance Measures" section of these financial statements.

- **MFI pro-forma constant currency revenue decline of 5.3% between 12 months ended 31 October 2017 and 2018.**
- **The trajectory of revenue decline improved in the second six months to 2.7% compared to 8.0% in the first six months of the 12 months to 31 October 2018.**
- **Continued cost reductions resulted in a 4.6ppt expansion in Pro-forma Adjusted EBITDA margin to 37.7%.**

	Pro-forma 12 months ended 31 October 2018 (unaudited) $m	Pro-forma 12 months ended 31 October 2017 (unaudited) $m	Year on year change %
Pro-forma constant currency			
MFPP Revenue	**3,684.3**	3,964.1	(7.1%)
SUSE Revenue	**373.7**	322.7	15.8%
MFI Revenue (Pro-forma constant currency)	**4,058.0**	4,286.8	(5.3%)
Impact of foreign exchange	**–**	(60.1)	n/a
MFI Revenue (Pro-forma)	**4,058.0**	4,226.7	(4.0%)
MFPP Adjusted EBITDA	**1,413.6**	1,301.1	8.6%
SUSE Adjusted EBITDA	**116.0**	100.0	16.0%
MFI Adjusted EBITDA (Pro-forma)	**1,529.6**	1,401.1	9.2%
MFI Adjusted EBITDA margin (Pro-forma) %	**37.7%**	33.1%	+4.6ppt

* The results for the 12 months ended 31 October 2017 and 2018 are presented on a pro-forma basis.

All revenue narrative within the "Pro-forma Alternative Performance Measures results" section represents pro-forma constant currency as defined within the Alternative Performance Measures section of this Annual Report. The cost base of the HPE Software business in the 12 months ended 31 October 2017 included allocations from the HPE Group for central functions such as finance, legal and HR. As a result, constant currency analysis of the cost base in this period is not available. As such, all costs are presented at actual rates of foreign exchange. For future financial reporting, we will present Adjusted EBITDA on a constant currency basis as presented in previous financial periods.

MFI Pro-forma revenue

MFI achieved pro-forma revenue of $4,058.0m in the 12 months ended 31 October 2018, reflecting a year on year decline of 5.3% at constant currency. This reflects an improving revenue trajectory with constant currency year on year revenue decline of 8.0% in the first half of the year and 2.7% in the second half. The year on year foreign exchange impact was 1.3% so the revenue decline was 4.0% at actual exchange rates.

In the 12 months ended 31 October 2018, revenue generated within the Micro Focus Product Portfolio totalled $3,684.3m reflecting a constant currency decline of 7.1% year on year. Again, this shows an improving revenue trajectory with constant currency year on year revenue decline of 10.0% in the first half of the year and 4.1% in the second half. Pro-forma constant currency revenue trends within the Micro Focus Product Portfolio are discussed later in this section.

SUSE generated revenue of $373.7m, which reflects growth of 15.8% on a constant currency basis.

MFI Pro-forma Adjusted EBITDA

In the 12 months ended 31 October 2018, Pro-forma MFI Adjusted EBITDA increased by 9.2% year on year to $1,529.6m, which represents a pro-forma Adjusted EBITDA margin of 37.7%. The overall driver in Adjusted EBITDA margin improvement being continued cost reductions in the Micro Focus Product Portfolio partially offset by a decrease in margin within the SUSE segment in order to support future revenue growth for the business.

Micro Focus Product Portfolio – an improving revenue trajectory and further margin improvement:

- Pro-forma constant currency revenue decline of 7.1% year on year, with an improved revenue trajectory of 4.1% in the second half
- Before the impact of the deferred revenue haircut, revenue declined 6.9% year on year, with second half decline of 5.0%.
- Continued operational efficiencies delivering cost reduction of 12.8% year on year.
- Pro-forma Adjusted EBITDA margin increase of 5.1ppt to 38.4% in 12 months ended 31 October 2018.

	12 months ended 31 October 2018 (unaudited) $m	Pro-forma 12 months ended 31 October 2017 (unaudited) $m	Year on year change %
Pro-forma constant currency revenue:			
Licence	**878.5**	1,007.3	(12.8%)
Maintenance	**2,235.4**	2,297.0	(2.7%)
SaaS & other recurring	**318.1**	307.9	3.3%
Consulting	**287.1**	380.6	(24.6%)
Constant currency revenue before haircut	**3,719.1**	3,992.8	(6.9%)
Deferred revenue haircut	**(34.8)**	(28.7)	21.3%
Constant currency revenue	**3,684.3**	3,964.1	(7.1%)
Foreign exchange constant currency impact	**–**	(57.6)	–
Revenue (at actual FX rates)	**3,684.3**	3,906.5	(5.7%)
Total costs	**(2,270.7)**	(2,605.4)	(12.8%)
Adjusted EBITDA (at actual FX rates)	**1,413.6**	1,301.1	8.6%
Adjusted EBITDA margin %	**38.4%**	33.3%	+5.1ppt

MFPP Revenue (versus pro-forma constant currency comparatives)
MFPP revenues declined by 7.1% and by 6.9% on an underlying basis, before the impact of the deferred revenue haircut adjustment.

	12 months ended 31 October 2018 (unaudited)				
	Licence $m	Maintenance $m	SaaS $m	Consulting $m	Total $m
Product portfolio:					
AMC*	183.6	333.1	–	12.1	528.8
ADM*	141.3	520.3	98.5	32.6	792.7
ITOM*	248.9	732.8	12.4	155.3	1,149.4
Security	217.6	446.0	35.6	63.1	762.3
IM&G*	87.1	203.2	171.6	24.0	485.9
Revenue before haircut**	878.5	2,235.4	318.1	287.1	3,719.1
Regional:					
Americas	409.3	1,253.9	240.3	117.4	2,020.9
EMEA	347.5	755.9	59.9	132.8	1,296.1
Asia Pacific & Japan	121.7	225.6	17.9	36.9	402.1
Revenue before haircut**	878.5	2,235.4	318.1	287.1	3,719.1

	Pro-forma Constant currency % change to 12 months ended 31 October 2017 (unaudited)				
	Licence %	Maintenance %	SaaS %	Consulting %	Total %
Product portfolio:					
AMC*	3.6%	0.7%	–	5.2%	1.8%
ADM*	(6.9%)	(3.7%)	16.6%	(43.9%)	(5.0%)
ITOM*	(27.3%)	(3.7%)	(25.3%)	(25.1%)	(13.4%)
Security	(11.4%)	(1.2%)	23.6%	(5.8%)	(3.9%)
IM&G*	(3.5%)	(4.9%)	(3.6%)	(34.8%)	(6.3%)
Revenue before haircut**	(12.8%)	(2.7%)	3.3%	(24.6%)	(6.9%)
Regional:					
Americas	(19.6%)	(4.2%)	4.2%	(29.7%)	(8.8%)
EMEA	(4.6%)	(0.9%)	1.0%	(18.4%)	(3.9%)
Asia Pacific & Japan	(9.0%)	0.1%	0.0%	(27.4%)	(6.0%)
Revenue before haircut**	(12.8%)	(2.7%)	3.3%	(24.6%)	(6.9%)

* AMC (Application Modernisation & Connectivity), ADM (Application Delivery Management), ITOM (IT Operations Management), and IM&G (Information Management & Governance)
** The trends discussed in this section are presented before the impact of the deferred revenue haircut.

Revenue by stream performance (versus pro-forma constant currency comparatives)
As communicated in July 2018, revenue performance in the six months ended 30 April 2018 was impacted by a number of factors, which management consider to be largely one-off transitional effects of the combination with the HPE Software business, rather than underlying issues with the end market of the product portfolio. Since identifying these issues, substantial investment has been made in stabilising the IT platform and the business has re-structured the go-to-market organisation to better align customer coverage and improve customer engagement levels. This re-structuring has been supplemented with additional investment in better training and enablement and increased hiring of customer facing sales resources to ensure the function was fully staffed at year-end. Additional actions have focused on driving improved execution discipline across the Company. As a result, revenue declined by 6.9% year on year (before the impact of the deferred revenue haircut), which reflects a decline of 5.0% in the second half of the financial period compared to a decline of 8.7% in the first half.

In the 12 months ended 31 October 2018, the four revenue streams performed as follows:

Licence revenue declined by 12.8% in the 12 months ended 31 October 2018 compared with a decline of 18.4% in the six months to 30 April 2018. The rate of revenue decline decreased in the six months to 31 October 2018 most notable in the Americas as sales execution improved.

Maintenance revenue declined by 2.7% in the 12 months ended 31 October 2018 compared with a decline of 3.5% in the six months to 30 April 2018. The maintenance revenue performance also improved in the second half of the year due to the improvement in maintenance revenue attached to new licence sales and a catch up on win backs from the first half of year where system constraints inhibited performance. Renewal rates vary at a product level but across the portfolio, we continue to see renewal rates consistent with historic rates.

SaaS and other recurring revenue grew by 3.3% in the 12 months ended 31 October 2018 compared with an increase of 8.8% in the six months to April 2016. Second half performance was driven by actions to rationalise unprofitable operations and practices and the refocus of resources and investments to delivering the product enhancements required for long-term success.

Consulting revenue declined by 24.6% in the 12 months ended 31 October 2018. This decline is a managed decline resulting from the Group's previously communicated strategy to focus on consulting engagements which are directly related to the software portfolio rather than pursuing growth on a standalone basis.

Revenue by product group performance (versus pro-forma constant currency comparatives)
The Group has more than 300 products reported under five product groups. These products are managed at a granular level using the application of the Micro Focus four-box model. The cyclical nature of the software order cycle means that when considering underlying revenue trends, year on year growth rates by portfolio are not always indicative of an underlying trend and will be impacted by the timing of customer projects. As such, revenue trends at the sub-portfolio level should be viewed over the longer term and revenue trends for MFPP overall viewed in a similar fashion to that of a portfolio of funds.

Application Modernisation and Connectivity ("AMC")
Licence revenue increased by 3.6% in the 12 months ended 31 October 2018, driven by continued strong performance in the Enterprise Solutions product set and the stabilisation of revenue across the rest of the portfolio

Maintenance and Consulting revenues grew by 0.7% and 5.2% respectively as the level of maintenance and consulting support to licence sales continued to track at historical rates. The consulting strategy in this portfolio had already been refocused to enabling our other revenue streams prior to the combination with the HPE Software business.

Application Delivery Management ("ADM")
Licence revenues declined by 6.9% year on year, with SaaS and other recurring revenue increasing by 16.6% for the 12 months ended 31 October 2018. Maintenance revenues declined by 3.7% year on year. Consulting revenues declined by 43.9% driven by our decision to refocus execution to be in support of consulting engagements that drive our other revenue streams.

The switch from Licence to SaaS witnessed within the ADM portfolio is an example of where customers are offered the choice of commercial consumption model. In the current period, more of our customers elected to buy our software "as a service" compared to running software under a traditional licence and maintenance model. This was a combination of new customers or new projects within existing customers, as well as existing customers moving from running our software on premise to SaaS. Overall, combined Licence, Maintenance and SaaS revenue declined by 2.1%.

IT Operations Management ("ITOM")
ITOM licence revenue declined 27.3% in the 12 months ended 31 October 2018. Year on year performance was heavily impacted by sales execution issues especially in the Americas and by the timing impact of large customer deals. During the last 12 months, the portfolio completed a broad based product transition delivering a completely revamped and highly competitive set of offerings. As a result, performance in the period is not considered to be a true reflection of the underlying performance of the product group within the market in which it operates.

ITOM Maintenance revenue declined by 3.7% driven primarily by the decline in licence revenue. Consulting revenues followed trends with the wider MFPP product group as a result of the actions taken to refocus in this area.

Security
Licence revenue declined by 11.4% and SaaS and other recurring revenue grew by 23.6% in the 12 months ended 31 October 2018. Licence revenue performance is broadly attributable to sales execution issues in the first half of the year and not as a result of any switch by customers to alternative delivery models such as SaaS.

Maintenance revenue declined by 1.2%. Consulting revenues declined by 5.8% again driven by our decision to focus our business on engagements, which will drive our other revenue streams.

Information Management & Governance ("IM&G")
Licence revenue declined by 3.5% and SaaS and other recurring revenue declined by 3.6% in the 12 months ended 31 October 2018. Maintenance revenue declined by 4.9% in the period driven by the overall product mix within this portfolio. The consulting revenue decline of 34.8% is the result of the actions taken to refocus in this area.

Regional performance
Within the 12 months ended 31 October 2018, the regional revenue performance supports the hypothesis that weak revenue performance seen in the first half of the financial year was driven in part by disappointing sales execution rather than an overall change in end markets in which we operate. Specifically, we have seen certain products within each sub portfolio growing within one geography or customer segment, whilst declining in others.

The Americas region was impacted most significantly by the HPE S business transaction with more disruption and higher levels of attrition than witnessed in the EMEA and Asia Pacific & Japan regions. As a result, revenue declined by 8.8% year on year within the Americas, compared to 3.9% and 6.0% in EMEA and Asia Pacific & Japan respectively.

In the last six months, the business has focused on improving sales execution particularly in the Americas region, which resulted in the revenue stabilisation in this region in the second half of the year.

Adjusted EBITDA performance (versus pro-forma constant currency comparatives)
The Micro Focus Product Portfolio generated an Adjusted EBITDA of $1,413.6m in the 12 months ended 31 October 2018, at an Adjusted EBITDA margin of 38.4%. This represents a 5.1ppt increase in pro-forma Adjusted EBITDA margin between the periods.

The ability to drive operational efficiencies within the two businesses via integration was a key thesis for the deal and remains a key strategic objective of management. Total costs within the Micro Focus Product Portfolio in the 12 months ended 31 October 2018 were $2,270.7m. This reflects a reduction of $334.8m on the comparable pro-forma period to 31 October 2017.

The key drivers for cost reduction between the periods include:

- Personnel costs, including the removing of duplicative roles across the two organisations;
- Concerted spend reduction efforts across central functions;
- A more focused approach to product development including more rigorous application of the four-box model;
- Efficiencies in the sales and marketing organisation; and
- Gross Margin improvement in SaaS and other recurring and Licence revenue streams.

We continue to see opportunities in respect of operational efficiencies and applying the Micro Focus operating model to the enlarged portfolio and remain focused on continuous improvement to deliver growth in Adjusted EBITDA year over year, as demonstrated consistently historically, through the application of the Micro Focus Operating Model. The 5.1 ppt increase in pro-forma Adjusted EBITDA margin to 38.4% reflects an early prioritisation of cost rationalisation areas, which were largely independent of system and process efficiencies, as well as strong sales execution at the end of the period. We expect the current financial year to benefit from the full year impact of savings already realised in FY18, as well as those arising from our continuous improvement programmes, although this will be tempered by a focus on stabilisation as we invest in the information systems and build the operational platforms which will enable further efficiencies to benefit FY20 and beyond.

MFI cash generation

The Group's Consolidated statement of cash flows is presented on page 140. The table presented below focuses on those items which specifically relate to the Group's free cash flow, which is considered to be a Key Performance Indicator ("KPI") of the Group. The Group's KPIs are found on page 30.

	18 months ended 31 October 2018 (audited) $m	12 months ended 30 April 2017 (audited) $m	**12 months ended 31 October 2018 (unaudited) $m**
Cash generated from operations before working capital	**1,711.3**	616.0	**1,191.1**
Movement in working capital	**(287.0)**	(51.2)	**(39.7)**
Cash generated from operations	**1,424.3**	564.8	**1,151.4**
Interest payments	**(301.7)**	(81.2)	**(219.5)**
Bank loan costs	**(101.2)**	(6.7)	**(10.8)**
Tax payments	**(99.5)**	(24.6)	**(79.0)**
Purchase of intangible assets	**(92.1)**	(31.4)	**(56.5)**
Purchase of property, plant and equipment	**(40.1)**	(11.7)	**(30.2)**
Free cash flow	**789.7**	409.2	**755.4**

In the 18 months ended 31 October 2018, the Group generated $789.7m of free cash flow compared to $409.2m in the 12 months ended 30 April 2017. In the 12 months ended 31 October 2018, the Group generated $755.4m of free cash flow.

In the last 12 months, the Group's cash generation has been impacted by the implementation of the new systems within the HPE Software business.

Between 31 October 2017 and 30 April 2018, the Days Sales Outstanding ("DSO") increased from 65 days to 94 days as the newly implemented IT environment caused material disruption within the order to cash process. In the second half of the year, the DSO days remains elevated at 94 as at 31 October 2018. Resolving the impact of the system issues remain a key area of focus for the finance team and new sales orders are now impacted to a much lower extent by these issues. The impact on DSO is primarily driven by invoices raised in the period between 1 November 2017 and 30 April 2018, which have required manual invoice remediation before payment can be made by the customer. The effort of correcting administrative invoicing errors and resending to customers has caused an extension in the standard payment cycle. We anticipate the cash impact to substantially unwind within the 12 months ended 31 October 2019.

In the 12 months ended 31 October 2018, purchases of intangible assets (relating predominantly to software licences) totalled $56.5m compared to $31.4m in the 12 months ended 30 April 2017. In addition, purchase of property, plant and equipment increased from $11.7m to $30.2m over the same period. Capital expenditure on both tangible and intangible assets is driven by the increase in size and scale of the combined operations.

The Group's Adjusted cash conversion ratio (defined as cash generated from operations divided by Adjusted EBITDA less exceptional items) for the 12 months ended 31 October 2018 was 105.6% compared to 103.9% in the 12 months ended 30 April 2017.

	18 months ended 31 October 2018 (audited) $m	12 months ended 30 April 2017 (audited) $m	**12 months ended 31 October 2018 (unaudited) $m**
Cash generated from operations	**1,424.3**	564.8	**1,151.4**
Adjusted EBITDA	**2,059.7**	640.9	**1,529.6**
Less: exceptional items	**(538.2)**	(97.3)	**(439.7)**
Adjusted EBITDA less exceptional items	**1,521.5**	543.6	**1,089.9**
Adjusted cash conversion ratio	**93.6%**	103.9%	**105.6%**

The Group delivered a cash conversion rate of 105.6% in the 12 months ended 31 October 2018, despite the elevation in DSO days noted above. Overall, the Group continues to anticipate adjusted cash conversion rates of between 95% and 100%.

Net Debt

As at 31 October 2018, Net Debt was $4,253.5m (30 April 2017: $1,410.6m). This represents a Net Debt to Pro-form Adjusted EBITDA ratio as follows:

	12 months ended 31 October 2018 (unaudited) $m	12 months ended 30 April 2017 (audited) $m
Pro-forma Adjusted EBITDA	**1,529.6**	640.9
Net Debt	**(4,253.5)**	(1,410.6)
Net Debt/Pro-forma Adjusted EBITDA ratio	**2.8 times**	2.2 times

The Group's net debt ratio of 2.8 times as at 31 October 2018 is after the impact of a share buy-back scheme in which $171.8m of shares were repurchased during the period. On 6 November 2018, the programme was extended to a total of $400.0m (inclusive of shares already purchased), which was completed in full by 13 February 2019 and has been further extended.

The board continues to target a modest level of gearing for a company with the cash-generating qualities of Micro Focus with a target net debt to Adjusted EBITDA multiple of 2.7 times. Excluding the share buyback undertaken, the Group would have been below of the stated 2.7 times target as at 31 October 2018 which is within 14 months of the deal completing. This compares to the 17 months taken following the acquisition of TAG and the target date of 24 months set out at completion of the HPE Software business transaction.

We are confident that this level of debt will not reduce our ability to deliver our strategy, invest in products and make appropriate acquisitions. The level of interest payments on the term loans remain at a manageable level relative to the scale of the Group.

The movements on the Group loans in the 12 months to 31 October 2018 were as follows:

	Term Loan B-2 $m	Term Loan B-3 $m	Seattle Spinco Term Loan B $m	Euro Loan $m	Total $m
At 1 November 2017	**1,515.2**	**385.0**	**2,600.0**	**547.5**	**5,047.7**
Repayments	**(11.4)**	**(2.9)**	**(19.5)**	**(4.2)**	**(38.0)**
Foreign exchange	**–**	**–**	**–**	**(12.8)**	**(12.8)**
At 31 October 2018	**1,503.8**	**382.1**	**2,580.5**	**530.5**	**4,996.9**

In addition to the term loans and cash reserves, the Group has access to a $500m revolving credit facility, which remains undrawn.

Consolidated statement of financial position

The Group's Consolidated statement of financial position is presented on page 136. A summarised version is presented below.

	31 October 2018 $'m	30 April 2017 $'m
Non-current assets	**13,720.5**	3,995.5
Current assets	**1,917.6**	442.2
Current assets classified as held for sale	**1,142.5**	–
Total assets	**16,780.6**	4,437.7
Current liabilities	**2,010.4**	944.7
Current liabilities classified as held for sale	**437.7**	–
Non-current liabilities	**6,540.5**	1,879.5
Total liabilities	**8,988.6**	2,824.2
Net assets	**7,792.0**	1,613.5
Total equity attributable to owners of the parent	**7,791.0**	1,612.5
Non-controlling interests	**1.0**	1.0
Total equity	**7,792.0**	1,613.5

The net assets of the Group have increased from $1,613.5m to $7,792.0m between 30 April 2017 and 31 October 2018. This increase was driven primarily by the acquisition of the HPE Software business. The balance sheet acquired with HPE Software business can be found on in note 39 of these financial statements.

In the period, the key movements were as follows:

- Non-current assets increased to $13,720.5m primarily due to the recognition of goodwill totalling $4,858.4m (note 10) and purchased intangibles totalling $6,539.8m (note 11) recognised as a result of the acquisition of the HPE Software business;
- Current assets increased from $442.2m to $1,917.6m with the Group acquiring $710.7m of trade receivables with the HPE Software business. Since acquisition, the system issues set out earlier in this section have resulted in an increase in DSO days such that trade receivables for the total Group were $1,047.7m at 31 October 2018 (note 17).
- Current assets and current liabilities classified as held for sale reflect primarily the assets and liabilities of SUSE business segment, which are due to be disposed of (note 19).
- Non-current liabilities increased from $1,879.5m to $6,540.5m, primarily due to the new term bank loans drawn down in order to fund the acquisition of the HPE Software business.
- Total equity attributable to the owners of the parent increased from $1,612.5m to $7,791.0m, driven primarily by the issue of new share capital on the acquisition of the HPE Software business (note 31). On completion of the acquisition of HPE Software business, American Depositary Shares representing 222,166,897 Ordinary Shares were issued to HPE Shareholders, representing 50.1% of the fully diluted share capital of the Company at that time.

Other financial matters

IFRS 15 "Revenue from contracts with customers"

The Group is required to adopt IFRS 15 "Revenue from contracts with customers" ("IFRS 15") from the transition date of 1 November 2018. Under the IFRS 15 adoption method chosen by the Group, prior-year comparatives are not restated to conform to the new policies. Consequently, the year-over-year change of revenue and profit in the year to 31 October 2019 will be impacted by the new policies. We anticipate IFRS 15 will increase revenue by $23.0m in the 12 months ended 31 October 2019. Further details can be found on pages 147 to 148.

US Federal business

In April 2018, Micro Focus established a new partnership to better serve the needs of our classified and controlled US Federal Government customers. The accounting treatment of this contract results in the gross revenue and costs being recognised by a third party rather than Micro Focus. Micro Focus accounts for the contract taking a net amount within the income statement resulting in a year-on-year reduction in both revenue and the associated costs.

Contractual cash obligations

The following table reflects a summary of obligations and commitments outstanding as of 31 October 2018:

	Payment due by period				
	Less than 1 year $m	1-3 years $m	3-5 years $m	After 5 years $m	Total $m
Debt principal repayment	50.3	100.7	1,528.8	3,317.1	4,996.9
Interest payments on debt	227.6	448.9	309.3	96.6	1,082.4
	277.9	**549.6**	**1,838.1**	**3,413.7**	**6,079.3**
Finance Leases	13.6	13.3	1.6	-	28.5
Operating Leases	65.8	86.4	53.3	22.5	228.0
	357.3	**649.3**	**1,893.0**	**3,436.2**	**6,335.8**

Dividend

The board has adopted a dividend policy such that the adjusted profit before tax of the Group twice covers the dividend payment. In light of the move to an 18 month accounting period there are two interim dividends and a final dividend in line with this policy. The directors declared a final dividend of 58.33 cents per share. The total dividend per share in the 18 month period was 151.26 cents. On an annualised basis, this total dividend is 100.84 cents per share, which is growth of 14.5% on the full year dividend for the year ended 30 April 2017 of 88.06 cents per share.

The dividend will be paid in Sterling equivalent to 45.22 pence per share, based on an exchange rate of £1 = $1.29 being the rate applicable on 13 February 2019, the date on which the board resolved to propose the dividend. The dividend will be paid on 5 April 2019 to shareholders on the register at 1 March 2019.

Chris Kennedy
Chief Financial Officer
20 February 2019

Viability Statement

The context for the assessment

In accordance with provision C.2.2 of the Code, the directors have assessed the prospects of the Company over a period significantly longer than 12 months. The directors' assessment of the prospects of the Group covers a three-year period. The reason for selecting this period is described within the Assessment of Viability section below. The Group's business model and strategy are central to an understanding of its prospects, and details can be found on pages 14 to 67.

The assessment below assumes the proposed disposal of SUSE completes in the first quarter of calendar year 2019. In recommending the proposed sale of SUSE a detailed process was undertaken including a review of the strategy, risks and cash flows of the remaining business and this concluded that the proposed sale would not have a negative impact on the overall viability of the Group.

The assessment process and key assumptions

Strategic plan:
The Group's prospects are assessed primarily through its strategic plan and annual budget process. This process includes an annual review of the ongoing plan, led by the executive directors and all relevant functions are involved, including GTM, Product Group, Marketing, Finance, IT, Human Resources, Legal, Treasury and Risk. The board participates fully in the annual process by means of discussion at the October board meeting. 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 the next year on which financial forecasts for the subsequent two years are based assuming no further acquisitions. The latest updates to the strategic plan were finalised in October 2018 following this year's review. This considered the Group's current position and development of the business as a whole. 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 revenue decline in the Micro Focus Product Portfolio;
- Cost savings being achieved each year; and
- No debt refinancing.

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 take into account the principal risks as set out in pages 32 to 41, covering a three year period.

These scenarios included various 'severe but plausible' circumstances that the Group could experience, including:

- Higher revenue decline in the Micro Focus Product Portfolio;
- Lower Adjusted EBITDA growth; and
- Reduced operating cash conversion.

In making their assessment, the board considered the Group's liquidity over the three year period and its ability to generate sufficient cash to meet its liabilities under current borrowing arrangements, a significant proportion of which mature between three and four years' time (see note 21 for further details).

The results of this stress testing showed that 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 31 October 2021.

Going concern

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

"We are making additional investments in the enablement and development of our team, increasing focus on people engagement, inclusion and diversity."

Stephen Murdoch
Chief Executive
20 February 2019

Micro Focus' products and services continue to help organisations lower their energy impact —

In the prior Annual Report, this section highlighted the development of the Corporate Social Responsibility ("CSR") programme to address the additional scale of operations following multiple previous acquisitions. This theme has continued with the transformational acquisition of the HPE Software business during the 18 month period to 31 October 2018. Since October 2014, Micro Focus has grown from less than 1,500 employees to approximately 14,000, and operations are delivering annual revenues of approximately $4bn compared to approximately $1.2bn in the financial year to 30 April 2017. The CSR Committee is developing an appropriate Environmental, Social and Governance programme with expanded resources to address the increased scale of the Group, recognise the increased relevance and impact of operations, and drive, improve and report on progress going forward.

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

During the period ended 31 October 2018 the CSR committee met three times to agree priorities and progress activities and the CSR programme was covered on a number of occasions at board meetings during the period. Karen Slatford, the senior independent non-executive director, is responsible at board level for CSR and also chairs CSR committee meetings.

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

Outlined below is the CSR progress that Micro Focus has made in the 18 month period ended 31 October 2018 across the four focus areas.

CSR progress in the period ending 31 October 2018

Marketplace and Suppliers

The Group sells more than 300 software products and works closely with more than 40,000 customers to address many organisational challenges and to deliver multiple business benefits. In addition to helping customers navigate complex technology environments, many of Micro Focus' products and services continue to help organisations lower their energy impact and often customers benefit from a lower carbon footprint.

Our product portfolio encourages organisations to extract more value from their existing technology, avoiding expensive and more carbon intensive "rip and replace" product migrations. Furthermore, we directly enable many of our customers to deliver products and services that are significant influencers in improving society, peoples' health and wellbeing, in addition to reducing our customers' environmental impacts.

The Auckland Transport example that is featured in the case studies on pages 10 to 11 is a great example of the power of Micro Focus technology to enable improvements not only in business efficiency and effectiveness, but also to enhance the safety of a smart city's citizens, and Auckland's environmental credentials.

Additional customer examples include:

- BMW – Developing environmentally friendly electric cars in addition to safer cars, and autonomous driving cars with Micro Focus' ADM product portfolio;
- Whitlock – Organisation that supports the largest US humanitarian relief agency to help hurricane victims to receive much needed aid faster with Micro Focus' StormRunner Load for non-profit; and
- The Climate Corporation – Helps farmers around the world protect and improve their farming operations with uniquely powerful software and hardware products powered by Vertica.

Environment

This financial period is the first that relates to environmental reporting for the enlarged operations resulting from the acquisition the of HPE Software business. The data relating to those Operational boundary changes is not available for the full reporting period and, as such, this reporting period will be considered year zero for all future reporting.

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, staff are encouraged to turn off all electrical equipment at weekends and over the holiday periods – a scheme that has been adopted worldwide. In the last reporting period, we extended our partnership with the Carbon Trust and entered into Phase 2 of the UK Energy Savings Opportunity Scheme ("ESOS"), the scope of which will reflect the newly Enlarged Group. We continued to use the audit findings in our energy roadmap for driving down our carbon output during the period ended 31 October 2018.

Key points for the 18 months ended 31 October 2018:

- Building on previous success in reducing environmental emissions, Micro Focus continued its commitment to the Carbon Trust engaging early in the ESOS Phase 2 audit scheme. This will incorporate the expanded Group during the reporting period;
- Micro Focus did not submit to the Carbon Disclosure Project ("CDP") for the first time in 10 years. Due to the complexity of the operational boundary changes as a result of the HPE Software business acquisition mid reporting period, obtaining a base year of data for the acquired properties has been difficult. This will be established for the next reporting period. Micro Focus will continue the Group's commitment to CDP in the next reporting period and continue to further raise awareness of the importance of and manage emission reductions across global facilities;
- CDP practices continue to be deployed in order to maintain the standards that are embedded and delivering encouraging improvements year on year in energy reduction. This reporting period once again delivered an overall reduction;
- On-going commitment to promote electronic product distribution has delivered the Group's highest ever result for the period. During this reporting period 98.93% of software products were distributed electronically, with just over 1% delivered to customers via physical distribution;
- Further improvements across all locations either by moving to more modern and efficient office environments or by improving the office environments already in use. Part of Micro Focus' decision-making process when sourcing locations is to identify LEED ratings wherever possible. We continue to choose office buildings with LEED rating toward the top end of the ratings, sourcing Silver, Gold and Platinum sites;
- Continued landlord performance monitoring in all locations where Micro Focus operations are sited in multi-tenant premises;
- Despite the increase in the size of the Group, further progress has been made continuing the consolidation of the data-centre power programme, thereby improving efficiencies and reducing cost and overall consumption across the Group. The data for our Provo office facilities in the US during this reporting period shows a 10% increase in consumption due to the large consignments of servers absorbed as part of the acquisition. Micro Focus will continue to reduce the quantity of dedicated server "environments" across the wider Group to significantly lessen the footprint impact;
- Additional capital carbon projects took place in this reporting period. Lighting upgrade projects were deployed delivering further reductions in energy consumption. Following on from last year's pilot at Micro Focus' headquarters office in Newbury, this facility has now completed its transition to LED lighting.

Micro Focus continues to develop its own policies to record, monitor and achieve improvements in its carbon footprint —

Greenhouse Gas Emissions ("GGE")

For this reporting period 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 saw a 1.9% increase in energy consumption for this reporting year. The EMEA region showed continued good progress contributing an overall decrease in consumption from the previous period. In the APAC region, increased headcount and a larger office space footprint produced a 2.1% increase in consumption. The Americas region generated a large increase due to the additional infrastructure required to accommodate the increased server provision in Provo Utah, as a result of the acquisition. All other sites in the Americas region delivered a 3% reduction for this reporting period. Excluding the planned increase in Provo, worldwide the Group would have delivered a 2% reduction in consumption.

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

Reporting period

The Green House Gas ("GHG") reporting period is the same as Micro Focus' financial reporting period being 1 May 2017 to 31 October 2018.

Organisational 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 Organisational 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 the HPE Software business in September 2017, Micro Focus' operational infrastructure approximately doubled in size over the previous reporting period. On a like for like basis Micro Focus' energy consumption would have been lower in the 18 months to 31 October 2018 than during the previous reporting year by 1.9%, with continued best practice across the entire real estate, further capital investment in "green" projects and targeted employee communication to staff focused on reducing emissions.

Despite the enlarged footprint arising from the HPE Software business acquisition, access to the environmental reporting data relating to real estate acquired was complex due to the disposition of properties across the estate. The Company has, where possible, implemented the same systems and processes that heritage Micro Focus used in the past to adopt these across the entire organisation. This work is helping with the ability to monitor and report on year on year comparisons going forward. Actual consumption data has been used where available.

Creating Social Impact

Whitlock supports the largest US humanitarian relief agency to help hurricane victims to receive much needed aid faster with our StormRunner Load® for non-profit.

Helps farmers around the world protect and improve their farming operations with uniquely powerful software and hardware products powered by Vertica.

Locations and approach taken:

Actual emissions data used:

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

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

Where the data is not available, the same intensity ratio is used for the location on a headcount basis. Average UK CO_2/head multiplied by headcount:

Alphen den Rijn (Netherlands), Austin (US), Bellingham (US), Brasilia (Brazil), Brighton (US), Burlington (US), Cape Town (South Africa), Linz (Austria), Lyon (France), Columbus (US), Costa Mesa (US), Dubai (UAE), Edinburgh (UK), Geneva (Switzerland), Hanau (Germany), Horsholm (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), Taipei (Taiwan), Tokyo (Japan) and Toronto (Canada).

Newly acquired sites:

Abu Dhabi (United Arab Emirates), Aguadilla (Puerto Rico), Alpharetta (United States), Amstelveen (Netherlands), Ariana (Tunisia), Austin (United States), Ballerup (Denmark), Bangalore (India), Bangalore (India), Bangalore (India), Barcelona (Spain), Barueri (Brazil), Beijing (China), Belfast (United Kingdom), Boeblingen (Germany), Bracknell (United Kingdom), Bucharest (Romania), Cambridge, UK (United Kingdom), Cambridge (United States), Canberra (Australia), Chennai (India), Chicago (United States), Chongqing (China), Cluj (Romania), Dalian (China), Diegem (Belgium), Dornach (Germany), Dubai (United Arab Emirates), Dubendorf (Switzerland), Erskine (United Kingdom), Fort Collins (United States), Galway (Ireland), Geneva (Switzerland), Grenoble (France), Gurugram (India), Heredia (Costa Rica), Istanbul (Turkey), Kuala Lumpur (Malaysia), Leon (Spain), London (United Kingdom), Lyon (France), Madrid (Spain), McLean (United States), Moscow (Russian Federation), Mougins (France), Nagoya (Japan), Osaka (Japan), Paris (France), Paris (France), Pittsburgh (United States), Plano (United States), Pleasanton (United States), Prague (Czech Republic), Ratingen (Germany), Rome (Italy), Shanghai (China), Sofia (Bulgaria), Sunnyvale (United States), Taguig (Philippines), Tlaquepaque (Mexico), Tokyo (Japan), Toronto (Canada), Wroclaw (Poland), Yehud (Israel).

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

Developing Environmentally Friendly Electric Cars in addition to Safer Cars, Autonomous Driving Cars with our ADM portfolio.

Reducing carbon footprint, easing traffic congestion and supporting employees' quality of work and life with our Vibe, Filr, Groupwise and Retain products.

During the period ended 31 October 2018, Micro Focus made progress on reducing the merged Company's carbon footprint by reducing the overall real estate of the wider Group, integrating locations wherever possible. This delivered a net reduction across all operations. Total UK data for the Group delivered a 3.7% reduction in absolute consumption, a direct result of the integration strategy. This contributed to an extended EMEA reduction of 2.3%.

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.

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.

2018 targets

During the 18 months ended 31 October 2018, despite the complexities of the increased operational boundaries due to the acquisition of the HPE Software business, Micro Focus continued with its commitment to deliver its target of achieving year on year reductions of emissions.

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

Charity and community support

Micro Focus donated over $80,000 (2017: $80,000) to selected charities and community support projects during the 18 months ended 31 October 2018.

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

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

In prior years, the programme was split between six months supporting local causes and six months supporting a global initiative. In response to employee feedback local community initiatives were supported for the entire 18 month period to 31 October 2018. The Micro Focus Community continues to be active in all areas of the globe committing personal time and financial support to causes ranging from donating Christmas presents to children in local shelters, providing support and winter gift packs to projects working with

Year on year comparisons for energy consumed and carbon emissions

	18 months ended 31 October 2018	12 months ended 30 April 2017	Change %
Total energy consumption (metered) MWhrs	**45,817**	22,548	103.2%
Energy consumed (metered) KWhrs per employee	**10,487**	5,339	96.4%
GHG emissions (tonnes e-CO_2)	**12,756**	9,113	40.0%
GHG emissions per employee (tonnes e-CO_2)	**2.92**	2.68	9.0%
Total estimated GHG emissions (Ktonnes e-CO_2)	**51.9**	10.4	399.0%

Auckland Transportation – Safer Roads and Efficient Public Transport with the help of Vertica

homeless people, to responding to local disasters such as the flooding in Kerala and Karnataka raising INR 600,000. This is the seventh year that the local "project grants" initiative has been in place and in the current period, 12 charity or community organisations benefited across multiple geographies across Micro Focus Group operations.

In addition to this, Micro Focus also supported a global relief initiative and made a single donation to the British Red Cross to support the relief efforts in Indonesia in response to the earthquake and flooding.

Employees and ethics
During the 18 months ended 31 October 2018, Micro Focus employees have experienced significant changes in the Company they work for. The Group has invested in a range of measures to support the integration of teams and this work is continuing, within the parameters of a robust application of the Micro Focus operating model. The HPE Software business acquisition in September 2017 followed a prior period of significant M&A, and integration experience has been valuable in developing employee programmes to achieve the effective combination of multiple cultures and ways of working. Employee numbers have grown from approximately 1,200 employees in October 2014 to more than 13,800 by 31 October 2018.

The Company encourages employees to help local communities and support relevant charities —

Integration initiatives include recruitment and retention programmes through multiple training and performance management initiatives across the organisation, to support and develop employees through a time of substantial change. The integration work is naturally shifting to and building an environment focused on efficient and effective outcomes, supported by a simplified, stable, rewarding and professional workplace. The people agenda is focused on employee experience, talent enablement, reward and recognition.

Key HR metrics at 31 October 2018

- Total number of permanent employees worldwide – 13,879 (30 April 2017: 4,826);
- Percentage of women – employees worldwide – 3,846 (30 April 2017: 1,081) employees 27.7% (30 April 2017: 22.4%);
- Percentage of women – senior management – 506 (30 April 2017: 128) employees 13.2% (30 April 2017: 11.8%); and
- Percentage of women – governance body – 44.4% four out of nine directors (30 April 2017: 37.5%, three out of eight) (50% including Company Secretary (30 April 2017: 44.4%).
- Micro Focus continues to strive for a diverse range of candidates for new roles, with a significant focus during the period on improving the quality of Primary Quota Carrying (PQC) hiring and capacity of the sales team.
- An Inclusion and Diversity (I&D) programme has been launched with nine Employee Resource Groups worldwide and seven Inclusion & Diversity industry partnerships. Ongoing sponsorship and support of Inclusion & Diversity events included World Mental Health Day, LGBTQ+ Spirit Day, Black History Month, International Women's Day, Women in Tech Leadership, Women in Leadership, Grace Hopper annual conference and Professional Business Women of California annual conference.

The Group has invested in a range of measures to support the integration of teams —

- An interim bonus for the performance in the six months to 30 April 2018 was paid to 11,575 eligible non-commissionable employees in July 2018. A second interim bonus was paid to 10,581 employees in December 2018, based on performance in the 12 months to 31 October 2018. The balance of the 12 months to 31 October 2018 performance bonus will be paid to approximately 10,700 eligible non-commissionable employees by the end of March 2019.
- A global ESPP scheme and Sharesave schemes in the UK and Ireland were launched in March and July 2018. These schemes are active across 36 countries, comprising 90.1% of our employees worldwide. The overall participation rates were 20.4% of eligible employees.
- Driving competitive performance at the individual level continues to be an important focus to improve productivity and performance across the Company. A simplified performance feedback process has been introduced that focuses on quality, forward looking, relevant and meaningful development focused conversations where emphasis is placed on learning from the past and developing for the future. Nearly 95% of the employee population have so far had "Year-end Conversations" for the 12 months ending 31 October 2018.

- All employees now have access to 24x7 virtual learning resources covering business, professional and technical skills to enhance individual personal development. A first line manager programme was launched in April 2018 with nine programmes conducted so far across all three operating regions with a total of 170 managers attending.
- An excellent record in health and safety matters for all employees (no reportable incidents in the last 12 months).
- Commitment to ensuring compliance with anti-slavery, anti-bribery and corruption, data protection and market abuse and insider dealing laws has continued. A new, board approved integrated Code of Conduct was rolled-out in August 2018, with supporting training materials distributed to all employees during October 2018.
- The board has also approved a new and integrated Gifts and Hospitality Policy, and training on the new policy and processes has been rolled out to all employees.
- Significant work was undertaken during the period to ensure compliance with the General Data Protection Regulation ("GDPR"). This included the approval of four new data protection policies by the board, GDPR Awareness training has been circulated to all employees, and regular communications to employees is on-going regarding the importance of compliance with this topic.

Strategic Report
The 18 months to 31 October 2018 Strategic Report on pages 14 to 67 is hereby approved and signed on behalf of the board.

Kevin Loosemore
Executive Chairman
20 February 2019

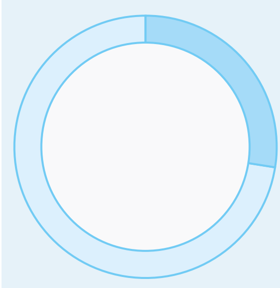
Key HR metrics at 31 October 2018

Total number of permanent employees worldwide

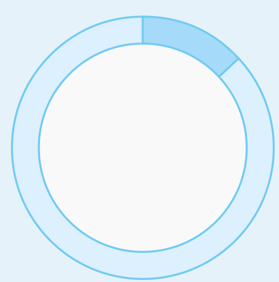
13,879

(30 April 2017: 4,826)

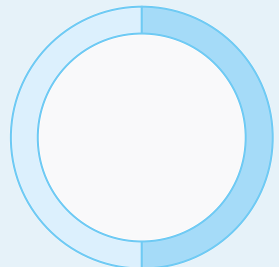
Women – employees worldwide
3,846 employees – 27.7%
(2017: 1,081 – 22.4%)



Women – senior management
506 employees – 13.2%
(2017: 128 – 11.8%)



Women – governance body
50% (including Company Secretary, five out of ten directors (2017: 44.4%))



The board continues to be well balanced, with a broad range of skills and a good understanding of the market in which we operate.

Kevin Loosemore
Executive Chairman
20 February 2019

Executive Chairman's introduction

High standards of corporate governance and a strong corporate governance framework are key contributors to the Micro Focus International plc board's commitment to deliver outstanding shareholder returns over time. The Group operates with a comprehensive set of procedures and processes to support and enable this governance mandate.

During the financial period ended 31 October 2018, key developments were:

Shareholder engagement
Following extensive shareholder engagement leading up to and following the acquisition of the HPE Software business, which completed on 1 September 2017, the Group's shareholder register has seen significant further change and an increase in US ownership. US shareholders owned approximately 60% of Micro Focus' shares at 31 October 2018. The increase in US ownership was driven partly by the structure of the HPE Software business transaction, with the Group listing 222 million shares on the New York Stock Exchange at the time of transaction completion, with these shares being allocated to HPE shareholders. Many of these HPE shareholders have continued to hold Micro Focus shares, with a number of our largest shareholders increasing their investment since the time of the transaction.

Sale of SUSE business
On 21 August 2018, our shareholders approved the sale of SUSE for a total cash consideration of $2.535bn to EQT. We believe this price represents a highly attractive enterprise valuation for SUSE at a multiple of approximately 7.9x revenue and 26.7x Adjusted Operating Profit for the 12 months to 31 October 2017 and reflects an excellent return on the investments we have made to support and grow this business since it was acquired in 2014. In addition to a great value return for shareholders, we see the purchaser, EQT, as a strong long-term investor for SUSE.

In line with our capital allocation strategy we intend to return the majority of the SUSE proceeds to shareholders following completion after tax, transaction costs and any required debt repayments have been accounted for. This will be shortly after completion of the transaction, which is currently anticipated to be in the first calendar quarter of 2019.

Talent, development and succession planning
Since the last annual report, there has been significant change at board level as well as in the business. Silke Scheiber, Darren Roos and Lawton Fitt joined the board as Non-executive Directors, all bringing directly relevant skill sets to support the newly enlarged company. Karen Slatford, Richard Atkins and Amanda Brown, together with myself, provide continuity and longer term experience of the business and strategy.

On 19 March 2018, we announced the appointment of Stephen Murdoch as CEO of the Company and on 5 November 2018, we announced that Brian McArthur-Muscroft will join the board as the new CFO in the first quarter of 2019. .

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

Board performance evaluation
During the period, we completed a board performance evaluation. I have received feedback from all of the directors confirming that the process has been extremely valuable to the board. The results have been reviewed and a number of improvement areas prioritised for 2018/19.

Kevin Loosemore
Executive Chairman
20 February 2019

Board of directors

1.

2.

3.

4.

Board committee memberships as at 20 February 2019:

- (A) Audit committee
- (R) Remuneration committee
- (N) Nomination committee

1. Kevin Loosemore, 60
Executive Chairman

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

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

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

2. Stephen Murdoch, 52
Chief Executive Officer

Stephen is our Chief Executive Officer and a member of the Micro Focus board, positions he has held since 19 March 2018. Stephen joined Micro Focus in 2012, first serving as General Manager of the Product Group and Chief Marketing Officer, responsible for all software product and services offerings development, customer services, corporate marketing and strategy. In 2014, he was appointed Chief Operating Officer and Executive Director, having responsibility for sales and marketing, product strategy, development and management, services and business operations.

Prior to Micro Focus Stephen spent seven years at Dell, first building Dell's Global Infrastructure Consulting Services organisation, and then leading its business in Europe, Middle East and Africa. Before Dell Stephen had 17 years' experience at IBM, latterly serving as Vice President, Communications Sector with responsibility for the entire telco, media, and utilities industry portfolio. During his IBM career, Stephen held a number of Global, EMEA and UK senior management roles with experience spanning software and services, storage, and enterprise systems.

3. Chris Kennedy, 55
Chief Financial Officer

Chris joined Micro Focus as Chief Financial Officer in January 2018. Chris previously served as CFO of ARM where he was involved in one of the largest UK takeovers culminating in the sale of ARM to SoftBank in a deal valuing the company at £24.3bn, or 57 times earnings. Prior to ARM, Chris spent five years as the CFO of EasyJet overseeing a period of tremendous growth with profit increasing nearly five times. In this role, he oversaw a successful capital structure reorganisation and led the negotiation of the largest plane order in UK history. Chris also held senior management positions over a 17-year career at EMI Music including UK CFO, COO International, Group CFO and Chief Investment Officer. Chris holds a degree in Electrical Sciences from Cambridge University and qualified as a Chartered Accountant that led to an early career in consultancy and venture capital.

4. Karen Slatford, 62
Senior independent non-executive director

(R) (N)

Karen is Chair of Draper Esprit plc, an AIM listed venture capital firm and Foundry, a leading special effects software company. Karen is also non-executive director of Accesso Technology Group plc and Alfa Financial Software Holdings plc. Karen began her career at ICL before spending 20 years at Hewlett-Packard Company, where in 2000 she became Vice President and General Manager Worldwide Sales & Marketing for the Business Customer Organisation, 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.

5.

6.

7.

8.

9.

5. Richard Atkins, 66
Independent non-executive director
A N

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

6. Amanda Brown, 50
Independent non-executive director
A R

Amanda is the Group Human Resources Director at Hiscox Ltd, a FTSE 100 business and specialist insurer with offices in 14 countries.

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

7. Darren Roos, 44
Independent non-executive director
A N

Darren is a technology leader who has spent 20 years building businesses worldwide. He is the CEO of global enterprise software vendor, IFS. Prior to IFS, Darren held leadership roles at SAP where he was the President of the company's Cloud ERP business and at Software AG where he was also a member of the board. Darren is a thought leader in the technology industry and is known for being a customer advocate and Cloud expert.

8. Lawton Fitt, 65
Independent non-executive director
A N

Lawton is an investment banker and a highly experienced corporate director. She currently serves on the boards of Ciena Corporation, The Progressive Corporation and The Carlyle Group, and was previously a non-executive director at ARM plc and Thomson Reuters. Lawton worked at Goldman Sachs for over 23 years in investment banking, equities and asset management and for more than a decade she led the equity capital markets team, focused on technology companies. She was elected a Partner in 1994 and worked in the London and New York offices.

From 2002-2005 Lawton was the Secretary (Chief Executive Officer) of the Royal Academy of the Arts in London, and has served as a trustee for a number of not-for-profit organisations and foundations, including the Goldman Sachs Foundation and the Thomson Reuters Foundation. She received her undergraduate degree in European History from Brown University and her MBA from the Darden School of the University of Virginia.

9. Silke Scheiber, 46
Independent non-executive director
A R

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

Corporate governance report

The principal corporate governance code that applies to companies with a premium listing on the Official List of the UK Listing Authority during the period reported on is contained in the UK Corporate Governance Code 2016 (the "Corporate Governance Code") published by the Financial Reporting Council in April 2016, which is available at www.frc.org.uk.

Compliance statement

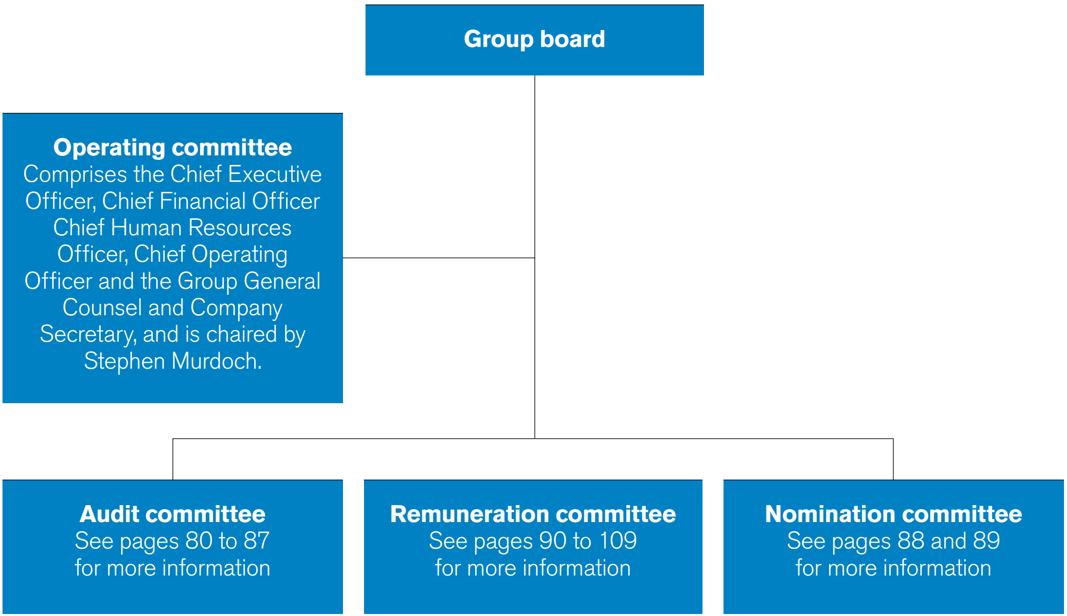
The directors are committed to ensuring that the Company works towards compliance with the main principles of the Corporate Governance Code and throughout the period reported on the Company has been in full compliance with the Corporate Governance Code, other than Provision A.2.1 as a result of Kevin Loosemore's role as Executive Chairman. A separate Chief Executive Officer has been in place at all times during the financial period but the Executive Chairman still retains executive responsibility for of strategy, M&A activities, investor relations and executive director development. Stephen Murdoch, as Chief Executive Officer, is responsible for the day-to-day operation of the evolution and delivery of the strategy and the business. Kevin Loosemore continues to work to ensure an orderly transition of executive responsibilities to the Chief Executive Officer.

In order to mitigate any potential concerns in relation to the Executive Chairman role, Karen Slatford, the senior independent non-executive director, has separate and defined responsibilities from the Executive Chairman. Karen Slatford chairs the nomination committee and is responsible for succession planning. During the 18 months ended 31 October 2018, Karen Slatford, in her role as senior independent non-executive director, led (and continues to lead) on governance issues. This included 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.

Key corporate governance activities in 18 months ended 31 October 2018	Details
Appointment of new executive directors	Appointment Chris Hsu (formerly Chief Executive Officer) (resigned 19 March 2018), Stephen Murdoch (Chief Executive Officer) and Chris Kennedy (Chief Financial Officer)
Appointment of new non-executive directors	Appointment of John Schultz (HPE nominated (resigned 20 December 2017)), Darren Roos (independent), Silke Scheiber (independent) and Lawton Fitt (independent)
An internally facilitated board review	This provided positive feedback and useful suggestions, see page 78 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 90 to 109) the following section sets out how the board has applied these principles.

Leadership

The board

The biographies of each director can be found on pages 70 to 71. As at 20 February 2019, the board comprised nine directors:

Name	Role
Kevin Loosemore	Executive Chairman
Stephen Murdoch	Chief Executive Officer
Chris Kennedy	Chief Financial Officer (stepping down in February 2019)
Karen Slatford	Senior independent non-executive director
Richard Atkins	Independent non-executive director
Amanda Brown	Independent non-executive director
Darren Roos	Independent non-executive director (appointed 15 May 2017)
Silke Scheiber	Independent non-executive director (appointed 15 May 2017)
Lawton Fitt	Independent non-executive director (appointed 17 October 2017)

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

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, the executive directors conduct day-to-day management of the business. Review of the Group's principal business activities is the responsibility of the operating committee. The operating committee comprises the Chief Executive Officer, Chief Financial Officer, Chief Human Resources Officer, Chief Operating Officer and Group General Counsel and Company Secretary and executive directors and is chaired by Stephen Murdoch.

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 113 of the Directors' report.

Independent advice

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

Board meetings

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

In the 18 months ended 31 October 2018 under review the board met formally on seven occasions. The board also met on a further 17 occasions to receive interim updates or consider matters arising between formal meetings.

Attendance at board meetings

The number of board meetings attended by each director in the 18 months ended 31 October 2018 was as shown in Table 1 below.

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. See Table 2 overleaf.

Table 1: Attendance at board and committee meetings

	Board	
	Held*	Attended
Kevin Loosemore	24	24
Stephen Murdoch[1]	15	15
Chris Kennedy[2]	14	14
Mike Phillips[3]	11	11
Nils Brauckmann[4]	21	21
Karen Slatford	24	23
Richard Atkins	24	23
Amanda Brown	24	22
Darren Roos[5]	23	19
Silke Scheiber[5]	23	19
Lawton Fitt[6]	18	17
Chris Hsu[7]	8	8
John Schultz[8]	4	1

* During period of appointment.
1 Stephen Murdoch resigned from the board on 1 September 2017 and was re-appointed to the board on 19 March 2018.
2 Chris Kennedy was appointed to the board 8 January 2018.
3 Mike Phillips resigned from the board on 31 January 2018.
4 Nils Brauckmann resigned from the board on 11 July 2018.
5 Darren Roos and Silke Scheber were appointed to the board on 15 May 2017.
6 Lawton Fitt was appointed to the board on 17 October 2017.
7 Chris Hsu was appointed to the board on 1 September 2017 and resigned on 19 March 2018.
8 John Schultz was appointed to the board on 1 September 2017 and resigned on 20 December 2017.

Table 2: Roles and responsibilities at committee meetings

Roles	Responsibilities
Executive Chairman	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, M&A activities, investor relations and executive director development. 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 ("SID")	The senior independent director, Karen Slatford, chairs the nomination committee and is therefore responsible for succession planning. Also, in her role as senior independent non-executive director, Karen Slatford leads on governance issues, including the annual review of overall board effectiveness and of the Executive Chairman's performance. The senior independent non-executive director also acts as an intermediary, if necessary, between non-executive directors and the Executive Chairman and between the Company and its shareholders, providing a point of contact for those shareholders who wish to raise issues with the board, other than through the Executive Chairman.
Executive directors	The executive directors are responsible for developing the Group's strategy and proposing the budget for board approval. They are also responsible for the financial and operational performance of the Group and, in conjunction with the operating 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 judgement 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.

Table 3: Board agenda and key activities throughout the financial year

Matters considered at all scheduled board meetings	Key activities for the board in the 18 months to 31 October 2018
• Key Project status and progress • Strategy • Financial reports and statements • Operational reports, issues and highlights • Investor relations and capital markets update • Key legal updates • Key transactions • Assurance and risk management • Compliance Committee Reports	• 2018 budget review and 2019 budget approval • Periodic updates on corporate regulatory changes and reporting requirements • Internally facilitated board review • Completion of the HPE Software business transaction and integration planning and implementation • Approved initial Share buy-back programme and extension • Reviewed and recommended the disposal of the SUSE business • Approved new Code of Conduct and revised Group policies relating to anti-bribery and data protection • Reviewed and updated the matters reserved for the board • Reviewed and approved changes to the membership of the board's committees • Reviewed IT infrastructure changes • Reviewed compliance with debt covenants and liquidity • Reviewed risk and long-term viability review and evolution of Risk Management Framework

Karen Slatford, the senior independent non-executive director, Richard Atkins, Amanda Brown, Darren Roos[1], Silke Scheiber[1] and Lawton Fitt[2], 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 judgement. They are also considered to be independent as they have all served less than nine years on the board, they receive no additional benefits from the Group and they have not previously held an executive role within the Group.

1 Appointed on 15 May 2017.
2 Appointed on 17 October 2017.

Non-executive directors are appointed for specific terms. Full details of their appointment are on page 93 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 period

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

Management structure

A clearly defined organisational structure exists within which individual responsibilities are identified and can be monitored. The management of the Group as a whole is delegated to the Chief Executive Officer and the operating committee.

The operating committee, chaired by the Chief Executive Officer, Stephen Murdoch, and comprising the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Human Resources Officer and the Group General Counsel and Company Secretary, meets regularly to agree strategy, monitor operational performance and consider key business issues. As part of its review, it considers the risks associated with the delivery of strategy and important governance issues within the Group's operating companies.

There are a number of Group administrative functions such as Finance, Treasury, Human Resources, IT, Corporate Communications and Legal. These functions report to the board through the operating committee. The operating committee has four male members and one female member, 13 of the 50 direct reports to the operating committee are female.

A number of Group-wide policies, issued and administered centrally, have been approved to ensure compliance with key governance standards.

These policies include areas such as finance, contract approvals, data protection, share dealing, business conduct, ethics and anti-bribery and corruption and anti-slavery and human trafficking.

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

Effectiveness

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

Board evaluation
A comprehensive evaluation of the performance of the board, its committees and each of its directors is carried out annually. The process is led by the senior independent non-executive director and supported by the Company Secretary. The outcome of the evaluation is discussed in detail by the board and any key recommendations are reviewed and implemented during the following period. As previously reported, the 2016 board evaluation was externally facilitated by the JCA Group. The 2017 and 2018 board evaluations were internally facilitated and took the form of surveys completed by members of the board with respect to the performance of the board and each of its committees, as well as individual director surveys. The surveys included an assessment of the effectiveness of the performance of the board and its committees and compliance with corporate governance principles. The most recent evaluation process was conducted in October 2018. All directors have endorsed the internal evaluation process as being a valuable exercise. An external evaluation will be conducted in 2019 and reported on in the next annual report.

The most recent board evaluation was structured as follows:

Stage 1 – Comprehensive questionnaires – This period's questionnaires focused on board composition, skills, expertise and diversity as well as board dynamics and operation, succession planning, strategic oversight and board support. They also covered progress on items raised in the prior periods' internal evaluation and on the major corporate transactions that took place during the period.

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

Stage 3 – Reporting and discussion – The report was discussed with the Executive Chairman and with the chairs of the respective committees and was reviewed by the board and committees in detail at the board's meeting in October 2018. The Executive Chairman then held discussions with each Director and reported the outcomes to the board meeting in December 2018.

Conclusions and outcomes
The evaluation found the performance of each director to be effective, that each director had demonstrated commitment to the role and that the board had provided effective leadership and control.

The results of the evaluation was for a period of change and challenge for the Company and the results would be used to assist the board in developing its approach and practices in the future including:

- Dedicating more time at board meetings to strategy, products and markets, succession planning, company culture, risk and governance;
- Allowing more time for board and committee meetings including holding board and committee meetings on different day;
- Continuing to work with senior leaders in order to improve the content, conciseness and format of board papers;
- Continued focus on developing the culture of the Enlarged Group; and
- A review of board succession, including size and skill mix of NEDs, and of management succession and talent pipeline.

Progress had been made on previous period recommendations, namely:

(1) to ensure understanding of the culture of the HPE Software business and maintain the important Micro Focus cultural elements, recognising that cultures would need to evolve for the Enlarged Group; and
(2) to ensure preservation of the Company's measurement and compensation system, its Adjusted EBITDA targets to 2020, the leadership team and the Company's product management process.

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

Accountability and audit

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

This responsibility is administered primarily by the audit committee and details of how this is done are described in the audit committee report on pages 80 to 87.

Internal Control and Risk Management

Details of the Company's internal control and risk management systems in relation to the financial reporting process can be found on pages 32 to 41.

Conflicts of interest

In accordance with the Companies Act 2006, the Company has put in place procedures to deal with conflicts of interest, 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

During the period, the Group reviewed and updated its compliance programme to ensure it is appropriate for the increased size of the Group and introduced a new integrated Code of Conduct in August 2018. To comply with the Bribery Act 2010 and the Foreign Corrupt Practices Act 1977 (US), the Company's Code of Conduct includes an Anti-Bribery and Corruption Policy and a Gifts and Hospitality Policy.

The Code of Conduct also includes policies on whistleblowing, charitable donations and sets out the appropriate level of behaviour expected from all staff. Training on the new Code of Conduct and processes has been rolled out to all employees.

Anti-slavery and human trafficking

The Group's anti-slavery and human trafficking policy has been incorporated into the Code of Conduct and its modern slavery statement has been published on its website to comply with the Modern Slavery Act 2015.

Shareholder relations

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

Substantial shareholdings

Details of the substantial shareholdings can be found on page 111 of the Directors' report.

Rights and obligations attaching to shares

Details of the rights and obligations attaching to shares can be found on page 112 of the Directors' report.

Shareholder communications

The Company currently reports formally to shareholders twice a year, in February (preliminary announcement of annual results) and July (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, Chief Executive Officer 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 also available on the Company's website and from the Company Secretary. Additionally, the Executive Chairman, Chief Executive Officer, Chief Financial Officer and the Director. Corporate Communications and Investor Relations provide focal points for shareholders' enquiries and dialogue throughout the period.

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 unauthorised release of information.

AGM

The Company's AGM will be held on 29 March 2019 at 10 am (UK time) at the Company's Headquarters at The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN. The AGM will provide an opportunity for members of the board to meet with all shareholders and the participation of shareholders is encouraged. At the meeting, in addition to the statutory business, members of the board will be available for questions from shareholders.

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

Audit committee report

Audit Committee

		Number of meetings for which eligible to attend	Number of meetings attended
Members:			
Richard Atkins	Chairman	10	10
Karen Slatford (resigned 21 September 2017)	Independent non-executive director	3	3
Amanda Brown	Independent non-executive director	10	10
Lawton Fitt (appointed 17 October 2017)	Independent non-executive director	7	7
Silke Scheiber (appointed 21 September 2017)	Independent non-executive director	7	6

Committee Chairman's introduction

Dear fellow shareholders,

I am pleased to present the audit committee report for the 18 months ended 31 October 2018. The report details the activities of the committee during the 18 months ended 31 October 2018.

In this report I have detailed how the committee has discharged its responsibilities in relation to the 2016 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 period by myself, Richard Atkins. The other members are currently Amanda Brown, Lawton Fitt (appointed to the committee on 17 October 2017) and Silke Scheiber (appointed 21 September 2017). Karen Slatford (resigned from the committee on 21 September 2017). Jane Smithard acts as Secretary to the committee. By virtue of my former executive and current non-executive responsibilities (full details of which are set out on page 71) the board considers that I have recent and relevant financial experience.

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

PwC were the external auditors until the completion of the HPE Software business transaction. KPMG were the internal auditors until 30 April 2017. Deloitte acted as internal auditors in the interval between KPMG stepping down as internal auditors and PwC's appointment as internal auditor.

Role and responsibilities of the committee
The committee is responsible for:

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

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

- To report to the board on its proceedings, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken;
- To monitor the integrity of the financial statements of the Company and ensure that the interests of shareholders are properly protected in relation to financial reporting and internal controls;
- To assist the board in fulfilling its oversight responsibilities by reviewing and monitoring the Company's internal financial controls and internal control and risk management systems and at least annually carry out a review of its effectiveness;
- To ensure that a robust assessment of the principal risks facing the Company has been undertaken and provide advice on the management and mitigation of those risks;
- To keep under review the adequacy and effectiveness of the Company's internal controls, internal financial 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:

https://investors.microfocus.com/governance-policies/committees-of-the-board/

What the committee did during the 18 months ended 31 October 2018

The committee met 10 times during the 18 months ended 31 October 2018. In addition to standing items on the agenda, the committee:

- Received and considered reports from the external auditor in respect of the auditor's review of the interim results for the six months to 31 October 2017 and the 12 months to 30 April 2018, the audit plan for the 18 months ended 31 October 2018 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 2018 Annual Report and Accounts. Further details can be found on page 84;
- Considered the effectiveness and independence of the external audit;
- Considered the effectiveness and independence of the external tax advisors and internal auditors;
- Considered and agreed the annual internal audit plan and reviewed reports of the work done by the outsourced internal auditors, PwC, in respect of those plans;
- Reviewed the remediation progress of internal audit recommendations;
- Considered the review of material business risks, including reviewing internal control processes used to identify and monitor principal risks and uncertainties;
- Reviewed the proposed KPMG audit strategy in relation to the 2018 audit;
- Received reports from the SOX Steering Group and reviewed the progress of the SOX implementation plan (please also refer to page 41 for further information on the SOX implementation);
- Reviewed proposals related to the share buy-back;
- Reviewed proposals related to the Return of Value;
- Reviewed Transaction Documentation for the disposal of the SUSE business, including the Circular to shareholders;
- Reviewed IT infrastructure plans;
- Reviewed and discussed reports provided by the Group's tax department regarding significant tax issues and projects;
- Review and approved tax projects and associated professional fee expenditure in line with the Group's tax strategy and tax policies;

- Reviewed the reporting of tax within the Interim and Annual Report and Accounts;
- Reviewed and discussed reports provided by the Group's treasury department, including matters related to compliance with the treasury policy and the Group's credit facilities;
- 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;
- 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 59;
- Reviewed the progress of the Annual Fraud Risk Management plan;
- Reviewed the plans and progress of integrations;
- Reviewed the accounting work streams and financing in relation to the acquisition of the HPE Software business;
- Reviewed and approved an insurance strategy for the Enlarged Group;
- Reviewed documentation required for the listing of American Depositary Shares on the New York Stock Exchange;
- Reviewed the Form 20F; and
- Reviewed the US Tax reforms restructuring.

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 judgements included in the Annual Report and Accounts. The external auditor's reports are based on a full audit of the Annual Report and Accounts and a review of the interim financial statements.

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

Significant estimates and judgements considered in relation to the Annual Report and Accounts

The Annual Report and Accounts were assessed by the committee, together with the appropriateness and application of accounting policies and areas of significant estimates and judgement. The significant estimates and judgements 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, Software as a Service and other recurring revenue ("SaaS and other recurring revenue") and Consultancy. This includes the application of rules relating to the allocation of fair values between these categories in accordance with the policy and the timing of their recognition. It also identifies the different types of commercial contracts that the Group enters into and confirmation that the revenue recognition is in line with IFRS. As is the case with many technology companies, the profile of sales is weighted to the end of the financial quarter. For licence revenue in particular the impact on recognised revenue is also weighted to the end of each financial quarter. This can lead to the risk of misstatement of revenues from one period to the next.

The committee received a paper from management on key revenue recognition judgements made during the period and reviewed the appropriateness of identifying multi-element arrangements and the associated allocation of fair values between Licence, Maintenance, Subscription, SaaS and other recurring revenue and Consulting. The committee also considered the controls that management has in place to ensure that the fair value allocation of revenue is appropriate. On the basis of the above, the committee concluded that the Group's revenue recognition was appropriate.

Business combinations

There were a number of changes to the Group's structure during the period, which included three acquisitions. As detailed in note 39, the related consideration during the period was $6,533.4m, which resulted in an increase of goodwill ($4,864.0m) and acquired intangibles ($6,556.3m).

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

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

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

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

Provision for income taxes
Judgements have to be made by management on the tax treatment of a number of transactions in advance of the ultimate tax determination being known. In assessing the appropriateness of the provision recognised in respect of uncertain tax positions, the committee considered a report prepared by the Group's tax department setting out the basis for the assumptions made. They discussed the assumptions in light of the current tax environment and the status of tax audits in the main jurisdictions in which the Group operates. The committee concluded that the position taken on uncertain tax positions was appropriate.

Exceptional items
The committee considered a report from management that described the treatment and disclosure of amounts included within exceptional items. With the completion of three acquisitions in the period including the acquisition of the HPE Software business for $6.5bn and the on-going readiness activities required to divest the SUSE business segment in 2019, a material level of costs have been incurred on on-going one off activities to acquire, integrate, restructure and prepare for divestiture which management have deemed to be exceptional given their nature and significance. These costs have been necessary to bring together the base Micro Focus, TAG, Serena and the HPE Software business into one organisation. The committee agreed that whilst the level of exceptional costs is high, they have been treated consistently period on period and reflect the substantial ongoing integration activities. In particular, the committee also agreed with management that the financial impact of the US tax reforms which resulted in a net tax credit of $692.3m should be considered exceptional and excluded from underlying profit measures. The classification of certain income statement items as exceptional by the Group and its impact on related Alternative Performance Measures have been reviewed by the committee during the period with reference to authoritative guidance and regulations as well as through discussions with management and external advisors. The committee is satisfied that the use of exceptional items and its impact on Alternative Performance Measures is appropriate and enhances the understanding of the Group's financial performance and its prospects. The committee concluded that exceptional items were disclosed appropriately and reflected how they review the underlying performance of the Group.

Potential impairment of goodwill and purchased intangibles
Management has completed the annual impairment review at period-end of its goodwill and purchased intangibles. The net book value of the purchased intangibles is $6,485.9m and goodwill is $6,805.0m. The principal judgements are the achievability of business plans (and therefore future cash flows), long-term growth rates beyond the period covered by the five-year forecasts and the appropriateness of the pre-tax discount rate applied to future cash flows. The committee discussed a report from management setting out the basis for the assumptions, confirmation that the cash flows used were derived from board approved forecasts and a sensitivity analysis on key assumptions that showed there were reasonably possible changes in the discount rate that could have an adverse impact. The committee agreed with the judgements made by management and that it was appropriate for additional disclosure to be made in light of the sensitivity of the impairment analysis to the discount rate.

Provisions for bad debt
The committee considered a report from management setting out the basis for the judgements made. In respect of the bad debt provision, there was a particular focus on the sensitivity to a change in the volume of aged invoices that are expected to be collected given it has been identified that the on-going increase in DSO days is due to a high volume of historic invoices that require administrative remediation before payment can be made by a customer, rather than any specific customer credit risks. The committee agreed with the judgements made by management.

Retirement benefit obligations
The committee considered a report from management setting out the primary assumptions including mortality, inflation and the rates at which scheme liabilities had been discounted and the sensitivity of amounts recorded in the balance sheet and income statement to changes in these assumptions. The committee concluded that the assumptions used, which were supported by third party actuarial advice, were appropriate.

SUSE presentation as a discontinued operation
Prior to shareholder approval for the SUSE divestiture being obtained, the Micro Focus ("MFPP") and SUSE Product Portfolios were the Group's two historical operating segments. MFPP provided the central function services with the cost of supporting the SUSE segment estimated and a cost allocation made. Subsequent to shareholder approval of the divestiture, the SUSE segment became a discontinued operation and the Group is organised into a single segment. The principal judgement was if the historical cost allocation should remain allocated to SUSE as the discontinued operation, which was only appropriate if the

allocated costs were not expected to remain in the MFPP cost base when SUSE is divested. The committee considered a report from management that included analysis of these costs (predominantly comprised of people, IT and property costs) and an assessment of whether these could remain stranded in MFPP post divestiture. The committee agreed with management that it was appropriate that no adjustments should be made to the historical cost allocation to SUSE.

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 31 October 2018 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 2018 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 period 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 2018. The processes used included the following:

- Review of papers provided by the executive and senior management on all areas where significant judgements 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.

At the committee's meeting in January 2019, 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 59.

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 KPMG LLP', issued by the Financial Reporting Council ("FRC") in June 2018. Based on this information the committee concluded that the external audit process was operating effectively and KPMG were effective in their role as external auditor.

FRC Audit Quality Review

During the period, the committee received feedback from the FRC Audit Quality Review team following their review of PwC's external audit of Micro Focus for the year ended 30 April 2017. There were no significant findings which required either the Company or the external auditor, PwC, to agree actions.

Independence and objectivity of the external auditors

The committee has developed a robust policy designed to ensure that the auditor's objectivity and independence is not compromised by it undertaking inappropriate non-audit work. This policy is reviewed annually and was last reviewed in April 2018.

Auditor objectivity was safeguarded by the committee considering several factors: the standing and experience of the external audit partner; the fact that the current external auditors, KPMG, were newly appointed in the 18 month period; 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 commissioned from the external auditors. During the 18 months ended 31 October 2018 the fees paid to the auditor were:

- $14.1m (12 months ended 30 April 2017: $3.5m) for audit services;
- $1.6m (12 months ended 30 April 2017: $2.6m) for audit related assurance and other assurance services;
- $0.4m (12 months ended 30 April 2017: $0.1m) for services related to taxation; and
- $0.1m (12 months ended 30 April 2017: $7.5m) for other non-audit services.

The ratio of audit to non-audit fees for the 18 months ended 31 October 2018 was 1.00:0.14, which the committee concluded was an acceptably low level.

The 18 months ended 31 October 2018 fees represent fees paid to KPMG LLP, as the current auditor. The year ended 30 April 2017 fees represent fees paid to the previous auditor, PricewaterhouseCoopers LLP.

Audit-related assurance services in the 18 months ended 31 October 2018 relate primarily to the additional audit procedures required to be performed on the Micro Focus International plc financial statements. This included US filings and two interim reviews, that were required for both six-month periods ending 31 October 2017 and 30 April 2018, given the 18 month period.

Other assurance services in the 18 months ended 31 October 2018 relate primarily to the auditor's assurance work in relation to the SUSE divestiture and licence verification compliance work.

The remaining non-audit services in the period included a limited amount of tax compliance and tax advice.

The committee concluded that it was in the interests of the Group to use the auditors for this non-audit work as they were considered to be best placed to provide these services given their role as external auditors

External audit appointment and tender
The committee reviews and makes recommendations with regard to the appointment and 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 auditor's reappointment. The current external auditors, KPMG LLP, and therefore the lead partner Tudor Aw, were newly appointed during the period following a competitive audit tender process in the prior year and they require that the audit partner rotates every five years. The tender process was undertaken to recommend an audit firm who would provide the highest quality, most effective and efficient audits. Critical success factors included sector experience and knowledge, cultural fit, geographical coverage, the audit record of the lead partner and firm as well as the use of technology.

The committee is confident that the effectiveness and independence of the external auditors is not impaired in any way.

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

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 18 months ended 31 October 2018.

Internal Audit
Following a tender for internal audit services in the prior year, led by me in parallel with the external audit tender process outlined above, the board appointed PwC to provide outsourced internal audit services from 1 September 2017. Due to independence requirements, Deloitte was appointed as the internal auditors of Micro Focus, from 1 May 2017 to 31 August 2017, to cover the period between the previous incumbents, KPMG, and PwC. The Group's Director of Internal Audit and Risk provides oversight and co-ordination of internal audit. In order to ensure independence, internal audit has a direct reporting line to the committee and to me, its Chairman.

The committee monitored and reviewed the scope and results of the internal auditor's activities as well as its effectiveness during the period. The annual internal audit plan is approved by the committee at the beginning of the financial period, with any subsequent changes to the plan requiring committee approval. The nature and scope of the internal auditor's 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 PwC in order to ascertain progress in completing the internal audit plan and to review results of the audits.

Effective internal control and risk management
Following the annual cycle of work of the committee, it concluded that sound risk management and internal control systems had been maintained during the period. With respect to risk management, under the risk management framework the committee receives and reviews a report at each meeting on the principal risks across the Group which is discussed with senior management. The committee was satisfied with the process and risks identified. It was also satisfied that there was a high level of assurance provided by the internal auditors, the external reviews conducted by KPMG for the two interim periods and their full period-end audit, together with the input of the Group's tax advisors, Deloitte. In this period Deloitte have also provided services relating to integration planning following the announcement of the HPE Software business transaction and divestment planning following the announced sale of the SUSE business.

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 recognises 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.

As a US ADR listed entity the Group's internal controls over financial reporting are now subject to the requirements of Sarbanes Oxley Act 2002 (SOX). Please refer to page 41 for the update on the Group's SOX implementation plan. The requirements under Sarbanes Oxley require a greater degree of formal documentation of controls. However, the audit committee has reviewed and discussed this position with its auditors and satisfied itself that the current control environment is effective under the UK Corporate Governance Code.

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 period 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 Audit Committees published in April 2016.

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

Risks are assessed with reference to the achievement of the Group's business objectives and according to current market and economic issues. The continuous monitoring of strategic and operational risks is the responsibility of the board and executive management respectively. The risk process has been in place for the period under review and is up to date at the time of this report. Please refer to page 32 for the report on principal risks.

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 Annual Report and Accounts that present financial information for the Group as a single economic entity. The Group accounting policies, sets out the basis of preparation and consolidation, including the elimination of inter-company transactions, balances and unrealised gains between Group companies;
- Financial information from subsidiaries is reviewed for accuracy by internal review and externally audited where required; and
- The consolidated financial statements are completed in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and in conformity with IFRS as adopted by the European Union (collectively "IFRS"), IFRS Interpretations committee, the Companies Act 2006 and Article 4 of the IAS Regulation.

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 key risks and which accord with the FRC Guidance on Audit Committees published in April 2016. These processes have been in place since the start of the financial period 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 [XX] to [XX].

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
20 February 2019

Nomination committee report

Nomination committee

	Number of eligible meetings during the 18 months ended 31 October 2018	Number of meetings attended
Members		
Karen Slatford (Chair)	6	6
Richard Atkins	6	6
Amanda Brown (resigned 21 September 2017)	2	2
Darren Roos (appointed 21 September 2017)	4	4
Lawton Fitt (appointed 17 October 2017)	4	4

Composition of the committee

Committee membership comprises Karen Slatford (committee Chair), Richard Atkins, Darren Roos and Lawton Fitt. The committee met six times during the 18 months ended 31 October 2018. The committee will meet at least twice during the coming financial year. Changes to committee membership and the number of committee meetings attended by each member in the 18 months ended 31 October 2018 was as follows:

Role and responsibilities

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

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

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

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

Diversity

The board has considered diversity in broader terms than just gender and believes it is also important to reach the correct balance of skills, knowledge, experience and independence on the board. During the 18 months ended 31 October 2018, the committee has been reviewing its diversity policy to include a strategy for equal opportunity and ethnicity, which can be applied during 2019 in order to continue to attract and retain the most talented people who can deliver outstanding performance for the Group. All board appointments are made on merit with the aim of achieving a correct balance. The board has now moved to a composition where in excess of 25% of members are female while maintaining the above principle of a correct balance not being compromised. The Group has formal policies in place to promote equality of opportunity across the whole organisation, regardless of gender, ethnicity, religion, disability, age or sexual orientation.

Following the changes to the board membership during the period ended 31 October 2018, the board currently comprises five men (56%) (30 April 2017: 66.67%) and four women (44%) (30 April 2017: 33.33%). The Company Secretary is also a woman. As opportunities arise the board will seek to increase the diversity on the board consistent with the above policy. 13.2% of Micro Focus' senior management is now female. During the year ended 31 October 2019, the committee will review how sufficient consideration can be given to the ethnic origin of future board candidates

What the committee did during the 18 months ended 31 October 2018

Key activities

- Reviewed and agreed the new senior management team following the acquisition of the HPE Software business;
- Reviewed and recommended the appointment of two Chief Executive Officers;
- Reviewed and recommended the appointment of two Chief Financial Officers;
- Reviewed and recommended the appointment of new non-executive directors;
- Reviewed the committee's membership and performance;
- Reviewed board and senior executive succession planning and appointments;
- Reviewed the committee's terms of reference;
- Reviewed and developed a strategy for gender and ethnicity;
- Reviewed the board composition in preparation for the proposed sale of the SUSE business; and
- Reviewed the time required from non-executive directors.

Board changes

During the 18 months ended 31 October 2018 there have been several changes to the board:

- Darren Roos and Silke Scheiber were appointed as non-executive directors on 15 May 2017;
- Stephen Murdoch resigned from the board on 1 September 2017 to take up the role of Chief Operating Officer;
- Chris Hsu was appointed Chief Executive Officer and John Schultz was appointed as a non-executive director on 1 September 2017;
- Lawton Fitt was appointed as a non-executive director on 17 October 2017;
- John Schultz resigned as an HPE nominated non-executive director on 20 December 2017;
- Chris Kennedy was appointed as Chief Financial Officer and joined the board on 8 January 2018;
- Mike Phillips resigned as Chief Financial Officer on 8 January 2018 and stepped down from the board on 31 January 2018;
- Chris Hsu resigned as Chief Executive Officer and Stephen Murdoch was appointed as Chief Executive Officer on 19 March 2018;
- Nils Brauckmann resigned from the board on 11 July 2018 (but continued as Chief Executive Officer – SUSE); and
- Chris Kennedy is expected to resign as Chief Financial Officer and Brian McArthur-Muscroft is expected to be appointed as Chief Financial Officer in February 2019.

The process for these appointments was led by the senior independent non-executive director and committee Chair, Karen Slatford and was formal, rigorous and transparent. For the appointment of Brian McArthur-Muscroft, a sub-committee, comprising of Kevin Loosemore, Richard Atkins and Stephen Murdoch was appointed to review candidates.

Karen Slatford
Chair, Nomination committee
20 February 2019

Directors' Remuneration report

Annual Statement from the Chair of the Remuneration Committee

Dear Shareholders
On behalf of the board, I am pleased to present our Directors' Remuneration report, which covers the 18 months ended 31 October 2018. The 18 month timeframe results from the change to our year-end from April to October following the HPE Software business acquisition, which completed on 1 September 2017.

In addition to this statement, the Directors' Remuneration report is presented in two further sections:

1. Directors' Remuneration Policy
The existing policy was approved by shareholders at the 2017 AGM on 4 September 2017 with 86.46% shareholders' support and can be found on our website at www.investors/microfocus.com. No changes are being made to the policy in this period. A full review of our remuneration strategy will be undertaken in 2019 to take account of the enlarged and more globally focused business as well as the latest corporate governance codes and best practice. The new policy will be put to shareholders for approval at the 2020 AGM. The policy section provides an overview of our remuneration philosophy and a summary of the main elements of the package for executive directors.

2. Annual Report on Remuneration
The Annual Report on Remuneration provides details of the amounts earned in respect of the full 18 month period ended 31 October 2018 and how the Remuneration Policy will be implemented for the year ending 31 October 2019. and will be subject to an advisory vote at the AGM to be held on 29 March 2019. To aid comparison with the 12 months ended 30 April 2017, we have also included figures for the 12 month period ended 31 October 2018 where relevant.

The year to 31 October 2018 was a challenging period for Micro Focus and you will see from the statutory single figure table that the total Executive Directors compensation for the year reduced by around 25%. Against a backdrop of significant operational and management change, Adjusted EBITDA increased by 9.2% in the year and Diluted Adjusted EPS in the three years to 30 April 2018 grew 52% from 123.43 cents to 187.74 cents.

The total figure for remuneration, is masked by the ASG award made at the time of The Attachmate Group ("TAG") acquisition in 2014. This acquisition increased shareholder returns by over £4bn. As a result the TAG ASG vested for executives on 1 November 2017. Executives were restricted from exercising the ASG for 12 months so have experienced the full impact of the challenging year.

There are three important elements to the 2018 Annual Report on Remuneration, which shareholders should note and consider:

1. The Additional Share Grants relating to The Attachmate Group ("TAG") acquisition, which vested on 1 November 2017 reflects the Total Shareholder Return ("TSR") performance for the three year period ended 31 October 2017.

2. The Additional Share Grants relating to the HPE Software business acquisition, which were replaced to align the vesting date with the 2020 value creation plan.

3. Performance for the 18 months ended 31 October 2018 and incentive outcomes relating to that financial period.

Additional Share Grants relating to the TAG acquisition
Additional Share Grants ("ASGs") were introduced into the Micro Focus remuneration policy as part of the TAG acquisition in 2014 and have been a key part of the reward strategy to align key executives' rewards to the value created for shareholders following major transformational acquisitions. Shareholders have been supportive of the ASG programme, with its extremely challenging performance conditions aligned to delivering exceptional shareholder returns. The 2015 Remuneration report, which included the TAG ASG awards made on completion, gained 91.75% support and 86.46% of shareholders supported the 2017 Remuneration Policy, which included the proposal to award a second tranche of ASGs following completion of the HPE Software business acquisition in September 2017. To fully vest, the TAG ASGs required at least £1.87bn of additional value to be delivered to shareholders from the reference price of £8.19425, whilst the HPE Software ASGs require £7.9bn of additional value to be delivered from the reference price of £18.17¾.

The TAG ASGs vested in full on 1 November 2017 as a result of the £4.5bn of value delivered to shareholders since signing of the heads of terms agreement in June 2014, £2.5bn of which was delivered prior to the announcement of the HPE Software business acquisition in August 2016. This significantly exceeded the stretch target of £1.9bn and equates to a shareholder return of 250%. Executives were restricted from realising the gains from these TAG ASG awards for 12 months. This is not reflected in the remuneration disclosed in the statutory single figure table, which is based on the share price at vesting of £26.64 and results in figures of between £10.8m and £25.3m. Executives, however, did not receive this value; the one-year holding period ensured executives experienced the same impact of the share price fall as shareholders, with the value of these awards more than halving to between £4.9m and £11.5m at the end of the financial year. To better demonstrate the value delivered to executives, on page 97 we have presented remuneration based on the year-end share price in addition to the statutory disclosures.

Additional Share Grants relating to the acquisition of the HPE Software business
A review of the ASGs granted at the time of the HPE Software business acquisition was undertaken in September 2018 following the announcement of the sale of SUSE to EQT Partners and shareholder feedback regarding concerns at the significant loss of retention value for key executives from the fall in share price after the March 2018 trading update. The Remuneration committee wanted to ensure that executives remained incentivised to deliver significant value from the HPE Software transaction and align reward to the delivery of the 2020 business plan. As a result of this review the performance period is now September 2017 to September 2020 which is the three years post completion of the HPE Software business transaction; the challenging 50% to 100% shareholder return performance measure has been retained, as has the reference share price of £18.17¾ so there is no change to the shareholder value required in order to vest. To fully vest, more than £9.2bn of additional shareholder value needs to be created between September 2018 and September 2020, equivalent to a share price of over £36 (less any dividends). To put this into context the market capitalisation of Micro Focus at the end of September 2018 was £6.2bn.

Future ASG Awards
The ASG programme has been an important and influential part of the Micro Focus reward strategy, enabling the Company to recruit and retain executives in the highly competitive global software sector. The committee is, however, aware of the distorting impact these awards can have, especially after a period of exceptional share price growth as has been the case with the TAG ASGs. We are not planning on making future ASG awards at this time and will undertake a full review of our reward strategy in 2019 to ensure our remuneration remains competitive in the global software market.

FY18 Performance and incentive outcomes relating to that financial period
2017 was another transformational year for Micro Focus following the completion of the HPE Software business acquisition on 1 September 2017. The Enlarged Group now has over 14,000 employees across 43 countries with 29% being US based. There have been a number of changes to the board, to better align to the needs of a global software company with a large US presence. The remuneration consequences of the changes to the board were entirely in line with the policy approved by shareholders and are set out in detail in the Annual Report on Remuneration.

Despite a challenging start to the integration of the HPE Software business, the last six months has seen great progress being made. Revenue performance has stabilised and the continued expansion of our profit margin are encouraging signs of progress. This is evidenced by the 9.2% increase in Adjusted EBITDA in the 12 months ended 31 October 2018, the improvement in Adjusted EBITDA margin from 33.1% to 37.7% and the 52% improvement in Diluted Adjusted EPS in the three years to April 2018 from 123.43 cents to 187.74 cents.

Annual bonuses for the 12 months ended 31 October 2018 were paid at 76% of the maximum opportunity as a result of growth in Adjusted EBITDA of 7.6% (after adjusting for currency movements during this period). No bonus was paid in respect of the six month transition period ending 31 October 2017, giving a total bonus over the 18 month period of around half the maximum opportunity. The sustained strong performance of the Company over the three-years to 30 April 2018, resulting in a 52% increase in Diluted Adjusted EPS over the three years to April 2018, has seen all long-term incentive plan ("LTIP") awards where the performance period ended during the 18 month period vest in full. During the 18 month period, executive directors received the equivalent of a single year's LTIP award.

Further details are set out in the main section of the Remuneration report.

Application of policy in FY19
We have provided full details on the implementation of our policy for FY19, on page 92, which will consist of the following remuneration elements linked to generation and delivery of real returns to shareholders:

1. Base salary
2. Pension
3. Annual bonus
4. Long-term incentive

The wider Company
As part of its role, the committee monitors the remuneration arrangements across the wider Company as an integral part of the strong performance culture driving our business. As well as all employees being eligible to participate in our all-employee share plans, all non-commission employees participate in a bonus scheme, which operates on the same metrics for all levels in the Company. Additionally around 450 of our senior managers and key employees receive LTIP awards subject to the same performance metrics that apply to executive directors. The vast majority of the Company's pension plans are defined contribution arrangements or cash allowances in lieu of pension, with only a few small legacy defined benefit arrangements inherited from previous acquisitions. There is no defined benefit obligation in relation to current executive directors who receive a cash allowance only.

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

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

Amanda Brown
Chair of the Remuneration Committee
20 February 2019

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.

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.

Directors' Remuneration Policy

The Remuneration Policy for executive directors was set out in the 2017 Annual Report and approved by shareholders at the 2017 Annual General Meeting ("AGM") on 4 September 2017. The policy is available to view at www.microfocus.com. No changes are being proposed to the policy for this period. A formal review of the policy will be undertaken in 2019 to take account of the Enlarged Group having a more global focus and the latest corporate governance code. The new policy will be put to shareholders for approval at the 2020 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.

A significant proportion of remuneration is performance-related, with challenging performance conditions linked to the Company's financial and operational strategy, to support the Company's core objectives to deliver shareholder returns of 15% to 20% per annum over the long-term. The committee reviews the performance conditions annually to ensure that they remain demanding and appropriate. There are no non-financial targets and all targets are published.

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 table below summarises the key elements of the package for executive directors.

Element of Remuneration		Link to Strategy	Framework
Fixed	Base salary	Attract and retain key talent to deliver the agreed strategy	Reviewed annually to ensure competitive, taking into account market positioning and increases generally within the Group
	Benefits		Competitive package of benefits including car allowance and health plan
	Pension		Up to a maximum of 20% of base salary either as a pension contribution or cash allowance
Variable	Annual bonus	Performance measures aligned to key financial metrics	Maximum opportunity of 150% base salary for achieving 10% growth in Adjusted EBITDA
	Long-term incentives	Normally awards vest after three years to align to longer-term performance	Annual grants of up to 200% of base salary with a performance measure based on growth in aggregate EPS of between 3% p.a. and 9% p.a. above RPI
	Additional Share Grants	Awards made within 18 months of completion of major acquisitions with stretching total shareholder return targets over three year period	Awards made following the HPE Software business acquisition vesting 1 September 2020 subject to three year shareholder return of 50% to 100%. A further one year holding period is applied
Shareholding requirement		Directly aligns executive directors' interests with those of shareholders	200% of base salary

Consideration of employment conditions elsewhere in the Group

The remuneration policy for other employees is based on broadly consistent principles to those for executive directors. Salary reviews take into account Group performance, local pay and market conditions and salary levels for similar roles in comparable companies. All non-commissioned 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 450 of our senior managers and other key employees also receive annual LTIP awards. Performance conditions are consistent for all participants, while award sizes vary by individual. All employees in the UK and Ireland are eligible to participate in the Sharesave plan on the same terms. Employees in the US and other countries where the Company has a major presence are eligible to participate in the Company's Employee Share Purchase Plan ("ESPP") on the same terms. The ESPP has been rolled out to 34 countries so far with a further nine becoming eligible at the next launch in 2019.

All of our employees in the US, UK Ireland and India are able to participate in our Flexible Benefits programme. Employees in other regions participate in similar programmes or receive a competitive package of benefits in line with local market practice.

Additional Share Grants ("AGSs") in relation to the 2017 acquisition of the HPE Software business were approved by shareholders at the 2017 AGM and were made to a small number of key executives critical to the successful integration and successful delivery of the 2020 business plan.

Consultation with employees

Although the committee does not consult directly with employees on the Directors' Remuneration Policy, the committee does consider general basic salary increases, 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.

Performance measures and targets

Following completion of the HPE Software business acquisition, the board reviewed and simplified the different measures used to track business performance, and presented the outcome of this review as part of the Interim Results for the six month period ended 31 October 2017. Underlying Adjusted EBITDA, which is used in our corporate bonus plans, was viewed as the most appropriate measure going forward. The basis of calculation remains unchanged, but is now referred to simply as Adjusted EBITDA.

The committee continues to believe that a combination of 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 for annual bonuses are selected annually to help the Group achieve its core objective. The annual bonus plan is currently linked to growth in Adjusted EBITDA. Vesting of annual LTIP awards is currently linked to growth in EPS as the committee believes that this aligns with the Company's focus on shareholder value. ASG awards are used in exceptional circumstances following transformational acquisitions with stretching performance conditions aligned to value created for shareholders. The committee believes that a combination of the measures under our incentive plans provides a strong line of sight for the executives and supports the long-term strategy.

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

Annual Report on Remuneration

The following section provides the details of how the Remuneration Policy was implemented during the 18 months ended 31 October 2018. To assist with a like for like comparison with the 12 months ended 30 April 2017, we have also shown the details for the 12 months ended 31 October 2018, where relevant.

Non-executive directors' terms of appointment

The non-executive directors' terms of appointment are recorded in letters of appointment. The required notice from the Company is 90 days in all cases. The non-executive directors are not entitled to any compensation for loss of office and stand for election or re-election as appropriate at each AGM. Details of the letters of appointment of each non-executive director who has served as a director of the Company at any time during the 18 month period are set out below:

Non-executive director	Appointment Date	Re-appointment date	Expiration date
Karen Slatford	5 July 2010	5 July 2016	5 July 2019
Amanda Brown	1 July 2016		1 July 2019
Richard Atkins	16 April 2014	16 April 2017	16 April 2020
Silke Scheiber	15 May 2017		15 May 2020
Darren Roos	15 May 2017		15 May 2020
Lawton Fitt	17 October 2017		17 October 2020
John Schultz[1]	1 September 2017		1 September 2020

1 John Schultz was appointed to the board on 1 September 2017 in a non-remunerated role and resigned on 20 December 2017.

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 2019 AGM.

Single figure for total remuneration of non-executive directors (audited)

A number of changes were made to the non-executive director appointments as a result of the acquisition of the HPE Software business on 1 September 2017. The fee levels were also revised to account for the enlarged size and global focus of the Group as set out in last year's report.

The following table sets outs the single figure for total remuneration of non-executive directors for the 18 months ended 31 October 2018 and the 12 months ended 30 April 2017, together with the 12 months ended 31 October 2018 to enable a better like for like comparison.

		Fees	
Non-executive directors		18 months £'000	12 months £'000
Karen Slatford	**2018**	**180**	**120**
	2017		103
Richard Atkins	**2018**	**135**	**90**
	2017		78
Amanda Brown[1]	**2018**	**135**	**90**
	2017		68
Silke Scheiber[2]	**2018**	**103**	**70**
	2017		–
Darren Roos[3]	**2018**	**103**	**70**
	2017		–
Lawton Fitt[4]	**2018**	**83**	**80**
	2017		–
Steve Schuckenbrock[5]	**2018**	**–**	**–**
	2017		71
Tom Virden[5]	**2018**	**–**	**–**
	2017		62
John Schultz[6]	**2018**	**–**	**–**
	2017		–
Total	**2018**	**739**	**520**
	2017		382

1 Amanda Brown's fees were paid direct to her employer.
2 Silke Scheiber joined the board on 15 May 2017.
3 Daren Roos joined the board on 15 May 2017.
4 Lawton Fitt joined the board on 17 October 2017 and receives an additional fee of £10,000 per annum due to her SEC and SOX experience.
5 Steve Schuckenbrock and Tom Virden resigned on 25 April 2017.
6 John Schultz joined the board on 1 September 2017 in a non-remunerated role and resigned on 20 December 2017.

Implementation of non-executive director remuneration for the year ending 31 October 2019

The approach to non-executive directors' fees is set out in the table below:

Independent non-executive director base fee	£70,000 p.a.
Additional fee for chairing a committee	£20,000 p.a.
Fee for the SID (including chairing committees)	£120,000 p.a.

Remuneration committee membership during the 18 month period to 31 October 2018

During the 18 month period to 31 October 2018, the committee comprised only of independent non-executive directors. The committee met 13 times during the period under review. The number of committee meetings attended by each director in the period was as follows:

Committee member	Held	Number of meetings attended
Amanda Brown (Chair)	13	13
Karen Slatford	13	12
Richard Atkins[1]	5	4
Silke Scheiber[2]	8	7
Darren Roos[2]	8	6

1 Richard Atkins resigned from the committee on 21 September 2017.
2 Silke Scheiber and Darren Roos joined the committee on 21 September 2017.

The committee invited the Executive Chairman, Chief Executive Officer, Chief Financial Officer, Chief Human Resources Officer and Reward Director during the period to provide views and advice on specific questions raised by the committee and on matters relating to the performance and remuneration of senior managers. They did not participate in discussions relating to their own remuneration. The Company Secretary attended each meeting as secretary to the committee.

Terms of reference

The committee is responsible for reviewing the remuneration arrangements for executive directors 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. These will be reviewed as part of the wider policy review to take account of the new corporate governance code.

Agenda during the 18 month period to 31 October 2018

The key activities of the committee were as follows:

- Approval of the Directors' Remuneration report for the year ended 30 April 2017;
- Approval of the packages of executive directors joining and leaving the board;
- Reviewed the reward strategy of the enlarged group following the acquisition of the HPE Software business, including the award of LTIPs and ASGs post completion and the arrangements for dealing with the US excise tax implications.
- Reviewed the salaries of the executive directors and the Chief Executive Officer's direct reports;
- Reviewed bonus payments, LTIPs and TAG ASGs vesting against targets;
- Conducted annual review and ratification of remuneration packages for executive directors and senior executives;
- Considered current guidelines on executive compensation from advisory bodies' and institutional investors;
- Established targets for annual bonuses for the financial year ending 31 October 2019;
- Reviewed the impact of the sale of SUSE on LTIPs and ASGs for those affected;
- Approved the surrender and replacement of ASGs awarded to executive directors following the HPE Software business acquisition to align the performance period to the three years post completion;
- Engaged with major shareholders and advisory bodies to seek their views following publication of the 2017 Directors' Remuneration report and following publication of the SUSE circular;
- Restructured the incentive arrangements for those below the board to better align to the delivery of the 2020 business plan; and
- Reviewed the performance and terms of reference of the committee.

External advisors

The committee and management seek advice on remuneration and legal matters from a number of firms as appropriate, including Deloitte, PwC and Travers Smith. Deloitte and PwC also provide other services to management including tax, accounting and consulting services.

The committee has direct access to these advisors who attend committee meetings as required. The committee has chosen not to appoint separate independent advisors and is satisfied that the advice it receives is objective and independent and is not conflicted by the advisors also working with the management. The total fees (excluding VAT) for the 18 month period relating to remuneration advice to the committee were £4,000 (Deloitte) and £31,144 (PwC).

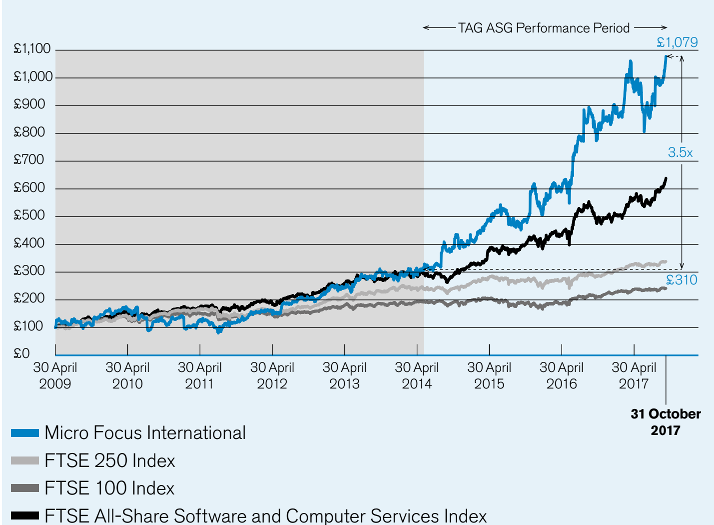
Executive director remuneration for FY18

Vesting of TAG ASGs

A large part of the single figure remuneration for the 18 month period ended 31 October 2018 is driven off the value of the TAG ASGs, which were granted in November 2014 following TAG acquisition and approved by shareholders. The TAG ASGs vested in full on 1 November 2017 as a result of the 221% shareholder return achieved (allowing for averaging) over the period from the signing of the heads of terms agreement in June 2014, when the share price was around £8. The chart below shows that a £310 investment in June 2014 would have grown to £1,079 (with dividends reinvested) by the time the TAG ASGs vested, equating to 3.5 times the initial investment, and demonstrates the outstanding returns delivered to shareholders during the three year performance period. Shareholders have received around £4.5bn of additional value between June 2014 and November 2017, which significantly exceeded the stretch target for full vesting of £1.9bn (equating to a 100% shareholder return from the reference price of £8.19425 set at the time of signing the heads of terms agreement).

Historical TSR performance (TAG ASG performance period)

Growth in the value of a hypothetical £100 holding over the period from 30 April 2009



The TAG ASGs vested at a share price of £26.64 but with a one year holding period, which restricted executives from realising the gains for 12 months. Consequently, none were exercised by the executive directors and all were still outstanding at 31 October 2018 when the share price had fallen to £12.18½ following the announcements made in March 2018. This is not reflected in the remuneration disclosed in the statutory single figure table, which is based on the share price at vesting. The table below shows the value of the TAG ASG shares at the date of award, at vesting and at 31 October 2018.

Executive director	ASG shares awarded and vesting	At date of award on 20 November 2014 at £10.60 £'000	At date of vesting on 1 November 2017 at £26.64 £'000	At period end of 31 October 2018 at £12.18½ £'000
		£'000	£'000	£'000
Kevin Loosemore	947,140	10,040	25,232	11,541
Stephen Murdoch	405,917	4,303	10,814	4,946
Mike Phillips	676,529	7,171	18,023	8,244
Nils Brauckmann	405,917	4,303	10,814	4,946

The total vesting value of these awards (£64.9m) represents under 1.5% of the £4.5bn of additional value delivered to shareholders.

This shows that, as a result of the one year holding period, the value of directors TAG ASGs awards have more than halved since vesting as a result of the share price fall in 2018. The committee believes that valuing the TAG ASGs by reference to the share price at the end of the financial period gives a better representation of the value delivered to the executives. A similar approach has been used to value the LTIPs where the performance period ended during the 18 months ended 31 October 2018 as none of these were exercised and all were still outstanding at the end of the period.

Total remuneration of executive directors

The table below shows the total remuneration of executive directors using the approach outlined above for the 18 month financial period ended 31 October 2018 and the previous 12 month financial year ended 30 April 2017 and is a good representation of the value to executive directors of the TAG ASGs when they were fully vested and released. It also shows the 12 months ended 31 October 2018 to enable comparison against the 2017 financial year. For those directors who were not on the board for the whole of the relevant performance period, the value of LTIPs and TAG ASGs have been pro-rated accordingly.

The audited statutory table for the single figure for total remuneration of executive directors is shown on page 106.

Note: FY18 Bonus figures need to be added when finalised and the final figures will need to be rounded to ensure figures add to totals.

					LTIPs and ASGs				
Executive directors		Base Salary and Fees[1] £'000	Benefits in Kind[2] £'000	Annual Bonus[3] £'000	LTIPs[4] £'000	ASG[5] £'000	Total £'000	Pension[6] £'000	Total £'000
Kevin Loosemore	2017 (12 months)	750	32	506	2,788	–	2,788	150	4,226
	2018 (12 months)	**750**	**33**	**855**	**1,356**	**–**	**1,356**	**150**	**3,144**
	2018 (18 months)	**1,125**	**47**	**855**	**1,356**	**11,541**	**12,897**	**225**	**15,149**
Chris Hsu[7]	2017 (12 months)	–	–	–	–	–	–	–	–
	2018 (12 months)	**288**	**11**	**–**	**–**	**–**	**–**	**–**	**299**
	2018 (18 months)	**413**	**4,466**[8]	**73**[9]	**–**	**–**	**–**	**–**	**4,952**
Stephen Murdoch[10]	2017 (12 months)	500	18	338	1,365	–	1,365	75	2,296
	2018 (12 months)	**497**	**11**	**569**	**489**	**–**	**489**	**75**	**1,641**
	2018 (18 months)	**668**	**17**	**569**	**489**	**2,657**	**3,146**	**100**	**4,500**
Chris Kennedy[11]	2017 (12 months)	–	–	–	–	–	–	–	–
	2018 (12 months)	**487**	**12**	**–**	**–**	**–**	**–**	**97**	**596**
	2018 (18 months)	**487**	**12**	**–**	**–**	**–**	**–**	**97**	**596**
Mike Phillips[12]	2017 (12 months)	470	19	317	1,493	–	1,493	71	2,370
	2018 (12 months)	**120**	**4**	**137**	**585**	**–**	**585**	**18**	**864**
	2018 (18 months)	**361**	**13**	**137**	**585**	**8,244**	**8,829**	**54**	**9,394**
Nils Brauckmann[13]	2017 (12 months)	423	12	285	684[14]	–	684	63	1,467
	2018 (12 months)	**339**	**7**	**387**	**400**	**–**	**400**	**51**	**1,184**
	2018 (18 months)	**583**	**13**	**387**	**400**	**2,937**	**3,337**	**87**	**4,407**
Total	2017 (12 months)	2,143	81	1,446	6,330	–	6,330	359	10,359
	2018 (12 months)	**2,481**	**78**	**1,948**	**2,830**	**–**	**2,830**	**391**	**7,728**
	2018 (18 months)	**3,637**	**4,568**	**2,021**	**2,830**	**25,379**	**28,209**	**563**	**38,998**

1 Base Salary and Fees: the amount earned during the period in respect of service as a director.
2 Benefits in Kind: including car, private medical insurance, permanent health insurance, life insurance and financial and tax advice for a US director.
3 Annual Bonus: payment for performance during the period in respect of service as a director. One-third of the annual bonus is deferred into shares for three years with the exception of the Executive Chairman and the bonus to Chris Hsu, which was based on the performance of the HPE Software business.
4 LTIPs (excluding ASGs): the value of LTIP awards (excluding those awards under the ASG programme) which vest based on performance conditions ending during the relevant period, pro-rated to reflect the period as a director during the relevant three year performance period. The 2018 figures are based on the share price at the end of the period (£12.18½) to reflect that none of them were exercised during the period and were still outstanding as at 31 October 2018. The 2017 figures are based on the share price at vesting of £24.20 (27 June 2017) and £25.18 (16 December 2017).
5 ASG: the value of the ASG award made in November 2014 following the TAG transaction, which vested on 1 November 2017 based on a three year performance period ended 31 October 2017 (pro-rated to reflect the period of service as a director during the performance period). As the performance period ended on 31 October 2017, the value of the TAG ASGs is included in the figures for the full 18 month period ended 31 October 2018 but not in the 12 month period from 1 November 2017 to 31 October 2018. The 2018 (18 months) figures are based on the share price at the end of the period (£12.18½) as none were exercised during the period due to the one year holding period and were still outstanding as at 31 October 2018.
6 Pension: the Company's pension contribution or cash allowance paid during the period in respect of service as a director.
7 Chris Hsu joined the board on 1 September 2017 following the acquisition of the HPE Software business and resigned from the board on 19 March 2018.
8 Chris Hsu's benefits in kind include a payment of $5,918,705 to cover the grossed-up cost of the excise tax incurred as a result of US "inversion" tax treatment of the HPE Software business transaction.
9 The bonus payment for Chris Hsu relates to the two month proportion of his HPE Software business bonus for the 12 months ended 31 October 2017. No bonus was paid in respect of the 12 months ended 31 October 2018.
10 Stephen Murdoch left the board on 1 September 2017 to take on the role of Chief Operating Officer and re-joined the board on 19 March 2018 following his appointment as Chief Executive Officer. His salary, benefits, bonus and pension for the 12 month and 18 month periods ended 31 October 2018 reflect his service whilst a director and his LTIPs and ASG reflect the period of the relevant performance period whilst a director.
11 Chris Kennedy joined the board on 8 January 2018 on his appointment as Chief Financial Officer.
12 Mike Phillips left the board on 31 January 2018, taking on the role of Director of M&A. His salary, benefits, bonus and pension for the 12 month and 18 month periods ended 31 October 2018 the 2018 reflect his service whilst a director but his LTIPs and ASGs reflect the period of the relevant performance period whilst a director.
13 Nils Brauckmann left the board on 11 July 2018 following the announcement of the sale of SUSE. His salary, benefits, bonus and pension for the 12 month and 18 month periods ended 31 October 2018 reflect his service whilst a director but his LTIPs and ASGs reflect the period of the relevant performance period whilst a director.
14 The LTIP figure for 2017 has been restated to reflect the share price at vesting of £25.18 (16 December 2017).

Annual bonus for the 18 months ended 31 October 2018 (audited)
Following completion of the HPE Software business acquisition and the change in financial year end, the annual bonus for the 18 month period ended 31 October 2018 was split into two separate periods: a transitional six month period from 1 May 2017 to 31 October 2017 and a normal annual bonus based on the 12 month period from 1 November 2017 to 31 October 2018. The maximum bonus opportunity was 150% of salary earned over each of the two periods.

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 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 with pay-outs calculated on a straight-line basis between these two points.

In respect of the transitional six month period from 1 May 2017 to 31 October 2017, Adjusted EBITDA for the Micro Focus business declined 4.1% on a constant currency basis as operational improvements were put on hold pending the completion of the HPE Software business acquisition. As a result, no bonus was payable in respect of this period. A bonus was paid to Chris Hsu in December 2017 in respect of the HPE Software business financial year ending 31 October 2017. This was based on the HPE Software business bonus structure and the HPE Software business performance measured against profit, revenue and personal objectives and represented 52% of the target bonus. Two months of this bonus was funded by Micro Focus in respect of the post completion period from 1 September 2017 to 31 October 2017 ($96,844) with the remainder funded by HP.

The annual bonus for the 12 months ended 31 October 2018 is based on the growth in Adjusted EBITDA (on a constant currency basis) from the pro-forma 12 months ended 31 October 2017 compared to the 12 months ended 31 October 2018. To adjust for the impact of currency movements, the figure for the 12 months ended 31 October 2018 has been rebased to the Company's plan exchange rates set at the start of the period, which reduces the Adjusted EBITDA figure, for bonus purposes, from $1,529.6m to $1,507.4m. This reduces the growth over the period for bonus purposes from 9.2% to 7.6%, which resulted in bonus payments of 76% of the maximum opportunity. No annual bonus was paid to Chris Kennedy or Chris Hsu in respect of Micro Focus performance in 2018, as a result of their resignations during the period. One third of the annual bonus earned whilst serving as a director for Stephen Murdoch, Mike Phillips and Nils Brauckmann will be deferred into shares for a period of three years. Compulsory deferral into shares does not apply to Kevin Loosemore in accordance with the approved policy as his maximum bonus level was already at 150% of salary when compulsory deferral was introduced in 2016.

Executive director	Adjusted EBITDA growth threshold	Adjusted EBITDA growth Maximum	Adjusted EBITDA growth Achieved	Maximum bonus £'000	% of maximum	Bonus for 2018 £'000
Kevin Loosemore	0%	10%	7.6%	1,125	76%	855
Stephen Murdoch[1]	0%	10%	7.6%	749	76%	569
Mike Phillips[1]	0%	10%	7.6%	181	76%	137
Nils Brauckmann[1]	0%	10%	7.6%	509	76%	387

1 The figures for Stephen Murdoch, Mike Phillips and Nils Brauckmann reflect the period served as a director.

Vesting of long-term incentives with performance periods ending in the 18 month period to 31 October 2018 (audited)
The awards granted on 17 July 2015 to the executive directors vested on 17 July 2018. The awards granted on 23 March 2016 to Stephen Murdoch and Nils Brauckmann will vest on 23 March 2019 subject to continued employment. Vesting of these awards was based on average aggregate EPS growth in excess of RPI over the three years ended 30 April 2018, as set out in the table below.

Average aggregate EPS growth of the Company in excess of RPI over the performance period	Vesting percentage of the shares subject to an award
Less than 3% p.a.	0%
Equal to 3% p.a.	25%
Between 3% and 9% p.a.	Between 25% and 100% on a straight-line basis
Equal to or above 9% p.a.	100%

The aggregate Diluted Adjusted EPS over the performance period of $510.09 exceeded the stretch target aggregate EPS of $483.97 for maximum vesting (allowing for EPS growth of 9% pa above RPI from the base year EPS figure of $129.43 for the year ending 30 April 2015), resulting in 100% vesting of these awards. LTIP awards do not benefit from dividends until exercised or released.

Executive director	Interest held	% vesting	Interest vesting	Vesting date
Kevin Loosemore	111,275	100%	111,275	17 July 2018
Stephen Murdoch[1]	44,510	100%	44,510	17 July 2018
Stephen Murdoch[2]	26,024	100%	26,024	23 March 2019
Mike Phillips	52,299	100%	52,299	17 July 2018
Nils Brauckmann	17,722	100%	17,722	17 July 2018
Nils Brauckmann[2]	26,024	100%	26,024	23 March 2019

1 Stephen Murdoch's awards were made to him prior to his appointment to the board.
2 The performance condition for these awards has been met but they will not time vest until 23 March 2019.

Vesting of Additional Share Grants for performance periods ending in the 18 months ended 31 October 2018 (audited)
The ASGs awarded to executive directors on 20 November 2014 following the completion of the TAG transaction on 1 November 2014 vested on 1 November 2017 subject to a performance condition based on shareholder return as follows:

Shareholder return (as defined below)	Vesting percentage of the shares subject to an award
50% or less	0%
Between 50% and 100%	Between 25% and 100% on a straight-line basis
100% or more	100%

Shareholder return is calculated by comparing the Vesting Price of £24.7885 (being the average share price over the 20 days prior to the vesting date) plus the sum of the dividends paid in the three years from completion (£1.4858) to the Reference Price of £8.19425 (being the average share price over the 20 days prior to signing of the heads of terms agreement on 3 June 2014). This gives a shareholder return of 221% resulting in 100% vesting of these awards. ASG awards do not benefit from dividends until exercised.

Executive director	Interest held	% vesting	Interest vesting	Vesting date
Kevin Loosemore	947,140	100%	947,140	1 November 2017
Stephen Murdoch	405,917	100%	405,917	1 November 2017
Mike Phillips	676,529	100%	676,529	1 November 2017
Nils Brauckmann	405,917	100%	405,917	1 November 2017

Share interest awards made during the 18 months ended 31 October 2018 (audited)

Deferred Shares Bonus Plan

On 25 July 2017, conditional awards were made under the Deferred Share Bonus Plan to the three executive directors for whom one-third of their year ended 30 April 2017 annual bonus was deferred into shares. The number of shares awarded was based on the closing mid-market share price of £22.27 on the day before the grant date.

Executive director	Date of grant	Awards made during the period	Share price at grant[1]	Face value at grant
Stephen Murdoch	25 July 2017	5,051	£22.27	£112,486
Mike Phillips	25 July 2017	4,748	£22.27	£105,738
Nils Brauckmann	25 July 2017	4,519	£22.27	£100,638

1 Share price at grant is the closing mid-market price on the day before grant.

Long-term Incentive Plan

During the 18 months ended 31 October 2018, all executive directors were granted nil-cost options or conditional awards under the LTIP as set out in the table below.

Executive director	Date of grant	Performance period	Awards made during the period	Share price at grant[1]	Face value at grant	Grant basis
Kevin Loosemore	6 September 2017	3 years from 1 May 2017	67,965	£22.07	£1,499,988	200% of salary
Chris Hsu[2]	6 September 2017	3 years from 1 May 2017	69,848	£22.07	£1,541,545	200% of salary
Stephen Murdoch[3]	6 September 2017	3 years from 1 May 2017	36,664[4]	£22.07	£809,174	150% of salary
Stephen Murdoch[5]	20 September 2018	3 years from 1 May 2018	67,537	£13.19	£890,813	Top-up
Chris Kennedy[6]	11 January 2018	3 years from 1 May 2017	46,275	£22.69	£1,049,980	200% of salary
Chris Kennedy[5,6]	20 September 2018	3 years from 1 May 2018	26,536	£13.19	£350,010	Top-up
Mike Phillips	6 September 2017	3 years from 1 May 2017	34,464[4]	£22.07	£760,620	150% of salary
Nils Brauckmann	6 September 2017	3 years from 1 May 2017	33,633[4]	£22.07	£742,280	150% of salary

1 Share price at grant is the closing mid-market price on the day before grant.
2 Chris Hsu's award lapsed on his service terminating on 19 September 2018.
3 Stephen Murdoch's award was made to him between stepping down from the board 1 September 2017 and re-joining the board 19 March 2018.
4 The number of shares was calculated based on the share price of £20.97 which would have been used had the grant been made on 10 August 2017 as originally planned.
5 The award made to Stephen Murdoch and Chris Kennedy on 20 September 2018 were to top up their grants in the 18 months ended 31 October 2018 to 200% of salary at the date of grant.
6 Chris Kennedy's LTIP awards will lapse as a result of his resignation and subsequent leaving employment in February 2019.

The awards will be eligible to vest on the third anniversary of the date of grant subject to achievement of a performance condition based on average growth, in excess of RPI, of the aggregate EPS over the relevant three year performance period.

Annualised 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%

Additional Share Grants
Following the acquisition of the HPE Software business on 1 September 2017, ASG awards ("HPE Software ASGs") were made under the Additional Share Grant programme to executive directors and key senior executives. These were due to vest on 6 September 2019 subject to meeting a performance condition based on shareholder return, measured over the three year performance period from the announcement of the transaction on 6 September 2016. Shareholder return is calculated by comparing the Vesting Price (being the average share price over the 20 days prior to the vesting date) plus the sum of the dividends paid in the three years from the announcement date (6 September 2016) to the Reference Price of £18.17¾ (being average share price over the 20 days to signing of the heads of terms agreement on 2 August 2016). If shareholder return is 50% or less, none of the award vests, rising on a straight-line basis to 100% vesting for a shareholder return of 100% or more. A-one year holding period applies to employees at vesting. Awards levels were set according to seniority with the award to any individual not exceeding 2,175,155 shares (being 0.5% of the issued share capital of the Company at the completion date), with an overall aggregate maximum of 10,875,779 shares (being 2.5% of the issued share capital at completion).

The committee undertook a review of the ASG following the sale of SUSE and in response to shareholder feedback. The committee concluded that realigning the performance period to the three years post completion of the HPE Software business acquisition with awards vesting in September 2020 better aligned to the value creation of the acquisition and the 2020 business plan. The committee also decided to retain the shareholder return performance measure as this reflected the value created and the return to shareholders, and is closely aligned to the overall strategy of generating 15% p.a. to 20% p.a. shareholder returns over the longer term. In September 2018, the current and past executive directors voluntarily agreed to surrender their existing HPE Software ASGs in return for a new grant on identical terms but with the performance period and vesting date of 1 September 2020 aligned to the three years post completion of the HPE Software business acquisition as set out below. Accordingly, none of the replacement HPE Software ASG award will vest if shareholder return is 50% or below, rising on a straight-line basis to 100% vesting for a shareholder return of 100% or more. Shareholder returns is calculated by comparing the Vesting Price (being the average share price over the 20 days prior to the vesting date) plus the sum of the dividends paid in the three years from the completion date (1 September 2017) to the Reference Price of £18.17¾ (being average share price over the 20 days to signing of the heads of terms agreement on 2 August 2016). The same one year holding period applies to employees at vesting as do the limits on both individual and aggregate grant levels. For full vesting, this requires an increase in shareholder value of approximately £7.9bn (including dividends) from the Reference price.

	Original HPE Software ASG Awards			Replacement HPE Software ASG Awards		
Executive director	Date of grant	Awards made during the period	Face value at grant[1]	Date of grant	Awards made during the period	Face value at grant[1]
Kevin Loosemore	21 September 2017	1,100,000	£26,862,000	20 September 2018	1,100,000	£14,509,000
Chris Hsu[2]	21 September 2017	900,000	£21,978,000			
Stephen Murdoch[3]	21 September 2017	500,000	£12,210,000	20 September 2018	947,000	£12,490,930
Chris Kennedy	11 January 2018	500,000	£11,345,000	20 September 2018	676,000	£8,916,440
Mike Phillips	21 September 2017	676,000	£16,507,920	20 September 2018	676,000	£8,916,440
Nils Brauckmann	21 September 2017	500,000	£12,210,000	20 September 2018	500,000	£6,595,000

1 Face value at grant is calculated using the closing mid-market share price on the day before grant: £24.42 (21 September 2017), £22.69 (11 January 2017) and £13.19 (20 September 2018).
2 Chris Hsu's original HPE Software ASG award lapsed on his service terminating on 19 September 2018.
3 Stephen Murdoch's original HPE Software ASG award was made to him between stepping down from the board 1 September 2017 and re-joining the board 19 March 2018.
4 Chris Kennedy's replacement HPE Software ASG award will lapse as a result of his resignation and subsequent leaving employment in February 2019.

Due to US tax considerations, it was not possible to apply a similar approach to US senior executives below the board holding HPE Software ASG awards. Instead, a revised package of LTIPs was awarded to align their interests directly to the 2020 business plan which has an offset against any shares that vest under the original ASG. To provide a consistent approach globally, this was applied to all senior executives below the board holding HPE Software ASGs.

Changes to the board in the 18 months ended 31 October 2018

During the 18 months ended 31 October 2018, a number of changes were made to the executive director appointments.

Chris Hsu joined the board on 1 September 2017 as Chief Executive Officer following the HPE Software business acquisition. He resigned from the board on 19 March 2018 and went on "garden leave" for the remainder of his six months' notice. During this period, he continued to receive his salary ($500,758) and contractual benefits ($17,684) amounting to $518,442, as required under his contract and his employment terminated on 19 September 2018. No further payments were made for loss of office, no bonus was paid under the Micro Focus corporate bonus plan and all his outstanding LTIPs and ASGs lapsed on leaving employment.

Stephen Murdoch stepped down from the board on 1 September 2017 to take on the role of Chief Operating Officer. He was reappointed to the board on 19 March 2018 as Chief Executive Officer.

The Company announced on 8 January 2018 that Mike Philips would be taking on a new role of Director of M&A and stepped down from the board on 31 January 2018 after seven years as Chief Financial Officer, to be replaced by Chris Kennedy who joined the board on 8 January 2018.

Nils Brauckmann stepped down from the board following the announcement of the sale of SUSE, which is expected to complete early in 2019. On completion, his employment is due to transfer with SUSE and his various incentives will be treated as set out under the plan rules as for other SUSE executives. His deferred shares in the Deferred Share Bonus Plan will be prorated for time and vest on completion. LTIP awards will be pro-rated for time and any performance conditions will continue to be tested. The committee has exercised its discretion to early test the LTIP's performance conditions over the performance period to completion. His HPE Software ASG award will be performance tested at the normal vesting date as the ASG rules do not permit early testing of the performance condition except on a change of control of the Company.

In addition, on 5 November 2018, the Company announced that Chris Kennedy would be leaving the Company in early 2019 after closing out the accounts for the 18 months ended 31 October 2018 and that Brian McArthur-Muscroft had joined and would take up the role of Chief Financial Officer and be appointed to the board in early 2019. Chris Kennedy will continue to receive his salary and contractual benefits until his date of leaving, but no FY18 annual bonus is payable and all his LTIP awards and HPE Software ASG award will lapse on leaving. No further payments will be made for loss of office.

Executive directors' service agreements at 31 October 2018

Executive director	Date of service contract	Notice period
Kevin Loosemore[1]	14 April 2011	The agreement is terminable by either party on six months' notice
Stephen Murdoch[2]	16 April 2014	The agreement is terminable by either party on six months' notice
Chris Kennedy[3]	5 January 2018	The agreement is terminable by either party on six months' notice
Brian McArthur-Muscroft[4]	4 November 2018	The agreement is terminable by either party on six months' notice

1 Kevin Loosemore's service contract was amended 9 December 2015 and 12 April 2017.
2 Stephen Murdoch stepped down from the board on completion of the HPE Software business acquisition on 1 September 2017 to become Chief Operating Officer. He was reappointed to the board as Chief Executive Officer on 19 March 2018.
3 The Company announced on 5 November 2018 that Chris Kennedy would be leaving the Company early in 2019.
4 Brian McArthur-Muscroft joined the Company on 5 November 2018 and will take up the role of Chief Financial Officer and be appointed to the board in early 2019.

Payments for loss of office (audited)

There were no payments for loss of office during the 18 months ended 31 October 2018, other than those for Chris Hsu set out above.

Payments to past directors (audited)

There were no payments made to past directors during the 18 months ended 31 October 2018 relating to their previous service as a director.

Other directorships

Kevin Loosemore is Chairman of IRIS Software Group Ltd and Chris Kennedy is a non-executive director of Whitbread plc.

Implementation of Remuneration Policy for the year ending 31 October 2019

Base salary

The table below shows the salaries, annual bonus opportunities and annual LTIP grants for the executive directors for the year ending 31 October 2019.

Executive director	Base salary at 1 November 2018	Max annual bonus opportunity	LTIP grant as a % of base salary
Kevin Loosemore	£750,000	150%	200%
Stephen Murdoch	£850,000	150%	200%
Chris Kennedy[1]	£700,000	n/a	n/a
Brian McArthur-Muscroft[2]	£600,000	100%	200%

1 Chris Kennedy announced on 5 November 2018 that he would be leaving the Company in early 2019. Accordingly no annual bonus will be payable in respect of the 18 months ended 31 October 2018 and no annual grant of LTIPs will be made to him in 2019.
2 Brian McArthur-Muscroft joined the Company on 5 November 2018 and will take up the role of Chief Financial Officer and be appointed to the board in early 2019. His annual bonus opportunity in 2019 will be 100% of salary, rising to 150% of salary as for the other executive directors from 1 November 2019. An additional one-off LTIP will be granted to him over 200% of salary on the same terms as the normal annual LTIP grants but with a four year vesting period rather than the normal three years.

The average basic salary increase across the Group for 2018 is 2%.

Pension

Executive directors will continue to receive a pension contribution or payment in lieu of pension. The Executive Chairman and Chris Kennedy receive a payment in lieu of pension of 20% of base salary whilst other executive directors receive a contribution of 15% of base salary.

Annual bonus

The annual bonus will continue to be based on growth in Adjusted EBITDA on a constant currency basis excluding the impact of in year acquisitions from the 12 months ending 31 October 2018 to the 12 months ending 31 October 2019. 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.

For all executive directors (with the exception of the Executive Chairman) one-third of any bonus earned will be deferred into Company shares, to maximise long-term shareholder alignment, support retention in a highly competitive and global talent pool, and be in line with typical market practice. Two-thirds of the bonus will continue to be paid in cash. The Executive Chairman is exempt as his annual bonus has been 150% since 2011 and its treatment was covered in his service contract which predates the Remuneration Policy. Deferred bonus awards will vest in full after three years, subject to continued employment.

Malus and claw back provisions will apply to awards under the Deferred Bonus Plan, as well as to the cash bonus.

LTIP

Any awards made will be in line with the approved Remuneration Policy. At present, it is anticipated that the performance measures and targets will be on a similar basis as for awards made in the 18 month period to 31 October 2018. Malus and clawback provisions apply to LTIP awards. Further details of the awards will be made at the time awards are granted and full details in respect of the awards will be provided in next year's Remuneration Report.

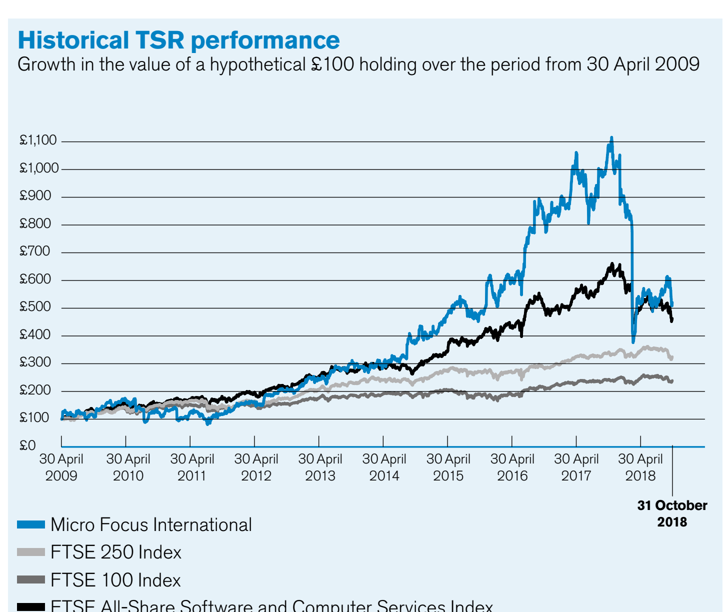
Review of past performance until end of reporting period

The remuneration package is structured to help ensure alignment with shareholders. The graph and table below show how the Chief Executive Officer's or Executive Chairman's pay compares to total shareholder returns (TSR) over the last 9½ years.

The graph below shows the value, by 31 October 2018, of £100 invested in Micro Focus International plc on 30 April 2009 compared with the value of £100 invested in the FTSE 250, FTSE 100 and the FTSE All-Share Software and Computer Services Indices. The intervening points are at the Company's financial year ends, together with 30 April 2018. The FTSE 250, FTSE 100 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 period from 30 April 2009



The table below details the Chief Executive Officer and Executive Chairman's (or, prior to his appointment on 14 April 2011, the Chief Executive Officer's) single figure of remuneration over the same period:

	Year ended 30 April								18 months ended 31 October
	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000
Stephen Murdoch[1]									
Single total figure of remuneration									2,710
Annual bonus outcome (% of maximum)									57%
LTIP vesting (% of maximum)									100%
Chris Hsu[2]									
Single total figure of remuneration									4,952
Annual bonus outcome (% of maximum)									12%
LTIP vesting (% of maximum)									n/a
Kevin Loosemore									
Single total figure of remuneration		23	1,291	1,304	12,468	4,315	4,231	4,226	
Annual bonus outcome (% of maximum)		Nil	90%	92%	100%	100%	100%	45%	
LTIP vesting (% of maximum)		Nil	Nil	Nil	199%	100%	100%	100%	
Nigel Clifford									
Single total figure of remuneration		628							
Annual bonus outcome (% of maximum)		Nil							
LTIP vesting (% of maximum)		Nil							
Stephen Kelly									
Single total figure of remuneration	3,696								
Annual bonus outcome (% of maximum)	Nil								
LTIP vesting (% of maximum)	100%								

1 Stephen Murdoch assumed the CEO responsibilities from 1 May 2017 in the build up to the acquisition of the HPE Software business and stepped down on completion of the transaction 1 September 2017 to take on the role of Chief Operating Officer. He was reappointed as CEO from 16 March 2018. The figure is slightly different from that shown in the single figure for remuneration table as the value placed on the LTIPs and ASG reflect the period of the relevant performance period that he was undertaking the CEO role.

2 Chris Hsu's period as CEO was from 1 September 2017 to 16 March 2018. The 2018 single figure of remuneration includes the benefits in kind payment of $5,918,705 to cover the grossed-up cost of the excise tax incurred as a result of US "inversion" tax treatment of the HPE Software business transaction. The figure for his annual bonus outcome as a percentage of maximum has been calculated by reference to a maximum bonus of 150% of his salary earned over the period as a director. The figure for his annual bonus outcome as a percentage of maximum has been calculated by reference to a maximum bonus of 150% of his salary earned over the period as a director.

Percentage change in Executive Chairman remuneration

The table below shows the annualised percentage change in the Executive Chairman's remuneration from the 12 months ended 30 April 2017 to the 18 months ended 31 October 2018, as compared to the average annualised percentage change in remuneration over the same period for all staff that were on the corporate bonus scheme in both years and were employed throughout the period. The Executive Chairman was chosen as he was undertaking the role of Chief Executive Officer up to 30 April 2017 and is the only director that has been present for the whole period. We have selected our staff on the corporate bonus scheme (unchanged from the 2017 report) for this comparison as it is considered to be the most relevant for the structure of remuneration.

	Executive Chairman £000				Other employees
Base package	2018 18 month period	2018 Annualised	2017 12 month period	Annualised % change	Annualised % change
Salary	**1,125**	**750**	750	No change	3%
Taxable benefits	**47**	**31**	32	(3%)	4%
Annual performance bonus	**855**	**570**	506	13%	23%
Total	**2,027**	**1,351**	1,288	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 2017 to the 12 and 18 month periods ending 31 October 2018.

	2018		2017	% change from 2017	
	18 months ended 31 October $m	12 months ended 31 October $m	12 months ended 30 April $m	18 months (%)	12 months (%)
Distribution to shareholders					
• Dividends paid	**542.2**	**408.3**	**177.5**	205.5%	130.0%
• Share buy-backs	**171.2**	**171.2**	**–**	n/a	n/a
• Return of Value	**500.0**	**–**	**–**	n/a	n/a
Total	**1,213.4**	**579.5**	**177.5**	583.7%	226.4%
Employee remuneration	**2,030.7**	**n/a**	**449.2**	352.1%	n/a

The directors are proposed a final dividend for the year ended 31 October 2018 of 58.33 cents (45.22 pence) per share (2017: final dividend of 58.33 cents 45.22 pence).

Directors' shareholdings and share interests (audited) as at 31 October 2018

		Nil-cost options held					
Director	Shares held (owned outright)	Vested but not exercised	Unvested and not subject to performance	Unvested and subject to performance	Shareholding requirement (% of salary)	Current shareholding (% of salary)	Requirement met?
Kevin Loosemore	747,539	1,507,896		1,237,121	200%	3,664%	Yes
Chris Hsu[1]	–	–	–	–	–	–	n/a
Stephen Murdoch[2]	5,390	592,969	31,075	1,090,841	200%	858%	Yes
Chris Kennedy[3]	14,437	–	–	748,811	200%	25%	Not yet due
Mike Phillips[4]	145,656	940,968	4,748	747,726	–	–	n/a
Nils Brauckmann[5]	–	450,798	30,543	567,109	–	–	n/a
Karen Slatford	17,704	–	–	–	–	–	n/a
Richard Atkins[6]	16,710	–	–	–	–	–	n/a
Amanda Brown	4,631	–	–	–	–	–	n/a
Silke Scheiber	–	–	–	–	–	–	n/a
Darren Roos	18,704	–	–	–	–	–	n/a
Lawton Fitt	–	–	–	–	–	–	n/a

1 Chris Hsu resigned his employment and left the board on 19 March 2018, at which time he did not own any shares in the Company and all his share awards lapsed.
2 Stephen Murdoch is required to have a 200% shareholding within three years of rejoining the board on 19 March 2018.
3 Chris Kennedy's shareholding requirement to have a shareholding of 200% of salary within three years of joining as a director on 8 January 2018 will fall away and all his share awards will lapse on his leaving the Company early in 2019.
4 113,080 shares are held by Mike Phillips' wife, Josephine Phillips. His shareholding requirement fell away on his leaving the board on 31 January 2018.
5 Nils Brauckmann's shareholding requirement fell away on his leaving the board on 11 July 2018.
6 12,902 shares are held by Richard Atkins' wife, Julie Atkins.

Between 1 November 2018 and 20 February 2019, the only change to the above interests was in respect of the annual award of nil cost option LTIPs on 18 February 2019 to Kevin Loosemore (89,285 options) and Stephen Murdoch (101,190 options).

Single figure for total remuneration of executive directors on statutory basis (audited)

The table below shows the single figure for total remuneration for executive directors on the statutory basis, which requires the value of LTIPs and the TAG ASGs to be valued at the date of vesting irrespective of whether they could be exercised and realised at this time. Figures are shown for the full 18 months ended 31 October 2018 and the previous 12 months ended 30 April 2017. It also shows the (unaudited) figures for 12 months ended 31 October 2018 to enable comparison against the 12 months ended 30 April 2017 (as these are not part of the statutory disclosure they are not subject to audit).

					LTIPs and ASGs				
Executive directors		Base Salary and Fees[1] £'000	Benefits in Kind[2] £'000	Annual Bonus[3] £'000	LTIPs[4] £'000	ASG[5] £'000	Total £'000	Pension[6] £'000	Total £'000
Kevin Loosemore	2017 (12 months)	750	32	506	2,788	–	2,788	150	4,226
	2018 (12 months)	**750**	**33**	**855**	**1,407**	**–**	**1,407**	**150**	**3,195**
	2018 (18 months)	**1,125**	**47**	**855**	**1,407**	**25,232**	**26,639**	**225**	**28,891**
Chris Hsu[7]	2017 (12 months)	–	–	–	–	–	–	–	–
	2018 (12 months)	**288**	**11**	**–**	**–**	**–**	**–**	**–**	**299**
	2018 (18 months)	**413**	**4,466**[8]	**73**[9]	**–**	**–**	**–**	**–**	**4,952**
Stephen Murdoch[10]	2017 (12 months)	500	18	338	1,365	–	1,365	75	2,296
	2018 (12 months)	**497**	**11**	**569**	**513**	**–**	**513**	**75**	**1,665**
	2018 (18 months)	**668**	**17**	**569**	**513**	**5,809**	**6,322**	**100**	**7,676**
Chris Kennedy[11]	2017 (12 months)	–	–	–	–	–	–	–	–
	2018 (12 months)	**487**	**12**	**–**	**–**	**–**	**–**	**97**	**596**
	2018 (18 months)	**487**	**12**	**–**	**–**	**–**	**–**	**97**	**596**
Mike Phillips[12]	2017 (12 months)	470	19	317	1,493	–	1,493	71	2,370
	2018 (12 months)	**120**	**4**	**137**	**607**	**–**	**607**	**18**	**886**
	2018 (18 months)	**361**	**13**	**137**	**607**	**18,023**	**18,630**	**54**	**19,195**
Nils Brauckmann[13]	2017 (12 months)	423	12	285	684[14]	–	684	63	1,467
	2018 (12 months)	**339**	**7**	**387**	**423**	**–**	**423**	**51**	**1,207**
	2018 (18 months)	**583**	**13**	**387**	**423**	**6,421**	**6,844**	**87**	**7,914**
Total	2017 (12 months)	2,143	81	1,446	6,330	–	6,330	359	10,359
	2018 (12 months)	**2,481**	**78**	**1,948**	**2,950**	**–**	**2,950**	**391**	**7,848**
	2018 (18 months)	**3,637**	**4,568**	**2,021**	**2,950**	**55,485**	**58,435**	**563**	**69,224**

1 Base Salary and Fees: the amount earned during the period in respect of service as a director.
2 Benefits in Kind: including car, private medical insurance, permanent health insurance, life insurance and financial and tax advice for a US director.
3 Annual Bonus: payment for performance during the period in respect of service as a director. One-third of the annual bonus is deferred into shares for three years with the exception of the Executive Chairman and the bonus to Chris Hsu, which was based on the performance of the HPE Software business.
4 LTIPs (excluding ASGs): the value of LTIP awards (excluding those awards under the ASG programme) which vest based on performance conditions ending during the relevant period, pro-rated to reflect the period as a director during the relevant three year performance period. The 2017 figures are based on the share price at vesting of £24.20 (27 June 2017) and £25.18 (16 December 2017). The 2018 figures are based on the share price at vesting of £12.64 (17 July 2018) and £13.05 (being the average share price over the final quarter of the financial year for the awards which will vest on 23 March 2019).
5 ASG: the value of the ASG award made in November 2014 following the TAG transaction, which vested on 1 November 2017 based on a three year performance period ended 31 October 2017 (pro-rated to reflect the period of service as a director during the performance period). As the performance period ended on 31 October 2017, the value of the TAG ASGs is included in the audited figures for the full 18 month period ended 31 October 2018 but not in the figures for the 12 month period from 1 November 2017 to 31 October 2018.
6 Pension: the Company's pension contribution or cash allowance paid during the period in respect of service as a director.
7 Chris Hsu joined the board on 1 September 2017 following the acquisition of the HPE Software business and resigned from the board on 19 March 2018.
8 Chris Hsu's benefits in kind include a payment of $5,918,705 to cover the grossed-up cost of the excise tax incurred as a result of US "inversion" tax treatment of the HPE Software business transaction.
9 The bonus payment for Chris Hsu relates to the two month proportion of his HPE Software business bonus for the year ending 31 October 2017. No bonus was paid in respect of the 2018 financial year performance.
10 Stephen Murdoch left the board on 1 September 2017 to take on the role of Chief Operating Officer and rejoined the board on 19 March 2018 following his appointment as Chief Executive Officer. His salary, benefits, bonus and pension for the 12 month and 18 month periods ended 31 October 2018 reflect his service whilst a director and his LTIPs and ASG reflect the period of the performance period whilst a director.
11 Chris Kennedy joined the board on 8 January 2018 on his appointment as Chief Financial Officer.
12 Mike Phillips left the board on 31 January 2018, taking on the role of Director of M&A. His salary, benefits, bonus and pension for the 12 month and 18 month periods ended 31 October 2018 reflect his service whilst a director but his LTIPs and ASGs reflect the period of the performance period whilst a director.
13 Nils Brauckmann left the board on 11 July 2018 following the announcement of the sale of SUSE. His salary, benefits, bonus and pension for the 12 month and 18 month periods ended 31 October 2018 reflect his service whilst a director but his LTIPs and ASGs reflect the period of the performance period whilst a director.
14 The LTIP figure for 2017 has been restated to reflect the share price at vesting of £25.18 (16 December 2017).

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

The table below sets out the executive directors' LTIP awards as at 31 October 2018 together with the movements in these awards during the 18 month period.

	Number at 1 May 2017	Number granted in the period	Number exercised in the period	Number lapsed in the period	**Number at 31 October 2018**	Exercise price	Date for exercise/release
Kevin Loosemore[1]	192,157	–	–	–	**192,157**	0.0p	27 June 2015 to 26 June 2022
Kevin Loosemore[1]	142,132	–	–	–	**142,132**	0.0p	26 June 2016 to 25 June 2023
Kevin Loosemore[1]	115,192	–	–	–	**115,192**	0.0p	27 June 2017 to 26 June 2024
Kevin Loosemore[1]	111,275	–	–	–	**111,275**	0.0p	17 July 2018 to 16 July 2025
Kevin Loosemore[2]	69,156	–	–	–	**69,156**	0.0p	26 July 2019 to 25 July 2026
Kevin Loosemore[2]	–	67,965	–	–	**67,965**	0.0p	17 July 2020 to 16 July 2027
Stephen Murdoch[1]	96,237	–	50,000	–	**46,237**	0.0p	27 December 2015 to 26 December 2022
Stephen Murdoch[1]	39,884	–	–	–	**39,884**	0.0p	26 June 2016 to 25 June 2023
Stephen Murdoch[1]	56,421	–	–	–	**56,421**	0.0p	27 June 2017 to 26 June 2024
Stephen Murdoch[1]	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 22 March 2026
Stephen Murdoch[2]	39,640	–	–	–	**39,640**	0.0p	26 July 2019 to 25 July 2026
Stephen Murdoch[2]	–	36,664	–	–	**36,664**	0.0p	17 July 2020 to 16 July 2027
Stephen Murdoch[2]	–	67,537	–	–	**67,537**	0.0p	20 September 2021 to 19 September 2028
Chris Kennedy[2]	–	46,275			**46,275**	0.0p	11 January 2021 to 10 January 2028
Chris Kennedy[2]	–	26,536	–	–	**26,536**	0.0p	20 September 2021 to 19 September 2028
Mike Phillips[1]	86,471	–	–	–	**86,471**	0.0p	27 June 2015 to 26 June 2022
Mike Phillips[1]	63,959	–	–	–	**63,959**	0.0p	26 June 2016 to 25 June 2023
Mike Phillips[1]	61,710	–	–	–	**61,710**	0.0p	27 June 2017 to 26 June 2024
Mike Phillips[1]	52,299	–	–	–	**52,299**	0.0p	17 July 2018 to 16 July 2025
Mike Phillips[2]	37,262	–	–	–	**37,262**	0.0p	26 July 2019 to 25 July 2026
Mike Phillips[2]	–	34,464	–	–	**34,464**	0.0p	17 July 2020 to 16 July 2027
Nils Brauckmann[1]	27,159	–	–	–	**27,159**	0.0p	16 December 2017 to 15 December 2024
Nils Brauckmann[1]	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 22 March 2026
Nils Brauckmann[2]	33,476	–	–	–	**33,476**	0.0p	26 July 2019 to 25 July 2026
Nils Brauckmann[2]	–	33,633	–	–	**33,633**	n/a	17 July 2020

1 This award vested in full as the performance condition was fully met.
2 Performance condition requires that cumulative EPS growth over a three year performance period starting on the 1 May preceding the date of grant is at least equal to RPI plus 3% per annum (at which point 25% of awards will vest) and for full vesting the aggregate 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.
3 These LTIP awards to Stephen Murdoch and Nils Brauckmann do not vest until 23 March 2019 but the performance condition measured over the performance period from 1 May 2015 to 30 April 2018 has been fully met.

LTIP awards exercised during the 18 months ended 31 October 2018 (audited)

Executive director	Number of options exercised	Exercise price	Share price at exercise	Gain on exercise
Stephen Murdoch[1]	50,000	0.0p	£21.83½	£1,091,750

1 Stephen Murdoch exercised part of his award on 26 January 2018 after leaving the board on 1 September 2017 and prior to re-joining the board on 19 March 2018.

Deferred Share Bonus Plan ("DSBP")

The table below sets out the executive directors' awards of conditional shares under the DSBP as at 31 October 2018 together with the movements in these awards during the 18 month period.

	Number at 1 May 2017	Number granted in the period	Number exercised in the period	Number lapsed in the period	**Number at 31 October 2018**	Exercise price	Date of release
Stephen Murdoch	–	5,051	–	–	**5,051**	0.0p	25 July 2020
Mike Phillips	–	4,748	–	–	**4,748**	0.0p	25 July 2020
Nils Brauckmann	–	4,519	–	–	**4,519**	0.0p	25 July 2020

Additional Share Grant

The table below sets out the executive directors' ASG awards as at 31 October 2018 together with the movements in these awards during the 18 month period.

	Number at 1 May 2017	Number granted in the period	Number exercised in the period	Number lapsed in the period	**Number at 31 October 2018**	Exercise price	Date of exercise
Kevin Loosemore[1]	947,140	–	–	–	**947,140**	0.0p	1 November 2017 to 31 October 2024
Kevin Loosemore[2]	–	1,100,000	–	–	**1,100,000**	0.0p	1 September 2020 to 31 August 2027
Stephen Murdoch[1]	405,917	–	–	–	**405,917**	0.0p	1 November 2017 to 31 October 2024
Stephen Murdoch[2]	–	947,000	–	–	**947,000**	0.0p	1 September 2020 to 31 August 2027
Chris Kennedy[2]		676,000	–	–	**676,000**	0.0p	1 September 2020 to 31 August 2027
Mike Phillips[1]	676,529	–	–	–	**676,529**	0.0p	1 November 2017 to 31 October 2024
Mike Phillips[2]	–	676,000	–	–	**676,000**	0.0p	1 September 2020 to 31 August 2027
Nils Brauckmann[1]	405,917	–	–	–	**405,917**	0.0p	1 November 2017 to 31 October 2024
Nils Brauckmann[2]	–	500,000	–	–	**500,000**	0.0p	1 September 2020 to 31 August 2027

1 This award vested in full as the performance condition was fully met.
2 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 £18.17¾ per share (the "Reference Price"), being the average of the 20 days to 2 August 2016 (being the date of the heads of agreement relating to the acquisition of the HPE Software business), 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
Chris Kennedy joined Sharesave on 3 August 2018 at an option price of £10.23 over 1,759 shares that are exercisable from 1 October 2021.

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

The mid-market closing price of the shares at 31 October 2018 was 1,218.5 pence per share and during the 18 months ended 31 October 2018 the mid-market closing price varied between 911.8 pence and 2,739 pence per share.

Statement of shareholding voting
The following table shows the results of the vote on the 2017 Remuneration Policy and the advisory vote on the 2017 Directors' Remuneration Report at the AGM held on 4 September 2017:

	Votes for		Votes against			
	Number	Percentage	Number	Percentage	Votes cast	Votes withheld
2017 Remuneration Policy	162,259,404	86.46%	25,408,333	13.54%	188,129,640	461,903
2017 Director's Remuneration Report	174,387,960	93.13%	12,854,303	6.87%	188,129,640	887,377

On behalf of the board,

Amanda Brown
Chair of Remuneration Committee
20 February 2019

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 18 months ended 31 October 2018.

Strategic report

The Group is required by the Companies Act 2006 to present a fair review of the business during the 18 months ended 31 October 2018 and of the position of the Group at the end of the financial period 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 14 to 67 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 72 to 79 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 capitalised	Not applicable
Publication of unaudited financial information	Chief Executive's strategic review, Chief Financial Officer's report, Alternative Performance Measures
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 31 to the Group's consolidated financial statements
Non pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	Not applicable
Parent company participation in a placing by a listed subsidiary	Not applicable
Contracts of significance to which the Company is a party and in which a director is materially interested	Not applicable
Contracts of significance between a Company and a controlling shareholder	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waiver of dividends	Not applicable
Shareholder waiver of future dividends	Not applicable
Agreements with controlling shareholders	Not applicable

Dividends

The board has a dividend policy to award a level of full year dividend covered approximately two times by Adjusted after tax earnings of the Group.

For the 18 months ended 31 October 2018, the directors have recommended a final dividend of 58.33 cents per share. When taken together with the interim dividends of 34.60 cents per share paid in February 2018 and 58.33 cents per share paid in August 2018, this gives a total dividend in respect of the 18 months ended 31 October 2018 of 151.26 cents per share. The final dividend will be paid on 5 April 2019 to shareholders on the register on 1 March 2019.

Dividends will be paid in Sterling based on an exchange rate of £1 = $1.29, equivalent to approximately 45.22 pence per share, being the rate applicable on 13 February 2019, the date on which the board resolved to propose to pay the final dividend.

Directors and their interests

The following individuals were directors of the Company during the year reported on and up to the date of signing this report, unless otherwise stated:

Executive	
Kevin Loosemore	Executive Chairman
Stephen Murdoch	Chief Executive Officer (resigned 1 September 2017 and re-appointed 19 March 2018)
Chris Kennedy	Chief Financial Officer (appointed 8 January 2018)
Mike Phillips	Chief Financial Officer (resigned 31 January 2018)
Nils Brauckmann	Chief Executive Officer of SUSE (resigned 11 July 2018)
Chris Hsu	Chief Executive Officer (appointed 1 September 2017 and resigned 19 March 2018)

Non-executive	
Karen Slatford	Senior independent non-executive director
Richard Atkins	Independent non-executive director
Amanda Brown	Independent non-executive director
Darren Roos	Independent non-executive director (appointed 15 May 2017)
Silke Scheiber	Independent non-executive director (appointed 15 May 2017)
Lawton Fitt	Independent non-executive director (appointed 17 October 2017)
John Schultz	HPE nominated non-executive director (appointed 1 September 2017 and resigned 20 December 2017)

Details of the interests of the directors and their families in the ordinary shares of the Company are given in the Directors' Remuneration Report on page 105.

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 period, 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 period 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 31 October 2018 the following percentage interests in the ordinary share capital of the Company, required to be disclosed under the FCA's Disclosure and Transparency Rules, have been notified to the Company:

Name of holder	Ordinary shares of 10 pence each	Percentage of issued capital
Dodge & Cox	61,313,932	14.05%
FMR LLC	29,272,034	6.72%
BlackRock Inc.	24,394,293	5.58%
Causeway Capital Management LLC	22,050,026	5.05%

The following changes in the interests disclosed to the Company have been notified between 31 October 2018 and 20 February 2019:

- On 21 November 2018, Dodge & Cox disclosed that their percentage interest in the ordinary share capital of the Company has increased to 15.01% (63,751,164 ordinary shares); and
- On 6 February 2019, FMR LLC disclosed that their percentage interest in the ordinary share capital of the Company has increased to 7.00% (29,062,788 ordinary shares); and
- On 13 February 2019, BlackRock, Inc. disclosed that their percentage interest in the ordinary share capital of the Company has increased to 6.02% (24,999,040 ordinary shares).

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 organisational structure and each employee knows his or her line of accountability.

Equality and diversity

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, educational and professional backgrounds or religious or political beliefs 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 gender, age, marital status, disability, sexuality, race, colour, ethnic or national origin, educational and professional backgrounds 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 period, 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 72 to 89.

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. Employees are able to participate in the Group's all employee Sharesave and Employee Stock Purchase Plans.

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 60 to 67.

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 29 to the financial statements.

Research and development

All expenditure on research is expensed as incurred. The Group capitalises development expenditure from the point that all the relevant criteria are met. The capitalised cost is then amortised over the useful life of the software. During the 18 months ended 31 October 2018, $659.4m was charged to the consolidated statement of comprehensive income (12 months ended 30 April 2017: $122.8m) in the research and development expenses category. This charge is after capitalisation of internal development expenditure of approximately $45.3m (12 months ended 30 April 2017: $27.7m). Within the cost of sales category $42.1m of amortisation of development costs (12 months ended 30 April 2017: $22.4m) and $293.9m of amortisation of purchased intangibles technology (12 months ended 30 April 2017: $69.1m) were charged to the consolidated statement of comprehensive income.

Political donations

The Group's policy is to make no donations or contributions to political parties (12 months ended 30 April 2017: $nil).

Budgetary process

A comprehensive budgeting system allows managers to submit detailed budgets, which are reviewed and amended by executive directors prior to submission to the board for approval.

Insurance

The Group keeps under review, with its insurance brokers, its portfolio of insurance policies to ensure that the policies are appropriate to the Group's activities and exposure.

Share capital

The Company has a single class of share capital, which is divided into ordinary shares of 10 pence each. During the 18 months ended 31 October 2018, 1,894,673 ordinary shares were issued to satisfy obligations under employee share plans. The Company's share capital was reduced by 16,935,536 ordinary shares following a share capital consolidation and 222,166,897 shares were issued as part of the acquisition of the HPE Software business.

On 29 August 2018, the Company announced the commencement of a share buy-back programme (note 31). As at 31 October, 8,567,659 ordinary shares have been bought back on the London Stock Exchange and 1,290,546 ADRs were purchased on the New York Stock Exchange at total cost of $171.7m, including expenses of $0.5m. These 9,858,205 ordinary shares are held in treasury.

As at 31 October 2018, the total share capital of the Company was 436,800,513 ordinary shares, of which 9,858,205 ordinary shares are held in treasury. Therefore, the total number of ordinary shares with voting rights in the Company as at 31 October 2018 was 426,942,308.

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 29 March 2019 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 recognise 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 recognised clearing house or a nominee of a recognised clearing house or of a recognised 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 dematerialised 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 4 September 2017) to buy back up to 14.99% of its issued share capital. At that time, this amounted to 70,298,999 ordinary shares, and the authority remains outstanding until the conclusion of the next AGM on 29 March 2019. The minimum price which must be paid for such shares is 10 pence per ordinary share and the maximum price which may be paid for each ordinary share shall not be more than the maximum price (exclusive of expenses) stipulated by the Listing Rules from time to time in force published by the Financial Conduct Authority. Pursuant to this authority, the Company purchased 9,858,205 ordinary shares of 10 pence each for aggregate consideration of approximately $171.7m in the period from 29 August 2018 to 31 October 2018. The repurchased shares were approximately 2.26 per cent of the issued share capital of the Company immediately prior to the commencement of the buy-back programme and are being held in treasury.

A further buy-back programme commenced on 6 November 2018 and completed on than 13 February 2019 taking total value of shares purchased to $400.0m.

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 authorise the issue and/or market purchase of the Company's shares subject to the provisions of the Articles, the Companies Act 2006 and any resolution of the Company.

At the AGM held on 4 September 2017 the directors were granted the powers to allot equity securities with a nominal value of up to £15,632,421 (provided that any amount in excess of £7,658,063 was applied to fully pre-emptive rights issues only) and to make market purchases of the Company's shares on the terms set out above.

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:

Bank borrowings

The Company announced on 21 April 2017 the successful syndication of the new credit facilities (the "New Facilities") on behalf of both MA FinanceCo, LLC, a wholly owned subsidiary within the Micro Focus Group, and Seattle SpinCo, Inc., a wholly owned subsidiary of HPE that would hold the HPE Software business and be merged with a wholly owned subsidiary of Micro Focus in the transaction.

The following Facilities were drawn as at 31 October 2018:

- The $1,503.8m senior secured term loan B-2 issued by MA FinanceCo LLC is priced at LIBOR plus 2.25% (subject to a LIBOR floor of 0.00%);
- The $2,580.5m senior secured seven-year term loan B issued by Seattle SpinCo. Inc. is priced at LIBOR plus 2.50% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%;
- The $382.1m senior secured seven-year term loan B-3 issued by MA FinanceCo LLC is priced at LIBOR plus 2.50% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%; and
- The €466.5m (equivalent to $530.5m) senior secured seven-year term loan B issued by MA FinanceCo LLC is priced at EURIBOR plus 2.75% (subject to a EURIBOR floor of 0.00%) with an original issue discount of 0.25%.

The following Facilities were undrawn as at 31 October 2018:

- A senior secured revolving credit facility of $500.0m (the "Revolving Facility") with an interest rate of 3.25% above LIBOR on amounts drawn (and 0.375% on amounts undrawn) thereunder (subject to a LIBOR floor of 0.00%).

The only financial covenant attaching to these facilities relates to the Revolving Facility, which is subject to an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end. At 31 October 2018, $nil of the Revolving Facility was drawn together with $4,996.9m of Term Loans giving gross debt of $4,996.9m drawn. As a covenant test is only applicable when the Revolving Facility is drawn down by 35% or more, and $nil of Revolving Facility was drawn at 31 October 2018, no covenant test is applicable

SUSE Disposal
On 2 July 2018, the Group announced the proposed sale of the SUSE business segment to Blitz 18-679 GmbH, a newly incorporated indirectly wholly-owned subsidiary of EQTVIII SCSp which is advised by EQT Partners. The total cash consideration of $2.535bn is on a cash and debt free basis and subject to normalisation of working capital.

On 21 August 2018, Shareholders voted to approve the proposed transaction whereby the Company has agreed to sell its SUSE business segment to Marcel Bidco GmbH, a newly incorporated, wholly-owned subsidiary of EQTVIII SCSp, for a total cash consideration of approximately $2.535bn, subject to customary closing adjustments. Following this vote, all applicable antitrust, competition, merger control and governmental clearances have been obtained. Completion of the transaction is now only conditional upon completing the carve out of the SUSE business segment from the rest of the Micro Focus Group (and certain related matters) and it is currently anticipated that this will be satisfied such that the transaction will complete in the first calendar quarter of 2019. As set out in the circular to shareholders in advance of the vote, net sale proceeds after tax and customary closing adjustments are estimated to be $2.06bn and these funds will be used to make a mandatory debt repayment in accordance with the Credit Agreement. It is intended that the balance will be returned to shareholders ("Return of Value"). A circular to shareholders in respect of the Return of Value will be despatched in due course.

Due to the proposed sale and subsequent shareholder approval, the SUSE business segment has been treated as discontinued in these financial statements (note 19).

The SUSE Business, a pioneer in Open Source software, develops, markets and supports an enterprise grade Linux operating system, Open Source software-defined infrastructure and application delivery solutions that give enterprises greater control and flexibility over their IT systems.

Micro Focus believes the disposal consideration represents a highly attractive enterprise valuation for the SUSE business at approximately 7.9x revenue and 26.7x Adjusted Operating Profit of the SUSE Business for the 12 months ended 31 October 2017. Micro Focus believes EQT provides a strong long-term investor for the SUSE Business and allows Micro Focus to continue to focus upon its longstanding and consistent strategy of delivering value to customers and shareholders through effective management of infrastructure software assets in an increasingly consolidating sector.

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, India, Italy, Japan, Mexico, Portugal, Puerto Rico, South Korea, Sweden, Switzerland, Taiwan, the United Arab Emirates and the People's Republic of China.

Annual General Meeting
The notice convening the AGM of the Company together with the explanatory notes on the resolutions proposed at the AGM accompanies this report. The meeting will be held at the Company's Headquarters at The Lawn, 22-30 Old Bath Road, Newbury, Berkshire, RG14 1QN on 29 March 2019 at 10 am (UK time).

Independent auditor and disclosure of information to auditor
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 auditor in connection with preparing their report) of which the Company's auditor is 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 auditor is aware of that information.

KPMG LLP have indicated their willingness to continue as the auditor of the Group and a resolution regarding their appointment will be proposed at the AGM.

Going concern
The directors, having made enquiries and produced a Viability Statement (page 59), 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 41 in this Annual Report and Accounts.

Statement of directors' responsibilities in respect of the financial statements
The directors are responsible for preparing the Annual Report and the Group and parent Company 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 as issued by the International Accounting Standards Board ("IASB") and in conformity with IFRS as adopted by the European Union (collectively "IFRS") and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report and Directors' report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the board,

Jane Smithard
Company Secretary
20 February 2019

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

Consolidated financial statements and notes

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Alternative Performance Measures

The Group uses certain measures to assess the financial performance of its business. These measures are termed "Alternative Performance Measures" because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

The Group uses such measures to measure operating performance and liquidity in presentations to the board and as a basis for strategic planning and forecasting, as well as monitoring certain aspects of its operating cash flow and liquidity. The Group believes that these and similar measures are used widely by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

The Alternative Performance Measures may not be comparable to other similarly titled measures used by other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Group's operating results as reported under IFRS.

An explanation of the relevance of each of the Alternative Performance Measures, a reconciliation of the Alternative Performance Measures to the most directly comparable measures calculated and presented in accordance with IFRS and a discussion of their limitations is set out below. The Group does not regard these Alternative Performance Measures as a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS.

Unaudited reporting periods

The Group has reported unaudited results for the 12 months ended 31 October 2018 with a comparative period of the 12 months ended 31 October 2017. This reflects the new year-end for the Group of the 31 October and provides a more meaningful basis on which to discuss the results of the Group.

1. Consolidated statement of comprehensive income

12 months to 31 October 2018 (unaudited)

The 12 months to 31 October 2018 results have been calculated by taking the six month results to 31 October 2017, after adjusting for discontinued operation, from the 18 month results to 31 October 2018.

	18 months ended 31 October 2018	Six months ended 31 October 2017			**12 months ended 31 October 2018**
	as reported $'000	as reported $'000	Transfer to discontinued operation $'000	restated $'000	**restated $'000**
Revenue	4,754,398	1,234,520	(164,440)	1,070,080	**3,684,318**
Cost of sales	(1,259,306)	(273,893)	9,864	(264,029)	**(995,277)**
Gross profit	3,495,092	960,627	(154,576)	806,051	**2,689,041**
Selling and distribution costs	(1,670,000)	(398,638)	51,572	(347,066)	**(1,322,934)**
Research and development expenses	(659,413)	(173,639)	41,812	(131,827)	**(527,586)**
Administrative expenses	(788,855)	(168,390)	27,627	(140,763)	**(648,092)**
Operating profit	376,824	219,960	(33,565)	186,395	**190,429**
Share of results of associates	–	(438)	438	–	**–**
Finance costs	(350,366)	(75,487)	–	(75,487)	**(274,879)**
Finance income	7,654	1,699	–	1,699	**5,955**
Net finance costs	(342,712)	(73,788)	–	(73,788)	**(268,924)**
Profit/(loss) before tax	34,112	145,734	(33,127)	112,607	**(78,495)**
Taxation	673,081	(39,129)	11,688	(27,441)	**700,522**
Profit from continuing operations	707,193	106,605	(21,439)	85,166	**622,027**
Profit from discontinued operation (attributable to equity shareholders of the Company)	76,940	–	21,439	21,439	**55,501**
Profit for the period	784,133	106,605	–	106,605	**677,528**
Operating profit (before exceptional items)	914,980	318,440	(33,565)	284,875	**630,105**
Exceptional items	(538,156)	(98,480)	–	(98,480)	**(439,676)**
Operating profit	376,824	219,960	(33,565)	186,395	**190,429**

Alternative Performance Measures

continued

Unaudited reporting periods continued

1. Consolidated statement of comprehensive income continued

12 months to 31 October 2017 (unaudited)

The 12 months to 31 October 2017 results have been calculated by taking the 12 months results to 30 April 2017 less the six months to 31 October 2016 and adding the six months to 31 October 2017, after adjusting all periods for discontinued operation.

	12 months ended 30 April 2017			Six months ended 31 October 2016			Six months ended 31 October 2017			12 months ended 31 October 2017
	as reported $'000	Transfer to discontinued operation $'000	restated $'000	as reported $'000	Transfer to discontinued operation $'000	restated $'000	as reported $'000	Transfer to discontinued operation $'000	restated $'000	Total $'000
Revenue	1,380,702	(303,429)	1,077,273	684,743	(147,432)	537,311	1,234,520	(164,440)	1,070,080	1,610,042
Cost of sales	(237,169)	20,757	(216,412)	(123,440)	10,258	(113,182)	(273,893)	9,864	(264,029)	(367,259)
Gross profit	1,143,533	(282,672)	860,861	561,203	(137,174)	424,129	960,627	(154,576)	806,051	1,242,783
Selling and distribution costs	(467,084)	103,951	(363,133)	(218,528)	47,816	(170,712)	(398,638)	51,572	(347,066)	(539,487)
Research and development expenses	(180,104)	57,280	(122,824)	(86,390)	25,593	(60,797)	(173,639)	41,812	(131,827)	(193,854)
Administrative expenses	(202,902)	55,390	(147,512)	(93,099)	26,491	(66,608)	(168,390)	27,627	(140,763)	(221,667)
Operating profit	293,443	(66,051)	227,392	163,286	(37,274)	126,012	219,960	(33,565)	186,395	287,775
Share of results of associates and gain on dilution of investment	(1,254)	1,254	–	(1,127)	1,127	–	(438)	438	–	–
Finance costs	(96,824)	–	(96,824)	(49,455)	–	(49,455)	(75,487)	–	(75,487)	(122,856)
Finance income	979	–	979	502	–	502	1,699	–	1,699	2,176
Net finance costs	(95,845)	–	(95,845)	(48,953)	–	(48,953)	(73,788)	–	(73,788)	(120,680)
Profit/(loss) before tax	196,344	(64,797)	131,547	113,206	(36,147)	77,059	145,734	(33,127)	112,607	167,095
Taxation	(38,541)	31,077	(7,464)	(22,589)	16,915	(5,674)	(39,129)	11,688	(27,441)	(29,231)
Profit from continuing operations	157,803	(33,720)	124,083	90,617	(19,232)	71,385	106,605	(21,439)	85,166	137,864
Profit from discontinued operation (attributable to equity shareholders of the Company)	–	33,720	33,720	–	19,232	19,232	–	21,439	21,439	35,927
Profit for the period	157,803	–	157,803	90,617	–	90,617	106,605	–	106,605	173,791

Unaudited reporting periods continued

2. Consolidated statement of cash flows – 12 months to 31 October 2018 (unaudited)

The 12 months to 31 October 2018 statement of cash flows has been calculated by taking the six month results to 31 October 2017 from the cash flow for the 18 months to 31 October 2018.

Cash flows from operating activities	18 months ended 31 October 2018 (audited) $'000	Six months ended 31 October 2017 (unaudited) $'000	**12 months ended 31 October 2018 (unaudited) $'000**
Operating profit	489,779	219,960	**269,819**
Research and development tax credits	(2,013)	(2,185)	**172**
Depreciation	95,179	16,289	**78,890**
Loss on disposal of property, plant and equipment	4,581	427	**4,154**
Amortisation of intangible assets	943,210	198,606	**744,604**
Share-based compensation charge	72,175	18,302	**53,873**
Foreign exchange movements	(34,505)	(4,699)	**(29,806)**
Provisions movements	142,859	73,433	**69,426**
Cash generated from operations before working capital	1,711,265	520,133	**1,191,132**
Changes in working capital:			
Inventories	35	(216)	**251**
Trade and other receivables	(408,879)	(231,762)	**(177,117)**
Payables and other liabilities	131,333	15,490	**115,843**
Provision utilisation	(145,012)	(55,489)	**(89,523)**
Deferred income	131,477	21,607	**109,870**
Pension funding in excess of charge to operating profit	4,092	3,129	**963**
Movement in working capital	(286,954)	(247,241)	**(39,713)**
Cash generated from operating activities	1,424,311	272,892	**1,151,419**
Interest paid	(301,791)	(82,341)	**(219,450)**
Bank loan costs	(101,159)	(90,319)	**(10,840)**
Tax paid	(99,490)	(20,472)	**(79,018)**
Net cash generated from operating activities	921,871	79,760	**842,111**
Cash flows from/(used in) investing activities			
Payments for intangible assets	(92,115)	(35,650)	**(56,465)**
Purchase of property, plant and equipment	(40,091)	(9,845)	**(30,246)**
Finance leases	(735)	–	**(735)**
Interest received	9,224	1,699	**7,525**
Payment for acquisition of subsidiaries	(19,260)	–	**(19,260)**
Net cash acquired with acquisitions	321,668	320,729	**939**
Net cash from/(used in) investing activities	178,691	276,933	**(98,242)**

Alternative Performance Measures
continued

Unaudited reporting periods continued
2. Consolidated statement of cash flows – 12 months to 31 October 2018 (unaudited) continued

Cash flows from operating activities continued	18 months ended 31 October 2018 (audited) $'000	Six months ended 31 October 2017 (unaudited) $'000	12 months ended 31 October 2018 (unaudited) $'000
Cash flows (used in)/from financing activities			
Investment in non-controlling interest	(3)	–	**(3)**
Proceeds from issue of ordinary share capital	5,750	1,161	**4,589**
Purchase of treasury shares	(171,710)	–	**(171,710)**
Return of Value paid to shareholders	(500,000)	(500,000)	**–**
Repayment of working capital in respect of the HPE Software business acquisition	(225,800)	–	**(225,800)**
Repayment of bank borrowings	(252,936)	(215,000)	**(37,936)**
Proceeds from bank borrowings	1,043,815	1,043,815	**–**
Dividends paid to owners	(542,161)	(133,889)	**(408,272)**
Net cash (used in)/from financing activities	(643,045)	196,087	**(839,132)**
Effects of exchange rate changes	15,302	26,609	**(11,307)**
Net increase/(decrease) in cash and cash equivalents	472,819	579,389	**(106,570)**
Cash and cash equivalents at beginning of period	150,983	150,983	**730,372**
	623,802	730,372	**623,802**
Reclassification to current assets classified as held for sale	(2,906)	–	**(2,906)**
Cash and cash equivalents at end of period	620,896	730,372	**620,896**

3. Impact of deferred revenue haircut

The following table shows the impact of the acquisition accounting adjustment of deferred revenue haircut (i.e. the unwinding of fair value adjustment to acquired deferred revenue) on reported revenues.

	18 months ended 31 October 2018 (audited)			12 months ended 30 April 2017 (audited)		
	Micro Focus $'000	SUSE $'000	Total $'000	Micro Focus $'000	SUSE $'000	Total $'000
Revenue before deferred revenue haircut	**4,815,460**	**539,797**	**5,355,257**	1,084,165	306,613	1,390,778
Unwinding of fair value adjustment to acquired deferred revenue	**(61,062)**	**(1,637)**	**(62,699)**	(6,892)	(3,184)	(10,076)
Revenue	**4,754,398**	**538,160**	**5,292,558**	1,077,273	303,429	1,380,702

	12 months ended 31 October 2018 (unaudited)			12 months ended 31 October 2017 (unaudited)		
	Micro Focus $'000	SUSE $'000	Total $'000	Micro Focus $'000	SUSE $'000	Total $'000
Revenue before deferred revenue haircut	**3,719,094**	**374,534**	**4,093,628**	1,638,693	322,558	1,961,251
Unwinding of fair value adjustment to acquired deferred revenue	**(34,776)**	**(814)**	**(35,590)**	(28,651)	(2,121)	(30,772)
Revenue	**3,684,318**	**373,720**	**4,058,038**	1,610,042	320,437	1,930,479

4. EBITDA and Adjusted EBITDA

EBITDA is defined as net earnings before finance costs, finance income, taxation, share of results of associates, depreciation of property, plant and equipment, and amortisation of intangible assets. The Group presents EBITDA because it is widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. EBITDA eliminates potential differences in performance caused by variations in capital structures (affecting net finance costs), tax positions (such as the availability of net operating losses against which to relieve taxable profits), the cost and age of tangible assets (affecting relative depreciation expense) and the extent to which intangible assets are identifiable (affecting relative amortisation expense).

The Group defines Adjusted EBITDA as comprising of EBITDA (as defined above), adjusted for exceptional items, share based compensation, product development intangible cost capitalised and foreign exchange gains/losses. Adjusted EBITDA is the primary measure used internally to measure performance and to incentivise and reward employees.

Adjusted EBITDA Margin refers to each measure defined above as a percentage of actual revenue recorded in accordance with IFRS for the period.

Adjusted EBITDA is a key profit measure used by the board to assess the underlying financial performance of the Group. Adjusted EBITDA is stated before the following items for the following reasons:

- Exceptional items, as set out in note 4, are excluded by virtue of their size, nature or incidence, in order to show the underlying business performance of the Group.
- Share-based payment charges are excluded from the calculation of Adjusted EBITDA because these represent a non-cash accounting charge for transactions that could otherwise have been settled in cash or not be limited to employee compensation. These charges also represent long-term incentives designed for long-term employee retention, rather than reflecting the short-term underlying operations of the Group's business. The directors acknowledge that there is an ongoing debate on the add-back of share-based payment charges but believe that as they are not included in the analysis of segment performance used by the Chief Operating Decision Maker and their add-back is consistent with metrics used by a number of other companies in the technology sector, that this treatment remains appropriate.
- Charges for the amortisation of purchased intangibles are excluded from the calculation of Adjusted EBITDA. This is because these charges are based on judgements about their value and economic life, are the result of the application of acquisition accounting rather than core operations, and whilst revenue recognised in the income statement does benefit from the underlying intangibles that has been acquired, the amortisation costs bear no relation to the Group's underlying ongoing operational performance. In addition, amortisation of acquired intangibles is not included in the analysis of segment performance used by the Chief Operating Decision Maker.
- We exclude foreign exchange movements from Adjusted EBITDA in order to exclude foreign exchange volatility when evaluating the underlying performance of the business.
- We deduct from EBITDA, actual spend on product development costs during the period as this reflects the required underlying expenditure. This is because the capitalisation and subsequent amortisation of such costs are based on judgements about whether they meet the capitalisation criteria set out in IAS38 "Intangible Assets" and on the period of their estimated economic benefit. In addition, product development costs for the period are included in the analysis of segment performance used by the Chief Operating Decision Maker.

Alternative Performance Measures
continued

4. EBITDA and Adjusted EBITDA continued

The following table is a reconciliation from profit for the period to EBITDA and Adjusted EBITDA:

	18 months ended 31 October 2018 (audited)			12 months ended 30 April 2017 (audited)		
	Continuing operations $'000	Discontinued operation $'000	Total $'000	Continuing operations $'000	Discontinued operation $'000	Total $'000
Profit for the period	707,193	76,940	784,133	124,083	33,720	157,803
Finance costs	350,366	–	350,366	96,824	–	96,824
Finance income	(7,654)	–	(7,654)	(979)	–	(979)
Taxation	(673,081)	34,206	(638,875)	7,464	31,077	38,541
Share of results of associates	–	1,809	1,809	–	1,254	1,254
Depreciation of property, plant and equipment	88,611	6,568	95,179	9,704	2,090	11,794
Amortisation of intangible assets	903,008	40,202	943,210	206,751	29,683	236,434
EBITDA	1,368,443	159,725	1,528,168	443,847	97,824	541,671
Exceptional items (reported in Operating profit)	538,156	–	538,156	97,258	–	97,258
Share-based compensation charge	64,284	7,891	72,175	31,463	3,043	34,506
Product development intangible costs capitalised	(44,350)	–	(44,350)	(27,664)	–	(27,664)
Foreign exchange (gain)/loss	(37,292)	2,787	(34,505)	(2,901)	(1,989)	(4,890)
Adjusted EBITDA	1,889,241	170,403	2,059,644	542,003	98,878	640,881
Revenue	4,754,398	538,160	5,292,558	1,077,273	303,429	1,380,702
Adjusted EBITDA Margin	39.7%	31.7%	38.9%	50.3%	32.6%	46.4%

	12 months ended 31 October 2018 (unaudited)			12 months ended 31 October 2017 (unaudited)		
	Continuing operations $'000	Discontinued operation $'000	Total $'000	Continuing operations $'000	Discontinued operation $'000	Total $'000
Profit for the period	622,027	55,501	677,528	137,864	35,927	173,791
Finance costs	274,879	–	274,879	122,856	–	122,856
Finance income	(5,955)	–	(5,955)	(2,176)	–	(2,176)
Taxation	(700,522)	22,518	(678,004)	29,231	25,850	55,081
Share of results of associates	–	1,371	1,371	–	438	438
Depreciation of property, plant and equipment	73,621	5,269	78,890	19,935	2,436	22,371
Amortisation of intangible assets	720,008	24,596	744,604	285,500	30,455	315,955
EBITDA	984,058	109,255	1,093,313	593,210	95,106	688,316
Exceptional items (reported in Operating profit)	439,676	–	439,676	154,690	–	154,690
Share-based compensation charge	47,503	6,370	53,873	34,245	3,042	37,287
Product development intangible costs capitalised	(27,488)	–	(27,488)	(29,494)	–	(29,494)
Foreign exchange (gain)/loss	(30,158)	352	(29,806)	(2,054)	1,735	(319)
Adjusted EBITDA	1,413,591	115,977	1,529,568	750,597	99,883	850,480
Revenue	3,684,318	373,720	4,058,038	1,610,042	320,437	1,930,479
Adjusted EBITDA Margin	38.4%	31.0%	37.7%	46.6%	31.2%	44.1%

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. These items are collectively totalled and identified as "exceptional items" (note 4).

5. Adjusted Profit before tax

Adjusted Profit before tax is defined as profit before tax excluding the effects of share-based compensation, the amortisation of purchased intangible assets, and all exceptional items. These items are individually material items that are not considered to be representative of the performance of the Group. Adjusted Profit before tax is only presented on a consolidated basis because management believes it is important to the understanding of the Group's effective tax rate. When presented on a consolidated basis, Adjusted Profit before tax is an Alternative Performance Measure.

The following table is a reconciliation from profit before tax for the period to Adjusted Profit before tax:

	18 months ended 31 October 2018 (audited)			12 months ended 30 April 2017 (audited)		
	Continuing operations $'000	**Discontinued operation $'000**	**Total $'000**	Continuing operations $'000	Discontinued operation $'000	Total $'000
(Loss)/Profit before tax	**34,112**	**111,146**	**145,258**	131,547	64,797	196,344
Share-based compensation charge	**64,284**	**7,891**	**72,175**	31,463	3,043	34,506
Amortisation of purchased intangibles	**830,319**	**39,437**	**869,756**	183,283	29,578	212,861
Exceptional items	**543,929**	**–**	**543,929**	97,258	–	97,258
Adjusting items	**1,438,532**	**47,328**	**1,485,860**	312,004	32,621	344,625
Adjusted Profit before tax	**1,472,644**	**158,474**	**1,631,118**	443,551	97,418	540,969

	12 months ended 31 October 2018 (unaudited)		
	Continuing operations $'000	**Discontinued operation $'000**	**Total $'000**
(Loss)/Profit before tax	**(78,495)**	**78,019**	**(476)**
Share-based compensation charge	**47,503**	**6,370**	**53,873**
Amortisation of purchased intangibles	**661,630**	**24,648**	**686,278**
Exceptional items	**439,676**	**–**	**439,676**
Adjusting items	**1,148,809**	**31,018**	**1,179,827**
Adjusted Profit before tax	**1,070,314**	**109,037**	**1,179,351**

6. Adjusted Effective Tax Rate

The tax charge on Adjusted Profit before tax for the 18 months ended 31 October 2018 was $346.9m (12 months ended 30 April 2017: $83.5m). This represents an Adjusted Effective Tax Rate ("Adjusted ETR"), calculated as the tax charge on Adjusted Profit divided by the Adjusted Profit of 23.6% (12 months ended 30 April 2017: 18.8%).

	18 months ended 31 October 2018 (audited)				12 months ended 30 April 2017 (audited)		
Effective tax rate (continuing operations)	**Actual $m**	**Adjusting items $m**	**Exceptional tax items $m**	**Adjusted measures $m**	Actual $m	Adjusting items $m	Adjusted measures $m
Profit before tax	**34.1**	**1,438.5**	**–**	**1,472.6**	131.6	312.0	443.6
Taxation	**673.1**	**(327.7)**	**(692.3)**	**(346.9)**	(7.5)	(76.0)	(83.5)
Profit after tax	**707.2**	**1,110.8**	**(692.3)**	**1,125.7**	124.1	236.0	360.1
Effective tax rate	**(1,973.9)%**			**23.6%**	5.7%		18.8%

In computing Adjusted Profit before tax for the 18 months ended 31 October 2018, $1,438.5m of adjusting items have been added back and the associated tax is $327.7m (see Adjusted Profit before tax section above). Exceptional tax items of $692.3m (2017: $nil) shown above relate to the impact of US tax reforms, comprised of a credit of $930.6m in respect of the re-measurement of deferred tax liabilities due to the reduction of the US federal tax rate from 35% to 21% and a transition tax charge of $238.3m payable over eight years.

Alternative Performance Measures

continued

7. Adjusted Earnings per Share and Diluted Adjusted Earnings per Share

The Adjusted Earnings per Share ("EPS") is defined as Basic EPS where the earnings attributable to ordinary shareholders are adjusted by adding back all exceptional items, share-based compensation charge and the amortisation of purchased intangibles because they are individually or collectively material items that are not considered to be representative of the trading performance of the Group. These are presented as management believe they are important to understanding the change in the Group's EPS and is consistent with adjustments as made by our peers.

	18 months ended 31 October 2018 (audited)	Restated 12 months ended 30 April 2017 (audited)	12 months ended 31 October 2018 (unaudited)
CENTS			
EPS from continuing operations attributable to the ordinary equity shareholders of the Company			
Basic EPS – cents	**181.91**	54.17	**143.01**
Diluted EPS – cents	**176.92**	52.31	**138.94**
Basic Adjusted EPS – cents	**289.57**	157.11	**192.99**
Diluted Adjusted EPS – cents	**281.63**	151.70	**187.51**
EPS from discontinued operation			
Basic EPS – cents	**19.79**	14.71	**12.76**
Diluted EPS – cents	**19.25**	14.20	**12.39**
Basic Adjusted EPS – cents	**29.36**	24.80	**18.67**
Diluted Adjusted EPS – cents	**28.56**	23.95	**18.14**
Total EPS attributable to the ordinary equity shareholders of the Company			
Basic EPS – cents	**201.70**	68.88	**155.77**
Diluted EPS – cents	**196.17**	66.51	**151.33**
Basic Adjusted EPS – cents	**318.93**	181.91	**211.66**
Diluted Adjusted EPS – cents	**310.19**	175.65	**205.65**
PENCE			
EPS from continuing operations attributable to the ordinary equity shareholders of the Company			
Basic EPS – pence	**136.73**	41.88	**106.40**
Diluted EPS – pence	**132.98**	40.44	**103.37**
Basic Adjusted EPS – pence	**217.66**	121.45	**143.59**
Diluted Adjusted EPS – pence	**211.69**	117.28	**139.50**
EPS from discontinued operation			
Basic EPS – pence	**14.88**	11.37	**9.49**
Diluted EPS – pence	**14.47**	10.98	**9.22**
Basic Adjusted EPS – pence	**22.07**	19.18	**13.89**
Diluted Adjusted EPS – pence	**21.46**	18.52	**13.50**
Total EPS attributable to the ordinary equity shareholders of the Company			
Basic EPS – pence	**151.61**	53.25	**115.89**
Diluted EPS – pence	**147.45**	51.42	**112.59**
Basic Adjusted EPS – pence	**239.73**	140.63	**157.48**
Diluted Adjusted EPS – pence	**233.15**	135.80	**153.00**

7. Adjusted Earnings per Share and Diluted Adjusted Earnings per Share continued

	18 months ended 31 October 2018 (audited) $'000	12 months ended 30 April 2017 (audited) $'000	12 months ended 31 October 2018 (unaudited) $'000
Profit for the period	**784,133**	157,803	**677,528**
Non-controlling interests	**(85)**	103	**219**
Earnings attributable to ordinary shareholders	**784,048**	157,906	**677,747**
From continuing operations	**707,108**	124,186	**622,246**
From discontinued operation	**76,940**	33,720	**55,501**
Earnings attributable to ordinary shareholders	**784,048**	157,906	**677,747**
Adjusting items:			
Exceptional items	**543,929**	97,258	**439,676**
Share-based compensation charge	**72,175**	34,506	**53,873**
Amortisation of purchased intangibles	**869,756**	212,861	**686,278**
	1,485,860	344,625	**1,179,827**
Tax relating to above adjusting items and exceptional tax credit in the period	**(1,030,167)**	(85,527)	**(936,614)**
Adjusted earnings attributable to ordinary shareholders	**1,239,741**	417,004	**920,960**
From continuing operations	**1,125,612**	360,143	**839,707**
From discontinued operation	**114,129**	56,861	**81,253**
Adjusted earnings attributable to ordinary shareholders	**1,239,741**	417,004	**920,960**

Weighted average number of shares:	Number	Number	Number
Basic	**388,717**	229,238	**435,105**
Effect of dilutive securities – Options	**10,963**	8,165	**12,739**
Diluted	**399,680**	237,403	**447,844**

7. Adjusted Earnings per Share and Diluted Adjusted Earnings per Share continued

	18 months ended 31 October 2018 (audited)			Restated 12 months ended 30 April 2017 (audited)		
	Continuing operations $'000	Discontinued operation $'000	Total $'000	Continuing operations $'000	Discontinued operation $'000	Total $'000
Adjusting items:						
Exceptional items	543,929	–	543,929	97,258	–	97,258
Share-based compensation charge	64,284	7,891	72,175	31,463	3,043	34,506
Amortisation of purchased intangibles	830,319	39,437	869,756	183,283	29,578	212,861
	1,438,532	47,328	1,485,860	312,004	32,621	344,625
Tax relating to above adjusting items and exceptional tax credit in the period	(1,020,028)	(10,139)	(1,030,167)	(76,048)	(9,479)	(85,527)
	418,504	37,189	455,693	235,956	23,142	259,098

	12 months ended 31 October 2018 (unaudited)		
	Continuing operations $'000	Discontinued operation $'000	Total $'000
Adjusting items:			
Exceptional items	439,676	–	439,676
Share-based compensation charge	47,503	6,370	53,873
Amortisation of purchased intangibles	661,630	24,648	686,278
	1,148,809	31,018	1,179,827
Tax relating to above adjusting items and exceptional tax credit in the period	(931,348)	(5,266)	(936,614)
	217,461	25,752	243,213

8. Free Cash Flow

Free cash flow is defined as cash generated from operations less interest payments and loan costs, tax, purchase of intangible assets and purchase of property, plant and equipment. This is presented as management believe it is important to understanding the Group's cash flow.

	18 months ended 31 October 2018 (audited) $'000	12 months ended 30 April 2017 (audited) $'000	12 months ended 31 October 2018 (unaudited) $'000
Cash generated from operating activities	1,424,311	564,792	1,151,419
Less:			
Interest payments	(301,791)	(81,115)	(219,450)
Bank loan costs	(101,159)	(6,654)	(10,840)
Tax payments	(99,490)	(24,644)	(79,018)
Purchase of intangible assets	(92,115)	(31,438)	(56,465)
Purchase of property, plant and equipment	(40,091)	(11,727)	(30,246)
Free cash flow	789,665	409,214	755,400

9. Net Debt

Net debt is defined as cash and cash equivalents less net borrowings and finance lease obligations.

	31 October 2018 (audited) $'000	30 April 2017 (audited) $'000
Borrowings	(4,845,880)	(1,561,536)
Cash and cash equivalents	620,896	150,983
Finance lease obligations	(28,483)	–
Net debt	(4,253,467)	(1,410,553)

10. Constant Currency

The Group's reporting currency is the US dollar however, the Group's significant international operations give rise to fluctuations in foreign exchange rates. To neutralise foreign exchange impact and to better illustrate the underlying change in results from one year to the next, the Group has adopted the practice of discussing results on an as reported basis and in constant currency.

The Group uses US dollar-based constant currency models to measure performance. These are calculated by restating the results of the Group for the comparable period at the same average exchange rates as those used in reported results for the current period. This gives a US dollar denominated income statement, which excludes any variances attributable to foreign exchange rate movements.

The most important foreign currencies for the Group are: Pounds Sterling, the Euro, Israeli Shekel and Canadian Dollar. The exchange rates used are as follows:

	18 months ended 31 October 2018		12 months ended 30 April 2017		12 months ended 31 October 2018		12 months ended 31 October 2017	
	Average	Closing	Average	Closing	Average	Closing	Average	Closing
£1 = $	1.33	1.27	1.29	1.29	1.34	1.27	1.27	1.33
€1 = $	1.18	1.14	1.09	1.09	1.18	1.14	1.11	1.16
C$ = $	0.78	0.76	0.76	0.73	0.78	0.76	0.76	0.78
ILS = $	0.28	0.27	0.26	0.28	0.28	0.27	0.27	0.28

11. Pro-forma Revenue and Pro-forma Adjusted EBITDA

Pro-forma Revenue is defined as the revenue for the existing Micro Focus Group and the HPE Software business acquisition for the 12 months to 31 October 2017, assuming the HPE Software business was part of the Group for the whole period.

Pro-forma Adjusted EBITDA is defined as Adjusted EBITDA (as defined above) for the 12 months to 31 October 2017. The HPE Software business pro-forma revenue and Adjusted EBITDA are under US GAAP and the HPE Software business legacy accounting policies, adjusted for divestitures, as derived from the HPE Software business management accounts. The Group has provided pro-forma revenue and pro-forma Adjusted EBITDA as it provides guidance on the size of the Enlarged Group going forwards.

Pro-forma Revenue for the 12 months ended 31 October 2017

	Pro-forma Revenue (unaudited) $'m
Existing Micro Focus:	
Reported revenue for the 12 months ended 30 April 2017	1,380.7
Reported revenue for the 6 months ended 31 October 2016	(684.7)
Revenue for the 6 months ended 30 April 2017	696.0
Reported revenue for the 6 months ended 31 October 2017	664.7
Pro-forma revenue 12 months ended 31 October 2017	1,360.7
HPE Software business – 12 months to 31 October 2017	2,866.0
Pro-forma Revenue for the 12 months to 31 October 2017	4,226.7
Impact of foreign exchange	60.1
Pro-forma constant currency Revenue for the 12 months to 31 October 2017	4,286.8

Pro-forma Adjusted EBITDA for the 12 months ended 31 October 2017

	Pro-forma Adjusted EBITDA (unaudited) $'m
Existing Micro Focus:	
Adjusted EBITDA for the 12 months ended 30 April 2017	640.9
Adjusted EBITDA for the 6 months ended 31 October 2016	(320.3)
Adjusted EBITDA for the 6 months ended 30 April 2017	320.6
Adjusted EBITDA for the 6 months ended 31 October 2017	303.2
Pro-forma Adjusted EBITDA 12 months ended 31 October 2017	623.8
HPE Software business – 12 months to 31 October 2017	777.3
Pro-forma Adjusted EBITDA for the 12 months to 31 October 2017	1,401.1
Adjusted EBITDA Margin	33.1%

Independent auditor's report to the members of Micro Focus International plc

1 Our opinion is unmodified
We have audited the financial statements of Micro Focus International plc ("the Company") for the 18 month period ended 31 October 2018, which comprise the Consolidated statement of financial position, Consolidated statement of comprehensive income, Consolidated statement of cash flows, Consolidated statement of changes in equity, Company balance sheet, Company statement of changes in equity and Company statement of cash flows, and the related notes, including the summary of significant accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 October 2018 and of the Group's profit for the 18 month period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Additional opinion in relation to IFRSs as issued by the IASB
As explained in the basis of preparation to the Group financial statements, the Group, in addition to complying with its legal obligation to apply IFRSs as adopted by the EU, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders on 4 September 2017. The financial period ended 31 October 2018 is our first engagement. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement
Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Upfront licence revenue – Identification of all elements in large multiple element arrangements ($1,206,104,000 (total licence revenue)) Refer to page 82 (Audit Committee Report), page 142 (accounting policy) and page 153 (financial disclosures).	**Subjective judgement** Licence revenue recognition requires significant judgement in identifying each separate element of the contract (for example licence, maintenance, subscription and consulting), when sold together in a bundle. This judgement could materially affect the timing and quantum of revenue and profit recognised in each period. We assessed this risk to be greatest in larger contracts with licence revenue recognised in the period, where there is increased likelihood of unusual sales arrangements containing bespoke terms, potentially leading to unidentified contract elements.	**Our procedures included:** **Accounting analysis:** We assessed the Group's policy in respect of identification of contract elements against the relevant accounting standards; **Test of Details:** We selected all contracts over set thresholds and inspected key documents including signed contract, purchase orders, delivery of software licences, sales invoices and related payment, and the Group's revenue recognition checklist to identify revenue elements, and assess the appropriateness of the directors' judgements in determining each separate element of the contract (undelivered and delivered); and **Assessing transparency:** We assessed the adequacy of the Group's critical judgement disclosures in respect of licence revenue recognition. **Our results** As a result of our work, we found the Group's licence revenue recognition to be acceptable.
Valuation of customer relationship and technology intangibles. ($1,809,000,000 (technology) and $4,480,000,000 (customer relationship)) Refer to page 83 (Audit Committee Report), page 145 (accounting policy) and page 206 (financial disclosures).	**Forecast based valuation** On 1 September 2017, the Group completed the acquisition of the software business of HPE Inc. As a result, the Group recognised total intangible assets of $6,452 million, of which $6,289 million relate to customer relationship ($4,480m) and technology intangibles ($1,809m). The valuation of these intangibles is subjective due to the inherent uncertainty involved in forecasting future cash flows. The key assumptions used in these forecasts are revenue growth rates and EBITDA margin for each product portfolio. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of acquisition intangibles has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	**Our procedures included:** • **Our valuation expertise:** Use of our own valuation specialists to assess the appropriateness of the valuation methodology applied; • **Benchmarking assumptions:** Comparing the Group's assumptions to externally derived publicly available data, in relation to key inputs such as revenue growth rates and EBITDA margin; and • **Historical comparisons:** Challenging the reasonableness of the assumptions, particularly revenue growth rates and EBITDA margin by assessing the historical accuracy of the Group's forecasting and comparing to current year performance. **Our results** As a result of our work, we consider the valuation of acquired customer relationships and technology intangible assets to be acceptable.

	The risk	Our response
Complex tax judgements Refer to page 83 (Audit Committee Report), page 146 (accounting policy) and page 157 (financial disclosures).	**Accounting treatment** During the year, the Group has undertaken significant structuring activities which have complex tax implications. The effect of these activities is that, as part of our risk assessment, we determined that the applicability of relevant US tax legislation is an area of judgement, which could have a material impact on the tax obligations recognised. The key judgements were in respect of whether the internal transfer of certain Group companies would attract a certain application of tax legislation and over the risk of non-compliance with specific operational and transactional restrictions, which could trigger a tax charge or a tax related indemnification charge for taxes incurred by HPE.	**Our procedures included:** Our tax expertise: Using the knowledge and experience of our international and local tax specialists to: • assess the Group's tax positions relating to the key judgements; • analyse and challenge the judgements arising from structuring activities undertaken by the Group; • establish our own expectation on the maximum potential exposure and likelihood of a payment being required. **Test of details:** Assessing third party tax advice received to evaluate the conclusions drawn from the advice where relevant to the significant exposures faced by the Group; and **Assessing transparency:** Assessing the adequacy of the Group's disclosures in respect of tax and uncertain tax positions. **Our results** As a result of our work, we found the complex tax judgements relating to Group structuring to be acceptable.
Presentation of exceptional items (before tax) ($543,929,000 (exceptional items before tax)) Refer to page 83 (Audit Committee Report), page 143 (accounting policy) and page 155 (financial disclosures).	**Presentation appropriateness** The Group separately presents exceptional items within the Consolidated Statement of Comprehensive Income and in deriving related Alternative Performance Measures for the period. Adjusted EBITDA for example, which excludes exceptional items, is also the principal measure that determines the annual cash bonus to all members of staff and therefore gives rise to a risk of management bias. The determination of whether an item should be separately disclosed as an exceptional item requires judgement on its nature and incidence, and its use requires judgement as to whether it provides a better understanding of the Group's underlying trading performance. In the current period this risk is elevated due to the increased volume of transactions affected by this classification.	**Our procedures included:** **Assessing principle:** Evaluating the appropriateness of the Group's accounting policy for identifying exceptional items, by considering this against external regulator guidance and relevant accounting standards; **Assessing application:** A sample of items presented as exceptional were selected to assess if their presentation was consistent with group policy and consistent with underlying documentation; and **Assessing balance:** We assessed the adequacy of the disclosure of the definition and composition of exceptional items (before tax). **Our results** As a result of our work, we found the presentation of exceptional items (before tax) to be acceptable.

	The risk	Our response
Goodwill impairment ($6,805 million) Refer to page 83 (Audit Committee Report), page 144 (accounting policy) and page 160 (financial disclosures).	**Forecast based valuation** Goodwill allocated to the Micro Focus CGU is significant and at risk of impairment. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The key assumption in these forecasts is the discount rate applied to the future cash flows. The effect of these matters is that during our audit procedures we determined that the value in use of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 10) disclose the sensitivity estimated by the Group.	**Our procedures included:** • **Our sector expertise:** Evaluating assumptions used, in particular those relating to the discount rate for the Micro Focus CGU, using our own valuation specialist; • **Benchmarking assumptions:** Comparing the Group's assumptions to externally derived data in relation to key inputs such as discount rates; • **Sensitivity analysis:** Performing break even analysis on the assumptions noted above; and • **Assessing transparency:** Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in the discount rate reflected the risks inherent in the valuation of goodwill. **Our results** As a result of our work, we found the Group's resulting estimate of the recoverable amount of goodwill to be acceptable.
Recoverability of amounts owed from Group undertakings to the Parent Company ($7,620,506,000 (Amounts owed by Group undertakings)) Refer to page 218 (accounting policy) and page 223 (financial disclosures).	**Low risk, high value** The carrying amount of the amounts owed from Group undertakings owed to the Parent Company represents 95% of its total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.	**Our procedures included:** **Tests of detail:** In assessing the recoverability of these intra Group balances, we utilised the work performed over the recoverability of goodwill as set out in the Key Audit Matter above. **Our results** As a result of our work, we found the Group's assessment of the recoverability of the amounts owed by Group undertakings to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at $23.5m, determined with reference to a benchmark of total revenue from continuing operations of which it represents 0.5%. We consider total revenue from continuing operations to be the most appropriate benchmark as it provides a more stable measure year on year than Group profit before tax.

Materiality for the Parent Company financial statements as a whole was set at $19.5m, determined with reference to a benchmark of total assets, of which it represents 0.03%.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $1.2m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 335 reporting components, we subjected 17 to full scope audits for Group purposes and one to specified risk-focused audit procedures in respect of revenue and related account balances.

The components within the scope of our work accounted for the percentages illustrated below.

Total Revenue – 79%
Total Assets – 82%
Total PBTCO – 74%

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from $1.8m to $14.0m, having regard to the mix of size and risk profile of the Group across the components.

The work on 15 of the 18 components was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team.

The Group team visited fifteen component locations in the United States, United Kingdom, Ireland, India, Poland, Netherlands, Mexico and France, to assess the audit risk and strategy. During these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4 We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- The achievement of budget licence and maintenance revenue in FY19;
- The level of days of sales outstanding;
- Achievement of operational efficiencies; and
- The achievement of Adjusted EBITDA growth.

As these were risks that could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise.

Based on this work, we are required to report to you if:

- We have anything material to add or draw attention to in relation to the directors' statement on page 141 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- The related statement under the Listing Rules set out on page 114 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration report

In our opinion the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement 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 and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered 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.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the Annual Report and financial

statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 114 to 115, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors and management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting, company and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our audit of the Annual Accounts.

In addition, we considered the impact of laws and regulations in the specific areas of anti-bribery and corruption, including the UK Bribery Act 2010 and the US Foreign Corrupt Practices Act 1977 (as amended). With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and management. We considered the effect of any known or possible non-compliance in these areas as part of our audit of the Annual Accounts.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at the Group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas identified by the component team.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Tudor Aw
(Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants and Statutory Auditors
London
20 February 2019

Consolidated statement of comprehensive income
for the 18 months ended 31 October 2018

Continuing operations	Note	18 months ended 31 October 2018 Before exceptional items $'000	18 months ended 31 October 2018 Exceptional items (note 4) $'000	18 months ended 31 October 2018 Total $'000	Restated[1] 12 months ended 30 April 2017 Before exceptional items $'000	Restated[1] 12 months ended 30 April 2017 Exceptional items (note 4) $'000	Restated[1] 12 months ended 30 April 2017 Total $'000
Revenue	1, 2	**4,754,398**	**–**	**4,754,398**	1,077,273	–	1,077,273
Cost of sales		**(1,193,898)**	**(65,408)**	**(1,259,306)**	(213,463)	(2,949)	(216,412)
Gross profit		**3,560,500**	**(65,408)**	**3,495,092**	863,810	(2,949)	860,861
Selling and distribution costs		**(1,630,785)**	**(39,215)**	**(1,670,000)**	(357,654)	(5,479)	(363,133)
Research and development expenses		**(642,061)**	**(17,352)**	**(659,413)**	(116,032)	(6,792)	(122,824)
Administrative expenses		**(372,674)**	**(416,181)**	**(788,855)**	(65,474)	(82,038)	(147,512)
Operating profit		**914,980**	**(538,156)**	**376,824**	324,650	(97,258)	227,392
Finance costs	6	**(344,040)**	**(6,326)**	**(350,366)**	(96,824)	–	(96,824)
Finance income	6	**7,101**	**553**	**7,654**	979	–	979
Net finance costs	6	**(336,939)**	**(5,773)**	**(342,712)**	(95,845)	–	(95,845)
Profit/(loss) before tax		**578,041**	**(543,929)**	**34,112**	228,805	(97,258)	131,547
Taxation	7	**(125,115)**	**798,196**	**673,081**	(19,097)	11,633	(7,464)
Profit/(loss) from continuing operations		**452,926**	**254,267**	**707,193**	209,708	(85,625)	124,083
Profit from discontinued operation (attributable to equity shareholders of the Company)	19	**76,940**	**–**	**76,940**	33,720	–	33,720
Profit/(loss) for the period		**529,866**	**254,267**	**784,133**	243,428	(85,625)	157,803
Attributable to:							
Equity shareholders of the Company		**529,781**	**254,267**	**784,048**	243,531	(85,625)	157,906
Non-controlling interests		**85**	**–**	**85**	(103)	–	(103)
Profit/(loss) for the period		**529,866**	**254,267**	**784,133**	243,428	(85,625)	157,803

1 The comparatives for the 12 months to 30 April 2017 have been restated to reflect the divestiture of the SUSE business segment (note 19).

The accompanying notes form part of the financial statements.

	Note	18 months ended 31 October 2018			Restated[1] 12 months ended 30 April 2017		
		Before exceptional items $'000	**Exceptional items (note 4) $'000**	**Total $'000**	Before exceptional items $'000	Exceptional items (note 4) $'000	Total $'000
Profit for the period		**529,866**	**254,267**	**784,133**	243,428	(85,625)	157,803
Other comprehensive income/(expense):							
Items that will not be reclassified to profit or loss							
Continuing operations:							
Actuarial loss on pension schemes liabilities	27	**(8,949)**	**–**	**(8,949)**	(217)	–	(217)
Actuarial (loss)/gain on non-plan pension assets	27	**(5,258)**	**–**	**(5,258)**	318	–	318
Deferred tax movement		**3,754**	**–**	**3,754**	(62)	–	(62)
Discontinued operation:							
Actuarial (loss)/gain on pension schemes liabilities	27	**(1,465)**	**–**	**(1,465)**	619	–	619
Actuarial loss on non-plan pension assets	27	**(529)**	**–**	**(529)**	(188)	–	(188)
Deferred tax movement		**527**	**–**	**527**	(263)	–	(263)
Items that may be subsequently reclassified to profit or loss							
Cash flow hedge movements	33	**86,381**	**–**	**86,381**	–	–	–
Deferred tax movement	33	**(16,413)**	**–**	**(16,413)**	–	–	–
Currency translation differences – continuing operations		**(29,456)**	**–**	**(29,456)**	(4,942)	–	(4,942)
Currency translation differences – discontinued operation		**713**	**–**	**713**	(1,011)	–	(1,011)
Other comprehensive income/(expense) for the period		**29,305**	**–**	**29,305**	(5,746)	–	(5,746)
Total comprehensive income/(expense) for the period		**559,171**	**254,267**	**813,438**	237,682	(85,625)	152,057
Attributable to:							
Equity shareholders of the Company		**559,086**	**254,267**	**813,353**	237,785	(85,625)	152,160
Non-controlling interests		**85**	**–**	**85**	(103)	–	(103)
Total comprehensive income/(expense) for the period		**559,171**	**254,267**	**813,438**	237,682	(85,625)	152,057
Total comprehensive income attributable to the equity shareholders of the Company arises from:							
Continuing operations		**482,985**	**254,267**	**737,252**	204,805	(85,625)	119,180
Discontinued operations		**76,186**	**–**	**76,186**	32,877	–	32,877
		559,171	**254,267**	**813,438**	237,682	(85,625)	152,057
Earnings per share							
Earnings per share (cents)							
From continuing and discontinued operations				**cents**			cents
– basic	9			**201.70**			68.88
– diluted	9			**196.17**			66.51
From continuing operations							
– basic	9			**181.91**			54.17
– diluted	9			**176.92**			52.31
Earnings per share (pence)							
From continuing and discontinued operations				**pence**			pence
– basic	9			**151.61**			53.25
– diluted	9			**147.45**			51.42
From continuing operations							
– basic	9			**136.73**			41.88
– diluted	9			**132.98**			40.44

1 The comparatives for the 12 months to 30 April 2017 have been restated to reflect the divestiture of the SUSE business segment (note 19).

The accompanying notes form part of the financial statements.

Consolidated statement of financial position

as at 31 October 2018

	Note	31 October 2018 $'000	30 April 2017[1] $'000
Non-current assets			
Goodwill	10	**6,805,043**	2,828,604
Other intangible assets	11	**6,629,325**	1,089,370
Property, plant and equipment	12	**144,250**	40,956
Investments in associates	14	**–**	11,457
Derivative asset	29	**86,381**	–
Long-term pension assets	27	**16,678**	22,031
Other non-current assets	15	**38,790**	3,093
		13,720,467	3,995,511
Current assets			
Inventories	16	**204**	64
Trade and other receivables	17	**1,272,033**	289,509
Current tax receivables	23	**24,504**	1,637
Cash and cash equivalents	18	**620,896**	150,983
		1,917,637	442,193
Current assets classified as held for sale	19	**1,142,451**	–
Total current assets		**3,060,088**	442,193
Total assets		**16,780,555**	4,437,704
Current liabilities			
Trade and other payables	20	**676,917**	170,042
Borrowings	21	**3,702**	71,184
Finance leases	22	**13,560**	–
Provisions	26	**57,411**	20,142
Current tax liabilities	23	**124,071**	42,679
Deferred income	24	**1,134,730**	640,650
		2,010,391	944,697
Current liabilities classified as held for sale	19	**437,699**	–
		2,448,090	944,697
Non-current liabilities			
Deferred income	25	**178,064**	223,786
Borrowings	21	**4,842,178**	1,490,352
Finance leases	22	**14,923**	–
Retirement benefit obligations	27	**110,351**	30,773
Long-term provisions	26	**35,421**	11,937
Other non-current liabilities	28	**58,011**	4,191
Current tax liabilities	23	**131,048**	–
Deferred tax liabilities	30	**1,170,489**	118,478
		6,540,485	1,879,517
Total liabilities		**8,988,575**	2,824,214
Net assets		**7,791,980**	1,613,490

1 The comparatives for 30 April 2017 have been revised as described in the Basis of Preparation of the Significant Accounting policies section.

	Note	31 October 2018 $'000	30 April 2017[1] $'000
Capital and reserves			
Share capital	31	**65,798**	39,700
Share premium account	32	**40,961**	192,145
Merger reserve	33	**3,724,384**	338,104
Capital redemption reserve	33	**666,289**	163,363
Hedging reserve	33	**69,968**	–
Retained earnings		**3,275,243**	902,183
Foreign currency translation reserve		**(51,702)**	(22,959)
Total equity attributable to owners of the parent		**7,790,941**	1,612,536
Non-controlling interests	34	**1,039**	954
Total equity		**7,791,980**	1,613,490

1 The comparatives for 30 April 2017 have been revised as described in the Basis of Preparation of the Significant Accounting policies section.

The accompanying notes form part of the financial statements.

The consolidated financial statements on pages 134 to 212 and accompanying notes were approved by the board of directors on 20 February 2019 and were signed on its behalf by:

Stephen Murdoch
Chief Executive Officer

Chris Kennedy
Chief Financial Officer

Registered number: 5134647

Consolidated statement of changes in equity

for the 18 months ended 31 October 2018

	Note	Share capital $'000	Share premium account $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Capital redemption reserves $'000	Hedging reserve $'000	Merger reserve $'000	Total equity attributable to owners of the parent $'000	Non-controlling interests $'000	Total equity $'000
Balance as at 1 May 2016		39,573	190,293	228,344	(17,006)	163,363	–	988,104	1,592,671	1,057	1,593,728
Profit for the financial period		–	–	157,906	–	–	–	–	157,906	(103)	157,803
Other comprehensive expense for the period		–	–	207	(5,953)	–	–	–	(5,746)	–	(5,746)
Total comprehensive income/(expense) for the period		–	–	158,113	(5,953)	–	–	–	152,160	(103)	152,057
Transactions with owners:											
Dividends	8	–	–	(177,535)	–	–	–	–	(177,535)	–	(177,535)
Treasury shares purchased		–	–	(7,678)	–	–	–	–	(7,678)	–	(7,678)
Share options:											
Issue of share capital – share options	31,32	127	1,852	(90)	–	–	–	–	1,889	–	1,889
Movement in relation to share options		–	–	23,952	–	–	–	–	23,952	–	23,952
Current tax on share options		–	–	4,081	–	–	–	–	4,081	–	4,081
Deferred tax on share options		–	–	22,996	–	–	–	–	22,996	–	22,996
Reallocation of merger reserve	33	–	–	650,000	–	–	–	(650,000)	–	–	–
Total movements for the period		127	1,852	673,839	(5,953)	–	–	(650,000)	19,865	(103)	19,762
Balance as at 30 April 2017		**39,700**	**192,145**	**902,183**	**(22,959)**	**163,363**	**–**	**338,104**	**1,612,536**	**954**	**1,613,490**

The accompanying notes form part of these financial statements.

	Note	Share capital $'000	Share premium account $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Capital redemption reserves $'000	Hedging reserve $'000	Merger reserve $'000	Total equity attributable to owners of the parent $'000	Non-controlling interests $'000	Total equity $'000
Profit for the financial period		–	–	**784,048**	–	–	–	–	**784,048**	**85**	**784,133**
Other comprehensive income for the period		–	–	**(11,920)**	**(28,743)**	–	**69,968**	–	**29,305**	–	**29,305**
Total comprehensive income/(expense) for the period		–	–	**772,128**	**(28,743)**	–	**69,968**	–	**813,353**	**85**	**813,438**
Transactions with owners:											
Dividends	8	–	–	**(542,161)**	–	–	–	–	**(542,161)**	–	**(542,161)**
Share options:											
Issue of share capital – share options	31,32	**251**	**5,499**	**(61)**	–	–	–	–	**5,689**	–	**5,689**
Movement in relation to share options		–	–	**78,643**	–	–	–	–	**78,643**	–	**78,643**
Current tax on share options		–	–	**4,145**	–	–	–	–	**4,145**	–	**4,145**
Deferred tax on share options		–	–	**(23,724)**	–	–	–	–	**(23,724)**	–	**(23,724)**
Acquisitions:											
Shares issued to acquire the HPE Software business	31	**28,773**	–	–	–	–	–	**6,485,397**	**6,514,170**	–	**6,514,170**
Share reorganisation and buy-back:											
Return of Value – share consolidation	31,33	**(2,926)**	–	–	–	**2,926**	–	–	–	–	–
Issue and redemption of B shares	31,33	–	**(156,683)**	**(500,000)**	–	**500,000**	–	**(343,317)**	**(500,000)**	–	**(500,000)**
Share buy-back	31	–	–	**(171,710)**	–	–	–	–	**(171,710)**	–	**(171,710)**
Reallocation of merger reserve	33	–	–	**2,755,800**	–	–	–	**(2,755,800)**	–	–	–
Total movements for the period		**26,098**	**(151,184)**	**2,373,060**	**(28,743)**	**502,926**	**69,968**	**3,386,280**	**6,178,405**	**85**	**6,178,490**
Balance as at 31 October 2018		**65,798**	**40,961**	**3,275,243**	**(51,702)**	**666,289**	**69,968**	**3,724,384**	**7,790,941**	**1,039**	**7,791,980**

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows
for the 18 months ended 31 October 2018

	Note	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Cash flows from operating activities			
Cash generated from operations	40	**1,424,311**	564,792
Interest paid		**(301,791)**	(81,115)
Bank loan costs		**(101,159)**	(6,654)
Tax paid		**(99,490)**	(24,644)
Net cash generated from operating activities		**921,871**	452,379
Cash flows from/(used in) investing activities			
Payments for intangible assets	11	**(92,115)**	(31,438)
Purchase of property, plant and equipment	12	**(40,091)**	(11,727)
Finance leases	22	**(735)**	–
Interest received		**9,224**	979
Payment for acquisition of business	39	**(19,260)**	(299,061)
Repayment of bank borrowings on acquisition of businesses	39	**–**	(316,650)
Net cash acquired with acquisitions	39	**321,668**	68,173
Net cash from/(used in) investing activities		**178,691**	(589,724)
Cash flows from/(used in) financing activities			
Investment in non-controlling interest	34	**(3)**	(2)
Proceeds from issue of ordinary share capital	31	**5,750**	1,979
Purchase of treasury shares	31	**(171,710)**	(7,678)
Return of Value paid to shareholders	31,33	**(500,000)**	–
Repayment of working capital in respect of the HPE Software business acquisition	39	**(225,800)**	–
Repayment of bank borrowings	21	**(252,936)**	(372,062)
Proceeds from bank borrowings	21	**1,043,815**	180,000
Dividends paid to owners	8	**(542,161)**	(177,535)
Net cash used in financing activities		**(643,045)**	(375,298)
Effects of exchange rate changes		**15,302**	(3,552)
Net increase/(decrease) in cash and cash equivalents		**472,819**	(516,195)
Cash and cash equivalents at beginning of period		**150,983**	667,178
	18	**623,802**	150,983
Reclassification to current assets classified as held for sale	19	**(2,906)**	–
Cash and cash equivalents at end of period	18	**620,896**	150,983

The accompanying notes form part of these financial statements.

The principal non-cash transaction in the 12 months ended 30 April 2017 was the cashless rollover of Term Loan C to Term Loan B-2 (note 21).

The principal non-cash transactions in the 18 months ended 31 October 2018 were the issuance of shares as purchase consideration for the HPE Software business acquisition (note 39) and property, plant and equipment finance lease additions of $12.1m (note 12).

Summary of significant accounting policies

for the 18 months ended 31 October 2018

General information

Micro Focus International plc ("Company") is a public limited company incorporated and domiciled in the UK. The address of its registered office is: The Lawn, 22-30 Old Bath Road, Newbury, RG14 1QN, UK. Micro Focus International plc and its subsidiaries (together "Group") provide innovative software to clients around the world enabling them to dramatically improve the business value of their enterprise applications. As at 31 October 2018, the Group had a presence in 49 countries (30 April 2017: 40) worldwide and employed approximately 14,800 people (30 April 2017: 4,800).

On 1 September 2017, Micro Focus International plc successfully completed the merger of its wholly owned subsidiary with Seattle SpinCo, Inc., which holds the software business segment ("HPE Software") of Hewlett Packard Enterprise Company ("HPE").

The Company is listed on the London Stock Exchange and its American Depositary Shares are listed on the New York Stock Exchange.

Micro Focus has changed its financial year-end from 30 April to 31 October and reports 18 month financial statements running from 1 May 2017 to 31 October 2018.

The Group consolidated financial statements were authorised for issuance by the board of directors on 20 February 2019.

I Significant Accounting policies

A Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and in conformity with IFRS as adopted by the European Union (collectively "IFRS"). The consolidated financial statements have been prepared on a going concern basis under the historical cost convention. These financial statements have been prepared for an 18 month period as compared with a prior 12 month reporting period and therefore are not entirely comparable.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below in II, "Critical accounting estimates, assumptions and judgements".

The principal accounting policies adopted by the Group in the preparation of the consolidated financial statements are set out below. Other than, as described below, the accounting policies adopted are consistent with those of the Annual Report and Accounts for the year ended 30 April 2017, apart from standards, amendments to or interpretations of published standards adopted during the period and the restatement of balances in the Consolidated statement of comprehensive income and related notes related to assets held for sale and discontinued operations as described below.

Going concern

The directors, having made enquiries, consider that the Group 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 these financial statements.

Assets held for sale and discontinued operations

A current asset (or disposal group) is classified as held for sale if the Group will recover the carrying amount principally through a sale transaction rather than through continuing use. A current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. If the asset (or disposal group) is acquired as part of a business combination it is initially measured at fair value less costs to sell. Assets and liabilities of disposal groups classified as held for sale are shown separately on the face of the balance sheet.

The results of discontinued operations are shown as a single amount on the face of the income statement comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. The Consolidated income statement and the Consolidated statement of other comprehensive income have been restated to present discontinued operations separately. The related notes for the prior year have also been restated where applicable. The Consolidated statement of cash flows has been presented including the discontinued operation.

Consolidated Statement of Financial Position – Prior period revision

In the prior period deferred tax assets ($208.3m) and deferred tax liabilities ($326.7m) were incorrectly presented on a gross basis in the consolidated statement of financial position as of 30 April 2017 because jurisdictional offsetting, a requirement under IFRS, was not applied to these balances. Management has therefore elected to correct the misstatement and record immaterial adjustments to revise the consolidated statement of financial position as of 30 April 2017 and related notes to apply jurisdictional offsetting in respect of deferred tax assets and liabilities and present these on a net basis where they are expected to be realised as such.

The impact of the revision is to reduce deferred tax assets, deferred tax liabilities, non-current assets and non-current liabilities by $208.3m, as compared with the previously reported amounts. The revision has no impact on profit or cash flows for the years ended 30 April 2017 and 2016 or net assets as at 30 April 2017.

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.

I Significant Accounting policies continued

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 recognised as of that date, the Group recognises 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 unrealised 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 31 October 2018, the Group had an 81.05% (30 April 2017: 74.7%) interest in Novell Japan Ltd which gives rise to the minority interest reported in these financial statements.

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 recognised in the consolidated statement of comprehensive income, and its share of post-acquisition comprehensive income, which is recognised in the consolidated statement of comprehensive income. Unrealised gains arising from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates.

At 31 October 2018 the Group had a 12.5% interest ($9.6m) (2017: 12.5%, $11.5m) investment in Open Invention Network LLC ("OIN"). There are eight (30 April 2017: eight) equal shareholders of OIN, all holding 12.5% (30 April 2017: 12.5%) interest, and each shareholder has one board member and one alternative board member. The Group exercises significant influence over OIN's operation and therefore accounts for its investment in OIN as an associate. The investment in associates is part of discontinued operations, which will be disposed of with the sale of the SUSE business segment and as such has been transferred to assets held for sale (note 19).

C Revenue recognition

The Group recognises revenues from sales of software Licences (including Intellectual Property and Patent rights), to end-users, resellers and Independent Software Vendors ("ISV"), software maintenance, subscription, Software as a Service ("SaaS"), 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 recognised until the Group can objectively demonstrate that the acceptance criteria have been met, or the acceptance period lapses, whichever is earlier.

The Group recognises 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 recognised 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 recognised upon delivery, except in instances where future substantive upgrades or similar performance obligations are committed to. Where these future performance obligations are specified in the Licence agreement, and fair value can be attributed to those upgrades, revenue for the future performance obligations is deferred and recognised on the basis of the fair value of the upgrades in relation to the total estimated sales value of all items covered by the Licence agreement. Where the future performance obligations are unspecified in the Licence agreement, revenue is deferred and recognised rateably over the specified period.

For Subscription revenue where access and performance obligations are provided evenly over a defined term, the revenue is deferred and recognised rateably over the specified period.

The Group recognises revenue for SaaS arrangements as the service is delivered, generally on a straight-line basis, over the contractual period of performance. In SaaS arrangements, the Group considers the rights provided to the customer (e.g. whether the customer has the contractual right to take possession of the software at any time during the contractual period without significant penalty, and the feasibility of the customer to operate or contract with another vendor to operate the software) in determining whether the arrangement includes the sale of a software licence. In SaaS arrangements where software licences are sold, licence revenue is generally recognised according to whether perpetual or term licences are sold, when all other revenue recognition criteria are satisfied.

Maintenance revenue is recognised on a straight-line basis over the term of the contract, which in most cases is one year.

I Significant Accounting policies continued

For time and material-based professional services contracts, The Group recognises revenue as services are rendered and recognises costs as they are incurred. The Group recognises revenue from fixed-price professional services contracts as work progresses over the contract period on a proportional performance basis, as determined by the percentage of labour costs incurred to date compared to the total estimated labour costs of a contract. Estimates of total project costs for fixed-price contracts are regularly reassessed during the life of a contract. Amounts collected prior to satisfying the above revenue recognition criteria are included in deferred income.

Rebates paid to partners as part of a contracted programme are netted against revenue where the rebate paid is based on the achievement of sales targets made by the partner, unless the Company receives an identifiable good or service from the partner that is separable from the sales transaction and for which the Group can reasonably estimate fair value.

D Cost of sales

Cost of sales includes costs related to the amortisation of product development costs, amortisation of acquired technology intangibles, costs of the consulting business and helpline support and royalties payable to third parties.

E Segment reporting

In accordance with IFRS 8, "Operating Segments", the Group has derived the information for its segmental reporting using the information used by the Chief Operating Decision Maker ("CODM"), defined as the Executive Committee. The segmental reporting is consistent with those used in internal management reporting and the measure used by the Executive Committee is the Adjusted EBITDA as set out in note 1.

F Exceptional items

Exceptional items are those significant items, which are separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance. In setting the policy for exceptional items, judgement is required to determine what the Group defines as "exceptional". The Group considers an item to be exceptional in nature if it is material, non-recurring and does not reflect the underlying performance of the business. Exceptional items are allocated to the financial statement lines (for example: cost of sales) in the Consolidated statement of comprehensive income based on the nature and function of the costs, for example restructuring costs related to employees are classified where their original employment costs are recorded.

Management of the Group first evaluates Group strategic projects such as acquisitions, divestitures and integration activities, Company tax restructuring and other one-off events such as restructuring programmes. In determining whether an event or transaction is exceptional, management of the Group considers quantitative and qualitative factors such as its expected size, precedent for similar items and the commercial context for the particular transaction, while ensuring consistent treatment between favourable and unfavourable transactions impacting revenue, income and expense. Examples of transactions which may be considered of an exceptional nature include major restructuring programmes, cost of acquisitions or the cost of integrating acquired businesses.

G Employee benefit costs

a) Pension obligations and long-term pension assets

The Group operates various pension schemes, including both defined contribution and defined benefit pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised 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 recognised 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 portion of non-plan assets connected with the SUSE segment are recorded within current assets classified as held for sale. 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 recognised immediately in income.

The current service cost of the defined benefit plan, recognised in the consolidated statement of comprehensive income in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of comprehensive income.

Long-term pension assets relate to the reimbursement right under insurance policies held in the Group with guaranteed interest rates that do not meet the definition of a qualifying insurance policy as they have not been pledged to the plan and are subject to the creditors of the Group. Such reimbursement rights assets are recorded in the consolidated statement of financial position as long-term pension assets. These contractual arrangements are treated as available-for-sale financial assets since there is not an exact matching of the amount and timing of some or all of the benefits payable under the defined benefit plan. 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 period.

Summary of significant accounting policies continued
for the 18 months ended 31 October 2018

I Significant Accounting policies continued
The fair value of the employee services received in exchange for the grant of the shares or options is recognised 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 recognises 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 current reporting period.

The shares are recognised 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.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair-value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

c) Employee benefit trust
Transactions, assets and liabilities of the Group sponsored Employee Benefit Trust are included in the consolidated financial statements as it is considered to be an intermediate payment arrangement. In particular, the Trust's purchases of shares in the Company remain deducted from shareholders' funds until they vest unconditionally with employees.

H Foreign currency translation
a) Functional and presentation currency
The presentation currency of the Group is US dollars. Items included in the financial statements of each of the Group's entities are measured in the functional currency of each entity. From 1 November 2017, certain HPE Software business entities changed their functional currency, reflecting changes in their underlying business model and transactional conditions.

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 recognised in the consolidated statement of comprehensive income.

c) Group companies
The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;

ii) Income and expenses for each consolidated statement of comprehensive income item are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

iii) All resulting exchange differences are recognised 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, Israeli Shekel and Canadian Dollar. The exchange rates used are as follows:

	18 months ended 31 October 2018		12 months ended 30 April 2017	
	Average	**Closing**	Average	Closing
£1 = $	**1.33**	**1.27**	1.29	1.29
€1 = $	**1.18**	**1.14**	1.09	1.09
C$ = $	**0.78**	**0.76**	0.76	0.73
ILS = $	**0.28**	**0.27**	0.26	0.28

I Intangible assets
a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each area of operation by each primary reporting segment.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is classified as held for sale, the goodwill associated with the held-for-sale operation is measured based on the relative values of the held-for-sale operation and the portion of the cash-generating unit retained.

b) Computer software
Computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised using the straight-line method over their estimated useful lives of three to five years.

I Significant Accounting policies continued

I Intangible assets continued

c) Research and development

Research expenditure is recognised as an expense as incurred in the consolidated statement of comprehensive income in research and development expenses. Costs incurred on product development projects relating to the developing of new computer software programmes and significant enhancement of existing computer software programmes are recognised 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 capitalised which are the software development employee costs and third-party contractor costs. Product development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Product development costs are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, typically being three years, and are included in costs of sales in the consolidated statement of comprehensive income.

d) Intangible assets – arising on business combinations

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation. Amortisation 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 amortised 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
Technology	Three to 12 years
Trade names	Three to 20 years
Customer relationships	Two to 15 years
Lease contracts	Five and half years

Amortisation of purchased software intangibles is included in administrative expenses, amortisation of purchased technology intangibles is included in cost of sales and amortisation of acquired purchased trade names, customer relationships and lease contracts intangibles are included in selling and distribution costs in the Consolidated statement of comprehensive income.

J Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred. Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life as follows:

Buildings	30 years
Leasehold improvements	Three to 10 years
Fixtures and fittings	Two to seven years
Computer equipment	One to five years

Freehold land is not depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the consolidated statement of comprehensive income.

Property held for sale is measured at the lower of its carrying amount or estimated fair value less costs to sell.

K Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows being cash-generating units. Any non-financial assets other than goodwill which have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Assets that are subject to amortisation and depreciation are also reviewed for any possible impairment at each reporting date.

L Inventories

Inventories are stated at the lower of cost and net 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 recognised, the direct costs of third-party contractors and staff will be treated as work in progress where the probability of invoicing and evidence of collectability can be demonstrated.

M Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised 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 recognised in the consolidated statement of comprehensive income.

N Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

O Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated statement of comprehensive income over the period of borrowing on an effective interest basis.

I Significant Accounting policies continued

P Finance and operating leases

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.
A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Q Taxation

Current and deferred tax are recognised in the consolidated statement of comprehensive income, except when the tax relates to items charged or credited directly to equity, in which case the tax is also dealt with directly in equity.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax is recognised based on the amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date.

R Ordinary shares, share premium and dividend distribution

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Dividend distributions to the Company's shareholders are recognised 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 recognised when they are paid.

S Derivative financial instruments and hedge accounting

Financial assets and liabilities are recognised 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. Derivative financial instruments are only used for economic hedging purposes and not as speculative investments.

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Hedge accounting is permitted under certain circumstances provided the following criteria are met:

At inception of the hedge, the documentation must include the risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an on-going basis to determine the level of effectiveness.

The measurement of effectiveness determines the accounting treatment. For effective results, changes in the fair value of the hedging instrument should be recognised in other comprehensive income in the hedging reserve, while any material ineffectiveness should be recognised in the statement of comprehensive income. If either prospective or retrospective testing is not satisfactorily completed, all fair value movements on the hedging instrument should be recorded in the statement of comprehensive income.

Hedge accounting is ceased prospectively if the instrument expires or is sold, terminated or exercised; the hedge criteria are no longer met; the forecast transaction is no longer expected to occur; or the entity revokes the hedge designation.

T Provisions

Provisions for onerous leases, restructuring costs and legal claims are recognised 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. Provisions are not recognised 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 recognised 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 recognised as an interest expense.

I Significant Accounting policies continued

U Adoption of new and revised International Financial Reporting Standards

The accounting policies adopted in these consolidated financial statements are consistent with those of the annual financial statements for the year ended 30 April 2017, with the exception of the following standards, amendments to or interpretations of published standards adopted during the period:

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

- IFRS 15, "Revenue from contracts with customers" establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2018 onwards. Earlier application is permitted. The standard replaces IAS 18, "Revenue" and IAS 11, "Construction contracts" and related interpretations clarifications. Please refer to below for a more detailed assessment to-date on implementing this standard.
- IFRS 9, "Financial instruments". This standard replaces the guidance in IAS 39 and applies to periods beginning on or after 1 January 2018. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit loss model that replaces the current incurred loss impairment model.
- Amendments to IFRS 2, "Share based payments" on clarifying how to account for certain types of share-based payment transactions are effective on periods beginning on or after 1 January 2018, subject to EU endorsement. These amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
- IFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17, "Leases", and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted if the entity is adopting IFRS 15, "Revenue from contracts with customers" at the same time, subject to EU endorsement.
- Annual improvements 2014–2016 include amendments to IFRS 1, "First-time adoption of IFRS", IFRS 12, "Disclosure of interests in other entities" and IAS 28, "Investments in associates and joint ventures" regarding measuring an associate or joint venture at fair value applies for periods beginning on or after 1 January 2018, subject to EU endorsement.
- IFRIC 22, "Foreign currency transactions and advance consideration" addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made, effective for annual periods beginning on or after 1 January 2018, subject to EU endorsement.
- Clarifications to IFRS 15, "Revenue from Contracts with Customers" are effective on periods beginning on or after 1 January 2018, subject to EU endorsement. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation).
- IFRIC 23, "Uncertainty over Income Tax Treatments" clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation. This interpretation is effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement.
- Annual Improvements 2017 includes amendments to IFRS 3, "Business combinations", IFRS 11, "Joint arrangements" and IAS 12, "Income taxes" applies for periods beginning on or after 1 January 2019, subject to EU endorsement.
- Amendments to IAS 28, Investments in Associates and Joint Ventures – "Long-term Interests in Associates and Joint Ventures", clarifies that IFRS 9, "Financial instruments" applies, including its impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied, subject to EU endorsement.
- Amendments to IAS 19, "Employee Benefits" clarify that on a plan amendment, curtailment or settlement of a defined benefit plan, entities must use updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income, effective 1 January 2019, subject to EU endorsement.
- Amendments to References to the Conceptual Framework in IFRS Standards - Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to the revised Conceptual Framework, effective 1 January 2020, subject to EU endorsement.

For IFRIC 22 and IFRIC 23, it is too early to determine how significant the effect on reported results and financial position will be. The impact of IFRS 15, IFRS 9 and IFRS 16 are discussed below. The impact of the other standards, amendments and interpretations listed above will not have a material impact on the consolidated financial statements.

Impact of IFRS 15, "Revenue from contracts with customers"

On 28 May 2014, the IASB issued IFRS 15. This standard is mandatory for financial years commencing on or after 1 January 2018, which is effective for Micro Focus on 1 November 2018. Micro Focus will adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 November 2018 and that comparatives will not be restated.

IFRS 15 replaces guidance in IAS 18 and IAS 11. This standard establishes a new principle-based model of recognising revenue from customer contracts. It introduces a five-step model that requires revenue to be recognised when control over goods and services are transferred to the customer. Additionally, there is a requirement in the new standard to capitalise certain incremental contract costs. The guidance also requires disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Summary of significant accounting policies continued
for the 18 months ended 31 October 2018

I Significant Accounting policies continued
Set out below are the three primary areas of difference and a table setting out the approximate impacts of each of these differences:

Cost of obtaining customer contracts
The Group has considered the impact of IFRS 15 on the recognition of software sales commission costs, which meet the definition of incremental costs of obtaining a contract under IFRS 15. The Group will apply a practical expedient to expense the sales commission's costs as incurred where the expected amortisation period is one year or less. An asset will be recognised for the software sales commissions, which will typically be amortised across the contract length, or customer life where the practical expedient cannot be applied. The customer life has been assessed as six years in the SUSE business and five years in the rest of the Group.

The Group will only be capitalising commissions paid for uncompleted contracts at 1 November 2018 and amortising those balances in FY19 compared to capitalising all relevant commissions in future periods. By taking this practical expedient there will be a benefit to profit before tax and EBITDA in the year ended 31 October 2019 as the capitalisation of commissions will be greater than the amortisation and consequently the overall commission costs will initially be reduced under IFRS 15 compared to existing accounting policies where sales commissions are expensed as incurred.

Rebillable expenses
The Group will report expenses that are recharged to customers, such as travel and accommodation, as Service revenue. Under existing accounting policies, these were presented as an offsetting entry within cost of sales.

Consideration payable to a customer
Certain payments to customers are required to be presented differently where a defined benefit is received or where the payee acts as agent rather than principal. The Group has considered the impact of such payments including rebates. The Group will continue to account for consideration payable to a customer as a reduction of the transaction price and therefore revenue. However, an adjustment will be recorded as the timing of the considerations payable over the contract term will be accounted for as variable consideration at the outset of the contract. Where the payment is for a distinct good or service, then the Group will account for the purchase in the same way as it does for purchases from other suppliers in the normal course of business. Certain marketing costs, which were previously presented as an offsetting entry within revenue, will now be presented as a Selling and Distribution cost.

Presentation
Under the new IFRS 15 based policies, the Group will no longer report items as deferred revenue and accrued revenue. Instead, we will present these as either a contract liability or contract asset. Rights to consideration from customers are only presented as accounts receivable if the rights are unconditional.

Summary of quantitative impacts
Under the IFRS 15 adoption method chosen by the Group, prior period comparatives are not restated to conform to the new policies. Consequently, the period-over-period change of revenue and profit in the year to 31 October 2019 will be impacted by the new policies.

We have set out below the estimated impacts on the Group of the three primary areas described above, including the adjustment to retained earnings expected to be recorded on the transition date of 1 November 2018, which will result in a corresponding $71m asset being recorded on the balance sheet:

	Increase/ (decrease) in opening Retained earnings on 1 November 2018 $'m	Estimated increase/ (decrease) in Revenue in FY19 $'m	Estimated increase/ (decrease) in Operating expenses in FY19 $'m	Estimated increase/ (decrease) in Profit before tax and EBITDA in FY19 $'m
Cost of obtaining customer contracts	66	–	(20)	20
Rebillable expenses	–	2	2	–
Consideration payable to a customer	5	23	23	–
	71	25	5	20

IFRS 9 "Financial Instruments"
IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. IFRS 9 also amends certain other standards covering financial instruments such as IAS 1 "Presentation of Financial Statements".

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Group with effect from 1 November 2018.

The Group anticipates that the classification and measurement basis for its financial assets will be largely unchanged by the adoption of IFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

Under the new hedge accounting rules as a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9.

The main impact of adopting IFRS 9 will arise from the application of the expected credit loss model which requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under the current standard, IAS 39. The new impairment requirements will apply to the consolidated Group's financial assets classified at amortised cost, particularly to its trade receivables. The Group has elected to apply the practical expedient allowed under IFRS 9 to recognise the full amount of credit losses that would be expected to be incurred over the full recovery period of trade receivables. Based on the assessments undertaken to date, the Group does not expect a material increase in the loss allowance for trade debtors at 1 November 2018.

The Group will apply IFRS 9 retrospectively, with any adjustments arising from the new impairment rules recognised in opening equity. Under this approach, comparatives will not be restated.

I Significant Accounting policies continued

IFRS 16 "Leases"

In January 2016, the IASB published IFRS 16 "Leases", which will replace IAS 17 "Leases". IFRS 16 introduces a new definition of a lease, with a single lessee accounting model eliminating the previous distinction between operating leases and finance leases. Under IFRS 16, lessees will be required to account for all leases in a similar manner to the current finance lease accounting recognising lease assets and liabilities on the statement of financial position. Lessor accounting remains similar to current practice. The standard will affect primarily the accounting for the Group's operating leases.

IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. Micro Focus will not early adopt IFRS 16, and therefore the new standard will be effective from 1 November 2019.

The Group is still in the process of assessing what adjustments are necessary, including which transition option the Group will apply. It is therefore not yet possible to determine the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward. Certain Alternative Performance Measures disclosed by the Group are expected to be impacted by IFRS 16.

II Critical accounting estimates, assumptions and judgements

In preparing these consolidated financial statements, the Group has made its best estimates and judgements 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 there is significant risk of a material change to the carrying value of assets and liabilities within the next financial year 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 judgements and matters that are inherently uncertain.

Critical accounting estimates and assumptions

A Potential impairment of goodwill and other intangible assets

Each period, or whenever there are changes in circumstances indicating that the carrying amounts may not be recoverable, the Group carries out impairment tests of goodwill and other assets which require estimates to be made of the value in use of its CGUs. These value in use calculations are dependent on estimates of future cash flows, long-term growth rates and appropriate discount rates to be applied to future cash flows. Further details on these estimates and sensitivity of the carrying value of goodwill to the discount rate in particular are provided in note 10.

B Provision for bad debt

The bad debt provision has historically been estimated based on the ageing of each debtor and on any changes in the circumstances of the individual receivable. The historic level of the provision has been very low given the high number of recurring customers and credit control policies with less than $2m of debtors written off as uncollectable in the two previous periods prior to 30 April 2017. However, as discussed in the Chief Financial Officer's report the newly implemented IT environment in this period caused a material disruption within the order to cash process for the acquired HPE Software business, particularly impacting invoices raised between 1 November 2017 and 30 April 2018, which has significantly elevated debtor ageing with DSO days increased to 94 at 31 October 2018.

The system issue and subsequent cash collection has since been a key focus for the finance team and it has been found that the primary risk of bad debt is not believed to be related to specific customer credit risks or appropriate billing, but instead to the administrative burden of invoice remediation needed by the Group before invoices can be resent to customers and payment made by the customer. This burden is high due to the volume of invoices impacted that require administrative changes. The related bad debt provision has been increased to $41.9m as a result of these circumstances at period end against total trade receivables of $1,089.6m. The provision is equivalent to the assumption that only the largest 15% of invoices by value aged > 90 days are expected be collected and this reflects that a high volume of invoices were impacted. Given the number of invoices impacted, it is reasonably foreseeable that the volume of invoices actually collected will be different to 15% and given that a collection rate of 15% is relatively low, it is more foreseeable that there is greater upside than downside. Were only the largest 10% of invoices by value aged > 90 days collected then the provision recognised would need to be increased by $17m. However, if the largest 20% of invoices by value aged > 90 days were collected then the provision would be reduced by $10m and collection of the largest 30% would reduce the provision by $23m.

Critical accounting judgements

C Business combinations

When making acquisitions, the Group has to make judgements 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 with those used on prior period acquisitions.

Key judgements upon the acquisition of the the HPE Software business were required in the assumptions used to underpin the valuation of acquired intangibles, particularly Customer Relationships ($4.48bn) and Technology ($1.81bn).

There was also judgement used in identifying who the accounting acquirer was in the acquisition of HPE Software business, as the resulting shareholdings were not definitive to identify the entity, which obtains control in the transaction. As such, the Group considered the other factors laid down in IFRS, such as the composition of the governing body of the combined entity, composition of senior management of the combined entity, the entity that issued the equity interest, terms of exchange of equity interests, the entity which initiated the combination, relative size of each entity, the existence of a large minority voting interest in the combined entity and other factors (e.g. location of headquarters of the combined entity and entity name). The conclusion of this assessment is that the Company is the accounting acquirer of the HPE Software business, and the acquisition accounting is set out in the notes to the Consolidated financial statements (note 39).

D Revenue recognition

The key areas of judgement in respect of recognising revenue are the timing of recognition and how the different elements of bundled contracts are identified, for example between licence and maintenance revenues.

E Exceptional item classification

The Group classifies items as exceptional in line with accounting policy F. The classification of these items as an exceptional is a matter of judgement. This judgement is made by management after evaluating each item deemed to be exceptional against the criteria set out within the defined accounting policy.

II Critical accounting estimates, assumptions and judgements continued

F Provision for income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes including structuring activities undertaken by the Group and the application of complex transfer pricing rules. The Group recognises liabilities for anticipated settlement of tax issues based on judgements of whether additional taxes will be due. Significant issues may take several periods to resolve. In making judgments on the probability and amount of any tax charge, management takes into account:

- Status of the unresolved matter;
- Strength of technical argument and clarity of legislation;
- External advice;
- Resolution process, past experience and precedents set with the particular taxing authority;
- Agreements previously reached in other jurisdictions on comparable issues; and
- Statute of limitations.

The key judgments in the period were related to the internal transfer of certain Group companies and whether this would create an additional tax charge through non-compliance with specific operational and transactional restrictions arising from US tax legislation and their application to the acquisition of the HPE Software business. Based on their assessment the directors have concluded that no tax provisions are required with regards to these matters.

The ultimate tax liability may differ from the amount provided depending on interpretations of tax law, settlement negotiations or changes in legislation. 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.

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.

A Credit risk

Financial instruments which potentially expose the Group to a concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash equivalents are deposited with high-credit quality financial institutions. The Group provides credit to customers in the normal course of business. Collateral is not required for those receivables, but on-going credit evaluations of customers' financial conditions are performed. The Group maintains a provision for impairment based upon the expected collectability of accounts receivable. The Group sells products and services to a wide range of customers around the world and therefore believes there is no material concentration of credit risk.

B Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, UK Pound Sterling, Israeli Shekel and the Canadian Dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

There were no foreign currency hedging transactions in place at 31 October 2018 and 30 April 2017. 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 currently uses four interest rate swaps to manage its cash flow interest rate risk arising from expected increases in the LIBOR interest rate.

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 are 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 eight years.

At 31 October 2018 gross borrowings of $4,996.9m (30 April 2017: $1,595.2m) related to our senior secured debt facilities (see note 21). $50.3m (30 April 2017: $83.8m) is current of which $nil (30 April 2017: $80.0m) is the revolving credit facility. The borrowings disclosed in the balance sheet are net of pre-paid facility costs.

Notes to the consolidated financial statements

for the 18 months ended 31 October 2018

1 Segmental reporting

In accordance with IFRS 8, "Operating Segments", the Group has derived the information for its segmental reporting using the information used by the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance. The Chief Operating Decision Maker ("CODM") is defined as the Executive Committee, which has changed its composition during the period.

For the six months to 31 October 2017, the Executive Committee consisted of the Executive Chairman, Chief Executive Officers of Micro Focus and SUSE, Chief Financial Officer and the Chief Operating Officer.

For the six months to 30 April 2018, the Executive Committee consisted of the Executive Chairman, the Chief Executive Officer, the Chief Executive Officer of SUSE and the Chief Financial Officer.

On 2 July 2018, the Group then announced the proposed sale of SUSE (note 19), one of the Group's two historical operating segments, approved by the shareholders on 21 August 2018. As a result, for management purposes, following the agreement to dispose of the SUSE business, which is presented as a discontinued operation, the Group is organised into a single reporting segment comprising the Micro Focus Product Portfolio. Consistent with this the Chief Executive Officer of SUSE, Nils Brauckmann, stepped down from the board on 11 July 2018 to concentrate on the sale. As such, the CODM from 11 July 2018 consisted of the Executive Chairman, the Chief Executive Officer and the Chief Financial Officer.

The Group's segment under IFRS 8 is:

Micro Focus Product Portfolio – The Micro Focus Product Portfolio segment contains mature infrastructure software products that are managed on a portfolio basis akin to a "fund of funds" investment portfolio. This portfolio is managed with a single product group that makes and maintains the software, whilst the software is sold and supported through a geographic Go-to-Market organisation. The products within the existing Micro Focus Product Portfolio are grouped together into five sub-portfolios based on industrial logic and management of the Micro Focus sub-portfolios: Application Modernisation & Connectivity, Application Delivery Management, IT Operations Management, Security and Information Management & Governance.

The segmental reporting is consistent with that used in internal management reporting. During the current period the profit measure used by the Executive Committee is Adjusted EBITDA. Previously it was Adjusted Operating Profit.

The internal management reporting that the Executive Committee receives includes a pool of centrally managed costs, which are allocated between Micro Focus and the SUSE business based on identifiable segment specific costs with the remainder allocated based on other criteria including revenue and headcount.

Notes to the consolidated financial statements
for the 18 months ended 31 October 2018 continued

1 Segmental reporting continued

	Note	18 months ended 31 October 2018 $'000	Restated[1] 12 months ended 30 April 2017 $'000
Revenue before deferred revenue haircut		**4,815, 460**	1,084,165
Deferred revenue haircut		**(61,062)**	(6,892)
Segment revenue		**4,754,398**	1,077,273
Directly managed costs		**(2,997,545)**	(564,072)
Allocation of centrally managed costs		**52,730**	26,196
Total segment costs		**(2,944,815)**	(537,876)
Adjusted Operating Profit		**1,809,583**	539,397
Exceptional items	4	**(538,156)**	(97,258)
Share-based compensation charge	35	**(64,284)**	(31,463)
Amortisation of purchased intangibles	11	**(830,319)**	(183,284)
Operating profit		**376,824**	227,392
Net finance costs	6	**(342,712)**	(95,845)
Profit before tax		**34,112**	131,547
Reconciliation to Adjusted EBITDA:			
Profit before tax		**34,112**	131,547
Finance costs	6	**350,366**	96,824
Finance income	6	**(7,654)**	(979)
Depreciation of property, plant and equipment	12	**88,611**	9,704
Amortisation of intangible assets	11	**903,008**	206,751
Exceptional items (reported in Operating profit)	4	**538,156**	97,258
Share-based compensation charge	35	**64,284**	31,463
Product development intangible costs capitalised	11	**(44,350)**	(27,664)
Foreign exchange credit		**(37,292)**	(2,901)
Adjusted EBITDA		**1,889,241**	542,003

1 The comparatives for the 12 months to 30 April 2017 have been restated to reflect the divestiture of the SUSE business segment (note 19).

No measure of total assets and total liabilities for the segment has been reported as such amounts are not regularly provided to the Chief Operating Decision Maker.

2 Supplementary information

Analysis by geography

The Group is domiciled in the UK. The Group's total segmental revenue from external customers by geographical location is detailed below:

	18 months ended 31 October 2018 $'000	Restated[1] 12 months ended 30 April 2017 $'000
UK	299,579	52,230
USA	2,279,840	551,519
Germany	309,534	86,799
France	195,464	43,242
Japan	145,820	42,369
Other	1,524,161	301,114
Total	4,754,398	1,077,273

1 The comparatives for the 12 months to 30 April 2017 have been restated to reflect the divestiture of the SUSE business segment (note 19).

The total of non-current assets other than financial instruments and deferred tax assets as at 31 October 2018 located in the USA is $5,145.8m (30 April 2017: $1,867.5m), the total in the non-USA is $ 8,488.3m (30 April 2017: $ 2,128.0m). They exclude trade and other receivables, derivative financial instruments and deferred tax.

Analysis of revenue by product

Set out below is an analysis of revenue from continuing operations recognised between the principal product portfolios for the 18 months ended 31 October 2018 and 12 months ended 30 April 2017. As a result of the acquisition of the HPE Software business the Group's product portfolios have been redefined. The comparatives for the 12 months ended 30 April 2017 have not been represented into the new product portfolios.

18 months ended 31 October 2018:

	Licence $'000	Maintenance $'000	Subscription $'000	Consulting $'000	SaaS & other recurring $'000	Total $'000
Application Modernisation & Connectivity	256,256	497,632	–	17,941	–	771,829
Application Delivery Management	185,460	646,711	–	41,639	114,145	987,955
IT Operations Management	363,150	869,891	–	192,772	15,055	1,440,868
Security	291,603	580,228	–	81,429	41,614	994,874
Information Management & Governance	117,227	267,133	–	32,521	203,053	619,934
Subtotal	1,213,696	2,861,595	–	366,302	373,867	4,815,460
Deferred revenue haircut	(7,592)	(42,657)	–	(2,046)	(8,767)	(61,062)
Total Revenue	1,206,104	2,818,938	–	364,256	365,100	4,754,398

Notes to the consolidated financial statements

for the 18 months ended 31 October 2018 continued

2 Supplementary information continued

12 months ended 30 April 2017 (restated[1]):

	Licence $'000	Maintenance $'000	Subscription $'000	Consulting $'000	SaaS & other recurring $'000	Total $'000
CDMS	105,962	149,668	–	9,530	–	265,160
Host Connectivity	69,158	104,912	–	1,857	–	175,927
Identity, Access & Security	48,635	141,298	–	18,354	–	208,287
Development & IT Operations Management Tools	55,464	219,604	–	13,860	–	288,928
Collaboration & Networking	29,175	112,079	–	4,609	–	145,863
Subtotal	308,394	727,561	–	48,210	–	1,084,165
Deferred revenue haircut	–	(6,892)	–	–	–	(6,892)
Total Revenue	308,394	720,669	–	48,210	–	1,077,273

1 The comparatives for the 12 months to 30 April 2017 have been restated to reflect the divestiture of the SUSE business segment (note 19).

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	18 months ended 31 October 2018 $'000	Restated[1] 12 months ended 30 April 2017 $'000
Staff costs	35	**2,095,025**	480,654
Depreciation of property, plant and equipment			
– owned assets	12	**71,184**	9,704
– leased assets	12	**17,427**	–
Loss on disposal of property, plant and equipment	12	**4,581**	520
Amortisation of intangibles	11	**903,008**	206,751
Inventories			
– cost of inventories recognised as debit/(credit) (included in cost of sales)	16	**324**	(71)
Operating le ase rentals payable			
– plant and machinery		**8,840**	2,880
– property		**85,328**	18,356
Provision for receivables impairment	17	**40,016**	2,023
Foreign exchange gains		**(37,292)**	(2,901)

1 The comparatives for the 12 months to 30 April 2017 have been restated to reflect the divestiture of the SUSE business segment (note 19).

4 Exceptional items

	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Reported within Operating profit:		
Integration costs	278,995	27,696
Pre-acquisition costs	43,025	58,004
Acquisition costs	27,116	2,597
Property related costs	38,014	5,525
Severance and legal costs	129,743	3,436
Divestiture	21,263	–
	538,156	97,258
Reported within finance costs:		
Finance costs incurred in escrow period (note 6)	6,326	–
Reported within finance income:		
Finance income earned in escrow period (note 6)	(553)	–
	5,773	–
Exceptional costs before tax	543,929	97,258
Tax:		
Tax effect of exceptional items	(105,911)	(11,633)
Tax exceptional item	(692,285)	–
	(798,196)	(11,633)
Exceptional (income)/costs after tax	(254,267)	85,625

Exceptional items are allocated to the financial statement lines (for example: cost of sales) in the Consolidated statement of comprehensive income based on the nature and function of the costs, for example restructuring costs related to employees are classified where their original employment costs are recorded.

Integration costs
Integration costs of $279.0m for the 18 months ended 31 October 2018 (12 months to 30 April 2017: $27.7m) arose mainly from the work being done in integrating Serena, GWAVA and the HPE Software business into the Micro Focus Product Portfolio. Other activities include system integration costs.

Pre-acquisition costs
The pre-acquisition costs of $43.0m for the 18 months ended 31 October 2018 (12 months to 30 April 2017: $58.0m) relate to the evaluation of the acquisition of the HPE Software business, which was announced in October 2016 and was completed on 1 September 2017. The costs relate to due diligence work, legal work on the acquisition agreements, professional advisors on the transaction and pre-integration costs relating to activities in readiness for the HPE Software business acquisition across all functions of the existing Micro Focus business.

Acquisition costs
The acquisition costs of $27.1m for the 18 months ended 31 October 2018 include external costs in completing the acquisition of the HPE Software business in September 2018 (including $7.7m in respect of US excise tax payable on the award of long-term incentives and Additional Share Grants to four senior employees) and costs relating to the acquisition of COBOL-IT SAS (12 months to 30 April 2017: $2.6m related to the acquisitions of Serena in May 2016 and GWAVA in October 2016). The external costs mainly relate to due diligence work, legal work on the acquisition agreements and professional advisors on the transaction.

Property related costs
Property related costs of $38.0m for the 18 months ended 31 October 2018 (12 months to 30 April 2017: $5.5m) relate mainly to the assessment and reassessment of leases on empty or sublet properties held by the Group, in particular in North America, and the cost of site consolidations.

Severance and legal costs
Severance and legal costs of $129.7m for the 18 months ended 31 October 2018 (12 months to 30 April 2017: $3.4m) relate mainly to termination costs for employees after acquisition relating to the integration of the HPE Software business into the Micro Focus Product Portfolio. The costs for the 12 months ended 30 April 2017 related to termination costs for senior Serena executives after acquisition.

Notes to the consolidated financial statements
for the 18 months ended 31 October 2018 continued

4 Exceptional items continued
Divestiture
Divestiture costs of $21.3m for the 18 months ended 31 October 2018 (12 months to 30 April 2017: nil) relate mainly to fees paid to professional advisors relating to the SUSE divestiture, due to be completed in the first quarter of 2019 (note 19).

Finance income and finance costs
Finance costs of $6.3m (12 months to 30 April 2017: $nil) and finance income of $0.6m (12 months to 30 April 2017: $nil) for the 18 months ended 31 October 2018 relate to interest (charged and gained) on additional term loan facilities drawn down in relation to the acquisition of the HPE Software business, between the date the facilities were drawn into escrow and the acquisition date.

Tax
The tax effect of exceptional items is a credit to the income statement of $798.2m for the 18 months ended 31 October 2018 (12 months to 30 April 2017: $11.6m). The exceptional tax credit of $692.3m (2017: $nil) in the 18 months ended 31 October 2018 relates to the impact of US tax reforms, comprised of a credit of $930.6m in respect of the re-measurement of deferred tax liabilities and a transition tax charge of $238.3m payable over eight years.

5 Services provided by the Group's auditors and network of firms
During the 18 months ended 31 October 2018, the Group obtained the following services from the Group's auditors as detailed below:

	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Audit of Company	**12,223**	1,032
Audit of subsidiaries	**1,887**	2,494
Total audit	**14,110**	3,526
Audit related assurance services	**914**	2,634
Other assurance services	**664**	–
Total assurance services	**1,578**	2,634
Tax compliance services	**214**	49
Tax advisory services	**196**	53
Services relating to taxation	**410**	102
Other non-audit services	**35**	7,470
Total	**16,133**	13,732

The 18 months ended 31 October 2018 fees represent fees paid to KPMG LLP, as the current auditor. The year ended 30 April 2017 fees represent fees paid to the previous auditor, PricewaterhouseCoopers LLP.

Audit related assurance services in the 18 months ended 31 October 2018 relate primarily to the additional audit procedures performed on the Micro Focus International plc financial statements that are included in US filings and two interim reviews, for both six month periods ending 31 October 2017 and 30 April 2018.

Other assurance services in the 18 months ended 31 October 2018 relate primarily to the auditor's assurance work in relation to the SUSE divestiture and licence verification compliance work.

The remaining non-audit services in the period included a limited amount of tax compliance and tax advice.

6 Finance income and finance costs

	Note	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Finance costs			
Interest on bank borrowings		**276,530**	81,157
Commitment fees		**3,294**	796
Amortisation of facility costs and original issue discounts		**60,377**	14,219
Finance costs on bank borrowings		**340,201**	96,172
Net interest expense on retirement obligations	27	**2,823**	565
Finance lease expense		**2,690**	–
Interest rate swaps: cash flow hedges, transfer from equity		**3,399**	–
Other		**1,253**	87
Total		**350,366**	96,824

	Note	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Finance income			
Bank interest		**3,593**	438
Interest on non-plan pension assets	27	**633**	404
Other		**3,428**	137
Total		**7,654**	979
Net finance cost		**342,712**	95,845
Included within exceptional items	4		
Finance costs incurred in escrow period		**6,326**	–
Finance income earned in escrow period		**(553)**	–
		5,773	–

7 Taxation

	18 months ended 31 October 2018 $'000	Restated 12 months ended 30 April 2017 $'000
Current tax		
Current period	**245,875**	33,928
Adjustments to tax in respect of previous periods	**(14,725)**	1,698
	231,150	35,626
Deferred tax		
Origination and reversal of timing differences	**26,421**	(22,426)
Adjustments to tax in respect of previous periods	**1,213**	(4,445)
Impact of change in tax rates	**(931,865)**	(1,291)
	(904,231)	(28,162)
Total tax (credit)/charge	**(673,081)**	7,464

For the 18 months ended 31 October 2018, a deferred tax debit of $23.7m (12 months ended 30 April 2017: $23.0m credit) and current tax credit of $4.1m (12 months ended 30 April 2017: $4.1m credit) have been recognised in equity in relation to share options. A current tax debit of $16.4m (12 months ended 30 April 2017: $0.0m) has been recognised in the hedging reserve (note 33). In addition, a deferred tax credit of $4.3m (12 months ended 30 April 2017: $0.3m debit) has been recognised in the consolidated statement of comprehensive income in relation to defined benefit pension schemes.

Notes to the consolidated financial statements
for the 18 months ended 31 October 2018 continued

7 Taxation continued

The tax charge for the 18 months ended 31 October 2018 is lower than the standard rate of corporation tax in the UK of 19.00% (12 months ended 30 April 2017: 19.92%). The differences are explained below:

	18 months ended 31 October 2018 $'000	Restated 12 months ended 30 April 2017 $'000
Profit before taxation	**34,112**	131,547
Tax at UK corporation tax rate 19.00% (2017: 19.92%)	**6,481**	26,005
Effects of:		
Tax rates other than the UK standard rate	**17,778**	571
Intra-Group financing	**(20,654)**	(15,636)
Innovation tax credit benefits	**(21,374)**	(9,834)
US foreign inclusion income	**39,053**	394
US transition tax	**238,270**	–
Share options	**10,236**	–
Movement in deferred tax not recognised	**7,306**	200
Effect of change in tax rates	**(931,865)**	(1,291)
Expenses not deductible and other permanent differences	**(4,800)**	9,802
	(659,569)	10,211
Adjustments to tax in respect of previous periods:		
Current tax	**(14,725)**	1,698
Deferred tax	**1,213**	(4,445)
	(13,512)	(2,747)
Total taxation	**(673,081)**	7,464

Tax rates other than the UK standard rate includes provisions for uncertain tax positions relating to the risk of challenge from tax authorities to the geographic allocation of profits across the Group. The increase in the period reflects the increased size of the Group following the HPE Software business acquisition and the impact of the OECD's continuing Base Erosion and Profit Shifting project.

The Group continues to benefit from the UK's Patent Box regime, US R&D tax credits and other innovation-based tax credits offered by certain jurisdictions, the benefit for the 18 months ended 31 October 2018 being $21.4m (12 months ended 30 April 2017: $9.8m). The Group realised benefits in relation to intra-Group financing of $20.7m for the 18 months ended 31 October 2018 (12 months ended 30 April 2017: $15.6.m). The benefits mostly relate to arrangements put in place to facilitate the acquisitions of the HPE Software business, TAG and Serena.

US foreign inclusion income includes non-US amounts deemed repatriated to, and therefore taxable in, the US in the current period.

US tax reforms result in a net one-off credit to the income statement in the period of $692.3m being a credit of $930.6m in respect of the re-measurement of deferred tax liabilities due to the reduction of the US federal tax rate from 35% to 21% and a transition tax charge of $238.3m payable over eight years.

The Group recognised a net overall charge in respect of share options due to deferred tax credits arising on options held at the balance sheet date being lower than the current tax charge because of the terms of the options.

The movement in deferred tax assets and liabilities during the period is analysed in note 30.

The Group realised a net credit in relation to the true-up of prior period, current and deferred tax estimates of $13.5m for the 18 months ended 31 October 2018 (12 months ended 30 April 2017: $2.7m). Within the current tax true up is a credit of $11.2m in respect of items within the income tax reserve, which are no longer considered probable to arise.

The Group's tax charge is subject to various factors, many of which are outside the control of the Group, including changes in local tax legislation, and specifically US tax reform, the OECD's Base Erosion and Profit Shifting project and the consequences of Brexit. The European Commission has issued preliminary findings and opened a state aid investigation into the UK's "Financing Company Partial Exemption" legislation. Similar to other UK based international companies Micro Focus may be affected by the final outcome of this investigation and is monitoring developments. If the preliminary findings of the European Commission's investigation into the UK legislation are upheld, Micro Focus has calculated that the maximum potential tax liability would be $57.8m. Based on its current assessment Micro Focus believes that no provision is required in respect of this issue.

8 Dividends

Equity – ordinary	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Final paid 58.33 cents (2017: 49.74 cents) per ordinary share	133,889	111,023
First Interim paid 34.60 cents (2017: 29.73 cents) per ordinary share	156,243	66,512
Second Interim paid 58.33 cents (2017: nil cents) per ordinary share	252,029	–
	542,161	177,535

The directors announced a final dividend of 58.33 cents per share payable on 5 April 2019 to shareholders who are registered at 1 March 2019. This final dividend, amounting to $249.0m has not been recognised as a liability as at 31 October 2018.

9 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 period.

Reconciliation of the earnings and weighted average number of shares:

	18 months ended 31 October 2018	Restated 12 months ended 30 April 2017
Earnings ($'000)		
Profit for the period from continuing operations	707,108	124,186
Profit for the period from discontinued operations	76,940	33,720
	784,048	157,906
Number of shares ('000)		
Weighted average number of shares	388,717	229,238
Dilutive effects of shares	10,963	8,165
	399,680	237,403
Earnings per share		
Basic earnings per share (cents)		
Continuing operations	181.91	54.17
Discontinued operation	19.79	14.71
	201.70	68.88
Diluted earnings per share (cents)		
Continuing operations	176.92	52.31
Discontinued operation	19.25	14.20
	196.17	66.51
Basic earnings per share (pence)		
Continuing operations	136.73	41.88
Discontinued operation	14.88	11.37
	151.61	53.25

9 Earnings per share continued

	18 months ended 31 October 2018	Restated 12 months ended 30 April 2017
Diluted earnings per share (pence)		
Continuing operations	**132.98**	40.44
Discontinued operations	**14.47**	10.98
	147.45	51.42
Earnings attributable to ordinary shareholders		
From continuing operations	**707,193**	124,083
Excluding non-controlling interests	**(85)**	103
Profit for the period from continuing operations	**707,108**	124,186
From discontinued operation	**76,940**	33,720
	784,048	157,906
Average exchange rate	**$1.33/£1**	$1.29/£1

The weighted average number of shares excludes treasury shares that do not have dividend rights (note 31). The basic weighted average number of shares has increased from 229 million to 389 million, primarily due to the effect of the issue of shares to acquire the HPE Software business during the period (note 31).

10 Goodwill

	Note	31 October 2018 $'000	30 April 2017 $'000
Cost and net book amount			
At 1 May		**2,828,604**	2,436,168
Acquisitions	39	**4,863,962**	392,436
Reclassification to assets held for sale	19	**(887,523)**	–
		6,805,043	2,828,604
A segment-level summary of the goodwill allocation is presented below:			
Micro Focus		**6,805,043**	1,969,038
SUSE		**–**	859,566
		6,805,043	2,828,604

Goodwill acquired through business combinations has been allocated to a cash-generating unit ("CGU") for the purpose of impairment testing.

The goodwill arising on the acquisition of the HPE Software business of $4,858.4m (note 39) and COBOL-IT, SAS ("COBOL-IT") of $5.6m (note 39) have been allocated to the Micro Focus CGU as this is consistent with the segment reporting that used in internal management reporting.

Of the additions to goodwill, there is no amount expected to be deductible for tax purposes.

10 Goodwill continued

Impairment test

Impairment of goodwill is tested annually, or more frequently where there is indication of impairment. 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 annual impairment test has historically been carried out at 30 April. Going forward, starting with this period end, the annual test has been moved to 31 October to align with the new period-end.

During the period as a result of the proposed divestiture of SUSE, $859.6m of goodwill historically allocated to the SUSE CGU has been reclassified within assets held for sale (note 19). The SUSE goodwill was subject to impairment test both at the point it was initially recorded as an asset held for sale and again at period end. At both dates on a fair value less costs to sell basis, based on the agreed cash consideration of $2.535bn, no impairment was identified. As a result of the proposed Atalla disposal (which completed post period end, note 19), $27.9m of goodwill was also reclassified within assets held for sale from the Micro Focus CGU. No impairment was identified.

The recoverable amount of the Micro Focus CGU is determined based on its Value In Use ("VIU"). The VIU includes estimates about the future financial performance of the CGU and is based on five year projections and then a terminal value calculation. It utilises discounted board approved forecasts for 2019 and 2020 with the following three years also reflecting management's expectation of the medium and long-term growth prospects which have been applied based upon the expected operating performance of the CGU and growth prospects in the CGU's market. The cash flow projections and inputs combine past performance with adjustments as appropriate where the directors believe that past performance and rates are not indicative of future performance and rates.

Key assumptions

Key assumptions in the VIU are considered to be the discount rate and long-term growth rate. These have been assessed taking into consideration the current economic climate and the resulting impact on expected growth and discount rates.

The long-term growth rate and discount rate used in the VIU calculation are:

	2018	2017
Long-term growth rate	1.0%	1.0%
Pre-tax discount rate	9.7%	11.4%

The directors have considered reasonably possible changes in the key assumptions that could have an adverse impact, taking into consideration that the Group is insulated from some significant adverse impacts by its geographical spread and that the Group's cost base is flexible and could quickly respond to market changes.

The directors have assessed that a reasonably possible change in the discount rate is an absolute movement of 2.0% (2017: 2.0%) and this increase would cause the carrying value of the Micro Focus CGU to exceed its recoverable amount. An increase in the discount rate of 1.3% to 11.0% would reduce the amount by which the recoverable amount exceeds its carrying value from $2.2bn to $nil. The directors have also assessed that there is not a reasonably possible change in the long-term growth rate that would result in an impairment.

No impairment charge resulted from the goodwill tests for impairment in the 18 months ended 31 October 2018 (30 April 2017: no impairment).

Notes to the consolidated financial statements
for the 18 months ended 31 October 2018 continued

11 Other intangible assets

	Purchased software $'000	Product development costs $'000	Purchased intangibles: Technology $'000	Purchased intangibles: Trade names $'000	Purchased intangibles: Customer relationships $'000	Purchased intangibles: Lease contracts $'000	Total $'000
Cost							
At 1 May 2017	24,635	213,822	398,917	239,621	972,378	–	1,849,373
Continuing operations:							
Acquisitions – HPE Software business (note 39)	72,825	–	1,809,000	163,000	4,480,000	15,000	6,539,825
Acquisitions – COBOL-IT (note 39)	–	–	1,537	154	12,317	–	14,008
Acquisitions – Covertix (note 39)	2,490	–	–	–	–	–	2,490
Additions	46,812	44,350	–	–	–	–	91,162
Additions – external consultants	–	953	–	–	–	–	953
Exchange adjustments	(439)	–	–	–	–	–	(439)
Discontinued operation:							
Reclassification to current assets classified as held for sale (note 19)	(5,121)	–	(50,987)	(135,116)	(87,521)	–	(278,745)
At 31 October 2018	141,202	259,125	2,158,467	267,659	5,377,174	15,000	8,218,627
Accumulated amortisation							
At 1 May 2017	20,970	164,695	222,986	38,849	312,503	–	760,003
Continuing operations:							
Amortisation charge for the period	30,682	42,007	280,478	26,724	519,935	3,182	903,008
Exchange adjustments	(848)	20	–	–	–	–	(828)
Discontinued operation:							
Amortisation charge for the period	765	–	13,425	9,118	16,894	–	40,202
Reclassification to current assets classified as held for sale (note 19)	(1,422)	–	(38,037)	(25,810)	(47,814)	–	(113,083)
At 31 October 2018	50,147	206,722	478,852	48,881	801,518	3,182	1,589,302
Net book amount at 31 October 2018	91,055	52,403	1,679,615	218,778	4,575,656	11,818	6,629,325
Net book amount at 30 April 2017	3,665	49,127	175,931	200,772	659,875	–	1,089,370

11 Other intangible assets continued

	Purchased software $'000	Product development costs $'000	Purchased intangibles: Technology $'000	Purchased intangibles: Trade names $'000	Purchased intangibles: Customer relationships $'000	Purchased intangibles: Lease contracts $'000	Total $'000
Cost							
At 1 May 2016	22,028	185,546	303,672	217,510	761,634	–	1,490,390
Acquisitions (note 39)	–	–	95,245	22,111	210,744	–	328,100
Additions	3,162	27,664	–	–	–	–	30,826
Additions – external consultants	–	612	–	–	–	–	612
Exchange adjustments	(555)	–	–	–	–	–	(555)
At 30 April 2017	24,635	213,822	398,917	239,621	972,378	–	1,849,373
Accumulated amortisation							
At 1 May 2016	20,061	142,297	153,888	22,854	184,735	–	523,835
Charge for the year	1,175	22,398	69,098	15,995	127,768	–	236,434
Exchange adjustments	(266)	–	–	–	–	–	(266)
At 30 April 2017	20,970	164,695	222,986	38,849	312,503	–	760,003
Net book amount at 30 April 2017	3,665	49,127	175,931	200,772	659,875	–	1,089,370
Net book amount at 30 April 2016	1,967	43,249	149,784	194,656	576,899	–	966,555

Intangible assets, with the exception of purchased software and internally generated product development costs, relate to identifiable assets purchased as part of the Group's business combinations. Intangible assets are amortised on a straight-line basis over their expected useful economic life – see Group accounting policy I.

Expenditure totalling $91.2m (12 months to 30 April 2017: $31.4m) was made in the 18 months ended 31 October 2018, including $45.3m in respect of development costs and $46.8m of purchased software. The acquisitions of the HPE Software business, COBOL-IT and Covertix in the 18 months ended 31 October 2018 gave rise to an addition of $6,556.3m to purchased intangibles (note 39). The acquisitions of Serena, GWAVA and OpenATTIC in the year ended 30 April 2017 gave rise to an addition of $328.1m to purchased intangibles (note 39).

Of the $45.3m of additions to product development costs, $44.4m (2017: $27.7m) relates to internal product development costs and $0.9m (2017: $0.6m) to external consultants' product development costs.

At 31 October 2018, the unamortised lives of technology assets were in the range of two to 10 years, customer relationships in the range of one to 10 years and trade names in the range of 10 to 20 years.

Included in the consolidated statement of comprehensive income for the 18 months ended 31 October 2018 and the 12 months ended 30 April 2017 was:

For continuing operations:	**18 months ended 31 October 2018 $'000**	Restated[1] 12 months ended 30 April 2017 $'000
Cost of sales:		
– amortisation of product development costs	**42,007**	22,398
– amortisation of acquired purchased technology	**280,478**	59,029
Selling and distribution:		
– amortisation of acquired purchased trade names, customer relationships and lease contracts	**549,841**	124,254
Administrative expenses:		
– amortisation of purchased software	**30,682**	1,070
Total amortisation charge for the period	**903,008**	206,751
Research and development:		
– capitalisation of product development costs	**44,350**	27,664

1 The comparatives for the 12 months to 30 April 2017 have been restated to reflect the divestiture of the SUSE business segment (note 19).

Notes to the consolidated financial statements
for the 18 months ended 31 October 2018 continued

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 2017	14,363	27,269	32,615	6,037	80,284
Continuing operations:					
Acquisition – HPE Software business (note 39)	–	56,568	79,473	24,077	160,118
Acquisition – COBOL-IT (note 39)	–	–	52	–	52
Additions	–	10,444	33,286	6,408	50,138
Disposals	–	(7,417)	(27,105)	(4,645)	(39,167)
Exchange adjustments	(15)	(3,609)	(8,205)	(2,467)	(14,296)
Discontinued operation:					
Additions	–	20	2,018	29	2,067
Disposals	–	–	(85)	(15)	(100)
Exchange adjustments	–	123	264	6	393
Reclassification to current assets classified as held for sale (note 19)	–	(4,198)	(9,050)	(344)	(13,592)
At 31 October 2018	14,348	79,200	103,263	29,086	225,897
Accumulated depreciation					
At 1 May 2017	1,851	12,751	22,063	2,663	39,328
Continuing operations:					
Charge for the period	479	26,271	50,725	11,136	88,611
Disposals	–	(4,005)	(26,858)	(3,745)	(34,608)
Exchange adjustments	(51)	(1,354)	(6,406)	(2,696)	(10,507)
Discontinued operation:					
Charge for the period	–	2,695	2,612	1,261	6,568
Disposals	–	–	(66)	(11)	(77)
Exchange adjustments	–	29	107	2	138
Reclassification to current assets classified as held for sale (note 19)	–	(2,078)	(5,595)	(133)	(7,806)
At 31 October 2018	2,279	34,309	36,582	8,477	81,647
Net book amount at 31 October 2018	12,069	44,891	66,681	20,609	144,250
Net book amount at 1 May 2017	12,512	14,518	10,552	3,374	40,956

12 Property, plant and equipment continued

	Freehold land and buildings $'000	Leasehold improvements $'000	Computer equipment $'000	Fixtures and fittings $'000	Total $'000
Cost					
At 1 May 2016	15,183	23,418	25,455	5,604	69,660
Reclassified from assets held for sale	888	–	–	–	888
Acquisition – Serena (note 39)	–	1,068	648	211	1,927
Acquisition – GWAVA (note 39)	–	–	111	84	195
Additions	75	3,536	7,739	377	11,727
Disposals	–	(450)	(589)	(218)	(1,257)
Exchange adjustments	(1,783)	(303)	(749)	(21)	(2,856)
At 30 April 2017	14,363	27,269	32,615	6,037	80,284
Accumulated depreciation					
At 1 May 2016	1,571	8,814	16,741	1,667	28,793
Charge for the year	454	4,170	6,132	1,038	11,794
Disposals	–	(79)	(560)	(98)	(737)
Exchange adjustments	(174)	(154)	(250)	56	(522)
At 30 April 2017	1,851	12,751	22,063	2,663	39,328
Net book amount at 30 April 2017	12,512	14,518	10,552	3,374	40,956
Net book amount at 1 May 2016	13,612	14,604	8,714	3,937	40,867

Depreciation for the 18 months ended 31 October 2018 of $95.2m (12 months ended 30 April 2017: $11.8m) is included within administrative expenses and cost of sales in the consolidated statement of comprehensive income. The carrying value of computer equipment held under finance leases and hire purchase contracts as at 31 October 2018 was $25.9m (30 April 2017 $nil).

Notes to the consolidated financial statements

for the 18 months ended 31 October 2018 continued

13 Group entities

Subsidiaries

Details of subsidiaries as at 31 October 2018 are provided below.

	Company name	Country of incorporation	Principal activities	Key to Registered Office address
	Holding companies:			
1	Micro Focus Midco Limited	UK	Holding company	1
2	Micro Focus Group Limited	UK	Holding company	1
3	Micro Focus CHC Limited	UK	Holding company	1
4	Micro Focus MHC Limited	UK	Holding company	1
5	Micro Focus Holdings Unlimited (formerly Micro Focus Holdings Limited)	UK	Holding company	1
6	Micro Focus (IP) Limited	UK	Holding company	1
7	Micro Focus (US) Holdings	UK	Holding company	1
8	Micro Focus IP Limited	Cayman Islands	Holding company	35
9	Novell Holdings Deutschland GmbH	Germany	Holding company	50
10	Micro Focus Finance Ireland Limited	Ireland	Holding company	67
11	Micro Focus Group Holdings Unlimited	Ireland	Holding company	66
12	Micro Focus International Holdings Limited	Ireland	Holding company	66
13	NetIQ Ireland Limited	Ireland	Holding company	66
14	Novell Cayman Software Unlimited Company	Ireland	Holding company	66
15	Novell Cayman Software International Unlimited Company	Ireland	Holding company	66
16	Novell Ireland Real Estate Unlimited Company	Ireland	Holding company	66
17	SUSE Linux Holdings Limited	Ireland	Holding company	66
18	Novell Software International Limited	Ireland	Holding company	66
19	Micro Focus Finance S.a.r.l	Luxembourg	Holding company	80
20	Minerva Finance S.à.r.l.	Luxembourg	Holding company	80
21	Borland Corporation	USA	Holding company	4
22	Micro Focus (US) Group, Inc.	USA	Holding company	4
23	MA FinanceCo., LLC	USA	Holding company	4
24	The Attachmate Group, Inc.	USA	Holding company	4
25	Novell Holdings, Inc.	USA	Holding company	4
26	Novell International Holdings, Inc.	USA	Holding company	4
27	Micro Focus (US) International Holdings, Inc.	USA	Holding company	4
28	Spartacus Acquisition Holdings Corp.	USA	Holding company	6
29	Spartacus Acquisition Corp.	USA	Holding company	6
30	Serena Software, Inc.	USA	Holding company	6
31	Serena Holdings Limited	UK	Holding company	1
32	Merant Holdings Limited	UK	Holding company	1
33	GWAVA ULC (formerly GWAVA Inc.)	Canada	Holding company	28
34	Seattle Holdings, Inc.	USA	Holding company	6
	Trading companies:			
35	Attachmate Group Australia Pty Limited	Australia	Sale and support of software	11
36	Borland Australia Pty Limited	Australia	Sale and support of software	11
37	Micro Focus Pty Limited	Australia	Sale and support of software	11
38	Attachmate Group Austria GmbH	Austria	Sale and support of software	14
39	Borland Entwicklung GmbH	Austria	Development of software	15
40	Attachmate Group Belgium BVBA	Belgium	Sale and support of software	16
41	Micro Focus SPRL (formerly Micro Focus NV)	Belgium	Sale and support of software	16
42	Borland Latin America Ltda	Brazil	Sale and support of software	19
43	Micro Focus Programmeação de Computadores Ltda	Brazil	Sale and support of software	19
44	Novell do Brasil Software Ltda	Brazil	Sale and support of software	19

13 Group entities continued

	Company name	Country of incorporation	Principal activities	Key to Registered Office address
45	Micro Focus APM Solutions Limited (EOOD)	Bulgaria	Development of software	25
46	Micro Focus (Canada) ULC (formerly Micro Focus (Canada) Limited)	Canada	Development, sale and support of software	27
47	Micro Focus Software (Canada), ULC	Canada	Sale and support of software	29
48	Novell Software (Beijing) Limited	China	Development, sale and support of software	37
49	SUSE Linux s.r.o.	Czech Republic	Development, sale and support of software	42
50	Attachmate Group Denmark ApS (formerly Attachmate Group Demark A/s)	Denmark	Sale and support of software	44
51	Micro Focus Middle East FZ-LLC	United Arab Emirates	Sale and support of software	124
52	Attachmate Group France SARL	France	Sale and support of software	48
53	Borland (France) Sarl	France	Sale and support of software	48
54	Micro Focus SAS	France	Sale and support of software	48
55	Attachmate Group Germany GmbH	Germany	Sale and support of software	51
56	Micro Focus GmbH	Germany	Sale and support of software	51
57	SUSE Linux GmbH	Germany	Development, sale and support of software	52
58	Attachmate Group Hong Kong Limited	Hong Kong	Sale and support of software	56
59	Micro Focus India Private Limited	India	Support of software	60
60	Micro Focus Software India Private Limited	India	Development, sale and support of software	60
61	Relativity Technologies Private Limited	India	Sale and support of software	60
62	Attachmate Ireland Limited	Ireland	Sale and support of software	65
63	Micro Focus Ireland Limited	Ireland	Development, sale and support of software	66
64	Micro Focus Software (Ireland) Limited	Ireland	Development, sale and support of software	67
65	NetIQ Europe Limited	Ireland	Sale and support of software	65
66	Micro Focus Israel Limited	Israel	Development and support of software	69
67	Attachmate Group Italy Srl	Italy	Sale and support of software	73
68	Micro Focus Srl	Italy	Sale and support of software	73
69	Borland Co, Limited	Japan	Sale and support of software	78
70	Micro Focus KK	Japan	Sale and support of software	78
71	Novell Japan Limited	Japan	Sale and support of software	78
72	NetIQ KK	Japan	Sale and support of software	78
73	Novell Corporation (Malaysia) Sdn. Bhd.	Malaysia	Sale and support of software	83
74	Attachmate Group Netherlands B.V.	Netherlands	Sale and support of software	86
75	Authasas B.V.	Netherlands	Sale and support of software	86
76	Borland B.V.	Netherlands	Sale and support of software	86
77	Micro Focus B.V. (formerly Micro Focus NV)	Netherlands	Sale and support of software	86
78	Micro Focus Software (New Zealand) Unlimited (formerly Novell New Zealand Limited)	New Zealand	Sale and support of software	90
79	Micro Focus AS	Norway	Sale and support of software	91
80	Novell Portugal Informatica Lda	Portugal	Sale and support of software	94
81	Attachmate Group Singapore Pte. Limited	Singapore	Sale and support of software	100
82	Borland (Singapore) Pte. Limited	Singapore	Sale and support of software	100
83	Micro Focus Pte Limited	Singapore	Sale and support of software	100
84	Attachmate Group South Africa (Pty) Limited	South Africa	Sale and support of software	103
85	Micro Focus South Africa (Pty) Limited	South Africa	Sale and support of software	104
86	Micro Focus Korea Limited	South Korea	Sale and support of software	106
87	Novell Korea Co., Limited	South Korea	Sale and support of software	107
88	Attachmate Group Spain S.L.	Spain	Sale and support of software	108
89	Micro Focus S.L.U.	Spain	Sale and support of software	109
90	Attachmate Group Sweden AB	Sweden	Sale and support of software	112

13 Group entities continued

	Company name	Country of incorporation	Principal activities	Key to Registered Office address
91	Attachmate Group Schweiz AG	Switzerland	Sale and support of software	114
92	Micro Focus GmbH (formerly Micro Focus AG)	Switzerland	Sale and support of software	115
93	Novell (Taiwan) Co., Limited	Taiwan	Sale and support of software	119
94	Attachmate Teknoloji Satış ve Pazarlama Ltd. Şti.	Turkey	Sale and support of software	121
95	Attachmate Sales UK Limited	UK	Sale and support of software	1
96	Micro Focus IP Development Limited	UK	Development and support of software	1
97	Micro Focus Limited	UK	Sale and support of software	1
98	Novell U.K. Limited	UK	Sale and support of software	1
99	Novell UK Software Limited	UK	Sale and support of software	1
100	Micro Focus Software, Inc.	USA	Development and support of software	4
101	Attachmate Corporation	USA	Development and support of software	5
102	Micro Focus (US), Inc.	USA	Development and support of software	4
103	NetIQ Corporation	USA	Development and support of software	4
104	SUSE LLC	USA	Development and support of software	7
105	Borland Software Corporation	USA	Development and support of software	4
106	Serena Software Pty Limited	Australia	Sale and support of software	11
107	Serena Software Benelux BVBA	Belgium	Sale and support of software	16
108	Serena Software Do Brasil Ltda	Brazil	Sale and support of software	21
109	Serena Software SAS	France	Sale and support of software	48
110	Serena Software GmbH	Germany	Sale and support of software	54
111	Serena Software Japan KK	Japan	Sale and support of software	78
112	Serena Software Pte. Limited	Singapore	Sale and support of software	100
113	Serena Software SA	Spain	Sale and support of software	110
114	Serena Software Europe Limited	UK	Sale and support of software	1
115	Serena Software Ukraine LLC	Ukraine	Sale and support of software	123
116	GWAVA Technologies Inc.	USA	Sale and support of software	6
117	GWAVA EMEA GmbH	Germany	Sale and support of software	53
	Dormant companies:			
118	Cambridge Technology Partners do Brasil s.c. Ltda	Brazil	Dormant	20
119	NetManage Canada ULC (formerly NetManage Canada Inc.)	Canada	Dormant	27
120	Borland Canada Software ULC (formerly Borland Canada, Inc.	Canada	Dormant	28
121	Micro Focus International Limited	Cayman Islands	Dormant	35
122	NetIQ Software International Limited	Cyprus	Dormant	41
123	NOVL Czech s.r.o.	Czech Republic	Dormant	42
124	Attachmate Middle East LLC	Egypt	Dormant	46
125	Borland GmbH	Germany	Dormant	51
126	Attachmate (Hong Kong) Limited	Hong Kong	Dormant	56
127	Borland (H.K.) Limited	Hong Kong	Dormant	57
128	NetIQ Asia Limited	Hong Kong	Dormant	57
129	Attachmate India Private Limited	India	Dormant	59
130	Borland Software India Private Limited	India	Dormant	60
131	Cambridge Technology Partners India Private Limited	India	Dormant	60
132	Novell India Pvt. Limited	India	Dormant	61
133	SUSE Linux Ireland Limited	Ireland	Dormant	66
134	N.Y. NetManage (Yerushalayim) Limited	Israel	Dormant	70
135	Novell Israel Software Limited	Israel	Dormant	71
136	Authasas Advanced Authentication B.V.	Netherlands	Dormant	86
137	Borland (Holding) UK Limited	UK*	Dormant	1

13 Group entities continued

	Company name	Country of incorporation	Principal activities	Key to Registered Office address
138	Borland (UK) Limited	UK*	Dormant	1
139	Micro Focus APM Solutions Limited	UK*	Dormant	1
140	Micro Focus UK Limited	UK*	Dormant	1
141	NetIQ Limited	UK*	Dormant	1
142	Ryan McFarland Limited	UK*	Dormant	1
143	XDB (UK) Limited	UK*	Dormant	1
144	Borland Technology Corporation	USA	Dormant	4
145	CJDNLD, LLC	USA	Dormant	4
146	Micro Focus (IP) Holdings Limited	UK	Dormant	1
147	Micro Focus (IP) Ireland Limited	Ireland	Dormant	66
	Acquisitions in the period ended 31 October 2018:			
	HPE Software business:			
148	Autonomy Australia Pty Limited	Australia	Sale and support of software	12
149	Autonomy Systems Australia Pty Limited	Australia	Sale and support of software	12
150	Entco Australia Pty Limited	Australia	Sale and support of software	12
151	Entcorp Australia Pty Limited	Australia	Sale and support of software	12
152	Autonomy Belgium BVBA	Belgium	Sale and support of software	17
153	Entco Belgium BVBA	Belgium	Sale and support of software	17
154	Entco Holdings L.P.	Bermuda	Holding company	18
155	Entco Brasil Servicos de Tecnologia Ltda	Brazil	Sale and support of software	22
156	Peregrine Systems do Brazil Limitada	Brazil	Sale and support of software	23
157	Verity Worldwide Limited	British Virgin Islands	Sale and support of software	24
158	Entco Bulgaria EOOD	Bulgaria	Sale and support of software	26
159	Autonomy Systems (Canada) Limited	Canada	Sale and support of software	32
160	Entco Software Canada Co. Logiciels Entco Canada Cie	Canada	Sale and support of software	33
161	Entcorp Canada, Inc.	Canada	Sale and support of software	34
162	Entco Bellatrix HoldCo	Cayman Islands	Sale and support of software	36
163	Entco Capital Co	Cayman Islands	Sale and support of software	36
164	Entco Investment Co	Cayman Islands	Sale and support of software	36
165	Entco Marigalante Limited	Cayman Islands	Sale and support of software	36
166	Autonomy Systems (Beijing) Limited Company	China	Sale and support of software	38
167	Shanghai Entco Software Technology Co., Limited	China	Sale and support of software	39
168	Entco CentroAmerica CAC Limitada	Costa Rica	Sale and support of software	40
169	Entco Costa Rica Limitada	Costa Rica	Sale and support of software	40
170	Entcorp Czechia, s.r.o.	Czech Republic	Sale and support of software	43
171	Entco Denmark ApS	Denmark	Sale and support of software	45
172	Entco France SAS	France	Sale and support of software	49
173	Entco Deutschland GmbH	Germany	Sale and support of software	55
174	EntCorp Hong Kong Limited	Hong Kong	Sale and support of software	58
175	Autonomy Software Asia Private Limited	India	Sale and support of software	64
176	Entco IT Services Private Limited	India	Sale and support of software	62
177	Entco Software India Private Limited	India	Sale and support of software	63
178	Entsoft Galway Limited	Ireland	Sale and support of software	68
179	Entsoft Holding Ireland Unlimited Company	Ireland	Holding company	68
180	Entsoft Ireland Limited	Ireland	Sale and support of software	68
181	Entco Interactive (Israel) Limited	Israel	Sale and support of software	72
182	Entcorp Software Israel Limited	Israel	Sale and support of software	72
183	Autonomy Italy Srl	Italy	Sale and support of software	74
184	Entco Italiana Srl	Italy	Sale and support of software	75
185	Enterprise Corp Italiana Srl	Italy	Sale and support of software	76

13 Group entities continued

	Company name	Country of incorporation	Principal activities	Key to Registered Office address
186	Verity Italia Srl	Italy	Sale and support of software	77
187	Entcorp Japan K.K.	Japan	Sale and support of software	79
188	Micro Focus Enterprise Limited	Japan	Sale and support of software	78
189	Entco Luxembourg Sarl	Luxembourg	Sale and support of software	81
190	Verity Luxembourg S.à r.l.	Luxembourg	Sale and support of software	82
191	Entco Software Malaysia Sdn. Bhd.	Malaysia	Sale and support of software	84
192	Entco Mexico, S. de R.L. de C.V.	Mexico	Sale and support of software	85
193	Entco Software México, S. de R.L. de C.V.	Mexico	Sale and support of software	85
194	Entcorp Software México, S. de R.L. de C.V.	Mexico	Sale and support of software	85
195	Autonomy HoldCo B.V.	Netherlands	Sale and support of software	87
196	Autonomy Netherlands BV	Netherlands	Sale and support of software	88
197	Entco Caribe B.V.	Netherlands	Sale and support of software	87
198	Entco Draco B.V.	Netherlands	Sale and support of software	87
199	Entco Eastern Holding B.V.	Netherlands	Holding company	87
200	Entco Eastern Holding II B.V.	Netherlands	Holding company	87
201	Entco Enterprise B.V.	Netherlands	Sale and support of software	87
202	Entco Gatriam Holding B.V.	Netherlands	Holding company	87
203	Entco HoldCo B.V.	Netherlands	Holding company	87
204	Entco HoldCo I B.V.	Netherlands	Holding company	87
205	Entco HoldCo II B.V.	Netherlands	Holding company	87
206	Entco HoldCo III B.V.	Netherlands	Holding company	87
207	Entco HoldCo IV B.V.	Netherlands	Holding company	87
208	Entco Holding Berlin B.V.	Netherlands	Holding company	87
209	Entco Holding Finance B.V.	Netherlands	Holding company	87
210	Entco Holding Hague B.V.	Netherlands	Holding company	87
211	Entco Holding Hague II B.V.	Netherlands	Holding company	87
212	Entco International Trade B.V.	Netherlands	Sale and support of software	87
213	Entco Nederland B.V.	Netherlands	Sale and support of software	87
214	Entco Puerto Rico B.V.	Netherlands	Sale and support of software	87
215	Entco Sinope Holding B.V.	Netherlands	Holding company	87
216	Entcorp Nederlands B.V.	Netherlands	Sale and support of software	88
217	Verity Benelux B.V.	Netherlands	Sale and support of software	88
218	Entcorp Philippines, Inc.	Philippines	Sale and support of software	92
219	Entco Polska sp. z o.o.	Poland	Sale and support of software	93
220	Entco Caribe B.V. LLC	Puerto Rico	Sale and support of software	95
221	Entco Puerto Rico B.V. LLC	Puerto Rico	Sale and support of software	96
222	Entco Software Romania SRL	Romania	Sale and support of software	97
223	Limited Liability Company Entco	Russian Federation	Sale and support of software	98
224	Autonomy Systems Singapore Pte Ltd	Singapore	Sale and support of software	101
225	Micro Focus Software Pte. Ltd (formerly – Entco Singapore (Sales) Pte. Ltd.)	Singapore	Sale and support of software	101
226	Entco Software Pte. Ltd	Singapore	Sale and support of software	101
227	Autonomy Systems Software South Africa Pty Ltd	South Africa	Sale and support of software	105
228	Entco Field Delivery Spain, S.L.U.	Spain	Sale and support of software	111
229	EntCo Software Spain S.L.U.	Spain	Sale and support of software	111
230	Entco Sverige AB	Sweden	Sale and support of software	113
231	Entco International Sàrl	Switzerland	Sale and support of software	116
232	Entco Schweiz GmbH	Switzerland	Sale and support of software	117
233	Trilead GmbH	Switzerland	Sale and support of software	118
234	Entco Turkey Teknoloji Çözümleri Limited Şirketi	Turkey	Sale and support of software	122

13 Group entities continued

	Company name	Country of incorporation	Principal activities	Key to Registered Office address
235	Entco Software Services Middle East FZ-LLC	United Arab Emirates	Sale and support of software	125
236	Autonomy Systems Limited	UK	Sale and support of software	2
237	Entco Foreign HoldCo Limited	UK	Holding company	2
238	Entco Situla Holding Limited	UK	Holding company	2
239	Entcorp Marigalante UK Limited	UK	Sale and support of software	2
240	Entcorp UK Limited	UK	Sale and support of software	2
241	Longsand Limited	UK	Sale and support of software	2
242	ArcSight, LLC	USA	Sale and support of software	10
243	Entco Andromeda LLC	USA	Sale and support of software	10
244	Entco Brazil Holdings LLC	USA	Holding company	8
245	Entco Delaware LLC	USA	Sale and support of software	10
246	Entco Government Software LLC	USA	Sale and support of software	10
247	Entco Holdings, Inc.	USA	Holding company	10
248	Entco MS, Inc.	USA	Sale and support of software	10
249	Entco Technologies, Inc.	USA	Sale and support of software	10
250	Entco, LLC	USA	Sale and support of software	10
251	EntIT Software LLC	USA	Sale and support of software	10
252	MicroLink LLC	USA	Sale and support of software	10
253	Seattle SpinCo, Inc.	USA	Holding company	10
254	Stratify, Inc.	USA	Sale and support of software	10
255	Vertica Systems, LLC	USA	Sale and support of software	10
256	Voltage Security International, Inc.	USA	Sale and support of software	10
	COBOL IT:			
257	Cobol-IT, SAS	France	Sale and support of software	47
	New companies incorporated in the period ended 31 October 2018			
258	SUSE Software Solutions Australia Pty Limited	Australia	Sale and support of software	13
259	Serena Software Canada Limited	Canada	Sale and support of software	30
260	SUSE Software Solutions Canada ULC	Canada	Sale and support of software	31
261	SUSE International Holdings GmbH	Germany	Holding company	52
262	Attachmate Australasia Pty Limited	Australia	Sale and support of software	11
263	SUSE Software Solutions Hong Kong Limited	Hong Kong	Sale and support of software	59
264	SUSE Software Solutions Netherlands BV	Netherlands	Sale and support of software	89
265	Micro Focus Software (IP) Holdings Limited	UK	Holding company	1
266	SUSE Software Solutions International Services Limited	Ireland	Sale and support of software	66
267	SUSE Software Solutions Ireland Limited	Ireland	Sale and support of software	66
268	Micro Focus LLC	Saudi Arabia	Sale and support of software	99
269	SUSE Software Solutions South Africa (Pty) Limited	South Africa	Sale and support of software	102
270	Micro Focus Enterprise (Tunisia) LLC	Tunisia	Sale and support of software	120
271	SUSE Software Solutions UK Limited	UK	Sale and support of software	3
272	Micro Focus Integration Holdings Limited	UK	Holding company	1
273	Micro Focus Integration Limited	UK	Sale and support of software	1
274	Micro Focus Midco Holdings Limited	UK	Holding company	1
275	Marcel Holdings LLC	USA	Sale and support of software	9

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

These companies, with the exception of Novell Japan Ltd (note 34) 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.

13 Group entities continued

Registered office addresses:

(1) The Lawn, 22-30 Old Bath Road, Newbury, Berkshire, United Kingdom, RG14 1QN
(2) Cain Road, Amen Corner, Bracknell, Berkshire RG12 1HN, United Kingdom
(3) Cornwall Court, 19 Cornwall Street, Birmingham, B3 2DT United Kingdom
(4) The Corporation Trust Company, Corporation Trust Center 1209 Orange St, Wilmington, New Castle, DE19801, USA
(5) 505 Union Ave SE STE120, Olympia, WA 98501, USA
(6) The Company Corporation, 2711 Centerville Rd, STE 400, Wilmington, New Castle, DE19808, USA
(7) CT Corporation, 155 Federal St. Suite 700, Boston, MA02110, USA
(8) 1209 Orange St, Wilmington, New Castle, DE, 19801, USA
(9) Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, DE19808, USA
(10) 1140 Enterprise Way, Building G, Sunnyvale, CA, 94089 USA
(11) Level 8, 76 Berry Street, North Sydney, NSW 2060, Australia
(12) 410 Concord Road, Rhodes, NSW 2138, Australia
(13) Level 17, 100 Barangaroo Avenue, Barangaroo, NSW 2000, Australia
(14) Parkring 2, 1010, Vienna, Austria
(15) Donau Centre, Hauptstrasse 4-10, Linz, 4040, Austria
(16) EU Parliament, 4th Floor, 37 De Meeussquare, Brussels, 1000, Belgium
(17) Pegasuslaan 5, 1831 Diegem, Belgium
(18) 4th Floor, Washington House, 16 Church Street, Hamilton, HM 11, Bermuda
(19) Rua Joaquim Floriano, 466-12 Ander, Sao Paulo, CEP 04534-002, Brazil
(20) Rua Arizonia, 1349 10th Floor, Sao Paulo, 04567-003, Brazil
(21) Rua Dom Jose de Barros, 177, 3rd Floor, Suite 302, Villa Buarque, Sao Paulo, 01038-100, Brazil
(22) Av Marcos Penteado De Ulhoa Rodrigues, No 939, Andar 8 Conj 818 Torre 1, 06.460-040, Tambore, Barueri, Brazil
(23) Avenida das nações Unidas, nº 12.901, conjunto 2302, sala 72, Itaim Bibi, São Paulo, CEP 04578, Brazil
(24) Appleby Corporate Services (BVI) Limited, Jayla Place, PO Box 3190, Road Town, Tortola, VG1110, British Virgin Islands
(25) 76A James Bourchier Blvd, Lozenetz, Sofia, 1407, Bulgaria
(26) 1715 Sofia, Mladost district, Business Park Sofia, Building 9, Sophia, Bulgaria
(27) 199 Bay Street, Suite 4000, Toronto, Ontario, M5L 1A9, Canada
(28) Suite 2600, Three Bentall Centre, 595 Burrard Street, PO Box 49314, Vancouver BC V7X 1L3, Canada
(29) 4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, Alberta T2P 5C5, Canada
(30) Suite 800, 1959 Upper Water Street, PO BOX 997, Halifax, B3J 2X2 NS, Canada
(31) 250 Howe Street, Suite 1400-C, Vancouver, BC V6C 3S7, Canada
(32) 200-204 Lambert Street, Whitehorse, YT, Y1A 3T2, Canada
(33) 161 Bay Street, Suite 2700 Toronto, ON M5J 2S1, Canada
(34) Barker House 570 Queen Street, Suite 600, Fredericton, NB, E3B 6Z6, Canada
(35) PO Box 309, Ugland House, South Church Street, George Town, South Cayman, KY1-1104, Cayman Islands
(36) 18 Forum Lane, Camana Bay, P.O. Box 258, Grand Cayman, 1104, Cayman Islands
(37) 3603-3606 Off Tower A, No.7, Dongsanhuan, Beijing, 100020, People's Republic of China
(38) Room 507, 508 Tower A, Raycom Info Tech Park No. 2, Science Institute, South Road, Beijing, 100080, China
(39) Floor 2, Building 1, No. 799 Naxian Road, Shanghai, China
(40) Calle 7 Avenida 7 y 9, Edificio 751, Barrio Amon, San Jose, Costa Rica
(41) 54 Digeni Akrita, Akrita 2nd Floor, Office 201-202, PC 1061, Nicosia, Cyprus
(42) Krizikova 148/34, Karlin, 186 00 Praha 8, Czech Republic
(43) Za Brumlovkou 1559/5, Michle, Prague, 140 00, Czech Republic
(44) Lyngsø Alle 3b, Hørsholm, 2970, Denmark
(45) Lautruphoj 1-3, 2750 Ballerup, Denmark
(46) 19 Helmy Elmasry Street, Almaza, Cairo, Egypt
(47) 231 rue Saint Honore, Paris, 75001, France
(48) Tour Atlantique, La Défense 9, 1 Place de la Pyramide, La Défense, Cedex, Paris 92911, France
(49) 1 avenue du Canada, Les Ulis, 91947, France
(50) Amtsgericht, Nürnberg, Germany
(51) Fraunhoferstrasse 7, Ismaning, 85737, Germany
(52) Maxfeldstrasse 5, 90409 Nürnberg, Germany
(53) Von-Braun-Strasse 38a, 48683 Ahaus, Germany
(54) Nöerdlicher Zubringer 9-11, 40470, Düsseldorf, Germany
(55) Herrenberger Str. 140, 71034 Boeblingen, Germany
(56) 21st floor, Henley Building, 5 Queen's Road Central, Hong Kong
(57) Level 54, Hopewell Centre, 183 Queens Road East, Hong Kong
(58) 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
(59) U&I Corporation Centre, 47 Echelon, Sector 32, Gurgaon Harayana, India
(60) Laurel, Block D, 65/2, Bagmane Tech Park, C.V. Raman Nagar, Byrasandra Post, Bangalore – 560093, India
(61) Leela Galleria, 1st Floor, Andheri Kurla Road, Andheri (East), Mumbai – 400059, India
(62) 24 Salarpuria Arena, Hosur Main Road, Adugodi, Bangalore, 560-030, India

13 Group entities continued

(63) 66/1, 6th Floor, Olympia Building, Bagmane Tech Park, Byrasandra, CV Raman Nagar, Bangalore, Karnataka, 560093, India
(64) 2 Floor, Hibiscus Vrindavan, Tech Village, Marathahalli Outer Ring Rd, Bangalore, India, 560037, India
(65) Building 2, 2nd Floor, Parkmore East Business Park, Galway, Ireland
(66) 70 Sir John Rogerson's Quay, Dublin 2, Ireland
(67) Corrig Court, Corrig Road, Sandyford Industrial Estate, Sandyford, Dublin 18, Ireland
(68) Liffey Park Technology Campus, Barnhall Road, Leixlip, Co. Kildare, Ireland
(69) Matam Advanced Tech Center, Building 5/1, Haifa, 31 905, Israel
(70) Scientific Industries Center, Haifa, 33262, Israel
(71) 17 Hatidhar St, Raannana, 43665, Israel
(72) 5 Altalef St., Yahud, Israel
(73) Viale Sarca 235, 20126 Milano, Italy
(74) Via Vittor Pisani. 16, Milan, 20124, Italy
(75) Via C. Donat Cattin 5, 20063 Cernusco sul Naviglio (MI), Italy
(76) Corso Matteotti 1/A, Milan, 20121, Italy
(77) Via S. Maria alla Porta n.9, Milan, 20123, Italy
(78) Midtown Tower 19F, 9-7-1 Akasaka, Minato-ku, Tokyo 107-6219, Japan
(79) No. 8 Center Plaza Bldg, 5F, 1-10-16 Horidomecho Nihonbashi, Chuo-ku, Tokyo 103-0012, Japan
(80) 20, rue des Peupliers, 2328, Luxembourg
(81) 75, Parc d'Activités Capellen, Capellen, 8308, Luxembourg
(82) 5, Rue Guillaume Kroll, L – 1882, Luxembourg
(83) Unit 501 Level 5 Uptown 1, 1 Jalan SS2, Selangor Darul Ehsan, Malaysia
(84) Level 21 – Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia
(85) Periferico Sur 6751, Col. Toluquilla, Municipio Tlaquepaque, C.P. 45610, Jalisco, Mexico
(86) Raoul Wallenbergplein 23, 2404 ND Alphen a/d Rijn, Netherlands
(87) Startbaan 16, 1187 XR, Amstelveen, Netherlands
(88) Coltbaan 31, Nieuwegein, 3439 NG, Netherlands
(89) Herengracht 282, 1016BX Amsterdam, Netherlands
(90) Simpson Grierson, Level 27, 88 Shortland Street, Auckland 1141, New Zealand
(91) 7th Floor, Dronning Eufemias Gate 16, 0191 Oslo, Norway
(92) 7th Floor Robinson Summit Center, 6783 Ayala Avenue, Makati City, Metro Manila, Philippines
(93) Centrum Biurowe Globis, Powstańców Śląskich 7A, 53-332 Wrocław, Poland
(94) Centro Empresarial Torres de Lisboa, Torre G 1* Andar Sala 111, Rue Tomas da Fonseca, Lisbon, Portugal
(95) 110 Highway North Km 28, Bldg 1, Aguadilla, 00605, Puerto Rico
(96) 350 Chardon Avenue, Chardon Tower, Suite 801, San Juan, 00918, Puerto Rico
(97) Bucharest, 3 George Constantinescu Street, BOC Office Building, 4th floor, entrance B, 2nd District, PC 020339, Romania
(98) Leningradskoye shosse 16A, Building 3, Moscow, 125171, Russian Federation
(99) Maazar Street, Futuro Tower, 3rd Floor, P.O. Box 69171, Riyadh 11547, Saudi Arabia
(100) 80 Robinson Road #02-00, 068898, Singapore
(101) #12-04/06, 1 Harbourfront Place, Harbourfront Tower 1, Singapore, Singapore
(102) 22 Smith Street, Braamfontein, Johannesburg, Gauteng, 2000, South Africa
(103) Morning View Office Park 255 Rivonia Road, Morningside, South Africa
(104) 4th Floor Aloe Grove, Houghton Estate Office Park, 2 Osborn Road, Houghton, 2198, South Africa
(105) PO Box 2238, Florida Hills, 1716, South Africa
(106) Yeoidodong, SK Building, 15F, 31 Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul, South Korea
(107) Gangnam Finance Centre, Level 41, 152 Teheren-ro, Gangnam-gu, Seoul – 06236, South Korea
(108) C/Jose Echegaray 8, Las Rozas, Madrid 28230, Spain
(109) Paseo de la Castellana 42, Madrid, 28046, Spain
(110) Ronda General Mitre 28-30, Barcelona 08017, Spain
(111) Calle José Echegaray 8, Las Rozas de Madrid, 28232 Madrid, 28232, Spain
(112) Kronborgsgränd 1, 164 46 Kista, Stockholm, Sweden
(113) Gustav III:s Boulevard 36, SE-169 85, Stockholm, Sweden, SE, Sweden
(114) Merkurstrasse 14, 8953 Dietikon, Switzerland
(115) Lindenstrasse 26, Zurich, 8008, Switzerland
(116) Jean-Baptiste Vandelle 3A, 1290 Versoix, Switzerland
(117) 1, Ueberlandstrasse, 8600 Duebendorf, Switzerland
(118) Rembach 7, Altendorf, 8852, Switzerland
(119) Room B 26/F #26 Tun-Hwa S Road Sec, Taipei ROC 106, Taiwan
(120) ZI Chotrana, Technopôle El Ghazala, Lot N° 45, 2088, Ariana, Tunisia
(121) Palladium Ofis Binasi, Halk Cad, No.8/A Kat 2, Atasehir 34748, Istanbul, Turkey
(122) Barbaros Mah.Kardelen SK. No. 2/42-43 Atasehir, Istanbul, Turkey
(123) 13 Pimonenko str, Building 1, Office 1B/22, Kiev 04050, Ukraine
(124) Dubai Internet City, DIC Building 2, 3rd Floor, Suite 315, Dubai, United Arab Emirates
(125) Shatha Tower, 12th floor, Dubai Internet City, Dubai, United Arab Emirates

Notes to the consolidated financial statements

for the 18 months ended 31 October 2018 continued

14 Investments in associates

Open Invention Network LLC ("OIN"), a strategic partnership for the Group, licences its global defensive patent pool in exchange for a pledge of non-aggression, which encourages freedom of action in Linux and the sharing of new ideas and inventions. There are no significant restrictions on the ability of associated undertakings to transfer funds to the parent. There are no contingent liabilities to the Group's interest in associates.

At 31 October 2018 the Group had a 12.5% interest ($9.6m) (30 April 2017: 12.5%, $11.5m) investment in OIN. There are eight (30 April 2017: eight) equal shareholders of OIN, all holding 12.5% (30 April 2017: 12.5%) interest, and each shareholder has one board member and one alternative board member. The Group exercises significant influence over OIN's operation and therefore accounts for its investment in OIN as an associate.

The Investment in Associates is part of discontinued operations, which will be disposed of with the sale of the SUSE business segment and as such has been transferred to assets held for sale (note 19).

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:

	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
At 1 May	**11,457**	12,711
Gain on dilution of investment	**–**	966
Share of post-tax loss of associates	**(1,809)**	(2,220)
	(1,809)	(1,254)
Reclassification to current assets classified as held for sale (note 19)	**(9,648)**	–
	–	11,457

Details of the Group's principal associates are provided below.

Company name	Country of incorporation and principal place of business	Proportion held	Principal activities
Open Invention Network LLC	USA	12.5%	Sale and support of software

The accounting year-end date of the associate consolidated within the Group's financial statements is 31 December, and we obtain its results on a quarterly basis. The Group records an adjustment within the consolidated financial statements to align the reporting period of the associate and the Group. Following the change in period-end for the Group to 31 October from 30 April, we now report based on the 30 September 2018 quarter rather than the 31 March 2017 quarter end. The assets, liabilities, and equity of the Group's associate as at 30 September 2018 (2017: 31 March 2017) and the revenue and loss of the Group's associate for the period ended 30 September 2018 (2017: 31 March 2017) with the corresponding adjustment to align the reporting period was as follows:

	30 September 2018 $'000	31 March 2017 $'000
Non-current assets	**38,206**	43,649
Current assets	**41,672**	50,137
Current liabilities	**(672)**	(604)
Non-current liabilities	**(1,028)**	(527)
Net assets	**78,178**	92,655
Equity	**(78,178)**	(92,655)

	18 months ended 30 September 2018 $'000	12 months ended 31 March 2017 $'000
Revenue	**–**	–
Net loss	**14,477**	16,212

14 Investments in associates continued

	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Loss attributable to the Group for the period ended 30 September 2018 (31 March 2017 (14.3% ownership to 6 June 2016, 12.5% thereafter))	**1,810**	2,095
Adjustment on estimated October 2018 result attributable to the Group (April 2017)	**(1)**	125
Loss attributable to the Group for the period ended 31 October 2018 (30 April 2017 (14.3% ownership to 6 June 2016, 12.5% thereafter))	**1,809**	2,220

15 Other non-current assets

	31 October 2018 $'000	30 April 2017 $'000
Employee benefit deposit	**31,132**	–
Long-term rent deposits	**4,140**	2,844
Long-term prepaid expenses	**2,893**	–
Other	**625**	249
	38,790	3,093

Employee benefit deposits are held in Germany ($15.4m), Israel ($10.2m), Italy ($2.7m) and the Netherlands ($2.8m). Employers in Germany, Italy and Israel are required by law to maintain funds to satisfy certain employee benefit liabilities, including free-time off, compensation for involuntary termination of employment. These investment based deposits are managed by third parties and the carrying values are marked-to-market based on third party investment reports. In addition, a cash deposit was held in the Netherlands on behalf of certain employees to cover legacy employment subsistence benefits.

16 Inventories

	31 October 2018 $'000	30 April 2017 $'000
Work in progress	**–**	13
Finished goods	**204**	51
	204	64

The Group utilised $0.3m (12 months to 30 April 2017: $0.1m) of inventories included in cost of sales during the 18 months to 31 October 2018.

17 Trade and other receivables

	31 October 2018 $'000	30 April 2017 $'000
Trade receivables	**1,089,589**	266,225
Less: provision for impairment of trade receivables	**(41,860)**	(2,599)
Trade receivables net	**1,047,729**	263,626
Prepayments	**59,966**	23,239
Other receivables	**79,062**	1,534
Accrued income	**85,276**	1,110
	1,272,033	289,509

17 Trade and other receivables continued

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 31 October 2018 and 30 April 2017, the carrying amount approximates the fair value of the instrument due to the short-term nature of the instrument. The trade receivables of $1,089.6m at 31 October 2018 are net of the $21.5m provision for impairment of trade receivables in the opening balance for the HPE Software business (note 39).

At 31 October 2018, trade receivables of $249.3m (30 April 2017: $39.9m) 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 107 days in excess of due date (30 April 2017: 24 days).

As at 31 October 2018, trade receivables of $41.9m (30 April 2017: $2.6m) were either partially or fully impaired. The amount of the provision was $41.9m (30 April 2017: $2.6m). The ageing of these receivables is as follows:

	31 October 2018 $'000	30 April 2017 $'000
Up to three months	–	48
Three to four months	3,621	731
Over four months	38,239	1,820
	41,860	2,599

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

	31 October 2018 $'000	30 April 2017 $'000
At 1 May	2,599	4,486
Provision for receivables impairment	40,016	2,023
Receivables written off as uncollectable	(686)	(1,271)
Receivables previously provided for but now collected	(53)	(2,542)
Exchange adjustments	(16)	(97)
At 31 October/30 April	41,860	2,599

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

	31 October 2018 $'000	30 April 2017 $'000
Cash at bank and in hand	387,115	146,832
Short-term bank deposits	236,687	4,151
	623,802	150,983
Reclassification to current assets classified as held for sale (note 19)	(2,906)	–
Cash and cash equivalents	620,896	150,983

18 Cash and cash equivalents continued

At 31 October 2018 and 30 April 2017, 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:

	31 October 2018 $'000	30 April 2017 $'000
S&P/Moody's/Fitch rating:		
AAA	231,517	33,057
AA-	80,975	69,814
A+	260,404	25,221
A	20,063	6,355
A-	3,767	5,820
BBB+	4,546	471
BBB	994	903
BBB-	558	165
BB+	2,042	357
BB	32	283
BB-	15,187	8,221
B+	–	24
CCC+	212	193
C-	321	–
Not Rated	278	99
	620,896	150,983

Where the opinions of the rating agencies differ, the lowest applicable rating has been assigned to the counterparty.

19 Discontinued operation and assets classified as held for sale

Discontinued operation – SUSE business segment

On 2 July 2018, the Group announced the proposed sale of the SUSE business segment to Blitz 18-679 GmbH (subsequently renamed to Marcel Bidco GmbH), a newly incorporated directly wholly-owned subsidiary of EQTVIII SCSp which is advised by EQT Partners. The total cash consideration of $2.535bn is on a cash and debt free basis and subject to normalisation of working capital.

On 21 August 2018, Shareholders voted to approve the proposed transaction whereby the Company has agreed to sell its SUSE business segment to Marcel Bidco GmbH, a newly incorporated, wholly-owned subsidiary of EQTVIII SCSp, for a total cash consideration of approximately $2.535bn, subject to customary closing adjustments. Following this vote, all applicable antitrust, competition, merger control and governmental clearances have been obtained. Completion of the transaction is now only conditional upon completing the carve-out of the SUSE business segment from the rest of the Micro Focus Group (and certain related matters) and it is currently anticipated that this will be satisfied such that the transaction will complete in the first calendar quarter of 2019. As set out in the circular to shareholders in advance of the vote, net sale proceeds after tax, transaction costs and customary closing adjustments are estimated to be $2.06bn and these funds will be used to make a required debt repayment in accordance with the Credit Agreement. It is intended that the balance will be returned to shareholders ("Return of Value"). A circular to shareholders in respect of the Return of Value will be despatched in due course.

Due to the proposed sale and subsequent shareholder approval, the SUSE business segment has been treated as discontinued in these financial statements.

The SUSE Business, a pioneer in Open Source software, develops, markets and supports an enterprise grade Linux operating system, Open Source software-defined infrastructure and application delivery solutions that give enterprises greater control and flexibility over their IT systems.

Micro Focus believes the disposal consideration represents a highly attractive enterprise valuation for the SUSE business at approximately 7.9x revenue and 26.7x Adjusted Operating Profit of the SUSE Business for the 12 months ended 31 October 2017. Micro Focus believes EQT provides a strong long-term investor for the SUSE Business and allows Micro Focus to continue to focus upon its longstanding and consistent strategy of delivering value to customers and shareholders through effective management of infrastructure software assets in an increasingly consolidating sector.

19 Discontinued operation and assets classified as held for sale continued

Discontinued operation – Financial performance

	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Revenue	**538,160**	303,429
Operating costs	**(427,014)**	(238,632)
Profit before taxation	**111,146**	64,797
Taxation	**(34,206)**	(31,077)
Profit for the period from discontinued operation	**76,940**	33,720

Discontinued operation – Cash flow

The cash flow statement shows amounts related to the discontinued operations:

	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Net cash inflows from operating activities	**136,058**	70,411
Net cash outflows from investing activities	**(2,512)**	(7,430)
Net cash flows from financing activities	**–**	–

Net assets classified as held for sale

	31 October 2018		
Reported in:	Current assets $'000	Current liabilities $'000	Total $'000
SUSE	**1,114,264**	**(427,236)**	**687,028**
Atalla	**28,187**	**(10,463)**	**17,724**
	1,142,451	**(437,699)**	**704,752**

The net assets held for sale relating to the disposals of SUSE and Atalla are detailed in the tables below. These include non-current assets and non-current liabilities that are shown as current assets and liabilities in the Consolidated statement of financial position.

19 Discontinued operation and assets classified as held for sale continued

A. SUSE

The assets and liabilities relating to SUSE have been presented as held for sale following the shareholder approval on 21 August 2018. Costs to sell have been included in trade and other payables.

	Note	31 October 2018 $'000
Non-current assets		
Goodwill	10	**859,566**
Other intangible assets	11	**165,662**
Property, plant and equipment	12	**5,786**
Investment in associates	14	**9,648**
Deferred tax assets		**1,586**
Long-term pension assets	27	**1,543**
Other non-current assets		**2,020**
		1,045,811
Current assets		
Trade and other receivables		**65,547**
Cash and cash equivalents		**2,906**
		68,453
Total assets held for sale		**1,114,264**
Current liabilities		
Trade and other payables		**(37,833)**
Provisions	26	**(664)**
Current tax liabilities		**(1,156)**
Deferred income		**(218,349)**
		(258,002)
Non-current liabilities		
Deferred income		**(160,791)**
Retirement benefit obligations	27	**(5,530)**
Long-term provisions	26	**(2,376)**
Other non-current liabilities		**(537)**
		(169,234)
Total liabilities held for sale		**(427,236)**
Net assets classified as held for sale		**687,028**

B. Atalla

On 18 May 2018 the Company entered into an agreement with Utimaco Inc. ("Utimaco"), under which Utimaco would acquire Atalla for $20m in cash. The deal was subject to regulatory approval by the Committee on Foreign Investment in the United States ("CFUIS"). CFIUS placed the deal into investigation in September and final approval was received 10 October 2018. The deal closed on 5 November 2018 and Utimaco acquired the Atalla HSM product line, the Enterprise Security Manger ("ESKM") product line, and related supporting assets, including applicable patents and other IP.

The assets and liabilities relating to the Atalla business included in the financial statements at 31 October 2018 amount to $17.7m.

	Note	31 October 2018 $'000
Goodwill	10	**27,957**
Property, plant and equipment	12	**230**
Non-current assets		**28,187**
Deferred income		**(10,463)**
Current liabilities		**(10,463)**
Net assets classified as held for sale		**17,724**

Notes to the consolidated financial statements
for the 18 months ended 31 October 2018 continued

20 Trade and other payables – current

	31 October 2018 $'000	30 April 2017 $'000
Trade payables	**46,096**	16,891
Tax and social security	**46,525**	3,032
Accruals	**584,296**	150,119
	676,917	170,042

At 31 October 2018 and at 30 April 2017, the carrying amount approximates to the fair value. Accruals include vacation, payroll and employee taxes ($147.0m), commission and employee bonuses ($162.7m), integration expenses ($44.5m) and consulting and audit fees ($30.3m).

21 Borrowings

	31 October 2018 $'000	30 April 2017 $'000
Bank loan secured	**4,996,913**	1,595,188
Unamortised prepaid facility arrangement fees and original issue discounts	**(151,033)**	(33,652)
	4,845,880	1,561,536

	31 October 2018			30 April 2017		
Reported within:	Bank loan secured $'000	Unamortised prepaid facility arrangement fees and original issue discounts $'000	Total $'000	Bank loan secured $'000	Unamortised prepaid facility arrangement fees and original issue discounts $'000	Total $'000
Current liabilities	**50,347**	**(46,645)**	**3,702**	83,788	(12,604)	71,184
Non-current liabilities	**4,946,566**	**(104,388)**	**4,842,178**	1,511,400	(21,048)	1,490,352
	4,996,913	**(151,033)**	**4,845,880**	1,595,188	(33,652)	1,561,536

The following facilities were drawn as at 31 October 2018:

- The $1,503.8m senior secured term loan B-2 issued by MA FinanceCo LLC is priced at LIBOR plus 2.25% (subject to a LIBOR floor of 0.00%);
- The $2,580.5m senior secured seven year term loan B issued by Seattle SpinCo. Inc. is priced at LIBOR plus 2.50% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%;
- The $382.1m senior secured seven year term loan B-3 issued by MA FinanceCo LLC is priced at LIBOR plus 2.50% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%; and
- The €466.5m (equivalent to $530.5m) senior secured seven year term loan B issued by MA FinanceCo LLC is priced at EURIBOR plus 2.75% (subject to a EURIBOR floor of 0.00%) with an original issue discount of 0.25%.

The following facilities were undrawn as at 31 October 2018:

- A senior secured revolving credit facility of $500.0m ("Revolving Facility"), with an interest rate of 3.25% above LIBOR on amounts drawn (and 0.375% on amounts undrawn) thereunder (subject to a LIBOR floor of 0.00%).

The only financial covenant attaching to these facilities relates to the Revolving Facility, which is subject to an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end. At 31 October 2018, $nil of the Revolving Facility was drawn together with $4,996.9m of Term Loans giving gross debt of $4,996.9m drawn. As a covenant test is only applicable when the Revolving Facility is drawn down by 35% or more, and $nil of Revolving Facility was drawn at 31 October 2018, no covenant test is applicable.

21 Borrowings continued

The movements on the Group loans in the period were as follows:

	Term Loan B-2 $'000	Term Loan B $'000	Term Loan C $'000	Term Loan B-3 $'000	Seattle Spinco Term Loan B $'000	Euro Term Loan B $'000	Revolving Facility $'000	Total $'000
At 1 May 2016	–	1,112,250	450,000	–	–	–	225,000	1,787,250
Repayments	–	(9,562)	(37,500)	–	–	–	(325,000)	(372,062)
Draw downs	–	–	–	–	–	–	180,000	180,000
Transfer	1,515,188	(1,102,688)	(412,500)	–	–	–	–	–
At 30 April 2017	**1,515,188**	**–**	**–**	**–**	**–**	**–**	**80,000**	**1,595,188**
Acquisitions	**–**	**–**	**–**	**–**	**2,600,000**	**–**	**–**	**2,600,000**
Draw downs	**–**	**–**	**–**	**385,000**	**–**	**523,815**	**135,000**	**1,043,815**
Repayments	**(11,364)**	**–**	**–**	**(2,888)**	**(19,500)**	**(4,184)**	**(215,000)**	**(252,936)**
Foreign exchange	**–**	**–**	**–**	**–**	**–**	**10,846**	**–**	**10,846**
At 31 October 2018	**1,503,824**	**–**	**–**	**382,112**	**2,580,500**	**530,477**	**–**	**4,996,913**

Borrowings are stated after deducting unamortised prepaid facility fees and original issue discounts. Facility arrangement costs and original issue discounts are amortised between three and six years. The fair value of borrowings equals their carrying amount.

Maturity of borrowings

The maturity profile of the anticipated future cash flows including interest in relation to the Group's borrowings on an undiscounted basis, which therefore, differs from both the carrying value and fair value, is as follows:

As at 31 October 2018:

	Term Loan B-2 $'000	Term Loan B-3 $'000	Seattle Spinco Term Loan B $'000	Euro Term Loan B $'000	Revolving Facility $'000	Total $'000
Within one year	**84,294**	**22,383**	**151,161**	**20,080**	**–**	**277,918**
In one to two years	**83,782**	**22,246**	**150,235**	**19,971**	**–**	**276,234**
In two to three years	**82,895**	**22,009**	**148,629**	**19,782**	**–**	**273,315**
In three to four years	**1,462,056**	**21,821**	**147,363**	**19,632**	**–**	**1,650,872**
In four to five years	**–**	**21,634**	**146,097**	**19,483**	**–**	**187,214**
In more than five years	**–**	**374,164**	**2,526,819**	**512,738**	**–**	**3,413,721**
At 31 October 2018	**1,713,027**	**484,257**	**3,270,304**	**611,686**	**–**	**6,079,274**

As at 30 April 2017:

	Term Loan B-2 $'000	Revolving Facility $'000	Total $'000
Within one year	60,168	80,000	140,168
In one to two years	71,181	–	71,181
In two to three years	70,769	–	70,769
In three to four years	70,053	–	70,053
In four to five years	1,497,867	–	1,497,867
At 30 April 2017	1,770,038	80,000	1,850,038

Assets pledged as collateral

An all assets security has been granted in the US and England & Wales by certain members of the Micro Focus Group organised in such jurisdictions, including security over intellectual property rights and shareholdings of such members of the Micro Focus Group.

22 Finance leases

	31 October 2018 $'000	30 April 2017 $'000
Current	**13,560**	–
Non-current	**14,923**	–
	28,483	–

Finance lease liabilities – minimum lease payments:

	31 October 2018 $'000	30 April 2017 $'000
Within one year	**15,136**	–
Between one and five years	**15,984**	–
	31,120	–
Future lease charges	**(2,637)**	–
	28,483	–

The carrying value of computer equipment held under finance leases and hire purchase contracts as at 31 October 2018 was $25.9m (30 April 2017: $nil) (note 12).

Finance lease liabilities – present value of minimum lease payments:

	31 October 2018 $'000	30 April 2017 $'000
Within one year	**13,560**	–
Between one and five years	**14,923**	–
	28,483	–

The Group's obligations under finance leases are secured by charges over the related leased assets. The weighted average fixed interest rate on the outstanding finance lease liabilities is 8.5% (30 April 2017: nil).

23 Current tax receivables, current tax liabilities and non-current tax liabilities
Current tax receivables

	31 October 2018 $'000	30 April 2017 $'000
Corporation tax	**24,504**	1,637

The current tax receivable at 31 October 2018 is $24.5m (30 April 2017: $1.6m). The brought forward current tax receivable balance relates mainly to the US and has been partially refunded, with the balance offset against current period tax liabilities.

23 Current tax receivables, current tax liabilities and non-current liabilities continued

Current tax liabilities

	31 October 2018 $'000	30 April 2017 $'000
Corporation tax	**124,071**	42,679

The current tax creditor at 31 October 2018 is $124.1m (30 April 2017: $42.7m). The creditor has increased due to the enlargement of the Group due to the acquisition of the HPE Software business and current year tax charges exceeding cash tax payments made. Within current tax liabilities is $67.7m (30 April 2017: $49.1m) in respect of the Group's income tax reserve, the majority of which relate to the risk of challenge from local tax authorities to the transfer pricing arrangements of the Group.

Non-current tax liabilities

	31 October 2018 $'000	30 April 2017 $'000
Corporation tax	**131,048**	–

The non-current tax creditor is $131.0m (30 April 2017: $nil). The non-current creditor reflects the US transition tax payable more than 12 months after the balance sheet date.

24 Deferred income – current

	31 October 2018 $'000	30 April 2017 $'000
Deferred income	**1,134,730**	640,650

Revenue billed but not recognised 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 recognised in future periods. Deferred income primarily relates to undelivered maintenance and subscription services on billed contracts.

25 Deferred income – non-current

	31 October 2018 $'000	30 April 2017 $'000
Deferred income	**178,064**	223,786

Revenue billed but not recognised 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 recognised in future periods in excess of one year. Deferred income primarily relates to undelivered maintenance and subscription services on multi-year billed contracts.

26 Provisions

	31 October 2018 $'000	30 April 2017 $'000
Onerous leases and dilapidations	**35,105**	16,243
Restructuring	**50,689**	12,132
Legal	**7,038**	3,220
Other	**–**	484
Total	**92,832**	32,079
Current	**57,411**	20,142
Non-current	**35,421**	11,937
Total	**92,832**	32,079

26 Provisions continued

	Onerous leases and dilapidations $'000	Restructuring $'000	Legal $'000	Other $'000	Total $'000
At 1 May 2017	**16,243**	**12,132**	**3,220**	**484**	**32,079**
Continuing operations:					
Acquisitions – HPE Software business (note 39)	**11,321**	**21,398**	**36,446**	**–**	**69,165**
Additional provision in the period	**17,723**	**133,421**	**1,392**	**–**	**152,536**
Released	**(3,890)**	**(3,678)**	**(4,733)**	**(416)**	**(12,717)**
Utilisation of provision	**(5,590)**	**(110,062)**	**(29,263)**	**(97)**	**(145,012)**
Exchange adjustments	**(702)**	**(2,522)**	**(24)**	**29**	**(3,219)**
Discontinued operation:					
Additional provision in the period	**2,835**	**205**	**–**	**–**	**3,040**
Reclassification of current assets classified as held for sale (note 19)	**(2,835)**	**(205)**	**–**	**–**	**(3,040)**
At 31 October 2018	**35,105**	**50,689**	**7,038**	**–**	**92,832**
Current	**11,219**	**39,154**	**7,038**	**–**	**57,411**
Non-current	**23,886**	**11,535**	**–**	**–**	**35,421**
Total	**35,105**	**50,689**	**7,038**	**–**	**92,832**

	Onerous leases and dilapidations $'000	Restructuring $'000	Legal $'000	Other $'000	Total $'000
At 1 May 2016	18,176	3,523	1,920	1,280	24,899
Additional provision in the year	4,584	48,498	98	501	53,681
Acquisitions (note 39)	–	1,201	2,844	–	4,045
Utilisation of provision	(5,527)	(37,712)	(120)	(117)	(43,476)
Released	(857)	(2,886)	(1,492)	(1,180)	(6,415)
Exchange adjustments	(133)	(492)	(30)	–	(655)
At 30 April 2017	16,243	12,132	3,220	484	32,079
Current	4,406	12,132	3,220	384	20,142
Non-current	11,837	–	–	100	11,937
Total	16,243	12,132	3,220	484	32,079

Onerous leases and dilapidations provisions
The onerous lease and dilapidations provision relates to leased Group properties and this position is expected to be fully utilised within eight years. The provision was increased by $29.0m in the 18 months ended 31 October 2018, due to the acquisition of the HPE Software business ($11.3m) and relating to legal obligations to restore leased properties at the end of the lease period and a reassessment of sites across North America, United Kingdom, Israel and Australia ($17.7m). Provisions of $3.9m were released following the renegotiation/exit of leases of two North American properties.

Restructuring and integration provisions
Restructuring provisions relate to severance resulting from headcount reductions. The majority of provisions are expected to be fully utilised within 12 months. At 30 April 2017, this also included $4.6m of provisions for integration activities undertaken in readiness for the HPE Software business acquisition across all functions of the existing business. These were utilised in the period. Restructuring costs are reported within exceptional costs (note 4).

Legal provisions
Legal provisions include the directors' best estimate of the likely outflow of economic benefits associated with on-going legal matters. Further information on legal matters can be found in note 37, contingent liabilities.

Other provisions
Releases of other provisions during the 18 months ended 31 October 2018 relate to future fees no longer considered likely to be incurred.

27 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.

Pension costs for defined contributions schemes are as follows:

Continuing operations	**18 months ended 31 October 2018 $'000**	Restated[1] 12 months ended 30 April 2017 $'000
Defined contribution schemes (note 35)	**43,241**	10,875

1 The comparatives for the 12 months to 30 April 2017 have been restated to reflect the divestiture of the SUSE business segment (note 19).

b) Defined benefit

	31 October 2018 $'000	30 April 2017 $'000
Within non-current assets:		
Long-term pension assets	**16,678**	22,031
Within non-current liabilities:		
Retirement benefit obligations	**(110,351)**	(30,773)

The acquisition and subsequent integration of the software segment of Hewlett Packard Enterprise Company ("HPE Software") on 1 September 2017 added 27 defined benefit plans primarily in France, Germany and Switzerland.

As of 31 October 2018, there are 30 defined benefit plans in 10 countries around the world (30 April 2017: 4 in Germany, one of which provides benefits solely for SUSE employees). Some 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 members' length of service, social security ceiling and other factors. Final pension entitlements are calculated by local administrators in the applicable country. They also complete calculations for cases of death in service and disability. Other plans include termination or retirement indemnity plans or other types of statutory plans that provide a one-time benefit at termination. Where required by local or statutory requirements, some of the schemes are governed by an independent Board of Trustees that is responsible for the investment strategies with regard to the assets of the funds, however, other schemes are administered locally with the assistance of local pension experts. Not all of our plans are closed for new membership. The Group sponsors 13 plans that are open to new members, all of which are termination or retirement indemnity plans or statutory plans providing a one-time benefit at termination, retirement or death or disability. As a result of the acquisition of the HPE Software business, the Group participates in multi-employer defined benefit plans in Switzerland and Japan. These plans are accounted for as defined benefit plans.

Long-term pension assets

Long-term pension assets relate to the contractual arrangement under insurance policies held by the Group with guaranteed interest rates that do not meet the definition of a qualifying insurance policy as they have not been pledged to the plan or beneficiaries and are subject to the creditors of the Group. Such non-plan asset arrangements are recorded in the consolidated statement of financial position as long-term pension assets. These contractual arrangements are treated as available-for-sale financial assets since there is not an exact matching of the amount and timing of some or all of the benefits payable under the defined benefit plan. Movement in the fair value of long-term pension assets is included in other comprehensive income. All such non-plan assets are held in Germany.

27 Pension commitments continued

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

	31 October 2018 $'000	30 April 2017 $'000
As at 1 May	22,031	22,272
Reclassification to assets held for sale	(1,543)	–
Interest on non-plan assets (note 6)	633	404
Benefits paid	(185)	(110)
Contributions	489	442
Included within other comprehensive income:		
– Change in fair value assessment	(6,065)	–
– Actuarial (loss)/gain on non-plan assets	278	(2,134)
– Reclassification from defined contribution scheme to defined benefit scheme	–	2,264
	(5,787)	130
Foreign currency exchange gain/(loss)	1,040	(1,107)
As at 31 October/30 April	16,678	22,031
Included within other comprehensive income:		
Continuing operations	(5,258)	318
Discontinued operation	(529)	(188)
	(5,787)	130

The non-plan assets are Level 3 assets under the fair value hierarchy. These assets have been valued by applying a discount rate to the future cash flows and taking into account the fixed interest rate, mortality rates and term of the insurance contract. There have been no transfers between levels for the period ended 31 October 2018 (30 April 2017: none).

Retirement benefit obligations

The following amounts have been included in the consolidated statement of comprehensive income for defined benefit pension arrangements:

	18 months ended 31 October 2018 $'000	Restated[1] 12 months ended 30 April 2017 $'000
Current service charge	12,627	504
Past service credit	(5,489)	–
Charge to operating profit (note 35)	7,138	504
Current service charge – discontinued operations	268	121
Interest on pension scheme liabilities	5,253	660
Interest on pension scheme assets	(2,430)	(95)
Charge to finance costs (note 6)	2,823	565
Total continuing charge to profit for the period	10,229	1,190

1 The comparatives for the 12 months to 30 April 2017 have been restated to reflect the divestiture of the SUSE business segment (note 19).

Past service credits are the result of headcount reductions under the Group's restructuring and integration activities relating to the acquisition of the HPE Software business (note 39).

The contributions for the year ended 31 October 2019 are expected to be broadly in line with the 12 months to 31 October 2018. We fund our schemes so that we make at least the minimum contributions required by local government, funding and taxing authorities.

27 Pension commitments continued

The following amounts have been recognised as movements in the statement of other comprehensive income:

	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Actuarial return on assets excluding amounts included in interest income	621	9
Re-measurements – actuarial (gains) and losses:		
– Demographic	332	–
– Financial	(11,104)	2,821
– Experience	1,858	568
	(8,914)	3,389
Reclassification from defined contribution scheme to defined benefit scheme	(2,121)	(2,996)
Exchange rate movement	–	–
Movement in the period/year	(10,414)	402
Continuing operations	(8,949)	(217)
Discontinued operation	(1,465)	619
	(10,414)	402

The weighted average key assumptions used for the valuation of the schemes were:

	18 months ended 31 October 2018	12 months ended 30 April 2017
Rate of increase in final pensionable salary	2.61%	2.00%
Rate of increase in pension payments	1.99%	2.00%
Discount rate	1.92%	1.95%
Inflation	1.89%	2.00%

The weighted average assumptions used in the valuation of the 1 September 2017 opening balances for the schemes acquired from the HPE Software business were: rate of increase in final pensionable salary of 2.32%, rate of increase in pension payments of 1.75%, discount rate of 1.95% and inflation of 1.61%.

The net present value of the defined benefit obligations of the schemes are 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 $26.9m as at 31 October 2018 (30 April 2017: $4.5m) and if it was 0.5% higher, they would be expected to decrease by $23.1m (30 April 2017: $3.9m). If the inflation assumption was 0.25% lower, the obligations would be expected to decrease by $6.0m as at 31 October 2018 (30 April 2017: $1.2m) and if it was 0.25% higher, they would be expected to increase by $6.4m (30 April 2017: $1.3m).

The mortality assumptions for the schemes are set based on actuarial advice in accordance with published statistics and experience in each territory.

These assumptions translate into a weighted average life expectancy in years for a pensioner retiring at age 65:

	31 October 2018	30 April 2017
Retiring at age 65 at the end of the reporting period:		
Male	20	19
Female	23	23
Retiring 15 years after the end of the reporting period:		
Male	22	19
Female	25	24

The net present value of the defined benefit obligations of the schemes are sensitive to the life expectancy assumption. If there was an increase of one year to this assumption across the schemes the obligation would be expected to increase by $7.9m (3.6%) as at 31 October 2018 (30 April 2017: $1.1m (2.9%)).

27 Pension commitments continued

The net liability included in the consolidated statement of financial position arising from obligations in respect of defined benefit schemes is as follows:

	31 October 2018			30 April 2017
	Funded $'000	Unfunded $'000	Total $'000	Funded $'000
Present value of obligations	**213,305**	**7,903**	**221,208**	36,480
Fair value of plan assets	**(110,857)**	**–**	**(110,857)**	(5,707)
	102,448	**7,903**	**110,351**	30,773

The defined benefit obligation has moved as follows:

	31 October 2018			Restated 30 April 2017		
Defined benefit obligations	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	**36,480**	**(5,707)**	**30,773**	37,524	(5,855)	31,669
HPE Software business acquisition (note 39)	**181,455**	**(110,010)**	**71,445**	–	–	–
Reclassification to assets held for sale	**(9,125)**	**3,595**	**(5,530)**	–	–	–
Current service cost	**12,895**	**–**	**12,895**	625	–	625
Past service credit	**(5,489)**	**–**	**(5,489)**	–	–	–
Benefits paid	**(9,603)**	**9,406**	**(197)**	(197)	87	(110)
Contributions by plan participants	**2,547**	**(2,313)**	**234**	–	(114)	(114)
Contribution by employer	**–**	**(4,012)**	**(4,012)**	–	–	–
Interest cost/(income) (note 6)	**5,253**	**(2,430)**	**2,823**	660	(95)	565
Included within other comprehensive income:						
Re-measurements – actuarial (gains) and losses:						
– Demographic	**(332)**	**–**	**(332)**	–	–	–
– Financial	**11,104**	**–**	**11,104**	(2,821)	–	(2,821)
– Experience	**(1,858)**	**–**	**(1,858)**	(568)	–	(568)
Actuarial return on assets excluding amounts included in interest income	**–**	**(621)**	**(621)**	–	(9)	(9)
Reclassification from defined contribution scheme to defined benefit scheme	**5,472**	**(3,351)**	**2,121**	2,996	–	2,996
	14,386	**(3,972)**	**10,414**	(393)	(9)	(402)
Foreign currency exchange changes	**(7,591)**	**4,586**	**(3,005)**	(1,739)	279	(1,460)
At 31 October/30 April	**221,208**	**(110,857)**	**110,351**	36,480	(5,707)	30,773

Past service credits are the result of headcount reductions under the Group's restructuring and integration activities relating to the acquisition of the HPE Software business (note 39).

27 Pension commitments continued

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 major categories of the plan assets are as follows:

	31 October 2018			30 April 2017
	Quoted $'000	**Unquoted $'000**	**Total $'000**	Unquoted $'000
Equity instruments	**49,890**	**1,624**	**51,514**	–
Debt instruments	**37,419**	**5,069**	**42,488**	–
Real estate	**1,987**	**71**	**2,058**	–
Cash and cash equivalents	**–**	**2,325**	**2,325**	–
Re-insurance contracts with guaranteed interest rates*	**–**	**5,486**	**5,486**	5,707
Other	**–**	**6,986**	**6,986**	–
Total	**89,296**	**21,561**	**110,857**	5,707

* The majority of the re-insurance contracts 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 IAS 19 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 over the life of the member, so increases in life expectancy will result in an increase in the plan liabilities as benefits would be paid over a longer period.
- In the case of the defined benefit plans, the Group ensures that the investment positions are managed within an asset liability matching ("ALM") that has been developed by the Group 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 Group had re-insurance assets valued at $16.6m as at 31 October 2018 (30 April 2017: $22.1m). 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 Group's objective is to match assets to the pension obligations by investing in re-insurances that match the benefit payments as they fall due and in the appropriate currency.

Sensitivities

The table below provides information on the sensitivity of the defined benefit obligation to changes to the most significant actuarial assumptions. The table shows the impact of changes to each assumption in isolation, although, in practice, changes to assumptions may occur at the same time and can either offset or compound the overall impact on the defined benefit obligation.

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 22 years.

	Change in assumption	Change in defined benefit obligation
Discount rate for scheme liabilities	0.50%	(10.5%)
Price inflation	0.25%	2.9%
Salary growth rate	0.50%	1.9%

An increase of one year in the assumed life expectancy for both males and females would increase the defined benefit obligation by 3.6% as at 31 October 2018 (30 April 2017: 2.9%). The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous years.

28 Other non-current liabilities

	31 October 2018 $'000	30 April 2017 $'000
Accruals	**58,011**	4,191
	58,011	4,191

Accruals includes employee benefit liability ($31.0m) that relates to legal severance payment obligations to employees leaving the Group in certain countries, a deferred gain on real estate ($14.0m) relating to free-rent incentives or tenant improvement allowances given by landlords and an IT contractual liability ($11.3m).

29 Financial instruments

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

	Financial 31 October 2018 $'000	Non-financial 31 October 2018 $'000	Total 31 October 2018 $'000	Financial 30 April 2017 $'000	Non-financial 30 April 2017 $'000	Total 30 April 2017 $'000
Financial assets						
Non-current						
Derivative financial instruments – Interest rate swaps (note 29)	**–**	**86,381**	**86,381**	–	–	–
Current						
Cash and cash equivalents (note 18)	**620,896**	**–**	**620,896**	150,983	–	150,983
Trade and other receivables (note 17)	**1,212,067**	**59,966**	**1,272,033**	266,270	23,239	289,509
	1,832,963	**146,347**	**1,979,310**	417,253	23,239	440,492

	Financial 31 October 2018 $'000	Non-financial 31 October 2018 $'000	Total 31 October 2018 $'000	Financial 30 April 2017 $'000	Non-financial 30 April 2017 $'000	Total 30 April 2017 $'000
Financial liabilities – financial liabilities at amortised cost						
Non-current						
Borrowings (note 21)	**4,946,566**	**–**	**4,946,566**	1,511,400	–	1,511,400
Finance leases (note 22)	**14,923**	**–**	**14,923**	–	–	–
Provisions (note 26)	**35,421**	**–**	**35,421**	11,837	100	11,937
Current						
Borrowings (note 21)	**50,347**	**–**	**50,347**	83,788	–	83,788
Finance leases (note 22)	**13,560**	**–**	**13,560**	–	–	–
Trade and other payables (note 20)	**676,917**	**–**	**676,917**	16,891	153,151	170,042
Provisions (note 26)	**57,411**	**–**	**57,411**	4,406	15,736	20,142
	5,795,145	**–**	**5,795,145**	1,628,322	168,987	1,797,309

Fair value measurement

For trade and other receivables, cash and cash equivalents, trade and other payables, obligations under finance leases and provisions, fair values approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within book value for credit risk.

Derivative financial instruments measured at fair value are classified as level 2 in the fair value measurement hierarchy as they have been determined using significant inputs based on observable market data. The fair values of interest rate derivatives are derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest rates.

There were no transfers of assets or liabilities between levels of the fair value hierarchy during the period.

29 Financial instruments continued

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 October 2018 was:

	31 October 2018 $'000	30 April 2017 $'000
Trade receivables (note 17)	1,212,067	266,270
Cash and cash equivalents (note 18)	620,896	150,983
Total	1,832,963	417,253

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 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.

Derivative financial instruments

Derivatives are only used for economic hedging purposes and not as speculative investments. Four interest rate swaps are in place with a total notional value of $2.25bn to hedge against the impact of expected rises in interest rates until 30 September 2022. The swaps are designated against the $2,580.5m loan issued by Seattle SpinCo. Inc. and the notional value covers 50.4% of the overall dollar loan principal outstanding for the Group.

The swap contracts require settlement of net interest receivable or payable on a monthly basis. The fixed interest rate for each swap is 1.949% and the Group receives a variable rate in line with LIBOR. The Seattle loan is priced at LIBOR (with a floor) plus a current margin of 2.50% with the swaps aimed at addressing the risk of a rising LIBOR element. As such, the total interest cost of the hedged element of the Seattle loan is 4.44%. For the period to 31 October 2018, net expense for the swaps amounted to $3.4m.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic effectiveness assessments (adjusted for credit risk) to ensure that an economic relationship exists between the hedged item and the hedging instrument. The testing determined that the hedge was highly effective throughout the financial reporting period for which the hedge was designated.

The impact of changes in the fair value of interest rate swaps in the 18 months ended 31 October 2018 is shown in the Consolidated statement of comprehensive income. Note 33 shows the derivative financial instruments relating to hedging transactions entered into in the period ended 31 October 2018 (other reserves).

	31 October 2018 $'000	30 April 2017 $'000
Carrying amount	86,381	–
Notional amount (4 x $562.5m)	2,250,000	–
Maturity date	30 September 2022	–
Change in fair value of outstanding hedging instruments	86,381	–
Change in value of hedging instruments adjusted for credit risk	84,666	–

Foreign exchange risk

The Group's currency exposures comprise those that give rise to net currency gains and losses to be recognised 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 dollar.

Note 33 shows the impact on the consolidated statement of comprehensive income of foreign exchange gains in the 18 months ended 31 October 2018 (30 April 2017: gain).

29 Financial instruments continued

Sensitivity analysis

The Group's principal exposures in relation to market risks are the changes in the exchange rates between the US Dollar and transactions made in other currencies as well as changes in US Dollar LIBOR interest rates. Foreign exchange exposures for all re-measuring balances are tracked and reported to management.

The key drivers are cash, borrowings and inter-company positions with trade receivables and trade payables having less relative aggregate exposure. As at 31 October 2018, the key aggregate exposures involved the Euro, British Sterling, Israeli Shekel and Canadian Dollar. The table below illustrates the sensitivity analysis of the Group exposures to movements in currency and interest rates.

Key aggregate currency exposures	Group exposure $'000	+/-5% $'000	+/-10% $'000	+/-1% interest $'000
Euro	**377,324**	**18,866**	**37,732**	
GBP	**25,436**	**1,271**	**2,543**	
ILS	**52,147**	**2,607**	**5,215**	
CAN$	**60,468**	**3,023**	**6,046**	
Borrowings				
Interest rate LIBOR +1%	**n/a**	**n/a**	**n/a**	**49,969**

Capital risk management

The Group's objective when managing its capital structures is to minimise the cost of capital while maintaining adequate capital to protect against volatility in earnings and net asset values. The strategy is designed to maximise shareholder return over the long-term.

The only financial covenant attaching to these facilities relates to the Revolving Facility, which is subject to an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end. The facility was less than 35% drawn at 31 October 2018 and therefore no covenant test is applicable.

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

	31 October 2018 $'000	30 April 2017 $'000
Bank and other borrowings (note 21)	**4,845,880**	1,561,536
Finance lease obligations (note 22)	**28,483**	–
Less cash and cash equivalents (note 18)	**(620,896)**	(150,983)
Total net debt	**4,253,467**	1,410,553
Total equity	**7,791,980**	1,613,490
Debt/equity %	**54.59%**	87.42%

30 Deferred tax

	Note	31 October 2018 $'000	30 April 2017 $'000
Net deferred tax liability			
At 1 May		**(118,478)**	(65,281)
(Debited)/credited to consolidated statement of comprehensive income:		**(17,171)**	26,871
• Continuing operations	7	**(27,634)**	26,871
• Discontinued operations		**10,463**	–
Credited directly to equity in relation to share options		**(23,724)**	22,996
Debited to other comprehensive income in relation to pensions:		**4,281**	(325)
• Continuing operations		**3,754**	(62)
• Discontinued operations		**527**	(263)
Acquisition of subsidiaries	39	**(1,957,343)**	(97,615)
Acquisition of subsidiaries – Serena Software		**–**	(96,203)
Acquisition of subsidiaries – GWAVA		**–**	(1,412)
Acquisition of subsidiaries – HPE Software business		**(1,953,453)**	–
Acquisition of subsidiaries – COBOL-IT		**(3,890)**	–
Foreign exchange adjustment		**11,667**	(6,415)
Reclassification to current assets held for sale	19	**(1,586)**	–
Effect of change in tax rates – charged to consolidated statement of comprehensive income		**931,865**	1,291
At 31 October/30 April		**(1,170,489)**	(118,478)

30 Deferred tax continued

Deferred tax assets and liabilities presented below and in the consolidated statement of financial position have been revised to present such assets and liabilities net where there is a legally enforceable right to offset and the intention to settle on a net basis.

	Tax losses $'000	Share based payments $'000	Deferred revenue $'000	Prepaid royalty $'000	Tax credits $'000	Intangible fixed assets $'000	Other temporary differences $'000	Total $'000
Deferred tax assets								
At 1 May 2016	50,949	22,767	37,962	–	53,660	6,496	26,923	198,757
Acquisition of subsidiaries (note 39)	10,619	–	2,471	–	152	–	2,105	15,347
(Charged)/credited to consolidated statement of comprehensive income	(4,894)	4,405	4,057	–	(20,024)	(609)	(4,964)	(22,029)
Credited directly to equity	–	22,996	–		–	–	–	22,996
Debited to other comprehensive income	–	–	–	–	–	–	(325)	(325)
Foreign exchange adjustment	–	(6,415)	–	–	–	–	–	(6,415)
Effect of change in tax rates – credited to consolidated statement of comprehensive income	–	(78)	–	–	–	–	–	(78)
Subtotal	56,674	43,675	44,490	–	33,788	5,887	23,739	208,253
Jurisdictional offsetting (revised)								**(208,253)**
At 30 April 2017[1] (revised)								**–**
At 1 May 2017	**56,674**	**43,675**	**44,490**	**–**	**33,788**	**5,887**	**23,739**	**208,253**
Acquisition of subsidiaries – HPE Software business (note 39)	**4,524**	**–**	**(36,468)**	**332,036**	**39,030**	**–**	**43,601**	**382,723**
(Charged)/credited to consolidated statement of comprehensive income – continuing operations	**(13,510)**	**110**	**45,158**	**(201,355)**	**(46,114)**	**(825)**	**14,126**	**(202,410)**
Credited directly to equity	**–**	**(23,724)**	**–**	**–**	**–**	**–**	**–**	**(23,724)**
Debited to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**4,281**	**4,281**
Foreign exchange adjustment	**–**	**(320)**	**–**	**–**	**–**	**–**	**–**	**(320)**
Reclassification to current assets held for sale	**–**	**–**	**–**	**–**	**–**	**–**	**(1,586)**	**(1,586)**
Effect of change in tax rates – credited to consolidated statement of comprehensive income	**(21,129)**	**(2,319)**	**66,673**	**(88,770)**	**2,957**	**(2,025)**	**(13,336)**	**(57,949)**
Subtotal	**26,559**	**17,422**	**119,853**	**41,911**	**29,661**	**3,037**	**70,825**	**309,268**
Jurisdictional offsetting								**(309,268)**
At 31 October 2018								**–**

1 The comparatives for 30 April 2017 have been revised as described in the Basis of Preparation of the Significant Accounting policies section.

A deferred tax charge to equity of $23.7m (30 April 2017: $23.0m credit) arises during the period in relation to share-based payments. The change as compared to the prior period is primarily due to the decrease in the Group's share price during the 18 months ended 31 October 2018. Deferred tax on prepaid royalties relates to intra-Group royalties, which were paid to US Group companies which have been taxed upon receipt but for which the Group has yet to recognise the income.

The deferred tax asset relating to other temporary differences of $70.8m as at 31 October 2018 (30 April 2017: $23.7m) has increased during the current period primarily due to balances acquired from the HPE Software business and includes temporary differences arising on fixed assets, short-term timing differences and defined benefit pension schemes. Deferred tax assets are recognised in respect of tax losses and other attributes carried forward to the extent that the realisation of the related tax benefit is probable.

30 Deferred tax continued

The Group did not recognise deferred tax assets in relation to the following gross temporary differences where the realisation of the related tax benefit is not probable under relevant local legislation and the expiration of which is determined by the tax law of each jurisdiction:

	Expiration: 2019 $'000	2020 $'000	2021 $'000	2022 $'000	2023 $'000	Thereafter $'000	No expiry $'000	Total $'000
At 31 October 2018								
Type of temporary difference:								
Losses	**35,233**	**66,078**	**99,168**	**37,529**	**33,574**	**2,117,700**	**95,578**	**2,484,860**
Credits	**2,174**	**4,420**	**3,959**	**2,360**	**1,267**	**5,210**	**196,350**	**215,740**
Other	**1,859**	**1**	**–**	**–**	**–**	**–**	**47,718**	**49,578**
Total	**39,266**	**70,499**	**103,127**	**39,889**	**34,841**	**2,122,910**	**339,646**	**2,750,178**

	Expiration: 2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Thereafter $'000	No expiry $'000	Total $'000
At 30 April 2017								
Type of temporary difference:								
Losses	1,107	635	972	–	–	–	19,773	22,487
Credits	2,131	2,147	1,909	2,138	1,334	5,583	8,338	23,580
Other	–	–	–	–	–	–	23,859	23,859
Total	3,238	2,782	2,881	2,138	1,334	5,583	51,970	69,926

	Note	Intangible fixed assets $'000	Other temporary differences $'000	Total $'000
Deferred tax liabilities				
At 1 May 2016		(255,158)	(8,880)	(264,038)
Acquisition of subsidiaries	39	(110,334)	(2,628)	(112,962)
Charged/(credited) to consolidated statement of comprehensive income		52,438	(3,538)	48,900
Effect of change in tax rates – charged to consolidated statement of comprehensive income		1,369	–	1,369
Subtotal		(311,685)	(15,046)	(326,731)
Jurisdictional offsetting (revised)				208,253
At 30 April 2017[1] (revised)				(118,478)
		(311,685)	**(15,046)**	**(326,731)**
Acquisition of subsidiaries – HPE Software business	39	**(2,324,060)**	**(12,116)**	**(2,336,176)**
Acquisition of subsidiaries – COBOL-IT	39	**(3,890)**	**–**	**(3,890)**
Charged/(credited) to consolidated statement of comprehensive income – continuing operations		**186,787**	**(12,011)**	**174,776**
Charged/(credited) to consolidated statement of comprehensive income – discontinued operations		**10,463**	**–**	**10,463**
Foreign exchange adjustment		**11,987**	**–**	**11,987**
Effect of change in tax rates – charged to consolidated statement of comprehensive income		**981,955**	**7,859**	**989,814**
		(1,448,443)	**(31,314)**	**(1,479,757)**
				309,268
At 31 October 2018				**(1,170,489)**

1 The comparatives for 30 April 2017 have been revised as described in the Basis of Preparation of the Significant Accounting policies section.

During the period, the Group recognised a deferred tax liability of $2.3bn upon the acquisition of the HPE Software business. Along with historical balances, this was revalued due to US tax reforms to reflect the lower US Federal tax rate. No deferred tax liability was recognised 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 no material tax liability is expected to arise upon repatriation of such earnings.

31 Share capital

Ordinary shares at 10 pence each as at 31 October 2018 (30 April 2017: 10 pence each)

	31 October 2018		30 April 2017	
	Shares	**$'000**	Shares	$'000
Issued and fully paid				
At 1 May	**229,674,479**	**39,700**	228,706,210	39,573
Shares issued to satisfy option awards	**1,894,673**	**251**	968,269	127
Share reorganisation	**(16,935,536)**	**(2,926)**	–	–
Shares issued relating to acquisition of the HPE Software business (note 39)	**222,166,897**	**28,773**	–	–
At 31 October/30 April	**436,800,513**	**65,798**	229,674,479	39,700

"B" shares at 168 pence each

	31 October 2018		30 April 2017	
	Shares	**$'000**	Shares	$'000
Issued and fully paid				
At 1 May	**–**	**–**	–	–
Issue of B shares	**229,799,802**	**500,000**	–	–
Redemption of B shares	**(229,799,802)**	**(500,000)**	–	–
At 31 October/30 April	**–**	**–**	–	–

Share issuances during the 18 months to 31 October 2018

In the 18 months to 31 October 2018, 1,894,673 ordinary shares of 10 pence each (12 months to 30 April 2017: 968,269 ordinary shares of 10 pence) were issued by the Company to settle exercised share options. The gross consideration received in the 18 months to 31 October 2018 was $5.8m (12 months to 30 April 2017: $2.0m). 222,166,897 ordinary shares of 10 pence each were issued by the Company as consideration for the acquisition of the HPE Software business (note 39).

In relation to the return of value to shareholders (note 33), on 31 August 2017 229,799,802 "B" shares were issued at 168 pence each, resulting in a total of $500.0m being credited to the "B" share liability account. Subsequently and on the same date, 229,799,802 "B" shares were redeemed at 168 pence each and an amount of $500.0m was debited from the "B share liability account.

At 31 October 2018 9,858,205 treasury shares were held (30 April 2017: nil) such that the number of ordinary shares with voting rights was 426,942,308 (30 April 2017: 229,674,479) and the number of listed shares at 31 October 2018 was 436,800,513 (30 April 2017: 229,674,479).

Potential issues of shares

Certain employees hold options to subscribe for shares in the Company at prices ranging from nil pence to 1,875.58 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 31 October 2018 was 18,156,060 (30 April 2017: 8,607,889).

Share buy-back

On 29 August 2018, the company announced the start of a share buy-back programme for an initial tranche of up to $200m which was extended on 5 November 2018 to the total value of $400m (including the initial tranche). Up to and including 13 February 2019 the company had spent $400m and purchased 22,455,121 shares at an average price of £13.82 per share. We are now extending this buy-back programme into a third tranche of up to $110m to be executed in the period from 14 February 2019, up until the day before the AGM which takes place on 29 March 2019 when the current buy-back authority approved by shareholders at the 2017 AGM to make market purchases of up to 65,211,171 ordinary shares will expire.

In addition to purchasing ordinary shares on the London Stock Exchange Citi acquired American Depository Receipts representing ordinary shares ("ADRs") listed on the New York Stock Exchange which it cancelled for the underlying shares and then sold such shares to the Company.

As at 31 October 2018, 9,858,205 ordinary shares have been bought back at a total cost of $171.7m, including expenses of $0.5m. 8,567,659 ordinary shares were bought on the London Stock Exchange and 1,290,546 ADRs were purchased on the New York Stock Exchange.

32 Share premium account

	31 October 2018 $'000	30 April 2017 $'000
At 1 May	**192,145**	190,293
Issue and redemption of B shares (note 31)	**(156,683)**	–
Movement in relation to share options exercised (note 35)	**5,499**	1,852
At 31 October/30 April	**40,961**	192,145

33 Other reserves

	Capital redemption reserve $'000	Merger reserve $'000	Hedging reserve $'000	Total $'000
As at 1 May 2016	163,363	988,104	–	1,151,467
Reallocation of merger reserve[1]	–	(650,000)	–	(650,000)
As at 30 April 2017	**163,363**	**338,104**	**–**	**501,467**
As at 1 May 2017	**163,363**	**338,104**	**–**	**501,467**
Return of Value – share consolidation[2]	**2,926**	**–**	**–**	**2,926**
Return of Value – issue and redemption of B shares[2]	**500,000**	**(343,317)**	**–**	**156,683**
Hedge accounting (note 29)[3]	**–**	**–**	**86,381**	**86,381**
Current tax movement on hedging[3]	**–**	**–**	**(16,413)**	**(16,413)**
Acquisition of the HPE Software business [4]	**–**	**6,485,397**	**–**	**6,485,397**
Reallocation of merger reserve[1]	**–**	**(2,755,800)**	**–**	**(2,755,800)**
As at 31 October 2018	**666,289**	**3,724,384**	**69,968**	**4,460,641**

1 The Company has transferred an amount from the merger reserve to retained earnings pursuant to UK company law. The Parent Company previously transferred the investment in The Attachmate Group ("TAG") to a wholly owned subsidiary for an intercompany receivable in the amount of $1,373m. During the period, the Parent Company also transferred the investment in the HPE Software business to a wholly owned subsidiary in exchange for an intercompany receivable. An amount of $2,755.8m has been transferred from the merger reserve to retained earnings (30 April 2017: $650.0m). Of the $2,755.8m merger reserve transfer in the period, $408.2m of the intercompany loan has been settled in the period and the remaining $2,347.6m is expected to be settled in qualifying consideration during the year to 31 October 2019 (year to 30 April 2017: $650.0m). It therefore meets the definition of qualifying consideration and is available for dividend distribution to the Parent Company's shareholders.

2 On 31 August 2017 a Return of Value was made to shareholders amounting to $500.0m. The Return of Value was effected through an issue and redemption of B shares, and resulted in a $500.0m increase in the capital redemption reserve, a $343.3m reduction in the merger reserve and a $156.7m reduction in share premium. The return of value was accompanied by a 0.9263 share consolidation and the share consolidation resulted in the issue of D deferred shares which were subsequently bought back for 1 penny, resulting in a transfer of $2.9m to the capital redemption reserve.

3 $70.0m was recognised in the hedging reserve in relation to hedging transactions entered into in the 18 months ended 31 October 2018.

4 On 1 September 2017 the acquisition of the HPE Software business was completed (note 39). As a result of this a merger reserve was created of $6,485.4m. The acquisition was structured by way of equity consideration; 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 Parent Company chose to record its investment in the HPE Software business 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 the HPE Software business and the aggregate nominal value of the shares issued).

Notes to the consolidated financial statements
for the 18 months ended 31 October 2018 continued

34 Non-controlling interests
The Group has minority shareholders in one subsidiary, Novell Japan Ltd. On 20 November 2017, a payment of 170,350 JPY ($1,547) was made to a minority shareholder to acquire 170,350 ordinary one JPY shares held. On 22 December 2017, a payment of 170,350 JPY ($1,505) was made to another minority shareholder to acquire 170,350 ordinary one JPY shares held. These transactions increased the Group's shareholding from 74.7% to 81.05%.

	31 October 2018 $'000	30 April 2017 $'000
At 1 May	**954**	1,057
Share of profit/(loss) after tax	**85**	(103)
At 31 October/30 April	**1,039**	954

Non-controlling interests relate to the companies detailed below:

Company name	Country of incorporation and principal place of business	31 October 2018 Proportion held	30 April 2017 Proportion held
Novell Japan Ltd	Japan	**81.05%**	74.7%

35 Employees and directors

	18 months ended 31 October 2018 $'000	Restated[1] 12 months ended 30 April 2017 $'000
Staff costs		
Wages and salaries	**1,819,251**	382,482
Redundancy and termination costs (non-exceptional)	**2,102**	2,115
Social security costs	**159,009**	53,215
Other pension costs	**50,379**	11,379
	2,030,741	449,191
Cost of employee share schemes	**64,284**	31,463
Total	**2,095,025**	480,654

	18 months ended 31 October 2018 $'000	Restated[1] 12 months ended 30 April 2017 $'000
Pension costs comprise:		
Defined benefit schemes (note 27)	**7,138**	504
Defined contribution schemes (note 27)	**43,241**	10,875
Total	**50,379**	11,379

1 The comparatives for the 12 months to 30 April 2017 have been restated to reflect the divestiture of the SUSE business segment (note 19).

35 Employees and directors continued

	18 months ended 31 October 2018 Number	12 months ended 30 April 2017 Number
Average monthly number of people (including executive directors) employed by the Group:		
Continuing operations		
Sales and distribution	**5,860**	1,818
Research and development	**4,323**	1,400
General and administration	**1,378**	642
	11,561	3,860
Discontinued operations		
Sales and distribution	**515**	323
Research and development	**629**	476
General and administration	**8**	4
Total	**1,152**	803
Sales and distribution	**6,375**	2,141
Research and development	**4,952**	1,876
General and administration	**1,386**	646
Total	**12,713**	4,663

	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Key management compensation		
Short-term employee benefits	**25,893**	8,051
Share-based payments	**44,497**	9,391
Total	**70,390**	17,442

The key management figures above include the executive management team and directors. There are no post-employment benefits. Directors' remuneration is shown below.

	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Directors		
Aggregate emoluments	**14,583**	5,227
Aggregate gains made on the exercise of share options	**77,719**	8,166
Company contributions to money purchase pension scheme	**749**	463
Total	**93,051**	13,856

For further information on the directors of the Company please refer to the Directors' Remuneration report on pages 90 to 109.

35 Employees and directors continued

Share-based payments

The amount charged to the consolidated statement of comprehensive income in respect of share-based payments was $72.2m for the 18 months ended 31 October 2018 (12 months ended 30 April 2017: $34.5m). The consolidated statement of comprehensive income has been presented split between continuing and discontinued operations. The table below provides information of the share-based payments on a continuing operations basis. The tables below for each type of share option are presented on a combined continuing and discontinued operations basis.

Continuing operations	**18 months ended 31 October 2018 $'000**	Restated 12 months ended 30 April 2017 $'000
Share-based compensation – IFRS 2 charge	**70,921**	20,798
Employer taxes	**(6,637)**	10,665
	64,284	31,463

As at 31 October 2018, accumulated employer taxes of $20.6m (30 April 2017: $17.0m) are included in trade and other payables and $0.5m (30 April 2017: $1.2m) is included in other non-current liabilities.

The Group has various equity-settled share-based compensation plans details of which are provided below.

a) Incentive Plan 2005

On 27 April 2005 the remuneration committee approved the rules of the Incentive Plan 2005 ("LTIP") which permits the granting of share options to executive directors and senior management. The total number of options they receive is determined by the performance criteria set by the remuneration committee over a three year performance period. Prior to 18 April 2011 performance conditions required that cumulative EPS growth over a three year vesting period is at least equal to Retail Prices Index ("RPI") plus 11% (at which point 25% of awards will vest), 60% of shares will vest for cumulative EPS growth of RPI plus 13% and for full vesting the cumulative EPS growth will be required to be RPI plus 15% per annum. RPI is the general index of the UK retail prices (for all items) published by the Office of National Statistics or any similar index replacing it. Straight-line vesting will apply between these points.

Awards granted on or after 18 April 2011 are subject to either Absolute Shareholder Returns ("ASR") over a three year period, cumulative EPS growth or a combination of both. ASR is defined as the average closing share price over the period of five days ending on the day prior to the vesting date less the reference price plus the total of all dividends and cash distributions and any other measures as determined by the Remuneration Committee between the award date and the vesting date. Where the cumulative EPS growth over a three year period is at least equal to RPI plus 3% per annum 25% of awards will vest, with full vesting is achieved when the cumulative EPS growth is RPI plus 9% per annum. Straight-line vesting will apply between these points. Where the award is subject to ASR, the resulting level of vesting will be reduced by 25% if the ASR is below 150 pence or increased by 50% if ASR is 300 pence or more.

Further details are provided in the remuneration committee report on pages 90 to 109.

	18 months ended 31 October 2018		12 months ended 30 April 2017	
	Number of options '000	**Weighted average exercise price pence**	Number of options '000	Weighted average exercise price pence
Outstanding at 1 May	**4,662**	**29**	5,186	41
Exercised	**(1,283)**	**12**	(1,008)	85
Forfeited	**(582)**	**3**	(120)	14
Granted	**2,823**	**–**	604	6
Outstanding at 31 October/30 April	**5,620**	**14**	4,662	29
Exercisable at 31 October/30 April	**2,270**	**51**	1,261	92

The weighted average share price in the period for options on the date of exercise was 1,781 pence for the 18 months ended 31 October 2018 (12 months ended 30 April 2017: 2,027 pence).

The amount charged to the consolidated statement of comprehensive income in respect of the scheme was $30.2m for the 18 months ended 31 October 2018 (12 months ended 30 April 2017: $16.2m). In addition to this $4.2m (2017: $3.6m charge) was credited to the consolidated statement of comprehensive income in respect of National Insurance on these share options.

35 Employees and directors continued

	31 October 2018			30 April 2017		
Range of exercise prices	**Weighted average exercise price pence**	**Number of options '000**	**Weighted average remaining contractual life (years)**	Weighted average exercise price pence	Number of options '000	Weighted average remaining contractual life (years)
£0.10 or less	**1**	**5,127**	**6.7**	4	3,856	7.4
£0.11 – £1.00	**13**	**205**	**4.9**	13	506	6.6
£1.01 – £2.00	**–**	**–**	**–**	–	–	–
£2.01 – £3.00	**–**	**–**	**–**	281	5	0.5
£3.01 – £4.00	**358**	**146**	**0.7**	358	146	2.2
More than £4.00	**402**	**142**	**1.7**	402	149	3.2
	14	**5,620**	**4.0**	29	4,662	7.0

The weighted average fair value of options granted during the 18 months ended 31 October 2018 determined using the Black-Scholes valuation model was £15.25 (12 months ended 30 April 2017: £18.56).

The significant inputs into the model for the 18 months ended 31 October 2018 were:

	18 months ended 31 October 2018	12 months ended 30 April 2017
Weighted average share price at the grant date	**£16.87**	£20.22
Expected volatility	**between 28.59% and 48.54%**	between 26.96% and 27.98%
Expected dividend yield	**between 2.82% and 7.02%**	between 2.70% and 3.10%
Expected option life	**three years**	three years
Annual risk-free interest rate	**between 1.0% and 1.6%**	between 0.71% and 1.09%

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

	18 months ended 31 October 2018		12 months ended 30 April 2017	
	Number of options '000	**Weighted average exercise price pence**	Number of options '000	Weighted average exercise price pence
Outstanding at 1 May	**3,262**	**–**	3,262	–
Exercised	**(200)**	**–**	–	–
Lapsed	**(2,412)**	**–**	–	–
Cancelled	**(3,276)**	**–**	–	–
Granted	**13,115**	**–**	–	–
Outstanding at 31 October/30 April	**10,489**	**–**	3,262	–
Exercisable at 31 October/30 April	**3,062**	**–**	3,062	–

Additional Share Grants – The Attachmate Group ("TAG") acquisition
The Remuneration Committee awarded Additional Share Grants ("ASGs") to a number of senior managers and executives, critical to delivering the anticipated results of the acquisition of The Attachmate Group, which completed on 20 November 2014.

ASGs are nil cost options over ordinary shares. The ASGs became 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.

35 Employees and directors continued

The performance condition is that the percentage of ordinary shares subject to the ASG which may be acquired on exercise on or after the vesting date is as follows:

(i) 0% if the Shareholder Return Percentage (as defined below) is 50% or less;
(ii) 100% if the Shareholder Return Percentage is 100% or more; and
(iii) A percentage determined on a straight-line basis between (i) and (ii) above.

The "Shareholder Return Percentage" will be calculated by deducting 819.425 pence per share (the "Reference Price"), being the average of the 20 days before 3 June 2014 (being the date of the heads of agreement relating to the proposed combination of Micro Focus and Attachmate between Micro Focus, Wizard, Golden Gate Capital and Francisco Partners Management LP), from the sum of the "Vesting Price" (calculated as the average closing share price over the period of 20 days ending on the day prior to the vesting date) plus the total of all dividends per share between Completion and the vesting date. This will be divided by the Reference Price, multiplying the resulting figure by 100 to obtain the Shareholder Return Percentage.

The weighted average fair value of options granted was £4.40, after using the Monte-Carlo simulation model. 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.

Additional Share Grants – The HPE Software business acquisition

The Remuneration Committee awarded a number of Additional Share Grants ("ASGs") to a number of senior managers and executives, critical to delivering the anticipated results of the acquisition of the HPE Software business, which completed on 1 September 2017.

ASGs are nil cost options over ordinary shares. The ASGs will become exercisable, subject to the satisfaction of the performance condition, on the third anniversary of the announcement date of 7 September 2016 (the "vesting date") and will remain exercisable for a period of 84 months commencing on the Vesting date.

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 1817.75 pence per share (the "Reference Price"), being the average of the 20 days before 1 August 2016 (being the date of the heads of agreement relating to the proposed combination of Micro Focus and the HPE Software business), 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 the announcement date and the vesting date. This will be divided by the Reference Price, multiplying the resulting figure by 100 to obtain the Shareholder Return Percentage.

On 20 September 2018, the Group announced that, following a review of existing Additional Share Grant ("ASG") awards after the announcement of the forthcoming SUSE sale, ASG awards made to Executive Directors on completion of the HPE Software acquisition on 1 September 2017 would be cancelled. New ASG awards were granted in order to align with the business plan to deliver value by October 2020 and focus Executive Directors on delivering significant value to shareholders over the three years from completion of the transaction. The Company believes that, in the light of the HPE Software business integration and the wider competitive environment evidenced by recent M&A activity in the software sector, the alignment of the vesting period to September 2020 is essential to provide an effective incentive over the period of the business plan.

The current Executive Directors (Kevin Loosemore, Stephen Murdoch and Chris Kennedy) and those who were Executive Directors at the time of the existing award and remain in employment (Nils Brauckmann and Mike Phillips) agreed to surrender their existing ASG awards made on 1 September 2017 which were due to vest on 7 September 2019. In return, the Company has made new ASG awards over ordinary shares in the Company as detailed below, which are due to vest on 1 September 2020 (being three years from the completion of the transaction).

35 Employees and directors continued

Director	Number of granted and cancelled nil cost share options over Ordinary Shares '000	Number of replacement nil cost options over Ordinary Shares '000
Kevin Loosemore	1,100	1,100
Stephen Murdoch	500	947
Chris Kennedy[1]	500	676
Mike Phillips	676	676
Nils Brauckmann	500	500
	3,276	3,899

1 The share options awarded to Chris Kennedy's replacement HPE Software ASGs will lapse as a result of his resignation and subsequent leaving employment in February 2019. This has been reflected in the share options disclosures.

The Total Shareholder Returns ("TSR") performance thresholds for the new awards are unchanged from the previous awards, save in respect of the period to vesting, and the number of new awards is equal to the number of previous awards which they replace, except for Stephen Murdoch and Chris Kennedy where increases of 447,000 and 176,000 awards respectively have been made to reflect Stephen's promotion to Chief Executive Officer and to align Chris' awards to those granted to his predecessor.

As new ASGs have been granted to replace the original ASGs that have been cancelled, this is treated under IFRS 2 "Share-based payment" as modification of the original ASG grant. Due to the performance conditions attached to them, the fair value for ASGs is determined using the Monte Carlo simulation method. The fair value of the original awards is determined at the modification date (20 Sept 2018) i.e. replacing the original fair values. The incremental fair value of the new awards over the original awards at the date of modification is recognised in addition to the grant date fair value. The original expense continues to be recognised over the original service period, the incremental expense is recognised over the remaining service period for the new awards i.e. to 1 September 2020 rather than 7 September 2019.

The weighted average fair value of options granted during the period determined using the Monte-Carlo simulation model was £4.80.

The significant inputs into the model for the 18 months ended 31 October 2018 were:

	18 months ended 31 October 2018	12 months ended 30 April 2017
Weighted average share price at the grant date	**£18.35**	£11.05
Expected volatility	**Between 28.00% – 31.00%**	Between 25.81% – 26.11%
Expected dividend yield	**Between 3.26% – 5.29%**	Between 2.90% – 3.30%
Expected option life	**1.96 years**	3 years
Annual risk-free interest rate	**Between 0.43% – 0.84%**	Between 1.71% – 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.

The amount charged to the consolidated statement of comprehensive income in respect of the ASGs was $45.6m for the 18 months ended 31 October 2018 (12 months ended 30 April 2017: $6.6m). In addition to this $2.5m (12 months ended 30 April 2017: $7.0m charge) was credited to the consolidated statement of comprehensive income in respect of National Insurance on these share options in the 18 months ended 31 October 2018.

	31 October 2018			30 April 2017		
Range of exercise prices	**Weighted average exercise price pence**	**Number of options '000**	**Weighted average remaining contractual life (years)**	Weighted average exercise price pence	Number of options '000	Weighted average remaining contractual life (years)
£0.00	**–**	**10,489**	**5.5**	–	3,262	7.6
	–	**10,489**	**5.5**	–	3,262	7.6

Notes to the consolidated financial statements
for the 18 months ended 31 October 2018 continued

35 Employees and directors continued

c) Sharesave and Employee Stock Purchase Plan 2006

In August 2006, the Company introduced the Micro Focus Employee Stock Purchase Plan 2006 and the Micro Focus Sharesave Plan 2006, approved by members on 25 July 2006. The Group operates several plans throughout the world, but the two main plans are the Sharesave Plan ("Sharesave") primarily for UK employees and the Employee Stock Purchase Plan ("ESPP") for employees in the USA and Canada. The Sharesave and ESPP provide for an annual award of options at a discount to the market price and are open to all eligible Group employees. Under these plans employees make monthly savings over a period (Sharesave three years, ESPP two years) linked to the grant of an option with an option price which can be at a discount (Sharesave 20%, ESPP 15%) of the market value of the shares on grant. The option grants are subject to employment conditions and continuous savings.

Further Sharesave and ESPP grants were made during the 18 months to 31 October 2018.

	18 months ended 31 October 2018		12 months ended 30 April 2017	
Sharesave	**Number of options '000**	**Weighted average exercise price pence**	Number of options '000	Weighted average exercise price pence
Outstanding at 1 May	**559**	**1,039**	544	862
Exercised	**(294)**	**829**	(90)	618
Forfeited	**(223)**	**1,508**	(28)	1,001
Granted	**454**	**1,293**	133	1,466
Outstanding	**496**	**1,185**	559	1,039
Exercisable	**47**	**1,116**	–	–

Number of options '000	Date of grant	Exercise price per share pence	Exercise period
1	10 February 2015	838.4	1 April 2018 – 30 September 2018
46	7 August 2015	1,112.0	1 October 2018 – 31 March 2019
40	9 February 2016	1,200.0	1 April 2019 – 30 September 2019
80	12 August 2016	1,465.6	1 October 2019 – 1 February 2020
43	23 February 2018	1,720.0	1 April 2021 – 30 September 2021
264	3 August 2018	1,023.0	1 October 2021 – 31 March 2022
22	3 August 2018	1,159.0	1 October 2021 – 1 April 2022
496			

	18 months ended 31 October 2018		12 months ended 30 April 2017	
ESPP	**Number of options '000**	**Weighted average exercise price pence**	Number of options '000	Weighted average exercise price pence
At 1 May	**124**	**1,510**	272	1,080
Exercised	**(110)**	**1,598**	(93)	998
Forfeited	**(31)**	**1,236**	(142)	1,220
Granted	**817**	**1,057**	87	1,836
Outstanding	**800**	**1,047**	124	1,510
Exercisable	**–**	**1,021**	–	–

35 Employees and directors continued

Number of options '000	Date of grant	Exercise price per share pence	Exercise period
19	1 October 2016	1,875.6	1 October 2018 – 31 December 2018
337	1 March 2018	1,235.6	1 March 2020 – 31 May 2020
444	1 July 2018	868.5	1 July 2020 – 30 September 2020
800			

The amount charged to the consolidated statement of comprehensive income in respect of the Sharesave and ESPP schemes was $2.9m for the 18 months ended 31 October 2018 (12 months ended 30 April 2017: $1.1m).

The weighted average fair value of options granted in the Sharesave and ESPP schemes during the 18 months ended 31 October 2018 determined using the Black-Scholes valuation model was £6.28 (2017: £5.36).

The significant inputs into the model for the 18 months ended 31 October 2018 were:

	18 months ended 31 October 2018	12 months ended 30 April 2017
Weighted average share price at the grant date	**£15.48**	£20.56
Expected volatility	**between 28.82% – 48.60%**	26.95%
Expected dividend yield	**between 3.86% – 7.02%**	2.60%
Expected option life	**two or three years**	two or three years
Annual risk-free interest rate	**between 1.3% – 1.5%**	0.61%

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 31 October 2018 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.

	31 October 2018 $'000	30 April 2017 $'000
Future minimum lease payments under non-cancellable operating leases expiring:		
No later than one year	**65,831**	28,330
Later than one year and no later than five years	**139,695**	85,008
Later than five years	**22,503**	28,749
Total	**228,029**	142,087

The Group leases various offices under non-cancellable operating lease agreements that are included in the table. The leases have various terms, escalation clauses and renewal rights. The minimum lease payments payable under operating leases recognised as an expense in the 18 months ended 31 October 2018 were $103.8m (12 months ended 30 April 2017: $26.3m).

37 Contingent liabilities

The Company and several of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

Shareholder litigation

Micro Focus International plc and certain current and former directors and officers are involved in two class action lawsuits in which plaintiffs are seeking damages for alleged violations of the Securities Act of 1933 and the Exchange Act of 1934. Plaintiffs allege false and misleading statements or omissions in offering documents issued in connection with the Hewlett Packard Enterprise software business merger and issuance of Micro Focus American Depository Shares ("ADS") as merger consideration, and other purportedly false and misleading statements. No liability has been recognised in either case as these are still very early in proceedings and it is too early to estimate whether there will be any financial impact.

38 Related party transactions

The Group's related parties are its subsidiary undertakings, key management personnel and post-employment benefit plans.

Subsidiaries

Transactions between the Company and its subsidiaries have been eliminated on consolidation.

Remuneration of key management personnel

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. There are no loans between the Group and the key management personnel.

Transactions with other related parties.

The following transactions occurred with other related parties:

Contributions made to pension plans by the Group on behalf of employees are set out in note 27.

Sales and purchases of goods and services between related parties are not considered material.

39 Business combinations

Summary of acquisitions

	Carrying value at acquisition	Fair value adjustments	Goodwill	Consideration		
	$'000	$'000	$'000	Shares $'000	Cash $'000	Total $'000
Acquisitions in the 18 months ended 31 October 2018:						
HPE Software business	**(2,487,916)**	**4,143,712**	**4,858,374**	**6,514,170**	**–**	**6,514,170**
COBOL-IT	**(2,952)**	**14,026**	**5,588**	**–**	**16,662**	**16,662**
	(2,490,868)	**4,157,738**	**4,863,962**	**6,514,170**	**16,662**	**6,530,832**
Acquisitions in the 12 months ended 30 April 2017:						
Serena Software Inc.	147,260	(249,306)	379,669	–	277,623	277,623
GWAVA Inc.	618	3,062	12,767	–	16,447	16,447
OpenATTIC	–	4,991	–	–	4,991	4,991
OpenStack	–	–	–	–	–	–
	147,878	(241,253)	392,436	–	299,061	299,061
	(2,342,990)	**3,916,485**	**5,256,398**	**6,514,170**	**315,723**	**6,829,893**

Acquisitions in the 18 months ended 31 October 2018:

1 Acquisition of the HPE Software business

On 1 September 2017, the Company completed the acquisition of HPE's software business ("HPE Software") by way of merger with a wholly owned subsidiary of HPE incorporated to hold the business of HPE Software in accordance with the terms of the previously announced Merger agreement ("Completion"). Accordingly, on Admission, American Depositary Shares representing 222,166,897 Consideration Shares were issued to HPE Shareholders, representing 50.1% of the fully diluted share capital of the Company. The fair value of the ordinary shares issued was based on the listed share price of the Company as of 31 August 2017 of $6.5bn. The costs of acquiring the HPE Software business of $70.1m are included in exceptional items (note 4) and include costs relating to due diligence work, legal work on the acquisition agreement and professional advisors on the transaction.

This acquisition has created a global infrastructure software business with pro-forma revenues in the 12 months to 30 April 2017 of approximately $4.4bn and Adjusted EBITDA of approximately $1.4bn making it the seventh largest pure play software company in the world and a leading technology stock on the LSE.

There was judgement used in identifying who the accounting acquirer was in the acquisition of the HPE Software business, as the resulting shareholdings were not definitive to identify the entity which obtains control in the transaction. The Group considered the other factors laid down in IFRS, such as the composition of the governing body of the combined entity, composition of senior management of the combined entity, the entity that issued equity interest, terms of exchange of equity interests, the entity which initiated the combination, relative size of each entity, the existence of a large minority voting interest in the combined entity and other factors (e.g. location of headquarters of the combined entity and entity name). The conclusion of this assessment is that the Company is the accounting acquirer of the HPE Software business, and the acquisition accounting, as set out below, has been performed on this basis.

39 Business combinations continued

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 (note 11)[1]	72,825	6,467,000	**6,539,825**
Property, plant and equipment (note 12)	160,118	–	**160,118**
Other non-current assets	41,929	–	**41,929**
Inventories	185	–	**185**
Trade and other receivables	721,009	–	**721,009**
Current tax recoverable	496	–	**496**
Cash and cash equivalents	320,729	–	**320,729**
Trade and other payables	(686,855)	1,616	**(685,239)**
Current tax liabilities	(9,942)	–	**(9,942)**
Borrowings	(2,547,604)	–	**(2,547,604)**
Short-term provisions	(30,182)	–	**(30,182)**
Short-term deferred income (note 24)[2]	(701,169)	58,004	**(643,165)**
Long-term deferred income (note 25)[2]	(116,858)	8,652	**(108,206)**
Long-term provisions (note 26)	(38,983)	–	**(38,983)**
Retirement benefit obligations (note 27)	(71,445)	–	**(71,445)**
Other non-current liabilities	(52,421)	12,145	**(40,276)**
Deferred tax assets/(liabilities)[3]	450,252	(2,403,705)	**(1,953,453)**
Net (liabilities)/assets	(2,487,916)	4,143,712	**1,655,796**
Goodwill (note 10)	–		**4,858,374**
Consideration			**6,514,170**
Consideration satisfied by :			
Shares			**6,514,170**

The Group has used acquisition accounting for the purchase and the goodwill arising on consolidation of $4,858.4m has been capitalised. The Group made a repayment of working capital in respect of the HPE Software business acquisition of $225.8m in the period.

Trade and other receivables are net of a provision for impairment of trade receivables of $21.5m.

A fair value review has been carried out on the assets and liabilities of the acquired business, resulting in the identification of intangible assets.

The fair value adjustments include:

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 the HPE Software business;
2 Deferred income has been valued taking account of the remaining performance obligations; and
3 A deferred tax liability has been established relating to the purchase of intangibles.

39 Business combinations continued

The purchased intangible assets acquired as part of the acquisition can be analysed as follows (note 11):

	Fair value $'000
Technology	**1,809,000**
Customer relationships	**4,480,000**
Trade names	**163,000**
Leases	**15,000**
	6,467,000

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.

As a consequence of the HPE Software business transaction, the Group is subject to potentially significant restrictions relating to tax issues that could limit the Group's ability to undertake certain corporate actions (such as the issuance of Micro Focus shares or Micro Focus ADSs or the undertaking of a merger or consolidation) that otherwise could be advantageous to the Group. The Group is obliged to indemnify HPE for tax liabilities relating to the separation of the HPE Software business from HPE if such liabilities are triggered by actions taken by the Group. The Group has robust procedures in place, including on-going consultation with its tax advisors, to ensure no such triggering actions are taken.

The impact of the results of the HPE Software business acquisition has not been separately disclosed in these Consolidated financial statements as it is not practical to do so as it has been integrated into the Micro Focus Product Portfolio segment.

2 Acquisition of COBOL-IT, SAS

On 1 December 2017, the Group completed on the acquisition of COBOL-IT SAS ("COBOL-IT"). COBOL-IT is in the business of designing, editing and commercialisation of software, IT devices and related services.

Consideration of $16.7m consists of completion payment of Euro 11.3m, retention amounts of Euro 2.7m payable at a later date, working capital adjustments and net cash adjustments. The Group has not presented the full IFRS 3 "Business Combinations" disclosures as this acquisition is not material to the Group.

A fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of intangible assets. The fair value review was finalised in the 12 month hindsight period following completion, which ended on 30 November 2018. Goodwill of $5.6m (note 10), deferred tax liabilities of $3.9m, purchased intangibles of $14.0m (note 11) (Purchased Technology $1.5m, Customer relationships $12.3m and Trade names $0.2m) and cash of $1.0m were recorded as a result of the COBOL-IT acquisition and no hindsight adjustments were identified.

3 Acquisition of Covertix

On 15 May 2018, the Group entered into an Asset Purchase Agreement ("the agreement") to acquire certain assets of Covertix, an Israeli company that had entered voluntary liquidation in April 2018. Covertix used their patented solutions to develop and sell security products that offered control and protection of confidential files when shared with both internal and external parties. Prior to entering liquidation Covertix had offices in Israel and the US, with partners in the Netherlands and Singapore.

Under the agreement, the Group paid $2.5m in cash to acquire certain equipment, patents, licence rights under certain agreements, and seven employees all involved in R&D activities. The purchase completed on 26 July 2018.

Under IFRS 3, the Covertix Ltd. acquisition is considered to be a business combination, however due to the immaterial amount of the transaction, the assets acquired have been recorded at cost and are being amortised over their useful lives within the ledgers of the acquiring entities. The Company did not create a new subsidiary for Covertix and no goodwill has been recorded.

39 Business combinations continued

Acquisitions in the year ended 30 April 2017:

1 Acquisition of Serena Software Inc.

On 2 May 2016, the Group acquired the entire share capital of Spartacus Acquisition Holdings, Corp, the holding company of Serena Software Inc. ("Serena") and its subsidiaries for $277.6m, payable in cash at completion. The Group then repaid the outstanding Serena bank borrowings of $316.7m as at 2 May 2016, making the total cash outflow for the Group of $528.5m, net of cash acquired of $65.8m. The transaction costs for the Serena acquisition were $0.9m ($0.5m was incurred in the year ended 30 April 2016).

The acquisition is highly consistent with the Group's established acquisition strategy and focus on the efficient management of mature infrastructure software products.

Serena is a leading provider of enterprise software focused on providing Application Lifecycle Management products for both mainframe and distributed systems. Whilst Serena is headquartered in San Mateo, California, the operations were effectively managed from offices in Hillsboro, Oregon and St. Albans in the United Kingdom. It operates in a further 10 countries. The Serena Group's customers are typically highly regulated large enterprises, across a variety of sectors including banking, insurance, telco, manufacturing and retail, healthcare and government.

Serena was integrated into the Micro Focus Product Portfolio and the revenues reported in the Development and IT Operations Management Tools sub-portfolio.

The transaction was funded through the Group's existing cash resources together with additional debt and equity finance arranged through Barclays, HSBC, the Royal Bank of Scotland and Numis Securities. On 2 May 2016, the Group's existing revolving credit facility was extended from $225m to $375m and the Group raised approximately £158.2m (approximately $225.7m) through a Placing underwritten by Numis Securities incurring $3.0m of costs associated with the Placing in March 2016.

A fair value review was carried out and finalised on the assets and liabilities of the acquired business, resulting in the identification of intangible assets.

Details of the net assets acquired and goodwill are as follows:

	Carrying value at acquisition $'000	Fair value adjustments $'000	**Fair value $'000**
Goodwill	462,400	(462,400)	**–**
Intangible assets – purchased[1]	–	317,700	**317,700**
Intangible assets – other	79	–	**79**
Property, plant and equipment	1,927	–	**1,927**
Other non-current assets	167	–	**167**
Deferred tax asset	15,347	–	**15,347**
Trade and other receivables	27,362	–	**27,362**
Cash and cash equivalent	65,784	–	**65,784**
Borrowings – short-term	(27,712)	–	**(27,712)**
Trade and other payables	(11,766)	–	**(11,766)**
Provisions – short-term	(4,045)	–	**(4,045)**
Current tax liabilities	(3,173)	–	**(3,173)**
Deferred income – short-term[2]	(72,217)	3,761	**(68,456)**
Deferred income – long-term[2]	(14,853)	798	**(14,055)**
Borrowings – long-term	(288,938)	–	**(288,938)**
Other non-current liabilities	(717)	–	**(717)**
Deferred tax liabilities[3]	(2,385)	(109,165)	**(111,550)**
Net assets/(liabilities)	147,260	(249,306)	**(102,046)**
Goodwill (note 10)			**379,669**
Consideration			**277,623**
Consideration satisfied by :			
Cash			**277,623**

The fair value adjustments relate to:

1 Purchased intangible assets have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of Serena;
2 Deferred income has been valued taking account of the remaining performance obligations; and
3 A deferred tax liability has been established relating to the purchase of intangibles.

39 Business combinations continued

The purchased intangible assets acquired as part of the acquisition can be analysed as follows (note 11):

	Fair value $'000
Technology	**86,100**
Customer relationships	**210,200**
Trade names	**21,400**
	317,700

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Company's existing customer base with those of the acquired business.

The Group has used acquisition accounting for the purchase and the goodwill arising on consolidation of $379.7m has been capitalised.

2 Acquisition of GWAVA Inc.

On 30 September 2016, the Group acquired the entire share capital of GWAVA Inc. ("GWAVA") and its subsidiaries for $16.4m, payable in cash at completion. The transaction costs for the GWAVA acquisition were $1.5m.

The acquisition is highly consistent with the Group's established acquisition strategy and focus on the efficient management of mature infrastructure software products.

GWAVA is a leading company in email security and enterprise information archiving ("EIA"). GWAVA has approximately 90 employees, based in the US, Canada and Germany. More than a million users across 60 countries rely on its products in over 3,000 customer organisations, supported by GWAVA's global team, with a further 1,000 GWAVA business partners collaborating closely to ensure successful customer solutions. In addition to GWAVA's award winning EIA product Retain, GWAVA has a full suite of products to protect, optimise, secure and ensure compliance for customers running Micro Focus GroupWise.

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]	–	5,330	**5,330**
Intangible assets – other[2]	1,180	(1,180)	**–**
Property, plant and equipment	195	–	**195**
Trade and other receivables	3,096	–	**3,096**
Cash and cash equivalent	2,389	–	**2,389**
Trade and other payables	(1,331)	–	**(1,331)**
Deferred income – short-term[3]	(4,094)	324	**(3,770)**
Deferred income – long-term	(817)	–	**(817)**
Deferred tax liabilities[4]	–	(1,412)	**(1,412)**
Net assets	618	3,062	**3,680**
Goodwill (note 10)			**12,767**
Consideration			**16,447**
Consideration satisfied by :			
Cash			**16,447**

The fair value adjustments relate to:
1 Purchased intangible assets have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of GWAVA Inc.;
2 Other intangible assets relating to historic IP has been written down to nil;
3 Deferred income has been valued taking account of the remaining performance obligations; and
4 A deferred tax liability has been established relating to the purchase of intangibles.

39 Business combinations continued

The purchased intangible assets acquired as part of the acquisition can be analysed as follows (note 10):

	Fair value $'000
Technology	**4,075**
Customer relationships	**544**
Trade names	**711**
	5,330

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Company's existing customer base with those of the acquired business.

The Group has used acquisition accounting for the purchase and the goodwill arising on consolidation of $12.8m has been capitalised.

3 Acquisition of OpenATTIC

On 1 November 2016, the Group acquired the OpenATTIC storage management technology and engineering talent from the company it-novum GmbH for a cash consideration of 4.7m Euros ($5.0m). The OpenATTIC technology aligns perfectly with SUSE's strategy to provide open source, software defined infrastructure solutions for the enterprise and will strengthen SUSE's Enterprise Storage solution by adding enterprise grade storage management capabilities to the portfolio. The transaction costs for the OpenATTIC acquisition were $1.2m. OpenATTIC will be included in the Group's SUSE business disposal (note 19).

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 technology	–	4,991	**4,991**
Net assets	–	4,991	**4,991**
Goodwill			**–**
Consideration			**4,991**
Consideration satisfied by :			
Cash			**4,991**

4 Acquisition of OpenStack

During the year, the Group acquired purchased technology and talent from HPE for $nil consideration that will expand SUSE's OpenStack Infrastructure-as-a-Service ("IaaS") solution and accelerate SUSE's entry into the growing Cloud Foundry Platform-as-a-Service ("PaaS") market, subject to regulatory clearances. The last regulatory clearance was received on 8 March 2017 and the deal was completed then. OpenStack will be included in the Group's SUSE business disposal (note 19).

The acquired OpenStack technology assets were integrated into SUSE OpenStack Cloud and the acquired Cloud Foundry and PaaS assets will enable SUSE in the future to bring to market a certified, enterprise-ready SUSE Cloud Foundry PaaS solution for all customers and partners in the SUSE ecosystem. Additionally, SUSE has increased engagement with the Cloud Foundry Foundation, becoming a platinum member and taking a seat on the Cloud Foundry Foundation Board.

As part of the transaction, HPE has named SUSE as its preferred open source partner for Linux, OpenStack IaaS and Cloud Foundry PaaS. HPE's choice of SUSE as their preferred open source partner further cements SUSE's reputation for delivering high quality, enterprise-grade open source solutions and services.

Notes to the consolidated financial statements
for the 18 months ended 31 October 2018 continued

40. Cash flow statement

	Note	18 months ended 31 October 2018 $'000	Restated[1] 12 months ended 30 April 2017 $'000
Cash flows from operating activities			
Profit from continuing operations		**707,193**	124,083
Profit from discontinued operation		**76,940**	33,720
Profit for the period		**784,133**	157,803
Adjustments for:			
Net finance costs	6	**342,712**	95,845
Taxation	7	**(638,875)**	38,541
Share of results of associates		**1,809**	1,254
Operating profit		**489,779**	293,443
Research and development tax credits		**(2,013)**	(2,998)
Depreciation	12	**95,179**	11,794
Loss on disposal of property, plant and equipment		**4,581**	520
Amortisation of intangible assets	11	**943,210**	236,434
Share-based compensation charge	35	**72,175**	34,506
Foreign exchange movements		**(34,505)**	(4,890)
Provisions movements	26	**142,859**	47,266
Changes in working capital:			
Inventories		**35**	29
Trade and other receivables		**(408,879)**	10,224
Payables and other liabilities		**131,333**	(33,252)
Provision utilisation	26	**(145,012)**	(43,476)
Deferred income		**131,477**	15,375
Pension funding in excess of charge to operating profit		**4,092**	(183)
Cash generated from operations		**1,424,311**	564,792

1 The comparatives for the 12 months ended 30 April 2017 have been restated to reflect the divestiture of the SUSE business segment (note 19).

41 Post balance sheet events

Atalla

On 18 May 2018 the Company entered into an agreement with Utimaco Inc. ("Utimaco"), under which Utimaco would acquire the Atalla product lines for $20m in cash. The deal was subject to regulatory approval by the Committee on Foreign Investment in the United States ("CFIUS"). CFIUS placed the deal into investigation in September and final approval was received 10 October 2018. The deal closed on 5 November 2018 and Utimaco acquired the Atalla HSM product line, the Enterprise Security Manger ("ESKM") product line, and related supporting assets, including applicable patents and other IP.

Share buy-back

On 29 August 2018, the company announced the start of a share buy-back programme for an initial tranche of up to $200m which was extended on 5 November 2018 to the total value of $400m (including the initial tranche). Up to and including 13 February 2019 the company had spent $400m and purchased 22,455,121 shares at an average price of £13.82 per share. We are now extending this buy-back programme into a third tranche of up to $110m to be executed in the period from 14 February 2019, up until the day before the AGM which takes place on 29 March 2019 when the current buy-back authority approved by shareholders at the 2017 AGM to make market purchases of up to 65,211,171 ordinary shares will expire.

Interset

On 15 February 2019, the Group completed the acquisition of Interset Software Inc., a worldwide leader in security analytics software that provides highly intelligent and accurate cyber-threat protection. The addition of this predictive analytics technology adds depth to Micro Focus' Security, Risk & Governance portfolio, and aligns with the Company's strategy to help customers quickly and accurately validate and assess risk as they digitally transform their businesses.

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Company Balance Sheet
as at 31 October 2018

	Note	31 October 2018 $'000	30 April 2017 $'000
Fixed assets			
Investments	VIII	**382,015**	328,556
		382,015	328,556
Current assets			
Deferred tax assets		**–**	2,787
Debtors	IX	**7,625,013**	1,218,471
Cash at bank and in hand		**990**	667
		7,626,003	1,221,925
Creditors: amounts falling due within one year	X	**(266,410)**	(72,190)
Net current assets		**7,359,593**	1,149,735
Total assets less current liabilities		**7,741,608**	1,478,291
Capital and reserves			
Called up share capital	XII	**65,798**	39,700
Share premium account	XII	**40,961**	192,145
Capital redemption reserve		**666,289**	163,363
Merger reserve		**3,751,469**	365,189
Retained earnings		**3,217,091**	717,894
Total equity		**7,741,608**	1,478,291

The profit for the 18 months ended 31 October 2018 before dividends for the Company was $878.7m (12 months to 30 April 2017: loss of $41.7m).

The Company financial statements on pages 214 to 224 were approved by the board of directors on 20 February 2019 and were signed on its behalf by:

Stephen Murdoch
Chief Executive Officer

Chris Kennedy
Chief Financial Officer

Registered number: 5134647

The accompanying notes form part of the financial statements.

Company statement of changes in equity
for the 18 months ended 31 October 2018

	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 2016		39,573	190,293	275,232	1,015,189	163,363	1,683,650
Loss for the year		–	–	(41,699)	–	–	(41,699)
Other comprehensive income for the year		–	–	–	–	–	–
Total comprehensive expense for the year		–	–	(41,699)	–	–	(41,699)
Dividends	IV	–	–	(177,535)	–	–	(177,535)
Issue of share capital		127	1,852	(90)	–	–	1,889
Reallocation of merger reserve[3]		–	–	650,000	(650,000)	–	–
Movement in relation to share options:							
– Value of subsidiary employee services	VI	–	–	16,345	–	–	16,345
– Value of services provided	V	–	–	6,453	–	–	6,453
Share purchased by the Employee Benefit Trust		–	–	(7,678)	–	–	(7,678)
Deferred tax on share options		–	–	(3,134)	–		(3,134)
Total changes in equity		127	1,852	442,662	(650,000)	–	(205,359)
Balance as at 30 April 2017		**39,700**	**192,145**	**717,894**	**365,189**	**163,363**	**1,478,291**
Profit for the period		**–**	**–**	**878,696**	**–**	**–**	**878,696**
Other comprehensive income for the period		**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the period		**–**	**–**	**878,696**	**–**	**–**	**878,696**
Transaction with owners:							
Dividends	IV	**–**	**–**	**(542,161)**	**–**	**–**	**(542,161)**
Issue of share capital		**251**	**5,499**	**(61)**	**–**	**–**	**5,689**
Movement in relation to share options:							
– Value of subsidiary employee services	VI	**–**	**–**	**53,571**	**–**	**–**	**53,571**
– Value of services provided	V	**–**	**–**	**25,062**	**–**	**–**	**25,062**
Acquisitions:							
Shares issued to acquire HPE Software business	X	**28,773**	**–**	**–**	**6,485,397**	**–**	**6,514,170**
Share reorganisation and buyback:							
Return of Value – share consolidation		**(2,926)**	**–**	**–**	**–**	**2,926**	**–**
Issue and redemption of B shares	XII	**–**	**(156,683)**	**(500,000)**	**(343,317)**	**500,000**	**(500,000)**
Share buy-back	XII	**–**	**–**	**(171,710)**	**–**	**–**	**(171,710)**
Reallocation of merger reserve[3]	XII	**–**	**–**	**2,755,800**	**(2,755,800)**	**–**	**–**
Total changes in equity		**26,098**	**(151,184)**	**2,499,197**	**3,386,280**	**502,926**	**6,263,317**
Balance as at 31 October 2018		**65,798**	**40,961**	**3,217,091**	**3,751,469**	**666,289**	**7,741,608**

1 In August 2017 a Return of Value was made to shareholders, amounting to $500.0m in cash, which resulted in a further $500.0m added to the capital redemption reserve. This was structured as a B Share Scheme, the B Shares being issued out of a combination of the share premium account and the exiting merger reserve.

2 On 20 November 2014, The Attachmate Group ("TAG") acquisition was completed. 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 unrealised on the basis it was represented by the investment in TAG, which is not considered to represent qualifying consideration (in accordance with Tech 02/17 (Guidance on the determination of realised 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. On 1 September 2017, the Company completed the HPE Software business transaction, this was structured in a similar way to the TAG acquisition and created a merger reserve of $6,485.4m. During the period to 31 October 2018, the Company transferred the investment in the HPE Software business to a wholly owned subsidiary in exchange for an intercompany receivable of $6,803.2m. To the extent this loan is settled in qualifying consideration, the related proportion of the merger reserve is considered realised.

3 The merger reserve is an unrealised profit until it can be realised by the settlement of the intercompany loan by qualifying consideration. Of the $2,755.8m merger reserve transfer in the period, $408.2m of the intercompany loan has been settled in the period and the remaining $2,347.6m is expected to be settled in qualifying consideration during the year to 31 October 2019 (year to 30 April 2017: $650.0m) and as such an equivalent proportion of the merger reserve is considered realised, in accordance with section 3.11(d) of Tech 02/17 and therefore has been transferred to the profit and loss account.

As at 31 October 2018 the value of distributable reserves was $3,105,935,000 (30 April 2017: $660,164,000).

The accompanying notes form part of the financial statements.

Company statement of cash flows

for the 18 months ended 31 October 2018

	Note	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Profit/(loss) for the financial period/year		**878,696**	(41,699)
Adjustments for:			
Income from shares in Group undertakings		**(920,000)**	–
Net interest		**(19)**	(14)
Taxation		**2,787**	(198)
Share-based payment charge		**22,778**	10,297
Exchange movements		**(9,766)**	550
Changes in working capital:			
Decrease in amounts owed from Group undertakings		**1,029,137**	163,355
Increase in amounts owed to Group undertakings		**162,240**	30,202
(Increase)/decrease in other debtors		**(1,509)**	3,611
Increase in creditors		**44,081**	16,216
Cash generated from operations		**1,208,425**	182,320
Interest paid		**–**	–
Taxation (paid)/received		**–**	–
Net cash generated from operating activities		**1,208,425**	182,320
Cash flows from investing activities			
Interest received		**19**	14
Net cash generated from investing activities		**19**	14
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**5,750**	1,979
Return of Value paid to shareholders		**(500,000)**	–
Treasury shares acquired		**(171,710)**	(7,678)
Dividends paid to owners	V	**(542,161)**	(177,535)
Net cash used in financing activities		**(1,208,121)**	(183,234)
Effects of exchange rate changes		**–**	–
Net increase/(decrease) in cash and cash equivalents		**323**	(900)
Cash and cash equivalents at beginning of the period		**667**	1,567
Cash and cash equivalents at end of the period/year		**990**	667

The principal non-cash transactions in the 18 months to 31 October 2018 were the issuance of shares as purchase consideration for the HPE Software business acquisition (note 39 in the Group's consolidated financial statements) and the subsequent disposal of the investment in the HPE Software business to another Group company in exchange for a Group intercompany loan.

The accompanying notes form part of the financial statements.

Notes to the Company financial statements

for the 18 months ended 31 October 2018

I Statement of compliance

The Company financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006.

II Summary of significant accounting policies

The basis of preparation and the principal accounting policies adopted in the preparation of the Company financial information are set out below. These policies have been applied consistently to all years presented. The Company has adopted FRS 102 in these financial statements.

A Basis of preparation

The Company financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and all applicable UK accounting standards. During the period the Company has changed its year end from 30 April to 31 October and therefore is reporting an 18 month period as at 31 October 2018.

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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

E Employee benefits

a) Short-term benefits

Short-term benefits, including holiday pay and other similar non-monetary benefits, are recognised 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 recognised as employee benefit expense when they are due. Prepaid contributions are recognised 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 period.

No expense is recognised 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 recognised 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 recognises 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 recognised 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 recognised when the options are exercised and the proceeds received allocated between called up share capital and share premium account.

Notes to the Company financial statements

for the 18 months ended 31 October 2018 continued

II Summary of significant accounting policies continued

d) Employee benefit trust

Transactions, assets and liabilities of the Group sponsored Employee Benefit Trust are included in the Consolidated financial statements. In particular, the Trust's purchases of shares in the Company remain deducted from shareholders' funds until they vest unconditionally with employees.

F Taxation

Corporation tax is payable on taxable profits at amounts expected to be paid, or recovered, under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised 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 recognised 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.

a) Financial assets

Basic financial instruments, including cash at bank and in hand and amounts owed by Group undertakings, are initially recognised 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 amortised cost using the effective interest rate method.

At the end of each reporting period, financial assets measured at amortised 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 recognised in profit or loss.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, are settled or substantially all the risks and rewards are transferred to another party.

b) Financial liabilities

Basic financial liabilities, including amounts owed to Group undertakings, are initially recognised 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 amortised cost using the effective interest rate method.

Financial liabilities are derecognised 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 recognised 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 recognised 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 judgements and estimation uncertainty

The Company makes an estimate of the recoverable value of investments in subsidiaries. When assessing impairment of investments management consider both internal and external indicators. There have been no other critical judgements made in applying the Company's accounting policies.

IV Profit and recognised gains and losses attributable to the Company

As permitted by Section 408 of the Companies Act 2006, no separate statement of comprehensive income is presented in respect of the Company. The Company has also taken advantage of legal dispensation contained in S408 of the Companies Act 2006 allowing it not to publish a separate statement of comprehensive income.

The profit for the 18 months ended 31 October 2018 for the Company was $878.7m, including dividends received of $920.0m (12 months to 30 April 2017: loss of $41.7m).

V Dividends

Equity – ordinary	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Final paid 58.33 cents (49.74 cents) per ordinary share	**133,889**	111,023
First Interim paid 34.60 cents (29.73 cents) per ordinary share	**156,243**	66,512
Second Interim paid 58.33 cents (nil cents) per ordinary share	**252,029**	–
Total	**542,161**	177,535

The directors proposed a dividend in respect of the 18 months ended 31 October 2018 of 58.33 cents per share which will utilise approximately $249.0m of total equity. The directors have concluded that the Company has sufficient distributable reserves to pay the dividend. It has not been included as a liability in these financial statements as it has not yet been approved by shareholders.

VI Employees and directors

Staff costs for the Company during the 18 months to 31 October 2018:

	18 months ended 31 October 2018 $'000	12 months ended 30 April 2017 $'000
Wages and salaries	**7,410**	3,381
Social security costs	**(1,853)**	4,381
Cost of employee share schemes	**25,207**	6,453
Total	**30,764**	14,215

The average monthly number of employees of the Company, including remunerated directors, during the period was ten (2017: nine). Nils Brauckmann, Stephen Murdoch and Christopher Hsu were remunerated by other Group companies. For further information on the directors of the Company please refer to the Remuneration Report on pages 90 to 109.

Key management personnel costs for the Company during the period

All the key management of the Company are directors and are therefore included in the Remuneration Report.

VII Share based payments

The Company has various equity-settled share-based compensation plans, details of which are provided in note 35 of the Group's consolidated financial statements on pages 200 to 205. The only employees of the Company are the directors and the interests of the executive directors in share options are as below.

a) Incentive Plan 2005

On 27 April 2005 the remuneration committee approved the rules of the Incentive Plan 2005 ("LTIP") which permits the granting of share options to executive directors and senior management. The total number of options they receive is determined by the performance criteria set by the remuneration committee over a three year performance period.

Awards granted on or after 18 April 2011 are subject to either Absolute Shareholder Returns ("ASR") over a three year period, cumulative EPS growth or a combination of both. ASR is defined as the average closing share price over the period of five days ending on the day prior to the vesting date less the reference price plus the total of all dividends and cash distributions and any other measures as determined by the Remuneration Committee between the award date and the vesting date. Where the cumulative EPS growth over a three year period is at least equal to Retail Prices Index ("RPI") plus 3% per annum, 25% of awards will vest, with full vesting achieved when the cumulative EPS growth is RPI plus 9% per annum. Straight-line vesting will apply between these points. RPI is the general index of the UK retail prices index (for all items) published by the Office of National Statistics or any similar index replacing it. Where the award is subject to ASR, the resulting level of vesting will be reduced by 25% if the ASR is below 150 pence or increased by 50% if ASR is 300 pence or more.

Further details are provided in the remuneration committee report on pages 90 to 109.

VII Share based payments continued

	18 months ended 31 October 2018		12 months ended 30 April 2017	
	Number of options '000	**Weighted average exercise price pence**	Number of options '000	Weighted average exercise price pence
At 1 May	**932**	**–**	825	–
Granted	**180**	**–**	107	–
Lapsed	**(73)**	**–**	–	–
Outstanding at 31 October / 30 April	**1,039**	**–**	932	–
Exercisable at 31 October / 30 April	**825**	**–**	485	–

No options were exercised during the 18 months ended 31 October 2018 and the year ended 30 April 2017.

The amount charged to the statement of comprehensive income in respect of the scheme was $4.1m for the 18 months ended 31 October 2018 (12 months ended 30 April 2017: $2.5m). In addition to this $1.5m (12 months ended 30 April 2017: $1.6m charge) was credited to the statement of comprehensive income in respect of national insurance on these options in the 18 months ended 31 October 2018.

	31 October 2018			30 April 2017		
Range of exercise prices	**Weighted average exercise price pence**	**Number of options '000**	**Weighted average remaining contractual life (years)**	Weighted average exercise price pence	Number of options '000	Weighted average remaining contractual life (years)
£0.00	**–**	**1,039**	**5.8**	–	932	6.8
	–	**1,039**	**5.8**	–	932	6.8

180,291 options were granted in the 18 months ended 31 October 2018 (12 months ended 30 April 2017: 106,418). The weighted average fair value of options granted during the 18 months ended 31 October 2018, as determined using the Black-Scholes valuation model, was £19.66 (12 months ended 30 April 2017: £20.02).

The significant inputs into the model were:

	18 months ended 31 October 2018	12 months ended 30 April 2017
Weighted average share price at the grant date	**£21.65**	£21.69
Expected volatility	**28.59% – 48.49%**	27.98%
Expected dividend yield	**2.91% – 5.63%**	2.80%
Expected option life	**2.86 – 3 years**	3 years
Annual risk-free interest rate	**1.00% – 1.60%**	0.89%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

VII Share based payments continued
b) Additional Share Grants

	18 months ended 31 October 2018		12 months ended 30 April 2017	
	Number of options '000	Weighted average exercise price pence	Number of options '000	Weighted average exercise price pence
Outstanding at 1 May	**1,624**	**–**	1,624	–
Cancelled	**(2,952)**	**–**	–	–
Granted	**4,728**	**–**	–	–
Outstanding 31 October/30 April	**3,400**	**–**	1,624	–
Exercisable 31 October/30 April	**1,624**	**–**	–	–

Additional Share Grants – The Attachmate Group ("TAG") acquisition

The Remuneration Committee awarded Additional Share Grants ("ASGs") to a number of senior managers and executives, critical to delivering the anticipated results of the acquisition of The Attachmate Group, which completed on 20 November 2014.

ASGs are nil cost options over ordinary shares. The ASGs became exercisable, subject to the satisfaction of the performance condition, on the third anniversary of the date of Completion or 1 November 2017, whichever is earlier (the "vesting date") and will remain exercisable until the tenth anniversary of Completion.

The performance condition is that the percentage of ordinary shares subject to the ASG which may be acquired on exercise on or after the vesting date is as follows:

(i) 0% if the Shareholder Return Percentage (as defined below) is 50% or less;
(ii) 100% if the Shareholder Return Percentage is 100% or more; and
(iii) A percentage determined on a straight-line basis between (i) and (ii) above.

The "Shareholder Return Percentage" will be calculated by deducting 819.425 pence per share (the "Reference Price"), being the average of the 20 days before 3 June 2014 (being the date of the heads of agreement relating to the proposed combination of Micro Focus and Attachmate between Micro Focus, Wizard, Golden Gate Capital and Francisco Partners Management LP), from the sum of the "Vesting Price" (calculated as the average closing share price over the period of 20 days ending on the day prior to the vesting date) plus the total of all dividends per share between Completion and the vesting date. This will be divided by the Reference Price, multiplying the resulting figure by 100 to obtain the Shareholder Return Percentage.

The weighted average fair value of options granted was £4.40, after using the Monte-Carlo simulation model. 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.

Additional Share Grants – The HPE Software business acquisition

The Remuneration Committee awarded a number of Additional Share Grants ("ASGs") to a number of senior managers and executives, critical to delivering the anticipated results of the acquisition of the HPE Software business, which completed on 1 September 2017.

ASGs are nil cost options over ordinary shares. The ASGs will become exercisable, subject to the satisfaction of the performance condition, on the third anniversary of the announcement date of 7 September 2016 (the "vesting date") and will remain exercisable for a period of 84 months commencing on the Vesting date.

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 1817.75 pence per share (the "Reference Price"), being the average of the 20 days before 1 August 2016 (being the date of the heads of agreement relating to the proposed combination of Micro Focus and the HPE Software business), 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 the announcement date and the vesting date. This will be divided by the Reference Price, multiplying the resulting figure by 100 to obtain the Shareholder Return Percentage.

VII Share based payments continued

On 20 September 2018, the Group announced that, following a review of existing Additional Share Grant ("ASG") awards after the announcement of the forthcoming SUSE sale, ASG awards made to Executive Directors on completion of the HPE Software business acquisition on 1 September 2017 would be cancelled. New ASG awards were granted in order to align with the business plan to deliver value by October 2020 and focus Executive Directors on delivering significant value to shareholders over the three years from completion of the transaction. The Company believes that, in the light of the HPE Software business integration and the wider competitive environment evidenced by recent M&A activity in the software sector, the alignment of the vesting period to September 2020 is essential to provide an effective incentive over the period of the business plan.

The current Executive Directors (Kevin Loosemore and Chris Kennedy) and those who were Executive Directors at the time of the existing award and remain in employment (Mike Phillips) agreed to surrender their existing ASG awards made on 1 September 2017 which were due to vest on 7 September 2019. In return, the Company has made new ASG awards over ordinary shares in the Company as detailed below, which are due to vest on 1 September 2020 (being three years from the completion of the transaction).

Director	Number of granted and cancelled nil cost share options over ordinary shares '000	Number of replacement nil cost options over ordinary share '000s
Kevin Loosemore	1,100	1,100
Chris Kennedy[1]	500	676
Mike Phillips	676	676
	2,276	2,452

1 The share options awarded to Chris Kennedy's replacement HPE Software ASGs will lapse as a result of his resignation and subsequent leaving employment in February 2019. This has been reflected in the share options disclosures.

The Total Shareholder Returns ("TSR") performance thresholds for the new awards are unchanged from the previous awards, save in respect of the period to vesting, and the number of new awards is equal to the number of previous awards which they replace, except for Chris Kennedy where increases of 176,000 awards respectively have been made to align Chris' awards to those granted to his predecessor. The vesting date for the new ASG awards is 1 September 2020.

As new ASGs have been granted to replace the original ASGs that have been cancelled, this is treated under IFRS 2 "Share-based payment" as modification of the original ASG grant. Due to the performance conditions attached to them, the fair value for ASGs is determined using the Monte Carlo simulation method. The fair value of the original awards is determined at the modification date (20 Sept 2018) i.e. replacing the original fair values. The incremental fair value of the new awards over the original awards at the date of modification is recognised in addition to the grant date fair value. The original expense continues to be recognised over the original service period, the incremental expense is recognised over the remaining service period for the new awards i.e. to 1 September 2020 rather than 7 September 2019.

The weighted average fair value of options granted during the period determined using the Monte-Carlo simulation model was £4.16. The significant inputs into the model were weighted average share price of £9.29 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.

The amount charged to the statement of comprehensive income in respect of the ASGs was $12.9m for the 18 months ended 31 October 2018 (12 months ended 30 April 2017: $3.8m). In addition to this $1.7m (12 months ended 30 April 2017: $2.4m) was charged to the statement of comprehensive income in respect of National Insurance on these share options in the 18 months ended 31 October 2018.

	31 October 2018			30 April 2017		
Range of exercise prices	**Weighted average exercise price pence**	**Number of options '000**	**Weighted average remaining contractual life (years)**	Weighted average exercise price pence	Number of options '000	Weighted average remaining contractual life (years)
£0.00	**–**	**4,076**	**7.7**	–	1,624	–
	–	**4,076**	**7.7**	–	1,624	–

c) Sharesave Plan

In August 2006, the Company introduced the Micro Focus Sharesave Plan 2006, approved by members on 25 July 2006. The Sharesave Plan ("Sharesave") is primarily for UK employees. The Sharesave provides for an annual award of options at a discount to the market price and are open to all eligible Group employees. Under this plan employees make monthly savings over a period of three years linked to the grant of an option over Micro Focus shares with an option price which can be at a discount of up to 20% of the market value of the shares on grant. The option grants are subject to employment conditions and continuous savings.

VII Share based payments continued

Sharesave	18 months ended 31 October 2018 Number of options '000	18 months ended 31 October 2018 Weighted average exercise price pence	12 months ended 30 April 2017 Number of options '000	12 months ended 30 April 2017 Weighted average exercise price pence
Outstanding at 1 May	**–**	**–**	2	598p
Exercised	**–**	**–**	(2)	598p
Granted	**2**	**1,023p**	–	–
Lapsed	**(2)**	**1,023p**	–	–
Outstanding at 31 October/30 April	**–**	**–**	–	–
Exercisable at 31 October/30 April	**–**	**–**	–	–

The amount charged to the statement of comprehensive income in respect of the Sharesave scheme was $5,000 for the 18 months ended 31 October 2018 (12 months ended 30 April 2017: $nil).

The weighted average fair value of options granted in the Sharesave schemes during the 18 months ended 31 October 2018 determined using the Black-Scholes valuation model was £3.19. The significant inputs into the model were weighted average share price of £10.23 at the grant date, exercise price shown above, expected volatility of 48.60%, expected dividend yield of 6.16%, an expected option life of three years and an annual risk-free interest rate of 1.30%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

VIII Investments

	$'000
Cost and net book value:	
At 1 May 2017	**328,556**
Additions	**6,567,629**
Disposals	**(6,514,170)**
At 31 October 2018	**382,015**

The additions of $6,567.6m relate to capital contributions arising from share-based payments of $53.4m (30 April 2017: $16.3m) and an investment in a subsidiary of the HPE Software business of $6,514.2m (30 April 2017: $nil). The disposals in the period related to the sale of the investment in the HPE Software business to another Group Company (30 April 2017: $nil). During the period, the Company transferred its investment in Micro Focus Midco Limited to another Group Company, Micro Focus Midco Holdings Limited.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

During the period, dividends of $920.0m were declared by the Company's subsidiary, Micro Focus Midco Holdings Limited, and recorded as income from shares in Group undertakings. $580.0m of this dividend has been settled in the period with the remaining $340.0m expected to be settled in the next 12 months.

A full list of subsidiary undertakings, joint ventures and associates at 31 October 2018 is included in note 13 of the Group financial statements. Only Micro Focus Midco Holdings Limited is directly owned by the Company with all other subsidiaries being indirectly owned.

IX Debtors

	31 October 2018 $'000	30 April 2017 $'000
Amounts owed by Group undertakings	**7,620,506**	1,215,473
Prepayments	**4,507**	2,998
Total	**7,625,013**	1,218,471

The amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

Notes to the Company financial statements
for the 18 months ended 31 October 2018 continued

X Creditors: amounts falling due within one year

	31 October 2018 $'000	30 April 2017 $'000
Amounts owed to Group undertakings	**195,273**	33,033
Other creditors including taxation and social security	**175**	112
Accruals	**70,962**	39,045
Total	**266,410**	72,190

The amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

XI Financial instruments
The Company has the following financial instruments:

	31 October 2018 $'000	30 April 2017 $'000
Financial assets measured at amortised cost		
Amounts owed by Group undertakings	**7,623,013**	1,215,473
Total	**7,623,013**	1,215,473
Financial liabilities measured at amortised cost		
Amounts owed to Group undertakings	**195,273**	33,033
Accruals	**70,962**	39,045
Total	**266,235**	72,078

XII Called up share capital and share premium account
Information on share capital is provided in note 31 of the Group financial statements. Information on share premium is provided in note 32 of the Group financial statements. At 31 October 2018 9,858,205 treasury shares were held (30 April 2017: nil).

XIII Contingent liabilities
The Company has guaranteed certain contracts in the normal course of business and bank borrowings of its subsidiaries.

XIV Related party transactions
The Company has taken advantage of the exemption under FRS 102 paragraph 33.1A, from disclosing transactions with other wholly-owned members of the Group headed by Micro Focus International plc. There are no related party transactions or other external related parties.

XV Controlling party
The Company is the ultimate controlling party of the Micro Focus International plc Group.

XVI Post balance sheet events
Please refer to note 41 in the Group's consolidated financial statements.

Additional information

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Historical summary

Summarised Group consolidated statement of comprehensive income

Continuing operations	18 months ended 31 October 2018 $'000	Restated[1] 12 months ended 30 April 2017 $'000
Revenue	**4,754,398**	1,077,273
Cost of sales	**(1,259,306)**	(216,412)
Gross Profit	**3,495,092**	860,861
Selling and distribution costs	**(1,670,000)**	(363,133)
Research and development expenses	**(659,413)**	(122,824)
Administrative expenses	**(788,855)**	(147,512)
Operating profit	**376,824**	227,392
Finance costs	**(350,366)**	(96,824)
Finance income	**7,654**	979
Profit before tax	**34,112**	131,547
Taxation	**673,081**	(7,464)
Profit from continuing operations	**707,193**	124,083
Discontinued operations	**76,940**	33,720
Profit before tax	**784,133**	157,803
Continued operations		
Earnings per share		
Basic (cents)	**181.91**	54.17
Diluted (cents)	**176.92**	52.31
Discontinued operation		
Earnings per share		
Basic (cents)	**19.79**	14,71
Diluted (cents)	**19.25**	14.20

1 The comparatives for the 12 months to 30 April 2017 have been restated to reflect the divestiture of the SUSE business segment.

Summarised Group consolidated statement of financial position as at 30 October

	31 October 2018 $'000	30 April 2017 $'000
Non-current assets	**13,720,467**	3,995,511
Current assets	**3,060,088**	442,193
Current liabilities	**(2,448,090)**	(944,697)
Non-current liabilities	**(6,540,485)**	(1,879,517)
Total equity	**7,791,980**	1,613,490

Key dates and share management

Key dates for 2019

Annual General Meeting	29 March 2019
Dividend payments	
Final dividend payable – 18 months ended 31 October 2018	5 April 2019
Interim dividend payable – six months ending 30 April 2019	August 2019
Final dividend – year ending 31 October 2019	March/April 2020

Results announcements	
Interim results – six months ending 30 April 2019	July 2019
Final results – year ending 31 October 2019	January 2020

Managing your shares

Share dealing services

Shareview dealing is a telephone and internet service provided by Equiniti and provides a simple and convenient way of buying and selling Micro Focus International plc shares.

Log on to www.shareview.co.uk/dealing or call 0845 603 7037 between 8.30am and 4.30pm Monday to Friday, for more information about this service and for details of the rates and changes.

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:

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Equiniti also offer a range of shareholder information online at www.shareview.co.uk.

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Stephen Murdoch
(Chief Executive Officer)

Chris Kennedy
(Chief Financial Officer)

Karen Slatford
(Senior independent non-executive director)

Richard Atkins
(Independent non-executive director)

Amanda Brown
(Independent non-executive director)

Darren Roos
(Independent non-executive director)

Silke Scheiber
(Independent non-executive director)

Lawton Fitt
(Independent non-executive director)

Company Secretary, Registered and Head Office
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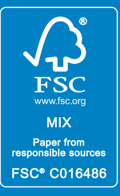
Forward-looking statements

Certain statements contained in this Annual Report and Accounts, including those under the captions entitled Executive Chairman's statement, Chief Executive's Strategic Review, Chief Financial Officer's Report, 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 organisations; the level of deployment-related revenue expected by the Company; the degree to which organisations adopt web-enabled services; the rate at which large organisations 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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