12 July 2017

Micro Focus International plc
Unaudited preliminary results for the year ended 30 April 2017

Micro Focus International plc ("the Company" or "the Group", LSE: MCRO.L), the global enterprise software product group, announces unaudited preliminary results for the year ended 30 April 2017.

Revenues in the year were $1,380.7m, slightly above the mid-point of management's guidance range, 0.9% lower than the prior year's pro-forma constant currency ("pro-forma CCY") revenues, $1,392.7m. Underlying Adjusted EBITDA** of $640.9m was 4.2% higher than the $615.3m delivered in the prior year on a pro-forma constant currency basis ("pro-forma CCY")*. Adjusted diluted earnings per share increased by 19.7% to 175.65 cents (2016: 146.70 cents) and the full year dividend increased by 32.1% to 88.06 cents (2016: 66.68 cents).

In March 2016 the Company announced it had entered into a definitive agreement to acquire the entire share capital of Spartacus Acquisition Holdings Corp. the holding company of Serena Software Inc. and its subsidiaries (together, "Serena" or "the Serena Group"). The acquisition completed on 2 May 2016 and consequently trading results of Serena are included in the results for the year ended 30 April 2017 set out below.

In September 2016 the Company announced it had agreed with Hewlett Packard Enterprises ("HPE") to merge with the software business assets of HPE ("HPE Software") by way of merger with a wholly owned subsidiary of HPE. The transaction is expected to complete at the beginning of September this year with the listing of consideration shares on the London Stock Exchange ("LSE") and the simultaneous listing of the American Depositary Shares ("ADS") on the New York Stock Exchange ("NYSE"). Exceptional pre-acquisition costs have been incurred in the year and will be incurred up to Completion in FY18.

Key highlights

- On a reported basis:
    - Total revenues of $1,380.7m (2016: $1,245.0m), an increase of 10.9%.
    - Adjusted EBITDA** of $651.1m (2016: $546.8m), an increase of 19.1%.
    - Underlying Adjusted EBITDA increased by 20.4% to $640.9m (2016: $532.5m)

- On a pro-forma CCY* basis to provide a better comparison of like-for-like performance:
    - Total revenues of $1,380.7m (2016: pro-forma CCY $1,392.7m), a decrease of 0.9%, driven by :
        - Strong SUSE Product Portfolio performance where revenues grew by 21.2% on a pro-forma CCY* basis;
        - On plan performance in Micro Focus Product Portfolio with expected reduction in maintenance and Serena revenues.
    - Adjusted EBITDA of $651.1m (2016: pro-forma CCY $629.9m), an increase of 3.4%.
    - Underlying Adjusted EBITDA of $640.9m (2016: pro-forma CCY $615.3m), an increase of 4.2%.

- Underlying Adjusted EBITDA margins improved further to 46.4% (2016: pro-forma CCY 44.2%) through continued focus on operational efficiencies.

- Completion of the Serena acquisition took place on 2 May 2016 for an Enterprise Value of $540.0m on a cash and debt free basis, partially funded by a share placing in FY16 of 10.9m shares at a price of 1,455 pence raising £158.2m ($225.7m) before expenses.

- Exceptional costs incurred in the year of $97.3m (2016: $27.9m) relate to integration costs, acquisition costs, pre-acquisition costs, property costs, severance and legal costs.

- Improved cash generation in the year:
    - Cash generated from operations was $564.8m (2016: $456.1m) representing 102.0% (2016: 87.9%) of Adjusted EBITDA less exceptional costs.
    - Net debt at 30 April 2017 was $1,410.6m (30 April 2016: $1,078.0m) down from $1,625.0m following the Completion of the Serena acquisition on 2 May 2016.
    - Net debt to Facility EBITDA** for the year to 30 April 2017 is a multiple of 2.1 times (2016: 1.9 times), reducing from 2.5 times following the acquisition of Serena; medium-term target remains 2.5 times.

- Growth in diluted adjusted earnings per share of 19.7% to 175.65 cents (2016: 146.70 cents)***

- Second interim dividend increased by 17.3% to 58.33 cents per share (2016: final dividend 49.74 cents per share) resulting in a full year dividend of 88.06 cents per share (2016: 66.68 cents per share), an increase of 32.1% in line with twice covered dividend policy.

Statutory results

- Operating profit of $293.4m (2016: $294.9m)
- Profit before tax of $196.3m (2016: $195.4m)
- Basic earnings per share of 68.88 cents (2016: 74.50 cents) a decrease of 7.5%***

The table below shows the reported results for the Group at actual exchange rates for the year ended 30 April 2017 and the year ended 30 April 2016 together with pro-forma CCY comparatives:

Results at a glance	**Year ended 30 April 2017**	**Year ended 30 April 2016 Pro-forma CCY***	**Growth /(Decline) %**	**Year ended 30 Apr 2016**
Revenue				
Total Revenue	**$1,380.7m**	**$1,392.7m**	**(0.9%)**	**$1,245.0m**
- Licence	$308.4m	$333.0m	(7.4%)	$304.8m
- Maintenance	$720.7m	$754.5m	(4.5%)	$644.5m
- Subscription	$298.7m	$245.5m	21.7%	$248.9m
- Consultancy	$52.9m	$59.7m	(11.4%)	$46.8m
NON GAAP MEASURES				
Adjusted EBITDA**	$651.1m	$629.9m	3.4%	$546.8m
Underlying Adjusted EBITDA**	$640.9m	$615.3m	4.2%	$532.5m
STATUTORY MEASURES				
Profit before tax	$196.3m	$278.1m	(29.4)%	$195.4m
Earnings per share ***				
Basic	68.88c		(7.5)%	74.50c
Diluted	66.51c		(7.1)%	71.61c
Diluted adjusted	175.65c		19.7%	146.70c
Dividend per share	88.06c		32.1%	66.68c
Net debt	$1,410.6m		30.9%	$1,078.0m

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

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

** In assessing the performance of the business, the directors use non GAAP measures "Adjusted Operating Profit", "Adjusted Operating Costs" and "Adjusted earnings per share", being the relevant statutory measures, prior to exceptional items, amortization of purchased intangibles and share based compensation. "Adjusted EBITDA" is the Adjusted Operating Profit prior to depreciation and amortization of purchased software. Underlying Adjusted EBITDA removes the impact of net capitalization/amortization of product development costs and foreign currency gains and losses from Adjusted EBITDA whilst Facility EBITDA is Adjusted EBITDA before amortization and impairment of capitalized product development costs. A reconciliation of these profit measures is given in note 8.

*** Earnings per share are detailed in note 13.

Kevin Loosemore, Executive Chairman of Micro Focus, commented:

“This has been a significant year for Micro Focus with the announcement of the combination with HPE Software to create one of the world’s largest pure play software companies. The transaction is on track to complete on 1 September when Micro Focus will list the consideration shares on the London market and the American Depositary Shares on the New York Stock Exchange.

Operationally we have delivered revenue of $1,380.7m, slightly above the mid-point of the zero to minus 2% growth rate range given at the beginning of the year when compared with pro-forma CCY revenues for FY16, with revenues 0.9% down from $1,392.7m.

Mergers and acquisitions continue to be a key component of our strategy. Whilst the key strategic announcement in the period was the HPE Software transaction we also completed the acquisitions of Serena, GWAVA Inc., OpenATTIC, and the OpenStack IaaS and Cloud Foundry PaaS talent and technology assets. Over the last six years we have completed and successfully integrated 10 acquisitions and on completion of the HPE Software transaction will have increased the revenue of the business approximately 10 fold since 2011.

Micro Focus sets out to deliver consistent long-term shareholder returns of between 15% and 20% per annum. The board is confident that medium-term low single digit revenue growth, industry leading margins and strong cash conversion will ensure that Micro Focus can deliver on that strategy. These returns can be further enhanced by the appropriate deployment of capital in value enhancing acquisitions.

As promised, immediately prior to completion of the HPE Software transaction, we will declare a return of value of $500m, approximately $2.17 per share, to our existing shareholders. They have also seen their dividend increase to 88.06 cents from 66.68 cents per share last year in line with our twice covered dividend policy.”

Enquiries:

Micro Focus	Tel: +44 (0) 1635 32646
Kevin Loosemore, Executive Chairman	
Mike Phillips, Chief Financial Officer	
Tim Brill, IR Director	
Powerscourt	Tel: +44 (0) 20 7250 1446
Juliet Callaghan	
Simon Compton	

About Micro Focus

Micro Focus (LSE: MCRO.L) is a global enterprise software Company supporting the technology needs and challenges of the Global 2000. Our solutions help organizations leverage existing IT investments, enterprise applications and emerging technologies to address complex, rapidly evolving business requirements while protecting corporate information at all times. Our product portfolios are Micro Focus and SUSE. Within Micro Focus our solution portfolios are COBOL Development and Mainframe Solutions, Host Connectivity, Identity and Access Security, IT Development and Operations Management Tools, and Collaboration and Networking. For more information, visit: www.microfocus.com. SUSE, a pioneer in Open Source software, provides reliable, interoperable Linux, cloud infrastructure and storage solutions that give enterprises greater control and flexibility. For more information, visit: www.suse.com.

Forward-looking statements

Certain statements in this preliminary statement of results are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. The Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Executive Chairman's Statement

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

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

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

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

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

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

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

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

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

Financial Year	**FY2015**	**FY2016**	**FY2017**	**FY2018**
Phase	**Assessment**	**Integration**	**Stabilization**	**Growth**
Actions	• Deliver plans for FY15 • Detailed review of combined businesses • Invigorate Product Management	• Standardize systems • Rationalize Properties • Rationalize Legal entities • New Go to Market ("GTM") model • Maintain/improve cash conversion • Rationalize underperforming elements • New market initiatives	• Stabilize top line • Improve GTM productivity • Growth from new areas • Improved profitability • Standardize systems • Rationalize Legal entities	• Top line growth • Standardize systems • Rationalize legal entities

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

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

Financial Year	**FY2017**	**FY2018**	**FY2019**	**FY2020**
Phase	**Assessment**	**Integration**	**Stabilization**	**Growth**
Actions	• Deliver plans for FY17 • Detailed review of combined businesses • Invigorate Product Management	• Standardize systems • Rationalize Properties • Rationalize Legal entities • New Go to Market ("GTM") model • Maintain/improve cash conversion • Rationalize underperforming elements • New market initiatives	• Stabilize top line • Improve GTM productivity • Growth from new areas • Improved profitability • Standardize systems • Rationalize Legal entities	• Top line growth • Click and repeat!

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

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

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

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

Our performance in the year

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

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

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

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

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

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

Delivering value to shareholders

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

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

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

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

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

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

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

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

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

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

Board changes and succession planning

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

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

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

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

Stephen Murdoch remains CEO of Micro Focus until Completion and will then become COO and simultaneously step down from the board.

We welcome the new members of our board.

Outlook

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

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

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

Kevin Loosemore
Executive Chairman
12 July 2017

Financial Review

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

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

A reconciliation between the GAAP and Non-GAAP performance measures is given on page 10 (Revenue), page 13 (Adjusted Operating Profit, Adjusted EBITDA and Underlying Adjusted EBITDA) and note 8. The Group operates two product portfolios (i) Micro Focus and (ii) SUSE. These are the reporting segments and the cash generating units for the Group.

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

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

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

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

The portfolios have directly controlled costs and then an allocation of the costs of the support functions that are centrally managed. Set out in the table below are the profitability metrics for our two product portfolios including the breakdown of Adjusted Operating Profit for the year and the reconciliation between Adjusted Operating Profit, Adjusted EBITDA and Underlying Adjusted EBITDA (note 8):

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

[1] unaudited

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

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

[1] unaudited

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

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

[1] unaudited

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

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

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

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

[1] unaudited

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

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

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

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

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

[1] unaudited

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

As part of the HPE Software transaction the Company's shares and ADS will be listed on the London and New York Stock Exchange respectively. As part of the regulatory filing process in the USA the Group has reviewed its consolidated statement of comprehensive income presentation and has decided to re-classify both amortization of product development costs and amortization of acquired technology intangibles from research and development expenses to cost of sales. This presentation complies with IFRS and, in the view of the Company's Audit Committee, provides investors with a consolidated statement of comprehensive income presentation that is more comparable with other software companies listed on both markets.

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

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

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

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

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

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

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

Administrative expenses

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

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

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

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

Exceptional items

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

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

[1] unaudited

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

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

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

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

Currency impact

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

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

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

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

Adjusted Operating Costs and Total Operating Costs

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

Adjusted EBITDA and Underlying Adjusted EBITDA

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

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

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

[1] unaudited

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

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

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

Operating profit

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

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

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

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

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

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

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

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

[1] unaudited

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

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

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

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

The forecast Adjusted ETR is subject to various factors including:

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

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

- In 2016 the Group paid $24.5m in respect of an Accelerated Payment Notice issued by HMRC in relation to the historic tax issue disclosed in previous years, which impacts UK tax returns from 2009 until 2015; and

- In 2016 the Group paid $27.2m in respect of forecast US Federal income tax liabilities. Following a recalculation in 2016 of the impact of temporary differences, including the offset of brought forward deferred tax assets, these liabilities were significantly lower than was initially anticipated. Of the resulting overpayment, $8m was refunded in 2017 and the remainder has been offset against current year Federal Tax liabilities.

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

- As a general matter, temporary differences often result in substantial shifts of cash tax payments from one period to another;

- In particular, the rate at which recognised deferred tax assets (brought forward tax losses and credits) are utilized is likely to vary significantly year-on-year, with the rate of utilization currently forecast to decrease significantly over the medium-term period;

- The final tax liability for a particular territory and year can often vary significantly from the estimates on which instalment payments have been made, resulting in under and over payments (such as the overpayment mentioned above in the US in 2016); and

- The timing of the settlement of open issues with tax authorities is uncertain and can lead to significant one-off increases in the cash tax rate (such as the one mentioned above in the UK in 2016).

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

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

Profit after tax

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

Goodwill

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

Capital structure of the Group

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

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

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

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

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

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

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

- Syndicated senior secured tranche B term loan facility ("Term Loan B") , with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), repayable at 1.00% per annum, with an original issue discount of 1.00% and a seven year term;

- A syndicated senior secured tranche C term loan facility ("Term Loan C"), with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), repayable at 10.00% per annum, with an original issue discount of 1.5% and a five year term; and

- A senior secured revolving credit facility of $375.0m, ("Revolving Facility"), with an interest rate of 3.50% above LIBOR on amounts drawn (and 0.50% on amounts undrawn) thereunder and an original issue discount of 0.50%.

The Revolving Facility was increased from $225.0m to $375.0m on 2 May 2016 as part of the funding for the Serena acquisition (note 20).

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

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

New Facilities drawn as at 30 April 2017:

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

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

HPE Software Facilities:

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

Micro Focus Facilities:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The most significant cash outflows during the year were;

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

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

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

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

Mike Phillips
Chief Financial Officer
12 July 2017

CEO Review – Micro Focus Product Portfolio

Introduction
The Micro Focus Product Portfolio represents 78.0% of total Group revenue in FY17 (2016: pro-forma CCY 82.0%).

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

Progress in FY17
During 2017 our main priority has been completing the integration of the different businesses into a more coherent whole, focused on consistent and sustained financial performance and the delivery of innovation that matters to customers – what we call customer centered innovation. This means helping customers solve the real world challenges they face today as they wrestle with balancing the ever increasing requirements for I.T. to deliver new capabilities and support new business models with the demands of securing and running day to day operations. We achieve this through the rigorous application of our FOUR-BOX MODEL which has at its core direct engagement with customers to enable highly targeted product development and delivery.

Highlights include:

- Our focus on delivering customer centered innovation continued to gather momentum:
  - Delivered 185 product releases or significant enhancements in FY17 with each sub-portfolio improving the levels of customer engagement and cadence of product delivery;
  - Integration of Serena and acquisition and integration of GWAVA completed on time and now executing as integral parts of the Micro Focus portfolio, adding further depth and new capabilities within Development & ITOM and C&N respectively; and
  - Removed dependency on third party intellectual property in key strategic elements of our IAS portfolio.

- Integration of the business into a coherent whole is now broadly complete as evidenced by the progress on removing sub-branding, completely redesigning our websites, transitioning to a geographic Go-to-Market ("GTM") model globally and creating an integrated approach to product development and management. The remaining focus area is on IT systems, where our stated goal of driving standardization will take longer to deliver than originally anticipated. As a result of the planned merger with HPE Software we have decided to implement the new set of systems being built for HPE Software for the Group as a whole. This will enable more effective integration of the existing Group with HPE Software and the creation of a more flexible platform from which to execute our strategy but it remains a very significant undertaking.

- Financial performance in the year was in line with expectations, with progress in Maintenance Fee Revenue being somewhat offset by performance in Licence Fee Revenue where the loss to a competitor of an entire sales team and management structure caused three to five months of disruption which impacted our Host Connectivity business principally.

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

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

[1] unaudited

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

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

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

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

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

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

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

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

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

Regional Revenue Performance

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

[1] unaudited

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

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

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

Adjusted operating profit and Underlying Adjusted EBITDA

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

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

[1] unaudited

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

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

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

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

[1] unaudited

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

Outlook

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

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

- Delivery of our financial plan;
- Continuing to operationalize the FOUR-BOX MODEL to better align resources to optimize the performance of each sub-portfolio; and
- Planning for and subsequent integration with HPE Software following Completion of the transaction.

Stephen Murdoch
Chief Executive Officer
Micro Focus
12 July 2017

CEO Review – SUSE Product Portfolio

Introduction

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

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

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

Technology acquisitions during the year:

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

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

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

SUSE – Key Financial Metrics

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

Revenue

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

SUSE Product Portfolio

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

[1] unaudited

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

Regional revenue performance

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

[1] unaudited

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

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

TCV and ACV

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

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

Regional TCV performance

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

[1] unaudited

Regional ACV performance

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

[1] unaudited

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

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

Asia Pacific & Japan had very strong performance in TCV and ACV, growing by 31.1% and 37.6% respectively. We continue to have strong performance in China and Japan, and are also continuing to win new accounts in some of the other key markets in the region.

The region continues to get good traction and growing revenue streams on local OEM relationships and also by leveraging the global agreements we have in place with key independent hardware vendors and cloud service providers.

ACV contribution by route to market

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

[1] unaudited

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

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

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

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

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

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

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

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

	Year ended 30 April 2017 As reported Actual %	Year ended 30 April 2016 Pro-forma CCY[1] %
GSP	**36%**	37%
Indirect (Value Added Reseller)	**40%**	38%
Direct	**22%**	22%
OEM	**2%**	3%
	100%	100%

[1] unaudited

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

SUSE Adjusted Operating Profit and Adjusted EBITDA

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

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

[1] unaudited

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

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

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

[1] unaudited

Deferred revenue

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

Headcount

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

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

Outlook "Sustainable, Profitable Revenue Growth"

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

Nils Brauckmann
Chief Executive Officer
SUSE
12 July 2017

Consolidated statement of comprehensive income
for the year ended 30 April 2017

		Year ended 30 April 2017			Year ended 30 April 2016*		
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
	Note	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	5,6	1,380,702	-	1,380,702	1,245,049	-	1,245,049
Cost of sales comprising:							
- Cost of sales (excluding amortization of capitalized product development costs and acquired technology intangibles)		(142,724)	(2,949)	(145,673)	(133,260)	(2,172)	(135,432)
- Amortization of product development costs	15	(22,398)	-	(22,398)	(19,515)	-	(19,515)
- Amortization of acquired technology intangibles	15	(69,098)	-	(69,098)	(75,227)	-	(75,227)
Cost of sales		(234,220)	(2,949)	(237,169)	(228,002)	(2,172)	(230,174)
Gross profit		1,146,482	(2,949)	1,143,533	1,017,047	(2,172)	1,014,875
Selling and distribution costs		(461,605)	(5,479)	(467,084)	(411,961)	(4,372)	(416,333)
Research and development expenses comprising :							
- Expenditure incurred in the year		(200,976)	(6,792)	(207,768)	(194,265)	(1,258)	(195,523)
- Capitalization of product development costs	15	27,664	-	27,664	30,877	-	30,877
Research and development expenses		(173,312)	(6,792)	(180,104)	(163,388)	(1,258)	(164,646)
Administrative expenses		(120,864)	(82,038)	(202,902)	(118,911)	(20,051)	(138,962)
Operating profit	5	390,701	(97,258)	293,443	322,787	(27,853)	294,934
Analyzed as:							
Adjusted Operating Profit	8	638,068	-	638,068	533,514	-	533,514
Share based compensation	9	(34,506)	-	(34,506)	(28,793)	-	(28,793)
Amortization of purchased intangibles	15	(212,861)	-	(212,861)	(181,934)	-	(181,934)
Exceptional items	7	-	(97,258)	(97,258)	-	(27,853)	(27,853)
Operating profit		390,701	(97,258)	293,443	322,787	(27,853)	294,934
Share of loss of associates and gain on dilution of investment	17	(1,254)	-	(1,254)	(2,190)	-	(2,190)
Finance costs	10	(96,824)	-	(96,824)	(98,357)	-	(98,357)
Finance income	10	979	-	979	1,009	-	1,009
Net finance costs		(95,845)	-	(95,845)	(97,348)	-	(97,348)
Profit before tax		293,602	(97,258)	196,344	223,249	(27,853)	195,396
Taxation	11	(50,174)	11,633	(38,541)	(39,259)	6,835	(32,424)
Profit for the financial year		243,428	(85,625)	157,803	183,990	(21,018)	162,972
Attributable to:							
Equity shareholders of the parent		243,531	(85,625)	157,906	183,912	(21,018)	162,894
Non-controlling interests	27	(103)	-	(103)	78	-	78
Profit for the financial year		243,428	(85,625)	157,803	183,990	(21,018)	162,972

Consolidated statement of comprehensive income (continued)
for the year ended 30 April 2017

		Year ended 30 April 2017			Year ended 30 April 2016		
	Note	Before exceptional Items $'000	Exceptional Items $'000	Total $'000	Before exceptional Items $'000	Exceptional Items $'000	Total $'000
Profit for the financial year		243,428	(85,625)	157,803	183,990	(21,018)	162,972
Other comprehensive (expense)/income:							
Items that will not be reclassified to profit or loss							
Actuarial gain on pension liabilities schemes	24	402	-	402	2,697	-	2,697
Actuarial gain on non-plan pension assets	24	130	-	130	3,104	-	3,104
Deferred tax movement on pensions		(325)	-	(325)	(1,745)	-	(1,745)
Items that may be subsequently reclassified to profit or loss							
Currency translation differences		(5,953)	-	(5,953)	(3,458)	-	(3,458)
Other comprehensive (expense)/income for the year		(5,746)	-	(5,746)	598	-	598
Total comprehensive income for the year		237,682	(85,625)	152,057	184,588	(21,018)	163,570
Attributable to:							
Equity shareholders of the parent		237,785	(85,625)	152,160	184,510	(21,018)	163,492
Non-controlling interests	27	(103)	-	(103)	78	-	78
Total comprehensive income for the year		237,682	(85,625)	152,057	184,588	(21,018)	163,570
Earnings per share expressed in cents per share:				cents			cents
- basic	13			68.88			74.50
- diluted	13			66.51			71.61
Earnings per share expressed in pence per share:				pence			pence
- basic	13			53.25			49.59
- diluted	13			51.42			47.66

* In the year ended 30 April 2017, the Company has reviewed its consolidated statement of comprehensive income presentation and has decided to re-classify both amortization of product development costs and amortization of acquired technology intangibles from research and development expenses to cost of sales. The year ended 30 April 2016 comparatives have also been re-classified (note 3).

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

Consolidated statement of financial position
as at 30 April 2017

	Note	2017 $'000	2016 $'000
Non-current assets			
Goodwill	14	**2,828,604**	2,436,168
Other intangible assets	15	**1,089,370**	966,555
Property, plant and equipment	16	**40,956**	40,867
Investments in associates	17	**11,457**	12,711
Long-term pension assets	24	**22,031**	22,272
Other non-current assets		**3,093**	4,002
Deferred tax assets		**208,253**	198,757
		4,203,764	3,681,332
Current assets			
Inventories		**64**	93
Trade and other receivables	18	**289,509**	268,186
Current tax receivables		**1,637**	18,016
Cash and cash equivalents		**150,983**	667,178
Assets classified as held for sale		**-**	888
		442,193	954,361
Total assets		**4,645,957**	4,635,693
Current liabilities			
Trade and other payables	19	**170,042**	188,090
Borrowings	20	**71,184**	275,256
Provisions	23	**20,142**	10,545
Current tax liabilities		**42,679**	22,426
Deferred income	21	**640,650**	565,480
		944,697	1,061,797
Non-current liabilities			
Deferred income	22	**223,786**	196,483
Borrowings	20	**1,490,352**	1,469,953
Retirement benefit obligations	24	**30,773**	31,669
Long-term provisions	23	**11,937**	14,354
Other non-current liabilities		**4,191**	3,671
Deferred tax liabilities		**326,731**	264,038
		2,087,770	1,980,168
Total liabilities		**3,032,467**	3,041,965
Net assets		**1,613,490**	1,593,728

Consolidated statement of financial position (continued)
as at 30 April 2017

	Note	**2017 $'000**	2016 $'000
Capital and reserves			
Share capital	**25**	**39,700**	39,573
Share premium account		**192,145**	190,293
Merger reserve	**26**	**338,104**	988,104
Capital redemption reserve	**26**	**163,363**	163,363
Retained earnings		**902,183**	228,344
Foreign currency translation deficit		**(22,959)**	(17,006)
Total equity attributable to owners of the parent		**1,612,536**	1,592,671
Non-controlling interests	**27**	**954**	1,057
Total equity		**1,613,490**	1,593,728

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

Consolidated statement in changes in equity
for the year ended 30 April 2017

	Note	Share capital $'000	Share premium account $'000	Retained (deficit)/ earnings $'000	Foreign currency translation reserve (deficit) $'000	Capital redemption reserves $'000	Merger reserve $'000	Total equity attributable to owners of the parent $'000	Non-controlling interests $'000	Total equity $'000
Balance as at 1 May 2015		39,555	16,087	(96,479)	(13,548)	163,363	1,168,104	1,277,082	979	1,278,061
Profit for the financial year		-	-	162,894	-	-	-	162,894	78	162,972
Other comprehensive income for the year		-	-	4,056	(3,458)	-	-	598	-	598
Total comprehensive income		-	-	166,950	(3,458)	-	-	163,492	78	163,570
Transactions with owners:										
Dividends	12	-	-	(105,159)	-	-	-	(105,159)	-	(105,159)
Share options:										
Issue of share capital	25	18	950	(70)	-	-	-	898	-	898
Movement in relation to share options		-	-	23,582	-	-	-	23,582	-	23,582
Corporation tax on share options		-	-	1,545	-	-	-	1,545	-	1,545
Deferred tax on share options		-	-	8,490	-	-	-	8,490	-	8,490
Share placement:										
Issue of share capital – share placement		-	176,235	49,485	-	-	-	225,720	-	225,720
Share placement issue costs		-	(2,979)	-	-	-	-	(2,979)	-	(2,979)
Reallocation of merger reserve	26	-	-	180,000	-	-	(180,000)	-	-	-
Total movements for the year		18	174,206	324,823	(3,458)	-	(180,000)	315,589	78	315,667
Balance as at 30 April 2016		**39,573**	**190,293**	**228,344**	**(17,006)**	**163,363**	**988,104**	**1,592,671**	**1,057**	**1,593,728**
Profit for the financial year		**-**	**-**	**157,906**	**-**	**-**	**-**	**157,906**	**(103)**	**157,803**
Other comprehensive expense for the year		**-**	**-**	**207**	**(5,953)**	**-**	**-**	**(5,746)**	**-**	**(5,746)**
Total comprehensive income/(expense)		**-**	**-**	**158,113**	**(5,953)**	**-**	**-**	**152,160**	**(103)**	**152,057**
Transactions with owners:										
Dividends	12	**-**	**-**	**(177,535)**	**-**	**-**	**-**	**(177,535)**	**-**	**(177,535)**
Treasury shares purchased		**-**	**-**	**(7,678)**	**-**	**-**	**-**	**(7,678)**	**-**	**(7,678)**
Share options:										
Issue of share capital – share options	25	**127**	**1,852**	**(90)**	**-**	**-**	**-**	**1,889**	**-**	**1,889**
Movement in relation to share options		**-**	**-**	**23,952**	**-**	**-**	**-**	**23,952**	**-**	**23,952**
Corporation tax on share options		**-**	**-**	**4,081**	**-**	**-**	**-**	**4,081**	**-**	**4,081**
Deferred tax on share options		**-**	**-**	**22,996**	**-**	**-**	**-**	**22,996**	**-**	**22,996**
Reallocation of merger reserve	26	**-**	**-**	**650,000**	**-**	**-**	**(650,000)**	**-**	**-**	**-**
Total movements for the year		**127**	**1,852**	**673,839**	**(5,953)**	**-**	**(650,000)**	**19,865**	**(103)**	**19,762**
Balance as at 30 April 2017		**39,700**	**192,145**	**902,183**	**(22,959)**	**163,363**	**338,104**	**1,612,536**	**954**	**1,613,490**

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

Consolidated statement of cash flows
for the year ended 30 April 2017

	Note	2017 $'000	2016* $'000
Profit after tax		**157,803**	162,972
Adjustments for:			
Net interest	**10**	**95,845**	97,348
Taxation	**11**	**38,541**	32,424
Share of results of associates	**17**	**1,254**	2,190
Operating profit		**293,443**	294,934
Research and development tax credits		**(2,998)**	(2,041)
Depreciation	**16**	**11,794**	11,419
Loss on disposal of property, plant and equipment	**16**	**520**	109
Amortization of intangibles	**15**	**236,434**	203,313
Share-based compensation	**9**	**34,506**	28,793
Exchange movements		**(4,890)**	(2,915)
Provisions movements	**23**	**47,266**	12,985
Changes in working capital:			
Inventories		**29**	28
Trade and other receivables		**10,224**	(49,175)
Payables and other liabilities		**(33,252)**	30,923
Provisions utilization	**23**	**(43,476)**	(55,639)
Deferred income		**15,375**	(16,603)
Pension funding in excess of charge to operating profit		**(183)**	(18)
Cash generated from operations		**564,792**	456,113
Interest paid		**(81,115)**	(91,807)
Bank loan costs		**(6,654)**	(1,805)
Tax paid		**(24,644)**	(79,282)
Net cash generated from operating activities		**452,379**	283,219
Cash flows from investing activities			
Payments for intangible assets	**15**	**(31,438)**	(34,488)
Purchase of property, plant and equipment	**16**	**(11,727)**	(10,281)
Interest received		**979**	1,009
Payment for acquisition of business	**28**	**(299,061)**	(9,960)
Repayment of bank borrowings on acquisition of businesses	**28**	**(316,650)**	-
Net cash acquired with acquisitions	**28**	**68,173**	106
Net cash used in investing activities		**(589,724)**	(53,614)
Cash flows from financing activities			
Investment in non-controlling interest	**27**	**(2)**	-
Proceeds from issue of ordinary share capital	**25**	**1,979**	968
Purchase of treasury shares		**(7,678)**	-
Proceeds from share capital placement		**-**	225,720
Costs associated with share placement		**-**	(2,979)
Repayment of bank borrowings	**20**	**(372,062)**	(157,750)
Proceeds from bank borrowings	**20**	**180,000**	245,000
Dividends paid to owners	**12**	**(177,535)**	(105,159)
Net cash (used in)/generated from financing activities		**(375,298)**	205,800

Consolidated statement of cash flows (continued)
For the year ended 30 April 2017

		2017	2016*
		$'000	$'000
Effects of exchange rate changes		**(3,552)**	(9,551)
Net (decrease)/increase in cash and cash equivalents		**(516,195)**	425,854
Cash and cash equivalents at beginning of year		**667,178**	241,324
Cash and cash equivalents at end of year	**20**	**150,983**	667,178

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

* Provision utilization consisting of cash payments of $55.6m for the year ended 30 April 2016, has been revised from provision movements to working capital movements with a corresponding impact on the effects of exchange rate changes line. Subsequent to the revision, the remaining amounts presented in provision movements represent expenses net of reversals recorded within the Consolidated Statement of Comprehensive Income. The presentation of bank loan costs paid of $1.8m for the year ended 30 April 2016, has been revised from cash flows from financing activities to cash flows from operating activities as management determined they were inappropriately presented within cash flows from financing activities. Management do not believe these corrections are material, individually or in the aggregate, to the Consolidated Financial Statements in any periods. The revision did not impact the Consolidated Statements of Comprehensive Income, Consolidated Statements of Financial Position and Consolidated Statements of Changes in Equity in any periods.

The principal non- cash transaction in the year ended 30 April 2017 was the cashless rollover of Term Loan C to Term Loan B-2.

Notes to the financial statements (unaudited)

1. General information

Micro Focus International plc ("Company") is a public limited Company incorporated and domiciled in the UK. The address of its registered office is, The Lawn, 22-30 Old Bath Road, Newbury, RG14 1QN, UK. Micro Focus International plc and its subsidiaries (together "Group") provide innovative software to clients around the world enabling them to dramatically improve the business value of their enterprise applications. As at 30 April 2017, the Group had a presence in 40 countries (2016: 39) worldwide and employed approximately 4,800 people (2016: 4,200).

The Company is listed on the London Stock Exchange.

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

2. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and in conformity with IFRS as adopted by the European Union (collectively "IFRS").

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention.

The annual report and accounts for the year ended 30 April 2017 will be finalized on the basis of the financial information presented by the directors in this unaudited preliminary announcement and will be delivered accordingly to the Registrar of Companies.

3. Accounting policies

Other than as described below, the accounting policies adopted are consistent with those of the Annual Report and Accounts for the year ended 30 April 2016, apart from standards, amendments to or interpretations of published standards adopted during the year, certain cash flow classification described in consolidated statements of cash flows; and the re-classification of costs in the consolidated statement of comprehensive income.

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

As part of the HPE Software transaction the Company's shares and ADS will be listed on the London and New York Stock Exchange respectively. As part of the regulatory filing process in the USA the Group has reviewed its consolidated statement of comprehensive income presentation and has decided to re-classify both amortization of product development costs and amortization of acquired technology intangibles from research and development expenses to cost of sales. This presentation complies with IFRS and, in the view of the Company's Audit Committee, provides investors with a consolidated statement of comprehensive income presentation that is more comparable with other software companies listed on both markets. The year ended 30 April 2016 comparatives have also been re-classified and additional detail is provided on the face of the consolidated statement of comprehensive income this year.

(a) The following standards, interpretations and amendments to existing standards are now effective and have been adopted by the Group:

- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortization applies for periods beginning on or after 1 January 2016. In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

- Annual Improvements 2014 includes amendments to IFRS 5, 'Non-current Assets Held For Sale and Discontinued Operations', IFRS 7, 'Financial Instruments: Disclosures', IAS 19, 'Employee Benefits' and IAS 34, 'Interim Financial Reporting' applies for periods beginning on or after 1 January 2016.

- Amendment to IAS 1, 'Presentation of financial statements' as part of the IASB initiative to improve presentation and disclosure in financial reports, effective for annual periods beginning on or after 1 January 2016.

- Amendment to IAS 27, 'Separate financial statements' on the equity method applies to periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The amendments above do not have a material impact to the consolidated financial statements.

Notes to the financial statements (unaudited)

3. Accounting policies continued

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

- IFRS 15 'Revenue from contracts with customers' establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods starting from 1 January 2018 onwards. Earlier application is permitted. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations clarifications. Please refer to below for a more detailed assessment to-date on implementing this standard.

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

- Amendments to IAS 7, 'Statement of cash flows' on disclosure initiative are effective on periods beginning on or after 1 January 2017, subject to EU endorsement. This amendment introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities and is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

- Amendments to IAS 12, 'Income taxes' on recognition of deferred tax assets for unrealized losses are effective on periods beginning on or after 1 January 2017, subject to EU endorsement. These amendments clarify how to account for deferred tax assets originated from unrealized loss in debt instruments measured at fair value.

- Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share based payment transactions are effective on periods beginning on or after 1 January 2018, subject to EU endorsement. These amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payment and pay that amount to the tax authority.

- IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted if the entity is adopting IFRS 15 'Revenue from contracts with customers' at the same time, subject to EU endorsement.

- Annual improvements 2014–2016 include amendments to IFRS 1, 'First-time adoption of IFRS', IFRS 12, 'Disclosure of interests in other entities' and IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value applies for periods beginning on or after 1 January 2018, subject to EU endorsement.

- IFRIC 22, 'Foreign currency transactions and advance consideration' addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made, effective for annual periods beginning on or after 1 January 2018, subject to EU endorsement.

- Clarifications to IFRS 15 'Revenue from Contracts with Customers' are effective on periods beginning on of after 1 January 2018, subject to EU endorsement. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation).

- IFRIC 23, 'Uncertainty over Income Tax Treatments' clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation. This interpretation is effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement.

For IFRS 9, IFRS 16, IFRIC 22 and IFRIC 23, it is too early to determine how significant the effect on reported results and financial position will be. The impact of IFRS 15 is discussed below. The impact of the other standards, amendments and interpretations listed above will not have a material impact on the consolidated financial statements.

Notes to the financial statements (unaudited)

Impact of IFRS 15 'Revenue from contracts with customers'

On 28 May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The new revenue recognition standard will be effective for us starting 1 November 2018, following the announcement of the new year-end date. We do not plan to adopt IFRS 15 early. The standard permits two possible transition methods for the adoption of the new guidance:

- Retrospectively to each prior reporting period presented in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", or

- Retrospectively with the cumulative effect of initially applying the standard recognized on the date of the initial application (cumulative catch-up approach).

We currently plan to adopt the new standard using the cumulative catch-up approach. We are in the process of assessing the impact developing our future IFRS 15 revenue recognition policies and adjusting the relevant business processes to adopt these new policies. We have established a project across Micro Focus' business to review the impacts of IFRS 15 and as part of this effort, the most notable difference to date is in relation to certain incremental costs of obtaining a contract. IFRS 15 requires the capitalization and amortization of certain in-scope sales commissions and third party costs to match the recognition of the associated revenue. An evaluation study is underway to determine the potential impact to the consolidated financial statements in the year of adoption. There will be no impact to cash flows.

IFRS 15 may change the way we allocate a transaction price to individual performance obligations which can impact the classification and timing of revenues. Further analysis of the requirements is currently being undertaken to understand the possible impact, if any.

In addition to the effects on our consolidated statement of comprehensive income, we expect changes to our consolidated statement of financial position (in particular due to the recognition of contract assets/contract liabilities, the differentiation between contract assets and trade receivables, the capitalization and amortization of costs of obtaining a contract and an impact in retained earnings from the initial adoption of IFRS 15) and changes in quantitative and qualitative disclosure to be added.

We will continue to assess all of the impacts that the application of IFRS 15 will have on our consolidated financial statements in the period of initial application, which will also significantly depend on our business and Go-to-Market strategy in FY18. The impacts, if material, will be disclosed, including statements on if and how we apply any of the practical expedients available in the standard.

4. Functional currency

The presentation currency of the Group is US dollars. Items included in the financial statements of each of the Group's entities are measured in the functional currency of each entity. The Group uses the local currency as the functional currency, except for two entities based in Ireland (Novell Ireland Software Limited and Novell Ireland Real Estate Limited) and the parent company, where the functional currency is the US dollar.

5. Segmental reporting

In accordance with IFRS 8, 'Operating Segments', the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker ("the Executive Committee") for the purposes of resource allocation and assessment of segment performance. The Group's reportable segments under IFRS 8 are as follows:

Micro Focus – The Micro Focus Product Portfolio segment contains mature infrastructure software products that are managed on a portfolio basis akin to a "fund of funds" investment portfolio. This portfolio is managed with a single product group that makes and maintains the software, whilst the software is sold and supported through a geographic Go-to-Market organization. The products within the Micro Focus Product Portfolio are grouped together into five sub-portfolios based on industrial logic: CDMS, Host Connectivity, IAS, Development & ITOM and Collaboration & Network.

SUSE – The characteristics of the SUSE Product Portfolio segment are different from the Micro Focus Product Portfolio due to the Open Source nature of its offerings and the growth profile of those offerings. SUSE provides and supports enterprise-grade Linux and Open Source solutions. The SUSE Product Portfolio comprises: SUSE Linux Enterprise Server and Extensions, SUSE OpenStack Cloud, SUSE Enterprise Storage, SUSE Manager and SUSE Linux Enterprise Desktop and Workstation Extension.

Operating segments are consistent with those used in internal management reporting and the profit measure used by the Executive Committee is Adjusted Operating Profit. Centrally managed costs are allocated between Micro Focus and SUSE segments based on identifiable segment costs with the remainder allocated based on other criteria including revenue and headcount.

Notes to the financial statements (unaudited)

5. Segmental reporting continued

Operating segments for the year ended 30 April 2017:

	Note	Micro Focus	SUSE	Total
		$'000	$'000	$'000
Segment revenue		1,077,273	303,429	1,380,702
Directly managed costs		(564,072)	(178,562)	(742,634)
Allocation of centrally managed costs		26,196	(26,196)	-
Total segment costs		(537,876)	(204,758)	(742,634)
Adjusted Operating Profit	8	539,397	98,671	638,068
Exceptional items	7			(97,258)
Share based compensation charge	9			(34,506)
Amortization of purchased intangibles	15			(212,861)
Operating profit	8			293,443
Share of results of associates	17			(1,254)
Net finance costs	10			(95,845)
Profit before tax				196,344
Total assets				4,645,957
Total liabilities				3,032,467

Operating segments for the year ended 30 April 2016:

	Note	Micro Focus	SUSE	Total
		$'000	$'000	$'000
Segment revenue		991,233	253,816	1,245,049
Directly managed costs		(566,406)	(145,129)	(711,535)
Allocation of centrally managed costs		28,883	(28,883)	-
Total segment costs		(537,523)	(174,012)	(711,535)
Adjusted Operating Profit	8	453,710	79,804	533,514
Exceptional items	7			(27,853)
Share based compensation charge	9			(28,793)
Amortization of purchased intangibles	15			(181,934)
Operating profit	8			294,934
Share of results of associates	17			(2,190)
Net finance costs	10			(97,348)
Profit before tax				195,396
Total assets				4,635,693
Total liabilities				3,041,965

The operating segment split of depreciation on property, plant and equipment and the amortization of purchased software intangibles is reported in note 8.

Notes to the financial statements (unaudited)

6. Analysis of revenue by product

Set out below is an analysis of revenue recognized between the principal product portfolios for the year ended 30 April 2017.

	Micro Focus							
	CDMS	**Host Connectivity**	**Identity, Access & Security**	**Development & IT Operations Management Tools**	**Collaboration & Networking**	**Total Micro Focus**	**SUSE**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Licence	**105,962**	**69,158**	**48,635**	**55,464**	**29,175**	**308,394**	**-**	**308,394**
Maintenance	**149,668**	**104,400**	**140,032**	**215,843**	**110,726**	**720,669**	**-**	**720,669**
Subscription	**-**	**-**	**-**	**-**	**-**	**-**	**298,651**	**298,651**
Consulting	**9,530**	**1,857**	**18,354**	**13,860**	**4,609**	**48,210**	**4,778**	**52,988**
Total	**265,160**	**175,415**	**207,021**	**285,167**	**144,510**	**1,077,273**	**303,429**	**1,380,702**

Set out below is an analysis of revenue recognized between the principal product portfolios for the year ended 30 April 2016.

	Micro Focus							
	CDMS	Host Connectivity	Identity, Access & Security	Development & IT Operations Management Tools	Collaboration & Networking	Total Micro Focus	SUSE	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Licence	104,737	89,862	52,360	33,918	23,943	304,820	-	304,820
Maintenance	145,180	105,381	142,209	121,310	130,371	644,451	-	644,451
Subscription	-	-	-	-	-	-	248,903	248,903
Consulting	8,911	2,920	22,083	2,219	5,829	41,962	4,913	46,875
Total	258,828	198,163	216,652	157,447	160,143	991,233	253,816	1,245,049

7. Exceptional items

The exceptional costs of $97.3m for the year ended 30 April 2017 (2016: $27.9m) shown in the consolidated statement of comprehensive income relate to costs incurred on the acquisition costs relating to Serena and GWAVA (note 28), pre-acquisition costs relating to HPE Software and integration costs for acquired businesses.

Reported within Operating profit:	**2017 $'000**	2016 $'000
Integration costs	**27,696**	23,634
Acquisition costs	**2,597**	531
Pre-acquisition costs	**58,004**	5,569
Property costs	**5,525**	5,964
Severance and legal costs	**3,436**	(4,845)
Royalty provision release	**-**	(3,000)
	97,258	27,853

Integration costs of $27.7m for the year ended 30 April 2017 (2016: $23.6m) arose from the work done in bringing together the Base Micro Focus, TAG, Serena and GWAVA organizations into one organization. Other activities include: development of a new Group intranet and website, system integration costs.

The acquisition costs of $2.6m for the year ended 30 April 2017 are external costs in evaluating and completing the acquisitions of Serena Software Inc., GWAVA Inc. and OpenATTIC completed during the year ended 30 April 2017 (2016: acquisition of Authasas BV $0.5m). The costs mostly relate to due diligence work, legal work on the acquisition agreements and professional advisors on the transaction.

Pre-acquisition costs of $58.0m for the year ended 30 April 2017 (2016: $5.6m) relate to the acquisition of HPE Software, which was announced in September 2016 and is expected to complete in the third quarter of calendar year 2017 (note 29). The costs mostly relate to due diligence work, legal work on the acquisition agreements, professional advisors on the transaction and pre-integration costs relating to activities in readiness for the HPE Software acquisition across all functions of the existing Micro Focus business.

7. Exceptional items (continued)

The property costs of $5.5m for the year ended 30 April 2017 (2016: $6.0m) relate to the cost of exiting entire buildings or floors of buildings which the Group are leasing following the integration of the TAG and Serena businesses. The majority of the costs relate to TAG and Serena properties in North America.

Severance and legal costs of $3.4m for the year ended 30 April 2017 (2016: $4.8m releases) relate mostly to termination costs for senior Serena executives after acquisition.

Royalty provision releases of $3.0m for the year ended 30 April 2016 related to provisions no longer required as a result of new contracts being concluded with a third party.

The estimated total tax effect of exceptional items is a credit to the income statement of $11.6m for the year ended 30 April 2017 (2016: $6.8m).

8. Reconciliation of operating profit to EBITDA

	Note	**2017 $'000**	2016 $'000
Operating profit	**5**	**293,443**	294,934
Exceptional items	**7**	**97,258**	27,853
Share-based compensation charge	**9**	**34,506**	28,793
Amortization of purchased intangibles	**15**	**212,861**	181,934
Adjusted Operating Profit		**638,068**	533,514
Depreciation of property, plant and equipment	**16**	**11,794**	11,419
Amortization of purchased software intangibles	**15**	**1,175**	1,864
Adjusted EBITDA		**651,037**	546,797
Amortization and impairment of product development costs	**15**	**22,398**	19,515
Facility EBITDA		**673,435**	566,312

	Note	**2017 $'000**	2016 $'000
Operating profit	**5**	**293,443**	294,934
Amortization of intangible assets	**15**	**236,434**	203,313
Depreciation of property, plant and equipment	**16**	**11,794**	11,419
EBITDA		**541,671**	509,666
Amortization and impairment of product development costs	**15**	**(22,398)**	(19,515)
Share-based compensation charge	**9**	**34,506**	28,793
Exceptional items	**7**	**97,258**	27,853
Adjusted EBITDA		**651,037**	546,797
Foreign exchange credit		**(4,890)**	(2,915)
Net capitalization of internal product development costs *	**15**	**(5,266)**	(11,362)
Underlying Adjusted EBITDA		**640,881**	532,520

*Net capitalization of internal product development costs of $5.3m (2016: $11.4m capitalization) is calculated as additions to intangible product development costs of $28.3m (2016: $31.4m), excluding external consultants product development costs of $0.6m (2016: $0.5m) less amortization and impairment of the product development costs intangibles in the year of $22.4m (2016: $19.5m).

The table below provides the operating segments split for the year ended 30 April 2017 and 30 April 2016:

	2017			2016		
	Micro Focus $'000	**SUSE $'000**	**Total $'000**	Micro Focus $'000	SUSE $'000	Total $'000
Adjusted Operating Profit	**539,397**	**98,671**	**638,068**	453,710	79,804	533,514
Depreciation of property, plant and equipment	**9,704**	**2,090**	**11,794**	9,736	1,683	11,419
Amortization of purchased software intangibles	**1,070**	**105**	**1,175**	1,679	185	1,864
Adjusted EBITDA	**550,171**	**100,866**	**651,037**	465,125	81,672	546,797
Foreign exchange credit	**(2,901)**	**(1,989)**	**(4,890)**	(2,584)	(331)	(2,915)
Net capitalization of product development costs	**(5,266)**	**-**	**(5,266)**	(11,362)	-	(11,362)
Underlying Adjusted EBITDA	**542,004**	**98,877**	**640,881**	451,179	81,341	532,520

The directors use the Adjusted Operating Profit as the performance measure of the business.

The use of these alternative performance measures is consistent with those used by sell-side equity analysts who write research on the Group and how institutional investors consider the performance of the Group.

Notes to the financial statements (unaudited)

8. Reconciliation of operating profit to EBITDA (continued)

Facility EBITDA was the measure used under the Group's $420m Revolving Credit Facility to determine the Net Debt to Facility EBITDA covenant calculation. Whilst the $420m facility was repaid and cancelled as part of the refinancing on the acquisition of TAG, for consistency the directors will continue to use the metric Net Debt to Facility EBITDA. These measures are not defined in IFRS and thus may not be comparable to similarly titled measures by other companies.

9. Share-based payments

The share-based compensation charge for the year ended 30 April 2017 was $34.5m (2016: $28.8m) including $10.6m (2016: $5.2m) relating to employer taxes. The increase in the period is as a result of the additional employer taxes that would be payable as a result of the increase in the share price.

10. Finance income and finance costs

	2017 $'000	2016 $'000
Finance costs		
Finance costs on bank borrowings	**81,157**	82,369
Commitment fees	**796**	1,108
Amortization of facility costs and original issue discounts	**14,219**	13,762
Finance costs on bank borrowings	**96,172**	97,239
Interest on tax provisions	**-**	525
Net interest expense on retirement obligations (note 24)	**565**	467
Other	**87**	126
Total	**96,824**	98,357

	2017 $'000	2016 $'000
Finance income		
Bank interest	**438**	377
Interest on non-plan pension assets (note 24)	**404**	333
Other	**137**	299
Total	**979**	1,009
Net finance cost	**95,845**	97,348

11. Taxation

	2017 $'000	2016 $'000
Current tax		
Current year	**65,005**	40,894
Adjustments to tax in respect of previous years	**1,698**	(20,570)
Impact of change in tax rates	**-**	-
	66,703	20,324
Deferred tax		
Origination and reversal of timing differences	**(22,426)**	(4,145)
Adjustments to tax in respect of previous years	**(4,445)**	17,030
Impact of change in tax rates	**(1,291)**	(785)
	(28,162)	12,100
Total	**38,541**	32,424

A deferred tax credit of $23.0m (2016: $8.5m credit) as at 30 April 2017 and corporation tax credit of $4.1m (2016: $1.5m credit) as at 30 April 2017 have been recognised in equity in the year in relation to share options. A deferred tax debit of $0.3m (2016: $1.7m) as at 30 April 2017 has been recognised in the consolidated statement of comprehensive income in the year in relation to the defined benefit pension schemes.

Notes to the financial statements (unaudited)

11. Taxation continued

The tax charge for the year ended 30 April 2017 is lower than the standard rate of corporation tax in the UK of 19.92% (2016: 20.0%). The differences are explained below:

	2017	2016

	$'000	$'000
Profit before taxation	**196,344**	195,396
Tax at UK corporation tax rate 19.92% (2016: 20.0%)	**39,112**	39,079
Effects of:		
Tax rates other than the UK standard rate	**18,740**	15,002
Intra-group financing	**(15,636)**	(14,445)
UK patent box benefit	**(7,634)**	(7,593)
US R&D tax credit incentives	**(2,200)**	(1,800)
Movement in deferred tax not recognized	**200**	(759)
Effect of change in tax rates	**(1,291)**	(237)
Expenses not deductible	**9,997**	7,737
	41,288	36,984
Adjustments to tax in respect of previous years:		
Current tax	**1,698**	(20,570)
Deferred tax	**(4,445)**	16,010
	(2,747)	(4,560)
Total taxation	**38,541**	32,424

Tax rates, other than the UK standard rate, includes an increase in provisions of $14.8m (2016: $0.8m) for uncertain tax positions relating to the risk of challenge from tax authorities to the geographic allocation of profits across the Group.

The Group realized benefits in relation to intra-group financing of $15.6m for the year ended 30 April 2017 (2016: $14.4m). The benefits mostly relate to arrangements put in place to facilitate the acquisitions of TAG and Serena.

Benefits from the UK patent box regime amounted to $7.6m for the year ended 30 April 2017 (2016: $7.6m).

The Finance Act 2016, which provides for a reduction in the main rate of UK corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date and has reduced the tax charge in the consolidated statement of comprehensive income by $1.3m. This reflects the net impact of the re-measurement of deferred tax balances, in particular liabilities relating to intangibles.

The expenses not deductible increase the tax charge in the consolidated statement of comprehensive income by $10.0m (2016: $7.7m). The increase is due to non-deductible costs incurred in relation to the acquisitions of Serena and GWAVA and costs incurred in relation to the forthcoming HPE Software transaction.

The Group realised a net credit in relation to the true-up of prior year current and deferred tax estimates of $2.7m for the year ended 30 April 2017 (2016: $4.6m). In the year ended 30 April 2016, there was a significant movement between current and deferred tax in the US as a result of the Group being able to utilize significantly higher deferred tax assets (losses and tax credits) against prior year current (federal and state) tax liabilities than previously anticipated.

12. Dividends

Equity – ordinary	**2017** **$'000**	2016 $'000
2016 final paid 49.74 cents (2015: 33.00 cents) per ordinary share	**111,023**	70,015
2017 interim paid 29.73 cents (2016: 16.94 cents) per ordinary share	**66,512**	35,144
Total	**177,535**	105,159

The directors are proposing a second interim dividend in respect of the year ended 30 April 2017 of 58.33 cents per share which will utilize approximately $134m 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.

Notes to the financial statements (unaudited)

13. Earnings per share

The calculation of the basic earnings per share has been based on the earnings attributable to owners of the parent and the weighted average number of shares for each year.

Year ended 30 April 2017	Year ended 30 April 2016

	Total earnings $'000	Weighted average number of shares '000	Per share amount Cents	Per share amount Pence	Total earnings $'000	Weighted average number of shares '000	Per share amount Cents	Per share amount Pence
Basic EPS								
Earnings attributable to ordinary shareholders [1]	**157,906**	**229,238**	**68.88**	**53.25**	162,894	218,635	74.50	49.59
Effect of dilutive securities								
Options		**8,165**				8,847		
Diluted EPS								
Earnings attributable to ordinary shareholders	**157,906**	**237,403**	**66.51**	**51.42**	162,894	227,482	71.61	47.66
Supplementary EPS								
Basic EPS	**157,906**	**229,238**	**68.88**	**53.25**	162,894	218,635	74.50	49.59
Adjusted items[2]	**344,625**				238,580			
Tax relating to above items	**(85,527)**				(67,766)			
Basic EPS – adjusted	**417,004**	**229,238**	**181.91**	**140.63**	333,708	218,635	152.63	101.60
Diluted EPS	**157,906**	**237,403**	**66.51**	**51.42**	162,894	227,482	71.61	47.66
Adjusted items[2]	**344,625**				238,580			
Tax relating to above items	**(85,527)**				(67,766)			
Diluted EPS – adjusted	**417,004**	**237,403**	**175.65**	**135.80**	333,708	227,482	146.70	97.65

[1] Earnings attributable to ordinary shareholders is the profit for the year ended 30 April 2017 of $157,803,000 (2016: $162,972,000), excluding the loss attributable to non-controlling interests of $103,000 (2016: profit of $78,000).

[2] Adjusted items comprise amortization of purchased intangibles $212,861,000 (2016: $181,934,000), share-based compensation $34,506,000 (2016: $28,793,000) and exceptional items $97,258,000 (2016: $27,853,000). Estimated tax relief on these items is as shown above.

The weighted average number of shares excludes treasury shares that do not have dividend rights (note 25).

Earnings per share, expressed in pence, has used the average exchange rate for the year ended 30 April 2017 of $1.29 to £1 (2016: $1.50 to £1).

14. Goodwill

	Note	2017 $'000	2016 $'000
Cost and net book amount			
At 1 May		**2,436,168**	2,421,745
Hindsight adjustment	28	**-**	5,583
Acquisitions	28	**392,436**	8,840
At 30 April		**2,828,604**	2,436,168
A segment-level summary of the goodwill allocation is presented below:			
Micro Focus		**1,969,038**	1,576,602
SUSE		**859,566**	859,566
At 30 April		**2,828,604**	2,436,168

The Group has two operating segments: Micro Focus Product Portfolio and SUSE Product Portfolio.

The hindsight period adjustments in the year ended 30 April 2016 relate to transactions that occurred within 12 months of the acquisition date and are attributable to TAG acquired during the year ended 30 April 2015.

The additions to goodwill in the year ended 30 April 2017 relate to the acquisition of Spartacus Acquisition Holdings Corp. the holding company of Serena Software Inc. ("Serena") and GWAVA Inc. ("GWAVA") (note 28).

Of the additions to goodwill, there is no amount that is expected to be deductible for tax purposes.

Notes to the financial statements (unaudited)

15. Other intangible assets

			Purchased intangibles			
	Purchased software	Product Development costs	Technology	Trade names	Customer relationships	Total

	$'000	$'000	$'000	$'000	$'000	$'000
Cost						
At 1 May 2016	22,028	185,546	303,672	217,510	761,634	1,490,390
Acquisitions (note 28)	-	-	95,245	22,111	210,744	328,100
Additions	3,162	27,664	-	-	-	30,826
Additions – external consultants	-	612	-	-	-	612
Exchange adjustments	(555)	-	-	-	-	(555)
At 30 April 2017	**24,635**	**213,822**	**398,917**	**239,621**	**972,378**	**1,849,373**
Accumulated amortization						
At 1 May 2016	20,061	142,297	153,888	22,854	184,735	523,835
Charge for the year	1,175	22,398	69,098	15,995	127,768	236,434
Exchange adjustments	(266)	-	-	-	-	(266)
At 30 April 2017	**20,970**	**164,695**	**222,986**	**38,849**	**312,503**	**760,003**
Net book amount at 30 April 2017	**3,665**	**49,127**	**175,931**	**200,772**	**659,875**	**1,089,370**
Net book amount at 30 April 2016	1,967	43,249	149,784	194,656	576,899	966,555

Expenditure for the year ended 30 April 2017 totaling $31.4m (2016: $34.5m) was made in the year, including $28.3m in respect of product development costs and $3.2m of purchased software. The acquisitions of Serena, GWAVA and OpenATTIC in the year ended 30 April 2017 gave rise to an addition of $328.1m to purchased intangibles (note 28).

Of the $28.3m of additions to product development costs, $27.7m (2016: $30.9m) relates to internal product development costs and $0.6m (2016: $0.5m) to external consultants' product development costs.

At 30 April 2017, the unamortized lives of technology assets were in the range of two to 10 years, customer relationships in the range of one to 10 years and trade names in the range of 10 to 20 years.

Included in the consolidated income statement for the year ended 30 April 2017 was:

	2017 $'000	2016 $'000
Cost of sales:		
- amortization of product development costs	**22,398**	19,515
- amortization of acquired purchased technology	**69,098**	75,227
Selling and distribution:		
- amortization of acquired purchased trade names and customer relationships	**143,763**	106,707
Administrative expenses:		
- amortization of purchased software	**1,175**	1,864
Total amortization charge for the year	**236,434**	203,313
Research and development:		
- capitalization of product development costs	**(27,664)**	(30,877)

In the year ended 30 April 2017, the Group has reviewed its consolidated income statement presentation and has decided to re-classify both amortization of capitalized product development costs and amortization of acquired technology intangibles from research and development expenses to costs of sales. The year ended 30 April 2016 comparatives have also been re-classified and additional detail is provided on the face of the consolidated income statement.

Reconciliation of previously reported in the year ended 30 April 2016:

	Cost of sales $'000	**Research and development expenses $'000**
As previously reported	**135,432**	**259,388**
Amortization of product development costs	19,515	(19,515)
Amortization of acquired technology intangibles	75,227	(75,227)
After re-classification	**230,174**	**164,646**

Notes to the financial statements (unaudited)

16. Property, plant and equipment

	Freehold land and buildings $'000	**Leasehold improvements $'000**	**Computer equipment $'000**	**Fixtures and fittings $'000**	**Total $'000**
Cost					
At 1 May 2016	15,183	23,418	25,455	5,604	69,660
Reclassified from assets held for sale	888	-	-	-	888

Acquisition – Serena (note 28)	-	1,068	648	211	1,927
Acquisition – GWAVA (note 28)	-	-	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 year ended 30 April 2017 of $11.8m (2016: $11.4m) is included within administrative expenses in the consolidated statement of comprehensive income.

17. Investments in associates

Open Invention Network LLC ("OIN"), a strategic partnership for the Group, licences its global defensive patent pool in exchange for a pledge of non-aggression which encourages freedom of action in Linux and the sharing of new ideas and inventions. There are no significant restrictions on the ability of associated undertakings to transfer funds to the parent. There are no contingent liabilities to the Group's interest in associates.

At 30 April 2017 the Group had a 12.5% interest ($11.5m) (2016: 14.3%, $12.7m) investment in OIN. There are eight (2016: seven) equal shareholders of OIN, all holding 12.5% (2016: 14.3%) interest, and each shareholder has one board member and one alternative board member. The Group exercises significant influence over OIN's operation and therefore accounts for its investment in OIN as an associate.

The Group uses the equity method of accounting for its interest in associates. The following table shows the aggregate movement in the Group's investment in associates:

	2017 **$'000**	2016 $'000
At 1 May	**12,711**	14,901
Gain on dilution of investment	**966**	-
Share of post-tax loss of associates	**(2,220)**	(2,190)
	(1,254)	(2,190)
At 30 April	**11,457**	12,711

Details of the Group's principal associates are provided below.

Company name	**Country of incorporation and principal place of business**	**Proportion held**	**Principal activities**
Open Invention Network LLC	USA	12.5%	Sale and support of software

The accounting year end date of the associate consolidated within the Group's financial statements is 31 December, and we obtain its results on a quarterly basis. The Group records an adjustment within the consolidated financial statements to align the reporting period of the associate and the Group. The assets, liabilities, and equity of the Group's associate as at 31 March and the revenue and loss of the Group's associate for the period ended 31 March with the corresponding adjustment to align the reporting period was as follows:

	31 March 2017 **$'000**	31 March 2016 $'000
Non-current assets	**43,649**	45,666
Current assets	**50,137**	44,058
Current liabilities	**(604)**	(584)
Non-current liabilities	**(527)**	(270)
Equity	**(92,655)**	(88,870)

17. Investments in associates

	31 March 2017 **$'000**	31 March 2016 $'000
Revenue	**-**	-
Net loss	**16,212**	15,867

	2017	2016

	$'000	$'000
Loss attributable to the Group for the period ended 31 March (14.3% ownership to 6 June 2016, 12.5% thereafter)	**2,095**	2,267
Adjustment on estimated April result attributable to the Group	**125**	(77)
Loss attributable to the Group for the period ended 30 April (14.3% ownership to 6 June 2016, 12.5% thereafter)	**2,220**	2,190

18. Trade and other receivables

	2017 **$'000**	2016 $'000
Trade receivables	**266,225**	248,759
Less: provision for impairment of trade receivables	**(2,599)**	(4,486)
Trade receivables net	**263,626**	244,273
Prepayments	**23,239**	21,694
Other receivables	**1,534**	1,651
Accrued income	**1,110**	568
Total	**289,509**	268,186

At 30 April 2017 and 30 April 2016, the carrying amount approximates to the fair value.

19. Trade and other payables – current

	2017 **$'000**	2016 $'000
Trade payables	**16,891**	20,793
Tax and social security	**3,032**	10,425
Accruals	**150,119**	156,872
Total	**170,042**	188,090

At 30 April 2017 and 2016, the carrying amount approximates to the fair value. Accruals include employee taxes, acquisition fees, vacation and payroll accruals including bonuses and commissions.

20. Borrowings

	2017 **$'000**	2016 $'000
Bank loan secured	**1,595,188**	1,787,250
Unamortized prepaid facility arrangement fees and original issue discounts	**(33,652)**	(42,041)
	1,561,536	1,745,209

	2017			2016		
Reported within:	**Bank loan secured $'000**	**Unamortized prepaid facility arrangement fees and original issue discounts $'000**	**Total $'000**	Bank loan secured $'000	Unamortized prepaid facility arrangement fees and original issue discounts $'000	Total $'000
Current liabilities	**83,788**	**(12,604)**	**71,184**	287,750	(12,494)	275,256
Non-current liabilities	**1,511,400**	**(21,048)**	**1,490,352**	1,499,500	(29,547)	1,469,953
	1,595,188	**(33,652)**	**1,561,536**	1,787,250	(42,041)	1,745,209

20. Borrowings continued

	2017 **$'000**	2016 $'000
Cash and cash equivalents	**150,983**	667,178
Less borrowings	**(1,561,536)**	(1,745,209)

Net debt	**(1,410,553)**	(1,078,031)

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

On 1 August 2016 the Company allocated a re-pricing of its senior secured Term Loan B which reduced its ongoing interest payments. The interest rate was reduced from 4.25% to 3.75% and the LIBOR floor was reduced from 1.00% to 0.75%. All other terms of the Group's Credit Facilities remained the same. The terms of the Micro Focus debt facilities from 1 August 2016 to 28 April 2017 were as follows:

- Syndicated senior secured tranche B term loan facility ("Term Loan B") , with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), repayable at 1.00% per annum, with an original issue discount of 1.00% and a seven year term;

- A syndicated senior secured tranche C term loan facility ("Term Loan C"), with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), repayable at 10.00% per annum, with an original issue discount of 1.50% and a five year term; and

- A senior secured revolving credit facility of $375.0m, ("Revolving Facility"), with an interest rate of 3.50% above LIBOR on amounts drawn (and 0.50% on amounts undrawn) thereunder and an original issue discount of 0.50%.

The Revolving Facility was increased from $225.0m to $375.0m on 2 May 2016 as part of the funding for the Serena acquisition (note 28).

New Facilities
The Company announced on 21 April 2017 the successful syndication of the new credit facilities (the ''New Facilities'') on behalf of both MA FinanceCo, LLC, a wholly owned subsidiary of Micro Focus, and Seattle SpinCo, Inc., a wholly owned subsidiary of HPE that will hold HPE Software. Post 30 April 2017, Seattle SpinCo Inc. will be merged with a wholly owned subsidiary of Micro Focus in the HPE Software Transaction.

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

New facilities drawn as at 30 April 2017:

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

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

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

Micro Focus facilities:
- The new $385.0m senior secured seven year Term Loan B issued by MA FinanceCo LLC is also priced at LIBOR plus 2.75% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%; and
- The new Euro 470.0m (equivalent to $500 million) senior secured seven year Term Loan B issued by MA FinanceCo LLC is priced at EURIBOR plus 3.00% (subject to a EURIBOR floor of 0.00%) with an original issue discount of 0.25%.

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

Notes to the financial statements (unaudited)

20. Borrowings continued

As part of the HPE Software merger, due to complete in the third quarter of calendar year 2017, the New Facilities will be used to:

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

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

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

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

The only financial covenant attaching to these facilities relates to the Revolving Facility, which is subject to an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end.

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

The movements on the Group loans in the year were as follows:

	Term Loan B-2	Term Loan B	Term Loan C	Revolving Facility	Total
	$'000	$'000	$'000	$'000	$'000
At 1 May 2016	-	1,112,250	450,000	225,000	1,787,250
Repayments	-	(9,562)	(37,500)	(325,000)	(372,062)
Draw downs	-	-	-	180,000	180,000
Transfer	1,515,188	(1,102,688)	(412,500)	-	-
At 30 April 2017	**1,515,188**	**-**	**-**	**80,000**	**1,595,188**

Borrowings are stated after deducting unamortized prepaid facility fees and original issue discounts. Facility arrangement costs and original issue discounts are amortized between four and six years. The fair value of borrowings equals their carrying amount.

21. Deferred income – current

	2017	2016
	$'000	$'000
Deferred income	**640,650**	565,480

Revenue not recognized in the consolidated statement of comprehensive income under the Group's accounting policy for revenue recognition is classified as deferred income in the consolidated statement of financial position to be recognized in future periods. Deferred income primarily relates to undelivered maintenance and subscription services on billed contracts.

22. Deferred income – non-current

	2017	2016
	$'000	$'000
Deferred income	**223,786**	196,483

Revenue not recognized in the consolidated statement of comprehensive income under the Group's accounting policy for revenue recognition is classified as deferred income in the consolidated statement of financial position to be recognized in future periods in excess of one year. Deferred income primarily relates to undelivered maintenance and subscription services on multi-year billed contracts.

23. Provisions

	2017	2016
	$'000	$'000
Onerous leases and dilapidations	**16,243**	18,176
Restructuring and integration	**12,132**	3,523
Legal	**3,220**	1,920
Other	**484**	1,280
Total	**32,079**	24,899
Current	**20,142**	10,545
Non-current	**11,937**	14,354
Total	**32,079**	24,899

Notes to the financial statements (unaudited)

23. Provisions continued

	Onerous leases and dilapidations	Restructuring and integration	Legal	Other	Total

	$'000	$'000	$'000	$'000	$'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 28)	**-**	**1,201**	**2,844**	**-**	**4,045**
Utilization of provision	**(5,527)**	**(37,712)**	**(120)**	**(117)**	**(43,476)**
Released	**(857)**	**(2,886)**	**(1,492)**	**(1,180)**	**(6,415)**
Exchange adjustments	**(133)**	**(492)**	**(30)**	**-**	**(655)**
At 30 April 2017	**16,243**	**12,132**	**3,220**	**484**	**32,079**
Current	**4,406**	**12,132**	**3,220**	**384**	**20,142**
Non-current	**11,837**	**-**	**-**	**100**	**11,937**
	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 utilized within nine years. The provision was increased by $4.6m, mostly due to a lengthening in the estimated time to sublease a North American property.

Restructuring and integration provisions
Restructuring and integration provisions addition in the year ended 30 April 3017 includes severance and integration work undertaken in bringing together the Base Micro Focus, TAG, Serena and GWAVA organizations into one organization. This includes, amongst other activities; development of a new Group intranet and website and system integration costs. Restructuring and integration provisions also included provisions relating to activities in readiness for the HPE Software acquisition across all functions of the existing Micro Focus business. Releases in the period relate to IT programs no longer continuing in light of the HPE Software acquisition (none of which was capitalized) and the release of provisions established for the Group reorganization in March 2016. The provisions as at 30 April 2017 are expected to be fully utilized within 12 months.

Legal provisions
Legal provisions in the year ended 30 April 2017 and 2016 include management's best estimate of the likely outflow of economic benefits associated with a number of small ongoing legal matters. Releases of legal provisions in the year ended 30 April 2017 relate to legal matters now resolved.

Other provisions
Other provisions as at 30 April 2017 include primarily:

- $0.5m relating to potential future fees;
- $nil relating to tax due for pension and bonus payments prior to July 2011 for a subsidiary in Brazil (2016: $0.2m); and
- $nil remaining provision for potential customer claims (2016: $1.0m).

Releases of other provisions in the year ended 30 April 2017 related to the potential customer claims and Brazil tax matters now resolved.

24. Pension commitments

	2017	2016
	$'000	$'000
Within non-current assets :		
Long-term pension assets	**22,031**	22,272
Within non-current liabilities:		
Retirement benefit obligations	**(30,773)**	(31,669)

There are four (2016: three) defined benefit plans in Germany under broadly similar regulatory frameworks. All of the plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life in the case of retirement, disability and death. The level of benefits provided depends not only on the final salary but also on member's length of service, social security ceiling and other factors. Final pension entitlements are calculated by our Actuary at Swiss Life. They also complete calculations for cases of death in service and disability. There is no requirement for the appointment of Trustees in Germany. The schemes are administered locally with the assistance of German pension experts. All four plans were closed for new membership. During the year ended 30 April 2017 a pension scheme arrangement in Germany was identified as requiring reclassification under German law from a defined contribution scheme to a defined benefit scheme.

Notes to the financial statements (unaudited)

24. Pension commitments continued

Long-term pension assets
Long-term pension assets relate to the reimbursement right under insurance policies held by the Company with guaranteed interest rates that do not meet the definition of a qualifying insurance policy as they have not been pledged to the plan and are subject to the creditors of the Group. Such reimbursement rights assets are recorded in the consolidated statement of financial position as long-

term pension assets. Fair value of the reimbursement right asset is deemed to be the present value of the related obligation because the right to reimbursement under the insurance policies exactly matches the amount and timing of some or all of the benefits payable under the defined benefit plan.

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

	2017	2016
	$'000	$'000
As at 1 May	**22,272**	14,076
Hindsight adjustment	**-**	3,917
Interest on non-plan assets (note 10)	**404**	333
Benefits paid	**(110)**	(8)
Contributions	**442**	475
Included within other comprehensive income:		
- Actuarial (loss)/gain on non-plan assets	**(2,134)**	3,104
- Reclassification from defined contribution scheme to defined benefit scheme	**2,264**	-
	130	3,104
Foreign currency exchange (loss)/gain	**(1,107)**	375
As at 30 April	**22,031**	22,272

Retirement benefit obligations

$1.2m (2016: $1.3m) is included in the consolidated statement of comprehensive income in respect of the German defined benefit pension arrangements being a current service charge of $0.6m (2016: $0.8m) and a net finance charge of $0.6m (2016: $0.5m).

The contributions for the year ended 30 April 2018 are expected to be broadly in line with the current year.

The key assumptions used for the German scheme were:

	2017	2016
Rate of increase in final pensionable salary	**2.00%**	2.60%
Rate of increase in pension payments	**2.00%**	2.00%
Discount rate	**1.95%**	1.70%
Inflation	**2.00%**	2.00%

The mortality assumptions for the German scheme are set based on actuarial advice in accordance with published statistics and experience in the territory, specifically German pension table 'Richttafeln 2005 G' by Prof. Dr. Klaus Heubeck.

The net liability included in the consolidated statement of financial position arising from obligations in respect of defined benefit schemes is as follows:

	2017	2016
	$'000	$'000
Present value of funded obligations	**36,480**	37,524
Fair value of plan assets	**(5,707)**	(5,855)
	30,773	31,669

Notes to the financial statements (unaudited)

24. Pension commitments continued

Retirement benefit obligations continued

The retirement benefit obligation has moved as follows:

	2017			2016		
	Defined benefit obligations $'000	**Scheme assets $'000**	**Retirement benefit obligations $'000**	Defined benefit obligations $'000	Scheme assets $'000	Retirement benefit obligations $'000
At 1 May	**37,524**	**(5,855)**	**31,669**	38,224	(5,482)	32,742
Current service cost	**625**	**-**	**625**	760	-	760
Benefits paid	**(197)**	**87**	**(110)**	(100)	84	(16)
Contributions by plan participants	**-**	**(114)**	**(114)**	-	(126)	(126)
Interest cost/(income)	**660**	**(95)**	**565**	546	(79)	467
Included within other comprehensive income:						
Remeasurements - actuarial losses:						
Demographic	**-**	**-**	**-**	-	-	-
Financial	**(2,821)**	**-**	**(2,821)**	(2,024)	-	(2,024)
Experience	**(568)**	**-**	**(568)**	(565)	-	(565)
Actuarial return on assets excluding amounts included in interest income	**-**	**(9)**	**(9)**	-	(108)	(108)
Reclassification from defined contribution scheme to defined benefit scheme	**2,996**	**-**	**2,996**	-	-	-
	(393)	**(9)**	**(402)**	(2,589)	(108)	(2,697)
Foreign currency exchange changes	**(1,739)**	**279**	**(1,460)**	683	(144)	539
At 30 April	**36,480**	**(5,707)**	**30,773**	37,524	(5,855)	31,669

Sensitivities
The table below provides information on the sensitivity of the defined benefit obligation to changes to the most significant actuarial assumptions. The table shows the impact of changes to each assumption in isolation, although, in practice, changes to assumptions may occur at the same time and can either offset or compound the overall impact on the defined benefit obligation.

These sensitivities have been calculated using the same methodology as used for the main calculations. The weighted average duration of the defined benefit obligation is 25 years.

	Change in Assumption	**Change in defined benefit obligation**
Discount rate for scheme liabilities	**0.50%**	**(10.6%)**
Price inflation	**0.25%**	**3.60%**
Salary growth rate	**0.50%**	**1.40%**

An increase of one year in the assumed life expectancy for both males and females would increase the defined benefit obligation by 2.9% as at 30 April 2017 (2016: 2.9%). The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous years.

25. Share capital
Ordinary shares at 10 pence each as at 30 April 2017 (2016: 10 pence each)

	2017		2016	
	Shares	**$'000**	Shares	$'000
Issued and fully paid				
At 1 May	**228,706,210**	**39,573**	228,587,397	39,555
Shares issued to satisfy option awards	**968,269**	**127**	118,313	18
Share placement issues	**-**	**-**	500	-
At 30 April	**229,674,479**	**39,700**	228,706,210	39,573

Notes to the financial statements (unaudited)

25. Share capital continued

Share issued during the year
During the year ended 30 April 2017, 968,269 ordinary shares of 10 pence each (2016: 118,313) were issued by the Company to settle exercised share options. The gross consideration received was $2.0m (2016: $1.0m). Shares issued to satisfy option awards options related to exercises of the Incentive Plan 2005 and Sharesave and Employee Stock Purchase Plan 2006. Of these exercises

in the year ended 30 April 2017 the majority were settled by new share issues and some were settled by utilizing the remaining treasury shares and shares from an employee benefit trust.

At 30 April 2017 no treasury shares were held (2016: 29,924) such that the voting rights and number of listed shares at 30 April 2017 were 229,674,479 (2016: 228,676,286). Treasury shares were fully utilized during the year to satisfy share option exercises.

Potential issues of shares
Certain employees hold options to subscribe for shares in the Company at prices ranging from nil pence to 1,875.6 pence under the following share option schemes approved by shareholders in 2005 and 2006: the Long-Term Incentive Plan 2005, the Additional Share Grants, the Sharesave Plan 2006 and the Employee Stock Purchase Plan 2006.

The number of shares subject to options at 30 April 2017 was 8,607,889 (2016: 9,264,743).

26. Other reserves

	Capital redemption reserve $'000	**Merger reserve $'000**	**Total $'000**
As at 1 May 2015	**163,363**	**1,168,104**	**1,331,467**
Reallocation of merger reserve	-	(180,000)	(180,000)
As at 30 April 2016	**163,363**	**988,104**	**1,151,467**
Reallocation of merger reserve	-	(650,000)	(650,000)
As at 30 April 2017	**163,363**	**338,104**	**501,467**

The Company has transferred an amount from the merger reserve to retained earnings pursuant to the UK company law. The parent company transferred the investment in TAG to a wholly owned sub for an intercompany receivable in the amount of $1,373m. To the extent the loan is settled in qualifying consideration, an amount of $650m from the merger reserve is transferred to retained earnings (2016: $180.0m) that is available for dividend distribution to the parent company shareholders.

27. Non-controlling interests

On 22 December 2016 a payment of 170,350 JPY ($1,533) was made to a minority shareholder of Novell Japan Ltd to acquire 170,350 ordinary 1 JYP shares held. As a result of this the Group's shareholding increased from 71.5% to 74.7%.

	2017 $'000	2016 $'000
At 1 May	**1,057**	979
Share of (loss)/profit after tax	**(103)**	78
At 30 April	**954**	1,057

Non-controlling interests relate to the companies detailed below:

Company name	**Country of incorporation and principal place of business**	**2017 Proportion held**	2016 Proportion held
Novell Japan Ltd	Japan	**74.7%**	71.5%

Notes to the financial statements (unaudited)

28. Business combinations

Summary of acquisitions

	Consideration

	Carrying value at acquisition $'000	Fair value adjustments $'000	Hindsight adjustments $'000	Goodwill $'000	Shares $'000	Cash $'000	Total $'000
Acquisitions in the year ended 30 April 2017							
Serena Software Inc.	147,260	(249,306)	-	379,669	-	277,623	277,623
GWAVA Inc.	618	3,062	-	12,767	-	16,447	16,447
OpenATTIC	-	4,991	-	-	-	4,991	4,991
OpenStack	-	-	-	-	-	-	-
	147,878	**(241,253)**	**-**	**392,436**	**-**	**299,061**	**299,061**
Acquisitions in the year ended 30 April 2016							
Authasas BV	1,110	10	-	8,840	-	9,960	9,960
Acquisitions in the year ended 30 April 2015							
TAG	(501,338)	(225,796)	(5,583)	2,118,933	1,386,216	-	1,386,216
	(352,350)	**(467,039)**	**(5,583)**	**2,520,209**	**1,386,216**	**309,021**	**1,695,237**

Acquisitions in the year ended 30 April 2017

1. Acquisition of Serena Software Inc.

On 2 May 2016, the Group acquired the entire share capital of Spartacus Acquisition Holdings Corp. the holding company of Serena Software Inc. ("Serena") and its subsidiaries for $277.6m, payable in cash at Completion. The Group then repaid the outstanding Serena bank borrowings of $316.7m as at 2 May 2016, making the total cash outflow for the Group of $528.5m, net of cash acquired of $65.8m. The transaction costs for the Serena acquisition were $0.9m ($0.5m was incurred in the year ended 30 April 2016).

The acquisition is highly consistent with the Group's established acquisition strategy and focus on the efficient management of mature infrastructure software products.

Serena is a leading provider of enterprise software focused on providing Application Lifecycle Management products for both mainframe and distributed systems. Whilst Serena is headquartered in San Mateo, California the operations are effectively managed from offices in Hillsboro, Oregon and St. Albans in the United Kingdom. It operates in a further 10 countries. The Serena Group's customers are typically highly regulated large enterprises, across a variety of sectors including banking, insurance, telco, manufacturing and retail, healthcare and government.

Serena was integrated into the Micro Focus Product Portfolio and the revenues reported in the Development and IT Operations Management Tools sub-portfolio.

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 the 2 May 2016, the Group's existing revolving credit facility was extended from $225m to $375m and the Group raised approximately £158.2m (approximately $225.7m) through a Placing underwritten by Numis Securities incurring $3.0m of costs associated with the Placing in March 2016.

A fair value review was carried out and finalized on the assets and liabilities of the acquired business, resulting in the identification of intangible assets.

Notes to the financial statements (unaudited)

1. Acquisition of Serena Software Inc. (continued)

Details of the net assets acquired and goodwill are as follows:

	Carrying value at acquisition	Fair value adjustments	Fair value

	$'000	$'000	$'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 14)			379,669
Consideration			**277,623**
Consideration satisfied by :			
Cash			**277,623**

The fair value adjustments relate to:

[1] Purchased intangible assets have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of Serena;

[2] Deferred income has been valued taking account of the remaining performance obligations; and

[3] A deferred tax liability has been established relating to the purchase of intangibles.

The purchased intangible assets acquired as part of the acquisition can be analyzed as follows (note 15):

	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 capitalized.

From the date of acquisition, 2 May 2016 to 30 April 2017, the acquisition contributed $144.8m to revenue and $72.2m to profit, before any allocation of management costs and tax. There is no difference in results between 1 May and 2 May 2016.

2. Acquisition of GWAVA Inc.

On 30 September 2016, the Group acquired the entire share capital of GWAVA Inc. ("GWAVA") and its subsidiaries for $16.4m, payable in cash at Completion. The transaction costs for the GWAVA acquisition were $1.5m.

The acquisition is highly consistent with the Group's established acquisition strategy and focus on the efficient management of mature infrastructure software products.

2. Acquisition of GWAVA Inc. continued

GWAVA is a leading company in email security and enterprise information archiving (EIA). GWAVA has approximately 90 employees, based in the US, Canada and Germany. More than a million users across 60 countries rely on its products in over 3,000 customer organizations, supported by GWAVA's global team, with a further 1,000 GWAVA business partners collaborating closely to ensure successful customer solutions. In addition to GWAVA's award winning EIA product Retain, GWAVA has a full suite of products to protect, optimize, secure and ensure compliance for customers running Micro Focus GroupWise.

A provisional fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of intangible assets. At the time these consolidated financial statements were authorized for issue, the Group had not yet fully completed its assessments of the GWAVA acquisition.

Details of the net assets acquired and goodwill are as follows:

	Carrying value at acquisition	Fair value adjustments	Fair value
	$'000	$'000	$'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 14)			12,767
Consideration			**16,447**
Consideration satisfied by :			
Cash			**16,447**

The fair value adjustments relate to:

1 Purchased intangible assets have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of GWAVA Inc.;
2 Other intangible assets relating to historic IP has been written down to $nil;
3 Deferred income has been valued taking account of the remaining performance obligations; and
4 A deferred tax liability has been established relating to the purchase of intangibles.

The purchased intangible assets acquired as part of the acquisition can be analyzed as follows (note 15):

	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 capitalized. From the date of acquisition, 30 September 2016 to 30 April 2017, the acquisition contributed $5.8m to revenue and a profit of $0.4m.

The estimated results of the above acquisition if it had been made at the beginning of the accounting year, 1 May 2016, to 30 April 2017 would have been as follows:

Continuing	**$m**
Revenue	**9.6**
Profit for the period	**0.5**

Notes to the financial statements (unaudited)

28. Business combinations continued

2. Acquisition of GWAVA Inc. continued

The estimated results of the Group if the acquisition had been made at the beginning of the accounting year, 1 May 2016, to 30 April 2017 would have been as follows:

Continuing	**$m**

Revenue	**1,384.5**
Profit for the year	**157.0**

The above figures are based on information provided to Micro Focus by GWAVA and the results since acquisition.

3. Acquisition of OpenATTIC

On 1 November 2016 the Group acquired the OpenATTIC storage management technology and engineering talent from the company it-novum GmbH for a cash consideration of 4.7m Euros ($5.0m). The OpenATTIC technology aligns perfectly with our strategy to provide open source, software defined infrastructure solutions for the enterprise and will strengthen SUSE Enterprise Storage solution by adding enterprise grade storage management capabilities to the portfolio. The transaction costs for the OpenATTIC acquisition were $1.2m.

A provisional fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of intangible assets. The fair value review will be finalized in the next reporting period.

Details of the net assets acquired and goodwill are as follows:

	Carrying value at acquisition	**Fair value adjustment**	**Fair value**
	$'000	**$'000**	**$'000**
Intangible assets – purchased technology	-	4,991	4,991
Net assets	-	4,991	4,991
Goodwill			-
Consideration			**4,991**
Consideration satisfied by :			
Cash			**4,991**

From the date of acquisition, 1 November 2016, to 30 April 2017 the acquisition contributed the following:

	$m
Revenue	**-**
Loss for the period	**(0.4)**

The estimated results of the Group if the acquisition had been made at the beginning of the accounting year, 1 May 2016, to 30 April 2017 would have been as follows:

Pro-forma	**$m**
Revenue	**1,380.7**
Profit for the year	**157.1**

4. Acquisition of OpenStack

During the year, the Group acquired purchased technology and talent from HPE for $nil consideration that will expand SUSE's OpenStack Infrastructure-as-a-Service ("IaaS") solution and accelerate SUSE's entry into the growing Cloud Foundry Platform-as-a-Service ("PaaS") market, subject to regulatory clearances. The last regulatory clearance was received on the 8 March 2017 and the deal was completed then.

The acquired OpenStack technology assets were integrated into SUSE OpenStack Cloud and the acquired Cloud Foundry and PaaS assets will enable SUSE in the future to bring to market a certified, enterprise-ready SUSE Cloud Foundry PaaS solution for all customers and partners in the SUSE ecosystem. Additionally, SUSE has increased engagement with the Cloud Foundry Foundation, becoming a platinum member and taking a seat on the Cloud Foundry Foundation Board.

As part of the transaction, HPE has named SUSE as its preferred open source partner for Linux, OpenStack IaaS and Cloud Foundry PaaS. HPE's choice of SUSE as their preferred open source partner further cements SUSE's reputation for delivering high-quality, enterprise-grade open source solutions and services.

The Group has carried out a provisional fair value assessment of the OpenStack assets and liabilities, resulting in the identification of intangible assets and liabilities with a $nil value. The Group will continue to assess and finalize this in the next reporting period.

Notes to the financial statements (unaudited)

28. Business combinations continued

4. Acquisition of OpenStack continued

From the date of acquisition, 8 March 2017, to 30 April 2017 the acquisition contributed the following:

	$m

Revenue	**0.3**
Loss for the period	**(2.7)**

The estimated results of the Group if the acquisition had been made at the beginning of the accounting year, 1 May 2016, to 30 April 2017 would have been as follows:

Pro-forma	**$m**
Revenue	**1,382.8**
Profit for the year	**141.5**

29. Post Balance Sheet Events

1 Proposed merger with HPE Software

On September 7, 2016, the Company announced that it had entered into a definitive agreement with HPE on the terms of a transaction (the "Transaction") which provided for the combination of HPE's software business segment ("HPE Software") with the Company by way of a merger (the "Merger") with a wholly owned subsidiary of HPE incorporated to hold the business of HPE Software for the purposes of the Transaction. At the time of announcement HPE Software was valued at $8.8bn.

The Transaction is currently expected to complete on 1 September 2017. Our shareholders voted unanimously in favor of the Transaction. They also approved a return of value of $500m which will be declared immediately before Completion.

2 Dividends

The directors announced a second interim dividend of 58.33 cents per share (2016: 49.74 cents per share). The dividend will be paid in Sterling equivalent to 45.22 pence per share, based on an exchange rate of £1 = $1.29 being the rate applicable on 11 July 2017, the date on which the board resolved to propose the dividend. The dividend will be paid on 25 August 2017 to shareholders on the register at 4 August 2017.