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If you sell or have sold or otherwise transferred all of your Ordinary Shares please send this document (but not the accompanying personalised Form of Proxy) immediately to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, the distribution of this document into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of such jurisdictions. If you have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain these documents.

This document is not a prospectus and it does not constitute or form any part of an offer or invitation to purchase or subscribe for, sell, dispose of or issue any securities or a solicitation of an offer or invitation to purchase or subscribe for, sell, dispose of or issue any securities pursuant to this document, including any Consideration Shares to be issued in connection with the Transaction. This document is being sent to Shareholders solely in connection with the General Meeting.

MICRO FOCUS INTERNATIONAL PLC

(incorporated in England and Wales under the Companies Act 1985 with registered number 05134647)

Proposed Merger with Seattle SpinCo, Inc., which will hold the Software Business Segment of Hewlett Packard Enterprise Company

Proposed Issue of Consideration Shares in connection with the Merger

Proposed Return of Value to Shareholders

and

Notice of General Meeting

Your attention is drawn to the letter from the Chairman of Micro Focus which is set out in Part I (*Letter from the Chairman of Micro Focus*) of this document in which the Board recommends that you vote in favour of the Resolutions. This document is being made available to all Shareholders, including any Shareholders not resident in the United Kingdom. You should read the whole of this document and, in particular, the risk factors in Part II (*Risk Factors*) of this document.

J.P. Morgan Limited (which conducts its UK investment banking activities as J.P. Morgan Cazenove, "J.P. Morgan Cazenove"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting as sole sponsor and lead financial adviser to Micro Focus in connection with the Transaction. J.P. Morgan Cazenove is acting exclusively for Micro Focus in connection with the Transaction and for no-one else and will not be responsible to anyone other than Micro Focus for providing the protections afforded to the clients of J.P. Morgan Cazenove nor for providing any advice in relation to the Transaction or the contents of this document or any transaction, arrangement or matter referred to herein.

Numis Securities Limited ("Numis"), which is authorised and regulated by the Financial Conduct Authority, is acting as corporate broker and joint financial adviser to Micro Focus in connection with the Transaction. Numis is acting exclusively for Micro Focus in connection with the Transaction and for no-one else and will not be responsible to anyone other than Micro Focus for providing the protections afforded to the clients of Numis nor for providing any advice in relation to the Transaction or the contents of this document or any transaction, arrangement or matter referred to herein.

Apart from the responsibilities and liabilities, if any, which may be imposed on J.P. Morgan Cazenove or Numis by the Financial Services and Markets Act 2000 (as amended) or the regulatory regime established

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Notice of the General Meeting, to be held at 10 Paternoster Square, London EC4M 7LT on 26 May 2017 at 2 p.m., is set out at the end of this document. Whether or not you intend to be present at the General Meeting, please complete the Form of Proxy accompanying this document in accordance with the instructions printed on it and return it to Micro Focus' Registrars, Equiniti Limited, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA so that it is received by no later than 2 p.m. on 24 May 2017 (or, in the event of an adjournment of the General Meeting, not later than 48 hours (excluding non-Business Days) before the time fixed for the holding of the adjourned meeting). As an alternative to completing and returning the accompanying Form of Proxy, you may register the appointment of a proxy electronically at www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number on the Form of Proxy. To be valid, the electronic submission must be received by not later than 2 p.m. on 24 May 2017 (or, in the event of an adjournment of the General Meeting, not later than 48 hours (excluding non-Business Days) before the time fixed for the holding of the adjourned meeting). If you hold your Ordinary Shares in uncertificated form (i.e. in CREST), you may appoint a proxy by completing and transmitting a CREST Proxy Instruction in accordance with the procedures set out in the CREST Manual so that it is received by Micro Focus' Registrars (under CREST participant RA19) by no later than 2 p.m. on 24 May 2017 (or, in the case of an adjournment, not later than 48 hours (excluding non-Business Days) before the time fixed for the holding of the adjourned meeting). Completion and return of a Form of Proxy, or the electronic appointment of a proxy or CREST Proxy Instruction, will not preclude you from attending, speaking or voting at the General Meeting or any adjournment thereof, if you are entitled and wish to do so.

Capitalised terms, other than those used in Section A of Part IV (*Financial Information relating to HPE Software*) and Section A of Part V (*Pro Forma Financial Information*) of this document, have the meaning ascribed to them in Part XI (*Definitions*).

This document is dated 9 May 2017.

NOTICE TO ALL INVESTORS

No person has been authorised to give any information or make any representations to Shareholders with respect to the Transaction other than the information contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of Micro Focus or the Directors or the Proposed Directors or by J.P. Morgan Cazenove or Numis or any other person involved in the Transaction. None of the above take any responsibility or liability for, and can provide no assurance as to the reliability of, other information that you may be given. Subject to the Listing Rules, the Prospectus Rules, the Market Abuse Regulation and the Disclosure Guidance and Transparency Rules, neither the delivery of this document nor holding the General Meeting or Admission shall, under any circumstances, create any implication that there has been no change in the affairs of Micro Focus, HPE or HPE Software since the date of this document or that the information in this document is correct as at any time subsequent to its date.

The contents of this document are not to be construed as legal, business or tax advice. Each Shareholder should consult its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice respectively.

PRESENTATION OF FINANCIAL INFORMATION

The financial information relating to HPE Software as at 31 October 2014, 31 October 2015 and 31 October 2016 and for the three years ended 31 October 2014, 31 October 2015 and 31 October 2016 contained in Section B of Part IV (*Financial Information relating to HPE Software*) of this document (the “HPE Software Historical Financial Information”) has been prepared in accordance with IFRS and the conventions set out in SIR 2000 for the preparation of carve-out financial statements and using the accounting policies of Micro Focus.

The HPE Software Historical Financial Information represents the perimeter of HPE Software as it existed during the periods presented. HPE Software has not in the past constituted a standalone legal group and has not previously prepared or reported any standalone, combined or consolidated financial information.

The unaudited pro forma statement of net assets and the unaudited pro forma income statement (together, the “Pro Forma Financial Information”) set out in Part V (*Pro Forma Financial Information*) of this document has been prepared to illustrate the effect of the Transaction on the net assets of the Micro Focus Group as if the Transaction had taken place as of 31 October 2016 and on the income statement of the Micro Focus Group for the year ended 30 April 2016 as if the Transaction had taken place on 1 May 2015. The Pro Forma Financial Information has been prepared for illustrative purposes and, because of its nature, addresses a hypothetical situation and does not reflect the Enlarged Group’s actual financial position or results.

ROUNDINGS

Certain data in this document, including financial, statistical and operating information, have been rounded. As a result of rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data. Percentages have also been rounded and accordingly may not add up to 100 per cent.

NON-IFRS MEASURES

This document contains the following unaudited supplementary financial measures, including non-GAAP measures, which are not defined by or recognised under IFRS.

Adjusted Operating Profit is defined as the operating profit before exceptional items, share based compensation and amortisation of purchased intangibles.

Adjusted EBITDA is defined as Adjusted Operating Profit before net finance costs, depreciation of property, plant and equipment and amortisation of purchased software intangibles.

Underlying Adjusted EBITDA is defined as Adjusted EBITDA before net capitalisation/amortisation of development costs, and before foreign exchange movements.

Facility EBITDA is defined as Adjusted EBITDA before amortisation of capitalised development costs.

Adjusted net income is defined as the earnings attributable to Shareholders before the post-tax impact of exceptional items, amortisation of purchased intangibles and share based compensation.

Adjusted earnings per share is defined as earnings per share before the post-tax impact of exceptional items, amortisation of purchased intangibles and share based compensation.

The table below sets out the reconciliation between operating profit and Adjusted Operating Profit, Adjusted EBITDA, Facility EBITDA and Underlying Adjusted EBITDA for the Micro Focus Group for the financial years ended 30 April 2014, 30 April 2015 and 30 April 2016.

	For the financial year ended 30 April		
	2016	2015	2014
	\$'000	\$'000	\$'000
Operating Profit	294,934	147,236	155,720
Exceptional items	27,853	96,678	–
Share based compensation	28,793	15,561	12,837
Amortisation of purchased intangibles	181,934	88,298	18,923
Adjusted Operating Profit	533,514	347,773	187,480
Depreciation of property, plant and equipment	11,419	7,674	3,846
Amortisation of purchased software intangibles	1,864	2,189	640
Adjusted EBITDA	546,797	357,636	191,966
Amortisation of capitalised development costs	19,515	19,589	18,484
Facility EBITDA	566,312	377,225	210,450
Amortisation of capitalised development costs	(19,515)	(19,589)	(18,484)
Foreign exchange (credit)/loss	(2,915)	(9,445)	4,400
Net (capitalisation)/amortisation of development costs	(11,362)	99	36
Underlying Adjusted EBITDA	532,520	348,290	196,402

The table below sets out the reconciliation between earnings attributable to Shareholders, Adjusted net income and Adjusted earnings per share for the Micro Focus Group for the financial years ended 30 April 2014, 30 April 2015 and 30 April 2016.

	For the financial year ended 30 April		
	2016	2015	2014
	\$'000	\$'000	\$'000
Earnings attributable to Shareholders	162,894	101,753	122,082
Tax adjustments ⁽¹⁾	–	(9,939)	–
Adjusted items ⁽²⁾	238,580	202,921	31,760
Tax relating to above items	(67,766)	(62,528)	(9,323)
Adjusted net income	333,708	232,207	144,519
	pence	pence	pence
Adjusted earnings per share⁽³⁾	97.65	81.01	60.88

(1) Tax adjustments comprise a \$nil deferred tax benefit for 2016 (2015: \$5.1m and 2014: \$nil) and a prior year current tax benefit for 2016 of \$nil (2015: \$4.8m and 2014: \$nil).

(2) Adjusted items comprise amortisation of purchased intangibles of \$181,934,000 for 2016 (2015: \$88,298,000 and 2014: \$18,923,000), share-based compensation of \$28,793,000 for 2016 (2015: \$15,561,000 and 2014: \$12,837,000), exceptional items of \$27,853,000 for 2016 (2015: \$96,678,000 and 2014: \$nil) and exceptional interest costs of \$nil for 2016 (2015: \$2,384,000 and 2014: \$nil). Estimated tax relief on these items is as shown above.

(3) Calculated by reference to the weighted average number of Ordinary Shares and average exchange rate from US dollars to pounds sterling for each financial year.

The Board believes that the non-IFRS measures used in this document provide investors with a means of evaluating, and an understanding of how Micro Focus evaluates, Micro Focus' performance and results on a comparable basis that is not otherwise apparent on an IFRS basis. This is because non-recurring, infrequent or non-cash items that the Board believes not to be indicative of the core performance of the business may not be excluded when preparing financial measures under IFRS.

Part III (*Information on HPE Software*) of this document sets out the reconciliations for HPE Software's non-IFRS measures which are used in this document.

The non-IFRS measures used in this document should not be considered superior to, nor a substitute for, measures calculated in accordance with IFRS. In addition, these non-IFRS measures should not be considered in isolation, but in conjunction with measures calculated in accordance with IFRS. These non-IFRS measures are not uniformly defined by all companies, and therefore comparability may be limited.

Micro Focus evaluates its results of operations on both an as reported and a constant currency basis. The constant currency presentation excludes the impact of fluctuations in foreign currency exchange rates. The Directors believe that providing constant currency information provides valuable supplemental information regarding the results of operations of Micro Focus, consistent with how the Directors evaluate the performance of Micro Focus. Constant currency percentages are calculated by converting prior-period local currency financial results using the current period exchange rates and comparing these adjusted amounts to the current period reported results.

CURRENCY AND EXCHANGE RATE

In this document, references to £ and pence are to the currency of the United Kingdom; references to \$ and cents are to the currency of the US.

In this document, unless otherwise stated, US dollar amounts have been converted into pounds sterling and pounds sterling amounts into US dollars using the WM/Reuters closing spot exchange rates on 8 May 2017 (being the latest practicable date prior to the publication of this document), as follows: US\$1.00: £0.7729 and £1.00: US\$1.2938.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this document (including information incorporated by reference in this document), oral statements made regarding the Transaction, and other information published by Micro Focus, HPE or HPE Software may contain certain statements about Micro Focus, HPE and HPE Software that constitute or are deemed to constitute "forward-looking statements" (including within the meaning of the US Private Securities Litigation Reform Act of 1995). The forward-looking statements contained in this document may include, but are not limited to, statements about the expected effects on Micro Focus, HPE and HPE Software of the Transaction, the anticipated timing and benefits of the Transaction, Micro Focus' and HPE Software's anticipated standalone or combined financial results and outlooks and all other statements in this document other than historical facts. Without limitation, any statements preceded or followed by or that include the words "targets", "plans", "believes", "expects", "intends", "will", "likely", "may", "anticipates", "estimates", "projects", "should", "would", "expect", "positioned", "strategy", "future" or words, phrases or terms of similar substance or the negative thereof, are forward-looking statements. These statements are based on the current expectations of the management of Micro Focus, HPE or HPE Software (as the case may be) and are subject to uncertainty and changes in circumstances and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in such forward-looking statements. As such, forward-looking statements should be construed in light of such factors. Neither Micro Focus, HPE nor HPE Software, nor any of their respective associates or directors, proposed directors, officers or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur or that if any of the events occur, that the effect on the operations or financial condition of Micro Focus, HPE or HPE Software will be as expressed or implied in such forward-looking statements. Forward-looking statements contained in this document based on past trends or activities should not be taken as a representation that such trends or activities will necessarily continue in the future. In addition,

these statements are based on a number of assumptions that are subject to change. Such risks, uncertainties and assumptions include, but are not limited to: the satisfaction of the conditions to the Transaction and other risks related to the completion of the Transaction and actions related thereto; Micro Focus' and HPE's ability to complete the Transaction on the anticipated terms and schedule, including the ability to obtain shareholder or regulatory approvals and the anticipated tax treatment of the Transaction; risks relating to any unforeseen liabilities of Micro Focus or HPE Software; future capital expenditures, expenses, revenues, earnings, operational efficiencies, economic performance, indebtedness, financial condition, losses and future prospects of Micro Focus, HPE Software and the resulting Enlarged Group; business and management strategies and the expansion and growth of the operations of Micro Focus, HPE Software and the resulting Enlarged Group; the ability to successfully combine the business of Micro Focus and HPE Software and to realise expected operational improvement from the Transaction; the effects of government regulation on the businesses of Micro Focus, HPE Software or the Enlarged Group; the risk that disruptions from the Transaction will impact Micro Focus' or HPE Software's business; and Micro Focus', HPE Software's or HPE's plans, objectives, expectations and intentions generally, as well as other factors described in Part II (*Risk Factors*) of this document. However, it is not possible to predict or identify all such factors. Consequently, while the list of factors presented here is considered representative, no such list should be considered to be a complete statement of all potential risks and uncertainties.

Forward-looking statements included herein are made as of the date hereof. Subject to any requirement under applicable law (including as may be required by the Market Abuse Regulation, the Prospectus Rules, the Listing Rules and the Disclosure Guidance and Transparency Rules, as applicable), none of Micro Focus, HPE and HPE Software undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future/subsequent events or otherwise. Investors should not place undue reliance on forward-looking statements, which speak only as of the date of this document.

Neither the content of the Micro Focus website nor the HPE website, nor any other website accessible via hyperlinks on either such website, is incorporated into, or forms part of, this document.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS⁽¹⁾⁽²⁾

Announcement of the Transaction	7 September 2016
Posting and publication of this Circular and Notice of General Meeting	9 May 2017
Latest time and date for receipt of Forms of Proxy, electronic proxy voting and CREST Proxy Instructions for the General Meeting	2 p.m. 24 May 2017
General Meeting	2 p.m. 26 May 2017
<i>The following dates assume the satisfaction of the conditions to Completion set forth in the Merger Agreement by 30 August 2017 (other than those conditions that are intended to be satisfied contemporaneously with Completion) but are indicative only and subject to change.</i>	
Latest time and date for dealings in Existing Ordinary Shares	4.30 p.m. 31 August 2017
Existing Ordinary Share register closed and Existing Ordinary Shares disabled in CREST	6.00 p.m. 31 August 2017
Record Time for the Return of Value and Share Capital Consolidation	6.00 p.m. 31 August 2017
B Shares issued	7.00 p.m. 31 August 2017
B Shares redeemed	11.59 p.m. 31 August 2017
Share Capital Consolidation effected and New Ordinary Shares admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities	8.00 a.m. 1 September 2017
Completion of the Transaction	8.00 a.m. 1 September 2017
Consideration Shares issued and admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities	8.00 a.m. 1 September 2017
CREST accounts credited with New Ordinary Shares	8.00 a.m. 1 September 2017
Listing of ADSs on the NYSE	2.30 p.m. 1 September 2017
Despatch of cheques or CREST accounts credited (as appropriate) in respect of the proceeds of the redemption of the B Shares and despatch of share certificates in respect of New Ordinary Shares and, where applicable, despatch of cheques or CREST accounts credited for fractional entitlements arising from the Share Capital Consolidation	by 15 September 2017
Long Stop Date	7 March 2018

(1) *Each of the times and dates in this expected timetable of principal events above and elsewhere in this document is indicative only and subject to change by Micro Focus and HPE in accordance with the terms and conditions of the Merger Agreement, in which event details of the new times and dates will be notified to the UKLA and, where appropriate, to Shareholders by RIS, with such announcement being made available on Micro Focus' website (www.microfocus.com).*

(2) *References to time in this document are to London time, unless otherwise stated.*

PART I

LETTER FROM THE CHAIRMAN OF MICRO FOCUS

(incorporated and registered in England and Wales with registered number 05134647)

Directors and officers:

Kevin Loosemore (*Executive Chairman*)
Mike Phillips (*Chief Financial Officer*)
Stephen Murdoch (*Chief Executive Officer, Micro Focus*)
Nils Brauckmann (*Chief Executive Officer, SUSE*)
Karen Slatford (*Senior Independent Non-executive Director*)
Richard Atkins (*Independent Non-executive Director*)
Amanda Brown (*Independent Non-executive Director*)

Registered Office:

The Lawn
22-30 Old Bath Road
Newbury
Berkshire
RG14 1QN

9 May 2017

Dear Shareholder,

Proposed Merger with Seattle SpinCo, Inc., which will hold the Software Business Segment of Hewlett Packard Enterprise Company, Proposed Issue of Consideration Shares in connection with the Merger, Proposed Return of Value to Shareholders and Notice of General Meeting

1. INTRODUCTION

On 7 September 2016, Micro Focus announced that it had reached a definitive agreement with HPE to acquire, by way of merger, Seattle SpinCo, Inc., which prior to Completion will hold the software business segment of HPE, HPE Software, in consideration for the issue to HPE Shareholders of ADSs representing such number of Ordinary Shares as will at Completion represent 50.1 per cent. of the fully diluted share capital of Micro Focus.¹

Prior to Completion, HPE will transfer HPE Software to Seattle SpinCo in exchange for Seattle SpinCo common stock and a cash payment of US\$2.5 billion (subject to certain adjustments in limited circumstances) and, thereafter, HPE will distribute the Seattle SpinCo common stock to the HPE Shareholders.

HPE Software is a leading global infrastructure software provider offering a broad range of software products, services and solutions, including big data platform analytics, application testing and delivery management, security and information governance and IT operations management solutions for businesses and other enterprises of all sizes. HPE Software's offerings include licences, support, professional services and SaaS.

Shortly prior to Completion, Micro Focus intends to implement a Return of Value to existing Shareholders of an aggregate principal amount in sterling equivalent to US\$500 million in cash (inclusive of any currency hedging costs or proceeds), by way of the B Share Scheme. The exchange rate to be used for the Return of Value will be determined by the Board in due course having regard to the prevailing exchange rate as shown by Bloomberg at the time of determination. If Micro Focus announces the sterling equivalent amount of the Return of Value prior to the date of its implementation, it will enter into suitable hedging or economically similar arrangements which ensure that the aggregate cash cost to Micro Focus of the payment of the sterling Return of Value amount to Shareholders pursuant to the Return of Value inclusive of any costs associated with such hedging or economically similar arrangements, based on the USD/GBP exchange rate at the time at which the Return of Value is implemented, will not exceed US\$500 million in the aggregate. An announcement giving details of the exchange rate adopted will be made by RIS once such determination has been made, with such announcement being made available on Micro Focus' website (www.microfocus.com). The Return of Value is conditional upon the passing of Resolutions 1 and 2 and subject to final Board approval. The Merger is not conditional on the completion of the Return of Value or the passing of Resolutions 2 or 3.

¹ Excluding any Ordinary Shares to be issued pursuant to a de minimis number of replacement awards to be granted to HPE Software employees at Completion under their existing employee incentive arrangements.

The principal terms of the Transaction are described in more detail in Part VI (*Principal Terms of the Transaction*) of this document and the principal terms of the Return of Value are described in more detail in Part VII (*Details of the Return of Value*) of this document.

Due to the size of the Transaction relative to the size of Micro Focus, the Transaction is classified as a reverse takeover pursuant to the Listing Rules. As a result, Shareholder approval is required. Shareholder approval is also required for the Return of Value.

A General Meeting is convened for 26 May 2017 at 2 p.m. at 10 Paternoster Square, London EC4M 7LT. At the General Meeting, the Resolutions will be proposed to approve the Transaction and the Return of Value. The Notice convening the General Meeting can be found at the end of this document.

I am writing to give you further details of the Transaction and the Return of Value, including the background and rationale, to explain why your Board considers the Transaction and the Return of Value to be in the best interests of Micro Focus and the Shareholders taken as a whole and to recommend that you vote in favour of the Resolutions.

2. BACKGROUND TO AND REASONS FOR THE TRANSACTION

The Board believes that segments of the infrastructure software market are consolidating and that successful companies in such a market will be those with outstanding operational efficiency and scale. The Transaction presents a rare opportunity to achieve a significant increase in Micro Focus' scale and breadth, with the potential to deliver enhanced Total Shareholder Returns consistent with Micro Focus' stated objectives.

The Board has set out a clear objective of delivering consistent Total Shareholder Returns in excess of Micro Focus' risk adjusted cost of capital, with an objective of achieving Total Shareholder Returns of 15 to 20 per cent. per annum over the long term. This objective has been exceeded over the period since Micro Focus listed on the London Stock Exchange on 12 May 2005. Over the previous six financial years ended 30 April 2017, Micro Focus achieved an average Total Shareholder Return of 39.76 per cent. per annum, through a combination of increasing earnings per share, improving the consistency of Micro Focus' financial performance, returning cash to Shareholders, and selectively reinvesting cashflow from operations into acquisitions and into improving the quality of the Micro Focus Group's portfolio of products, solutions and commercial propositions.

The Directors expect the Transaction to enhance Adjusted earnings per share by 30 April 2019 and thereafter, with scope for further benefits as operational improvements are realised across the Enlarged Group.²

For the financial years ended 31 October 2016 and 30 April 2016, respectively, HPE Software and Micro Focus had annual revenues of US\$3.20 billion and US\$1.25 billion, and Underlying Adjusted EBITDA of US\$0.66 billion and US\$0.55 billion, respectively.

The Board considers that the businesses of Micro Focus and HPE Software, which operate in largely adjacent and complementary product areas, share a number of important attributes:

- both Micro Focus and HPE Software are well established enterprise software vendors operating at a global scale with a presence in all significant international markets;
- both Micro Focus and HPE Software hold a portfolio of software solutions organised into different product groups which address specific aspects of the infrastructure software requirements of a substantial installed base of large enterprise customers; and
- both Micro Focus' and HPE Software's respective primary revenue generating product portfolios are predominantly mature solution sets which are embedded within the IT infrastructures of large corporate customers.

² This is not a profit forecast, and should not be interpreted to mean that earnings per share of the Enlarged Group following Completion will necessarily be above or below the historical published earnings per share.

Micro Focus' executive team has, over the previous five financial years ended 30 April 2016 and the six months ended 31 October 2016, proven adept at managing Micro Focus' product portfolio to slow declining revenues and improving operating margins through a combination of customer centred innovation, invigorated product management, improved sales effectiveness and an alignment of employee and management incentives to shareholder returns and cash generation.

The Board believes the Transaction represents a substantial opportunity to:

- create significantly greater scale and breadth of product portfolio covering largely adjacent areas of the software infrastructure market, thereby creating one of the world's largest pure-play infrastructure software companies;
- add a substantial recurring revenue base to Micro Focus' existing product portfolio, together with accessing important new growth drivers and new revenue models; and
- accelerate operational effectiveness over the medium term, through the alignment of best practices between Micro Focus and HPE Software in areas such as product development, support, product management, account management, and sales force productivity, as well as achieving operational efficiencies where appropriate.

Micro Focus had an Underlying Adjusted EBITDA margin for its mature software assets of 45.5 per cent. (excluding SUSE) for the financial year ended 30 April 2016, compared to HPE Software's Underlying Adjusted EBITDA margin of 20.6 per cent. for the financial year ended 31 October 2016. The Board believes there is considerable scope to improve profitability of HPE Software through the application of Micro Focus' disciplined operating model and that it will be possible to improve the margin delivered by HPE Software's mature software assets (representing approximately 80 per cent. of its revenue for the twelve months ended 30 April 2016) to near Micro Focus' level by 30 April 2021.

Given the scale of the Enlarged Group, the Board believes that significant cost benefits will arise from reducing duplicated central costs, combining corporate support functions (where appropriate) and increasing efficiency across all functions. The Board will also seek to reduce or reverse areas of revenue decline and accelerate revenue growth where achievable.³ The immediate imperative will be to ensure that the Merger is effected without undue disruption to the product development, sales, support and administrative functions of the Enlarged Group. As at the date of this document, an outline integration and alignment plan has been developed. Further work is required to develop a more detailed alignment plan, which will set out the scope of the wider and longer term alignment process, quantifiable objectives and the proposed organisational structure of the Enlarged Group.

3. INFORMATION ON THE MICRO FOCUS GROUP AND HPE SOFTWARE

Micro Focus Group

The Micro Focus Group is a global enterprise software provider supporting the technology needs and challenges of the Forbes Global 2000. The Micro Focus Group's solutions help organisations leverage existing IT investments, enterprise applications and emerging technologies to address complex, rapidly evolving business requirements, including the protection of corporate information at all times.

The Micro Focus Group's product portfolios are Micro Focus and SUSE. Within Micro Focus, the solution portfolios are COBOL Development and Mainframe Solutions, Host Connectivity, Identity and Access Security, Development and IT Operations Management Tools, and Collaboration and Networking. SUSE, a pioneer in Open Source software, provides reliable, interoperable Linux, cloud infrastructure and storage solutions. Micro Focus has also announced plans to add a Container-as-a-Service Platform product and a Platform-as-a-Service product.

The Micro Focus Group has more than 4,500 employees in over 90 global locations and has over 20,000 customers, including 91 of the Fortune 100 companies.

3 This is not a profit forecast, and should not be interpreted to mean that earnings per share of the Enlarged Group following Completion will necessarily be above or below the historical published earnings per share.

HPE Software

HPE Software is a leading global infrastructure software provider offering a broad range of software products, services and solutions, including big data platform analytics, application testing and delivery management, security and information governance and IT operations management solutions for businesses and other enterprises of all sizes. HPE Software's offerings include licences, support, professional services and SaaS.

HPE Software's products are available worldwide. HPE Software has over 30,000 customers worldwide, including 98 of the Fortune 100 companies.

Further information on HPE Software is contained in Part III (*Information on HPE Software*).

4. FINANCIAL INFORMATION ON HPE SOFTWARE

For the financial year ended 31 October 2016, HPE Software had revenues of US\$3.20 billion, Underlying Adjusted EBITDA of US\$0.66 billion and profit before tax of US\$0.14 billion. It had gross assets of US\$10.67 billion as at 31 October 2016.

The audited financial information of HPE Software for the financial years ended 31 October 2014, 31 October 2015 and 31 October 2016, prepared in accordance with IFRS and the conventions set out in SIR 2000 for the preparation of carve-out financial statements and using the accounting policies adopted by Micro Focus, is set out in Section B of Part IV (*Financial Information relating to HPE Software*) of this document.

5. PRINCIPAL TERMS OF THE TRANSACTION

Under the terms of the Merger Agreement, Micro Focus will (subject to the satisfaction of certain conditions) acquire Seattle SpinCo (which immediately prior to Completion will hold HPE Software).

Pursuant to the Merger Agreement, Micro Focus will issue the Consideration Shares to the Depositary and the Depositary will issue ADSs representing the Consideration Shares to HPE Shareholders in exchange for the Seattle SpinCo shares distributed to them in the Distribution so that at Completion, HPE Shareholders will own ADSs representing such number of Consideration Shares as shall equal 50.1 per cent. of the fully diluted share capital of Micro Focus at Completion.⁴ Prior to the Merger, HPE will (i) transfer HPE Software to Seattle SpinCo in exchange for Seattle SpinCo common stock and a cash payment of US\$2.5 billion (subject to certain adjustments in limited circumstances set forth in the Separation and Distribution Agreement), which will be financed by the Seattle Term Loan Facility and (ii) effect the Distribution. The estimated US\$7.7 billion market value of the ADSs representing the Consideration Shares to be issued to HPE Shareholders (calculated for the purposes of this document by reference to the closing mid-market price of an Ordinary Share as at the close of business on 8 May 2017 and the US\$:£ exchange rate of 0.7729, and assuming payment of the Return of Value, together with the associated Share Capital Consolidation) and the US\$2.5 billion cash payment to HPE together imply an enterprise value for HPE Software of approximately US\$10.2 billion, which represents an effective multiple of 13.8x⁵ the Underlying Adjusted EBITDA of HPE Software for the financial year ended 31 October 2016.

The Merger is subject to the satisfaction of a number of conditions, including, amongst other things, the completion in all material respects of the Separation, Shareholder approval, Admission, the effectiveness of specified registration statements filed with the SEC with respect to the issuance of Seattle SpinCo shares in the Distribution and the issuance of the ADSs representing the Consideration Shares, the approval of the ADSs for listing on the NYSE, applicable antitrust, competition, merger control and governmental clearances having been obtained and receipt by HPE of the HPE Tax Opinion.

As at 8 May 2017 (the latest practicable date prior to the publication of this document), all applicable antitrust, competition, merger control and governmental clearances in connection with the Transaction have been received.

4 Excluding any Ordinary Shares to be issued pursuant to a de minimis number of replacement awards to be granted to HPE Software employees at Completion under their existing employee incentive arrangements.

5 The above effective multiple is adjusted for certain overhead and corporate headcount costs related to parent HPE group functions that support HPE Software and are expected to not transfer as part of the Transaction.

On Completion, holders of the Ordinary Shares prior to the Merger and holders of Micro Focus equity awards outstanding prior to the Merger will collectively own 49.9 per cent. of the fully diluted share capital of Micro Focus at Completion⁶ and will have an opportunity to benefit further, through their shareholding, from the operational improvements and combination benefits which are expected to arise from the Transaction.

Further details of the terms and conditions of the Transaction are set out in Part VI (*Principal Terms of the Transaction*) of this document.

6. FINANCING OF THE TRANSACTION

The New Facilities Agreements consist of (i) the New Micro Focus Facility Agreement, which will make available the Micro Focus Term Loan Facilities of US\$2.4 billion and the Revolving Credit Facility of US\$500 million to the Micro Focus Borrower, and (ii) the New Seattle Facility Agreement, which will make available the Seattle Term Loan Facility of US\$2.6 billion to Seattle SpinCo. The New Facilities were successfully syndicated to a number of financial institutions on 21 April 2017.

The Board expects (i) that the proceeds from the Seattle Term Loan Facility will be used to fund the pre-Completion cash payment to HPE, to pay transaction costs and, following Completion, to provide cash to the Micro Focus Group for working capital and general corporate purposes and (ii) that the proceeds from the Micro Focus Term Loan Facilities and the Revolving Credit Facility will be used to fund the Return of Value, refinance the Existing Facilities (which takes the form of a repricing, amendment and extension to the Existing Facilities), pay transaction costs and provide cash to the Micro Focus Group for working capital and general corporate purposes.

In order to enable Micro Focus to draw down under the Micro Focus Term Loan Facilities and the Revolving Credit Facility, Resolution 1 in the Notice seeks, amongst other things, to increase Micro Focus' borrowing limit of US\$2,500 million set out in the Articles to US\$10,000 million.

Further details of the New Facilities are set out in paragraph 6.1(C) of Part VIII (*Additional Information*) of this document.

7. FINANCIAL EFFECTS OF THE TRANSACTION

Impact on earnings

The Board believes that, taking into account the business and prospects of the Enlarged Group, the Merger will enhance Adjusted earnings per share by 30 April 2019 and thereafter.⁷

Impact on leverage and interest cover ratios

Including the indebtedness to be incurred by the Seattle Borrower in connection with the pre-Completion cash payment to HPE and by the Micro Focus Borrower in connection with the proposed Return of Value, the refinancing of the Existing Facilities, transaction costs and for working capital and general corporate purposes, the aggregate net indebtedness of the Enlarged Group as at 31 October 2016 (being the latest date to which Micro Focus has produced audited financial statements), assuming the Merger completed on that date, was approximately US\$4.5 billion. The Board recognises that the leverage ratio of the Enlarged Group immediately following Completion will be above the Board's previously stated target net debt ratio of 2.5x Facility EBITDA and estimates that it will be approximately 3.3x Facility EBITDA at such time. The Board is targeting a return to Micro Focus' net debt ratio of 2.5x Facility EBITDA within two years of Completion and believes that the Enlarged Group will generate sufficiently strong cashflows to enable it to reduce net debt to approximately this level. The Board does not intend to consider further buybacks of any Ordinary Shares or any further returns of value, other than normal dividends, until this target is achieved.

6 Excluding any Ordinary Shares to be issued pursuant to a de minimis number of replacement awards to be granted to HPE Software employees at Completion under their existing employee incentive arrangements.

7 This is not a profit forecast, and should not be interpreted to mean that earnings per share of the Enlarged Group following Completion will necessarily be above or below the historical published earnings per share.

The US\$5.5 billion of debt financing commitments related to the Transaction is expected to consist of the Micro Focus Term Loan Facilities of US\$2.4 billion, the Revolving Credit Facility of US\$500 million and the Seattle Term Loan Facility of US\$2.6 billion. Assuming full drawdown of the Micro Focus Term Loan Facilities and the Seattle Term Loan Facility, and no drawdown of the Revolving Credit Facility, the interest cost of the New Facilities for the 12 months following Completion is estimated at US\$179 million.

8. DIRECTORS, OFFICERS AND PROPOSED DIRECTORS AND OFFICERS

Kevin Loosemore and Mike Phillips will continue as Executive Chairman and Chief Financial Officer, respectively, of the Enlarged Group.

As announced on 18 January 2017, Chris Hsu will become Chief Executive Officer of the Enlarged Group with effect from Completion and Stephen Murdoch (the current Chief Executive Officer of Micro Focus) will become the Chief Operating Officer with effect from Completion. Nils Brauckmann will continue as the Chief Executive Officer of SUSE following Completion.

With effect from Completion, HPE will have the right to nominate (i) one new non-executive director who is a serving executive of HPE to the Board and (ii) one-half of the Board's independent non-executive directors, in each case, subject to approval of the current Nomination Committee. As announced on 25 April 2017, the current Nomination Committee has selected and approved the appointments of John Schultz (as the HPE Nominated Director who is a serving executive of HPE and is not independent) with effect from Completion, and Silke Scheiber and Darren Roos as independent non-executive directors with effect from 15 May 2017. Micro Focus also expects a further independent HPE Nominated Director to be appointed following Completion. Steve Schuckenbrock and Tom Virden have resigned as independent non-executive directors with effect from 25 April 2017 to ensure that, following a further independent HPE Nominated Director being appointed after Completion, HPE will have appointed one half of the Board's independent non-executive directors.

As a result of the proposed appointments to the Board, at Completion it is expected that the Board will comprise 10 directors, five of whom will be independent. Once a further independent HPE Nominated Director is appointed following Completion, this will increase the total number of directors on the Board to 11 and the number of independent non-executive directors to six.

Until Micro Focus' second annual general meeting following Completion, any HPE Nominated Director who ceases to be a director of Micro Focus may be replaced by HPE, subject to approval of the Nomination Committee and (except in the case of the HPE Nominated Director who is a serving executive of HPE) such replacement being able to be classified as independent under the Code.

9. INTERIM RESULTS, CURRENT TRADING AND OUTLOOK

Micro Focus Group

As set out in the interim results published by the Micro Focus Group on 14 December 2016, Micro Focus' revenues increased 14.2 per cent. to US\$684.7 million for the six months ended 31 October 2016 from US\$599.6 million for the previous period, on a constant currency basis. Adjusting for the Serena Acquisition⁸ and on a constant currency basis, the revenues for the Micro Focus Group for this period

8 Interim results presented for the six months ended 31 October 2016 include the post-acquisition period results for the Serena Group and GWAVA Inc. Due to the significant size of the Serena Acquisition, the Directors believe that the interim results are better understood by looking at the comparative results on a like-for-like basis for the combination of the Serena Group and Micro Focus. As further described below, the comparable financial period has been adjusted to include the financial results of the Serena Group, although it was not owned by Micro Focus at that time. The Directors do not consider Micro Focus' acquisition of Gwava Inc. to be of a significant size and therefore have not presented GWAVA results in the like-for-like comparatives. The Serena Group had a 31 January year end date prior to the acquisition. Similar to other software companies with a perpetual licence model the Serena Group'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 like-for-like results for the six months ended 31 October 2015 the Directors combined the unaudited internal management information for the Serena Group for the period from 1 February 2015 to 31 July 2015 and then added in the relevant Micro Focus results for the six months ended 31 October 2015. The like-for-like comparatives for the year ended 30 April 2016 combine the unaudited financials for the Serena Group for the year ended 31 January 2016 with the audited figures for Micro Focus for the year ended 30 April 2016. From the date of acquisition, 2 May 2016 to 31 October 2016, the Serena Group contributed revenues of US\$72.6 million and US\$40.0 million to Adjusted EBITDA, before any allocation of management costs.

represent a 1.2 per cent. increase from the revenues generated during the previous period. This increase was largely driven by a 23.3 per cent. increase in revenues generated by the SUSE product portfolio, on a constant currency basis. This increase was offset in part by anticipated reductions in revenues for the Micro Focus product portfolio.

For the six month period ended 31 October 2016, Adjusted EBITDA increased by 22.4 per cent. to US\$332.5 million and Underlying Adjusted EBITDA increased by 20.9 per cent. to US\$320.3 million, each on a constant currency basis. This represents a 7.8 per cent. and 6.2 per cent. increase for Adjusted EBITDA and Underlying Adjusted EBITDA, respectively, as compared to the constant currency results for the six months ended 31 October 2015 and adjusted for the Serena Acquisition. These increases were largely driven by a management focus on increasing efficiency throughout the Micro Focus Group, which is also evidenced in the increase in the Underlying Adjusted EBITDA margin to 48.6 per cent. for the six months ended 31 October 2016 from 44.8 per cent. for the previous period, as adjusted for the Serena Acquisition.

The Micro Focus Group's net debt position at 31 October 2016 was US\$1.61 billion, as compared to US\$1.08 billion at 30 April 2016.

The Board's outlook remains unchanged from that given in the interim results for the six months ended 31 October 2016 and reiterated in the trading update given by the Company on 23 February 2017. The Board believes that by continuing to execute the current business strategy and financial model, Micro Focus is well positioned to deliver Total Shareholder Returns at their target level of 15 to 20 per cent. per annum.

Micro Focus intends to pay a second interim dividend prior to Completion in lieu of its final dividend for the financial year ending 30 April 2017. Details of this dividend are expected to be announced on 12 July 2017. The Consideration Shares shall not rank for such dividend as they will be issued after the record date.

Upon Completion, Micro Focus intends that, in order to align financial year ends between HPE Software and Micro Focus, it will align its financial year end with HPE Software's financial year end of 31 October, with Micro Focus' first accounting period to be audited after Completion being for the 18 months ended 31 October 2018. During this extended accounting period and in order to comply with the Listing Rules, Micro Focus also intends to publish an unaudited interim report for the six months ended 31 October 2017 and a second unaudited interim report for the six months ended 30 April 2018.

HPE Software

The audited financial information of HPE Software for the three financial years ended 31 October 2014, 31 October 2015 and 31 October 2016 is included in Section B of Part IV (*Financial Information relating to HPE Software*) of this document. HPE Software's revenues were US\$3.20 billion in the financial year ended 31 October 2016, a decrease of US\$0.43 billion, or 11.9 per cent., from US\$3.63 billion in the same period for 2015.

Based on preliminary, unaudited results, revenues declined in the first quarter from 1 November 2016 to 31 January 2017 (being the first quarter of HPE Software's financial year ending 31 October 2017) as compared to the first quarter of HPE Software's financial year ended 31 October 2016 primarily due to the divestiture of the Tipping Point business during the second quarter of HPE Software's financial year ended 31 October 2016 and unfavourable exchange rate movements. Excluding divestitures and currency impacts, licence, support and professional services revenues all decreased, while SaaS revenues increased, reflecting an overall market shift towards SaaS solutions.

Preliminary indications are that HPE Software's revenue was down approximately 10 per cent. year on year in the quarter ended 30 April 2017 (on a reported basis after adjusting for the disposal of Tipping Point) driven principally by Licence and Professional Services decline, with Support and SaaS broadly flat. These preliminary results are estimates only and remain subject to the completion of HPE Software's financial closing procedures. Further, these preliminary estimates relate to the HPE Software business only. HPE is expected to release full company results for the quarter ended 30 April 2017 in the coming weeks.

10. RETURN OF VALUE

The proposed Return of Value will be an aggregate principal amount in sterling equivalent to US\$500 million in cash (inclusive of any currency hedging costs or proceeds) and will be implemented by way of the B Share Scheme. The exchange rate to be used for the Return of Value will be determined by the Board in due course having regard to the prevailing exchange rate as shown by Bloomberg at the time of determination. An announcement giving details of the exchange rate adopted will be made by RIS once such determination has been made, with such announcement being made available on Micro Focus' website (www.microfocus.com).

The Return of Value is conditional upon Resolutions 1 and 2 being passed and subject to final Board approval. It is currently expected that completion of the Return of Value will occur on the Business Day prior to Completion (save for the Share Capital Consolidation which is conditional upon ROV Admission). The Merger is not conditional on completion of the Return of Value or the passing of Resolutions 2 or 3.

Previous returns of value provided Shareholders, subject to applicable overseas restrictions and tax laws, with the option of receiving their cash proceeds as income or capital, or any combination of the two. Recent changes in UK tax legislation mean that Micro Focus is no longer able to offer Shareholders the ability to elect whether to receive their cash proceeds as income or capital so the Board has decided to structure the Return of Value in a way that is expected to provide a capital return to Shareholders resident for tax purposes only in the United Kingdom and, subject to applicable overseas restrictions and tax laws, Shareholders resident for tax purposes outside of the United Kingdom.

Under the terms of the B Share Scheme, a Shareholder will (save as set out in Part VII (*Details of the Return of Value*)) receive one B Share for each Existing Ordinary Share held at the Record Time (with each B Share being redeemed for its nominal value).

It is intended that the Return of Value will be funded out of the Micro Focus Term Loan Facilities.

Shareholders entitled to receive payments in respect of the proceeds from the redemption of B Shares issued pursuant to the B Share Scheme will be sent cheques or, if Shareholders hold their Existing Ordinary Shares in CREST, will have their CREST accounts credited, by the Payment Date, which is currently expected to be on or before 15 September 2017.

In order that the market price for Ordinary Shares is not materially affected by the implementation of the Return of Value, the Share Capital Consolidation is also proposed, which comprises a consolidation, subdivision and redesignation of the Existing Ordinary Shares under which Shareholders will be entitled to receive New Ordinary Shares and Deferred Shares in substitution for each Existing Ordinary Share held by them at the Record Time. The Deferred Shares will have negligible value and it is intended that they will subsequently all be transferred to a nominee and repurchased by Micro Focus for the aggregate price of one penny.

The consolidation ratio for the Share Capital Consolidation to be used in connection with the Return of Value will be determined by the Board not later than three Business Days prior to Admission. An announcement giving details of the consolidation ratio for the Share Capital Consolidation will be made by RIS once a determination has been made, with such announcement being made available on Micro Focus' website (www.microfocus.com).

After the Return of Value, and disregarding the dilutive effect of the Merger should it complete, existing Shareholders will own the same proportion of Micro Focus as they did immediately prior to the implementation of the Return of Value, subject only to fractional roundings. Details of the Share Capital Consolidation are summarised in Section D of Part VII (*Details of the Return of Value*) of this document.

This structure has been chosen to complete the Return of Value because it treats all Shareholders equally relative to the size of their existing shareholdings in Micro Focus. In addition, (i) the Return of Value should provide a capital return to Shareholders resident for tax purposes only in the United Kingdom and, subject to applicable overseas restrictions and tax laws, Shareholders resident for tax purposes outside of the United Kingdom; and (ii) in contrast to a share buyback, no UK stamp duty will be payable in respect of the redemption of the B Shares pursuant to the B Share Scheme.

The Consideration Shares shall not rank for the Return of Value.

Part VII (*Details of the Return of Value*) of this document sets out further details of the Return of Value and the Share Capital Consolidation and explains why the Directors consider the Return of Value to be in the best interests of Micro Focus and Shareholders taken as a whole. All statements in this section as to the anticipated or intended tax treatment of the Return of Value should be read as subject to the qualifications and limitations set forth in, and made on an equivalent basis to the information provided in Section G of Part VII (*Details of the Return of Value*).

11. DIVIDEND POLICY

Micro Focus announced on 14 July 2016 an increase in its dividend policy such that its current policy is to pay an annual dividend that is approximately twice covered by Adjusted earnings per share. For the financial year ended 30 April 2016, Micro Focus paid a total dividend of 66.68 cents per share (consisting of 16.94 cents paid as an interim dividend and 49.74 cents paid as a final dividend). The interim dividend announced in December 2016 for the financial year ended 30 April 2017 was 29.73 cents per share which was a 75.5 per cent. increase on the interim dividend paid in the previous financial year reflecting the increase in Adjusted net income and increase in dividend policy. Micro Focus intends to pay a second interim dividend prior to Completion in lieu of its final dividend for the financial year ending 30 April 2017. Details of this dividend are expected to be announced on 12 July 2017. The Consideration Shares shall not rank for such dividend as they will be issued after the record date.

Following Completion and subject to the Enlarged Group's performance (and, in particular, Micro Focus being able to comply with the restrictions on paying dividends imposed by the New Micro Focus Facility Agreement), the Board intends to continue its stated dividend policy of paying an annual dividend that is approximately twice covered by Adjusted earnings per share. The New Micro Focus Facility Agreement permit the payment of dividends provided that no event of default is continuing under such agreements and, taking into account such payment, the ratio of secured debt (net of free cash) of the Enlarged Group to its EBITDA is less than 3:1. Until that financial metric is achieved, under the New Micro Focus Facility Agreement, Micro Focus will have access to the available basket of \$100 million plus an additional basket for restricted payments of US\$250 million, providing US\$350 million of dividend payment capacity.

12. GENERAL MEETING

In view of the size of HPE Software relative to the Micro Focus Group, the Merger is classified as a reverse takeover pursuant to the Listing Rules and requires the prior approval of Shareholders. The Return of Value also requires the prior approval of Shareholders.

A General Meeting of Micro Focus is convened for 26 May 2017 at 2 p.m. at 10 Paternoster Square, London EC4M 7LT, at which Shareholders will be asked to approve, on a poll:

- an ordinary resolution (numbered 1) approving the Merger and authorising the Directors to make such non-material modifications, variations, revisions, waivers or amendments to the terms and conditions of the Merger and to do all things as are considered necessary or expedient in connection with the Merger, unconditionally increasing the borrowing limit contained in the Articles to US\$10,000 million and granting the Directors authority to allot Ordinary Shares up to a nominal amount of £25,000,000 as the Consideration Shares (such authority to expire on 7 March 2018);
- a special resolution (numbered 2), subject to the passing of the ordinary resolution (numbered 1), amending the Articles as necessary in connection with the Return of Value and Share Capital Consolidation, and authorising the Directors to effect the Return of Value and, conditional upon Admission, the Share Capital Consolidation; and
- a special resolution (numbered 3), conditional upon Admission, amending the Articles principally to reflect the Company having ADSs in issue at Completion.

The full text of the Resolutions is set out in the Notice convening the General Meeting at the end of this document, and the proposed amendments to the Articles are set out in Sections E and F of Part VI (*Details of the Return of Value*) and Part X (*Additional Amendments to Articles of Association*).

The results of the votes cast at the General Meeting will be announced as soon as possible once known through an RIS and on Micro Focus' website (www.microfocus.com). It is expected that this announcement will be made on the same day as the General Meeting.

13. LISTING, DEALING AND SETTLEMENT

In connection with the Share Capital Consolidation and as a result of the Merger's classification as a reverse takeover, Micro Focus will be required to apply to the UKLA and to the London Stock Exchange through J.P. Morgan Cazenove (acting in its capacity as sponsor) for the cancellation of the current listing of the Existing Ordinary Shares and for the admission of the New Ordinary Shares and the Consideration Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, which is expected to become effective, subject to the satisfaction of certain conditions, including the approval of Shareholders, during the third quarter of calendar year 2017.

As at 8 May 2017 (being the latest practicable date prior to the publication of this document), no such application to the UKLA or the London Stock Exchange in respect of Admission has been made, and there is no guarantee that such application will be accepted or, in particular, that the share capital of the Enlarged Group (including the Consideration Shares) will be deemed eligible for Admission. Completion is conditional on Admission.

Following Admission, the Consideration Shares will be issued to the Depositary and ADSs representing the Consideration Shares will be issued by the Depositary to HPE Shareholders. Micro Focus intends to apply to list the ADSs on the NYSE.

As at 8 May 2017 (being the latest practicable date prior to the publication of this document), no such application to the NYSE in respect of the ADSs has been made, and there is no guarantee that such application will be accepted or, in particular, that the ADSs will be listed on the NYSE. Holders of ADSs will have the right to receive dividends paid on the Consideration Shares through the Depositary and to vote their underlying Consideration Shares by instructing the Depositary as to any matters put to Shareholders for a vote. Completion is conditional on the approval of the listing of the ADSs on the NYSE.

The Consideration Shares will rank in full for all dividends and other distributions declared, made or paid on the ordinary share capital of Micro Focus with a record date after Completion and otherwise will rank *pari passu* in all respects with the remaining Ordinary Shares.

It is expected that Shareholders entitled to receive payments in respect of the proceeds from the redemption of B Shares issued pursuant to the B Share Scheme will be sent cheques or, if Shareholders hold their Existing Ordinary Shares in CREST, will have their CREST accounts credited, by the Payment Date, which is currently expected to be on or before 15 September 2017.

Any fraction cheques arising as a result of the Share Capital Consolidation in respect of the New Ordinary Shares shall be despatched to Shareholders by 15 September 2017. Further detail on the treatment of fractions can be found in paragraph 3 of Section A of Part VII (*Details of the Return of Value*) of this document.

14. MANAGEMENT INCENTIVE ARRANGEMENTS

Micro Focus has operated a management incentive scheme over the last six financial years that closely aligns management rewards with performance and delivery of value to Shareholders. This policy has received widespread support from fund managers and has seen Micro Focus deliver compound annual returns to Shareholders of approximately 40 per cent. In the past year alone Micro Focus' market capitalisation has increased by over £2.3 billion.

Micro Focus' current Remuneration Policy will be put to a Shareholder vote at the Annual General Meeting to be held this year. There will be no changes proposed to the policy which you are strongly encouraged to read. Please contact us if you have any concerns which you wish to discuss before voting on the Transaction.

Ordinary Shares may not be an appropriate investment for anyone who has concerns with the remuneration policy and philosophy or the way the strong linkage of reward to performance is implemented.

The incentive scheme has three key components which are complementary and designed to support continued superior performance. There are no non-numeric targets as the Board strongly believes that visible, numeric targets show the clearest alignment with Shareholders and remove any possibilities of reward without performance.

The first component is the annual bonus scheme. This applies to all non-commissioned staff across the Micro Focus Group. The target used for the bonus is the Underlying Adjusted EBITDA of the business as this is a measure that directly correlates to the efficiency of Micro Focus' operation which is a key part of its strategy. If the Underlying Adjusted EBITDA in a year is equal to or less than the Underlying Adjusted EBITDA in the previous year, there is no bonus pay out. If the Underlying Adjusted EBITDA is at least 10 per cent. greater than the previous year, 100 per cent. of the bonus is paid. Performance between these two points results in partial payment of bonuses, on a straight line basis. In a normal market, growth in Underlying Adjusted EBITDA will support a growing dividend and increasing share price.

The second component is the annual share grant to management and key individuals. The target used for the share grant is earnings per share which is a key operational measure that shows value is being created through the business operations. For maximum vesting at the end of a three year performance period earnings per share has to have grown by RPI plus nine per cent. per annum. Assuming three per cent. RPI, this would require growth of earnings per share of 40.49 per cent. for full vesting. In a normal market, growth in earnings per share will support a growing dividend and increasing share price.

The third component is the ASGs. These are grants made only after acquisitions where there is the opportunity to deliver exceptional value to Shareholders which is significantly above the level of 40.49 per cent. over three years which is required for full vesting of the annual share grant referred to above. ASGs are made to a limited number of executives who have a significant input into the delivery of these growth objectives (in the case of the Attachmate Group, Inc. acquisition, grants were made to six senior executives). The target used is an absolute return to Shareholders, over a period of approximately three financial years from completion of the relevant acquisition, over the market value of the Ordinary Shares when heads of terms for the acquisition are struck. Pay out to management is zero if returns to Shareholders are 50 per cent. or less. There is full vesting at 100 per cent. or more return to Shareholders. For this element of award, management and Shareholders share in market risk as the measurements are absolute. For the Transaction, the price of an Ordinary Share when heads of terms were agreed was 1817p. This means that should grants be made, for full vesting, incremental dividend and share appreciation will have to be at least 1817p over the period of vesting. This will require an increase in the equity value of Micro Focus (combined with dividends paid over the relevant period) of approximately £8 billion. At a time when there is appropriate scrutiny of the linkage between management compensation and performance this is the nature of the challenge that is being undertaken.

The combined Micro Focus and HPE Software business will have a significant number of executives who have been rewarded under 'US style' compensation schemes. The UK government is currently considering a number of changes to the UK's corporate governance framework, including with respect to executive compensation. Such changes could limit the ability of the Enlarged Group to attract or retain qualified senior management. The Board will evaluate this fully after Completion and may need to consider revisions to the Remuneration Policy.

15. FURTHER INFORMATION

Your attention is drawn to the further information set out in Part II (*Risk Factors*) to Part X (*Additional Amendments to Articles of Association*) of this document and in particular the risk factors set out in Part II

(*Risk Factors*) of this document. You should read all of the information contained in this document and not rely solely on information summarised in this letter, including the summarised financial information.

16. ACTION TO BE TAKEN

A Form of Proxy for use in relation to the General Meeting which covers the Resolutions accompanies this document. As an alternative to completing and returning the accompanying Form of Proxy, you may register the appointment of a proxy for the General Meeting by accessing the website at www.sharevote.co.uk. If you hold Ordinary Shares in CREST, you may instead appoint a proxy by completing and transmitting a CREST Proxy Instruction to Micro Focus' registrars, Equiniti (RA19). Guidance notes to assist you to complete the Form of Proxy or to register the appointment of a proxy electronically or to complete and transmit a CREST Proxy Instruction are set out in the notice convening the General Meeting at the end of this document and on the accompanying Form of Proxy.

Whether or not you intend to be present at the General Meeting, you are requested to complete and return the accompanying Form of Proxy in accordance with the instructions printed thereon or to register the appointment of a proxy electronically or, if you hold Ordinary Shares in CREST, to complete and transmit a CREST Proxy Instruction. Completed Forms of Proxy should be returned to Micro Focus' registrars, Equiniti Limited, Corporate Actions, Aspect House, Spencer Road, Lancing West Sussex BN99 6DA as soon as possible and, in any event, so as to be received not later than 2 p.m. on 24 May 2017. The completion and return of a Form of Proxy or the transmittal of an electronic proxy registration or CREST Proxy Instruction will not prevent you from attending the General Meeting and voting in person if you so wish and are so entitled.

If you have any questions relating to this document and/or the completion and return of the Form of Proxy, an electronic appointment of a proxy or a CREST Proxy Instruction, please contact Equiniti on 0333 207 6534 (or +44 121 415 0855 if calling from overseas). The helpline is available between the hours of 8.30 a.m. and 5.30 p.m. Monday to Friday (except UK public holidays) and will remain open until 29 September 2017 (or such later date as the Directors determine). Calls to +44 121 415 0855 from outside the UK are chargeable at the applicable international rates. Please note that calls to these numbers may be monitored or recorded and no advice on the merits of the Transaction or the Return of Value or any financial, legal or tax advice can or will be given.

Other than as is set out in this paragraph 16 in respect of the General Meeting, no further action is required from Shareholders in relation to the Return of Value or the Transaction.

17. RECOMMENDATION

The Board considers the terms of the Transaction, the Return of Value and the Resolutions to be in the best interests of Shareholders as a whole. The Board has received financial advice from J.P. Morgan Cazenove in relation to the Transaction. In providing its financial advice to the Board, J.P. Morgan Cazenove has relied upon the Board's commercial assessment of the Transaction. The Transaction and the Return of Value have been unanimously approved by the Board. Accordingly, the Board unanimously recommends that you vote in favour of the Resolutions to be proposed at the General Meeting as they intend to do with respect to their own directly held shareholdings.

Yours sincerely

Kevin Loosemore
Executive Chairman

PART II

RISK FACTORS

You should carefully consider the risks and uncertainties described below, in addition to and together with all the other information in this document, before deciding what voting action to take in relation to your Ordinary Shares. If any of the risks and uncertainties described below actually materialise, the business, financial condition, results of operation and prospects of Micro Focus, HPE Software and, following Completion, the Enlarged Group could be materially and adversely affected by any of these risks. In such case the price of the Ordinary Shares could decline and Shareholders may lose all or part of their investment.

The following risks are risks which the Directors are presently aware of and which the Directors consider to be material relating to the Transaction, existing material risks to Micro Focus' and HPE Software's business that will be impacted by the Transaction and material new risks to the Enlarged Group's business, results of operation, financial condition and prospects. However, these risks and uncertainties are not the only ones which Micro Focus, HPE Software and, following Completion, the Enlarged Group will face. Additional risks and uncertainties that do not currently exist or that are not currently known to the Directors, or that the Directors currently consider not to be material, or which the Directors consider to be material but which are not related to or will not be impacted by the Transaction, could also have a material adverse effect on Micro Focus, HPE Software's and the Enlarged Group's business, results of operation, financial condition or prospects. The risk factors set out below should not be construed as a qualification of the opinion of Micro Focus as to working capital set out in paragraph 8 of Part VIII (Additional Information).

The order in which the following risk factors are presented does not necessarily reflect the likelihood of their occurrence or the relative magnitude of their potential material adverse effect on the business, financial condition, results of operation or prospects of the Enlarged Group or the market price of the Ordinary Shares.

The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified under "Caution Concerning Forward-Looking Statements" in the preamble to this document.

PART A – RISK FACTORS RELATING TO THE TRANSACTION

Completion is subject to a number of conditions which may not be satisfied or waived.

Completion is subject to the satisfaction (or waiver, where applicable) of a number of conditions, some of which are outside of the parties' control, and which are further described under Section A of Part VI (*Principal Terms of the Transaction*) of this document. There is no guarantee that these conditions will be satisfied (or waived, if applicable) in a timely manner or at all, in which case Completion may be delayed or may not occur and the benefits expected to result from the Merger may not be achieved. Failure to complete, or a delay in completing, the Merger for whatever reason could have a significant impact on the Micro Focus Group's or the Enlarged Group's (as applicable) reputation and business strategy, as considerable resources have been devoted to effect the Merger, including substantial expenses and management's time and attention. Therefore, the aggregate consequences of a failure to complete, or a material delay in completing, the Merger could have a material adverse effect on the Micro Focus Group's or the Enlarged Group's (as applicable) business, financial condition, results of operation and prospects.

Micro Focus may be obliged to pay HPE a termination payment if the Merger Agreement is terminated under certain circumstances.

Micro Focus has agreed to pay HPE a termination payment equal to approximately US\$60 million in cash under certain circumstances (as set out in more detail in Section A of Part VI (*Principal Terms of the Transaction*) of this document), including among other circumstances if (a) a Competing Proposal has been publicly announced or communicated to the Board and not withdrawn at least five Business Days prior to the termination of the Merger Agreement, and such Competing Proposal, or a different Competing Proposal, is consummated (or a definitive agreement entered into with respect thereto) within 12 months

following the Merger Agreement being terminated in specified circumstances; or (b) if the Merger Agreement is terminated as a result of (i) the Shareholders failing to approve the Transaction at the General Meeting; (ii) Micro Focus breaching in any material respect any of the specified undertakings in the Merger Agreement prohibiting it and its representatives from soliciting competing proposals, or Micro Focus breaching specified obligations relating to the calling and holding of the General Meeting; or (iii) save in limited circumstances, the Board making a Change in Recommendation (as defined in Section A of Part VI (*Principal Terms of the Transaction*)).

If Micro Focus is obliged to pay the termination payment, it could have a material adverse effect on the business, financial condition, results of operation and prospects of the Micro Focus Group.

Costs and expenses related to the Transaction could exceed amounts currently estimated.

Micro Focus and HPE Software expect to incur a number of costs in relation to the Transaction, including integration and post-Completion costs, which could exceed the amounts currently estimated. There may also be further additional and unforeseen expenses incurred in connection with the Transaction either due to delays or otherwise. Whilst the Board believes that the costs related to the Transaction will be off-set by the realisation of the benefits of the Merger, there can be no guarantee that any benefits of the Merger that are realised will off-set such costs, which could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group will not be able to recover damages from HPE for any losses suffered as a result of a breach of warranty by HPE under the Merger Agreement following Completion.

The Merger Agreement contains customary representations and warranties by HPE made for the benefit of Micro Focus, Merger Sub and Holdings given as at the date of the signing of the Merger Agreement and repeated as of the date of Completion (unless such representation and warranty is made as of a particular date), subject to specified materiality qualifications. Prior to Completion, Micro Focus' only remedy for any breach (or breaches) of such representations and warranties by HPE will be to terminate the Merger Agreement but only to the extent such breach or breaches would cause a failure of a condition to Completion set forth in the Merger Agreement, subject to a specified cure period. However, following Completion, there will be no recourse for any breaches of the representations and warranties, and so the Enlarged Group will not have contractual recourse against, or otherwise be able to recover from, HPE or any other party, in respect of any losses which it may suffer in respect of a breach of such representations and warranties in the Merger Agreement regardless of whether or not such breach is material or significant. As a result, any such losses following Completion resulting from the breach of any such representation and warranty could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

There can be no guarantee that the Return of Value will be executed as planned or at all.

Shortly prior to Completion, Micro Focus intends to implement a Return of Value to existing Shareholders of an aggregate principal amount in pounds sterling equivalent of US\$500 million in cash (inclusive of any currency hedging costs or proceeds), by way of the B Share Scheme, the details of which are set out in Part VII (*Details of Return of Value*) of this document.

The B Share Scheme is conditional upon the Resolutions having been passed at the General Meeting and is subject to final Board approval.

There is no guarantee that this condition will be satisfied or that such Board approval will be obtained, in which case the Board may have to consider alternative ways to deliver value to the Shareholders, which may not be possible on commercially similar terms or at all.

PART B – NEW RISKS RELATING TO THE ENLARGED GROUP AS A RESULT OF THE MERGER

Integration of HPE Software with the existing businesses carried on by the Micro Focus Group may be more time consuming and costly than anticipated.

The Micro Focus Group and HPE Software currently operate and, until Completion, will continue to operate as two separate businesses. The Transaction will require the integration of the businesses, and the success of the Enlarged Group will depend, in part, on the effectiveness of the integration process.

The key potential difficulties of combining the businesses following Completion include the following:

- developing, operating and integrating a large number of different technology platforms and systems, in particular integrating the IT platforms of both businesses;
- co-ordinating and consolidating services and operations, particularly across different service areas, regulatory systems and business cultures;
- consolidating infrastructure, procedures, systems, facilities, accounting functions, compensation structures and other policies;
- integrating the management teams and retaining and incentivising key employees;
- co-ordinating communications with and/or the provision of services by the Enlarged Group to customers of both the Micro Focus Group and HPE Software; and
- disruption to the businesses of each of the Micro Focus Group and HPE Software.

There may also be additional challenges to the combination of the businesses which will not be known until after Completion, and any delays or difficulties encountered in connection with the integration of the businesses could result in an interruption to the Enlarged Group's operations or reputational damage to the Enlarged Group. In addition, the management teams of both businesses will be required to devote significant attention and resources to integrating their respective business practices and operations. There is a risk that the challenges associated with managing the integration of the Micro Focus Group's and HPE Software's respective businesses may result in management distraction and that, consequently, the underlying businesses may not perform in line with expectations. Any such difficulties or delays encountered in connection with the integration of the businesses could have a material adverse effect on the Enlarged Group's business, financial condition, results of operation and prospects.

The development of IT systems for HPE Software and the integration of the Micro Focus Group's existing IT systems with HPE Software's IT systems could be subject to delays or difficulties.

The success of the Merger and the Enlarged Group will depend, in part, on the successful development of IT systems for HPE Software and the integration with the Micro Focus Group's existing IT systems. Under the Separation and Distribution Agreement, HPE is obliged to use its commercially reasonable efforts to develop and deliver certain IT systems to HPE Software by the date of the Distribution. HPE may be unable to develop and deliver, or could be delayed in delivering, functional standalone IT systems, in which case HPE Software will remain reliant on HPE's existing IT systems under the Transition Services Agreement for a period of time following Completion. The failure to develop, or delay in developing, functional IT systems could delay or complicate the integration of the Micro Focus Group's existing IT systems with HPE Software's IT systems.

Moreover, the integration of the Micro Focus Group's existing IT systems with HPE Software's IT systems through a shared infrastructure will be a complex and time consuming process that will require the dedication of significant management time and resources, with the Enlarged Group expecting to incur approximately US\$150 million of cash costs to complete the IT systems integration. The Enlarged Group may encounter significant difficulties in integrating these systems and, as a result, be required to re-develop and replace HPE Software's IT systems with standalone IT systems in order for them to be compatible with the Micro Focus Group's existing infrastructure at significant cost to the Enlarged Group.

Any delays or difficulties encountered in developing HPE Software's standalone IT systems and integrating the Micro Focus Group's existing infrastructure with these systems, for whatever reason, could adversely affect the co-ordination and consolidation of the Enlarged Group's operations, reporting systems and accounting functions, which could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group may fail to realise the anticipated benefits of the Merger.

The success of the Enlarged Group will, in part, depend on its ability to realise the anticipated benefits and operational efficiencies from combining the businesses of the Micro Focus Group and HPE Software. These anticipated benefits include, among other things, convergence of businesses operating in adjacent and complementary product areas in order to better serve customers as a global provider of infrastructure software and the improvement of the profitability of HPE Software through the application of Micro Focus' operating model. If the anticipated benefits are not realised, the purposes and rationale for the Merger will not be fully achieved, which could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

HPE Software may not perform in line with expectations prior to or following Completion.

The anticipated benefits and operational efficiencies to be created by the Merger are based on assumptions regarding, amongst other things, the financial and operational performance of HPE Software, including in the period prior to Completion, when the financial and operational performance of HPE Software is outside the control of Micro Focus. Until Completion, it is possible that an adverse event, or events, could affect the financial or operational performance of HPE Software. In such an event, the value of HPE Software may be less than the consideration paid by Micro Focus and, accordingly, the net assets of the Enlarged Group could be reduced. This could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

Integration and implementation of the business strategies of the Micro Focus Group and HPE Software could fail or not achieve the objectives of the Enlarged Group.

Following Completion, the implementation and coordination of the Micro Focus Group's and HPE Software's business strategies will be complex, time-consuming and expensive. The ability of the Enlarged Group to integrate and implement such strategies depends on a variety of factors, including development of demand for its services and the ability to recruit and retain skilled employees, in particular retention of skilled employees of HPE Software, following Completion. Implementation of the Enlarged Group's business strategies could fail to be achieved quickly enough or fail to achieve the anticipated growth, efficiency, cost savings, return or customer service improvements, which could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group's operational and financial flexibility may be restricted by its level of indebtedness and covenants and financing costs could increase or financing could cease to be available in the long term.

As a result of increased borrowing in relation to the Transaction, the US\$2.5 billion cash payment to HPE and the Return of Value, the Board estimates that the initial pro forma net debt to Facility EBITDA ratio of the Enlarged Group as at Completion will be approximately 3.3x Facility EBITDA and is targeting to reduce this to its stated target of 2.5x Facility EBITDA within two years following Completion. However, in the event of material disruptions to cash flows, there is a risk that the Enlarged Group's leverage may not decrease to the intended target at the anticipated rate or at all, or that the Enlarged Group will not be able to obtain future financing on favourable terms or at all. Under such circumstances, the Board has stated that the Enlarged Group would be precluded from considering the buyback of any Ordinary Shares or any further returns of value to Shareholders, other than normal dividends.

Although, in the opinion of Micro Focus, the Enlarged Group's expected available liquidity and working capital will be sufficient for the next 12 months following the date of this document, the Enlarged Group is subject to the risk that, in the longer term (in relation to which the Enlarged Group's business prospects and

capital requirements are harder to predict) it may be unable to generate sufficient cash flow to service the indebtedness under the terms of the New Facilities.

The Enlarged Group's level of indebtedness and the covenants contained in the New Facilities may have important consequences for the Enlarged Group's future prospects and financial condition including:

- increasing the Enlarged Group's vulnerability to both general and industry-specific adverse economic conditions and its flexibility to respond to such conditions;
- limiting the Enlarged Group's flexibility in planning for, or reacting to, changes in technology, customer demand, and competitive pressures;
- placing the Enlarged Group at a disadvantage compared to its competitors, who may be less leveraged and restricted by financial covenants than the Enlarged Group;
- causing the Enlarged Group to dedicate a substantial portion of its cash flow from operations to service the indebtedness and causing it to reprioritise the uses to which its capital is put to the potential detriment of the Enlarged Group's other business needs, which, depending on the level of the Enlarged Group's borrowings, prevailing interest rates and exchange rate fluctuations, could result in reduced funds being available for expansion, dividend payments, returns of value and other general corporate purposes;
- restricting the payment of dividends;
- increasing the cost of servicing the Enlarged Group's borrowings in the event such covenants are renegotiated; and
- materially and adversely affecting investor perception of the Enlarged Group, leading to a decline in the price of its securities.

The Enlarged Group's access to debt, equity and other financing as a source of funding for its operations and for refinancing maturing debt will be subject to many factors, many of which will be beyond its control. The type, timing and terms of any future financing will depend on the Enlarged Group's cash needs and the then prevailing conditions in the financial markets, including in the corporate bond, term loan and equity markets. There is a risk that these conditions will not be favourable at the time any refinancing is required to be undertaken or that the Enlarged Group will not be able to complete any such refinancing in a timely manner or on favourable terms, if at all. An increase in the cost, or lack of availability, of financing and capital could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group may incur materially significant costs if it breaches its covenants under the New Facilities.

The New Facilities will be subject to a number of restrictive covenants, including a first lien net leverage covenant (which covenant is determined as the ratio of (a) total debt of the Enlarged Group that is secured on a first lien basis (net of unrestricted cash of the Enlarged Group) to (b) consolidated adjusted EBITDA of the Enlarged Group) that will apply only when 35 per cent. of the Revolving Credit Facility (less certain outstanding letters of credit) are drawn at the end of any fiscal quarter. Although the Directors believe that the current financial condition, cash generation and capital reserves of the Micro Focus Group and HPE Software are sufficient to enable the Enlarged Group not to trigger, or to comply with, the first lien net leverage covenant for the next 12 months from the date of this document, deterioration in the Enlarged Group's primary markets created by, for example, continued economic uncertainty or a return to a recessionary economic environment may have a material adverse effect on its earnings, which, in the longer term, could affect the Enlarged Group's ability to comply with the first lien net leverage covenant or other covenants under the New Facilities. There can be no assurance that the Enlarged Group can continue to comply with these covenants in the longer term, and to the extent that the Enlarged Group is in breach of any of these covenants, this could result in the New Facilities becoming immediately repayable. In order to remain in compliance with these covenants and depending on the future performance of its business,

the Enlarged Group may be required to take actions that it would not otherwise have chosen or may be unable to pursue opportunities it otherwise would have pursued, such as possible acquisition opportunities. In addition, any future debt financing that the Enlarged Group may need to obtain may impose additional restrictions on its financing and operating activities. Any of the above factors could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Transaction may result in a loss of customers for the Micro Focus Group or HPE Software and, following Completion, the Enlarged Group.

As a result of the Merger (including as a result of its public announcement and during the pendency of the Merger) some of the Micro Focus Group's or HPE Software's customers or strategic partners may seek to terminate or reduce their business relationships with the Enlarged Group due to, for example, the interruption of operations that may result from the integration of the businesses or customers not wanting to increase the proportion of services sourced from a single company. Furthermore, potential customers of the Micro Focus Group or HPE Software may delay entering into, or decide not to enter into, a business relationship with the Micro Focus Group or HPE Software until Completion on account of any perceived uncertainty in connection with the Merger. If the Micro Focus Group's or HPE Software's relationships with their current or potential future customers or strategic partners are negatively impacted by the Merger, this could result in a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

Third parties may terminate or seek to modify existing contracts with HPE Software as a result of the Transaction.

As part of the Separation, members of the Seattle Group will become counterparties by assignment to a number of contracts of the HPE Group or its subsidiaries with third party suppliers, distributors, clients, customers, licensors, licensees, lessees, lessors, lenders, insurers, landlords, other business partners and other counterparties. Some of these contracts require the counterparty's consent to assignment. If these consents cannot be obtained, or if a number of these consents remain outstanding following the Separation, HPE Software may be unable to obtain some of the benefits, assets and/or contractual commitments that are intended to be allocated to it as part of the Separation.

In addition, some of the contracts to be assigned to the Seattle Group following the Separation contain "change of control" or similar clauses that allow the counterparty to terminate or change the terms of their contract as a result of the Merger, or may otherwise enable the counterparty to seek to modify the terms of the existing contract. There can be no assurance that the Enlarged Group will be able to contract on the same terms as HPE did prior to Completion. If a large number of third party consents cannot be obtained, or the terms of such contracts are modified in a manner that is adverse to the Enlarged Group, there may be a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Merger may affect the ability of the Enlarged Group to attract, retain and motivate key personnel.

Uncertainty about the effect of the Merger may have a material adverse effect on employees of the Micro Focus Group and HPE Software and, consequently, on the Enlarged Group after Completion. Although the Micro Focus Group and HPE Software intend to take steps to reduce any adverse effects, these uncertainties may impair their ability to attract, retain and motivate key personnel for a period of time before and after Completion, which could cause their customers, suppliers and others that deal with them to seek to change existing business relationships. The departure or distraction of key and/or a significant number of management or other employees could also materially adversely affect the ability to manage the Micro Focus Group, HPE Software or, after Completion, the Enlarged Group. It could also materially adversely affect the ability to realise the expected benefits and operational efficiencies of the Merger. The departure of key and/or a significant number of management or other employees could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group could incur operational difficulties or losses if HPE were unable to perform under the agreements entered into as part of the Separation.

In connection with the Separation, Seattle SpinCo will, prior to Completion, enter into several agreements with HPE or its subsidiaries, including among others, the Transition Services Agreement, which in general provide for the performance of certain services or obligations by each of HPE and Seattle SpinCo for the benefit of each other for a transitional period following the Separation. If either party is unable to satisfy its obligations under such agreements in a timely manner or at all, including for the provision of a standalone IT platform by HPE for the Seattle Group and obtaining third party consent, where necessary, for the transfer of certain assets to Seattle SpinCo, or if the transitional agreements fail to provide for or cover certain essential services needed by Seattle SpinCo during the transitional period there is limited recourse for Micro Focus and Seattle SpinCo could incur operational difficulties or losses or face liability that could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group may be negatively affected if HPE Software is unable to obtain the same types and level of benefits, services and resources that historically have been provided by HPE, or may be unable to obtain them at the same cost.

HPE Software has historically received benefits and services from HPE. Following Completion, HPE Software will no longer benefit from HPE's services or business relationships to the extent not otherwise addressed in the Separation and Distribution Agreement, Transition Services Agreement or other transaction documents. While HPE has agreed to provide certain transitional services to HPE Software, it cannot be assured that the Enlarged Group will be able to adequately replace or provide resources formerly provided to HPE Software by HPE, or replace them at the same or lower cost. If the Enlarged Group is not able to replace the services provided by HPE or is unable to replace them without incurring significant additional costs or is delayed in replacing the services provided by HPE or if the potential customers or other partners of HPE Software do not view the Enlarged Group's business relationships as equivalent to HPE's, it could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group will have an ongoing relationship with HPE following Completion and, as a result, the future state or actions of HPE or any successor of HPE could adversely affect the Enlarged Group.

Certain agreements related to the Separation and Merger provide for ongoing services by HPE to the Enlarged Group. Changes in the strategic direction of HPE, or any successor of HPE, could, over time, impact the positioning and offerings of HPE's brands and programs, including those being made available to the Enlarged Group. Any such changes impacting the services being provided by HPE, could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group is exposed to funding risks in relation to its pension schemes.

As part of the Separation, the Seattle Group will assume or retain obligations to pay contributions to, and fund the pension benefits of, personnel who are allocated to the Seattle Group globally pursuant to the Separation, in relation to service by such personnel both before and after the Separation. However, this will not apply for personnel in certain jurisdictions, who will instead be either (a) provided with pension benefits under HPE's existing pension arrangements until Completion and the Enlarged Group's pension arrangements following Completion, or (b) moved from defined benefit plans into defined contribution plans established within the Seattle Group prior to Completion, in which case liabilities in respect of defined benefit accrual prior to the transition to defined contribution plans will not be assumed by the Seattle Group. Following Completion, the Enlarged Group will be exposed to liabilities for these contributions and pension benefits.

The Enlarged Group will have obligations to pay contributions to defined contribution schemes and insured or similar arrangements in various jurisdictions that were created, assumed or retained by the Seattle Group as part of the Separation or by the Enlarged Group with effect from Completion pursuant to the Separation and Merger, which will require contributions to be made to separately administered funds.

The Enlarged Group will also have obligations to fund defined benefit pension schemes in various jurisdictions that (i) were created, assumed or retained by the Seattle Group as part of the Separation or by the Enlarged Group with effect from Completion pursuant to the Separation and Merger, or (ii) in which HPE Software staff participated prior to Completion. As at 31 January 2017, HPE Software staff participated in 31 relevant defined benefit arrangements worldwide for which obligations will transfer to the Group, of which 30 were open to further accrual of benefits at varying levels. The combined deficit relating to the relevant defined benefit liabilities to transfer was estimated to be approximately US\$74.2 million on a US GAAP accounting basis as at 31 January 2017. The Separation and Distribution Agreement provides that, as of Completion, HPE will cause the Seattle Group to have immediately available cash with respect to HPE Software's defined benefits plan liabilities to be assumed by Seattle (or will have pre-funded such liabilities in whole or in part on or after 1 September 2016 and prior to Completion) in an aggregate amount agreed by the parties.

The actual pension obligations of the Enlarged Group may vary depending on the final allocation of employees to the Seattle Group and local legal or collective bargaining or employee consultation outcomes in connection with the Separation and Merger, as well as the nature of the pension arrangements established for the employees within the Seattle Group legal structure prior to Completion or within the Enlarged Group from Completion.

Defined benefit pension schemes are subject to risks in relation to their liabilities and required funding levels as a result of changes in life expectancy, inflation and future salary increases, volatility regarding the value of investments and the returns derived from such investments, and applicable local legal and regulatory regimes. A significant funding requirement in respect of future years could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Distribution could result in significant tax liabilities to HPE and HPE Shareholders, and, under the Tax Matters Agreement, Seattle SpinCo may in certain circumstances be obliged to indemnify HPE for certain tax liabilities relating to the Separation, which could be material.

Completion is conditional upon the receipt by HPE of the HPE Tax Opinion, substantially to the effect that, among other things, for US federal income tax purposes, the Distribution, taken together with the Contribution, should qualify as a "reorganization" under Sections 368(a)(1)(D), 361 and 355 of the IRC. HPE also intends to seek a ruling from the IRS regarding certain issues relevant to the qualification of the Distribution and certain other aspects of the Separation for tax-free treatment for US federal income tax purposes (the "IRS Ruling"). The receipt of any such ruling is not a condition to HPE's and Seattle SpinCo's obligation to consummate the Transaction, and there can be no assurance that any or all of such requested rulings will be received.

Although the IRS Ruling, if received, will generally be binding on the IRS, the continuing validity of the IRS Ruling will be subject to the accuracy of factual representations and assumptions made in the ruling request. In addition, as part of the IRS's general ruling policy with respect to transactions under Section 355 of the IRC, the IRS will not rule on the overall qualification of the Distribution for tax-free treatment, but instead only on certain significant issues related thereto.

The HPE Tax Opinion will be based on current law and will rely upon various factual representations and assumptions, as well as certain undertakings made by HPE, Micro Focus and Seattle SpinCo. If any of those representations or assumptions is untrue or incomplete or any of those undertakings is not complied with, or if the facts upon which the HPE Tax Opinion is based are different from the actual facts that exist at the time of the Distribution, the conclusions reached in the HPE Tax Opinion could be adversely affected and the Distribution and/or certain related transactions may not qualify for the intended tax treatment. Furthermore, unless the IRS Ruling is received and addresses such matters, certain conclusions in the HPE Tax Opinion will relate to matters for which there is no legal authority directly on point, and such conclusions will therefore necessarily be based upon analysis and interpretation of analogous authorities. An opinion of counsel is not binding on the IRS or the courts. Accordingly, no assurance can be given that the IRS will not challenge the conclusions set forth in the HPE Tax Opinion or that a court would not sustain such a challenge.

If the Distribution, taken together with the Contribution, were determined not to qualify as a “reorganization” under Sections 368(a)(1)(D) and 355 of the IRC, HPE would generally be subject to US federal income tax as if it had sold the Seattle SpinCo common stock for its fair market value in a taxable transaction, which could result in a material tax liability for HPE. In addition, the HPE Shareholders who receive Seattle SpinCo common stock in the Distribution generally would be subject to US federal income tax as if they had received a taxable distribution in an amount up to the fair market value of such common stock. In addition, HPE could be subject to material tax liability if certain transactions related to the Distribution were not to qualify for their intended tax treatment.

Even if the Distribution, taken together with the Contribution, otherwise qualifies under Section 355 of the IRC, the Distribution would be taxable to HPE (but not to HPE Shareholders) pursuant to Section 355(e) of the IRC if one or more persons acquire a 50 per cent. or greater interest (measured by vote or value) in the stock of HPE or Seattle SpinCo, directly or indirectly (including through acquisitions of Micro Focus combined company stock after Completion), as part of a plan or series of related transactions that includes the Distribution. Current law generally creates a presumption that any direct or indirect acquisition of stock of HPE or Seattle SpinCo within two years before or after the Distribution is part of a plan that includes the Distribution, although the parties may be able to rebut such presumption in certain circumstances. The process for determining whether an acquisition is part of a plan under these rules is complex, inherently factual in nature, and subject to a comprehensive analysis of the facts and circumstances of the particular case. Although it is expected that the Merger will be treated as part of such plan, the Merger, standing alone, should not cause Section 355(e) of the IRC to apply to the Distribution because holders of Seattle SpinCo common stock immediately before the Merger will hold more than 50 per cent. of the stock of Micro Focus (by vote and value) immediately after the Merger. However, if the IRS were to determine that other direct or indirect acquisitions of stock of HPE or Seattle SpinCo, either before or after the Distribution, were part of a plan that includes the Distribution, such determination could cause Section 355(e) of the IRC to apply to the Distribution, which could result in a material tax liability for HPE.

Under the Tax Matters Agreement, subject to certain limited exceptions, Seattle SpinCo and Micro Focus will be required to indemnify HPE against any taxes resulting from any action (or failure to act) by Seattle SpinCo or Micro Focus, any event involving the shares or assets of Seattle SpinCo or Micro Focus or any breach of any representation, warranty or covenant made by Seattle SpinCo in the Tax Matters Agreement that, in each case, would affect the intended tax treatment of the Distribution or certain related transactions. If Seattle SpinCo and Micro Focus were required to indemnify HPE for taxes resulting from the Distribution or such related transactions, that indemnification obligation would likely be substantial and could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

Micro Focus and Seattle SpinCo will be subject to potentially significant restrictions under the Tax Matters Agreement that could limit the Enlarged Group’s ability to undertake certain corporate actions (such as the issuance of Ordinary Shares or ADSs or the undertaking of a merger or consolidation) that otherwise could be advantageous to the Enlarged Group.

To preserve the intended tax treatment of the Distribution and certain related transactions to HPE and/or its shareholders, Micro Focus and Seattle SpinCo will, during the two-year period following the date of the Distribution, be restricted under the Tax Matters Agreement from taking certain actions that could cause the Distribution or certain related transactions to fail to qualify for their intended tax treatment. Micro Focus and Seattle SpinCo may only undertake such restricted actions if Micro Focus or Seattle SpinCo obtains an unqualified opinion from its tax advisers and/or a ruling from the IRS, in each case, satisfactory to HPE, confirming that the restricted action or actions will not affect the tax-free treatment of the Distribution or certain related transactions. See Section B of Part VI (*Principal Terms of the Transaction*) of this document for a detailed description of the Tax Matters Agreement and such restrictions. These restrictions may limit the Enlarged Group’s ability to pursue certain strategic transactions or engage in other transactions, including share issuances, share repurchases, certain asset dispositions, mergers and consolidations during the restricted period. As a result, the Enlarged Group might determine to forgo certain transactions that otherwise could be advantageous, which could have an adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

Micro Focus' US affiliates likely will be subject to certain adverse US federal income tax rules as a result of the Transaction.

Following the acquisition of a US corporation by a foreign corporation, Section 7874 of the IRC (and certain related provisions) can limit the ability of the acquired US corporation and its US affiliates to utilise certain tax attributes and subject such US entities to certain other adverse US federal income tax rules. These rules generally apply to Micro Focus and its US affiliates if, following the Merger, (a) holders of Seattle SpinCo common stock own (within the meaning of Section 7874 of the IRC) 60 per cent. or more (by vote or value) of Micro Focus by reason of having held shares of Seattle SpinCo common stock (the "60 per cent. ownership test," and such ownership percentage the "Section 7874 ownership percentage"), and (b) Micro Focus' "expanded affiliated group" does not have "substantial business activities" in the United Kingdom when compared to the total business activities of such expanded affiliated group (the "substantial business activities test"). The Section 7874 ownership percentage of holders of Seattle SpinCo common stock must be calculated in accordance with specific tax rules under the IRC and Treasury Regulations, and will likely differ significantly from the calculation of the 50.1 per cent. of the fully diluted share capital of Micro Focus to be owned by holders of Seattle SpinCo common stock following Completion. In particular, under the Temporary Section 7874 Regulations, certain adjustments are required that generally have the effect of increasing, for purposes of determining the Section 7874 ownership percentage, the percentage of shares of a foreign acquiring corporation deemed owned by the former shareholders of an acquired US corporation by reason of holding shares in such US corporation. Certain of these adjustments are calculated based on a three-year look back period.

Based on the terms of the Merger, the rules for determining the Section 7874 ownership percentage referenced above and certain factual assumptions, it is expected that the 60 per cent. ownership test will be met. It also is expected that the substantial business activities test will not be met. Accordingly, it is expected that several adverse US federal income tax rules could apply to the US affiliates of Micro Focus (including both Seattle SpinCo and its US affiliates and US affiliates historically owned by Micro Focus). In particular, Section 7874 of the IRC could limit the ability of such US affiliates to utilise certain US tax attributes (including net operating losses and certain tax credits) to offset any taxable income or gain resulting from certain transactions, including any transfers or licences of property to a foreign related person during the 10-year period following the Merger. Additionally, the Temporary Section 7874 Regulations, and certain temporary regulations issued under other provisions of the IRC, may limit Micro Focus' ability to engage in certain restructuring transactions or access cash earned by certain of its non-US affiliates, in each case, without incurring substantial US tax liabilities, which could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The IRS may not agree that Micro Focus should be treated as a non-US corporation for US federal income tax purposes following the Merger.

Under current US federal income tax law, a corporation is generally classified as US or non-US based on the jurisdiction of its organisation or incorporation. Because Micro Focus is a company incorporated in England and Wales, Micro Focus would generally be classified as a non-US corporation for US federal income tax purposes. However, the IRS may assert that Micro Focus should be treated as a US corporation (and therefore subject to US federal income tax on its income regardless of source) pursuant to Section 7874 of the IRC.

Under Section 7874 of the IRC, if, following the Merger: (a) the Section 7874 ownership percentage (described above) is 80 per cent. or more (the "80 per cent. ownership test"); and (b) the substantial business activities test (described above) is not met, then Micro Focus would be treated as a US corporation (and therefore subject to US federal income tax on its income regardless of source) for US federal income tax purposes.

Based on the terms of the Merger, the rules for determining share ownership under Section 7874 of the IRC referenced above and certain factual assumptions, holders of Seattle SpinCo common stock are expected to own (within the meaning of Section 7874 of the IRC) at least 60 per cent. but less than 80 per cent. (by both vote and value) of Micro Focus after the Merger by reason of holding shares of Seattle SpinCo

common stock. Therefore, under current law, it is expected that Micro Focus should not be treated as a US corporation for US federal income tax purposes pursuant to Section 7874 of the IRC.

However, certain of the rules under Section 7874 of the IRC are relatively new and complex and there is limited guidance regarding their application. Moreover, share ownership for purposes of computing the Section 7874 ownership percentage is subject to various complex adjustments which are uncertain in their application. In particular, under the Temporary Section 7874 Regulations, certain adjustments are required that generally have the effect of increasing, for purposes of determining the Section 7874 ownership percentage, the percentage of shares of a foreign acquiring corporation deemed owned by the former shareholders of an acquired US corporation by reason of having held shares in such US corporation. Certain of these adjustments are based on a three-year look back period. In addition, certain of the relevant determinations must be made based on the facts at the time of Completion. As a result, the precise determination of the Section 7874 ownership percentage will be subject to factual and legal uncertainties. Therefore, there can be no assurance that the IRS will agree with the position that Micro Focus should be treated as a non-US corporation for US federal income tax purposes. If the IRS successfully challenged Micro Focus' status as a non-US corporation, significant adverse US federal income tax consequences would result for Micro Focus and for certain Micro Focus Shareholders.

If the 80 per cent. ownership test were met after the Merger and Micro Focus were accordingly treated as a US corporation for US federal income tax purposes under Section 7874 of the IRC, Micro Focus would be subject to substantial additional US tax liability. Additionally, in such case, the Shareholders that are not US persons for US federal income tax purposes would be subject to US withholding tax on the gross amount of any dividends paid by Micro Focus to such shareholders (subject to an exemption or reduced rate available under an applicable tax treaty). Regardless of the application of Section 7874 of the IRC, Micro Focus is expected to be treated as a tax resident of England and Wales for United Kingdom tax purposes. Consequently, if Micro Focus were to be treated as a US corporation for US federal income tax purposes under Section 7874 of the IRC, it could be liable for both US and United Kingdom taxes, which could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group's ability to engage in certain transactions could be limited to prevent the treatment of Micro Focus as a US corporation under Section 7874 of the IRC.

Even if the 80 per cent. ownership test (described above) is not met as a result of the Merger, future transactions by the Enlarged Group could cause the 80 per cent. ownership test to be met, causing Micro Focus to be treated as a US corporation for US federal income tax purposes under Section 7874 of the IRC. Therefore, the ability of the Enlarged Group to engage in certain strategic transactions (including future acquisitions of US businesses in exchange for Micro Focus shares) may be limited in order to avoid Micro Focus being treated as a US corporation, which could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

Changes to US tax laws could result in Micro Focus being treated as a US corporation for US federal income tax purposes or in Micro Focus and its US affiliates being subject to certain adverse US federal income tax rules.

As discussed in the risk factor above (*The IRS may not agree that Micro Focus should be treated as a non-US corporation for US federal income tax purposes following the Merger*), under current law, Micro Focus is expected, following Completion, to be treated as a non-US corporation for US federal income tax purposes. However, changes to Section 7874 of the IRC, or the Treasury Regulations promulgated thereunder, could affect Micro Focus' status as a non-US corporation for US federal income tax purposes or could result in the application of certain adverse US federal income tax rules to Micro Focus and its US affiliates (including Seattle SpinCo and US affiliates historically owned by Micro Focus). For example, recent legislative and other proposals have aimed to expand the scope of US taxation of certain non-US corporations, including in such a way as would cause Micro Focus to be treated as a US corporation for US federal income tax purposes if the management and control of Micro Focus were determined to be located primarily in the United States. In addition, recent legislative and other proposals have aimed to expand the scope of Section 7874 of the IRC or otherwise to address certain perceived issues arising in connection with

so-called inversion transactions. Any such proposals or similar proposals, which could have prospective or retroactive application, could cause Micro Focus to be treated as a US corporation for US federal income tax purposes or subject Micro Focus and its US affiliates to certain adverse US federal income tax rules. In such case, the Enlarged Group could be subject to substantially greater US tax liability than currently contemplated, which could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

Legislative or other governmental action in the US could adversely affect the Enlarged Group's business.

Legislative action may be taken by the US Congress that, if ultimately enacted, could limit the availability of tax benefits or deductions that the Enlarged Group currently expects to claim, override tax treaties upon which the Enlarged Group is expected to rely or otherwise increase the taxes that the US will impose on the Enlarged Group's worldwide operations. Such changes could materially adversely affect the Enlarged Group's effective tax rate and/or require it to take further action, at potentially significant expense, to seek to achieve its intended effective tax rate. In addition, if proposals were enacted that had the effect of limiting Micro Focus' ability, as a company organised under the laws of England and Wales, to take advantage of the income tax treaty between the United Kingdom and the United States, Micro Focus could incur additional tax expense that could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group will need to ensure that its internal control over financial reporting complies with Section 404 of the Sarbanes-Oxley Act of 2002.

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

To achieve compliance with Section 404, the Micro Focus Group is engaged in a process to document and evaluate its internal controls over financial reporting. In this regard, the Micro Focus Group will need to continue to dedicate internal resources, potentially engage outside consultants and adopt a detailed work plan to assess and document the adequacy of its internal control over financial reporting for the purposes of Section 404. This may include taking steps to improve control processes as appropriate, validating that controls are functioning as documented and implementing a continuous reporting and improvement process for internal control over financial reporting.

Micro Focus' internal controls over financial reporting were for the first time subject to review under the PCAOB auditing standards in connection with the audit of Micro Focus' annual consolidated financial statements for the three years ended 30 April 2016 to be included in the registration statement on Form F-4 to be filed by Micro Focus with the SEC in connection with the Merger. The PCAOB auditing standards are US standards that registered public accounting firms are required to follow in connection with the audit of Micro Focus' consolidated financial statements. As a result of the work undertaken, certain deficiencies in Micro Focus' internal controls for the purposes of Section 404 have been identified. These relate to the fact that Micro Focus did not for the financial periods under audit have sufficient formally documented and implemented processes and review procedures, nor did it have sufficient formality and evidence of controls over key reports and spreadsheets. Micro Focus has already begun to implement measures to address and remediate these deficiencies.

Whilst the Directors are satisfied that the Micro Focus Group has been and will continue to be in compliance with the internal control and related financial reporting requirements under the Code and the Listing Rules, the PCAOB requirements in connection with Section 404 reporting are more detailed and evidence-based. Whilst the Directors are confident that the Enlarged Group will be able to remedy the deficiencies that have been identified to date by 31 October 2019, there is a risk that other deficiencies for the purposes of Section 404 may be identified and cannot be remedied by 31 October 2019. Were this to be the case, this could result in an adverse reaction in the financial markets due to a loss of confidence in

the reliability of the Enlarged Group's financial statements and could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

Following Completion, the Enlarged Group is likely to be deemed to operate under foreign ownership, control or influence, and if so, to participate in and perform under US classified contracts the Enlarged Group will need to become a party to a mitigation agreement with the US Department of Defense and will be subject to the requirements of the National Industrial Security Program Operating Manual, which will impose significant compliance obligations upon the Enlarged Group. The Enlarged Group's failure to comply with these obligations could result in it not being able to continue participating in and performing under US classified contracts.

If a company's ownership structure presents the potential for foreign ownership, control, or influence ("FOCI"), then the US Department of Defense, pursuant to the National Industrial Security Program Operating Manual ("NISPOM"), may require certain protective measures to mitigate the FOCI in order for the company and its subsidiaries to maintain clearances to access classified US government information or facilities.

Because a significant percentage of the Enlarged Group's voting equity following Completion is expected to be owned by non-US persons, the Enlarged Group is likely to be determined to be under FOCI, and will likely be required to operate pursuant to a mitigation agreement in order for its subsidiaries to be able to maintain the requisite security clearances to access classified information or facilities and perform under classified contracts. The mitigation agreement may place certain security-related restrictions on the Enlarged Group, including restrictions on the composition of the Micro Focus Board, the separation of certain employees and operations, as well as restrictions on access to and control by the Enlarged Group of the flow of certain information and facilities. The provisions contained in the mitigation agreement may limit certain projected benefits to be realised from the Merger by placing additional costs or restrictions on the Enlarged Group's operations.

HPE Software currently derives a portion of its revenue from classified contracts. If the Enlarged Group is unable to enter into a mitigation agreement or were to violate the terms and requirements of any such mitigation agreement, the NISPOM, or any other applicable US government industrial security regulations, the Enlarged Group may not be able to continue to perform any of its classified contracts in effect at that time or enter into new classified contracts, which could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

PART C – EXISTING RISKS RELATING TO THE MICRO FOCUS GROUP WHICH MAY BE IMPACTED BY THE TRANSACTION

The Enlarged Group will be dependent upon an expanded intellectual property portfolio, as well as intellectual property licensed from and technology developed by third parties.

Following Completion, the Enlarged Group will manage a significantly expanded intellectual property portfolio from that which the Micro Focus Group had previously managed, and it will rely on patent, trade secret, trade mark and copyright law to protect its intellectual property. Protection of the Enlarged Group's intellectual property will be subject to complex factual and legal issues that may give rise to uncertainty as to the validity, scope and enforceability of a particular intellectual property right. The Enlarged Group will also seek to protect its proprietary information and trade secrets that may not be patented or patentable and to secure its rights to copyright and patentable inventions by confidentiality agreements and, if applicable, inventors' rights agreements with its customers, partners and employees. Failure to protect, maintain and enforce the Enlarged Group's existing intellectual property rights or pursue registrations for new intellectual property rights may result in the loss of the Enlarged Group's exclusive right to use technologies which are included in its software products or are otherwise used in its businesses.

In addition, many of the Micro Focus Group's and HPE Software's product offerings and services rely on technologies developed by, and intellectual property licensed from, third parties, including through both proprietary and Open Source software licences. Some of the licences intended to be allocated to HPE Software as part of the Separation will require the consent of the relevant third-party licensors; and, if such consents are not obtained, HPE Software may not be able to use such licences. Furthermore, in order to

remain in compliance with the terms of its third party licences following Completion, the Enlarged Group must carefully monitor and manage the use of its third party technology and intellectual property, including both proprietary and Open Source licence terms that may require the licensing or public disclosure of the Enlarged Group's own intellectual property, including parts of its source code, without compensation or on undesirable terms.

There is also a risk that the Enlarged Group may inadvertently infringe the intellectual property rights of a third party. Claims of intellectual property infringement could require the Enlarged Group to redesign affected products, enter into costly settlement or licence agreements with the third party, pay costly damage awards or face a temporary or permanent injunction prohibiting the Enlarged Group from importing, marketing or selling certain of its products. Such claims against the Enlarged Group could result in litigation, as has been the case with the ongoing patent infringement actions brought against HPE by Realtime Data LLC as described in Section 7.2(d) of Part VIII (*Additional Information*) of this document. Any intellectual property infringement claims or litigation involving the Enlarged Group, even those without merit or with a favourable outcome for the Enlarged Group, could be time consuming, costly to defend against and divert management's attention and resources away from the Enlarged Group's business.

The inability of the Enlarged Group to protect its own intellectual property or remain in compliance with its third party licence terms could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group's success will depend on its investment in and development of products and services that continue to meet the needs of its customers.

The success of the Enlarged Group will depend on its ability to meet the ongoing needs of its customers by continuing to invest in and develop its products and services. If the Enlarged Group's products and services do not meet its customers' requirements, they will seek alternative solutions, potentially resulting in the loss of new revenue opportunities and the cancellation of existing contracts. The Enlarged Group must make long-term investments, develop, obtain and protect appropriate intellectual property and commit significant research and development and other resources before knowing whether its predictions will accurately reflect customer demand for its products, services and solutions. Any failure to make such investments or take such action, or any failure to accurately predict customer demand, control research and development costs or execute the Enlarged Group's product development strategy could harm its business and financial performance.

Following Completion, the Enlarged Group will have an increased number of products and services, at differing stages of their life cycle and the extent of investment in each product will need to be managed and prioritised considering the expected future prospects. Failure to manage and develop its enlarged portfolio of products may damage the long-term growth prospects of the Enlarged Group. Product development and enhancement involves a significant commitment of time and resources and is subject to a number of risks and challenges including:

- managing the length of the development cycle, which may be longer than anticipated;
- extensive testing of compatibility with a wide variety of application software and hardware devices and the need to ensure the quality of products prior to their extensive distribution;
- incorporating acquired products and technologies into the Enlarged Group's portfolio;
- adapting to (and anticipating) emerging and evolving industry standards and technological developments by the Enlarged Group's competitors and customers;
- continuously updating the skill sets of employees of the Enlarged Group with respect to technological developments and the demands of customers;
- managing new product and service strategies; and
- accurately forecasting volumes, mixes of products and configurations that meet diverse customer requirements.

Any resulting delays in the development of new or upgrades to existing products may adversely impact customer acceptance of such products and result in delayed or reduced revenue for the Enlarged Group.

In addition, the Enlarged Group must develop and expand its sales channels and ability to deliver its products. For example, the Enlarged Group's success is dependent on its ability to address the market shift to SaaS and other go-to-market execution challenges. To be successful in addressing these challenges, the Enlarged Group must improve its go-to-market execution with multiple product delivery models, which better address customer needs and achieve broader integration across the Enlarged Group's overall product portfolio as it works to capitalise on important market opportunities in cloud computing, big data, enterprise security, applications and mobility. Improvements in SaaS delivery, however, do not guarantee that the Enlarged Group will achieve increased revenue or profitability. SaaS solutions often have lower margins than other software solutions throughout the subscription period and customers may elect to not renew their subscriptions upon expiration of their agreements.

If the Enlarged Group is not successful in managing these risks and challenges, or if its products and services are not technologically competitive or do not achieve market acceptance, it could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group will be operating in a greater number of competitive markets and success in those markets depends on a variety of factors. Should the Enlarged Group not be able to compete effectively against its competitors then it is likely to lose market share which may result in decreased sales and weaker financial performance.

Following Completion, the Enlarged Group will be operating in a greater number of competitive markets. Many of the Enlarged Group's competitors will have, or may have, greater brand recognition, larger customer bases or greater financial, sales and marketing, distribution, technical and other resources than the Enlarged Group. As a result, the Enlarged Group's competitors may be able to respond more quickly to market demands, to devote greater resources to the development, promotion, sale and deployment of their products than the Enlarged Group or to exert negative pricing pressure on the markets in which the Enlarged Group operates. Certain of these competitors may expand their product and service offerings and emerging competitors could introduce new technologies and business models that compete directly with the Enlarged Group. The widespread inclusion of solutions that perform the same or similar functions as the Enlarged Group's products within other companies' bundled or individual software products, or services similar to those provided by the Enlarged Group, could reduce the perceived need among customers for the Enlarged Group's products and services or otherwise render its products obsolete and unmarketable. The Enlarged Group could be adversely affected through declining product sales if it fails to assess and understand the competitive landscape adequately and thereby identify competitive risks and threats to its business.

In addition, the software industry is currently undergoing consolidation as certain software companies seek to offer more extensive suites and integrated solutions as well as broader arrays of individual software products and services, as well as integrated products and solutions. The Enlarged Group's competitors, as well as partners and other parties that are not currently in competition with the Enlarged Group, may establish financial and strategic relationships among themselves or with existing or potential customers or other third parties, which may have the effect of reducing the ability of the Enlarged Group to promote and sell its products successfully. This trend could create opportunities for large enterprise software companies to increase their market share through the acquisition of companies that dominate certain lucrative market niches or that have loyal installed customer bases. In doing so, these competitors may be able to reduce prices on software that competes with the Enlarged Group's solutions, in part by leveraging their larger economies of scale. Consolidation may also permit competitors of the Enlarged Group to offer a broader suite of individual products as well as more comprehensive bundled solutions, including hardware, software and services. This industry consolidation may result in stronger competitors that are better able to compete, either through offering a particularly strong individual solution in a specialised area or as sole-source vendors for customers, and could lead to more variability in the Enlarged Group's operating results due to lengthening of the customer evaluation process, increased pricing pressure and/or loss of business

to these larger competitors, which could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The Enlarged Group will be subject to the laws and regulations of a greater number of jurisdictions covering a wide variety of areas affecting international transactions.

Following Completion, the Enlarged Group will be subject to the laws and regulations of a greater number of jurisdictions covering a wide variety of areas affecting international transactions, including export controls, anti-corruption legislation and data protection requirements. The Enlarged Group may be required to devote more time and resources than the Micro Focus Group had previously devoted to ensure compliance with all such laws, rules and regulations to which it is subject. In addition, the Enlarged Group will be subject to changes in any such laws, rules and regulations, including the interpretation or enforcement of existing laws and regulations, in the additional jurisdictions in which the Enlarged Group will operate and the cost of compliance with such changes, any of which could have a material adverse effect on the business, financial condition, results of operation and prospects of the Enlarged Group.

The value of the Ordinary Shares may fluctuate.

The share price of publicly traded companies can be highly volatile, including for reasons related to differences between expected and actual operating performance, corporate and strategic actions taken by such companies or their competitors, speculation and general market conditions and regulatory changes. Shareholders should be aware that the value of the Ordinary Shares may decrease abruptly which may prevent Shareholders from being able to sell their Ordinary Shares at or above the price they paid for them. The price of the Ordinary Shares may fall in response to market perception of the Enlarged Group, the market's response to any delays to or failure of Completion and various other events, including regulatory changes affecting the Enlarged Group's operations, variations in the Enlarged Group's operating results and the liquidity of the financial markets. Any of these factors, some of which will be outside of the Enlarged Group's control, may impact the price and performance of the Ordinary Shares.

PART III

INFORMATION ON HPE SOFTWARE

Overview

HPE Software provides big data platform analytics, application testing and delivery management, security and information governance and IT operations management solutions for businesses and other enterprises of all sizes. HPE Software's offerings include licences, support, professional services and SaaS.

Business Segments, Products and Services

HPE Software consists of one reportable segment which engages in the development and sale of software solutions. HPE Software organises its business into the following four product portfolios:

Big Data Platform Analytics

HPE Software's Big Data Platform Analytics product group provides a full suite of software designed to help organisations capture, store, explore, analyse, protect and share information and insights within and outside their organisations to improve business outcomes. HPE Software's Big Data suite includes HPE Vertica, an analytics database technology for machine, structured and semi-structured data; and HPE IDOL, an analytics tool for unstructured information, including audio, video and text.

Application Testing and Delivery Management

HPE Software's Application Testing and Delivery Management product group provides software that enables organisations to deliver high-performance applications, accelerating the application delivery life cycle and automating the testing processes to ensure the quality and scalability of desktop, web, mobile and cloud-based applications.

Security and Information Governance

HPE Software's Security and Information Governance product group provides comprehensive solutions that span security and risk management, with a focus on protecting users, applications and data, while also enabling customers to manage risks and meet legal obligations. HPE's Security software is designed to disrupt fraud, hackers and cyber criminals by testing and scanning software and websites for security vulnerabilities, improving network defences and security, implementing security controls, safeguarding data at rest, in motion and in use (regardless of where software and data reside) and providing security intelligence, analytics and information management to identify threats and manage risk. HPE Software's Information Governance software provides solutions for archiving, data protection, eDiscovery and enterprise content management. HPE Software's Security software as well as Information Governance offerings allow it to deliver unique offerings that address its customers' evolving data needs.

IT Operations Management

HPE Software's IT Operations Management product group provides the software required to automate routine IT tasks and to pinpoint IT problems as they occur, helping enterprises to reduce operational costs and improve the reliability of applications running in a traditional, cloud or hybrid environment.

Strategy

HPE Software is a leading global software provider focused on creating the solutions necessary to deliver, manage, monitor and secure customer applications, information and infrastructure at any scale. Its goal is to provide customers with a best-in-class portfolio of enterprise-grade scalable software with analytics built in. HPE Software believes in putting customers at the centre of its innovation and building high quality products that satisfy customers' needs.

HPE Software's application and delivery management stack ensures that the functional, performance and security needs of the application are met and allows customers to work in traditional or agile (Development and Operations oriented) scenarios. This, coupled with HPE Software's capabilities regarding release automation and IT operations, ensures that customers are able to deploy their applications and data in various modes in open environments and using any infrastructure, whether mainframe, traditional enterprise, cloud or mobile. Furthermore, HPE Software enables customers to manage their hybrid infrastructure through automated policies with continuous monitoring and optimisation to allow customers to maximise efficiencies and identify any threats in the IT landscape. HPE Software offers risk management solutions, ranging from application and data security to protection against security threats to data back-up and recovery, that help customers protect themselves and their data in an increasingly volatile cybersecurity landscape. This allows customers to take a security "built in" vs "bolt on" approach. HPE Software's products and services are informed by decades of IT security experience and enable customers to predict and disrupt threats, manage risk and compliance, and extend their internal security team.

HPE Software's products and services are underpinned by big data and analytics to drive insights that enable customers to be proactive, predictive, and preventive rather than reactive. This capability is essential in today's environment given the increasing volumes of data customers are faced with as a result of the number of connected devices in the IT landscape, from cloud enabled data centres to mobile to IoT. HPE Software's strategy is to leverage its big data technology to enable analytics for business and IT, across application delivery to security to IT operations management. By helping customers address and derive greater value from their volumes of data, HPE Software is also well-positioned to leverage its analytics platform to address additional customer needs, thereby providing opportunities to drive increased revenue and growth across its segments.

Sales, Marketing and Distribution

HPE Software has over 30,000 customers worldwide, including 98 of the Fortune 100 companies. HPE Software's customers are organised by commercial and large enterprise groups, including business and public sector enterprises, and purchases of solutions and services may be fulfilled directly by HPE Software or indirectly through a variety of partners, including:

- resellers that sell HPE Software's products and services, frequently with their own value-added products or services, to targeted customer groups;
- distribution partners that supply HPE Software's solutions to resellers;
- OEMs that integrate HPE Software's services with their own products and services, and sell the integrated solution;
- independent software vendors that provide their clients with specialised software products and often assist HPE Software in selling its products and services to clients purchasing their products;
- systems integrators that provide expertise in designing and implementing custom IT solutions and often partner with HPE Software to extend their expertise or influence the sale of HPE Software's products and services; and
- advisory firms that provide various levels of management and IT consulting, including systems integration work, and typically partner with HPE Software on client solutions that require HPE Software's products and services.

The mix of HPE Software's business conducted by direct sales or channel differs substantially by customer type and region. HPE Software believes that customer buying patterns and different regional market conditions require HPE Software to tailor sales and marketing efforts accordingly. HPE Software is focused on driving the depth and breadth of its coverage, in addition to identifying efficiencies and productivity gains, in both direct and indirect businesses.

International

HPE Software's products are available worldwide. HPE Software believes this geographic diversity allows HPE Software to meet demand on a worldwide basis for customers, draws on business and technical expertise from an international workforce, provides stability to operations, provides revenue streams that may offset geographic economic trends and offers HPE Software an opportunity to access new markets for its maturing products. HPE Software believes that its broad geographic presence gives HPE Software a solid base on which to build future growth.

Approximately 51 per cent. of HPE Software's overall net revenue in the financial year ended 31 October 2016 came from outside the United States.

Research and Development

HPE Software's research and development efforts are focused on designing and developing products, services and solutions that anticipate customers' changing needs and desires and emerging technological trends. These efforts are also focused on identifying the areas where HPE Software believes it can make a unique contribution and where partnering with other leading technology companies will leverage HPE Software's cost structure and maximise customers' experiences.

Expenditures for research and development were US\$715 million in the financial year ended 31 October 2016, US\$833 million in the financial year ended 31 October 2015 and US\$845 million in the financial year ended 31 October 2014.

Patents

HPE Software's general policy is to seek patent protection for those inventions likely to be incorporated into products and services or where obtaining such proprietary rights will improve HPE Software's competitive position. HPE Software's worldwide patent portfolio includes approximately 2,000 granted patents and pending patent applications.

Patents generally have a term of up to 20 years from the date they are filed. As HPE Software's patent portfolio has been built over time, the remaining terms of the individual patents across the patent portfolio vary. HPE Software believes that its patents and patent applications are important for maintaining the competitive differentiation of its products and services, enhancing its freedom of action to sell products and services in markets in which HPE Software chooses to participate, and maximizing its return on research and development investments. No single patent is in itself essential to the business as a whole.

Environment

HPE Software's operations are subject to regulation under various US federal, state and local laws and foreign laws concerning the environment, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the clean-up of contaminated sites. HPE Software could incur substantial costs, including clean-up costs, fines and civil or criminal sanctions, and third-party damage or personal injury claims, if HPE Software were to violate or become liable under environmental laws.

HPE Software is committed to maintaining compliance with all environmental laws applicable to its operations and services and to reducing the environmental impact of its business. HPE Software meets this commitment with a comprehensive environmental, health and safety policy and management of its operations and services.

Environmental costs and accruals are presently not material to HPE Software's operations, cash flows or financial position. Although there is no assurance that existing or future environmental laws will not have a material adverse effect on HPE Software's operations, cash flows or financial condition, HPE Software does not currently anticipate material capital expenditures for environmental control facilities.

Employees

HPE Software had approximately 12,200 regular active employees as of 31 October 2016. Upon Completion, HPE Software's total headcount will also include certain staff transferring from the HPE Global Marketing Team and central corporate functions of HPE in the Separation. Including these employees, the total headcount for HPE Software would have comprised approximately 16,900 employees as of 31 October 2016.

Properties

As of 27 April 2017, HPE Software owned or leased approximately 2 million square feet of space worldwide, including areas occupied by staff in central functions supporting HPE Software.

Principal Executive Offices

HPE Software's principal executive offices are located at 3000 Hanover Street, Palo Alto, California 94304, United States of America.

Product Development, Services and Manufacturing

The locations of HPE Software's major and significant facilities are as follows:

Major Facilities

Americas

Sunnyvale, CA, United States

Austin, TX, United States

Asia Pacific

Bangalore, India

Shanghai, China

Europe, Middle East, Africa

Yehud, Israel

Significant Facilities

Americas

Heredia, Costa Rica

Cambridge, MA, United States

Asia Pacific

Bangalore, India

Chennai, India

Europe, Middle East, Africa

Prague, Czech Republic

Cluj-Napoca, Romania

Sofia, Bulgaria

Boeblingen, Germany

Bracknell, United Kingdom

Selected Financial Information

HPE Software has divested certain businesses during the two financial years ended 31 October 2015 and 31 October 2016, including Tipping Point, Live Vault and iManage. In addition, HPE transferred the Marketing Optimisation product group and HPPA Teleform to HP Inc., in the fourth quarter of HPE's financial year ended 31 October 2015 in connection with the separation of HPE from HP Inc. The below table sets out the impact of these divestitures and transfers. These numbers have not been adjusted for the acquisition of Voltage Security by HPE during the financial year ended 31 October 2015.

The financial information presented below differs from that contained in the "HPE Software financial results update" announcement released by Micro Focus on 3 April 2017. These differences arise as the below financial information is extracted from the HPE Software Historical Financial Information (as set out in Section B of Part IV (*Financial Information relating to HPE Software*)) which was prepared in accordance with Micro Focus' accounting policies under IFRS and the conventions set out in SIR 2000 for the preparation of carve-out financial information, whereas the financial information presented in the 3 April 2017 announcement was derived from information prepared under HPE's accounting policies in US GAAP and utilising SEC carve-out accounting rules.

One notable area of difference in relation to the years ended 31 October 2016 and 31 October 2015 is that the presentation of gains on disposals of businesses is presented below as an exceptional item which is excluded from HPE Software Underlying Adjusted EBITDA. This has a corresponding impact on the Underlying Adjusted EBITDA impacts of transfers and divestitures in the period relating to "Other divestitures".

Further details on the impact of Seattle's adoption of IFRS are contained in note 29 of Part IV (*Financial Information relating to HPE Software*), on pages 101-111 of this document.

	For the financial year ended 31 October		
	2016	2015	2014
	\$m	\$m	\$m
Software revenue as reported in the HPE Software Historical Financial Information	\$3,198	\$3,629	\$3,929
Revenue impact of transfers and divestitures in the track record period:			
Marketing Optimisation product group transfer	–	(163)	(232)
Other divestitures*	(69)	(271)	(310)
	For the year ended 31 October		
	2016	2015	2014
	\$m	\$m	\$m
HPE Software profit before tax as reported in the HPE Software Historical Financial Information	137	246	361
Add back net finance costs	72	44	3
Add back other expenses, net	–	–	2
Add back loss on available-for-sale securities reclassified into earnings	–	3	2
Add back amortisation of intangible assets	161	254	281
Add back depreciation of property, plant and equipment	60	82	82
HPE Software EBITDA	430	629	731
Add back separation costs	106	91	–
Add back restructuring charges	110	34	45
Add back share-based compensation	91	62	62
Add back acquisition costs	3	5	10
Less gain on disposal of business	(82)	(7)	–
HPE Software Underlying Adjusted EBITDA**	658	814	848
Underlying Adjusted EBITDA impact of transfers and divestitures in the track record period:			
Marketing Optimisation product group transfer	–	(33)	(48)
Other divestitures*	(15)	(140)	(154)

Note that EBITDA and Underlying Adjusted EBITDA are alternative performance measures.

* Divestitures of Tipping Point, iManage, Live Vault and HPPA Teleform. Amounts shown for these divestitures are HPE Software's estimate of the amount of revenue and EBITDA generated by these divested businesses during the periods presented, adjusted for HPE Software's estimate of overhead and other costs that HPE Software retained following divestment of these businesses.

** Micro Focus reports a metric referred to as "Facility EBITDA," which is defined on page 4 of this document. HPE Software's Underlying Adjusted EBITDA and Facility EBITDA as calculated result in the same figure.

PART IV

FINANCIAL INFORMATION RELATING TO HPE SOFTWARE

SECTION A: Accountant's Report on HPE Software Historical Financial Information



Ernst & Young LLP
1 More London Place
London
SE1 2AF

The Directors
Micro Focus International plc
Old Bath Road
Newbury
Berkshire
RG14 1QN

9 May 2017

Dear Sirs

The Software Segment of Hewlett Packard Enterprise Company ("Seattle")

We report on the financial information set out in Section B of Part IV (*Financial Information relating to HPE Software*) of the Company's circular dated 9 May 2017 for the three years ended 31 October 2014, 31 October 2015 and 31 October 2016 (the "Financial Information"). This Financial Information has been prepared for inclusion in the circular dated 9 May 2017 (the "Circular") of Micro Focus International plc (the "Company") on the basis of the accounting policies set out in note I.A of the Financial Information. This report is required by Listing Rule 13.5.21 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Circular.

Responsibilities

The Directors of the Company are responsible for preparing the financial information in accordance with the basis of preparation set out in note I.A to the Financial Information.

It is our responsibility to form an opinion on the Financial Information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the business's circumstances, consistently applied and adequately disclosed.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office. Ernst & Young LLP is a multi-disciplinary practice and is authorised and regulated by the Institute of Chartered Accountants in England and Wales, the Solicitors Regulation Authority and other regulators. Further details can be found at <http://www.ey.com/UK/en/Home/Legal>.



We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Financial Information gives, for the purposes of the Circular dated 9 May 2017, a true and fair view of the state of affairs of Seattle as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note I.A to the Financial Information.

Yours faithfully

Ernst & Young LLP

SECTION B: HPE Software Historical Financial Information

The Software Segment of Hewlett Packard Enterprise Company Combined Historical Financial Information

The Software Segment of Hewlett Packard Enterprise Company
Combined statement of comprehensive income
for the years ended 31 October 2014, 2015 and 2016

<i>In millions USD</i>	Note	Years ended 31 October		
		2016	2015	2014
Revenue	1	3,198	3,629	3,929
Cost of sales		(883)	(982)	(1,051)
Gross profit		2,315	2,647	2,878
Selling and distribution costs		(1,107)	(1,189)	(1,362)
Research and development expenses		(715)	(833)	(845)
Administrative expenses		(284)	(332)	(303)
Operating profit		209	293	368
Analyzed as:				
Adjusted Operating Profit		598	732	766
Share-based compensation	23	(91)	(62)	(62)
Amortization of intangible assets	7	(161)	(254)	(281)
Exceptional items	2	(137)	(123)	(55)
Operating profit	3	209	293	368
Finance costs		(73)	(45)	(5)
Finance income		1	1	2
Net finance costs	4	(72)	(44)	(3)
Other expense, net		—	—	(2)
Loss on available-for-sale securities reclassified into earnings		—	(3)	(2)
Profit before tax	2	137	246	361
Taxation	5	(82)	108	(37)
Profit for the period		55	354	324
Other comprehensive income (loss):				
Items that will not be reclassified to profit or loss before taxation				
Actuarial loss on pension liabilities schemes	19	(67)	(15)	(12)
Items that may be subsequently reclassified to profit or loss before taxation				
Unrealized gain on available-for-sale securities		—	3	—
Unrealized gain/(loss) on cash flow hedges		1	5	(5)
Currency translation differences		5	(32)	(4)
Taxation		—	(2)	2
Other comprehensive expense for the period, net of taxation		(61)	(41)	(19)
Total comprehensive (expense)/income for the period		(6)	313	305

The Software Segment of Hewlett Packard Enterprise Company
Combined statement of financial position
as at 1 November 2013, 31 October 2014, 2015 and 2016

<i>In millions USD</i>	Note	31 October 2016	31 October 2015	31 October 2014	1 November 2013
Non-current assets					
Goodwill	6	8,095	8,319	8,852	8,840
Other intangible assets	7	411	604	934	1,206
Property, plant and equipment	8	138	133	145	165
Long-term income tax receivable	5	15	25	6	3
Other non-current assets		72	65	70	70
Deferred tax assets	21	1,047	817	425	184
		9,778	9,963	10,432	10,468
Current assets					
Other current assets	10	77	117	150	264
Inventories		20	23	26	27
Trade and other receivables	11	665	706	787	942
Cash and cash equivalents	12	130	150	197	318
		892	996	1,160	1,551
Total assets		10,670	10,959	11,592	12,019
Current liabilities					
Trade and other payables	13	608	617	556	551
Borrowings	14	15	11	6	1
Provisions	18	62	36	52	101
Current tax liabilities	15	346	384	298	232
Deferred income	16	767	864	953	943
		1,798	1,912	1,865	1,828
Non-current liabilities					
Deferred income	17	157	195	244	215
Borrowings	14	21	22	15	4
Retirement benefit obligations	19	162	98	85	52
Long-term provisions	18	10	3	6	6
Other non-current liabilities		23	21	19	11
Deferred tax liabilities	21	4	6	11	10
		377	345	380	298
Total liabilities		2,175	2,257	2,245	2,126
Net assets		8,495	8,702	9,347	9,893
Capital and reserves					
Parent company investment		8,526	8,738	9,351	9,893
Foreign currency translation deficit		(31)	(36)	(4)	–
Total equity		8,495	8,702	9,347	9,893

The Software Segment of Hewlett Packard Enterprise Company
Combined statement of changes in equity
for the years ended 31 October 2014, 2015 and 2016

<i>In millions USD</i>	Note	Parent company investment	Foreign currency translation reserve/ (deficit)	Total equity
Balance as at 1 November 2013		9,893	–	9,893
Profit for the period		324	–	324
Other comprehensive expense for the period		(15)	(4)	(19)
Total comprehensive income/(expense)		309	(4)	305
Transactions with owners				
Net transfers to parent		(851)	–	(851)
Balance as at 31 October 2014		9,351	(4)	9,347
Profit for the period		354	–	354
Other comprehensive expense for the period		(9)	(32)	(41)
Total comprehensive income/(expense)		345	(32)	313
Transactions with owners				
Net transfers to parent		(958)	–	(958)
Balance as at 31 October 2015		8,738	(36)	8,702
Profit for the period		55	–	55
Other comprehensive (expense)/income for the period		(66)	5	(61)
Total comprehensive (expense)/income		(11)	5	(6)
Transactions with owners				
Net transfers to parent		(201)	–	(201)
Balance as at 31 October 2016		8,526	(31)	8,495

The Software Segment of Hewlett Packard Enterprise Company
Combined statement of cash flows
for the years ended 31 October 2014, 2015 and 2016

<i>In millions USD</i>	Note	Years ended 31 October		
		2016	2015	2014
Cash generated from operations	22	481	545	993
Interest paid		(3)	(3)	(2)
Tax received/(paid)		3	(6)	23
Net cash generated from operating activities		481	536	1,014
Cash flows from investing activities				
Payments for intangible assets	7	(2)	–	(1)
Purchase of property, plant and equipment	8	(26)	(17)	–
Proceeds from sales of property	8	1	18	14
Proceeds from business divestitures	28	249	174	–
Payment for the acquisition of business	27	(12)	(138)	(20)
Short-term investments		1	3	(9)
Net cash generated from/(used in) investing activities		211	40	(16)
Cash flows from financing activities				
Repayment of borrowings	14	(12)	(8)	(4)
Net transfers to parent	26	(700)	(615)	(1,115)
Net cash used in financing activities		(712)	(623)	(1,119)
Net decrease in cash and cash equivalents		(20)	(47)	(121)
Cash and cash equivalents at beginning of period		150	197	318
Cash and cash equivalents at end of period	12	130	150	197

Non-cash payments of \$16m were made in the year ended 31 October 2016 (2015: \$19m and 2014: \$20m) related to property, plant and equipment acquired through finance leases.

The Software Segment of Hewlett Packard Enterprise Company
Summary of significant accounting policies
for the years ended 31 October 2014, 2015 and 2016

General information

The Software segment ("Seattle") of Hewlett Packard Enterprise Company ("HPE") provides big data platform analytics, application testing and delivery management, security and information governance and IT operations management solutions for businesses and other enterprises of all sizes. Seattle's offerings include licenses, support, professional services and software-as-a-service. Seattle consists of one operating segment, the development and sale of software solutions. Seattle is domiciled in the United States. HPE's registered office is 3000 Hanover Street, Palo Alto, California, 94304 USA.

On 1 November 2015, HPE was spun off in a transaction in which HP, Inc., formerly known as Hewlett-Packard Company, separated into two independent publicly traded companies. Prior to the spinoff, HPE was a wholly owned subsidiary of Hewlett-Packard Company and HPE's businesses were operated as part of Hewlett-Packard Company. Accordingly, the term "Parent" refers to Hewlett-Packard Company for periods prior to 1 November 2015 and to HPE from 1 November 2015 onward.

I. Seattle's accounting policies

A Basis of preparation

This combined historical financial information of Seattle was derived from the combined and consolidated financial statements and accounting records of Parent as Seattle did not comprise a separate legal entity or group of entities during the periods presented. The combined historical financial information for the three years ended 31 October 2016 has been prepared specifically for the purposes of this Circular and in accordance with the Listing Rules, and in accordance with this basis of preparation. The accounting policies applied and disclosed below are consistent with those used by Micro Focus in its annual financial statements for the year ended 30 April 2016 and these policies have been applied consistently to all periods presented unless stated otherwise.

The combined historical financial information has been prepared on a going concern basis under the historical cost convention. The planned merger of Seattle (which, at the time of the merger, will hold Seattle, the Software segment of HPE) with a wholly owned subsidiary of Micro Focus (the "Transaction"), funding available to the Seattle business and the business's forecasts and projections have been considered, taking account of possible changes in trading performance, and including stress testing and scenario analysis. On this basis, the business will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. Accordingly the going concern basis of preparation has been adopted.

This combined historical financial information does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006.

This basis of preparation describes how the combined historical financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), except as noted below.

IFRS does not provide for the preparation of combined historical financial information, or for the specific accounting treatment set out below. Accordingly, in preparing the combined historical financial information, certain accounting conventions commonly used for the preparation of combined historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standards applicable to public reporting engagements on combined historical financial information) issued by the UK Auditing Practices Board have been applied. The application of these conventions results in the following material departure from IFRS; in all other respects, IFRS has been applied.

As explained above, the combined historical financial information is not prepared on a consolidated basis and therefore does not comply with the requirements of IFRS 10 "Consolidated Financial

Statements”. However, the combined historical financial information has been prepared on a combined basis applying the principles underlying the consolidations procedures of IFRS 10.

The following summarizes the accounting and other principles applied in preparing the combined historical financial information:

- Seattle’s business did not comprise a separate legal entity or group of entities during the three years ended 31 October 2016 (the “Track Record Period”) and, therefore it is not meaningful to present share capital or an analysis of reserves. Parent company investment represents a combination of the overall receivables and payables with Parent, funding balances with Parent and equity investment by Parent in Seattle, which cannot be separately identified or allocated throughout the Track Record Period.
- The combined statement of comprehensive income of Seattle reflects allocations of general corporate expenses from Parent including, but not limited to, executive management, finance, legal, information technology, employee benefits administration, treasury, risk management, procurement and other shared services. These allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of revenue, expenses, headcount or other relevant measures. These allocations have been considered to be a reasonable reflection of the utilization of services by, or the benefits provided to, Seattle. These allocations may not, however, reflect the expenses Seattle would have incurred as a standalone company for the periods presented. Actual costs that may have been incurred if Seattle had been a standalone company would depend on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure.
- The combined statement of financial position of Seattle includes Parent’s assets and liabilities that are specifically identifiable or otherwise attributable to Seattle, including subsidiaries and affiliates in which Parent has a controlling financial interest or is the primary beneficiary. Parent’s cash has not been assigned to Seattle for any of the periods presented because those cash balances are not directly attributable to Seattle. Seattle reflects transfers of cash to and from Parent’s cash management system as a component of Parent company investment on the combined statement of financial position.
- Parent’s long-term debt has not been attributed to Seattle for any of the periods presented because Parent’s borrowings are not the legal obligation of Seattle nor will they be transferred to Seattle pursuant to the Separation and Distribution Agreement.
- Parent maintains various benefit and share-based compensation plans. Seattle’s employees participate in those programs and a portion of the cost of those plans is included in Seattle’s combined historical financial statements.
- Parent has established a number of defined benefit pension schemes. A number of Seattle employees were members of the defined benefit pension schemes during the conversion period. An allocation method has been used to determine Seattle’s cost of these schemes, and its relative share of Parent’s gross pension assets and liabilities.
- The combined historical financial information includes Seattle’s net assets and results of operations as described above. All intercompany transactions and accounts within the combined businesses of Seattle have been eliminated.
- Intercompany transactions between Seattle and Parent, other than leases with Parent’s wholly-owned leasing subsidiary (as described in note 26), are considered to be effectively settled in the combined historical financial information at the time the transaction is recorded. The total net effect of the settlement of these intercompany transactions is reflected in the combined statement of cash flows within financing activities and on the combined statement of financial position within Parent company investment.

- Seattle's operations have historically been included in the tax returns filed by the respective Parent entities of which Seattle's businesses are a part. Income tax expense and other income tax related information contained in this combined historical financial information is presented on a separate return basis as if Seattle filed its own tax returns. The separate return method applies the accounting guidance for income taxes to the standalone financial statements as if Seattle were a separate taxpayer and a standalone enterprise for the periods presented. Current income tax liabilities related to entities that file jointly with Parent are assumed to be immediately settled with Parent and are relieved through the Parent company investment account and Net transfers to Parent in the combined statement of cash flows.
- Current tax receivable/payable and deferred tax assets and liabilities were determined based on the analysis of Seattle's current tax position and temporary differences at each period-end and assessment of how these relate directly or indirectly to the Seattle business.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Seattle's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the combined historical financial information are disclosed below in II, "Critical accounting estimates and assumptions."

B Divestitures

Business transferred to Parent

Prior to HP, Inc.'s spinoff of HPE, HP Inc. conducted a strategic review of Seattle and decided that the marketing optimization software product group, which has historically been managed by Seattle and included in Seattle's results of operations, no longer aligned with Seattle's strategic goals, as it was outside Seattle's go-to-market focus of selling to IT departments. However, HP, Inc. determined that these software assets primarily aligned with a document management and solutions ecosystem that would complement its printing business. As a result of this strategic review process, the marketing optimization software product group was realigned to become a part of HP, Inc. This realignment is reflected in Seattle's combined historical financial statements as a transfer of the marketing optimization software product group from Seattle to Parent during the year ended 31 October 2015 (see note 26). The realignment did not qualify under the scope of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" and therefore is incorporated within the combined historical financial information under continuing operations.

Revenues related to the marketing optimization software product group included in Seattle's results of operations were as follows:

<i>In millions USD</i>	Years ended 31 October	
	2015	2014
Revenues	<u>163</u>	<u>232</u>

Disposals

In the year ended 31 October 2015, Seattle completed sales of its entire ownership of the LiveVault and iManage businesses for combined proceeds of \$149m. In the year ended 31 October 2016, Seattle completed the sale of its entire ownership of the TippingPoint business for approximately \$300m. These disposals are reflected in Seattle's combined historical financial information as divestments of the relevant businesses from Seattle (see note 28).

C Revenue recognition

Seattle recognizes revenues from sales of software licenses (including intellectual property and patent rights, licenses to end-users, software maintenance, subscription, technical support, training and professional services), upon firm evidence of an arrangement, delivery of the software and

determination that collection of a fixed or determinable fee is reasonably assured. When the fees for software upgrades and enhancements, maintenance, consulting and training are bundled with the license fee, they are unbundled using Seattle's objective evidence of the fair value of the elements represented by Seattle's customary pricing for each element in separate transactions. If evidence of fair value exists for all undelivered elements and there is no such evidence of fair value established for delivered elements, revenue is first allocated to the elements where fair value has been established and the residual amount is allocated to the delivered elements. If evidence of fair value for any undelivered element of the arrangement does not exist, all revenue from the arrangement is deferred until such time that there is evidence of delivery.

If the arrangement includes acceptance criteria, revenue is not recognized until Seattle can objectively demonstrate that the acceptance criteria have been met, or the acceptance period lapses, whichever is earlier. Seattle recognizes license revenue derived from sales to resellers upon delivery to resellers, provided that all other revenue recognition criteria are met; otherwise revenue is deferred and recognized upon delivery of the product to the end-user. Where Seattle sells access to a license for a specified period of time and collection of a fixed or determinable fee is reasonably assured, license revenue is recognized upon delivery, unless future substantive upgrades or similar future performance obligations are committed to, in which case revenue is deferred and recognized ratably over the specified period. This is typically the case for subscriptions where access and performance obligations are performed over a defined term. Maintenance revenue is derived from providing technical support and software updates to customers. Maintenance revenue is recognized on a straight-line basis over the term of the contract, which in most cases is one year. Revenue from consulting and training services is recognized on a percentage of completion basis as the services are performed. The stage of completion is measured on the basis of services performed to date as a percentage of the total services to be performed. Amounts collected prior to satisfying the above revenue recognition criteria are included in deferred income.

Seattle recognizes revenue for hosting or software-as-a-service arrangements as the service is delivered, generally on a straight-line basis, over the contractual period of performance. In hosting arrangements, Seattle considers the rights provided to the customer (e.g. whether the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty, and the feasibility of the customer to operate or contract with another vendor to operate the software) in determining whether the arrangement includes the sale of a software license. In hosting arrangements where software licenses are sold, license revenue is generally recognized when all other revenue recognition criteria are satisfied.

For Services time and material contracts, Seattle recognizes revenue as services are rendered and recognizes costs as they are incurred. Seattle recognizes revenue from certain fixed-price contracts, such as consulting arrangements, as work progresses over the contract period on a proportional performance basis, as determined by the percentage of labor costs incurred to date compared to the total estimated labor costs of a contract. Seattle recognizes revenue on fixed-price contracts for design and build projects (to design, develop and construct software and systems) using the percentage-of-completion method. Seattle uses the cost-to-cost method to measure progress toward completion as determined by the percentage of cost incurred to date compared to the total estimated costs of the project. Estimates of total project costs for fixed-price contracts are regularly revised during the life of a contract. Provisions for estimated losses on fixed-priced contracts are recognized in the period when such losses become known. If reasonable and reliable cost estimates for a project cannot be made, Seattle recognizes revenue to the extent of recoverable costs.

Rebates, price protection, promotions and other volume-based incentives paid to partners as part of a contracted program are netted against revenue at the later of the date of revenue recognition or when the sales incentive is offered. For certain incentive programs, Seattle estimates the number of customers expected to redeem the incentive based on historical experience and the specific terms and conditions of the incentive.

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 onward. Earlier application is permitted. Revenue is recognized based on a five step model and is based around performance obligations. The standard replaces IAS 18 “Revenue” and IAS 11 “Construction contracts” and related interpretations. Seattle is currently assessing the impact of IFRS 15 but it is too early to determine how significant the effect on actual results and financial position will be.

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

D Segment reporting

In accordance with IFRS 8 “Operating Segments”, Seattle has derived the information for its operating segment using the information used by the Chief Operating Decision Maker (“CODM”). The operating segment is consistent with that used in internal management reporting and the measure used by Seattle’s Executive Vice President and General Manager is the Adjusted Operating Profit for Seattle as a whole as set out in note 3 and Adjusted EBITDA and Underlying Adjusted EBITDA as set out in note 3. The operating segment’s operating results are reviewed regularly by the CODM to make decisions about resources for the segment and assess its performance, and for which discrete financial information is available. Seattle has determined that it has one operating segment.

E Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size, nature or incidence to enable a full understanding of Seattle’s financial performance. Examples of transactions which may be considered of an exceptional nature include major restructuring programs, cost of acquisitions and separation costs, which include allocated third party consulting costs, contractor fees and other incremental costs arising from the 1 November 2015 separation of Parent, HPE, from HP Inc., formerly known as Hewlett-Packard Company.

F Restructuring

Seattle records charges associated with Parent-approved restructuring plans to reorganize Seattle’s business, to remove duplicative headcount and infrastructure associated with business acquisitions or to simplify business processes and accelerate innovation. Restructuring charges can include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations, and contract cancellation costs. Seattle records restructuring charges based on estimated employee terminations and site closure and consolidation plans. Seattle accrues for severance and other employee separation costs under these actions when it is probable that benefits will be paid and the amount is reasonably estimable. The rates used in determining severance accruals are based on existing plans, historical experiences and negotiated settlements.

G Employee benefit costs

(a) Pension obligations

Parent operates various pension schemes that Seattle employees participate in. The majority of the pension schemes in which Seattle employees participate are defined benefit plans.

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement. This is usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the combined statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by

discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation. The pension benefits, obligations, and expenses reflected in the combined historical financial information have been determined based on an allocation of Parent's benefits, obligations and expenses for the respective periods. The allocation has been determined as a ratio of Seattle employees as compared to total pension scheme employees on a pension plan basis as at the 2016 measurement date.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Service cost and interest cost are recognized immediately in employee benefit expense in the combined statement of comprehensive income. The service cost component includes current service cost, past-service cost, and any gain/loss on settlement. The current service cost of the defined benefit plan reflects the increase in the defined benefit obligation resulting from employee service in the current year. The past-service cost is the change in present value of the defined benefit obligation resulting from benefit changes or curtailments. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets.

(b) Share-based compensation

Parent maintains various share-based compensation plans. Seattle's employees participate in those programs and a portion of the cost of those plans is included in Seattle's combined historical financial information. Share-based compensation expense has been allocated to Seattle based on the awards and terms previously granted to Seattle's employees as well as an allocation of Parent's corporate and shared functional employee expenses. For shares granted, the fair value of the employee services received in exchange for the grant of the shares is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted. Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. Market vesting conditions are taken into account when determining the fair value of the shares at grant date. At each statement of financial position date, Seattle revises its estimates of the number of shares that are expected to vest. Seattle recognizes the impact of the revision of original estimates, if any, in the combined statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.

Share-based compensation is allocated down from Parent, and therefore the pricing method applicable for Parent is the same as that utilized by Seattle. Parent utilizes the Black-Scholes-Merton option pricing model to estimate the fair value of share options subject to service-based vesting conditions. Parent estimates the fair value of share options subject to performance-contingent vesting conditions using a combination of a Monte Carlo simulation model and a lattice model as these awards contain market conditions.

H Foreign currency translation

(a) Functional and presentation currency

The combined historical financial information is presented in US dollars, which is Micro Focus' presentational currency and all values are rounded to the nearest million, except when otherwise indicated.

Seattle predominantly uses the US dollar as its functional currency for all significant legal entities.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the combined statement of comprehensive income.

(c) Seattle companies

The results and financial position of all Seattle entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each combined statement of financial position presented are translated at the closing rate at the date of that combined statement of financial position;
- (ii) Income and expenses for each combined statement of comprehensive income item are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognized as a separate component of equity. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to other comprehensive income. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Exchange rates

The most important foreign currencies for Seattle are the UK Pound Sterling ("GBP") and the Euro ("EUR"). The exchange rates used are as follows:

	31 October 2016		31 October 2015		31 October 2014	
	Average	Closing	Average	Closing	Average	Closing
EUR/USD	1.107	1.097	1.144	1.105	1.353	1.252
GBP/USD	1.414	1.221	1.543	1.539	1.659	1.600

I Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Seattle has one segment and one cash generating unit ("CGU") to which Goodwill has been attributed for the purpose of impairment testing.

(b) Computer software

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortized using the straight-line method over their estimated useful lives of three to five years.

(c) Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects relating to the developing of new computer software programs and significant enhancement of existing computer software programs are recognized as intangible assets

when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Only direct costs are capitalized which are the software development employee costs and third party contractor costs. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs are amortized from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, typically being three years.

(d) Intangible assets – arising on business combinations

Intangible assets that are acquired by Seattle are stated at cost less accumulated amortization and impairment. Amortization is charged to the combined statement of comprehensive income on a straight-line basis over the estimated useful life of each intangible asset. Intangible assets are amortized from the date they are available for use. The estimated useful lives will vary for each category of asset acquired as follows:

	Estimated useful lives (years)
Purchased software	Three
Development costs	Three
Customer contracts, customer lists and distribution agreements	Four
Developed and core technology and patents	Four
Trade name and trademarks	Three

J Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Seattle and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the combined statement of comprehensive income during the financial year in which they are incurred. Depreciation is calculated using the straight-line method to write off the cost of each asset over its estimated useful life as follows:

	Estimated useful lives (years)
Buildings	Five to 40
Leasehold improvements	Lesser of useful life or life of lease
Equipment and other	Three to 15

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the combined statement of comprehensive income.

K Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows being CGUs. Any non-financial assets other than goodwill which have suffered an impairment are reviewed for possible reversal of

the impairment at each reporting date. Assets that are subject to amortization and depreciation are also reviewed for any possible impairment at each reporting date.

L Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of finished goods comprises software for resale and packaging materials. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Cost is computed using standard cost which approximates actual cost on a first-in, first-out basis. When work has been performed and the revenue is not yet recognized, the direct costs of third party contractors and staff will be treated as work in progress where the probability of invoicing and evidence of collectability can be demonstrated.

M Trade receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost less provisions for impairment. A provision for impairment of trade receivables is established when there is objective evidence that Seattle will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is based on historical collection trends and the collection risk of specific customer accounts due to a change in their financial condition identified subsequent to the transaction. The amount of the provision is recognized in the combined statement of comprehensive income.

N Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less, which are subject to insignificant risk of changes in value.

O Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the combined statement of comprehensive income over the period of borrowing on an effective interest basis.

P Leases

Leases for which the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. All other leases are classified as finance leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the combined statement of comprehensive income on a straight-line basis over the period of the lease.

Seattle entered into leases with Parent for data center equipment that are classified as finance leases. See note 26 for further information about Seattle's finance leases with Parent.

Q Taxation

Current and deferred tax are recognized in the combined statement of comprehensive income, except when the tax relates to items charged or credited directly to equity, in which case the tax is also recorded directly in equity.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined historical financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the

statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by Seattle and it is probable that the temporary difference will not reverse in the foreseeable future.

Current tax is recognized based on the amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the statement of financial position date.

R Parent company investment

Net transfers to and from Parent are included within Parent company investment. The components of net transfers to Parent are included within the combined statement of changes in equity.

Parent company investment in the combined statement of financial position and statement of changes in equity represents Parent's historical investment in Seattle, the net effect of transactions with and allocations from Parent and Seattle's accumulated earnings. See note 26 for further information about transactions between Seattle and Parent.

S Financial instruments and hedge accounting

Financial assets and liabilities are recognized in Seattle's statement of financial position when Seattle becomes a party to the contractual provision of the instrument.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not at fair value through profit or loss. Seattle classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Seattle determines the classification of its financial assets at initial classification.

- (a) **Financial assets at fair value through profit or loss**
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.
- (b) **Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Seattle's loans and receivables comprise 'cash and cash equivalents and trade receivables. Trade receivables are non-interest bearing and are stated at their fair value less the amount of any appropriate provision for irrecoverable amounts. Loans and receivables are subsequently carried at amortized cost using the effective interest method.
- (c) **Available-for-sale financial assets**
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available for sale financial assets are subsequently carried at fair value with changes in fair value recognized in other comprehensive income.

Assessments are completed at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the combined statement of comprehensive income. Seattle's principal financial liabilities are non-interest bearing trade payables and variable-rate bank borrowings. Trade payables and bank borrowings are stated at their fair value.

(a) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(b) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

For derivative instruments that are designated and qualify as cash flow hedges, changes in fair value are initially recorded for the effective portion of the derivative instrument in Accumulated other comprehensive loss as a separate component of equity in the combined statement of financial position and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized in earnings. The effective portion of cash flow hedges is reported in the same financial statement line item as changes in the fair value of the hedged item.

For derivative instruments not designated as hedging instruments, changes in fair value of the derivative instrument are recognized, as well as the offsetting change in the fair value of the hedged item, in finance cost in the combined statement of comprehensive income in the period of change.

For forward contracts designated as cash flow hedges, hedge effectiveness is measured by comparing the cumulative change in fair value of the hedge contract with the cumulative change in fair value of the hedged item, both of which are based on forward rates. Any ineffective portion of the hedge is recognized in the combined statement of comprehensive income in the same period in which ineffectiveness occurs. Amounts excluded from the assessment of effectiveness are recognized in the combined statement of comprehensive income in the period they arise.

T Provisions

Provisions for restructuring costs and legal claims are recognized when Seattle has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease and other contractual termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

If there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of

money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as an interest expense.

U Adoption of new and revised IFRS

The accounting policies adopted in these combined historical financial statements reflect the most recent IFRS required adoptions as at the year ended 31 October 2016 with the exception of the following published standards adopted during the year ended 31 October 2016:

- (a) The following standards, interpretations and amendments to existing standards are not yet effective and have not been adopted early by Seattle:
 - (i) 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 onward and has been endorsed by the EU. Earlier application is permitted. The standard replaces IAS 18 “Revenue” and IAS 11 “Construction contracts” and related interpretations.
 - (ii) IFRS 9 “Financial instruments” replaces the guidance in IAS 39 and applies to periods beginning on or after 1 January 2018, subject to EU endorsement. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

In the event that the Transaction completes as anticipated, the potential acquiror intends to align year ends to 31 October. As such the aforementioned standards will be adopted in the year ending 31 October 2019.

- (b) The following standards, interpretations and amendments to existing standards are not yet effective, have not yet been endorsed by the EU and have not been adopted early by Seattle:
 - (i) 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 statement of financial position for lessees. The standard replaces IAS 17 “Leases,” and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to EU endorsement and the entity adopting IFRS 15 “Revenue from contracts with customers” at the same time.
 - (ii) Amendments to IAS 12 “Income taxes” on recognition of deferred tax assets for unrealized losses are effective on periods beginning on or after 1 January 2017, subject to EU endorsement. These amendments relate to the recognition of deferred tax assets for unrealized losses and clarify how to account for deferred tax assets related to debt instruments measured at fair value.
 - (iii) Amendments to IAS 7 “Disclosure initiative on the Statement of cash flows” 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.
 - (iv) Clarifications to IFRS 15 “Revenue from contracts with customers” (issued on 12 April 2016) are effective on periods beginning on or after 1 January 2018, subject to EU endorsement. These amendments address identifying performance obligations,

principal-versus-agent considerations, and licensing. These amendments also provide some transition relief for modified contracts and completed contracts.

- (v) Amendments to IFRS 2 “Share-based Payment” are effective on periods beginning on or after 1 January 2018, subject to EU endorsement. This amendment eliminates diversity in practice on the effects of vesting conditions on the measurement of a cash-settled share based payment transaction, the classification of a share based payment transaction with net settlement features for withholding tax obligations, and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.
- (vi) IFRS Interpretations Committee (“IFRIC”) Interpretation 22 “Foreign Currency Transactions and Advance Consideration” which clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency, which is effective 1 January 2018, subject to EU endorsement.

Apart from IFRS 9, IFRS 15, and IFRS 16, where it is too early to determine how significant the effect on reported results and financial position will be, it is anticipated that the future introduction of those standards, amendments and interpretations listed above will not have a material impact on the combined historical financial statements.

II. Critical accounting estimates and assumptions

In preparing the combined historical financial statements, best estimates and judgments have been made of certain amounts included in the financial statements, giving due consideration to materiality. Estimates are regularly reviewed and updated as required. Actual results could differ from these estimates. Unless otherwise indicated, it is unlikely that materially different amounts would be reported related to the accounting estimates and assumptions described below. The following is considered to be a description of the most significant estimates, which require subjective and complex judgments, and matters that are inherently uncertain.

(a) Impairment of goodwill

Tests are completed annually whether goodwill has suffered any impairment in accordance with IAS 36. The recoverable amount of Seattle’s CGU has been determined based on the higher of an asset’s fair value less costs to sell and fair value less cost of disposal (“FVLCD”) calculations. These calculations require the use of estimates. Details of Seattle’s impairment review and sensitivities to changes in assumptions are disclosed in note 6.

(b) Income taxes

Seattle is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Seattle recognizes liabilities for anticipated settlement of tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Seattle carries appropriate provision, based on best estimates, until tax computations are agreed with the relevant taxation authorities.

(c) Pension obligations

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in valuation and its long-term nature,

the estimated cost of a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Further details about pension obligations are disclosed in note 19.

(d) Revenue recognition

The key areas of judgment in respect of recognizing revenue are the timing of recognition and the fair value allocation between the elements of each arrangement including license, maintenance, service and hosting revenue, and the estimate of costs used when assessing the stage of completion for fixed price services contracts.

III. Financial risk factors

Seattle's multinational operations expose it to a variety of financial risks that include the effects of changes in credit risk, foreign currency risk, and liquidity risk. Seattle maintains cash and cash equivalents, investments, derivatives and certain other financial instruments with various financial institutions. These financial institutions are located in many different geographic regions, and Seattle's policy is designed to limit exposure from any particular institution. As part of its risk management processes, Seattle performs periodic evaluations of the relative credit standing of these financial institutions. Seattle has not sustained material credit losses from instruments held at these financial institutions.

(a) Credit risk

Financial instruments that potentially subject Seattle to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, receivables from trade customers and derivatives. Seattle participates in cash management, funding arrangements and risk management programs managed by Parent. Seattle also maintains cash and cash equivalents, investments, derivatives and certain other financial instruments with various financial institutions. These financial institutions are located in many different geographic regions, and Seattle's policy is designed to limit exposure from any particular institution. As part of its risk management processes, periodic evaluations are performed of the relative credit standing of these financial institutions. Seattle has not sustained material credit losses from instruments held at these financial institutions. Derivative contracts are utilized to protect against the effects of foreign currency and interest rate exposures. Such contracts involve the risk of non-performance by the counterparty, which could result in a material loss.

No single customer accounts for more than ten percent of gross accounts receivable. Credit risk with respect to accounts receivable is generally diversified due to the large number of entities comprising Seattle's customer base and their dispersion across many different industries and geographic regions. Ongoing credit evaluations are performed of the financial condition of its third-party distributors, resellers and other customers and may require collateral, such as letters of credit and bank guarantees, in certain circumstances.

(b) Foreign currency risk

Seattle operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to UK Sterling and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions, recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

As part of its risk management strategy, Seattle uses derivative instruments, primarily forward contracts, and total return swaps to hedge certain foreign currency and, to a lesser extent, equity exposures. The objective is to offset gains and losses resulting from these exposures with losses and gains on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting the fair value of assets and liabilities. Seattle does not have any leveraged derivatives and does not use derivative contracts for speculative purposes. Derivative contracts may be designated as cash flow hedges. Additionally, for derivatives not designated as hedging instruments, those

economic hedges may be categorized as other derivatives. Derivative instruments directly attributable to Seattle are recognized at fair value in the combined statement of financial position. The change in fair value of the derivative instruments is recognized in the combined statement of comprehensive income dependent upon the type of hedge as further discussed in note 20. Cash flows are classified from derivative programs with the activities that correspond to the underlying hedged items in the combined statement of cash flows. See note 20.

(c) Liquidity risk

Parent treasury carries out cash flow forecasting for Seattle to ensure that it has sufficient cash to meet operational requirements. Surplus cash over and above what is required for working capital needs is transferred to Parent through Parent's cash management system as a distribution from Parent company investment. Trade payables arise in the normal course of business and are all current.

The Software Segment of Hewlett Packard Enterprise Company
Notes to the combined historical financial information
for the years ended 31 October 2014, 2015 and 2016

1. Segmental reporting

IFRS 8 "Operating Segments" requires the determination of the operating segment based on information which is provided internally to the CODM. The operating segment has been identified based on the internal reporting information and management structures within Seattle. A segmental analysis was prepared for the carve-out business to reflect the segment which the carve-out business has decided to adopt. From such information it has been determined that there is one reporting segment.

Information regarding the results of the reportable segment is included below. Details of other material items can be found in the notes to the combined historical financial statements.

Revenue by product category is presented below:

<i>In millions USD</i>	Years ended 31 October		
	2016	2015	2014
Product category			
License	885	1,011	1,163
Support	1,623	1,883	1,980
Professional Services	396	423	461
Software-as-a-service	294	312	325
Total revenue	3,198	3,629	3,929

Supplementary information

Within Seattle's one reporting segment, Parent monitors revenues both by geographical region and by product portfolio and further disclosures in this regard are given below.

Seattle operates globally, with primary operations in North America; International, which consists of Europe, Middle East, Africa and Latin America; and the Asia Pacific regions.

Revenue by geographical region based on the location of Seattle's businesses is presented below:

<i>In millions USD</i>	Years ended 31 October		
	2016	2015	2014
Geographical region			
North America	1,708	1,935	2,120
International	1,150	1,301	1,404
Asia Pacific	340	393	405
Total revenue	3,198	3,629	3,929

Property, plant and equipment by geographical region based on the location of Seattle's businesses is presented below.

<i>In millions USD</i>	Note	As at		
		31 October		1 November
		2016	2015	2014
Geographical region				
North America		92	99	113
International		22	24	24
Asia Pacific		24	10	8
Total property, plant and equipment	8	138	133	145

Intangible assets by geographical region based on the location of Seattle's businesses is presented below:

<i>In millions USD</i>	Note	As at		
		31 October		1 November
		2016	2015	2014
Geographical region				
North America		408	599	925
International		3	5	7
Asia Pacific		–	–	2
Total other intangible assets	7	411	604	934

2. Profit before tax

Profit before tax is stated after charging/(crediting) the following operating costs/(gains) classified by the nature of the costs/(gains):

<i>In millions USD</i>	Note	Years ended 31 October		
		2016	2015	2014
Staff costs	23	1,753	1,848	2,099
Depreciation of property, plant and equipment	8	60	82	82
Amortization of intangible assets	7	161	254	281
Operating lease rentals payable	24	34	52	42
Employee benefit expense	19	147	121	123
Charges (reversals) to provision for receivables impairment	11	9	3	(6)

Exceptional items

<i>In millions USD</i>	Years ended 31 October		
	2016	2015	2014
Reported within Operating profit			
Acquisition costs	3	5	10
Restructuring costs	110	34	45
Separation costs	106	91	–
Gain on disposal of businesses	(82)	(7)	–
Total	137	123	55

The acquisition costs are external costs incurred in evaluating and completing the acquisition of Voltage, Trilead, and Shunra during the Track Record Period. The costs mostly relate to due diligence work, legal work on the acquisition agreements and professional advisors on the transactions.

Charges are recorded associated with Parent-approved restructuring plans to reorganize Seattle's business, to remove duplicative headcount and infrastructure associated with business acquisitions or to simplify business processes and accelerate innovation. Restructuring charges can include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations, and contract cancellation costs. Restructuring charges are recorded based on estimated employee terminations and site closure and consolidation plans. Severance and other employee separation costs under these actions are accrued when it is probable that benefits will be paid and the amount is reasonably estimable. The rates used in determining severance accruals are based on existing plans, historical experiences and negotiated settlements.

Separation costs consist of allocated third-party consulting, contractor fees and other incremental costs arising from the 1 November 2015 separation of Parent, HPE, from HP Inc., formerly known as Hewlett-Packard Company. Separation costs include direct transaction costs arising from the planned merger of Seattle with a wholly owned subsidiary of Micro Focus.

Gain on disposal of businesses relates to the divestiture of TippingPoint in the year ended 31 October 2016 and the divestitures of LiveVault and iManage in the year ended 31 October 2015.

3. Reconciliation of operating profit to EBITDA

<i>In millions USD</i>	Note	Years ended 31 October		
		2016	2015	2014
Operating profit		209	293	368
Amortization of intangible assets	7	161	254	281
Depreciation of property, plant and equipment	8	60	82	82
EBITDA		430	629	731
Amortization of development costs	7	(6)	(27)	(29)
Share-based compensation charge	23	91	62	62
Exceptional items	2	137	123	55
Adjusted EBITDA		652	787	819
Amortization of development costs	7	6	27	29
Underlying Adjusted EBITDA		658	814	848

Earnings before interest, taxes, depreciation and amortization of purchased intangibles ("EBITDA") and EBITDA before exceptional items and share-based compensation charge ("Adjusted EBITDA") and Adjusted EBITDA before net amortization/capitalization of internal development costs ("Underlying Adjusted EBITDA") are used as key performance measures of the business.

These alternative performance measures are consistent with those used by sell-side equity analysts who write research on the industry in which Seattle operates and how institutional investors consider performance.

These measures are not defined in IFRS and thus may not be comparable to similarly titled measures by other companies.

4. Finance income and finance costs

<i>In millions USD</i>	Years ended 31 October		
	2016	2015	2014
Finance costs			
Interest on finance lease obligations	3	2	2
Interest on tax provisions	68	42	3
Other	2	1	—
Total	73	45	5

<i>In millions USD</i>	Years ended 31 October		
	2016	2015	2014
Finance income			
Bank interest	1	1	2
Total	1	1	2
Net finance cost	72	44	3

5. Taxation

<i>In millions USD</i>	Years ended 31 October		
	2016	2015	2014
Current tax			
Current year	(308)	(277)	(289)
Adjustments to tax in respect of previous years	18	23	3
	(290)	(254)	(286)
Deferred tax			
Origination and reversal of temporary differences	208	362	249
Impact of change in tax rates	—	—	—
	208	362	249
Total	(82)	108	(37)

The table below explains the difference between Seattle's US statutory rate to its effective rate in the combined statement of comprehensive income.

<i>In millions USD</i>	Years ended 31 October		
	2016	2015	2014
Profit before taxation	137	246	361
Tax at US corporation tax rate of 35.0% effects of:	(48)	(86)	(127)
State taxes	17	25	(24)
Tax rates other than the US standard rate	108	88	167
Movement in deferred tax not recognized	(29)	22	(23)
Deferred tax adjustment for unremitted earnings	(7)	115	(33)
Uncertain tax positions	(46)	(39)	4
TippingPoint divestiture	(69)	—	—
Other	(8)	(17)	(1)
Total (taxation)/benefit	(82)	108	(37)
<i>Effective tax rate</i>	(59.85)%	43.90%	(10.25)%

The movement in deferred tax assets and liabilities during the period is provided in note 21.

6. Goodwill

<i>In millions USD</i>	Note	As at 31 October		
		2016	2015	2014
Cost and net book amount				
At period beginning		8,319	8,852	8,840
Acquisitions	27	10	102	12
Divestitures	28	(234)	(123)	—
Transfers to Parent	26	—	(512)	—
At period end		8,095	8,319	8,852

In connection with the separation of HPE from Hewlett-Packard Company, Hewlett-Packard Company retained the marketing optimization software product group, which has historically been managed by and included in Seattle. The adjustment reflects the impact of removing the related goodwill allocated on a relative fair value basis from Seattle and has been captured in the line 'Transfers to Parent' within the table above.

Goodwill acquired through business combinations has been allocated for impairment testing purposes to each individual CGU. Annual impairment tests are conducted on the carrying value of goodwill, based on the net present value on the recoverable amount of the CGU to which goodwill has been allocated. It has been determined that Seattle has one CGU.

An impairment test is a comparison of the carrying value of the assets of the CGU with their recoverable amount, and where the recoverable amount is less than the carrying value, an impairment results. The annual impairment testing is carried out at 1 August each year.

The recoverable amount of the CGU is determined based on the FVLCD calculations. The determination of whether or not goodwill has been impaired requires an estimate to be made of the FVLCD of the CGU.

The FVLCD calculation includes estimates about the future financial performance of the CGU. FVLCD is estimated using a weighing of fair values derived both from the income and market approach. Under the income approach, the fair value of the CGU is estimated based on the present value of the estimated future cash flows. The cash flow projections in the three financial years following the budget year reflect management's expectation of the medium and long-term operating performance of the CGU and growth prospects in the CGU's market that would be assessed by market participants. Under the market approach, fair value is estimated based on market multiples of revenue derived from comparable publicly traded companies with similar operating and investment characteristics as the reporting units.

Key assumptions

The key assumptions in the FVLCD calculations are the discount rate applied, the long-term operating margin and the long-term growth rate of net operating cash flows and market multiples of revenue. These assumptions are based on the fair value assumptions that reflect market participant assumptions in pricing the entity. In determining the key assumptions, management has taken into consideration the current economic climate, the resulting impact on expected growth and discount rates, and the pressure this places on impairment calculations. Key assumptions were not used for the year ended 31 October 2016 as the fair value was based on the value of the Seattle Payment to be made by Seattle to HPE prior to the Distribution and the consideration payable by Micro Focus to HPE Shareholders in the Merger, as further described elsewhere herein. FVLCD for 2016 of \$8.8 billion was based on the value of CGU resulting from a competitive bid from a number of potential buyers of the CGU.

Discount rate applied

The discount rate applied to the CGU represents a post-tax rate that reflects market assessment of the time value of money at the statement of financial position date and risks specific to the CGU. The discount rate applied to the CGU's operations was 11% as at 31 October 2015 (2014: 11% and 2013: 12%).

Long-term operating margin

The long-term operating margin for the CGU is primarily based upon past performance adjusted as appropriate where management believes that past operating margins are not indicative of future operating margins. Long-term operating margin was calculated excluding the impact of certain corporate cost allocations. The FVLCD calculations are based on five years' projections and then a terminal value calculation. The long-term operating margins applied to the CGU is 23% as at 31 October 2015 (2014: 23%, and 2013: 27%). This excludes certain overhead costs that have been allocated in the combined historical financial information.

Long-term growth rates of net operating cash flows

The long-term growth rates of net operating cash flows are assumed to be no greater than the long-term growth rate in the gross domestic product of the countries in which the CGU operates and was 5% as at 31 October 2015 (2014: 5% and 2013: 5%).

Market multiples of revenue

The market approach valuation is calculated using revenue multiples for companies comparable to each of Seattle's business lines of 3.4 times its revenue as at 31 October 2015 (2014: 2.4 and 2013: 3.1).

Summary of results

During the years ended 31 October 2016, 2015, and 2014, and as at the date of transition, all goodwill was tested for impairment, with no impairment charges resulting.

As the FVLCD calculation for market participant assumptions is most sensitive to a change in the long-term operating margin, it would take a systematic change to the market for long-term operating margins to fall to the level where an impairment would be required. The income and market approach were weighted equally. A valuation solely based on the market approach or the income approach as at 31 October 2014 and 2013 would not result in any impairment. A weight of up to 88% in the income approach would not result into impairment as at 31 October 2015.

A reduction of 14% as at 31 October 2015 (2014: 5% and 2013: 16%) in the absolute value of long-term operating margins of the CGU would be the limit of what could be considered to be reasonably possible on the basis that Seattle's cost base is flexible and could quickly respond to market changes. Seattle operates across a range of geographies and sectors and also offers customer cost saving solutions, which help to insulate it from more significant changes. If the long-term margins used in the FVLCD calculations for the CGU was 14% as at 31 October 2015 (2014: 5% and 2013: 16%) lower in absolute terms than management's estimates based on a reasonable discount factor change, Seattle would not have any impairment charge. If the operating margins remain in perpetuity at the current year levels then there would also not be any impairment charge.

The estimate for the long-term post-tax discount rate is based on the weighted average cost of capital (WACC) using long-term market data and industry data to derive the appropriate inputs to the calculation. A 0.75% change as at 31 October 2015 (2014: 0.75%) in the absolute post-tax discount rate is the maximum change that could be considered as reasonably possible. If the estimated post-tax discount rates applied to the discounted cash flows of the CGU were 0.75% (2014: 0.75% and 2013: 0.75%) higher in absolute terms than the management's estimates, Seattle would not have any impairment charge.

The long-term growth rates could change and that a 1.5% change as at 31 October 2015 (2014: 1.5% and 2013: 1.5%) is reasonably possible.

Combinations of a reduction in the long-term operating margins of the CGU combined with a reasonably possible increase in the absolute discount rate and a reasonably possible decrease in the long-term growth rates and no impairment would occur in these scenarios.

7. Other intangible assets

Other intangible assets were composed of the following as at 31 October 2016:

<i>In millions USD</i>	Purchased intangibles					Total
	Purchased software	Development costs	Customer contracts, customer lists and distribution agreements	Developed and core technology and patents	Trade name and trademarks	
Cost						
At 1 November 2015	15	97	1,337	3,220	169	4,838
Acquisitions	–	–	1	3	–	4
Additions	2	–	–	–	–	2
Disposals	(2)	–	(117)	(70)	(42)	(231)
At 31 October 2016	15	97	1,221	3,153	127	4,613
Accumulated amortization						
At 1 November 2015	(14)	(91)	(1,139)	(2,835)	(155)	(4,234)
Charge for the period	(2)	(6)	(41)	(105)	(7)	(161)
Disposals	2	–	82	68	41	193
At 31 October 2016	(14)	(97)	(1,098)	(2,872)	(121)	(4,202)
Net book amount at 31 October 2016	1	–	123	281	6	411
Net book amount at 31 October 2015	1	6	198	385	14	604

Other intangible assets were composed of the following as at 31 October 2015:

<i>In millions USD</i>	Purchased intangibles					Total
	Purchased software	Development costs	Customer contracts, customer lists and distribution agreements	Developed and core technology and patents	Trade name and trademarks	
Cost						
At 1 November 2014	24	97	1,582	3,386	180	5,269
Acquisitions	–	–	27	19	2	48
Additions	–	2	–	–	–	2
Disposals	(9)	(2)	(272)	(185)	(13)	(481)
At 31 October 2015	15	97	1,337	3,220	169	4,838
Accumulated amortization						
At 1 November 2014	(21)	(66)	(1,267)	(2,822)	(159)	(4,335)
Charge for the period	(2)	(27)	(80)	(136)	(9)	(254)
Disposals	9	2	208	123	13	355
At 31 October 2015	(14)	(91)	(1,139)	(2,835)	(155)	(4,234)
Net book amount at 31 October 2015	1	6	198	385	14	604
Net book amount at 31 October 2014	3	31	315	564	21	934

Other intangible assets were composed of the following as at 31 October 2014:

<i>In millions USD</i>	Purchased intangibles					Total
	Purchased software	Development costs	Customer contracts, customer lists and distribution agreements	Developed and core technology and patents	Trade name and trademarks	
Cost						
At 1 November 2013	25	97	1,599	3,553	190	5,464
Acquisitions	—	—	1	6	—	7
Additions	2	—	—	—	—	2
Disposals	(3)	—	(18)	(173)	(10)	(204)
At 31 October 2014	24	97	1,582	3,386	180	5,269
Accumulated amortization						
At 1 November 2013	(20)	(37)	(1,199)	(2,843)	(159)	(4,258)
Charge for the period	(4)	(29)	(86)	(152)	(10)	(281)
Disposals	3	—	18	173	10	204
At 31 October 2014	(21)	(66)	(1,267)	(2,822)	(159)	(4,335)
Net book amount at 31 October 2014	3	31	315	564	21	934
Net book amount at 1 November 2013	5	60	400	710	31	1,206

Intangible assets, with the exception of purchased software and internally generated development costs, relate to identifiable assets purchased as part of Seattle's business combinations. Intangible assets are amortized on a straight-line basis over their expected useful economic life – see accounting policy I(d).

Amortization expense ("Charge for the period") in the above tables is included in the following costs in the combined statement of comprehensive income:

<i>In millions USD</i>	Years ended 31 October		
	2016	2015	2014
Selling and distribution costs	50	91	100
Research and development expense	111	163	181
Total	161	254	281

8. Property, plant and equipment

Property, plant and equipment were composed of the following as at 31 October 2016:

<i>In millions USD</i>	Buildings	Leasehold improvements	Equipment and other	Total
Cost				
At 1 November 2015	13	43	321	377
Additions	–	17	51	68
Disposals	(1)	(1)	(21)	(23)
Divestitures	–	–	(3)	(3)
At 31 October 2016	12	59	348	419
Accumulated depreciation				
At 1 November 2015	(5)	(18)	(221)	(244)
Charge for the period	(2)	(11)	(47)	(60)
Disposals	1	1	21	23
Divestitures	–	–	–	–
At 31 October 2016	(6)	(28)	(247)	(281)
Net book amount at 31 October 2016	6	31	101	138
Net book amount at 31 October 2015	8	25	100	133

Property, plant and equipment were composed of the following as at 31 October 2015:

<i>In millions USD</i>	Buildings	Leasehold improvements	Equipment and other	Total
Cost				
At 1 November 2014	13	36	332	381
Additions	7	28	51	86
Disposals	(6)	(18)	(54)	(78)
Divestitures	(1)	(3)	(8)	(12)
At 31 October 2015	13	43	321	377
Accumulated depreciation				
At 1 November 2014	(4)	(10)	(222)	(236)
Charge for the period	(3)	(20)	(59)	(82)
Disposals	1	10	54	65
Divestitures	1	2	6	9
At 31 October 2015	(5)	(18)	(221)	(244)
Net book amount at 31 October 2015	8	25	100	133
Net book amount at 31 October 2014	9	26	110	145

Property, plant and equipment were composed of the following as at 31 October 2014:

<i>In millions USD</i>	Buildings	Leasehold improvements	Equipment and other	Total
Cost				
At 1 November 2013	13	58	289	360
Additions	3	3	87	93
Disposals	(3)	(25)	(44)	(72)
At 31 October 2014	13	36	332	381
Accumulated depreciation				
At 1 November 2013	(3)	(25)	(167)	(195)
Charge for the period	(1)	(10)	(71)	(82)
Disposals	–	25	16	41
At 31 October 2014	(4)	(10)	(222)	(236)
Net book amount at 31 October 2014	9	26	110	145
Net book amount at 1 November 2013	10	33	122	165

Depreciation expense (“Charge for the period”) in the above tables is included in the following costs in the combined statement of comprehensive income:

<i>In millions USD</i>	Years ended 31 October		
	2016	2015	2014
Cost of sales	28	31	32
Selling and distribution costs	14	30	26
Research and development expense	17	16	20
Administrative expense	1	5	4
Total	60	82	82

9. Principal subsidiaries

The combined historical financial information of Seattle represents the assets, liabilities, results and cash flows of the software business carved out from Parent. The combined historical financial information of Seattle includes the software-specific legal entities in the HPE group listed below, as well as assets, liabilities, results and cash flows pertaining to the software business/segment carved-out from other HPE legal entities.

Details of principal subsidiaries are provided below:

Subsidiary	Country of incorporation	Principal activities
Entco LLC, Taiwan Branch	Taiwan	Branch
Verity GB Limited	United Kingdom	Branch
Voltage Security Limited	United Kingdom	Branch
Longsand Ltd.	United Kingdom	Contract manufacturer
Peregrine Systems do Brasil Limitada	Brazil	Distribution
Autonomy Systems Ltd.	United Kingdom	Factory
EntIT Software, LLC	United States	IP company
Autonomy Australia Pty Limited	Australia	Sales & services
Autonomy Systems Australia Pty Limited	Australia	Sales & services
Entcorp Australia Pty Limited	Australia	Sales & services
Autonomy Belgium BVBA	Belgium	Sales & services
Autonomy Systems Canada Ltd.	Canada	Sales & services
Autonomy Systems (Beijing) Co., Ltd.	China	Sales & services

Subsidiary	Country of incorporation	Principal activities
Autonomy Systems (Beijing) Limited Company	China	Sales & services
ArcSight International, Inc Bureau de Liaison (France)	France	Sales & services
Autonomy Software Asia Private Limited	India	Sales & services
Entco, LLC	India	Sales & services
Interwoven Software Services India Private Limited	India	Sales & services
Autonomy Italy S.r.l.	Italy	Sales & services
Entcorp Italiana Srl	Italy	Sales & services
Verity Italy S.r.l.	Italy	Sales & services
Autonomy KK	Japan	Sales & services
Entcorp Japan KK	Japan	Sales & services
Verity Luxembourg SARL	Luxembourg	Sales & services
Autonomy Netherlands BV	Netherlands	Sales & services
Entcorp Nederlands BV	Netherlands	Sales & services
Verity Benelux BV	Netherlands	Sales & services
Autonomy Nordic AS	Norway	Sales & services
Autonomy Systems Singapore Pte Ltd	Singapore	Sales & services
Entco Software Pte Ltd	Singapore	Sales & services
Autonomy Systems Software South Africa	South Africa	Sales & services
Autonomy Digital Ltd.	United Kingdom	Sales & services
Meridio Limited	United Kingdom	Sales & services
ZANTAZ UK Ltd.	United Kingdom	Sales & services
Entco MS. Inc	United States	Sales & services
Entco, LLC	United States	Sales & services
MicroLink LLC	United States	Sales & services
Stratify, Inc.	United States	Sales & services
Voltage Security International, Inc.	United States	Sales & services

10. Other current assets

	As at			1 November
	31 October			
<i>In millions USD</i>	2016	2015	2014	2013
Value-added taxes receivable	22	53	39	34
Prepaid expenses	27	26	27	41
Income tax receivable	–	–	63	157
Other current assets	28	38	21	32
Total	77	117	150	264

Other current assets consist of short term prepaid income taxes, deposits and deferred contract costs.

11. Trade and other receivables

	As at			1 November
	31 October			
<i>In millions USD</i>	2016	2015	2014	2013
Accounts receivable, billed	631	678	763	923
Unbilled receivables	41	35	35	43
Less: Provision for impairment of trade receivables	(7)	(7)	(11)	(24)
Trade receivables, net	665	706	787	942

Concentrations of credit risk with respect to trade receivables are limited due to Seattle's customer base being large and diverse. In determining the recoverability of a trade receivable, historical collection trends and the collection risk of specific customer accounts due to a change in their financial condition identified subsequent to the transaction are considered. Due to this, management believes there is no further credit risk provision required in excess of the normal provision for doubtful receivables. As at 31 October 2016, 2015, 2014 and as at 1 November 2013, the carrying amount approximates the fair value of the instrument due to the short-term nature of the instrument.

Provisions were established in an amount equal to the trade receivables that were partially or fully impaired.

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

<i>In millions USD</i>	As at 31 October		
	2016	2015	2014
At period beginning	7	11	24
Charges (reversals) to provision for receivables impairment	9	3	(6)
Receivables written off as uncollectable, net of recoveries	(9)	(7)	(7)
At period end	7	7	11

The creation and release of the provision for impaired receivables have been included in selling and distribution costs in the combined statement of comprehensive income. Amounts charged in the allowance account are generally written off when there is no expectation of recovering additional cash. Seattle does not hold any collateral as security.

Seattle has third-party revolving short-term financing arrangements intended to facilitate the working capital requirements of certain customers. The recourse obligations associated with these short-term financing arrangements as at all periods presented were not material. The amount of trade receivables sold but not collected under these short-term financing arrangements was \$2m as at 31 October 2016 (2015: \$2m and 2014: \$6m).

12. Cash and cash equivalents

<i>In millions USD</i>	As at			1 November
	31 October	2015	2014	2013
Cash at bank and in hand	35	66	124	250
Time deposits	–	–	–	4
Money market funds	95	84	73	64
Cash and cash equivalents	130	150	197	318

The carrying amount approximates the fair value at each period end. Seattle's credit risk on cash and cash equivalents is limited as the counterparties are well established banks with high credit ratings.

13. Trade and other payables – current

<i>In millions USD</i>	As at			1 November
	31 October	2015	2014	2013
Trade payables	65	76	72	81
Accrued taxes – other	237	200	105	103
Accruals	306	341	379	367
Total	608	617	556	551

The carrying amount approximates the fair value at each period end.

14. Borrowings

	As at			
	31 October			1 November
<i>In millions USD</i>	2016	2015	2014	2013
Finance lease obligations	36	33	21	5
	<u>36</u>	<u>33</u>	<u>21</u>	<u>5</u>
Reported within				
Current liabilities	15	11	6	1
Non-current liabilities	21	22	15	4
	<u>36</u>	<u>33</u>	<u>21</u>	<u>5</u>
Cash and cash equivalents	(130)	(150)	(197)	(318)
Less borrowings	36	33	21	5
Net debt	<u>(94)</u>	<u>(117)</u>	<u>(176)</u>	<u>(313)</u>

15. Current tax liabilities

	As at			
	31 October			1 November
<i>In millions USD</i>	2016	2015	2014	2013
Corporation tax	(346)	(384)	(298)	(232)
	<u>(346)</u>	<u>(384)</u>	<u>(298)</u>	<u>(232)</u>

16. Deferred income – current

	As at			
	31 October			1 November
<i>In millions USD</i>	2016	2015	2014	2013
Deferred income	767	864	953	943
	<u>767</u>	<u>864</u>	<u>953</u>	<u>943</u>

Revenue not recognized in the combined statement of comprehensive income under Seattle's accounting policy for revenue recognition is classified as deferred income in the combined statement of financial position to be recognized in future periods. Deferred income also includes amounts invoiced in advance for customer support contracts.

17. Deferred income – non-current

	As at			
	31 October			1 November
<i>In millions USD</i>	2016	2015	2014	2013
Deferred income	157	195	244	215
	<u>157</u>	<u>195</u>	<u>244</u>	<u>215</u>

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

18. Provisions

<i>In millions USD</i>	As at			1 November
	31 October			
	2016	2015	2014	2013
Restructuring	55	6	15	46
Legal	1	2	14	11
Performance bonus	16	31	29	41
Other	–	–	–	9
Total	72	39	58	107
Current	62	36	52	101
Non-current	10	3	6	6
Total	72	39	58	107

<i>In millions USD</i>	Performance				Total
	Restructuring	Legal	bonus	Other	
At 1 November 2015	6	2	31	–	39
Additional provision in the period	110	1	19	–	130
Utilization of provision	(58)	–	(34)	–	(92)
Release of provision	(3)	(2)	–	–	(5)
At 31 October 2016	55	1	16	–	72
Current	45	1	16	–	62
Non-current	10	–	–	–	10
Total	55	1	16	–	72

<i>In millions USD</i>	Performance				Total
	Restructuring	Legal	bonus	Other	
At 1 November 2014	15	14	29	–	58
Additional provision in the period	34	–	33	–	67
Utilization of provision	(43)	(8)	(31)	–	(82)
Release of provision	–	(4)	–	–	(4)
At 31 October 2015	6	2	31	–	39
Current	3	2	31	–	36
Non-current	3	–	–	–	3
Total	6	2	31	–	39

<i>In millions USD</i>	Performance				Total
	Restructuring	Legal	bonus	Other	
At 1 November 2013	46	11	41	9	107
Additional provision in the period	45	3	37	–	85
Utilization of provision	(74)	–	(49)	(9)	(132)
Release of provision	(2)	–	–	–	(2)
At 31 October 2014	15	14	29	–	58
Current	9	14	29	–	52
Non-current	6	–	–	–	6
Total	15	14	29	–	58

Restructuring costs represent charges associated with Parent-approved restructuring plans to reorganize Seattle's business, to remove duplicative headcount and infrastructure associated with business acquisitions or to simplify business processes and accelerate innovation. Restructuring costs, which include termination benefits and facility closure costs, are recorded at estimated fair value. Termination benefits are composed of severance payments for terminated employees and facility closure costs represent costs to terminate leases in conjunction with the consolidation of facilities.

Restructuring charges of \$110m during the year ended 31 October 2016 (2015: \$34m and 2014: \$45m) have been recorded by Seattle based on restructuring activities impacting Seattle's employees and infrastructure as well as an allocation of restructuring charges related to Parent's corporate and shared functional employees and infrastructure. Allocated restructuring charges related to Parent's corporate and shared functional employees and infrastructure were \$10m during the year ended 31 October 2016 (2015: \$3m and 2014: \$12m).

On 14 September 2015, Parent's Board of Directors approved a restructuring plan (the "2015 Plan") which will be implemented through the year ending 31 October 2018. As part of the 2015 Plan, it is expected up to approximately 2,000 employees will exit Seattle by the end of 2018. The changes to the workforce will vary by country, based on local legal requirements and consultations with employee works councils and other employee representatives, as appropriate. It is estimated that Seattle will incur aggregate pre-tax charges through the year ending 31 October, 2018 of approximately \$139m in connection with the 2015 Plan, of which approximately \$115m relates to workforce reductions and approximately \$24m primarily relates to real estate consolidation.

On 23 May 2012, Parent adopted a multiyear restructuring plan (the "2012 Plan") designed to simplify business processes, accelerate innovation and deliver better results for customers, employees and shareholders. As at 31 October 2016, Seattle had eliminated approximately 2,500 positions in connection with the 2012 Plan, with a portion of those employees exiting Seattle as part of voluntary EER programs in the US and in certain other countries. Seattle recognized \$193m in total aggregate charges in connection with the 2012 Plan, all related to workforce reductions, including the EER programs. Of the total restructuring balance outstanding as at 31 October 2016, \$10m is included in the line item "long-term provisions" which represents the estimated costs for the remaining lease obligations. The remainder of the restructuring balance is included within the line item "provisions" in Seattle's combined statement of financial position.

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

Performance bonus represents discretionary bonus programs to reward employees based on business results, job role, and individual performance.

19. Pension commitments

Parent operates multiple defined benefit plans in multiple countries. Seattle employees participate in 55 of these defined benefit plans in 23 countries under broadly similar regulatory frameworks. Seattle operates under the regulatory requirements in all relevant countries, with the significant amount of their plans under the regulatory frameworks of Germany, the Netherlands, Japan, the UK, the US, and Switzerland. Some of the plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life in the case of retirement, disability, or death. The level of benefit provided depends on the members' length of service and their salary in the final years leading up to retirement. Other plans include termination or retirement indemnity plans or other types of statutory plans that provide a one-time benefit at termination. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies with Parent.

Parent has established a number of defined benefit pension schemes that Seattle employees participate in. A number of Seattle employees were members of the defined benefit pension schemes during the conversion period. The amounts shown below relate to Seattle's share of obligations arising from membership by its employees of the defined benefit schemes operated by Parent.

<i>In millions USD</i>	As at			1 November
	31 October			
	2016	2015	2014	2013
Present value of defined benefit obligations	(798)	(713)	(853)	(761)
Fair value of plan assets	667	651	807	746
Net defined benefit obligation	(131)	(62)	(46)	(15)
Impact of minimum funding requirement/ asset ceiling	—	—	—	—
Other retirement benefit obligations ¹	(31)	(36)	(39)	(37)
Liability in the statement of financial position	(162)	(98)	(85)	(52)

1 Related to net obligations for other employee benefit liabilities, retiree health and welfare liabilities and accrued medical expenses liabilities.

An allocation method has been used to determine Seattle's share of HPE's gross pension assets and liabilities. Changes in the allocation percentage between the beginning and end of a financial year are recorded in "Exchange and other adjustments".

A summary of the movement in the net defined benefit liability is shown in the first table below. The subsequent tables provide a more detailed analysis of the movements in the present value of the obligations and the fair value of assets. In 2015, Parent offered certain terminated vested participants of the US Parent pension plans, a onetime voluntary window during which they could elect to receive their pension benefit as a lump sum payment. As a result, the Parent pension plan trust made lump sum payments to eligible participants who elected to receive their pension benefit under this lump sum program. The defined benefit plan settlement net credit of \$1m recorded in the combined statement of comprehensive income for the year ended 31 October 2015, primarily includes the net settlement and periodic benefit credit resulting from this lump sum program incurred by Parent, which was determined to be directly attributable to Seattle, as well as the impact of remeasurement of the related US defined benefit plans.

<i>In millions USD</i>	As at 31 October		
	2016	2015	2014
Change in net defined benefit liability			
Net benefit	(62)	(46)	(15)
Exchange and other adjustments ¹	(2)	(5)	—
Service cost excluding administrative expenses	(14)	(12)	(13)
Interest on defined benefit obligations, net of plan assets	(2)	(1)	—
Employer contributions	14	27	16
Acquisitions/(divestitures)/transfers	7	(33)	1
Actuarial gain/(loss)	(71)	1	(40)
Currency exchange rate gain	—	8	5
Administration expenses	(1)	(1)	—
Net defined benefit liability at end of period	(131)	(62)	(46)

<i>In millions USD</i>	As at 31 October		
	2016	2015	2014
Change in present value of defined benefit obligation			
Present value of defined benefit obligation at beginning of period	(713)	(853)	(761)
Exchange and other adjustments ¹	3	33	–
Settlements	–	9	–
Service cost	(14)	(12)	(13)
Interest cost on defined benefit obligation	(18)	(24)	(30)
Acquisitions/(divestitures)/transfers	2	81	–
Plan participant contributions	(3)	(3)	(3)
Actuarial gain/(loss)	(123)	(26)	(115)
Due to changes in demographic assumptions	–	3	(35)
Due to changes in financial assumptions	(133)	(21)	(79)
Due to experience	10	(8)	(1)
Benefits paid	18	21	27
Currency exchange rate gain	50	61	42
Present value of defined benefit obligation at end of period	(798)	(713)	(853)

<i>In millions USD</i>	As at 31 October		
	2016	2015	2014
Change in plan assets			
Fair value of plan assets at beginning of period	651	807	746
Exchange and other adjustments ¹	(5)	(38)	–
Settlements	–	(9)	–
Actuarial gain	52	27	75
Employer and participant contributions	17	30	19
Acquisitions/(divestitures)/transfers	5	(114)	1
Benefits paid	(18)	(21)	(27)
Administrative expenses	(1)	(1)	–
Return on plan assets (net of interest cost on plan assets)	16	23	30
Currency exchange rate (loss)	(50)	(53)	(37)
Fair value of plan assets at end of period	667	651	807

1 An allocation method has been used to determine Seattle's share of Parent's gross pension assets and liabilities. Changes in the allocation percentage between the beginning and end of the financial year is recorded in "Exchange and other adjustments".

The major categories of plan assets are as follows:

<i>In millions USD</i>	As at			1 November
	31 October	31 October	31 October	
	2016	2015	2014	2013
Equity instruments	293	295	359	344
Debt instruments	234	223	312	294
Real estate	35	35	32	52
Cash and cash equivalents	4	2	4	7
Other	101	96	100	49
Total	667	651	807	746

Main assumptions (rates per annum)

The main assumptions for the valuations of the plans under IAS 19R are set out below.

	As at 31 October		
	2016	2015	2014
Weighted-average assumptions			
Discount rate	1.72%	2.66%	3.17%
Rate of salary increase	2.25%	2.28%	1.84%
Post-retirement benefit discount rate	3.66%	3.72%	3.52%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	31 October	
	2016	2015
Retiring at age 65 at the end of the reporting period		
Male	21	21
Female	24	24
Retiring 15 years after the end of the reporting period		
Male	23	23
Female	25	25

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

	Change in assumption	Change in defined benefit obligation
Discount rate for scheme liabilities	0.5%	(9.21)%
Price inflation	0.25%	3.86%
Salary growth rate	0.5%	0.49%
Life expectancy	One Year	3.87%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the combined statement of financial position.

Through its defined benefit pension plans, Seattle is exposed to a number of risks, the most significant of which are detailed below:

Asset Volatility: The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform, this will create a deficit. Many of the plans hold a significant proportion of government and corporate bonds that offer the best return over the long term, while minimizing short term risk and volatility.

Bond Yields: A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the pledged and unpledged bond holding.

Inflation: Some of the pension obligations are linked to inflation, and higher inflation will lead to higher liabilities. There is a cap on the level of inflationary increase on one of the plans which protects the plan against extreme inflation. The majority of the plan assets are either unaffected by or loosely correlated with inflation, meaning an increase in inflation will also increase the deficit.

Life Expectancy: The majority of the plan obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan liabilities.

In the case of the defined benefit plans, the investment positions are managed within an asset-liability matching (“ALM”) framework that has been developed to achieve long term investments that are in line with the obligations under the pension schemes. A change in future obligations would impact the timing and nature of future cash flows based on the matching framework. As noted in the plan assets outlined above, as at 31 October 2016 Seattle had assets valued at \$667m, (2015: \$651m, 2014: \$807m, and 1 November 2013: \$746m). Within this framework, the objective is to match assets to the pension obligations by investing in investments that match the benefit payments as they fall due and in the appropriate currency. The performance of the assets is actively monitored to ensure they are matching the expected cash flows arising from the pension obligations. The processes used to manage risk from previous periods have not been changed. The assets are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A significant portion of the assets consists of bonds, with additional investments in property and equity.

Parent sponsors a qualified retirement plan in which Seattle employees participate (the “401(k) plan”). The 401(k) plan is for all eligible US employees under the provisions of the Internal Revenue Code of 1986, as amended (“IRC”). Participants may defer a portion of their annual compensation on a pre-tax basis subject to tax limitations. The 401(k) plan allows Seattle the flexibility to adjust the match percentage. The quarterly employer matching contributions in the 401(k) plan were 100% of an employee’s contributions, up to a maximum of 4% of eligible compensation. Effective 1 January 2017, the annual employer matching contributions in the updated 401(k) plan will be 50% of an employee’s contributions, up to a maximum of 6% of eligible compensation.

Seattle has other retirement plans in certain foreign countries in which it employs personnel. Each plan is consistent with local laws and business practices. During the year ended 31 October 2016, Seattle made matching contributions on its 401(k) plan and other defined contribution retirement plans and expensed \$40m (2015: \$46m and 2014: \$48m).

Parent sponsored retiree health and welfare benefit plans of which the most significant plans were in the United States. The net liability relating to these plans amounted to \$4m as at 31 October 2016 (2015: \$3m, 2014: \$7m, and 2013: \$10m).

20. Financial instruments

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

<i>In millions USD</i>	Note	As at			
		31 October	31 October	2014	1 November
		2016	2015	2014	2013
Financial assets – loans and receivables					
Current					
Cash and cash equivalents	12	130	150	197	318
Trade and other receivables, excluding unbilled receivables	11	624	671	752	899
At period ended		754	821	949	1,217

<i>In millions USD</i>	Note	As at			
		31 October		1 November	
		2016	2015	2014	2013
Financial liabilities – at amortized cost					
Non-current					
Provisions	18	10	3	6	6
Borrowings	14	21	22	15	4
Current					
Borrowings	14	15	11	6	1
Trade and other payables	13	608	617	556	551
At period ended		654	653	583	562

Due to the short-term nature of its financial instruments, which include cash, accounts receivable, accounts payable and other accrued liabilities, the carrying amount approximates fair value.

Financial risk management

Seattle participates in cash management, funding arrangements and risk management programs managed by Parent. Seattle also maintains cash and cash equivalents, investments, derivatives and certain other financial instruments with various financial institutions. These financial institutions are located in many different geographic regions, and Seattle's policy is designed to limit exposure from any particular institution. As part of the risk management processes, periodic evaluations of the relative credit standing of these financial institutions are performed. Seattle has not sustained material credit losses from instruments held at these financial institutions. Derivative contracts are utilized to protect against the effects of foreign currency and interest rate exposures. Such contracts involve the risk of non-performance by the counterparty, which could result in a material loss.

Credit risk

As a result of its use of derivative instruments, Seattle is exposed to the risk that its counterparties will fail to meet their contractual obligations. To mitigate counterparty credit risk, Seattle has a policy of only entering into derivative contracts with carefully selected major financial institutions based on their credit ratings and other factors, and Seattle maintains dollar risk limits that correspond to each financial institution's credit rating and other factors. Seattle's established policies and procedures for mitigating credit risk include reviewing and establishing limits for credit exposure and periodically reassessing the creditworthiness of its counterparties. Seattle participates in Parent's master netting agreements, which further mitigates credit exposure to counterparties by permitting Seattle to net amounts due from Seattle to a counterparty against amounts due to Seattle from the same counterparty under certain conditions.

To further mitigate credit exposure to counterparties, Seattle participates in Parent's collateral security agreements, which allow Seattle to hold collateral from, or require Seattle to post collateral to, counterparties when aggregate derivative fair values exceed contractually established thresholds which are generally based on the credit ratings of Parent and its counterparties. If Parent's credit rating falls below a specified credit rating, the counterparty has the right to request full collateralization of the derivatives' net liability position. Conversely, if the counterparty's credit rating falls below a specified credit rating, Parent has the right to request full collateralization of the derivatives' net liability position. Collateral is generally posted within two business days.

Under Seattle's derivative contracts, the counterparty can terminate all outstanding trades following a covered change of control event affecting Seattle that results in the surviving entity being rated below a specified credit rating. This is not expected to be triggered as Parent maintains a high credit rating. This credit contingent provision did not affect Seattle's financial position or cash flows as at any of the periods presented.

The carrying amount of financial assets represents the maximum credit exposure. The following table presents Seattle's maximum exposure to credit as at the respective dates.

<i>In millions USD</i>	Note	As at			
		31 October		1 November	
		2016	2015	2014	2013
Trade and other receivables	11	665	706	787	942
Cash and cash equivalents	12	130	150	197	318
Total		795	856	984	1,260

Foreign exchange risk

Seattle's currency exposures comprise those that give rise to net currency gains and losses to be recognized in the combined statement of comprehensive income as well as gains and losses on consolidation which are recognized reserves. Such exposures reflect the monetary assets and liabilities of Seattle that are not denominated in the operating or functional currency of the operating unit involved and Seattle's investment in net assets in currencies other than the US dollar.

As part of its risk management strategy, Seattle uses derivative instruments, primarily forward contracts, and total return swaps to hedge certain foreign currency. The objective is to offset gains and losses resulting from these exposures with losses and gains on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting the fair value of assets and liabilities. Seattle does not have any leveraged derivatives and does not use derivative contracts for speculative purposes. Derivative contracts may be designated as cash flow hedges. Additionally, for derivatives not designated as hedging instruments, those economic hedges may be categorized as other derivatives. Derivative instruments directly attributable to Seattle are recognized at fair value in the combined statement of financial position. The change in fair value of the derivative instruments is recognized in the combined statement of comprehensive income dependent upon the type of hedge as further discussed below. Cash flows from Seattle's derivative programs are classified with the activities that correspond to the underlying hedged items in the combined statement of cash flows.

Seattle uses forward contracts designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in its forecasted net revenue and, to a lesser extent, cost of revenue, operating expenses and intercompany loans denominated in currencies other than the US dollar. Seattle's foreign currency cash flow hedges mature generally within twelve months; however, forward contracts associated with intercompany loans extend for the duration of the loan term, which typically range from two to five years.

Other derivatives not designated as hedging instruments consist primarily of forward contracts used to hedge foreign currency-denominated statement of financial position exposures.

Sensitivity analysis

Seattle's principal exposures in relation to market risks are the changes in the exchange rates between the US dollar and the Euro. The table below illustrates the sensitivities of Seattle's results to changes in these key variables as at the statement of financial position date. The analysis covers only financial assets and liabilities held at the statement of financial position date.

<i>In millions USD</i>	Years ended 31 October		
	2016 Combined statement of comprehensive income	2015 Combined statement of comprehensive income	2014 Combined statement of comprehensive income
Euro/USD exchange rate +/- 5%	1	1	1

Capital risk management

During the Track Record Periods, capital management with respect to Seattle was performed as part of Parent's overall management of its own capital.

Primary capital in Seattle has been infused by Parent. Cash generated by operations is used as the primary source of liquidity. Internally generated cash flows will be generally sufficient to support Seattle's operating businesses, capital expenditures, restructuring activities, interest payments and income tax payments. Seattle expects to supplement this short-term liquidity, if necessary, by borrowing through Parent under credit facilities made available by various domestic and foreign financial institutions. The relative proportion of debt to equity will be adjusted over the medium-term depending on the cost of debt compared to equity and the level of uncertainty facing the industry and Seattle.

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

<i>In millions USD</i>	Note	31 October		1 November	
		2016	2015	2014	2013
Total borrowings	14	36	33	21	5
Less cash and cash equivalents	12	(130)	(150)	(197)	(318)
Total net debt		(94)	(117)	(176)	(313)
Total equity		8,495	8,702	9,347	9,893
Debt/equity %		(1.11)%	(1.34)%	(1.88)%	(3.16)%

Fair value

Fair value is the estimated market value that one could obtain when selling an asset or be paid when transferring a liability. Authoritative guidance associated with fair value measurements provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Valuation techniques are used based upon observable and unobservable inputs. Observable inputs are developed using market data such as publicly available information and reflect the assumptions market participants would use, while unobservable inputs are developed using the best information available about the assumptions market participants would use. Assets and liabilities are classified in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement:

Level 1 — The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1.

Level 2 — The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Level 3 — If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This is the case for unlisted equity securities.

The following table presents Seattle's assets and liabilities that are measured at fair value on a recurring basis:

<i>In millions USD</i>	As at 31 October											
	2016				2015				2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets												
Cash equivalents and investments												
Time deposits	–	11	–	11	–	14	–	14	–	15	–	15
Money market funds	95	–	–	95	84	–	–	84	73	–	–	73
Foreign bonds	–	27	–	27	–	28	–	28	–	24	–	24
Derivative Instruments												
Foreign exchange contracts	–	3	–	3	–	2	–	2	–	–	–	–
Total assets	95	41	–	136	84	44	–	128	73	39	–	112
Liabilities												
Derivative Instruments												
Foreign exchange contracts	–	1	–	1	–	1	–	1	–	4	–	4
Total liabilities	–	1	–	1	–	1	–	1	–	4	–	4

<i>In millions USD</i>	As at 1 November 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents and investments				
Time deposits	–	4	–	4
Money market funds	64	–	–	64
Marketable equity securities	1	–	–	1
Foreign bonds	–	27	–	27
Derivative Instruments				
Foreign exchange contracts	–	1	–	1
Total assets	65	32	–	97
Liabilities				
Derivative Instruments				
Foreign exchange contracts	–	–	–	–
Total liabilities	–	–	–	–

For each of the years ended 31 October 2016, 2015, and 2014, there were no material transfers among levels within the fair value hierarchy. As at 31 October 2016, 2015, and 2014, Seattle had no Level 3 financial instruments.

The fair value of Seattle's foreign exchange hedges were liabilities of \$1m as at 31 October 2016 (2015: \$1m, 2014: \$4m, and 1 November 2013: \$0m) and assets of \$3m as at 31 October 2016 (2015: \$2m, 2014: \$0m, and 1 November 2013: \$1m). The liability amounts are shown in the line item, "trade and other payables", and the asset amount is shown in the line item, "trade and other receivables" in Seattle's combined statement of financial position. The gain (loss) related to the hedges amounted to \$2m in the year ended 31 October 2016 (2015: \$8m and 2014: \$4m).

The fair value of Seattle's assets that have been designated to fund one of Seattle's defined benefit plans (note 19) are Level 2 financial instruments, as the fair value is determined based on quotes received from the financial institution that holds these assets.

Fair value of derivative instruments

All derivative instruments are recognized on a gross basis in the combined statement of financial position. Seattle participates in Parent's master netting arrangements and collateral security arrangements. Future derivative cash flows are expected to be recognized in accordance with their underlying instruments. Seattle does not offset the fair value of its derivative instruments against the fair value of cash collateral posted under Parent's collateral security agreements. As at 31 October 2016, 2015, 2014, and 31 November

2013, information related to the potential effect of Seattle's use of Parent's master netting agreements and collateral security agreements was as follows:

As at 31 October 2016						
	(i) Gross amount Recognized	(ii) Gross amount offset	(iii) = (i) - (ii) Net amount presented	(iv) Derivatives	(v) Financial collateral	(vi) = (iii) - (iv) - (v) Net amount
<i>In millions USD</i>						
Derivative assets	3	—	3	—	—	3
Derivative liabilities	1	—	1	—	—	1
Net	2	—	2	—	—	2
As at 31 October 2015						
	(i) Gross amount Recognized	(ii) Gross amount offset	(iii) = (i) - (ii) Net amount presented	(iv) Derivatives	(v) Financial collateral	(vi) = (iii) - (iv) - (v) Net amount
<i>In millions USD</i>						
Derivative assets	2	—	2	1	—	1
Derivative liabilities	1	—	1	1	—	—
Net	1	—	1	—	—	1
As at 31 October 2014						
	(i) Gross amount Recognized	(ii) Gross amount offset	(iii) = (i) - (ii) Net amount presented	(iv) Derivatives	(v) Financial collateral	(vi) = (iii) - (iv) - (v) Net amount
<i>In millions USD</i>						
Derivative assets	—	—	—	—	—	—
Derivative liabilities	4	—	4	—	—	4
Net	(4)	—	(4)	—	—	(4)
As at 31 October 2013						
	(i) Gross amount Recognized	(ii) Gross amount offset	(iii) = (i) - (ii) Net amount presented	(iv) Derivatives	(v) Financial collateral	(vi) = (iii) - (iv) - (v) Net amount
<i>In millions USD</i>						
Derivative assets	1	—	1	—	—	1
Derivative liabilities	—	—	—	—	—	—
Net	1	—	1	—	—	1

21. Deferred tax

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

	As at			1 November
	31 October			2013
<i>In millions USD</i>	2016	2015	2014	
Deferred tax assets	1,047	817	425	184
Deferred tax liabilities	(4)	(6)	(11)	(10)
Deferred tax asset/(liability)	1,043	811	414	174

	As at			1 November
	31 October			
<i>In millions USD</i>	2016	2015	2014	2013
Net deferred tax assets	1,047	817	425	184
Set-off provisions	113	227	488	395
Gross deferred tax assets	1,160	1,044	913	579
Net deferred tax liabilities	(4)	(6)	(11)	(10)
Set-off provisions	(113)	(227)	(488)	(395)
Gross deferred tax liabilities	(117)	(233)	(499)	(405)

	As at 31 October		
	2016	2015	2014
<i>In millions USD</i>			
Deferred tax asset, net			
At 1 November	811	414	174
Credited to combined statement of comprehensive income	208	362	249
Credited/(debited) directly to Parent company investment	24	17	(9)
Acquisition	–	18	–
Foreign exchange adjustment	–	–	–
Effect of change in tax rates – charged to combined statement of comprehensive income	–	–	–
At period end	1,043	811	414

<i>In millions USD</i>	Tax losses & credits	Intercompany transactions	Deferred revenue	Employee and retiree benefits	Other temporary differences	Total
Deferred tax assets						
At 1 November 2013	55	189	212	46	77	579
Acquisition	–	–	–	–	–	–
Credited/(debited) to combined statement of comprehensive income	27	295	38	4	(40)	324
Credited/(debited) directly to Parent company investment	–	–	–	14	(4)	10
Foreign exchange adjustment	–	–	–	–	–	–
Effect of change in tax rates – charged to combined statement of comprehensive income	–	–	–	–	–	–
At 31 October 2014	82	484	250	64	33	913
Acquisition	22	–	1	–	–	23
(Debited)/credited to combined statement of comprehensive income	(27)	234	(58)	(4)	(22)	123
Credited/(debited) directly to Parent company investment	–	–	3	(14)	(4)	(15)
Foreign exchange adjustment	–	–	–	–	–	–
Effect of change in tax rates – charged to combined statement of comprehensive income	–	–	–	–	–	–

<i>In millions USD</i>	Tax losses & credits	Intercompany transactions	Deferred revenue	Employee and retiree benefits	Other temporary differences	Total
At 31 October 2015	77	718	196	46	7	1,044
Acquisition						–
(Debited)/credited to combined statement of comprehensive income	(3)	74	(28)	9	41	93
Credited directly to Parent company investment	–	–	–	9	14	23
Foreign exchange adjustment	–	–	–	–	–	–
Effect of change in tax rates – charged to combined statement of comprehensive income	–	–	–	–	–	–
At 31 October 2016	74	792	168	64	62	1,160

Seattle periodically engages in intercompany advanced royalty payment and licensing arrangements that result in advance payments between subsidiaries in different tax jurisdictions. When the local tax treatment of these arrangements differs from IFRS treatment, deferred taxes are recognized. During the year ended 31 October 2016, Seattle executed intercompany advanced royalty payment arrangements resulting in advanced payments of \$500m (2015: \$800m and 2014: \$1,000m). Payments related to these transactions were received in the US from a foreign combined affiliate, with a deferral of intercompany revenues over the term of the arrangements, which range from approximately 5 years to 15 years. Intercompany royalty revenue and the amortization expense related to the licensing rights are eliminated in the combined historical financial information.

As at 31 October 2016, Seattle had operating losses and other temporary differences carried forward in respect of which no deferred tax assets were recognized amounting to \$75m (2015: \$46m, 2014: \$68m, and 1 November 2013: \$45m). Seattle's other temporary differences have no expiry date restrictions. The expiry date of operating losses carried forward is dependent upon the tax law of the various territories in which the losses arose. A summary of Seattle's unrecognized deferred tax assets and expiry dates is set out in the following tables:

<i>In millions USD</i>		Expiry
At 31 October 2016		
Losses		
Europe	–	
America	13	
Other	–	
Total losses	13	
Unrestricted operating losses		
Other temporary differences	62	No expiry
Total	75	

In millions USD

At 31 October 2015

Losses

Europe	—
America	4
Other	—

Total losses	4
---------------------	----------

Unrestricted operating losses

Other temporary differences	42	No expiry
------------------------------------	-----------	------------------

Total	46
--------------	-----------

In millions USD

At 31 October 2014

Losses

Europe	—
America	—
Other	—

Total losses	—
---------------------	----------

Unrestricted operating losses

Other temporary differences	68	No expiry
------------------------------------	-----------	------------------

Total	68
--------------	-----------

In millions USD

At 1 November 2013

Losses

Europe	—
America	—
Other	—

Total losses	—
---------------------	----------

Unrestricted operating losses

Other temporary differences	17	No expiry
------------------------------------	-----------	------------------

Total	28	No expiry
--------------	-----------	------------------

Total	45
--------------	-----------

In millions USD

Deferred tax liabilities

At 1 November 2013

	Unremitted earnings	Intangible assets	Employee and retiree benefits	Other temporary differences	Total
Credited to combined statement of comprehensive income	(108)	(279)	(2)	(16)	(405)
Acquisition of subsidiary	(34)	(9)	—	(32)	(75)
Credited directly to Parent company investment	—	—	—	—	—
Effect of change in tax rates – charged to combined statement of comprehensive income	—	—	(19)	—	(19)
	—	—	—	—	—

<i>In millions USD</i>	Unremitted earnings (142)	Intangible assets (288)	Employee and retiree benefits (21)	Other temporary differences (48)	Total (499)
At 31 October 2014					
Charged/(credited) to combined statement of comprehensive income	115	187		(63)	239
Acquisition of subsidiary	–	(5)	–	–	(5)
Credited directly to Parent company investment	–	(8)	15	25	32
Effect of change in tax rates – charged to combined statement of comprehensive income	–	–	–	–	–
At 31 October 2015	(27)	(114)	(6)	(86)	(233)
(Credited)/charged to combined statement of comprehensive income	(4)	35	1	83	115
Credited directly to equity	–	–	–	–	–
Acquisition of subsidiary	–	–	–	–	–
Credited directly to Parent company investment	–	–	1	–	1
Effect of change in tax rates – charged to combined statement of comprehensive income	–	–	–	–	–
At 31 October 2016	(31)	(79)	(4)	(3)	(117)

No deferred tax liability was recognized in respect of unremitted earnings of overseas subsidiaries as Seattle is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The gross undistributed earnings were \$4,956m as at 31 October 2016 (2015: \$4,772m and 2014: \$4,314m).

22. Cash generated from operations

<i>In millions USD</i>	Note	Years ended 31 October		
		2016	2015	2014
Profit after tax		55	354	324
Adjustments for				
Net interest and other		72	47	7
Taxation	5	82	(108)	37
Operating profit		209	293	368
Depreciation and amortization		221	336	363
Share-based compensation	23	91	62	62
Provision for doubtful accounts	11	9	3	(6)
Restructuring costs		110	34	45
Other, net		(83)	(13)	(4)
Changes in working capital				
Accounts receivable	11	41	81	155
Accounts payable	13	(9)	61	5
Restructuring costs		(51)	(41)	(65)
Other assets and liabilities		(57)	(271)	70
Cash generated from operations		481	545	993
Interest paid		(3)	(3)	(2)
Tax paid/received		3	(6)	23
Net cash generated from operations		481	536	1,014

23. Employees

		Years ended 31 October		
<i>In millions USD</i>	Note	2016	2015	2014
Staff costs				
Wages and salaries		1,490	1,596	1,828
Social security costs		116	131	148
Other pension costs	19	56	59	61
Cost of employee share schemes		91	62	62
Total		1,753	1,848	2,099
		Years ended 31 October		
<i>In millions USD</i>	Note	2016	2015	2014
Pension costs comprise				
Defined benefit schemes	19	16	13	13
Defined contribution schemes	19	40	46	48
Total		56	59	61
		Years ended 31 October		
		2016	2015	2014
Average number of people employed by Seattle		13,214	12,909	13,700
		Years ended 31 October		
<i>In millions USD</i>		2016	2015	2014
Key management compensation				
Salary		2	2	2
Share-based payments		9	3	3
Employee benefits		2	2	1
Total		13	7	6

The key management figures above include the executive management team.

Share-based payments

Certain of Seattle's employees participate in equity-settled share-based payment plans sponsored by Parent. Parent's share-based payment plans include incentive compensation plans and an employee stock purchase plan ("ESPP"). All awards granted under the plans are based on shares of Parent common stock and, as such, are not reflected in Seattle's combined statement of changes in equity. Share-based payment expense includes expense attributable to Seattle based on the awards and terms previously granted under the incentive compensation plan to Seattle's employees and an allocation of Parent's corporate and shared functional employee expenses. Accordingly, the amounts presented are not necessarily indicative of future awards and do not necessarily reflect the results that Seattle would have experienced as an independent company for the periods presented.

Parent's share-based incentive payment plans include equity plans adopted in 2015, 2004 and 2000, as amended (collectively, the "Principal Equity Plans"), as well as various equity plans assumed through acquisitions under which share-based awards were outstanding. Share-based awards granted under the Principal Equity Plans include restricted share awards, share options, and performance-based awards. Employees who meet certain employment qualifications are eligible to receive share-based awards.

Restricted share awards are non-vested share awards that may include grants of restricted shares or restricted share units. Restricted share awards and cash-settled awards are generally subject to forfeiture if employment terminates prior to the lapse of the restrictions. Such awards generally vest one to three

years from the date of grant. During the vesting period, ownership of the restricted shares cannot be transferred. Restricted shares have the same dividend and voting rights as shares of Parent common stock and are considered to be issued and outstanding upon grant. The dividends paid on restricted shares are non-forfeitable. Restricted share units have forfeitable dividend equivalent rights equal to the dividend paid on shares of common stock. Restricted share units do not have the voting rights of shares of common stock, and the shares underlying restricted share units are not considered issued and outstanding upon grant. The fair value of the restricted share awards is the closing price of shares of Parent common stock on the grant date of the award. Seattle expenses the fair value of restricted share awards ratably over the period during which the restrictions lapse.

Share options granted under the Principal Equity Plans were generally non-qualified share options, but the Principal Equity Plans permitted certain options granted to qualify as incentive share options under the IRC. Share options generally vest over three to four years from the date of grant. The exercise price of a share option was equal to the closing price of Parent's shares on the option grant date. The maximum term for shares granted is eight years from the date of grant. The majority of share options issued by Parent contained only service vesting conditions. However, starting in the year ended 31 October 2011, Parent began granting performance-contingent share options that vest only on the satisfaction of both service and market conditions prior to the expiration of those awards.

Share-based payments expense and the resulting tax benefits recognized by Seattle were as follows:

<i>In millions USD</i>	Years ended 31 October		
	2016	2015	2014
Cost of revenue	13	9	10
Research and development	24	16	17
Selling and distribution costs	43	26	25
Administrative expenses	11	11	10
Share-based compensation expense	91	62	62
Income tax benefit	(13)	(13)	(7)
Share based compensation, net of tax	78	49	55

In connection with Parent's 1 November 2015 separation from Hewlett-Packard Company, the Parent Board of Directors approved amendments to certain outstanding long-term incentive awards on 29 July 2015. The amendments provided for the accelerated vesting on 17 September 2015 of certain share-based awards that were otherwise scheduled to vest between 18 September 2015 and 31 December 2015. Seattle's increased pre-tax share-based compensation expense due to the acceleration was approximately \$6m in the year ended 31 October 2015.

Share-based compensation expense includes an allocation of Parent's corporate and shared functional employees expenses of \$15m in the year ended 31 October 2016 (2015: \$15m and 2014: \$11m).

Cash received from option exercises and purchases under Parent's ESPP by Seattle employees was \$19m as at the year ended 31 October 2016 (2015: \$30m and 2014: \$44m). The benefit realized for the tax deduction from option exercises was \$3m during the year ended 31 October 2016 (2015: \$7m and 2014: \$11m).

A summary of restricted share award activity for Seattle employees is as follows:

	As at 31 October					
	2016		2015		2014	
	Shares 000's	Weighted average grant date fair value per share	Shares 000's	Weighted average grant date fair value per share	Shares 000's	Weighted average grant date fair value per share
Outstanding at beginning of period¹	–	–	3,316	\$24	3,783	\$21
Converted from former Parent's plan ¹	2,690	\$15	–	–	–	–
Granted and assumed through acquisition	4,922	\$16	1,434	\$36	2,114	\$29
Exercised	(840)	\$15	(2,081)	\$26	(2,174)	\$23
Forfeited	(696)	\$15	(427)	\$29	(407)	\$23
Employee transition ²	(13)	\$17	(808)	\$22	–	–
Outstanding at end of period	6,063	\$15	1,434	\$32	3,316	\$24

(1) In connection with HPE's 1 November 2015 separation from Hewlett-Packard Company, Seattle employees with outstanding former Parent restricted stock awards received HPE replacement restricted stock awards upon the separation.

(2) Employee transition amounts consist of restricted share award activity for employees transitioning between Seattle and Parent.

The total grant date fair value of restricted share awards vested for Seattle employees in the year ended 31 October 2016 was \$6m, net of taxes (2015: \$51m and 2014: \$33m, net of taxes). As at 31 October 2016, total unrecognized pre-tax share-based payment expense related to non-vested restricted share awards to Seattle employees was \$57m, which is expected to be recognized over the remaining weighted-average vesting period of 1.3 years.

Parent utilizes the Black-Scholes-Merton option pricing model to estimate the fair value of share options subject to service-based vesting conditions. Parent estimates the fair value of share options subject to performance-contingent vesting conditions using a combination of a Monte Carlo simulation model and a lattice model, as these awards contain market conditions. The weighted-average fair value per share for options issued during the periods and the assumptions used to measure fair value were as follows:

	Years ended 31 October		
	2016	2015	2014
Weighted-average fair value ¹	\$4	\$8	\$7
Expected volatility ²	31.1%	26.8%	33.1%
Risk-free interest rate ³	1.7%	1.7%	1.8%
Expected dividend yield ⁴	1.5%	1.8%	2.1%
Expected term in years ⁵	5.4	5.9	5.7

(1) The weighted-average fair value was based on share options granted during the period.

(2) For awards granted in the year ended 31 October 2016, expected volatility was estimated using average historical volatility of selected peer companies. For awards granted in years ended 31 October 2015 and 2013, expected volatility was estimated using the implied volatility derived from trades of options to acquire shares of Parent common stock. For awards granted in the year ended 31 October 2014, expected volatility for awards subject to service-based vesting was estimated using the implied volatility derived from trades of options to acquire shares of Parent common stock, whereas for performance-contingent awards, expected volatility was estimated using the historical volatility of Parent's common stock.

(3) The risk-free interest rate was estimated based on the yield on US Treasury zero-coupon issues.

(4) The expected dividend yield represents a constant dividend yield applied for the duration of the expected term of the award.

- (5) For awards granted in the year ended 31 October 2016 subject to service-based vesting, the expected term was estimated using the simplified method taking the vesting term and the original contractual term divided by two, since it was HPE's first fiscal year as a separate standalone company. For awards subject to service-based vesting granted in 2015 and 2014, the expected term was estimated using historical exercise and post-vesting termination patterns. For performance-contingent-awards, the expected term represents an output from the lattice model.

A summary of share option activity for Seattle employees is as follows:

	2016			As at 31 October 2015			2014		
	Shares 000's	Weighted average exercise price	Average share price	Shares 000's	Weighted average exercise price	Average share price	Shares 000's	Weighted average exercise price	Average share price
Outstanding at beginning of period	—	—		3,975	\$23		7,932	\$20	
Converted from former Parent's plan	3,828	\$15		—	—		—	—	
Granted and assumed through acquisition	2,396	\$14		530	\$34		643	\$29	
Exercised	(1,407)	\$11	\$18	(1,148)	\$18	\$33	(2,164)	\$16	\$32
Forfeited/Expired	(371)	\$18		(955)	\$35		(2,436)	\$22	
Employee transition ¹	115	\$23		(427)	\$16		—	—	
Outstanding at end of period	4,561	\$15		1,975	\$25		3,975	\$23	
Vested and expected to vest at end of period	4,378	\$15		1,903	\$25		3,837	\$23	
Exercisable at end of period	1,368	\$13		1,350	\$22		2,930	\$23	

(1) Employee transition amounts consist of option activity for employees transitioning between Seattle and Parent.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that Seattle employee option holders would have realized had all Seattle employee option holders exercised their options on the last trading day of the fiscal year ended 31 October 2016, 2015 and 2014. The aggregate intrinsic value is the difference between Parent's closing share price on the last trading day of the year and the exercise price, multiplied by the number of in-the-money options. The total intrinsic value of options exercised by Seattle employees in the year ended 31 October 2016 was \$11m (2015: \$18m and 2014: \$31m). The total intrinsic value of options outstanding as at 31 October 2016 was \$35m (2015: \$11m and 2014: \$55m). The total grant date fair value of options granted to Seattle employees which vested was \$5m in the year ended 31 October 2016, net of taxes (2015: \$8m, net of taxes and 2014: \$9m, net of taxes).

As at 31 October 2016, total unrecognized pre-tax share-based payment expense related to share options for Seattle employees was \$6m, which is expected to be recognized over the remaining weighted-average vesting period of 1.8 years.

The following table summarizes the share options outstanding at the end of the year and their expiry dates and exercise prices:

Grant date (Year ended)	Expiry date (Year ended)	Share option (in thousands) Years ended 31 October		
		2016	2015	2014
2005	2015	–	–	92
2006	2016	–	109	161
2007	2017	41	40	540
2008	2016	19	43	94
2009	2017	57	56	167
2010	2018	266	238	745
2011	2019	471	504	1,047
2012	2020	14	43	113
2013	2021	69	180	427
2014	2022	519	383	589
2015	2023	656	379	–
2016	2024	2,449	–	–
Total		4,561	1,975	3,975
Weighted average remaining contractual life of options outstanding at end of period		5.7	4.6	3.7

Parent sponsors the ESPP, pursuant to which eligible employees may contribute up to 10% of their eligible compensation, subject to certain income limits, to purchase shares of Parent's common stock. Pursuant to the terms of the ESPP, employees purchase shares under the ESPP at a price equal to 95% of Parent's closing share price on the purchase date. Share-based payment expense was recorded in connection with those purchases of \$1m in the year ended 31 October 2016 (2015: \$1m and 2014: \$1m) as these plans are treated as compensatory plans under IFRS.

24. Operating lease commitments – minimum lease payments

Seattle has a number of lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years:

	As at 31 October 2016
<i>In millions USD</i>	
Future minimum lease payments under operating leases expiring:	
No later than one year	38
Later than one year and no later than five years	112
Later than five years	39
Total	189

Seattle leases various offices under non-cancellable operating lease agreements that are included in the table. The leases have various terms, escalation clauses and renewal rights. Some of the offices leased have been sublet to unrelated third parties and Seattle has not been released from its primary obligations under these leases. The above operating lease payments are presented at their gross amounts, before sublease rental income. The future minimum sublease payments expected to be received under non-cancellable leases as at 31 October 2016 is \$3m. Lease payments recognized as an expense were \$34m in for the year ended 31 October 2016 (2015: \$52m and 2014: \$42m).

25. Contingent liabilities

Restructuring

On 14 September 2015, Parent's Board of Directors approved a restructuring plan (the "2015 Plan") which will be implemented through the year ending 31 October 2018. As part of the 2015 Plan, it is expected up to approximately 2,000 employees will exit Seattle by the end of 2018. The changes to the workforce will vary by country, based on local legal requirements and consultations with employee works councils and other employee representatives, as appropriate. It is estimated that Seattle will incur aggregate pre-tax charges through the year ending 31 October, 2018 of approximately \$139m in connection with the 2015 Plan, of which approximately \$115m relates to workforce reductions and approximately \$24m primarily relates to real estate consolidation.

On 23 May 2012, Parent adopted a multiyear restructuring plan (the "2012 Plan") designed to simplify business processes, accelerate innovation and deliver better results for customers, employees and shareholders. As at 31 October 2016, Seattle had eliminated approximately 2,500 positions in connection with the 2012 Plan, with a portion of those employees exiting Seattle as part of voluntary "EER" programs in the US and in certain other countries. Seattle recognized \$193m in total aggregate charges in connection with the 2012 Plan, all related to workforce reductions, including the EER programs.

Legal proceedings

From time to time, Seattle is a defendant in claims or lawsuits involving matters which are routine to the nature of our business such as claims involving former employees, or claims for infringement of patents. The ultimate resolution of all such matters will not have a material adverse effect on its results of operations, cash flows, or financial position.

Seattle is involved in various lawsuits, claims, investigations and proceedings including those consisting of IP, commercial, employment, employee benefits and environmental matters, which arise in the ordinary course of business. The Separation and Distribution Agreement between Seattle and Parent includes provisions that allocate liability and financial responsibility for litigation involving the parties, as well as provide for cross indemnification of the parties against liabilities to one party arising out of liabilities allocated to the other party. In addition, as part of the Separation and Distribution Agreement, HPE and Seattle have agreed to cooperate with each other in managing litigation that relates to both parties' businesses. The Separation and Distribution Agreement also contains provisions that allocate liability and financial responsibility for such litigation relating to both parties' businesses. Seattle records a liability when it believes that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Significant judgment is required to determine both the probability of having incurred a liability and the estimated amount of the liability. Seattle reviews these matters at least quarterly and adjusts these liabilities to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other updated information and events pertaining to a particular matter. Litigation is inherently unpredictable. However, Seattle believes it has valid defenses with respect to legal matters pending against it. The potential amount of each of the below actions is not quantifiable.

Forsyth, et al. vs. HP Inc. and Hewlett Packard Enterprise Company: This purported class and collective action was filed on 18 August 2016 and an amended (and operative) complaint was filed on 19 December 2016 in the United States District Court for the Northern District of California, against HP Inc. and Hewlett Packard Enterprise Company alleging defendants violated the Federal Age Discrimination in Employment Act ("ADEA"), the California Fair Employment and Housing Act, California public policy and the California Business and Professions Code by terminating older workers and replacing them with younger workers. Plaintiffs seek to certify a nationwide collective action under the ADEA comprised of all individuals aged 40 and older at the time their employment was terminated by an HP entity pursuant to a work force reduction ("WFR") plan on or after 9 December 2014 for individuals terminated in deferral states and on or after 8 April 2015 in non-deferral states. Plaintiffs also seek to certify a Rule 23 class under California law comprised of all persons 40 years of age or older employed by defendants in the state of California and terminated pursuant to a WFR plan on or after 18 August 2012.

Delaney and Haragos v. Hewlett-Packard Company and HP Enterprise Services, LLC: This purported California class action was filed on 22 April 2016 and a second (and operative) amended complaint was filed on 2 September 2016 in California Superior Court (San Diego County) against Hewlett-Packard Company, HP Inc., and Hewlett Packard Enterprise Services, LLC, alleging defendants violated the California Fair Employment and Housing Act and the California Unfair Competition Code by disproportionately laying off employees who were 40 or older and replacing them with younger workers. Plaintiff Haragos seeks to represent a Federal Rule of Civil Procedure Rule 23 state-law class comprised of all California employees who were terminated by defendants pursuant to a WFR plan between 22 April 2012 and the present. Plaintiff Delaney's claims were voluntarily dismissed effective 28 November 2016. On 27 January 2017, the court granted defendants' motion to compel plaintiff Haragos to arbitration. Pursuant to the terms of Mr. Haragos' WFR release, the parties engaged in mediation on 1 March 2017 and reached a confidential settlement of Haragos' individual claims. On 28 March 2017, the court dismissed Haragos' class claims without prejudice.

Wall v. Hewlett-Packard Enterprise Company and HP Inc.: This certified California class action and Private Attorney General Act action was filed against Hewlett-Packard Company on 17 January 2012 and the fifth (and operative) amended complaint was filed against HP Inc. and Hewlett Packard Enterprise Company on 28 June 2016. The complaint alleges that the defendants paid earned incentive compensation late and failed to timely pay final wages. On 9 August 2016, the court ordered the class certified without prejudice to a future motion to amend or modify the class certification order or to decertify. Trial is set to begin on 22 May 2017.

Realtime Data LLC: Realtime Data LLC ("Realtime") filed three patent infringement actions in the Eastern District of Texas against HPE. The first was filed on 8 May 2015 against Hewlett-Packard Company, HP Enterprise Services and Oracle ("Oracle matter") and accuses HP's ProLiant servers running Oracle's Solaris, HPE's StoreOnce, and HPE's Vertica. Oracle has agreed to indemnify HPE for all claims against HPE related to Oracle's Solaris, including databases running Solaris with the ZFS file system on HP ProLiant servers. Following a 23 March 2017 mediation, Oracle and Realtime reached a settlement. It is unclear whether their agreement has been finalized. No stipulated judgment or joint motion to dismiss has been filed to date, although the parties notified the Court that an agreement has been reached in principle. The second lawsuit was filed on 8 May 2015 against Hewlett-Packard Company, HP Enterprise Services, and SAP America Inc., Sybase Inc. ("SAP matter") and accuses HP's Converged Systems running SAP Hana. SAP agreed to indemnify HPE and HPES for the SAP related products. On 6 June 2016, SAP reached a settlement agreement with Realtime, which led to the dismissal of all claims relating to HPE products indemnified by SAP. The third lawsuit was filed on 26 February 2016 (amended on 15 August 2016) against Hewlett Packard Enterprise Company, HP Enterprise Services, and Silver Peak Systems, Inc. ("Silver Peak"), and accuses HPE's StoreOnce, 3Par StoreServe, Connected MX, Connected Backup, and LiveVault. On 17 November 2016, the Magistrate Judge granted HPE and Realtime's joint motion to sever and consolidate the Oracle and Silver Peak matters. There are seven patents asserted in the remaining lawsuits. The patents generally relate to data compression techniques used to conserve storage space. HPE and the joint defense group have filed several inter partes review petitions with the Patent Trial and Appeal Board on all seven asserted patents. On 3 February 2017, the Magistrate Judge granted HPE's Motion to Stay Pending *Inter Partes* Review.

Indemnification

In the ordinary course of business, Seattle enters into contractual arrangements under which Seattle provides indemnification to certain vendors and customers against claims of intellectual property infringement made by third parties arising from the use by such vendors and customers of Seattle's software products and services and certain other matters. Some indemnifications may not be subject to maximum loss clauses. Historically, payments made related to these indemnifications have been immaterial.

26. Related party transactions

Transactions between Seattle and its subsidiaries have been eliminated. The remuneration of key management personnel of Seattle including executives is set out in note 23.

Prior to HP Inc.'s spin-off of HPE, HP Inc. conducted a strategic review of Seattle and decided that the marketing optimization software product group, a continuing business which has historically been managed by Seattle and included in Seattle's results of operations, no longer aligned with Seattle's strategic goals, as they were outside Seattle's go-to-market focus of selling to IT departments. However, HP Inc. determined that these software assets primarily aligned with a document management and solutions ecosystem that would complement its printing business. As a result of this strategic review process, the marketing optimization software product group was realigned to become a part of HP, Inc.

The following table presents the transfer of Seattle's assets and liabilities at the date of transfer with an offsetting adjustment to Parent company investment.

<i>In millions USD</i>	Year ended 31 October 2015
Goodwill ¹	512
Other intangible assets	91
Net liabilities transferred	(37)
Parent company investment	566

1 Goodwill was allocated on a relative fair value basis.

Seattle enters into leasing arrangements with Parent's wholly-owned leasing subsidiary, HPE Financial Services, which are cash settled on a recurring basis in accordance with the contractual terms of the leasing arrangements. These leasing arrangements are accounted for as finance leases or operating leases based on the contractual terms of the leasing arrangements. Finance lease obligations are classified as Borrowings on the combined statement of financial position and principal payments on these obligations are reflected on a separate line within financing activities in the combined statement of cash flows.

Future principal payments under these finance leases were as follows:

<i>In millions USD</i>	As at 31 October		
	2016	2015	2014
Future minimum lease payments under finance leases expiring			
No later than one year	17	13	7
Later than one year and no later than five years	23	24	17
Later than five years	—	—	—
Total minimum lease payments	40	37	24
Less: amount representing interest	(4)	(4)	(3)
Present value of minimum lease payments	36	33	21

The net carrying amount of the leased asset as at 31 October 2016 was \$34m (2015: \$32m, 2014: \$21m, and 1 November 2013: \$5m).

Seattle sold software to other businesses of Parent in the amount of \$255m during the year ended 31 October 2016 (2015: \$255m and 2014: \$284m).

Seattle purchased equipment and services from other businesses of Parent in the amount of \$4m during the year ended 31 October 2016 (2015: \$3m and 2014: \$1m).

The combined statement of comprehensive Income includes an allocation of general corporate expenses from Parent for certain management and support functions which are provided on a centralized basis within Parent. These management and support functions include, but are not limited to, executive management, finance, legal, information technology, employee benefits administration, treasury, risk management, procurement and other shared services. These allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of revenue, expenses, headcount or other relevant measures. These allocations were \$347m during the year ended 31 October 2016 (2015: \$378m and 2014: \$396m).

These allocations are considered to be a reasonable reflection of the utilization of services by, or the benefits provided to, Seattle. These allocations may not, however, reflect the expense Seattle would have

incurred as a standalone company for the periods presented. Actual costs that may have been incurred if Seattle had been a standalone company would depend on a number of factors, including the chosen organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure.

Parent company investment on the combined statement of financial position and in the combined statement of changes in equity represents Parent's historical investment in Seattle, the net effect of transactions with and allocations to Parent and Seattle's accumulated earnings.

Net transfers to Parent are included within Parent company investment. The components of net transfers to Parent in the combined statement of changes in equity for all periods presented were as follows:

<i>In millions USD</i>	Years ended 31 October		
	2016	2015	2014
Intercompany revenues	(255)	(255)	(284)
Intercompany purchases	4	3	1
Cash pooling and general financing activities	(417)	(822)	(1,206)
Corporate allocations	347	378	396
Income taxes	317	298	217
Net assets of marketing optimization software product group transferred to Parent	–	(566)	–
Cash transfers (to) from Parent for business combinations and divestitures	(237)	(36)	20
Others	40	42	5
Total net transfers to Parent per combined statement of changes in equity	(201)	(958)	(851)

A reconciliation of net transfers to Parent in the combined statement of changes in equity to the corresponding amount presented in the combined statement of cash flows for all periods presented were as follows:

<i>In millions USD</i>	Years ended 31 October		
	2016	2015	2014
Net transfers to Parent per combined statement of changes in equity	(201)	(958)	(851)
Income taxes paid by Parent	(56)	(121)	(70)
Restructuring	(10)	(3)	(12)
Share-based compensation	(91)	(62)	(62)
Net assets of marketing optimization software product group transferred to Parent	–	566	–
Transfer for deferred tax assets (to) from Parent	(10)	(9)	9
Other	(332)	(28)	(129)
Total net transfers to Parent per combined statement of cash flows	(700)	(615)	(1,115)

27. Business combinations

In February 2016, Seattle acquired the entire share capital of Trilead GmbH, a data protection software company, for a purchase price of \$12m. In connection with this acquisition, Seattle recorded \$10m of goodwill (which is not deductible for tax purposes), \$4m of amortizable intangible assets and assumed \$2m of net liabilities.

In February 2015, Seattle acquired the entire share capital of Voltage Security, a data-centric security software solutions company, for a purchase price of \$160m. In connection with this acquisition, Seattle recorded \$102m of goodwill (which is not deductible for tax purposes), \$48m of amortizable intangible assets and assumed \$7m of net assets. As part of the transaction, Seattle acquired receivables with a fair value of \$4m. Acquisition-related costs amounted to \$3m and were expensed.

In March 2014, Seattle acquired the entire share capital of Shunra Software, an application performance engineering company, for a purchase price of \$20m. In connection with the acquisition, Seattle recorded \$12m of goodwill, \$7m of amortizable intangible assets and assumed \$1m of net assets.

Pro forma results of operations for these acquisitions, including revenue from the beginning of the fiscal year, during which the relevant acquisitions occurred, have not been presented because they are not material to Seattle's combined results of operations, either individually or in the aggregate.

All identifiable assets and liabilities were assigned a portion of the cost of acquisition based on their respective estimated fair values. The determination of fair value is a critical and complex calculation that involves significant assumptions and estimates. These assumptions and estimates were based on management's best judgments. No residual value has been assumed for any of the acquired intangible assets.

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skill. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to Seattle's existing customer base with those of the acquired business. Goodwill is not tax deductible.

Seattle has used acquisition accounting for the acquisitions described above, and the resulting goodwill of \$124m has been capitalized. There were no contingent consideration payments included in any of the acquisitions described above.

28. Divestitures

In the year ended 31 October 2016, Seattle completed the sale of its TippingPoint business for approximately \$300m. Cash proceeds from the sale of Seattle's TippingPoint business included a \$25m deposit in the year ended 31 October 2015 and \$254m in the year ended 31 October 2016. The remaining amount of approximately \$21m is related to inventory and tooling assets retained by Seattle in connection with a transition services agreement under which Seattle will produce products for the divested business through an initial 12 month term ending in Seattle's three months ending 30 April 2017. An \$82m gain related to the divestiture of TippingPoint was included in the combined statement of comprehensive income in the year ended 31 October 2016.

In the year ended 31 October 2015, Seattle completed sales of its LiveVault and iManage businesses for combined proceeds of \$149m. The total gain of \$7m associated with these divestitures was included in the combined statement of comprehensive income.

Net cash proceeds from the 2015 divestitures of LiveVault and iManage combined with the deposit for the 2016 sale of TippingPoint totaled \$174m.

29. Transition to IFRS

For the purposes of the following IFRS combined historical financial information table, Seattle's date of transition to IFRS is 1 November 2013 and all comparative information in this combined historical financial information has been restated to reflect Seattle's adoption of IFRS with a date of adoption of 1 November 2014, except where otherwise required or permitted by IFRS 1 "First Time Adoption".

The adoption of IFRS did not have a material effect on Seattle's cash flow statement, so no reconciliation of cash flow has been included.

IFRS 1 requires full retrospective application of IFRS for first-time adopters. However, it provides some voluntary and mandatory exemptions from full retrospective applications. Adjustments as a result of first-time adoption of IFRS and exemptions are recognized through Parent company investment or other components of equity at the date of transition.

(i) Major voluntary exemptions adopted by Seattle are as follows:

i) Restatement of business combinations

Under IFRS 1, a first-time adopter may elect to not restate business combinations that occurred prior to the transition date. Seattle has executed several business combination transactions in prior periods. Seattle has elected to use this exemption for all business combinations before the date of transition.

ii) Cumulative translation adjustment

A first-time adopter may elect to reset the cumulative translation adjustment ("CTA") reserve in other comprehensive income to zero. Seattle has recorded CTA in historical periods due to operations in multiple jurisdictions around the world. Seattle has elected to use this exemption and has set cumulative translation adjustment to zero upon the date of transition.

iii) Use fair value as deemed cost

A first-time adopter may elect to use the fair value of property, plant and equipment or intangible assets as the deemed cost on the transition date. Seattle has elected to use this exemption for the purposes of the valuation of its intangible assets upon the date of transition. The aggregate value of intangible assets upon the date of transition is \$1,206m.

Significant areas of impact as a result of Seattle's adoption of IFRS are as follows:

(ii) Sale lease-back

Seattle completed a sale-leaseback in Yehud, Israel in April 2013 relating to land and buildings. Under US GAAP, the gain on the sale-leaseback was deferred and amortized over the lease term. Under IFRS, as the lease was an operating lease, and the proceeds of the transaction were above the fair value of the assets, the excess over fair value has been deferred and amortized over the lease term, with the remaining gain on the sale-leaseback recognized immediately. As the transaction was completed prior to the date of adoption of IFRS, the gain has been recognized as an adjustment to Parent company investment on the date of transition to IFRS. Any gain amortization recognized under US GAAP not recognized under IFRS in subsequent periods has been eliminated.

(iii) Share-based payments

Parent issued share awards to certain employees of Seattle. As these awards are in substance for work performed for the benefit of Seattle, share-based compensation expense and the related capital contribution is recorded for these awards. Under US GAAP, this expense is recognized over the vesting period using the straight line method. Under IFRS, such payments are required to be recognized using a graded-vesting schedule. Accordingly, Seattle has adjusted the share-based compensation expense to reflect graded vesting.

Parent modified the vesting terms of certain share-based payment plans. Under US GAAP, the new terms resulted in a remeasurement of compensation cost on the modification date that was recognized over the remaining service period. Under IFRS, modifications to vesting terms are treated as a change in estimate of the number of shares expected to vest and recognized over the remaining service period. Accordingly, Seattle has adjusted the share-based compensation expense to reflect the difference in the accounting treatment of modifications of share-based payment plans.

Parent withheld taxes in order to net settle restricted share unit ("RSU") awards granted to current Seattle employees. For the period presented, Seattle treated the portions related to withholding taxes as cash-settled and classified them as liabilities under IFRS 2 "Share-based Payment." As such, the liability portion of the awards was marked to market at each reporting date. However, upon exercise of options, shares were delivered to the participant through a brokerage account and shares are sold in the open market to cover the tax withholding liabilities. Therefore, under IFRS, equity classification is still appropriate for these broker-settled awards.

Under US GAAP, ESPP awards are treated as non-compensatory. Under IFRS, ESPPs are compensatory and treated like any other equity-settled share-based payment arrangement. Accordingly, Seattle has adjusted the share-based compensation expense to reflect the treatment of the ESPP awards as compensatory.

(iv) Deferred revenue

Upon acquisition of Shunra in 2014, Voltage Security in 2015, and Trilead AG in 2016, Seattle recognized deferred revenue as a component of these business combinations. Under US GAAP, in accordance with Seattle's historical estimation methodology and accounting policy, Seattle determined the fair value of deferred revenue using an income approach resulting in a reduction in the face value of deferred revenue of approximately 52%. Under IFRS, in order to conform to the potential acquiror's historical estimation methodology and accounting policy, Seattle determined the fair value of deferred revenue using an income approach resulting in a reduction in the face value of deferred revenue of approximately 5%. Consequently, the amount of revenue, deferred revenue and goodwill is greater under IFRS when compared to US GAAP.

(v) Revenue

US GAAP contains prescriptive software guidance that allows the use of the residual method for allocation, but requires vendor-specific objective evidence ("VSOE") in order to determine fair value. IFRS lacks industry specific revenue recognition guidance and defaults to the principles. Use of the residual method is permitted under IFRS. However, IFRS includes a broader range of acceptable measures of fair value for software and does not require VSOE. Accordingly, in certain cases where revenue was deferred for lack of VSOE under US GAAP, recognition was permitted under IFRS.

(vi) Provisions

IFRS defines a provision as "a liability of uncertain timing or amount". In order to record a provision, an entity must have an obligation that is expected to result in an outflow of resources embodying economic benefits and that results from a past transaction or event. Provisions differ from other liabilities in the degree of certainty about the amount of payment or the timing of the payment. Under IFRS, a distinction is made between provisions and accruals; accruals are often reported as part of trade and other payables in the combined statement of financial position, whereas provisions are reported separately. Seattle presented provisions separately from accruals and other liabilities in its IFRS financial statements. Seattle management has assessed accruals and other liabilities for reclassification as provisions.

(vii) Income taxes

Income taxes under IFRS will be impacted by other US GAAP to IFRS pre-tax adjustments made during the conversion process.

Interest and penalties are reclassified from taxation into finance costs in order to conform with the potential acquiror's policy election under IFRS.

Under US GAAP, the deferred tax asset associated with share-based payments is based on the fair value at the grant date and not adjusted for changes in share price exercise or settlement, as applicable. Under IFRS, the deferred tax asset is based on the expected deduction (often the intrinsic value of the award) and is adjusted at each reporting period to reflect changes in the market value of the entity's stock. Accordingly, Seattle has adjusted the deferred tax asset related to share-based payments.

(viii) Pensions

Under US GAAP, Seattle accounted for the participation of its employees in the pension plans of Parent as multi-employer plans. Accordingly, the plan expenses are attributed to Seattle's combined statement of comprehensive income whereas the pension plan assets and obligations are not recorded on Seattle's US GAAP combined statement of financial position. Under SIR 2000, financial statements prepared on a carve-out basis may recognize the pension plan assets and liabilities attributed to its employees for plans in which they participate. Accordingly, Seattle has adjusted its combined statement of financial position to record all applicable plan assets and liabilities.

(ix) Foreign bonds

Seattle has available-for-sale securities (German bonds) held in a foreign currency. Under US GAAP, Seattle accounted for the change in fair value due to the change in foreign exchange rates within other comprehensive income. IFRS requires foreign exchange changes to be bifurcated between those relating to the original cost basis and those relating to subsequent fair value changes with the unrealized gains and losses being recognized in net income. Accordingly, Seattle has adjusted its combined statement of comprehensive income to record all applicable unrealized gains and losses.

(x) Presentation and disclosure

Certain reclassifications, such as purchased software, provisions, accruals, expenses and exceptional items, have been made to US GAAP financial statement presentation to conform to IFRS financial statement presentation.

The tables below show the impact of IFRS on net assets as at 1 November 2013 as well as the following:

1. Statement of financial position reconciliations as at 31 October 2014, 2015, and 2016
2. Statement of comprehensive income reconciliations for the years ended 31 October 2014, 2015, and 2016

Combined statement of financial position
as at 31 October 2016

<i>In millions USD</i>	US GAAP	Sale- leaseback (ii)	Share- based payments (iii)	Deferred revenue (iv)	Revenue recognition (v)	Income taxes (vii)	Pension (viii)	Foreign bonds (ix)	IFRS 1 Exemptions (i)	IFRS
Non-current assets										
Goodwill	8,089			10		(4)				8,095
Other intangible assets	411									411
Property, plant and equipment	138									138
Long-term income tax receivable	15									15
Other non-current assets	78					(6)				72
Deferred tax assets	1,024					23				1,047
	<u>9,755</u>									<u>9,778</u>
Current assets										
Other current assets	77									77
Inventories	20									20
Trade and other receivables	665									665
Cash and cash equivalents	130									130
	<u>892</u>									<u>892</u>
Total assets	<u>10,647</u>									<u>10,670</u>
Current liabilities										
Trade and other payables	604					4				608
Borrowings	15									15
Provisions	62									62
Current tax liabilities	51					295				346
Deferred income	773	(4)		(1)	(1)					767
	<u>1,505</u>									<u>1,798</u>
Non-current liabilities										
Deferred income	166	(9)		2	(2)					157
Borrowings	21									21
Retirement benefit obligations	28						134			162
Long-term provisions	10									10
Other non-current liabilities	324					(301)				23
Deferred tax liabilities	2					2				4
	<u>551</u>									<u>377</u>
Total liabilities	<u>2,056</u>									<u>2,175</u>
Net assets	<u>8,591</u>									<u>8,495</u>
Capital and reserves										
Parent company investment	8,645	13		9	3	13	(134)		(23)	8,526
Foreign currency translation deficit	(54)								23	(31)
Total equity	<u>8,591</u>									<u>8,495</u>

Combined statement of comprehensive income

Year ended 31 October 2016

<i>In millions USD</i>	US GAAP	Sale- leaseback (ii)	Share- based payments (iii)	Deferred revenue (iv)	Revenue recognition (v)	Income taxes (vii)	Pension (viii)	Foreign bonds (ix)	IFRS 1 Exemptions (i)	IFRS
Revenue	3,195			3						3,198
Cost of sales	(878)		(3)				(2)			(883)
Gross profit	2,317									2,315
Selling and distribution costs	(1,099)		(9)			(2)	3			(1,107)
Research and development expenses	(710)		(6)			(1)	2			(715)
Administrative expenses	(270)	(4)				2	(12)			(284)
Operating profit	238									209
Analyzed as:										
Adjusted Operating Profit	609	(4)		3		2	(12)			598
Share-based compensation	(70)		(18)			(3)				(91)
Amortization of intangibles	(161)									(161)
Exceptional items	(140)						3			(137)
Operating profit	238									209
Finance costs	(4)					(67)	(2)			(73)
Finance income	1									1
Net finance costs	(3)									(72)
Other expense, net	–									–
Loss/(gain) on available-for-sale securities reclassified into earnings	–									–
Profit/(loss) before tax	235									137
Taxation	(155)					73				(82)
Profit/(loss) for the period	80									55
Other comprehensive income (loss):										
Items that will not be reclassified into profit or loss before taxation										
Actuarial gain/(loss) on pension liabilities schemes	–						(67)			(67)
Items that may be subsequently reclassified to profit or loss before taxation										
Unrealized gain on available- for-sale securities	–									–
Unrealized gain/(loss) on cash flow hedges	1									1
Currency translation differences	5									5
Taxation	–									–
Other comprehensive income/(expense) for the period, net of taxation	6									(61)
Total comprehensive income/ (expense) for the period	86									(6)

Combined statement of financial position
as at 31 October 2015

<i>In millions USD</i>	US GAAP	Sale- leaseback (ii)	Share- based- payments (iii)	Deferred revenue (iv)	Revenue recognition (v)	Income taxes (vii)	Pension (viii)	Foreign bonds (ix)	IFRS 1 Exemptions (i)	IFRS
Non-current assets										
Goodwill	8,313			10		(4)				8,319
Other intangible assets	604									604
Property, plant and equipment	133									133
Long-term income tax receivable	25									25
Other non-current assets	95					(30)				65
Deferred tax assets	813					4				817
	9,983									9,963
Current assets										
Other current assets	117									117
Inventories	23									23
Trade and other receivables	706									706
Cash and cash equivalents	150									150
	996									996
Total assets	10,979									10,959
Current liabilities										
Trade and other payables	616					1				617
Borrowings	11									11
Provisions	36									36
Current tax liabilities	68					316				384
Deferred income	867	(3)		2	(2)					864
	1,598									1,912
Non-current liabilities										
Deferred income	207	(14)		2						195
Borrowings	22									22
Retirement benefit obligations	34						64			98
Long-term provisions	3									3
Other non-current liabilities	367					(346)				21
Deferred tax liabilities	4					2				6
	637									345
Total liabilities	2,235									2,257
Net assets	8,744									8,702
Capital and reserves										
Parent company investment	8,803	17		6	2	(3)	(64)		(23)	8,738
Foreign currency translation deficit	(59)								23	(36)
Total equity	8,744									8,702

Combined statement of comprehensive income

Year ended 31 October 2015

<i>In millions USD</i>	US GAAP	Sale- leaseback (ii)	Share- based payments (iii)	Deferred revenue (iv)	Revenue recognition (v)	Income taxes (vii)	Pension (viii)	Foreign bonds (ix)	IFRS 1 Exemptions (i)	IFRS
Revenue	3,622			6	1					3,629
Cost of sales	(971)		(1)				(10)			(982)
Gross profit	2,651									2,647
Selling and distribution costs	(1,185)		(3)			1	(2)			(1,189)
Research and development expenses	(823)		(2)			1	(9)			(833)
Administrative expenses	(322)	(4)	(1)			7	(12)			(332)
Operating profit	321									293
Analyzed as:										
Adjusted Operating Profit	757	(4)		6	1	6	(34)			732
Share-based compensation	(58)		(7)			3				(62)
Amortization of intangibles	(254)									(254)
Exceptional items	(124)						1			(123)
Operating profit	321									293
Finance costs	(4)					(41)				(45)
Finance income	1									1
Net finance costs	(3)									(44)
Other expense, net	–									–
Gain/(loss) on available-for-sale securities reclassified into earnings	–							(3)		(3)
Profit/(loss) before tax	318									246
Taxation	73					35				108
Profit/(loss) for the period	391									354
Other comprehensive income (loss):										
Items that will not be reclassified into profit or loss before taxation										
Actuarial gain/(loss) on pension liabilities schemes	–						(15)			(15)
Items that may be subsequently reclassified to profit or loss before taxation										
Unrealized gain on available- for-sale securities	1							2		3
Unrealized gain/(loss) on cash flow hedges	5									5
Currency translation differences	(32)									(32)
Taxation	(2)									(2)
Other comprehensive income/ (expense) for the period, net of taxation	(28)									(41)
Total comprehensive income for the period	363									313

Combined statement of financial position
as at 31 October 2014

<i>In millions USD</i>	US GAAP	Sale- leaseback (ii)	Share- based payments (iii)	Deferred revenue (iv)	Revenue recognition (v)	Income taxes (vii)	Pension (viii)	Foreign bonds (ix)	IFRS 1 Exemptions (i)	IFRS
Non-current assets										
Goodwill	8,852									8,852
Other intangible assets	934									934
Property, plant and equipment	145									145
Long-term income tax receivable	6									6
Other non-current assets	80					(10)				70
Deferred tax assets	426					(1)				425
	10,443									10,432
Current assets										
Other current assets	180					(30)				150
Inventories	26									26
Trade and other receivables	787									787
Cash and cash equivalents	197									197
	1,190									1,160
Total assets	11,633									11,592
Current liabilities										
Trade and other payables	552					4				556
Borrowings	6									6
Provisions	52									52
Current tax liabilities	123					175				298
Deferred income	958	(4)			(1)					953
	1,691									1,865
Non-current liabilities										
Deferred income	261	(17)								244
Borrowings	15									15
Retirement benefit obligations	32						53			85
Long-term provisions	6									6
Other non-current liabilities	234					(215)				19
Deferred tax liabilities	12					(1)				11
	560									380
Total liabilities	2,251									2,245
Net assets	9,382									9,347
Capital and reserves										
Parent company investment	9,409	21			1	(4)	(53)		(23)	9,351
Foreign currency translation deficit	(27)								23	(4)
Total equity	9,382									9,347

Combined statement of comprehensive income

Year ended 31 October 2014

<i>In millions USD</i>	US GAAP	Sale- leaseback (ii)	Share- based payments (iii)	Deferred revenue (iv)	Revenue recognition (v)	Income taxes (vii)	Pension (viii)	Foreign bonds (ix)	IFRS 1 Exemptions (i)	IFRS
Revenue	3,933				(4)					3,929
Cost of sales	(1,046)						(5)			(1,051)
Gross profit	2,887									2,878
Selling and distribution costs	(1,358)		(1)				(3)			(1,362)
Research and development expenses	(836)		(1)				(8)			(845)
Administrative expenses	(278)	(4)				(10)	(11)			(303)
Operating profit	415									368
Analyzed as:										
Adjusted Operating Profit	811	(4)			(4)	(10)	(27)			766
Share-based compensation	(60)		(2)							(62)
Amortization of intangibles	(281)									(281)
Exceptional items	(55)									(55)
Operating profit	415									368
Finance costs	(3)					(2)				(5)
Finance income	2									2
Net finance costs	(1)									(3)
Other expense, net	(2)									(2)
Gain/(loss) on available-for-sale securities reclassified into earnings	—							(2)		(2)
Profit/(loss) before tax	412									361
Taxation	(51)					14				(37)
Profit/(loss) for the period	361									324
Other comprehensive income (loss):										
Items that will not be reclassified into profit or loss before taxation										
Actuarial gain/(loss) on pension liabilities schemes	—						(12)			(12)
Items that may be subsequently reclassified to profit or loss before taxation										
Unrealized gain on available- for-sale securities	(1)							1		—
Unrealized gain/(loss) on cash flow hedges	(5)									(5)
Currency translation differences	(4)									(4)
Taxation	2									2
Other comprehensive income/ (expense) for the period, net of taxation	(8)									(19)
Total comprehensive income for the period	353									305

Combined statement of financial position
as at 1 November 2013

<i>In millions USD</i>	US GAAP	Sale- leaseback (ii)	Share- based- payments (iii)	Deferred revenue (iv)	Revenue recognition (v)	Income taxes (vii)	Pension (viii)	Foreign bonds (ix)	IFRS 1 Exemptions (i)	IFRS
Non-current assets										
Goodwill	8,840									8,840
Other intangible assets	1,206									1,206
Property, plant and equipment	165									165
Long-term income tax receivable	3									3
Other non-current assets	76					(6)				70
Deferred tax assets	184									184
	10,474									10,468
Current assets										
Other current assets	277					(13)				264
Inventories	27									27
Trade and other receivables	942									942
Cash and cash equivalents	318									318
	1,564									1,551
Total assets	12,038									12,019
Current liabilities										
Trade and other payables	556	(5)								551
Borrowings	1									1
Provisions	101									101
Current tax liabilities	66					166				232
Deferred income	946	1			(4)					943
	1,670									1,828
Non-current liabilities										
Deferred income	210	5								215
Borrowings	4									4
Retirement benefit obligations	27						25			52
Long-term provisions	6									6
Other non-current liabilities	222	(26)				(185)				11
Deferred tax liabilities	10									10
	479									298
Total liabilities	2,149									2,126
Net assets	9,889									9,893
Capital and reserves										
Parent company investment	9,912	25			4		(25)		(23)	9,893
Foreign currency translation deficit	(23)								23	—
Total equity	9,889									9,893

30. Post balance sheet events

Events and transactions subsequent to the combined statement of financial position date have been evaluated through 9 May 2017, the date the combined statement of financial position was issued, for potential recognition or disclosure.

PART V

PRO FORMA FINANCIAL INFORMATION

SECTION A: Accountant's Report on the Pro Forma Financial Information



The Directors
Micro Focus International plc
The Lawn
22-30 Old Bath Road
Berkshire
RG14 1QN

J.P. Morgan Limited
25 Bank Street
Canary Wharf
London
E14 5JP

9 May 2017

Dear Sirs

Micro Focus International plc (the "Company")

We report on the pro forma financial information (the "Pro Forma Financial Information") set out in section B of Part V (*Pro Forma Financial Information*) of the Company's circular dated 9 May 2017 (the "Circular") which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the proposed acquisition of HPE Software might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 30 April 2016 and the unaudited interim financial statements for the period ended 31 October 2016. This report is required by item 13.3.3R of the Listing Rules and is given for the purpose of complying with that Listing Rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with Annex II of the PD regulation and item 13.3.3R of the Listing Rules.

It is our responsibility to form an opinion, as required by item 13.3.3R of the Listing Rules, as to the proper compilation of the Pro Forma Financial Information and to report our opinion to you.

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PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.



In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

SECTION B: The Unaudited Pro Forma Financial Information

The unaudited pro forma statement of net assets (the “Unaudited Pro Forma Statement of Net Assets”) and the unaudited pro forma income statement (the “Unaudited Pro Forma Income Statement”) set out in this Section B of Part V (*Pro Forma Financial Information*) of this document has been prepared on the basis set out in the notes below to illustrate the effect of the Merger and the associated refinancing on Micro Focus’ net assets as if the Merger had taken place as at 31 October 2016, and on Micro Focus’ income statement for the year ended 30 April 2016 as if the Merger had taken place on 1 May 2015.

The Pro Forma Financial Information has been prepared in accordance with Annex II of the Prospectus Directive Regulations and in a manner consistent with the accounting policies adopted by Micro Focus.

The Pro Forma Financial Information has been prepared for illustrative purposes and, because of its nature, addresses a hypothetical situation and does not reflect the Enlarged Group’s actual financial position or results. The Pro Forma Financial Information does not constitute financial statements within the meaning of section 434 of the Companies Act. Shareholders should read the whole of this document and not rely solely on the financial information contained in this Section B of Part V (*Pro Forma Financial Information*). PwC’s report on the Pro Forma Financial Information is set out in Section A of this Part V (*Pro Forma Financial Information*) of this document.

The Pro Forma Financial Information does not purport to represent what the Enlarged Group’s financial position or results actually would have been if the Merger had been completed on the dates indicated nor do they purport to represent the financial condition at any future date.

Unaudited Pro Forma Income Statement

(\$ millions)	Adjustments				
	Micro Focus for the year ended 30 April 2016 (Note 1)	HPE Software for the year ended 31 October 2016 (Note 2)	Financing adjustments (Note 3)	Merger adjustments (Note 4)	Pro forma Enlarged Group
Revenue	1,245	3,198	–	–	4,443
Cost of Sales	(135)	(883)	–	–	(1,018)
Gross Profit	1,110	2,315	–	–	3,425
Selling and distribution costs	(416)	(1,107)	–	–	(1,523)
Research and development expenses	(260)	(715)	–	–	(975)
Administrative expenses	(139)	(284)	–	(106)	(529)
Operating profit	295	209	–	(106)	398
Share of results of associates	(2)	–	–	–	(2)
Finance costs	(98)	(73)	(118)	–	(289)
Finance income	1	1	–	–	2
Net finance costs	(99)	(72)	(118)	–	(289)
Profit before tax	196	137	(118)	(106)	109
Taxation	(33)	(82)	24	–	(91)
Profit for the period	163	55	(94)	(106)	18

1. Micro Focus' financial information for the financial year ended 30 April 2016 has been extracted, without material adjustment, from the Micro Focus International plc Annual Report and Accounts 2016.
2. HPE Software's financial information for the financial year ended 31 October 2016 has been extracted, without material adjustment, from the financial information in Part IV (*Financial Information Relating to HPE Software*) of this document.
3. Financing adjustments reflect an interest cost of \$97 million which would have been incurred on the expected drawdown on the Seattle Term Loan Facility, the Micro Focus Term Loan Facility and the Revolving Credit Facility as shown in Note 3.iii to the Unaudited Pro Forma Statement of Net Assets less the interest cost incurred on the Existing Facilities that have been re-financed as part of the Merger. For the purpose of the Pro Forma Financial Information, this is treated as if the amount had been drawn as at 1 May 2015 and therefore represents a charge for a 12 month period. In addition, the finance costs adjustment includes \$21 million of debt issuance costs amortisation over the term of the new financing.
4. Micro Focus and HPE Software expect to incur remaining transaction costs of \$60 million and \$46 million, as of 30 April 2016 and 31 October 2016 respectively. An adjustment to administrative expenses in the Unaudited Pro Forma Income Statement of \$106 million has been presented to represent the estimated total remaining transaction and related costs.
5. A tax credit will be available on the finance related expenses as these are assumed to be fully tax deductible. The tax impact of the adjustments was estimated on the average UK corporate tax rate for the 12 months ended 30 April 2016 (20 per cent.). No tax deduction has been assumed for the transaction costs.
6. The nature of the adjustments described in Notes 3 and 5 of the Unaudited Pro Forma Income Statement means that adjustments of a similar nature will have a continuing impact on the Enlarged Group.
7. In preparing the Unaudited Pro Forma Income Statement no account has been taken of the trading or transactions of Micro Focus since 30 April 2016 and HPE Software since 31 October 2016.
8. As described in Note 3 to the Unaudited Pro Forma Statement of Net Assets, on Completion a full fair value exercise will be completed which may result in separate intangible assets being identified. The Unaudited Pro Forma Income Statement does not reflect the impact of the amortisation of any additional intangible assets that may be recognised.

Unaudited Pro Forma Statement of Net Assets

	Adjustments				
	Micro Focus as at 31 October 2016 (Note 1)	HPE Software as at 31 October 2016 (Note 2)	Merger adjustments (Notes 3 & 5)	Financing adjustments (Note 4)	Pro forma Enlarged Group
(\$ millions)					
ASSETS					
Non-current assets					
Goodwill	2,828	8,095	1,687	–	12,610
Other intangible assets	1,186	411	–	–	1,597
Property, plant and equipment	41	138	(12)	–	167
Investments in associates	12	–	–	–	12
Long-term pension assets	24	–	–	–	24
Other non-current assets	3	87	–	–	90
Deferred tax assets	208	1,047	–	–	1,255
	<u>4,302</u>	<u>9,778</u>	<u>1,675</u>	<u>–</u>	<u>15,755</u>
Current assets					
Inventories	–	20	–	–	20
Trade and other receivables	278	742	–	–	1,020
Current tax receivables	3	–	–	–	3
Cash and cash equivalents	123	130	371	–	624
Assets classified as held for sale	1	–	–	–	1
	<u>405</u>	<u>892</u>	<u>371</u>	<u>–</u>	<u>1,668</u>
Total assets	<u>4,707</u>	<u>10,670</u>	<u>2,046</u>	<u>–</u>	<u>17,423</u>
LIABILITIES					
Current liabilities:					
Trade and other payables	(151)	(608)	(14)	–	(773)
Borrowings	(294)	(15)	–	–	(309)
Provisions	(15)	(62)	–	–	(77)
Current tax liabilities	(30)	(346)	–	–	(376)
Deferred income	(582)	(767)	–	–	(1,349)
Total current liabilities	<u>(1,072)</u>	<u>(1,798)</u>	<u>(14)</u>	<u>–</u>	<u>(2,884)</u>
Non-current liabilities:					
Deferred income	(204)	(157)	–	–	(361)
Borrowings	(1,441)	(21)	–	(3,352)	(4,814)
Retirement benefit obligations	(35)	(162)	–	–	(197)
Long-term provisions	(12)	(10)	–	–	(22)
Other non-current liabilities	(11)	(23)	–	–	(34)
Deferred tax liabilities	(350)	(4)	–	–	(354)
	<u>(2,053)</u>	<u>(377)</u>	<u>–</u>	<u>(3,352)</u>	<u>(5,782)</u>
Total liabilities	<u>(3,125)</u>	<u>(2,175)</u>	<u>(14)</u>	<u>(3,352)</u>	<u>(8,666)</u>
					<u>–</u>
Net assets	<u>1,582</u>	<u>8,495</u>	<u>2,032</u>	<u>(3,352)</u>	<u>8,757</u>

1. Micro Focus' financial information as at 31 October 2016 has been extracted, without material adjustment, from Micro Focus' unaudited condensed consolidated interim financial statements and related notes as of and for the six months ended 31 October 2016.
2. HPE Software's financial information as at 31 October 2016 has been extracted, without material adjustment, from the historical financial information of HPE Software set out in in Part IV (*Financial Information Relating to HPE Software*) of this document.

3. The adjustments arising from the Merger are set out below:

- i. Micro Focus will issue the Consideration Shares (the “Equity Consideration”) after the effect of the Return of Value and Share Capital Consolidation. Additionally, prior to the Merger, Seattle will incur indebtedness pursuant to the Seattle Term Loan Facility and make a cash payment of US\$2.5 billion (subject to certain adjustments in limited circumstances set forth in the Separation and Distribution Agreement) to HPE.

- a. Prior to Completion, Micro Focus will issue one B Share to each existing Shareholder and redeem the B Shares for their nominal value. The total cost of the Return of Value to Micro Focus will be \$500 million (inclusive of any currency hedging costs or proceeds). It is assumed there will be 224 million fully diluted Ordinary Shares outstanding prior to the Merger (assuming completion of the Return of Value and Share Capital Consolidation).

- b. Equity Consideration – The Equity Consideration is determined based on the number of ADSs representing Consideration Shares to be issued to HPE Shareholders applying the Micro Focus closing price of an Ordinary Share of £26.39 as at 8 May 2017 (being the latest practicable date prior to the date of this document) translated to USD using the mid-market exchange rate on that date of \$1.2938: £1 to arrive at a price of an Ordinary Share of \$34.14.

The Merger Agreement provides that HPE Shareholders will receive ADSs representing 50.1 per cent. of the fully diluted share capital of Micro Focus immediately following the Merger and therefore for the purposes of the Pro Forma Financial Information, it is assumed that HPE Shareholders will receive 225 million ADSs representing the Ordinary Shares to be issued by Micro Focus. Based on a price of an Ordinary Share of \$34.14, this results in an Equity Consideration valued at \$7,682 million.

The Equity Consideration is estimated using the issued share capital of Micro Focus as at 8 May 2017 (the latest practicable date prior to the publication of this document), with the number of Ordinary Shares being rounded to the nearest million. The actual Equity Consideration will vary depending on the actual number of fully diluted Ordinary Shares outstanding in issue immediately prior to the Merger, the actual price of an Ordinary Share and exchange rates applicable at the date of Completion.

- c. Seattle Cash Payment to HPE prior to the Distribution - Prior to the Distribution and the Merger, Seattle will incur new indebtedness of an aggregate principal amount of \$2,600 million pursuant to the Seattle Term Loan Facility and will make a cash payment of \$2,500 million (subject to certain adjustments in limited circumstances set forth in the Separation and Distribution Agreement) to HPE. This debt will be assumed by Micro Focus upon the Merger.

The total consideration is therefore assumed to be \$10,182 million.

- ii. The estimated goodwill arising from the Merger is \$1,687 million. This has been calculated as the excess of the total consideration (including debt assumed) of \$10,182 million over the book value of the net assets acquired.

	\$ millions
Total purchase consideration	10,182
Less: Seattle net assets acquired	(8,495)
Pro forma goodwill adjustment	<u>1,687</u>

The Merger is accounted for using the acquisition method of accounting and Micro Focus as the accounting acquiror. The excess of consideration over the book value of the HPE Software net assets acquired has been reflected in intangible assets as goodwill. A full fair value exercise to allocate the purchase price will be completed following Completion, therefore no account has been taken in the pro forma of any fair value adjustments that may arise in connection with the Merger or for the value of any customer related or other intangibles to be recognised at the date of acquisition.

- iii. As of 31 October 2016, Micro Focus and HPE Software expect to incur remaining transaction costs of \$40 million and \$46 million, respectively. An adjustment to cash in the Pro Forma Statement of Net Assets of \$86 million has been presented to represent the estimated remaining transaction and related costs.

4. Total new loans and borrowings of Micro Focus and Seattle, comprising the \$2,600 million Seattle Term Loan Facility and \$885 million new tranches of the Micro Focus Term Loan Facilities amount to \$3,352 million (net of debt issuance costs of \$133 million).

Seattle will use \$2,500 million of the \$2,600 million Seattle Term Loan Facility to make a cash payment in connection with the transfer of HPE Software to Seattle. The remaining amount will be used primarily to fund debt issuance.

Prior to the Merger, Micro Focus will amend the Existing Facilities Agreement to refinance \$1.5 billion, and draw incremental borrowings against those facilities of \$885 million. Micro Focus will also enter into the Revolving Credit Facility of \$500 million, which it does not intend to draw down on.

5. At or near Completion, pursuant to the terms of the Separation and Distribution Agreement and Merger Agreement, HPE will engage in the following transactions with Seattle:

- i. Retain certain corporate assets presented in the carve-out financial statements, prior to the transfer of HPE Software to Seattle. This includes a portion of HPE’s global real estate portfolio and IT assets. Accordingly \$12 million of PP&E have been excluded from the Unaudited Pro Forma Statement of Net Assets.

- ii. Transfer certain pension plan liabilities to Seattle associated with former employees of Seattle. Accordingly \$14 million of liabilities have been included in the Unaudited Pro Forma Statement of Net Assets.
 - iii. Effect a cash transfer to meet the minimum cash requirements outlined in the Merger Agreement totalling a cash adjustment of \$105 million in the Unaudited Pro Forma Statement of Net Assets.
6. The estimated impact to cash is summarised as follows:

	\$ millions
Return of value cost (Note 3.ia)	(500)
Estimated transaction and financing costs (Note 3.iii)	(86)
New Borrowings, net (Note 4)	3,352
Seattle Cash Payment to HPE prior to the Distribution (Note 3.ic)	(2,500)
Seattle cash adjustment (Note 5.iii)	105
	<u>371</u>

7. In preparing the Unaudited Pro Forma Statement of Net Assets, no account has been taken of the trading or transactions of Micro Focus or HPE Software since 31 October 2016.

PART VI

PRINCIPAL TERMS OF THE TRANSACTION

SECTION A: MERGER AGREEMENT

1. INTRODUCTION

On 7 September 2016, Micro Focus entered into an agreement and plan of merger (referred to herein as the Merger Agreement) among Micro Focus, Holdings (a wholly owned direct subsidiary of Micro Focus), Merger Sub (a wholly owned indirect subsidiary of Micro Focus), HPE and Seattle SpinCo. The Merger Agreement provides for the merger of Merger Sub with and into Seattle SpinCo (which prior to Completion will hold HPE Software), in accordance with the DGCL and subject to the terms and conditions of the Merger Agreement. As a result of the Merger, the separate corporate existence of Merger Sub will cease and Seattle SpinCo will continue as the surviving corporation and become an indirect wholly-owned subsidiary of Micro Focus. In accordance with DGCL, Seattle SpinCo will on Completion succeed to and assume all the rights, powers and privileges and be subject to all of the obligations of Merger Sub.

Pursuant to the Merger Agreement, Completion will take place on the third Business Day after all conditions precedent to the Merger (other than those, including the Separation, that are to be satisfied at Completion) have been satisfied or, where permissible under applicable law, waived, or such other date and time as the parties may mutually agree.

It is currently expected that the Certificate of Merger will be filed with the Secretary of State of the State of Delaware on the day prior to the expected Completion Date on terms that it becomes effective at 8:00 a.m. on the Completion Date.

2. CONSIDERATION

Pursuant to the Merger Agreement, Micro Focus will issue the Consideration Shares to the Depositary and the Depositary will issue ADSs representing the Consideration Shares to HPE Shareholders as consideration for their Seattle SpinCo shares so that at Completion, HPE Shareholders will own ADSs representing such number of Consideration Shares as shall equal 50.1 per cent. of the fully diluted share capital of Micro Focus at Completion.⁹ Micro Focus will apply to list the ADSs on the NYSE. Prior to the Merger, HPE will (i) transfer HPE Software to Seattle SpinCo in exchange for Seattle SpinCo common stock and a cash payment of US\$2.5 billion (subject to certain adjustments in limited circumstances set forth in the Separation and Distribution Agreement), which will be financed by the Seattle Term Loan Facility, and (ii) effect the Distribution. The estimated US\$7.7 billion market value of the ADSs representing the Consideration Shares to be issued to HPE Shareholders (calculated for the purposes of this document by reference to the closing mid-market price of an Ordinary Share as at the close of business on 8 May 2017 and the US\$:£ exchange rate of 0.7729, and assuming the payment of the Return of Value, together with the associated Share Capital Consolidation) and the US\$2.5 billion cash payment to HPE together imply an enterprise value for HPE Software of approximately US\$10.2 billion, which represents an effective multiple of 13.8x¹⁰ Underlying Adjusted EBITDA of HPE Software for the financial year ended 31 October 2016.

3. REPRESENTATIONS, WARRANTIES AND INDEMNITIES

In the Merger Agreement, Micro Focus, Holdings and Merger Sub have made representations and warranties to HPE and Seattle SpinCo, and HPE has made representations and warranties to Micro Focus, Holdings and Merger Sub relating to HPE and Seattle SpinCo as of the date of the Merger Agreement. Such representations and warranties will also be made as of the Completion Date (except for certain representations and warranties that by their terms address matters only as of a specified date, which are made only as of such specified date) for the purposes of the conditions to Completion. These

⁹ Excluding any Ordinary Shares to be issued pursuant to a de minimis number of replacement awards to be granted to HPE Software employees at Completion under their existing employee incentive arrangements.

¹⁰ The above effective multiple is adjusted for certain overhead and corporate headcount costs related to parent HPE group functions that support HPE Software and are expected to not transfer as part of the Transaction.

representations and warranties are customary and broadly reciprocal. Prior to Completion, Micro Focus' only remedy for a breach of HPE's representations and warranties will be to terminate the Merger Agreement if such breach (or breaches) results in a failure of a condition to Completion to be satisfied (see paragraph 5 below). Following Completion, Micro Focus will not have contractual recourse against, or otherwise be able to recover from, HPE or any other party in respect of any losses which it may suffer in respect of a breach of HPE's representations and warranties.

4. COVENANTS

Each of the parties to the Merger Agreement has undertaken to perform customary covenants in the Merger Agreement until Completion. In general, each of Micro Focus and HPE (only with respect to Seattle SpinCo and its subsidiaries and HPE Software) has agreed that prior to Completion or the earlier termination of the Merger Agreement, except as contemplated by the Merger Agreement or the other Transaction documents, required by applicable law or consented to by the other party thereto (which consent may not be unreasonably withheld, conditioned, delayed or denied) and subject to certain agreed exceptions, it will conduct its business in the ordinary course consistent with past practice.

The covenants pending Completion entered into by HPE and Seattle SpinCo include restrictions on the declaration of dividends, capital expenditure and incurring any indebtedness (subject to agreed exceptions).

The covenants pending Completion regarding the conduct of the business of Micro Focus include restrictions (subject to exceptions) on the declaration of dividends (other than in respect of regular annual dividends and the Return of Value), issuance of shares or rights to subscribe for shares (other than options or other equity awards in the ordinary course and in accordance with past practice) and incurring any indebtedness (other than in the ordinary course of business and with respect to the Seattle Term Loan Facility).

Micro Focus has agreed in the Merger Agreement that the Micro Focus Board shall recommend to Shareholders to vote in favour of all resolutions necessary for the Transaction and an obligation upon them not to withhold, withdraw, modify or qualify such recommendation other than, prior to the receipt of Shareholder approval of the Merger and subject to certain other procedural and other requirements (including customary negotiation rights for HPE), in response to any *bona fide* written proposal or offer from a third party (i) relating to a merger, scheme of arrangement or similar transaction involving Micro Focus, (ii) for 20 per cent. or more of the consolidated assets of Micro Focus and its subsidiaries, (iii) for 20 per cent. or more of the issued share capital of Micro Focus or any other equity interests of Micro Focus, or (iv) that would result in any person or entity beneficially owning 20 per cent. or more of the issued share capital of Micro Focus or any other equity interests of Micro Focus (a "Competing Proposal"), in each case that was not, directly or indirectly, solicited, initiated or encouraged in violation of the Merger Agreement, or for any other reason, if and only if:

- in the case of a Competing Proposal, the Micro Focus Board has determined in good faith, after consultation with Micro Focus' outside financial advisers and outside legal counsel, that such Competing Proposal constitutes a "superior proposal" (being a *bona fide* written Competing Proposal (except the references to "20 per cent." shall be replaced by "50 per cent.")) made by a third party which was not solicited by Micro Focus or any of its representatives in violation of the Merger Agreement and which in the good faith judgment of the Board after consultation with its outside legal and financial advisers, taking into account the various legal, financial and regulatory aspects of the Competing Proposal, (a) if accepted, is reasonably likely to be consummated on a timely basis and (b) if consummated, would result in a transaction that is more favourable to the Shareholders from a financial point of view, than the Transaction); or
- for any other reason, if the Micro Focus Board has determined in good faith, after consultation with Micro Focus' outside financial advisers and outside legal counsel, that inaction would reasonably be expected to be inconsistent with the duties that the Directors owe to Micro Focus in their capacity as Directors of Micro Focus under applicable law.

Each party agrees to use reasonable best efforts to secure all material governmental or regulatory approvals required for the Transaction. Neither Micro Focus nor Seattle SpinCo shall be required, by virtue of such agreement, to divest any asset or enter into any operational restriction or take certain other actions in connection therewith if such divestment, restriction or action is materially adverse to the business, financial condition or results of operations of the Enlarged Group. HPE shall not be required to divest any asset or enter into any operational restriction that is not included within HPE Software.

5. CONDITIONS

5.1 *Conditions to each party's obligations*

The obligations of the parties to the Merger Agreement to consummate the Merger are subject to the satisfaction or, if permitted under applicable law, waiver, of various mutual conditions, including:

- the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, and the receipt of applicable consents, authorisations, orders, or approvals required under other competition laws in certain specified jurisdictions, including merger control approval from the European Commission;
- the consummation of the Separation in all material respects in accordance with the Separation and Distribution Agreement;
- the effectiveness of the registration statements of Micro Focus and Seattle SpinCo, the Form F-6 filed by the Depositary with the SEC with respect to the ADSs and Form 8-A filed by Micro Focus with respect to the ADSs, and the absence of any stop order issued by the SEC or any pending proceeding before the SEC seeking a stop order with respect thereto;
- the approval of the Prospectus by the UKLA and making the Prospectus publicly available in accordance with the Prospectus Rules;
- Admission occurring;
- the approval for listing on NYSE of the ADSs issuable pursuant to the Merger, subject to official notice of issuance;
- the approval of the Merger by Micro Focus Shareholders at the General Meeting; and
- the absence of any law or action by a governmental authority that enjoins, restrains or prohibits the consummation of the Separation or the Merger.

As at 8 May 2017 (the latest practicable date prior to the publication of this document), all applicable merger control and governmental approvals and clearances have been received in connection with the Transaction, including the expiry of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

5.2 *Conditions to HPE and Seattle SpinCo's obligations*

The obligation of HPE and Seattle SpinCo to consummate the Merger is subject to satisfaction (or waiver by HPE) of certain conditions, including:

- the performance and compliance in all material respects by Micro Focus of all covenants required to be complied with or performed by it on or prior to Completion under the Merger Agreement;
- the accuracy of the representations and warranties of Micro Focus, Holdings and Merger Sub as of the date of the Merger Agreement and as of the date of Completion (except in the case of any representation or warranty that by its terms addresses matters only as of another specified date, in which case as of such specified date), provided that, in the event of a breach of such a representation or warranty, the condition shall be deemed satisfied unless the effect of such breaches, individually or in the aggregate, had a material adverse effect (as defined in

the Merger Agreement) in respect of Micro Focus (subject to certain customary exceptions, including relating to good standing, due authorisation, share capital and fees); and

- the receipt by HPE of the HPE Tax Opinion.

5.3 ***Conditions to Micro Focus', Holdings' and Merger Sub's obligations***

The obligation of Micro Focus, Holdings and Merger Sub to consummate the Merger is subject to satisfaction (or waiver by Micro Focus) of certain conditions, including:

- the performance and compliance in all material respects by HPE and Seattle SpinCo of all covenants required to be complied with or performed by them on or prior to Completion under the Merger Agreement; and
- the accuracy of the representations and warranties of HPE and Seattle SpinCo as of the date of the Merger Agreement and as of the date of Completion (except in the case of any representation or warranty that by its terms addresses matters only as of another specified date, in which case as of such specified date), provided that, in the event of a breach of such a representation or warranty the condition shall be deemed satisfied unless the effect of such breaches, individually or in the aggregate, had a material adverse effect (as defined in the Merger Agreement) in respect of Seattle SpinCo (subject to certain customary exceptions, including relating to good standing, due authorisation, share capital and fees).

The obligations of Micro Focus, Holdings and Merger Sub to consummate the Merger or effect the Transaction are not conditional upon the completion of the B Share Scheme.

6. **TERMINATION**

6.1 ***Termination by HPE or Micro Focus***

The Merger Agreement may be terminated at any time prior to Completion by the mutual written consent of HPE and Micro Focus and by either HPE or Micro Focus if (among other things):

- 6.1.1 the Transaction shall not have been consummated on or before 7 March 2018 (provided that such right to terminate shall not be available to any party whose action or failure to comply with its obligations under the Merger Agreement or Separation and Distribution Agreement has been the primary cause of, or has primarily resulted in, the failure of Completion to occur on or prior to such date); or
- 6.1.2 if the Shareholders fail to approve the Transaction upon a vote taken at the General Meeting (provided that Micro Focus shall not be able to terminate the Merger Agreement in such circumstances where action of Micro Focus or failure by Micro Focus to perform any of its obligations is the primary cause of, or primarily resulted in, such failure).

6.2 ***Termination by Micro Focus***

The Merger Agreement may be terminated at any time prior to Completion by Micro Focus in the event of a breach of representation, warranty, covenant or agreement on the part of HPE or Seattle SpinCo, such that any of Micro Focus' conditions to Completion would not be satisfied at Completion, and which, (i) with respect to any such breach that is capable of being cured, is not cured by HPE or Seattle SpinCo by the earlier of: (a) 60 days after receipt of written notice thereof; or (b) 7 March 2018, or (ii) is incapable of being cured prior to 7 March 2018; provided, that Micro Focus shall not have such right to terminate if Micro Focus, Holdings or Merger Sub is then in breach of any of its representations, warranties, covenants or agreements set forth in the Merger Agreement to the extent such breach would give rise to a failure of HPE's and Seattle SpinCo's conditions to Completion.

6.3 Termination by HPE

The Merger Agreement may be terminated at any time prior to Completion by HPE if:

- 6.3.1 Micro Focus, Holdings or Merger Sub has breached any representation, warranty, covenant or agreement in the Merger Agreement on the part of Micro Focus, Holdings or Merger Sub (other than in respect of the circumstances contemplated in the paragraph below), such that any of HPE's and Seattle SpinCo's conditions to Completion would not be satisfied at Completion, and which, (i) with respect to any such breach that is capable of being cured, is not cured by Micro Focus or Merger Sub by the earlier of: (a) 60 days after receipt of written notice thereof; or (b) 7 March 2018; or (ii) is incapable of being cured prior to 7 March 2018; provided, that HPE shall not have such right to terminate if HPE or Seattle SpinCo is then in breach of any of its representations, warranties, covenants or agreements set forth in the Merger Agreement to the extent such breach would give rise to a failure of Micro Focus' conditions to Completion;
- 6.3.2 Micro Focus has breached in any material respect its obligations under the Merger Agreement relating to non-solicitation of competing proposals or to hold the general meeting of Shareholders to approve the Transaction; or
- 6.3.3 the Micro Focus Board fails to recommend the Transaction in accordance with the terms of the Merger Agreement.

7. TERMINATION PAYMENT

Micro Focus has agreed to pay HPE a termination payment equal to approximately US\$60 million in cash if the Merger Agreement is terminated (i) under paragraphs 6.1.2, 6.3.2 or 6.3.3 above, or (ii) under either (a) paragraph 6.1.1 above without a vote of the Micro Focus Shareholders in relation to the Transaction as contemplated by the Merger Agreement or (b) paragraph 6.3.1 above and in each case a Competing Proposal has been publicly announced or communicated to the Micro Focus Board and not been publicly withdrawn at least five Business Days prior to the date of termination and within 12 months after such date of termination a transaction in respect of a Competing Proposal is consummated or Micro Focus enters into a definitive agreement in respect of a Competing Proposal (which, in each case, need not be the same Competing Proposal that was made, disclosed or communicated prior to the termination of the Merger Agreement, and except that the references to 20 per cent. in the definition of Competing Proposal for this purpose shall be changed to 50 per cent.).

8. GOVERNANCE

With effect from Completion, HPE will have the right under the Merger Agreement to nominate (i) one new non-executive director who is a serving executive of HPE to the Board and (ii) one-half of the Board's independent non-executive directors, in each case, subject to approval of the Nomination Committee. Until Micro Focus' second annual general meeting following Completion, any HPE Nominated Director who ceases to be a director of Micro Focus may be replaced by HPE, subject to approval of the Nomination Committee and (except in the case of the HPE Nominated Director who is a serving executive of HPE) such replacement being able to be classified as independent under the Code.

SECTION B: ANCILLARY AGREEMENTS

1. INTRODUCTION

In addition to the Merger Agreement, the following agreements have been entered into or will be entered into prior to Completion (in the form agreed by the parties to the Merger Agreement at the time of the signing of the Merger Agreement, unless otherwise agreed by the parties) in connection with the Transaction.

2. SEPARATION AND DISTRIBUTION AGREEMENT

2.1 Overview

The Separation and Distribution Agreement sets forth the agreement between HPE and Seattle regarding the principal transactions to effect the Separation. In consideration for the transfer of the specified assets and liabilities relating to HPE Software to Seattle or other members of the Seattle Group by HPE or other members of the HPE Group, Seattle will:

- issue to HPE additional shares of Seattle common stock such that the number of shares of Seattle common stock outstanding immediately prior to the Merger is equal to the number of shares of Seattle common stock necessary to effect the Distribution; and
- pay to HPE the pre-Completion cash payment of US\$2.5 billion (subject to certain adjustments in limited circumstances).

2.2 Assets, liabilities and contracts

The Separation and Distribution Agreement identifies the assets to be transferred, the liabilities to be assumed and the contracts to be assigned to each of HPE and Seattle as part of the separation of HPE into two separate companies, and it provides for when and how these transfers, assumptions and assignments will occur. In particular, the Separation and Distribution Agreement provides, among other things, for the following, subject to the terms and conditions contained therein:

- certain assets and liabilities related to HPE Software and any other assets and liabilities specified in the Separation and Distribution Agreement or any ancillary agreement as assets or liabilities to be transferred to the Seattle Group, will generally be retained by or transferred to Seattle or another member of the Seattle Group;
- all of the assets and liabilities other than the assets and liabilities allocated to the Seattle Group will be retained by or transferred to the HPE Group; and
- HPE and Seattle will use commercially reasonable efforts to separate assets and contracts that relate both to HPE Software and HPE's other businesses into separate assets and contracts so that the Seattle Group or the HPE Group, as applicable, will retain the rights and benefits, and be subject to the liabilities, with respect to or arising from each shared asset or contract to the extent relating to its business, with such obligations terminating 24 months after the Distribution (or upon the expiration of any such shared contract in accordance with its terms, if earlier).

2.3 Consents

The Separation and Distribution Agreement provides that Seattle and HPE will use commercially reasonable efforts to obtain any consents, waivers, approvals, permits, authorisations or registrations, and to make any notifications, reports or filings required for the transfer or assignment of any assets or the assumption of any liabilities contemplated by the Separation and Distribution Agreement, or as required to novate or assign obligations under agreements, leases, licences and other liabilities, or to obtain releases or substitutions such that such party and its subsidiaries are solely liable for the liabilities allocated to it under the Separation and Distribution Agreement.

2.4 ***Post-Completion adjustment***

The Separation and Distribution Agreement provides for a specified post-Completion adjustment payment to be made by one party to the other party if and to the extent that (i) the amount of working capital of HPE Software; (ii) the cash and cash equivalents held by or in the name of the members of the Seattle Group; and (iii) the amount of certain obligations for borrowed money and other indebtedness of (or any guarantees in respect of the foregoing by) any member of the Seattle Group, in each case, as of immediately prior to the effective time of the Merger, are greater than or less than specified targets for each such amount.

2.5 ***Disclaimer of Representations and Warranties***

Except as expressly set forth in the Separation and Distribution Agreement, the Merger Agreement or any ancillary agreement, all assets are transferred on an “as is, where is” basis and the respective transferees will bear the economic and legal risks that any conveyance will prove to be insufficient to vest in the transferee good or marketable title, free and clear of all security interests, and that any necessary approvals or notifications are not obtained or made or that any requirements of laws or judgments are not complied with.

2.6 ***Conditions to the Distribution***

The obligation of HPE to complete the Distribution is subject to the satisfaction or waiver by HPE (subject to the limitation that Micro Focus must also consent to any waiver of the first bullet point described below, such consent not to be unreasonably withheld, conditioned or delayed) of the following conditions:

- completion of the reorganisation of the assets and liabilities of HPE and its subsidiaries in connection with the Separation substantially in accordance with the terms of the Separation and Distribution Agreement;
- the issuance by Seattle to HPE of additional shares of Seattle common stock such that the number of shares of Seattle common stock outstanding immediately prior to the Merger is equal to the number of shares of Seattle common stock necessary to effect the Distribution; the cash payment of US\$2.5 billion (subject to adjustment in limited circumstances) by Seattle to HPE; and the completion of specified recapitalisation transactions involving certain HPE subsidiaries;
- delivery of an opinion to the HPE Board of Directors, in form and substance reasonably acceptable to HPE in its sole discretion, from an independent appraisal firm as to the solvency of HPE after giving effect to the pre-Completion cash payment of US\$2.5 billion (subject to adjustment in limited circumstances) and the consummation of the Distribution (and such opinion not having been withdrawn, rescinded or modified in any respect adverse to HPE); and
- satisfaction or waiver by the party entitled to the benefit thereof of the conditions to the obligations of the parties to the Merger Agreement to consummate the Merger and complete the other transactions contemplated by the Merger Agreement (other than those conditions that by their nature are to be satisfied contemporaneously with the Distribution or the Merger).

2.7 ***Certain Seattle Cash and Pension Funding***

At Completion, HPE will cause the Seattle Group to have immediately available cash in an aggregate amount agreed by the parties with respect to Seattle’s defined benefits plan liabilities (or to have pre-funded such agreed amount in whole or in part on or after 1 September 2016 and prior to Completion). Additionally, as of Completion, HPE will cause the Seattle Group to have immediately available cash or cash equivalents in an aggregate amount equal to (i) any insurance proceeds received after the date of the Separation and Distribution Agreement that were generated by assets that would have been allocated to the Seattle Group under the Separation and Distribution

Agreement and (ii) the proceeds of any asset divestiture by HPE Software outside the ordinary course of business after the date of the Separation and Distribution Agreement and not otherwise contemplated by the Merger Agreement or any other Transaction document.

2.8 IT Platform

HPE will use commercially reasonable efforts to deliver to Seattle, by Completion, standalone information technology systems that (in combination with services provided to Seattle under the Transition Services Agreement) in and of themselves will not prevent Seattle from complying in all material respects with IFRS. If HPE has not delivered such standalone IT systems to Seattle prior to the Distribution, HPE and Seattle will discuss in good faith which party will be responsible for the completion and costs of such standalone IT systems after Completion.

2.9 Indemnification

The Separation and Distribution Agreement provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of HPE Software with Seattle and financial responsibility for the obligations and liabilities of HPE's remaining businesses with HPE. Specifically, each of HPE and Seattle agree to indemnify, defend and hold harmless the other party, its affiliates and their respective directors, officers and employees, from and against all liabilities relating to, arising out of or resulting from, among other things:

- the failure of each such party to pay, perform or otherwise promptly discharge any liabilities allocated to it pursuant to the Separation and Distribution Agreement;
- in the case of indemnification by Seattle, any breach by any member of the Seattle Group of the Separation and Distribution Agreement or other Transaction document (other than the Transaction documents that expressly contain indemnification provisions, which will be subject to the indemnification provisions contained therein) after Completion; and
- in the case of indemnification by HPE, any breach by any member of the Seattle Group prior to Completion or any member of the HPE Group at any time, of the Separation and Distribution Agreement or any other Transaction document (other than Transaction documents that expressly contain indemnification provisions, which will be subject to the indemnification provisions contained therein).

The Separation and Distribution Agreement also establishes procedures with respect to the conduct of indemnified claims and related matters.

2.10 Termination

The Separation and Distribution Agreement will terminate immediately upon a valid termination of the Merger Agreement prior to the Distribution. Except for a termination described in the immediately preceding sentence, prior to the Distribution, Seattle may not agree to terminate the Separation and Distribution Agreement without the prior written consent of Micro Focus (not to be unreasonably withheld, conditioned or delayed). After the Distribution, the Separation and Distribution Agreement may not be terminated except by an agreement in writing signed by each of HPE and Seattle. In the event of such a termination, neither party, nor any of their respective officers and directors, will have any liability to any person by reason of the Separation and Distribution Agreement.

2.11 Other Matters

The Separation and Distribution Agreement also governs, among other matters, insurance coverage, access to information, confidentiality, access to and provision of witnesses and records, counsel and legal privileges, treatment of outstanding guarantees and customary releases of liability.

In addition to the Employee Matters Agreement, the Separation and Distribution Agreement includes the documents described in paragraphs 3 to 6 (inclusive) of this Section B of Part VI (*Principal Terms of the Transaction*) as Exhibits to be entered into prior to Completion.

3. TRANSITION SERVICES AGREEMENT

The Transition Services Agreement, which will be entered into at or shortly prior to Completion, sets forth the terms and conditions under which HPE and Seattle SpinCo will provide various services (such as IT services) to each other after Completion on a transitional basis in connection with the Separation.

HPE and Seattle SpinCo agree to provide to each other and their respective subsidiaries (and, in the case of HPE, to Micro Focus and its subsidiaries) specific transitional services set forth on schedules to the Transition Services Agreement and, subject to certain requirements, such other services required to operate HPE Software or the other businesses of HPE, as applicable, in substantially the same manner following Completion.

The initial term of the Transition Services Agreement is nine months, and each party in certain circumstances may extend the term of services it is receiving for up to two three-month periods (for a total term of up to 15 months).

Each party, as recipient, pays to the other, as provider, the provider's actual costs in providing the services plus a markup of five per cent. for the initial term of a service, ten per cent. during the first renewal term for a service, and 15 per cent. for the second renewal term for a service.

Each party's payments to the other party for which it is responsible as recipient of the services are subject to a quarterly cap.

The Transition Services Agreement also provides the parties with the ability to agree additional transition services to those covered by the schedules, it being the intent of the parties that the run rate operating expenses of HPE Software (without such transition services), plus the costs of the transition services provided to HPE Software, will not exceed certain quarterly caps.

Each party, as recipient, may terminate the Transition Services Agreement with respect to all or part of any service for convenience (subject to an applicable notice period) or the provider's failure to perform a material obligation (subject to a 30-day cure period). Each party, as provider, may terminate the Transition Services Agreement with respect to one or more services (in their entirety) for the recipient's material breach of any obligations (subject to a 60-day cure period). The recipient will be required to pay to the provider certain breakage or termination fees and costs or, with respect to the termination of a part of an individual service, any costs incurred by the provider in connection with such termination that would not have otherwise been incurred but for the termination, to the extent such costs cannot reasonably be mitigated or eliminated.

4. TAX MATTERS AGREEMENT

The Tax Matters Agreement, which will be entered into at or shortly prior to Completion, sets forth the terms and conditions regarding the allocation of taxes between HPE and Seattle SpinCo following the Distribution.

Pursuant to the Tax Matters Agreement, each of HPE and Seattle SpinCo will be entitled to be indemnified by the other party with respect to certain tax matters, including in respect of taxes which are attributable to the other party and taxes arising from certain actions (or failures to act) by the other party or certain transactions with respect to the stock or assets of the party that, in each case, would affect the intended tax treatment of the Distribution or certain related transactions. The Tax Matters Agreement also includes a customary general pre- and post-Completion allocation between HPE and Seattle SpinCo of HPE Software's taxes incurred in the ordinary course of business and establishes procedures for preparing tax returns and handling tax audits and proceedings.

In addition, under the Tax Matters Agreement, Micro Focus and Seattle SpinCo will, during the two year period following the date of the Distribution, be restricted from taking certain actions that could adversely affect the intended tax treatment of the Distribution and certain related transactions unless, prior to taking any such actions, Micro Focus or Seattle SpinCo obtains an unqualified opinion from its tax advisers or a ruling from the IRS, in each case, satisfactory to HPE, confirming that the restricted action or actions will not affect the intended tax treatment of the Distribution or certain related transactions. These restrictions may limit the Enlarged Group's ability to pursue certain strategic transactions or engage in certain other transactions, including share issuances, certain debt issuances, business combinations, transactions (other than the Merger) that would (when combined with certain other transactions or changes in ownership of Seattle SpinCo shares) have the effect of causing one or more persons to acquire (directly or indirectly) shares comprising 40 per cent. or more of the vote or value of all outstanding shares of Seattle SpinCo, sales of assets, partial and full liquidations, the cessation of the active conduct of certain businesses, amendments of organisational documents, actions that affect the voting rights of Seattle SpinCo shares and, share redemptions and repurchases.

5. REAL ESTATE MATTERS AGREEMENT

The Real Estate Matters Agreement, which will be entered into at or shortly prior to Completion, sets forth the terms and conditions regarding the separation of HPE Software's real estate from HPE, including providing for the transfer of certain properties by HPE to Seattle SpinCo.

HPE and Seattle SpinCo agree that each will use commercially reasonable efforts to obtain any landlord consents required in connection with the transfer of the leased properties. Seattle SpinCo is also entitled to receive rental income from HPE Software property in the event that such property has not been transferred by HPE prior to Completion.

A form of deed, assignment of lease, lease and sublease are attached as exhibits to the Real Estate Matters Agreement. Such forms have been subsequently further negotiated addressing the particular local requirements of each property transfer.

6. INTELLECTUAL PROPERTY MATTERS AGREEMENT

The Intellectual Property Matters Agreement, which will be entered into at or shortly prior to Completion, sets forth the terms and conditions regarding (i) the allocation and transfer by the HPE Group to Seattle SpinCo of intellectual property used exclusively by HPE Software, (ii) the licensing from the HPE Group to Seattle SpinCo of other intellectual property used by HPE Software prior to Completion and (iii) the licensing from Seattle SpinCo to the HPE Group of certain intellectual property transferred to Seattle SpinCo at Completion which were used by the HPE Group (other than HPE Software) prior to Completion.

The HPE Group will transfer to Seattle SpinCo (i) all registered intellectual property rights (including patents, trade marks, copyrights and domain names) which are set forth in a schedule to the Intellectual Property Matters Agreement and (ii) all unregistered intellectual property rights owned by the HPE Group which exclusively relate to HPE Software.

HPE (on behalf of itself and the other members of the HPE Group) grants to Seattle SpinCo, Micro Focus and their respective subsidiaries a perpetual, non-exclusive and royalty-free licence of certain intellectual property retained by the HPE Group which were used in the operation of HPE Software prior to Completion.

Seattle SpinCo grants to the HPE Group a perpetual, non-exclusive and royalty-free licence of certain intellectual property rights transferred to Seattle SpinCo pursuant to the Intellectual Property Matters Agreement which were used by the HPE Group (other than HPE Software) prior to Completion.

The Intellectual Property Matters Agreement remains in effect in perpetuity unless terminated by mutual agreement of HPE and Seattle SpinCo.

7. EMPLOYEE MATTERS AGREEMENT

The Employee Matters Agreement entered into on 7 September 2016 governs the allocation of liabilities and responsibilities relating to employment matters, employee compensation and benefits plans and programs and other related matters in connection with the Separation.

The Employee Matters Agreement provides that Seattle and its subsidiaries generally will be responsible for liabilities associated with active employees who report directly or indirectly to the Executive Vice President and General Manager, Software for HPE or who serve in a global functions role that is primarily dedicated to supporting HPE Software (collectively, the “Seattle Employees”), other than certain of such liabilities that are specifically allocated to HPE and its subsidiaries under the Employee Matters Agreement, and HPE and its subsidiaries (other than Seattle and its subsidiaries) generally will retain liabilities associated with all active employees who are not Seattle Employees and all former employees.

Under the terms of the Employee Matters Agreement, (i) HPE equity awards granted to Seattle Employees after 24 May 2016 and prior to 1 September 2016 that remain outstanding and unvested as of immediately prior to Completion will be assumed by Micro Focus and converted into equivalent unvested awards relating to Micro Focus Shares and (ii) HPE will be solely responsible for the settlement of, and all other liabilities relating to, all other HPE equity awards held by the Seattle Employees (including (a) all such awards that were outstanding as of 24 May 2016, the vesting of which will be accelerated on the date of the Distribution, (b) any such awards that otherwise vest prior to Completion and (c) any such awards granted on or after 1 September 2016).

Micro Focus’ incentive equity awards are not impacted by the Transaction and will remain outstanding in accordance with their existing terms after Completion.

8. OEM AGREEMENT

On 9 March 2017, SUSE acquired certain assets and employees relating to HPE’s Helion OpenStack and Stackato businesses. The acquisition included HPE naming SUSE as its preferred Open Source partner for Linux, OpenStack and Cloud Foundry solutions.

In connection with the acquisition, Micro Focus Software Inc., a wholly owned subsidiary of Micro Focus, and HPE entered into the OEM Agreement. Pursuant to the OEM Agreement, Micro Focus Software Inc. grants HPE a non-exclusive, worldwide OEM licence to distribute SUSE OpenStack, the SUSE PaaS Solution and the SUSE Linux Enterprise Server (i) as packaged, pre-installed or downloadable products when bundled with HPE’s infrastructure as a service and/or platform as a service offerings; and (ii) on a standalone basis when selling to an existing recipient of HPE’s Infrastructure as a service and/or platform as a service offerings.

The OEM Agreement has an initial term of five years and thereafter automatically renews for further 12 month periods. Following the initial term, either party can terminate the OEM Agreement on not less than 90 days’ notice (to expire at the end of the initial term or any 12 month renewal term, as applicable). The OEM Agreement also contains other termination rights linked to, among other matters, breach events.

SECTION C: NEW FACILITIES AGREEMENTS

The New Facilities Agreements consist of (i) the New Micro Focus Facility Agreement, which will make available the Micro Focus Term Loan Facilities of US\$2.4 billion and the Revolving Credit Facility of US\$500 million, and (ii) the New Seattle Facility Agreement, which will make available the Seattle Term Loan Facility of US\$2.6 billion. Within two Business Days following Completion, the New Facilities are expected to be cross-guaranteed and secured on a *pari passu* basis by identical guarantors and collateral. Prior to Completion, the obligations under the Seattle Term Loan Facility shall not be guaranteed by Micro Focus or any of its subsidiaries and the obligations under the Micro Focus Term Loan Facilities and the Revolving Credit Facility shall not be guaranteed by Seattle SpinCo or any of its subsidiaries.

The New Facilities are not conditional on Admission and the Micro Focus Term Loan Facilities and the Seattle Term Loan Facility are expected to be fully drawn down on Admission.

Pursuant to Amendment No. 3, the Existing Facilities Agreement was amended to (i) reduce the pricing of the Facility B-2 term loans, (ii) refinance the Facility C term loans, (iii) provide for the borrowing of the Facility B-3 term loans and Euro Facility term loans into escrow, (iv) provide for the conversion of the Existing Facilities Agreement into the New Micro Focus Facility Agreement on a date anticipated to be one Business Day prior to Completion pursuant to the terms and conditions of the escrow credit agreement and (v) make certain other changes to the Existing Facilities Agreement. The New Micro Focus Facility Agreement will include three tranches of term loans and the revolving loans. The Facility B-2 term loans shall amortise in quarterly instalments of 0.25 per cent. of the principal amount per quarter, starting with the second full financial quarter after Completion, with the balance repayable on 20 November 2021 (or if such anniversary is not a Business Day, the next preceding Business Day). The Facility B-3 term loans shall amortise in quarterly instalments of 0.25 per cent. of the principal amount per quarter, starting with the second full financial quarter after Completion, with the balance repayable on the seventh anniversary of the date of the initial funding of the Facility B-3 term loans. Euro Facility term loans shall amortise in quarterly instalments of 0.25 per cent. of the principal amount per quarter, starting with the second full financial quarter after Completion, with the balance repayable on the seventh anniversary of the date of the initial funding of the Euro Facility term loans. Revolving loans are repayable on the fifth anniversary of Completion.

The initial term loans under the New Seattle Facility Agreement are expected to be initially incurred by a newly formed US subsidiary of Seattle pursuant to an escrow credit agreement. On a date anticipated to be one Business Day prior to Completion, such loans will be converted and deemed issued under the New Seattle Facility Agreement pursuant to the terms and conditions of the escrow credit agreement.

Interest on the initial term loans or revolving loans in the Micro Focus Facility Agreement is calculated at margins over Alternate Base Rate or Adjusted Eurocurrency Rate of (i) in the case of the initial Facility B-2 term loans, 1.50 per cent. and 2.50 per cent. respectively (beginning with the delivery of the compliance certificate for the fiscal quarter ending 30 April 2018, ratcheting down to 1.25 per cent. and 2.25 per cent. respectively if the first lien leverage ratio is less than or equal to 3:1), (ii) in the case of the initial Facility B-3 term loans, 1.75 per cent. and 2.75 per cent. respectively (beginning with the delivery of the compliance certificate for the fiscal quarter ending 30 April 2018, ratcheting down to 1.50 per cent. and 2.50 per cent. respectively if the first lien leverage ratio is less than or equal to 3:1), (iii) in the case of the initial Euro Facility term loans, 3.00 per cent. over Adjusted Eurocurrency Rate (beginning with the delivery of the compliance certificate for the fiscal quarter ending 30 April 2018, ratcheting down to 2.75 per cent. if the first lien leverage ratio is less than or equal to 3:1) and (iv) in the case of the initial revolving loans, 2.50 per cent. and 3.50 per cent. respectively (beginning with the delivery of the compliance certificate for the fiscal quarter ending 30 April 2018, ratcheting down to 2.25 per cent. and 3.25 per cent. respectively if the first lien leverage ratio is less than or equal to 3:1).

The initial term loans in the New Seattle Facility Agreement shall amortise in quarterly instalments of 0.25 per cent. of the principal amount per quarter, starting with the second full financial quarter after Completion, with the balance repayable on the seventh anniversary of the date of the initial funding of the Seattle Term Loan Facility. Pursuant to the New Seattle Facility Agreement, interest on the initial term loans under the New Seattle Facility Agreement is calculated at margins over Alternate Base Rate or Adjusted

Eurocurrency Rate of 1.75 per cent. and 2.75 per cent. respectively (ratcheting down to 1.50 per cent. and 2.50 per cent. respectively if the first lien leverage ratio is less than or equal to 3:1).

In addition, a commitment fee of 0.50 per cent. (ratcheting down to 0.375 per cent. if the first lien leverage ratio is less than or equal to 3:1) is payable on undrawn amounts of the revolving loans under the Revolving Credit Facility. The New Micro Focus Facility Agreement will contain representations and warranties, affirmative and negative covenants binding Micro Focus and its restricted subsidiaries (including after Completion, Seattle and its restricted subsidiaries) and events of default. The only financial covenant attaching to the New Micro Focus Facility Agreement is an aggregate net first lien leverage covenant which only applies to the Revolving Credit Facility in circumstances where more than 35 per cent. of the Revolving Credit Facility (excluding certain letters of credit) is outstanding at a fiscal quarter end.

Additionally, the New Seattle Facility Agreement will contain representations and warranties, affirmative and negative covenants binding Seattle and its restricted subsidiaries (and, after Completion, Micro Focus and its restricted subsidiaries) and events of default. The New Seattle Facility Agreement will not contain any financial covenants.

If an event of default occurs and is continuing under the New Micro Focus Facility Agreement the lenders under the New Micro Focus Facility Agreement will, subject to certain limitations and exceptions, be entitled to accelerate repayment of the Micro Focus Term Loan Facility and the Revolving Credit Facility, cancel any unutilised commitment and enforce their rights under the guarantees and security.

Additionally, if an event of default occurs and is continuing under the Seattle Term Loan Facility the lenders under the Seattle Term Loan Facility will, subject to certain limitations and exceptions, be entitled to accelerate repayment of the Seattle Term Loan Facility, cancel any unutilised commitment and enforce their rights under the guarantees and security.

The term loans under the New Micro Focus Facility Agreement will include provisions requiring mandatory prepayment subject to a minimum threshold in certain circumstances, in relation to (i) amounts received from the incurrence of debt; (ii) net cash proceeds from certain permitted categories of asset sales and other dispositions of property; (iii) insurance proceeds in respect of a property or asset; and (iv) a percentage of annual excess cash flow (based upon achievement of certain specified net first lien leverage ratios).

The term loans under the Seattle Term Loan Facility will also include provisions requiring mandatory prepayment subject to a minimum threshold in certain circumstances, in relation to (i) amounts received from the incurrence of debt; (ii) net cash proceeds from certain permitted categories of asset sales and other dispositions of property; (iii) insurance proceeds in respect of a property or asset; and (iv) a percentage of annual excess cash flow (based upon achievement of certain specified net first lien leverage ratios).

PART VII

DETAILS OF THE RETURN OF VALUE

SECTION A: INTRODUCTION

1. PROPOSED RETURN OF VALUE

Shortly prior to Completion, Micro Focus intends to implement a Return of Value to existing Shareholders of an aggregate principal amount in sterling equivalent of US\$500 million in cash (inclusive of any currency hedging costs or proceeds), by way of the B Share Scheme. The exchange rate to be used for the Return of Value will be determined by the Board in due course having regard to the prevailing exchange rate as shown by Bloomberg at the time of determination. An announcement giving details of the exchange rate adopted will be made by RIS once such determination has been made, with such announcement being made available on Micro Focus' website (www.microfocus.com). The Record Time for the Return of Value will occur on the Business Day prior to Completion and the Consideration Shares will not participate in the Return of Value.

The Return of Value is conditional upon Resolutions 1 and 2 being passed and subject to final Board approval. It is currently expected that completion of the Return of Value will occur on the Business Day prior to Completion (save for the Share Capital Consolidation which is conditional upon ROV Admission). The Merger is not conditional on completion of the Return of Value or the passing of Resolutions 2 or 3.

2. THE B SHARE SCHEME

A Shareholder will (save as set out below) receive one B Share for each Existing Ordinary Share held at the Record Time (with each B Share being redeemed for its nominal value). It is currently expected that each such B Share will be redeemed by Micro Focus prior to 1 September 2017 and subsequently cancelled.

Shareholders entitled to receive payments in respect of the proceeds from the redemption of B Shares issued pursuant to the B Share Scheme will be sent cheques or, if Shareholders hold their Existing Ordinary Shares in CREST, will have their CREST accounts credited, by the Payment Date, which is currently expected to be on or before 15 September 2017.

Shareholders should, in particular, read Section G of this Part VII (*Details of the Return of Value*) which contains further information as to the tax treatment of the Return of Value in the UK and the US. Shareholders who are in any doubt as to their tax position, or who are subject to taxation in a jurisdiction other than the UK or the US, should consult an appropriate professional adviser.

2.1 *Information relating to the B Shares and the Deferred Shares*

None of the B Shares to be issued pursuant to the B Share Scheme or the Deferred Shares which will arise on the Share Capital Consolidation will be admitted to the premium segment of the Official List or to trading on the London Stock Exchange's main market for listed securities, nor will any of them be listed or admitted to trading on any other recognised investment exchange. The B Shares and the Deferred Shares will have limited rights. The rights and restrictions attached to the B Shares and the Deferred Shares are set out more fully in Section F of this Part VII (*Details of the Return of Value*).

2.2 *Further information*

The B Share Scheme is explained in further detail in Section D of this Part VII (*Details of the Return of Value*). In addition, Section B of this Part VII (*Details of the Return of Value*) sets out some frequently asked questions to help Shareholders understand what is involved in the B Share Scheme, including worked examples of how the B Share Scheme would affect Shareholders. Shareholders should read this Part VII (*Details of the Return of Value*) of this document in full.

3. SHARE CAPITAL CONSOLIDATION

In connection with the B Share Scheme, Micro Focus proposes to undertake the Share Capital Consolidation. The purpose of the Share Capital Consolidation is to seek to ensure that the market price of each New Ordinary Share is not materially affected by the implementation of the B Share Scheme.

Under the proposed Share Capital Consolidation, the Existing Ordinary Shares in issue at the Record Time will be consolidated, subdivided and redesignated so that Shareholders will receive a fraction of a New Ordinary Share for each Existing Ordinary Share held at the Record Time. As the nominal value of a New Ordinary Share will be the same as the nominal value of an Existing Ordinary Share, the Share Capital Consolidation will also result in Shareholders receiving an entitlement to a fraction of a Deferred Share for each Existing Ordinary Share held to ensure that the Share Capital Consolidation does not result in an unlawful reduction of capital.

The consolidation ratio for the Share Capital Consolidation to be used in connection with the Return of Value will be determined by the Board not later than three Business Days prior to Admission. An announcement giving details of the consolidation ratio for the Share Capital Consolidation will be made by RIS once a determination has been made, with such announcement being made available on Micro Focus' website (www.microfocus.com).

The effect of the Share Capital Consolidation will be to reduce the number of Ordinary Shares in issue to reflect the return of value to Shareholders under the B Share Scheme. However, existing Shareholders will own the same proportion of Micro Focus as they did immediately prior to the implementation of the Return of Value, subject to fractional entitlements and disregarding the dilutive impact of the Merger should it complete.

The Share Capital Consolidation will also reduce the number of Consideration Shares to be issued to the Depositary (who will issue ADSs representing the Consideration Shares to HPE Shareholders) on Completion, compared with the number of Consideration Shares that would have been issued had the Share Capital Consolidation not occurred. However, HPE Shareholders will still own ADSs representing such number of Consideration Shares as shall equal 50.1 per cent. of the fully diluted share capital of Micro Focus at Completion.¹¹

The Share Capital Consolidation is conditional upon ROV Admission. The New Ordinary Shares will, subject to ROV Admission, be traded on the London Stock Exchange's main market for listed securities and will be equivalent in all material respects to the Existing Ordinary Shares.

Fractional entitlements of a New Ordinary Share will arise as a result of the Share Capital Consolidation unless a holding of Existing Ordinary Shares when multiplied by the fraction of a New Ordinary Share which each existing Shareholder is entitled to receive for each Existing Ordinary Share held results in a whole number of New Ordinary Shares. For example, if existing Shareholders were entitled pursuant to the Share Capital Consolidation to receive 0.9456 New Ordinary Shares for each Existing Ordinary Share which they hold, then a Shareholder holding 100 Existing Ordinary Shares would be entitled to 94 New Ordinary Shares and a fractional entitlement of 0.56 of a New Ordinary Share after the Share Capital Consolidation. These fractional entitlements will be aggregated and sold in the market and the proceeds of the sale will be distributed *pro rata* to relevant Shareholders save that, where the proceeds from the sale of any such fractional entitlement (net of any expenses) are less than £5.00, Shareholders will have no entitlement or right to the proceeds of sale but instead any such proceeds will be donated by Micro Focus to a suitable charity. Cheques for any amount of £5.00 or more in respect of the net proceeds of sale of a fractional entitlement will be despatched, or CREST accounts will be credited with such net proceeds, as appropriate, by the Payment Date, which is currently expected to be on or before 15 September 2017. In addition, as part of the Share Capital Consolidation, Deferred Shares of negligible value and carrying extremely limited rights will be allocated to the holders of Existing Ordinary Shares at the Record Time, *pro rata* to their holdings of Existing Ordinary Shares. Following ROV Admission, all of the Deferred Shares arising on the

¹¹ Excluding any Ordinary Shares to be issued pursuant to a de minimis number of replacement awards to be granted to HPE Software employees at Completion under their existing employee incentive arrangements.

Share Capital Consolidation will be transferred to a nominee and bought back for the aggregate price of one penny by Micro Focus.

It is anticipated that fractional entitlements to a Deferred Share will arise upon the allocation of Deferred Shares. Such fractional entitlements will be aggregated together and transferred to a nominee identified by the Directors who shall hold such Deferred Shares until they are bought back by Micro Focus.

4. TAX

A general guide to certain limited aspects of the UK tax treatment of the B Share Scheme under current UK law and HM Revenue & Customs' published practice is set out in Section G(A) of this Part VII (*Details of the Return of Value*).

A summary of certain US federal income tax consequences of the B Share Scheme for US Shareholders is set out in Section G(B) of this Part VII (*Details of the Return of Value*).

Shareholders who are subject to tax in a jurisdiction other than the UK or the US, or who are in any doubt as to the potential tax consequences of the Capital Reorganisation, should consult an appropriate professional adviser.

5. OVERSEAS SHAREHOLDERS

Overseas Shareholders' attention is drawn to paragraph 5 of Section D of this Part VII (*Details of the Return of Value*). The tax consequences of the Capital Reorganisation may vary for Overseas Shareholders and, accordingly, Overseas Shareholders should consult their own independent professional adviser without delay.

6. GENERAL MEETING

Implementation of the B Share Scheme, the Share Capital Consolidation and certain related matters require the approval of Shareholders at a general meeting of Micro Focus. Accordingly, Shareholder approval for the Return of Value, Share Capital Consolidation and certain related matters is being sought at the General Meeting. A detailed summary of the relevant Resolution is set out in paragraph 10 of Section D of this Part VII (*Details of the Return of Value*).

The actions to be taken by Shareholders in relation to the Return of Value are set out in paragraph 16 of Part I (*Letter from the Chairman of Micro Focus*) of this document.

SECTION B: FREQUENTLY ASKED QUESTIONS AND ANSWERS

To help you understand what is involved in the B Share Scheme, the following sets out some frequently asked questions and brief responses. These are intended to be in general terms only. Shareholders should read both the questions and answers below and this Part VII (Details of the Return of Value) as a whole carefully. The contents of this document should not be construed as legal, business, accounting, tax, investment or other professional advice. If you are in any doubt about the contents of this document or as to what action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended) if you are resident in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

What happens if the Merger does not go ahead?

The Return of Value is conditional upon Resolutions 1 and 2 being passed and subject to final Board approval but is not conditional on the Merger occurring. The Merger is not conditional on completion of the Return of Value or the passing of Resolutions 2 or 3.

Is there a meeting to approve the B Share Scheme? How do I vote?

The B Share Scheme requires the approval of Shareholders, which is being sought pursuant to Resolution 2 to be considered at the General Meeting convened for 2 p.m. on 26 May 2017. A detailed explanation of Resolution 2 is set out at paragraph 10 of Section D of this Part VII (*Details of the Return of Value*) and will require a majority of 75 per cent. or more of the shares voted to be in favour in order to be passed. Resolution 2 is conditional on Resolution 1 being passed.

Whether or not you intend to be present at the General Meeting, you are requested to complete and return the accompanying Form of Proxy in accordance with the instructions printed thereon or to register the appointment of a proxy electronically or, if you hold Existing Ordinary Shares in CREST, to complete and transmit a CREST Proxy Instruction. Completed Forms of Proxy should be returned to Micro Focus' registrars, Equiniti Limited, Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA as soon as possible and, in any event, so as to be received by Equiniti Limited not later than 2 p.m. on 24 May 2017. The completion and return of a Form of Proxy or the transmittal of an electronic proxy registration or CREST Proxy Instruction will not prevent you from attending the General Meeting and voting and speaking in person if you so wish and are so entitled.

If you have any questions relating to this document and/or the completion and return of the Form of Proxy, an electronic proxy appointment or a CREST Proxy Instruction, please contact Equiniti on 0333 207 6534 (or +44 121 415 0855 for calls from overseas). The helpline is available between the hours of 8.30 a.m. and 5.30 p.m. Monday to Friday (except UK public holidays) and will remain open until 29 September 2017 (or such other date as the Directors determine). Calls to +44 121 415 0855 from outside the UK are chargeable at applicable international rates. Please note that calls to these numbers may be monitored or recorded and no advice on the merits of the Merger or the Return of Value or any financial, legal or tax advice can or will be given.

What do I need to do next?

First, whether or not you intend to be present at the General Meeting, we would encourage you to vote on the Resolutions being proposed in relation to the Return of Value, as well as the other matters to be considered at the General Meeting, by appointing a proxy as described above.

Secondly, you should consider whether or not you are resident in or have a registered address in the Restricted Territories, namely the United States, Canada, Australia, Japan, the Republic of South Africa or New Zealand. If you are resident in or have a registered address in the Restricted Territories, Micro Focus reserves the right to issue your B Share entitlements to a nominee and the redemption proceeds will be remitted to you following the redemption of the B Shares.

If you are in any doubt as to the action you should take you are recommended to consult your own independent professional adviser. In particular, Overseas Shareholders should read paragraph 5 of Section D of this Part VII (*Details of the Return of Value*).

What is the impact of the B Share Scheme on the value of my Ordinary Shares?

The purpose of the Share Capital Consolidation, which forms part of the Capital Reorganisation, is to try to ensure that (subject to market fluctuations) the market price of each New Ordinary Share immediately following the implementation of the B Share Scheme (before taking into account any effects of the Merger) is broadly the same as the market price of each Existing Ordinary Share immediately beforehand.

In addition, disregarding the dilutive effect of the Merger should it complete, you will continue to own the same proportion of Micro Focus (subject to fractional entitlements) as you did immediately prior to the implementation of the Return of Value. Under the proposed Share Capital Consolidation, the Existing Ordinary Shares will be consolidated, subdivided and redesignated so that Shareholders will receive a fraction of a New Ordinary Share for each Existing Ordinary Share held at the Record Time. Expressed as a percentage, the reduction in the number of Ordinary Shares as a result of the Share Capital Consolidation is broadly equivalent to the percentage of Micro Focus' market capitalisation, on 29 August 2017, which is proposed to be returned to Shareholders under the B Share Scheme. Therefore, the value of your holding of New Ordinary Shares plus the amount to be returned per Existing Ordinary Share held at the Record Time pursuant to the Return of Value should, subject to market fluctuations and the effects of the proposed Merger, approximately equal the value of your holding of Existing Ordinary Shares before the Return of Value.

If you currently hold Existing Ordinary Shares in certificated form, you will be issued with a new share certificate in respect of your New Ordinary Shares following the issue of New Ordinary Shares. With effect from ROV Admission, share certificates in respect of Existing Ordinary Shares will cease to be valid. Share certificates in respect of New Ordinary Shares will only be issued following the Share Capital Consolidation. It is therefore important that, if you hold certificate(s) in respect of your Existing Ordinary Shares, you retain them for the time being until share certificates in respect of New Ordinary Shares are despatched, which is expected to be by 15 September 2017. On receipt of share certificates in respect of New Ordinary Shares, certificates in respect of Existing Ordinary Shares can be destroyed. Please see paragraph 7 of Section D of this Part VII (*Details of the Return of Value*) for further information on the despatch of documents.

If you currently hold Existing Ordinary Shares in uncertificated form, it is currently expected that the Existing Ordinary Shares under ISIN GB00BQY7BX88 will be disabled by 6.00 p.m. on the day before ROV Admission (which is currently expected to be 31 August 2017) and on or soon after 8.00 a.m. on ROV Admission (which is currently expected to be 1 September 2017) your CREST account will be credited with New Ordinary Shares under ISIN GB00BD8YWM01.

How will the B Share Scheme affect my shareholding?¹

The consolidation ratio for the Share Capital Consolidation to be used in connection with the Return of Value will be determined by the Board not later than three Business Days prior to Admission. An announcement giving details of the Share Capital Consolidation consolidation ratio will be made by RIS once a determination has been made, with such announcement being made available on Micro Focus' website (www.microfocus.com).

To give you an idea of how the B Share Scheme would affect your shareholding we have set out some examples below:

If the Share Capital Consolidation were to result in each Shareholder being entitled to receive 0.9456² New Ordinary Shares for each Existing Ordinary Share held the following example illustrates the impact for Shareholders.

<i>Number of Existing Ordinary Shares held at the Record Time</i>	<i>Number of B Shares you will receive</i>	<i>Number of New Ordinary Shares you will receive³</i>
100	100	94
500	500	471
1,000	1,000	942

1. For the purpose of this example, entitlements to Deferred Shares have been ignored as the Deferred Shares have negligible economic value and are intended to be transferred to a nominee and repurchased by Micro Focus in due course.
2. This figure is for illustration purposes only. The fraction of a New Ordinary Share which a Shareholder will be entitled to in respect of each Existing Ordinary Share they hold at the Record Time will depend on the closing mid-market price (in pence) of an Existing Ordinary Share (as derived from the Daily Official List of the London Stock Exchange) on the third Business Day prior to the expected date of Admission and the exchange rate to be used for the Return of Value (as determined by the Board on the Business Day the Directors determine, being not later than the third Business Day prior to the expected date of Admission, having regard to the then prevailing exchange rate as shown by Bloomberg). Please see paragraph 3 of Section D of this Part VII (*Details of the Return of Value*) for further details.
3. If, immediately before the Share Capital Consolidation, your holding of Existing Ordinary Shares when multiplied by the number of New Ordinary Shares receivable for each Existing Ordinary Share pursuant to the Share Capital Consolidation does not result in a whole number of New Ordinary Shares, you will be left with a fractional entitlement to a New Ordinary Share. Fractional entitlements will be aggregated into New Ordinary Shares and sold in the market and the proceeds of the sale will be distributed *pro rata* to relevant Shareholders, save that where the proceeds from the sale of any fractional entitlement (net of any expenses) is less than £5.00, Shareholders will have no entitlement or rights to the proceeds of such sale and any such proceeds will be retained by Micro Focus and donated to a suitable charity. See paragraph 4 of Section E of this Part VII (*Details of the Return of Value*) for further details. This will mean that, following the Share Capital Consolidation, no Shareholder will be left with a fraction of a New Ordinary Share.

What if I sell or have sold or transferred all or some of my Existing Ordinary Shares?

If you sell or have sold or otherwise transferred all of your Existing Ordinary Shares at any time prior to the Record Time, please forward this document (but not any personalised Form of Proxy) at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of Existing Ordinary Shares, please consult the bank, stockbroker or other agent through whom the sale or transfer was effected. However, such documents should not be forwarded to or sent in or into any jurisdiction in which to do so would constitute a breach of the relevant laws of such jurisdiction.

Can I trade my B Shares or Deferred Shares?

Although the B Shares are transferable (subject to the applicable restrictions set out in the Articles as proposed to be amended at the General Meeting (please refer to Section F of this Part VII (*Details of the Return of Value*) for further details)), they will not be admitted to the Official List or to trading on the London Stock Exchange's main market for listed securities or listed or admitted to trading on any other recognised investment exchange as they are expected to be redeemed shortly after they are issued.

The Deferred Shares are not transferable (other than in the circumstances set out in Section F of this Part VII (*Details of the Return of Value*)), meaning you will not be able to trade or sell such shares.

Can I trade my New Ordinary Shares?

Subject to ROV Admission, New Ordinary Shares will be traded on the London Stock Exchange's main market for listed securities and will be equivalent in all material respects (including as to the right to transfer) to Existing Ordinary Shares. It is expected that dealings in Existing Ordinary Shares will continue

until 4.30 p.m. on the dealing day prior to ROV Admission (expected to be 31 August 2017, or such other date as the Directors determine) and that ROV Admission will become effective and dealings in the New Ordinary Shares will commence on the London Stock Exchange at 8.00 a.m. on 1 September 2017 (or such other date as the Directors determine).

What if I am a citizen, resident or national of a country other than the UK?

Shareholders who are not resident in the UK, or who are citizens, residents or nationals of a country other than the UK, should read the additional information set out in paragraph 5 of Section D of this Part VII (*Details of the Return of Value*).

In addition, Shareholders who are subject to tax in a jurisdiction other than the UK or the US, or who are in any doubt as to their tax position, should consult their own independent professional advisers.

What is my tax position?

A general guide to certain limited aspects of the UK tax treatment of the B Share Scheme under current UK law and HM Revenue & Customs' published practice is set out in Section G(A) of this Part VII (*Details of the Return of Value*) and a summary of certain US tax consequences for US Holders under current US tax law is set out in Section G(B) of this Part VII (*Details of the Return of Value*).

Shareholders who are subject to tax in a jurisdiction other than the UK or the US, or who are in any doubt as to the potential tax consequences of the B Share Scheme, are strongly recommended to consult their own independent professional advisers.

What exchange rate will be used for the Return of Value and when will it be determined?

The exchange rate to be used for the Return of Value will be determined by the Board on the Business Day the Directors determine, being not later than the third Business Day prior to the expected date of Admission, having regard to the then prevailing exchange rate as shown by Bloomberg.

When will I receive my proceeds from the B Share Scheme and how will these be paid?

It is expected that relevant Shareholders who hold their Ordinary Shares in certificated form will be sent a cheque for payments in respect of their B Shares by the Payment Date, which is currently expected to be on or before 15 September 2017. If Shareholders hold their existing shares in CREST, their CREST accounts are also expected to be credited by the Payment Date. All payments will be made in pounds sterling.

Cheques will be despatched by first class post to the address appearing on the Micro Focus share register at the Record Time (or, in the case of joint holders, to the address of that joint holder whose name stands first in the said register in respect of such joint holding).

What is the impact on Micro Focus Share Plans?

Other than in respect of holders of options granted to US participants under the Micro Focus Employee Stock Purchase Plan 2006, it is anticipated that no adjustment will be made to the number of Ordinary Shares over which participants have options or awards or the relevant strike price of such options or awards. Where subsisting options or awards are subject to performance conditions, the Remuneration Committee will consider whether amendments to the original conditions are required (in line with the terms of the relevant plans) in light of the proposed Return of Value and the Share Capital Consolidation to ensure that the performance targets are not materially less challenging in its opinion. Any such amendment will be made at the discretion of the Remuneration Committee and will be notified to relevant option/award holders.

Holders of options granted to US participants under the Micro Focus Employee Stock Purchase Plan 2006 will receive a cash compensation payment to take account of the reduction in value of such options resulting from the proposed Return of Value. This is because, unlike other Micro Focus Share Plans, the value of these options will not be preserved following the Share Capital Consolidation. The terms of such

compensation payment will be determined in the discretion of the Remuneration Committee on a fair and reasonable basis, and communicated to the relevant participants. However, any such compensation will, in any event, only be paid to the extent the relevant options are exercised.

What if I have any more questions?

If you have read this document and have any further questions, please telephone the Shareholder helpline, which is available between the hours of 8.30 a.m. and 5.30 p.m. Monday to Friday (except UK public holidays) and which will remain open until 29 September 2017 (or such other date as the Directors determine). The Shareholder helpline numbers are: 0333 207 6534 (from inside the UK) and +44 121 415 0855 (from outside the UK). Please note that calls to the Shareholder helpline numbers may be monitored or recorded. Calls to +44 121 415 0855 from outside the UK are chargeable at applicable international rates. Please note that for legal reasons the Shareholder helpline will only be able to provide information contained in this document and will be unable to give advice on the merits of the B Share Scheme or the Merger or to provide legal, financial, investment or taxation advice. Shareholders are recommended to consult their own independent professional adviser if they have any doubt as to the content of this document.

SECTION C: ISSUES TO BE CONSIDERED IN RELATION TO THE PROPOSED B SHARE SCHEME

Shareholders should consider carefully all of the information set out in this document including, in particular, the risks described below and in Part II (Risk Factors) of this document, as well as their personal circumstances, prior to making any decision regarding the B Share Scheme.

The risks below are not intended to be exhaustive or presented in any assumed order of priority and should be read in conjunction with all other information contained in this document, including the “*Caution Concerning Forward-Looking Statements*” section contained in the preamble to this document.

The B Share Scheme is conditional

There is no guarantee that the B Share Scheme will take place. The B Share Scheme is conditional on the approval of Resolutions 1 and 2 set out in the notice of General Meeting (which is set out at the end of this document) and will not proceed if they are not approved by Shareholders. It is also subject to final Board approval. The Share Capital Consolidation is conditional upon the approval of Resolution 2 and ROV Admission.

It is possible that Shareholders may not approve the proposed B Share Scheme or the Transaction or that final Board approval of the B Share Scheme is not obtained. If the B Share Scheme does not occur, the Board may, but would not be obliged to, consider alternative ways to deliver value to Shareholders.

The obligations of Micro Focus, Holdings, Merger Sub, HPE and Seattle SpinCo to effect the Transaction are not subject to the completion of the B Share Scheme. The Merger will be completed, subject to the satisfaction (or waiver, as applicable) of the closing conditions set forth in the Merger Agreement, regardless of whether the B Share Scheme is approved by Shareholders.

Increased debt

The Board expects that the proceeds from the Micro Focus Term Loan Facilities and the Revolving Credit Facility will be used to fund the Return of Value and to refinance the Existing Facilities, which will take place on the Business Day prior to the expected date of Completion. If the Return of Value is implemented, the Enlarged Group (assuming the Merger is completed) or the Micro Focus Group (if the Merger is not completed) will have more indebtedness than if the Return of Value is not implemented, which will have several important effects on its future operations, including the following:

- Micro Focus’ financial performance will need to be sufficient to service its debt and to satisfy its covenants;
- Micro Focus may be restricted in the future from obtaining additional financing; and
- Micro Focus will be required to comply with certain financial covenants contained in loan and related documentation, further restricting its financial and operating flexibility.

Current tax legislation and practice may change

A general guide to certain limited aspects of the UK tax treatment of the B Share Scheme for Shareholders set out in Section G(A) of this Part VII (*Details of the Return of Value*) is based on current UK law and HM Revenue & Customs’ published practice as at the date of this document. The summaries of certain US tax consequences of the B Share Scheme for US Holders set out in Section G(B) of this Part VII (*Details of the Return of Value*) are based on current US law and practice as at the date of this document. Current legislation and practice may change (including in the period from the date of this document and the date(s) on which any proceeds of the B Share Scheme are received by Shareholders) and any such change may affect the taxation liabilities of Shareholders in relation to the B Share Scheme.

SECTION D: DETAILS OF THE B SHARE SCHEME

1. B SHARE SCHEME

The B Share Scheme (described in paragraph 4 of Section D of this Part VII (*Details of the Return of Value*)) and the Share Capital Consolidation comprise the Capital Reorganisation (described in paragraph 3 of Section D of this Part VII (*Details of the Return of Value*)).

The aggregate principal amount to be returned under the B Share Scheme will be the sterling equivalent of US\$500 million, as at the date of announcement of the exchange rate to be adopted by the Board, inclusive of any currency hedging costs or proceeds.

2. CONDITIONS TO THE IMPLEMENTATION OF THE B SHARE SCHEME

The B Share Scheme is conditional on the approval by Shareholders of Resolutions 1 and 2 to be considered at the General Meeting. It is also subject to final Board approval.

The Record Time for the Return of Value and Share Capital Consolidation may be changed to such other time and/or date as the Directors may determine.

3. CAPITAL REORGANISATION

The proposed Capital Reorganisation consists of the allotment and issue of B Shares and the Share Capital Consolidation, each described below.

3.1 Allotment and issue of B Shares

It is proposed that Micro Focus capitalise a sum standing to the credit of Micro Focus' merger reserve and share premium account and then apply the resulting amount at a \$/£ exchange rate to be fixed by the Directors for the purpose of paying up in full B Shares which will be denominated in pounds sterling. The sum to be capitalised will not exceed US\$500 million unless sterling strengthens against the US dollar after the date on which the exchange rate is determined by the Board and the sterling equivalent amount of the Return of Value is announced, in which case the sum to be capitalised will be the US dollar equivalent of the announced sterling amount of the Return of Value calculated by reference to the prevailing exchange rate at the time of the Return of Value. This is an accounting consequence of Micro Focus having a financial currency denominated in US dollars whilst effecting the Return of Value in pounds sterling.

The B Shares will be issued to Shareholders on the basis of one B Share for each Existing Ordinary Share held at the Record Time, which is expected to be 6.00 p.m. on 31 August 2017.

The exact number of B Shares to be issued will be equal to the number of Existing Ordinary Shares in issue at the Record Time. As at 8 May 2017 (the latest practicable date prior to the publication of this document) there were 229,674,479 Existing Ordinary Shares in issue (excluding treasury shares).

The nominal value of the B Shares will depend on the sterling value of the Return of Value as announced by the Board.

The rights and restrictions to be attached to the B Shares are more fully set out in Section F of this Part VII (*Details of the Return of Value*).

No application has been, or will be, made for the B Shares or Deferred Shares to be admitted to listing on the premium segment of the Official List or admitted to trading on the London Stock Exchange's main market for listed securities, nor will the B Shares or the Deferred Shares be listed or admitted to trading on any other recognised investment exchange.

No share certificates will be issued in respect of the B Shares or the Deferred Shares and no CREST accounts will be credited with such shares.

3.2 **Share Capital Consolidation**

Under the proposed Share Capital Consolidation, the Existing Ordinary Shares will be consolidated, subdivided and redesignated so that Shareholders will receive a fraction of a New Ordinary Share for each Existing Ordinary Share held at the Record Time. As the nominal value of a New Ordinary Share will be the same as the nominal value of an Existing Ordinary Share, the Share Capital Consolidation will also result in Shareholders receiving entitlements to a fraction of a Deferred Share for each Existing Ordinary Share held to ensure that the Share Capital Consolidation does not result in an unlawful reduction of capital.

The effect of the Share Capital Consolidation will be to reduce the number of Ordinary Shares in issue to reflect the return of value to Shareholders under the B Share Scheme. However, Shareholders will own the same proportion of Micro Focus as they did immediately prior to the implementation of the Return of Value, subject to fractional entitlements and disregarding the dilutive impact of the Merger (should it complete).

The Share Capital Consolidation will also reduce the number of Consideration Shares that the ADSs to be issued to HPE Shareholders will represent, compared with the number of Consideration Shares that such ADSs would have represented had the Share Capital Consolidation not occurred. However, at Completion, HPE Shareholders will still own ADSs representing such number of Consideration Shares as shall equal 50.1 per cent. of the fully diluted share capital of Micro Focus at Completion.¹²

The aggregate number of New Ordinary Shares arising from the Share Capital Consolidation (represented by “X” below, rounded down to the nearest whole number) shall be calculated in accordance with the below formula:

$$X = \left(\frac{M-R}{M} \right) \times E$$

Where:

E = the number of Existing Ordinary Shares in issue at the Record Time

M = the closing mid-market price (in pence) of an Existing Ordinary Share (as derived from the daily official list of London Stock Exchange plc) on the third Business Day prior to the expected date of Admission

R = the aggregate sterling amount of the Return of Value as determined by the Board divided by the number of Existing Ordinary Shares in issue at the Record Time

As the Merger constitutes a reverse takeover for the purpose of the Listing Rules, the listing of the Existing Ordinary Shares to the premium listing segment of the Official List will be cancelled. Simultaneously, application will be made for the admission of the New Ordinary Shares (or, if the Return of Value is not implemented, the re-admission of the Existing Ordinary Shares) and the admission of the Consideration Shares upon completion of the Merger to the premium listing segment of the Official List maintained by the Financial Conduct Authority and to trading on the London Stock Exchange’s main market for listed securities. If the Merger completes, it is expected that dealings in the Existing Ordinary Shares will continue until 4.30 p.m. on the dealing day prior to Admission and that Admission will become effective and dealings in the New Ordinary Shares (or, if the Return of Value is not implemented, the Existing Ordinary Shares) and the Consideration Shares will commence on the London Stock Exchange at 8.00 a.m. on 1 September 2017.

Share certificates representing the New Ordinary Shares will be issued following the Capital Reorganisation and sent to relevant Shareholders by 15 September 2017. Shareholders who hold their Existing Ordinary Shares in CREST will automatically have their New Ordinary Shares credited to their CREST account. The relevant CREST accounts will be credited at approximately 8.00 a.m. on the ROV Admission Date.

¹² Excluding any Ordinary Shares to be issued pursuant to a de minimis number of replacement awards to be granted to HPE Software employees at Completion under their existing employee incentive arrangements.

Fractional entitlements to New Ordinary Shares

It is likely that fractional entitlements of a New Ordinary Share will arise as a result of the Share Capital Consolidation unless a holding of Existing Ordinary Shares when multiplied by the fraction of a New Ordinary Share which each existing Shareholder is entitled to receive for each Existing Ordinary Share they own results in a whole number of New Ordinary Shares.

For example, if existing Shareholders were entitled pursuant to the Share Capital Consolidation to receive 0.9456 New Ordinary Shares for each Existing Ordinary Share which they hold at the Record Time then a Shareholder holding 100 Existing Ordinary Shares would be entitled to 94 New Ordinary Shares and a fractional entitlement of 0.56 of a New Ordinary Share after the Share Capital Consolidation.

These fractional entitlements will be aggregated and sold in the market and the proceeds of the sale will be distributed *pro rata* to relevant Shareholders save that, where the proceeds from the sale of any such fractional entitlement (net of any expenses) are less than £5.00, Shareholders will have no entitlement or right to the proceeds of sale but instead any such proceeds will be donated by Micro Focus to a suitable charity. Cheques for any amount of £5.00 or more in respect of the net proceeds of sale of a fractional entitlement will be despatched, or CREST accounts will be credited with such net proceeds, as appropriate, by the Payment Date, which is currently expected to be on or before 15 September 2017.

Deferred Shares

As part of the Share Capital Consolidation, Deferred Shares of negligible value and carrying extremely limited rights will be allocated to the holders of Existing Ordinary Shares at the Record Time, *pro rata* to their holdings of Existing Ordinary Shares.

Following ROV Admission, all of the Deferred Shares arising on the Share Capital Consolidation will be bought back for the aggregate price of one penny by Micro Focus.

It is anticipated that fractional entitlements to a Deferred Share will arise upon the allocation of Deferred Shares. Such fractional entitlements will be aggregated together and transferred to a nominee identified by the Directors who shall hold such Deferred Shares until they are bought back by Micro Focus. No share certificates shall be issued for the Deferred Shares.

4. B SHARE SCHEME

Shareholders will receive one B Share in respect of each Existing Ordinary Share held at the Record Time.

It is proposed that Micro Focus capitalise a sum standing to the credit of Micro Focus' merger reserve and share premium account and then to apply the resulting amount at a £/\$ exchange rate to be fixed by the Directors for the purpose of paying up in full B Shares denominated in pounds sterling. The sum to be capitalised will not exceed US\$500 million unless sterling strengthens against the US dollar after the date on which the exchange rate is determined by the Board and the sterling equivalent amount of the Return of Value is announced, in which case the sum to be capitalised will be the US dollar equivalent of the announced sterling amount of the Return of Value calculated by reference to the prevailing exchange rate at the time of the Return of Value. This is an accounting consequence of Micro Focus having a financial currency denominated in US dollars whilst effecting the Return of Value in pounds sterling.

Each such B Share will be redeemed by Micro Focus for its nominal value on the Redemption Time, rounded down in respect of each Shareholder's aggregate holding to the nearest penny. Each such B Share will be cancelled on redemption.

It is expected that Shareholders entitled to receive payments in respect of the proceeds from the redemption of B Shares issued pursuant to the B Share Scheme will be sent cheques or, if Shareholders hold their Existing Ordinary Shares in CREST, will have their CREST accounts credited, by the Payment Date, which is currently expected to be on or before 15 September 2017.

The B Shares will not be listed on the premium segment of the Official List or traded on the London Stock Exchange's main market for listed securities, nor will such shares be listed or admitted to trading on any other recognised investment exchange. No share certificates will be issued in respect of the B Shares and no CREST accounts will be credited with such shares.

The rights and restrictions attached to the B Shares are more fully set out in Section F of this Part VII (*Details of the Return of Value*).

The attention of Overseas Shareholders is generally drawn to paragraph 5 of this Section D.

5. OVERSEAS SHAREHOLDERS

Shareholders who are not resident in the United Kingdom or who are citizens, residents or nationals of other countries should consult their professional advisers to ascertain whether the Return of Value (including, as may be relevant in each case, the issue, holding, redemption or disposal of the B Shares and/or the Deferred Shares) will be subject to any restrictions or require compliance with any formalities imposed by the laws or regulations of, or any body or authority located in, the jurisdiction in which they are resident or to which they are subject. In particular, it is the responsibility of any Overseas Shareholder to satisfy themselves as to full observance of the laws of each relevant jurisdiction in connection with the B Share Scheme, including the obtaining of any government, exchange control or other consents which may be required, or the compliance with other necessary formalities needing to be observed and the payment of any issue, transfer or other taxes or duties in such jurisdiction.

The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. If you are resident in or have a registered address in the Restricted Territories, Micro Focus reserves the right to issue your B Share entitlements to a nominee and the redemption proceeds will be remitted to you following the redemption of the B Shares.

Neither this document nor any other document issued or to be issued by or on behalf of Micro Focus in connection with the B Share Scheme constitutes an invitation, offer or other action on the part of Micro Focus in any jurisdiction in which such invitation, offer or other action is unlawful.

The above provisions of this paragraph 5 relating to Overseas Shareholders may be waived, varied or modified as regards specific Overseas Shareholders or on a general basis by Micro Focus in its absolute discretion.

6. SECURITIES LAW CONSIDERATIONS IN THE UNITED STATES

None of the B Shares, the Deferred Shares nor the New Ordinary Shares have been or will be registered under the US Securities Act or the state securities laws of the United States and none of them may be offered or sold in the United States or to any US persons unless pursuant to a transaction that has been registered under the US Securities Act and the relevant state securities laws or pursuant to a transaction that is exempt from the registration requirements of the US Securities Act and the state securities laws.

7. DEALINGS AND DESPATCH OF DOCUMENTS

The Return of Value will be made by reference to holdings of Existing Ordinary Shares on Micro Focus' register of members as at the Record Time.

It is expected that dealings and settlement within the CREST system of the Existing Ordinary Shares will continue until 4.30 p.m. on 31 August 2017 when, in the case of Existing Ordinary Shares held in certificated form, the register of members will be closed for transfers and no further transfers of Existing Ordinary Shares will be able to be made. The registration of uncertificated holdings in respect of Existing Ordinary Shares will be disabled in CREST at the Record Time.

With effect from ROV Admission, share certificates in respect of Existing Ordinary Shares will cease to be valid. Share certificates in respect of New Ordinary Shares will only be issued following the Share Capital

Consolidation. It is therefore important that, if you hold certificate(s) in respect of your Existing Ordinary Shares, you retain them for the time being until share certificates in respect of New Ordinary Shares are despatched, which is expected to be by 15 September 2017. On receipt of share certificates in respect of New Ordinary Shares, certificates in respect of Existing Ordinary Shares can be destroyed.

No share certificates will be issued by Micro Focus in respect of the B Shares or the Deferred Shares.

Temporary documents of title will not be issued in respect of New Ordinary Shares and, pending despatch of definitive share certificates, transfers of New Ordinary Shares held in certificated form will be certified against the register of members held by Equiniti.

It is expected that Shareholders entitled to receive payments in respect of the proceeds from the redemption of B Shares will be sent cheques or, if Shareholders hold their Existing Ordinary Shares in CREST, will have their CREST accounts credited, by the Payment Date, which is currently expected to be on or before 15 September 2017.

All share certificates and cheques will be sent by first class post, at the risk of the Shareholder(s) entitled thereto, to the registered address of the relevant Shareholder (or, in the case of joint Shareholders, to the address of the joint Shareholder whose name stands first in the register of members in respect of such joint shareholding).

Your present dividend payment mandate, unless revoked or amended, will be deemed to be valid for dividends from Micro Focus in respect of the New Ordinary Shares.

No application has been, or will be, made for the B Shares or the Deferred Shares to be admitted to listing on the premium segment of the Official List or admitted to trading on the London Stock Exchange's main market for listed securities, nor will they be listed or admitted to trading on any other recognised investment exchange.

8. AMENDMENTS TO THE ARTICLES

A number of amendments to the Articles are required in order to implement the B Share Scheme and require Shareholder approval at the General Meeting. These amendments include:

- the insertion into the Articles of the rights and restrictions attaching to the B Shares and Deferred Shares as set out in Section F of this Part VII (*Details of the Return of Value*); and
- changes required to article 122 of the Articles, which confers a power on Micro Focus to capitalise its reserves and funds, in order that Micro Focus can allot and issue B Shares in the manner described in this Part VII (*Details of the Return of Value*). These amendments are set out in paragraph 10 of this section D.

9. MICRO FOCUS SHARE PLANS

Under the Micro Focus Share Plans, Micro Focus has granted options and awards over Ordinary Shares at varying exercise prices and expiry dates. Participants under the Micro Focus Share Plans are not the beneficial owners of Existing Ordinary Shares under those schemes and so will not participate in the B Share Scheme, other than in their capacity as Shareholders (if applicable).

Other than in relation to the options granted to US participants of the Micro Focus Employee Stock Purchase Plan 2006, it is expected that the Share Capital Consolidation will achieve a largely neutral position for participants under the Micro Focus Share Plans as options or awards over Existing Ordinary Shares will take effect as options or awards over the same number of New Ordinary Shares, which are expected to have approximately the same market value following the Capital Reorganisation as Existing Ordinary Shares, subject to market fluctuations. On this basis, it is anticipated that no adjustment will be made to the number of Ordinary Shares over which participants have options or awards or the relevant strike price of such options or awards. Where subsisting options or awards are subject to performance conditions, the Remuneration Committee will consider whether amendments to the original conditions are required (in line with the terms of the relevant plans) in light of the proposed Return of Value to

Shareholders and the Share Capital Consolidation to ensure that the performance targets are not materially less challenging in its opinion. Any such amendment will be made at the discretion of the Remuneration Committee and will be notified to relevant option/award holders.

Holders of options granted to US participants under the Micro Focus Employee Stock Purchase Plan 2006 will receive a cash compensation payment to take account of the reduction in value of such options resulting from the proposed Return of Value. This is because, unlike other Micro Focus Share Plans, the value of these options will not be preserved following the Share Capital Consolidation. The terms of such compensation payment will be determined in the discretion of the Remuneration Committee on a fair and reasonable basis, and communicated to the relevant participants. However, any such compensation will, in any event, only be paid to the extent the relevant options are exercised.

As at 8 May 2017 (the latest practicable date prior to publication of this document), the total number of options under the Micro Focus Share Plans outstanding to subscribe for Existing Ordinary Shares was 8,660,380. In aggregate, these outstanding options represented approximately 3.8 per cent. of the issued Existing Ordinary Share capital of Micro Focus (excluding treasury shares) at such date.

10. SUMMARY EXPLANATION OF THE RESOLUTION RELATING TO THE RETURN OF VALUE

In order to comply with applicable companies' legislation, the implementation of the B Share Scheme requires the approval of Shareholders at a general meeting of Micro Focus. Accordingly, Shareholder approval for the Return of Value and certain matters related to it is being sought at the General Meeting. The notice convening the General Meeting is set out at the end of this document.

Resolution 2: To approve the B Share Scheme and to amend the Articles

Resolution 2 will be proposed at the General Meeting as a special resolution (the passing of which requires at least 75 per cent. of the shares voted (whether in person or by proxy) to be cast in favour). Resolution 2 is required for the implementation of the B Share Scheme and the Share Capital Consolidation. Resolution 2 is conditional on the passing of Resolution 1 but Resolution 1 is not conditional on the passing of Resolution 2 (or Resolution 3). A summary of the paragraphs comprising the Resolution follows below:

2(A) This paragraph proposes that the Articles be altered by:

- (i) deleting the current article 122 and substituting therefor new article 122 which is set out in full in section E of this Part VII (*Details of the Return of Value*) and relates to the ability of Micro Focus to capitalise funds and reserves; and
- (ii) deleting the current articles 139, 140, 141A and 141B and substituting therefor new articles 139 and 140 which are set out in full in section F of this Part VII (*Details of the Return of Value*) and relate to the rights and restrictions to be attached to the B Shares and the Deferred Shares.

2(B) This paragraph proposes to authorise the directors of Micro Focus to:

- (i) capitalise a sum not exceeding US\$650,000,000 standing to the credit of Micro Focus' merger reserve and share premium account to pay up in full the B Shares; and
- (ii) allot and issue B Shares up to an aggregate nominal amount of £475,000,000, on the basis of one B Share for each Existing Ordinary Share held at the Record Time. The actual nominal amount of B Shares to be issued will be determined as described in paragraph 4 (above). The authority granted to the directors will expire at the close of business on 7 March 2018.

- 2(C) This paragraph proposes, conditional upon ROV Admission, to authorise the consolidation, subdivision and redesignation of the Existing Ordinary Shares into New Ordinary Shares and Deferred Shares. All fractional entitlements to New Ordinary Shares which arise will be aggregated into whole New Ordinary Shares and sold in the market on behalf of the relevant Shareholders. The total proceeds of the sale (net of expenses) will be paid in due proportion to the relevant Shareholders save that no Shareholder shall be entitled to receive any due proportion amounting to less than £5.00. All fractional entitlements of Deferred Shares which arise on the Share Capital Consolidation will be aggregated and transferred to a nominee identified by the directors of Micro Focus.
- 2(D) This paragraph proposes to authorise the directors of Micro Focus to transfer, in accordance with the revised Articles, any Deferred Shares arising as a result of the Share Capital Consolidation.

SECTION E: POWER OF THE COMPANY TO CAPITALISE RESERVES AND FUNDS BY ORDINARY RESOLUTION

The following sets out the power of Micro Focus to capitalise reserves and funds as the same is proposed to be inserted into the Articles pursuant to Resolution 2 to be considered at the General Meeting. The following paragraph will be inserted as a new Article 122 in the Articles in substitution for and to the exclusion of Article 122 in the existing Articles.

122. Capitalisation of profits and reserves

122.1 The Directors may, if they are so authorised by a Special Resolution, capitalise any part of any amount for the time being standing to the credit of any reserve (including the share premium account, capital redemption reserve, merger reserve and retained earnings) in each case, whether or not the same is available for distribution, and appropriate the amount to be capitalised to the members or any class of members (on the Register at such time and on such date as may be specified in, or determined as provided in, the resolution of the general meeting granting authority for such capitalisation (or, in the absence of any such specification or determination, as the Directors may determine)) who would have been entitled thereto if distributed by way of dividend (which may exclude the Company in respect of any treasury shares) and in the same proportions (or, in connection with the arrangements and proposed transactions described in the circular to holders of shares in the capital of the Company dated 9 May 2017 (the “**Circular**”), in such proportions as the Directors determine to give effect to the arrangements and proposed transactions set out in that Circular) and the Directors shall apply such sum on their behalf either:

- (a) in or towards paying up the amounts unpaid at the relevant time on any shares in the Company held by those members respectively; or
- (b) in paying up in full at par shares, debentures or other obligations of the Company to be allotted credited as fully paid up among those members in the proportions aforesaid; or partly in one way and partly in the other, but so that, for the purposes of this Article, a share premium account and a capital redemption reserve and a merger reserve, and any other reserve which is not available for distribution may be applied only in paying up in full shares of the Company that are to be allotted credited as fully paid up.

122.2 The Directors shall have power after the passing of any such resolution to do all acts and things which they may consider necessary or expedient to give effect thereto, with full power to the Directors:

- (a) to make such provision (by the issue of fractional certificates or by payment in cash or otherwise) as they think fit in the case of shares, debentures or obligations becoming distributable in fractions, such power to include the right for the Company to disregard fractional entitlements or the benefit thereof to accrue to the Company rather than the members concerned and to retain small amounts, the cost of distribution of which would be disproportionate to the amounts involved;
- (b) to make such provision as they think fit for legal or regulatory or practical difficulties which may arise under the laws or the requests of any regulatory body or stock exchange in any territory or for any other matter whatsoever; and
- (c) to authorise any person to enter, on behalf of all the members entitled thereto, into an agreement with the Company providing (as the case may require) either:
 - (i) for the payment up by the Company on behalf of such members (by the application thereto of their respective proportions of the profits resolved to be capitalised) of the amounts, or any part of the amounts, remaining unpaid on their existing shares; or
 - (ii) for the allotment to such members respectively, credited as fully paid, of any further shares, debentures or obligations to which they may be entitled upon such capitalisation; and
 - (iii) any agreement made under such authority shall be effective and binding on all such members.

SECTION F: RIGHTS AND RESTRICTIONS ATTACHED TO THE B SHARES AND THE DEFERRED SHARES

The following sets out the rights of the B Shares and the Deferred Shares and the restrictions to which they will be subject, as the same are proposed to be inserted into the Articles pursuant to Resolution 2 to be considered at the General Meeting. The following paragraphs will be inserted as new Article 139 and 140 in the Articles in substitution for and to the exclusion of Articles 139, 140, 141A and 141B in the existing Articles.

139 Rights and restrictions attached to B Shares

139.1 General

Notwithstanding Article 7, the redeemable B shares in the capital of the Company (the “**B Shares**”) shall have the rights, and be subject to the restrictions, attaching to shares set out in these Articles save that in the event of a conflict between any provision in this Article 139 and any other provision in these Articles, the provisions in this Article 139 shall prevail.

139.2 Income

The B Shares shall confer no right to participate in the profits of the Company save pursuant to the right to redemption under Article 139.6 below.

139.3 Capital

- (a) Except as provided in Article 139.5 below, on a return of capital on winding-up (excluding any intra-group reorganisation on a solvent basis) but not otherwise, the holders of the B Shares shall be entitled, in priority to any payment to the holders of every other class of share in the capital of the Company, to an amount equal to the nominal value of a B Share per B Share held by them, rounded down in respect of the holder’s aggregate holding to the nearest penny.
- (b) On a winding up, the holders of the B Shares shall not be entitled to any further right of participation in the profits or assets of the Company in excess of that specified in Article 139.3(a) above. In the event that there is a winding-up to which Article 139.3(a) applies and the amounts available for payment are insufficient to pay the amounts due on all the B Shares in full, the holders of the B Shares shall be entitled to their *pro rata* proportion of the amounts to which they would otherwise be entitled.
- (c) The holders of the B Shares shall not be entitled to any further right of participation in the profits or assets of the Company in their capacity as holders of B Shares, save as provided in Article 139.3(a) or 139.6.

139.4 Attendance and voting at general meetings

- (a) The holders of the B Shares shall not be entitled, in their capacity as holders of such B Shares, to receive notice of any general meeting of the Company nor to attend, speak or vote at any such general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of the Company (excluding any intra group reorganisation on a solvent basis), in which case the holders of the B Shares shall have the right to attend the general meeting and shall be entitled to speak and vote only on any such resolution.
- (b) If the holders of the B Shares are entitled to vote at a general meeting of the Company in their capacity as holders of such B Shares, then, subject to any other provisions of these Articles, each holder thereof shall be entitled to vote at such general meeting whether on a show of hands or on a poll as provided in the Companies Acts. For this purpose, where a proxy is given discretion as to how to vote on a show of hands, this shall be treated as an instruction by the relevant holder of B Shares to vote in the way in which the proxy elects to exercise that discretion.

139.5 Class rights

- (a) The Company may from time to time create, allot and issue further shares, whether ranking *pari passu* with or in priority or subsequent to the B Shares. The creation, allotment or issue of any such further shares (whether or not ranking in any respect in priority to the B Shares) shall be treated as being in accordance with the rights attaching to the B Shares and shall not involve a variation of such rights for any purpose or require the consent or sanction of the holders of the B Shares.
- (b) A reduction by the Company of the capital paid up or credited as paid up on the B Shares and the cancellation of such shares shall be treated as being in accordance with the rights attaching to the B Shares and shall not involve a variation of such rights for any purpose or require the consent or sanction of the holders of the B Shares.
- (c) Without prejudice to the generality of the foregoing, the Company is authorised to reduce (or purchase shares in) its capital of any class or classes and such reduction (or purchase) shall not involve a variation of any rights attaching to the B Shares for any purpose or require the consent or sanction of the holders of the B Shares.
- (d) If at any time a currency other than sterling is accepted as legal tender in the United Kingdom in place of or in addition to sterling, the Directors shall be entitled, without the consent of holders of ordinary shares, B Shares or Deferred Shares (as defined in Article 140 below), to make such arrangements and adjustments in respect of the method of calculation and payment of any of the entitlements of holders of B Shares under these Articles as the Directors consider necessary, fair and reasonable in the circumstances to give effect to the rights attaching to the B Shares. Any such arrangements and adjustments shall not involve a variation of any rights attaching to the B Shares for any purpose.

139.6 Redemption of B Shares

Subject to the provisions of the Companies Acts and these Articles, the Company shall redeem, out of the profits available for distribution, the B Shares as follows:

- (a) The B Shares shall be redeemed (without the Company having to give any notice to holders of B shares) at such time as the Directors may in their absolute discretion determine (the “**Redemption Time**”).
- (b) On redemption of a B Share at the Redemption Time, the Company shall be liable to pay to a holder of B Shares an amount equal to the nominal value of a B Share (the “**Redemption Amount**”) for each B Share registered on the Company’s relevant register at the Redemption Time, rounded down in respect of the holder’s aggregate holding to the nearest penny. The Company’s liability to pay to such holder the Redemption Amount for each such B Share shall be discharged by the Company by a payment to such holder within 25 days of the Redemption Time of the Redemption Amount for each such B Share by cheque or by the crediting of CREST accounts.
- (c) In the absence of bad faith or wilful default, neither the Company nor any of its Directors, officers or employees shall have any liability to any person for any loss or damage arising as a result of the determination of the Redemption Time in accordance with Article 139.6(a) above.
- (d) All B Shares redeemed shall be cancelled and Micro Focus shall not be entitled to re-issue them.

139.7 Transfer and Certificates

Subject to such of the provisions of these Articles as may be applicable, no transfer of B Shares will be registered after 5.00 p.m. on the second Business Day prior to the Redemption Time unless

determined to the contrary by the Directors. No share certificates or other documents of title shall be issued in relation to the B Shares.

139.8 Deletion of Article 139 when no B Shares in existence

Following the first issue of B Shares, Article 139 shall remain in force until there are no longer any B Shares in existence, notwithstanding any provision in these Articles to the contrary. Thereafter, Article 139 shall be, and shall be deemed to be, of no effect (save to the extent that the provisions of Article 139 are referred to in other Articles) and shall be deleted and replaced with the wording "Article 139 has been deleted", and the separate register for the holders of B Shares shall no longer be required to be maintained by the Company; provided that the validity of anything done under Article 139 before that date shall not otherwise be affected and any actions taken under Article 139 before that date shall be conclusive and not be open to challenge on any grounds whatsoever.

140. Deferred Shares

140.1 General

Notwithstanding Article 7, the deferred shares of 10 pence each (the "**Deferred Shares**") shall have the rights, and be subject to the restrictions, attaching to shares set out in these Articles save that in the event of a conflict between any provision in this Article 140 and any other provision in these Articles, the provisions in this Article 140 shall prevail.

140.2 Income

The Deferred Shares shall confer no right to participate in the profits of the Company.

140.3 Capital

On a return of capital on a winding-up (excluding any intra-group reorganisation on a solvent basis) but not otherwise, there shall be paid to the holders of the Deferred Shares, the nominal capital paid up, or credited as paid up, on such Deferred Shares after:

- (a) firstly, paying to the holders of the B Shares, the amounts they are entitled to receive on a winding up in accordance with their terms; and
- (b) secondly, paying to the holders of the ordinary shares the nominal capital paid up or credited as paid up on the ordinary shares held by them respectively, together with the sum of £100,000,000,000 on each ordinary share.

The holders of the Deferred Shares shall not be entitled to any further right of participation in the assets of the Company.

140.4 Attendance and voting at general meetings

The holders of the Deferred Shares shall not be entitled, in their capacity as holders of such shares, to receive notice of any general meeting of the Company or to attend, speak or vote at any such meeting.

140.5 Class rights

- (a) The Company may from time to time create, allot and issue further shares, whether ranking *pari passu* with or in priority to the Deferred Shares, and on such creation, allotment or issue any such further shares (whether or not ranking in any respect in priority to the Deferred Shares) shall be treated as being in accordance with the rights attaching to the Deferred Shares and shall not involve a variation of such rights for any purpose or require the consent or sanction of the holders of the Deferred Shares.
- (b) The reduction by the Company of the capital paid up on the Deferred Shares, or any other shares, or reduction of share premium account shall be in accordance with the rights

attaching to the Deferred Shares and shall not involve a variation of such rights for any purpose and the Company shall be authorised at any time to reduce its capital (in accordance with the Companies Acts) or share premium account without obtaining the consent or sanction of the holders of the Deferred Shares.

- (c) Without prejudice to the foregoing, the Company is authorised to reduce (or purchase or redeem shares in) its capital of any class or classes and such reduction (or purchase or redemption) shall not involve a variation of any rights attaching to the Deferred Shares for any purpose or require the consent of the holders of the Deferred Shares.

140.6 Form

The Deferred Shares shall not be listed or traded on any stock exchange nor shall any share certificates be issued in respect of such shares. The Deferred Shares shall not be transferable except in accordance with Article 140.7 below or with the written consent or sanction of the Directors.

140.7 Transfer and purchase

The Company shall at any time (and from time to time) (subject to the provisions of the Companies Acts) without obtaining the sanction of the holder or holders of the Deferred Shares:

- (a) appoint any person to execute on behalf of any holder of Deferred Shares a transfer of all of the Deferred Shares or any part thereof (and/or an agreement to transfer the same) to the Company or to such person as the Directors may determine (whether or not an officer of the Company), in any case for not more than the aggregate amount of one penny for all the Deferred Shares then being transferred which shall be donated to a suitable charity; and
- (b) cancel all or any of the Deferred Shares purchased or acquired by Micro Focus in accordance with the Companies Acts.

140.8 Deletion of Article 140 when no Deferred Shares in existence

Article 140 shall remain in force until there are no longer any Deferred Shares in existence, notwithstanding any provision in these Articles to the contrary. Thereafter Article 140 shall be, and shall be deemed to be, of no effect (save to the extent that the provisions of Article 140 are referred to in other Articles) and shall be deleted and replaced with the wording "Article 140 has been deleted", and the separate register for the holders of Deferred Shares shall no longer be required to be maintained by Micro Focus; provided that the validity of anything done under Article 140 before that date shall not otherwise be affected and any actions taken under Article 140 before that date shall be conclusive and not be open to challenge on any grounds whatsoever.

SECTION G: TAXATION

(A) UNITED KINGDOM TAXATION

The following comments do not constitute tax advice and are intended only as a general guide. They are based on current United Kingdom tax law and what is understood to be HM Revenue & Customs' current published practice as at the date of this document (which are both subject to change at any time, possibly with retrospective effect). They relate only to certain limited aspects of the UK tax treatment of Shareholders.

The comments below are intended to apply only to Shareholders: (i) who are resident (and, in the case of individuals, domiciled) in (and only in) the UK for UK tax purposes (unless the position of non-UK resident Shareholders is expressly referred to); (ii) to whom split-year treatment does not apply; (iii) who are and will be the absolute beneficial owners of their Existing Ordinary Shares, New Ordinary Shares and B Shares and any dividends paid in respect of those shares; (iv) who hold, and will hold, their shares as investments (otherwise than through an individual savings account or a pension arrangement) and not as securities to be realised in the course of a trade; (v) who hold less than 5 per cent. of the Existing Ordinary Shares, New Ordinary Shares and B Shares; and (vi) to whom the UK tax rules concerning carried interest do not apply in relation to their holding or disposal of Existing Ordinary Shares, New Ordinary Shares or B Shares.

The comments below may not apply to certain Shareholders, such as dealers in securities, broker dealers, insurance companies and collective investment schemes, pension schemes, Shareholders who are exempt from UK taxation, Shareholders who acquire or acquired their Existing Ordinary Shares, New Ordinary Shares and B Shares under the Micro Focus Share Plans and Shareholders who have (or are deemed to have) acquired their Existing Ordinary Shares, New Ordinary Shares or B Shares by virtue of an office or employment. Such Shareholders may be subject to special rules.

The material set out in the paragraph below does not constitute tax advice. Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the United Kingdom should consult an appropriate professional adviser.

1. CAPITAL REORGANISATION

For the purposes of CGT:

- the issue of the B Shares to Shareholders and the Share Capital Consolidation should in practice each be treated as a reorganisation of Micro Focus' share capital. Shareholders in receipt of B Shares and New Ordinary Shares arising from the Capital Reorganisation should not be treated as making a disposal of their holding of Existing Ordinary Shares and no liability to CGT should arise, in each case by reason of the issue of the B Shares to Shareholders or the Share Capital Consolidation. Instead, the Shareholder's resultant holding of B Shares and New Ordinary Shares should, for CGT purposes, be treated as the same asset and as having been acquired at the same time, and for the same consideration, as the Shareholder's holding of Existing Ordinary Shares;
- upon a subsequent disposal (or deemed disposal) of all or part of the Shareholder's B Shares or New Ordinary Shares, a Shareholder's aggregate CGT base cost in such Shareholder's holding of Existing Ordinary Shares should be apportioned between the B Shares and the New Ordinary Shares by reference to their respective values on the first day on which the New Ordinary Shares are listed; and
- the sale, on behalf of relevant Shareholders, of fractional entitlements to New Ordinary Shares resulting from the Share Capital Consolidation (where applicable) should not generally in practice constitute a part disposal for CGT purposes. Instead, the amount of any payment received by the Shareholder will be deducted from the base cost of the New Ordinary Shares for the purposes of computing a chargeable gain or allowable loss on a subsequent disposal. This treatment will not apply if the proceeds are greater than the base cost of the holding of Existing Ordinary Shares. In this event, the Shareholder may elect (in effect) for the excess to be treated as a capital gain and to give up any basis they have in their shares.

The issue of the B Shares and the Share Capital Consolidation should not give rise to any liability to United Kingdom income tax (or corporation tax on income) in a Shareholder's hands.

2. REDEMPTION OF B SHARES

The redemption of the B Shares should be treated as a disposal of those Shares for United Kingdom tax purposes. This may, subject to the Shareholder's individual circumstances and any available exemption or relief, give rise to a chargeable gain (or allowable loss) for the purposes of CGT.

Any gain or loss will be calculated by reference to the difference between the purchase or redemption price and the element of the Shareholder's original base cost in their Existing Ordinary Shares that is attributed to the relevant B Shares. The amount of the base cost which will be attributed to the B Shares will be determined as outlined in Section G(A)(1) above.

2.1 Individuals

The amount of CGT, if any, payable by an individual Shareholder as a consequence of the redemption of the B Shares will depend on his or her own personal tax position. The capital gains tax annual exemption (which is £11,300 for individuals in the 2017/18 tax year) may be available to exempt any chargeable gain, to the extent that the exemption has not already been utilised.

With effect from 6 April 2016, capital gains tax will generally be charged at 10 per cent. to the extent that the total chargeable gains and, generally, total taxable income arising in a tax year, after all allowable deductions (including losses, the income tax personal allowance and the capital gains tax annual exempt amount), are less than the upper limit of the income tax basic rate band. To the extent that any chargeable gains (or part of any chargeable gains) arising in a tax year exceed the upper limit of the income tax basic rate band when aggregated with any such income (in the manner referred to above), capital gains tax will generally be charged at 20 per cent.

2.2 Companies

The disposal of B Shares on their redemption may give rise to a chargeable gain (or allowable loss) for the purposes of UK corporation tax at the applicable tax rate, depending on the circumstances and subject to any available exemption or relief. Indexation allowance may reduce the amount of any chargeable gain for these purposes, but will not create or increase any allowable loss. The main rate of UK corporation tax is currently 19 per cent. and will reduce to 17 per cent. from 1 April 2020.

3. DIVIDENDS PAYABLE ON THE NEW ORDINARY SHARES

Liability to United Kingdom income tax or United Kingdom corporation tax on income in respect of dividends payable on the New Ordinary Shares will depend upon the individual circumstances of the Shareholder. An overview of the UK tax rules applicable to dividends is set out below.

It should be noted that provisions contained in the Finance Act 2016 changed the tax treatment of dividends in the hands of Shareholders who are income tax payers in respect of dividends paid on or after 6 April 2016. The following comments do not address the tax treatment of any dividend paid before that date.

3.1 General

There is no United Kingdom withholding tax on dividends paid by Micro Focus.

3.2 Individual Shareholders within the charge to United Kingdom income tax

When Micro Focus pays a dividend to a Shareholder who is an individual resident (for tax purposes) in the United Kingdom, the amount of income tax payable on the receipt, if any, will depend on the individual's own personal tax position. "Dividend income" for these purposes includes UK and non UK source dividends and certain other distributions in respect of shares.

No tax should be payable if the amount received, when aggregated with the Shareholder's other dividend income in the year of assessment, does not exceed the annual tax-free allowance (£5,000 for 2017/2018, but proposed to be reduced to £2,000 from 2018/19 onwards). Dividend income in excess of the tax-free allowance is taxed at the following rates:

- 7.5 per cent. to the extent that it falls below the threshold for higher rate income tax;
- 32.5 per cent. to the extent it falls within the higher rate band; and
- 38.1 per cent. to the extent it falls within the additional rate band.

For the purposes of determining which of the taxable bands dividend income falls into, dividend income is treated as the highest part of a Shareholder's income. In addition, dividends within the nil rate band which would otherwise have fallen within the basic or higher rate bands will use up those bands respectively and so will be taken into account in determining whether the threshold for higher rate or additional rate income tax is exceeded.

Dividends paid by the Company on or after 6 April 2016 will not carry a tax credit.

3.3 *Corporate Shareholders within the charge to United Kingdom corporation tax*

Shareholders within the charge to United Kingdom corporation tax which are "small companies" (for the purposes of United Kingdom taxation of dividends legislation) should not generally expect to be subject to tax on dividends from Micro Focus.

Other Shareholders within the charge to United Kingdom corporation tax should not be subject to tax on dividends from Micro Focus so long as the dividends fall within an exempt class and certain conditions are met. In general, (i) dividends paid on non-redeemable shares that do not carry any present or future preferential rights to dividends or to the Company's assets on its winding up; and (ii) dividends paid to a United Kingdom resident corporate Shareholder holding less than 10 per cent. of the issued share capital of the class in respect of which the dividend is paid should fall within an exempt class. However, it should be noted that the exemptions are not comprehensive and are subject to anti-avoidance rules. Shareholders will need to ensure that they satisfy the requirements of any exempt class and that no anti-avoidance rules apply before treating any dividend as exempt, and seek appropriate professional advice where necessary.

3.4 *Non-residents*

Shareholders who are not resident in the United Kingdom (for tax purposes) who receive a dividend from the Company are treated as having paid UK income tax on their dividend income at the dividend ordinary rate (7.5 per cent.). Such income tax will not be repayable to a non-UK resident individual Shareholder. A non-UK resident Shareholder is not generally subject to further UK tax on dividend receipts.

Shareholders who are not resident may also be subject to foreign taxation on dividend income under local law. Shareholders who are not resident in the United Kingdom (for tax purposes) should consult their own tax adviser concerning their tax liabilities on dividends received from Micro Focus. Shareholders who are subject to United States tax are referred to Section G(B) below.

4. STAMP DUTY AND STAMP DUTY RESERVE TAX ("SDRT")

The following statements are intended as a general guide to the current UK stamp duty and SDRT position, and apply regardless of whether or not a Shareholder is resident in the UK. It should be noted that certain categories of person, including market makers, brokers, dealers, and other specified market intermediaries, are entitled to exemption from stamp duty and SDRT in respect of purchases of securities in specified circumstances.

4.1 ***Stamp duty and SDRT on Capital Reorganisation and issue of Consideration Shares***

No stamp duty or SDRT should be payable on the issue of the B Shares (unless the Shareholder receiving B Shares is a depositary or clearance service, where special rules may apply).

No stamp duty or SDRT will be payable on, or as a result of, the redemption of the B Shares. No stamp duty or SDRT will be payable by Shareholders on the Share Capital Consolidation.

It is not anticipated that any of the steps associated with the issue of the Consideration Shares to the Depositary will give rise to any stamp duty or SDRT.

4.2 ***Sales of B Shares or New Ordinary Shares - general***

An agreement to sell B Shares or New Ordinary Shares will normally give rise to a liability on the purchaser to SDRT, at the rate of 0.5 per cent. of the amount or the value of the consideration paid. If an instrument of transfer of the B Shares or the New Ordinary Shares is subsequently produced it will generally be subject to stamp duty at the rate of 0.5 per cent. of the amount or the value of the consideration paid (rounded up to the nearest £5). When such stamp duty is paid, the SDRT charge will generally be cancelled and any SDRT already paid will (subject to a claim) generally be refunded. Stamp duty and SDRT are generally satisfied by the purchaser.

4.3 ***Depositary arrangements***

Special rules apply where New Ordinary Shares are issued or transferred to, or to a nominee or agent for, either a person whose business is or includes issuing depositary receipts within section 67 or section 93 Finance Act 1986 or a person providing a clearance service within section 70 or section 96 of the Finance Act 1986, under which stamp duty or SDRT may be charged at a higher rate of 1.5 per cent.

Following the first-tier tax tribunal decision in *HSBC Holdings plc and the Bank of New York Mellon Corporation v HMRC*, HMRC has confirmed that it will no longer seek to impose stamp duty or SDRT at the rate of 1.5 per cent. on issues of UK shares to depositary receipt issuers and clearance systems, or on transfers of such shares to such issuers and systems where those transfers are integral to the raising of capital by a company. However, HMRC's view (which is currently being challenged in litigation) is that the tribunal's decision does not have any impact upon transfers (on sale or otherwise than on sale) of shares or securities to depositary receipt systems or clearance services that are not an integral part of an issue of share capital and so the 1.5 per cent. SDRT or stamp duty charge will continue to apply to such transfers. **Specific professional advice should be sought before incurring a 1.5 per cent. stamp duty or SDRT charge in any circumstances.**

Transfers of ADSs should not attract a charge to stamp duty or SDRT in the UK provided there is no written instrument of transfer. Transfers of the New Ordinary Shares by the Depositary or its nominee to a holder outside the Depositary facilities, or any subsequent transfers that occur entirely outside those facilities, will ordinarily be subject to the stamp duty and SDRT rules in sub-paragraph 4.2 above.

5. **TRANSACTIONS IN SECURITIES**

Under section 684 Income Tax Act 2007 (for individuals), HM Revenue & Customs can, in certain circumstances, counteract income tax advantages arising in relation to transactions in securities. Were section 684 to be successfully invoked against any Shareholder, that individual Shareholder would be likely to be taxed as though the consideration for the sale of their B Shares was dividend income rather than a capital receipt.

Section 684 Income Tax Act 2007 only applies in relation to the receipt of relevant consideration in connection with certain transactions involving "close companies" (as defined in Chapter 2 of Part 10 of the Corporation Tax Act 2010). Given Micro Focus' shareholder base, Micro Focus should not be treated as a "close company" for these purposes.

A similar adjusting provision applies for companies under the provisions of Part 15 of the Corporation Tax Act 2010. Were section 737 Corporation Tax Act 2010 to apply, corporate Shareholders might be liable to taxation as if they had received an income amount. Micro Focus has been advised that the necessary circumstances for an adjustment under section 737 Corporation Tax Act 2010 (receipt of consideration in connection with relevant company distribution) are not present.

(B) UNITED STATES TAXATION

1. UNITED STATES TAXATION OF THE CAPITAL REORGANISATION TO US HOLDERS

This Section G(B) describes certain US federal income tax consequences to a US Holder of the Capital Reorganisation under current law. This Section is general in nature, is not an opinion and does not address all aspects of US federal income taxation that may be relevant to a US Holder. Shareholders should consult their own tax advisers as to the particular tax consequences to them of the Capital Reorganisation.

This Section is based on the federal income tax laws of the United States as of the date of this document, including the IRC, existing and proposed Treasury Regulations promulgated thereunder, judicial authority, published administrative positions of the IRS, and other applicable authorities, all as of the date hereof. All of the foregoing authorities are subject to change, which change could apply retroactively and could significantly affect the tax consequences described below. Micro Focus has not sought any ruling from the IRS with respect to the statements made and the conclusions reached in the following discussion and there can be no assurance that the IRS or a court will agree with its statements and conclusions. This Section does not address the so-called Medicare tax on net investment income, any US federal non-income tax laws, including the federal estate or gift tax laws, or the laws of any state, local or non-US taxing jurisdiction. In addition, this discussion does not address any withholding taxes or reporting obligations applicable to accounts maintained by a US Holder with non-United States financial institutions (through which a US Holder may hold Ordinary Shares).

This Section applies only to US Holders who hold their Ordinary Shares as capital assets for US federal income tax purposes (generally, property held for investment). This Section neither addresses the tax consequences to any particular US Holder nor describes all of the tax consequences that may be applicable to persons in special tax situations, such as: banks and certain other financial institutions; insurance companies; regulated investment companies; real estate investment trusts; brokers or dealers in stocks and securities, or currencies; persons who use or are required to use a mark-to-market method of accounting; certain former citizens or residents of the US subject to Section 877 of the IRC; entities subject to the anti-inversion rules of Section 7874 of the IRC; tax-exempt organisations and entities; persons subject to the alternative minimum tax provisions of the IRC; persons whose functional currency is other than the US dollar; persons holding Ordinary Shares as part of a straddle, hedging, conversion or other integrated transaction; persons holding Ordinary Shares through a bank, financial institution or other entity, or a branch thereof, located, organised or resident outside the United States; persons that actually or constructively own 10 per cent. or more of the total combined voting power of all classes of Micro Focus' voting stock; persons who acquired Ordinary Shares pursuant to the exercise of an employee stock option or otherwise as compensation; or partnerships or other pass-through entities, or persons holding Ordinary Shares through such entities.

If a partnership (including an entity or arrangement treated as a partnership for US federal income tax purposes) holds Ordinary Shares, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A partnership or partner in a partnership holding Ordinary Shares should consult its own tax advisers regarding the tax consequences of investing in and holding Ordinary Shares.

Micro Focus believes, and this Section assumes, that it is not a PFIC for US federal income tax purposes, although no assurance is being given in that regard. Micro Focus' possible status as a PFIC is based on an annual determination that cannot be made until the close of a taxable year, involves extensive factual investigation, including ascertaining the fair market value of all of Micro Focus' assets on a quarterly basis and the character of each item of income that Micro Focus earns, and is subject to uncertainty in several respects. Therefore, Micro Focus cannot assure you that it will not be treated as a PFIC for its current

taxable year ending 30 April 2018 or for any future taxable year or that the IRS will not take a contrary position. If Micro Focus were to be a PFIC, special, possibly materially adverse, consequences would result for US Holders and certain reporting requirements might apply to US Holders. Shareholders should consult their own tax advisers regarding the potential application of the PFIC regime.

The summary of certain US federal income tax consequences set out below is for general information only and is subject to the considerations set out above. It is not a substitute for careful tax planning and advice. Shareholders should consult their own tax advisers as to the particular tax consequences to them of the Capital Reorganisation and the Merger, the applicability and effect of state, local, non-US and other tax laws (including the US federal and gift tax laws), the applicability of the Treaty or any other applicable tax treaty, and possible changes in tax law.

1.1 *In general*

The US federal income tax consequences of the Capital Reorganisation to US Holders are not entirely clear. That is, in part, because the Capital Reorganisation involves a series of transactions executed under UK law for which there is no direct analogue under US federal income tax laws. While the Section below sets forth Micro Focus' determination of the most likely US federal income tax consequences of the Capital Reorganisation, certain other interpretations are possible that could result in materially different US federal income tax consequences to US Holders.

As described above, Micro Focus intends to redeem the B Shares in full shortly after, and as part of the same plan as, the *pro rata* issuance of such B Shares to holders of Existing Ordinary Shares. Accordingly, Micro Focus believes that, for US federal income tax purposes, the issuance of the B Shares should be disregarded and the redemption price of the B Shares should be treated as a distribution of cash to holders of Existing Ordinary Shares that is separate from the Share Capital Consolidation. In addition, Micro Focus believes that US Holders should not recognise gain or loss on the receipt of New Ordinary Shares pursuant to the Share Capital Consolidation (other than with respect to any fractional entitlement to New Ordinary Shares for which cash is received).

The remainder of this Section more fully discusses the US federal income tax treatment of the Capital Reorganisation and certain of the potential consequences to US Holders. US Holders are urged to consult their own tax advisers regarding the appropriate characterisation of the Capital Reorganisation for US federal income tax purposes.

1.2 *Receipt of B Shares*

US Holders should not recognise taxable income or loss as a result of the receipt of B Shares.

1.3 *Redemption of B Shares*

The redemption proceeds paid to a US Holder upon the redemption of B Shares should, to the extent paid out of the current or accumulated earnings and profits of Micro Focus (as determined under US tax principles), be treated as a dividend for US federal income tax purposes. Because Micro Focus does not intend to determine its earnings and profits on the basis of US federal income tax principles, any distribution paid generally will be reported as a "dividend" for US federal income tax purposes. Any such dividend income recognised by a US Holder generally will be foreign source income. Because Micro Focus is not a US corporation, dividends received by corporate US Holders would not be eligible for the dividends-received deduction allowed to qualifying corporations under the IRC. Non-corporate US Holders generally will be taxed on dividends at reduced rates of taxation, provided that the US Holder meets certain holding periods and other requirements and provided that Micro Focus is not treated as a PFIC for US federal income tax purposes in the year in which the dividend is paid or in the year prior to the year in which the dividend is paid. As noted above, Micro Focus does not believe that it is or has been a PFIC, although there can be no assurance in this regard. Non-corporate Shareholders should consult their own tax advisers regarding their eligibility to claim such reduced rate based on their particular circumstances.

To the extent that the redemption proceeds paid to a US Holder exceed such US Holder's allocable share of Micro Focus' current and accumulated earnings and profits (as determined under US tax principles), the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the Existing Ordinary Shares, and thereafter as gain from the sale or exchange of a capital asset. Any such gain or loss generally would be capital gain. However, as indicated above, Micro Focus expects that the distribution will not exceed its current and accumulated earnings and profits.

Notwithstanding the foregoing, if the Share Capital Consolidation constitutes a "recapitalisation" for US federal income tax purposes, the redemption proceeds from the B Share Scheme could be treated as received in connection with such recapitalisation, which could result in materially different US federal income tax consequences to US Holders. US Holders are urged to consult their own tax advisers regarding the potential US federal income tax treatment of the redemption of the B Shares if the Share Capital Consolidation is treated as a recapitalisation.

See Section G(B)1.5 below for a discussion of the US federal income tax considerations arising from the receipt of redemption proceeds in pounds sterling.

1.4 *Share Capital Consolidation*

Except to the extent of any fractional entitlement to New Ordinary Shares for which cash is received (discussed below), US Holders generally will not recognise gain or loss on the receipt of New Ordinary Shares pursuant to the Share Capital Consolidation and should have the same holding period and tax basis in the New Ordinary Shares received as they had in their Existing Ordinary Shares.

If a US Holder receives cash proceeds with respect to a fractional entitlement as a result of the Share Capital Consolidation, such US Holder should be treated as if a fractional share of a New Ordinary Share had been received by the US Holder as part of the Share Capital Consolidation and then sold by such US Holder. Accordingly, such US Holder should recognise gain or loss equal to the difference between the amount realised with respect to such fractional share and the portion of the tax basis in its New Ordinary Shares that is allocable to such fractional share. Such gain or loss will be treated for US federal income tax purposes as capital gain or loss, which generally will be long-term capital gain or loss if the Ordinary Shares have been held for more than one year at the time the fractional entitlements to the New Ordinary Shares are sold in the market. The net amount of long-term capital gain recognised by a non-corporate US Holder generally will be subject to reduced rates of taxation. Any such gain realised by a US Holder generally will constitute income from sources within the United States for foreign tax credit purposes and constitute "passive category" income for such purposes. The deductibility of capital losses is subject to limitations.

US Holders should not recognise taxable income or loss as a result of the receipt of Deferred Shares.

See Section G(B)1.5 below for a discussion of the US federal income tax considerations arising from the receipt of pounds sterling with respect to a fractional entitlement as a result of the Share Capital Consolidation.

1.5 *Consequences of payment in pounds sterling*

Payment of B Share redemption proceeds, as well as any amounts received with respect to a fractional share entitlement as a result of the Share Capital Consolidation, will be made in pounds sterling. Accordingly, the amount realised by a cash-basis US Holder (or an electing accrual-basis US Holder) upon the receipt of pounds sterling generally will equal the US dollar value of the sterling calculated by reference to the \$/£ exchange rate in effect on the date the payment is received by the US Holder, regardless of whether the sterling is converted into US dollars on such date. If the sterling received is not converted into US Dollars on the date of receipt, such US Holder will have a tax basis in the sterling equal to such US dollar value and any gain or loss realised on a subsequent conversion or other disposal of the sterling will be treated as US source ordinary income or loss. An accrual-basis US Holder that has not elected to use the \$/£ exchange rate in effect on the date of its receipt of

pounds sterling should consult with its own tax adviser as to the consequences in its particular circumstances of the receipt and exchange of pounds sterling.

1.6 ***Information reporting and backup withholding***

Amounts paid within the United States or through certain US-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the US Holder is a corporation (other than an S corporation) or other exempt recipient or provides a taxpayer identification number and certifies that no loss of exemption has occurred. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a Shareholder may be allowed as a credit against the Shareholder's US federal income tax liability, if any, and may entitle the Shareholder to a refund, provided that the required information is timely furnished to the IRS.

Shareholders should consult their own tax advisers regarding the application of the information reporting and backup withholding rules.

The summary set forth above is included for general information only. US Holders are urged to consult their own tax advisers to determine the particular tax consequences to them of the Capital Reorganisation and the Merger, including the applicability and effect of US state, local and non-US tax laws.

SECTION H: ADDITIONAL INFORMATION

1. SUMMARY OF THE RIGHTS AND RESTRICTIONS ATTACHING TO THE NEW ORDINARY SHARES

The rights and restrictions attaching to the New Ordinary Shares will be the same as the rights and restrictions set out in the Articles in respect of the Existing Ordinary Shares subject to the amendments proposed by Resolutions 2 and 3 to be considered at the General Meeting. These may be summarised as regards income, return of capital and voting, as follows:

1.1 *Income*

The holders of the New Ordinary Shares shall be entitled to be paid any further profits of Micro Focus available for distribution and determined to be distributed. Any dividend payable on the New Ordinary Shares which has remained unclaimed for 12 years from the date when it was declared or became due for payment shall be forfeited and shall revert to Micro Focus unless the Board decides otherwise.

1.2 *Capital*

On a return of capital on a winding-up (excluding any intra-group reorganisation on a solvent basis), after paying such sums as may be due in priority to the holders of any other class of shares in the capital of Micro Focus (including an amount equal to the nominal value of a B Share per B Share held by a Shareholder, rounded down in respect of the Shareholder's aggregate holding to the nearest penny), any further such amount shall be paid to the holders of the New Ordinary Shares rateably according to the amounts paid up or credited as paid up in respect of each New Ordinary Share and £100,000,000,000 per New Ordinary Share. Any further such amount remaining after payments to the holders of New Ordinary Shares shall be paid to the holders of the Deferred Shares up to the nominal value paid up or credited as paid up on such shares in accordance with the Articles as amended pursuant to the Resolutions.

1.3 *Voting*

The holders of the New Ordinary Shares shall be entitled, in respect of their holding of such shares and subject to relevant provisions of the revised Articles, to receive notice of any general meeting of Micro Focus and to attend and vote at any such general meeting. At any such meeting, on a show of hands, every holder of New Ordinary Shares present in person shall have one vote and every such holder present in person or by proxy shall upon a poll have one vote for every New Ordinary Share of which he is the holder.

2. FORM

The New Ordinary Shares, B Shares and Deferred Shares are not renounceable and (with the exception of the Deferred Shares, which are not generally transferable and, the B Shares which are subject to the applicable transfer restrictions set out in the Articles as amended pursuant to Resolution 2) will be transferable by an instrument of transfer in usual or common form. The New Ordinary Shares, B Shares and Deferred Shares will be in registered form. Micro Focus will apply for the New Ordinary Shares to be admitted to CREST with effect from ROV Admission. Accordingly, settlement of transactions in the New Ordinary Shares may take place within the CREST system in respect of general market transactions.

3. CREST

Shareholders who hold their Existing Ordinary Shares in CREST will, following the Share Capital Consolidation, have their CREST accounts credited with New Ordinary Shares under ISIN GB00BQY7BX88 on the ROV Admission Date.

4. AMENDMENTS

The Directors reserve the right to change the Record Time, Redemption Time and the Payment Date. They also reserve the right not to proceed with the Return of Value at any time prior to issue of the B Shares.

PART VIII

ADDITIONAL INFORMATION

1. RESPONSIBILITY

Micro Focus and the Directors whose names appear in paragraph 3.1(a) of this Part VIII (*Additional Information*) accept responsibility for the information contained in this document. To the best of the knowledge and belief of Micro Focus and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. INFORMATION ON MICRO FOCUS

2.1 *Incorporation and principal place of business*

Micro Focus was incorporated and registered in England and Wales on 21 May 2004 under the Companies Act 1985 as a private company limited by shares with registered number 05134647 and with the name Hackremco (no. 2158) Limited. On 5 April 2005 Micro Focus was re-registered as a public limited company and changed its name to Micro Focus International plc. The domicile of Micro Focus is England and Wales.

2.2 *Registered office*

The registered office of Micro Focus is The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN (telephone number +44 (0)1635 565200).

2.3 *Regulation*

The principal laws and legislation under which Micro Focus operates are the laws of England and Wales.

2.4 *Structure*

Micro Focus is the ultimate parent company of the Micro Focus Group and will be the ultimate parent company of the Enlarged Group. All operating activities are conducted by companies which are members of the Micro Focus Group.

2.5 *Share capital*

The New Ordinary Shares and the Consideration Shares will, on Admission, rank *pari passu* in all respects. As at 8 May 2017 (the latest practicable date prior to the publication of this document) the total issued share capital of Micro Focus was £22,967,448, comprised of 229,674,479 Ordinary Shares of 10 pence each. As at 8 May 2017 (the latest practicable date prior to the publication of this document), no shares were held in treasury. The Consideration Shares and the New Ordinary Shares will be in registered form and capable of being held in uncertificated form.

2.6 *Irrevocable undertakings*

HPE has received irrevocable undertakings from all of the Directors who individually hold Ordinary Shares to vote in favour of the Resolutions necessary to implement the Transaction in respect of 505,064 Ordinary Shares, representing 0.2 per cent. of the total issued share capital of Micro Focus as at 8 May 2017 (being the latest practicable date prior to the publication of this document).

3. DIRECTORS, PROPOSED DIRECTORS AND SENIOR MANAGEMENT OF MICRO FOCUS

3.1 *Directors, Proposed Directors and Senior Managers*

The Directors, Proposed Directors and senior managers and their respective functions are as follows:

<i>Name</i>	<i>Position</i>
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(a) Directors

Kevin Loosemore	<i>(Executive Chairman)</i>
Mike Phillips	<i>(Chief Financial Officer)</i>
Stephen Murdoch	<i>(Chief Executive Officer, Micro Focus, to Completion)</i>
Nils Brauckmann	<i>(Chief Executive Officer, SUSE)</i>
Karen Slatford	<i>(Senior Independent Non-executive Director)</i>
Richard Atkins	<i>(Independent Non-executive Director)</i>
Amanda Brown	<i>(Independent Non-executive Director)</i>

(b) Proposed Directors

Chris Hsu	<i>(Chief Executive Officer, Enlarged Group, from Completion)</i>
John Schultz	<i>(Non-independent Non-executive Director from Completion)</i>
Silke Scheiber	<i>(Independent Non-executive Director from 15 May 2017)</i>
Darren Roos	<i>(Independent Non-executive Director from 15 May 2017)</i>

(c) Senior Managers

Paul Rodgers	<i>(Business Operations and Integration Director)</i>
Jane Smithard	<i>(General Counsel and Company Secretary)</i>
Martin Taylor	<i>(Chief Information Officer)</i>
John Delk	<i>(Head of Product Development)</i>
Rob Ebrey	<i>(Head of Tax and Treasury)</i>
Suzanne Chase	<i>(Director of Internal Audit and Risk)</i>

With effect from Completion, Chris Hsu has been appointed as Chief Executive Officer of the Enlarged Group and Stephen Murdoch will become Chief Operating Officer.

3.2 *Directors' service contracts and letters of appointment and remuneration*

(a) Executive Directors' service contracts

The Executive Directors have service contracts with Micro Focus on the following terms:

Name	Date of Service Contract	Expiry Date
Kevin Loosemore	14 April 2011	The agreement is terminable by either party on six months' notice. ⁽¹⁾
Mike Phillips	7 September 2010	The agreement is terminable by either party on six months' notice.
Stephen Murdoch	16 April 2014	The agreement is terminable by either party on six months' notice.
Nils Brauckmann	27 January 2016	The agreement is terminable by either party on six months' notice.

(1) Subject to the below, Kevin Loosemore's notice period decreases by one month for each complete month served after 31 October 2017 until it reaches zero on 1 May 2018.

If an Executive Director, other than Kevin Loosemore, is guilty of a material breach of his service contract or commits any crime or act of gross misconduct or dishonesty, Micro Focus is entitled summarily to terminate the service contract without notice and without payment in lieu of notice or other compensation. Such a contract term cannot, however, as a rule of law, affect such Executive Director's statutory rights such as rights in respect of unfair dismissal. Kevin Loosemore's service contract does not contain such a term.

Should an Executive Director, other than Nils Brauckmann, be dismissed in different circumstances to the above, Micro Focus may pay him, in lieu of notice, a sum equal to his basic pay over his notice

period. In respect of Kevin Loosemore, such sum is equal to £735,000 in the event his appointment is terminated prior to 1 May 2018. Nils Brauckmann's service contract does not contain such a contract term.

Subject to Kevin Loosemore being granted an ASG over at least 947,140 Ordinary Shares within one week of Completion (or within one week of Micro Focus being permitted to grant such ASGs), his existing notice provisions (including any right to a payment in lieu of notice of £735,000) as detailed above, will be replaced in their entirety with a six month notice period.

Each of the Executive Directors is subject to a confidentiality undertaking without limitation in time and, save for Kevin Loosemore, to non-competition, non-solicitation, non-dealing and non-hiring restrictive covenants for a period of between six and 12 months after the termination of their respective employment arrangements. Kevin Loosemore is subject to six month non-hiring and non-interference with suppliers restrictive covenants.

Each of the Executive Directors has the benefit of a qualifying third-party indemnity from Micro Focus (the terms of which are in accordance with the Companies Act) and appropriate directors' and officers' liability insurance.

Kevin Loosemore receives a payment in lieu of pension of 20 per cent. of base salary whilst the other Executive Directors receive a contribution of up to 15 per cent.

(b) Proposed Director's (Chris Hsu) service contract

Chris Hsu has entered into a service agreement with Micro Focus (US) Inc. dated 16 January 2017, pursuant to which, with effect from Completion, Chris Hsu will become Chief Executive Officer of the Enlarged Group. The service agreement is terminable on six months' notice by either party and contains summary termination provisions similar to the Executive Directors. Chris Hsu is also subject to confidentiality undertakings without limitation in time and to non-solicitation restrictive covenants for a period of 12 months after termination.

Chris Hsu's salary on commencement of employment will be US\$1,000,000 and he will be eligible for benefits consistent with other Executive Directors and a bonus of up to 150 per cent. of base salary. Chris will also be eligible to participate in the Company's LTIP (it being anticipated that Chris will be granted an award of two times his base salary on commencement of his employment) and it is anticipated that Chris will also be granted an ASG following commencement of his employment.

(c) Non-Executive Directors' letters of appointment

Non-Executive Directors have letters of appointment with Micro Focus on the following terms:

Name	Effective date of letter of appointment	Fees (per annum)
Karen Slatford	5 July 2010	£120,000
Richard Atkins	16 April 2014	£90,000
Amanda Brown	1 July 2016	£90,000

Each of the Non-Executive Directors is appointed by a letter of appointment for a fixed term of three years or less subject to earlier termination by either the Director or Micro Focus on 90 days' notice. Each Non-Executive Director still serving at the end of his or her term will have his or her appointment reviewed by the Board and the reappointment of that Non-Executive Director may be agreed.

Each Non-Executive Director is entitled to reimbursement of reasonable expenses.

Non-Executive Directors do not participate in the Micro Focus Group's share incentives or otherwise receive performance related pay, and do not receive any pension contributions or benefits in kind.

The Non-Executive Directors are subject to confidentiality undertakings without limitation in time.

Each of the Non-Executive Directors has the benefit of a qualifying third-party indemnity from Micro Focus (the terms of which are in accordance with the Companies Act) and appropriate directors' and officers' liability insurance.

Amanda Brown's fees are paid directly to her employer, Hiscox Limited.

Proposed Directors' letters of appointment

The letters of appointment between the Proposed Directors and Micro Focus are on substantially the same terms as the existing Non-Executive Directors, save that there shall be no fee payable to John Schultz (the HPE Nominated Director who is a serving executive of HPE).

Emoluments

Details of the emoluments due to the then directors of Micro Focus including their salary and/or fees, bonus, pension and other benefits for the financial year ended 30 April 2016, as set out in Micro Focus' 2016 Annual Report, are shown below:

Name	Base salary and fees (£'000)	Benefits in kind (£'000)	Pension (£'000)	Annual bonus (£'000)	LTIP (£'000)	Total (£'000)
Kevin Loosemore	750	31	150	1,125	2,175	4,231
Mike Phillips	470	16	59	470	979	1,994
Stephen Murdoch	125	5	19	125	610	884
Nils Brauckmann	98	17	—	98	—	213
Karen Slatford	82	—	—	—	—	82
Tom Virden	50	—	—	—	—	50
Richard Atkins	60	—	—	—	—	60
Steve Schuckenbrock	17	—	—	—	—	17
Amanda Brown	—	—	—	—	—	—
Total	1,652	69	228	1,818	3,764	7,531

- 3.3 As at 8 May 2017 (the latest practicable date prior to the publication of this document), the interests (all of which are or will be beneficial unless otherwise stated) of the Directors and (so far as is known to them or could with reasonable diligence be ascertained by them) their connected persons (within the meaning of section 346 of the Companies Act) in the share capital of Micro Focus, including interests arising pursuant to any transaction notified to Micro Focus pursuant to DTR 3.1.2R or article 19 of the Market Abuse Regulation (as applicable), were as follows:

(a) Directors' shareholdings

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Ordinary Shares beneficially held at present⁽¹⁾</i>
Kevin Loosemore ⁽²⁾	701,418	0.31%
Mike Phillips ⁽³⁾	147,158	0.06%
Stephen Murdoch	—	—
Nils Brauckmann	—	—
Karen Slatford	—	—
Richard Atkins ⁽⁴⁾	6,867	0.00%
Amanda Brown	5,000	0.00%

(1) Based on 229,674,479 Ordinary Shares in issue as of 8 May 2017 (the latest practicable date prior to the publication of this document).

(2) 47,918 Ordinary Shares are held by Kevin Loosemore's wife, Joy Loosemore.

(3) 122,077 Ordinary Shares are held by Mike Phillips' wife, Josephine Phillips.

(4) 2,756 Ordinary Shares are held by Richard Atkins' wife, Julie Atkins.

(b) Directors' share awards

Micro Focus International plc Incentive Plan 2005

<i>Name</i>	<i>Number at 30 April 2016</i>	<i>Exercise price</i>	<i>Date for exercise</i>
Kevin Loosemore	192,157	0.0p	27 June 2015 to 26 June 2022
Kevin Loosemore	142,132	0.0p	26 June 2016 to 25 June 2023
Kevin Loosemore ⁽¹⁾	115,192	0.0p	27 June 2017 to 26 June 2024
Kevin Loosemore ⁽¹⁾	111,275	0.0p	17 July 2018 to 16 July 2025
Kevin Loosemore ⁽¹⁾	69,156	0.0p	26 July 2019 to 25 July 2026
Mike Phillips	86,471	0.0p	27 June 2015 to 26 June 2022
Mike Phillips	63,959	0.0p	26 June 2016 to 26 June 2023
Mike Phillips ⁽¹⁾	61,710	0.0p	27 June 2017 to 26 June 2024
Mike Phillips ⁽¹⁾	52,299	0.0p	17 July 2018 to 16 July 2025
Mike Phillips ⁽¹⁾	37,262	0.0p	26 July 2019 to 25 July 2026
Stephen Murdoch	96,237	0.0p	27 December 2015 to 28 December 2022
Stephen Murdoch	39,884	0.0p	26 June 2016 to 25 June 2023
Stephen Murdoch ⁽¹⁾	56,421	0.0p	27 June 2017 to 26 June 2024
Stephen Murdoch ⁽¹⁾	44,510	0.0p	17 July 2018 to 16 July 2025
Stephen Murdoch ⁽¹⁾	26,024	0.0p	23 March 2019 to 23 March 2026
Stephen Murdoch ⁽¹⁾	39,640	0.0p	26 July 2019 to 25 July 2026
Nils Brauckmann ⁽¹⁾	27,159	0.0p	16 December 2017 to 15 December 2024
Nils Brauckmann ⁽¹⁾	17,722	0.0p	17 July 2018 to 16 July 2025
Nils Brauckmann ⁽¹⁾	26,024	0.0p	23 March 2019 to 23 March 2026
Nils Brauckmann ⁽¹⁾	33,476	0.0p	16 July 2019 to 25 July 2026

(1) Performance condition requires that cumulative earnings per share growth over a three year vesting period is at least equal to RPI plus 3 per cent. per annum (at which point 25 per cent. of awards will vest) and for full vesting the cumulative earnings per share growth will be required to be RPI plus 9 per cent. per annum. Straight-line vesting will apply between these points. Performance against these objectives is determined by the committee based on Micro Focus' audited results.

Additional Share Grant

<i>Name</i>	<i>Number at 30 April 2016</i>	<i>Exercise price</i>	<i>Date for exercise</i>
Kevin Loosemore	947,140	0.0p	1 November 2017 to 31 October 2024
Mike Phillips	676,529	0.0p	1 November 2017 to 31 October 2024
Stephen Murdoch	405,917	0.0p	1 November 2017 to 31 October 2024
Nils Brauckmann	405,917	0.0p	1 November 2017 to 31 October 2024

A summary of Micro Focus' intentions regarding the grant of new ASGs following Completion is set out in paragraph 14 of Part I (*Letter from the Chairman of Micro Focus*) of this document.

- 3.4 Save as disclosed in paragraph 3.3 of this Part VIII (*Additional Information*), none of the Directors nor any person connected with them, has any interest, whether beneficial or non-beneficial, in the share capital of Micro Focus or of any of its subsidiary or associated undertakings.

4. PROFILES OF THE PROPOSED DIRECTORS AND HPE SOFTWARE'S KEY MANAGEMENT

Chris Hsu

Chris Hsu joined HPE in 2014 and is Executive Vice President and General Manager of HPE Software as well as Chief Operating Officer at HPE. Before joining Hewlett-Packard Company, Chris served as a Managing Director at the private equity firm Kohlberg Kravis Roberts (KKR) and as a director of KKR Capstone, a consulting firm. Chris graduated as a Distinguished Cadet with a Bachelor of Science in mathematical economics from the United States Military Academy at West Point and also holds an M.B.A. with distinction from the Kellogg Graduate School of Management at Northwestern University.

John Schultz

John Schultz has served as Executive President, General Counsel and Secretary of HPE since November 2015. Prior to that, John performed a similar role at Hewlett-Packard Company from April 2012 to November 2015. Previously, John served as Deputy General Counsel for Litigation, Investigations and Global Functions at Hewlett-Packard Company from September 2008 to April 2012. From March 2005 to September 2008, John was a partner in the litigation practice of Morgan, Lewis & Bockius LLP, a law firm, where, among other clients, he supported Hewlett-Packard Company as external counsel on a variety of litigation and regulatory matters. John is a current director of Umpqua Holdings Corporation, Portland, Oregon.

Silke Scheiber

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

Darren Roos

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

Sue Barsamian

Sue Barsamian joined HPE in 2006 and is currently the Chief Sales and Marketing Officer at HPE Software and previously served as SVP & General Manager of Enterprise Security Products. Sue served as Vice President, Go To Market at Mercury which was acquired by HPE in 2006. Sue graduated with a Bachelor of Science degree with honours in electrical engineering from Kansas State University and completed her post-graduate studies at the Swiss Federal Institute of Technology.

5. SUBSTANTIAL SHAREHOLDINGS

- 5.1 So far as the Directors are aware, as at 8 May 2017 (the latest practicable date prior to the publication of this document), the following persons were interested, directly or indirectly, in three per cent. or more of Micro Focus' issued share capital:

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital⁽¹⁾</i>
FMR LLC	22,559,483	9.82
Old Mutual Plc	15,786,879	6.87
Artemis Investment Management LLP	8,117,983	3.53

(1) Based on 229,674,479 Ordinary Shares in issue as of 8 May 2017 (the latest practicable date prior to the publication of this document).

- 5.2 So far as the Directors are aware, the following persons shall be interested, directly or indirectly, in three per cent. or more of Micro Focus' issued share capital immediately following the Merger:

Name
FMR LLC
Old Mutual Plc
Dodge & Cox Stock

Save as disclosed in paragraph 5.1 of this Part VIII (*Additional Information*), the Directors are not aware of any person who as at 8 May 2017 (being the latest practicable date prior to the publication of this document), directly or indirectly, has an interest in Ordinary Shares which represents three per cent. or more of Micro Focus' issued share capital.

6. MATERIAL CONTRACTS

6.1 *Micro Focus*

The following contracts are material contracts (entered into outside the ordinary course of business) which: (i) have been entered into within the two years prior to the date of this document by members of the Micro Focus Group; or (ii) contain provisions under which any member of the Micro Focus Group has an obligation or entitlement which is or may be material to the Micro Focus Group as at the date of this document.

(a) *Merger Agreement*

A summary of the principal terms of the Merger Agreement is set out in Section A of Part VI (*Principal Terms of the Transaction*) of this document.

(b) *Employee Matters Agreement*

A summary of the principal terms of the Employee Matters Agreement is set out in Section B of Part VI (*Principal Terms of the Transaction*) of this document.

(c) *Existing Facilities Agreement*

Pursuant to the Existing Facilities Agreement, the Micro Focus Borrower and Micro Focus Group Limited received the US\$1.275 billion Facility B, the US\$500 million Facility C and the Existing RCF of US\$225 million, which was extended to US\$375 million on 2 May 2016 in order to partially fund the Serena Acquisition. On 2 August 2016, Micro Focus consummated a repricing transaction whereby the Facility B was converted into US\$1,109,062,500 Facility B-2. On 28 April 2017, Micro Focus consummated Amendment No. 3, whereby the Facility was refinanced into additional Facility B-2, such that only one tranche of term loans exist under the Existing Facilities Agreements, which is the Facility B-2 in an amount of US\$1,515,187,500.

The Existing Term Loan Facilities were used to finance the return of value and fees and costs associated with the merger between Micro Focus and the Attachmate Group, Inc. and its subsidiaries, and the Existing RCF was made available to finance such costs and thereafter to finance the Serena Acquisition and Micro Focus' working capital, capital expenditures and general corporate purposes.

After giving effect to Amendment No. 3, amounts drawn under the Existing Facilities will be required to be repaid in full on 20 November 2021 in respect of Facility B-2, and 20 November 2019 in respect of the Existing RCF. Under Amendment No. 3, Micro Focus obtained a waiver of amortisation until the earlier of Completion or termination of the Merger Agreement, otherwise the Existing Term Loan Facilities amortise in equal quarterly instalments in an aggregate annual amount equal to 1 per cent. of the respective Existing Term Loan Facility's original principal amount, with the balance of the Existing Term Loan Facility payable in full on the relevant termination date for the Existing Term Loan Facility. The Existing RCF does not amortise.

Interest in respect of the Existing Facilities is calculated at margins over LIBOR of 2.50 per cent. in respect of Facility B-2 and 3.50 per cent. in respect of amounts drawn under the Existing RCF. In addition, a commitment fee of 0.5 per cent. is payable on undrawn amounts of the Existing RCF.

The Existing Facilities contain customary representations and warranties, affirmative and negative covenants binding Micro Focus and its restricted subsidiaries and customary events

of default. The Existing Facilities also include a net first lien leverage covenant, which is only tested if more than 35 per cent. of the Existing RCF commitments are outstanding on the last day of Micro Focus' fiscal quarter. The Existing Facilities do not contain any other financial covenants.

If an event of default occurs and is continuing under the Existing Facilities the lenders will, subject to certain limitations and exceptions, be entitled to accelerate repayment of the Existing Facilities, cancel any unutilised commitment and enforce their rights under the guarantees and security.

The Existing Facilities include provisions requiring mandatory prepayment subject to a minimum threshold in certain circumstances, in relation to (i) amounts received from the incurrence of debt by Micro Focus or its restricted subsidiaries, (ii) net cash proceeds from certain permitted categories of asset sales and other dispositions of property by Micro Focus or its restricted subsidiaries in excess of US\$10 million in respect of any single transaction or US\$25 million in respect of all such transactions in any financial year of Micro Focus, (iii) insurance proceeds in respect of a property or asset of Micro Focus or its restricted subsidiaries with a value prior to the insured event of US\$10 million or more, and (iv) 75 per cent. of Micro Focus' annual excess cashflow (subject to a reduction to 50 per cent., 25 per cent. or 0 per cent. of such amount provided certain leverage ratios are met). Pursuant to Amendment No. 3, Micro Focus obtained a waiver of the required annual excess cash flow payment for the financial year ending 30 April 2017.

(d) *New Micro Focus Facility Agreement*

A summary of the principal terms of the New Micro Focus Facility Agreement is set out in Section C of Part VI (*Principal Terms of the Transaction*) of this document.

(e) *Debt Commitment Letters*

The Debt Commitment Letters consist of (i) the Micro Focus Commitment Letter whereby J.P. Morgan Chase Bank, N.A., HSBC Bank PLC, Bank of America, N.A., Barclays Bank PLC and The Royal Bank of Scotland PLC committed to provide the Micro Focus Term Loan Facilities and the Revolving Credit Facility and (ii) the Seattle Commitment Letter whereby J.P. Morgan Chase Bank, N.A., HSBC Bank PLC, Bank of America, N.A., Barclays Bank PLC and The Royal Bank of Scotland PLC committed to provide the Seattle Term Loan Facility.

(f) *Serena Merger Agreement*

On 22 March 2016, Micro Focus entered into the Serena Merger Agreement to acquire the entire issued share capital of Spartacus Acquisition Holdings Corp., the holding company of Serena Software Inc. and its subsidiaries, for cash consideration of US\$540 million, subject to net working capital and net debt adjustments post-completion.

The Serena Merger Agreement contains customary representations, warranties and a tax indemnity given by the shareholders of Spartacus Acquisition Holdings Corp. The shareholders' aggregate liability under the representations and warranties is capped at the general escrow fund (US\$27 million).

The Serena Merger Agreement is governed by and shall be construed in accordance with the laws of the State of Delaware.

Completion of the acquisition occurred on 2 May 2016.

6.2 **HPE Software**

The following contracts are material contracts (entered into outside the ordinary course of business) which: (i) have been entered into within the two years prior to the date of this document by HPE

Software; or (ii) contain provisions under which any member of the HPE Group has an obligation or entitlement which is or may be material to HPE Software as at the date of this document.

(a) *Merger Agreement*

A summary of the principal terms of the Merger Agreement is set out in Section A of Part VI (*Principal Terms of the Transaction*) of this document.

(b) *Ancillary Agreements*

Summaries of the principal terms of the Separation and Distribution Agreement, Transition Services Agreement, Tax Matters Agreement, Employee Matters Agreement, Real Estate Matters Agreement and Intellectual Property Matters Agreement are set out in Section B of Part VI (*Principal Terms of the Transaction*) of this document.

(c) *New Seattle Facility Agreement*

A summary of the principal terms of the New Seattle Facility Agreement is set out in Section C of Part VI (*Principal Terms of the Transaction*) of this document.

(d) *Voltage Security, Inc. agreement and plan of merger*

On 8 February 2015, Hewlett-Packard Company, Electro Acquisition Sub, Inc., Voltage Security, Inc., and Shareholder Representative Services LLC entered into an agreement and plan of merger pursuant to which Hewlett-Packard Company acquired the entire issued share capital of Voltage Security, Inc., a data-centric security software solutions company.

The agreement and plan of merger contains customary representations, warranties and a tax indemnity.

The agreement and plan of merger is governed by and shall be construed in accordance with the laws of New York (except to the extent the law of the State of Delaware is held to govern the Merger).

Completion of the acquisition occurred on 20 February 2015.

(e) *TippingPoint asset purchase agreement*

On 20 October 2015, Hewlett-Packard Company and Trend Micro Inc. entered into an asset purchase agreement pursuant to which Hewlett-Packard Company sold its TippingPoint business, a provider of next-generation intrusion prevention systems and related network security solutions, to Trend Micro Inc. for cash consideration of \$300 million.

The asset purchase agreement contains customary representations, warranties and a tax indemnity.

The asset purchase agreement is governed by and shall be construed in accordance with the laws of the State of Delaware.

Completion of the acquisition occurred on 9 March 2016.

(f) *LiveVault asset purchase agreement*

On 31 August 2015, Hewlett-Packard Company and KeepItSafe Inc., entered into an asset purchase agreement pursuant to which Hewlett-Packard Company sold its LiveVault business, a provider of cloud-based data backup and recovery solutions for companies and organisations, to KeepItSafe Inc.

The asset purchase agreement contains customary representations, warranties and a tax indemnity.

The asset purchase agreement is governed by and shall be construed in accordance with the laws of the State of Delaware.

Completion of the acquisition occurred on 30 September 2015.

7. LITIGATION

7.1 *The Micro Focus Group*

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Micro Focus is aware) which may have, or have had during the 12 months preceding the date of this document, a significant effect on Micro Focus' and/or the Micro Focus Group's financial position or profitability.

7.2 *HPE Software*

Save for the outstanding litigation described below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Micro Focus is aware) which may have, or have had during the 12 months preceding the date of this document, a significant effect on HPE Software's financial position or profitability. As at 8 May 2017 (the latest practicable date prior to the publication of this document), the potential liability of each of the below actions is not quantifiable.

(a) *Forsyth, et al. vs. HP Inc. and Hewlett Packard Enterprise Company*

This purported class and collective action was filed on 18 August 2016 and an amended (and operative) complaint was filed on 19 December 2016 in the United States District Court for the Northern District of California, against HP Inc. and HPE alleging defendants violated the Federal Age Discrimination in Employment Act, the California Fair Employment and Housing Act, California public policy and the California Business and Professions Code by terminating older workers and replacing them with younger workers. Plaintiffs seek to certify a nationwide collective action under the Federal Age Discrimination in Employment Act comprised of all individuals aged 40 and older at the time their employment was terminated by HP Inc., Hewlett Packard Enterprise Company or any of their subsidiaries pursuant to a work force reduction plan on or after 9 December 2014 for individuals terminated in deferral states and on or after 8 April 2015 in non-deferral states. Plaintiffs also seek to certify a Federal Rule of Civil Procedure Rule 23 class under California law comprised of all persons 40 years of age or older employed by defendants in the state of California and terminated pursuant to a work force reduction plan on or after 18 August 2012. HPE Software believes it has valid defences with respect to this matter.

(b) *Wall v. Hewlett-Packard Enterprise Company and HP Inc.*

This certified California class action and Private Attorney General Act action was filed against Hewlett-Packard Company on 17 January 2012 and the fifth (and operative) amended complaint was filed against HP Inc. and HPE on 28 June 2016. The complaint alleges that the defendants paid earned incentive compensation late and failed to timely pay final wages. On 9 August 2016, the court ordered the class certified without prejudice to a future motion to amend or modify the class certification order or to decertify. Trial is set to begin on 22 May 2017. HPE Software believes it has valid defences with respect to this matter.

(c) *Realtime Data LLC*

Realtime filed three patent infringement actions in the Eastern District of Texas against HPE. The first was filed on 8 May 2015 against Hewlett-Packard Company, HP Enterprise Services and Oracle (the "Oracle matter") and accuses HP ProLiant servers running Oracle's Solaris, HPE's StoreOnce, and HPE's Vertica. Oracle has agreed to indemnify HPE for all claims against HPE related to Oracle's Solaris, including databases running Solaris with the ZFS file system on HP ProLiant servers. Following a 23 March 2017 mediation, Oracle and Realtime reached a settlement. It is unclear whether their agreement has been finalised. No stipulated judgment or joint motion to dismiss has been filed to date, although the parties notified the court that an agreement has been reached in principle. The second lawsuit was filed on 8 May

2015 against Hewlett-Packard Company, HP Enterprise Services, SAP America Inc. and Sybase Inc., and accuses HP's Converged Systems running SAP Hana. SAP America Inc. agreed to indemnify HPE and HP Enterprise Services for the SAP-related products. On 6 June 2016, SAP America Inc. reached a settlement agreement with Realtime, which led to the dismissal of all claims relating to HPE products indemnified by SAP America Inc. The third lawsuit was filed on 26 February 2016 (amended on 15 August 2016) against HPE, HP Enterprise Services, and Silver Peak Systems, Inc. (the "Silver Peak matter"), and accuses HPE's StoreOnce, 3Par StoreServe, Connected MX, Connected Backup, and LiveVault. On 17 November 2016, the Magistrate Judge granted HPE and Realtime's joint motion to sever and consolidate the Oracle matter and the Silver Peak matter. There are seven patents asserted in the remaining lawsuits. The patents generally relate to data compression techniques used to conserve storage space. HPE and the joint defence group have filed several inter partes review petitions with the Patent Trial and Appeal Board on all seven asserted patents. On 3 February 2017, the Magistrate Judge granted HPE's Motion to Stay Pending Inter Partes Review. HPE Software believes it has valid defences with respect to these matters.

8. WORKING CAPITAL

Micro Focus is of the opinion that, taking into account the bank facilities available to the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least 12 months from the date of this document.

9. SIGNIFICANT CHANGE

9.1 *Micro Focus Group*

There has been no significant change in the financial or trading position of the Micro Focus Group since 31 October 2016, the date to which the latest unaudited interim accounts of the Micro Focus Group have been prepared.

9.2 *HPE Software*

Save as described in paragraph 9 of Part 1 (*Letter from the Chairman of Micro Focus*), there has been no significant change in the financial or trading position of HPE Software since 31 October 2016, the date to which the historical financial information of HPE Software have been prepared.

10. RELATED PARTY TRANSACTIONS

Save for the related party transactions disclosed in note 38 (Related party transactions) in Micro Focus' annual report and accounts for the financial year ended 30 April 2016 and in note 24 (Related party transactions) on page 44 of Micro Focus' interim report for the six months ended 31 October 2016, which are hereby incorporated by reference in this document, there are no related party transactions between Micro Focus or members of the Micro Focus Group that were entered into during the financial years ended 30 April 2014, 30 April 2015 and 30 April 2016 or the six month period ended 31 October 2016 and during the period from and including 1 November 2016 to and including 8 May 2017 (the latest practicable date prior to the publication of this document).

11. CONSENTS

- 11.1 Each of J.P. Morgan Cazenove and Numis has given and not withdrawn its written consent to the issue of this document with reference to their names being included in the form and context in which they appear.
- 11.2 EY has given and has not withdrawn its written consent to the inclusion in this document of its accountant's report on the historical financial information relating to HPE Software in Section A of Part IV (*Financial Information relating to HPE Software*) of this document in the form and context in which it is included.

- 11.3 PwC has given and has not withdrawn its written consent to the inclusion in this document of its accountant's report on the pro forma financial information in Section A of Part V (*Pro Forma Financial Information*) of this document in the form and context in which it is included.

12. SOURCES AND BASES FOR FINANCIAL INFORMATION

Financial information relating to the Micro Focus Group, unless otherwise stated, has been extracted without material adjustment from the audited consolidated historical financial information of Micro Focus or from the unaudited consolidated interim financial statements of Micro Focus.

Financial information relating to HPE Software, unless otherwise stated, has been extracted without material adjustment from the HPE Software Historical Financial Information set out in Part IV (*Financial Information relating to HPE Software*).

Unless otherwise indicated, financial information in this document relating to Micro Focus and HPE Software has been prepared in accordance with IFRS (and, in respect of Seattle, the conventions set out in SIR 2000 for the preparation of carve-out financial statements) and in accordance with the accounting policies adopted by Micro Focus in preparing its financial statements for the financial year ended 30 April 2016.

The financial information contained in this document does not amount to statutory accounts within the meaning of section 434(3) of the Companies Act.

13. APPLICATION OF UNITED STATES "ANTI-INVERSION" RULES TO MICRO FOCUS

13.1 Tax Residence for US Federal Income Tax Purposes

Micro Focus is, and after the Merger generally would be, classified as a non-US corporation (and, therefore, generally not subject to US federal income taxation) under general rules of US federal income taxation. Section 7874 of the IRC, however, contains rules that can cause a non-US corporation to be treated as a US corporation (and therefore be subject to US federal income tax on its income regardless of source) for US federal income tax purposes. Many of these rules are relatively new, their application is complex, and there is little guidance regarding their application.

Under Section 7874 of the IRC, a non-US corporation (i.e. a corporation created or organised outside the US) will nevertheless be treated as a US corporation (and therefore be subject to US federal income tax on its income regardless of source) if each of the following three conditions are met:

- the non-US corporation acquires, directly or indirectly, or is treated as acquiring under applicable Treasury Regulations, substantially all of the assets held, directly or indirectly, by a US corporation;
- after the acquisition, the former shareholders of the acquired US corporation hold at least 80 per cent. (by vote or value) of the shares of the non-US corporation by reason of holding shares of the US acquired corporation (the "80 per cent. ownership test," and such ownership percentage the "Section 7874 ownership percentage"); and
- after the acquisition, the non-US corporation's expanded affiliated group (as defined in applicable Treasury Regulations) does not have substantial business activities in the non-US corporation's country of organisation or incorporation when compared to the expanded affiliated group's total business activities (the "substantial business activities test").

Although a significant portion of the operations of Micro Focus are in the United Kingdom, it is not expected that Micro Focus and its expanded affiliated group will have substantial business activities within the meaning of the IRC and the Treasury Regulations in the United Kingdom after the Merger, and this discussion assumes that it will not.

13.2 **80 Per Cent. Ownership Test**

Based on the terms of the Merger, the rules for determining the Section 7874 ownership percentage and certain factual assumptions, it is expected that the HPE Shareholders should own, in the aggregate, less than 80 per cent. (by vote and value) of the stock of Micro Focus by reason of their ownership of Seattle SpinCo stock. Therefore, under current US federal income tax law, it is expected that Micro Focus should not be treated as a US corporation for US federal income tax purposes pursuant to Section 7874 of the IRC.

However, computing the Section 7874 ownership percentage is subject to various complex adjustments for which there is limited guidance. In particular, under the Temporary Section 7874 Regulations, certain adjustments are required that generally have the effect of increasing, for purposes of determining the Section 7874 ownership percentage, the percentage of shares of a foreign acquiring corporation that is deemed owned by the former shareholders of an acquired US corporation by reason of holding shares in such US corporation, certain of which are based on a three-year look-back period starting on the closing date of the relevant acquisition transaction. For example, certain pre-acquisition distributions made by an acquired US corporation are “added back” to the value of the shares of the non-US corporation held by the former shareholders of the acquired US corporation, increasing Section 7874 ownership percentage. Certain pre-Merger distributions made by Seattle SpinCo (and certain of its predecessors or affiliates) may be subject to this rule.

In addition, certain pre-acquisition share issuances made by the acquiring non-US corporation could be backed out of the value of the non-US corporation’s shares, which also would have the effect of increasing the Section 7874 ownership percentage. Certain pre-Merger issuances of Micro Focus stock may be subject to this rule.

Moreover, certain of the relevant determinations for purposes of the Section 7874 ownership percentage must be made based on the facts at the time of Completion, such as the trading price of the Ordinary Shares.

In addition, future changes to the rules in the IRC or the Treasury Regulations promulgated thereunder could further expand the scope Section 7874 of the IRC, and any such changes could have retroactive effect. As a result of the foregoing, the precise determination of the Section 7874 ownership percentage will be subject to factual and legal uncertainties. There can be no assurance that the IRS will agree with the position that Micro Focus should not be treated as a US corporation for US federal income tax purposes after the Merger under current law or that a change in law would not result in Micro Focus being treated as a US corporation.

If the 80 per cent. ownership test were met after the completion of the Merger and Micro Focus were accordingly treated as a US corporation for US federal income tax purposes under Section 7874 of the IRC, Micro Focus would be subject to substantial additional US tax liability. Additionally, in such case, shareholders of Micro Focus that are not US persons (for US federal income tax purposes) would be subject to US withholding tax on the gross amount of any dividends paid by Micro Focus to such shareholders (subject to any exemption or reduced rate available under an applicable tax treaty).

Regardless of any application of Section 7874 of the IRC, Micro Focus is expected to be treated as a tax resident of the United Kingdom for United Kingdom tax purposes. Consequently, if Micro Focus were to be treated as a US corporation for US federal income tax purposes under Section 7874 of the IRC, it could be liable for taxes as both a US corporation and a United Kingdom resident, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

The remaining discussion assumes that Micro Focus will be treated as a non-US corporation for purposes of Section 7874 of the IRC.

13.3 **60 Per Cent. Ownership Test**

Following the acquisition of a US corporation by a non-US corporation, Section 7874 of the IRC can limit the ability of the acquired US corporation and its US affiliates to utilise US tax attributes (including net operating losses and certain tax credits) to offset US taxable income resulting from certain transactions, and the Temporary Section 7874 Regulations and certain other Treasury Regulations can result in certain other adverse consequences. Specifically, if

- the non-US corporation acquires, directly or indirectly, or is treated as acquiring under the applicable Treasury Regulations, substantially all of the assets held, directly or indirectly, by a US corporation;
- after the acquisition, the former shareholders of the acquired US corporation hold at least 60 per cent. (by vote or value) of the shares of the non-US corporation by reason of holding shares of the US acquired corporation (the “60 per cent. ownership test”); and
- the non-US corporation does not satisfy the substantial business activities test,

the taxable income of the US corporation (and any US person related to the US corporation) for any given year, within a ten-year period beginning on the last date the US corporation’s properties were acquired, will be no less than that person’s “inversion gain” for that taxable year. A person’s inversion gain for each year within that ten-year period includes gain from the transfer of shares or any other property (other than property held for sale to customers) and income from the licence of any property that is either transferred or licensed as part of the acquisition, or, if after the acquisition, is transferred or licensed to a non-US related person. Additionally, if the 60 per cent. ownership test is met, the Temporary Section 7874 Regulations, and certain related temporary regulations issued under other provisions of the IRC, may subject the Enlarged Group to certain other adverse US federal income tax rules.

For purposes of Section 7874 of the IRC, after Completion, the former Shareholders of Seattle SpinCo should be treated as owning more than 60 per cent. (by vote and value) of Micro Focus by reason of their ownership of Seattle SpinCo stock (based on the rules, including the Temporary Section 7874 Regulations, for determining share ownership under Section 7874 of the IRC and certain factual assumptions). Accordingly, the limitations on the utilisation of certain tax attributes (including net operating losses and certain tax credits), and the adverse consequences under the Temporary Section 7874 Regulations, are expected to apply to Micro Focus and its US affiliates (including Seattle SpinCo and its US affiliates and historical US affiliates of Micro Focus). Neither Seattle SpinCo nor its US affiliates expects to recognise any inversion gain as part of the Merger, however, there can be no assurance that future transactions undertaken by Micro Focus will not implicate these limitations and trigger adverse consequences. If, however, Seattle SpinCo or its US affiliates were to engage in any transaction that would generate any inversion gain in the future, such transaction may be fully taxable to Seattle SpinCo or its US affiliates notwithstanding that such entity may have certain deductions and other US tax attributes which, but for the application of Section 7874 of the IRC, would be available to offset some or all of such gain.

Additionally, the Temporary Section 7874 Regulations, and certain related temporary regulations issued under other provisions of the IRC, may limit Micro Focus’ ability to engage in certain restructuring transactions or access cash earned by certain of its non-US affiliates, in each case, without incurring substantial US tax liabilities.

These rules, additional changes to the rules in Section 7874 of the IRC or the Treasury Regulations promulgated thereunder, or other changes in law, could adversely affect Micro Focus’ effective tax rate or future planning for Micro Focus that is based on current law.

The summary set forth above is included for general information only. US Holders are urged to consult their own tax advisers to determine the particular tax consequences to them of the Capital Reorganisation and the Merger, including the applicability and effect of US state, local and non-US tax laws.

14. DOCUMENTS ON DISPLAY

Copies of the documents listed below may be inspected free of charge at Micro Focus' website (www.microfocus.com) and will be made available for inspection during business hours on any weekday (Saturdays, Sundays and bank holidays excepted) at the offices of Travers Smith LLP, 10 Snow Hill, London EC1A 2AL up to and including 26 May 2017 and will also be available for inspection at the General Meeting for at least fifteen minutes prior to and during the General Meeting:

- 14.1 the Articles (as in force at the date of this document);
- 14.2 the Articles (as proposed to be amended by Resolutions 2 and 3);
- 14.3 the audited annual report and accounts of the Micro Focus Group for the two financial years ended 30 April 2015 and 30 April 2016;
- 14.4 the interim report of the Micro Focus Group for the six months ended 31 October 2016;
- 14.5 the report from EY contained in Part IV (*Financial Information relating to HPE Software*) of this document;
- 14.6 the report from PwC contained in Part V (*Pro Forma Financial Information*) of this document;
- 14.7 the written consents referred to in paragraph 11 of this Part VIII (*Additional Information*);
- 14.8 the Merger Agreement (including the Separation and Distribution Agreement, Tax Matters Agreement, Transition Services Agreement, Employee Matters Agreement, Real Estate Matters Agreement and Intellectual Property Matters Agreement); and
- 14.9 this document.

PART IX

DOCUMENTS INCORPORATED BY REFERENCE

The related party transactions disclosed in note 38 (Related party transactions) on pages 145 and 146 of Micro Focus' annual report and accounts for the financial year ended 30 April 2016 and in note 24 (Related party transactions) on page 44 of Micro Focus' interim report for the six months ended 31 October 2016 are hereby incorporated by reference.

The following financial information is available on Micro Focus' website, www.microfocus.com, and has been incorporated into this document by reference thereto in compliance with the Listing Rules:

- (a) the audited consolidated accounts of Micro Focus for the financial years ended 30 April 2014, 30 April 2015 and 30 April 2016; and
- (b) the interim report of Micro Focus for the six months ended 31 October 2016.

Any Shareholder, person with information rights or other person to whom this document is sent may request a copy of this document and each of the documents set out above in hard copy form. Hard copies will only be sent where valid requests are received from such persons. Requests for hard copies are to be submitted to The Company Secretary, by calling 0333 207 6534 if calling from the UK and +44 121 415 0855 if calling from overseas. Calls to this number are charged at national rate if made from inside the UK. Calls from outside the UK are chargeable at applicable international rates. Lines are open 9.00 a.m. (London time) to 5.00 p.m. (London time), Monday to Friday (with the exception of UK bank and public holidays). Requests can also be made in writing to The Company Secretary, Micro Focus International plc, The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN. All valid requests will be dealt with as soon as possible and hard copies mailed by no later than two Business Days following such request. Where documents incorporated by reference into this document incorporate further information or documents by reference, such further information is not incorporated by reference into this document.

PART X

ADDITIONAL AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In addition to the amendments to the Articles required in order to implement the B Share Scheme (Resolution 2), the Company is proposing a special resolution (Resolution 3), the passing of which requires at least 75 per cent. of the shares voted (whether in person or by proxy) to be cast in favour. This special resolution is conditional upon Admission and proposes further amendments to the Articles principally to reflect the Company having ADSs in issue at Completion.

It is proposed that the current articles 128.3 and 131 shall be substituted therefor new articles 128.3 and 131.

In addition, it is proposed that new articles 58.7, 58.8, 115.4, 123.12, 128.8, 131, 141, 142, 143, 144, 145 and 146 shall be incorporated with the existing articles 58.7 and 58.8 being moved to articles 58.9 and 58.10.

The following sets out such new articles proposed to be inserted into the Articles pursuant to Resolution 3 to be considered at the General Meeting.

Restriction on voting in particular circumstances

58.7 Where a person appearing to be interested in shares has been duly served with a notice under Section 793 of the Companies Act 2006 and the shares in which he appears to be interested are held by an Approved Depositary (as defined in Article 141), this Article applies only to those shares which are held by the Approved Depositary in which that person appears to be interested and not (so far as that person's apparent interest is concerned) to any other shares held by the Approved Depositary.

58.8 Where a member who is an Approved Depositary has been duly served with a notice under Section 793 of the Companies Act 2006, the obligations of that member will be limited to disclosing to the Company information relating to any person who appears to be interested in the shares held by it which has been recorded by it in accordance with the arrangement under which it was appointed as an Approved Depositary.

Dividends

115.4 The Directors may decide that a particular Approved Depositary should be able to receive dividends in a currency other than the currency in which it is declared and may make arrangements accordingly. If an Approved Depositary has chosen or agreed to receive dividends in another currency, the Directors may make arrangements with that Approved Depositary for payment to be made to them for value on the date on which the relevant dividend is paid, or a reasonably prompt later date decided on by the Directors, using such exchange rate for currency conversions as the Directors may select.

Scrip Dividends

123.12 The Directors may exclude or restrict from the right to choose new shares any shareholder who is an Approved Depositary or a nominee for any Approved Depositary if the offer or exercise of the right to or by persons on whose behalf the Approved Depositary holds the shares would suffer problems of the kind mentioned in Article 123.10.

Service of notices

128.3 Any notice, document or information (including a share certificate) which is sent or supplied by the Company in hard copy form, or in electronic form but to be delivered other than by electronic means, and which is sent by pre-paid post and properly addressed to an address in the

United Kingdom shall be deemed to have been received by the intended recipient at the expiration of 24 hours (or, where first-class mail is not employed, including air mail to any address outside of the United Kingdom, 48 hours) after the time it was posted, and in proving such receipt it shall be sufficient to show that such notice, document or information was properly addressed, pre-paid and posted.

- 128.8 Any member or person nominated to receive any notice, document or information whose address in the register is not within the United Kingdom and who gives to the Company a postal address within the United Kingdom at which notices may be served upon him shall be entitled to have notices served upon him at such postal address, but otherwise, subject to the requirements of applicable law, no such person, other than a person whose address in the register is within the United Kingdom, shall be entitled to receive any notice, document or information from the Company. Any member or person nominated by a member to receive any notice, document or information whose address in the register is not within the United Kingdom and who gives to the Company an address for the purposes of receipt of communications in electronic form may, at the absolute discretion of the Board, have notices served upon him at such address.

Suspension of postal services

- 131 If at any time by reason of the suspension or curtailment of postal services within the United Kingdom, the United States or some part of either the United Kingdom or the United States the Company is unable to give notice by post in hard copy form of a shareholders' meeting, such notice shall be deemed to have been given to all members entitled to receive such notice in hard copy form if such notice is advertised in at least one national newspaper both in the United Kingdom and the United States and such notice shall be deemed to have been given on the day when the advertisement appears. In any such case the Company shall (i) make such notice available on its website from the date of such advertisement until the conclusion of the meeting or any adjournment thereof and (ii) send confirmatory copies of the notice by post to such members if at least seven days prior to the meeting the posting of such notices again becomes practicable.

Approved Depositaries

141 Meaning of Approved Depositary

- 141.1 In these Articles, unless the context otherwise requires, "**Approved Depositary**" means a person approved by the Board and appointed

- (a) to hold the Company's shares or any rights or interests in any of the Company's shares; and
- (b) to issue securities, documents of title or other documents which evidence that the holder of them owns or is entitled to receive the shares, rights or interests held by the Approved Depositary,

and shall include a nominee acting for a person appointed to do these things.

- 141.2 The trustees of any scheme or arrangements for or principally for the benefit of employees of the Company and its associated companies will be deemed to be an Approved Depositary for the purposes of these Articles unless the Board resolves otherwise.

- 141.3 References in these Articles to an Approved Depositary or to shares held by it refer only to an Approved Depositary and to its shares held in its capacity as an Approved Depositary.

142 Appointment of Proxies

Subject to these Articles and to applicable law, an Approved Depositary may appoint as its proxy or proxies in relation to any shares which it holds, anyone it thinks fit and may determine the manner and terms of any such appointment. Each appointment must state the number and class of shares to which it relates and the total number of shares of each class in respect of which appointments exist at any one time, which must

not exceed the total number of shares of each class registered in the name of the Approved Depositary or its nominee (the **"Depositary Shares"**) at that time.

143 Register of Appointed Proxies

143.1 The Approved Depositary must keep a register (the **"Proxy Register"**) of each person it has appointed as a proxy under Article 142 (an **"Appointed Proxy"**) and the number of the Depositary Shares (his **"Appointed Number"**) to which the appointment relates. The Directors will determine the requisite information to be recorded in the Proxy Register relating to each Appointed Proxy.

143.2 Any person authorised by the Company may inspect the Proxy Register during usual business hours and the Approved Depositary will give such person any information which he requests as to the contents of the Proxy Register.

144 Approved Depositaries attendance at General Meetings

144.1 An Appointed Proxy may only attend a General Meeting if he provides the Company with written evidence of his appointment as such. This must be in a form agreed between the Directors and the Approved Depositary.

144.2 Subject to applicable law and to these Articles, and so long as the Approved Depositary or a nominee of the Approved Depositary holds at least his Appointed Number of Depositary Shares, an Appointed Proxy is entitled to attend a General Meeting which holders of that class of shares are entitled to attend, and he is entitled to the same rights, and subject to the same obligations, in relation to his Appointed Number of Depositary Shares as if he had been validly appointed in accordance with Articles 61 to 64 by the registered holder of these shares as its proxy in relation to those shares.

145 Proxies of Appointed Proxies

An Appointed Proxy may appoint another person as his proxy for his Appointed Number of Depositary Shares, provided the appointment is made and deposited in accordance with Articles 61 to 64. These Articles apply to that appointment and to the person so appointed as though those Depositary Shares were registered in the name of the Appointed Proxy and the appointment was made by him in that capacity. The Directors may require such evidence as they reasonably think appropriate to decide that such appointment is effective.

146 Identifying Appointed Proxies

146.1 For the purposes of determining who is entitled as an Appointed Proxy to exercise the rights conferred by Articles 144 and 145 and the number of Depositary Shares in respect of which a person is to be treated as having been appointed as an Appointed Proxy for these purposes, the Approved Depositary may decide that the Appointed Proxies who are so entitled are the persons entered in the Proxy Register at a time and on a date (a **"Record Time"**) agreed between the Approved Depositary and the Company.

146.2 When a Record Date is decided for a particular purpose:

- (a) an Appointed Proxy is to be treated as having been appointed for that purpose for the number and class of shares appearing against his name in the Proxy Register as at the Record Time; and
- (b) changes to entries in the Proxy Register after the Record Time will be ignored for this purpose.

146.3 Except for recognising the rights given in relation to General Meetings by appointments made by Appointed Proxies pursuant to Article 145, the Company is entitled to treat any person entered in the Proxy Register as an Appointed Proxy as the only person (other than the Approved Depositary and the underlying shareholder) who has any interest in the Depositary Shares in respect of which the Appointed Proxy has been appointed.

PART XI

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

Adjusted Eurocurrency Rate	the rate calculated as (i) the eurocurrency rate (as published by Reuters on page LIBOR01 of the Reuters screen) divided by (ii) 1.00 – the reserve percentage (to five decimal places) issued by the Board of Governors of the Federal Reserve System of the United States of America for determining the maximum reserve requirement with respect to eurocurrency funding
Alternate Base Rate	the higher of (i) the rate the administrative agent under the New Facilities Agreements announces from time to time as its prime rate and (ii) the Federal Funds Effective Rate, plus 1/2 of 1 per cent.
Adjusted EBITDA	has the meaning given in “Non-IFRS Measures” on page 3 of this document
Adjusted earnings per share	has the meaning given in “Non-IFRS Measures” on page 4 of this document
Adjusted LIBOR	the greatest of (i) London interbank offered rate, adjusted for statutory reserve requirements and (ii) 0.00 per cent.
Adjusted net income	has the meaning given in “Non-IFRS Measures” on page 4 of this document
Adjusted Operated Profit	has the meaning given in “Non-IFRS Measures” on page 3 of this document
Admission	the admission of the New Ordinary Shares (or, if the Return of Value or Share Capital Consolidation is not implemented, the re-admission of the Existing Ordinary Shares) and the admission of the Consideration Shares to the premium listing segment of the Official List becoming effective in accordance with the Listing Rules and to trading on the London Stock Exchange’s main market for listed securities becoming effective in accordance with the Admission and Disclosure Standards
Admission and Disclosure Standards	the requirements contained in the publication “Admission and Disclosure Standards” dated April 2013 containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s main market for listed securities
ADSs	American Depositary Shares
Amendment No.3	the amendment agreement to the Existing Facilities Agreement dated 28 April 2017
ARA	Additional Responsibility Allowance
Articles	the articles of association of Micro Focus
ASG	Additional Share Grant

B Shares	the redeemable B shares in the capital of Micro Focus carrying the rights and restrictions set out in Section F of Part VII (<i>Details of the Return of Value</i>) of this document
B Share Scheme	the proposed transactions comprising the Share Capital Consolidation and the return of value by way of the issuance of the B Shares to be effected in accordance with Part VII (<i>Details of the Return of Value</i>) of this document
Board or Micro Focus Board	the board of directors of Micro Focus from time to time
Business Day	a day (excluding Saturdays, Sundays and public holidays in England and Wales) on which banks generally are open for business in London for the transaction of normal banking business
Capital Reorganisation	the proposed reorganisation of Micro Focus' share capital comprising the issue of the B Shares and the Share Capital Consolidation
Certificate of Merger	the certificate of merger relating to the Merger to be filed pursuant to the Merger Agreement in accordance with the DGCL
CGT	United Kingdom capital gains tax and/or corporation tax on chargeable gains (as applicable)
Chairman or Executive Chairman	Kevin Loosemore
Circular	this document
CMA	the Competition and Markets Authority
COBOL	Common Business Oriented Language, a compiled English-like computer programming language designed for business use
Code	the UK Corporate Governance Code as published by the Financial Reporting Council
Commitment Letters	the Micro Focus Commitment Letter and the Seattle Commitment Letter
Companies Act	the Companies Act 2006, as amended
Competing Proposal	has the meaning given to it in paragraph 4 of Section A of Part VI (<i>Principal Terms of the Transaction</i>) (save that in the context of a termination payment, references to 20 per cent. in the definition of Competing Proposal shall be changed to 50 per cent.)
Completion	completion of the Merger
Completion Date	the date of Completion
Consideration Shares	the Ordinary Shares to be issued as consideration pursuant to the Merger Agreement
Contribution	the contribution by HPE of HPE Software to Seattle SpinCo pursuant to the terms of the Separation and Distribution Agreement
CREST	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the operator (as defined in the CREST Regulations)

CREST Manual	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms promulgated by Euroclear on 15 July 1996, as amended
CREST Proxy Instructions	the proxy appointment or instruction made via CREST, authenticated in accordance with Euroclear's specifications and containing the information set out in the CREST Manual
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time
Deferred Shares	the deferred shares of 10 pence each in the capital of Micro Focus carrying the rights and restrictions summarised in Section F of Part VII (<i>Details of the Return of Value</i>) of this document
Depository	a US reputable national bank selected by Micro Focus (and reasonably acceptable to HPE) to act as depository and issuer for ADSs representing Ordinary Shares
DGCL	the General Corporation Law of the State of Delaware
Directors	the directors of Micro Focus whose names are set out in paragraph 3.1(a) (<i>Directors</i>) of Part VIII (<i>Additional Information</i>) of this document and Director means any one of them
Distribution	the <i>pro rata</i> distribution of shares of Seattle SpinCo common stock by HPE to the holders of HPE common stock and HPE common-equivalent preferred stock pursuant to the terms of the Separation and Distribution Agreement
Employee Matters Agreement	the Employee Matters Agreement dated 7 September 2016, as amended, entered into by HPE, Seattle and Micro Focus, a summary of the principal terms and conditions of which is set out in paragraph 7 of Section B of Part VI (<i>Principal Terms of the Transaction</i>) of this document
Enlarged Group	the Micro Focus Group, as at and from Completion, as enlarged by the Merger
Euroclear	Euroclear UK & Ireland Limited, the operator of CREST
Euro Facility	the €470,000,000 term loan facility provided to the Micro Focus Borrower pursuant to an escrow credit agreement
European Union Merger Regulation	European Union Merger Regulation (No 139/2004 of 20 January 2004)
Exchange Act	US Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
Executive Directors	the directors whose names are set out in paragraph 3.2(a) of Part VIII (<i>Additional Information</i>)
Existing Facilities	the Existing Term Loan Facilities and the Existing RCF
Existing Facilities Agreement	the credit agreement documenting the Existing Facilities, which is governed by New York law

Existing Ordinary Shares	the existing ordinary shares of 10 pence each in the capital of Micro Focus
Existing RCF	the US\$375,000,000 revolving credit facility available pursuant to the Existing Facilities
Existing Term Loan Facilities	Facility B, B-2 and Facility C, collectively (it being understood that on 2 August 2016, Micro Focus consummated a repricing transaction whereby the Facility B was converted into US\$1,515,200,000 Facility B-2 and pursuant to Amendment No. 3, the Facility C was refinanced into additional Facility B-2, such that the aggregate amount of Existing Term Loan Facilities is US\$1,515,187,500 Facility B-2)
EY	Ernst & Young LLP
Facility B	the US\$1,275,000,000 tranche B term loan facility provided to the Micro Focus Borrower pursuant to the Existing Term Loan Facilities
Facility B-2	the US\$1,515,200,000 tranche B-2 term loan facility provided to the Micro Focus Borrower pursuant to the Existing Term Loan Facilities
Facility B-3	the US\$384,800,000 tranche B-3 term loan facility provided to the Micro Focus Borrower pursuant to an escrow credit agreement
Facility C	the US\$412,500,000 tranche C term loan facility provided to the Micro Focus Borrower pursuant to the Existing Term Loan Facilities
Facility EBITDA	has the meaning given in “Non-IFRS Measures” on page 4 of this document
Financial Conduct Authority or FCA	the UK Financial Conduct Authority
Financial Reporting Council	the UK Financial Reporting Council
Form of Proxy	the form of proxy which accompanies this document for use at the General Meeting
FSMA	the Financial Services and Markets Act 2000, as amended
GAAP	generally accepted accounting principles
General Meeting	the general meeting of Micro Focus to be held at 2 p.m. on 26 May 2017, or any adjournment thereof, to consider and, if thought fit, approve the Resolutions, notice of which is set out at the end of this document
Holdings	Seattle Holdings Inc. (a Delaware corporation and a wholly owned direct subsidiary of Micro Focus)
HP Inc.	HP Inc. (a Delaware corporation formerly known as Hewlett-Packard Company, which was the parent entity of HPE prior to the separation of HPE from HP Inc. on 1 November 2015)
HPE	Hewlett Packard Enterprise Company (a Delaware corporation)
HPE Group	HPE and its subsidiaries and subsidiary undertakings from time to time

HPE Nominated Director	a director nominated to the Board by HPE pursuant to the Merger Agreement
HPE Shareholder	a holder of common stock of HPE
HPE Software	the software business segment of HPE, which is to be transferred to (or retained by, as applicable) the members of the Seattle Group, in accordance with the terms and conditions of the Separation and Distribution Agreement, prior to Completion
HPE Software Historical Financial Information	the financial information relating to HPE Software as at 31 October 2014, 31 October 2015 and 31 October 2016 and for the financial years ended 31 October 2014, 31 October 2015 and 31 October 2016 contained in Section B of Part IV (<i>Financial Information relating to HPE Software</i>) of this document
HPE Tax Opinion	an opinion of counsel in form and substance reasonably acceptable to HPE, dated as of the date of Completion, regarding certain aspects of the US federal income tax treatment of the Distribution and certain related transactions and the Merger
IFRS	the International Financial Reporting Standards as adopted by the EU
Intellectual Property Matters Agreement	the Intellectual Property Matters Agreement among HPE, Hewlett Packard Enterprise Development LP and Seattle, to be entered into by such parties on or prior to the Completion Date in the form attached as an Exhibit to the Separation and Distribution Agreement, and a summary of the principal terms and conditions of which is set out in paragraph 6 of Section B of Part VI (<i>Principal Terms of the Transaction</i>) of this document
IRC	US Internal Revenue Code of 1986, as amended
IRS	US Internal Revenue Service
IT	information technology
J.P. Morgan Cazenove	J.P. Morgan Limited (which conducts its UK investment banking activities as “J.P. Morgan Cazenove”)
LIBOR	the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate)
Linux	a version of Unix that is made available under the free and Open Source development and distribution model. Linux has also been distributed by two commercial companies (Red Hat and SUSE Linux product portfolio) on a paid for basis. These commercial companies provides a more robust commercial version of the software, with associated maintenance support services
Listing Rules	the Listing Rules of the FCA
London Stock Exchange	London Stock Exchange plc
LTIP	Micro Focus Long Term Incentive Plan
Market Abuse Regulation	Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse

Merger	the proposed acquisition by Micro Focus of Seattle SpinCo by way of the merger of Merger Sub with and into Seattle SpinCo on the terms and subject to the conditions set out in the Merger Agreement
Merger Agreement	the Agreement and Plan of Merger dated 7 September 2016 entered into by Micro Focus, HPE, Merger Sub, Holdings and Seattle SpinCo, a summary of the principal terms and conditions of which is set out in Section A of Part VI (<i>Principal Terms of the Transaction</i>) of this document
Merger Sub	Seattle MergerSub Inc. (a Delaware corporation and an indirect wholly owned subsidiary of Micro Focus)
Micro Focus	Micro Focus International plc (a public limited company organised under the laws of England and Wales)
Micro Focus Borrower	MA FinanceCo, LLC (a wholly owned subsidiary of Holdings)
Micro Focus Commitment Letter	the commitment letter dated 7 September 2016 entered into by JPMorgan Chase Bank, N.A., Micro Focus Group Limited, and the Micro Focus Borrower (as amended from time to time) and relating to the Micro Focus Term Loan Facilities and the Revolving Credit Facility
Micro Focus Group	Micro Focus and its subsidiaries and subsidiary undertakings from time to time
Micro Focus Share Plans	the Micro Focus Incentive Plan 2005, the Micro Focus Sharesave Plan 2006, the Micro Focus Employee Stock Purchase Plan 2006 and the LTIP
Micro Focus Term Loan Facilities	the US\$2.4 billion term loan facilities to be provided to the Micro Focus Borrower pursuant to the New Micro Focus Facility Agreement, it being understood that (i) the borrower with respect to a US\$884.8 million tranche B facility (the “ New Micro Focus Tranche B Facility ”) (which will consist of a combination of the US dollar equivalent of US\$500 million of Euro and US\$384.8 million of US term loans) will initially be a newly formed US subsidiary of the Micro Focus Borrower, to be merged with and into the Micro Focus Borrower prior to Completion, and (ii) a US\$1,515.2 million tranche B facility (the “ Refinancing Tranche B Facility ”) will be provided through an amendment to the Facility B-2
New Facilities	the Micro Focus Term Loan Facilities, the Revolving Credit Facility and the Seattle Term Loan Facility
New Facilities Agreements	the New Micro Focus Facility Agreement and the New Seattle Facility Agreement
New Micro Focus Facility Agreement	the New York law governed credit agreement to become effective at or prior to Completion to document the Micro Focus Term Loan Facilities and the Revolving Credit Facility. The New Micro Focus Facility Agreement will be effected through an amendment to the Existing Facilities Agreement
New Micro Focus Tranche B Facility	has the meaning given in the definition of “Micro Focus Term Loan Facilities”

New Ordinary Shares	the ordinary shares of Micro Focus to be created as a result of the Share Capital Consolidation
New Seattle Facility Agreement	the New York law governed credit agreement to be entered into at or prior to Completion to document the Seattle Term Loan Facility
Nomination Committee	the nomination committee of Micro Focus established by the Board
Non-Executive Directors	the directors whose names are set out in paragraph 3.2(c) of Part VIII (<i>Additional Information</i>)
Notice	the notice of the General Meeting, which is set out at the end of this Circular
Numis	Numis Securities Limited
NYSE	the New York Stock Exchange
OECD	the Organisation for Economic Co-operation and Development
OEM Agreement	Project Statement No. 18 effective 9 March 2017 between Micro Focus Software Inc. and HPE, which was entered into under the pre-existing Vanguard Alliance Agreement between Micro Focus Software Inc. and HPE and constitutes the agreement referred to as the “Commercial Agreement” in the Merger Agreement and the Separation and Distribution Agreement, a summary of the principal terms and conditions of which is set out in paragraph 8 of Section B of Part VI (<i>Principal Terms of the Transaction</i>) of this document
OEMs	Original Equipment Manufacturer, a term that designates hardware systems manufacturers
Official List	the official list of the UKLA
Open Source	the practice of making software source code freely available in the public domain to software engineers for modification or distribution
Ordinary Shares	as the context permits, Existing Ordinary Shares or New Ordinary Shares
Overseas Shareholders	Shareholders who are not resident in the United Kingdom or who are citizens, residents or nationals of a country other than the United Kingdom or who have a registered address which is not in the United Kingdom. For the avoidance of doubt, Shareholders who are not resident in the United Kingdom include Shareholders who are resident in the Channel Islands or the Isle of Man
Payment Date	such date as the Directors in their absolute discretion may determine which is expected to be on or before 15 September 2017 (or such other date as the Directors in their absolute discretion may determine but being, in any event, a date within 25 days of the ROV Admission), being the date on which the redemption proceeds in respect of the Return of Value will be sent to relevant Shareholders
PCAOB	Public Company Accounting Oversight Board

PFIC	a “passive foreign investment company” within the meaning of Section 1297 of the IRC
Pro Forma Financial Information	the unaudited pro forma statement of net assets and the unaudited pro forma income statement of the Enlarged Group
Proposed Directors	the directors whose names are set out in paragraph 3.1(b) of Part VIII (<i>Additional Information</i>)
Prospectus	the final prospectus to be approved by the Financial Conduct Authority as a prospectus and prepared in accordance with the Prospectus Rules made under section 73A of FSMA in connection with the Merger
Prospectus Rules	the Prospectus Rules of the FCA
PwC	PricewaterhouseCoopers LLP
Real Estate Matters Agreement	the Real Estate Matters Agreement between HPE and Seattle, to be entered into by such parties on or prior to the Completion Date in the form attached as an Exhibit to the Separation and Distribution Agreement, and a summary of the principal terms and conditions of which is set out in paragraph 5 of Section B of Part VI (<i>Principal Terms of the Transaction</i>) of this document
Realtime	Realtime Data LLC
Record Time	6.00 p.m. on 31 August 2017 (or such other time and/or date as the Directors in their absolute discretion may determine)
Redemption Time	such date as the Directors in their absolute discretion may determine, which is expected to be on or before 31 August 2017, being the date on which the B Shares issued under the Return of Value are expected to be redeemed
Refinancing Tranche B Facility	has the meaning given in the definition of “Micro Focus Term Loan Facilities”
Registrars or Equiniti	Equiniti Limited of Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA
Remuneration Committee	the remuneration committee of Micro Focus established by the Board
Resolutions	the resolutions to be proposed at the General Meeting which are set out in the Notice
Restricted Territories	United States, Canada, Australia, Japan, the Republic of South Africa and New Zealand
Return of Value	has the same meaning as the B Share Scheme
Revolving Credit Facility	the new revolving credit facility of up to US\$500 million to be provided to the Micro Focus Borrower pursuant to the New Micro Focus Facility Agreement
RIS	any of the services authorised by the FCA from time to time for the purpose of disseminating regulatory announcements
ROV Admission	the admission of the New Ordinary Shares to the premium listing segment of the Official List becoming effective in accordance with

	the Listing Rules and to trading on the London Stock Exchange's main market for listed securities becoming effective in accordance with the Admission and Disclosure Standards
ROV Admission Date	the date upon which ROV Admission occurs
RPI	the Retail Prices Index
SaaS	Software as a Service
SDRT	Stamp Duty Reserve Tax
Seattle Borrower	initially a newly formed US subsidiary of Seattle SpinCo, to be merged with and into Seattle SpinCo prior to Completion, and thereafter, Seattle SpinCo
Seattle Commitment Letter	the commitment letter dated 7 September 2016 entered into by JPMorgan Chase Bank, N.A., Micro Focus Group Limited and Seattle SpinCo (as amended from time to time) and relating to the Seattle Term Loan Facility
Seattle Group	Seattle and its subsidiaries and subsidiary undertakings from time to time
Seattle SpinCo or Seattle	Seattle SpinCo, Inc. (a Delaware corporation and, prior to the Distribution, a wholly owned subsidiary of HPE)
Seattle Term Loan Facility	the US\$2.6 billion term loan facility to be provided to Seattle SpinCo pursuant to the New Seattle Facility Agreement
SEC	US Securities and Exchange Commission
Securities Act	US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
Separation	the transfer of HPE Software from the HPE Group to the Seattle Group and the Distribution, in each case, in accordance with the terms and conditions of the Separation and Distribution Agreement
Separation and Distribution Agreement	the Separation and Distribution Agreement dated 7 September 2016 entered into between HPE and Seattle SpinCo, a summary of the principal terms and conditions of which is set out in paragraph 2 of Section B of Part VI (<i>Principal Terms of the Transaction</i>) of this document
Serena Acquisition	the acquisition of the Serena Group by Micro Focus which completed on 2 May 2016
Serena Group	Spartacus Acquisition Holdings Corp., the holding company of Serena Software Inc., and its subsidiaries
Serena Merger Agreement	the Merger Agreement dated 22 March 2016 relating to the Serena Acquisition
Share Capital Consolidation	the proposed consolidation, subdivision and redesignation of share capital, as more fully described in paragraph 3.2 of Section D of Part VII (<i>Details of the Return of Value</i>) of this document
Shareholder	a holder of Ordinary Shares and, where the context so requires, holders of B Shares and/or Deferred Shares

SIR 2000	Standards for Investment Reporting 2000
SUSE	SUSE Open Source product portfolio
Tax Matters Agreement	the Tax Matters Agreement among HPE, Seattle SpinCo and Micro Focus, to be entered into by such parties on or prior to the Completion Date in the form attached as an Exhibit to the Separation and Distribution Agreement, and a summary of the principal terms and conditions of which is set out in paragraph 4 of Section B of Part VI (<i>Principal Terms of the Transaction</i>) of this document
Temporary Section 7874 Regulations	the temporary US Treasury Regulations under Section 7874 of the IRC
Total Shareholder Returns	the value to a Shareholder over a period of time from the increase in the price of Ordinary Shares in that period as well as any cash received in the period from normal dividend payments
Transaction	the proposed acquisition by Micro Focus of all the outstanding Class A common stock of Seattle SpinCo by way of the merger of Merger Sub with and into Seattle SpinCo on the terms and subject to the conditions set out in the Merger Agreement and related transactions, including the Separation
Transition Services Agreement	the Transition Services Agreement between HPE and Seattle SpinCo, to be entered into on or prior to the Completion Date in the form attached as an Exhibit to the Separation and Distribution Agreement, and a summary of the principal terms and conditions of which is set out in paragraph 3 of Section B of Part VI (<i>Principal Terms of the Transaction</i>) of this document
Treasury Regulations	the US Treasury Regulations promulgated under the IRC
Treaty	the income tax treaty between the United States and the United Kingdom
UK	the United Kingdom of Great Britain and Northern Ireland
UKLA or UK Listing Authority	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA
Underlying Adjusted EBITDA	has the meaning given in “Non-IFRS Measures” on page 3 of this document
Unix	a computer operating system, which acts as an intermediary between application programs and computer hardware
US	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
US GAAP	United States generally accepted accounting principles
US Holder	a beneficial owner of Existing Ordinary Shares that is, for US federal income tax purposes: (i) an individual citizen or resident of the United States; (ii) a corporation (or other entity treated as a corporation for US federal income tax purposes) created or organised under the laws of the United States, any State thereof or the District of Columbia; (iii) an estate the income of which is subject to US federal income tax without regard to its source; or

(iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or, in the case of a trust that was treated as a domestic trust under the law in effect before 1997, the trust has elected to be treated as a domestic trust for US federal income tax purposes

MICRO FOCUS INTERNATIONAL PLC

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of Micro Focus International plc (the “**Company**”) will be held at 2 p.m. on 26 May 2017 at 10 Paternoster Square, London EC4M 7LT for the purpose of considering and, if thought fit, passing the following resolutions (the “**Resolutions**”), of which Resolution 1 shall be proposed as an ordinary resolution and Resolutions 2 and 3 shall be proposed as a special resolutions:

ORDINARY RESOLUTION

1. THAT:

- (A) the proposed merger of Seattle MergerSub Inc. (an indirect subsidiary of the Company) (“**Merger Sub**”) with Seattle SpinCo Inc. (“**Seattle**”) (the “**Merger**”) on the terms and subject to the conditions contained in the merger agreement dated 7 September 2016 entered into between, amongst others, the Company, Merger Sub, Hewlett Packard Enterprise Company and Seattle (the “**Merger Agreement**”) and the associated ancillary documents contemplated by the Merger Agreement and summarised in the circular to shareholders dated 9 May 2017 of which this Notice of General Meeting forms part, a copy of which has been produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification only (the “**Circular**”), be and is hereby approved, and the directors of the Company (the “**Directors**”) (or a duly authorised committee thereof) be and are hereby authorised to take all such steps as they may consider necessary, expedient or appropriate in relation thereto and to carry the same into effect with such modifications, variations, revisions, waivers or amendments to such terms and conditions (providing such modifications, variations, revisions, waivers or amendments do not materially change the terms of the Merger for the purposes of the UK Listing Authority’s Listing Rule 10.5.2) as they shall in their absolute discretion deem necessary, expedient or appropriate;
- (B) the limit (on moneys borrowed less Current Asset Investments as defined in Article 102 of the Company’s articles of association) of US\$2,500 million pursuant to Article 102.2 of the Company’s articles of association be increased to US\$10,000 million; and
- (C) in addition and without prejudice to all existing authorities for the purposes of section 551 of the Companies Act 2006 (the “**Act**”), the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot, as is contemplated in sub-sections 551(1)(a) and 551(1)(b) of the Act respectively, Ordinary Shares up to a nominal amount of £25,000,000 as the Consideration Shares (as defined in the Circular) to be issued pursuant to the Merger Agreement, such authority to expire on 7 March 2018, save that the Company may, before such expiry make an offer or agreement which would or might require such Ordinary Shares to be allotted after such expiry and the Directors may allot such Ordinary Shares in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

SPECIAL RESOLUTIONS

2. THAT, subject to the passing of Resolution 1:

- (A) pursuant to section 21(1) of the Act, the articles of association of the Company be altered by:
 - (i) deleting the current article 122 and substituting therefor a new article 122, as set out in full in section E of Part VII (*Details of the Return of Value*) of the Circular; and
 - (ii) deleting the current articles 139, 140, 141A and 141B and substituting therefor new articles 139 and 140 as set out in full in section F of Part VII (*Details of the Return of Value*) of the Circular;
- (B) the Directors of the Company be and are hereby generally and unconditionally authorised:
 - (i) to capitalise a sum not exceeding US\$650,000,000, standing to the credit of the Company’s merger reserve and/or share premium account, and to apply such sum in paying up in full up

to the maximum number of redeemable shares in the capital of the Company, with such nominal value as the Directors may determine, carrying the rights and restrictions set out in article 139 of the articles of association of the Company as amended by this Resolution (the “**B Shares**”) that may be allotted pursuant to the authority given by sub-paragraph (B)(ii) below; and

- (ii) in addition and without prejudice to all existing authorities for the purposes of section 551 of the Act, pursuant to section 551 of the Act to exercise all powers of the Company to allot and issue credited as fully paid up (provided that the authority hereby conferred shall expire at the close of business on 7 March 2018) B Shares up to an aggregate nominal amount of £475,000,000 to the holders of the ordinary shares of 10 pence in the capital of the Company as shown in the register of members of the Company at 6.00 p.m. on the date falling the Business Day prior to the expected date of Admission (as defined below) (the “**Existing Ordinary Shares**”) (other than in respect of Existing Ordinary Shares held in treasury) on the basis of one B Share for each Existing Ordinary Share held and recorded on the register of members of the Company at 6.00 p.m. on that date (or such other time and/or date as the Directors may in their absolute discretion determine) (the “**Record Time**”), (but excluding any such shares which were issued on terms that they are not entitled to such allotment), in accordance with the terms of the Circular;
- (C) subject to the New Ordinary Shares (as defined below) being admitted to the Official List of the UK Listing Authority (the “**Official List**”) and to trading on London Stock Exchange plc’s main market for listed securities by 8.00 a.m. on 1 September 2017 (or such other time and/or date as the Directors may in their absolute discretion determine) (“**Admission**”), all of the issued Ordinary Shares be consolidated into one share of a nominal value equal to the aggregate nominal value of all of such Ordinary Shares (the “**Interim Share**”), which shall be allocated to the holders of the Existing Ordinary Shares in proportion to their holdings of Existing Ordinary Shares prior to the consolidation set out in this sub-paragraph (C) and, immediately thereafter, the Interim Share be subdivided and redesignated into:
- (i) such number of new ordinary shares of 10 pence each in the capital of the Company (the “**New Ordinary Shares**” and each being a “**New Ordinary Share**”) as is equal to “**X**”, rounded down to the nearest whole number, where X is calculated in accordance with the following formula:

$$X = \left(\frac{M-R}{M} \right) \times E$$

Where:

E = the number of Existing Ordinary Shares in issue at the Record Time

M = the closing mid-market price (in pence) of an Existing Ordinary Share (as derived from the daily official list of London Stock Exchange plc) on the third Business Day prior to the expected date of Admission

R = the aggregate sterling amount of the Return of Value (as defined in the Circular) as determined by the Board divided by the number of Existing Ordinary Shares in issue at the Record Time

The New Ordinary Shares created as a result of the subdivision and redesignation referred to in this sub-paragraph (C) shall be allocated to the holders of the Existing Ordinary Shares in proportion to their holdings of Existing Ordinary Shares prior to the consolidation set out in this subparagraph (C), provided that, where such allocation would result in any member being entitled to a fraction of a New Ordinary Share, such fraction shall be aggregated with the fractions of a New Ordinary Share (if any) to which other members of the Company would be similarly so entitled and the Directors of the Company be and are hereby authorised to sell (or appoint any other person to sell) all the New Ordinary Shares representing such fractions at the best price reasonably obtainable to any person(s), and to distribute the proceeds of sale

(net of expenses) in due proportion among the relevant members who would otherwise be entitled to the fractions so sold, save that (I) any fraction of a penny which would otherwise be payable shall be rounded up or down in accordance with the usual practice of the registrar of the Company, and (II) any due proportion of such proceeds of less than £5.00 (net of expenses) shall be donated by the Company to a suitable charity and the relevant member shall not be entitled thereto (and, for the purposes of implementing the provisions of this paragraph, any Director (or any person appointed by the Directors) shall be and is hereby authorised to execute one or more instrument(s) of transfer in respect of such New Ordinary Shares on behalf of the relevant member(s) and to do all acts and things the Directors consider necessary or desirable to effect the transfer of such New Ordinary Shares to, or in accordance with the directions of, any buyer of such New Ordinary Shares); and

- (ii) such number of deferred shares of 10 pence each in the capital of the Company (each a “**Deferred Share**”) having the rights set out in the articles of association of the Company as proposed to be amended by this Resolution as, in aggregate, shall have a nominal value equal to the aggregate nominal value of all of the Existing Ordinary Shares less the aggregate nominal value of all of the New Ordinary Shares arising pursuant to sub-paragraph (C)(i) above, which shall be allocated to the holders of the Existing Ordinary Shares in proportion to their holdings of Existing Ordinary Shares prior to the consolidation set out in this sub-paragraph (C) provided that, where such consolidation would result in any member of the Company being entitled to a fraction of a Deferred Share, such fraction shall, so far as possible, be aggregated with the fractions of a Deferred Share (if any) to which other members of the Company would be similarly so entitled and the Directors be and are hereby authorised to issue all the Deferred Shares representing such fractions to a nominee, identified by the Directors, who shall hold such Deferred Shares on behalf of the members of the Company entitled to such fractions of a Deferred Share; and
- (D) the Directors be and are hereby authorised to do all such things as they consider necessary or expedient to transfer the Deferred Shares arising as a result of the subdivision and redesignation provided for in sub-paragraph (C) above in accordance with the articles of association of the Company as amended by this Resolution.
3. **THAT**, conditional upon Admission, pursuant to section 21(1) of the Act, the articles of association of the Company be altered by:
- (i) deleting the current articles 128.3 and 131 and substituting therefor new articles 128.3 and 131 as set out in full in Part X (*Additional Amendments to the Articles of Association*) of the Circular; and
 - (ii) incorporating new articles 58.7, 58.8, 115.4, 123.12, 128.8, 131, 141, 142, 143, 144, 145 and 146, with the existing articles 58.7 and 58.8 moving to articles 58.9 and 58.10, respectively, as set out in full in Part X (*Additional Amendments to the Articles of Association*) of the Circular.

By order of the Board
Jane Smithard
Company Secretary
9 May 2017

Registered office
Micro Focus International plc
The Lawn
22-30 Old Bath Road
Newbury
Berkshire RG14 1QN
United Kingdom

Notes:

1. A Shareholder is entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the General Meeting. A Shareholder may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a Shareholder of the Company but they must be registered in advance and attend the General Meeting to represent you. A Form of Proxy which may be used to make such appointment and give proxy instructions accompanies this Notice of General Meeting. In order to be valid an appointment of proxy must be returned by post, by courier or (during normal business hours only) by hand to the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom, and must be received by Equiniti Limited by 2 p.m. (UK time) on 24 May 2017, or if the General Meeting is adjourned, 48 hours (excluding non-Business Days) prior to the adjourned meeting. A proxy may also be appointed electronically and further details are set out at Note 2 and Note 9 below. Appointment of a proxy does not preclude a Shareholder from attending the General Meeting and voting and speaking in person if they are so entitled and wish to do so. If you do not have a Form of Proxy and believe that you should have one, or if you require additional forms, please contact the Company's Registrars, Equiniti on 0371 384 2734 or +44 121 415 7047 from outside the UK (calls to this number from outside the UK will be charged at applicable international rates). Lines are open from 8.30 a.m. to 5.30 p.m. (UK time) (Monday to Friday except UK public holidays).
2. To appoint a proxy electronically log on to the Company's Registrars' website at www.sharevote.co.uk. Shareholders will need their Voting ID, Task ID and Shareholder Reference Number, each of which is printed on the face of the Form of Proxy. Full details of the procedures are given on the website. Alternatively, if you have already registered with the Company's Registrars' online portfolio service, Shareview, you can submit your proxy by logging on to your portfolio at www.shareview.co.uk and clicking on 'Company Meetings'. Instructions are given on the website. If you are a member of CREST, you may use the CREST electronic appointment service, details of which are set out at Note 9.
3. Any person to whom this Notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "**Nominated Person**") may, under an agreement between him/her and the Shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.
4. The statement of the rights of Shareholders in relation to the appointment of proxies in Note 1 above does not apply to Nominated Persons. Such rights can only be exercised by Shareholders of the Company.
5. Voting on the Resolutions set out in the notice of General Meeting will be on a poll. The Chairman will invite each Shareholder, corporate representative and proxy present at the General Meeting to complete a poll card indicating how they wish to cast their votes in respect of the Resolutions. In addition, the Chairman will cast the votes for which he has been appointed as proxy. Poll cards will be collected at the end of the General Meeting. Once the results have been verified by the Company's Registrars, Equiniti, they will be notified to the FCA, announced through an RIS and will be available to view on the Company's website (www.microfocus.com).
6. A Shareholder has a right to put to the Directors any questions relating to the business to be dealt with at the General Meeting. The Company must give an answer to any such question relating to the business being dealt with at the General Meeting, except if:
 - (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
 - (b) the answer has already been given on a website in the form of an answer to a question; or
 - (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
7. The Company, pursuant to the Uncertificated Securities Regulations 2001 (as amended) and section 360B(2) of the Act, specifies that only those Shareholders on the register of members as at 6.30 p.m. (UK time) on 24 May 2017 shall be entitled to attend or vote at the General Meeting in respect of the number of shares registered in their names at that time (or, in the event of any adjournment, at 6.30 p.m. (UK time) on the day which is two Business Days before the day of the adjourned meeting). Changes to entries on the register of members after such time shall be disregarded in determining the right of any person to attend or vote at the General Meeting.
8. As at 8 May 2017 (being the last practicable Business Day prior to the publication of the Circular) the Company's issued share capital consisted of 229,674,479 Ordinary Shares (of which none were held in treasury), carrying one vote each. The total number of voting rights in the Company as at 8 May 2017 was 229,674,479.
9. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available via www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a

previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID RA19) by 2 p.m. on 24 May 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

10. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his/her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
11. If all Ordinary Shares have been sold or transferred by the addressee, this Notice and any other relevant documents (but not any personalised Form of Proxy) should be passed to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of Ordinary Shares you should retain these documents and contact the person through whom the sale or transfer was effected. However, the distribution of this Notice and any other relevant documents into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this Notice comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of such jurisdictions.
12. Copies of the Circular and the Articles as proposed to be amended by Resolutions 2 and 3 will be available for inspection at the offices of Travers Smith LLP, 10 Snow Hill, London EC1A 2AL during usual business hours (Saturdays, Sundays and English public holidays excepted) from the date of this Notice until the conclusion of the General Meeting and at the General Meeting itself for at least 15 minutes prior to and during the General Meeting.
13. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
14. In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
15. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's Registrars, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Equiniti by 2 p.m. (UK time) on 24 May 2017, or if the General Meeting is adjourned, 48 hours prior (excluding non-Business Days) to the adjourned meeting.
16. You may not use any electronic address (within the meaning of section 333(4) of the Act) provided in either this Notice of General Meeting or any related document (including the Form of Proxy) to communicate with the Company for any purpose other than those expressly stated.
17. In accordance with section 311A of the Act, the contents of this Notice, details of the total number of shares in respect of which members are entitled to exercise voting rights at the General Meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this Notice will be available on the Company's website www.microfocus.com.
18. Unless the context otherwise requires, the definitions used in the Circular shall apply in this Notice.

