

**MICRO FOCUS INTERNATIONAL PLC**  
**and its subsidiaries**

**TAX STRATEGY**

## **Micro Focus International Plc**

### **Tax Strategy**

#### **Introduction**

This document sets out the Group's strategy for managing its tax affairs. The document will be published externally in accordance with recently enacted UK legislation prior to the end of the first applicable accounting period commencing 1 May 2017 and re-issued on an annual basis thereafter.

#### **Responsibilities**

Overall responsibility for the Tax Strategy rests with the Board.

The detailed policies for implementing the Tax Strategy are set out in the Group's Tax Policy document. Responsibility for updating and implementing the Tax Policy rests with the Chief Financial Officer.

The Audit Committee monitors compliance with the Tax Strategy and reports / makes recommendations to the Board accordingly.

The Tax Strategy is kept under ongoing review and is subject to formal review by the Board at least once a year.

#### **Strategy**

The Group's strategy with regards to tax is:

1. to ensure the Group is fully compliant with its statutory and regulatory obligations – ensuring complete and accurate tax returns are filed and the correct amount of tax is paid on time;
2. to manage its tax costs by ensuring that tax is considered when the group carries out significant transactions or reorganisations, and that appropriate tax planning is implemented, which accords with the Group's long term business strategy and stakeholder expectations;
3. to ensure the group takes advantage of statutory tax reliefs which are available to businesses generally (such as R&D tax credits or Patent/Innovation Box benefits);
4. to ensure tax risks are appropriately identified, assessed and managed; and
5. to ensure stakeholders have a comprehensive understanding of the Group's tax position.

The Group's tax strategy is fully consistent with the CBI's tax principles for UK business (attached).

Further details are set below.

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#### *Compliance and engagement with tax authorities*

The Group will pay the amount of tax legally due in each territory.

Where the application of tax law is unclear, the Group will obtain appropriate professional advice which will support the position taken in the relevant tax return.

The Group will develop good working relationships and be fully open, honest and transparent in its dealings with HMRC in the UK and other tax authorities. The Group will aim to meet with HMRC on a formal basis at least annually to update them on business developments and significant ongoing / forthcoming projects. The Group will cooperate fully with enquiries raised by tax authorities and aim to respond to requests for information within one month of receipt; where that is not possible, we will discuss the appropriate timeline with the tax authorities.

#### *Tax planning*

The Group is committed to managing its tax costs as part of its strategy to maximise total shareholder returns.

The Group issues guidance to investors and other stakeholders with regards to its forecast Adjusted Effective Tax Rate (being the tax charge in respect of the Adjusted Profit Before Tax divided by the Adjusted Profit Before Tax, in percentage terms) in the medium term. This is for stakeholder information purposes and does not constitute a formal performance target.

All tax planning undertaken must be driven by a business purpose or commercial rationale and support the Group's business objectives. The Group will only enter into transactions which are fully justifiable in the event of scrutiny by the Group's wider stakeholders.

The Group will be fully open, honest and transparent with tax authorities with regards to all tax planning undertaken.

#### *Risk management*

Tax risks will be managed in accordance with the Group's risk management framework and procedures. This includes the maintenance of a tax risk register, which sets out the material tax risks faced by the Group. This will be reviewed by the Audit Committee at least twice per year.

The tax implications of all major transactions (for example M&A transactions, corporate structure changes, and cross-border intra-group transactions) will be reviewed in advance by the Group Tax team with appropriate support from external advisors.

The Group will ensure that all decisions are taken at the appropriate level with appropriate supporting documentation. As part of the decision-making process, due consideration will be given to the Group's reputation and corporate and social responsibilities.

The Group accepts that certainty of tax treatment cannot be achieved in all circumstances (in the context of both compliance and planning). The precise amount of tax risk the Group is willing to

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bear will depend on the facts and circumstances relevant to the issue under consideration. The level of tax risk, which the Group is exposed to overall, is considered as part of the review of the tax risk register and the level of provisions for tax exposures in the Group's financial statements.

*Stakeholder information*

The Group's financial reports, stakeholder presentations and other publicly-available documentation will provide stakeholders with a clear understanding of the Group's tax position, including its tax strategy and governance processes as well as the financial position (effective tax rate, taxes paid and tax assets/liabilities).

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[Attachment. CBI Statement of tax principles]

# Statement of tax principles

To advance the debate on the responsible management of tax by UK business, the CBI offers this statement of tax principles for its members.

## Intention of statement of principles

This statement of principles is intended to promote and affirm responsible business tax management by UK businesses. These principles are based on five key observations:

- Public trust in the tax system is a vital part of any flourishing democracy
- Transparency and co-operation between HMRC and business contributes to greater compliance and a better functioning tax system
- Most businesses comply fully with all applicable tax laws and regulations, recognising the obligation of the UK government to protect a sustainable tax base
- Tax is a business expense which needs to be managed, like any other, and therefore businesses may respond to legitimate tax incentives and statutory alternatives offered by governments
- UK businesses contribute significantly to the UK economy and pay a substantial amount of tax comprising not only corporation tax, but also National Insurance, business rates and other taxes.

## The objectives

- To enhance co-operation, trust and confidence between HMRC, UK business taxpayers and the public in regard to the operation of the UK tax system
- To promote the efficient working of the tax system to fund public services and promote sustainable growth.

## Tax planning principles

- UK businesses should only engage in reasonable tax planning that is aligned with commercial and economic activity and does not lead to an abusive result
- UK businesses may respond to tax incentives and exemptions
- UK businesses should interpret the relevant tax laws in a reasonable way consistent with a relationship of 'co-operative compliance' with HMRC
- In international matters, UK businesses should follow the terms of the UK's Double Taxation Treaties and relevant OECD guidelines in dealing with such issues as transfer pricing and establishing taxable presence, and should engage constructively in international dialogue on the review of global tax rules and the need for any changes.

## Transparency and reporting principles

Relationships between UK businesses and HMRC should be transparent, constructive, and based on mutual trust with the result that HMRC should treat business fairly and with respect, and with an appropriate focus on areas of risk. UK businesses should, therefore:

- Be open and transparent with HMRC about their tax affairs and provide all relevant information that is necessary for HMRC to review possible tax risks
- Work collaboratively with HMRC to achieve early agreement on disputed issues and certainty on a real-time basis, wherever possible
- Seek to increase public understanding in the tax system in order to build public trust in that system, and, to that end:
  - They should consider how best to explain more fully to the public their economic contribution and taxes paid in the UK
  - This could include an explanation of their policy for tax management, and the governance process which applies to tax decisions, together with some details of the amount and type of taxes paid.