Directors' Remuneration report

Amanda Brown
Chair, remuneration committee

Remuneration committee members and meeting attendance

	Meeting attendance
Amanda Brown	**6/6**
Richard Atkins	**5/6**
Lawton Fitt	**6/6**
Greg Lock	**6/6**
Robert Youngjohns	**6/6**
Sander van 't Noordende	**6/6**
Pauline Campbell[1]	**1/1**

1 Pauline Campbell joined the board and the committee on 1 October 2021.

Annual statement from the chair of the remuneration committee

Dear fellow shareholders,

On behalf of the board, I am pleased to present our Directors' Remuneration report for the year ended 31 October 2021.

The Annual Report on Remuneration on pages 104 to 119 provides details of the remuneration earned by the directors in respect of the year ended 31 October 2021 and describes how the Remuneration Policy will be implemented for the year ending 31 October 2022.

The current Remuneration Policy, which was approved by shareholders at the Annual General Meeting (AGM) on 25 March 2020, can be found at investors.microfocus.com and on pages 91 to 100 of the 2019 Annual Report and Accounts. A summary of the current Remuneration Policy can be found on pages 102 to 103 under the section entitled "Executive directors' remuneration at a glance".

Context for FY21

During the year, the Company continued to adapt and respond to the on-going impact of COVID-19 under the direction of the COVID-19 Steering Committee. The Company has not furloughed any employees or requested any other form of state support since the start of the pandemic, there have been no redundancies due to COVID-19 and employees have not had their pay reduced or their terms and conditions adversely impacted.

The Company implemented several initiatives to support employees, for example, as part of a package of measures to assist the workforce in India, in light of the particularly adverse circumstances which they faced due to the pandemic in the summer of 2021, an advance payment of the full personal component of the FY21 bonus was made to around 2,800 employees in India.

Dividend payments were resumed with effect from the final dividend for FY20, which was paid in April 2021.

Business performance and FY21 incentive outcomes

As outlined elsewhere in the annual report, the Company executed well on its transformation objectives of completing the transition to the enterprise-wide platform, creating one Go-to-Market organisation and improving product positions across the portfolio.

In terms of financial results, full year revenue performance for FY21 was $2.9bn, which represents a decline of 5.3% on a constant currency basis and means the rate of revenue decline relative to FY20 has halved. The constant currency Adjusted EBITDA margin for the year was 35.9% (a decrease of 2.8ppt from FY20), resulting in Adjusted EBITDA of $1.0bn on a constant currency basis.

The resulting financial outcomes under the bonus plan were 84.1% achievement for revenue (20% weighting) and 37.8% achievement for Adjusted EBITDA (60% weighting), resulting in a combined financial achievement of 49.3% of maximum. The KPO outcomes for executive directors (90% achievement for both) reflect the achievement of stretching critical business objectives and key Environmental, Social and Governance (ESG) milestones, as detailed on pages 105 to 107. The committee considered that the significant achievements made in the year should be reflected in the payout levels for both executive directors under the KPO component. FY21 was the first year ESG measures were included in the bonus (with a 10% overall weighting for the CEO). We aim to build on our ESG strategy and the way the bonus KPOs underpin this.

Overall payouts (including the 20% weighted personal KPO element) were £732,794 for the CEO and £150,869 for the CFO (reflecting four months' as CFO), with one-third deferred into a share award with a three-year vesting period. This outcome reflects 57.5% of the maximum bonus opportunity for the CEO and CFO. The committee considered the bonus outcomes to be a fair reflection of business performance and saw no need to exercise discretion.

Over the three years to 30 April 2021 and to 31 October 2021, the aggregate Diluted Adjusted EPS performance fell short of the threshold target of RPI plus 3% per annum for the 2018 and 2019 LTIP awards respectively. As a result, the CEO's 2018 and 2019 awards lapse in full.

Decisions about executive pay outcomes for FY21 have been considered by the committee in light of all relevant circumstances, including the Company's approach to managing COVID-19, the progress made towards the business transformation and wider workforce pay.

The committee believes that the FY21 bonus and LTIP outcomes for executive directors appropriately reflect the Company's performance and the experience of all stakeholders over the respective performance periods and the committee is satisfied that the Remuneration Policy has operated as intended.

Implementation of policy in FY22

The committee considered the implementation of the Remuneration Policy for FY22 for executive directors and the wider workforce in the context of the updated strategic priorities and financial goals, as announced on 30 November 2021 and outlined elsewhere in the annual report.

Salaries and benefits for executive directors will remain unchanged and we will reduce the CEO's pension allowance from 15% to 5% at the end of 2022.

The same financial performance measures and weightings are retained for the FY22 bonus (60% AEBITDA and 20% revenue) as these continue to support the business strategy and ESG measures are included for both executive directors, reflecting half of the 20% KPO weighting.

The committee changed the prior weightings of the LTIP performance measures from 80% Cumulative Adjusted Free Cash Flow (aFCF) and 20% Relative Total Shareholder Return (TSR) to equal weighting for the FY22 awards, thereby maintaining the continuity and focus on cash flow whilst providing further direct alignment with the shareholder experience. We wrote to our largest shareholders in advance to update them on this approach, as well as the proposed earlier than usual grant timing and details around the CFO's FY21 Recruitment LTIP award (see below) and were pleased that no concerns were raised and the responses we received were supportive. The FY22 LTIP awards were granted in December 2021 at 200% of salary for both the CEO and the CFO. The committee believes that executive incentives should have a strong weighting on the longer-term LTIP element and will review at vesting whether it considers that there have been any windfall gains.

In accordance with the 1 June 2021 announcement, Matt Ashley was due to receive an FY21 Recruitment LTIP award on joining, however it was not possible to grant this due to dealing restrictions, so we granted this award at the same time as the FY22 LTIP awards in December 2021. As Matt Ashley became CFO towards the end of the first year of the three-year performance period for the FY21 awards and, given the rebalancing of the performance measures for the FY22 LTIP awards to 50% aFCF and 50% TSR, the committee decided it was appropriate for Matt Ashley's FY21 Recruitment award to be based on the new 50:50 weighting of aFCF and TSR and the same targets and performance period as the FY22 awards. This ensures that his FY21 award reflects the transformation strategy which he has been part of creating and will be measured against by shareholders.

In summary

We remain committed to building on the high level of support we have received from shareholders on remuneration resolutions at the last two AGMs and continue to engage with shareholders, most recently regarding the change in weighting of the LTIP performance measures. We believe the reward outcomes for FY21 and the approach for FY22 are appropriate given the Company's performance, the current environment and the transformation agenda which is critical over the next few years.

Amanda Brown
Chair, Remuneration committee
7 February 2022

Compliance statement

This Directors' Remuneration report has been prepared on behalf of the board by the committee and complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended (the UK Regulations). The report has been prepared in line with the applicable UK Corporate Governance Code and the UK Listing Rules.

The FY21 Annual Report on Remuneration complies with the Corporate Governance Code issued in June 2018 (the 2018 Code).

Executive directors' remuneration at a glance

Element	Summary of current policy[1]	Approach for FY21	Proposed approach for FY22
Base salary	Salaries are normally reviewed annually and, ordinarily, any increases will be in line with increases awarded to other employees of the Group.	CEO: £850,000 (no change from FY20) Outgoing CFO (until 30 June 2021): £600,000 Incoming CFO (from 1 July 2021): £525,000	No salary increases for executive directors for FY22. CEO: £850,000 CFO: £525,000
Benefits	A range of benefits may be provided to executive directors, subject to periodic review and typically in line with those available to employees generally. Maximum value for on-going benefits for executive directors may not normally exceed 15% of base salary.	Main benefits comprise car allowance, private medical and dental insurance, Group income protection and life assurance.	No change from FY21.
Pension	New hires: Maximum aligned to pension provided to employees generally in the same location. Current CEO: Maximum is currently 15% cash in lieu of pension allowance, reducing to the general employee level for the UK at the end of 2022.	CEO and outgoing CFO: 15% cash in lieu of pension allowance. Incoming CFO: 5% cash in lieu of pension allowance.	Maximum contributions aligned to workforce for CFO and new hires and will be for current CEO at the end of 2022.
Annual bonus	Maximum opportunity of 150% of salary. Executive directors are required to defer one-third of their bonus into an award over Company shares which vests three years later. Performance measures are set each year, normally including at least two financial measures, and financial measures must have an overall weighting of at least 80%. Malus and clawback provisions apply[2].	Maximum 150% of salary. Performance measures: AEBITDA (60%) Revenue (20%) Personal Key Performance Objectives (KPOs) (20%)	No change from FY21. Performance measures: AEBITDA (60%) Revenue (20%) KPOs (20%)
LTIP	Maximum award level of 200% of salary. Three-year performance period and a two-year post-vesting holding period. Normally at least two financial performance measures for each operation of the LTIP. Malus and clawback provisions apply[2].	CEO: 200% of salary. Performance measures: Adjusted Free Cash Flow (80%) Relative TSR (20%) Incoming CFO: 200% of salary. FY21 Recruitment LTIP award could not be granted to CFO in FY21 due to dealing restrictions so was granted at the same time and with the same performance period, measures and targets as the FY22 LTIP awards.	FY22 Award levels: CEO and CFO: 200% of salary Performance measures (CEO and CFO): Adjusted Free Cash Flow (50%) and Relative TSR (50%)

Element	Summary of current policy[1]	Approach for FY21	Proposed approach for FY22
Shareholding requirement	In service requirement: 200% of base salary, with executive directors given a period of time to build up to their requirement, typically five years. Post-cessation requirement: Executive directors to maintain full shareholding requirement (or, if lower, their actual level of shareholding at time of leaving) for two years after leaving employment (applies to shares delivered from awards granted after the approval of the current Remuneration Policy on 25 March 2020).		

1 The current Remuneration Policy, which was approved by shareholders at the Annual General Meeting on 25 March 2020, can be found at www.investors.microfocus.com and on pages 91 to 100 of the 2019 Annual Report and Accounts.
2 Details of the malus and clawback trigger events and how the Remuneration Committee could enforce malus and clawback are set out on page 95 of the 2019 Annual Report and Accounts.

How our incentive measures link to strategy

The strategic priorities for the Company, as announced on 30 November 2021, are to transition to a product group operating model, to deliver the innovation our customers need in the way they want to consume it and to utilise the enterprise-wide platform to create an agile and lean organisation. The financial performance measures in the annual bonus plan and in the LTIP are designed to support and underpin these strategic priorities as summarised below.

Financial objectives for the business exiting FY23	Link to incentive measures	
Revenue stabilisation and growth	Directly impacts the revenue measure (20% weighting in the bonus plan) and indirectly impacts adjusted EBITDA measure (60% weighting in the bonus plan) and ultimately free cash flow generation (50% weighting in the FY22 LTIP).	If successful, all three financial objectives should lead to superior shareholder returns, represented by the relative TSR measure (50% weighting in the FY22 LTIP) and impact the value of share awards, which comprise a significant proportion of executive directors' pay. Individual KPOs in the bonus link to the delivery of the strategic business priorities and key ESG milestones.
Annual net cost reduction (allowing for inflation) of approximately $300	Flows through to the adjusted EBITDA measure in the bonus and the adjusted free cash flow measure in the LTIP.	
Adjusted free cash flow run rate of approximately $500m	Directly reflected in the adjusted free cash flow measure in the LTIP.	

Annual Report on Remuneration

Single total figure of remuneration – executive directors (audited)

Executive directors		(a) Base salary[1] £'000	(b) Benefits[2] £'000	(c) Annual bonus[3] £'000	(d) LTIP[4] £'000	(e) Pension[5] £'000	(f) Other[6] £'000	Total £'000	Total Fixed Remuneration (Total of (a), (b) and (e)) £'000	Total Variable Remuneration (Total of (c), (d) and (f)) £'000
Stephen Murdoch	**2021**	**850**	**22**	**733**	**0**	**127**	**–**	**1,732**	**1,000**	**733**
	2020	850	24	283	0	127	–	1,284	1,002	283
Matt Ashley[7]	**2021**	**175**	**15**	**151**	**–**	**9**	**450**	**800**	**200**	**601**
Brian McArthur-Muscroft[8]	**2021**	**433**	**15**	**–**	**–**	**60**	**–**	**509**	**509**	**–**
	2020	600	25	199	–	90	–	914	715	199

1 Base salary is the amount earned during the period in respect of service as a director. For Brian McArthur-Muscroft, an amount for unused but accrued holiday is also included for FY21.
2 Benefits include car allowance, private medical/dental insurance, Group income protection and life assurance. There has been no change in the benefits offered to directors in FY21 versus FY20. The reduction in the benefits figure for Stephen Murdoch from FY20 to FY21 reflects reductions in employer costs in providing private medical/dental insurance and group income protection. For Matt Ashley, an amount is included which reflects the grossed up value of travel and accommodation related to time spent in the Newbury office.
3 Annual bonus reflects payment for performance during the year in respect of service as a director. One-third of the annual bonus amounts included in the table above is deferred into an award over shares which vests after three years. Dividend equivalents accrue on the deferred share awards.
4 The zero amount for LTIP for FY21 for Stephen Murdoch reflects that the performance conditions for the 2018 and 2019 LTIP awards were not met. The 2018 LTIP award (with performance period ending 30 April 2021) was granted to Stephen Murdoch in September 2018 as a top-up to his September 2017 award to reflect his appointment as CEO. The performance period ending 30 April reflected the Company's previous year-end before this was changed to 31 October. The 2018 award lapsed on 1 July 2021. The 2019 award was a regular annual LTIP award granted in February 2019 (with performance period ending 31 October 2021). The 2019 award will lapse on 8 February 2022. The zero amount for LTIP in respect of 2020 reflects the lapse of the 2017 LTIP award on 7 July 2020 due to the performance conditions not being met. No discretion was applied by the remuneration committee in determining the LTIP vesting outcomes in FY21 or in FY20.
5 All pension amounts paid by the Company in the 2021 financial year are cash in lieu of pension allowances. In accordance with the current Remuneration Policy, the incoming CFO's pension contribution rate of 5% of base salary is in line with the rate applicable to employees generally in the UK. The CEO will transition from his current contribution rate (15% of base salary) to the rate applicable to employees generally in the UK (currently 5%) at the end of 2022.
6 As part of his recruitment arrangements, Matt Ashley received a cash buy-out payment of £450,000 which reflected a cash bonus which he was due to receive from his prior employer in October 2021 but which was forfeited on leaving to join Micro Focus. This payment was disclosed on 1 June 2021 in the announcement about Matt Ashley's appointment as Micro Focus CFO and is in accordance with the Company's approved policy on recruitment remuneration (see page 99 of the 2019 Annual Report and Accounts).
7 Matt Ashley started employment on 28 June 2021 and was appointed to the board as CFO with effect from 1 July 2021. All amounts in the table above reflect the period of service as a director.
8 Brian McArthur-Muscroft stepped down from the board on 30 June 2021. His compensation arrangements on leaving are summarised on page 114.
9 Some figures and sub-totals add up to slightly different amounts than the totals due to rounding.

The total remuneration for directors is set out in note 28 to the consolidated financial statements on page 211.

Annual bonus for FY21 (audited)

The target bonus opportunity for executive directors is 75% of base salary (maximum 150% of base salary). Set out below is a summary of performance against each financial measure and the personal achievement component and the resulting payout for the 2021 financial year.

		Financial targets ($m)[1]						Weighted payout %	
Performance measure	Weighting	Threshold[2] (0%)	Target (50%)	Maximum (100%)	Achievement ($m)	Achievement vs Target	Payout %	Stephen Murdoch	Matt Ashley[3]
Adjusted EBITDA	60%	$994	$1,046	$1,098	$1,033	98.8%	37.8%	22.7%	22.7%
Revenue	20%	$2,801	$2,858	$2,887	$2,878	100.7%	84.1%	16.8%	16.8%
Key Personal Objectives (KPOs)	20%	A description of the KPO achievement is set out below						18.0%	18.0%
Total	100%						Payout % (of maximum bonus)	57.5%	57.5%
							Payout % (of FY21 salary)	86.2%	86.2%
							Total bonus payout	£732,794	£150,869

1 Financial targets for bonus are based on FX rates which are set at the start of the financial year and the achievement is measured against the targets on a like-for-like basis. Therefore, the AEBITDA and revenue achievements shown above do not match the disclosed AEBITDA and revenue figures for FY21 in the Financial Reports as these are based on actual FX rates. $1,033.3m AEBITDA achievement disclosed in the table above for bonus purposes equates to $1,040.2m AEBITDA at actual FX rates and $2,877.5m revenue achievement equates to $2,899.9m revenue at actual FX rates.
2 Payouts under the financial measures are 0% for threshold performance, 50% for target performance and 100% for achieving the maximum level of performance. Payouts are on a straight-line basis between threshold and target and between target and maximum.
3 Amounts disclosed for Matt Ashley reflect time served as a director in FY21, i.e. from 1 July 2021 to 31 October 2021.

This results in overall bonus payouts of £732,794 for the CEO and, in respect of his time served as a director, £150,869 for the CFO. Two-thirds of the overall amount (£488,529 for the CEO and £100,580 for the CFO) will be paid in cash in March 2022 and the remaining one-third is subject to deferral into an award over shares. Deferred share awards (with a current face value of £244,265 for the CEO and £50,290 for the CFO) will vest after three years, i.e. in Q2 FY25. The deferred share awards are not subject to any further performance conditions, however they are subject to malus and clawback and they include a right to dividend equivalents over the three-year vesting period.

Set out below are details of achievement against the FY21 KPOs for the CEO and CFO.

KPO	Relative weighting	Achievement vs KPO	Weighted payout %
CEO			
Key business objectives Complete the transition to a single enterprise-wide platform as effectively as possible with minimum disruption to day-to-day operations and agree specific actions for further business simplification.	10.0%	**Business systems and infrastructure** – Successfully completed the transfer to a single Enterprise Platform by transferring Stack B to Stack C in H1 FY21 and Stack A to Stack C in H2 FY21, enabling the Company to unlock further efficiencies. Closed two financial quarters (including peak Q4 trading period) on new systems with no business impacting issues. – Through an Activity Insight Survey, identified and initiated key change initiatives (functional and cross-functional) to improve opportunities, simplify processes and make decisions faster. Examples include moving from six quoting systems to one, reducing SaaS applications from 70 to 20, moving 2,000 business applications to 500 and a 75% reduction in the number of different types of sales compensation plans in operation.	9.5%
Improve our product positions across the portfolio making us more competitive and delivering the innovation our customers want.		**Product portfolios** – Rearchitected key solutions within each portfolio (Vertica, Digital Safe, ArcSight, OpsBridge) to better position the portfolio to focus on growth opportunities, improved product innovation and related market recognition. – Dependencies on third party products embedded in the core of some of our key solutions have been removed, comprehensive artificial intelligence, machine learning and analytics capabilities delivered in every portfolio and rearchitected many products to support new cloud and hybrid deployment options. – In every portfolio, we have introduced new SaaS offerings, improved the existing SaaS offerings and invested significantly in SaaS delivery infrastructure.	
Create one single go-to-market organisation that can deliver consistent, sustained improvement to our revenue performance through improved sales productivity and the more effective alignment of our resources to opportunity.		**Go-to-market organisation** – Successfully created one single go-to-market organisation with a consistent global approach. – Aligned resources with greater specialist skillsets and consistency of execution, built deeper levels of specialism and alignment by portfolio. – Implemented a management system aimed at ensuring execution to a common set of standards and levels of accountability, supported by a single set of sales tools and improved data accuracy. – Established a dedicated customer success team supported by increased levels of specialist resources within Maintenance Renewals and Professional Services.	
Continue to improve governance and structures to monitor and respond quickly to on-going impact of COVID-19.		**COVID-19** – Further enhanced the governance and structures in place to be able to monitor and respond quickly to ensure wellbeing of employees and minimise business disruption through COVID-19, including implementing a package of measures in the summer of 2021 to address the extreme challenges faced by colleagues in India. – Maintained operational effectiveness, product development cadence, customer support and delivery and transitioned core systems during constraints of global pandemic and local lockdowns.	
Continue to strengthen the leadership team through rigorous succession planning and talent management.		**Succession planning and talent management** – Completed a global calibration of talent and succession for key talent to include executives and emerging talent across the business and implemented individual development plans for executive potential successors and emerging talent. – Recruited new executive leadership in critical product and support functions.	

KPO	Relative weighting	Achievement vs KPO	Weighted payout %
ESG milestones Ensure that we have an appropriate ESG programme reflecting focus on our employees, customers, shareholders and partners. This must be part of our corporate governance responsibilities, including continuous improvements in our control/SOX processes.	10.0%	**General** – Adopted, aligned and communicated support for five of the United Nations Sustainable Development Goals (no poverty, quality education, gender equality, decent work and economic growth and climate action). **Environment** – Target of achieving a normalised Greenhouse Gas (GHG) reduction of 2-5% by the end of FY21, based on our 2018 baseline data, was achieved. Comparing like-for-like FY20 to FY21 global footprint, we achieved a GHG emissions reduction of -7.8%. Due to the increase in the amount of properties in scope from 64% in FY20 to 67.7% in FY21, there has been an overall increase of +1.5% in GHG emissions. – Met target of increasing the percentage of our energy which comes from renewable sources globally from 40% to over 50% by the end of FY21 (52% achieved). – Established a cross-functional Environmental Working Group, which includes a focus on the Task Force on Climate-Related Financial Disclosures (TCFD). **Employees and community** – Published and implemented a global diversity and inclusion (D&I) policy statement, created new D&I strategy through FY25 with oversight by recently formed ESG Committee and agreed a set of internal I&D goals for FY22. – Improved employee engagement scores from the FY19 baseline, maintained "My Voice" employee survey participation levels at over 85% and grew membership of Employee Resource Groups by 34% in FY21 from FY20. – Target of having 25% of our employees taking part in community volunteering by the end of FY21 was not fully achieved. This goal for FY21 was largely based on in person volunteering, which was significantly impacted by COVID-19. Nonetheless, we achieved 11% of employees volunteering in FY21, which is an increase from FY20 and we introduced an option (supported by technology) to enable virtual volunteering with 976 employees taking part in virtual volunteering in FY21. **Customers and suppliers** – Increased our Customer double-blind Net Promoter Score to 47 for FY21 (from 45% for FY20) and our double-blind Relative Net Promoter Score to +5 compared to the competition for FY21 (from 0 for FY20). – Established and implemented a global diverse supplier programme which ensures that we proactively identify and encourage diverse suppliers to compete for our business and build long-term relationships with them. **Governance** – Implemented an ESG framework and programme reflecting focus on our employees, customers, shareholders and partners, including appointment of an ESG Board Committee to provide Board ESG focus and oversight and establishment of an ESG cross functional Working Group to ensure that ESG considerations are part of "business as usual" decision making processes at all levels and to develop the strategy going forward. – The Enterprise Risk Management framework was enhanced to include existing and new ESG risks and was approved by the audit committee.	8.5%
Total	**20.0%**	Looking at the complete scorecard of achievement against all objectives for the year, the committee considered that the CEO had performed extremely well, highlighting in particular the completion of the transfer to a single enterprise platform and the significant progress which has been made on the turnaround plan, resulting in a KPO achievement of 90% (i.e. 18% out of a possible 20%).	**18.0%**

KPO	Relative weighting	Achievement vs KPO	Weighted payout %
CFO (4 months)			
3-year plan Build a revised 3-year plan with specific goals for the exit of FY23 that will be the foundations for our execution plan going forward and for communication externally to shareholders and the market more broadly.	10.0%	– The 3-year plan has been revised and the core financial objectives for the next two financial years and our longer-term ambitions were laid out in our 30 November 2021 Strategy Update. – The new plan, developed by the CFO in conjunction with the CEO, reflects a reset of expectations with realistic and achievable goals which lays the foundations for the business transformation. A granular operational plan to execute the strategy has been put in place, which includes the appointment of a Chief Transformation Officer to co-ordinate multiple workstreams and the successful sale of the Digital Safe business. – The external financial KPIs were refined to provide greater clarity on the Group's financial performance and more closely align the metrics to those used by the Group's debt holder. The CFO has concluded that there will be no more integration costs associated with the HPE Software acquisition classified as exceptional spend going forward. – The CFO has laid foundations for future financial effectiveness, having assessed and made recommendations on how we leverage advisors and formal relationships and our overall use of consultancies to improve effectiveness and value for money in the mid-term.	9.5%
Business systems and infrastructure Support the effective transition to a single enterprise platform overall and specifically from a core financial perspective.	10.0%	– Successfully completed the transfer to a single enterprise platform by transferring Stack A to Stack C in H2 FY21, enabling the Company to unlock further efficiencies. – FY21 Q3 and Q4 were successfully delivered on the new platform. Business as usual has not been impacted by the transition with minimal disruption to revenue and the payment of employees and suppliers.	8.5%
Total	**20.0%**	The Committee recognised that in four months, the CFO has had a significant impact, in particular in revising the 3-year plan, resulting in a KPO achievement of 90% (i.e. 18% out of a possible 20%).	**18.0%**

Lapse of 2018 and 2019 LTIP awards (audited)

The 2018 LTIP award (with performance period ending 30 April 2021) was granted to Stephen Murdoch in September 2018 as a top-up to his September 2017 award to reflect his appointment as CEO in March 2018. This award lapsed on 1 July 2021 due to the performance condition not being met. The performance condition for the 2019 annual LTIP award (with performance period ending 31 October 2021) granted to Stephen Murdoch in February 2019 has not been met and this award will lapse on 8 February 2022. Both the 2018 and 2019 LTIP awards were granted under the Directors' Remuneration Policy in effect before the approval of the current Remuneration Policy at the Annual General Meeting in March 2020.

The performance condition for the 2018 and 2019 awards was based on average aggregate EPS growth in excess of RPI over the three years ended 30 April 2021 (2018 award) and 31 October 2021 (2019 award) as set out in the table below:

Average aggregate EPS growth of the Company in excess of RPI over the performance period	Vesting percentage of the shares subject to an award	2018 and 2019 awards: Achievement against the performance range	Resulting vesting percentage	Number of awards lapsing
Less than 3% p.a.	0%	Less than 3% p.a.	0%	2018 award[1]: 67,537 (lapsed 1 July 2021) 2019 award[2]: 101,190 (will lapse 8 February 2022)
Equal to 3% p.a.	25%			
Between 3% and 9% p.a.	Between 25% and 100% on a straight-line basis			
Equal to or above 9% p.a.	100%			

1 The aggregate Diluted Adjusted EPS over the performance period of 542.21 cents was below the minimum threshold aggregate EPS required of 627.55 cents.
2 The aggregate Diluted Adjusted EPS over the performance period of 505.52 cents was below the minimum threshold aggregate EPS required of 687.30 cents.

Scheme interests awarded during the financial year ended 31 October 2021 (audited)

LTIP – nil-cost options

	Date of grant	Awards granted	Basis on which award is made	Face value of award at grant[1]	Percentage of maximum which would be received if threshold performance achieved	End of performance period
Stephen Murdoch	26 March 2021	Grant of award over 350,515 shares	200% of salary	£1,699,998	0%	31 October 2023

1 The grant face value of the LTIP award granted on 26 March 2021 to the CEO was calculated based on the closing mid-market share price on the business day before grant of £4.850.

The FY21 Recruitment award to the new CFO Matt Ashley could not be granted in FY21 due to dealing restrictions and was therefore granted at the same time and with the same performance measures, targets and period as the FY22 LTIP awards on 17 December 2021. This award was part of Mr Ashley's recruitment terms and was mentioned in the announcement about his appointment on 1 June 2021. Mr Ashley's FY21 Recruitment LTIP award was granted over 312,593 shares with a total face value at grant of £1,050,000 (200% of salary) based on the closing mid-market share price on the business day before grant of £3.359. The performance period for Mr Ashley's FY21 LTIP award ends on 31 October 2024 and vesting starts at 0% if threshold performance is achieved. See page 115 for further details.

The LTIP award granted to the CEO in the 2021 financial year has the following performance conditions based on Cumulative Adjusted Free Cash Flow (80% weighting) and Relative Total Shareholder Return (20% weighting) measured over a three-year period (FY21, FY22 and FY23). The performance measures, targets and payout percentages are set out below.

	Cumulative Adjusted Free Cash Flow (80% weighting)	Company TSR relative to FTSE 250 (excluding Investment Trusts) Index (20% weighting)	Payout % for this element
Threshold	$100m below Target	In line with Index	0%
Target	Commercially sensitive	Exceed Index by 20%	50%
Maximum	$200m above Target	Exceed Index by 40%	100%

Vesting is on a straight-line basis between threshold and target, and between target and maximum.

Adjusted Free Cash Flow means cash generated from operations adjusted for interest payments, bank loan costs, tax payments, capital expenditure and lease payments and excludes the cash impact of exceptional items. This is in line with the definition of Adjusted Free Cash Flow on page 139.

The Adjusted Free Cash Flow Target is considered commercially sensitive and will be disclosed at the end of the performance period. Due rigour was applied by the Remuneration Committee in setting the targets and the approved targets were deemed to be appropriate in the context of the long-term financial plan.

Relative TSR is measured over the same three financial years.

The awards will vest three years from grant, subject to achievement of the performance measures. A two-year holding period will apply post-vesting, during which time executive directors are required to retain any net (after tax) vested shares. Executive Directors are entitled to dividend equivalents in accordance with the rules of the LTIP and the approved Directors' Remuneration Policy.

Deferred Share Bonus Plan (DSBP)

The DSBP awards noted below relate to the one-third deferral of the FY20 bonus.

	Date of grant	Awards granted	Basis on which award is made	Face value of award at grant[1]	Vesting Date
Stephen Murdoch	26 March 2021	19,416	One-third of FY20 annual bonus earned as an executive director is deferred into an award over shares	£94,168	26 March 2024
Brian McArthur-Muscroft	26 March 2021	13,705	One-third of FY20 annual bonus earned as an executive director is deferred into an award over shares	£66,469	26 March 2024

1 The grant face value of the DSBP awards granted on 26 March 2021 to the CEO and former CFO were calculated based on the closing mid-market share price on the business day before grant of £4.850.

Executive directors' shareholding and share interests as at 31 October 2021 (audited)

Executive directors are subject to a shareholding requirement of 200% of annual base salary. On joining or promotion to the board, executive directors are given a period of time to build up to their requirement, typically five years.

As part of the remuneration policy approved by shareholders at the 2020 AGM, on cessation of employment, executive directors are to maintain their full shareholding requirement (or, if lower, their actual level of shareholding at the time of leaving) for two years after leaving employment. This applies to shares delivered from awards granted after the approval of the new policy at the 2020 AGM. A mechanism for monitoring post-cessation shareholdings for executive directors will be put in place in advance of this requirement taking effect.

Stephen Murdoch's shareholding requirement of 200% of salary applies with effect from 19 March 2021 (which is three years from when he re-joined the board on 19 March 2018) and we report on his level of shareholding as at 31 October each year. In the FY19 Annual Report, we disclosed that Mr Murdoch had significantly exceeded his 200% shareholding requirement as at 31 October 2019, with a holding at that time of 945% of salary. Despite not selling any shares since then, his shareholding has dropped below the 200% level as at 31 October 2021. This is due to the decrease in the Company's share price and the lack of LTIP vesting for over two and a half years. Other than a release of 4,518 net deferred bonus plan shares in July 2020, Mr Murdoch has not received any shares from Micro Focus share plans due to the lapse of LTIP awards granted in September 2017, September 2018 and February 2019 over a total of 205,391 shares.

Stephen Murdoch's shareholding percentage as at 31 October 2021, based on the average share price for January 2022 (£4.37), is 155% of salary.

The table below shows the shareholdings and share interests for all executive directors (and their connected persons) who served during the 2021 financial year as at 31 October 2021 (or at the date of stepping down, if earlier). For disclosure purposes, any American Depositary Shares (ADSs) are included as shares.

		Nil-cost options and conditional awards held					
Director	Shares held (owned outright)[1]	Vested but not exercised	Unvested and not subject to performance	Unvested and subject to performance	Shareholding requirement (% of salary)	Current shareholding (% of salary)[2]	Requirement met?
Stephen Murdoch	280,669	39,640	29,429	701,705	200%	127%	No
Matt Ashley[3] (from 1 July 2021)	0	0	0	0	200%	0%	Due 2026
Brian McArthur-Muscroft[4] (until 30 June 2021)	0	0	13,705	0	n/a	0%	n/a

1 Shares held (owned outright) includes any Micro Focus securities of which the director, their spouse, civil partner or dependent child has beneficial ownership.
2 Current shareholding includes the value of any shares held (owned outright) together with the net after-tax value of any vested but unexercised nil-cost options valued based on the closing mid-market price on 29 October 2021 of £3.57.
3 As at 31 October 2021, Matt Ashley had only recently joined the Company and he has five years from joining to build up to the 200% of salary shareholding requirement. He did not receive any grants or vestings of share awards in FY21 and was unable to acquire shares during his time employed in FY21 due to dealing restrictions.
4 Brian McArthur-Muscroft stepped down from the board on 30 June 2021. In accordance with our policy, he is not required to hold any Company shares post-cessation of employment. However, he does have a deferred share bonus plan award, as detailed in the table above, which relates to the one-third portion of his FY20 annual bonus which was deferred into share awards.

Please note the following changes to the above interests between 31 October 2021 and 7 February 2022:

- The number of shares held (owned outright) by Matt Ashley increased from 0 to 43,280 as a result of purchases of Micro Focus shares by Matt Ashley and his spouse on 17 December 2021.
- The number of unvested awards subject to performance held by Matt Ashley increased from 0 to 625,186 following the grant of 312,593 FY21 Recruitment LTIP awards and 312,593 FY22 LTIP awards on 17 December 2021.
- The number of unvested awards subject to performance held by Stephen Murdoch increased from 701,705 to 1,207,808 following the grant of 506,103 FY22 LTIP awards on 17 December 2021.

The remuneration committee believes that the interests of the executive directors are strongly aligned with shareholders.

Outstanding share-based awards (audited)

The tables below set out vested but unexercised nil-cost options, unvested nil-cost options and unvested deferred bonus share awards held by executive directors who served on the board during the 2021 financial year as at 31 October 2021, including details of awards granted, nil-cost options exercised and awards vested and lapsed during the year of reporting.

All outstanding unvested nil-cost options are subject to performance conditions. Deferred bonus shares are not subject to performance conditions.

Between 31 October 2021 and the date of this report, there have been the following changes to the LTIP awards held by the executive directors which are not shown in the table below:

- On 17 December 2021, an FY22 LTIP award was granted to Stephen Murdoch over 506,103 shares.
- On 17 December 2021, an FY21 Recruitment LTIP and an FY22 LTIP award were granted to Matt Ashley over 312,593 shares each (625,186 in total).

The FY21 Recruitment LTIP award was part of Mr Ashley's recruitment terms and could not be granted sooner due to dealing restrictions.

All the LTIP awards granted on 17 December 2021 have an exercise period of the date of vesting (which is the later of the date the remuneration committee determines the outcome of the performance measures and the day after the full year FY24 results announcement) to 16 December 2031.

Micro Focus International plc Incentive Plan 2005 (LTIP) – nil-cost options

	Grant Date	Number at 1 November 2020	Number granted in the financial year	Number exercised in the financial year	Number lapsed in the financial year	**Number at 31 October 2021**	Dates for exercise
Stephen Murdoch	13 September 2016	39,640	–	–	–	**39,640**	26 July 2019 to 25 July 2026
Stephen Murdoch	20 September 2018	67,537	–	–	67,537[1]	**–**	n/a
Stephen Murdoch	18 February 2019	101,190	–	–	–	**101,190[2]**	**n/a – will lapse**
Stephen Murdoch	23 April 2020	250,000	–	–	–	**250,000[3]**	23 April 2023 to 22 April 2030
Stephen Murdoch	26 March 2021	–	350,515	–	–	**350,515[4]**	26 March 2024 to 25 March 2031
Brian McArthur-Muscroft[5]	22 November 2018	80,482	–	–	80,482	**–**	n/a
Brian McArthur-Muscroft[5]	22 November 2018	80,482	–	–	80,482	**–**	n/a
Brian McArthur-Muscroft[5]	23 April 2020	300,000	–	–	300,000	**–**	n/a
Kevin Loosemore	18 February 2019	52,083	–	–	–	**52,083[2]**	**n/a – will lapse**

1 The performance condition for the 2018 LTIP awards required that cumulative EPS growth over a three-year performance period starting on 1 May preceding the date of grant is at least equal to RPI plus 3% per annum (at which point 25% of awards will vest) and for full vesting the aggregate EPS growth will be required to be RPI plus 9% per annum. Straight-line vesting applied between these points. This award lapsed in full on 1 July 2021 as the minimum performance condition was not met (see page 107 for further details).

2 The performance condition for the 2019 LTIP awards requires that cumulative EPS growth over a three-year performance period starting on 1 November preceding the date of grant is at least equal to RPI plus 3% per annum (at which point 25% of awards will vest) and for full vesting the aggregate EPS growth will be required to be RPI plus 9% per annum. Straight-line vesting will apply between these points. Kevin Loosemore's award of 89,285 nil-cost options was pro-rated to 52,083 on leaving the Company to reflect time served to 13 August 2020. The performance measure has been tested and these awards will lapse in full on 8 February 2022 as the minimum performance condition was not met.

3 The performance condition for the FY20 LTIP awards is disclosed on page 111 of the 2020 Annual Report and Accounts.

4 The performance condition for the FY21 LTIP awards is disclosed on page 108.

5 All of Brian McArthur-Muscroft's outstanding LTIP awards lapsed on 8 January 2021 following the announcement that he was leaving the Company.

The aggregate amount of gains made by directors on the exercise of options during the financial year was zero.

Micro Focus Deferred Share Bonus Plan (DSBP) – conditional awards

	Grant Date	Number at 1 November 2020	Number granted in the financial year	Number vested in the financial year	Number lapsed in the financial year	**Number at 31 October 2021**	Date of release
Stephen Murdoch	28 February 2019	10,013	–	–	–	**10,013**	28 February 2022
Stephen Murdoch	26 March 2021	–	19,416	–	–	**19,416**	26 March 2024
Brian McArthur-Muscroft	26 March 2021	–	13,705	–	–	**13,705**	26 March 2024

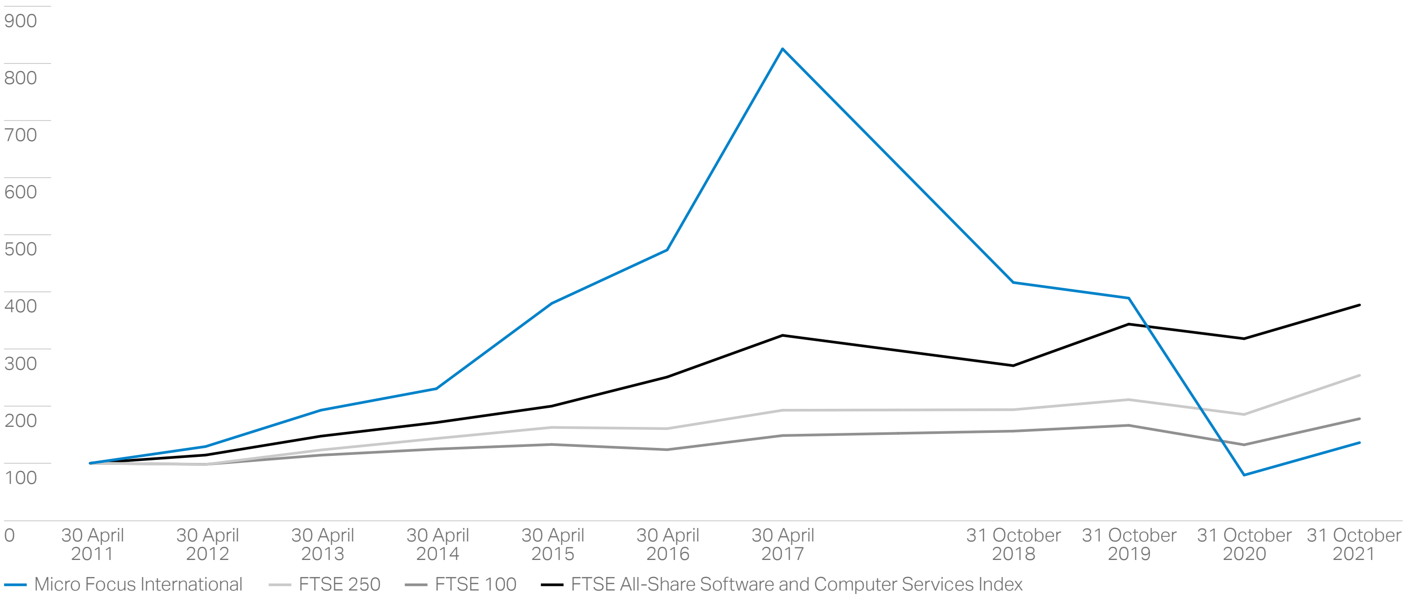
TSR performance graph and CEO historical pay table

The remuneration package is structured to help ensure alignment with shareholders. The graph and table below show how the Chief Executive Officer's or Executive Chairman's pay compares to total shareholder returns (TSR) over the last 10½ years.

The graph below shows the value, by 31 October 2021, of £100 invested in Micro Focus International plc on 30 April 2011 compared with the value of £100 invested in the FTSE 250, FTSE 100 and the FTSE All-Share Software and Computer Services indices. The dates shown are the Company's financial year-ends. The FTSE 250, FTSE 100 and the FTSE All-Share Software and Computer Services indices have been chosen as they are considered the most relevant indices for comparison with the Company.

TSR performance graph

The graph below shows the growth in the value of a hypothetical £100 holding over the period from 30 April 2011 to 31 October 2021.



CEO historical pay table

The table below details the Executive Chairman's (2012 to 2017) and Chief Executive Officer's (2018 to 2021) single figure of total remuneration over the same period as the TSR performance graph above.

	12 months ended 30 April						18 months ended 31 October	12 months ended 31 October		
	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	**2021 £'000**
	Kevin Loosemore						Stephen Murdoch/ Chris Hsu	Stephen Murdoch		
Single total figure of remuneration	1,291	1,304	12,468	4,315	4,231	4,226	2,739/ 4,963	1,333	1,284	**1,732**
Annual bonus outcome (% of maximum)	90%	92%	100%	100%	100%	45%	57%/ 12%	Nil	22%	**57%**
LTIP vesting (% of maximum)	Nil	Nil	199%	100%	100%	100%	100%/ n/a	100%	Nil	**Nil**

Annual percentage change in remuneration of directors and employees

The table below shows the percentage change in remuneration (salary, benefits and annual bonus) from FY20 to FY21 and FY19 to FY20 for each of the directors who were on the board at 31 October 2021 compared with the average employee.

	% change from FY20 to FY21			% change from FY19 to FY20		
Director	Salary/fees	Benefits	Annual bonus	Salary/fees	Benefits	Annual Bonus
Stephen Murdoch	0%	(10%)	159%	0%	7%	n/a
Matt Ashley[1]	n/a	n/a	n/a	n/a	n/a	n/a
Greg Lock[2]	n/a	n/a	n/a	n/a	n/a	n/a
Karen Slatford	0%	0%	n/a	0%	0%	n/a
Richard Atkins	0%	0%	n/a	0%	0%	n/a
Amanda Brown	0%	0%	n/a	0%	0%	n/a
Lawton Fitt	0%	0%	n/a	0%	0%	n/a
Robert Youngjohns[2]	n/a	n/a	n/a	n/a	n/a	n/a
Sander van 't Noordende[2]	n/a	n/a	n/a	n/a	n/a	n/a
Pauline Campbell[3]	n/a	n/a	n/a			n/a
Average employee[4]	**3%**	**(2%)[5]**	**169%**	**4.4%**	**4.5%**	**1.9%**

1 Matt Ashley joined the board on 1 July 2021.
2 N/a has been included for percentage change in fees for Greg Lock, Robert Youngjohns and Sander van 't Noordende to reflect that part service in FY20 would otherwise be compared to full service in FY21.
3 Pauline Campbell joined the board on 1 October 2021.
4 Under the UK Regulations, we are required to show the comparison change in salary, benefits and annual bonus for employees of the parent Company (Micro Focus International plc) other than directors. However, as there are no other employees of this Company other than the directors, we have instead voluntarily disclosed the required information for the average employee across Micro Focus. The average employee is based on all employees globally who were in the Company Bonus Plan in both FY20 and FY21 (i.e. excluding employees on sales commission) and were employed throughout the two-year period. We have selected employees in the Company Bonus Plan for this comparison as it reflects approximately 80% of the total employee population and is considered the most relevant comparator group given the structure of these employees' remuneration relative to the executive directors (in contrast to those on sales commission plans).
5 The reduction in benefits for the average employee from FY20 to FY21 reflects an overall reduction in the modelled cost of providing the benefits.

UK pay ratios

The 2018 Reporting Regulations require disclosure of the ratio of total Chief Executive Officer remuneration to the median, 25th and 75th percentile UK employee total remuneration (calculated on a full-time equivalent basis). We have around 1,000 employees in the UK.

For the purposes of the pay ratios below, the Chief Executive Officer's total remuneration is his 2021 single total figure of remuneration of £1,732,000. All pay figures are rounded to the nearest £1,000.

Year		Method	25th percentile UK employee	Median UK employee	75th percentile UK employee
2021	**Pay ratio**	**Option B**	**35:1**	**23:1**	**15:1**
	Total remuneration		**£49,000**	**£74,000**	**£118,000**
	Salary		**£43,000**	**£64,000**	**£91,000**
2020	Pay ratio	Option B	26:1	17:1	13:1
	Total remuneration		£49,000	£74,000	£101,000
	Salary		£43,000	£63,000	£85,000
2019	Pay ratio	Option B	35:1	24:1	14:1
	Total remuneration		£45,000	£66,000	£111,000
	Salary		£40,000	£59,000	£83,000

The ratios for 2021 have been calculated using Option B, meaning that the best equivalents of the median, 25th and 75th percentile UK employees were identified based on the latest published hourly rate UK gender pay gap information. This was deemed the most appropriate methodology for the Company at this time, given the different human resources and payroll systems in place and is consistent with last year's approach.

To ensure that the total remuneration for the financial year ended 31 October 2021 for the selected best equivalents of the median, 25th and 75th percentile UK employee were sufficiently representative of those positions, we calculated the total remuneration for a number of employees above and below each of the selected median, 25th and 75th percentile UK employees. We excluded or adjusted for anomalies (such as employees who left part way through the year) and took the median of the remaining figures in order to provide a robust representation of each quartile.

The total remuneration calculations for the relevant representative employees, and those in the range above and below, were performed as at 31 October 2021. They were based on total remuneration paid or receivable for the 2021 financial year, calculated on the same basis as required for the Chief Executive Officer's total remuneration for single total figure purposes. No estimates or adjustments have been used in the calculation of total remuneration and no components of pay have been omitted. For any employees who worked less than full-time during the year, their pay was adjusted to reflect a full-time equivalent basis.

The committee is satisfied that the overall picture presented by the 2021 pay ratios is consistent with the pay, reward and progression policies for the Company's UK employees. Pay ratios for total remuneration are likely to vary, potentially significantly, over time since the Chief Executive Officer's total remuneration comprises a significant proportion of variable pay and so remuneration each year is impacted by performance-related pay outcomes and, in respect of any LTIP vestings in the year, the applicable share price. The main reason for the increase in the pay ratios from 2020 to 2021 is due to the higher bonus payout for FY21 which increases total remuneration for higher paid employees more than lower paid employees. Some relevant context for each year's disclosed pay ratios is set out below.

- 2021: The CEO's 2021 single total figure of remuneration reflects a bonus payout of 57% of his maximum opportunity and a 0% payout of the 2018 LTIP award during the year. The financial outcomes are in line with other participants in those plans.
- 2020: The CEO's 2020 single total figure of remuneration reflects a bonus payout of 22% of his maximum opportunity and a 0% payout of the 2017 LTIP award during the year. These financial outcomes are in line with other participants in those plans.
- 2019: There was no bonus payout for the CEO in FY19, whereas there was a modest level of bonus payout for staff. The CEO's 2016 LTIP award vested at 100% during FY19 (in line with other participants).

Remuneration for the wider workforce and workforce engagement

When considering the remuneration arrangements for the executive directors and the executive leadership team, the committee continues to take into account remuneration throughout the Company. The committee reviews wider workforce reward information throughout the year, as well as allocating time once a year to undertake a deeper review of reward matters impacting the broader employee population. The committee also considered how executive pay reflects wider Company pay policy, noting in particular that:

- Remuneration for the wider employee group is based on broadly consistent principles to those for executive directors, although a larger proportion of executive directors' remuneration is performance-related than that of other employees.
- Annually, we review the market pricing of our roles and the appropriateness of related salary ranges and salary structures to ensure that our jobs are fairly priced and our structures are competitive in the technology market. Typically we target the market median for determining our salary structures.
- All employees globally participate in the Company Bonus Plan, with the exception of those on sales commission plans. For all participants in the Micro Focus Company Bonus Plan, the same performance measures and targets apply. Bonus opportunity levels vary according to role and seniority. Financial outcomes for the FY21 bonus were the same for executive directors and all other participants in the Micro Focus Company Bonus Plan. For FY22, the revenue measure for employees in CyberRes and Vertica reflects Product Group revenue, rather than Micro Focus revenue, and the weighting of the revenue measure is higher than in the Micro Focus Bonus Plan, reflective of the more autonomous business structure of these Product Groups.
- Around 350 executives participate annually in the Long Term Incentive Plan (LTIP). Awards below the board comprise a combination of performance-based awards and non-performance based Restricted Stock Units (RSUs), as well as awards which are 100% RSUs. The most senior executives below the board continue to have a portion of their award which is aligned with one or more of the performance measures applicable to the executive directors' LTIP awards. Award sizes vary according to role and seniority.
- The Company operates all-employee share plans in 45 countries, making offers twice a year and thereby giving employees the chance to become shareholders in the Company at a discount to the market share price.
- The range and level of retirement and other benefits provided to employees varies according to local market practice, role and seniority. The Company pension contributions for the CFO are in line with employees generally in the UK (5%) and the CEO's pension contributions will be reduced to that level at the end of 2022.

In respect of the 2021 financial year, as was done last year, a statement about how pay for the executive directors aligns with wider pay policy across the Company was included in the reward section of the Company's intranet site, with employees encouraged to direct any questions to the Chief HR Officer. We also asked employees in the annual all-employee survey "My Voice" two reward-related questions. In addition, reward updates (for example, annual bonus outcomes) are regularly included in our quarterly All Employee Meetings and employees are invited to submit questions on the call to the CEO on any topic including reward and executive pay. In the 2022 financial year, we intend to further expand the level of active engagement with employees on the subject of how executive pay aligns with pay of the workforce. This will be done by including it in a broader discussion on remuneration with the Employee Engagement Panel. The Chair of the remuneration committee will attend the panel session and be invited to address remuneration questions raised.

A summary of the broader workforce engagement activity during FY21 is set out on page 86.

Relative importance of spend on pay

The table below shows the percentage change in total employee costs and shareholder distributions (i.e. dividends and share buy-backs) from the 2020 to 2021 financial years.

	2021 £m	2020 £m	% change
Employee costs[1]	**1,399.3**	1,344.4	4%
Dividends	**81.1**	0	n/a
Share re-purchases	**0**	0	n/a
Return of Value	**0**	0	n/a

1 Employee costs include wages and salaries, redundancy and termination costs (non-exceptional), social security costs, other pension costs and share-based payments.

Payments for loss of office (audited)

Brian McArthur-Muscroft

As a reminder, set out below is a summary of Brian McArthur-Muscroft's termination arrangements. This reflects what was disclosed on page 118 of the FY20 Annual Remuneration report and in the Section 430 (2B) Statement which was published on the Company's website on 3 February 2021.

Brian McArthur-Muscroft's salary, pension and contractual benefits continued to be paid until his employment ended on 30 June 2021. In accordance with the Remuneration Policy, the remuneration committee exercised its discretion to allow continued eligibility for the FY20 bonus on the basis that Mr McArthur-Muscroft had been employed for the full financial year and would be continuing as Chief Financial Officer for approximately six months, and therefore a significant period of FY21 (without being eligible for a pro-rata bonus in FY21). One-third of his bonus earned for FY20 was deferred into an award over shares which will vest after three years. All of Brian McArthur-Muscroft's outstanding LTIP awards lapsed and he was not granted an FY21 LTIP award. In line with our Remuneration Policy, as he was still within the five-year period to build up to his shareholding requirement and held no shares as at his leave date, he was not required to hold any shares post-cessation of employment.

Payments to past directors (audited)

There were no payments to past directors during the financial year ended 31 October 2021. Mr Loosemore's final outstanding LTIP award (2019 LTIP award over 52,083 shares) lapses on 8 February 2022 due to performance conditions not being met.

Executive directors' notice periods

Executive director	Date of appointment as director	Notice period
Stephen Murdoch[1]	19 March 2018	The agreement is terminable by either party on six months' notice
Matt Ashley[2]	1 July 2021	The agreement is terminable by either party on six months' notice

1 Stephen Murdoch stepped down from the board on completion of the HPE Software business acquisition on 1 September 2017 to become Chief Operating Officer. He was reappointed to the board as Chief Executive Officer on 19 March 2018.
2 Matt Ashley joined the Company on 28 June 2021 and was appointed to the board as Chief Financial Officer on 1 July 2021.
3 The executive directors do not have a fixed term.

Implementation of Remuneration Policy for the financial year ending 31 October 2022 – executive directors

The following section details the implementation of the Remuneration Policy for executive directors for the financial year ending 31 October 2022.

Base salary

There will be no salary increases for executive directors for FY22. The FY22 salaries remain as follows: Stephen Murdoch (£850,000) and Matt Ashley (£525,000).

Benefits

The benefits available to the executive directors are unchanged for FY22. Note however that employer costs for providing the same level of benefits can increase or decrease.

Pension

The Company pension contributions will remain at 5% of salary for Matt Ashley for FY22. The pension contribution level for Stephen Murdoch will reduce from 15% of salary to 5% (the level for UK employees in general) at the end of calendar year 2022.

Annual bonus

The measures and weightings for the annual bonus in FY22 will remain as per the operation of the bonus in FY21, i.e. Adjusted EBITDA (60% weighting), revenue (20% weighting) and individual key performance objectives (KPOs) (20% weighting). The KPOs are set to focus the executive directors on specific key deliverables aligned to the business plan and the Environmental, Social and Governance (ESG) strategy. It is expected that half of the KPO element will be linked to key ESG milestones for FY22 (i.e. 10% of the overall bonus). There will only be a payout under the KPO element if there is a payout under at least one of the financial measures.

The Adjusted EBITDA and revenue targets for the FY22 bonus have been set to reflect the FY22 business plan, which takes into account all current factors impacting the business. The targets and the outcomes achieved will be fully disclosed in the FY22 Annual Report on Remuneration, as will comprehensive details of the KPOs set and performance against those.

The maximum annual bonus opportunity for executive directors for the 2022 annual bonus remains the same as last year at 150% of salary with a requirement to defer one-third of any bonus earned into an award over shares which vests after three years.

FY22 LTIP

The performance measures for the FY22 LTIP awards are unchanged from the FY21 LTIP grants, however the weighting of the measures has been changed to align more closely with the Transformation Strategy announced on 30 November 2021. Accordingly, Cumulative Adjusted Free Cash Flow and Relative TSR are weighted equally (50:50) for the FY22 LTIP awards. The increased weighting on Relative TSR from prior years (50% versus 20%) provides further direct alignment with the shareholder experience, whilst the retention of Cumulative Adjusted Free Cash Flow provides continuity and focus on what remains a key performance indicator for the business. We wrote to our largest shareholders about the plan to amend the weightings and the responses we received were positive. Further detail on the targets is set out below.

	Cumulative Adjusted Free Cash Flow (50% weighting)	Company TSR relative to FTSE 250 excluding Investment Trusts) Index (50% weighting)	Payout % for this element
Threshold	$100m below Target	In line with Index	0%
Target	Commercially sensitive	Exceed Index by 20%	50%
Maximum	$200m above Target	Exceed Index by 40%	100%

Vesting is on a straight-line basis between threshold and target, and between target and maximum.

Adjusted Free Cash Flow means cash generated from operations adjusted for interest payments, bank loan costs, tax payments, capital expenditure and lease payments and excludes the cash impact of exceptional items. This is in line with the definition of Adjusted Free Cash Flow on page 139. Adjusted Free Cash Flow will be measured on a cumulative basis over the three financial years ending 31 October 2022, 31 October 2023 and 31 October 2024. TSR will also be measured over the same three financial years.

The Adjusted Free Cash Flow Target is considered commercially sensitive and will be disclosed after the end of the performance period.

A two-year holding period applies post-vesting, during which time executive directors are required to retain any net (after tax) vested shares. Executive directors will be entitled to dividend equivalents in accordance with the rules of the LTIP and the Directors' Remuneration Policy.

The FY22 LTIP awards for the entire LTIP eligible population, including executive directors, were granted on 17 December 2021. This is earlier than usual as typically LTIP awards are granted after the announcement of annual results in February/March). This year, the remuneration committee determined that exceptional circumstances existed due to the business transformation and the criticality of retaining employees who are key to achieving the transformation. Importantly, for LTIP recipients with awards which are subject to performance measures, including the executive directors, the earlier grant timing does not change the performance period (FY22 to FY24) or the vesting date (expected to be February 2025) for the FY22 awards.

The FY22 LTIP awards were granted at 200% of salary for both the CEO and the CFO. The committee will review at the time of vesting whether it considers that there have been any windfall gains resulting from the share price at grant which was lower than when the previous LTIP award was granted.

FY21 Recruitment LTIP for CFO

In accordance with the announcement made on 1 June 2021 about Matt Ashley's appointment as CFO, Mr Ashley was due to receive an FY21 Recruitment LTIP award on joining in respect of FY21 of 200% of salary. However, due to dealing restrictions, it was not possible to grant his FY21 Recruitment LTIP award as planned in the grant window following the announcement of FY21 interim (H1) results. Therefore, Matt Ashley's FY21 Recruitment award of 200% of salary was granted at the same time as the FY22 LTIP awards on 17 December 2021. Matt Ashley's FY21 Recruitment LTIP award is subject to the same performance measures and targets as the FY22 LTIP awards (as detailed above under "FY22 LTIP") and will be measured over the same three-year period (FY22 to FY24).

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

	Fees (£'000)		Benefits (£'000)		Total (£'000)	
Non-executive directors	**2021**	2020	**2021**	2020	**2021**	2020
Greg Lock[1]	**400**	284	**1**	1	**401**	285
Karen Slatford	**120**	120	**0**	0	**120**	120
Richard Atkins	**90**	90	**0**	0	**90**	90
Amanda Brown	**90**	90	**0**	0	**90**	90
Lawton Fitt[2]	**80**	80	**0**	0	**80**	80
Robert Youngjohns	**70**	38	**0**	0	**70**	38
Sander van 't Noordende[3]	**70**	29	**0**	0	**70**	29
Pauline Campbell[4]	**6**	N/A	**0**	N/A	**6**	N/A

1 Greg Lock's benefits value reflects private medical and dental cover (single person coverage).
2 Lawton Fitt receives an additional fee of £10,000 per annum due to her SEC and SOX experience.
3 Sander van 't Noordende's GBP fee is paid to him in US dollar (converted based on the average monthly FX rate in the month prior to payment).
4 Pauline Campbell joined the board on 1 October 2021.

The total remuneration for directors is set out in note 28 to the consolidated financial statements on page 211.

Non-executive directors' fees for FY22

The table below shows the fees for the Chairman and the non-executive directors for FY22. There are no changes from the prior year.

Executive director	Annual fee FY22
Chairman[1]	£400,000 p.a.
Senior Independent Director (SID)[1]	£120,000 p.a.
Independent non-executive director base fee	£70,000 p.a.
Additional fee for chairing a committee	£20,000 p.a.
Additional fee for significant SEC/SOX experience	£10,000 p.a.

1 The Chairman and the SID are not eligible for committee chairmanship fees or other additional fees.

Non-executive directors' shareholdings as at 31 October 2021 (audited)

The table below shows the shareholdings and share interests for all non-executive directors (and their connected persons) who served during the 2021 financial year as at 31 October 2021 (or at the date of stepping down, if earlier). For disclosure purposes, any American Depositary Shares (ADSs) are included as shares.

Director	Shares held (owned outright)[1]
Greg Lock	535,000
Karen Slatford	14,687
Richard Atkins	13,862
Amanda Brown	3,841
Lawton Fitt	0
Robert Youngjohns	0
Sander van 't Noordende	45,000
Pauline Campbell (from 1 October 2021)	0

1 Shares held (owned outright), includes any Micro Focus securities of which the director, their spouse, civil partner or dependent child has beneficial ownership.

Please note the following changes to the above interests between 31 October 2021 and 7 February 2022:

- The number of shares held (owned outright) by Greg Lock increased from 535,000 to 835,000 as a result of a purchase of 300,000 Micro Focus shares by Mr Lock on 17 December 2021.

Non-executive directors' terms of appointment

The non-executive directors' terms of appointment are recorded in letters of appointment. The required notice from the Company and the non-executive director is 90 days in all cases, except in the case of the Chairman where the required notice is six months. The non-executive directors are not entitled to any compensation for loss of office and stand for election or re-election as appropriate at each AGM. Details of the letters of appointment of each non-executive director who has served as a director of the Company at any time during the financial year ended 31 October 2021 are set out below:

Non-executive director	Appointment date	Expiration date
Greg Lock	14 February 2020	14 February 2023
Karen Slatford	5 July 2010	5 July 2022
Richard Atkins	16 April 2014	16 April 2023
Amanda Brown	1 July 2016	1 July 2022
Lawton Fitt	17 October 2017	17 October 2023
Robert Youngjohns	16 April 2020	16 April 2023
Sander van 't Noordende	2 June 2020	2 June 2023
Pauline Campbell	1 October 2021	1 October 2024

All appointments of non-executive directors are subject to election by shareholders at the first AGM of the Company after appointment and to re-election on an annual basis thereafter.

Remuneration committee information

The committee is responsible for the remuneration arrangements for executive directors and members of the executive leadership team and the Group Company Secretary, and for providing general guidance on aspects of remuneration policy throughout the Group. The committee's Terms of Reference are available from the Group Company Secretary and are published on the Company's website under the Governance section.

During FY21, the committee comprised entirely of non-executive directors. The committee met six times during the year and the number of meetings attended by each member of the committee is set out on page 100.

The committee invited members of management to provide views and give advice on specific topics. Management did not participate in discussions relating to their own remuneration. The Group Company Secretary attended each meeting as secretary to the committee.

The table below summarises how the committee has addressed simplicity, clarity, risk, predictability, proportionality and alignment to culture when determining remuneration policy and practices.

Factor	How has this been addressed
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	We wrote to key shareholders in advance of granting the FY22 LTIP awards regarding the change in weighting of performance measures from the FY21 awards (see page 115 for more details). The Company engages with employees in connection with their remuneration through a variety of methods including explanatory guides and face-to-face briefings and seeks their views on reward via employee opinion surveys. We also share more information with employees about executive pay (see page 113).
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Our incentive structure for executive directors comprises an annual bonus plan (with one-third deferral into share awards for three years) and one long-term incentive plan (with a two-year post-vesting holding period). The performance measures for the annual bonus plan and the LTIP underpin our strategic objectives (see page 103).
Risk Remuneration arrangements should ensure that reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	Our Remuneration Policy incorporates a number of design features in order to take into account and minimise risk as follows: – The committee can apply discretion to override formulaic incentive outcomes if it believes this would result in a fairer outcome and would disclose this in the next Annual report on Remuneration (this includes reviewing at the time of vesting any windfall gains arising from a reduced share price at the time of grant). – We operate bonus deferral, post-vesting holding periods for vested LTIP awards and post-cessation shareholding requirements. – Extensive malus and clawback provisions are in place for the annual bonus and LTIP.
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	At the time of approving the current Remuneration Policy, charts were included (page 98 of the FY19 Directors' Remuneration report) which provided an estimate of the potential reward opportunities for the executive directors. The discretions available to the committee, for example to override formulaic incentive outcomes and to apply malus and clawback, were described on page 98 of the FY19 Directors' Remuneration report. The maximum award levels are also included on page 102 of this Annual report on Remuneration.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	Performance measures are designed to align to strategy and incentive plans provide for a range of payout levels which are dependent on and linked to Company performance. We made changes to the weighting of performance measures for the FY22 LTIP awards to enhance alignment with the Transformation Strategy announced on 30 November 2021. Deferral periods and holding periods help to further align incentive outcomes for executives to the shareholder experience. The committee is satisfied that incentive outcomes for FY21 (zero vesting for the CEO's 2018 and 2019 LTIP and an FY21 bonus payout of 57% of the maximum opportunity) are reflective of the Company's performance over the respective performance periods.
Alignment to culture Incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	The performance measures for the LTIP and the annual bonus plan underpin our strategic objectives (see page 103). In addition, individual KPOs for the personal element of the annual bonus are designed to focus on key non-financial goals which are linked to the Company's business strategy and key annual ESG milestones.

Remuneration committee advice

The committee and management seek advice on remuneration and legal matters from a number of firms as appropriate, including PwC, Deloitte and Travers Smith. The committee has direct access to these advisors who attend committee meetings as required. All provide other services to management including legal, tax, accounting and consulting services. The committee has satisfied itself that the advice it receives is objective and independent and is not conflicted by the advisors also working with management on remuneration and other matters.

PwC is the formally appointed remuneration committee advisor, reporting directly to the chair of the committee. Arrangements are in place to provide the committee with oversight of the remuneration services provided by PwC to management. On appointment in August 2019, the committee reviewed the potential for conflicts of interest in connection with this appointment and was comfortable that there are no conflicts which might impair the independence of the PwC team that provide remuneration advice to the committee. In addition, as a founder member of the Remuneration Consultants Group, PwC operates under the Voluntary Code of Conduct in relation to executive remuneration consulting in the UK.

PwC's fees for the financial year ended 31 October 2021 relating to remuneration advice to the committee were determined on a time and materials basis and were £26,295 (excluding VAT).

Shareholder voting at Annual General Meetings

The following table shows the results of the advisory vote on the 2020 Directors' Remuneration report at the AGM held on 25 March 2021, together with the latest approval vote on the Directors' Remuneration Policy at the AGM on 25 March 2020:

	Votes for		Votes against			
	Number	Percentage	Number	Percentage	Votes cast	Votes withheld
2020 Directors' Remuneration report (advisory) 2021 AGM	204,671,466	96.66%	7,067,012	3.34%	211,738,478	2,097,591
Directors' Remuneration Policy (approval) 2020 AGM	242,371,213	97.05%	7,362,083	2.95%	249,733,296	227,378

We remain committed to building on the high level of support we have received from shareholders on remuneration resolutions at the 2020 and 2021 Annual General Meetings and continue to engage with shareholders on remuneration matters, most recently regarding the change in weighting of the performance measures for the FY22 LTIP awards to ensure alignment with the Transformation Strategy announced on 30 November 2021. We also engaged with Glass Lewis and reviewed the updated investor and proxy agency guidelines for the 2022 AGM season.

We will continue to engage with shareholders and proxy agencies on an on-going basis, particularly regarding any proposed changes to how we implement the approved remuneration policy.

On behalf of the board,

Amanda Brown
Chair, Remuneration committee
7 February 2022