

A series of thin, white, curved lines that sweep across the upper half of the page, creating a sense of motion and flow.

# A transformational year

Annual Report and Accounts 2015

## Overview

IFC Key highlights

## Strategic report

- 04 Executive Chairman's statement
- 16 Operational and financial review
- 24 Key performance indicators
- 26 Principal risks and uncertainties
- 29 Corporate social responsibility

## Corporate governance

- 35 Executive Chairman's introduction
- 36 Board of directors
- 38 Corporate governance report
- 42 Audit committee report
- 47 Nomination committee report
- 48 Directors' Remuneration report
- 70 Directors' report

## Consolidated financial statements and notes

- 78 Independent auditors' report to the members of Micro Focus International plc
- 84 Financial statements and notes

## Company financial statements and notes

- 132 Independent auditors' report to the members of Micro Focus International plc
- 134 Financial statements and notes

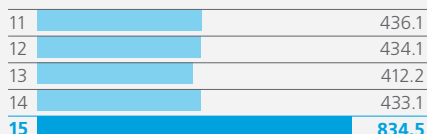
## Additional information

- 144 Offices worldwide
- 146 Historical summary
- 147 Key dates and share management
- 148 Company information

## Key highlights

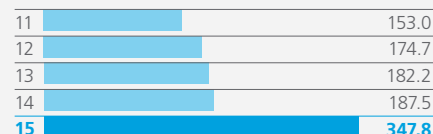
### Revenue (\$m)

\$834.5m



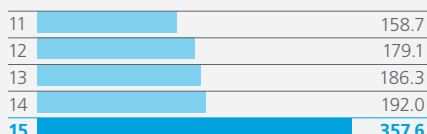
### Adjusted Operating Profit (\$m)

\$347.8m



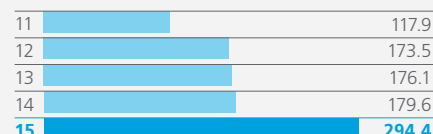
### Adjusted EBITDA (\$m)

\$357.6m



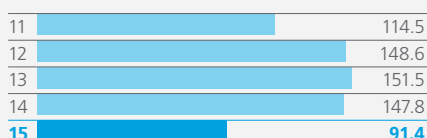
### Adjusted profit before tax (\$m)

\$294.4m



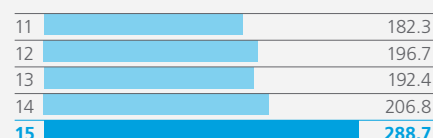
### Profit before tax (\$m)

\$91.4m



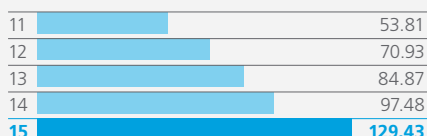
### Cash generated from continuing operations (\$m)

\$288.7m



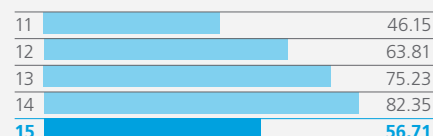
### Diluted Adjusted earnings per share (c)

129.43c



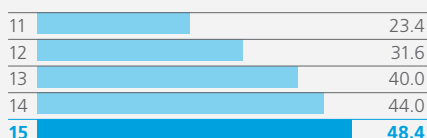
### Diluted earnings per share (c)

56.71c



### Total dividend per share (c)

48.4c



## Who we are

Micro Focus specializes in managing mature infrastructure software assets which have been delivering value to significant numbers of customers over long periods of time.





A global infrastructure software business with revenues of c. \$1.3bn and EBITDA of c. \$500m.

## What we do

We help our customers bridge the old and the new enabling them to leverage additional value from their investments in critical IT infrastructure and business applications.

By enabling our customers to link their investments in established technology with the latest innovation, Micro Focus helps customers gain incremental returns on investments they have already made and to preserve and protect their data and business logic.

## Progress against our four phase plan

<b>FY15:</b> Assessment	
<b>FY16:</b> Integration	
<b>FY17:</b> Stabilization	
<b>FY18:</b> Growth	



# Strategic report

## Executive Chairman's statement

2015 was a significant year for Micro Focus in the execution of its long-term strategy. During the year we completed the acquisition of The Attachmate Group ('TAG'). The acquisition, which was completed on 20 November 2014, means that we have created a global infrastructure software business with revenues of c. \$1.3bn and EBITDA of c. \$500m which we estimate places the Group in the top 15 by size worldwide of similar businesses. The acquisition was well received by the market with the share price up over 60% since the day before announcement of the transaction up to the date these financial statements were signed.

The acquisition has clear industrial logic to extend market presence in mature and growing segments; to increase the operational efficiency of the combined Group; and to deliver effective product management and improve sales productivity. Furthermore, it is 100% consistent with the Company's strategy which, as you will see in the following pages,

has not changed in any significant way from the plan laid out three and a half years ago. Micro Focus sets out to deliver consistent long-term shareholder returns of between 15% and 20% per annum. The board is confident that medium-term low single digit revenue growth, industry leading margins and strong cash conversion will ensure that Micro Focus can deliver on that strategy.

The Company has an industrial strategy; a financial strategy; an operating plan and an incentive strategy that are all linked and focused on our objective to achieve 15% to 20% compound annual return for shareholders. Since IPO in 2005 until 30 April 2015 the annual compound shareholder return has been 26.8%.

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

integration review and reiterated the remaining three stage plan that will consolidate and strengthen the combined business, with the goal of delivering modest revenue growth in the medium-term. We are building a strong platform with anticipated operating cash flows in excess of \$500m per annum from which we can achieve significant returns of value to our shareholders and/or further highly accretive acquisitions.

### Integration Review

The objective of the review was to build a strong plan and foundation on which to deliver the Group's potential.

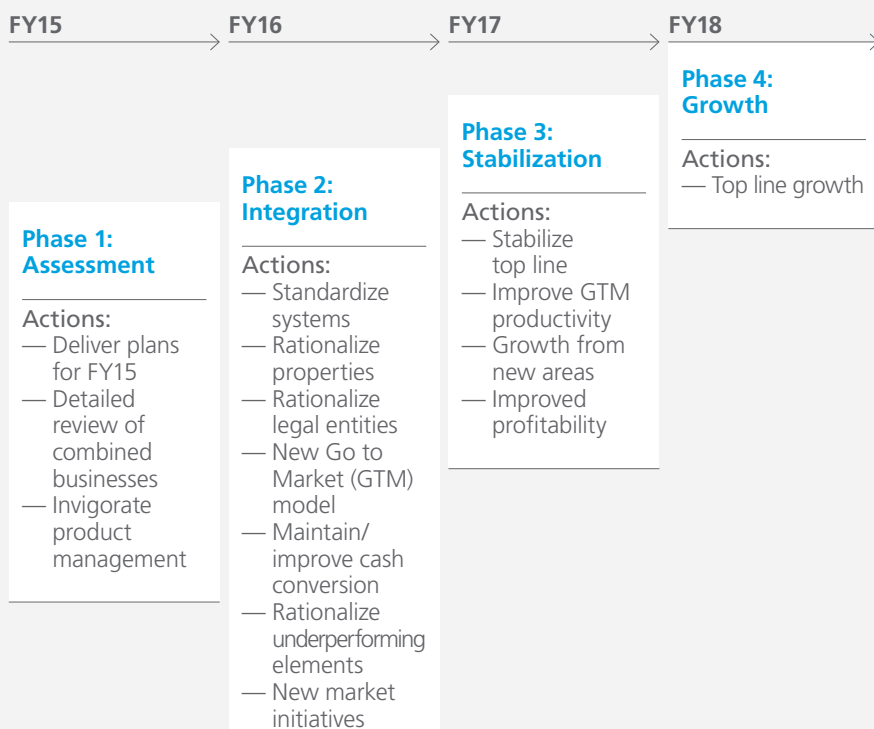
The key deliverables from the review were:

- The design of a combined organization to be implemented with effect from 1 May 2015;
- A restructuring plan for the next 24 months;
- A combined budget for FY16;
- Decisions on Company and Product Branding;
- Decisions on product priorities and required execution plans;
- A systems design and implementation plan for the Company's IT infrastructure; and
- Confirmation of the Company's cash flow profile.

Prior to the acquisition of TAG, Micro Focus managed its portfolio of mature infrastructure products through a global product management and development organization and with a geographic Go to Market ('GTM') organization. Fundamental to this approach was a detailed analysis of the individual products, their markets, customers and growth potential. This approach has served us well and as part of the Integration Review has been applied to the portfolio of products in the Enlarged Group.

As the Linux market and Open Source business have unique characteristics, we now have a dedicated focus on the SUSE product portfolio headed by Nils Brauckmann as President and General Manager, SUSE. This focus is essential if we are to capitalize on the growth potential of these offerings and be responsive to the Open Source community and strong heritage of SUSE. We are increasing the headcount dedicated to development, customer care and sales and marketing of the SUSE Portfolio.

### Implementation: Four Phase Plan whilst delivering sustainable shareholder returns



We kept Base Micro Focus and TAG operating separately during their respective financial year ends whilst the assessment of the acquired business and planning for the integration was done. On 6 April 2015 we announced the conclusion of our

The rest of our products will be managed as a portfolio led by Stephen Murdoch, Chief Operating Officer of Micro Focus.

This portfolio will comprise products that were in Micro Focus, NetIQ, Attachmate and Novell. This approach is consistent with how we have managed Micro Focus successfully over the last four years and we believe that by adopting this model we can serve our customers and partners better. Within this portfolio, each product will have a defined strategy, target market and growth profile and we will make investments accordingly. We will retain a geographic GTM organization with dedicated sales teams by portfolio but with management targeted on the sales of both the Micro Focus and SUSE Portfolios.

A consequence of this decision is that we are simplifying the branding and packaging of our portfolio to make it easier for customers to do business with us and leverage the breadth of technology solutions we now provide. For example, we are combining our leading host connectivity solutions of Reflection and Rumba into one portfolio of Micro Focus branded solutions enabling customers to leverage the best of both technologies. A similar approach of simplification will be taken systematically across the full portfolio. This will help underpin our new structure of one company with two product portfolios, namely Micro Focus and SUSE.

We have launched an updated Professional Charter which covers the behaviours we expect to see from all Micro Focus employees and a Compliance Charter to give clarity to customers and partners on how the Company will act in circumstances where there is a question around compliance with our software licencing agreements.

As part of the restructuring we will be reducing the number of office locations from 126 at close to approximately 90 by April 2016; we will simplify the number of legal entities; we will consolidate our IT systems (for example: from five CRM systems to one and from two general ledgers to one) and we have commenced consultation on a move from distributed processing to dedicated shared service centres. These changes will start immediately but will take 24 months to implement fully.

These actions will make integration of future acquisitions easier to achieve and deliver a faster time to value.

At completion of the acquisition on 20 November 2014 the total employee headcount was 4,641. As a result of implementing the actions outlined on 6 April 2015 there will be a gross reduction in employee headcount of approximately 500 and an increase, compared to 20 November 2014, of headcount in other areas of approximately 150, resulting in a net reduction of employee headcount of approximately 7.5% compared with 20 November 2014.

As a result of the acquisition of TAG and the actions resulting from the integration review, we have an exceptional charge in the FY15 annual accounts of \$99.1m and anticipate that there will be a further exceptional charge in the FY16 annual accounts.

### Our Business Model – strong and established technology franchises

Micro Focus specializes in managing mature infrastructure software assets which have been delivering value to significant numbers of customers over long periods of time. Our product portfolios have some or all of the following attributes:

1. Broad based – covering all industrial sectors
2. Significant numbers of customers
3. Significant maintenance streams
4. Relatively high switching costs
5. Significant market positions

In any IT system the customers' business logic and data remain critical to their competitive advantage. The key is unlocking this competitive advantage through exploitation of the latest technology innovation such as 'OpenStack', 'Software-defined Distributed Storage', 'big data' 'virtualization' and 'cloud'. All of this needs to be done with the appropriate security to ensure customer data, company data and intellectual property are protected at all times. Typically customers would be forced into costly, disruptive and risky change to make this possible but with Micro Focus, customers can take a different approach that we characterize as bridging the old and the new.

By enabling our customers to link their investments in established technology with the latest innovation, Micro Focus helps customers gain incremental returns on investments they have already made and to preserve and protect their data and business logic. The most striking example of this is that an application written in Micro Focus COBOL 38 years ago – before anyone had thought of Linux, Windows, virtualization, cloud or wireless communications – will work today in all of those environments. Micro Focus has made this a reality. By contrast, if a COBOL application had been rewritten in another language, to execute in Java or .NET the customer would have to do additional incremental re-writes and incur significant costs every time there was a major technology change.

In essence, we help our customers bridge the old and the new enabling them to leverage additional value from their investments in critical IT infrastructure and business applications.

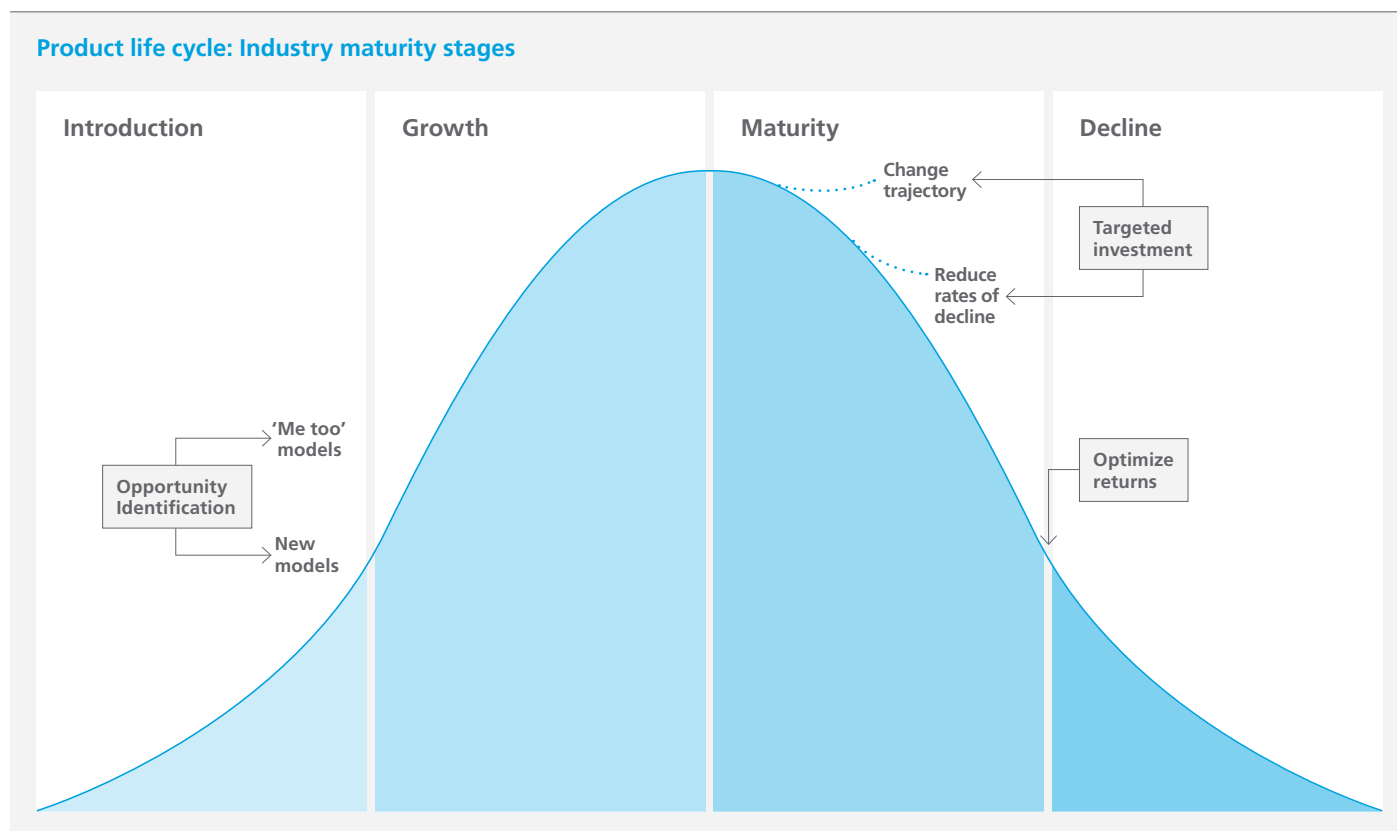
The acquisition of TAG broadens the range and depth of our core infrastructure software solutions and brings outstanding new capabilities in Linux, OpenStack cloud infrastructure and security, the combination of which enables us to extend this philosophy of 'bridging the old and the new' across much more of the customer's IT 'footprint'.

## Executive Chairman's statement

### continued

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

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



When considering the investment priorities, both organic and inorganic, we evaluate our options against a set of characteristics mapped to each stage of this adoption cycle enabling the categorization of our product portfolio into one of the four quadrants represented in the chart below.

### Portfolio management

#### New Models

Products or consumption models (cloud and subscription) that open new opportunities, could become growth drivers or represent emerging use cases that we need to be able to embrace

#### Growth Drivers

Products with consistent growth performance and market opportunity to build the future revenue foundations of the Company

#### Optimize

Products with declining revenue performance driven by our execution or the market where the trajectory must be corrected to move back to core or investments focused to optimize long-term returns

#### Core

Products that have maintained broadly flat revenue performance but represent the current foundations of the Company and must be protected and extended



Our approach to each category is summarized below:

- **New Models:** here our focus is on identifying new innovation in the marketplace that is applicable to our core and growth driver propositions. This is the case where new innovation is needed to connect or leverage existing IT or application assets to deliver returns or open new opportunities. An example of this is Silk Performer Cloudburst; a cloud based implementation of our highly successful on premise Silk Performer product. This combination enables customers to execute a hybrid on premise/cloud solution ensuring day-to-day operations are handled effectively on premise but offering broadly unlimited additional capacity as and when needed to support business operational peaks, underpinned by the flexibility and ease of use of a common solution in both cases. In SUSE our investments in OpenStack Cloud Infrastructure and Software-defined Distributed Storage are also clear examples.
- **Growth Drivers and Core:** this represents the majority of our revenue and investment focus. We look to identify critical technologies that have delivered significant value for customers and where the costs and risks of replacement or re-write are high and the returns from such activities are questionable. We determine how to enable these technologies for the latest IT innovations whether new operating environments such as Linux, OpenStack, JAVA or .NET or new use cases such as the cloud or mobile. For example, Visual COBOL enables customers to take COBOL applications forward with confidence into the next phase of IT industry innovation, specifically cloud and mobile, whilst protecting their investments in business logic and data built up through prior investments. Security is a major focus area for customers as they seek to balance being open and accessible to their customers with the need to protect confidential data and intellectual property. Through our suite of identity, access and security solutions we offer industry leading capabilities to help customers find this balance. These capabilities span multiple portfolios and significant opportunities for leverage and cross portfolio synergies exist.

- **Optimize:** as the IT landscape shifts in response to new opportunities or challenges some technologies require repositioning or to be re-focused to identify and exploit remaining or new growth potential. This requires much more granular analysis and targeted investment. Our model forces this discipline. Inevitably, some technologies eventually approach end of life as some customers replace them with new solutions. For the remaining customers they still represent significant value. Our approach is to continue to offer flexible commercial and support models to enable customer access to the intellectual property and capabilities of these technologies for extended periods, again ensuring protection of customer investment for as long as possible technically and commercially.

Within this overall portfolio we have some products that are growing significantly and others that are stable or in decline. Our business model means the way we manage the portfolio is analogous to a 'fund of funds' with an objective to generate moderate growth over the medium-term, delivering high levels of profitability and strong cash-generation and cash-conversion ratio with a balanced portfolio approach. We will continue to focus investment in growth and core products and will not dispose of declining products unless we can achieve greater than the discounted cash flow they would generate in our ownership.

During the year ended 30 April 2015 and following the completion of the acquisition of TAG, the Base Micro Focus business and the TAG business continued to operate independently. This was to ensure we minimized as much as possible any distraction from delivery by each business of the expectations for their respective financial years. This meant that the product portfolios operated by each business continued throughout the period. For Base Micro Focus these were COBOL Development, Mainframe Solutions, CORBA, Borland and Niche, whilst for TAG these were Attachmate, Novell, NetIQ and SUSE. Following the Integration review and as we enter the new financial year, our overall portfolio is managed and run in the two product portfolios; Micro Focus and SUSE, the latter respecting the different characteristics of the Open Source market.

## Micro Focus

The Micro Focus product portfolio comprises:

- **COBOL Development and Mainframe Solutions**  
This portfolio combines the COBOL Development and Mainframe Solutions product portfolios from Base Micro Focus with the exception of Rumba, which has been moved into the Host Connectivity portfolio.
- **Host Connectivity**  
We have combined TAG's Attachmate product portfolio and Rumba from Base Micro Focus to target the Host Connectivity solutions area.
- **Identity Access and Security (IAS)**  
This is a subset of the NetIQ product portfolio addressing Identity Access Management and Security Management.
- **Development and IT Operations Management Tools**  
Here we have combined the Borland and Niche portfolios from Base Micro Focus, the balance of the NetIQ portfolio not incorporated into IAS and the Zenworks Endpoint Management software from the Novell product portfolio.
- **Collaboration and Networking**  
This portfolio has the balance of the Novell product portfolio together with the CORBA portfolio from Base Micro Focus.

## SUSE

SUSE, a pioneer in Linux and Open Source software, provides reliable, interoperable Linux and cloud infrastructure solutions that help enterprises increase agility, manage complexity, and reduce cost. With a portfolio centered on SUSE Linux Enterprise and SUSE OpenStack Cloud, SUSE products power thousands of organizations around the world across physical, virtual and cloud environments.

## Executive Chairman's statement continued

The SUSE product portfolio comprises:

- **SUSE Linux Enterprise Server Products**  
SUSE Linux Enterprise Server products enable clients to reliably and securely run mission-critical applications on physical, virtual and cloud platforms, offering extensive support for IBM System z and Power systems; SAP applications; and High Performance Computing environments.
- **SUSE Linux Enterprise Extensions**  
SUSE Linux Enterprise Extensions satisfy customers' needs with real-time performance and high availability service delivery, in addition to enabling customers to deploy physical and virtual Linux clusters between data centers located anywhere.
- **SUSE Linux Enterprise Management and Cloud**  
SUSE Linux Enterprise Management and Cloud products offer compatibility with a broad ecosystem of over 20 public cloud providers, enabling clients to deploy, maintain and manage their servers and OpenStack powered cloud infrastructure with the maximum flexibility.
- **SUSE OpenStack Cloud**  
SUSE OpenStack Cloud is an enterprise OpenStack distribution that rapidly deploys and easily manages highly available, mixed-hypervisor Infrastructure-as-a-Service ('IaaS') clouds.
- **SUSE Enterprise Storage**  
SUSE Enterprise Storage is a software based, scalable and resilient storage solution powered by Ceph technology which enables organizations to build cost-effective and highly scalable storage using commodity off-the-shelf servers and disk drives.
- **SUSE Linux Enterprise Desktop**  
SUSE Linux Enterprise Desktop provides an Open Source alternative to traditional enterprise desktop operating system environments.

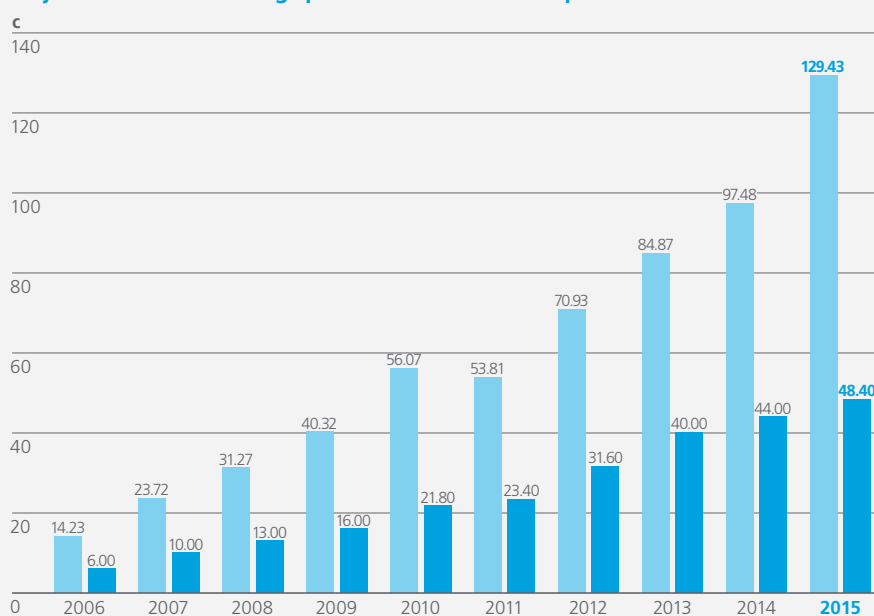
In addition to strengthening and developing our strong franchises across the product portfolio, we are uniquely positioned to help customers solve key challenges as they seek to be more effective, more competitive and more efficient. Decades of technology innovation has opened up tremendous opportunities for companies in almost every market but typically this has resulted in very complex IT environments. Most organizations operate infrastructure and applications which have emerged over time, often years apart, such that core legacy platforms sit alongside distributed systems, which more recently have been extended further again with web, cloud and mobile technologies.

This is set to continue as today's business environment is characterized by unprecedented levels of change.

Companies need to embrace this change in a way that protects their most prized assets – their intellectual property; their business logic; and their business data.

Micro Focus offers customers the ability to do exactly that – to bridge the old and the new – meaning that companies can exploit the latest innovations in technology and develop new competitive capabilities, with the maximum leverage of their previous investments. Our technology optimizes how business applications and infrastructure components are built, tested, deployed and secured, helping our customers to achieve the optimum balance of speed, flexibility and risk that fits the current and future needs of their business.

### Adjusted Diluted earnings per share and dividend per share in cents



#### CAGR – FY2006 to FY2015

- Adjusted Diluted EPS – 27.8%
- Dividend per Share – 26.1%

Our core objective is to deliver consistent shareholder returns of 15% to 20% over the long-term.

The underlying premise behind Micro Focus' business strategy is that the Company should consistently and over the long-term deliver shareholder returns of at least 15% to 20% per annum. To deliver this objective the Company has adopted an operational and financial strategy underpinned by consistent and effective management and reward systems. This strategy is capable of execution over the long-term and has resulted this year in significant scaling of the business which could be repeated should appropriate opportunities arise.

The Company was listed on the London Stock Exchange on 12 May 2005 at a price of 130 pence and in the year ended 30 April 2006 Diluted Adjusted EPS was 14.23 cents and total dividends for the year of 6 cents per share were declared. In the year ended 30 April 2015 Diluted Adjusted EPS is 129.43 cents and proposed full year dividend is 48.4 cents representing a compound annual growth rate of 27.8% and 26.1% respectively.

Full year dividends on our shares since the IPO have totaled 135.2 pence and since January 2012 we have made four Returns of Value totaling 215 pence per share. On 30 April 2015 our share price had increased to 1,257 pence. A shareholder who invested at the time of the IPO and had reinvested the Returns of Value would have grown their investment by 971% which is a compound annual return of 26.84%.

On 28 March 2011, on the back of two profit warnings and poor performance in the year ended 30 April 2011, the Company announced a share buy-back program. The closing share price on 25 March 2011, the day before the announcement, was 308.6 pence and the dividends received since IPO at that time was 43.56 pence. The annual rate of return for the shareholder from IPO to 25 March 2011 was 18.5% per annum. The Company's market capitalization on that date was £635.0m and by 30 April 2015 this had increased to £2,730.8m. The Company made cash returns to shareholders during this period of £554.5m, consisting of share buy-backs of £65.0m, ordinary dividends of £149.8m and Returns of Value of £339.6m. These cash returns represent 87.3% of the market capitalization of the Company on 25 March 2011 and the annual compound return for shareholders from that date to 30 April 2015 is 43.3% per annum.

Micro Focus intends to remain a high growth company in terms of returns to shareholders.

## Our performance in the year

*Due to the significant size of the TAG acquisition the directors believe that the year's results are better understood by looking at the full year pro-forma basis of the combination of TAG and Base Micro Focus. In the prospectus issued as part of the transaction Audited information under IFRS was provided for TAG on a consolidated basis for the three years and one month ended 30 April 2014. The post-acquisition period of TAG from 20 November 2014 to 30 April 2015 has also been audited under IFRS as part of this year's audit. In arriving at pro-forma results for the year ended 30 April 2015 the directors have combined the audited financials for TAG for the post acquisition period to 31 March 2015 together with unaudited internal management information for TAG for the period from 1 April 2014 to 19 November 2014 and then added in the Base Micro Focus results for the year ended 30 April 2015. The comparatives for the full year pro-forma for the year ended 30 April 2014 combine the audited financials for TAG derived from the prospectus for the year to 31 March 2014 with the audited figures for Base Micro Focus for the year ended 30 April 2014.*

The year ended 30 April 2015 has been a transformational year for Micro Focus and management believes that the completion of the acquisition of TAG was by far the most important event of the year. At the time of the interim results in December 2014 management provided guidance for the pro-forma financial performance for the Enlarged Group of c. \$1,330m of revenue and c. \$500m of Underlying Adjusted EBITDA. These pro-forma numbers were a combination of the forecasted performance of TAG for the year ending 31 March 2015 and Base Micro Focus for the year ending 30 April 2015 using actual results for the first six months of those years and forecast performance for the second half of those years based on the revenue and costs currency mix experienced in the first half and the prevailing foreign exchange rates at the time. On this CCY basis, the Enlarged Group delivered revenues and Underlying Adjusted EBITDA of \$1,352.5m and \$513.6m which is comfortably in line with the guidance. On an actual reported basis the Group delivered total revenues of \$834.5m (2014: \$433.1m) as TAG revenues of \$416.0m only reflect the trading in the period from completion on 20 November 2014.

Excluding the TAG revenues, Base Micro Focus delivered revenues of \$418.5m (2014: \$433.1m) which is in line with the CCY revenue for the comparable period of \$418.1m. Licence revenues declined by 5.0% to \$162.8m (2014: CCY \$171.3m), Maintenance revenues increased by 3.3% to \$243.2m (2014: CCY \$235.5m) and Consultancy revenues increased by 10.6% to \$12.5m (2014: CCY \$11.3m). When comparing revenues on a 'like for like' basis we also exclude both prior year as well as current year acquisitions. In the year ended 30 April 2015, we delivered like for like revenues of \$404.9m which is a decline of 1.7% (2014: CCY \$412.0m). On a like for like basis, Licence revenues declined by 5.2% to \$160.1m (2014: CCY \$168.9m), Maintenance revenues increased by 0.3% to \$232.7m (2014: CCY \$232.0m) and Consultancy revenues were up by 9.0% to \$12.1m (2014: CCY \$11.1m).

Excluding revenues from the TAG acquisition, our International region increased revenues by 1.3% to \$168.5m (2014: CCY \$166.4m), North America revenues increased by 1.1% to \$201.4m (2014: CCY \$199.3m) and in Asia Pacific and Japan region, revenues declined by 7.3% to \$48.6m (2014: CCY \$52.4m).

TAG delivered actual revenues in the period of \$416.0m comprising Licence revenues of \$98.2m, Maintenance revenues of \$197.4m, Subscription revenues of \$98.2m and Consultancy revenues of \$22.2m. We identified as part of the review of the business that Consultancy revenues had historically contained two items that should be classified elsewhere. Premium Services revenues relates to the provision of onsite support engineers and in our view has characteristics of Maintenance or Subscription revenues as it is more of a recurring nature. Secondly, TAG previously recognized expenses reimbursement as revenue rather than a cost recovery. We have reclassified \$18.4m of Premium Services revenue from Consultancy into Maintenance (\$13.2m) and Subscription (\$5.2m) and \$0.8m of expense reimbursement from Consultancy revenue to a reduction in costs. We believe that this gives a firmer basis for performance comparisons going forward.

## Executive Chairman's statement

### continued

As this part period (20 November 2014 to 30 April 2015) has no comparator we have based much of the following commentary on full year pro-forma to enable a better understanding of what is happening in the business. In order to provide a comparison of full year performance, using the prospectus financial information and the results for the year we have produced performance for TAG for the 12 months to April 2015 and comparable performance to 30 April 2014 on an actual basis.

If TAG had been owned for the whole of FY2015 then the total TAG revenue would have been \$902.1m (2014: \$951.7m) a decline of 5.2%. This comprised Licence revenues of \$170.4m (2014: \$189.0m) which had declined by 9.8%, a decline of 10.2% in Maintenance to \$469.1m (2014: \$522.6m) an increase in Subscription revenue of 10.7% to \$217.7m (2014: \$196.6m) and Consultancy of \$44.9m (2014: \$43.5m) an increase of 3.3%. These are the actual numbers rather than a CCY comparison.

The TAG sales incentive structures were focused around billings rather than revenue with a drive to generate cash to pay down debt. Whilst we believe billings on a consistent contract length is a relevant measure in a subscription based business that is new and growing we believe that revenue is a much more important measure for mature infrastructure software products on the right hand side of the product lifecycle curve. For a number of years TAG had been offering multi-year Maintenance contracts with a discount on the second and third years of the contract of 7.5% and 15% respectively in order to get payment upfront. This three year billing would count towards the sales representative's quota for the year and commission would be paid on the full amount. Whilst revenue was then recognized at a flat 7.5% discount over the three year term, a natural discount and reduction in the go forward revenue stream had been introduced. We changed this practice after completion so that no discount was given on future years but provided price protection to the customer on multi-year deals for Maintenance so that future years did not increase. However, quotes for Maintenance renewals that had already been issued under the previous policy would be honoured. This historic policy will result in a drag on revenues in FY16 and a working capital impact over the next two years.

SUSE is seeing growth associated with the early stages of the product lifecycle curve and due to the unique characteristics of the Linux market and Open Source community it will be run as a separate product portfolio. Revenues grew by 10.8% in the 12 months

to 30 April 2015 to \$221.5m (2014: \$199.9m) with Subscription up 10.4% to \$217.1m (2014: \$196.6m) and Consultancy up 33.3% at \$4.4m (2014: \$3.3m). The Subscription revenue is net of the deferred revenue fair value adjustment of \$5.4m. Prior to this adjustment, Subscription revenues grew by 13.2% and overall revenues grew by 13.5%. We are increasing the investment in the SUSE Portfolio during FY2016.

The other three product portfolios of TAG share similar characteristics to the Base Micro Focus Product Portfolios in that they are mature infrastructure software products and we believe that they should be managed in future in the same way. We also believe until changes are made to the way a business operates, trends in those businesses are going to continue. We introduced our new organization structure from 1 May and it will take time to settle down due to the amount of change and disruption involved in the integration of the two businesses.

For the year to 30 April 2015 Attachmate, NetIQ and Novell delivered total revenue of \$680.6m (2014: \$751.8m), a decline of 9.5%. Licence revenues were down 10.3% to \$169.6m (2014: \$189.0m), Maintenance revenues declined 9.8% to \$471.5m and Consultancy revenues were flat at \$39.5m (2014: \$40.2m).

Attachmate revenues declined by 3.2% to \$180.3m (2014: \$186.3m) with Licence revenue growing by 4.2% to \$84.2m (2014: \$80.8m), offset by declines in Maintenance of 7.9% to \$92.1m (2014: \$100.0m), and Consultancy down 27.3% to \$4.0m (2014: \$5.5m).

NetIQ revenues declined by 5.8% to \$267.2m with Licences down 17.0% to \$59.0m (2014: \$71.1m), Maintenance down 2.7% at \$179.7m (2014: 184.6m) and Consultancy up 1.4% at \$28.5m (2014: \$28.1m).

Novell revenues declined to \$233.1m (2014: \$281.7m) down 17.3%. Licence revenues were \$26.4m (2014: \$37.1m) a reduction of 28.8%, Maintenance revenues were down 16.1% to \$199.7m (2014: \$238.0m) offset by an increase in Consultancy revenues of 16.1% to \$7.0m.

Management took the necessary steps to achieve appropriate margins and cash-generation through a clear focus on sound business operations throughout the Group. All of our actions are consistent with the four phase plan set out at the time of the acquisition and with the objective of returning the Enlarged Business to growth in FY18 whilst maintaining all options to deliver shareholder value.

Operating costs on a CCY basis before exceptional items, share-based payments and amortization of purchased intangibles ('Adjusted Operating Costs') increased by 102.8% to \$486.8m (2014: CCY \$240.0m). The increase of \$246.8m is more than accounted for by the \$281.5m from the current year acquisition.

The reduction in the Base Micro Focus costs of \$33.7m consists mostly of:

- \$13.4m year on year change in foreign exchange credit of \$9.0m compared to a loss of \$4.4m in 2014;
- a reduction of \$7.9m arising from investments incurred in FY14 but not repeated in this year, relating to CRM work, patent filings, restructuring, taxation matters and recruitment costs for the sales academy;
- \$1.3m from lower commissions paid to third parties on Licence revenue;
- recharging \$7.6m of management costs to TAG for integration and acquisition related work; and
- \$3.5m spent in the prior year on acquisition activities.

Adjusted Operating Profit for the year ended 30 April 2015 on a CCY basis increased by 94.2% to \$347.8m (2014: CCY \$179.1m), Adjusted EBITDA increased by 96.5% to \$360.7m (2014: CCY \$183.6m) and Underlying Adjusted EBITDA increased by 85.3% to \$348.3m (2014: CCY \$188.0m) at a margin of 41.7% (2014: CCY 45.0%).

Cash generated from operating activities increased to \$288.7m (2014: \$206.8m) representing a cash conversion ratio of 110.6% (2014: 107.7%) as a proportion of Adjusted EBITDA less exceptional items.

The average employee headcount during the year ended 30 April 2015 was 2,515 (2014: 1,219). At 30 April 2015 headcount was 4,240 (2014: 1,227).

As announced on 6 April 2015 we went through a process of restructuring the Enlarged Group for the new financial year, with the result that approximately 500 of the combined workforce of 4,561 employees have or are soon to leave the Group. We also commenced recruitment in other areas of the business for an incremental 150 staff.

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



For the year ended 30 April 2015 bonuses were paid to non-commissionable staff and executive management in line with the improvement in Underlying Adjusted EBITDA on a CCY basis excluding the impact of in year acquisitions. Staff bonuses were paid at 104% of their on target amount reflecting a 10.4% increase in Underlying Adjusted EBITDA of Base Micro Focus at their budgeted exchange rates whilst executive management were capped at 100%. For TAG employees their Variable Payment Plan for non-commissionable employees was based on operating profit performance compared with budget. At 90% of budget there was 0% pay out with 100% pay out at budget operating profit. The pay-out for the year to 31 March 2015 was 81.7% which was increased to 88.5% to reflect the 13 month period to 30 April and then to 100% to reflect the disruption and increased workload caused by the acquisition. Following completion of the acquisition, TAG senior management were on incentive plans related to the revenue performance against budgets for either their area of responsibility or total TAG revenues. Pay-out's for TAG senior management varied between zero and 100%.

The amount charged to the consolidated income statement in respect of the Corporate Bonus plan and Variable Payment Plan in the actual results for the year ended 30 April 2015 was \$16.8m and the amounts paid to eligible employees in respect of the pro-forma results was \$36.8m. All of the Group's non-commissionable sales staff and executive management are on the Micro Focus Corporate Bonus Plan for FY16.

## Our business by product portfolio

In the new financial year we are going to be reporting two product portfolios, Micro Focus and SUSE. The Micro Focus products have been grouped into portfolios based on industrial logic and will be the basis on which we provide further breakdown. Over the last four years we have provided significant levels of disclosure of our performance at a level of granularity which would not be practical to maintain going forward considering the increased scale of the Enlarged Group. We remain open in our approach to investors and analysts in telling it how it is and will seek to provide clarity on the key dynamics within each portfolio.

By definition this is a level of simplification as Micro Focus is a broad portfolio of products and not a single product business with a single set of drivers.

The table above provides the proportion of pro-forma revenue delivered during FY15 by each of the new portfolios.

### Proportion of pro-forma revenue delivered during FY15 by each of the new portfolios

	Percentage of pro-forma FY2015 revenues <sup>1</sup>
COBOL development and mainframe solutions	20.4%
Host connectivity	15.9%
Identity, access and security	17.0%
Development and IT operations management tools	11.9%
Collaboration and networking	18.2%
<b>Micro Focus Portfolio</b>	<b>83.4%</b>
<b>SUSE Portfolio</b>	<b>16.6%</b>
<b>Micro Focus Group</b>	<b>100.0%</b>

1 Unaudited.

### Micro Focus Product Portfolio COBOL Development and Mainframe Solutions ('CDMS') – 20.4% of pro-forma FY15 revenues

We have continued to invest in our core COBOL development (CD) products that primarily target the off-mainframe distributed development market. The CD products enable programmers to develop and deploy applications written in COBOL across multiple platforms including Windows, UNIX and Linux and the cloud. Visual COBOL provides the fastest way for customers to move enterprise mainframe application workloads partially or wholly to Java Virtual Machine ('JVM'), .NET or cloud environments whilst protecting their existing investments and intellectual property.

COBOL applications continue to be at the heart of the world's business transactions and to power the majority of large organizations' key business operations. Maintaining our leadership position in CD is at the core of our value proposition. By embedding our products in industry standard development environments specifically Visual Studio and Eclipse, we have addressed the perceived skill issues, and expect that COBOL will provide a stable base and strong cash flow for the Group over the coming decades.

Our Mainframe Solutions (MS) product set addresses a customer's need to get the most value out of their mainframe environment. These technologies allow customers the choice of where they develop, test and deploy their business applications. Certain circumstances mean this would be best to do either within the mainframe environment or outside of it on distributed Windows, UNIX and Linux machines. We offer customers the choice to do either or both, enabling the

optimum balance of cost, risk and speed of execution across their mainframe and distributed computing platforms. Increasingly businesses are seeking to re-use existing business logic and data, while also looking to exploit new innovations in technology such as mobile and cloud. Our mainframe solutions products enable customers to achieve both of these, through enabling the re-deployment of enterprise mainframe applications to distributed systems, virtualized mobile platforms, and the cloud. We estimate that the mainframe COBOL development market opportunity is approximately three times as large as that for off mainframe distributed COBOL development.

### Host Connectivity – 15.9% of pro-forma FY15 revenues

The Host Connectivity product set is the combination of the Attachmate products from TAG and the Micro Focus Rumba products. We believe that this combination gives us a number two position in terms of market share, (behind IBM), in the provision of host connectivity solutions. We specialize in environments with heterogeneous systems or platforms and this product set has, in one form or another, assisted in these tasks for over 30 years.

Our products enable IT organizations using centralized applications to provide business-critical information to the end-user of the system while modernizing the functionality and access to the information which can be held across a broad array of new and legacy systems. In addition to secure and highly available host-system access from multiple device types, the customer value proposition centers on user productivity; and the ability to extend modern and secure user access to legacy systems on the mobile device technologies that continue to emerge.

## Executive Chairman's statement

### continued

At the core of the product set are the Reflection and Rumba product families that deliver rich, precise graphical user interfaces (GUIs) for legacy host applications to many thousands of customers.

The host connectivity capabilities are extended by other products that provide advanced data integration technologies, enabling third party business intelligence technologies to drive critical business analytics systems. There are additional managed file transfer solutions providing a range of tactical and strategic solutions for securely transferring files of any size enabling businesses to work seamlessly with partners and customers across any platform or device.

#### **Identity Access and Security (IAS) – 17.0% of pro-forma FY15 revenues**

This product set offers broad, proven solutions for identity and access management, and security. The IAS products enable customers to manage, secure and measure the critical elements of a business' IT infrastructure, solving customers' needs in delivering application access across hugely complex and diverse platform and device configurations.

Our Identity and Access Management (IAM) products enable simple, secure access for the right people at the right time by using integrated identity information to create, modify, and retire identities and control their access to enterprise, cloud and mobile resources. Key features include identity management, access management, single sign-on, access governance, identity tracking and active directory administration.

Additionally, these technologies have strong integration with our Security products, which provide powerful security intelligence for protecting information assets. The solutions provide visibility and control of user activities, security events, and critical systems across the organization to help reduce the risk of a data breach and keep systems compliant.

Key trends driving growth in this area include virtualization and cloud development as companies rely on more virtual platforms for more complex and mission-critical processes, as well as demand for more complex software to both manage the virtual server environment and protect information and systems. Additionally, as businesses seek improvements to their competitive advantage and customer satisfaction by pushing more information to their front-line services, new risks and threats arise to their business data and intellectual property. Our IAS solutions

are well suited to address these issues, using unique identity-powered security technologies to optimize the balance between innovation and risk.

#### **Development and IT Operations Management Tools – 11.9% of pro-forma FY15 revenues**

This product set is the combination of the Borland products from Base Micro Focus; the balance of the NetIQ products not incorporated into IAS; and the Zenworks endpoint management software from the Novell product set.

The Borland software development tools enable companies to optimize the end to end supply chain process of delivering software, from definition (requirements capture) through to quality (testing and change management). These tools enable companies to better align their software development and testing activities, and for that alignment to extend outside the Company to suppliers and partners. We provide solutions for both practitioners who want to work together more effectively, and IT decision makers who need to manage change in their business that they often cannot control. These capabilities provide the foundation for accelerated delivery of software projects and are leveraged by companies seeking competitive advantage, improved customer satisfaction, and optimized operational efficiency.

We offer a very broad suite of tools for IT Operations Management (ITOM) to enable always-available business services, enterprise applications and IT systems. The primary value propositions of our ITOM tools incorporate data center management; integrated service management, application management and systems management; application performance management; and IT process automation. Our tools provide organizations with an invaluable holistic view of their IT environment and business services, enabling companies to manage increased complexity and capacity with the right balance of cost, risk and speed of execution.

The ITOM product set offers end-to-end enterprise disaster recovery capabilities, including an all-in-one disaster recovery hardware appliance, supported by multi-platform disaster recovery software, which protects both physical and virtual workloads. The tools also enable organizations to plan and execute anywhere-to-anywhere server workload migrations.

Additionally, the ITOM tools include endpoint management products that enable IT staff to give the proper working environment to each

employee and keep it updated remotely using a unified management console. These tools enable all devices to be patched, compliant, secure and properly equipped. Due to the multifarious and complex nature of the user and system endpoints within today's large organizations, this can be a burdensome and costly undertaking, and accordingly the toolset is both broad and deep. The capabilities include service desk; application virtualization; asset management; configuration management; software distribution; full disk encryption; mobile device management; and patch management.

#### **Collaboration and Networking – 18.2% of pro-forma FY15 revenues**

This product set has the balance of the Novell products together with CORBA from Base Micro Focus.

Our collaboration products enable organizations to be more productive in work environments that are more secure and easier to manage, regardless of how or where people work. The products support thousands of organizations around the world to help enable work forces in the office and on the go. Product features include email, calendaring, contact management and task management; team workspaces with document management, workflows, and social streams; and mobile access. Secure team collaboration including document management and workflow features, often used to replace existing intranet systems, offers customer a fully integrated collaboration environment. This fits closely with additional products that offer file, print, and networking services designed to enable organizations to control and automate file storage, simplify network management, enable users to install printers easily and automate disaster recovery of key business systems.

The products can automate the configuration and management of high availability collaboration and networking servers, that are simple to resource manage and maintain. The end-user value proposition includes dynamic file services which automates policies data storage; file access; file reporting; mobile access and; online, offline and mobile print.

Fully distributed networking services such as centralized server management; secure file storage; and storage management, provide full enterprise distributed networking environment suitable for small workgroups, right through to global enterprise deployments.

This product set also includes the CORBA based network and data transport products which provide unrivalled functionality and performance to companies with a requirement for high speed, and secure transfer of data between systems on their multi-platform networks. This technology is deployed across thousands of customers supporting more than a billion transactions per day.

### SUSE Product Portfolio – 16.6% of pro-forma FY15 revenues

Established in 1992, SUSE is the original provider of the first enterprise Linux distribution and the most interoperable platform for mission-critical computing. Linux is an Open Source (the practice of making software source code freely available in the public domain to software engineers for modification or distribution) operating system and has been an increasingly fast growing sub-segment of the enterprise operating system market. The growing acceptance of Linux in large-scale systems means that it is increasingly used in mission-critical systems, cloud and data center infrastructure and major independent hardware vendors such as IBM, or component manufacturers such as Intel, have made a firm long-term commitment to growing Linux as an enterprise platform. Linux adoption in enterprise is also being driven by high performance computing and so-called Big Data Analytics.

With a product set centered on SUSE Linux Enterprise and SUSE OpenStack Cloud, SUSE products power thousands of organizations around the world across physical, virtual and cloud environments. SUSE server products enable clients to reliably and securely run mission-critical applications anywhere: physical, virtual and cloud. The core of the product set is the SUSE Linux Enterprise Server (SLES) which is a highly reliable, scalable and secure Linux server operating system, built to power both physical and virtual mission-critical workloads. With this foundation, enterprises can deliver reliable business services, enable secure networks and manage heterogeneous IT resources. SLES was the first enterprise Linux operating system available on the IBM System z mainframe, and we estimate that more than 50% of all current mainframe Linux is SLES for System z. For the global SAP application market, SLES for SAP Applications is the only operating system optimized for all mission-critical SAP software solutions, and is recommended by SAP as a preferred Linux platform, and in addition there is a high performance computing version of the SLES product for those customers looking to solve the most demanding computational and data-intensive problems.

The core SLES products are extended with further product offerings that provide real-time, high availability and geo-clustering client needs, including features which reduce unplanned and planned downtime; prevent regional disasters from interrupting clients' mission critical workloads; run time-sensitive applications reliably and predictably; boost virtual workload performance; and enable administrators to quickly and easily monitor system health and performance.

SUSE's systems management and cloud products are compatible with a broad ecosystem of over 20 public cloud providers, enabling clients to deploy, maintain and manage their servers on premise in enterprise datacenters or OpenStack powered cloud infrastructure. These products offer improved usability, provisioning, power management, IT compliance and security features.

### Operational strategy to deliver our core objective Operational excellence

Micro Focus has set out to be the most effective Company at managing a portfolio of mature infrastructure software assets. This shows through in our industry leading EBITDA margins and our strong cash conversion. We believe that our proven ability to execute not only delivers significant amounts of cash and consequently great flexibility, but also a competitive advantage in the acquisition of other similar assets as demonstrated this year.

The aims of our portfolio focus and operational strategy are:

1. Revenue growth;
2. Operating leverage; and
3. Significant cash generation.

Our key areas of operational focus in order to deliver single digit revenue growth to achieve our core objective are Go to Market (including indirect channels), Product Development and Financial Discipline in M&A.

### Go to Market – sales enablement, marketing and sales productivity

During 2013 and 2014 we made good progress on our product strategy, direction and underlying roadmap and started to adjust our Go to Market structures including our channel strategy, marketing and lead generation execution capability. This work has now been leveraged in the planning for the new enlarged business. In some cases Base Micro Focus analysis has had to be reworked in consideration of the larger portfolio.

We have combined the geographic Base Micro Focus Go to Market organization and the Business Unit based TAG Go to Market organization into one geographically focused teams covering the Micro Focus and SUSE portfolios. This has meant realignment of structure, sales territories and compensation plans. We believe this will enable us to better serve our customers in the future but anticipate that the degree of change will mean that it will take some time for the new organization to settle down. However, we believe that this change will provide significant extra depth in management in North America where Base Micro Focus has struggled with erratic performance in the past.

At the same time we will move from five CRM systems to one which will provide operational efficiencies going forward but will mean that in the short-term less historical data will be available than was the case in Base Micro Focus prior to the acquisition.

We believe that we have significant room for improvement in sales productivity and will look to achieve an appropriate balance between direct and indirect channels.

We aim to increase sales productivity and predictability further by continuing to improve customer insight by generating closer interaction between Sales and Marketing, Product Management and Product Development. We also have significant work to do to make our systems and processes consistent and easier for our sales teams and partners to use.

We have announced that we will be simplifying our branding with an objective that by the end of FY16 we will be using the Micro Focus and SUSE brands and will have 'retired' the Novell, Attachmate, NetIQ and Borland brand names. This means an extensive program of work to align our marketing programs in order to raise brand awareness, build understanding of our product propositions and increasingly target the right audiences to generate qualified leads for new business opportunities.

# Executive Chairman's statement

## continued

### Product development

For the Micro Focus portfolio we have organized Product Development and Product Management into one global function bringing together the Micro Focus and TAG organizations. To maximize returns we have conducted an analysis of all our products in terms of their life cycle and portfolio management position. We continue to invest in product development and are excited by both the significant enhancements to existing products and the new products released in the past year. Micro Focus will maintain its leadership positions in CD and Mainframe Solutions through products such as Visual COBAL and Enterprise Developer. In Host Connectivity we will seek to build on our existing strengths in terms of technology and customer base to establish a true leadership position. In ITOM and Collaboration and Networking the strength of our existing franchises can be built upon through targeted innovation and customer engagement. By sharpening our focus in IAS we are well positioned for growth over the longer term and in SUSE we already lead in many areas and our technology heritage combined with our existing and new offerings position us well for combined success.

Product Development and Product Management is managed separately for each of the Micro Focus and SUSE portfolios to ensure the correct focus and to reflect the collaborative nature of the Open Source community. We will continue to work with our partners, independent software vendors and customers to ensure that they can reap the benefits of our investments and continued innovations.

### Financial discipline, mergers and acquisitions ('M&A')

Micro Focus has a strong financial discipline around the uses of cash. The Company has a base case model that estimates the returns to shareholders from organic execution and the return of excess cash. This gives a sound basis on which to evaluate M&A where any acquisition contemplated would need to generate a risk adjusted return greater than the base case. Successful execution of M&A has been instrumental in achieving an annual compound return of 26.8% since IPO compared to a base case target of 15% to 20%. The acquisition of TAG demonstrates this strong discipline and the returns that are achievable.

Industry and market dynamics mean that there are significant numbers of potential assets that could fit with our business model. These are either:

- (i) bolt-on transactions like those completed in FY13 and FY14;
- (ii) significant transactions; or
- (iii) transformational deals such as the acquisition of TAG.

Each year the world of IT gets a year older (and we should remember that IT is still a relatively young industry) and whilst the vast majority of companies will focus on the 'new and exciting'; we believe that there will be an increasing opportunity to help clients derive value from their existing and often highly complex IT investments.

Since the completion of the acquisition of TAG the Company has received a number of approaches from owners of companies who would be interested in becoming part of the larger Group.

### Linkage of management incentive to shareholder returns

Micro Focus has deployed a simple model to link management incentives to the delivery of shareholder returns. This model has worked successfully in motivating management to deliver exceptional returns to shareholders and is well understood and supported by our investment manager population.

The annual cash bonus applies to all members of staff (excluding those on sales incentives). If the Company's Underlying Adjusted EBITDA is no greater than the prior year's CCY comparative there is no bonus. The bonus for executive directors and executive committee members is maximized on achieving 10% growth over the prior year CCY Underlying Adjusted EBITDA with a straight line between the two points and for other staff there is no maximum. The staff neither benefit nor lose from elements outside of their control such as exchange rates with the board taking a view that these items balance out over the business cycle.

The board sees no value in bonuses being based on 'soft' or non-financial measures as evidence would suggest that these tend to serve to increase bonuses to levels not merited by financial performance. Such targets are best achieved by executives managing and having appropriate management and control systems in place.

The normal stock plan starts to vest at EPS annual growth over the performance period of RPI plus 3%, with maximum vesting at RPI plus 9%. With RPI per annum over the three years of approximately 2.15% and dividends approximately 2% to 3% this means that full vesting is aligned to the overall objective of 15% to 20% returns.

Key performance indicators to check that we are on track are Underlying Adjusted EBITDA (absolute amount and growth %), cash conversion (absolute amount and conversion %) and earnings per share.

### Delivering value to shareholders

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

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

The type of transformation we are undertaking is the sort that many companies have said they need to go private to achieve out of the public eye. The board and management of Micro Focus believe that it is quite possible to do this on the public market and provide the increase in value to existing shareholders.

In December 2014 we made a Return of Value to all shareholders amounting to \$131.6m in cash (60.0 pence per share, equivalent to approximately 94.02 cents per share), by way of a B/C share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving the cash in the form of income or capital.

For existing ordinary shares validly elected to the income option, a Shareholder received one C Share for each corresponding existing ordinary share held at the Record time. A C Share Dividend of 60.0 pence per share became payable in respect of each such C Share. Once the C Share Dividend was paid, each relevant C Share was reclassified as a Deferred Share having negligible value and carrying extremely limited rights. The Company then repurchased the Deferred Shares for an aggregate consideration of 1.0 pence and then cancelled the Deferred Shares.



For existing ordinary shares validly elected to the capital option, a Shareholder received one B Share for each corresponding existing ordinary share held at the Record time. Each B Share was redeemed for 60.0 pence.

The Return of Value was accompanied by a 0.9285 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B/C Shares.

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

In order to complete the acquisition the Company put in place a debt structure which balances stability, flexibility and cost effectiveness. The total new credit facility of \$2,000.0m comprised of a \$1,275.0m seven year term loan B, a \$500.0m five year term loan C and a \$225.0m revolving facility. The terms of the New Facilities were as follows:

- (a) in relation to the senior secured term loan B of \$1,275.0m: an interest rate of 4.25% above LIBOR (subject to a LIBOR floor of 1.00%), amortizing at 1.00% per annum, with an original issue discount of 1.00% and a seven year term;
- (b) in relation to the senior secured term loan C of \$500.0m: an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), amortizing at 10.00% per annum, with an original issue discount of 1.50% and a five year term; and
- (c) in relation to the senior secured revolving credit facility of \$225.0m: an initial interest rate of 3.50% above LIBOR, and an original issue discount of 0.50%.

At completion we drew down all of the term loans and \$100.0m of the revolving facility such that our gross debt was \$1,875.0m. Post completion we have repaid \$150.0m of the term loan B ahead of the scheduled repayment and \$25.0m of the revolving facility so that at 30 April 2015 we had gross debt of \$1,700.0m and net debt of \$1,403.5m. This represented a net debt to pro-forma Facility EBITDA of 2.6 times.

In line with our dividend policy, which is to be 'progressive' until such time as our debt is down to 2.5 times Facility EBITDA we are announcing an increase in the proposed final dividend of 10% to 33.0 cents per share, (2014: 30.0 cents per share) and an increase in the proposed total dividend for the year of 10% to 48.4 cents per share (2014: 44.0 cents per share). The final dividend will be paid in Sterling equivalent to 21.2 pence per share, based on an exchange rate of £ = \$1.56, being the rate applicable on 7 July 2015, the date on which the board resolved to propose the final dividend. The final dividend will be proposed to shareholders at the AGM on 24 September 2015 and, if approved, will be paid on 2 October 2015 to shareholders on the register at 4 September 2015.

Following completion of the integration review and given the strong trading and outlook for the Company the Independent Board has released Wizard Parent LLC ('Wizard'), the former owner of TAG, from the restriction under the Relationship Agreement from them trading their ordinary shares during the 365 day period following completion.

## Board changes

During the year there were a number of board changes.

At the AGM in September 2014, David Maloney retired from the board after serving as a non-executive director since the IPO in 2005. David was Chairman of the Audit Committee throughout this period and was senior independent director and Deputy Chairman when he retired. We would like to thank David for his years of service and contribution to the success of Micro Focus. Richard Atkins became Chairman of the Audit Committee and Karen Slatford became the senior independent director.

On completion of the transaction we welcomed Prescott Ashe and David Golob as non-executive directors representing Wizard. Prescott previously served as a non-executive director of Micro Focus from IPO until 8 September 2008 and is a Managing Director of Golden Gate Capital whilst David is a partner of Francisco Partners. In order to assist with the balance of independent and non-independent directors Stephen Murdoch, Chief Operating Officer of Micro Focus, stepped down from the board whilst remaining as a senior employee within the Group.

In January 2015, Karen Geary was appointed a non-executive director. Karen has more than 20 years of international Human Resources and business transformation experience across a variety of industries, managing organizations through periods of large scale change, acquisition and integration and is Chief People Officer at WANDisco plc.

We welcome the new members of our board.

## Outlook

During FY16 in accordance with our four phase plan, we intend to reduce revenues to a solid core from which we aim to grow in FY18. As a result we anticipate revenues in the year declining between 2% and 4% on a CCY basis. Given the extent and level of change from the restructuring already being implemented we expect the performance to be stronger in the second half of the year.

We believe we have a strong operational and financial model that can continue to provide excellent returns to shareholders. The model requires low single digit revenue growth in the medium-term and we are confident that this can be delivered.

After 10 years of approximately 27% compound returns to investors we believe that Micro Focus is now well positioned for the next phase in its evolution.



**Kevin Loosemore**  
Executive Chairman  
7 July 2015

## Operational and financial review

Due to the significant size of the TAG acquisition the directors believe that the year's results are better understood by looking at the full year pro-forma basis of the combination of TAG and Base Micro Focus. In the prospectus issued as part of the transaction Audited information under IFRS was provided for TAG on a consolidated basis for the three years and one month ended 30 April 2014. The post-acquisition period of TAG from 20 November 2014 to 30 April 2015 has also been audited under IFRS as part of this year's audit. In arriving at pro-forma results for the year ended 30 April 2015 the directors have combined the audited financials for TAG for the post acquisition period to 31 March 2015 together with unaudited internal management information for TAG for the period from 1 April 2014 to 19 November 2014 and then added in the Base Micro Focus results for the year ended 30 April 2015. The comparatives for the full year pro-forma for the year ended 30 April 2014 combine the audited financials for TAG derived from the prospectus for the year to 31 March 2014 with the audited figures for Base Micro Focus for the year ended 30 April 2014.

During the year ended 30 April 2015, Micro Focus operated its three geographic regions (i) North America, (ii) International (comprising Europe, Middle East, Latin America and Africa), and (iii) Asia Pacific and Japan and added TAG as its fourth primary reporting segment on completion of the acquisition. Product portfolios are sold into these three regions and also within TAG via a combination of direct sales, partners and independent software vendors.

Micro Focus discloses profitability by its four reporting segments. The three regional presidents of the geographic regions were measured on the profitability of their region whilst the TAG senior management was measured and rewarded on achievement of revenue targets against budgets for their financial year to 31 March 2015. The three regions have directly controllable costs and are then allocated central costs and their incentives were weighted more towards growth in revenues. TAG performance was measured against an overall operating profit budget. The segmental analysis is shown in note 1.

Revenue for the year by reporting segments at actual exchange rates and CCY is shown in the table 'Revenue by reporting segments'.

### Revenue by reporting segments

	Year ended 30 April 2015 Existing \$m	Year ended 30 April 2015 Acquisitions \$m	Year ended 30 April 2015 Actual \$m	Year ended 30 April 2014 Actual \$m	Year ended 30 April 2014 CCY \$m
International	168.5	–	168.5	178.6	166.4
North America	201.4	–	201.4	199.9	199.3
Asia Pacific and Japan	48.6	–	48.6	54.6	52.4
TAG	–	416.0	416.0	–	–
<b>Total revenue</b>	<b>418.5</b>	<b>416.0</b>	<b>834.5</b>	<b>433.1</b>	<b>418.1</b>

### Revenue by category

	Year ended 30 April 2015 Existing \$m	Year ended 30 April 2015 Acquisitions \$m	Year ended 30 April 2015 Actual \$m	Year ended 30 April 2014 Actual \$m	Year ended 30 April 2014 CCY \$m
Licence	162.8	98.2	261.0	177.9	171.3
Maintenance	243.2	197.4	440.6	243.2	235.5
Subscription	–	98.2	98.2	–	–
Consultancy	12.5	22.2	34.7	12.0	11.3
<b>Total revenue</b>	<b>418.5</b>	<b>416.0</b>	<b>834.5</b>	<b>433.1</b>	<b>418.1</b>

Group revenues in this financial year grew to \$834.5m with \$416.0m coming from the TAG acquisition which was completed on 20 November 2014. Group revenues excluding the acquisition were \$418.5m which, on a CCY basis, were flat with the prior year. The first half year revenue on a CCY basis grew by 0.4% to \$208.3m and the second half revenue for the three regions declined on prior year CCY basis by 0.4% to \$210.2m. International grew by 1.3% (2014: 7.4%), North America saw a growth of 1.1% (2014: decline of 5.2%), and Asia Pacific and Japan declined by 7.3% (2014: decline of 6.8%).

The International region revenue growth on a CCY basis was 1.3% with Licence revenues decline of 2.8% (2014: growth of 18.6%), Maintenance revenues grew by 4.7% (2014: 5.4%) and Consultancy revenues grew by 2.8% (2014: 5.4%). The Licence revenues decline was mostly with our Mainframe Solutions ('MS') product portfolio where we were not able to repeat a sizeable deal that was done in the prior year. Most of the Maintenance revenues growth came from our COBOL Development products as a result of the strong Licence sales in the prior year. Consultancy revenues grew by \$0.2m (2.8%) on the prior year. Overall we saw revenue growth in CD, Borland and CORBA with a decline in MS and Niche.

In North America, for the full year revenue growth on a CCY basis was 1.1% with Licence revenue decline of 3.0% (2014: decline of 4.1%), Maintenance revenue growth of 2.6% (2014: decline of 2.8%) and Consultancy revenue growth of 26.3% (2014: decline of 51.3%). The primary reason for the decline in Licences was in the CORBA portfolio as a result of having most of the major clients making purchases in the prior year. Maintenance revenue grew mostly in the Borland portfolio as a result of a full year of AccuRev Maintenance revenues. Consulting grew due to having more MS related consulting projects. Overall we saw revenue growth in CD, MS and Borland with a decline in CORBA and Niche.

In Asia Pacific and Japan, on a CCY basis revenue declined by 7.3% on the prior year with Licence fees declining by 17.3% (2014: decline of 13.5%), Maintenance revenues increasing by 2.3% (2014: 0.8%) and Consultancy revenue was flat year on year. The decline in the region's Licence revenue was due mostly to Japan where we suffered from the economic climate and fewer sales through our distributors. Overall we saw revenue growth in MS and Borland with a decline in CD, CORBA and Niche.

TAG's revenues were \$416.0m after reducing the Maintenance and Subscription revenues by \$17.0m as a result of applying a fair value reduction to the acquired Maintenance and Subscription deferred income (note 39).

Revenue for the year by category at actual exchange rates and CCY is shown in the table 'Revenue by category'.

Licence revenue for the three regions on a CCY basis declined by 5.0% (2014: growth of 8.5%) partly as a result of a decline in the Japan COBOL business and slightly lower CORBA and MS performance. Maintenance revenue for the three regions on a CCY basis grew by 3.3% (2014: 6.8%) with a strong performance across most portfolios and across all three regions. Consulting revenues for the three regions on a CCY basis grew by \$1.2m being 10.6% (2014: decline of 22.6%) with the majority of this growth coming from the North America MS consulting business. Since the acquisition, TAG performed better than management expectations and this business tends to have a stronger second half year than first half year on Licence revenues. TAG Licence revenues for its year to 31 March 2015 were \$170.7m with \$70.9m in its first six months (41.5%).

Revenue by product portfolio sold in the three regions is shown in the table alongside on a CCY basis:

The three regions' revenue grew by 0.1% on a CCY basis and Licence revenues declined by 5.0%. In the first half year Licence revenues declined by 8.3% and the second half year we saw a decline of 1.9%.

COBOL Development declined on a CCY basis by 0.3%, with a 5.2% decline in Licence revenues mostly as a result of the economic environment in Japan. Maintenance grew by 4.2% as a result of the strong renewal rates and the level of Licences revenues generated in the last two years.

Mainframe Solutions grew by 2.4% over last year on a CCY basis mostly as a result of the higher level of consulting work. The decline in Licence revenue is mostly offset by the increase in Maintenance revenues. Licence revenue was down by 6.4% for we did not repeat a sizeable Enterprise Suite sale in this financial year and Maintenance grew by 3.4% on the back of a strong renewal rate and the benefit of the prior year Licence revenue.

### Revenue by product portfolio on a CCY basis

	Year ended 30 April 2015 Existing \$m	Year ended 30 April 2014 CCY \$m	Change at CCY %
<b>COBOL</b>			
Licence	97.7	103.1	-5.2%
Maintenance	123.1	118.1	4.2%
Consultancy	0.7	1.0	-30.0%
	<b>221.5</b>	<b>222.2</b>	<b>-0.3%</b>
<b>Mainframe Solutions</b>			
Licence	26.3	28.1	-6.4%
Maintenance	42.6	41.2	3.4%
Consultancy	8.2	6.0	36.7%
	<b>77.1</b>	<b>75.3</b>	<b>2.4%</b>
<b>Borland (Test)</b>			
Licence	19.4	18.7	3.7%
Maintenance	44.8	40.8	9.8%
Consultancy	3.3	3.7	-10.8%
	<b>67.5</b>	<b>63.2</b>	<b>6.8%</b>
<b>CORBA</b>			
Licence	18.0	18.9	-4.8%
Maintenance	25.5	26.1	-2.3%
Consultancy	0.3	0.5	-40.0%
	<b>43.8</b>	<b>45.5</b>	<b>-3.7%</b>
<b>Niche</b>			
Licence	1.4	2.5	-44.0%
Maintenance	7.2	9.3	-22.6%
Consultancy	–	0.1	-100.0%
	<b>8.6</b>	<b>11.9</b>	<b>-27.7%</b>
<b>Sub-total Three Regions</b>			
Licence	162.8	171.3	-5.0%
Maintenance	243.2	235.5	3.3%
Consultancy	12.5	11.3	10.6%
<b>Revenue at CCY</b>	<b>418.5</b>	<b>418.1</b>	<b>0.1%</b>

The Borland (Test) product portfolio revenue grew by 6.8% on a CCY basis. Licence revenues grew by 3.7% as a result of better performance in the Asia Pacific and Japan region. Maintenance grew by 9.8% mostly as a result of the full year impact of the AccuRev acquisition that was completed on 31 December 2013.

CORBA revenues declined by 3.7% (\$1.7m) on a CCY basis. Licence revenues declined by 4.8% (\$0.9m).

The overall performance on Maintenance revenues was encouraging for the above portfolios with an increase of 3.3%.

The Maintenance renewal rates by each product portfolio for the year ended 30 April 2015 were CD: 93% (2014: 90%), MS: 92% (2014: 90%), Borland (Test): 86% (2014: 83%), CORBA: 78% (2014: 81%) and Niche: 78% (2014: 66%). During the year changes have been made in the incentivization of the renewals team and appear to have had a positive impact.

## Operational and financial review

### continued

For the period from completion on 20 November 2014 to 31 March 2015 TAG continued to operate independently from Base Micro Focus and sold its product portfolios through direct sales, inside sales and partners. The Attachmate and Novell product portfolios were run by a single President and General Manager as were the NetIQ and SUSE product portfolios. The revenues delivered by each of the product portfolios in the period from completion to 30 April 2015 by revenue type are shown in the table alongside.

As we move into the new financial year Micro Focus is now organized as one company with two product portfolios: SUSE and Micro Focus. The Base Micro Focus product portfolios combines the products sold into the three geographic business segments of Micro Focus together with the Attachmate, Novell and NetIQ product portfolios from TAG. The actual numbers for the year ended 30 April 2015 in this new reporting structure by revenue type would be as on the table alongside.

With such a significant acquisition having been completed part way through a financial year it can be difficult for readers of the accounts to understand the relative performance of the acquired business. However, we did issue a prospectus at the time of the acquisition that provided a 36 months track record of the performance of the Group within the period ending 30 April 2014. From this information and the performance in the period ending 30 April 2015 we are able to provide the following pro-forma financial information for TAG. These TAG revenues are as disclosed in the Prospectus but have been adjusted for Premium Services revenue being now categorized as Maintenance or Subscription revenues and expense reimbursement from Consultancy project being classified from revenue to a reduction in costs. This information is summarized in the table opposite together with the revenue for the 12 months ended 31 March 2015 and also the 12 months ended 30 April 2015.

Total TAG revenues declined by \$49.6m (5.2%) year on year. Licence revenue declined by \$19.4m (10.3%) year on year partly due to the maturity of the Novell product portfolio and sales execution in the Novell and NetIQ businesses. Maintenance revenues declined by \$51.1m (9.8%) with \$11.6m coming from the fair value adjustment required in valuing the acquired deferred income, the remainder

#### TAG revenue by product portfolio since acquisition

	Year ended 30 April 2015					
	Attachmate \$m	Novell \$m	NetIQ \$m	Sub-total \$m	SUSE \$m	TAG \$m
Licence	59.2	11.5	27.5	98.2	—	98.2
Subscription	—	—	—	—	98.2	98.2
Maintenance	39.2	81.5	76.7	197.4	—	197.4
Consultancy	2.0	3.2	14.1	19.3	2.9	22.2
	<b>100.4</b>	<b>96.2</b>	<b>118.3</b>	<b>314.9</b>	<b>101.1</b>	<b>416.0</b>

#### Revenue by new reporting structure

	Year ended 30 April 2015				
	Base Micro Focus \$m	Attachmate, Novell & NetIQ \$m	New Micro Focus \$m	SUSE \$m	Total \$m
Licence	162.8	98.2	261.0	—	261.0
Subscription	—	—	—	98.2	98.2
Maintenance	243.2	197.4	440.6	—	440.6
Consultancy	12.5	19.3	31.8	2.9	34.7
	<b>418.5</b>	<b>314.9</b>	<b>733.4</b>	<b>101.1</b>	<b>834.5</b>

is as a result primarily of new Maintenance revenues not covering for the Maintenance attrition especially in the Novell business. Subscription revenues grew by 10.4% and this would have been 13.2% if we had not applied a \$5.4m fair value adjustment on the acquired deferred income. Consultancy revenues grew by 0.1% in the year to \$43.9m.

The Attachmate revenue declined 3.2% year on year. Licence revenue was strong post acquisition resulting in a year on year growth of 4.2%. Maintenance revenue continues to decline, the decline was \$7.9m with \$2.0m coming from applying a fair value adjustment to the acquired deferred revenues.

The Novell revenue declined by 17.3% year on year. Licence revenue declined by 28.8% and this is a factor of demand now in the market place for the existing products. Action is being taken to improve both the product and sales execution in this area so that this level of decline should not continue into the future. Year on year Maintenance revenue declined \$38.3m (16.1%), part of this was a result of applying the fair value adjustment of the acquired deferred income being \$5.3m, but the remainder is on the back of declining Licence revenues and not high enough Maintenance renewal rates.

The NetIQ revenue declined by 5.8% year on year. This business tends to have long lead time sales and each Licence deal can also be sizeable. In the last 12 months Licence revenue has declined by 17.0% because several sizeable opportunities were not closed by the end of the year and we are expecting this year's decline to be reversed in the next financial year. NetIQ Licence revenue post acquisition was \$27.5m compared with \$59.0m for the 12 months to 30 April 2015. Maintenance revenue declined by \$4.9m being 2.7%. \$4.3m of the decline is a result of the fair value adjustment on the acquired deferred income and the rest is as a result of the poor Licence revenue in the year.

The SUSE revenue increased by 10.8% year on year with the Subscription revenue increasing by 10.1%. The Subscription revenue is net of the deferred revenue adjustment of \$5.4m. Prior to this adjustment Subscription revenue grew by 13.2%. Subscription revenue post acquisition was \$98.2m compared with Subscription revenue of \$217.1m for the year to 30 April 2015. The Subscription revenue was reduced by \$5.4m as a result of applying the fair value adjustment on the acquired deferred income.

## TAG revenue by product portfolio and category

	Year ended 31 March 2014 \$m	Year ended 30 April 2014 \$m	Year ended 31 March 2015 <sup>1</sup> \$m	Year ended 30 April 2015 <sup>1</sup> \$m	Growth/ decline April 2015 vs April 2014 Growth %
<b>Attachmate</b>					
Licence	79.9	80.8	85.1	84.2	4.2
Maintenance	100.4	100.0	93.3	92.1	-7.9
Consultancy	5.5	5.5	4.4	4.0	-27.3
	<b>185.8</b>	<b>186.3</b>	<b>182.8</b>	<b>180.3</b>	<b>-3.2</b>
<b>Novell</b>					
Licence	37.8	37.1	26.4	26.4	-28.8
Maintenance	240.7	238.0	203.5	199.7	-16.1
Consultancy	6.5	6.6	7.4	7.0	6.1
	<b>285.0</b>	<b>281.7</b>	<b>237.3</b>	<b>233.1</b>	<b>-17.3</b>
<b>NetIQ</b>					
Licence	74.7	71.1	59.2	59.0	-17.0
Maintenance	184.4	184.6	180.8	179.7	-2.7
Consultancy	28.4	28.1	28.0	28.5	1.4
	<b>287.5</b>	<b>283.8</b>	<b>268.0</b>	<b>267.2</b>	<b>-5.8</b>
<b>Sub-total</b>					
Licence	192.4	189.0	170.7	169.6	-10.3
Maintenance	525.5	522.6	477.6	471.5	-9.8
Consultancy	40.4	40.2	39.8	39.5	-1.7
	<b>758.3</b>	<b>751.8</b>	<b>688.1</b>	<b>680.6</b>	<b>-9.5</b>
<b>SUSE</b>					
Subscription	193.5	196.6	215.9	217.1	10.1
Consultancy	3.3	3.3	4.1	4.4	33.3
	<b>196.8</b>	<b>199.9</b>	<b>220.0</b>	<b>221.5</b>	<b>10.8</b>
<b>Total TAG</b>					
Licence	192.4	189.0	170.7	169.6	-10.3
Subscription	193.5	196.6	215.9	217.1	10.4
Maintenance	525.5	522.6	477.6	471.5	-9.8
Consultancy	43.7	43.5	43.9	43.9	0.1
	<b>955.1</b>	<b>951.7</b>	<b>908.1</b>	<b>902.1</b>	<b>-5.2</b>

<sup>1</sup> Full year results for the 12 months ended 31 March 2015 and 30 April 2015 have not been audited except for the post-acquisition period. Comparative information for the 12 months ended 31 March 2014 and 30 April 2014 were subject to audit as part of the prospectus issued in connection with the acquisition of TAG.



## Operational and financial review

### continued

As we look at the way in which the business will be structured in the new financial year the revenue performance of the Enlarged Group taking the 12 month periods to 30 April 2015 is shown alongside.

This revenue is lower than the pro-forma revenue of \$1,326.6m due to the shift in one month of the contribution of TAG for the year ended 31 March 2015 to the year ended 30 April 2015.

### Costs

The costs for the year compared to last year at actual exchange rates and CCY are shown alongside.

During the year we purchased TAG and included within the existing Base Micro Focus business within research and development expenses is \$29.9m and within selling and distribution there is \$43.7m both relating to the amortization of the newly acquired purchased intangibles. The Group exceptional costs were \$96.7m of which \$49.8m is included within the Base Micro Focus business and \$46.9m in the TAG business. Excluding the aforementioned costs of \$123.4m, the costs of the Base Micro Focus business for the year to 30 April 2015 were \$235.7m compared with \$270.7m in the prior year on a CCY basis.

For the Base Micro Focus business excluding the amortization of purchased intangibles made during the year ended 30 April 2015 and on a CCY basis:

- Cost of goods sold for the year increased by \$0.9m to \$29.8m (2014: CCY \$28.9m) of which the exceptional costs incurred on severance were \$0.8m (2014: \$Nil). The costs in this category predominantly relate to our consulting and helpline support operations.
- Selling and distribution costs excluding the amortization of the newly purchased intangible assets were \$120.8m. Within these costs were exceptional items relating to severance costs of \$12.5m, thus the underlying costs were \$108.3m being a reduction of 7.4% on the prior year on a CCY basis (2014: CCY \$116.9m). The reduction was due mostly to the cost saving as a result of an increase in telesales and a reduction in field sales, lower external marketing spend and a lower investment this year in graduate sales scheme and the impact of reducing the sales workforce through efficiency programs.

### Enlarged Group revenue for the 12 months to 30 April 2015

	12 months ended 30 April 2015				
	Base Micro Focus \$m	Attachmate, Novell & NetIQ <sup>1</sup> \$m	New Micro Focus <sup>1</sup> \$m	SUSE <sup>1</sup> \$m	Total <sup>1</sup> \$m
Licence	162.8	169.6	332.4	—	332.4
Subscription	—	—	—	217.1	217.1
Maintenance	243.2	471.5	714.7	—	714.7
Consultancy	12.5	39.5	52.0	4.4	56.4
	<b>418.5</b>	<b>680.6</b>	<b>1,099.1</b>	<b>221.5</b>	<b>1,320.6</b>

1 Unaudited.

### Costs

	Year ended 30 April 2015 Existing \$m	Year ended 30 April 2015 Acquisitions \$m	Year ended 30 April 2015 Actual \$m	Year ended 30 April 2014 Actual \$m	Year ended 30 April 2014 CCY \$m
Cost of goods sold	29.8	61.7	91.5	29.9	28.9
Selling and distribution	164.5	126.0	290.5	120.7	116.9
Research and development	86.1	76.2	162.3	57.8	56.7
Administrative expenses	78.7	64.3	143.0	68.9	68.2
<b>Total costs</b>	<b>359.1</b>	<b>328.2</b>	<b>687.3</b>	<b>277.3</b>	<b>270.7</b>

- Research and development expenses excluding the amortization of newly purchased intangibles was \$56.2m being a reduction of 0.9% on the prior year on a CCY basis (2014: CCY \$56.7m), equivalent to approximately 13.4% of revenue (2014: CCY 13.6%). Severance costs were \$0.3m. The impact of net capitalization of development costs was \$0.1m (2014: CCY \$Nil). At 30 April 2015 the net book value of capitalized development costs on the consolidated statement of financial position was \$31.4m (2014: \$31.5m).
- Administrative expenses were \$78.7m (2014: CCY \$68.2m). Excluding share-based compensation of \$15.6m (2014: \$12.8m), exceptional costs of \$36.2m (2014: \$Nil), exchange gain of \$9.4m (2014: loss of \$4.4m) administrative expenses decreased by 28.6% to \$36.3m (2014: CCY \$51.0m). The decrease arose from primarily significant management effort being put into the TAG business that was recharged of \$7.6m and in the prior year there was \$1.9m spent on an abortive acquisition and \$1.5m on three acquisitions. The exceptional costs were acquisition costs \$26.9m, severance of \$1.9m, property costs \$1.0m and integration costs of \$6.4m.

The costs incurred by TAG in the period from acquisition to 30 April 2015 were \$328.2m with \$46.9m of exceptional costs, comprising severance of \$14.1m, property costs of \$17.3m, impairment of intangible assets and prepayments of \$13.3m and integration costs of \$2.2m.

- Cost of sales predominantly relate to TAG's consulting and helpline support operations and were \$61.7m and including \$3.9m of exceptional costs (severance costs).
- Selling costs were \$126.0m of which \$7.1m were exceptional costs (severance costs).
- Research and development costs were \$76.2m and excluding severance exceptional costs of \$2.8m they were \$73.4m being 17.6% of revenue.
- Administrative expenses were \$64.3m of which \$33.2m were exceptional costs (being \$1.5m on severance, \$17.3m on property, \$13.3m on impairments and \$1.1m on integration) and recharges of \$7.6m.

## Currency impact

In the actual results, 59% of our the Enlarged Group revenues is contracted in US dollars, 22% in Euros, 5% in Sterling, 4% in Yen and 10% in other currencies. In comparison, 48% of our costs are US dollar denominated, 17% in Sterling, 18% in Euros, 2% in Yen and 15% in other currencies.

This weighting of revenue and costs means that if the US\$:Euro or US\$:Yen exchange rates move during the year, the revenue impact is far greater than the cost impact, whilst if US\$:Sterling rate moves during the year the cost impact far exceeds the revenue impact. Consequently, actual US\$ profit before tax can be impacted by significant movements in US\$ to Euro, Yen and Sterling exchange rates. The impact of these movements can be seen by the changes to prior year actual numbers when they are stated at CCY. Excluding the TAG numbers the year ended 30 April 2014 CCY revenue is 3.5% lower at \$418.1m and the Underlying Adjusted EBITDA is 4.3% lower than the actual numbers at \$188.0m. The currency movement for Sterling, Yen and Euro against the dollar was a weakening of 0.2%, 9.2% and 7.7% respectively when looking at the average in FY2015 compared to FY2014. As we highlighted in the Integration Review update in April the US\$ has strengthened against all major currencies during calendar year 2015. Comparing the average rates experienced in the current calendar year to the end of May FY2014 average rates then the currency movement for Sterling, Yen and Euro against the dollar was a weakening of 5.3%, 15.9% and 17.1% respectively. If we were to restate the FY2015 pro-forma results at these CY2015 exchange rates then revenues would reduce from \$1,326.6m to \$1,268.8m and Underlying Adjusted EBITDA would reduce from \$505.0m to \$460.9m.

Intercompany loan arrangements within the Group are typically denominated in the local currency of the overseas affiliate. Consequently, any movement in the respective local currency and US\$ will have an impact on the converted US\$ value of the loans. This foreign exchange movement is taken to the consolidated statement of comprehensive income. The Group's UK Corporation Tax liability is denominated in Sterling and any movement of the US\$:Sterling rate will give rise to a foreign exchange gain or loss which is also taken to the consolidated statement of comprehensive income. The foreign exchange gain for the year is approximately \$9.4m (2014: loss of \$4.4m).

## Adjusted EBITDA and Underlying Adjusted EBITDA

Adjusted EBITDA in the year was \$357.6m (2014: CCY \$183.6m) and Underlying Adjusted EBITDA was \$348.3m (2014: CCY \$188.0m) at a margin of 41.7% (2014: CCY 45.0%). The Adjusted EBITDA for the acquisition made in this year was a \$139.4m before the transaction costs of \$26.9m, which are categorized as exceptional costs within the Base Micro Focus business. (See below).

On a pro-forma basis for the year ended 30 April 2015, the Enlarged Group delivered Underlying Adjusted EBITDA of \$505.0m and Adjusted EBITDA of \$517.6m. Adding to this pro-forma Adjusted EBITDA the \$19.6m of Amortization of Development cost the Enlarged Group had a pro-forma Facility EBITDA for the year of \$537.2m.

## Operating profit

Operating profit was \$147.2m (2014: \$155.7m). Within the operating profit is \$96.7m (2014: \$Nil) of exceptional costs, Adjusted operating profit was \$347.8m (2014: \$187.5m).

## Net finance costs

Net finance costs were \$55.0m (2014: \$7.9m), of which \$2.4m relates to exceptional costs from the accelerated write-off of the prepaid facility costs arising on the acquisition of TAG. Within the net finance costs there is the amortization of \$8.7m of prepaid facility arrangement, original issue discounts and facility fees incurred on the Group's loan facilities (2014: \$1.5m), loan interest and commitment fees of \$44.4m (2014: \$6.1m), interest of \$2.6m (2014: \$nil) on the derecognition tax position and other interest costs of \$0.5m (2014: \$0.6m) offset by \$1.2m of interest received (2014: \$0.3m).

## Profit before tax and adjusted profit before tax

Profit before tax was \$91.4m (2014: \$147.8m). The profit before tax was primarily reduced in the period as a result of exceptional costs of \$99.1m and increased amortization of purchased intangibles following the TAG acquisition.

Adjusted profit before tax was \$294.3m (2014: \$179.5m). (See below).

### Adjusted EBITDA and Underlying Adjusted EBITDA

	Year ended 30 April 2015 Existing \$m	Year ended 30 April 2015 Acquisitions \$m	Year ended 30 April 2015 Actual \$m	Year ended 30 April 2014 Actual \$m	Year ended 30 April 2014 CCY \$m
Actual revenue	418.5	416.0	834.5	433.1	418.1
Adjusted EBITDA	217.8	139.8	357.6	192.0	183.6
Foreign exchange (gain)/loss	(9.0)	(0.4)	(9.4)	4.4	4.4
Net capitalization of development costs	0.1	—	0.1	—	—
<b>Underlying Adjusted EBITDA</b>	<b>208.9</b>	<b>139.4</b>	<b>348.3</b>	<b>196.4</b>	<b>188.0</b>
<b>Underlying Adjusted EBITDA margin</b>	<b>49.9%</b>	<b>33.5%</b>	<b>41.7%</b>	<b>45.3%</b>	<b>45.0%</b>

### Adjusted profit before tax

	Year ended 30 April 2015 \$m	Year ended 30 April 2014 \$m
Profit before tax	91.4	147.8
Share-based compensation	15.5	12.8
Amortization of purchased intangibles	88.3	18.9
Exceptional costs	96.7	—
Exceptional finance costs	2.4	—
<b>Adjusted profit before tax</b>	<b>294.3</b>	<b>179.5</b>

## Operational and financial review

### continued

### Taxation

Tax for the period was a credit of \$10.0m (2014: charge of \$25.8m) with the Group's effective tax rate being -11.0% (2014: 17.5%). The effective tax rate ('ETR') on adjusted profit before tax was 21.2% (2014 19.6%) as set out in the table alongside.

In computing adjusted profit before tax, \$202.9m of adjustments have been made for the items shown in the adjusted profit before tax section above, of which the associated tax is \$62.5m.

The other tax items of \$9.9m in the table above relate to \$5.1m of benefit from the recognition of additional US tax attributes as a result of the acquisition of TAG and a prior year benefit of \$4.8m in respect of the UK Patent Box and are included within other tax items to remove these 'one time' benefits, thereby giving rise to an underlying 21.2% ETR on adjusted profit before tax.

As a result of the acquisition of TAG, a larger proportion of the Group's profits are now in the USA where they are taxed at an effective rate of approximately 38% (including state taxes). This has the effect of increasing the adjusted ETR from 19.6% to 21.2%. This increase has been largely offset by the recognition of Patent Box benefits relating to the current period of \$6.0m and the impact of the financing structure which was implemented in order to fund the acquisition.

With effect from 1 April 2013, the UK Government introduced Patent Box legislation which provides a reduced rate of tax on profits arising from qualifying IP rights. As previously highlighted, the Patent Box presents a significant opportunity for the Group. As the Group has finalized the calculation of the Patent Box benefit due for the year ended 30 April 2014, we are now in a position to recognize a prior year benefit of \$4.8m as well as an estimate of the benefit accruing to 30 April 2015 of \$6.0m. The Group intends to assess the extent to which its qualifying patent portfolio may be increased in the future through applying for relevant patents.

In addition to the recognition of \$5.1m of deferred tax assets due to the TAG acquisition as described above, the Group recognized additional deferred tax assets of \$3.3m (2014: \$1.9m) all of which were taken to the consolidated statement of comprehensive income. The impact of this recognition gives rise to a lower ETR for the year.

### Effective tax rate

	Year ended 30 April 2015				Year ended 30 April 2014			
	Actual \$m	Adjustments \$m	Other tax items \$m	Adjusted measures \$m	Actual \$m	Adjustments \$m	Other tax items \$m	Adjusted measures \$m
Profit before tax	91.4	202.9	–	294.3	147.8	31.7	–	179.5
Taxation	10.0	(62.5)	(9.9)	(62.4)	(25.8)	(9.3)	–	(35.1)
Profit after tax	101.4	140.4	(9.9)	231.9	122.0	22.4	–	144.4
Effective tax rate	-11.0%			21.2%	17.5%			19.6%

The Group's medium-term effective tax rate is currently expected to be between 21% and 25% of adjusted profit before tax.

The Group's cash taxes paid in the period were a net repayment of \$1.8m. The taxes paid in the period were reduced due to the following factors:

- \$17.0m of cash was received by TAG in the post-acquisition period, this related to receipts from the IRS on settlement of historic tax audits and repayment of historic overpayments of tax.
- Taxes paid in the UK were reduced by \$10.8m as a result of the benefit from the UK Patent Box regime. The Group had not factored the Patent Box benefit into historic instalment payments and therefore made a lower level of instalment payments in the current period.
- As previously disclosed, the Group has benefited from a lower cash rate of tax in recent years as a result of an on-going claim with HMRC in the UK, based on tax legislation, impacting its tax returns for the year ended 30 April 2009 and subsequent years. The Group is one of a number of companies that have submitted similar claims. HMRC has chosen a test case to establish the correct interpretation of the legislation and we await the outcome of this tribunal hearing. The Group has taken no benefit to the consolidated statement of comprehensive income during the periods affected and the potential tax liability is recognized on the Group's consolidated statement of financial position, but has paid reduced cash tax payments in line with its claim. The cash tax benefit in the year was \$3.6m (2014: \$4.9m) and the total cash tax benefit to date is \$27.2m based on the difference between the Group's claimed tax liability and the tax liability in the consolidated statement of financial position. Due to the nature of the claim and the advice

the Group has received, if HMRC were successful then it is unlikely that any penalties would be payable by the Group. During the period interest of \$2.6m has been accrued in the consolidated statement of comprehensive income in relation this item.

When the tax position is agreed with HMRC then to the extent that the tax liability is lower than that provided in the consolidated statement of financial position, there would be a positive benefit to the tax charge in the consolidated statement of comprehensive income in the year of settlement. The current maximum benefit including accrued interest of \$2.6m is \$31.2m, which equates to 17.4 cents per share on a fully diluted basis.

### Profit after tax

Profit after tax decreased by 16.9% to \$101.5m (2014: \$122.1m).

### Goodwill

The largest item on the consolidated statement of financial position is goodwill at \$2,421.7m (2014: \$308.2m) and arose mostly from acquisition of TAG on 20 November 2014. TAG added \$2,113.3m in the year. The annual impairment review of goodwill is based on the value in use of the three Base Micro Focus Cash Generating Units ('CGUs') and the TAG business is valued on a fair value basis. The goodwill is allocated across these four CGUs and based on the assumptions used by the board; there is no impairment of goodwill in the year.

### Purchased intangible assets

The acquisition of TAG increased the Intangible assets by \$1,139.4m with the resultant year-end balance at \$1,132.2m (2014: \$92.5m). The Group obtained external professional assistance in arriving at the valuation the TAG intangible assets. The deferred tax liability associated with these intangible assets was \$260.3m.



## Net liabilities acquired on acquisition of TAG

The net liabilities acquired on 20 November 2014 on the acquisition of TAG, were \$727.1m, being primarily: goodwill and intangibles of \$1,139.4m, cash of \$165.9m offset by deferred income of \$594.1m and bank loans of \$1,294.7m (note 39).

## Assets of TAG

The other most significant assets within the TAG businesses in the balance sheet as at 30 April 2015 are trade and other receivables of \$130.6m, deferred tax assets of \$212.6m and cash of \$162.0m.

## Liabilities of TAG

The other most significant liabilities within the TAG businesses in the balance sheet as at 30 April 2015 are trade and other payables of \$90.3m, short-term deferred income of \$445.8m, long-term deferred income of \$182.6m and pension liabilities of \$32.7m.

## Return of Value

In December 2014 we completed a Return of Value to shareholders amounting to £83.9m (\$131.6m) in cash (60 pence per share, equivalent to 94.02 cents per share), by way of a B and C share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by a 0.9285 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B and C Shares. As part of the restructuring resulting from the acquisition we have created a merger reserve of approximately \$1.4bn, which is expected to become a distributable reserve in future periods. This creates flexibility for future Returns of Value once Net Debt to Facility EBITDA is below 2.5 times.

As at December 2014 this was the Group's fourth Return of Value to shareholders and this brings the total amount returned to shareholders since 28 March 2011 through share buy-backs, Returns of Value and ordinary dividends to £554.4m which represents 87.3% of the Market Capitalization at that time.

## Financing of the Enlarged Group

The indebtedness of both TAG and Base Micro Focus as at 20 November 2014 was refinanced as part of the acquisition and the Net Debt of the Enlarged Group following Completion of the acquisition and the Return of Value was approximately \$1,670.0m. On 20 November 2014 a Micro Focus subsidiary, MA FinanceCo LLC, entered into a new \$2,000.0m credit agreement comprising a \$1,275.0m seven year term loan B, a \$500.0m five year term loan C and a \$225.0m Revolving Facility (together 'the New Facilities'). At completion, \$1,875.0m of the New Facilities were drawn down leaving \$125.0m of the Revolving Facility undrawn.

During the year the Group made a voluntary repayment of \$150.0m of the term loan B and \$25.0m of the revolving credit facility. As at the 30 April 2015 the net debt of the Enlarged Group was \$1,403.6m comprising gross debt of \$1,700.0m, cash balances of \$241.3m (2014: \$32.8m) and pre-paid arrangements fees of \$55.1m.

The only financial covenant attaching to these New Facilities relates to the Revolving Facility, which will be subject to an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end. The New Facilities have been used to finance the Return of Value and the Refinancing, and to pay fees and costs arising from the Return of Value, the acquisition and the Refinancing.

## Impact on leverage and interest cover ratios

At the time of the acquisition the board was targeting to achieve a Net Debt ratio of 2.5 times Facility EBITDA within two years of Completion. At 30 April 2015 it was 2.6 based on the pro-forma Facility EBITDA. The interest cost of the New Facilities for the 12 months following completion of the acquisition is estimated at \$87m before the amortization of loan facility fees and original issue discounts. This is covered approximately 6.2 times by the Enlarged Group's pro-forma Facility EBITDA, which the board considers to be a comfortable level of interest cover.

## Total equity

The total equity of the Group is \$1,277.1m with a merger reserve of \$1,168.1m. The merger reserve was increased by \$1,372.7m as a result of the acquisition of TAG.

## Cash flow

The Group's operating cash flow from continuing operations was \$288.7m (2014: \$206.8m). This represented a cash conversion ratio when compared to Adjusted EBITDA less exceptional items of 110.6% (2014: 107.7%).

At 30 April 2015, the Group's net debt was \$1,403.6m (2014: \$261.0m) and during the year the Group increased gross borrowings by \$1,903.6m and repaid \$522.0m. The most significant cash outflows during the year were \$1,294.7m to repay the TAG bank loans, acquisition transaction fees of \$82.7m, \$131.6m in respect of the Return of Value, \$40.2m on the cost of securing the banking facilities, dividends of \$72.7m and interest of \$60.1m offset by \$165.9m of cash that was held by TAG.

## Dividend

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus. Our dividend policy is a dividend cover of approximately two times on a pre-exceptional earnings basis. The proposed final dividend is 33.0 cents per share (2014: 30.0 cents per share) giving a total proposed dividend of 48.4 cents per share (2014: 44.0 cents per share) an increase of 10.0%. If approved by shareholders, the final dividend will be paid on 2 October 2015 to shareholders on the register on 4 September 2015.

Dividends will be paid in Sterling equivalent to 21.2 pence per share, based on an exchange rate of £1 = \$1.56, being the rate applicable on 7 July 2015, the date on which the board resolved to propose the dividend.

## Group risk factors

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

The principal risks and uncertainties facing the Group are set out in on pages 26 to 28.



**Mike Phillips**  
Chief Financial Officer  
7 July 2015

## Key performance indicators

The Company uses several key performance indicators internally to monitor the performance of the business against our strategy. The movements year on year have been explained in the preceding pages. The KPIs that are used with a brief description on how they are calculated and the results for the year are as follows:

### Shareholder returns

Description	Metrics	Performance
Compound Annual growth rate:	<b>2015:</b>	These ratios demonstrate the compound annual growth rate in shareholder returns assuming reinvestment of Return of Values, but not ordinary dividends. The periods covered are to 30 April 2015 from the IPO in May 2005, over the last five years from 30 April 2010, over the last three years from 30 April 2012 and over the last year from 30 April 2014. We continue to believe that with low single digit revenue growth, our industry leading margins and strong cash conversion we are able to deliver shareholder returns of 15% to 20% per annum over the long-term.
— Since IPO	26.8%	
— Over last five years	21.0%	
— Over last three years	42.0%	
— Over last year	65.8%	

### Financial performance

Our financial performance KPIs helped us to monitor our progress towards our 2015 revenue and EBITDA growth targets.

Description	Metrics	Performance
Revenue growth	<b>2015:</b> 99.6% <b>2014:</b> 6.4%	Revenue comprises total revenues including the contribution of acquisitions and is compared with the prior year at constant currency.
Adjusted EBITDA margin	<b>2015:</b> 42.9% <b>2014:</b> 43.9%	Adjusted EBITDA is the Adjusted Operating Profit prior to depreciation and amortization of purchased software. The Adjusted EBITDA margin represents Adjusted EBITDA divided by revenue for the year on a constant currency basis.
Underlying Adjusted EBITDA margin	<b>2015:</b> 41.7% <b>2014:</b> 45.0%	Underlying Adjusted EBITDA removes the impact of net capitalization of development costs and foreign currency gains and losses from Adjusted EBITDA. The Underlying Adjusted EBITDA margin represents Underlying Adjusted EBITDA divided by revenue for the year on a constant currency basis.
Cash conversion	<b>2015:</b> 110.6% <b>2014:</b> 107.7%	This ratio is calculated using the cash flows generated from operating activities divided by Adjusted EBITDA less exceptional items – the result indicates that the Group is generating cash from its on-going business which can be used to reinvest in the development of the business including financing acquisitions, funding liabilities and paying dividends to shareholders.
Diluted Adjusted EPS	<b>2015:</b> 129.43c <b>2014:</b> 97.48c	Diluted Adjusted EPS is calculated by taking profit after tax, prior to exceptional items, amortization of purchased intangibles and share-based compensation charges, and tax attributable to these charges divided by the weighted average number of fully diluted ordinary shares in issue during the year. This measure indicates the ability of the Company to continue to adopt a progressive dividend policy.

### Financial strength and capital discipline

Our financial strength and capital discipline KPIs are used to monitor our gearing and interest cover levels. Our target Net Debt to Facility EBITDA ratio is 2.5 times. On Completion of the acquisition of TAG we were at 3.3 times on a pro-forma basis and by 30 April 2015 this had reduced to 2.6 times on a pro-forma basis.

Description	Metrics	Performance
Net debt to Facility EBITDA	<b>2015:</b> 2.6 times <b>2014:</b> 1.3 times	Net value of cash less borrowings expressed as a multiple of the pro-forma Facility EBITDA.
Interest cover	<b>2015:</b> 4.0 times <b>2014:</b> 29.3 times	Adjusted Operating Profit expressed as a multiple of finance costs.

## Growth metrics

Following the announcement of the acquisition of TAG, we set out a four phase plan that envisaged a reduction in revenue in FY16, stabilization of revenue in FY17 and growth in FY18. Our strategy is to grow overall revenue by low single digit in the medium-term. The table below includes the four key areas where we are focusing on for revenue growth.

Description	Metrics	Performance
Organic revenue growth	<b>2015:</b> (1.7%) <b>2014:</b> (0.4%)	Organic revenue comprises total revenues excluding the impact of acquisitions done in the last two years compared with the prior year at constant currency.
Acquisitions revenue	<b>2015:</b> \$416.0m <b>2014:</b> \$31.1m	On 20 November 2014 we acquired TAG. Their revenue post acquisition was marginally ahead of expectation.
SUSE revenue	<b>2015:</b> \$221.5m <b>2014:</b> \$199.9m	This is the total revenues for the SUSE product portfolio compared with the prior year at CCY.
Visual COBOL Licence revenue	<b>2015:</b> \$22.6m <b>2014:</b> \$16.4m	This is Licence revenues for the Visual COBOL products compared with the prior year at constant currency.
Enterprise Licence revenue	<b>2015:</b> \$14.0m <b>2014:</b> \$18.3m	This is the total Licence revenues for the Enterprise suite of products within Mainframe Solutions compared with the prior year at constant currency.
Identity Access and Security Licence revenue	<b>2015:</b> \$45.1m <b>2014:</b> \$52.4m	This is the total Licence revenues for the relevant suite of products.
Research and development as a percentage of Licence revenue	<b>2015:</b> 30.0% <b>2014:</b> 33.1%	This ratio measures the amount spent on research and development prior to the impact of capitalization and amortization of development costs and current year acquisitions development costs divided into Licence revenue (excluding current year acquisitions) on a constant currency basis.

## Customers

Satisfied customers are incredibly important, and measuring what percentages choose to maintain their support with us each year is an effective way of determining whether we meet their needs.

Description	Metrics	Performance
Renewal rates on Maintenance contracts		Customer retention is an important measure as it supports the Maintenance revenue streams going forward. Renewal rates are calculated as the value of Maintenance contracts which were renewed in the period divided by the value of contracts which were potentially renewable in the period. The prior year numbers for the acquired businesses are not available. For FY16 renewal rates will be provided in the new portfolio categories.
CD	<b>2015:</b> 93% <b>2014:</b> 90%	
MS	92% 90%	
Borland	86% 83%	
CORBA	78% 81%	
Niche	78% 66%	

## Principal risks and uncertainties

The Group, in common with all businesses, could be affected by risks that could have a material effect on its short and longer-term financial performance. These risks could cause actual results to differ materially from forecasts or historic results. Where possible, the Group seeks to mitigate these risks through its system of internal controls but this can only provide reasonable assurance and not absolute assurance against material losses.

With regard to the Group's objectives, the board and executive management team have identified and prioritized the key risks and reviewed the controls in place for management to mitigate those risks.

On 20 November 2014 the Group completed the acquisition of TAG, a transformational transaction for the Group.

The Group recognized the inherent risks in relation to the integration of the TAG business. It may encounter integration challenges and unexpected costs. The integration may take longer to achieve than planned. In addition the Group's management and resources may be diverted away from its core business activities due to personnel being required to assist in the integration process. There is a risk that the anticipated benefits arising from the growth opportunities, operational efficiencies and synergies may fail to materialize, or they may be materially lower than estimated which may have an adverse impact on the financial condition of the Group. The Group sought to mitigate these risks by putting in place detailed integration plans with a dedicated integration team focused on monitoring and driving the integration.

A full risk register has been developed for on-going evaluation and mitigation and the following are the other key risks, potential impacts and mitigations that are relevant to the Group as a provider of software products and associated services.

Please also refer to the section on internal controls within the corporate governance report on pages 38 to 41.

Principal risks for the Group have been identified in the following four categories – Products, Go to Market models, Competition and Employees.

### Products

#### Risk

To remain successful the Group must ensure that its products continue to meet the requirements of customers. Investment in research and innovation in product development is essential to meet customer and partner requirements in order to maximize revenues and corporate performance. The Group has a large number of products, at differing stages of their life cycle. The extent of investment in each product set needs to be managed and prioritized considering the expected future prospects.

#### Potential impact

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

#### Mitigation

In the year ended 30 April 2015 we continued to improve the interaction between Product Management, Product Development and Sales and Marketing. The Group has developed a structured approach to managing its products, which will be further enhanced during the year ended 30 April 2016.

During the year ended 30 April 2015 the Group strengthened its product portfolio through the acquisition of TAG with the addition of NetIQ, Attachmate, Novell and SUSE product portfolios. All of the Group's products will be managed through the global product management and development organization, with a geographic Go to Market organization. Fundamental to this approach is an analysis of the individual products, their markets, customers and growth potential. The Micro Focus, NetIQ, Attachmate and Novell products will be managed as a portfolio under Micro Focus, with a defined strategy, target market and growth profile for each product. Respecting the different characteristics of the Open Source market the SUSE product portfolio will be managed separately and dedicated resources will be focused on the development, customer care and sales and marketing.

## Go to Market models

### Risk

For the Group to succeed in meeting revenue and growth targets it requires successful Go to Market models across the full product portfolio, with effective strategies and plans to exploit channel opportunities and focus the sales force on all types of customer categories. In addition, effective Go to Market models will be more successful if accompanied by compelling Micro Focus and SUSE marketing programs.

### Potential impact

Poor execution of Go to Market plans may limit the success of the Group by targeting the wrong customers through the wrong channels and using the wrong product offerings.

### Mitigation

Revenue plans are supported by a range of measures to monitor and drive improvements in Go to Market operating models. In addition to quarterly business reviews with all geographies and monthly reviews with regional presidents, the President of Sales for Micro Focus and SUSE participate in their respective weekly management team meetings to review sales performance and Go to Market priorities.

Customer sales cycles are reviewed regularly and a bid review process is in place to monitor and maximize customer revenue opportunities. In addition to sales performance reviews, marketing and product development programs are assessed regularly to optimize levels of qualified pipeline and ensure that marketing programs are supported by appropriate product offerings.

A series of measures are in place to focus the direction of the sales force towards a broad range of customer categories. These measures include detailed bid management, tailored quota targets and robust pre-sales management.

In addition, marketing programs are in place and reviewed on an on-going basis to draw on differentiated and consistent PR plans across key geographies. These are supported by targeted industry analyst relations to reach and raise Micro Focus and SUSE brand awareness through key marketplace influencers. Brand building is also supported by a growing customer reference programs and online programs such as effective search engine optimization, use of social media and improved corporate websites.

In the year ended 30 April 2015 we continued with the internal sales certification program, to improve the level of expertise across our sales force.

In the year ended 30 April 2015 we continued with the Micro Focus Sales Academy, the initiative through which we hire graduate sales representatives to enhance our sales capability and train up new talent with the potential to progress within the sales organization.

## Principal risks and uncertainties

### continued

#### Competition

##### Risk

Comprehensive information about the markets in which Micro Focus and SUSE operate is required for the Group to assess competitive risks effectively and to perform successfully.

##### Potential impact

Failure to understand the competitive landscape adequately and thereby identify where competitive threats exist may damage the successful sales of the Group's products.

##### Mitigation

Group product plans contain analysis of competitive threats and subscriptions to industry analyst firms are leveraged to better understand market dynamics and competitor strategies. In addition, customer contact programs are mined for competitive intelligence.

#### Employees

##### Risk

The retention and recruitment of highly skilled and motivated employees, at all levels of the Group, is critical to the success and future growth of the Group in all countries in which it currently operates. Employees require clear business objectives, and a well communicated vision and values, for the Group to achieve alignment and a common sense of corporate purpose among the workforce.

##### Potential impact

Failure to retain and develop skill sets, particularly in sales and research and development may hinder the Group's sales and development plans. Weak organizational alignment and inadequate incentivization may lead to poor performance and instability.

##### Mitigation

The Group has policies in place to help ensure that it is able to attract and retain employees with the required skills. These policies include training, career development and long-term financial incentives. Leadership training schemes are in place to support management development and succession plans. Following the acquisition of TAG on 20 November 2014 a renewed vision and corporate objectives was shared throughout the organization and continues to be reinforced through regular employee communications plans and performance reviews.

As well as the Micro Focus Sales Academy to attract new talent to the sales organization a Development Academy was launched during the year ended 30 April 2015, focused on addressing areas of potential medium to long-term skills shortages within the development organization.

Succession plans are being developed for key leadership positions within the Enlarged Group.



Micro Focus is committed to complying with relevant corporate social responsibility ('CSR') legislation across its global operations and strives to achieve standards over and above required levels.

CSR activities are monitored and planned in four key areas: the environment, charity and community support, the marketplace and suppliers, and employees and ethics. The Corporate Responsibility Policy can be found on the Micro Focus website ([www.microfocus.com/about/responsibility](http://www.microfocus.com/about/responsibility)).

On 20 November 2014, Micro Focus completed its acquisition of TAG. TAG was approximately three times larger than Micro Focus in terms of employee numbers and approximately 2.2 times as large in terms of revenues generated on an annual basis. This corporate development has had a very significant impact on the scale of the Company's operations and consequently

the CSR program is developing to address this change.

During the year ended 30 April 2015 the CSR committee met three times to agree priorities and progress activities and the CSR program was reviewed at two board meetings during the year. Karen Slatford, the senior independent non-executive director, is responsible at board level for CSR and also participates in CSR committee meetings. Tom Virden, a non-executive director, has recently joined the CSR committee to provide additional board level input.

Micro Focus products can help customers to reduce their IT carbon footprint and these benefits feature in conversations with existing customers, prospects, partners and suppliers. Employees regularly participate in CSR initiatives and internal communications regularly feature CSR topics.

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

During the year, Micro Focus was awarded 'Carbon Trust Standard' re-certification for the second period in succession as a result of continued progress to reduce environmental emissions and as part of an ongoing commitment to the Carbon Trust.

Outlined below is the CSR progress that Micro Focus has made in the year ended 30 April 2015 across the four focus areas, with additional focus this year on the Greenhouse Gas Emissions reporting requirements.

## CSR progress in the year ended 30 April 2015

### Environment

Micro Focus continues to strive for energy efficiencies to drive down our total energy consumption. We consider this to be the true measure of energy conservation – the less we need, the less we consume. Awareness of energy consumption is raised by sharing our data and seeking employee guidance on how to reduce our consumption within the boundaries of our operational control. In this reporting year we have extended our partnership with the Carbon Trust and entered into the UK Energy Savings Opportunity Scheme ('ESOS') as early adopters to ensure we maximize the benefits that an ESOS Audit can produce. We will use the audit findings in our energy roadmap for driving down our carbon output as we move forward.

Micro Focus products and services help customers to reduce their carbon footprint and adopt carbon friendly IT strategies by enabling greater efficiency and longer life from existing technology and equipment. In addition to offering organizations alternative strategies to 'rip and replace' IT policies, Micro Focus continues to develop its own policies to record, monitor and achieve improvements in its own carbon footprint. TAG, acquired by Micro Focus in this financial year, did not collect the data required for environmental

disclosure. Therefore, for the 2015 financial year, Micro Focus is disclosing relevant information relating to the base Micro Focus business, and will move to total Group reporting in the year ending 30 April 2016.

Key points for the 12 months to 30 April 2015:

- Recognition of Micro Focus' continued success in reducing environmental emissions, resulting in the award of the re-certification of the 'Carbon Trust Standard' for a second consecutive period;
- Establishing processes to enable a submission for Certification of Waste and Water, where eligible to join the scheme. Currently, consumption of water levels are below the threshold for reporting, but consumption monitoring will be put in place in FY16 as part of an environmental dashboard for internal reporting. The Carbon Trust externally verifies Micro Focus data within its certification assessment processes;
- At the time of writing, the Carbon Trust is in the process of compiling the results of our ESOS audit – we will integrate this into our energy roadmap for FY16 once evaluated and a strategy is in place;

— Sixth year of commitment to the Carbon Disclosure Project ('CDP'), underlining our commitment to further promote and manage emission reductions across our global facilities;

— Scope 1 and Scope 2 emissions reported to CDP;

— Scores have improved year on year since joining in 2009. In this reporting period Micro Focus will be reporting a 1% absolute reduction in year on year consumption within this year's CDP submission, and Micro Focus' response will be extended to include Supply Chain and Water measures;

— Ongoing commitment to promote electronic product distribution has seen Micro Focus hit an all-time average high for the year (at 97.7% of all distribution), with only 2.3% delivered to customers via physical distribution of products;

— Continued program of positive global procurement in sourcing, replacing and refurbishing facility energy systems in accordance with energy efficiency standards (EN656);

### Environment continued

- Further improvements across all locations either by moving to modern more efficient office environments or by improving the assets already deployed. Part of Micro Focus' decision making process when sourcing locations is to identify LEED ratings wherever possible. In recent years four premises moves have been from buildings with no LEED rating to sites with Silver, Gold and Platinum ratings;
- Continued landlord performance monitoring in all locations where Micro Focus operations are sited in multi-tenant premises;
- Further work has been undertaken to continue the consolidation of our data-centre power optimization thereby improving efficiencies and reducing cost and consumption. With the acquisition of TAG, this work will be further enhanced to reduce the quantity of dedicated server 'environments' across the wider Group to significantly reduce the footprint; and
- During this reporting year Micro Focus has continued the roll out of recycling across the organization and processes are being adapted to monitor, measure and report these results in future.

### Greenhouse Gas Emissions ('GHG')

Our aims remain consistent in our approach to GHG – to reduce our emissions year on year. At the time of writing this report we have just received our ESOS Audit report and look forward to implementing its findings to assist us with this challenge, embracing ESOS early, to maximize the benefit from the audit and to comply with legislation.

For this reporting year we have maintained our methodology for reporting Scope 1 and Scope 2 emissions. On a like for like basis Micro Focus achieved a 3.7% reduction in energy consumption for this reporting year. On an actual basis, due to organizational boundary changes, in Singapore, Australia, Linz and UK, the decrease in emissions from the previous period reduces to an overall decrease of 1.2%.

We have also put procedures in place to enable us to measure elements of our Scope 3 emissions. However, as anticipated, the increased business travel required to complete the acquisition of TAG and to manage the integration of new operations has seen an increase in Scope 3 emissions. We consider this year's data to be a good year zero for Scope 3 emissions and will benchmark based on this going forward. We will continue to monitor and develop our plans in FY16. Business travel will be minimized as appropriate, using collaboration tools across our organization to deliver less need for travel and by default, less carbon emissions.

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

#### Reporting year

The GHG reporting year is the same as Micro Focus' fiscal year being 1 May 2014 to 30 April 2015 to align with Financial Reporting and the relevant Carbon Disclosure Project Reporting timeframe.

#### Organization Boundary & Responsibility

In accordance with the definitional requirements of the 'regulations', in respect of emissions for which Micro Focus is responsible, emissions data is reported using an Operational Control approach to define the Organizational Boundary.

All material emission sources which Micro Focus deems to have operational control over are in scope. These sources are defined as the purchase of electricity, heat, steam or cooling for the operation of facilities and the combustion of fuel for that operation of facilities. Processes are being established to track other sources of emissions such as commercial flights for business travel, which is not presently covered in this data.

#### Methodology

The methodology used to calculate emissions is based on the most current set of regulations published by the Department for Environment and Rural Affairs ('DEFRA') dated June 2013. Wherever possible, the energy companies' most current 'Energy Fuel Mix' calculations have been utilized, with DEFRA's conversion factors being applied on to the remainder, in order to calculate total global GHG emissions.

### Scope of reporting emissions

As referenced above, during this reporting year Micro Focus acquired TAG. Consequently, our operational infrastructure approximately trebled in size. On a like for like basis Micro Focus' energy consumption was lower than the previous reporting year by 1.5%. Our intention is to utilize the same best practice across the entire real estate in FY16 and staff will once again be targeted to reduce emissions.

TAG had no environmental reporting requirements or tools to monitor and measure energy consumption. We are now working to implement the same systems and processes that Micro Focus has been using to have these operational across the entire organization. The objective is to have these in place for a full year of reports and year on year comparisons for the next reporting year.

We are already working on boundary improvements to help reduce the merged Company's carbon footprint by reducing the overall real estate of the wider Group by integrating locations wherever possible. This work will continue into FY16 and beyond.

Micro Focus reports emissions data on all locations where available, irrespective of the size of the Micro Focus facility. For smaller locations where no such data is available from managed serviced offices, or where Micro Focus is part of a multi-tenant occupancy building, or where staffing levels are less than 10, the mean average per head is extrapolated out from all other locations. Locations where this approach has been taken are:

Actual emissions data used – Newbury (UK), Belfast (Northern Ireland), Singapore, Rockville (US). The following locations are out of scope due to size and or lack of availability of information:

Average UK CO<sub>2</sub>/head multiplied by headcount – Ismaning (Germany), Hanau (Germany), Haifa (Israel), Dublin (Ireland), Madrid (Spain), Sofia (Bulgaria), Atlanta (US), Santa Clara (US), Chicago (US), Austin (US), Tokyo (Japan), Melbourne (Australia), Troy (US), New Delhi (India), Mumbai (India), Hong Kong (China), Shanghai (China), Beijing (China), Seoul (Korea), Paris (France), Schiphol (Netherlands), Brussels



## Environment continued

(Belgium), Oslo (Norway), Rome (Italy), Milan (Italy), Linz (Austria), Sydney (Australia) and São Paulo (Brazil).

Where the data is not available, the same intensity ratio is used for the location on a headcount basis.

The following locations that have been inherited as part of the TAG acquisition are out of scope for this year's report:

Melbourne (Australia), Sydney (Australia), São Paulo (Brazil), Zürich (Switzerland), Beijing (China), Guangzhou (China), Praha (Czech Republic), Düsseldorf (Germany), Munich (Germany), Nuremberg (Germany), Copenhagen (Denmark), Madrid (Spain), Paris (France), Bracknell (UK), Hong Kong (China), Bangalore (India), Mumbai (India), New Delhi (India), Dublin (Ireland), Ennis (Ireland), Galway (Ireland), Milan (Italy), Tokyo (Japan), Seoul (Korea), Alphen aan den Rijn (Netherlands), Rotterdam (Netherlands), Taipei (Taiwan), Bellingham (US), Cambridge (US), Houston (US), Provo (US), Raleigh (US), Seattle (US), Vienna (US), Johannesburg (South Africa), Buenos Aires (Argentina), Brisbane (Australia), Brasília (Brazil), Brussels (Belgium), Montreal (Canada), Toronto (Canada), Shanghai (China), Shenzhen (China), Lyon (France), Edinburgh (UK), Luxembourg (Luxemburg), Rome (Italy), Kuala Lumpur (Malaysia), Oslo (Norway), Auckland (New Zealand), Lisbon (Portugal), Stockholm (Sweden), Istanbul (Turkey), Brighton, (US), Lisle (US), Plano (US), South Euclid (US), Loveland (US), St Louis (US), Cape Town (South Africa).

### Intensity ratio

To achieve a global picture of emissions, whilst recognizing that not all of locations can be in scope, an intensity ratio of CO<sub>2</sub> per tonne/per head has been used. As not all entities are revenue generating and not all can calculate emissions, this ratio should demonstrate a more comprehensive assessment.

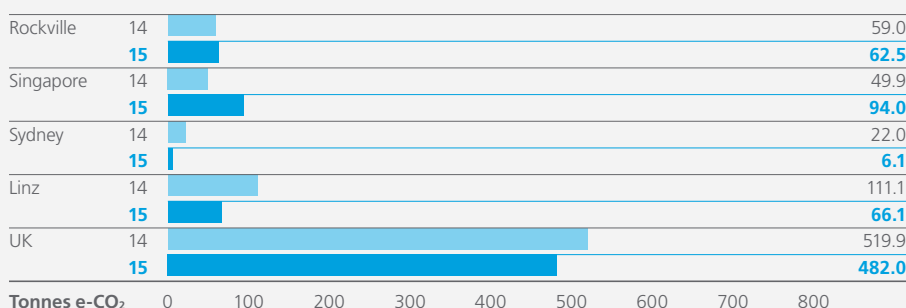
### 2016 Targets

In this reporting year Micro Focus' expectation was to achieve a 1% reduction in emissions for FY15. This has been exceeded and the results show a figure of 1.2% was achieved on a like for like basis. The focus for FY16 will continue with a similar approach to achieve a target of 1% reduction across the organization, comparing it on a like for like basis, to negate the impact of further organizational boundary changes.

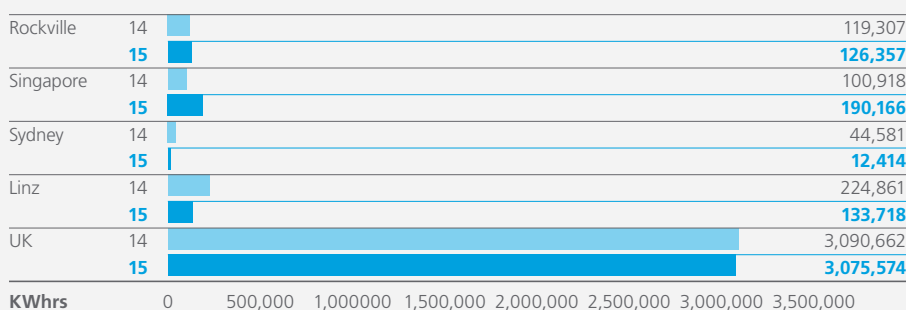
Although we have listed the inherited TAG properties as out of scope for this reporting year, we have attributed a carbon figure to the Group for the period based on the total headcount at the end of this reporting year.

During this reporting year we have continued our commitment to both CDP and the Carbon Trust, achieving recertification with the Carbon Trust based on our continued absolute reduction in energy consumption. We have maintained our capital budget for investment in energy saving initiatives to help us drive further reductions.

### GHG Emissions (Tonnes e-CO<sub>2</sub>)



### Total Energy Consumption (Metered) KWhrs



### Year on Year Comparisons for Energy Consumed and Carbon Emissions

	FY15	FY14	Change in %
GHG Emissions (Tonnes e-CO <sub>2</sub> )	710.70	761.90	-6.7%
Estimated Total GHG Emissions (Ktons e-CO <sub>2</sub> )	2.50	3.50	-27.5%
GHG Emissions per employee (Tonnes e-CO <sub>2</sub> )	0.80	0.81	-2.1%
Total Energy Consumption (Metered) MWhrs	3,538.20	3,580.3	-1.2%
Energy Consumed (Metered) KWhrs per employee	5,838.70	5,594.30	4.4%

#### Charity and community support

Micro Focus continues to support its employees' charity and community involvement in two ways:

- Firstly, on a funds-matching basis for selected charity initiatives; and
- Secondly, by allocating a number of employee days per month by teams or individuals to directly benefit a chosen charity or community initiative.

Employee engagement is actively encouraged, along agreed criteria and guidelines. A global charity was selected by the charity committee for the first half of the year, with the focus in the second six months turning to a number of local charities to achieve a balance between international and country level fundraising initiatives. All initiatives follow core themes of education and local community support.

The total level of funds raised and contributed was more than \$100,000. \$39,700 on local causes across seven countries, \$49,600 on international causes and \$12,800 on national causes in UK, USA and Italy.

The local 'project grants' initiative was continued for the third year and in the last 12 months just under \$38,000 supported 14 charity or community organizations with wide geographic spread across Micro Focus Group operations around the world. Projects included:

- 'The Harbor' in Detroit, US, is a once abandoned, now restored school transformed into a recreational facility which provides children with a safe place to learn and stay off the streets of Detroit after school;
- The Rabboni Mercy Trust – contributing to the education and welfare of impoverished children in India;
- Supporting a local Soup Kitchen in North America;
- Providing educational tools and sports equipment to a charity working with fostered children in North America – helping to get children off the streets; and
- Providing new IT equipment, desks and chairs for a local orphanage in Sofia, Bulgaria.

Global charity fundraising in the first six months was focused on Doctors Without Borders raising a total of \$13,000 to support the work done in West Africa in response to the Ebola crisis. An additional corporate donation of \$10,000 was granted to boost the efforts required. An additional crisis donation of \$25,000 was committed in the second half of the year to contribute to the aid required to support the disaster in Nepal.

During the second half of the year fundraising covered a broad range of local charities and initiatives supported around Micro Focus operations in seven countries, selected within the guidelines of education and community support.

Throughout the 12 month period, employee communications initiatives have promoted and publicized charity initiatives including regular updates on the charity page and the front page of the Company's Intranet.

## Marketplace and suppliers

Micro Focus products and services can help organizations lower their energy impact and customers often benefit from a lower carbon footprint.

Suppliers to the Group are sent Micro Focus' Corporate Social Responsibility charter and are encouraged to follow carbon responsible practices. In addition, the Company currently operates a Supplier Review Program and part of that program is to request the details of the supplier's Environmental credentials. At initial engagement with all suppliers information is requested to improve understanding of their environmental position and policies. This Supplier Review Program is being rolled out across the Enlarged Group during FY16.

### Employees and ethics

During the year ended 30 April 2015, Micro Focus has continued to develop a culture that provides a rewarding and enjoyable working environment for employees who in turn are able to develop their careers in a professional and successful organization. The development of talent delivers an essential base from which the Group can achieve its objectives. During the year, recruitment and retention programs have continued to develop through comprehensive training and performance management initiatives across the organization.

The acquisition of TAG in November 2014 transformed the size of the organization. Integration of the business was deferred until the start of the new financial year beginning in May 2015 and integration of teams and culture in the forthcoming year will give new opportunities for development.

#### — Key HR metrics at 30 April 2015:

- Total number of employees worldwide – 4,295 (4,264 full time equivalent 'FTE');
- Total workforce worldwide – 4,787 including temporary/contractors (4,709 FTE);
- Percentage of women – employees worldwide – 27.9% (2014: 27.9%);
- Percentage of women – senior management – 162 employees: 13.2% (2014: 14.8%); and
- Percentage of women – governance body – 30.0% (including Company Secretary, three out of 10) (2014: 22.2%).

#### — Micro Focus continues to strive for a diverse range of candidates for new roles;

— A second Micro Focus Sales Academy was held in June 2014 (the first was launched in 2013) to hire and train graduate level recruits with identified potential for sales roles. This year, 29 new trainees enjoyed an intensive 13 week training program, and graduates were deployed into sales teams worldwide;

— Following the success of the Sales Academy, Micro Focus launched a Development Academy, with 13 new graduates from around the world being hired as product development trainees in September 2014. They enjoyed an intensive eight week program of product, development and process training, along with soft skills and cross department education, before returning to take up new roles in their home countries;

— A half year bonus was paid to 743 eligible Base Micro Focus employees. A full year bonus was paid to 742 eligible Base Micro Focus employees and 2,383 eligible TAG employees;

— For Base Micro Focus comprehensive six monthly and full year performance management reviews of all non-sales employees. 95.9% of employee population completed a half year performance management plan ('PMP') and PMPs are on-going for the full year. It is intended to roll this PMP program out to the Enlarged Group in FY16;

— International Share Save roll-out continued. Following the TAG acquisition, the scheme has been made available to an additional 2,461 employees, with 419 (17%) choosing to participate. This low take-up of the initial offer by the larger number of new TAG employees diluted the overall participation rate compared to 2014. At 30 April 2015 Share Save was available to 78.3% of employees, with participation at 27.4% of eligible employees in 22 countries worldwide (compared with 96.0% and 34.5% at 30 April 2014);

— An updated Professional Charter, which outlines how employees behave professionally when dealing with both internal and external customers, was launched following the acquisition of TAG;

— A Compliance Charter was launched publicly, which sets out the principles by which the staff engage with customers regarding licence compliance;

— Expanded employee communications activities were introduced following the acquisition of TAG, with broader sharing of All Hands meetings, increased email updates and intranet features;

— The Group maintained excellent record in health and safety matters for all employees (no reportable incidents in the last 12 months); and

— There has been continued commitment to ensuring compliance with anti-bribery, data protection and market abuse and insider dealing laws. This has included our Global Anti-Bribery, Corruption, Market Abuse and Fraud Awareness course being completed by all employees of TAG and also the continuance of ongoing compliance checks during the period.



# Corporate governance

## Executive Chairman's introduction

The board of Micro Focus International plc is committed to delivering outstanding shareholder returns and believes this is underpinned by high standards of corporate governance and a strong corporate governance framework. To support this framework, the board has established and embedded procedures and processes throughout the whole Group.

During the financial year ended 30 April 2015, the Company acquired TAG on 20 November 2014 ('Completion') and as part of the acquisition, TAG's parent company, Wizard Parent LLC was issued shares in the Company equivalent to approximately 40% of the enlarged capital of the Company. Prescott Ashe, Managing Director of Golden Gate Capital and David Golob, Partner and Chief Investment Officer at Francisco Partners, joined the board as non-executive directors on Completion. To ensure an appropriate balance between independent and non-independent directors, Stephen Murdoch stepped down from the board on Completion whilst remaining as an employee of the Enlarged Group and a key member of the Enlarged Group's executive committee. Additionally, Karen Geary was appointed on 8 January

2015 as an independent non-executive director which has increased the number of independent non-executive directors from four to five. Tom Skelton will be retiring from the board at the AGM in September 2015 after nine years' service and a search for a replacement independent non-executive director has already started.

In April 2014, the Company announced, in relation to succession planning for my role as Executive Chairman, that there would be a transition back to the separate roles of Chairman and Chief Executive Officer in the following 12 to 24 months. Over the coming 10 months the board will continue to evaluate the orderly separation of the roles of Chairman and Chief Executive Officer. Internal and external candidates will be evaluated for the role of Chief Executive Officer whilst at all times aiming to ensure appropriate continuity and continued focus on performance. I believe that the board is well balanced, with a broad range of skills and a good understanding of the market in which we operate and the challenges which we face. During the next financial year, we will continue to review proactively the business decisions made and the governance framework in which we operate.



**Kevin Loosemore**  
Executive Chairman  
7 July 2015

## Board of directors

### Executive directors



**Kevin Loosemore, 56**  
**(Executive Chairman) ‡**

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

and before that, he was Chief Executive of IBM UK Limited. Kevin was appointed non-executive Chairman of the Company in 2005 and Executive Chairman in April 2011. He has a degree in politics and economics from Oxford University.



**Mike Phillips, 52**  
**(Chief Financial Officer)**

Mike joined Micro Focus on 7 September 2010 and was previously Chief Executive Officer at Morse plc, following his initial role as Group Finance Director. Mike left Morse plc in July 2010 following the turnaround and successful corporate sale to 2e2 in June 2010. From 1998 to 2007, Mike was Group Finance Director at Microgen plc and played a lead role in the transformation of the company to an international

software and services business with sustainable and profitable growth. Earlier roles include seven years corporate finance work at Smith & Williamson, as well as two years at PricewaterhouseCoopers where he led the UK technology team, reporting to the global Head of Corporate Finance for the Technology Sector. Mike began his career at Peat Marwick Mitchell & Co (now KPMG).

### Non-executive directors



**Karen Slatford, 58**  
**(Senior independent non-executive director) \*†‡**

Karen is Chair of Volex plc, The Foundry, a leading special effects software company and non-executive director of Intelliflo Ltd. Prior to her current board responsibilities, she has held various roles at board level since 2001 at a range of technology companies, including e-conomic international, Cambridge Broadband Networks Ltd, Portwise AB, Via Networks, Inc., Compel Group plc, HAL Knowledge Systems and Stepstone ASA. Karen began her career at ICL

before spending 20 years at Hewlett-Packard, where in 2000 she became Vice President and General Manager Worldwide Sales & Marketing for the Business Customer Organization, responsible for sales of all Hewlett-Packard's products, services and software to business customers globally. Karen holds a BA Honours degree in European Studies from Bath University and a Diploma in Marketing.



**Richard Atkins, 63**  
**(Independent non-executive director) \*†**

Richard is currently a non-executive director of Aon UK Limited and Chairman of Acora Limited, Entanet International Limited and Miles 33 Limited. He was previously a non-executive director at Compel plc, Morse plc, Global Crossing (UK) Telecommunications Ltd, Global Crossing (UK) Finance plc and Message Labs Ltd. He was previously non-executive Chairman

of TripleArc plc, Easynet and 7city. He has spent the majority of his career within the IT industry, most recently at IBM Global Services, where he held a number of senior general management positions. Richard qualified as a Chartered Accountant with Ernst & Young.

### Committee memberships

- \* Audit committee
- † Remuneration committee
- ‡ Nomination committee

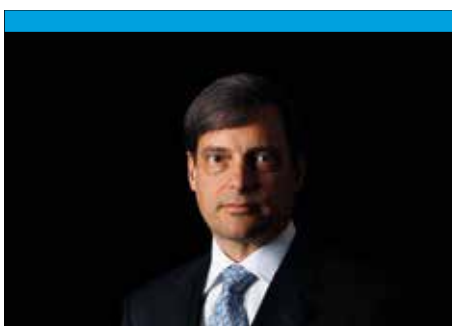




**Tom Skelton, 54**  
(Independent non-executive director) \*††

Tom is currently Chief Executive Officer of Surescripts LLC, a leading healthcare information technology business. Before joining Surescripts he served as Chief Executive Officer for the Foundation Radiology Group and as a founding member of Confluence Medical Systems, a healthcare and technology consulting partnership. Previously, he served as Chief Executive

Officer of Misys Healthcare Systems from January 2002 until March 2007 and as a director of Misys plc. Prior to that, he was Chief Executive Officer of Medic Computer Systems, a US based software company focused on the healthcare information technology market. He earned his BSBA from Robert Morris University, Pittsburgh, PA.



**Tom Virden, 57**  
(Independent non-executive director) \*†

Tom is a non-executive director of technology start-up Sweetbeam. He began his career at Apple Inc and held a range of leadership roles in market development and product marketing, including the leadership of the company's introduction to Small Business and the Music industry. More recently, Tom was a non-executive director of Atari SA and International Business Development Director at lastminute.com with responsibility for International Strategy for the company and launching subsidiaries and fully localized sites in France, Germany, Sweden, Italy, Spain, Netherlands, Australia and Ireland.

Prior to that, he was Vice President, Marketing at Digidesign, a California company that brought digital multitrack recording and editing to personal computers. Tom has also started and led a number of technology companies including Katz Media SARL, Virtual European Office (VEO), and most recently, Boatbookings.com, the world's largest online yacht charter site, with 12,000 yachts worldwide. He is also an active angel investor and mentor with Social Impact companies in Boulder, Colorado. Tom holds a Bachelor of Arts, Double Major in Psychology and Economics from Stanford University in California.



**David Golob, 47**  
(Non-executive director)

David is Partner and Chief Investment Officer at Francisco Partners. Over the past 13 years, David's areas of investment activity have included infrastructure and applications software as well as financial technology. Prior to Francisco Partners, David was a Managing Director with Tiger Management, where he was co-head of the global technology group.

Earlier in his career, David worked as a private equity investor at General Atlantic Partners, which he initially joined in 1991, and as a management consultant at McKinsey & Company. He holds an MBA from the Stanford Graduate School of Business, where he was an Arjay Miller Scholar, and an AB in Chemistry from Harvard College, summa cum laude.



**Prescott Ashe, 48**  
(Non-executive director)

Prescott is a Managing Director of Golden Gate Capital. He has more than 20 years of private equity investing experience and has participated in both growth-equity and management buyout transactions. Prescott focuses on the technology and information services sectors. Prior to joining Golden Gate Capital, Prescott was a Principal at Bain Capital, which he initially joined in 1991, and a strategy consultant at Bain & Company.

Prescott was one of two non-executive directors nominated by Golden Gate pursuant to a relationship agreement with the Company dating from its IPO in 2005, which entitled Golden Gate, inter alia, to appoint up to two directors. On 8 September 2008, following a reduction in Golden Gate Capital's shareholding in the Company, Prescott resigned his directorship. He holds a J.D. from Stanford Law School and a B.S. in Business Administration from the University of California at Berkeley (graduating first in his class).



**Karen Geary, 52**  
(Independent non-executive director) †

Karen is Chief People Officer of WANdisco plc, responsible for Human Resources and Internal Communications. She is also a member of the executive management team. Karen has more than 20 years of international HR and business transformation experience across a variety of industries, managing organizations through periods of large scale change, acquisition and integration. She spent 15 years at The Sage Group plc,

a FTSE 100 business and the world's largest provider of business software to SME's, where she was Group Human Resources Director and a member of the Executive Committee. Prior to Sage, Karen was HR Director of Stena Line, the Swedish transport and leisure operator, and spent her early career in blue chip global businesses.

# Corporate governance report

The principal corporate governance guidance that applies to companies listed with the UK Listing Authority during the year reported on is contained in the Financial Reporting Council's UK Corporate Governance Code 2012 (the 'Corporate Governance Code'), which is available at [www.frc.org.uk](http://www.frc.org.uk). The UK Corporate Governance Code 2014 will apply to the Company's next annual reporting period.

## Compliance statement

The directors are committed to ensuring that the Company works towards compliance with the main principles of the Corporate Governance Code and throughout the year reported on the Company has been in compliance except for the following:

A.2.1. – Chairman and Chief Executive Officer – The Corporate Governance Code requires that the roles of Chairman and Chief Executive Officer should not be exercised by the same individual. Kevin Loosemore (formerly non-executive Chairman) was appointed to the role of Executive Chairman on 14 April 2011. The nomination committee and the board considers that the combined role is in the interests of shareholders in order to utilize the proven leadership qualities and significant experience of Kevin Loosemore through a challenging period for the Company and to ensure the on-going commercial success of the Company. Furthermore, Kevin Loosemore has been with the Company since its flotation in 2005 and has therefore provided stability and continuity through his detailed understanding of the Group's operations and the markets in which it operates. In order to mitigate any potential concerns over the combined role, David Maloney was appointed as Deputy Chairman on 14 April 2011 and performed this role as well as being senior independent non-executive director until his resignation on 25 September 2014, when Karen Slatford was appointed as senior independent director. Karen Slatford has assumed the duties fulfilled by David Maloney as Deputy Chairman and will continue to do so until such time as when the Chairman and Chief Executive Officer roles are split. On 15 April 2014 the Company announced a transition back to separate roles of Chairman and Chief Executive Officer in the following 12 to 24 months. Over the coming 10 months the board will continue to evaluate the orderly separation of the roles of Chairman and Chief Executive Officer. Internal and external candidates will be evaluated for the role of Chief Executive Officer whilst at all times aiming to ensure appropriate continuity and continued focus on performance.

The terms of reference for the Executive Chairman and the senior independent non-executive director can be viewed on <http://investors.microfocus.com/corporate-governance>. Kevin Loosemore leads the board and the Company in its relationships with all stakeholders and customers. He is responsible for all aspects of executive management including business strategy and its successful achievement. He is also responsible for chairing board and general meetings, facilitating the effective contribution of non-executive directors, ensuring effective communication with shareholders and upholding the highest standards of integrity and probity. Karen Slatford chairs the nomination committee and is therefore responsible for succession planning. Also, in her role as senior independent director, Karen Slatford leads on governance issues, including the annual review of board effectiveness, and acts as an intermediary, if necessary, between non-executive directors and the Executive Chairman and between the Company and shareholders, providing a point of contact for those shareholders who wish to raise issues with the board, other than through the Executive Chairman. In addition, the non-executive directors have met without the Executive Chairman present to appraise the Executive Chairman's performance. The meeting was chaired by the senior independent director, Karen Slatford. The board has a clear majority of independent directors, with five out of nine directors being fully independent.

B.6.2. – Evaluation – The Corporate Governance Code requires the evaluation of the board to be externally facilitated at least every three years. The Company was due to have its evaluation externally facilitated during the year under review. However, the board considered that it was appropriate to postpone the external evaluation for a year due to the recent significant changes that the Company and the board have undergone following the acquisition of TAG on 20 November 2014. Changes to the board have resulted in one executive director, Stephen Murdoch, stepping down from the board on 20 November 2014 to assist with the balance between independent and non-independent directors, two non-independent non-executive directors, Prescott Ashe and David Golob being appointed on 20 November 2014 and one independent non-executive director, Karen Geary, being appointed on 8 January 2015. The board conducted an internal evaluation of the board and its committees during the year under review and an external evaluation of the board will be carried out during the financial year ending 30 April 2016.

The principles set out in the Corporate Governance Code cover five areas: leadership, effectiveness, accountability, remuneration and relations with shareholders. With the exception of remuneration (which is dealt with separately in the remuneration report on pages 48 to 69) the following section sets out how the board has applied these principles.

### The board

The Group is controlled by the board, which is responsible for the Group's system of corporate governance. The biographies of each director can be found on pages 36 and 37. As at 30 April 2015, the board comprised nine directors:

**Kevin Loosemore**  
Executive Chairman

**Mike Phillips**  
Chief Financial Officer

**Karen Slatford**  
Senior independent non-executive director

**Tom Skelton**  
Independent non-executive director

**Tom Virden**  
Independent non-executive director

**Richard Atkins**  
Independent non-executive director

**David Golob**  
Non-executive director (appointed 20 November 2014)

**Prescott Ashe**  
Non-executive director (appointed 20 November 2014)

**Karen Geary**  
Independent non-executive director (appointed 8 January 2015)



The role of the non-executive directors is to ensure that independent judgment is brought to board deliberations and decisions.

The non-executive directors possess a wide range of skills and experience, relevant to the development of the Company, which complement those of the executive directors.

Karen Slatford, the senior independent non-executive director, Tom Skelton, Tom Virden, Richard Atkins and Karen Geary, each a non-executive director, are considered by the board to be independent.

In accordance with the Corporate Governance Code, all directors are subject to election by the shareholders at the first AGM of the Company after their appointment and to re-election by the shareholders on an annual basis at each AGM. Therefore all directors will retire at the forthcoming AGM. Non-executive directors are appointed for specific terms. Full terms of their appointment are to be found in the remuneration report. The letters of appointment for the non-executive directors are available for inspection by any person at the Company's registered office during normal business hours and at the AGM (during, and for 15 minutes prior to, the meeting).

Tom Skelton has been on the board for nine years and will not seek re-election at the AGM in September 2015. The board has started a search for a replacement. The board considers that all of the non-executive directors bring strong independent oversight and continue to demonstrate independence. The board has been through a continuous process of refreshment since 2010 with the appointment of four new independent non-executive directors.

For the year ended 30 April 2016, the board has scheduled meetings on a regular basis, approximately every one to two months with additional meetings when circumstances and business dictate. In months in which the board does not meet, update calls are scheduled to review progress. All directors receive an agenda and board papers in advance of meetings to help them make an effective contribution at the meetings. The board makes full use of appropriate technology as a means of updating and informing all its members. Board papers are circulated electronically to a tablet device, allowing directors to access documentation more easily and securely. The executive directors ensure regular informal contact is maintained with non-executive directors who are invited to accompany the executive directors when visiting the Group's offices.

In the year under review the board met formally on five occasions. The board also met on a further eight occasions to receive interim updates or consider matters arising between formal meetings.

While the board retains overall responsibility for, and control of the Company, day-to-day management of the business is conducted by the executive directors. Review of the Group's principal business activities is the responsibility of the executive committee. The executive committee comprises the executive directors and senior managers reporting to the Executive Chairman.

As part of its leadership and control of the Company, the board has agreed a list of items that are specifically reserved for its consideration. These include business strategy, financing arrangements, material acquisitions and divestments, approval of the annual budget, major capital expenditure projects, risk management, treasury policies and establishing and monitoring internal controls. At each meeting, the board reviews progress of the Group towards its objectives and receives papers on key subjects in advance of each board meeting. These typically cover:

- Strategy and budgets;
- Business and financial performance;
- Product plans and development;
- Corporate activities;
- Human resources; and
- Investor relations.

The board has agreed procedures for directors to follow if they believe they require independent professional advice in the furtherance of their duties and these procedures allow the directors to take such advice at the Company's expense. In addition, all directors have direct access to the advice and services of the Company Secretary. The Company Secretary is accountable to the board through the Executive Chairman to whom she reports. It is the responsibility of the Company Secretary to ensure that board procedures are followed and all rules and regulations are complied with. The Company Secretary's responsibilities include facilitating the induction and professional development of directors and ensuring the smooth flow of information between board members, between the board and its committees and between non-executive directors and senior management.

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

For the last two years' and during the year under review, the evaluation of the board was conducted internally and took the form of surveys completed by members of the board with respect to the performance of the board and each of its committees, as well as individual director surveys. The surveys included assessment of the effectiveness of the performance of the board and its committees and compliance with corporate governance principles. Furthermore, the senior independent director meets with the non-executive and executive directors at least once a year to review the Executive Chairman's performance. The board and each of its committees discuss the results of their respective evaluation. The evaluation found the performance of each director to be effective, that each director had demonstrated commitment to the role and that the board had provided effective leadership and control. The evaluation established that the board had a good balance of skills and personalities and continued to operate in a culture of openness and mutual respect. The results of the evaluation are used to assist the board in developing its approach going forward and include recommendations to continue refining the succession planning and developing and retaining executive talent, which are being implemented.

An external evaluation will be conducted in the year ending 30 April 2016.

# Corporate governance report

## continued

### Attendance at meetings

The number of board meetings and committee meetings attended by each director in the year ended 30 April 2015 can be found in the table alongside.

Directors are normally provided with the agenda and supporting papers for board and committee meetings in the week prior to the meeting. If unable to attend a meeting a director will provide feedback to the Executive Chairman, the chair of the committee or the Company Secretary and their comments are then communicated to the meeting.

### Conflicts of interest

In accordance with the Companies Act 2006, the Company has put in place procedures to deal with conflicts of interests, which have operated effectively. The board is aware of the other commitments of its directors and is satisfied that these do not conflict with their duties as directors of the Company. Any changes to these commitments are reported to the board.

### Board committees

In accordance with best practice, the Company has established audit, nomination and remuneration committees, with written terms of reference for each that deal with the committees' respective authorities and duties. The full terms of reference of all the committees are available from the Company Secretary or can be viewed on the Company's website at <http://investors.microfocus.com/corporate-governance>. The Company is aware that the Executive Chairman is not regarded as independent for the purposes of the Corporate Governance Code.

### Remuneration committee

Details of the remuneration committee are described in the remuneration report on pages 48 to 69.

### Accountability and audit

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

This responsibility is administered primarily by the audit committee and details of how this was done are described in the audit committee report on pages 42 to 46.

### Board and committee meeting attendance

	Board		Audit committee		Remuneration committee		Nomination committee	
	Held*	Attended	Held	Attended	Held	Attended	Held	Attended
Kevin Loosemore	13	13	—	—	—	—	3	3
Mike Phillips	13	13	—	—	—	—	—	—
Stephen Murdoch <sup>1</sup>	8	8	—	—	—	—	—	—
David Maloney <sup>2</sup>	7	7	1	1	3	2	—	—
Tom Skelton	13	13	5	5	6	6	3	3
Karen Slatford	13	13	5	5	6	6	3	3
Tom Virden	13	13	5	5	6	6	—	—
Richard Atkins	13	12	5	5	3	3	—	—
Prescott Ashe <sup>3</sup>	4	4	—	—	—	—	—	—
David Golob <sup>3</sup>	4	4	—	—	—	—	—	—
Karen Geary <sup>4</sup>	2	2	—	—	—	—	—	—

\* During period of appointment.

1 Stephen Murdoch stepped down on 20 November 2014.

2 David Maloney retired on 25 September 2014.

3 Prescott Ashe and David Golob were appointed on 20 November 2014.

4 Karen Geary was appointed on 8 January 2015.

### Human resources

The Group endeavours to appoint employees with appropriate skills, knowledge and experience for the roles they undertake.

The Group has a range of policies which are aimed at retaining and providing incentives for key staff. Objectives are set for departments and employees derived from the Group's business objectives. Performance is formally measured against these objectives twice each year. The Group has a clear and well-understood organizational structure and each employee knows his or her line of accountability.

### Management structure

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

The executive committee meets regularly to agree strategy, monitor performance and consider key business issues. As part of its review, it considers the risks associated with the delivery of strategy and important governance issues within the Group's operating companies.

There are a number of Group administrative functions such as Group Finance, Treasury, Human Resources, IT, Corporate Communications and Legal. These functions report to the board through the executive committee.

A number of Group-wide policies, issued and administered centrally, have been set to ensure compliance with key governance standards. These policies cover areas such as finance, contract approvals, data protection, share dealing and anti-bribery.

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

### Announcements

All major announcements are approved by the executive directors and circulated to the board for approval prior to issue.

The Group also has internal and external checks to guard against unauthorized release of information.

### Budgetary process

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

### Insurance

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

## Shareholder relations

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

The Company reports formally to shareholders twice a year, around June/July (preliminary announcement of annual results) and December (interim statement). The Annual Report is mailed to shareholders at least 20 business days before the AGM. Separate announcements of all material events are made as necessary. Regular communications are maintained with institutional shareholders and presentations are given to shareholders when the half year and full year financial results are announced and at other times. In addition to the Executive Chairman and Chief Financial Officer, who have regular contact with investors, Karen Slatford (the senior independent non-executive director) and the other non-executive directors are available to meet with shareholders as and when required in order to develop a balanced understanding of the issues and concerns particularly of major shareholders. The whole board is kept up to date at its regular meetings with the views of shareholders and analysts. External analysts' reports are also circulated to directors.

The Company's website ([www.microfocus.com](http://www.microfocus.com)) provides an overview of the business including its strategy, products and objectives.

All Group announcements are available on the Company's website and new announcements are published without delay. The terms of reference of each of the board's three committees and other important corporate governance documents are available on the website and from the Company Secretary. Additionally, the Executive Chairman, Chief Financial Officer and Head of Investor Relations provide focal points for shareholders' enquiries and dialogue throughout the year.

## AGM

The Company's AGM will be held on 24 September 2015 at 3pm (UK time). It will provide an opportunity for the board to meet with all shareholders and the participation of shareholders is encouraged. At the meeting, in addition to the statutory business, the board will be available for questions from shareholders.

In accordance with the Corporate Governance Code recommendations, the Company will count all proxy votes and will indicate the level of proxies lodged, the number of proxy votes for and against

each such resolution and the number of votes withheld. A resolution will be proposed for each substantive issue and the chairs of the audit, remuneration and nomination committees will attend to answer questions.

## Information on share capital and other matters

The information about share capital required to be included in this statement can be found on page 72 of the directors' report and in note 29 to the financial statements.

## Relationship agreement with controlling shareholder

Any person who exercises or controls on their own or together with any person with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings of a company are known as 'controlling shareholders'. The Financial Conduct Authority's Listing Rules require companies with controlling shareholders to enter into a written and legally binding agreement which is intended to ensure that the controlling shareholder complies with certain independence provisions. The agreement must contain undertakings that:

- transactions and arrangements with the controlling shareholder (and/or any of its associates) will be conducted at arm's length and on normal commercial terms;
- neither the controlling shareholder nor any of its associates will take any action that would have the effect of preventing the listed company from complying with its obligations under the Listing Rules; and
- neither the controlling shareholder nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

The board confirms that, in accordance with the Listing Rules, on 20 November 2014, the Company entered into such an agreement (the 'Relationship Agreement') with:

- Wizard Parent LLC ('Wizard') which currently has a total shareholding of approximately 39.86% of the Company's voting rights; and
- Shareholders of Wizard which currently have a total shareholding of approximately 88.7% of Wizard's voting rights (the 'Wizard Shareholders').

Under the terms of the Relationship Agreement, Wizard and the Wizard Shareholders have agreed to the independence obligations contained in the Relationship Agreement.

The board confirms that, since entry into the Relationship Agreement on 20 November 2014 until 7 July 2015, being the latest practicable date prior to the publication of this Annual Report:

- the Company has complied with the independence provisions included in the Relationship Agreement; and
- so far as the Company is aware, the independence provisions included in the Relationship Agreement have been complied with by Wizard, the Wizard Shareholders and their respective associates.

As there are no controlling shareholders of the Company other than Wizard and the Wizard Shareholders, there is no need for the Relationship Agreement to require Wizard or the Wizard Shareholders to procure compliance by any third parties with the independence provisions of the Relationship Agreement.

In accordance with the Relationship Agreement, Wizard has the right to nominate up to two persons to be non-executive directors for so long as Wizard, the Wizard Shareholders and their respective associates together hold an interest, either direct or indirect, in 30% or more of the aggregate voting rights in the Company from time to time and one person to be a non-executive director for so long as Wizard, the Wizard Shareholders and their respective associates together hold an interest, either direct or indirect, in 15% or more of the aggregate voting rights in the Company from time to time (any such non-executive director being a 'Representative Director'). Prescott Ashe and David Golob are the first Representative Directors and as such are not considered by the board to be independent by virtue of their positions held with Golden Gate Capital and Francisco Partners respectively who are shareholders of Wizard.

Following completion of the integration review and given the strong trading and outlook for the company the Independent Board has released Wizard Parent LLC ('Wizard'), the former owner of TAG, from the restriction under the Relationship Agreement from them trading their ordinary shares during the 365 day period following completion.

# Audit committee report

## Chairman's introduction

Dear fellow shareholders,

I am pleased to present my first report as chairman of the audit committee (the 'committee') after taking over the chairmanship on 18 June 2014 following the publication of the audited preliminary results for the year ended 30 April 2014. I would like to thank my predecessor, David Maloney, for his services as committee chair from IPO in 2005.

The report details the activities of the committee during the year ended 30 April 2015.

In this report I have detailed how the committee has discharged its responsibilities in relation to the three areas highlighted in the 2012 Corporate Governance Code namely:

- Addressing significant financial statement reporting issues;
- Assessing external audit effectiveness; and
- Appointing the external auditors and safeguards on non-audit services.

The Company will adopt the 2014 Corporate Governance Code from the next financial year.

## Composition of the committee

The committee was chaired during the year by David Maloney until 18 June 2014 and then by myself, with other independent non-executive directors, Karen Slatford, Tom Skelton and Tom Virden being members of the committee. By virtue of my former executive and current non-executive responsibilities (full details of which are set out on page 36) the board considers that I have recent and relevant financial experience. All members of the committee are independent. Executive directors attend the meetings and other directors are welcome to attend if they wish.

Following the annual cycle of work of the audit committee, the committee concluded that sound risk management and internal control systems had been maintained during

the year. With respect to risk management, the committee has discussed this with senior management and was satisfied with the process and risks identified. It was also satisfied that there was a high level of assurance provided by the internal auditors, KPMG Audit PLC ('KPMG'), the external review conducted by PricewaterhouseCoopers LLP ('PwC') at the half year and their full year audit, together with the input of the Group's tax advisors, Deloitte. In this year Deloitte have also provided services around integration, IT and finance transformation. The committee is satisfied that the Annual Report and Accounts, taken as a whole, provide a fair, balanced and understandable assessment of the Company's position at 30 April 2015 and the information necessary for shareholders to assess the Company's performance, business model and strategy.

## Committee responsibilities

The committee is responsible for reviewing the Group's annual accounts and interim reports prior to submission to the full board for approval. The committee also monitors the Group's accounting policies, internal financial control systems and financial reporting procedures. The committee provides a forum through which the Group's external and internal auditors and external tax advisors report to the board. The auditors are invited to attend meetings of the committee and have the opportunity to meet privately with committee members in the absence of executive management. The committee oversees the relationship with the external auditors, including the independence and objectivity of the auditors (taking into account UK professional and regulatory requirements and the relationship with the audit firm as a whole) and the consideration of audit fees and fees for non-audit work. The committee's terms of reference include a process for employees of the Company to raise, in confidence, concerns about possible impropriety in matters of financial reporting or other matters.

The written terms of reference of the committee are reviewed annually and no changes were thought necessary this year. The committee is satisfied that the terms of reference enable it to fulfil its responsibilities. The terms of reference include, among other things, the following responsibilities:

- To report to the board on its proceedings, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken;
- To monitor the integrity of the financial statements of the Company and ensure that the interests of shareholders are properly protected in relation to financial reporting and internal controls;
- To keep under review the effectiveness of the Company's internal controls and risk management systems;
- To review the Company's procedures for preventing and detecting fraud, the Company's systems and controls for the prevention of bribery, the adequacy and effectiveness of the Company's anti money laundering systems and the Company's arrangements for its employees to raise concerns about possible wrongdoing in financial reporting or other matters;
- To monitor and review the need for, and the effectiveness of, the Company's internal audit function in the context of the Company's overall risk management system;
- To report to the board as to whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable; and
- To oversee the relationship with the Company's auditors, ensuring the independence and objectivity of the auditors, considering audit fees and fees for non-audit work and making recommendations to the board in relation to the appointment, reappointment and removal of the Company's external auditor.

The audit committee's terms of reference can be found on the Company's website at [www.microfocus.com/corporate-governance](http://www.microfocus.com/corporate-governance).



## What the committee did during the year ended 30 April 2015

The committee met five times during the financial year and all four current members of the committee attended each meeting. In addition to standing items on the agenda, the committee:

- Reviewed the interim and year end results and preliminary announcements;
- Received and considered, as part of the review of interim and annual financial statements, reports from the external auditor in respect of the auditors' review of the interim results, the audit plan for the year and the results of the annual audit. These reports included the scope of the interim review and annual audit, the approach to be adopted by the auditors to address and conclude upon key estimates and other key audit areas, the basis on which the auditors assess materiality, the terms of engagement for the auditors and an on-going assessment of the impact of future accounting developments for the Group;
- Considered the Annual Report and Accounts in the context of being fair, balanced and understandable and reviewed the content of a paper prepared by management with regard to this principle in relation to the 2015 Annual Report and Accounts. This provided us with the supporting detail to ensure that we were in a position to report to the board that the 2015 Annual Report and Accounts when taken as a whole were fair, balanced and understandable. We reached the conclusion on the basis that the description of the business agrees with our own understanding, the risks reflect the issues that concern us, appropriate weight has been given to the 'good and bad' news, the discussion of performance properly reflects the performance of the year and there is a clear and well-articulated link between all areas of disclosure;
- Considered the effectiveness and independence of the external audit and recommended to the board the re-appointment of PwC as external auditors;
- Considered and agreed the annual internal audit plan and reviewed reports of the work done by the internal auditors in respect of those plans;
- Considered the review of material business risks, including reviewing internal control processes used to identify and monitor principal risks and uncertainties;
- Reviewed the bank loan refinancing as a result of the acquisition of TAG and supported management's proposal to the board;
- Reviewed the proposal from PwC for the audit of the Enlarged Group, Deloitte's proposal to be tax advisor to the Enlarged Group and KPMG's proposal to be Internal Auditors to the Enlarged Group and agreed each of their proposed fees;
- Reviewed and approved the proposal from the Chief Financial Officer for the organization of the Enlarged Group's finance organization;
- Reviewed and approved the governance around the integration planning for the Enlarged Group and the appointment of Deloitte to assist in that program of work;
- Reviewed the effectiveness of the Group's whistleblowing policy;
- Reviewed reports provided by the Group's tax department regarding the reporting of tax within the financial statements and other key tax matters;
- Reviewed and approved an updated Treasury policy, following the acquisition of TAG;
- Reviewed the committee's composition and confirmed that there is sufficient expertise and resource for us to fulfil our responsibilities effectively; and
- Carried out an annual review of the committee's performance.

In carrying this out, the committee considered the work and recommendations of the Group Finance Team, executive management and their own understanding of the business. In addition, the committee received reports from the external auditors setting out their view on the accounting treatments and judgments included in the financial statements. The external auditors' reports are based on a full audit of the annual financial statements and a review of the interim financial statements.

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

## Significant issues considered in relation to the financial statements

The significant issues considered by the committee were as follows:

### Revenue recognition

The Group has a detailed policy on revenue recognition for each category of revenue: Licence, Maintenance, Subscription and Consultancy. This includes the application of rules relating to the allocation of fair values between these categories in accordance with the policy and the timing of their recognition. It also identifies the different types of commercial contracts that the Group now enters into as a result of the acquisition of TAG and confirmation that the revenue recognition is in line with IFRS. As is the case with many technology companies the profile of sales is weighted to the end of the financial quarter. Other than in the case of Subscription, Maintenance and Consultancy revenue the impact on recognized revenue is also weighted to the end of each financial quarter. This can lead to the risk of misstatement of revenues from one period to the next. IFRS 15 will come into effect from January 2017 (pending EU endorsement) and management are currently assessing the implications of this standard on future revenue recognition. We note that the IASB has published an exposure draft to propose the deferral of the effective date of IFRS 15 to 1 January 2018.



## Audit committee report continued

The committee received a paper from management on revenue recognition methodology and the appropriateness of allocation of fair values between Licence, Maintenance, Subscription and Consulting as presented in the financial statements, which concluded that no change to the allocation of fair values was necessary. The committee also considered the controls that management has in place to ensure that the fair value allocation of revenue is appropriate. The external auditors reported that they tested in detail all larger deals above a certain threshold and had not identified any exceptions. They had also tested a sample of transactions from the remaining population and the operation of certain key controls over fair value allocation and found these to be operating satisfactorily at the year end.

A close relationship between revenue recognition and cash collection is a good indicator of solid revenue recognition policies and the Group has a very satisfactory cash conversion ratio, low level of days sales outstanding and bad debt provision.

On the basis of the above the committee concluded that the Group's revenue recognition was appropriate.

### Tax provisions

As set out on page 22, the Group had a net tax refund in the year and a tax credit in the consolidated statement of comprehensive income. The Group also has a number of tax provisions and deferred tax assets that are subject to a degree of judgment in determining the value in the financial statements.

The committee ensures that the internal tax team has sufficient resources to address these areas and received detailed updates on the tax provisions included in the Annual and Interim Reports. The Group predominantly uses Deloitte as tax advisors to the Group and the lead partner attends committee meetings so that the committee has adequate opportunity to discuss and test the assumptions reflected in the financial statements.

During the year Deloitte provided additional assistance to the internal tax team with regards to the preparation of the consolidated tax provisions, including assistance with transitioning the TAG tax provisioning to IFRS. Deloitte also advised on a number of integration related projects.

The committee received a paper from management and following discussions with the tax advisors, Deloitte, and the external auditors concluded that the Group's tax provisions are appropriate.

### Capitalization of development costs

The costs incurred on development projects relating to developing 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. The costs are written off to the consolidated statement of comprehensive income over a period of three years from the point that the product is generally available. This results in a significant amount of costs being capitalized each year although the overall impact on the consolidated statement of comprehensive income is currently small as the capitalization of cost in the year is similar to the amortization of previously capitalized costs. The net book value of development costs at the end of the year was \$31.4m (2014: \$31.5m).

The committee considered the method of testing for potential impairment used by management and the reasonableness of the assumptions applied. The committee addressed this through consideration of a report from management covering these areas and detailing both the capitalization and amortization processes applied and the new expenditure that was capitalized. It also looked at the levels that were capitalized in relation to Licence revenue generated and capitalized costs as a percentage of the total research and development costs of the Group in the year and also in relation to prior years. The committee further discussed this with the external auditors and concluded that the assumptions made by management were reasonable and the carrying value of capitalized development costs was appropriate.

Currently the development costs incurred on the products acquired from TAG are not being capitalized since they do not meet all the required criteria, but in the next financial year it is expected that for some product developments these criteria will be met.

### Valuation of TAG intangible assets

Management asked Deloitte to assist in valuing the purchased intangible assets and the goodwill arising from the acquisition of TAG. The intangible assets were valued at \$1,127.6m and goodwill at \$2,113.4m.

The committee received a report from both management and Deloitte and considered the valuation methods that were applied by management and discussed these both with management, Deloitte and the external auditors and concluded that the valuation methods and the carrying value of purchased intangibles and goodwill were reasonable.

### Restructuring

Following the acquisition of TAG the Group commenced a restructuring program to improve the operational efficiency of the Group and help improve revenue. At 30 April 2015, management has made some estimates of the potential severance costs for certain key individuals who were advised that their jobs have become redundant and also made estimates of the costs of exiting surplus properties.

The committee received a report from management and discussed the assumptions with both management and the external auditors and concluded that the estimates made by management were reasonable and appropriate.

### Assessment of effectiveness of external audit

The committee reviewed the performance of the external auditors taking into account the fulfilment of the agreed audit plan and amendments to it, input from management, responses to questions from the committee and audit findings reported to the committee.

As part of this process the committee reviewed the feedback from the 'Public Report on the Audit Quality Inspection of PricewaterhouseCoopers LLP', issued by the Financial Reporting Council ('FRC') in May 2015.

Based on this information the committee concluded that the external audit process was operating effectively and PwC continued to prove effective in their role as external auditor.

## Independence and objectivity of the external auditors

The committee has developed a policy designed to ensure that the auditors' objectivity and independence is not compromised by it undertaking inappropriate non-audit work.

The current external auditors, PwC, have been auditors since Micro Focus became a UK listed company in 2005 at which time they were also the tax advisors to the Group. In 2008 Micro Focus appointed Deloitte as principal tax advisors for the Group and they remain in that position today.

The committee approves all non-audit work greater than £25,000 commissioned from the external auditors. During the year the fees paid to the auditor were \$3,303,000 (2014: \$786,000) for audit services and \$5,059,000 (2014: \$555,000) for other non-audit services. The majority of the other non-audit services provided by the auditors were in respect of their role as Reporting Accountant in connection with the Prospectus issued for the acquisition of TAG, the Return of Value and financial due diligence and regulatory compliance work on the acquisition of TAG. The committee concluded that it was in the interests of the Group to use the auditors for this work as they were considered to be best placed to provide these services. Auditor objectivity was safeguarded by the committee considering several factors: the standing and experience of the external audit partner; the nature and level of services provided by the external auditors and confirmation from the external auditors that they have complied with relevant UK independence standards and fully considered any threats and safeguards in the performance of non-audit work.

## External audit appointment

The committee reviews and makes recommendations with regard to the reappointment of the external auditors. In making these recommendations, the committee considers auditor effectiveness and independence, partner rotation and any other factors that may impact the external auditors' reappointment. The external auditors are required to rotate the audit partner every five years. The most recent change in audit partner happened in the

year ended 30 April 2013 and, therefore, partner rotation is due in the year ended 30 April 2018. The current external auditors, PwC, have been auditors since IPO in 2005. The committee is confident that the effectiveness and independence of the external auditors is not impaired in any way. There are no contractual restrictions on the choice of external auditors and therefore a resolution proposing the reappointment of PwC as external auditors will be put to the shareholders at the 2015 Annual General Meeting. The committee will continue to assess the effectiveness and independence of the external auditors. In doing so, the committee will consider a formal tender process in accordance with the provisions of the UK Corporate Governance Code 2012 and the European Commission Audit Reform proposals. We clarified with Department of Business Innovation & Skills that the latest date that the external audit needs to go out to tender is for the accounting period beginning on or after 17 June 2016.

## Internal audit

An outsourced internal audit function continues to be provided by KPMG. The Group's Chief Financial Officer provides oversight and co-ordination of internal audit. In order to ensure independence, internal audit has a direct reporting line to the audit committee and its chairman.

The committee monitored and reviewed the scope and results of the internal auditors' activities as well as its effectiveness during the year. The annual internal audit plan is approved by the committee at the beginning of the financial year, with any subsequent changes to the plan requiring committee approval. The nature and scope of the internal auditors' work is reviewed and approved and the results of the audits are assessed alongside management's responses. Issues with the audit reports which are graded as needing improvement are considered in detail by the committee along with the appropriateness of mitigation plans to resolve the issues identified.

At each meeting, the committee received reports from KPMG, in order to ascertain progress in completing the internal audit plan and to review results of the audits.

## Effective internal control and risk management

The board is ultimately responsible for establishing and monitoring internal control systems throughout the Group and reviewing their effectiveness. It carries out a review, at least annually, covering all material controls including financial, operational and compliance controls and risk management systems.

It recognizes that rigorous systems of internal control are critical to the Group's achievement of its business objectives, that those systems are designed to manage rather than eliminate risk and that they can only provide reasonable and not absolute assurance against material misstatement or loss.

There is an on-going internal process for identifying, evaluating and managing the significant risks faced by the Group in association with the work performed by the outsourced internal audit function. This process has been in place throughout the year and up to the date of approval of the report and accounts and it is regularly reviewed by the board and accords with the Turnbull Guidance.

As part of the process that the Group has in place to review the effectiveness of the internal control system, there are procedures designed to capture and evaluate failings and weaknesses and, in the case of those categorized by the board as 'significant', procedures exist to ensure that necessary action is taken to remedy any such failings. The review covers all material controls, including financial, operational and compliance controls.

The committee reports on a regular basis to the board on the Group's internal financial control procedures and makes recommendations to the board in this area.

The external auditors provide a supplementary, independent and autonomous perspective on those areas of the internal control system which they assess in the course of their work. Their findings are regularly reported to both the committee and the board.

## Audit committee report continued

The key elements of the control system are:

- The Group operates a structured, objectives-driven approach to fulfil its core purpose and goals in respect of sustained profitability and growth;
- Systems and procedures are in place for all major transaction types with appropriate authorization controls;
- All contracts are reviewed. The level of review depends on the size and complexity of the contracts and associated risks. There are formal limits above which the review level is escalated;
- Reconciliations are performed on a timely basis for all major accounts; and
- Research and development and capital expenditure programs are subject to formal review and monitoring procedures.

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

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

The committee considers any significant control matters raised in reports from management and by the internal and external auditors. It then reports its findings to the board. Where weaknesses are identified, the committee requires appropriate action to be taken by management and may request internal audit to perform a specific review into these areas if required.

### Financial reporting

In addition to the general internal controls and risk management processes described above, the Group also has specific internal controls and risk management systems to govern the financial reporting process:

- There are Group policies covering what is reported monthly to the board and the executive committee. The Group's financial reporting system has been guided by the requirement to ensure consistency and visibility of management information to enable the board and the executive team to review the Group's worldwide operations effectively;
- Cash flow forecasts are produced monthly by all operations. These are reviewed by the Group treasury function to ensure effective cash management by the Group;
- Management representations covering compliance with Group policies and the accuracy of financial information are collected on a quarterly basis;
- All the major trading entities completed a self-assessment on the effectiveness of their internal control environment;
- The consolidation process entails the combining and adjusting of financial information contained in the individual financial statements of Micro Focus International plc and its subsidiary undertakings in order to prepare consolidated financial statements that present financial information for the Group as a single economic entity. Note 1, Group accounting policies, sets out the basis of preparation and consolidation, including the elimination of inter-company transactions, balances and unrealized gains between Group companies;
- Financial information from subsidiaries is reviewed for accuracy by internal review and externally audited where required; and
- The consolidated financial statements are completed in accordance with EU endorsed International Financial Reporting Standards, IFRS Interpretations Committee, the Companies Act 2006 and Article 4 of the IAS Regulation.

There have been no significant changes in the Company's internal control over financial reporting during the year under review that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

The board, with advice from the committee, is satisfied that an effective system of internal control and risk management processes are in place which enable the Company to identify, evaluate and manage keys risks and which accord with the Turnbull guidance on internal control updated by the FRC in 2005. These processes have been in place since the start of the financial year up to the date of approval of the accounts. Further details of the risks faced by the Group are set out on pages 26 to 28.

### Whistleblowing

The Group has a whistleblowing policy which forms part of the Group's Worldwide Code of Conduct and Business Ethics. This allows employees to raise issues of concern in relation to dishonesty or malpractice on an entirely confidential basis. The committee receives regular reports as to whether any matters have been raised within the Group and any applicable details.

### Accountability

The board is responsible for the preparation of the Annual Report and Accounts which, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. As set out in the Directors' report, the directors consider that the Company's business is a going concern.



**Richard Atkins**  
Chairman, Audit committee  
7 July 2015

# Nomination committee report

The nomination committee (the 'committee') is comprised of Karen Slatford (senior independent non-executive director) who chairs the committee, Kevin Loosemore (Executive Chairman) and Tom Skelton (independent non-executive director). The committee met three times during the financial year. All three current members of the committee attended all three meetings. The committee will meet at least twice during the coming financial year.

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

The board has considered diversity in broader terms than just gender and believes it is also important to reach the correct balance of skills, experience, independence and knowledge on the board. All board appointments will be made on merit with the aim of achieving a correct balance. The board intends to move in the medium-term to a composition where in excess of 25% of members are female provided the above principle of correct balance is not compromised. The Group has formal policies in place to promote equality of opportunity, across the whole organization. Currently, the board comprises seven men (77.77%) (2014: 87.5%) and two women (22.23%) (2014: 12.5%) and the Company Secretary who is also a woman. As opportunities arise the board will seek to increase the presence of women on the board consistent with the above policy.

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

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

The committee's terms of reference can be found on the Company's website: [www.microfocus.com/corporate-governance](http://www.microfocus.com/corporate-governance).

During the year the committee was responsible for the search and selection process for a new independent non-executive director. Karen Geary was introduced to the Chair of the committee by Lygon Group, which has no connection with the Company. The Chair of the committee proposed Karen Geary for consideration by the committee as a possible non-executive director and Karen Geary was interviewed by individual members of the committee. In addition members of the committee were invited to recommend suitable candidates. The process culminated in the appointment of Karen Geary as an independent non-executive director with effect from 8 January 2015. In addition the committee reviewed the board succession plan. Retention of individuals within the executive committee and top talent/critical employees within the Group has been reviewed by the remuneration committee during the year. A review of succession plans and individual plans for the executive committee and top talent/critical employees within the Group will be conducted during the year commencing 1 May 2015 after the organizational changes resulting from the acquisition of TAG have settled.



**Karen Slatford**  
Chair, Nomination committee  
7 July 2015



# Directors' Remuneration report

## Remuneration Committee Chair's statement

On behalf of your board, I am pleased to present our Directors' Remuneration report for the financial year ended 30 April 2015. Similar to last year, this report is split into three sections: the Remuneration Committee (the 'committee') Chair's Annual Statement, the Directors' Remuneration Policy and the Annual Report on Remuneration. The Directors' Remuneration Policy (set out on pages 50 to 54) was approved at the AGM on 25 September 2014, reapproved with amendments at the General Meeting on 27 October 2014 and will next be put to shareholders in 2017 at the latest. The Annual Report on Remuneration will be subject to an advisory vote at the forthcoming AGM. We hope that you find the report to be clear, transparent and consistent with the reporting requirements. We continue to monitor best practice in this area and to consult with our shareholders and other stakeholders and we welcome feedback on any issue regarding this report or executive remuneration.

## Corporate performance and business context

The Company has a clear strategy that defines an operating and financial model designed to deliver superior shareholder return. This model is underpinned by a remuneration model that ensures rewards only accrue as value is delivered to shareholders. We believe this tight linkage positively differentiates the Company's approach to governance and value creation.

The year ended 30 April 2015 was a transformational year for the Group with the acquisition of TAG resulting in an Enlarged Group that is around three times larger in terms of revenue and 2.7 times larger in terms of Underlying Adjusted EBITDA than a year ago. TAG is one of the leading global providers of enterprise infrastructure software solutions to businesses, governments and other large organizations. This acquisition enables Micro Focus to broaden its addressable market and customer base and is consistent with the goal of driving sustainable total shareholder returns from a diverse portfolio of solutions. In the months following the acquisition, the executive team have been working on a comprehensive integration review and developing a strong plan for the future of the combined entity. The key deliverables from the review included a new organizational design that was announced on 6 April 2015, a restructuring plan covering the next two years, a combined budget, a branding and product strategy and a systems design and implementation plan.

On a constant currency basis the Base Micro Focus business has delivered increased Underlying Adjusted EBITDA of 11.1% and the Enlarged Group has delivered an annual shareholder return of 65.8% in the year under review.

Over the coming months the board will continue to evaluate the orderly separation of the roles of Chairman and Chief Executive Officer consistent with the announcement made on 15 April 2014. Internal and external candidates will be evaluated for the role of Chief Executive Officer whilst at all times aiming to ensure appropriate continuity and continued focus on performance. In the meantime, Kevin Loosemore will continue to be remunerated as the Executive Chairman, within the policy for executive directors as detailed on pages 50 to 54.

## Remuneration decisions in the year ended 30 April 2015

The Company's Remuneration Policy remained fundamentally unchanged during the year. However as part of the transaction to acquire TAG, shareholders were requested to approve new incentive arrangements for the senior team to recognize the increased size of the Group and the significant incremental workload involved in acquisition activities. The committee determined that the implementation of an allowance was the most appropriate approach rather than applying a permanent increase to an executive's salary and bonus entitlement until such time as clear determinations of the relevant base salaries can be made. The committee will keep this position under regular review.

As explained at the time the board took the unusual step of linking the vote on remuneration with the vote on the transaction. In the board's opinion a vote for the transaction without a remuneration policy to retain key executives would have been the worst possible outcome for shareholders. Almost 40% of shareholders voted against the Remuneration Policy, however, had the votes not been linked we believe the transaction would have failed with the consequent loss of value to shareholders. Of the c. 40% that voted against approximately half were trackers and funds that have no option but to follow the position of entities such as ISS. A further quarter was one large shareholder who objected to the combined role of Chairman and Chief Executive Officer continuing and the remainder were shareholders who in some cases objected to the linkage; or objected to the terms of the remuneration

or were content but felt that their votes were not necessary to carry the position. The board discussed the position with all major shareholders at the time and recognizes the concerns that linked votes cause. The board would not intend to follow the same course again unless there were further opportunities to create very significant value which could not be delivered without a linked vote as in this case.

## Additional Responsibility Allowance

With the enlarged size of the business and an increase in responsibilities for the senior team, the committee considered during the year that remuneration was significantly below market competitive levels. However, the committee is mindful of not making a permanent increase in remuneration levels before the success of the integration is apparent. Shareholders approved a temporary Additional Responsibility Allowance ('ARA') to be put in place for a small number of critical employees until such time as clear determination of the relevant base salaries can be made. The number of ARAs that have been put in place is six and the total amount of ARA's currently in place amounts to £680,000 per annum. The ARA is included in the determination of incentive opportunities and pension benefits. Further details are provided in the Policy Report on page 53 and in the Annual Report on Remuneration on page 62.

## Additional Share Grants

The committee also awarded a number of Additional Share Grants ('ASGs') to a number of senior managers and executives, critical to delivering the anticipated results of the acquisition. Grants can be made to no more than 15 people within 18 months of the completion date. ASGs are conditional share awards over ordinary shares. The number of ordinary shares subject to the ASGs will be a maximum of 2.5% of the Enlarged Group's Share Capital. The ASGs will become exercisable, subject to the satisfaction of a shareholder return performance condition, on the third anniversary of the date of Completion. In order for shares to vest in full, the management team will need to deliver shareholder return of at least 100%, i.e. a doubling of value over a three year period. The total number of ASGs awarded were seven and the total number of shares involved was 3,262,420, representing 1.5% of the share capital of the Company.

Further details are provided in the Policy Report on page 54 and in the Annual Report on Remuneration on pages 68 and 69.



## Malus and claw back

The committee concluded that no changes to the Remuneration Policy were required at this time. However, the committee notes that the requirement for malus and claw back provisions in incentives in the updated UK Corporate Governance Code 2014, and is taking steps to implement the changes. The Company already operates claw back provisions in the annual bonus and is introducing malus and claw back provisions to LTIP awards due to be made from July 2015.

## Calendar of activities

The calendar is driven by the business planning activity of the Group prior to the start of the new financial year. The committee is fully informed of changes in business strategy, which may affect its decision making. The annual timetable for the committee is set out below:

The Annual Report on Remuneration will be subject to an advisory vote at the forthcoming AGM. We continue to value any feedback from shareholders and hope to receive your support at the AGM.

Given the increased footprint and complexity of the business, it is right to revisit whether other measures and other remuneration approaches could even better support the strategic priorities ahead. Therefore, during the year ending 30 April 2016, the committee will revisit certain aspects of executive remuneration to ensure they remain fit for purpose. This will include consideration of the following:

- The remuneration arrangements for the Chairman and CEO as we transition;
- The mix of base salary, short and long-term incentives and the ongoing appropriateness of the ARA;
- Executive shareholding requirements and post-vesting holding periods; and
- How to further improve communication on remuneration to shareholders.



**Karen Slatford**  
Chair of the Remuneration Committee  
7 July 2015

Date	Purpose	Matters reviewed and/or approved
Q1 (May – July)	Annual Report and Payments	<ul style="list-style-type: none"> <li>— Directors' Remuneration report;</li> <li>— Bonus payments and any vesting of awards under all plans for the previous year; and</li> <li>— Grants of equity awards to executives, top talent and all employee share schemes.</li> </ul>
Q2 (August – October)	AGM	<ul style="list-style-type: none"> <li>— Investor engagement; and</li> <li>— Review committee agenda for the following year.</li> </ul>
Q3 (November – January)	Strategic Outlook and Policy Review	<ul style="list-style-type: none"> <li>— Progress of half year business performance;</li> <li>— On-going appropriateness and effectiveness of remuneration and benefits policies/strategy and their linkages to the overall business strategy;</li> <li>— Review of external remuneration consultants;</li> <li>— Review of revised remuneration reporting regulations;</li> <li>— Corporate governance developments; and</li> <li>— Business objectives for the following year.</li> </ul>
Q4 (February – April)	Year End Remuneration Approvals	<ul style="list-style-type: none"> <li>— Executive director, Company Secretary and executive committee remuneration reviews including benchmarking (where appropriate) of base salaries and benefits;</li> <li>— Group-wide pay and benefit reviews;</li> <li>— Share awards and their performance conditions for grants to executives, top talent and employee share plans;</li> <li>— Design and targets for annual performance related bonus arrangements for executives and employees for the forthcoming year;</li> <li>— Review of performance and terms of reference of the committee; and</li> <li>— Review of vesting of long-term incentive awards.</li> </ul>

# Directors' Remuneration report

## continued

### Compliance Statement

This Directors' Remuneration report has been prepared on behalf of the board by the committee and complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report has been prepared in line with the recommendations of the UK Corporate Governance Code and the requirements of the UKLA Listing Rules.

### Directors' Remuneration Policy

This section of the report sets out the Remuneration Policy for Executive Directors in accordance with Section 439A of the Companies Act 2006 ('the Act'). The Remuneration Policy was approved by shareholders at the 2014 AGM and took effect from that date. It was amended and reapproved by shareholders at the General Meeting on 27 October 2014. The policy report below is as disclosed in the 2014 Directors' Remuneration Report except for a number of minor changes as follows:

- References to financial years have been updated where appropriate;
- Shareholder-approved ARAs and ASGs have been included;
- Pay-for-performance scenario charts have been updated to reflect 2015 benefits (salaries are unchanged) and ARA and ASG awards;
- Malus and claw back provisions have been introduced to LTIP awards from July 2015;
- The announcement made by the Company on 22 August 2014 (published on the Company's website) with regard to recruitment awards and appointment of interim executive directors has been included for clarity; and
- Confirmation that the non-executive director fees do not apply to the non-executive directors representing Wizard.

The Company's policy on the remuneration of executive directors and their direct reports is established by the committee and approved by the board. The individual remuneration package of each executive director is determined by the committee. No executive director or employee participates in discussions relating to the setting of their own remuneration.

The objective of the Group's remuneration policies is that all employees, including executive directors, should receive appropriate remuneration for their performance, responsibility, skills and experience. Remuneration packages are designed to enable the Group to attract and retain key employees by ensuring they are remunerated appropriately and competitively and that they are motivated to achieve the highest level of Group performance in line with the best interests of shareholders.

Policies on remuneration take account of the pay structure, employment conditions and relativities within the Group and also the industry sector. It also takes into consideration that individuals may have different levels of experience, capability, and market demand for their services. To determine the elements and level of remuneration appropriate to each executive director, the committee considers benchmark remuneration data for selected comparable technology companies as well as a broader group of companies of a similar size to the Company.

It is intended that a significant proportion of remuneration will continue to be performance-related. Conditions for performance-related bonuses and long-term incentives, i.e. Underlying Adjusted EBITDA and EPS respectively, will represent challenging targets which are designed to increase shareholder value and are linked to the Company's financial and operational strategy. The committee will review the performance conditions annually to ensure that they remain demanding and appropriate.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the committee will ensure that the incentive structure for executive directors and senior management will not raise environmental, social or governance ('ESG') risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the committee, which prevents it from taking into account corporate governance on ESG matters.

The Companies Act 2006 requires the auditors to report to the Company's members on the 'auditable part' of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 2006. The report has therefore been divided into separate sections for audited and unaudited information.

### Terms of reference

The committee is responsible for reviewing remuneration arrangements for members of the board and for providing general guidance on aspects of remuneration policy throughout the Group. Its terms of reference include the following:

- To determine and agree with the board the framework or broad policy for the remuneration of the Company's Chairman, CEO and other executive directors, the Company Secretary and other members of the executive management team (as appointed from time to time);
- To determine the total individual remuneration package of each executive director and other senior executives including bonuses, incentive payments, share options and any other share awards;
- To determine the policy for, and scope of, pension arrangements for each executive director and other senior executives;
- To approve the framework of salaries for senior managers, determine targets for any performance-related pay schemes operated by the Company and approve the total annual payments;
- To review the design of all share incentive plans for approval by the board and shareholders;
- To oversee any major changes in employee benefit structures throughout the Company or Group; and
- To review the on-going appropriateness and relevance of the remuneration policy.

The full terms of reference of the committee are available from the Company Secretary and are on the Company's website <http://investors.microfocus.com/corporate-governance>.

The table opposite sets out the remuneration policy that was approved at the AGM on 25 September 2014 and subsequently amended at the General Meeting held on 27 October 2014 to include the ARA and ASG as part of the shareholder vote to approve the acquisition of TAG.

For these purposes 'payments' includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

## Executive directors' remuneration policy table

### Base salary

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
<p>Supports the recruitment and retention of executive directors of the calibre required to deliver the Group's strategy.</p> <p>Rewards executives for the performance of their role.</p> <p>Set at a level that allows fully flexible operation of our variable pay plans.</p>	<p>Normally reviewed annually. Increases generally apply from the first quarter of the financial year.</p> <p>When determining base salary levels, consideration is given to the following:</p> <ul style="list-style-type: none"> <li>— Pay increases for other employees of the Group;</li> <li>— The individual's skills, experience and responsibilities;</li> <li>— Pay at companies of a similar size, complexity and international scope, in particular those within the technology sector, the FTSE 250, US listed technology companies and privately owned software companies; and</li> <li>— Corporate and individual performance.</li> </ul>	<p>Ordinarily, salary increases will be in line with increases awarded to other employees of the Group. However, increases may be made above this level at the committee's discretion to take account of individual circumstances such as:</p> <ul style="list-style-type: none"> <li>— Increase in scope and responsibility;</li> <li>— Increase to reflect the individual's development and performance in role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level); and</li> <li>— Alignment with market level.</li> </ul>	<p>None, although overall performance of the individual is considered by the committee when setting and reviewing salaries annually.</p>

### Benefits

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
<p>Provides a competitive and cost-effective benefits package to executives to assist them to carry out their duties effectively.</p>	<p>The Group provides a range of benefits which may include a car benefit (or cash equivalent), private medical insurance, permanent health insurance and life assurance.</p> <p>Additional benefits may also be provided in certain circumstances which may include (but are not limited to) relocation expenses, housing allowance, school fees and temporary increase in responsibilities. Other benefits may be offered if considered appropriate and reasonable by the committee.</p>	<p>Set at a level which the committee considers:</p> <ul style="list-style-type: none"> <li>— Appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; and</li> <li>— Provides a sufficient level of benefit based on the role and individual circumstances, such as relocation.</li> </ul>	<p>None.</p>

### Pension

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
<p>Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company.</p>	<p>Defined contribution plan (with Company contributions set as a percentage of base salary).</p> <p>An individual may elect to receive some or all of their pension contribution as a cash allowance.</p>	<p>20% of base salary.</p>	<p>None.</p>

# Directors' Remuneration report

## continued

### Annual bonus

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
<p>Rewards and incentivizes the achievement of annual financial and strategic targets.</p>	<p>Measures and targets are set annually and pay out levels are determined by the committee after the year end based on performance against those targets.</p> <p>The committee may, in exceptional circumstances, amend the bonus pay out should the formulaic outcome not, in the view of the committee, reflect overall business performance or individual contribution. Any such adjustments would be disclosed in the relevant year's Annual Report on Remuneration and bonuses would not exceed the stated maximum.</p> <p>The annual bonus is delivered in cash.</p> <p>In the case of fraud; mis-statement of accounts; or misconduct; claw back provisions are in place for a period of up to one year after a bonus payment has been made.</p>	<p>For maximum performance:</p> <ul style="list-style-type: none"> <li>— 150% of salary for Executive Chairman; and</li> <li>— 100% of salary for other executive directors.</li> </ul> <p>The maximum bonus will be achieved by growing the Underlying Adjusted EBITDA by 10% year on year excluding the impact of in year acquisitions and currency on straight-line basis.</p>	<p>The measures and targets are set by the committee each year. The measures that applied for the financial year 2015, and that will apply for the financial year 2016, are described in the Annual Report on Remuneration.</p> <p>Targets are set that drive improvement in the underlying performance of the business ensuring a link to shareholder return.</p> <p>Currently measures are limited to growth in Underlying Adjusted EBITDA excluding the impact of in year acquisitions and currency. This may change if needed to support a change in business strategy.</p>

### Long-Term Incentive Plan (LTIP)

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
<p>Motivates and rewards the achievement of long-term business goals.</p> <p>Supports the creation of shareholder value through the delivery of strong market performance aligned with the long-term business strategy, both organic and inorganic.</p> <p>Supports achievement of our strategy by targeting performance under our key financial performance indicators of revenue growth and EPS growth.</p> <p>Aligns executive interest with those of long-term shareholders.</p>	<p>Contingent awards of performance shares structured as nil-cost options are made annually with vesting dependent upon the achievement of performance conditions over three years.</p> <p>The committee has discretion to decide whether and to what extent targets have been met, and if an exceptional event occurs that causes the committee to consider that the targets are no longer appropriate, the committee may adjust them, provided the new conditions are no tougher or easier than the original conditions at the time they were set.</p> <p>The committee has the discretion to adjust the LTIP outcomes to ensure alignment of pay with performance to ensure the outcome is a true reflection of the performance of the Company. Any such adjustments would be disclosed in the relevant year's Annual Report on Remuneration.</p>	<p>Maximum opportunity contained within the plan rules is 200% of salary.</p> <p>The maximum face value of annual awards will be 200% of salary.</p>	<p>The performance measures and respective weightings may vary year on year to reflect strategic priorities, subject to retaining at least 50% on EPS.</p> <p>Details of the measure and performance targets used for specific LTIP grants are included in the Annual Report on Remuneration.</p> <p>Threshold performance will result in 25% vesting.</p> <p>Awards granted from the date of this report onwards under the LTIP share scheme are subject to malus and claw back provisions. Those provisions may apply at the discretion of the committee if accounts are corrected or published that indicate the relevant performance was materially worse than in the accounts used to assess vesting.</p>

## All-employee share plans

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
Provides an opportunity for directors to voluntarily invest in the Company.	Executive directors are entitled to participate in a tax approved all-employee plan, The Micro Focus Sharesave Plan 2006, under the same terms as other employees. Under this plan they make monthly savings over a period of three years linked to the grant of an option over Micro Focus shares with an option price which can be at a discount of up to 20% of the market value of shares on grant. Options may be adjusted to reflect the impact of any variation of share capital.	Participation limits are those set by the local tax authorities from time to time.	Not applicable.

## Additional Responsibility Allowance

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
<ul style="list-style-type: none"> <li>— Ensure the success of the acquisition of TAG by Micro Focus and the successful integration of TAG and the Group.</li> <li>— Recognizes the significant incremental workload and responsibility and allows for a revised salary to be determined.</li> </ul>	<ul style="list-style-type: none"> <li>— ARAs will be a fixed amount per individual, paid on a monthly basis subject to the recipient being in employment with the Group on the date of payment.</li> <li>— Payments will be made during a period of at least six months but not exceeding three years from the date of completion of the acquisition.</li> <li>— The ARA does not contain malus or claw back provisions.</li> </ul>	<ul style="list-style-type: none"> <li>— Kevin Loosemore: Capped at £260,000 per annum.</li> <li>— Mike Phillips: Capped at £120,000 per annum.</li> <li>— Stephen Murdoch: Initially at £100,000 per annum.</li> <li>— Other senior managers: in aggregate £520,000 per annum.</li> <li>— Subject to review every six months for the first 18 months and then at any time thereafter. Any amendment will take effect on three months' notice, except if a revised salary has been determined, in which case any entitlement to the ARA will cease immediately.</li> <li>— the maximum amount payable under the ARA to all recipients will be no more than £1m per annum in aggregate.</li> </ul>	None.



## Directors' Remuneration report

### continued

#### Additional Share Grant

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
<ul style="list-style-type: none"> <li>— Ensure the success of the acquisition.</li> <li>— Aligns executive interest with those of long-term shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>— ASGs will take the form of nil cost options which may be awarded during the first 18 months from the date of completion of the acquisition, with vesting dependent upon the achievement of a performance condition over three years.</li> <li>— The ASGs do not contain malus or claw back provisions.</li> </ul>	<ul style="list-style-type: none"> <li>— Kevin Loosemore, Mike Phillips and Stephen Murdoch will receive ASGs over no more than 947,140 ordinary shares, 676,529 ordinary shares and 405,917 ordinary shares respectively, (subject to appropriate adjustment in the event of any capitalization issue, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any other variation of capital or demerger of all or part of the business).</li> <li>— The number of ordinary shares subject to ASGs granted to any other one participant shall not exceed 1,082,448, (subject to appropriate adjustment in the event of any capitalization issue, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any other variation of capital or demerger of all or part of the business).</li> </ul>	<ul style="list-style-type: none"> <li>— The percentage of the ASG which will vest is:               <ul style="list-style-type: none"> <li>(i) 0% if the Share Holder Return Percentage is 50% or less;</li> <li>(ii) 100% if the Share Holder Return Percentage is 100% or more; and</li> <li>(iii) a percentage determined on a straight-line basis between (i) and (ii) above.</li> </ul> </li> <li>— The 'Shareholder Return Percentage' will reflect all dividends paid and any increase in share price from the reference price of 819.4 pence to the vesting price, being the average of the closing share price on the 20 Business Days prior to the vesting date. The vesting date is the earlier of the third anniversary of Completion and 1 November 2017.</li> </ul>

Fees for non-executive directors are determined by the board after taking appropriate advice. The Company currently has an Executive Chairman whose role combines those of Chairman and Chief Executive Officer. The section below details the Company's policy on how the non-executive directors, including a non-executive Chairman, will be remunerated.

#### Non-executive director fees

Element of pay and alignment with strategy	Operation	
Provides an appropriate reward to attract and retain high-calibre individuals.	<p>The non-executive Chairman and non-executive directors are paid a basic fee. Additional fees are paid for chairmanship of board committees and for the roles of senior independent director and Deputy Chairman:</p> <ul style="list-style-type: none"> <li>— Fees are currently paid in cash but the Company may choose to provide some of the fees in shares.</li> </ul> <p>Fees are set at a level which:</p> <ul style="list-style-type: none"> <li>— Reflects the commitment and contribution that is expected from the non-executive Chairman and non-executive directors; and</li> </ul>	<ul style="list-style-type: none"> <li>— Is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market, especially companies of a similar size and international scope to the Company, in particular those within the technology sector, the FTSE 250, US listed technology companies and privately owned software companies.</li> </ul> <p>Fees are reviewed periodically. Increases will typically be in line with market levels of fee inflation. In exceptional circumstances (including, but not limited to, material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a non-executive director role) the board has discretion to make appropriate adjustments to fee levels to ensure they remain market competitive and fair to the director.</p>

Aggregate fees paid to non-executive directors will remain within the limit stated in the Company's articles of association, currently £1m.

Actual fee levels are disclosed in the Directors' Annual Report on Remuneration for the relevant financial year.

Non-executive directors representing Wizard ('Representative Directors') are not paid a fee.

Non-executive directors and Representative Directors do not participate in any incentive scheme.

The committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy set out below, where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the Company.

## Selection of performance measures

The Company's core objective is to continue to deliver shareholder returns of 15% to 20% per annum over the long-term. The committee continues to believe that a combination of Underlying Adjusted EBITDA, Revenue Growth, Cash flow, EPS and Total Shareholder Return remain the most appropriate measures of long-term performance of the Company. The performance measures used under the annual bonus are selected annually to help the Group achieve its core objective. The annual bonus plan is currently linked to growth in Underlying Adjusted EBITDA. Vesting of LTIP awards is currently linked to growth in EPS as the committee believes that this aligns with the Company's focus on shareholder value, which together with the annual bonus metrics provide a strong line of sight for the executives and supports the long-term strategy.

The board does not favour non-numeric targets for annual bonuses as it believes there is evidence to show that when such targets are used payments to executives are higher than would be justified by the returns to shareholders. A recent report by KPMG shows that, where there are non-numeric targets, executive bonuses reduce less when there is a reduction in corporate performance.

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

## Remuneration policy for other employees

The remuneration policy for other employees is based on broadly consistent principles to those for executive directors. Salary reviews take into account Group performance, local pay and market conditions and salary levels for similar roles in comparable companies. All non-commission employees participate in a bonus scheme which operates on the same metrics for all levels in the Company from entry level employees to executive directors.

Around 100 of our senior managers and other key employees also receive LTIP awards. Performance conditions are consistent for all participants, while award sizes vary by individual. All UK employees are eligible to participate in the all-employee share plans on the same terms and in addition is available to 22 other countries worldwide.

All of our UK employees are able to participate in our Flexible Benefits program.

ASGs can be made by the remuneration committee in the first 18 months following the acquisition to certain senior managers or employees of the Enlarged Group and new joiners who are deemed critical to the delivery of the acquisition and integration of TAG and Base Micro Focus, with the total number of recipients (including executive directors) not to exceed 15.

## What discretions are retained by the committee in operating its incentive plans?

The committee will operate the annual bonus and LTIP according to their respective rules (or relevant documents) and in accordance with the Listing Rules where relevant. The committee retains discretion, consistent with market practice, with regard to the operation and administration of these plans. These include, but are not limited to, the following in relation to the LTIP:

- The participants; the timing for granting awards; the size of an award subject to maximum limits set out in the policy table; and the determination of vesting;
- Discretion required when dealing with a change of control or restructuring of the Group;
- Determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- The annual review of performance measures and weighting, and targets for the LTIP from year to year.

In relation to the annual bonus plan, the committee retains discretion over:

- The participants; the determination of the bonus payment; the timing of payment; and dealing with a change of control;
- Determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- The annual review of performance measures and weighting, and targets for the annual bonus plan from year to year; and
- The operation of malus and claw back.

In relation to both the Company's LTIP and annual bonus plan, the committee retains the ability to adjust the targets and/or set different measures if events occur (e.g. material acquisition and/or divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

In relation to ARAs, the committee has discretion to revise the allowances for Kevin Loosemore and Mike Phillips downwards or for other recipients upwards or downwards following a review but based on current assessment can envisage no circumstances where any would be revised upwards.

The use of discretion in relation to the Company's Sharesave and Share Incentive Plan will be as permitted under HMRC rules and the Listing Rules. Details of share awards granted to existing executive directors are set out on pages 67 to 69 of the Annual Report on Remuneration. These remain eligible to vest based on their original award terms.

## Directors' Remuneration report

### continued

### Illustrations of the application of remuneration policy

The value and composition of the executive directors' remuneration packages for the year ended 30 April 2016 at 'minimum', 'on-target', 'maximum' and 'exceptional maximum' scenarios under the policy are set out in the charts below. The graphs show an estimate of the remuneration that could be achieved by the executive directors under the policy set out in the report. Each bar represents the minimum amount of remuneration payable, remuneration payable at target performance, remuneration payable at maximum performance, and remuneration payable at exceptional maximum performance under the policy.

The 'minimum' scenario shows salary, ARA, pension, fixed compensation and benefits only. These are the elements of the executive directors' remuneration packages that are not at risk.

The 'on-target' scenario shows fixed remuneration as above, plus a pay-out of 50% of the maximum annual bonus and 25% vesting for long-term incentives (excluding ASG awards).

The 'maximum' scenario reflects fixed remuneration, plus full pay-out of all incentives (excluding ASG awards).

The 'exceptional maximum' scenario reflects fixed remuneration, plus full pay out of all incentives including ASG awards.

Note that the projected values exclude the impact of any share price movements and the ASGs are valued at the share price at the date of grant which was £11.24.

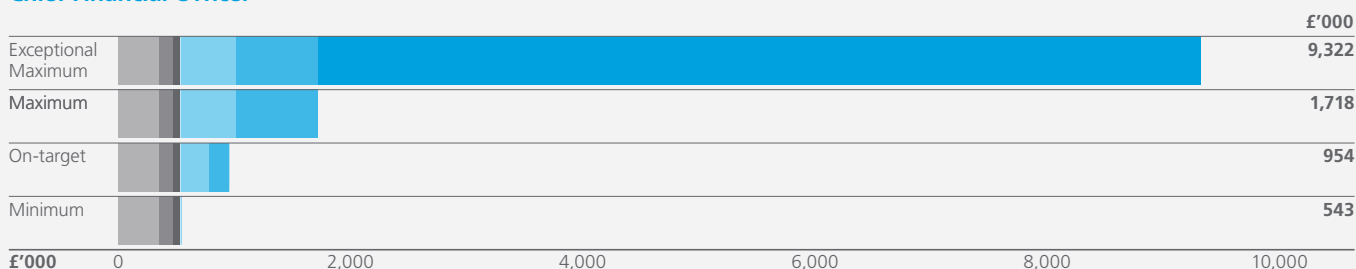
### Recruitment of executive directors

The remuneration package for a new executive director would be set in accordance with the terms of the approved remuneration policy in force at the time of appointment and taking account of the experience and skills of the individual and prevailing market conditions. In determining the appropriate remuneration structure and levels, the committee will take into consideration all relevant factors to ensure that the arrangements are in the best interests of the Company and its shareholders. The committee may also make an award in respect of a new appointment to 'buy-out' incentive arrangements forfeited on leaving a previous employer and may exercise the discretion available under the relevant Listing Rule to facilitate this, i.e. in the event that a structure that is different from those detailed in the policy would be required. For example, the committee may offer additional cash and/or share-based elements as part of the buy-out when it considers these to be in

#### Executive Chairman



#### Chief Financial Officer



- Salary
- ARA
- Pension
- Benefits
- Annual bonus
- Long-term incentives
- Additional Share Grant

the best interests of the Company and, therefore, of its shareholders. Any such buy-out payments would be based solely on remuneration lost when leaving the former employer, would be no higher in fair value terms and would reflect the delivery mechanism (i.e. cash, shares, options), time horizons and performance requirements attaching to that remuneration. However, the committee has the discretion in unforeseen and exceptional circumstances to offer awards of variable remuneration in excess of the maximums stated in the policy table if judged necessary to procure the services of the most appropriate candidate. If it were to do so, any such arrangements would be put to shareholders at the following AGM.

The committee published the following announcement on the Company website to clarify the remuneration policies when hiring a new executive director:

1. The remuneration package for a new executive director (including incentive opportunities) will normally be consistent with the policy for current executive directors, but in any event the maximum total level of award that may be made under the annual bonus and share plans in any one year will not be above 500% of salary;
2. Buyout awards (as previously disclosed) will generally be based solely on remuneration lost on leaving a former employer and will have a fair value no greater than the awards forfeited. In doing so the committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the timeframe of awards;
3. The committee does not envisage any cash payment being offered which could be construed as a 'golden hello'; and
4. The committee will consult with and seek approval from shareholders in advance of operating outside the maximum limit described above.

In determining appropriate remuneration arrangements on hiring a new executive director, the committee will take into account relevant factors; this may include the calibre of the individual, local market practice, the existing remuneration arrangements for other executives and the business circumstances. The committee seeks to ensure that arrangements are in the best interests of both the Company and its shareholders and not to pay more than is appropriate.

### Internal appointment of executive directors

In the case of an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms on grant. In addition, any other on-going remuneration obligations existing prior to appointment may continue, provided that they are disclosed in the following year's Annual Report on Remuneration. For external and internal appointments, the committee may agree that the Company will meet certain relocation expenses, as appropriate and within the limits set by the committee.

### Appointment of interim executive directors

The committee also recognizes that there may be times when it is appropriate to appoint an interim executive director or in exceptional circumstance require that a non-executive director takes on an executive function on a short-term basis. Remuneration for interim executive directors will be determined within the existing remuneration policy. The committee retains the discretion to make appropriate one-off remuneration arrangements for non-executive directors, including a non-executive Chairman, outside of the standard policy at these times. Any such arrangements will be detailed in the relevant year's Annual Report on Remuneration.

In exceptional circumstances where a non-executive director takes on an executive function on an interim basis, the director will receive an increase to their cash fee (reflecting the market rate for that role) only for the duration of the appointment.

Non-executive directors will not be eligible for an annual bonus or LTIP in the event of a significant merger or acquisition. The committee commits to consulting with and seeking approval from shareholders in advance of operating outside these policy limits.

### Executive directors appointed as a result of mergers and acquisitions

As merger and acquisition activity is part of the Company's strategy, the committee recognizes that such activity may give rise to situations where there are exceptional circumstances in relation to executive directors and certain senior management. Should it be necessary to match compensation in an acquired company and/or adjust compensation of existing management to deliver significant shareholder benefits then the Company may offer awards of variable remuneration in excess of the maximum levels stated in the policy table. As part of the acquisition of TAG during the last financial year two additional incentives were agreed by shareholders to compensate a small number of executives and senior managers for the incremental workload involved in the integration. These two additional incentives, the ARA and ASG, are described in detail in the policy table.

# Directors' Remuneration report

## continued

### Executive directors' service agreements

The Company's policy is that executive directors' service agreements normally continue until the director's agreed retirement date or such other date as the parties agree are terminable on no more than one year's notice and provide no entitlement to the payment of a pre-determined amount on termination of employment in any circumstances. In addition, in some limited cases, career counselling may be provided after the cessation of employment for a defined period.

The table alongside provides details of the main terms of the executive directors' service contracts and termination payments not otherwise set out in this report.

If an executive director commits a material breach of their service contract, any crime, or act of gross misconduct or dishonesty, the Company is entitled to summarily terminate the service contract without notice or payment in lieu of notice or other compensation. Such a contract term cannot however, as a rule of law, affect the executive director's statutory rights such as rights in respect of unfair dismissal.

All of the executive directors' service contracts were entered into before 27 June 2012 with the exception of Stephen Murdoch (appointed 16 April 2014) and have not been modified or renewed following their execution. As such, remuneration payments or payments for loss of office that are required to be made under them are not required to be consistent with the policy.

### Loss of office payments

Except for Kevin Loosemore, there are no predetermined special provisions for directors with regard to compensation in the event of loss of office; compensation is based on what would be earned by way of salary, pension entitlement and other contractual benefits over the notice period. In the event that a contract is to be terminated, and a payment in lieu of notice made, payments to the executive director may be staged over the notice period, at the same interval as salary would have been paid.

### Executive directors' service contracts

Provision	Detailed terms
Normal remuneration arrangements	Base salary, pension and benefits; Company car or cash allowance; Private health insurance; Life assurance; 25 days' paid annual leave; Participation in annual bonus plan, subject to plan rules; and Participation in LTIP, subject to plan rules.
Change of control	No special contractual provisions apply in the event of a change of control. Details of the treatment of LTIP awards are provided on page 59.
Notice period	A maximum of 12 months' notice from the Company or the director.
Termination payment	Payment in lieu of notice equal to: — A maximum of 12 months' base salary; — Pension supplement; and — Cash supplement in lieu of other benefits.
Restrictive covenants	During employment and for a maximum of 12 months after leaving.
Executive director	Date of service contract
Kevin Loosemore	14 April 2011
Mike Phillips	7 September 2010
Stephen Murdoch <sup>1</sup>	16 April 2014

1 Stephen Murdoch stepped down as an executive director on 20 November 2014. He remains with the Company as Chief Operating Officer.

In respect of Kevin Loosemore, his loss of office compensation is equal to 150% of his basic pay to reflect the value of salary and benefits. For this purpose, 'salary' is based on the sum of his base salary and ARA if applicable.

During that period, for the other executive director, he must take all reasonable steps to obtain alternative employment and payments to the executive director by the Company will be reduced to reflect payments received in respect of that alternative employment.

There is no automatic entitlement to annual bonus and this is at the discretion of the Remuneration committee. Where an executive director leaves by reason of death, disability, ill-health or any other reason at the committee's discretion they may receive a pro-rata bonus for the year of cessation, paid on the normal payment date (with committee discretion to accelerate), based on performance against predetermined targets and time served during the year.

The treatment of leavers under our long-term incentive plans is determined by the rules of the relevant plans. The committee will determine when and if awards vest and the period during which awards may be exercised.

Share options lapse if the participant leaves employment in case of termination for cause or resignation. In other cases, normally including death and ill health, injury or disability, redundancy and retirement, or any other reason at the committee's discretion, awards would typically vest on the normal vesting date (with committee discretion to accelerate) and be pro-rated for time and performance. The committee has the discretion to allow the award to vest on cessation of employment (on a pro-rata basis or otherwise) if, in the committee's view, the performance conditions are met at that point. The committee may vest the award on any other basis if it believes there are exceptional circumstances which warrant that.



## Non-executive directors appointments

Non-executive director	Appointment or re-appointment date	Expiration date
David Maloney	14 April 2014	25 September 2014
Tom Skelton	23 October 2014	24 September 2015
Karen Slatford	5 July 2013	5 July 2016
Tom Virden	5 January 2015	5 January 2018
Richard Atkins	16 April 2014	16 April 2017
Karen Geary	8 January 2015	8 January 2018

ASG awards will lapse following voluntary resignation, breach of contract, gross misconduct or gross incompetence, subject to committee discretion. In other cases, the ASG will vest, subject to the performance condition, and become exercisable on the normal vesting date for a period of six months.

## Change of control

The rules of the LTIP provide that, in the event of a change of control, awards/options would vest to the extent that the performance conditions (where applicable) are satisfied at the date of such event. Any such early vesting would generally be on a time pro-rata basis. The committee may vary the level of vesting, if it believes that exceptional circumstances warrant this, taking into account any other factors it believes to be relevant in deciding to what extent an award will vest.

The directors may exchange their awards over Company shares for awards in shares of the acquiring company if the terms of the offer allow this.

Awards held under all-employee plans would be expected to vest on a change of control and those which have to meet specific requirements to benefit from permitted tax benefits would vest in accordance with those requirements.

ASG awards will vest and become exercisable in full immediately prior to and for one month following a change of control.

## Policy in respect of external board appointments

We recognize that external non-executive directorships are beneficial for both the executive director concerned and the Company. With prior approval from the board, each serving executive director can undertake external non-executive directorships. At the discretion of the board, executive directors are permitted to retain fees received in respect of any such non-executive directorship.

## Non-executive directors' terms of appointment

The non-executive directors' terms of appointment are recorded in letters of appointment. The required notice from the Company is three months in all cases. The non-executive directors are not entitled to any compensation for loss of office and stand for re-election 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 are set out in the table above.

Prescott Ashe and David Golob were appointed to the board pursuant to the Relationship Agreement entered into by the Company on 20 November 2014, details of which are set out on page 41 of the corporate governance report.

All appointments of non-executive directors are subject to election by the shareholders at the first AGM of the Company after appointment and, on an annual basis thereafter. Except for Tom Skelton who having served for nine years will not be standing for re-election at the forthcoming AGM, all the directors will be offering themselves for election or re-election at the AGM to be held on 24 September 2015.

David Maloney retired from the board in September 2014, having served for nine years and was replaced as senior independent director by Karen Slatford. Karen Slatford also chairs the Nominations Committee. Karen Geary was appointed to the board on 8 January 2015 and will Chair the committee effective 1 July 2015.

Prescott Ashe and David Golob do not serve on any board committees and do not receive a fee for their services.

## Shareholding guidelines

We believe executive directors and other senior managers should be encouraged to hold a substantial portion of their personal wealth in shares of the Company. Over a period of three years from appointment, executive directors are required to build a holding in the Group's shares to a minimum value broadly equivalent to two times their respective base salary for the Executive Chairman; 1.5 times for other executive directors and one times for other senior management. Failure to meet the minimum shareholding requirement is taken into account when determining eligibility for LTIP awards.

Non-executive directors do not have a shareholding requirement.

## Consultation with employees

Although the committee does not consult directly with employees on the Directors' Remuneration Policy, the committee does consider the general basic salary increase, the benchmarking of employee compensation and benefits, remuneration arrangements and employment conditions for the broader employee population when determining remuneration policy for the executive directors.

## Consideration of shareholder views

The committee also considers developments in institutional investors' best practice expectations and the views expressed by shareholders when setting directors' remuneration. We remain committed to shareholder dialogue and take an active interest in voting outcomes. We consult extensively with our major shareholders when setting our remuneration policy. If any of these shareholders express concerns relating to our policy, we would endeavour to meet with them, as appropriate, to understand and respond to any issues they may have.

# Directors' Remuneration report

## continued

### Annual Report on Remuneration

The following section provides the details of how the remuneration policy was implemented during the year.

### Remuneration committee membership during the year ended 30 April 2015

The committee comprises four independent non-executive directors which we see as fundamental to ensuring that the remuneration of executive directors and senior executives is set by people who are independent and have no personal financial interest, other than as shareholders, in the matters discussed. The committee met six times during the year under review. Attendance by individual committee members at the meetings is detailed in the table alongside.

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

### Agenda during the year ended 30 April 2015

The key activities of the committee were as follows:

- Approval of the Directors' Remuneration Report for the year ended 30 April 2015;
- Reviewed salaries of the executive directors and the Executive Chairman's direct reports;
- Reviewed bonus payments and LTIP against targets;
- Conducted annual review and ratification of remuneration packages for executive directors and senior executives, incorporating institutional investor feedback;
- Considered current guidelines on executive compensation from advisory bodies' and institutional investors;

### Remuneration committee meeting attendance

Committee member	Membership throughout the year	Number of meetings attended
Karen Slatford (Chair)	Yes	6
Tom Skelton	Yes	6
Tom Virden	Yes	6
Karen Geary	No <sup>1</sup>	1
David Maloney	No <sup>2</sup>	3

- 1 Karen Geary was appointed to the board on 8 January 2015.
- 2 David Maloney retired from the board on 25 September 2015.

- Reviewed Group wide pay and benefits;
- Reviewed the ARA in accordance with financial performance and progress of integration plan;
- Established targets for annual cash bonuses for the year ended 30 April 2016; and
- Reviewed the performance and terms of reference of the committee.

### External advisors

The committee last reviewed their external advisors in 2012 and appointed Kepler Associates ('Kepler'). Kepler attends committee meetings where appropriate and provides advice on remuneration for executives, analysis on all elements of the remuneration policy and regular market and best practice updates. Kepler reports directly to the committee chair and is a signatory to the Code of Conduct for Remuneration Consultants (which can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com)). Kepler provides no non-remuneration related services to the Company and is therefore considered independent. The terms of Kepler's engagement are available from the Company Secretary and they are paid on a time and materials fee for projects outside the scope of their retainer. The committee seeks advice on legal matters from a number of firms as appropriate.

The committee continually assesses on-going advice provided by its advisors on remuneration matters.

The fees incurred with Kepler in the year under review were £38,600 (2014: £41,997).

### Single figure for total remuneration (audited)

The table opposite sets out the single figure for total remuneration for directors for the financial year ended 30 April 2015 and 2014.

### Base salary

Market positioning of base salary is approached on an individual basis, taking account of advice received from the committee's independent external advisors regarding the salary levels for similar roles in selected groups of comparable companies and the individual performance and experience of each executive. The aim is for base salary to be set with reference to the market median, dependent on the committee's view of individual and Group performance. The committee decided not to increase Kevin Loosemore's salary which remains below median. As a result of the acquisition of TAG an ARA was awarded to Kevin Loosemore rather than an increase in the base pay.

The table opposite shows the base salary for the executive directors and there was no increase during the year. Stephen Murdoch stepped down as a director during the year.

### Single figure for total remuneration (audited)

	Base salary, ARA and fees	Base salary and fees	Benefits in kind		Bonus		LTIPs vested		Pension		Other		Total	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
<b>Executive directors</b>														
Kevin Loosemore	605	490	35	34	908	735	2,646	11,111	121	98	–	–	4,315	12,468
Mike Phillips	403	299	14	13	403	299	1,191	3,121	50	37	–	4	2,061	3,773
Stephen Murdoch	176	11	7	1	176	11	–	–	7	1	–	–	366	24
<b>Total</b>	<b>1,184</b>	<b>800</b>	<b>56</b>	<b>48</b>	<b>1,487</b>	<b>1,045</b>	<b>3,837</b>	<b>14,232</b>	<b>178</b>	<b>136</b>	<b>–</b>	<b>4</b>	<b>6,742</b>	<b>16,265</b>
<b>Non-executive directors</b>														
David Maloney	41	100	–	–	–	–	–	–	–	–	–	–	41	100
Tom Skelton	50	50	–	–	–	–	–	–	–	–	–	–	50	50
Karen Slatford	66	60	–	–	–	–	–	–	–	–	–	–	66	60
Tom Virden	50	50	–	–	–	–	–	–	–	–	–	–	50	50
Richard Atkins	59	2	–	–	–	–	–	–	–	–	–	–	59	2
Prescott Ashe	–	–	–	–	–	–	–	–	–	–	–	–	–	–
David Golob	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Karen Geary	16	–	–	–	–	–	–	–	–	–	–	–	16	–
<b>Total non-executive directors</b>	<b>282</b>	<b>262</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>282</b>	<b>262</b>
<b>Total</b>	<b>1,466</b>	<b>1,062</b>	<b>56</b>	<b>48</b>	<b>1,487</b>	<b>1,045</b>	<b>3,837</b>	<b>14,232</b>	<b>178</b>	<b>136</b>	<b>–</b>	<b>4</b>	<b>7,024</b>	<b>16,527</b>

#### Notes:

- The base ARAs paid to Kevin Loosemore and Mike Phillips for the period 20 November 2014 to 30 April 2015 were £115,333 and £53,231 respectively. The bonuses based on ARAs to Kevin Loosemore and Mike Phillips were £172,500 and £53,231 respectively.
- Taxable benefits for executive directors include car benefits, private medical insurance, permanent health insurance and life assurance.
- In the year ended 30 April 2014, an LTIP award had substantially completed and a valuation was attributed to this as at 30 April 2014. In this financial year the award vested and has been restated to £3.1m to reflect the Absolute Shareholder Return performance and the share price on the vest date. Further details of those LTIP awards are included in the notes on pages 52 and 53 of the prior year Annual Report and Accounts.
- In the year ended 30 April 2015, LTIP awards to Kevin Loosemore and Mike Phillips that did not vest until 27 June 2015 but for which the committee believes that the performance measures have been substantially completed by the year end. Further details of those LTIP awards are included in the notes on pages 123 and 125.
- Stephen Murdoch stepped down as a director on 20 November 2014 and his emoluments for the period only are disclosed.
- Kevin Loosemore receives a payment of 20% of base salary in lieu of a pension. The Company's pension contribution for Mike Phillips and Stephen Murdoch is 12.5% of salary or a cash payment in lieu of a pension contribution of 10.98% of salary or a combination of both.
- Karen Geary was appointed on 8 January 2015 and receives an annual fee of £50,000. Prescott Ashe and David Golob do not receive any fees pursuant to the Relationship Agreement.
- David Maloney retired from the board after nine years' service on 25 September 2014.
- Other emoluments include the all employee share plan and this is valued based on the embedded gain at grant.

### Executive directors base salary

Executive director	At 1 May 2015	At 1 May 2014	% change
Kevin Loosemore	£490,000	£490,000	0%
Mike Phillips	£350,000	£350,000	0%
Stephen Murdoch	N/A	£320,000	0%

# Directors' Remuneration report

## continued

### Additional Responsibility Allowances

Following the acquisition of TAG, the committee approved Additional Responsibility Allowances ('ARAs') to the following executive directors with effect from 20 November 2014 on a monthly rate of £21,667 for Kevin Loosemore and £10,000 for Mike Phillips. This amount of ARA payable is reviewed by the committee each six months following completion and the first review agreed no change in the amounts. The ARA paid for the period from completion on 20 November 2014 to 30 April 2015 and the annualized amount in place as at 1 May 2015 is shown in the table alongside.

### Annual bonus for the year ended 30 April 2015 (audited)

For the year ended 30 April 2015, the maximum bonus opportunity was 150% of salary for Kevin Loosemore and 100% of salary for Mike Phillips and Stephen Murdoch. The executive directors are on the same bonus plan as all non-commissioned employees and their bonuses are capped at the percentages above. There is no bonus pay out if Underlying Adjusted EBITDA on a CCY basis, excluding the impact of in year acquisitions, is the same as the previous year and maximum bonuses are earned if the increase in this measure is 10% or more. Underlying Adjusted EBITDA excluding the impact of in year acquisitions grew by 11.1% over the figure for the year ended 30 April 2014 on a CCY basis and so the bonuses are at the maximum capped percentages.

The part of the bonus that was calculated based on the ARA was £173,000 for Kevin Loosemore, £53,231 for Mike Phillips and £Nil for Stephen Murdoch since he was no longer an Executive Director when the ARAs were awarded. These amounts are included in the table alongside.

The total payments to staff that were eligible for bonuses under the Corporate Bonus plan or TAG's Variable Payment Plan in the period was \$23.5m (2014: \$9.7m). The full year payments under both schemes totalled \$36.8m.

### Additional Responsibility Allowances

Executive director	At 1 May 2015	From 20 November 2014 to 30 April 2015
Kevin Loosemore	<b>£260,000</b>	£115,333
Mike Phillips	<b>£120,000</b>	£53,231

### Annual bonuses

Executive director	EBITDA growth threshold	EBITDA growth maximum	EBITDA growth achieved	Maximum Bonus	% of maximum	Bonus for 2015
Kevin Loosemore	0%	10%	11.1%	£908,000	100%	£908,000
Mike Phillips	0%	10%	11.1%	£403,231	100%	£403,231
Stephen Murdoch	0%	10%	11.1%	£176,000	100%	£176,000

### Vesting of long-term incentives for performance to the year ended 30 April 2015

#### Awards granted in year ended 30 April 2011

On 18 April 2011, Mike Phillips received an award of 146,504 nil-cost options at zero pence per share, equal to approximately 150% of salary. Vesting of the award was based on annualized EPS growth in excess of RPI over the three years ended 30 April 2014 as set out in the table below. In addition, the resulting level of vesting will be reduced by 25% if the Absolute Shareholder Return ('ASR') is below 150 pence or increased by 50% if the ASR is 300 pence or above.

ASR at vesting is to be calculated by the committee as the share price at vesting less the reference price of 291.8 pence plus dividends per share over the vesting period.

The annualized EPS growth over the period exceeded 11.94% being RPI (2.94%), plus 9% and so 100% of the award was achieved. The award was not due to vest until 1 July 2014 but the committee believed when issuing last year's Annual Report and Accounts that the expected ASR would warrant 150% of the final award vesting, or 219,756 options. These options were valued at the average share price in the last quarter of the financial year of 787 pence. The closing share price on the vesting date, 1 July 2014, was 877 pence and the dividends per share in the vesting period were 64.02 pence. The ASR over the vesting period is 649.22 pence and this warranted 150% of the award vesting i.e. 219,756 shares. The total value of the award has been restated in this report as £1,927,260 based on the share price on the vest date of 877 pence.

### Awards granted in the year ended 30 April 2011

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

### Awards granted in year ended 30 April 2012

The awards granted on 28 June 2012 to Kevin Loosemore and Mike Phillips of 192,157 shares and 86,471 nil-cost options respectively vest on 27 June 2015. Vesting of the award was based on annualized EPS growth in excess of RPI over the three years ended 30 April 2015 as set out in the table alongside.

The committee believes that the performance criteria have been substantially met and vested in full on 27 June 2015. These options have been valued at the closing share price at the closing price on 26 June 2015, the last trading day before vesting on 27 June 2015, of £13.77 and the value of the awards is £2,646,002 for Kevin Loosemore and £1,190,706 for Mike Phillips. The annualized Diluted Adjusted EPS growth rate over the performance period was 22.2% compared to annualized RPI of 2.09% and RPI plus 9% per annum of 11.09%.

### Share interest awards made during the year (audited)

On 18 September 2014, Kevin Loosemore, Mike Phillips and Stephen Murdoch were granted awards of nil-cost options under the LTIP. Details are provided in the table alongside. The three year period over which performance will be measured will be 1 May 2014 to 30 April 2017. The awards are eligible to vest, subject to EPS performance, on 27 June 2017 which is the third anniversary of the date on which the awards would have been granted if the Company had not been prohibited as a result of the TAG transaction.

As a result of the acquisition of TAG, the grant of LTIP awards was delayed due to the Company being in a prohibited period. If the award had not been delayed then the share price used to grant other LTIP's granted on 27 June 2014 would have been 850.75 pence and it was this closing price that was used in determining the LTIP awards. At this value the awards are within the scheme policy limits of two times salary for Kevin Loosemore and 1.5 times salary for Mike Phillips and Stephen Murdoch.

The table alongside sets out targets for the EPS measure and vesting of the awards.

### Awards granted in the year ended 30 April 2012

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

### Share interest awards made during the year

Executive director	Date of grant	Awards made during the year	Middle Market closing price at date of award	Face value at date of award	Face value at date of award (% of salary)
Kevin Loosemore	18 September 2014	115,192	990.0p	£1,140,401	233%
Mike Phillips	18 September 2014	61,710	990.0p	£610,929	175%
Stephen Murdoch	18 September 2014	56,421	990.0p	£558,568	175%

### Targets for the EPS measure and vesting of awards

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



## Directors' Remuneration report

### continued

As a result of the acquisition of TAG agreed with the shareholders at the General Meeting on 27 October 2014, additional share grants ('ASG') were granted on 20 November 2014 and these awards are nil cost options that have a vesting date of 1 November 2017 subject to market price conditions. (See table alongside).

The performance condition is that the percentage of ordinary shares subject to the ASG which may be acquired on exercise on or after the vesting date is as follows:

- (i) 0% if the Shareholder Return Percentage (as defined below) is 50% or less;
- (ii) 100% if the Shareholder Return Percentage is 100% or more; and
- (iii) a percentage determined on a straight-line basis between (i) and (ii) above.

The 'Shareholder Return Percentage' will be calculated by deducting 819.4 pence per share (the 'Reference Price'), being the average of the 20 days before 3 June 2014 (being the date of the heads of agreement relating to the proposed combination of Micro Focus and TAG between the Company, Wizard, Golden Gate Capital and Francisco Partners Management LP), from the sum of the 'Vesting Price' (calculated as the average closing share price over the period of 20 days ending on the day prior to the vesting date) plus the total of all dividends per share between Completion and the vesting date. This will be divided by the Reference Price, multiplying the resulting figure by 100 to obtain the Shareholder Return Percentage.

#### Awards granted on 20 November 2014

Executive director	Date of grant	Awards made during the year	Middle Market closing price at date of award	Face value at date of award	Face value at date of award (% of salary including ARA)
Kevin Loosemore	20 November 2014	947,140	1,060.0p	£10,039,684	1,339%
Mike Phillips	20 November 2014	676,529	1,060.0p	£7,171,207	1,526%

#### Percentage change in Executive Chairman remuneration

The table below shows the percentage change in the Executive Chairman's remuneration from the prior year compared to the average percentage change in remuneration for all staff that were on the corporate bonus scheme in both years and were employed at the beginning and end of the financial year. We have selected our staff on the corporate bonus scheme (around 630 staff) for this comparison as it is considered to be the most relevant for structure of remuneration.

#### Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (i.e. dividends and share buy-backs) from the financial year ended 30 April 2014 to the financial year ended 30 April 2015.

The directors are proposing a final dividend for the year ended 30 April 2015 of 33.0 cents (21.2 pence) per share (2014: 30.0 cents (17.7 pence)).

#### Executive Chairman's remuneration

Base Package and ARA	Executive Chairman £'000			Other employees
	2015	2014	% change	% change
Salary	605	490	+23.5%	+4.6%
Taxable benefits	35	34	+2.9%	+2.0%
Annual performance bonus	908	735	+23.5%	+12.5%
Total	1,548	1,259	+23.0%	+5.4%

#### Percentage change in total employee pay expenditure and shareholder distributions

	2015 \$m	2014 \$m	% change
Distribution to shareholders			
– Dividends paid	72.7	62.6	+16.1%
– Return of Value	131.6	144.7	-9.1%
Employee remuneration <sup>1</sup>	348.2	173.1	+104.0%

<sup>1</sup> FY2015 includes TAG employee emoluments for the post acquisition period.

## Payments for loss of office (audited)

There were no payments for loss of office during the year.

## Payments to past directors (audited)

Stephen Murdoch stepped down from the board during the year and the amounts paid to him in this financial year total a base salary and ARA of £355,385 and a bonus of £355,385. His other benefits in the year were pension of £15,000 and others of £14,000. Of these amounts £176,000 of salary and £176,000 of bonus were paid whilst he was a director. There were no other payments to past directors during the year.

## Other directorships

None of the executive directors held any other directorships outside the Group during the year.

## Review of past performance

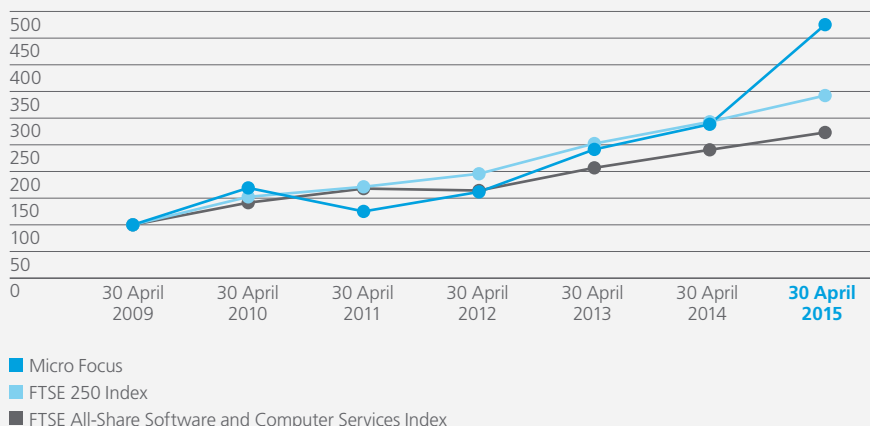
The remuneration package is structured to help ensure alignment with shareholders. There is no direct correlation between share price movement and the change in value of pay package in any one year (as the remuneration package comprises several components). The graph and table alongside show how the Chief Executive Officer's or Executive Chairman's pay compares to total shareholder returns ('TSR') over the last six years.

The graph alongside shows the value, by 30 April 2015, of £100 invested in Micro Focus International plc on 30 April 2009 compared with the value of £100 invested in the FTSE 250 and the FTSE All-Share Software and Computer Services Indices. The intervening points are at the Company's financial year ends. The FTSE 250 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.

The table alongside details the Executive Chairman's or, prior to his appointment on 14 April 2011, the Chief Executive Officer's single total figure of remuneration over the same period.

### Historical TSR performance

Growth in the value of a hypothetical £100 holding over the six years to 30 April 2015



### Executive Chairman/Chief Executive Officer remuneration

	Year ended 30 April					
	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000
<b>Kevin Loosemore</b>						
Single total figure of remuneration		23	1,291	1,304	12,468	<b>4,315</b>
Annual bonus outcome (% of maximum)		Nil	90%	92%	100%	<b>100%</b>
LTIP vesting (% of maximum)		Nil	Nil	Nil	199%	<b>100%</b>
<b>Nigel Clifford</b>						
Single total figure of remuneration		628				
Annual bonus outcome (% of maximum)		Nil				
LTIP vesting (% of maximum)		Nil				
<b>Stephen Kelly</b>						
Single total figure of remuneration	3,696					
Annual bonus outcome (% of maximum)	Nil					
LTIP vesting (% of maximum)	100%					

## Directors' Remuneration report continued

### Implementation of executive director remuneration policy for the year ended 30 April 2016

#### Base Salary

The committee approved no change to the base salary for executive directors for the year ended 30 April 2016. (See the table below).

The committee awarded during the year an annual ARA to each of the executive directors and there is no change to these for the year ended 30 April 2016. (See the table below).

The ARA is a fixed amount per individual, paid to a maximum of 12 senior managers and executives. It is paid on a monthly basis for up to three years post the acquisition and is subject to deduction of PAYE, income tax and National Insurance contributions, subject to the recipient being in employment with the Company on date of payment. The ARA is included in the determination of incentive opportunities and pension benefits. Payments were determined by a benchmarking exercise using the combined projected financials of the new entity. Payments are reviewed every six months in line with overall Group financial performance and the progress of the integration plan which covers all aspects of the effort involved in delivering a fully integrated business. The amount payable under the ARA in FY16 to current recipients will be £680,000. The committee may review and subsequently increase or decrease the ARA (in accordance with the Remuneration Policy) every six months for the first 18 months following completion of the TAG acquisition on 20 November 2014 and then at any time thereafter. Any exercise of the committee's discretion to amend the ARA will take effect on three months' written notice from the date of the relevant review, except if the committee has determined a revised salary for the recipient of the ARA in which case any entitlement to the ARA will cease immediately. While the ARA is in place there will be no increase to executives' base salary or bonus entitlement. Should the integration plan continue to be successful, we would expect the ARA to cease at the end of April 2016 and set the appropriate compensation of the Executive Team following benchmarking at that time.

A salary increase averaging 3.0% across the Group was awarded at the annual pay review, effective 1 May 2014, with further pay changes during the year, the average for the year for staff employed during the year was 4.6%.

#### Pension

Executive directors will continue to receive a pension contribution or payment in lieu of pension. The Executive Chairman receives a payment in lieu of pension of 20% of base salary whilst other executive directors receive a contribution of up to 12.5% of base salary or a payment in lieu of pension of 10.98% of base salary or a combination of both.

#### Annual bonus

The annual bonus for the financial year ended 30 April 2016 will operate on the same basis as for the year ended 30 April 2015. The committee has approved a maximum bonus opportunity of 150% of salary for the Executive Chairman and 100% for other executive directors.

The annual bonus will continue to be based on growth in Underlying Adjusted EBITDA on a constant currency basis excluding the impact of in year acquisitions. There will be zero payment if there is no growth increasing on a straight-line basis to a maximum payment at 10% year on year growth.

#### Base Salary for executive directors

Executive directors	% change	£'000
Kevin Loosemore	0%	490
Mike Phillips	0%	350

#### ARA for executive directors

Executive directors	% change	£'000
Kevin Loosemore	0%	260
Mike Phillips	0%	120

#### LTIP performance criteria

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

**LTIP**

The committee will make awards of 200% of salary to the Executive Chairman and 150% for other executive directors.

There will be no change to the performance conditions to the LTIP which are in the table opposite.

Awards will vest three years from the grant date. Further details of the grant date and quantum of shares will be disclosed in the 2016 Annual Report on Remuneration.

### Implementation of non-executive director remuneration for the year ended 30 April 2016

Following the annual review of non-executive director fees in February 2015, the executive directors determined that there should be no changes in fees for the financial year ended 30 April 2016 except that Karen Slatford's remuneration would be increased with immediate effect to £80,000 per annum to reflect her appointment as Senior Independent Director. This fee would include the fee for chairing any committee or none. (See the table below).

#### Non-executive director remuneration

Non-executive director base fee	£50,000 p.a.
Additional fee for chairing a committee	£10,000 p.a.
Fee for the SID (including committees)	£80,000 p.a.

#### Directors' shareholdings and share interests (audited)

Director	Shares held (owned outright)	Nil-cost options held		Options		Shareholding requirement (% of salary)	Current shareholding (% of salary)	Requirement met?
		Vested but not exercised	Unvested and subject to performance	Vested but not exercised	Unvested and subject to performance			
Kevin Loosemore <sup>1</sup>	695,980	192,157	1,204,464	—	—	200%	1166%	Yes
Mike Phillips <sup>2</sup>	145,000	86,471	802,198	—	—	150%	388%	Yes
Stephen Murdoch <sup>4</sup>	—	—	192,542	—	—	100%	—	Not yet due
David Maloney	36,923	—	—	—	—	—	—	Yes
Tom Skelton	—	—	—	—	—	—	—	Yes
Karen Slatford	—	—	—	—	—	—	—	Yes
Tom Virden	4,207	—	—	—	—	—	—	Yes
Richard Atkins <sup>3</sup>	5,464	—	—	—	—	—	—	Yes
Karen Geary	—	—	—	—	—	—	—	n/a
Prescott Ashe	—	—	—	—	—	—	—	n/a
David Golob	—	—	—	—	—	—	—	n/a

David Maloney retired and Stephen Murdoch stepped down during the year. Shares held and share options for David Maloney and Stephen Murdoch are as at the date of resignation. The above is based on Micro Focus' share price of 1257 pence as at 30 April 2015.

1 46,491 shares are held by Kevin Loosemore's wife, Joy Loosemore.

2 122,492 shares are held by Mike Phillips' wife, Josephine Phillips.

3 2,055 shares are held by Richard Atkins' wife, Julie Atkins.

4 Stephen Murdoch is required to have a 100% shareholding within three years of joining on 5 November 2012.

Between 1 May and 7 July 2015 there had been no changes to these interests.

## Directors' Remuneration report

### continued

#### Micro Focus International plc Incentive Plan 2005

	Number at 1 May 2014	Increase at vesting due to performance	Number granted in financial year	Number exercised in financial year	Number lapsed in financial year	Number at 30 April 2015	Exercise price	Date for exercise
Kevin Loosemore <sup>3</sup>	192,157	–	–	–	–	192,157	0.0p	27 June 2015 to 26 June 2022
Kevin Loosemore <sup>1</sup>	142,132	–	–	–	–	142,132	0.0p	26 June 2016 to 25 June 2023
Kevin Loosemore <sup>1</sup>	–	–	115,192	–	–	115,192	0.0p	27 June 2017 to 26 June 2024
Mike Phillips <sup>2</sup>	146,504	73,252	–	(219,756)	–	–	0.0p	1 July 2014 to 17 April 2021
Mike Phillips <sup>3</sup>	86,471	–	–	–	–	86,471	0.0p	27 June 2015 to 26 June 2022
Mike Phillips <sup>1</sup>	63,959	–	–	–	–	63,959	0.0p	26 June 2016 to 26 June 2024
Mike Phillips <sup>1</sup>	–	–	61,710	–	–	61,710	0.0p	27 June 2017 to 26 June 2024

- 1 Performance condition requires that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 3% per annum (at which point 25% of awards will vest) and for full vesting the cumulative EPS growth will be required to be RPI plus 9% per annum. Straight-line vesting will apply between these points. Performance against these objectives is determined by the committee based on the Company's audited results.
- 2 Performance condition comprises a combination of EPS and share price targets which require that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 3% per annum (at which point 25% of awards will vest) and for full vesting the cumulative EPS growth will be required to be RPI plus 9% per annum. Straight-line vesting will apply between these points. The resulting level of vesting will be reduced by 25% if the Absolute Shareholder Return ('ASR') at vesting (equal to the share price at vesting less the reference price of 291.8 pence plus dividend and cash distributions over the vesting period) is below 150 pence or increased by 50% if the ASR is 300 pence or above.
- 3 In the year ended 30 April 2015, the LTIP awards to Kevin Loosemore and Mike Phillips did not vest until 27 June 2015 but the Committee believed that the performance measures had been substantially completed by the year end.

#### Additional Share Grant

	Number at 1 May 2014	Number granted in financial year	Number exercised in financial year	Number lapsed in financial year	Number at 30 April 2015	Exercise price	Date of exercise
Kevin Loosemore <sup>1</sup>	–	947,140	–	–	947,140	0.0p	1 November 2017 to 31 October 2024
Mike Phillips <sup>1</sup>	–	676,529	–	–	676,529	0.0p	1 November 2017 to 31 October 2024

- 1 The performance condition is that the percentage of ordinary shares subject to the ASG which may be acquired on exercise on or after the vesting date is as follows:
  - (i) 0% if the Shareholder Return Percentage (as defined below) is 50% or less;
  - (ii) 100% if the Shareholder Return Percentage is 100% or more; and
  - (iii) a percentage determined on a straight-line basis between (i) and (ii) above.

The 'Shareholder Return Percentage' will be calculated by deducting 819.4 pence per share (the 'Reference Price'), being the average of the 20 days before 3 June 2014 (being the date of the heads of agreement relating to the proposed combination of Micro Focus and TAG between Micro Focus, Wizard, Golden Gate Capital and Francisco Partners Management LP), from the sum of the 'Vesting Price' (calculated as the average closing share price over the period of 20 days ending on the day prior to the vesting date) plus the total of all dividends per share between Completion and the vesting date. This will be divided by the Reference Price, multiplying the resulting figure by 100 to obtain the Shareholder Return Percentage.



## Results of votes at the 2014 AGM

	Votes for		Votes against		Votes cast	Votes withheld
	Number	Percentage	Number	Percentage		
(i)	82,500,248	73.43%	29,848,653	26.57%	112,348,901	567,113
(ii)	101,527,479	90.56%	10,584,724	9.44%	112,112,203	803,811
(iii)	65,666,308	60.35%	43,145,559	39.65%	108,811,867	3,652,239

### Micro Focus International plc Incentive Plan 2005 ('Plan')

The executive directors as at 30 April 2015 held awards granted under the terms of the Plan. The movements in these awards during the financial year are shown opposite.

### Additional Share Grant

The executive directors as at 30 April 2015 hold the following awards of ASGs. The movements in these awards during the financial year are shown opposite.

### Sharesave

In relation to the Sharesave Scheme, Mike Phillips joined the Company scheme on 21 August 2013 at an option price of £5.98 over 1,504 shares that are exercisable from 1 October 2016.

### Share option schemes

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

The mid-market price of the shares at 30 April 2015 was 1257 pence per share and during the financial year ended 30 April 2015 the price varied between 778 pence and 1257 pence per share.

### Statement of shareholding voting

The table above sets out the results of the vote at the 2014 AGM on (i) the Remuneration report and (ii) the Remuneration Policy and the result of the vote on the Additional Share Grant and (iii) the amendment to the Remuneration Policy at the General Meeting held on 27 October 2014.

As explained at the time, the board took the unusual step of linking the vote on remuneration with the vote on the transaction. In the board's opinion a vote for the transaction without a remuneration policy to retain key executives would have been the worst possible outcome for shareholders. Almost 40% of shareholders voted against the Remuneration Policy, however, had the votes not been linked we believe the transaction would have failed with the consequent loss of value to shareholders. Of the c. 40% that voted against approximately half were trackers and funds that have no option but to follow the position of entities such as ISS. A further quarter was one large shareholder who objected to the combined role of Chairman and CEO continuing and the remainder were shareholders who in some cases objected to the linkage; or objected to the terms of the remuneration or were content but felt that their votes were not necessary to carry the position. The board discussed the position with all major shareholders at the time and recognizes the concerns that linked votes cause. The board would not intend to follow the same course again unless there were further opportunities to create very significant value which could not be delivered without a linked vote as in this case.

On behalf of the board



**Karen Slatford**  
Chair of the Remuneration Committee  
7 July 2015

## Directors' report

The directors of Micro Focus International plc (the 'Company') present their report and the audited consolidated financial statements of the Company for the year ended 30 April 2015.

### Strategic report

The Group is required by the Companies Act 2006 to present a fair review of the business during the year to 30 April 2015 and of the position of the Group at the end of the financial year along with a description of the principal risks and uncertainties faced by the Group. In addition, the Group is also required to present the future developments of the Company. The information that fulfils these requirements can be found on pages 4 to 33 of the strategic report.

### Corporate governance

The Group is required to produce a corporate governance statement pursuant to the Financial Conduct Authority ('FCA's') Disclosure and Transparency Rules. The information that fulfils this requirement can be found in this directors' report and in the corporate governance section on pages 38 to 41 which is incorporated into this directors' report by reference.

### Dividends

The board has in recent periods had a dividend policy to award a level of full year dividend covered approximately two times on a pre-exceptional earnings basis. Following the completion of the acquisition of TAG, unless the performance of the Enlarged Group were to fall significantly below the board's expectations, the board has implemented a progressive dividend policy but has suspended further returns of value or share buy-backs until such time as the Enlarged Group's target net debt level of 2.5x Facility EBITDA is achieved.

For the year ended 30 April 2015 the directors recommend payment of a final dividend in respect of the financial year of 33.0 cents per share, which, taken together with the interim dividend of 15.4 cents per share paid in January 2015, gives a total dividend in respect of 2015 of 48.4 cents per share which is 10% higher than the full year dividend paid last year. Subject to shareholder approval, the final dividend will be paid on 2 October 2015 to shareholders on the register on 4 September 2015. Dividends will be paid in Sterling based on an exchange rate of £1 = \$1.56, equivalent to approximately 21.2 pence per share, being the rate applicable on 7 July 2015, the date on which the board resolved to propose the final dividend.

### Interests in share capital Directors and their interests

The directors of the Company who served during the year reported on and up to the date of signing this report are shown below.

#### Directors of the Company

##### Executive

Kevin Loosemore	(Executive Chairman)
Mike Phillips	(Chief Financial Officer)
Stephen Murdoch	(Chief Operating Officer) (until 20 November 2014)

##### Non-executive

David Maloney	(Senior independent non-executive director and Deputy Chairman) (until 25 September 2014)
Karen Slatford	(Senior independent non-executive director)
Tom Skelton	
Tom Virden	
Richard Atkins	
Prescott Ashe	(appointed 20 November 2014)
David Golob	(appointed 20 November 2014)
Karen Geary	(appointed 8 January 2015)

David Maloney retired from the board at the conclusion of the Annual General Meeting on 25 September 2014 having served on the board for over nine years. On completion of the acquisition of TAG, Prescott Ashe (a Managing Director of Golden Gate Capital) and David Golob (Partner and Chief Investment Officer at Francisco Partners) joined the board as non-executive directors. To ensure an appropriate balance between independent and non-independent directors, Stephen Murdoch stepped down from the board at completion whilst remaining as Chief Operating Officer of the Micro Focus product portfolio. Karen Geary was appointed as a non-executive director on 8 January 2015 which increased the number of independent non-executive directors from four to five, namely, Karen Slatford, Tom Skelton, Tom Virden, Richard Atkins and Karen Geary.

Details of the interests of the directors and their families in the ordinary shares of the Company, as disclosed in the register of directors' interests, are given in the remuneration report on pages 48 to 69.

None of the directors had a material interest in any contract of significance to which the Company or a subsidiary was a party during the financial year, as disclosed in note 38 'Related party transactions'.

The Company maintains insurance cover for all directors and officers of Group companies against liabilities which may be incurred by them while acting as directors and officers of Group companies.

During the financial year reported on and as at the date of this report qualifying third party indemnities are in force under which the Company has agreed to indemnify the directors to the extent permitted by law and by the Articles of Association of the Company (the 'Articles') against liabilities they may incur in the execution of their duties as directors of the Company. A copy of the Articles is available for review at the registered office of the Company.

## Substantial shareholding

At 30 April 2015 the percentage interests in the ordinary share capital of the Company, disclosable under the FCA's Disclosure and Transparency Rules that have been notified to the Company are shown in the table below.

Changes in disclosable interests between 30 April 2015 and 7 July 2015 as notified to the Company are shown below.

### Disclosable shareholdings to 30 April 2015

Name of holder	Ordinary shares of 10 pence each	% Percentage of issued capital
Wizard Parent LLC	86,595,711	39.86
Artemis Investment Management LLP	8,117,983	3.74

### Disclosable shareholdings notified between to 30 April 2015 and 7 July 2015

Name of holder	Ordinary shares of 10 pence each	% Percentage of issued capital
FMR LLC	10,861,754	5.00

## Employment policy Equal opportunities

The Group operates an equal opportunities policy. Full consideration is given to all job applicants, irrespective of gender, age, marital status, disability, sexuality, race, colour, religion, ethnic or national origin or any other conditions not relevant to the performance of the job, who can demonstrate that they have the necessary skills and abilities.

All employees accept the commitment within this policy that the Group will not allow discrimination or harassment by employees or others acting on the Group's behalf, in respect of sex, age, marital status, race, colour, nationality, disability or religious or political beliefs.

### Disabled employees

With regard to existing employees and those who may become disabled, the Group's policy is to examine ways and means to provide continuing employment under its existing terms and conditions and to provide training and career development, including promotion, wherever appropriate.

## Employee involvement

The Group believes it is important that employees are aware of the Group's business strategy and the objectives which are in place to assist them to focus on working towards these goals. Communications at the time of key announcements, including presentations by directors to all employees, together with briefings throughout the year, are part of the communication and consultation program. The program is designed to provide employees with awareness of the financial and economic factors affecting the Group's performance and also to provide employees with information on employment related matters which may be of interest.

In addition, regular meetings are held with staff and managers, both to raise issues and to assist with the two-way flow of information. The Group also has an online process which enables employees to express views and suggest improvements.

## Further education and training

Continuing education, training and development are important to ensure the future success of the Group. The Group supports individuals who wish to obtain relevant and appropriate further education qualifications and reimburses tuition fees up to a specified level. Training needs of all employees are also analyzed during the annual and half yearly appraisal process, at which time a training plan is agreed as part of each individual's on-going development.

At appropriate times throughout the course of a year, the directors are briefed on recent changes to legislation, regulations and codes of practice which are relevant to their duties and the operations of the Group's business. Where appropriate the directors are provided with copies of the underlying documentation and/or written summaries of the principal changes.

The board has undertaken a formal and rigorous process for the evaluation of its own performance and that of its committees and individual directors. Further information with regard to the evaluation can be found in the corporate governance report on pages 38 to 41. The evaluation included an assessment of directors' training and development requirements.

## Share option schemes

The directors remain committed to the principle that selected employees should be able to participate in the Group's progress through share-based compensation schemes. Details of the Group's share-based compensation schemes are given in note 35.

## Directors' report continued

### Statutory and other disclosures Greenhouse Gas emissions ('GHG')

All disclosures concerning the Group's GHG (as required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013)) are contained in the corporate social responsibility report on pages 29 to 33.

### Financial instruments

The exposure of the Group to financial risks, including the use of financial instruments and policies for hedging and the exposure to price, credit, cash flow and liquidity risk, can be found in note 27 to the financial statements.

### Research and development

All expenditure on research is expensed as incurred. The Group capitalizes development expenditure from the point that all the relevant criteria are met. The capitalized cost is then amortized over the useful life of the software. During the year to 30 April 2015, \$162.3m was charged to the consolidated statement of comprehensive income (2014: \$57.8m) in respect of research and development expenditure. This charge is after net amortization of development amortization of approximately \$0.1m (2014: nil) consisting of \$19.5m (2014: \$18.4m) of capitalized development expenditure offset by \$19.6m (2014: \$18.5m) of amortization and impairment of previously capitalized development expenditure.

### Political donations

The Group's policy is to make no donations or contributions to political parties (2014: \$nil).

### Share capital

The Company has a single class of share capital which is divided into ordinary shares of 10 pence each. In November 2014 a Return of Value was made to all shareholders amounting to \$131.6m in cash (60 pence per share), by way of a B/C share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by a share consolidation whereby each ordinary share existing before the Return of Value was consolidated into 0.9285 of a new ordinary share to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B and C Shares, further details of which can be found in note 29. Shares held in treasury were consolidated in the same way as all other shares. During the year 631,400 shares were transferred out of treasury to meet the Company's obligations under its employee share plans.

### Rights and obligations attaching to shares

Voting – in a General Meeting of the Company:

- On a show of hands, every member present in person and every proxy duly appointed by a member shall have one vote; and
- On a poll, every member who is present in person or by proxy shall have one vote for every share of which he or she is the holder.

No member shall be entitled to vote at any general meeting or class meeting in respect of shares held by him or her if any call or other sum then payable by him or her in respect of that share remains unpaid. Currently, all issued shares are fully paid.

### Deadlines for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting (the 'AGM') to be held on 24 September 2015 are set out in the Notice of Meeting which accompanies this report.

### Dividends and distributions

Subject to the provisions of the Companies Act 2006, the Company may, by ordinary resolution, declare a dividend to be paid to members but no dividend shall exceed the amount recommended by the board. The board may pay interim dividends and any fixed rate dividend whenever the profits of the Company, in the opinion of the board, justifies its payment. All dividends shall be apportioned and paid pro-rata according to the amounts paid up on the shares.

### Transfer of shares

Subject to the Articles, any member may transfer all or any of his or her certified shares in writing by an instrument of transfer in any usual form or in any other form which the board may approve. The board may, in its absolute discretion and without giving any reasons, decline to register any instrument of transfer of a certified share which is not a fully paid share provided that, where any such shares are admitted to the Official List maintained by the UK Listing Authority, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The board may decline to recognize any instrument of transfer relating to shares in certificated form unless it is in respect of only one class of share and is lodged (duly stamped if required) at the Transfer Office accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transfer or to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do). In the case of a transfer of shares in certificated form by a recognized clearing house or a nominee of a recognized clearing

house or of a recognized investment exchange the lodgement of share certificates will only be necessary if and to the extent that certificates have been issued in respect of the shares in question. The directors may also refuse to register an allotment or transfer of shares (whether fully paid or not) in favour of more than four persons jointly. Subject to the Articles and the CREST Rules (as defined in the Uncertificated Securities Regulations, as amended), and apart from any class of wholly dematerialized security, the board may permit any class of shares in the Company to be held in uncertificated form and, subject to the Articles, title to uncertificated shares to be transferred by means of a relevant system.

### Repurchase of shares

The Company obtained shareholder authority at the last AGM (held on 25 September 2014) to buy back up to 14.99% of issued share capital. At that time this amounted to 20,921,657 ordinary shares, and the authority remains outstanding until the conclusion of the next AGM on 24 September 2015. The minimum price which must be paid for such shares is now 10 pence and the maximum price which may be paid for each Ordinary Share is an amount equal to the higher of (i) 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the shares concerned; and (ii) the higher of the price of the last independent trade of any ordinary share and the highest current bid for an ordinary share as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy-back programs and stabilization of financial instruments (2273/2003). Following the Return of Value and associated share consolidation the limit on the number of shares to be purchased is 19,425,758 shares.

### Amendment to the Articles

Any amendments to the Articles may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

### Appointment and replacement of directors

Directors shall be no less than three and no more than 11 in number. Directors may be appointed by the Company by ordinary resolution or by the board. A director appointed by the board holds office only until the next AGM and is then eligible for election or re-election by the shareholders annually thereafter.

The board may from time to time appoint one or more directors to hold employment or executive office for such period (subject to the Companies Act 2006) and on such terms as they may determine and may revoke or terminate any such employment.

The Company by ordinary resolution, of which special notice has been given and the board, by unanimous decision, may remove any director before the expiration of his or her term of office and the Company may elect or the board may appoint another person in place of a director so removed from office.

The office of director shall be vacated if:

- (i) he or she in writing resigns or offers to resign and the directors accept such offer;
- (ii) an order is made by any court claiming that he or she is or may be suffering from a mental disorder;
- (iii) he or she is absent without permission of the board from meetings for six months and the board resolves that his or her office is vacated;
- (iv) he or she becomes bankrupt or compounds with his or her creditors generally;
- (v) he or she is prohibited by law from being a director; or
- (vi) he or she is removed from office pursuant to the Articles.

### Powers of the directors in relation to share capital

The business of the Company will be managed by the board who may exercise all the powers of the Company, including the power to authorize the issue and/or market purchase of the Company's shares subject to the provisions of the Company's Memorandum of Association, the Articles, the Companies Act 2006 and any ordinary resolution of the Company. There were two occasions in the year under review when shareholders delegated powers to the directors in relation to share capital:

- At the AGM held on 25 September 2014 the directors were granted the powers to allot equity securities with a nominal value of up to £6,300,069 and to make market purchases of the Company's shares; and
- At a General Meeting held on 27 October 2014 to facilitate the acquisition of TAG and the Return of Value the directors were granted the powers to allot equity securities with a nominal value of up to £8,659,572 shares.

### Shares held in the Employee Benefit Trust

Where the trustee of the Micro Focus Employee Benefit Trust (the 'Trust') holds shares in the Company and the beneficial interest in those shares has not been transferred to a beneficiary of the Trust, the trustee may not vote in relation to those shares at any meeting of shareholders of the Company.



## Directors' report continued

### Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company.

On completion of the acquisition of TAG (20 November 2014) the Enlarged Group had new debt facilities of \$2,000.0m comprising:

- a syndicated senior secured tranche B term loan facility of \$1,275.0m ('Term Loan B'), with an interest rate of 4.25% above LIBOR (subject to a LIBOR floor of 1.00%), amortizing at 1.00% per annum, with an original issue discount of 1.00% and a seven year term;
- a syndicated senior secured tranche C term loan facility of \$500.0m ('Term Loan C'), with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), amortizing at 10.00% per annum, with an original issue discount of 1.5% and a five year term; and
- a senior secured revolving credit facility of \$225.0m ('Revolving Facility'), with an interest rate of 3.50% above LIBOR on amounts drawn (and 0.50% on amounts undrawn) thereunder and an original issue discount of 0.5%.

The only financial covenant attaching to the new facilities is an aggregate net leverage covenant which is applicable in circumstances where more than 35.0% of the Revolving Facility is outstanding at a fiscal quarter end. In March 2015, the Group made a voluntary repayment of \$150.0m of the Term Loan B Facility with the result that the total facilities available to the Group are now \$1,850.0m.

The strategic report does not contain any information about persons with whom the Company has contractual or other arrangements which are essential to the business of the Company as, in the view of the directors, there are no such arrangements.

### Branches

The Group continues to operate overseas branches or representative offices in Chile, Denmark, Finland, Hong Kong, Mexico, Portugal, South Africa, Sweden, the USA and the People's Republic of China.

### Annual General Meeting

The notice convening the AGM of the Company together with the explanatory notes on the resolutions proposed at the AGM accompanies this report. The meeting will be held at The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN on 24 September 2015 at 3pm (UK time).

### Independent auditors and disclosure of information to auditors

So far as they are aware, the directors at the date of this report confirm that there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware and that the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

PwC have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the AGM.

### Going concern

The directors, having made enquiries, consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and therefore it is appropriate to maintain the going concern basis in preparing the financial statements.

### Post balance sheet events

There have been no material events from 30 April 2015 to the date of this report.

## Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent; and
- State whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the directors, whose names and functions are listed in the board of directors section within corporate governance on pages 38 to 41, confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

- The directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the board,



**Jane Smithard**  
**Company Secretary**  
7 July 2015

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



# Consolidated financial statements and notes

# Independent auditors' report to the members of Micro Focus International plc

## Report on the Group financial statements

### Our opinion

In our opinion, Micro Focus International plc's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 30 April 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### What we have audited

Micro Focus International plc's financial statements comprise:

- the Consolidated statement of financial position as at 30 April 2015;
- the Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of cash flows for the year then ended;
- the Consolidated statement of changes in equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

## Our audit approach

### Overview

#### Materiality

- Overall Group materiality: \$10.0m which represents approximately 5% of profit before tax and exceptional items.

#### Audit scope

- Our work on the historic Micro Focus Group (defined hereafter as 'Base Micro Focus') was conducted at the Group's head office location in the UK, supplemented with a visit to its US head office in Rockville, Maryland similar to prior years.
- As The Attachmate Group Inc.'s ('TAG') finance function is in separate locations from that of Base Micro Focus, local teams in the US and Ireland audited the primary business components of TAG, with the Group audit team visiting these locations a number of times both to direct and supervise the work of these local teams and to make sure that we had a full and comprehensive understanding of the results of their work – particularly insofar as it related to the identified areas of focus.
- In total, locations where we performed audit work accounted for 72% of the Group cost base and 70% of Group revenues.

#### Areas of focus

- Revenue recognition.
- Restructuring.
- Fair value of acquisition accounting.
- Taxation.

## The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.



## Revenue recognition

### Area of focus

Refer also to notes 1 and 2 (pages 95 and 96)

We focused on this area because the allocation of revenue to each component of a sale (Licence, Maintenance, Subscription and Consulting), when sold together in a bundle required the application of judgment. We assessed this as a greater risk in larger transactions, where there is increased likelihood of unusual sales arrangements containing bespoke terms.

Given that Licence revenue is generally recognized up front in full, whereas Maintenance and Subscription is spread over the duration of the contract term, the risk of there being inappropriate allocation of revenue also becomes more relevant in the period immediately prior to the year end. We therefore focused on the risk of inappropriate revenue allocation in the period immediately prior to the year end.

We also addressed how processes and controls may have been circumvented and manual adjustments made to revenue.

### How our audit addressed the area of focus

Our testing focused on the larger and more complex revenue transactions throughout the year and to sales made around the year end to check revenue was accounted for in the correct period. In aggregate the contracts tested accounted for about 23% of total Licence revenue.

In respect of sales contracts tested, we checked that the fair value allocation of revenue between the Licence, Maintenance, Subscription and Consulting components at deal inception was in line with the terms of sales contracts and Group accounting policies. This included considering any unusual terms in sales contracts and the period during which Maintenance is to be provided to the customer. We tested the basis upon which management calculate the fair value attributable to the components of revenue by reference to the sales price achieved when components are sold on a standalone basis.

For all contracts, we tested whether management's calculations of the revenue recognized incorporated all relevant contract terms and an appropriate split of total revenue between different contractual elements.

In order to assess where processes and controls may have been circumvented and inappropriate manual adjustments made to revenue, we used data analysis techniques to identify:

- revenue postings in certain significant reporting units not generated by cash or trade receivables or a release from deferred income; and
- manual journal entries impacting revenue with unexpected account combinations across all significant reporting units.

Having identified those transactions, we traced a sample to documentary evidence that, we found without exception, supported their validity.

## Fair value of acquisition accounting

### Area of focus

Refer also to notes 9, 10 and 39 (pages 101 to 102, 103 and 127 to 130)

TAG was acquired on 20 November 2014 for consideration satisfied in shares of \$1,386m. At the acquisition date, the carrying value of its net liabilities totalled \$501m.

Adjustments to record the assets and liabilities at fair value (as is required by accounting standards) increased the value of the acquired net liabilities by \$226m. As a result goodwill totalling \$2,113m was established. We focused on the fair value adjustments (which included the creation of intangible assets, associated deferred tax liabilities, and a reduction to deferred income) because the determination of the fair value adjustments is judgmental in nature and these adjustments are also material.

### How our audit addressed the area of focus

Our testing focused on the valuation of the larger and more judgmental fair value adjustments that were recorded.

Particular adjustments we tested were:

**Intangible assets** – intangible assets (\$1,127.6m) represent customer relationships, trade names and technology. The directors obtained external valuations for the acquired intangible assets. Using our own valuations expertise, we evaluated the choice of valuation methodologies used for each type of asset to check that the methodology was consistent with market practice. We also examined the key assumptions used as inputs to the models to assess whether they were consistent with our understanding of the business, its historical performance and the markets in which TAG operates. These assumptions included profit and revenue forecasts, discount rates and royalty rates. We found that the key valuation assumptions lay within our expected range and that the valuation methodologies applied were appropriate.

**Deferred tax** – In accordance with the accounting framework, the creation of these intangible assets resulted in the creation of an additional deferred tax liability of \$260.3m on acquisition. We examined and are satisfied with the basis of the rate used to calculate this liability. This involved reference to the tax jurisdictions in which TAG operates, levels of business in those jurisdictions, and the manner in which profits are expected to be repatriated and taxed.

# Independent auditors' report to the members of Micro Focus International plc

## continued

### Fair value of acquisition accounting continued

#### Area of focus

#### How our audit addressed the area of focus

**Deferred income** – Adjustments totalling \$42.7m were recorded reducing the value of deferred income. The purpose of this adjustment was to record the liability at the fair value for which it could be settled between knowledgeable willing parties in an arm's length transaction. We checked that the methodology used to calculate fair value was consistent with market practice for this type of transaction and found this to be the case. We also tested the components of the calculation by tracing to supporting evidence including historical results for TAG and found that the assumptions management made were consistent with the evidence we obtained. This reduction meant that there was \$17.0m less revenue recognized in the post-acquisition period than there would have been if no adjustment had been made.

### Restructuring

#### Area of focus

Refer also to notes 3 and 24 (pages 97 and 111 to 112)

The Group has a significant restructuring plan underway, in relation to the integration of TAG. As part of that plan, the Group announced the proposed closures of a number of properties primarily in the US and the UK, and redundancies of employees across the Group. This created the need for provisions to be recorded in relation to severance costs associated with employees, and onerous lease costs on vacated property. In 2015 the charge in the Consolidated statement of comprehensive income relating to this plan was \$18.2m for property and \$30.7m for severance. The provision held in the Consolidated statement of financial position was \$22.6m for onerous lease and dilapidations and \$30.9m for restructuring and integration.

The estimate of severance costs that need to be recognized in the financial statements involves the exercise of judgment around the value of future costs, and the extent to which a constructive obligation has arisen. The estimate of the onerous lease provisions is also dependent on judgments – in particular, where the directors intend to sub-let the property, the expected rental income and the time delay in securing a sub-tenant.

In addition, the presentation of restructuring costs in the Consolidated statement of comprehensive income as exceptional expenses required additional consideration, as the classification of an expense as exceptional depends on judgments made by the directors in identifying such items. Consistency in identifying and disclosing items as exceptional is important in order to maintain comparability of the results year on year.

#### How our audit addressed the area of focus

We checked and found that, at year end, there was a detailed formal plan for restructuring that was consistent with announcements made, and which indicated the establishment of a valid expectation in those affected.

We selected a sample of individuals in respect of whom severance provisions had been recognized, focusing our testing on individuals for which larger provisions have been made. For the sample selected, we checked and found that the provision had been calculated using the correct salary data and in accordance with the communicated terms. For certain members of senior management affected by the severance program, precise levels of compensation have not yet been finalized. In these instances we assessed the evidence to support the judgment made in determining the calculations that support the provision.

We tested the property provision by agreeing details of rental obligations to underlying rental contracts for a selection of properties. We assessed management's assessment of surplus space by performing physical inspections of a sample of properties to check that the levels of occupancy and activity correlated with the levels of surplus space included in the provision calculations, which they did. For properties that the Group expects to be sublet, we obtained evidence that the Group had engaged third parties in the active marketing of the properties; we compared the period of assumed vacancy before sublet to what we observe more generally in the market place for the locations concerned; and we assessed whether the sub-let income assumed was commensurate with rental rates observed in those local markets. We found management's estimates to be consistent with these observations.

In order to test that the Group has made all the necessary provisions and not omitted any, we reconciled the Group's integration plans and the announcements made with the components of the provisions recorded. Our reconciliation did not identify significant amounts for which a provision had not been made.

We tested the presentation of exceptional items by assessing whether the classification in the Consolidated statement of comprehensive income is in line with the Group's accounting policy as set out on page 89, and whether the accounting policy is consistent with IFRS as adopted in the EU. We found no issues regarding the accounting policy or its application.

## Taxation

### Area of focus

Refer also to notes 6, 21 and 28 (pages 99 to 100, 111 and 117 to 119)

The acquisition of TAG created an enlarged and more complex Group structure, and included companies set up to accommodate the new debt facilities, with the Group having an increased presence in jurisdictions that have more complex tax legislation. This brings with it an increased complexity to calculating the correct current and deferred tax balances in accordance with local jurisdiction tax rules with a consequential increased risk of error.

At the date of acquisition TAG had a number of uncertain tax positions to which the Group is now exposed.

### How our audit addressed the area of focus

Due to the value of the tax balances inherited on acquisition of TAG our testing focused on the following areas:

- Tax balances within the acquisition balance sheet of TAG including management's assessment of the fair value of uncertain tax positions.
- Movement in the acquired tax balances to 30 April 2015.
- The accounting for uncertain tax positions adopted at year end, as well as how local tax rules have been reflected in the calculation of the year end current and deferred tax balances.
- Additional provisioning associated with the Enlarged Group structure.

In testing the above items we:

- used our own tax expertise to evaluate the assessment and calculations performed by management to estimate the provisions held in respect of uncertain tax positions. To do this, we assessed the provisions recognized in the financial statements using the outcome of prior tax audits conducted on the Group, correspondence between the Group and relevant tax authorities, the view of the Group's tax advisors, and our own experience in these areas. We found the provision to be within an acceptable range.
- identified local tax rules and considered how they impacted the calculation of current and deferred tax balances, including the impact on the income statement, in order to check the adequacy of the tax assets and liabilities recognized at the year end. We found that the Group had reflected identified tax rules in their calculations.
- examined the forecasts prepared by management to support the recoverability of tax losses inherited as part of the acquisition. Based on our testing, we found there to be consistency between the assumptions on which the forecasts were based, and our understanding of the business and its historical performance.
- reconciled, without identifying any material reconciling items, the current tax liability position through agreement of the opening position, agreement of prior year adjustments to the Group's tax correspondence, vouched cash payments and/or refunds and agreement of the current tax credit or charge to the income statement.
- used our local tax expertise in the UK, the US and Luxembourg to consider whether the judgments made by the Group in determining the current tax benefit arising from implementation of the new debt facilities were consistent with the local tax filings, related regulatory documents and advice given by the Group's tax advisors. We found this to be the case.

# Independent auditors' report to the members of Micro Focus International plc

## continued

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The acquisition of TAG has led to a change in the composition of the overall Group, with an increased number of business activities and transactions occurring within the US and Ireland. The centralized function through which the Base Micro Focus controls and processes revenue transactions for the majority of Base Micro Focus' reporting units has remained in place throughout the year.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting unit in the Group by reference to both its financial significance and other indicators of audit risk such as the complexity of operations and the degree of estimation and judgment in the financial results. We also considered the changes to the overall Group as a result of the acquisition of TAG and where the key business activities and transactions now reside.

Following this assessment, we determined that we needed, as we did last year, to focus our audit work within Base Micro Focus on the Group's centralized function. As the Group currently accounts separately for TAG, and because the areas on which our Group audit focused were predominantly in the acquired Group, we instructed PwC US and PwC Ireland, as component auditors, to perform audits of financial information of the significant reporting units within that acquired Group. We visited these locations a number of times to ensure we obtained a full understanding of the operational activities, and appropriately scoped risks and agreed responses to those risks. We also attended audit clearance meetings in these locations and took an active part in reviewing the work undertaken by PwC US and PwC Ireland on the areas of significant risk relevant to their locations. This, together with additional procedures performed at the Group level over the consolidation process gave us the evidence we needed for our opinion on the financial statements as a whole.

In total, locations where we performed audit work accounted for 72% of the Group's cost base and 70% of Group revenues.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	\$10.0m (2014: \$7.6m).
How we determined it	5% of profit before tax and exceptional items.
Rationale for benchmark applied	Consistent with last year, we have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternate benchmark would be more appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$0.5m (2014: \$0.4m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 75, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

### Other required reporting

#### Consistency of other information

#### Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

— information in the Annual Report is:	We have no exceptions to report arising from this responsibility.
— materially inconsistent with the information in the audited financial statements; or	
— apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or	
— otherwise misleading.	
— the statement given by the directors on page 75, in accordance with provision C.1.1 of the UK Corporate Governance Code ('the Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
— the section of the Annual Report on page 43, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

### Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from these responsibilities.

### Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

### Responsibilities for the financial statements and the audit of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 75, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgments against available evidence, forming our own judgments, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Other matter

We have reported separately on the Company financial statements of Micro Focus International plc for the year ended 30 April 2015 and on the information in the Directors' Remuneration Report that is described as having been audited.



**Andrew Paynter**  
(Senior Statutory Auditor)  
for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants and  
Statutory Auditors  
Reading  
7 July 2015



# Consolidated statement of comprehensive income

for the year ended 30 April 2015

	Note	Year ended 30 April 2015			Year ended 30 April 2014		
		Before exceptional items \$'000	Exceptional items \$'000	Total \$'000	Before exceptional items \$'000	Exceptional items \$'000	Total \$'000
<b>Revenue</b>	1,2	<b>834,539</b>	<b>–</b>	<b>834,539</b>	433,058	–	433,058
Cost of sales		(86,861)	(4,629)	(91,490)	(29,912)	–	(29,912)
<b>Gross profit</b>		<b>747,678</b>	<b>(4,629)</b>	<b>743,049</b>	403,146	–	403,146
Selling and distribution costs		(270,864)	(19,611)	(290,475)	(120,669)	–	(120,669)
Research and development expenses		(159,280)	(3,069)	(162,349)	(57,833)	–	(57,833)
Administrative expenses		(73,620)	(69,369)	(142,989)	(68,924)	–	(68,924)
<b>Operating profit</b>		<b>243,914</b>	<b>(96,678)</b>	<b>147,236</b>	155,720	–	155,720
<b>Analyzed as:</b>							
<b>Adjusted Operating profit</b>		<b>347,773</b>	<b>–</b>	<b>347,773</b>	187,480	–	187,480
Share-based compensation		(15,561)	–	(15,561)	(12,837)	–	(12,837)
Amortization of purchased intangibles	10	(88,298)	–	(88,298)	(18,923)	–	(18,923)
Exceptional items	3	–	(96,678)	(96,678)	–	–	–
<b>Operating profit</b>	4	<b>243,914</b>	<b>(96,678)</b>	<b>147,236</b>	155,720	–	155,720
Share of results of associates	14	(788)	–	(788)	–	–	–
Finance costs	5	(53,847)	(2,384)	(56,231)	(8,197)	–	(8,197)
Finance income	5	1,210	–	1,210	318	–	318
<b>Profit before tax</b>	3	<b>190,489</b>	<b>(99,062)</b>	<b>91,427</b>	147,841	–	147,841
Taxation	6	(15,729)	25,753	10,024	(25,759)	–	(25,759)
<b>Profit for the year</b>		<b>174,760</b>	<b>(73,309)</b>	<b>101,451</b>	122,082	–	122,082
<b>Other comprehensive income:</b>							
<b>Items that will not be reclassified to profit or loss</b>							
Actuarial loss on employee benefit schemes	25	(4,196)	–	(4,196)	–	–	–
Deferred tax movement on pension liability	6	1,301	–	1,301	–	–	–
<b>Items that may be subsequently reclassified to profit or loss</b>							
Currency translation differences		(8,375)	–	(8,375)	2,176	–	2,176
<b>Other comprehensive (expense)/income for the year</b>		<b>(11,270)</b>	<b>–</b>	<b>(11,270)</b>	2,176	–	2,176
<b>Total comprehensive income for the year</b>		<b>163,490</b>	<b>(73,309)</b>	<b>90,181</b>	124,258	–	124,258
<b>Attributable to:</b>							
Equity shareholders of the parent		163,792	(73,309)	90,483	124,258	–	124,258
Non-controlling interests		(302)	–	(302)	–	–	–
		<b>163,490</b>	<b>(73,309)</b>	<b>90,181</b>	124,258	–	124,258

			cents	cents
Earnings per share expressed in cents per share				
– basic	8		58.54	84.75
– diluted	8		56.71	82.35
			pence	pence
Earnings per share expressed in pence per share				
– basic	8		36.64	52.92
– diluted	8		35.50	51.43

# Consolidated statement of financial position

## as at 30 April 2015

	Note	2015 \$'000	2014 \$'000
<b>Non-current assets</b>			
Goodwill	9	2,421,745	308,182
Other intangible assets	10	1,132,221	92,533
Property, plant and equipment	12	42,896	21,599
Investments in associates	14	14,901	–
Long-term pension assets	25	14,076	–
Other non-current assets	15	3,909	–
Deferred tax assets	28	249,886	42,631
		<b>3,879,634</b>	<b>464,945</b>
<b>Current assets</b>			
Inventories	16	110	133
Trade and other receivables	17	218,645	107,139
Cash and cash equivalents	18	241,324	32,800
Assets classified as held for sale	11	888	–
		<b>460,967</b>	<b>140,072</b>
<b>Total assets</b>		<b>4,340,601</b>	<b>605,017</b>
<b>Current liabilities</b>			
Trade and other payables	19	161,365	77,876
Borrowings	20	125,733	293,830
Provisions	24	49,334	4,382
Current tax liabilities	21	67,895	42,177
Deferred income	22	583,703	150,168
		<b>988,030</b>	<b>568,433</b>
<b>Non-current liabilities</b>			
Deferred income	23	194,863	12,629
Borrowings	20	1,519,130	–
Retirement benefit obligations	25	32,742	–
Long-term provisions	24	17,919	4,920
Other non-current liabilities	26	5,264	–
Deferred tax liabilities	28	304,592	35,286
		<b>2,074,510</b>	<b>52,835</b>
<b>Total liabilities</b>		<b>3,062,540</b>	<b>621,268</b>
<b>Net assets/(liabilities)</b>		<b>1,278,061</b>	<b>(16,251)</b>
<b>Capital and reserves</b>			
Share capital	29	39,555	37,802
Share premium account	31	16,087	14,546
Merger reserve	32	1,168,104	(27,085)
Capital redemption reserve	32	163,363	103,983
Accumulated losses		(96,479)	(140,324)
Foreign currency translation reserve (deficit)		(13,548)	(5,173)
<b>Total equity/(deficit) attributable to owners of the parent</b>		<b>1,277,082</b>	<b>(16,251)</b>
<b>Non-controlling interests</b>	33	<b>979</b>	<b>–</b>
<b>Total equity/(deficit)</b>		<b>1,278,061</b>	<b>(16,251)</b>

The consolidated financial statements on pages 84 to 130 were approved by the board of directors on 7 July 2015 and were signed on its behalf by:



**Kevin Loosemore**  
Executive Chairman



**Mike Phillips**  
Chief Financial Officer

Registered number: 5134647

## Consolidated statement of changes in equity for the year ended 30 April 2015

	Notes	Share capital \$'000	Share premium account \$'000	Accumulated losses \$'000	Foreign currency translation reserve (deficit) \$'000	Capital redemption reserves \$'000	Merger reserve \$'000	Equity/ (deficit) attributable to the parent \$'000	Non- controlling interests \$'000	Total equity/ (deficit) \$'000
<b>Balance as at 1 May 2013</b>		37,797	13,523	(63,053)	(7,349)	103,983	(27,085)	57,816	–	57,816
Currency translation differences		–	–	–	2,176	–	–	2,176	–	2,176
Profit for the year		–	–	122,082	–	–	–	122,082	–	122,082
<b>Total comprehensive income</b>		–	–	122,082	2,176	–	–	124,258	–	124,258
<b>Transactions with owners:</b>										
Dividends	7	–	–	(62,633)	–	–	–	(62,633)	–	(62,633)
Issue of share capital	29	5	1,023	(9,422)	–	–	–	(8,394)	–	(8,394)
Return of Value to shareholders	30	–	–	(144,664)	–	–	–	(144,664)	–	(144,664)
Expenses and foreign exchange relating to Return of Value	30	–	–	3,934	–	–	–	3,934	–	3,934
Movement in relation to share options		–	–	7,017	–	–	–	7,017	–	7,017
Corporation tax on share options	6	–	–	2,883	–	–	–	2,883	–	2,883
Deferred tax on share options	6	–	–	3,532	–	–	–	3,532	–	3,532
<b>Balance as at 30 April 2014</b>		<b>37,802</b>	<b>14,546</b>	<b>(140,324)</b>	<b>(5,173)</b>	<b>103,983</b>	<b>(27,085)</b>	<b>(16,251)</b>	<b>–</b>	<b>(16,251)</b>
Currency translation differences		–	–	–	(8,375)	–	–	(8,375)	–	(8,375)
Profit for the year		–	–	101,753	–	–	–	101,753	(302)	101,451
Remeasurements on defined benefit pension schemes	25	–	–	(4,196)	–	–	–	(4,196)	–	(4,196)
Deferred tax movement on pension liability	28	–	–	1,301	–	–	–	1,301	–	1,301
<b>Total comprehensive income</b>		–	–	<b>98,858</b>	<b>(8,375)</b>	–	–	<b>90,483</b>	<b>(302)</b>	<b>90,181</b>
<b>Non-controlling interests:</b>										
Non-controlling interests on acquisition of TAG	33,39	–	–	–	–	–	–	–	1,281	1,281
<b>Transactions with owners:</b>										
Dividends	7	–	–	(72,707)	–	–	–	(72,707)	–	(72,707)
<b>Share options:</b>										
Issue of share capital	29	106	1,541	(513)	–	–	–	1,134	–	1,134
Movement in relation to share options		–	–	12,151	–	–	–	12,151	–	12,151
Corporation tax on share options	6	–	–	4,808	–	–	–	4,808	–	4,808
Deferred tax on share options	6	–	–	3,591	–	–	–	3,591	–	3,591
<b>Acquisitions:</b>										
Shares issued to acquire TAG	29,39	13,550	–	–	–	–	1,372,666	1,386,216	–	1,386,216
Expenses relating to relisting on the LSE	39	–	–	(723)	–	–	–	(723)	–	(723)
Reallocation of merger reserve	32	–	–	130,000	–	–	(130,000)	–	–	–
<b>Share reorganization and buy-backs:</b>										
Return of Value – share consolidation	29	(37,866)	–	–	–	11,903	–	(25,963)	–	(25,963)
Issue and redemption of B Shares	29,32	–	–	–	–	47,477	(47,477)	–	–	–
Return of Value – new share issues	29	25,963	–	–	–	–	–	25,963	–	25,963
Return of Value to shareholders	30	–	–	(131,565)	–	–	–	(131,565)	–	(131,565)
Expenses relating to Return of Value	30	–	–	(55)	–	–	–	(55)	–	(55)
<b>Total movements in the year</b>		<b>1,753</b>	<b>1,541</b>	<b>43,845</b>	<b>(8,375)</b>	<b>59,380</b>	<b>1,195,189</b>	<b>1,293,333</b>	<b>979</b>	<b>1,294,312</b>
<b>Balance as at 30 April 2015</b>		<b>39,555</b>	<b>16,087</b>	<b>(96,479)</b>	<b>(13,548)</b>	<b>163,363</b>	<b>1,168,104</b>	<b>1,277,082</b>	<b>979</b>	<b>1,278,061</b>

# Consolidated statement of cash flows

## for the year ended 30 April 2015

	Note	2015 \$'000	2014 \$'000
<b>Cash generated from operations</b>	34	<b>288,741</b>	206,775
Interest paid		(50,482)	(5,752)
Tax received/(paid)		1,798	(26,049)
<b>Net cash generated from operating activities</b>		<b>240,057</b>	174,974
<b>Cash flows from investing activities</b>			
Payments for intangible assets	10	(21,240)	(19,055)
Purchase of property, plant and equipment	12	(4,972)	(2,908)
Costs associated with relisting on the LSE	39	(723)	–
Interest received		320	317
Payment for acquisition of business	39	–	(35,195)
Net cash acquired with acquisitions	39	165,946	3,261
Short-term investments		(2)	–
<b>Net cash inflow/(used) in investing activities</b>		<b>139,329</b>	(53,580)
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary share capital	29	1,647	1,028
Return of Value paid to shareholders	30	(131,565)	(144,664)
Foreign exchange gain on hedging contracts related to the Return of Value		–	4,470
Costs associated with the Return of Value		(55)	(536)
Repayment of bank borrowings		(522,000)	(134,000)
Repayment of bank borrowings on the acquisition of TAG	39	(1,294,726)	–
Net proceeds from bank borrowings		1,903,625	215,000
Bank loan costs		(40,174)	(5,248)
Dividends paid to owners	7	(72,707)	(62,633)
<b>Net cash used in financing activities</b>		<b>(155,955)</b>	(126,583)
Effects of exchange rate changes		(14,907)	46
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>208,524</b>	(5,143)
Cash and cash equivalents at beginning of year		32,800	37,943
<b>Cash and cash equivalents at end of year</b>	18	<b>241,324</b>	32,800

Non-cash payments of \$1,386.2m were made in respect of the issue of shares relating to the acquisition of TAG (note 39).

# Summary of significant accounting policies

## for the year ended 30 April 2015

### General information

Micro Focus International plc ('the Company') is a public limited Company incorporated and domiciled in the UK. The address of its registered office is, The Lawn, 22-30 Old Bath Road, Newbury, RG14 1QN, UK. Micro Focus International plc and its subsidiaries (together 'the Group') provide innovative software to clients around the world enabling them to dramatically improve the business value of their enterprise applications. The Group has a presence in 36 countries worldwide and employs approximately 4,400 people.

The Company is listed on the London Stock Exchange.

The Group consolidated financial statements were authorized for issue by the board of directors on 7 July 2015.

### I Group accounting policies

#### A Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with EU endorsed International Financial Reporting Standards ('IFRS'), interpretations issued by the IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the consolidated statement of comprehensive income.

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 the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below in II, 'Critical accounting estimates and assumptions'.

The principal accounting policies adopted by the Group in the preparation of the consolidated financial statements are set out below. These policies have been applied consistently to all periods presented unless stated otherwise.

### B Consolidation

The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company, its subsidiaries and the Group's share of its interests in associates prepared at the consolidated statement of financial position date.

#### Subsidiaries

Subsidiaries are entities controlled by the Group. The Group has control over an entity where the Group is exposed to, or has rights to, variable returns from its involvement within the entity and it has the power over the entity to effect those returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing control. Control is presumed to exist when the Group owns more than half of the voting rights (which does not always equal percentage ownership) unless it can be demonstrated that ownership does not constitute control. The results of subsidiaries are consolidated from the date on which control passes to the Group. The results of disposed subsidiaries are consolidated up to the date on which control passes from the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, with costs directly attributable to the acquisition being expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Where new information is obtained within the 'measurement period' (defined as the earlier of the period until which the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable, or one year from the acquisition date) about facts and circumstances that existed as at the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date, the Group recognizes these adjustments to the acquisition balance sheet with an equivalent offsetting adjustment to goodwill. Where new information is obtained after this measurement period has closed, this is reflected in the post-acquisition period.

For partly owned subsidiaries, the allocation of net assets and net earnings to outside shareholders is shown in the line 'Attributable to non-controlling interests' on the face of the consolidated statement of comprehensive income and the consolidated statement of financial position.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

At 30 April 2015, the Group had a 68.3% interest in Novell Japan Ltd.

#### Associates

An associate is an entity, that is neither a subsidiary or a joint venture, over whose operating and financial policies the Group exercises significant influence. Significant influence is presumed to exist where the Group has between 20% and 50% of the voting rights, but can also arise where the Group holds less than 20% if it has the power to be actively involved and influential in policy decisions affecting the entity.

Associates are accounted for under the equity method, where the consolidated statement of comprehensive income and the consolidated financial position includes the Group's share of their profits and losses and net assets, less any impairment in value. This involves recording the investment initially at cost to the Group, which therefore includes any goodwill on acquisition and then, in subsequent periods, adjusting the carrying amount of the investment to reflect the Group's share of the associates' post-acquisition profits and losses, which is recognized in the consolidated statement of comprehensive income, and its share of post-acquisition comprehensive income, which is recognized within the line item 'share of other comprehensive income of equity accounted units' in the consolidated statement of comprehensive income. Unrealized gains arising from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates.

At 30 April 2015 the Group had a 14.3% interest (\$14.9m) investment in Open Invention Network LLC ('OIN'), which it accounts for as an associate given the Group's significant influence over OIN's operation.



## C Revenue recognition

The Group recognizes revenues from sales of software Licences (including Intellectual Property and Patent rights, to end-users, resellers and Independent Software Vendors (ISV)), 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. ISV revenue includes fees based on end usage of ISV applications that have our software embedded in their applications. When the fees for software upgrades and enhancements, maintenance, consulting and training are bundled with the Licence fee, they are unbundled using the Group's objective evidence of the fair value of the elements represented by the Group's customary pricing for each element in separate transactions. If evidence of fair value exists for all undelivered elements and there is no such evidence of fair value established for delivered elements, revenue is first allocated to the elements where fair value has been established and the residual amount is allocated to the delivered elements. If evidence of fair value for any undelivered element of the arrangement does not exist, all revenue from the arrangement is deferred until such time that there is evidence of delivery.

If the arrangement includes acceptance criteria, revenue is not recognized until the Group can objectively demonstrate that the acceptance criteria have been met, or the acceptance period lapses, whichever is earlier. The Group recognizes Licence revenue derived from sales to resellers upon delivery to resellers, provided that all other revenue recognition criteria are met; otherwise revenue is deferred and recognized upon delivery of the product to the end-user. Where the Group sells access to a Licence for a specified period of time and collection of a fixed or determinable fee is reasonably assured, Licence revenue is 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.

Rebates paid to partners as part of a contracted program are netted against revenue where the rebate paid is based on the achievement of sales targets made by the partner, unless the Company receives an identifiable good or service from the partner that is separable from the sales transaction and for which the Group can reasonably estimate fair value.

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 2017 onwards (pending EU endorsement). 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. The Group 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. We note that the IASB has published an exposure draft to propose the deferral of the effective date of IFRS 15 to 1 January 2018.

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', the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker ('the Executive Committee'). Operating segments are consistent with those used in internal management reporting and the measure used by the Executive Committee is the Adjusted Operating Profit for the Group as a whole as set out in note 4 and Adjusted EBITDA and Underlying Adjusted EBITDA as set out in note 4. The Group has operating segments relating to the three geographic regions and TAG. The Executive Committee has delegated responsibilities for directly managed costs to the Regional Presidents of the three

geographic regions and TAG of the Group and then allocated centrally managed costs to those regions, consequently for the four operating segments the Group measures Adjusted Operating Profit.

## 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 the Group's financial performance. Examples of transactions which may be considered of an exceptional nature include major restructuring programs or cost of integrating acquired businesses.

## F Employee benefit costs

### a) Pension obligations

The Group operates various pension schemes, including both defined contribution and defined benefit pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement. This is usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. Certain long-term pension assets do not meet the definition of plan assets as they have not been pledged to the plan and are subject to the creditors of the Group. Such assets are recorded separately in the consolidated statement of financial position as long-term pension assets. The defined benefit obligation

# Summary of significant accounting policies

## for the year ended 30 April 2015

### continued

is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to mature approximating to the terms of the related pension obligation.

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

The current service cost of the defined benefit plan, recognized in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

#### b) Share-based compensation

The Group operated various equity-settled, share-based compensation plans during the year.

The fair value of the employee services received in exchange for the grant of the shares or options 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 or options granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Market vesting conditions are taken into account when determining the fair value of the options at grant date. At each consolidated statement of financial position date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.

The shares are recognized when the options are exercised and the proceeds received allocated between ordinary shares and share premium account.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. The Additional Share Grants have been valued using the Monte-Carlo simulation pricing model.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

#### G Foreign currency translation

##### a) Functional and presentation currency

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

##### b) Transactions and balances

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

##### c) Group companies

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

- i) Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- ii) Income and expenses for each consolidated statement of comprehensive income item are translated at average exchange rates (unless this average is

not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- iii) All resulting exchange differences are 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, with the exception for goodwill arising before 1 May 2004 which is treated as an asset of the Company and expressed in the Company's functional currency.

#### d) Exchange rates

The most important foreign currencies for the Group are pounds Sterling, the Euro and Japanese Yen. The exchange rates used are as follows:

	2015		2014	
	Average	Closing	Average	Closing
£1 = \$	1.60	1.54	1.60	1.68
€1 = \$	1.24	1.10	1.35	1.38
100 Yen = 1	0.90	0.84	0.81	0.97

#### H Intangible assets

##### a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each area of operation by each primary reporting segment.

As permitted under IFRS 1, the Group has elected to deem the UK GAAP net book value at 1 May 2004 as the IFRS cost of goodwill at transition date.

## b) Computer software

Computer software Licences 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. 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

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

Purchased software	Three to five years
Development costs	Three years
Trade names	Three to 20 years
Technology	Three to 10 years
Customer relationships	Two to 10 years
Non-compete agreements	Three to five years

## I Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits

associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred. Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life as follows:

Buildings	30 years
Leasehold improvements	Three to 10 years
Fixtures and fittings	Two to seven years
Computer equipment	One to five years

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

Property held for sale is measured at the lower of its carrying amount or estimated fair value less costs.

## J 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 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 – cash-generating units. 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.

## K Inventories

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

When work has been performed and the revenue is not yet 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.

## L 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 the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the consolidated statement of comprehensive income.

## M Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

## N 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 consolidated statement of comprehensive income over the period of borrowing on an effective interest basis.

## O Leases

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

# Summary of significant accounting policies

## for the year ended 30 April 2015

### continued

#### P Taxation

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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 consolidated 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 the Group 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 consolidated statement of financial position date.

#### Q Ordinary shares, share premium and dividend distribution

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Dividend distributions to the Company's shareholders are recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognized when they are paid.

#### R Financial instruments and hedge accounting

Financial assets and liabilities are recognized in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provision of the instrument. Trade receivables are non-interest bearing and are stated at their fair value less the amount of any appropriate provision for irrecoverable amounts. Trade payables are non-interest bearing and are stated at their fair value. In accordance with its treasury policy, the Group does not typically hold or issue derivative financial instruments for hedge accounting or trading purposes.

#### S Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is 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.

#### T Adoption of new and revised International Financial Reporting Standards

The accounting policies adopted in these consolidated financial statements are consistent with those of the annual financial statements for the year ended 30 April 2014, with the exception of the following standards, amendments to or interpretations of published standards adopted during the year:

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

- IFRS 10 'Consolidated financial statements' (endorsed as effective annual periods beginning on or after 1 January 2014). This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements.
- IFRS 11 'Joint arrangements' (endorsed as effective annual periods beginning on or after 1 January 2014) provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12 'Disclosures of interests in other entities' (endorsed as effective annual periods beginning on or after 1 January 2014) includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance-sheet vehicles.
- Amendments to IFRS 10, 11 and 12 on transition guidance (endorsed as effective annual periods beginning on or after 1 January 2014) provide additional transition relief in IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period.
- IAS 27 (revised 2011) 'Separate financial statements' (endorsed as effective annual periods beginning on or after 1 January 2014) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IAS 28 (revised 2011) 'Associates and joint ventures' (endorsed as effective annual periods beginning on or after 1 January 2014) includes the requirements for joint ventures, as well as associates to be equity accounted following the issue of IFRS 11.
- Amendments to IAS 32 on Financial instruments asset and liability offsetting (effective annual periods on or after 1 January 2014) updates the application guidance in IAS 32 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.



- Amendment to IAS 36 'Impairment of assets' on recoverable amount disclosures (effective annual periods on or after 1 January 2014) address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
  - (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 the Group:
    - Amendment to IAS 19 regarding defined benefit plans applies for periods beginning on or after 1 July 2014. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans.
    - Annual Improvements 2012 includes amendments to IFRS 2 'Share-based Payment', IFRS 3 'Business Combinations', IFRS 8 'Operating Segments', IFRS 13 'Fair Value Measurement', IAS 16 'Property, Plant and Equipment', IAS 38 'Intangible Assets', IFRS 9 'Financial Instruments', IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IAS 39 'Financial Instruments – Recognition and Measurement' applies for periods beginning on or after 1 July 2014.
    - Annual Improvements 2013 includes amendments to IFRS 1 'First Time Adoption', IFRS 3 'Business Combinations', IFRS 13 'Fair Value Measurement' and IAS 40 'Investment Property' applies for periods beginning on or after 1 July 2014.
    - Amendment to IFRS 11 'Joint Arrangements' on acquisition of an interest in a joint operation applies for periods beginning on or after 1 January 2016 subject to EU endorsement. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
    - Amendment to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets', on depreciation and amortization applies for periods beginning on or after 1 January 2016 subject to EU endorsement. In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
    - Amendments to IAS 27 'Separate financial statements' on the equity method applies to periods beginning on or after 1 January 2016 subject to EU endorsement. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
    - Amendments to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures' applies to periods beginning on or after 1 January 2016 subject to EU endorsement. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
    - Annual Improvements 2014 includes amendments to IFRS 5 'Non-current Assets Held For Sale and Discontinued Operations', IFRS 7 'Financial Instruments: Disclosures', IAS 19 'Employee Benefits' and IAS 34 'Interim Financial Reporting' applies for periods beginning on or after 1 January 2016.
    - Amendment to IAS 1 'Presentation of financial statements' as part of the IASB initiative to improve presentation and disclosure in financial reports, effective for annual periods beginning on or after 1 January 2016, subject to EU endorsement.
    - Amendment to IFRS 10 and IAS 28 on investment entities applying the consolidation exception applies to periods on or after 1 January 2016, subject to EU endorsement. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
    - 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 2017 onwards (pending EU endorsement). Earlier application is permitted. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Group is currently assessing the impact of IFRS 15 but it is too early to determine how significant the effect on reported results and financial position will be and note that the IASB has published an exposure draft to propose the deferral of the effective date of IFRS 15 to 1 January 2018.
    - IFRS 9 'Financial instruments'. This standard replaces the guidance in IAS 39 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.
- Apart from IFRS 15, the directors anticipate that the future introduction of those standards, amendments and interpretations listed above will not have a material impact on the consolidated financial statements.

## II Critical accounting estimates and assumptions

In preparing the consolidated financial statements, the Group has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Group regularly reviews these estimates and updates them as required. Actual results could differ from these estimates. Unless otherwise indicated, the Group does not believe that it is likely that materially different amounts would be reported related to the accounting estimates and assumptions described below. The Group considers the following to be a description of the most significant estimates, which require the Group to make subjective and complex judgments, and matters that are inherently uncertain.



# Summary of significant accounting policies

## for the year ended 30 April 2015

### continued

#### A Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy J. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the Group's impairment review and sensitivities to changes in assumptions are disclosed in note 9.

#### B Income taxes

The Group 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. The Group 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.

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

#### C Acquisitions

When making acquisitions, the Group has to make judgments and best estimates about the fair value allocation of the purchase price. Where acquisitions are significant, appropriate advice is sought from professional advisors before making such allocations otherwise valuations are done by management using consistent methodology used on prior year acquisitions where appropriate professional advice was sought. The valuation of goodwill and other intangibles is tested annually or whenever there are changes in circumstances indicating that the carrying amounts may not be recoverable. These tests require the use of estimates. Note 9 gives details of the Group's impairment reviews.

#### D Development expenditure

The Group invests in the development of future products in accordance with the accounting policy H(c). The assessment as to whether this expenditure will achieve a complete product for which the technical feasibility is assured is a matter of judgment, as is the forecasting of how the product will generate future economic benefit. Finally, the period of time over which the economic

benefit associated with the expenditure occurred will arise is also a matter of judgment. These judgments are made by evaluating the development plan prepared by the research and development department and approved by management, regularly monitoring progress by using an established set of criteria for assessing technical feasibility and benchmarking to other products.

#### E Revenue recognition

The key areas of judgment in respect of recognizing revenue are the timing of recognition and the fair value allocation between Licence and Maintenance revenue, specifically in relation to recognition and deferral of revenue on support contracts where management assumptions and estimates are necessary.

#### III Financial risk factors

The Group's multi-national operations expose it to a variety of financial risks that include the effects of changes in credit risk, foreign currency risk, interest rate risk and liquidity risk. Risk management is carried out by a central treasury department under policies approved by the board of directors. Group treasury identifies and evaluates financial risks alongside the Group's operating units. The board provides written principles for risk management together with specific policies covering areas such as foreign currency risk, interest rate risk, credit risk and liquidity risk, use of derivative financial instruments and non-derivative financial instruments as appropriate, and investment of excess funds.

In accordance with the treasury policy, the Group does not typically hold or issue derivative financial instruments.

#### A Credit risk

Financial instruments which potentially expose the Group to a concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash equivalents are deposited with high-credit quality financial institutions. The Group provides credit to customers in the normal course of business. Collateral is not required for those receivables, but on-going credit evaluations of customers' financial conditions are performed. The Group maintains a provision for impairment based upon the expected collectability of accounts receivable. The Group sells products and services to a wide range of customers around the world and therefore believes there is no material concentration of credit risk.

#### B Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the UK Sterling, Yen 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.

There were no hedging transactions in place at 30 April 2015. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

#### C Interest rate risk

The Group's income and cash generated from operations are substantially independent of changes in market interest rates. The Group's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group does not use interest rate swaps to manage its cash flow interest rate risk at the present time due to low market rates.

#### D Liquidity risk

Central treasury carries out cash flow forecasting for the Group to ensure that it has sufficient cash to meet operational requirements and to allow the repayment of the bank facility.

Surplus cash in the operating units over and above what is required for working capital needs is transferred to Group treasury. These funds are used to repay bank borrowings or invested in interest bearing current accounts, time deposits or money market deposits of the appropriate maturity period determined by consolidated cash forecasts.

Trade payables arise in the normal course of business and are all current. Onerous lease provisions are expected to mature between less than 12 months and nine years.

At 30 April 2015 gross borrowings of \$1,700.0m related to our senior secured debt facilities (see note 20). \$137.8m is current of which \$75.0m is the revolving credit facility. On 20 November 2014 the borrowings under the former unsecured \$420.0m revolving credit facility were repaid and replaced with the new banking facilities detailed in note 20.

# Notes to the consolidated financial statements

## for the year ended 30 April 2015

### 1 Segmental reporting

In accordance with IFRS 8 'Operating Segments', the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker ('the Executive Committee'). Operating segments are consistent with those used in internal management reporting and the measure used by the Executive Committee is the Adjusted Operating Profit for the Group as a whole as set out in note 4.

Operating segments for the year ended 30 April 2015:

	Note	Base Micro Focus			TAG \$'000	Total \$'000
		North America \$'000	International \$'000	Asia Pacific and Japan \$'000		
<b>Segment revenue</b>		<b>201,390</b>	<b>168,528</b>	<b>48,587</b>	<b>416,034</b>	<b>834,539</b>
Directly managed costs		(33,753)	(48,905)	(12,847)	(135,578)	(231,083)
Allocation of centrally managed costs		(52,929)	(42,948)	(13,879)	(145,927)	(255,683)
<b>Total segment costs</b>		<b>(86,682)</b>	<b>(91,853)</b>	<b>(26,726)</b>	<b>(281,505)</b>	<b>(486,766)</b>
Adjusted operating profit	4	114,708	76,675	21,861	134,529	347,773
Exceptional items	3					(96,678)
Share-based compensation charge	35					(15,561)
Amortization of purchased intangibles	10					(88,298)
<b>Operating profit</b>	4					<b>147,236</b>
<b>Total assets</b>						<b>4,340,601</b>
<b>Total liabilities</b>						<b>3,062,540</b>

Adjusted operating profit includes \$1.0m (2014: \$Nil) of impairment charges (see note 10). Of the \$96.7m of exceptional costs, \$46.9m relates to the TAG operating segment. Management recharges of \$12.4m were made in the year between TAG and Base Micro Focus.

Operating segments for the year ended 30 April 2014:

	Note	Base Micro Focus			TAG \$'000	Total \$'000
		North America \$'000	International \$'000	Asia Pacific and Japan \$'000		
<b>Segment revenue</b>		199,900	178,616	54,542	–	433,058
Directly managed costs		(35,905)	(59,758)	(14,666)	–	(110,329)
Allocation of centrally managed costs		(65,833)	(51,325)	(18,091)	–	(135,249)
<b>Total segment costs</b>		<b>(101,738)</b>	<b>(111,083)</b>	<b>(32,757)</b>	<b>–</b>	<b>(245,578)</b>
Adjusted operating profit	4	98,162	67,533	21,785	–	187,480
Exceptional items	3					–
Share-based compensation charge	35					(12,837)
Amortization of purchased intangibles	10					(18,923)
<b>Operating profit</b>	4					<b>155,720</b>
<b>Total assets</b>						<b>605,017</b>
<b>Total liabilities</b>						<b>621,268</b>

### Analysis by geography

The Group is domiciled in the UK. The total revenue from external customers in the UK is \$46.6m (2014: \$25.1m), the total in the USA is \$375.6m (2014: \$185.1m) and the total of revenue from external customers from other countries is \$412.3m (2014: \$222.9m). The breakdown of the major component of the total revenue from external customers from other countries is disclosed above.

The total of non-current assets other than financial instruments and deferred tax assets located in the UK is \$149.7m (2014: \$156.2m), the total in the USA is \$3,437.3m (2014: \$246.1m) and the total of such non-current assets located in other countries is \$42.7m (2014: \$20.0m). Segmental non-current assets are based on the location of the assets. They exclude trade and other receivables, derivative financial instruments and deferred tax.

# Notes to the consolidated financial statements

for the year ended 30 April 2015

continued

## 2 Supplementary information

Set out below is an analysis of revenue recognized between the principal product portfolios for the year ended 30 April 2015.

	Base Micro Focus						TAG					
	CD \$'000	MS \$'000	Borland (Test) \$'000	CORBA \$'000	Niche \$'000	Sub-total \$'000	Attachmate \$'000	Novell \$'000	NetIQ \$'000	SUSE \$'000	Sub-total \$'000	Total \$'000
Licence	97,605	26,340	19,411	17,978	1,415	162,749	59,151	11,499	27,605	–	98,255	261,004
Maintenance	123,209	42,555	44,845	25,466	7,175	243,250	39,167	81,561	76,704	–	197,432	440,682
Subscription	–	–	–	–	–	–	–	–	–	98,178	98,178	98,178
Consulting	693	8,164	3,292	349	8	12,506	2,054	3,187	14,002	2,926	22,169	34,675
<b>Total</b>	<b>221,507</b>	<b>77,059</b>	<b>67,548</b>	<b>43,793</b>	<b>8,598</b>	<b>418,505</b>	<b>100,372</b>	<b>96,247</b>	<b>118,311</b>	<b>101,104</b>	<b>416,034</b>	<b>834,539</b>

Set out below is an analysis of revenue recognized between the principal product portfolios for the year ended 30 April 2014.

	Base Micro Focus						TAG					
	CD \$'000	MS \$'000	Borland (Test) \$'000	CORBA \$'000	Niche \$'000	Sub-total \$'000	Attachmate \$'000	Novell \$'000	NetIQ \$'000	SUSE \$'000	Sub-total \$'000	Total \$'000
Licence	107,733	28,882	19,396	19,343	2,541	177,895	–	–	–	–	–	177,985
Maintenance	122,871	42,311	41,695	26,739	9,567	243,183	–	–	–	–	–	243,183
Subscription	–	–	–	–	–	–	–	–	–	–	–	–
Consulting	919	6,255	3,905	687	214	11,980	–	–	–	–	–	11,980
<b>Total</b>	<b>231,523</b>	<b>77,448</b>	<b>64,996</b>	<b>46,769</b>	<b>12,322</b>	<b>433,058</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>433,058</b>

## 3 Profit before tax

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

	Note	2015 \$'000	2014 \$'000
Staff costs	35	363,766	185,916
Depreciation of property, plant and equipment			
– owned assets	12	7,674	3,846
Amortization of intangibles	10	109,092	38,047
Impairment of intangible assets	10	12,626	–
Inventories			
– cost of inventories recognized as a (credit)/expense (included in cost of sales)	16	(4)	87
Operating lease rentals payable			
– plant and machinery		2,284	1,424
– property		16,432	8,134
Provision for receivables impairment	17	965	727
Foreign exchange (gains)/losses		(9,445)	4,400

### 3 Profit before tax continued

#### Exceptional items

The exceptional costs of \$99.1m shown in the consolidated statement of comprehensive income relate to costs incurred as part of the acquisition of TAG which completed on 20 November 2014. The total cash outflow of exceptional items during the year, after the acquisition of TAG, was \$34.6m.

	2015 \$'000	2014 \$'000
<b>Reported within operating profit:</b>		
Acquisition costs	26,860	—
Property costs	18,200	—
Severance costs	30,734	—
Impairment of intangible assets (note 10)	11,642	—
Impairment of prepayments	1,657	—
Integration costs	7,585	—
	<b>96,678</b>	—
<b>Reported within finance costs:</b>		
Accelerated amortization of facility fees	2,384	—
	<b>2,384</b>	—
	<b>99,062</b>	—

The acquisition costs are external costs in evaluating and completing the acquisition of TAG. The costs mostly relate to due diligence work, legal work on the acquisition agreements and professional advisors on the transaction.

The property costs relate to the cost of exiting entire buildings or floors of buildings which we are leasing following the integration of TAG. The majority of the costs relate to TAG properties in North America.

Severance costs arose from integrating with TAG. \$15.5m relates to staff on Micro Focus contracts and \$15.2m to staff on TAG contracts.

The impairment of intangible assets and prepayments relates mostly to the write off of TAG computer systems and applications that have no future value for the Group.

Integration costs arose from the work done in bringing together the Base Micro Focus and TAG organizations into one organization.

The accelerated amortization of facility fees relates to costs that were expensed early as a result of taking on new borrowings to finance the acquisition of TAG.

#### Services provided by the Group's auditors and network of firms

During the year the Group obtained the following services from the Group's auditors as detailed below:

	2015 \$'000	2014 \$'000
Audit of Company	538	173
Audit of subsidiaries	2,765	613
<b>Total audit</b>	<b>3,303</b>	<b>786</b>
Audit related assurance services	56	78
Tax compliance services	22	6
Tax advisory services	180	—
<b>Services relating to taxation</b>	<b>202</b>	<b>84</b>
<b>Other non-audit services</b>	<b>5,059</b>	<b>555</b>
<b>Total</b>	<b>8,620</b>	<b>1,425</b>

The Group's auditors, PwC, provide non-audit services for the Group over and above the external audit, principally tax compliance, tax advice and due diligence work. The board of directors review the level of non-audit fees and is confident that the objectivity and independence of the auditors is not impaired in any way by reason of its non-audit work.

Other services in the year relate primarily to the auditors' work as Reporting Accountants in respect of the Prospectus issued for the acquisition of TAG, corporate advice on the Return of Value and acquisition due diligence costs.

# Notes to the consolidated financial statements

for the year ended 30 April 2015

continued

## 4 Reconciliation of operating profit to EBITDA

	Note	2015 \$'000	2014 \$'000
<b>Operating profit</b>	1	<b>147,236</b>	155,720
Exceptional items	3	<b>96,678</b>	–
Share-based compensation charge		<b>15,561</b>	12,837
Amortization of purchased intangibles	10	<b>88,298</b>	18,923
<b>Adjusted operating profit</b>		<b>347,773</b>	187,480
Depreciation of property, plant and equipment	12	<b>7,674</b>	3,846
Amortization of software intangibles	10	<b>2,189</b>	640
<b>Adjusted EBITDA</b>		<b>357,636</b>	191,966
Amortization and impairment of development costs	10	<b>19,589</b>	18,484
<b>Facility EBITDA</b>		<b>377,225</b>	210,450
<b>Operating profit</b>	1	<b>147,236</b>	155,720
Amortization of intangible assets	10	<b>110,076</b>	38,047
Depreciation of property, plant and equipment	12	<b>7,674</b>	3,846
<b>EBITDA</b>		<b>264,986</b>	197,613
Amortization and impairment of development costs	10	<b>(19,589)</b>	(18,484)
Share-based compensation charge		<b>15,561</b>	12,837
Exceptional items	3	<b>96,678</b>	–
<b>Adjusted EBITDA</b>		<b>357,636</b>	191,966
Foreign exchange (credit)/loss		<b>(9,445)</b>	4,400
Net amortization of development costs	10	<b>99</b>	36
<b>Underlying Adjusted EBITDA</b>		<b>348,290</b>	196,402

The directors use EBITDA, EBITDA before exceptional items and share-based compensation charge but after amortization and impairment of development costs ('Adjusted EBITDA') and Adjusted EBITDA before foreign exchange gains and losses and net amortization/capitalization of development costs ('Underlying Adjusted EBITDA') as key performance measures of the business.

Facility EBITDA was the measure used under the Group's \$420m Revolving Credit Facility to determine the Net Debt to Facility EBITDA covenant calculation. Whilst the \$420m facility was repaid and cancelled as part of the refinancing on the acquisition, for consistency the directors will continue to use the metric Net Debt to Facility EBITDA.

The Facility EBITDA for the year ended 30 April 2015 was \$377.2m and on a pro-forma basis it was \$537.2m.

## 5 Finance income and finance costs

	2015 \$'000	2014 \$'000
<b>Finance costs</b>		
Finance costs on bank borrowings	<b>43,559</b>	5,187
Commitment fees	<b>826</b>	884
Amortization of facility costs and original issue discounts	<b>6,362</b>	1,541
Interest on tax provisions	<b>2,643</b>	–
Net interest expense on retirement obligations	<b>261</b>	–
Other	<b>196</b>	585
	<b>53,847</b>	8,197
<b>Included within exceptional items (note 3):</b>		
Accelerated amortization of facility fees	<b>2,384</b>	–
<b>Total</b>	<b>56,231</b>	8,197



## 5 Finance income and finance costs continued

	2015 \$'000	2014 \$'000
<b>Finance income</b>		
Bank interest	577	318
Other	633	–
<b>Total</b>	<b>1,210</b>	<b>318</b>
<b>Net finance cost</b>	<b>55,021</b>	<b>7,879</b>

## 6 Taxation

	2015 \$'000	2014 \$'000
<b>Current tax</b>		
Current year	51,194	34,432
Adjustments to tax in respect of previous years	(7,629)	(4,580)
Impact of change in tax rates	(38)	–
	<b>43,527</b>	<b>29,852</b>
<b>Deferred tax</b>		
Current year	(51,942)	784
Adjustments to tax in respect of previous years	(1,524)	(3,700)
Impact of change in tax rates	(85)	(1,177)
	<b>(53,551)</b>	<b>(4,093)</b>
<b>Total</b>	<b>(10,024)</b>	<b>25,759</b>

A deferred tax credit of \$3.6m (2014: \$3.5m credit) and a corporation tax credit of \$4.8m (2014: \$2.9m credit) have been recognized in equity in the year in relation to share options. A deferred tax credit of \$1.3m (2014: \$nil) has been recognized in the consolidated statement of changes in equity in the year in relation to the defined benefit pension schemes.

The tax for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 20.9% (2014: 22.8%). The differences are explained below:

	2015 \$'000	2014 \$'000
<b>Profit before taxation</b>	<b>91,427</b>	<b>147,841</b>
Tax at UK corporation tax rate of 20.9% (2014: 22.8%)	19,108	33,708
Effects of:		
Tax rates other than the UK standard rate	(7,140)	1,685
Expenses not deductible	7,000	5,151
Movement in deferred tax not recognized	(9,026)	(2,374)
Effect of change in tax rates	(123)	(1,177)
UK patent box benefit	(6,000)	–
Other permanent differences	(4,690)	(4,899)
<b>Adjustments to tax in respect of previous years:</b>		
Current tax – UK patent box	(4,809)	–
Current tax – other	(2,820)	(4,580)
Deferred tax	(1,524)	(1,755)
<b>Total taxation</b>	<b>(10,024)</b>	<b>25,759</b>

# Notes to the consolidated financial statements

## for the year ended 30 April 2015

### continued

#### 6 Taxation continued

The movement in deferred tax assets and liabilities during the year is provided in note 28. The movement in deferred tax not recognized of \$9.0m (2014: \$2.4m) includes \$5.1m (2014: \$nil) relating to the recognition of US tax attributes which are now expected to be recoverable as a result of the acquisition during the year of TAG and \$3.3m (2014: \$1.9m) relating to the recognition of additional deferred tax assets for tax losses.

The Group finalized its first claim under the UK Patent box regime during the year. This has resulted in the recognition of a prior year benefit of \$4.8m and a current year benefit of \$6.0m.

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. As this reduction was substantively enacted by the consolidated statement of financial position date it is reflected in the Annual Report and Accounts for the year ended 30 April 2015. Accordingly, the Company's profits for this accounting year are taxed at an effective rate of 20.9%.

#### 7 Dividends

	2015 \$'000	2014 \$'000
<b>Equity – ordinary</b>		
2014 final paid 30.0 cents (2013: 28.1 cents) per ordinary share	<b>40,215</b>	43,072
2015 interim paid 15.4 cents (2014: 14.0 cents) per ordinary share	<b>32,492</b>	19,561
<b>Total</b>	<b>72,707</b>	62,633

The directors are proposing a final dividend in respect of the year ended 30 April 2015 of 33.0 cents per share which will utilize approximately \$71,692,000 of total equity. The directors have concluded that the Company has sufficient reserves to pay the dividend. It has not been included as a liability in these financial statements as it has not yet been approved by shareholders.

#### 8 Earnings per share

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

	Year ended 30 April 2015				Year ended 30 April 2014			
	Total earnings \$'000	Weighted average number of shares '000	Per share amount Cents	Per share amount Pence	Total earnings \$'000	Weighted average number of shares '000	Per share amount Cents	Per share amount Pence
<b>Basic EPS</b>								
Earnings attributable to ordinary shareholders <sup>1</sup>	<b>101,753</b>	<b>173,829</b>	<b>58.54</b>	<b>36.64</b>	122,082	144,057	84.75	52.92
<b>Effect of dilutive securities</b>								
Options		<b>5,583</b>				4,193		
<b>Diluted EPS</b>								
Earnings attributable to ordinary shareholders	<b>101,753</b>	<b>179,412</b>	<b>56.71</b>	<b>35.50</b>	122,082	148,250	82.35	51.43
<b>Supplementary EPS</b>								
<b>Basic EPS</b>	<b>101,753</b>	<b>173,829</b>	<b>58.54</b>	<b>36.64</b>	122,082	144,057	84.75	52.92
Tax adjustments <sup>2</sup>	(9,939)				–			
Adjusted items <sup>3</sup>	<b>202,921</b>				31,760			
Tax relating to above items	(62,528)				(9,323)			
<b>Basic EPS – adjusted</b>	<b>232,207</b>	<b>173,829</b>	<b>133.58</b>	<b>83.61</b>	144,519	144,057	100.32	62.65
<b>Diluted EPS</b>	<b>101,753</b>	<b>179,412</b>	<b>56.71</b>	<b>35.50</b>	122,082	148,250	82.35	51.43
Tax adjustments <sup>2</sup>	(9,939)				–			
Adjusted items <sup>3</sup>	<b>202,921</b>				31,760			
Tax relating to above items	(62,528)				(9,323)			
<b>Diluted EPS – adjusted</b>	<b>232,207</b>	<b>179,412</b>	<b>129.43</b>	<b>81.01</b>	144,519	148,250	97.48	60.88

- Earnings attributable to ordinary shareholders are the profit for the year of \$101,451,000 (2014: \$122,082,000) excluding amount attributable to non-controlling interests of \$302,000 (2014: \$nil).
- Tax adjustments comprise a \$5.1m (2014: \$nil) deferred tax benefit from the recognition of additional US tax attributes as a result of the acquisition of TAG and a prior year current tax benefit of \$4.8m (2014: \$nil) in respect of the UK Patent Box.
- Adjusted items comprise amortization of acquired intangibles \$88,298,000 (2014: \$18,923,000), share-based compensation \$15,561,000 (2014: \$12,837,000), exceptional items \$96,678,000 (2014: \$Nil) and exceptional interest costs of \$2,384,000 (2014: \$Nil). Estimated tax relief on these items is as shown above.

Earnings per share expressed in pence has used the average exchange rate for the year of \$1.60 to £1 (2014: \$1.60 to £1).

## 9 Goodwill

	Note	2015 \$'000	2014 \$'000
Cost and net book amount			
At 1 May		<b>308,182</b>	284,661
Hindsight adjustment	39	<b>213</b>	–
Acquisitions	39	<b>2,113,350</b>	23,521
<b>At 30 April</b>		<b>2,421,745</b>	308,182

A segment-level summary of the goodwill allocation is presented below:

North America		<b>201,938</b>	202,066
International		<b>103,018</b>	102,677
Asia Pacific and Japan		<b>3,439</b>	3,439
TAG		<b>2,113,350</b>	–
<b>At 30 April</b>		<b>2,421,745</b>	308,182

The hindsight period adjustments relate to transactions that occurred within 12 months of the acquisition date and are attributable to OpenFusion CORBA assets (increase of \$342,000) and AccuRev (decrease of \$129,000), both acquired during the year ended 30 April 2014 (note 39).

The additions to goodwill in the year relate to the acquisition of TAG (note 39). Of the additions to goodwill, there is no amount that is expected to be deductible for tax purposes.

Goodwill acquired through business combinations has been allocated for impairment testing purposes to each individual cash-generating unit ('CGU'). The Group conducts annual impairment tests 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 the Group has three CGUs being the three geographical segments (North America, International and Asia Pacific and Japan) for the Base Micro Focus business and one CGU for TAG where this business was run as one business with management incentivized on the Group performance.

An impairment test is a comparison of the carrying value of the assets of the CGU with their recoverable amount; where the recoverable amount is less than the carrying value, an impairment results. The Group has carried out its annual impairment testing at 30 April each year.

The recoverable amounts of the three heritage Micro Focus CGUs are determined based on the value in use ('VIU') calculations and TAG is based on the fair value less cost of sales method as used when acquiring the business on 20 November 2014 since the acquired company has been held for less than six months and trading has been slightly better than anticipated at the time of acquisition. The determination of whether or not the goodwill of the three regional CGUs has been impaired requires an estimate to be made of the VIU of the CGUs to which goodwill has been allocated.

The VIU calculation includes estimates about the future financial performance of the CGUs. The cash flow projections in the three following financial years reflect management's expectation of the medium and long-term operating performance of the CGU and growth prospects in the CGU's market.

### Key assumptions

The key assumptions in the VIU calculations are the discount rate applied, the long-term operating margin and the long-term growth rate of net operating cash flows. 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.

### Discount rate applied

The discount rate applied to each CGU represents a pre-tax rate that reflects market assessment of the time value of money at the consolidated statement of financial position date and risks specific to the CGU. The discount rate applied to each CGU's operations was:

	2015	2014
North America	<b>14%</b>	14%
International	<b>11%</b>	11%
Asia Pacific and Japan	<b>13%</b>	13%

# Notes to the consolidated financial statements

## for the year ended 30 April 2015

### continued

#### 9 Goodwill continued

##### Long-term operating margin

The long-term operating margin for each CGU is primarily based upon past performance adjusted as appropriate where management believes that past operating margins are not indicative of future operating margins. The long-term EBITDA margin applied to each CGU is 44.0% (2014: 44.0%). The VIU calculations are based on 14 years' projections and then a terminal value calculation.

##### 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 were 2.0% (2014: 2.0%).

The long-term growth rate is applied consistently across all CGUs as:

- The businesses within the CGUs have similar trading characteristics;
- Future forecasts are considered to be similar across all CGUs; and
- Business risks are considered to be the same across all CGUs.

##### Summary of results

During the year, all goodwill was tested for impairment, with no impairment charge resulting (2014: nil).

As the VIU calculation is most sensitive to a change in the long-term operating margin, the directors are of the opinion that 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 directors consider that a reduction of 4.0% (2014: 4.0%) in the absolute value of long-term operating margins across all CGUs would be the limit of what could be considered to be reasonably possible on the basis that the Group's cost base is flexible and could quickly respond to market changes. The Group is spread 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 VIU calculations for all CGUs were 4.0% (2014: 4.0%) lower in absolute terms than management's estimates, the Group 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 Group based its estimate for the long-term pre-tax discount rate on its weighted average cost of capital ('WACC') had the acquisition of TAG not taken place using long-term market data and industry data to derive the appropriate inputs to the calculation. The directors have assessed that a 2.0% (2014: 2.0%) change in the absolute discount rate is the maximum change that could be considered as reasonably possible and this would represent a 17.7% (2014: 23.2%) reduction in the assumption. If the estimated pre-tax discount rates applied to the discounted cash flows of all of the three regional CGUs were 2.0% (2014: 2.0%) higher in absolute terms than the management's estimates, the Group would not have any impairment charge.

The Group considers that the long-term growth rates could change and that 1.0% (2014: 1.0%) change is reasonably possible. If the absolute value of the long-term growth used in the VIU calculations for all CGUs were 1.0% lower than management's estimates, the Group would not have recognized any goodwill impairment charge.

The directors have considered combinations of a reduction in the long-term operating margins across all CGUs 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.

The medium-term Adjusted EBITDA for each of the three regional CGUs is primarily based upon past performance adjusted as appropriate where management believes that past Adjusted EBITDA margins are not indicative of future Adjusted EBITDA margins. The medium-term Adjusted EBITDA margin applied to each CGU is 44.0% (2014: 44.0%). The medium-term growth rates of net operating cash flows are assumed to be 4% for each CGU (2014: 4.0%).

The fair value of net liabilities of TAG acquisition as at 20 November 2014 were \$727.1m and the consideration paid which was believed on acquisition to be the fair value of the company was \$1,386.2m generating a goodwill value of \$2,113.4m. Since acquisition TAG trading has been slightly stronger than expected and there is no reason to believe that there has been any reduction in the value of TAG. Accordingly no impairment is considered necessary.

## 10 Other intangible assets

	Purchased software \$'000	Development costs \$'000	Purchased intangibles				Total \$'000
			Technology \$'000	Trade names \$'000	Customer relationships \$'000	Non-compete agreements \$'000	
<b>Cost</b>							
At 1 May 2014	8,021	134,661	76,063	1,175	74,590	1,303	295,813
Acquisition of TAG	11,763	–	225,064	216,335	686,233	–	1,139,395
Additions	1,750	19,490	–	–	–	–	21,240
Disposals	(1,751)	–	–	–	–	–	(1,751)
Exchange adjustments	(500)	–	–	–	–	–	(500)
<b>At 30 April 2015</b>	<b>19,283</b>	<b>154,151</b>	<b>301,127</b>	<b>217,510</b>	<b>760,823</b>	<b>1,303</b>	<b>1,454,197</b>
<b>Accumulated amortization</b>							
At 1 May 2014	7,539	103,193	48,209	1,175	41,861	1,303	203,280
Charge for the year	2,189	18,605	30,452	6,639	51,207	–	109,092
Disposals	(2,873)	–	–	–	–	–	(2,873)
Impairment	11,642	984	–	–	–	–	12,626
Exchange adjustments	(149)	–	–	–	–	–	(149)
<b>At 30 April 2015</b>	<b>18,348</b>	<b>122,782</b>	<b>78,661</b>	<b>7,814</b>	<b>93,068</b>	<b>1,303</b>	<b>321,976</b>
<b>Net book amount at 30 April 2015</b>	<b>935</b>	<b>31,369</b>	<b>222,466</b>	<b>209,696</b>	<b>667,755</b>	<b>–</b>	<b>1,132,221</b>
Net book amount at 30 April 2014	482	31,468	27,854	–	32,729	–	92,533

	Purchased software \$'000	Development costs \$'000	Purchased intangibles				Total \$'000
			Technology \$'000	Trade names \$'000	Customer relationships \$'000	Non-compete agreements \$'000	
<b>Cost</b>							
At 1 May 2013	7,586	116,213	69,302	1,175	63,232	1,303	258,811
Acquisitions	–	–	6,761	–	11,358	–	18,119
Additions	607	18,448	–	–	–	–	19,055
Disposals	(236)	–	–	–	–	–	(236)
Exchange adjustments	64	–	–	–	–	–	64
<b>At 30 April 2014</b>	<b>8,021</b>	<b>134,661</b>	<b>76,063</b>	<b>1,175</b>	<b>74,590</b>	<b>1,303</b>	<b>295,813</b>
<b>Accumulated amortization</b>							
At 1 May 2013	6,833	84,709	38,489	1,175	32,773	1,188	165,167
Charge for the year	640	18,484	9,720	–	9,088	115	38,047
Disposals	(144)	–	–	–	–	–	(144)
Exchange adjustments	210	–	–	–	–	–	210
<b>At 30 April 2014</b>	<b>7,539</b>	<b>103,193</b>	<b>48,209</b>	<b>1,175</b>	<b>41,861</b>	<b>1,303</b>	<b>203,280</b>
<b>Net book amount at 30 April 2014</b>	<b>482</b>	<b>31,468</b>	<b>27,854</b>	<b>–</b>	<b>32,729</b>	<b>–</b>	<b>92,533</b>
Net book amount at 30 April 2013	753	31,504	30,813	–	30,459	115	93,644

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

Expenditure totaling \$21.2m (2014: \$37.2m) was made in the year, including \$19.5m in respect of development costs and \$1.7m of purchased software. The acquisition of TAG resulted in an addition of \$1,139.4m to purchased intangibles and purchased software (note 39). Impairment charges of \$12.6m (2014: \$Nil), of which \$11.6m was reported within exceptional items (note 3), were made in respect of some TAG acquired intangibles no longer to be utilized by the Group and some Borland development costs previously capitalized in the year ended 30 April 2014, to ensure that the carrying value of these assets reflects the revised recoverable amount.

At 30 April 2015, the unamortized lives of technology assets were in the range of two to six years and for customer relationships in the range of one to seven years.

Amortization of \$51.2m (2014: \$9.2m) is included in selling and distribution costs, \$55.7m (2014: \$28.2m) is included in research and development expense and \$2.2m (2014: \$0.6m) is included in administrative expenses in the consolidated statement of comprehensive income.



# Notes to the consolidated financial statements

for the year ended 30 April 2015

continued

## 11 Assets classified as held for sale

	2015 \$'000	2014 \$'000
Assets classified as held for sale	888	–

As of 30 April 2015, the Group had \$0.9m in property held-for-sale consisting of a building in South Africa. This building was identified as part of the pre-acquisition TAG management decision to sell and lease back owned properties. The Group anticipates selling this building during the year ended 30 April 2016.

## 12 Property, plant and equipment

	Land and buildings \$'000	Leasehold improvements \$'000	Computer equipment \$'000	Fixtures and fittings \$'000	Total \$'000
<b>Cost</b>					
At 1 May 2014	15,738	5,910	11,347	1,542	34,537
Acquisitions (note 39)	1,344	14,256	6,905	3,460	25,965
Additions	–	935	3,533	504	4,972
Disposals	–	(579)	(268)	(429)	(1,276)
Reclassifications	–	(7)	–	7	–
Exchange adjustments	(1,194)	(130)	(961)	(38)	(2,323)
<b>At 30 April 2015</b>	<b>15,888</b>	<b>20,385</b>	<b>20,556</b>	<b>5,046</b>	<b>61,875</b>
<b>Accumulated depreciation</b>					
At 1 May 2014	1,068	3,987	7,582	301	12,938
Charge for the year	448	2,029	4,323	874	7,674
Disposals	–	(531)	(268)	(305)	(1,104)
Reclassifications	–	(3)	–	3	–
Exchange adjustments	(281)	258	(586)	80	(529)
<b>At 30 April 2015</b>	<b>1,235</b>	<b>5,740</b>	<b>11,051</b>	<b>953</b>	<b>18,979</b>
<b>Net book amount at 30 April 2015</b>	<b>14,653</b>	<b>14,645</b>	<b>9,505</b>	<b>4,093</b>	<b>42,896</b>
Net book amount at 30 April 2014	14,670	1,923	3,765	1,241	21,599
	Land and buildings \$'000	Leasehold improvements \$'000	Computer equipment \$'000	Fixtures and fittings \$'000	Total \$'000
<b>Cost</b>					
At 1 May 2013	14,145	6,500	9,480	1,315	31,440
Acquisitions (note 39)	–	33	545	181	759
Additions	147	875	1,343	543	2,908
Disposals	–	(1,693)	(381)	(448)	(2,522)
Reclassifications	247	7	(63)	(191)	–
Exchange adjustments	1,199	188	423	142	1,952
<b>At 30 April 2014</b>	<b>15,738</b>	<b>5,910</b>	<b>11,347</b>	<b>1,542</b>	<b>34,537</b>
<b>Accumulated depreciation</b>					
At 1 May 2013	487	4,610	5,029	157	10,283
Acquisitions (note 39)	–	–	552	36	588
Charge for the year	353	856	2,163	474	3,846
Disposals	–	(1,600)	(379)	(388)	(2,367)
Reclassifications	85	–	1	(86)	–
Exchange adjustments	143	121	216	108	588
<b>At 30 April 2014</b>	<b>1,068</b>	<b>3,987</b>	<b>7,582</b>	<b>301</b>	<b>12,938</b>
<b>Net book amount at 30 April 2014</b>	<b>14,670</b>	<b>1,923</b>	<b>3,765</b>	<b>1,241</b>	<b>21,599</b>
Net book amount at 30 April 2013	13,658	1,890	4,451	1,158	21,157

## 12 Property, plant and equipment continued

No depreciation is included within selling and distribution costs (2014: \$Nil) and \$7.7m (2014: \$3.8m) is included within administrative expenses in the consolidated statement of comprehensive income. The Group carried out a review of the fixed assets in the year and as a result made some reclassifications between categories.

## 13 Group entities

### Subsidiaries

Details of subsidiaries are provided below.

Company name	Country of incorporation	Principal activities
Micro Focus Group Limited	UK	Holding company
Micro Focus AS	Norway	Sale and support of software
Micro Focus (Canada) Limited	Canada	Development, sale and support of software
Micro Focus GmbH	Germany	Sale and support of software
Micro Focus Holdings Limited	UK	Holding company
Micro Focus India Private Limited	India	Support of software
Micro Focus (IP) Limited	UK	Holding company
Micro Focus Israel Limited	Israel	Development and support of software
Micro Focus IP Development Limited	UK	Development and support of software
Micro Focus KK	Japan	Sale and support of software
Micro Focus Korea Limited	South Korea	Sale and support of software
Micro Focus Limited	UK	Sale and support of software
Micro Focus SA	Belgium	Sale and support of software
Micro Focus NV	Netherlands	Sale and support of software
Micro Focus Pte Limited	Singapore	Sale and support of software
Micro Focus AG	Switzerland	Sale and support of software
Micro Focus South Africa (Pty) Ltd	South Africa	Sale and support of software
Micro Focus Pty Limited	Australia	Sale and support of software
Micro Focus APM Solutions EOOD	Bulgaria	Development of software
Micro Focus SAS	France	Sale and support of software
Micro Focus SL	Spain	Sale and support of software
Micro Focus Srl	Italy	Sale and support of software
Micro Focus (US) Inc.	USA	Development, sale and support of software
Micro Focus (US) Group Inc.	USA	Holding company
Micro Focus (US) Holdings	UK	Holding company
Micro Focus Ireland Limited	Ireland	Development, sale and support of software
Micro Focus International Limited	Cayman Islands	Holding company
Micro Focus Group Holdings	Ireland	Holding company
Micro Focus International Holdings Limited	Ireland	Holding company
Borland BV	Netherlands	Sale and support of software
Borland Entwicklung GmbH	Austria	Development of software
Borland France Sarl	France	Sale and support of software
Borland GmbH	Germany	Sale and support of software
Borland Latin America Ltda	Brazil	Sale and support of software
Borland (Singapore) Pte. Ltd	Singapore	Sale and support of software
Relativity Technologies Private limited	India	Sale and support of software
Borland Software Corporation	USA	Development, sale and support of software
Borland Corporation	USA	Holding company
Borland Technology Corporation	USA	Holding company
Borland (UK) Limited	UK	Sale and support of software
Minerva Finance S.a.r.l	Luxemburg	Holding company
MA FinanceCo LLC	USA	Holding company
Borland Canada, Inc	Canada	Sale and support of software
Netmanage Canada Inc	Canada	Sale and support of software

# Notes to the consolidated financial statements

## for the year ended 30 April 2015

### continued

### 13 Group entities continued

Company name	Country of incorporation	Principal activities
Borland Australia	Australia	Dormant
Borland Software India Private Limited	India	Dormant
Borland Co. Limited	Japan	Dormant
Micro Focus Programacao de Computadores Ltda	Brazil	Dormant
Borland (H.K.) Limited	Hong Kong	Dormant
N.Y. NetManage (Yerushalayim) Ltd	Israel	Dormant
Borland (Holding) UK Ltd	UK	Dormant
Micro Focus UK Limited	UK	Dormant
Ryan McFarland Ltd	UK	Dormant
XDB UK Limited	UK	Dormant
<b>Acquired with the acquisition of TAG:</b>		
Attachmate Corporation	USA	Development, sale and support of software
NetIQ Corporation	USA	Development, sale and support of software
Novell Inc	USA	Development, sale and support of software
SUSE LLC	USA	Development, sale and support of software
Novell Holdings, Inc.	USA	Holding company
Novell Canada Ltd	Canada	Sale and support of software
Attachmate Ireland Limited	Ireland	Sale and support of software
Novell Ireland Software Limited	Ireland	Development, sale and support of software
NetIQ Ireland Limited	Ireland	Holding company
NetIQ Europe Limited	Ireland	Sale and support of software
Novell Software International Limited	Ireland	Holding company
Novell Ireland Real Estate Limited	Ireland	Holding company
Novell Cayman Software	Ireland	Holding company
Novell Cayman Software International	Ireland	Holding company
SUSE Linux Holdings Limited	Ireland	Holding company
Attachmate Group Austria GmbH	Austria	Sale and support of software
Attachmate Group Belgium BV	Belgium	Sale and support of software
NOVL Czech s.r.o	Czech Republic	Sale and support of software
SUSE Linux s.r.o	Czech Republic	Development, sale and support of software
Attachmate Group Denmark A/S	Denmark	Sale and support of software
Novell Holdings Deutschland GmbH	Germany	Holding company
The Attachmate Group Inc.	USA	Holding company
SUSE Linux GmbH	Germany	Development, sale and support of software
Attachmate Group Italy Srl	Italy	Sale and support of software
Attachmate Group Netherlands BV	Netherlands	Sale and support of software
Novell Portugal Informatica Lda.	Portugal	Sale and support of software
Attachmate Group South Africa (Proprietary) Limited	South Africa	Sale and support of software
Attachmate Group Spain S.L.	Spain	Sale and support of software
Attachmate Group Sweden AB	Sweden	Sale and support of software
Attachmate Group Schweiz AG	Switzerland	Sale and support of software
Attachmate Teknoloji Satis ve Pazarlama Ltd Sti.	Turkey	Sale and support of software
Novell UK Ltd	UK	Sale and support of software
Novell International Holdings Inc	USA	Holding company
Novell UK Software Limited	UK	Sale and support of software
Attachmate Sales UK Ltd	UK	Sale and support of software
Attachmate Group Australia Pty. Ltd	Australia	Sale and support of software

## 13 Group entities continued

Company name	Country of incorporation	Principal activities
Novell Software (Beijing) Ltd	China	Development, sale and support of software
Attachmate Hong Kong Limited	Hong Kong	Sale and support of software
Novell Software Development (India) Private Limited	India	Development, sale and support of software
Novell Japan Ltd	Japan	Sale and support of software
NetIQ KK	Japan	Sale and support of software
Novell Korea Co. Ltd	Korea	Sale and support of software
Novell Corporation (Malaysia) Sdn Bhd	Malaysia	Sale and support of software
Novell New Zealand Limited	New Zealand	Sale and support of software
Attachmate Group Singapore Pte Ltd	Singapore	Sale and support of software
Novell (Taiwan) Co. Ltd	Taiwan	Sale and support of software
Attachmate Sales Argentina SRL	Argentina	Sale and support of software
Novell do Brazil Software Ltd	Brazil	Sale and support of software
Attachmate Mexico S.A. de C.V.	Mexico	Sale and support of software
Attachmate Group Hong Kong Limited	Hong Kong	Sale and support of software
Attachmate Group Germany GmbH	Germany	Sale and support of software
Attachmate Group France S.a.r.l.	France	Sale and support of software
SUSE Linux Ireland Limited	Ireland	Dormant
CJDNLD LLC	USA	Dormant
Attachmate Middle East LLC	Egypt	Dormant
Attachmate Hong Kong	Hong Kong	Dormant
Attachmate India Private Ltd	India	Dormant
Cambridge Technology Partners India Private Limited	India	Dormant
Cambridge Technology Partners do Brasil s.c.Ltda	Brazil	Dormant
NetIQ Software International Ltd	Cyprus	Dormant
Novell India Pvt. Ltd.	India	Dormant
Novell Israel Software Limited	Israel	Dormant
Cambridge Technology Partners (Mexico) S.A. de C.V.	Mexico	Dormant
CTP Mexico Services SA de CV	Mexico	Dormant
Novell del Peru S.A.	Peru	Dormant
NetIQ Ltd	UK	Dormant
Novell Technology Capital Management, Inc.	USA	Dormant
Cambridge Technology Partners (Venezuela) C.A.	Venezuela	Dormant
Novell Software Latino America Norte, C.A.	Venezuela	Dormant
NetIQ Asia Ltd	Hong Kong	Dormant

These companies operate principally in the country in which they are incorporated.

## 14 Investments in associates

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

	2015 \$'000	2014 \$'000
At 1 May	—	—
Acquisition of TAG	15,689	—
Share of post-tax loss of associates	(788)	—
<b>At 30 April</b>	<b>14,901</b>	—

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

Company name	Country of incorporation	Proportion held	Principal activities
Open Invention Network LLC	USA	14.3%	Sale and support of software

# Notes to the consolidated financial statements

## for the year ended 30 April 2015

### continued

#### 14 Investments in associates continued

The assets, liabilities, revenue and loss of the Group's associate at 31 March 2015 was as follows:

	2015 \$'000	2014 \$'000
Non-current assets	54,779	—
Current assets	51,488	—
Liabilities	(1,528)	—
Revenue	—	—
Loss for the year	3,328	—

The accounting year end date of the associate consolidated within these financial statements was the 31 March 2015.

There are no significant restrictions on the ability of associated undertakings to transfer funds to the parent.

#### 15 Other non-current assets

	2015 \$'000	2014 \$'000
Long-term rent deposits	3,214	—
Other	695	—
	3,909	—

#### 16 Inventories

	2015 \$'000	2014 \$'000
Work in progress	61	91
Finished goods	49	42
<b>Total</b>	<b>110</b>	<b>133</b>

The Group utilized \$nil (2014: \$0.1m) of inventories included in cost of sales during the year.

#### 17 Trade and other receivables

	2015 \$'000	2014 \$'000
Trade receivables	199,775	97,508
Less: provision for impairment of trade receivables	(2,520)	(2,000)
Trade receivables net	197,255	95,508
Prepayments	20,841	10,640
Other receivables	523	971
Accrued income	26	20
<b>Total</b>	<b>218,645</b>	<b>107,139</b>

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. The Group considers the credit quality of trade and other receivables on a customer by customer basis. The Group considers that the carrying value of the trade and other receivables that is disclosed below gives a fair presentation of the credit quality of the assets. This is considered to be the case as there is a low risk of default due to the high number of recurring customers and credit control policies. In determining the recoverability of a trade receivable, the Group considers the ageing of each debtor and any change in the circumstances of the individual receivable. Due to this, management believes there is no further credit risk provision required in excess of the normal provision for doubtful receivables. At 30 April 2015 and 2014, the carrying amount approximates the fair value of the instrument due to the short-term nature of the instrument.

At 30 April 2015, trade receivables of \$34.1m (2014: \$16.3m) were past due but not impaired. These relate to a large number of independent companies for whom there is no recent history of default. The amounts are regarded as recoverable. The average age of these receivables was 19 days in excess of due date (2014: 22 days).



## 17 Trade and other receivables continued

As at 30 April 2015, trade receivables of \$2.5m (2014: \$2.0m) were either partially or fully impaired. The amount of the provision was \$2.5m (2014: \$2.0m). The ageing of these receivables is as follows:

	2015 \$'000	2014 \$'000
Three to four months	473	73
Over four months	2,047	1,927
<b>Total</b>	<b>2,520</b>	<b>2,000</b>

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

	2015 \$'000	2014 \$'000
At 1 May	2,000	2,137
Acquisition of TAG (note 39)	124	–
Provision for receivables impairment	965	727
Receivables written off as uncollectable	(223)	(897)
Exchange adjustments	(346)	33
<b>At 30 April</b>	<b>2,520</b>	<b>2,000</b>

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

## 18 Cash and cash equivalents

	2015 \$'000	2014 \$'000
Cash at bank and in hand	238,405	25,521
Short-term bank deposits	2,919	7,279
<b>Cash and cash equivalents</b>	<b>241,324</b>	<b>32,800</b>

At 30 April 2015 and 2014, the carrying amount approximates to the fair value. The Group's credit risk on cash and cash equivalents is limited as the counterparties are well established banks with high credit ratings. The credit quality of cash and cash equivalents is as follows:

	2015 \$'000	2014 \$'000
S&P/Moody's/Fitch rating:		
AAA	150,807	–
AA-	47,625	19,811
A+	10,434	446
A	15,009	3,195
A-	10,064	320
BBB+	593	257
BBB	36	150
BBB-	6,303	8,118
BB+	114	–
BB	–	91
BB-	–	112
B+	79	300
B	85	–
CCC	66	–
Not rated	109	–
<b>Total</b>	<b>241,324</b>	<b>32,800</b>

# Notes to the consolidated financial statements

for the year ended 30 April 2015

continued

## 19 Trade and other payables – current

	2015 \$'000	2014 \$'000
Trade payables	18,580	4,683
Tax and social security	8,962	25,884
Accruals	133,823	47,309
<b>Total</b>	<b>161,365</b>	<b>77,876</b>

At 30 April 2015 and 2014, the carrying amount approximates to the fair value.

## 20 Borrowings

	2015 \$'000	2014 \$'000
Bank loan secured	1,700,000	297,000
Unamortized prepaid facility arrangement fees and original issue discounts	(55,137)	(3,170)
	<b>1,644,863</b>	<b>293,830</b>

	Bank loan secured \$'000	Unamortized prepaid facility arrangement fees and original issue discounts \$'000	Total \$'000
<b>Reported within:</b>			
Current liabilities	137,750	(12,017)	125,733
Non-current liabilities	1,562,250	(43,120)	1,519,130
	<b>1,700,000</b>	<b>(55,137)</b>	<b>1,644,863</b>

	2015 \$'000	2014 \$'000
Cash at bank and in hand	241,324	32,800
Less borrowings	(1,644,863)	(293,830)
Net debt	<b>(1,403,539)</b>	<b>(261,030)</b>

On completion of the acquisition of TAG the Enlarged Group had new debt facilities of \$2,000.0m comprising:

- a syndicated senior secured tranche B term loan facility of \$1,275.0m ('Term Loan B'), with an interest rate of 4.25% above LIBOR (subject to a LIBOR floor of 1.00%), amortizing at 1.00% per annum, with an original issue discount of 1.00% and a seven year term;
- a syndicated senior secured tranche C term loan facility of \$500.0m ('Term Loan C'), with an interest rate of 3.75% above LIBOR (subject to a LIBOR floor of 0.75%), amortizing at 10.00% per annum, with an original issue discount of 1.5% and a five year term; and
- a senior secured revolving credit facility of \$225.0m ('Revolving Facility'), with an interest rate of 3.50% above LIBOR on amounts drawn (and 0.50% on amounts undrawn) thereunder and an original issue discount of 0.50%.

The only financial covenant affecting the new facilities is an aggregate net leverage covenant which is applicable in circumstances where more than 35.0% of the Revolving Facility is outstanding at a fiscal quarter end.

At completion the Enlarged Group drew down \$1,875.0m of the new facilities comprising all of the Term Loan B and Term Loan C together with \$100.0m of the Revolving Facility. As at 30 April 2015, there was \$1,700.0m of the new facilities outstanding comprising \$1,125.0m Term Loan B, \$500.0m Term Loan C and \$75.0m of the Revolving Facility as a result of the Enlarged Group repaying \$150.0m of the Term Loan B and \$25.0m of the Revolving Facility voluntarily using excess cash balances.

Borrowings are stated after deducting unamortized prepaid facility fees and original issue discounts. Facility arrangement costs and original issue discounts are amortized between four and six years.

The fair value of borrowings equals their carrying amount.

## 21 Current tax liabilities

	2015 \$'000	2014 \$'000
Corporation tax	67,895	42,177

During the year ended 30 April 2015, the Group accrued interest on tax provisions of \$2.6m (2014: \$nil).

## 22 Deferred income – current

	2015 \$'000	2014 \$'000
Deferred income	583,703	150,168

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

## 23 Deferred income – non-current

	2015 \$'000	2014 \$'000
Deferred income	194,863	12,629

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

## 24 Provisions

	2015 \$'000	2014 \$'000
Onerous leases and dilapidations	22,630	2,252
Restructuring and integration	30,921	107
Legal	3,065	–
Other	10,637	6,943
<b>Total</b>	<b>67,253</b>	<b>9,302</b>

Current	49,334	4,382
Non-current	17,919	4,920
<b>Total</b>	<b>67,253</b>	<b>9,302</b>

	Onerous leases and dilapidations \$'000	Restructuring and integration \$'000	Legal \$'000	Other \$'000	Total \$'000
At 1 May 2014	2,252	107	–	6,943	9,302
Acquisition of TAG (note 39)	3,957	650	3,859	3,000	11,466
Additional provision in the year	18,872	31,329	83	3,200	53,484
Utilization of provision	(2,211)	(1,053)	(601)	(1,790)	(5,655)
Released	(153)	(77)	–	(716)	(946)
Unwinding of discount	42	–	–	–	42
Exchange adjustments	(129)	(35)	(276)	–	(440)
<b>At 30 April 2015</b>	<b>22,630</b>	<b>30,921</b>	<b>3,065</b>	<b>10,637</b>	<b>67,253</b>
Current	9,979	30,090	3,065	6,200	49,334
Non-current	12,651	831	–	4,437	17,919
<b>Total</b>	<b>22,630</b>	<b>30,921</b>	<b>3,065</b>	<b>10,637</b>	<b>67,253</b>

# Notes to the consolidated financial statements

for the year ended 30 April 2015

continued

## 24 Provisions continued

	Onerous leases and dilapidations \$'000	Restructuring and integration \$'000	Legal \$'000	Other \$'000	Total \$'000
At 1 May 2013	2,589	513	–	7,899	11,001
Additional provision in the year	988	4	–	2,819	3,811
Utilization of provision	(1,342)	(236)	–	(3,211)	(4,789)
Released	(50)	(190)	–	(246)	(486)
Unwinding of discount	79	–	–	–	79
Exchange adjustments	(12)	16	–	(318)	(314)
<b>At 30 April 2014</b>	<b>2,252</b>	<b>107</b>	<b>–</b>	<b>6,943</b>	<b>9,302</b>
Current	1,182	107	–	3,093	4,382
Non-current	1,070	–	–	3,850	4,920
<b>Total</b>	<b>2,252</b>	<b>107</b>	<b>–</b>	<b>6,943</b>	<b>9,302</b>

The onerous lease and dilapidations provision relates to leased Group properties and this position is expected to be fully utilized within nine years. The addition relating to the acquisition of TAG of \$4.0m relates to a lease facility and is expected to be paid over the remaining lease term which extends to 2025. Following the integration work done to date there were surplus buildings and floors of buildings which we plan to sublet where possible and a provision of \$18.9m has been set up to cover for this onerous position.

Restructuring provisions relates mostly to severance and integration work undertaken during the year ended 30 April 2015. The provisions are expected to be fully utilized within 12 months.

Legal provisions include management's best estimate of the likely outflow of economic benefits associated with ongoing legal matters. The Group acquired potential liabilities as part of the TAG acquisition totalling \$3.9m.

Other provisions include primarily \$3.8m relating to potential liabilities acquired with the Iona acquisition (2014: \$3.8m), \$nil relating to contingent consideration for the purchase of the OpenFusion CORBA assets from PrismTech Group Limited acquired during the previous period (2014: \$1.8m) and \$0.6m relating to tax due for pension and bonus payments prior to July 2011 for our subsidiary in Brazil (2014: \$1.3m). New provisions have been created in the year, following the acquisition of TAG, there was a \$3.0m provision that was inherited relating to potential software licencing issues and \$3.2m was created for potential customer claims.

Of the additions to provisions in the year, \$50.2m was included in exceptional items.

## 25 Pension commitments

### a) Defined contribution

The Group has established a number of pension schemes around the world covering many of its employees. The principal funds are those in the US, UK and Germany. These were funded schemes of the defined contribution type. Outside of these territories, the schemes are also of the defined contribution type, except for France and Japan which is a defined benefit scheme, but which has few members and therefore is not significant to the Group.

Pension costs for defined contributions schemes are as follows:

	2015 \$'000	2014 \$'000
Defined contribution schemes (note 35)	<b>9,815</b>	4,870

### b) Defined benefit

	2015 \$'000	2014 \$'000
<b>Within Non-current assets:</b>		
Long-term pension assets	<b>14,076</b>	–
<b>Within Non-current liabilities:</b>		
Retirement benefit obligations	<b>(32,742)</b>	–

## 25 Pension commitments continued

The acquisition of TAG, on 20 November 2014, added three defined benefit plans in Germany under broadly similar regulatory frameworks. All of the plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life in the case of retirement, disability and death. The level of benefits provided depends not only on the final salary but also on member's length of service, social security ceiling and other factors. Final pension entitlements are calculated by our Actuary in Swiss Life. They also complete calculations in cases of death in service and disability. There is no requirement for the appointment of Trustees in Germany. The schemes are administered locally with the assistance of German pension experts. All three plans were closed for new membership. The retirement benefit obligation on the date of acquisition was \$31.3m (note 39).

The following amounts have been included in the Consolidated Income Statement in respect of the German defined benefit pension arrangements:

	2015 \$'000
Current service charge	330
<b>Charge to operating profit</b>	<b>330</b>
Interest on pension scheme liabilities	320
Interest on pension scheme assets	(59)
<b>Charge to finance costs</b>	<b>261</b>
<b>Total charge to Consolidated Income Statement</b>	<b>591</b>

The contributions for the year ended 30 April 2016 are expected to be broadly in line with the current year.

The following amounts have been recognized as movements in equity:

	2015 \$'000
Actuarial return on assets excluding amounts included in interest income	229
Experience gains and losses arising on scheme liabilities	
Changes in assumptions underlying the present value of scheme liabilities:	
– Demographic	–
– Financial	(4,565)
– Experience	140
	(4,425)
Exchange rate movement	–
<b>Movement in the year</b>	<b>(4,196)</b>

The key assumptions used for the German scheme were:

	2015
Rate of increase in final pensionable salary	2.60%
Rate of increase in pension payments	2.00%
Discount rate	1.45%
Inflation	2.00%

The net present value of the defined benefit obligations of the German scheme is sensitive to both the actuarial assumptions used and to market conditions. If the discount rate assumption was 0.5% lower, the obligation would be expected to increase by \$5.2m and if it was 0.5% higher, they would be expected to decrease by \$4.4m. If the inflation assumption was 0.25% lower, the obligations would be expected to decrease by \$1.4m and if it was 0.25% higher, they would be expected to increase by \$1.4m.

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

# Notes to the consolidated financial statements

## for the year ended 30 April 2015

### continued

#### 25 Pension commitments continued

These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2015
Retiring at age 65 at the end of the reporting year:	
Male	19
Female	23
Retiring 15 years after the end of the reporting year:	
Male	19
Female	24

The net present value of the defined benefit obligations of the German schemes are sensitive to the life expectancy assumption. If there was an increase of one year to this assumption the obligation would be expected to increase by \$1.1m (2.9%).

The provision included in the Consolidated statement of financial position arising from obligations in respect of defined benefit schemes is as follows:

	30 April 2015 \$'000	20 November 2014 on acquisition \$'000
Present value of funded obligations	38,224	37,128
Fair value of plan assets	(5,482)	(5,871)
	32,742	31,257

The net present value of the defined benefit obligation has moved as follows:

	2015 \$'000
At 1 May 2014	–
Acquisition of TAG	37,128
Current service cost	330
Benefits paid	(68)
Interest cost	320
Remeasurements – actuarial losses:	
– Demographic	–
– Financial	4,565
– Experience	(140)
Foreign currency exchange changes	(3,911)
<b>At 30 April 2015</b>	<b>38,224</b>

The fair value of scheme assets has moved as follows:

	2015 \$'000
At 1 May 2014	–
Acquisition of TAG	5,871
Interest income	59
Remeasurements – actuarial return on assets excluding amounts included in interest income	229
Contributions by plan participants	81
Benefits paid	(16)
Other (transfer to non-plan assets)	(128)
Foreign currency exchange changes	(614)
<b>At 30 April 2015</b>	<b>5,482</b>



## 25 Pension commitments continued

None of the plan assets are represented by financial instruments of the Group. None of the plan assets are occupied or used by the Group. The plan assets comprise of re-insurance with guaranteed interest rates. The majority of the plan assets have a guaranteed interest rate of 4.0%, with the remaining at 3.25% or 2.75%.

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

- Changes in bond yields – A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the pledged and unpledged re-insurance holdings.
- Inflation – Some of the Group pension obligations are linked to inflation, and higher inflation will lead to higher liabilities. There is a cap on the level of inflationary increase on one of the plans which protects the plan against extreme inflation. The majority of the plan assets are either unaffected by or loosely correlated with inflation, meaning an increase in inflation will also increase the deficit.
- Life expectancy – The majority of the plan obligations are to provide benefits 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 Company ensures that the investment positions are managed within an asset liability matching ('ALM') that has been developed by the Company to achieve long-term investments that are in line with the obligations under the pension schemes. In addition to the plan assets outlined above, the Company had re-insurance assets valued at \$14.1m at 30 April, 2015. These assets are designated to fund the pension obligation and do not qualify as plan assets as they have not been pledged to the plan and are subject to the creditors of the Company. Within this framework the Company's objective is to match assets to the pension obligations by investing in re-insurances that match the benefit payments as they fall due and in the appropriate currency.

### Sensitivities

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

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

	Change in assumption	Change in defined benefit obligation
Discount rate for scheme liabilities	0.50%	13.5%
Price inflation	0.25%	3.5%
Salary growth rate	0.50%	1.8%

An increase of one year in the assumed life expectancy for both males and females would increase the defined benefit obligation by 2.9%.

## 26 Other non-current liabilities

	2015 \$'000	2014 \$'000
Accruals	5,264	—

Other non-current liabilities relate mostly to deferred rent accruals.

## 27 Financial instruments

### Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 30 April 2015 was:

	2015 \$'000	2014 \$'000
Trade and other receivables excluding prepayments (note 17)	197,804	86,499
Cash and cash equivalents (note 18)	241,324	32,800
<b>Total</b>	<b>439,128</b>	<b>129,299</b>

# Notes to the consolidated financial statements

## for the year ended 30 April 2015

### continued

## 27 Financial instruments continued

### Risk management

The Group's treasury function aims to reduce exposures to interest rate, foreign exchange and other financial risks, to ensure liquidity is available as and when required, and to invest cash assets safely and profitably. The Group does not typically engage in speculative trading in financial instruments. The treasury function's policies and procedures are reviewed and monitored by the audit committee and are subject to internal audit review.

### Foreign exchange risk

The Group's currency exposures comprise those that give rise to net currency gains and losses to be recognized in the consolidated statement of comprehensive income as well as gains and losses on consolidation which go to reserves. Such exposures reflect the monetary assets and liabilities of the Group that are not denominated in the operating or functional currency of the operating unit involved and the Group's investment in net assets in currencies other than US\$. Note 3 shows the impact on the consolidated statement of comprehensive income of foreign exchange gains in the year (2014: loss).

### Sensitivity analysis

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

	2015		2014	
	Consolidated statement of comprehensive income \$'000	Equity \$'000	Consolidated statement of comprehensive income \$'000	Equity \$'000
Euro/USD exchange rate +/- 5%	1,295	162	1,078	1,140
US LIBOR +/- 1%	17,000	–	2,970	–

### Capital risk management

The Group's objective when managing its capital structures is to minimize the cost of capital while maintaining adequate capital to protect against volatility in earnings and net asset values. The strategy is designed to maximize shareholder return over the long-term. 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 the Group.

The only financial covenant affecting the Group's new committed credit facilities is an aggregate net leverage covenant which is applicable in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end.

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

	2015 \$'000	2014 \$'000
Bank and other borrowings (see note 20)	1,644,863	293,830
Less cash and cash equivalents (see note 18)	(241,324)	(32,800)
Total net debt	1,403,539	261,030
Total equity	1,278,061	(16,251)
<b>Debt/equity %</b>	<b>109.82%</b>	<b>(1,606.24%)</b>

## 27 Financial instruments continued

### Market risk

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

	Financial 2015 \$'000	Non-financial 2015 \$'000	Total 2015 \$'000	Financial 2014 \$'000	Non-financial 2014 \$'000	Total 2014 \$'000
<b>Financial assets – loans and receivables</b>						
<b>Current</b>						
Cash and cash equivalents (note 18)	241,324	–	241,324	32,800	–	32,800
Trade and other receivables (note 17)	197,255	21,390	218,645	95,508	11,631	107,139
<b>At 30 April</b>	<b>438,579</b>	<b>21,390</b>	<b>459,969</b>	<b>128,308</b>	<b>11,631</b>	<b>139,939</b>
	Financial 2015 \$'000	Non-financial 2015 \$'000	Total 2015 \$'000	Financial 2014 \$'000	Non-financial 2014 \$'000	Total 2014 \$'000
<b>Financial liabilities – financial liabilities at amortized cost</b>						
<b>Non-current</b>						
Borrowings (note 20)	1,562,250	–	1,562,250	–	–	–
Provisions (note 24)	12,651	5,268	17,919	1,070	3,850	4,920
<b>Current</b>						
Borrowings (note 20)	137,750	–	137,750	297,000	–	297,000
Trade and other payables (note 19)	18,580	142,785	161,365	4,683	73,193	77,876
Provisions (note 24)	9,979	39,355	49,334	1,182	3,200	4,382
<b>At 30 April</b>	<b>1,741,210</b>	<b>187,408</b>	<b>1,928,618</b>	<b>303,935</b>	<b>80,243</b>	<b>384,178</b>

## 28 Deferred tax

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

	2015 \$'000	2014 \$'000
<b>Group</b>		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	161,017	31,092
– Deferred tax asset to be recovered within 12 months	88,869	11,539
	<b>249,886</b>	<b>42,631</b>
Deferred tax liabilities:		
– Deferred tax liability to be settled after more than 12 months	(248,799)	(28,771)
– Deferred tax liability to be settled within 12 months	(55,793)	(6,515)
	<b>(304,592)</b>	<b>(35,286)</b>
<b>Deferred tax (liability)/asset</b>	<b>(54,706)</b>	<b>7,345</b>
	2015 \$'000	2014 \$'000
<b>Net deferred tax (liability)/asset</b>		
At 1 May	7,345	1,092
Credited to consolidated statement of comprehensive income	53,465	2,916
Credited directly to equity	3,591	3,532
Credited to other comprehensive income	1,301	–
Acquisition of subsidiary (note 39)	(119,830)	(1,952)
Foreign exchange adjustment	(663)	580
Effect of change in tax rates – charged to consolidated statement of comprehensive income	85	1,177
<b>At 30 April</b>	<b>(54,706)</b>	<b>7,345</b>

# Notes to the consolidated financial statements

for the year ended 30 April 2015

continued

## 28 Deferred tax continued

	Tax losses \$'000	Share-based payments <sup>1</sup> \$'000	Deferred revenue <sup>1</sup> \$'000	Tax credits <sup>1</sup> \$'000	Intangible fixed assets <sup>1</sup> \$'000	Other temporary differences \$'000	Total \$'000
<b>Deferred tax assets</b>							
At 1 May 2013	28,092	2,213	2,003	–	–	5,826	38,134
Acquisition of subsidiary (note 39)	2,090	–	–	–	–	(10)	2,080
(Charged)/credited to consolidated statement of comprehensive income	(5,030)	(113)	(408)	3,545	–	1,149	(857)
Credited directly to equity	–	4,279	–	–	–	(747)	3,532
Foreign exchange adjustment	54	540	–	–	–	(13)	581
Effect of change in tax rates – charged to consolidated statement of comprehensive income	–	(747)	(50)	–	–	(42)	(839)
<b>At 30 April 2014</b>	<b>25,206</b>	<b>6,172</b>	<b>1,545</b>	<b>3,545</b>	<b>–</b>	<b>6,163</b>	<b>42,631</b>
<b>At 1 May 2014</b>	<b>25,206</b>	<b>6,172</b>	<b>1,545</b>	<b>3,545</b>	<b>–</b>	<b>6,163</b>	<b>42,631</b>
Reclassification	1,148	–	–	–	–	(1,148)	–
Acquisition of subsidiary (note 39)	78,146	–	48,611	37,662	6,634	20,179	191,232
(Charged)/credited to consolidated statement of comprehensive income	(8,218)	2,066	18,938	(12,334)	(183)	10,602	10,871
Credited directly to equity	–	3,591	–	–	–	–	3,591
Credited to other comprehensive income	–	–	–	–	–	1,301	1,301
Foreign exchange adjustment	(140)	–	–	–	–	(523)	(663)
Effect of change in tax rates – charged to consolidated statement of comprehensive income	718	30	39	–	–	136	923
<b>At 30 April 2015</b>	<b>96,860</b>	<b>11,859</b>	<b>69,133</b>	<b>28,873</b>	<b>6,451</b>	<b>36,710</b>	<b>249,886</b>

1 Share-based payments, deferred revenue, tax credits and intangible fixed assets were disclosed within other temporary differences in the prior year. The prior year disclosures have been updated to provide disclosure consistent with the assets categories disclosed in the current year.

The deferred tax asset relating to other temporary differences of \$36.7m (2014: \$6.2m) includes temporary differences arising on fixed assets, short-term timing differences and the defined benefit pension scheme.

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the utilization of future taxable profits is probable. The Group did not recognize deferred tax assets in relation to the following gross temporary differences:

	Expiration: 2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000	2020 \$'000	Thereafter \$'000	No expiry \$'000	Total \$'000
<b>At 30 April 2015</b>								
<b>Type of temporary difference:</b>								
Losses	8,218	1,536	191	9,646	157	22,333	7,832	49,913
Credits	323	2,131	2,147	1,909	2,138	12,106	9,176	29,930
Other	–	–	–	–	–	–	23,859	23,859
<b>Total</b>	<b>8,541</b>	<b>3,667</b>	<b>2,338</b>	<b>11,555</b>	<b>2,295</b>	<b>34,439</b>	<b>40,867</b>	<b>103,702</b>
<b>At 30 April 2014</b>								
<b>Type of temporary difference:</b>								
Losses	–	–	–	–	–	19,890	–	19,890
Credits	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>19,890</b>	<b>–</b>	<b>19,890</b>

## 28 Deferred tax continued

	Intangible fixed assets \$'000	Other temporary differences \$'000	Total \$'000
<b>Deferred tax liabilities</b>			
At 1 May 2013	(25,281)	(11,762)	(37,043)
Charged to consolidated statement of comprehensive income	1,944	1,315	3,259
Acquisition of subsidiary	(4,033)	–	(4,033)
Effect of change in tax rates – charged to consolidated statement of comprehensive income	1,587	944	2,531
<b>At 30 April 2014</b>	<b>(25,783)</b>	<b>(9,503)</b>	<b>(35,286)</b>
<b>At 1 May 2014</b>	<b>(25,783)</b>	<b>(9,503)</b>	<b>(35,286)</b>
Charged to consolidated statement of comprehensive income	26,632	15,962	42,594
Acquisition of subsidiary (see note 39)	(296,688)	(14,374)	(311,062)
Effect of change in tax rates – charged to consolidated statement of comprehensive income	(838)	–	(838)
<b>At 30 April 2015</b>	<b>(296,677)</b>	<b>(7,915)</b>	<b>(304,592)</b>

No deferred tax liability was recognized in respect of unremitted earnings of overseas subsidiaries as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The deferred tax liability relating to other temporary differences of \$7.9m (2014: \$9.5m) includes temporary differences on capitalized research and development expenditure of \$6.3m (2014: \$6.3m).

As a result of the acquisition of TAG, the Base Micro Focus US deferred tax assets and liabilities were remeasured with reference to a US federal rate of 35% (2014: 34%). The effect of the change in tax rates is disclosed separately and results in a credit to the statement of comprehensive income of \$0.1m.

## 29 Share capital

Ordinary shares at 10 pence each (2014: 13<sup>13</sup>/<sub>24</sub> pence each)

	2015		2014	
	Shares	\$'000	Shares	\$'000
<b>Issued and fully paid</b>				
At 1 May	152,419,885	37,802	165,095,660	37,797
Shares issued to satisfy option awards	494,709	106	24,675	5
Shares issued on the acquisition of TAG	86,595,711	13,550	–	–
Share reorganization	(10,922,908)	(11,903)	(12,700,450)	–
<b>At 30 April</b>	<b>228,587,397</b>	<b>39,555</b>	<b>152,419,885</b>	<b>37,802</b>

### Shares issued during the year

During the year, 464,919 ordinary shares of 13<sup>13</sup>/<sub>24</sub> pence each (2014: nil) and 29,790 (2014: nil) ordinary shares of 10 pence each were issued by the Company to settle exercised share options. The gross consideration received was \$1.5m (2014: \$1.0m).

At 30 April 2015 a total of 11,339,583 treasury shares were held (2014: 12,880,776) such that the voting rights and number of listed shares at 30 April 2015 were 217,247,764 (2014: 139,539,109).

### Potential issues of shares

Certain employees hold options to subscribe for shares in the Company at prices ranging from nil pence to 1,004.0 pence under the following share option schemes approved by shareholders in 2005 and 2006: the Long-Term Incentive Plan 2005, the Sharesave Plan 2006 and the Employee Stock Purchase Plan 2006.

The number of shares subject to options at 30 April 2015 was 8,919,079 (2014: 4,550,091). Further information on these options is disclosed in note 35.

# Notes to the consolidated financial statements

## for the year ended 30 April 2015

### continued

#### 29 Share capital continued

##### B Shares at 60 pence each

	2015		2014	
	Shares	\$'000	Shares	\$'000
<b>Issued and fully paid</b>				
At 1 May	–	–	–	–
Issue of B Shares	50,568,360	47,477	–	–
Redemption of B Shares	(50,568,360)	(47,477)	–	–
<b>At 30 April</b>	–	–	–	–

On 20 November 2014, 50,568,360 B Shares were issued at 60 pence each, resulting in a total of \$47.5m being credited to the B Share Capital Account. On 20 November 2014, 50,568,360 B Shares were redeemed at 60 pence each and an amount of \$47.5m was deducted from the B Share Capital Account.

##### C Shares at 0.0000001 pence each

	2015		2014	
	Shares	\$'000	Shares	\$'000
<b>Issued and fully paid</b>				
At 1 May	–	–	–	–
Issue of C Shares	89,328,151	–	–	–
Cancellation of C Shares	(89,328,151)	–	–	–
<b>At 30 April</b>	–	–	–	–

On 20 November 2014, 89,328,151 C Shares were issued at 0.0000001 pence each, resulting in a total of 14 cents being credited to the C Share Capital Account. On 20 November 2014 a dividend of 60 pence per C Share was declared and was payable on 20 November 2014. The C Shares were subsequently reclassified as Deferred Shares and repurchased by the Company for an aggregate consideration of 1 pence and then subsequently cancelled and an amount of 14 cents was deducted from the C Share Capital Account.

##### Deferred D Shares at 0.041667 pence each

	2015		2014	
	Shares	\$'000	Shares	\$'000
<b>Issued and fully paid</b>				
At 1 May	–	–	–	–
Issue of Deferred Shares	15,606,772,650	11,903	–	–
Cancellation of Deferred Shares	(15,606,772,650)	(11,903)	–	–
<b>At 30 April</b>	–	–	–	–

On 20 November 2014, as a consequence of the share consolidation, 15,606,772,650 Deferred D Shares were issued at 0.041667 pence each, resulting in a total of \$11.9m being credited to the Deferred D Share Capital Account. The Deferred D Shares were repurchased by the Company for an aggregate consideration of 1 pence and cancelled. An amount of \$11.9m was deducted from the Deferred D Share Capital Account.

#### 30 Return of Value to shareholders

In December 2014 the Company completed a Return of Value to shareholders amounting to £83.9m (\$131.6m) in cash (60 pence per share, equivalent to 94.02 cents per share), by way of a B and C share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by a 0.9285 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B and C Shares.

As part of the corporate entity restructuring resulting from the acquisition a merger reserve was created of approximately \$1.4bn, which is expected to become a distributable reserve in future periods. This creates flexibility for future Returns of Value once Net Debt to Facility EBITDA is below 2.5 times.

As at December 2014 this was the Group's 4th Return of Value to shareholders and this brings the total amount returned to shareholders since 25 March 2011 through share buy-backs, Returns of Value and ordinary dividends to £554.4m which represents 87.3% of the Market Capitalization at that time.



### 30 Return of Value to shareholders continued

During the year ended 30 April 2014, the Group announced a Return of Value to shareholders of 60 pence per ordinary share by way of a D share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving cash in the form of income or capital. The Return of Value was approved by shareholders on 26 September 2013. The Group entered into a forward exchange contract to protect the Company from any foreign exchange movement and so the resulting payment to shareholders of \$144.7m was offset by a gain of \$4.5m and costs of \$0.6m on the foreign exchange forward contract such that the cost to the Company of the Return of Value was \$140.2m excluding transaction costs. The Return of Value was accompanied by a 12 for 13 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the D Shares.

### 31 Share premium account

	2015 \$'000	2014 \$'000
At 1 May	14,546	13,523
Movement in relation to share options exercised (note 35)	1,541	1,023
<b>At 30 April</b>	<b>16,087</b>	<b>14,546</b>

### 32 Other reserves

	Notes	Capital redemption reserve <sup>2</sup> \$'000	Merger reserves <sup>1</sup> \$'000	Total \$'000
<b>Balance as at 1 May 2014</b>		<b>103,983</b>	<b>(27,085)</b>	<b>76,898</b>
Acquisition of TAG <sup>3</sup>	39	–	1,372,666	1,372,666
Return of Value – share consolidation <sup>5</sup>		11,903	–	11,903
Return of Value – new share issues <sup>5</sup>		47,477	(47,477)	–
Reallocation of merger reserve <sup>4</sup>		–	(130,000)	(130,000)
<b>Balance as at 30 April 2015</b>		<b>163,363</b>	<b>1,168,104</b>	<b>1,331,467</b>

- On 17 May 2005, the Company acquired the entire issued share capital of Micro Focus International Limited by way of a share for share exchange, pursuant to which the previous shareholders of Micro Focus International Limited were issued and allotted three ordinary shares in the capital of the Company for every one ordinary share they previously held in Micro Focus International Limited. This increase in share capital created a merger reserve deficit of \$27.1m.
- In January 2012 a Return of Value was made to all shareholders amounting to \$129.0m in cash after including a foreign exchange contract gain of \$0.6m. As a result of this a capital redemption reserve was created following the redemption of the B Shares. In November 2012 a further Return of Value was made to all shareholders amounting to \$128.2m in cash after including a foreign exchange contract gain of \$2.4m. In the year ended 30 April 2014 a further \$47,079,000 was added to the capital redemption reserve following the redemption of the B Shares.
- On 20 November 2014 the TAG acquisition was completed (note 39). As a result of this a merger reserve was created of \$1,372.7m. The acquisition of TAG was structured by way of a share for share exchange; this transaction fell within the provisions of section 612 of the Companies Act 2006 (merger relief) such that no share premium was recorded in respect of the shares issued. The Company chose to record its investment in TAG at fair value and therefore recorded a merger reserve equal to the value of the share premium which would have been recorded had section 612 of the Companies Act 2006 not been applicable (i.e. equal to the difference between the fair value of TAG and the aggregate nominal value of the shares issued). This merger reserve was initially considered unrealized on the basis it was represented by the investment in TAG, which is not considered to represent qualifying consideration (in accordance with Tech 02/10 (Guidance on the determination of realized profits and losses in the context of distributions under the Companies Act 2006)). Immediately following the acquisition of TAG, the Company's investment in TAG was transferred to another Group company in exchange for an intercompany loan. To the extent this loan is settled in qualifying consideration, the related proportion of the merger reserve is considered realized.
- The merger reserve is an unrealized profit until it can be realized by the settlement of the intercompany loan by qualifying consideration. \$130.0m of the intercompany loan is expected to be settled in qualifying consideration during the year to 30 April 2016 and as such an equivalent proportion of the merger reserve is considered realized and therefore has been transferred to the profit and loss account.
- In December 2014 a Return of Value was made to all shareholders amounting to \$131.6m in cash (note 30). The Return of Value was accompanied by a 0.9285 share consolidation and resulted in a net \$11.9m reduction in share capital and an \$11.9m increase in the capital redemption reserve. In addition \$47.5m was transferred from the merger reserve to the capital redemption reserve.

### 33 Non-controlling interests

	\$'000
<b>At 1 May 2014</b>	<b>–</b>
Acquisition of TAG	1,281
Share of loss after tax	(302)
<b>At 30 April 2015</b>	<b>979</b>

Non-controlling interests relate to the companies detailed below.

Company name	Country of incorporation	Proportion held
Novell Japan Ltd	Japan	68.3%

# Notes to the consolidated financial statements

for the year ended 30 April 2015

continued

## 34 Cash generated from operations

	Note	2015 \$'000	2014 \$'000
Profit after tax		<b>101,451</b>	122,082
<b>Adjustments for:</b>			
Net interest	5	<b>55,021</b>	7,879
Taxation	6	<b>(10,024)</b>	25,759
Share of results of associates	14	<b>788</b>	–
Research and development tax credits		<b>(2,135)</b>	–
Depreciation	12	<b>7,674</b>	3,846
Loss on disposal of property, plant and equipment		<b>41</b>	123
Loss on disposal of intangible assets		<b>(1,603)</b>	–
Amortization of intangibles	10	<b>109,092</b>	38,047
Impairment of intangibles	10	<b>984</b>	–
Impairment of long-term assets	10	<b>11,642</b>	–
Share-based compensation	35	<b>15,561</b>	12,837
Exchange movements		<b>(87)</b>	712
Provisions	24	<b>46,485</b>	1,699
<b>Changes in working capital:</b>			
Inventories		<b>39</b>	11
Trade and other receivables		<b>40,127</b>	(13,175)
Payables and other liabilities		<b>(86,901)</b>	6,955
Pension funding in excess of charge to operating profit		<b>586</b>	–
<b>Cash generated from operations</b>		<b>288,741</b>	206,775

## 35 Employees and directors

	2015 \$'000	2014 \$'000
<b>Staff costs</b>		
Wages and salaries	<b>300,516</b>	154,252
Social security costs	<b>37,544</b>	13,957
Other pension costs	<b>10,145</b>	4,870
Cost of employee share schemes	<b>15,561</b>	12,837
<b>Total</b>	<b>363,766</b>	185,916

	2015 \$'000	2014 \$'000
<b>Pension costs comprise:</b>		
Defined benefit schemes (note 25)	<b>330</b>	–
Defined contribution schemes (note 25)	<b>9,815</b>	4,870
<b>Total</b>	<b>10,145</b>	4,870

	2015 Number	2014 Number
<b>Average monthly number of people (including executive directors) employed by the Group:</b>		
Sales and distribution	<b>1,319</b>	672
Research and development	<b>897</b>	321
General and administration	<b>299</b>	226
<b>Total</b>	<b>2,515</b>	1,219

## 35 Employees and directors continued

	2015 \$'000	2014 \$'000
<b>Key management compensation</b>		
Short-term employee benefits	9,512	7,026
Share-based payments	6,421	4,734
<b>Total</b>	<b>15,933</b>	<b>11,760</b>

The key management figures above include the executive management team and directors. There are no post-employment benefits. Directors' remuneration is shown below.

This is the share-based payment charge arising under IFRS 2 'Share-based Payment'.

	2015 \$'000	2014 \$'000
<b>Directors</b>		
Aggregate emoluments	4,814	3,448
Aggregate gains made on the exercise of share options	6,139	22,771
Company contributions to money purchase pension scheme	285	218
<b>Total</b>	<b>11,238</b>	<b>26,437</b>

For further information on the directors of the Company please refer to the Directors' Remuneration report on pages 48 to 69.

### Share-based payments

The Group has various equity-settled share-based compensation plans, details of which are provided below.

#### a) Incentive Plan 2005

On 27 April 2005 the remuneration committee approved the rules of the Incentive Plan 2005 ('LTIP') which permits the granting of share options to executive directors and senior management. The total number of options they receive is determined by the performance criteria set by the remuneration committee over a three year performance period. Prior to 18 April 2011 performance conditions required that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 11% (at which point 25% of awards will vest), 60% of shares will vest for cumulative EPS growth of RPI plus 13% and for full vesting the cumulative EPS growth will be required to be RPI plus 15% per annum. Straight-line vesting will apply between these points. Awards granted on or after 18 April 2011 are subject to either Absolute Shareholder Returns ('ASR') over a three year period, cumulative EPS growth or a combination of both. Where the cumulative EPS growth over a three year period is at least equal to RPI plus 3% per annum, 25% of awards will vest, with full vesting achieved when the cumulative EPS growth is RPI plus 9% per annum. Straight-line vesting will apply between these points. Where the award is subject to ASR, the resulting level of vesting will be reduced by 25% if the ASR is below 150 pence or increased by 50% if ASR is 300 pence or more. Further details are provided in the remuneration committee report on pages 48 to 69.

	2015		2014	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
Outstanding at 1 May	3,938,339	63p	5,218,900	122p
Increase for performance	—	—	643,328	—
Exercised	(765,618)	29p	(2,657,333)	145p
Forfeited	(259,373)	10p	(186,695)	35p
Granted	2,014,163	2p	920,139	7p
<b>Outstanding at 30 April</b>	<b>4,927,511</b>	<b>45p</b>	<b>3,938,339</b>	<b>63p</b>
<b>Exercisable at 30 April</b>	<b>890,844</b>	<b>231p</b>	<b>915,004</b>	<b>245p</b>

The weighted average share price in the year for options on the date of exercise was 991 pence (2014: 760 pence).

The amount charged to the consolidated statement of comprehensive income in respect of the scheme was \$8.7m (2014: \$8.1m). In addition to this \$2.6m (2014: \$4.2m) was charged to the consolidated statement of comprehensive income in respect of National Insurance on these share options.

# Notes to the consolidated financial statements

for the year ended 30 April 2015

continued

## 35 Employees and directors continued

Range of exercise prices	2015			2014		
	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years
£0.10 or less	1	3,140	8.3	4	2,213	7.8
£0.11 – £1.00	12	1,117	8.1	12	983	8.8
£1.01 – £2.00	115	34	0.9	116	38	1.6
£2.01 – £3.00	246	319	3.0	247	332	4.0
£3.01 – £4.00	358	151	4.2	362	175	5.3
More than £4.00	402	166	5.2	402	197	6.2
	45	4,927	7.6	63	3,938	7.5

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was £9.14 (2014: £7.40). The significant inputs into the model were a weighted average share price of £10.12 (2014: £7.22) at the grant date, exercise prices shown above, expected volatility of between 25.78% and 30.3% (2014: 43.6%), expected dividend yield of between 2.9% and 3.6% (2014: 4.10%), an expected option life of three years and an annual risk-free interest rate of between 1.6% and 2.6% (2014: 2.20%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

### b) Additional Share Grants

	2015		2014	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
Outstanding at 1 May	–	0p	–	–
Exercised	–	0p	–	–
Granted	3,803,643	0p	–	–
Forfeited	(541,223)	0p	–	–
<b>Outstanding at 30 April</b>	<b>3,262,420</b>	<b>0p</b>	–	–
<b>Exercisable at 30 April</b>	–	–	–	–

The Remuneration Committee also awarded a number of Additional Share Grants ('ASGs') to a number of senior managers and executives, critical to delivering the anticipated results of the acquisition. Grants can be made to no more than 15 people within 18 months of the completion date. ASGs are nil cost options over ordinary shares. The number of ordinary shares subject to the ASGs will be a maximum of 2.5% of the Enlarged Share Capital. The ASGs will become exercisable, subject to the satisfaction of the performance condition, on the third anniversary of the date of Completion or 1 November 2017, whichever is earlier (the 'vesting date') and will remain exercisable until the tenth anniversary of Completion.

The performance condition is that the percentage of ordinary shares subject to the ASG which may be acquired on exercise on or after the vesting date is as follows:

- (i) 0 % if the Shareholder Return Percentage (as defined below) is 50% or less;
- (ii) 100% if the Shareholder Return Percentage is 100% or more; and
- (iii) a percentage determined on a straight-line basis between (i) and (ii) above.

The 'Shareholder Return Percentage' will be calculated by deducting 819.4 pence per share (the 'Reference Price'), being the average of the 20 days before 3 June 2014 (being the date of the heads of agreement relating to the proposed combination of Micro Focus and Attachmate between Micro Focus, Wizard, Golden Gate Capital and Francisco Partners Management LP), from the sum of the 'Vesting Price' (calculated as the average closing share price over the period of 20 days ending on the day prior to the vesting date) plus the total of all dividends per share between Completion and the vesting date. This will be divided by the Reference Price, multiplying the resulting figure by 100 to obtain the Shareholder Return Percentage.

The amount charged to the consolidated statement of comprehensive income in respect of the scheme was \$3.0m (2014: \$nil). In addition to this \$0.7m (2014: \$nil) was charged to the consolidated statement of comprehensive income in respect of National Insurance on these share options.

## 35 Employees and directors continued

	2015			2014		
	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years
Range of exercise prices						
£0.10 or less	0	3,262	9.6	—	—	—
	0	3,262	9.6	—	—	—

The weighted average fair value of options granted during the year determined using the Monte-Carlo simulation model was £6.47 (2014: n/a). The significant inputs into the model were weighted average share price of £11.05 (2014: n/a) at the grant date, exercise price shown above, expected volatility of between 25.81% and 26.11% (2014: n/a), expected dividend yield of between 2.9% and 3.3% (2014: n/a), an expected option life of three years and an annual risk-free interest rate of between 1.71% and 2.08% (2014: n/a). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

### c) Sharesave and Employee Stock Purchase Plan 2006

In August 2006, the Company introduced the Micro Focus Employee Stock Purchase Plan 2006 and the Micro Focus Sharesave Plan 2006, approved by members on 25 July 2006. The Group operates several plans throughout the world but the two main plans are the Sharesave Plan ('Sharesave') primarily for UK employees, and the Employee Stock Purchase Plan ('ESPP') for employees in the USA and Canada. The Sharesave and ESPP provide for an annual award of options at a discount to the market price and are open to all eligible Group employees. Further Sharesave and ESPP grants were made during the year to 30 April 2015.

	2015		2014	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
Sharesave				
Outstanding at 1 May	527,410	364p	523,906	300p
Exercised	(289,592)	231p	(69,967)	306p
Forfeited	(28,178)	544p	(44,443)	321p
Granted	339,589	798p	117,914	596p
Outstanding at 30 April	549,229	693p	527,410	364p
Exercisable at 30 April	2,669	337p	2,783	323p

Options	Date of grant	Exercise price per share pence	Exercise period
2,669	14 February 2012	337.2p	1 April 2015 – 30 September 2015
48,684	1 October 2012	428.0p	1 October 2015 – 31 March 2016
60,785	1 April 2013	481.6p	1 April 2016 – 30 September 2016
52,799	1 October 2013	598.4p	1 October 2016 – 1 April 2017
4,368	21 November 2013	649.6p	1 January 2017 – 1 July 2017
45,063	5 February 2014	612.0p	1 May 2017 – 1 November 2017
91,917	1 August 2014	695.0p	1 October 2017 – 1 February 2018
242,944	10 February 2015	838.4p	1 April 2018 – October 2018
549,229			

# Notes to the consolidated financial statements

for the year ended 30 April 2015

continued

## 35 Employees and directors continued

	2015		2014	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
<b>ESPP</b>				
At 1 May	84,342	528p	112,075	426p
Exercised	(30,935)	504p	(13,272)	274p
Forfeited	(36,964)	499p	(31,481)	335p
Granted	163,476	980p	17,020	644p
<b>Outstanding at 30 April</b>	<b>179,919</b>	<b>948p</b>	<b>84,342</b>	<b>528p</b>
<b>Exercisable at 30 April</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

	Options	Date of grant	Exercise price per share pence	Exercise period
	16,443	1 October 2013	644.3p	1 October 2015 – 31 December 2015
	9,074	1 April 2014	706.0p	1 April 2016 – 30 June 2016
	12,016	1 October 2014	899.5p	1 October 2016 – 31 December 2016
	142,386	1 April 2015	1004.0p	1 April 2017 – June 2017
	179,919			

The amount charged to the consolidated statement of comprehensive income in respect of the Sharesave and ESPP schemes was \$0.5m (2014: \$0.4m).

The weighted average fair value of options granted in the Sharesave and ESPP schemes during the year determined using the Black-Scholes valuation model was £3.38 (2014: £3.62). The significant inputs into the model were weighted average share price of £11.53 (2014: £7.67) at the grant date, exercise price shown above, expected volatility of between 25.81% and 27.38% (2014: 43.6%), expected dividend yield of between 2.9% and 3.6% (2014: 4.10%), an expected option life of two or three years and an annual risk-free interest rate of between 1.71% and 2.56% (2014: 2.20%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

## 36 Operating lease commitments – minimum lease payments

At 30 April 2015 the Group has a number of lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years.

	2015 \$'000	2014 \$'000
Commitments under non-cancellable operating leases expiring:		
No later than one year	29,040	8,560
Later than one year and no later than five years	79,189	13,008
Later than five years	54,883	1,272
<b>Total</b>	<b>163,112</b>	<b>22,840</b>

The Group leases various offices under non-cancellable operating lease agreements that are included in the table. The leases have various terms, escalation clauses and renewal rights.

## 37 Contingent liabilities

The Group had contingent liabilities of \$nil at 30 April 2015 (2014: \$69,026).

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.



### 38 Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. The remuneration of key management personnel of the Group (which is defined as members of the Executive Committee) including executive directors is set out in note 35.

At the time of the acquisition of TAG, the sponsors' fees had not been paid and were subsequently paid on the date of the acquisition, being \$45.2m to the owners of Wizard Parent LLC.

### 39 Business combinations

#### Summary of acquisitions in the year ended 30 April 2015

	Carrying value at acquisition \$'000	Fair value adjustments \$'000	Hindsight adjustment \$'000	Goodwill \$'000	Consideration – shares \$'000	Consideration – cash \$'000	Consideration – deferred \$'000	Consideration – total \$'000
<b>Acquisitions in the year ended 30 April 2015:</b>								
TAG	(501,338)	(225,796)	–	2,113,350	1,386,216	–	–	1,386,216
<b>Acquisitions in the year ended 30 April 2014:</b>								
OpenFusion CORBA assets from PrismTech Group Limited	(992)	3,614	(342)	5,904	–	6,392	1,792	8,184
AccuRev Inc.	(563)	8,192	129	14,467	–	22,225	–	22,225
	<b>(502,893)</b>	<b>(213,990)</b>	<b>(213)</b>	<b>2,133,722</b>	<b>1,386,216</b>	<b>28,617</b>	<b>1,792</b>	<b>1,416,625</b>

#### Acquisition of TAG

On 20 November 2014, the Group acquired from Wizard Parent LLC ('Wizard'), TAG, a US company based in Houston. The acquisition of TAG was made as this presented a rare opportunity to achieve a significant increase in the scale and breadth of Micro Focus, with the potential to deliver Total Shareholder Returns that are superior to those likely to be achieved on an organic basis.

The Company acquired the entire share capital of TAG, in exchange for the issue of 86.6m Consideration Shares to TAG's parent company, Wizard. The value of the Consideration Shares allotted to Wizard at completion was \$1,386.2m.

Of the consideration of \$1,386.2m, \$13.5m was credited to share capital and \$1,372.7m was credited to the merger reserve. The Group qualifies for merger accounting under S612 of the Companies Act 2006.

The acquisition of TAG was classified as a reverse takeover under the London Stock Exchange Listing Rules. At completion of the acquisition the listing on the premium listing segment of the Official List of all the existing ordinary shares was cancelled and application was made for the immediate readmission of those existing ordinary shares and the admission of 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. The relisting fees incurred by the Group were \$723,000.

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

# Notes to the consolidated financial statements

## for the year ended 30 April 2015

### continued

### 39 Business combinations continued

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

	Carrying value at acquisition \$'000	Fair value adjustments \$'000	Fair value \$'000
Goodwill	906,052	(906,052)	–
Intangible assets – purchased <sup>1</sup>	214,222	913,410	<b>1,127,632</b>
Intangible assets – other <sup>3</sup>	17,282	(5,519)	<b>11,763</b>
Property, plant and equipment	25,965	–	<b>25,965</b>
Assets held for sale	888	–	<b>888</b>
Investment in associates	15,689	–	<b>15,689</b>
Long-term pension assets	15,472	–	<b>15,472</b>
Other non-current assets	4,952	–	<b>4,952</b>
Deferred tax assets (note 28)	204,566	(13,334)	<b>191,232</b>
<b>Non-current assets</b>	<b>1,405,088</b>	<b>(11,495)</b>	<b>1,393,593</b>
Inventories	16	–	<b>16</b>
Trade and other receivables <sup>4</sup>	158,226	–	<b>158,226</b>
Current tax recoverable	10,857	–	<b>10,857</b>
Cash and cash equivalents	165,946	–	<b>165,946</b>
<b>Current assets</b>	<b>335,045</b>	<b>–</b>	<b>335,045</b>
Trade and other payables <sup>4</sup>	(205,806)	3,344	<b>(202,462)</b>
Borrowings	(1,294,726)	–	<b>(1,294,726)</b>
Short-term provisions	(8,852)	–	<b>(8,852)</b>
Short-term deferred income <sup>2</sup>	(433,261)	29,367	<b>(403,894)</b>
<b>Current liabilities</b>	<b>(1,942,645)</b>	<b>32,711</b>	<b>(1,909,934)</b>
Long-term deferred income <sup>2</sup>	(203,519)	13,301	<b>(190,218)</b>
Long-term provisions	(2,614)	–	<b>(2,614)</b>
Retirement benefit obligations	(31,257)	–	<b>(31,257)</b>
Other non-current liabilities	(9,406)	–	<b>(9,406)</b>
Deferred tax liabilities (note 28) <sup>5</sup>	(50,749)	(260,313)	<b>(311,062)</b>
<b>Non-current liabilities</b>	<b>(297,545)</b>	<b>(247,012)</b>	<b>(544,557)</b>
Non-controlling interest	(1,281)	–	<b>(1,281)</b>
<b>Net liabilities acquired</b>	<b>(501,338)</b>	<b>(225,796)</b>	<b>(727,134)</b>
Goodwill (note 9)			<b>2,113,350</b>
<b>Consideration</b>			<b>1,386,216</b>
<b>Consideration satisfied by:</b>			
Shares			<b>1,386,216</b>

A Trade and other receivables is net of a bad debt provision of \$124,000.

The fair value adjustments relate to:

- 1 Purchase intangible assets have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of TAG;
- 2 Deferred income has been valued taking account of the remaining performance obligations;
- 3 Other intangible assets relating to development costs have been written down to nil;
- 4 Deferred rent within 'Trade and other payables' has been reassessed; and
- 5 A deferred tax liability has been established relating to the purchase intangibles.

### 39 Business combinations continued

The purchased intangible assets acquired as part of the acquisition can be analyzed as follows:

	Fair value \$'000
Technology	225,064
Trade names	216,335
Customer relationships	686,233
	<b>1,127,632</b>

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Company's existing customer base with those of the acquired business.

The Group has used acquisition accounting for the purchase and the goodwill arising on consolidation of \$2,113.4m has been capitalized.

From the date of acquisition to 30 April 2015, the acquisition contributed \$416.0m to revenue (note 2) and \$139.8m profit to Adjusted EBITDA.

The estimated results of the above acquisition if it had been made at the beginning of the accounting year to 30 April 2015 would have been as follows:

Continuing	\$m
Revenue	902.1
Profit for the year	9.9
Adjusted EBITDA	297.8
Underlying Adjusted EBITDA	294.2

The estimated results of the Enlarged Group if the acquisition had been made at the beginning of the accounting year to 30 April 2015 would have been as follows:

Continuing	\$m
Revenue	1,320.7
Profit for the year	88.4
Adjusted EBITDA	515.6
Underlying Adjusted EBITDA	503.0

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

#### Acquisition of OpenFusion CORBA assets from PrismTech Group Limited

On 29 November 2013, the Group acquired from PrismTech Group Limited, the OpenFusion CORBA related assets for an initial consideration of £4.2m (equivalent to \$6.4m) with up to £1.1m (equivalent to \$1.8m) of deferred consideration. The initial consideration of £4.2m (equivalent to \$6.4m) was satisfied in cash using Micro Focus' existing banking facilities. The acquisition costs incurred of \$0.3m were expensed through administrative expenses in the consolidated statement of comprehensive income. Further contingent consideration of £1.1m (equivalent to \$1.8m) was paid on 6 August 2014.

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

# Notes to the consolidated financial statements

for the year ended 30 April 2015

continued

## 39 Business combinations continued

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

	Carrying value at acquisition \$'000	Initial fair value \$'000	Hindsight period adjustments \$'000	Revised fair value \$'000
Intangible assets	–	4,351	–	<b>4,351</b>
Trade and other receivables	3	–	–	<b>–</b>
Trade and other payables	(151)	(108)	–	<b>(108)</b>
Deferred income	(844)	(1,621)	(342)	<b>(1,963)</b>
Net (liabilities)/assets	(992)	2,622	(342)	<b>2,280</b>
Goodwill (note 9)		5,562	342	<b>5,904</b>
Consideration		8,184	–	<b>8,184</b>
Consideration satisfied by:				
Cash				<b>6,392</b>
Deferred consideration				<b>1,792</b>
				<b>8,184</b>

The hindsight period adjustments above relate to amendments to deferred income. The deferred income adjustment relates to invoices recorded as pre-acquisition now identified as relating to future periods.

### Acquisition of AccuRev Inc.

On 30 November 2013, the Group signed a merger agreement for the acquisition of the application life cycle solutions company AccuRev Inc., a US company based in Concord, Massachusetts, for an initial consideration of \$21.5m, exclusive of \$0.8m of acquisition related costs. This was settled on completion of the acquisition on 31 December 2013, using Base Micro Focus' existing banking facilities. Further consideration of \$0.7m was paid following acquisition. The acquisition costs of \$0.8m were expensed through administrative expenses in the consolidated statement of comprehensive income.

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

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

	Carrying value at acquisition \$'000	Initial fair value \$'000	Hindsight period adjustments \$'000	Revised fair value \$'000
Intangible assets	–	9,826	–	<b>9,826</b>
Property, plant and equipment	208	154	–	<b>154</b>
Cash	3,261	3,261	–	<b>3,261</b>
Trade and other receivables	1,520	1,441	–	<b>1,441</b>
Trade and other payables	(530)	(701)	129	<b>(572)</b>
Deferred income	(5,022)	(4,775)	–	<b>(4,775)</b>
Deferred tax liability	–	(1,577)	–	<b>(1,577)</b>
Net (liabilities)/assets	(563)	7,629	129	<b>7,758</b>
Goodwill (note 9)		14,596	(129)	<b>14,467</b>
Consideration		22,225	–	<b>22,225</b>

Consideration satisfied by:

Cash	<b>22,225</b>
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The hindsight period adjustments above relate to amendments to trade and other payables. The trade and other payables adjustment relates to contracts implementation costs now being expensed which had originally been capitalized by AccuRev Inc.

# Company financial statements and notes

# Independent auditors' report to the members of Micro Focus International plc

## Report on the Company financial statements

### Our opinion

In our opinion, Micro Focus International plc's Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 30 April 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

Micro Focus International plc's financial statements comprise:

- the Company balance sheet as at 30 April 2015;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Other required reporting

### Consistency of other information

#### Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

## Directors' remuneration

### Directors' Remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 75, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



## What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgments against available evidence, forming our own judgments, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Other matter

We have reported separately on the Group financial statements of Micro Focus International plc for the year ended 30 April 2015.

**Andrew Paynter**  
**(Senior Statutory Auditor)**  
 for and on behalf of  
**PricewaterhouseCoopers LLP**  
 Chartered Accountants and  
 Statutory Auditors  
 Reading  
 7 July 2015

# Company balance sheet

as at 30 April 2015

	Note	2015 \$'000	2014 \$'000
<b>Fixed assets</b>			
Investments	V	75,447	65,923
		<b>75,447</b>	65,923
<b>Current assets</b>			
Deferred tax assets		2,349	1,160
Debtors	VI	1,489,536	347,545
Cash at bank and in hand		162	517
		<b>1,492,047</b>	349,222
Creditors: amounts falling due within one year	VII	(8,186)	(28,160)
Net current assets		<b>1,483,861</b>	321,062
<b>Total assets less current liabilities</b>		<b>1,559,308</b>	386,985
<b>Capital and reserves</b>			
Called up share capital	VIII	39,555	37,802
Share premium account	X	16,087	14,546
Capital redemption reserve	XI	163,363	103,983
Merger reserve	XI	1,195,189	–
Profit and loss account	XI	145,114	230,654
<b>Total shareholders' funds</b>		<b>1,559,308</b>	386,985

The Company financial statements on pages 134 to 141 were approved by the board of directors on 7 July 2015 and were signed on its behalf by:



**Kevin Loosemore**  
Executive Chairman



**Mike Phillips**  
Chief Financial Officer

Registered number: 5134647

# Notes to the Company financial statements

## for the year ended 30 April 2015

### I Summary of significant accounting policies

The basis of preparation and the principal accounting policies adopted in the preparation of the financial information are set out below.

#### A Basis of preparation

The Company financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and all applicable UK accounting standards. The principal accounting policies have been applied consistently throughout the year.

#### B Foreign currency translation

The functional currency of the Company is US dollars. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

#### C Investments in subsidiaries

Investments in subsidiaries are held at cost less any accumulated impairment losses.

#### D Called up share capital, share premium and dividend distribution

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognized when declared.

#### E Taxation

Corporation tax is payable on taxable profits at amounts expected to be paid, or recovered, under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognized to take account of timing differences between the treatment of transactions for financial reporting purposes and their treatment for tax purposes. A deferred tax asset is only recognized when it is regarded as more likely than not that there will be a suitable taxable profit from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### F Employee benefit costs

##### a) Pension obligations

The Company operates a defined contribution plan for which it pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

##### b) Share-based compensation

The Company operated various equity-settled, share-based compensation plans during the year.

No expense is recognized in respect of share options granted before 7 November 2002 and vested before 1 January 2005. For shares or share options granted after 7 November 2002 and vested after 1 January 2005 the fair value of the employee services received in exchange for the grant of the shares or options is 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 or options granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

The shares are recognized when the options are exercised and the proceeds received allocated between called up share capital and share premium account.

#### G Amounts owed by Group undertakings

Amounts owed by Group undertakings are measured at fair value and subsequently amortized using the effective interest rate method.

#### H Financial instruments

The accounting policy of the Company for financial instruments is the same as that shown in the Group accounting policies. This policy is in accordance with FRS 26 'Financial Instruments Recognition and Measurement'.

### II Profit and recognized gains and losses attributable to the Company

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the Company. The Company has also taken advantage of legal dispensation contained in S408 of the Companies Act 2006 allowing it not to publish a separate statement of total recognized gains and losses.

The loss for the financial year before dividends for the Company was \$19.9m (2014: profit of \$42.2m).

# Notes to the Company financial statements

## for the year ended 30 April 2015

### continued

### III Employees and directors

#### Staff costs for the Company during the year

	2015 \$'000	2014 \$'000
Wages and salaries	4,844	3,498
Social security costs	811	616
Other pension costs	72	67
Cost of employee share schemes	4,915	3,383
<b>Total</b>	<b>10,642</b>	<b>7,564</b>

The average monthly number of employees of the Company, including remunerated directors, during the year was nine (2014: six). For further information on the directors of the Company please refer to the Remuneration Report on pages 48 to 69.

#### Share-based payments

The Company has various equity-settled share-based compensation plans, details of which are provided below. The only employees of the Company are the directors and the interests of the executive directors in share options are as below.

#### a) Incentive Plan 2005

On 27 April 2005 the remuneration committee approved the rules of the Incentive Plan 2005 ('LTIP') which permits the granting of share options to executive directors and senior management. The total number of options they receive is determined by the performance criteria set by the remuneration committee over a three year performance period. Prior to 18 April 2011 performance conditions required that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 11% (at which point 25% of awards will vest), 60% of shares will vest for cumulative EPS growth of RPI plus 13% and for full vesting the cumulative EPS growth will be required to be RPI plus 15% per annum. Straight-line vesting will apply between these points. Awards granted on or after 18 April 2011 are subject to either Absolute Shareholder Returns ('ASR') over a three year period, cumulative EPS growth or a combination of both. Where the cumulative EPS growth over a three year period is at least equal to RPI plus 3% per annum 25% of awards will vest, with full vesting achieved when the cumulative EPS growth is RPI plus 9% per annum. Straight-line vesting will apply between these points. Where the award is subject to ASR the resulting level of vesting will be reduced by 25% if the ASR is below 150 pence or increased by 50% if ASR is 300 pence or more. Further details are provided in the remuneration committee report on pages 48 to 69.

	2015		2014	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
At 1 May	695,479	–	1,645,846	91p
Increase in performance	–	–	643,328	–
Exercised	(210,760)	–	(1,799,786)	84p
Granted	176,902	–	206,091	–
<b>Outstanding at 30 April</b>	<b>661,621</b>	<b>–</b>	<b>695,479</b>	<b>–</b>
<b>Exercisable at 30 April</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

The weighted average share price in the year for options on the date of exercise was 949 pence (2014: 787 pence).

The amount charged to the profit and loss account in respect of the scheme was \$1.9m (2014: \$2.6m). In addition to this \$1.1m (2014: \$1.9m) was charged to the profit and loss account in respect of National Insurance on these options.

	2015			2014		
	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years
<b>Range of exercise prices</b>						
£0.10 or less	–	662	8.0	8p	695	8.1
	–	662	8.0	8p	695	8.1

### III Employees and directors continued

176,902 (2014: 206,091) options were granted in the year. The weighted average fair value of options granted during the prior year determined using the Black-Scholes valuation model was £8.97 (2014: £6.08). The significant inputs into the model were weighted average share price of £9.90 (2014: £6.88) at the grant date, exercise price shown above, volatility of 27.38%, dividend yield of 3.55%, an expected option life of three years and an annual risk-free interest rate of 2.56%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

#### b) Additional Share Grants

	2015		2014	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
Outstanding at 1 May	–	–	–	–
Granted	1,623,669	–	–	–
<b>Outstanding at 30 April</b>	<b>1,623,669</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Exercisable at 30 April</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

The Remuneration Committee also awarded a number of Additional Share Grants (ASGs) to a number of senior managers and executives, critical to delivering the anticipated results of the acquisition. Grants can be made to no more than 15 people within 18 months of the completion date. ASGs are nil cost options over ordinary shares. The number of ordinary shares subject to the ASGs will be a maximum of 2.5% of the Enlarged Share Capital. The ASGs will become exercisable, subject to the satisfaction of the performance condition, on the third anniversary of the date of Completion or 1 November 2017, whichever is earlier (the 'vesting date') and will remain exercisable until the tenth anniversary of Completion.

The performance condition is that the percentage of ordinary shares subject to the ASG which may be acquired on exercise on or after the vesting date is as follows:

- (i) 0% if the Shareholder Return Percentage (as defined below) is 50% or less;
- (ii) 100% if the Shareholder Return Percentage is 100% or more; and
- (iii) a percentage determined on a straight-line basis between (i) and (ii) above.

The 'Shareholder Return Percentage' will be calculated by deducting 819.4 pence per share (the 'Reference Price'), being the average of the 20 days before 3 June 2014 (being the date of the heads of agreement relating to the proposed combination of Micro Focus and Attachmate between Micro Focus, Wizard, Golden Gate Capital and Francisco Partners Management LP), from the sum of the 'Vesting Price' (calculated as the average closing share price over the period of 20 days ending on the day prior to the vesting date) plus the total of all dividends per share between Completion and the vesting date. This will be divided by the Reference Price, multiplying the resulting figure by 100 to obtain the Shareholder Return Percentage.

The amount charged to the consolidated statement of comprehensive income in respect of the scheme was \$1.60m (2014: \$nil). In addition to this \$0.4m (2014: \$nil) was charged to the consolidated statement of comprehensive income in respect of National Insurance on these share options.

	2015			2014		
	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years
<b>Range of exercise prices</b>						
£0.10 or less	–	1,624	–	–	–	–
	–	1,624	–	–	–	–

The weighted average fair value of options granted during the year determined using the Monte-Carlo simulation model was £4.40. The significant inputs into the model were a weighted average share price of £11.24 at the grant date, exercise prices shown above, expected volatility of 26.11%, expected dividend yield of 3.2%, an expected option life of three years and an annual risk-free interest rate of 2.08%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

# Notes to the Company financial statements

## for the year ended 30 April 2015

### continued

#### IV Dividends

A final dividend in respect of the year ended 30 April 2014 of 30.0 cents per share was proposed and paid during the year (\$40.2m in total). In addition, an interim dividend in respect of the year ended 30 April 2015 of 15.4 cents per share (2014: 14.0 cents per share) was proposed and paid \$32.5m in total.

The directors are proposing a final dividend in respect of the year ended 30 April 2015 of 33.0 cents per share, which would reduce shareholders' funds by approximately \$71.7m. The proposed dividend is subject to approval at the forthcoming AGM.

#### V Fixed asset investments

	\$'000
<b>Cost and net book value:</b>	
At 1 May 2014	65,923
Additions	1,395,740
Disposals	(1,386,216)
<b>At 30 April 2015</b>	<b>75,447</b>

The additions of \$1,395.7m relate to capital contributions arising from share-based payments of \$3.8m (2014: \$5.4m) as set out in note III and shares issued and costs in relation to the acquisition of TAG (see note 39 in the Group Accounts). Disposals in the year relate to the sale of the investment in TAG to another Group company at book value.

A full list of subsidiary undertakings, joint ventures and associates at 30 April 2015 is included in note 13 of the Group Accounts. Only Micro Focus Group Limited is directly owned by the Company with all other subsidiaries being indirectly owned.

These companies operate principally in the country in which they are incorporated. Our subsidiaries in Brazil and Bulgaria have a financial year end of 31 December. Our subsidiaries in India have an accounting year end of 31 March. These are due to historic reasons and were their year-end on acquisition.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

#### VI Debtors

	2015 \$'000	2014 \$'000
Amounts owed by Group undertakings	1,488,723	346,464
Other debtors	696	995
Prepayments	117	86
<b>Total</b>	<b>1,489,536</b>	<b>347,545</b>

The amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

#### VII Creditors: amounts falling due within one year

	2015 \$'000	2014 \$'000
Amounts owed to Group undertakings	213	10,992
Taxation and social security	155	9,132
Accruals	7,818	8,036
<b>Total</b>	<b>8,186</b>	<b>28,160</b>

The amounts owed to Group undertakings are unsecured, interest free and repayable on demand.



## VIII Called up share capital

	2015		2014	
	Number	\$'000	Number	\$'000
<b>Allotted and fully paid</b>				
Ordinary shares of 13 <sup>13</sup> / <sub>24</sub> pence each	—	—	152,419,885	37,802
Ordinary shares of 10 pence each	<b>228,587,397</b>	<b>39,555</b>	—	—

Further information on share capital is provided in notes 29 and 30 of the Group Accounts.

During the year, 464,919 ordinary shares of 13<sup>13</sup>/<sub>24</sub> pence each (2014: Nil) and 29,790 (2014: Nil) ordinary shares of 10 pence each were issued by the Company to settle exercised share options. The gross consideration received was \$1.5m (2014: \$1.0m).

## IX Share buy-back

The Group obtained shareholder authority at the AGM held on 25 September 2014 to buy back up to 14.99% of its issued share capital, which remained outstanding until the conclusion of the AGM on 24 September 2015.

No shares have been bought back under the terms of the above authority.

At 30 April 2015 a total of 11,339,583 treasury shares were held (2014: 12,880,776).

## X Share premium account

	2015 \$'000	2014 \$'000
At 1 May	<b>14,546</b>	13,523
Movement in relation to shares issued	<b>1,541</b>	1,023
<b>At 30 April</b>	<b>16,087</b>	14,546

# Notes to the Company financial statements

## for the year ended 30 April 2015

### continued

## XI Reserves and reconciliation of movements in shareholders' funds

	Called up share capital \$'000	Share premium account \$'000	Profit and loss account \$'000	Merger reserves <sup>2</sup> \$'000	Capital redemption reserves <sup>1</sup> \$'000	Total \$'000
<b>Balance as at 1 May 2013</b>	37,797	13,523	395,187	–	103,983	550,490
Profit for the year	–	–	42,242	–	–	42,242
Dividends (see note IV)	–	–	(62,633)	–	–	(62,633)
Issue of share capital	5	1,023	(9,422)	–	–	(8,394)
Return of Value to shareholders (see note XIV)	–	–	(144,664)	–	–	(144,664)
Expenses and foreign exchange relating to Return of Value	–	–	3,934	–	–	3,934
Prior year corporation tax	–	–	(786)	–	–	(786)
Movement in relation to share options						
– Value of subsidiary employee services	–	–	2,880	–	–	2,880
– Value of services provided (see note III)	–	–	3,383	–	–	3,383
Deferred tax on share options	–	–	533	–	–	533
Total changes in shareholders' funds	5	1,023	(164,533)	–	–	(163,505)
<b>Balance as at 30 April 2014</b>	37,802	14,546	230,654	–	103,983	386,985
Loss for the year	–	–	(19,928)	–	–	(19,928)
Dividends (see note IV)	–	–	(72,707)	–	–	(72,707)
Issue of share capital	106	1,541	(4,275)	–	–	(2,628)
Shares issued to TAG	13,550	–	–	1,372,666	–	1,386,216
Return of Value to shareholders (see note XIV)	–	–	(131,565)	–	–	(131,565)
Return of Value – share consolidation	(37,866)	–	–	–	11,903	(25,963)
Return of Value – new share issues	25,963	–	–	(47,477)	47,477	25,963
Expenses relating to Return of Value	–	–	(55)	–	–	(55)
Expenses relating to relisting on the LSE	–	–	(723)	–	–	(723)
Reallocation of merger reserve <sup>3</sup>	–	–	130,000	(130,000)	–	–
Movement in relation to share options:						
– Value of subsidiary employee services	–	–	7,600	–	–	7,600
– Value of services provided (see note III)	–	–	4,915	–	–	4,915
Deferred tax on share options	–	–	1,198	–	–	1,198
Total changes in shareholders' funds	1,753	1,541	(85,540)	1,195,189	59,380	1,172,323
<b>Balance as at 30 April 2015</b>	39,555	16,087	145,114	1,195,189	163,363	1,559,308

- 1 In January 2012 a Return of Value was made to all shareholders amounting to \$129.0m in cash after including a foreign exchange contract gain of \$0.6m. As a result of this a capital redemption reserve was created following the redemption of the B Shares. In November 2012 a further return of value was made to all shareholders amounting to \$128.8m in cash after including a foreign exchange contract gain of \$2.4m. In September 2012, a further \$47,079,000 was added to the capital redemption reserve following the redemption of the B Shares. In November 2014, a further \$59,380,000 was added to the capital redemption reserve following the redemption of B Shares.
- 2 On 20 November 2014 the TAG acquisition was completed. As a result of this a merger reserve was created of \$1.4m. The acquisition of TAG was structured by way of a share for share exchange, this transaction fell within the provisions of section 612 of the Companies Act 2006 (merger relief) such that no share premium was recorded in respect of the shares issued. The Company chose to record its investment in TAG at fair value and therefore recorded a merger reserve equal to the value of the share premium which would have been recorded had section 612 of the Companies Act 2006 not been applicable (i.e. equal to the difference between the fair value of TAG and the aggregate nominal value of the shares issued). This merger reserve was initially considered unrealized on the basis it was represented by the investment in TAG, which is not considered to represent qualifying consideration (in accordance with Tech 02/10 (Guidance on the determination of realized profits and losses in the context of distributions under the Companies Act 2006)). Immediately following the acquisition of TAG, the Company's investment in TAG was transferred to another Group Company in exchange for an intercompany loan. To the extent this loan is settled in qualifying consideration, the related proportion of the merger reserve is considered realized. See note 39 in the Group Accounts and note XIV.
- 3 The merger reserve is an unrealized profit and \$130.0m of the intercompany loan has been settled in qualifying consideration during the year such that an equivalent proportion of the merger reserve is considered realized and therefore has been transferred to the profit and loss account.

As at 30 April 2015 the value of distributable reserves was \$145,114,000 (2014: \$230,654,000).

## XII Contingent liabilities

The Company has guaranteed certain contracts in the normal course of business and bank borrowings of its subsidiaries.

## XIII Related party transactions

The Company has taken advantage of the exemption under FRS 8 'Related Party Transactions' from disclosing transactions with other members of the Group headed by Micro Focus International plc. There are no related party transactions or other external related parties.

## XIV Return of Value to shareholders

In December 2014 we completed a Return of Value to shareholders amounting to £83.9m (\$131.6m) in cash (60 pence per share, equivalent to 94.02 cents per share), by way of a B and C share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by 0.9285 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B and C Shares.

As part of the corporate entity restructuring resulting from the acquisition we have created a merger reserve of approximately \$1.4bn, which is expected to become a distributable reserve in future periods. This creates flexibility for future Returns of Value once Net Debt to Facility EBITDA is below 2.5 times.

As at December 2014 this was the Group's fourth Return of Value to shareholders and this brings the total amount returned to shareholders since 25 March 2011 through share buy-backs, Returns of Value and ordinary dividends to £554.4m which represents 87.3% of the Market Capitalization at that time.



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**South Africa – Johannesburg**

Morningside Wedge Office Park  
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Morningside  
Sandton 2057, South Africa  
T: 27 011 322 8300

## Historical summary

Revenue (\$m)			Adjusted Earnings per share basic (c)			Profit before tax (\$m)		
\$834.5m			133.58c			\$91.4m		
11		436.1	11		54.85	11		114.5
12		434.1	12		72.77	12		148.6
13		412.2	13		87.81	13		151.5
14		433.1	14		100.32	14		147.8
15		834.5	15		133.58	15		91.4

Adjusted Operating profit (\$m)			Cash generated from continuing operations (\$m)			Adjusted EBITDA (\$m)		
\$347.8m			\$288.7m			\$357.6m		
11		153.0	11		182.3	11		158.7
12		174.7	12		196.7	12		179.1
13		182.2	13		192.4	13		186.3
14		187.5	14		206.8	14		192.0
15		347.8	15		288.7	15		357.6

### Summarized Group consolidated statement of comprehensive income for the year ended 30 April

	2015 \$'000	2014 \$'000
<b>Revenue</b>	<b>834,539</b>	433,058
Operating profit before exceptional items	243,914	155,720
Exceptional items	(96,678)	–
Operating profit	147,236	155,720
Profit before tax	91,427	147,841
<b>Earnings per share</b>		
Basic (cents)	58.54	84.75
Diluted (cents)	56.71	82.35

### Summarized Group consolidated statement of financial position as at 30 April

	2015 \$'000	2014 \$'000
Non-current assets	3,879,634	464,945
Current assets	460,967	140,072
Current liabilities	(988,030)	(568,433)
Non-current liabilities	(2,074,510)	(52,835)
<b>Total equity</b>	<b>1,278,061</b>	(16,251)

# Key dates and share management

## Key dates for 2015

### Annual General Meeting

24 September 2015

### Dividend payments

Final payable – year ended 30 April 2015

2 October 2015

Interim payable – period ended 31 October 2015

January 2016

### Results announcements

Interim results – period ended 31 October 2015

December 2015

Final results – year ended 30 April 2016

July 2016

## Managing your shares

### Share dealing services

Shareview Dealing is a telephone and internet service provided by Equiniti and provides a simple and convenient way of buying and selling Micro Focus International plc shares.

Log on to [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing) or call 0845 603 7037 between 8.30am and 4.30pm, Monday to Friday, for more information about this service and for details of the rates and charges.

A weekly postal dealing service is also available and a form together with terms and conditions can be obtained by calling 0871 384 2734\*. Commission is 1% with a minimum of £10.

### ShareGift

ShareGift is a charity share donation scheme for shareholders, administered by The Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small number of shares whose value makes it uneconomical to sell on a commission basis. Further information can be obtained at [www.sharegift.org.uk](http://www.sharegift.org.uk) or from Equiniti.

### Shareholder enquiries

Equiniti maintain the register of members of the Company. If you have any queries concerning your shareholding, or if any of your details change, please contact the Registrars:

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

Telephone: 0871 384 2734\*  
Fax: 0871 384 2100\*

Textphone for shareholders with hearing difficulties: 0871 384 2255\*

Equiniti also offer a range of shareholder information online at [www.shareview.co.uk](http://www.shareview.co.uk).

\* Calls to this number cost 8 pence per minute plus network extras.

## Company information

### Directors

Kevin Loosemore  
(Executive Chairman)

Mike Phillips  
(Chief Financial Officer)

Karen Slatford  
(Senior Independent Non-executive director)

Richard Atkins  
(Independent Non-executive director)

Tom Skelton  
(Independent Non-executive director)

Tom Virden  
(Independent Non-executive director)

David Golob  
(Non-executive director)

Prescott Ashe  
(Non-executive director)

Karen Geary  
(Independent Non-executive director)

### Company Secretary, Registered and Head Office

Jane Smithard  
The Lawn  
22-30 Old Bath Road  
Newbury  
Berkshire RG14 1QN  
United Kingdom

www.microfocus.com  
Registered in England number 5134647

### Legal advisers

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10 Snow Hill  
London EC1A 2AL  
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Lawrence Graham LLP  
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London SE1 2AU  
United Kingdom

### Independent auditors

PricewaterhouseCoopers LLP  
9 Greyfriars Road  
Reading  
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United Kingdom

### Registrars

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www.shareview.co.uk

### Brokers

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The London Stock Exchange Building  
10 Paternoster Square  
London EC4M 7LT  
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## Forward-looking statements

Certain statements contained in this Annual Report, including those under the captions entitled Executive Chairman's statement, Operational and financial review, directors' report, corporate governance and remuneration report constitute 'forward-looking statements', including, without limitation, those regarding the Company's financial condition, business strategy, plans and objectives. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative or other variations or comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Such risks, uncertainties and other factors include, among others: the level of expenditure committed to development and deployment applications by organizations; the level of deployment-related revenue expected by the Company; the degree to which organizations adopt web-enabled services; the rate at which large organizations migrate applications from the mainframe environment; the continued use and necessity of the mainframe for business critical applications; the degree of competition faced by Micro Focus; growth in the information technology services market; general economic and business conditions, particularly in the United States; changes in technology and competition; and the Company's ability to attract and retain qualified personnel. These forward-looking statements are made by the directors in good faith based on the information available to them at the time of their approval of this Annual Report. Except as required by the Financial Conduct Authority, or by law, the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.



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