

Annual Report and Accounts 2013

---

# Focused performance

# Key highlights 2013

## 2013 Overview

- Key highlights 2013
- 01 2013 overview
- 02 Our three point plan

## Business review

- 03 Executive Chairman's statement
- 07 Operational and financial review
- 12 Corporate social responsibility
- 14 Principal risks and uncertainties

## Management and governance

- 16 Board of directors
- 18 Directors' report
- 22 Corporate governance
- 28 Remuneration report
- 35 Key performance indicators ('KPIs')
- 36 Statement of directors' responsibilities in respect of the annual report, the directors' remuneration report and the financial statements

## Consolidated financial statements and notes

- 37 Independent auditors' report to the members of Micro Focus International plc
- 38 Consolidated statement of comprehensive income
- 39 Consolidated statement of financial position
- 40 Consolidated statement of changes in equity
- 41 Consolidated statement of cash flows
- 42 Summary of significant accounting policies
- 48 Notes to the consolidated financial statements

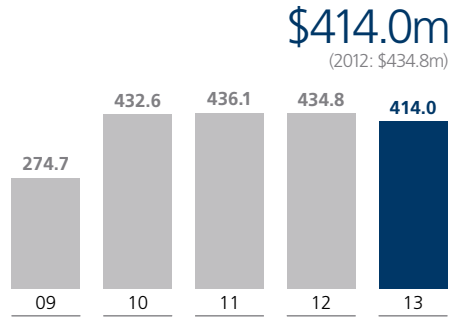
## Company financial statements and notes

- 70 Independent auditors' report to the members of Micro Focus International plc
- 71 Company balance sheet
- 72 Notes to the Company financial statements

## Additional information

- 78 Offices worldwide
- 79 Historical summary
- 80 Key dates and share management
- 81 Company information  
Directors, Secretary, registered office and advisers

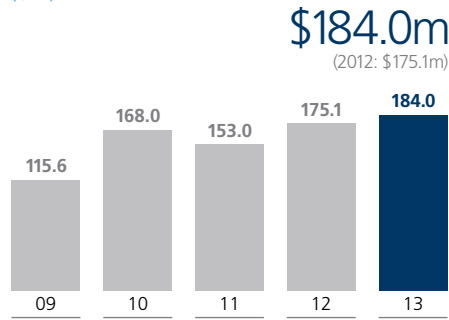
### Revenue (\$m)



### Adjusted EBITDA (\$m)



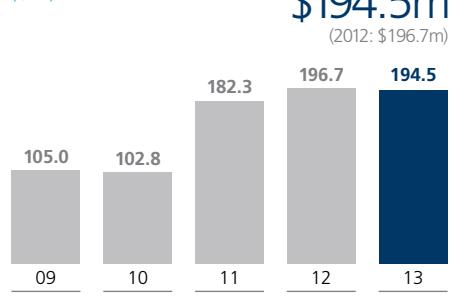
### Adjusted operating profit (\$m)



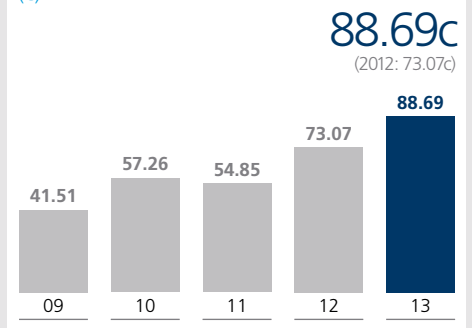
### Profit before tax (\$m)



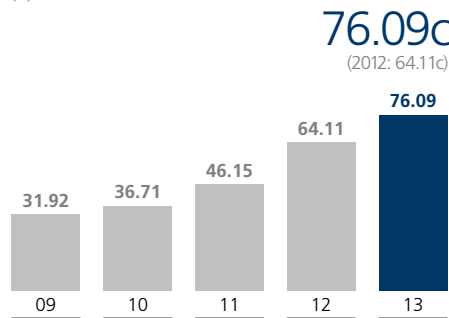
### Cash generated from continuing operations (\$m)



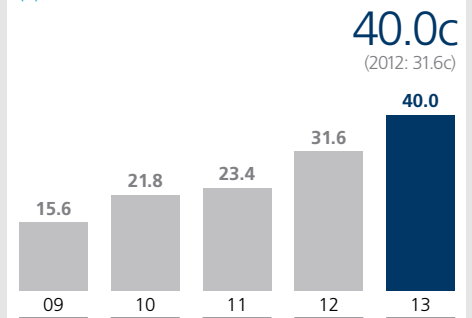
### Adjusted earnings per share (c)



### Diluted earnings per share (c)



### Total dividend per share (c)



# Who we are

Micro Focus provides innovative software that allows companies to develop, test, deploy, assess and modernize business critical enterprise applications.

# What we do

We save global organizations money and improve their productivity by enabling them to bridge from the old to the new, across distributed, mainframe and multi-device environments:

- Exploit advances in technology such as virtualization, cloud and mobile without the cost and risk of starting again with the application suite
- Protect prior investments in their data and business logic whilst unlocking new opportunities and use cases
- Optimize where they build, test and deploy business applications
- Execute with a balance of speed, flexibility and risk, that is right for their business

# Focused on creating a sustainable business

## FY12 Stabilization

- Focus on operations
- Focus on products and product management
- Financial discipline – focus on profitable business, manage costs, effective balance sheet leverage, strong cash generation and conversion

### Key achievements

- ✓ Right-sized costs
- ✓ Stemmed consulting losses
- ✓ Rationalized properties
- ✓ Invigorated product management

## FY13 Plant seeds to explore growth potential

- Further product management focus and innovative R&D to respond to customer needs through a more active product roadmap and new products
- Tailor products and customer propositions to appropriate sales channels (telesales, web, direct, partners, etc)
- Leverage deeply embedded products and ‘sticky’ relationships to maximize returns from an extensive existing customer base
- Provide compelling reasons for customers to upgrade and renew, to increase maintenance and new product sales
- Maintain financial discipline to maximize shareholder returns

### Key achievements

- ✓ Launched new products with repackaged and well priced customer offers
- ✓ Tightened links to sales channels
- ✓ Leveraged existing customer base
- ✓ Returned value to shareholders – progressive dividend policy and cash returns

## Going Forward – deliver sustainable returns

- Leading provider of software products that bridge the old to the new, preserving and protecting established customer investments in technology
- Focus on ‘sticky’ products – maintain, innovate and grow our core COBOL Development and Mainframe Solution business
- Develop product capabilities:
  - extend to capitalize on the mainframe development opportunity (COBOL/PL1)
  - extend to participate in the Cloud and Mobile testing opportunity

- Consider acquiring assets that add further ‘sticky’ products or customer sets – extend our market presence
- Deliver effective product management, strengthen sales enablement across multiple channels, and improve sales productivity
- Maintain financial discipline and focus on shareholder returns

## Executive Chairman's statement

# Driving returns for shareholders

### Introduction

**The year ended 30 April 2013 has been a year of solid progress for Micro Focus. I am pleased to report that we have seen flat maintenance revenues; licence revenues of \$168.6m (2012: \$172.6m) despite an uncertain macro environment; an increase in Adjusted EBITDA to \$188.1m (2012: \$179.8m), and a continued strong cash conversion ratio of 103.4% (2012: 108.0%).**

### Overview and corporate developments

Micro Focus is a software product group with strong franchises and a robust and sustainable core business. Our key value proposition to our clients is that we enable them to achieve significant incremental benefits from their prior investments in IT by addressing the technical challenges that link the 'old' to the 'new'.

At the beginning of the financial year we expected overall revenue on a constant currency basis to decline year on year. Modest growth in licence fee revenue was forecast to partially offset the anticipated decline in maintenance revenue, and consulting revenue would decline due to an increased focus and a reduction in loss making revenue. Against this revenue plan the maintenance fee performance was better than expected with revenues essentially flat compared to the prior year, and we accelerated our exit from non-strategic revenue streams in consulting. We modestly undershot our target on licence fee growth due to significant macro effects in US Federal and Japan in the second half of the year and errors in operational execution in Borland in North America.

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 objective of returning the business to growth whilst considering all options to deliver shareholder value.

During the year to 30 April 2013, Micro Focus delivered total revenues of \$414.0m (2012: \$434.8m) which was a decline of 2.4% compared to constant currency ('CCY') revenue for the comparable period of \$424.2m. Once the impact of the \$3.4m of revenues generated from the acquisition of CORBA assets from Progress are excluded, on a like for like basis revenues declined by 3.2% to \$410.6m on a CCY basis. Licence fees decreased by 2.4% to \$168.5m, (2012: CCY \$172.6m), maintenance fees increased by 0.2% to \$226.4m (2012: CCY \$226.0m) and Consultancy revenues were down, as planned, by 38.7% to \$15.7m (2012: CCY \$25.6m).

Through a combination of maintenance and ISV licence revenues we now have a recurring revenue stream of 64% of total revenues (2012: 61%).

Despite the difficulties in the second half of the year in Japan, our Asia Pacific and Japan region delivered overall revenue growth on a like for like basis of 2.9% to \$64.1m (2012: CCY \$62.6m).

Licence and maintenance revenues for our International region on a like for like basis increased by 2.2% to \$149.7m (2012: CCY \$146.5m) benefiting from a strong performance in Latin America. Total revenues in the region declined by 2.4% to \$157.8m (2012: CCY \$161.7m) due to the planned reduction in Consultancy Fee revenues.

North America is our largest region and recovered following a poor start to the year. North America revenues for the full year on a like for like basis declined by 5.5% to \$189.3m (2012: CCY \$200.3m) after a decline of 10% in the first six months.

The average employee headcount during the year ended 30 April 2013 was 1,206 (2012: 1,191). At 30 April 2013 headcount was 1,214.

Operating costs before exceptional items, share based payments and amortization of purchased intangibles ('Adjusted Operating Costs') reduced by 11.4% to \$230.0m (2012: \$259.7m). On a CCY basis, Adjusted Operating Costs fell less sharply from \$252.3m to \$230.0m, with the largest reduction coming from cost of goods sold in line with the reduction in Consultancy fee revenues.

The stabilization of the revenue and reduction in costs enabled Micro Focus to report Adjusted Operating Profit for the year ending 30 April 2013 of \$184.0m (2012: \$175.1m), an increase of 5.1%. Adjusted EBITDA in the period increased by 4.6% to \$188.1m (2012: \$179.8m) at a margin of 45.4% (2012: 41.4%).

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 2013 bonuses will be paid to non-commissioned staff and executive management in line with the improvement in Underlying Adjusted EBITDA. Staff bonuses will be approximately 90% of the level earned in the year ending 30 April 2012.

# Executive Chairman's statement continued

## **Product Portfolio and Go to Market**

Our business comprises a number of Product Portfolios. During the year we acquired the CORBA assets from Progress Software.

The IT industry can be viewed as serving three main domains; mainframe, distributed and multi-device/cloud. Micro Focus products predominantly serve the distributed IT environment (i.e. running on servers deploying UNIX, LINUX and Windows). During the year we have made significant developments in some of our key products to consolidate our position in the distributed market while also enabling us to address mainframe and multi-device/cloud market opportunities.

Post the acquisition of the CORBA assets we now focus on five Product Portfolios; COBOL Development (CD), Mainframe Solution (MS), Borland (Test), CORBA and Niche. Visibroker, our own CORBA based product, has been combined with the acquired Orbix and Orbacus products to form the new CORBA Product Portfolio. We have also transferred some of the products acquired from Compuware in 2009 that were previously included within Borland (Test) to Niche as their characteristics are now closer to this Product Portfolio. During the year we exited the Java related Consultancy business in Brazil and these revenues are now included in Niche. We have also transferred TM ART from Niche to Borland (Test). As a result of the above, the comparatives for Borland (Test), Niche and CORBA have been restated.

## **COBOL Development (CD) – 56.6% of revenues**

We have continued to invest in and strengthen our core product portfolio of CD. The CD portfolio delivers products that enable programmers to develop and deploy applications written in COBOL across distributed platforms including Windows, UNIX and LINUX and the Cloud. We have introduced further developments to Visual COBOL and have received a positive response from customers and the partner community. Visual COBOL V2.1 provides the fastest way for customers to move to Java Virtual Machine ('JVM'), .net or Cloud environments whilst protecting their investments and intellectual property. Revenues from Visual COBOL grew strongly in the year contributing in excess of \$7m in licence fees. We have seen a significant number of customers commit to Visual COBOL to take advantage of the opportunities provided by operating COBOL applications in a modern language format in an industry standard Integrated Development Environment ('IDE').

COBOL applications continue to be at the heart of the world's business transactions and 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 IDE's and addressing the perceived skill issues, COBOL will provide a stable base and strong cash flow for the Group over the coming decades.

## **Mainframe Solution (MS) – 18.1% of revenues**

Our MS product set addresses a customer's need to get the most value out of their mainframe environment. The MS strategy was launched in the first half of the year and is being supported by innovative marketing campaigns. Initial feedback from our customers and prospects has been very positive and emphasizes that the positioning is relevant to the current marketplace. In the second half we saw growth in our Enterprise Server revenues.

In May 2012 we announced the general availability of Enterprise Developer ('ED') Team Edition and in April 2013 we announced Enterprise Developer for z Enterprise. This product takes our core Visual COBOL technology and by delivering it in an Eclipse environment makes the capabilities available to the mainframe user. This release extends our reach and market opportunity. In October we announced that ED Personal Edition would be available as a free download. For the first time this has made a world class COBOL development environment in a modern IDE available free of charge. There have been over 2,000 downloads, with over 10% going on to pay for the chargeable version.

## **Borland (Test) – 14.6% of revenues**

The Borland brand has been relaunched and the new Borland website is now live. This provides relevant and helpful content and is targeted at the Developers and IT decision makers in customer organizations who use Borland's tools to support and manage the process of software development from beginning to end in order to accelerate delivery and improve quality.

Borland's Test products (Silk, Caliber and StarTeam) have a large addressable market and now have clear product roadmaps and differentiated customer propositions. In May/June 2013, Micro Focus was placed in the leaders' quadrant of the Gartner Magic Quadrant for Integrated Quality Suites. The challenge for our Borland business is the significant maintenance drag it suffers due to the balance between licence and maintenance in its overall revenues. We are fully aware of this dynamic and have a plan to reduce this drag through increasing licence sales. This has not been effectively addressed in 2013 due to missteps in execution. In the meantime, clear communication of product roadmaps and business benefits is increasing maintenance renewal rates across the Borland product portfolio.

In September 2012 we announced the general availability of Agile for StarTeam. This innovative product allows customers to regain control of mixed waterfall and agile development environments and works seamlessly with products such as Subversion, Rally and Quality Centre from HP. In November we released a further significant version of our requirements product Caliber, the first for a number of years, in response to customer requests to integrate Caliber RM and RDM.

These announcements have highlighted that we have many customers on older versions of our products. This is something we are addressing in order to smooth the upgrade process. Following focus during the year the maintenance base in Borland has now stabilized.

## **CORBA – 6.2% of revenues**

In February 2013, we purchased the CORBA assets from Progress Software strengthening our position in this market. We now own the two leading CORBA products: Visibroker and Orbix as well as the Orbacus mainframe product. These products provide excellent functionality and performance to companies with installed networks with a requirement for high speed, secure transfer of data between systems. As we expect the CORBA products to be a higher proportion of our revenues in FY14 we are now separate identifying them as a product grouping.

### Niche – 4.5% of revenues

Our Niche business comprises mature products that are expected to see ongoing revenue decline but that provide good margins and strong cash flow. We have moved the Visibroker product set out of this category into CORBA for the reasons outlined above. We are now reporting in this category some products that were previously reported in the Borland (Test) category that were acquired from Compuware in 2009 (QA Director, QA Load and Test Partner). We continue to focus on supporting our installed customer base but expect this product category to continue to decline as a proportion of our business. We have exited our Java related Consultancy business in Brazil and this Consultancy stream is now reported within Niche; previously it was in Borland (Test).

### Go to Market

Having completed our product roadmaps in the year ended 30 April 2012 we have started adjusting our go to market structures. In the year ending 30 April 2013 we set out to optimize our channel strategy, (both internally and with partners), and our marketing and lead generation plans. Progress to date has been mixed, in part because this coincided with an economic environment which saw a number of customers and partners retrenching, and also due to budgetary restraint and fiscal tightening in many geographies.

We continue to believe that we have significant room for improvement in sales productivity and have begun to shift the balance between direct and inside sales in favour of the latter, and have appointed more Enterprise Business Representatives to improve our lead qualification.

As we look forwards to FY2014, our priority is to ensure that we invest in the organic development of the business. We have embarked on hiring 50 new sales representatives in the first half of the year and are upgrading our CRM system to assist with salesforce effectiveness.

### Our strong positioning

Micro Focus has always had a strong position in the distributed market. We are leveraging our knowledge base to extend products into the mainframe and enabling and reengineering products to fully participate in the multi-device markets.

	Mainframe	Distributed	Multi-device enabled
Analytics		Enterprise Analyser	
Requirements		Caliber	
Dev platform	Product extended	Eclipse & Visual Studio Enterprise Developer	Cloud enabled
Languages		Visual COBOL PL/1	
Testing		Enterprise Developer Silk	
Management		StarTeam	
Modernization	Rumba	Rumba	
Production		Enterprise Server CORBA	

■ New product developments

We aim to increase sales productivity and predictability further by continuing to improve Product Management and by generating closer interaction between Sales, Product Management & Marketing and Product Development. In order to drive greater interaction with our partners we created a Partner Relationship Management portal. This provides a single repository of information about our products for the benefit of our partners. Since launch, over 250 partners have registered on our Portal with 50% making repeated use. However, we have yet to see any significant increase in sales through partners.

Since its introduction in July 2012 our Eloqua lead management system has enabled us to increase the contacts in our marketing database by over 60% and also to increase their quality. Our email open rate has doubled and our lead conversion rate improved by a factor of three.

We continue to invest in Product Development and are excited by the new products that we will be releasing in the next year. Based on our experience over the past six months, we still have significant work to do to ensure that we capitalize on the richness of our product offerings and generate additional revenues. Micro Focus will maintain its leadership position in CD by continuing to innovate products as is evidenced by Visual COBOL. We will work with our independent software vendors and customers to ensure that they can reap the benefits of this new development environment. MS revenue growth will be achieved by leveraging our partner relationships and ensuring that our direct sales force targets the right opportunities. We will continue to stabilize and improve the Borland business performance by focusing on clear communication of our strengths in automated, mobile and Cloud Testing.

# Executive Chairman's statement continued

## Delivering value to shareholders

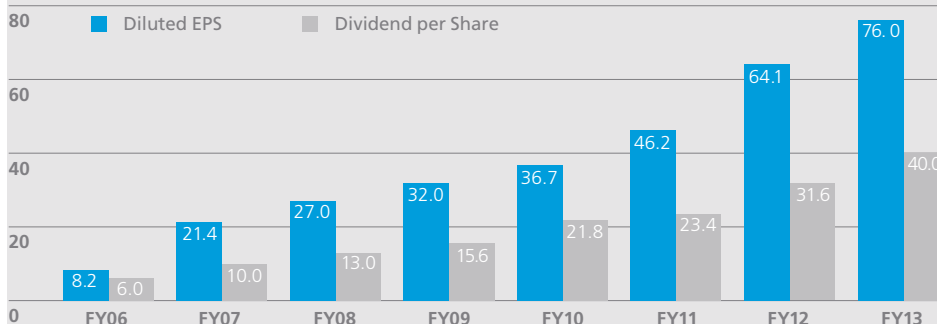
The board has adopted a very clear plan of value creation.

Our priority is to improve the business in order to maximize the opportunity to return to growth. 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.

In November 2012 we made a Return of Value to all shareholders amounting to \$128.8m in cash (50 pence per share, equivalent to approximately 78.50 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 10 for 11 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.

Our \$275m Revolving Credit Facility ('RCF') is provided by five banks and expires on 1 December 2014. Net debt to RCF EBITDA (being our Adjusted EBITDA before Amortization of Capitalized Development Costs) is limited to 1.5 times. Taking account of the Return of Value made in November 2012, on a proforma basis our Net Debt at 31 October 2012 would have been \$225.5m and based on the reported RCF EBITDA in the twelve months to 31 October 2012 of \$199.8m this would have represented a net debt to RCF EBITDA multiple of 1.13 times. By 30 April 2013 Net Debt had reduced to \$177.7m and the multiple was reduced to 0.86 times RCF EBITDA for the year of \$206.5m. When compared to our Adjusted EBITDA figure of \$188.1m, the multiple is 0.94 times.

## Diluted Earnings per Share and Dividend per Share (cents)



We have already commenced discussions with our banks about our options for a new financing arrangement that would enable us to deliver inter alia further Returns of Value to our shareholders. These conversations have been very positive to date and will continue over the coming months.

The board continues to target a Net Debt to Adjusted EBITDA multiple of approximately 1.5 times. This is a modest level of gearing for a company with the cash generating qualities of Micro Focus. We are confident that this level of debt will not reduce our ability to deliver growth, invest in products and/or make appropriate acquisitions.

In line with our dividend policy of 2 times cover we are announcing an increase of the proposed final dividend of 20.1% to 28.1 cents per share, (2012: 23.4 cents per share) and an increase in the proposed total dividend for the year of 26.6% to 40.0 cents per share (2012: 31.6 cents per share). The final dividend will be paid in sterling equivalent to 17.90 pence per share, based on an exchange rate of £ = \$1.57, being the rate applicable on 18 June 2013, the date on which the board resolved to propose the final dividend. The final dividend will be proposed to shareholders at the AGM on 26 September 2013 and, if approved, will be paid on 2 October 2013 to shareholders on the register at 6 September 2013.

## Outlook

We believe we have now laid the foundations on which Micro Focus can grow in the second half of the year ending 30 April 2014 ('FY 2014'). Absent significant external events we anticipate revenue growth of between 0% and 5%.

**Kevin Loosemore**  
Executive Chairman  
18 June 2013



## Operational and financial review

# Making progress to return to growth

Micro Focus' primary reporting segments are its three geographic regions (i) North America, (ii) International (comprising Europe, Middle East, Latin America and Africa), and (iii) Asia Pacific and Japan. Product Portfolios are sold into these regions via a combination of direct sales, partners and independent software vendors.

Micro Focus discloses profitability by its reporting segments. The regional presidents are measured on the profitability of their region. They have directly controllable costs and are then allocated central costs. As we enter the new financial year their incentives are weighted more towards growth in revenues. The segmental analysis is shown in note 2 to the financial statements.

Revenue for the year by geographic region at actual reported and CCY is shown in Figure 1.

As expected, on a CCY basis like for like revenues have declined by 3.2% to \$410.6m. On a like for like basis North America saw a decrease of 5.5%, International declined by 2.8% and Asia Pacific and Japan increased by 3.1%. Once the revenues from the acquisition of CORBA assets from Progress Software are taken into account total revenues have declined by 2.4%.

In North America, for the full year on a like for like CCY basis, all three revenue lines (Licence, Maintenance and Consultancy) have declined primarily as a result of the Niche product portfolio declining from \$14m to \$7m. The comparable period included a large Niche licence fee transaction that represented 1% of last year's Group CCY revenue.

The aggregate of the other product portfolios has seen revenues in North America decrease by 0.8% with Maintenance broadly flat and Licence and Consultancy declining.

**Figure 1 – Revenue by geographic region**

	Year ended 30 April 2013 Existing \$m	Year ended 30 April 2013 Acquisition \$m	Year ended 30 April 2013 As reported \$m	Year ended 30 April 2012 As reported \$m	Year ended 30 April 2012 CCY \$m
North America	189.3	2.5	191.8	200.3	200.3
International	157.2	0.6	157.8	169.4	161.7
Asia Pacific and Japan	64.1	0.3	64.4	65.1	62.2
<b>Total revenue</b>	<b>410.6</b>	<b>3.4</b>	<b>414.0</b>	<b>434.8</b>	<b>424.2</b>

**Figure 2 – Revenue by category**

	Year ended 30 April 2013 Existing \$m	Year ended 30 April 2013 Acquisition \$m	Year ended 30 April 2013 As reported \$m	Year ended 30 April 2012 As reported \$m	Year ended 30 April 2012 CCY \$m
Licence	168.5	0.1	168.6	176.6	172.6
Maintenance	226.4	3.3	229.7	230.9	226.0
Consultancy	15.7	0.0	15.7	27.3	25.6
<b>Total revenue</b>	<b>410.6</b>	<b>3.4</b>	<b>414.0</b>	<b>434.8</b>	<b>424.2</b>

Growth in CD was offset by declines in MS, Borland (Test) and CORBA. In the second half of the year like for like revenue saw an increase of 7.3% and is comparable to the second half of last year. This followed execution issues in the first half.

Our International region is where most of the planned reduction of the Group's Consultancy revenues took place with this revenue stream reducing from \$15.2m to \$7.6m. In aggregate, Licence and Maintenance revenues grew by 2.2% on a like for like basis, with growth in CD offset by declines in MS, Borland (Test), Niche and CORBA. If we exclude the Niche Product portfolio from the revenue streams, then Licence fee revenues grew by 4.5%, Maintenance revenues have increased by 5.4% and, as planned, Consultancy has reduced by 38.8%.

In Asia Pacific and Japan, like for like CCY revenues have increased for the full year with Licence fees up 1.6% and Maintenance revenues increasing by 6.6% and a reduction in Consultancy. The region benefited from a large licence fee transaction in the first half of the year that represented approximately 1% of last year's CCY total revenue. The slowdown in Japan that was highlighted at the Interim results continued during the second half of the year. This slowdown, together with the absence of the large transaction means that second half revenues for the region are down 32% on the first half of the year and 12% down on the second half of last year. The outlook in Japan has not changed and remains challenging.

# Operational and financial review continued

Revenue for the year by category at actual reported and CCY was as shown in Figure 2.

Revenue by Product Portfolio on a CCY basis is shown right in Figure 3.

Post the acquisition of the CORBA assets we now focus on five Product Portfolios; COBOL Development (CD), Mainframe Solution (MS), Borland (Test), CORBA and Niche. Visibroker (previously included in Niche (2012: CCY \$25.4m)), our own CORBA based product, has been combined with Iona to form a new CORBA Product Portfolio. We have also transferred some of the products acquired from Compuware in 2009 (2012: CCY \$17.7m) that were previously included within Borland (Test) to Niche as their characteristics are now closer to this Product Portfolio. We exited during the year the Java related Consultancy business in Brazil (2012: CCY \$4.7m) and these revenues are now included in Niche. We have also transferred TM ART (2012: CCY \$0.3m) from Niche to Borland (Test). As a result of the above the comparatives for Test, Niche and CORBA have been restated.

The Niche Product Portfolio now represents 4.5% of total revenues and this percentage is expected to decline in the coming year. The decline in this Product Portfolio of \$16.1m together with the planned reduction in consultancy revenues of \$5.4m in the other Product Portfolios accounts for more than the reduction in like for like revenues of \$13.6m. These reductions were offset by increases of \$7.9m in like for like Licence and Maintenance revenues of the other Product Portfolios.

In aggregate the other four Product Portfolios were broadly flat year on year on a like for like basis, with Licence and Maintenance revenue growth largely offsetting the planned decline in Consultancy revenues.

The strongest performance was CD where our continued focus on the core of Micro Focus, innovation in the product set and re-engagement with the customer base, both on and off maintenance, has seen Licence and Maintenance revenues grow. Consultancy declined in the year but this is a small proportion of the overall revenues from CD. We are continuing to look to engage with our customer base to understand further their use of our products and how the innovation in our product plans can assist their business.

**Figure 3 – Revenue by Product Portfolio**

	Year ended 30 April 2013 Existing \$m	Year ended 30 April 2013 Acquisition \$m	Year ended 30 April 2013 As reported \$m	Year ended 30 April 2012 CCY \$m	Change Like for like %	Change As reported %
<b>COBOL</b>						
Licence	112.2	0.0	112.2	105.9	5.9	5.9
Maintenance	120.9	0.0	120.9	112.1	7.9	7.9
Consultancy	1.4	0.0	1.4	2.7	-48.1	-48.1
	<b>234.5</b>	<b>0.0</b>	<b>234.5</b>	<b>220.7</b>	<b>6.3</b>	<b>6.3</b>
<b>Mainframe Solution</b>						
Licence	26.7	0.0	26.7	24.5	9.0	9.0
Maintenance	40.1	0.0	40.1	41.7	-3.8	-3.8
Consultancy	8.2	0.0	8.2	10.6	-22.6	-22.6
	<b>75.0</b>	<b>0.0</b>	<b>75.0</b>	<b>76.8</b>	<b>-2.3</b>	<b>-2.3</b>
<b>Borland (Test)</b>						
Licence	16.1	0.0	16.1	19.8	-18.7	-18.7
Maintenance	41.1	0.0	41.1	42.1	-2.4	-2.4
Consultancy	2.9	0.0	2.9	4.6	-37.0	-37.0
	<b>60.1</b>	<b>0.0</b>	<b>60.1</b>	<b>66.5</b>	<b>-9.6</b>	<b>-9.6</b>
<b>CORBA</b>						
Licence	10.9	0.1	11.0	13.3	-18.0	-17.3
Maintenance	11.1	3.3	14.4	11.8	-5.9	22.0
Consultancy	0.3	0.0	0.3	0.3	0.0	0.0
	<b>22.3</b>	<b>3.4</b>	<b>25.7</b>	<b>25.4</b>	<b>-12.2</b>	<b>1.2</b>
<b>Sub-total excluding Niche</b>						
Licence	165.9	0.1	166.0	163.5	1.5	1.5
Maintenance	213.2	3.3	216.5	207.7	2.6	4.2
Consultancy	12.8	0.0	12.8	18.2	-29.7	-29.7
<b>Revenue at CCY</b>	<b>391.9</b>	<b>3.4</b>	<b>395.3</b>	<b>389.4</b>	<b>0.6</b>	<b>1.5</b>
<b>Niche</b>						
Licence	2.6	0.0	2.6	9.1	-71.4	-71.4
Maintenance	13.2	0.0	13.2	18.3	-27.9	-27.9
Consultancy	2.9	0.0	2.9	7.4	-60.8	-60.8
	<b>18.7</b>	<b>0.0</b>	<b>18.7</b>	<b>34.8</b>	<b>-46.8</b>	<b>-46.8</b>
<b>Total revenue</b>						
Licence	168.5	0.1	168.6	172.6	-2.4	-2.3
Maintenance	226.4	3.3	229.7	226.0	0.2	1.6
Consultancy	15.7	0.0	15.7	25.6	-38.7	-38.7
<b>Revenue at CCY</b>	<b>410.6</b>	<b>3.4</b>	<b>414.0</b>	<b>424.2</b>	<b>-3.2</b>	<b>-2.4</b>

MS was relaunched at the beginning of the year and we have added to its product offering during the year.

Revenues in the second half of the year were broadly similar to the first half of the year which included the large licence transaction that represented 1% of last year's CCY revenues. Whilst MS Licence fees grew by 9% in the year, without the large transaction they would have declined by approximately 9%. Maintenance revenues declined by 3.8% and Consultancy revenues declined by 22.6%.

The Borland (Test) Product Portfolio now consists of the Caliber, StarTeam and Silk Product Brands. This Product Portfolio had the most substantial planned reduction in Consultancy revenues with a reduction of 37.0%, predominantly in the International Region. Licence and Maintenance revenues also declined by 18.7% and 2.4% respectively, with lower licence sales in North America and International partially offset by improvement in Asia Pacific and Japan.

The CORBA Product Portfolio saw like for like revenues decline by 12.2% in the year with the decline in Licence fee revenue of 18.0% occurring mainly in the second half of the year. With the addition of the Iona CORBA assets in the final quarter of the year we have consolidated our position as the leading provider of CORBA technology and we anticipate that revenues from this Product Portfolio will grow in the current year.

The overall performance on Maintenance revenues was encouraging because at the start of the year it had been expected that this revenue stream would decline by 2.3%. The actual result saw Maintenance revenues marginally increase on a like for like basis.

In the year ended 30 April 2012, the renewal rates for Maintenance were disclosed on the basis of combined Product Portfolios comprising (1) CD and MS, and (2) Borland (Test), CORBA and Niche. The renewal rates for CDMS in the year ended 30 April 2013 increased to 91.0% (2012: 88.9%) and for Borland (Test), CORBA and Niche improved to 83.9% (2012: 80.9%). We are now providing the renewal rates by each Product Portfolio and for the year ended 30 April 2013 these rates were CD – 91.4%, MS – 90.2%, Borland (Test) – 88.4%, CORBA 72.8% and Niche – 77.1%.

#### Figure 4 – Costs

	Year ended 30 April 2013 Existing \$m	Year ended 30 April 2013 Acquisition \$m	Year ended 30 April 2013 As reported \$m	Year ended 30 April 2012 As reported \$m	Year ended 30 April 2012 CCY \$m
Cost of Goods Sold	33.7	0.4	34.1	49.3	47.0
Selling & Distribution	116.7	0.9	117.6	127.2	123.9
Research & Development	52.0	0.6	52.6	54.8	53.9
Administrative Expenses	47.5	1.0	48.5	47.8	47.0
<b>Total costs</b>	<b>249.9</b>	<b>2.9</b>	<b>252.8</b>	<b>279.1</b>	<b>271.8</b>

#### Costs

The costs for the year compared to last year at actual reported and CCY are shown in Figure 4.

The Iona CORBA assets were acquired from Progress Software on 15 February 2013 and the external acquisition related costs of \$0.6m are included within Administrative expenses.

On a like for like basis, cost of sales for the year decreased by 28.3% on a CCY basis to \$33.7m (2012 CCY: \$47.0m). The costs in this category predominantly relate to our consulting and helpline support operations. The majority of the cost reduction came from decreased consulting costs to deliver the Consulting revenues that had reduced by \$9.9m on a CCY basis.

Selling and distribution costs on a like for like and CCY basis decreased by 5.8% to \$116.7m (2012 CCY: \$123.9m) as a result of the lower cost of incentive plans, a reduction in marketing costs and a change in the costs mix of sales resource.

Research and development expenses on a like for like basis decreased slightly by 3.5% to \$52.0m (2012 CCY: \$53.9m), equivalent to approximately 12.7% of revenue which is the same percentage investment as in the prior year. The charge to the consolidated statement of comprehensive income in the period is after taking account of the net capitalization of development costs in the period. Additions to capitalized development costs in the period were \$20.0m (2012: \$19.4m) less amortization of previously capitalized development costs of \$18.3m (2012: \$16.2m) resulting in a net credit to the consolidated statement of comprehensive income of \$1.7m (2012: \$3.2m). The amount spent on research and development prior to the impact of net capitalization of development costs was \$53.7m (2012: \$57.2m) representing 31.9% of licence fee

revenue (2012: 33.1%). At 30 April 2013 the net book value of capitalized development costs on the balance sheet was \$31.4m (2012: \$29.8m).

Administrative expenses excluding share based compensation of \$6.6m (2012: \$6.1m) exchange gains of \$0.5m (2012: \$3.6m) and no exceptional items (2012: \$1.3m exceptional credit), decreased by 9.4% to \$41.4m (2012: \$45.8m). The primary reductions arise from no bid defence costs (2012: \$1.0m) and reduced legal and property costs of \$1.9m.

#### Currency impact

54.1% of our revenue is contracted in US dollars, 22.2% in Euros, 8.6% in Yen and 15.1% in other currencies. In comparison, 30.0% of our costs are US dollar denominated, 27.0% in sterling, 19.9% in Euros, 3.5% in Yen and 19.6% 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, reported 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 reported numbers when they are stated at CCY. For the year ended 30 April 2012 CCY revenue is 2.4% lower at \$424.2m and profit before tax before the exchange gain above of \$3.6m is 2.4% lower than the reported numbers at \$142.3m.

The greatest volatility in exchange rates has been the US\$:Yen exchange rate following the economic action taken by the Japanese government. The average US\$:Yen exchange rate in May 2013 was \$:0.00991 which is

# Operational and financial review continued

21.8% lower than the average for the six months to 31 October 2012 and 3.1% lower than the six months to 30 April 2013. Consequently, if this rate was maintained for the remainder of the year ending 30 April 2014, then the impact on reported revenues for the year ended 30 April 2013 when converted to CCY would be to reduce revenue by \$6.6m and Adjusted EBITDA by \$5.7m.

Intercompany loan arrangements within the Group are denominated in the local currency of the borrower. Consequently, any movement in the respective local currency and US\$ will have an impact on 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 \$0.5m (2012: gain of \$3.6m).

## Adjusted EBITDA and Underlying Adjusted EBITDA

Adjusted EBITDA in the period was \$188.1m (2012: \$179.8m) and Underlying Adjusted EBITDA was \$185.9m (2012: \$172.9m) at a margin of 44.9% (2012: 39.8%). The Adjusted EBITDA for the Iona acquisition was \$0.9m. Shown in Figure 5.

## Operating profit

Operating profit was \$161.3m (2012: \$155.8m). Adjusted operating profit was \$184.0m (2012: \$175.1m).

## Net finance costs

Net finance costs were \$7.9m (2012: \$6.5m), including the amortization of \$3.2m of prepaid facility arrangement and facility fees incurred on the Group's RCF (2012: \$4.3m), RCF interest of \$3.9m (2012: \$2.2m) and other interest costs of \$1.2m (2012: \$0.3m) offset by \$0.4m of interest received (2012: \$0.3m). The increased charges in the second half of the year reflect the interest on the increased bank borrowings arising from the Return of Value of \$129.3m in November 2012. Unamortized prepaid facility arrangements fees were \$0.4m at 30 April 2013 (2012: \$2.4m) as the Group is anticipating refinancing its existing bank facility in the near future.

**Figure 5 – Adjusted EBITDA and Underlying Adjusted EBITDA**

	Year ended 30 April 2013 \$m	Year ended 30 April 2012 As reported \$m	Year ended 30 April 2012 CCY \$m
Reported Revenue	414.0	434.8	424.2
Adjusted EBITDA	188.1	179.8	176.6
Foreign Exchange Credit	(0.5)	(3.6)	(3.6)
Net Capitalization of Development Costs	(1.7)	(3.2)	(3.2)
<b>Underlying Adjusted EBITDA</b>	<b>185.9</b>	<b>173.0</b>	<b>169.8</b>
<b>Underlying Adjusted EBITDA Margin</b>	<b>44.9%</b>	<b>39.8%</b>	<b>40.0%</b>

## Exceptional items

There were no exceptional items in the year to 30 April 2013 (2012: credit of \$2.4m).

## Taxation

Tax for the period was \$30.2m (2012: \$28.6m) with the Group's effective tax rate being 19.7% (2012: 19.2%).

In the year the Group recognized additional deferred tax assets of \$2.1m (2012: \$3.0m) all of which was taken to the consolidated statement of comprehensive income. The impact of this recognition gives rise to a lower effective tax rate for the year.

The Group's medium term effective tax rate is currently expected to be between 16% and 20% compared to the guidance provided at the interim results of 19% to 21%. The principal reason for the reduction is a further 2% cut in the UK corporation tax rate to bring the rate of corporation tax down to 20% by 1 April 2015.

With effect from 1 April 2013, the UK Government has introduced Patent Box legislation which provides a reduced rate of tax on profits arising from qualifying IP rights. Whilst there is no certainty that the Group will be able to obtain patents resulting in qualifying IP rights, the Patent Box presents a potentially significant opportunity for the Group. We anticipate spending up to \$500k in the year ended 30 April 2014 further exploring the regime and applying for relevant patents.

As previously disclosed, the Group has benefited from a lower cash rate of tax during the last three years as a result of an ongoing 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 and it is anticipated that HMRC will choose a test case to establish the correct interpretation of the legislation. 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 balance sheet, but has paid reduced cash tax payments in line with its claim. The cash tax benefit in the year was \$4.8m (2012: \$9.2m) and the total cash tax benefit to date is \$19.1m based on the difference between the Group's claimed tax liability and the tax liability in the balance sheet. 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 but there would be interest on any overdue tax.

When the tax position relating to the claim is agreed with HMRC then to the extent that the tax liability is lower than that provided in the balance sheet, 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 is \$21.5m, which equates to 13.9 cents per share on a fully diluted basis.

### Profit after tax

Profit after tax increased by 2.2% to \$123.2m (2012: \$120.6m).

### Goodwill

The largest item on the consolidated statement of financial position is goodwill at \$284.7m (2012: \$274.3m) and arose from acquisitions made by the Group in the period to 31 July 2009 and the acquisition of the Iona CORBA assets from Progress Software in February 2013. The annual impairment review of goodwill is based on the value in use of the Cash Generating Units (our three Geographic Regions) to which the goodwill is allocated and, based on the assumptions used by the board, there is no impairment of goodwill in the year.

### Return of Value

During the year, the Group announced and completed a Return of Value to shareholders of 50 pence per ordinary share amounting to \$128.8m, by way of a B and C 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 2012.

The Group entered into forward exchange contracts to hedge the US dollar amount of the liability and the Return of Value, which was paid to shareholders on 12 November 2012 at a total cost of \$129.3m. The Return of Value was accompanied by a 10 for 11 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.

### Total equity attributable to the parent

The total equity attributable to the parent has reduced by \$57.7m during the year from \$117.5m to \$59.8m. \$6.1m of this reduction is explained by the difference between the Return of Value of \$129.3m and the profit after tax for the year of \$123.2m. The remaining \$51.6m of reduction comprises dividends of \$57.2m and exchange rate movements of \$2.4m offset by \$7.2m of movement in relation to share options and other items of \$0.7m. Details are provided in the consolidated statement of changes in equity.

The board recognizes that by accessing the unrealized profit of \$352.8m in the Company's retained reserves by further significant distributions to shareholders, whether by share buybacks, dividends or returns of value it is possible for the equity attributable to the parent in the consolidated statement of financial position to go into deficit. If such a position were to arise in future it would not impact the Company's ability to make such distributions to shareholders but could impact the external perception of the financial position of the Group. The board will consider the impact of such future distribution at the appropriate time.

### Cash flow

The Group's operating cash flow from continuing operations was \$194.5m (2012: \$196.7m). This represented a cash conversion ratio when compared to Adjusted EBITDA before exceptional items of 103.4% (2012: 108.0%).

At 30 April 2013, the Group's net debt was \$177.7m (2012: \$113.2m) and during the year the Group increased net borrowings by \$64.5m. The most significant cash outflows during the year were \$128.8m in respect of the Return of Value and \$57.2m of dividends.

### Dividend

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus. Last year we changed the dividend policy to a level of dividend cover of approximately 2 times on a pre-exceptional earnings basis. Consequently, the proposed final dividend is 28.1 cents per share (2012: 23.4 cents per share) giving a total proposed dividend of 40.0 cents per share (2012: 31.6 cents per share) an increase of 26.6%. If approved by shareholders, the final dividend will be paid on 2 October 2013 to shareholders on the register on 6 September 2013.

Dividends will be paid in sterling equivalent to 17.90 pence per share, based on an exchange rate of £1 = \$1.57, being the rate applicable on 18 June 2013, 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 on pages 14 to 15.



**Mike Phillips**  
Chief Financial Officer  
18 June 2013

# Creating a better business

During the year ended 30 April 2013 the corporate social responsibility ('CSR') committee met seven times to agree priorities and progress activities, and the CSR programme was reviewed at two board meetings during the year. Karen Slatford, a non-executive director, is responsible at board level for CSR and also participates in committee meetings.

CSR activities are monitored and planned in four key areas at Micro Focus – the environment, charity & community support, the marketplace & suppliers, and employees & ethics. Please visit our website

([www.microfocus.com/about/responsibility](http://www.microfocus.com/about/responsibility)) to read our full Corporate Responsibility Policy.

Micro Focus monitors all relevant CSR legislation across its global operations in 29 countries and is committed to raising standards to the highest levels. Employees regularly participate in CSR initiatives and internal communications frequently feature CSR topics. Increasingly, customers, partners and suppliers recognize and are reminded of the CSR benefits that Micro Focus products can deliver, particularly in reducing their IT carbon footprint.

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' certification as a result of continued progress to reduce environmental emissions.

## Our CSR progress

CSR progress in the year ended 30 April 2013 across the four key focus areas.

---

### Environment

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 strategies, Micro Focus continues to develop its own policies to record, monitor and achieve improvements in its own carbon footprint, including:

- Continued progress towards reducing environmental emissions, resulting in the award of the 'Carbon Trust Standard' certification;
- Fourth year of commitment to the Carbon Disclosure Project (CDP), further promoting and managing emission reductions across our globally located facilities;
- Increased electronic product distribution to 93% of all distribution, with only 7% physical distribution of products;
- Initiated a programme of positive global procurement in sourcing, replacing and refurbishing facility energy systems in accordance with energy efficiency standards (EN656);
- New LEED (Leadership in Energy and Environmental Design) certified 'Platinum' standard office location in Santa Clara, California, USA;
- Continued landlord performance monitoring in all viable locations;
- Redeployed and consolidated data-centre power optimization thereby improving efficiencies and reducing cost and consumption; and
- Achieved annual increase in office waste recycling capabilities by almost 20%.

## Charity and community support

Micro Focus employees actively support their local communities, encouraged by the Group, along agreed criteria and guidelines. Two global charities are selected each year by the Micro Focus charity committee, in addition a number of local project grants achieve a balance between international and country level fundraising initiatives. Corporate support is provided on two levels. Firstly, on a funds-matching basis for selected charity initiatives. Secondly, by allocating a number of employee days per month by teams or individuals to directly benefit a chosen charity or community initiative.

- All initiatives follow core themes of education and local community support
- Total level of funds raised and contributed was more than \$65,000;
- Local 'project grants' initiative was launched in prior year and has developed in last 12 months to support 10 charity or community organizations with wide geographic spread across Micro Focus Group operations around the world;
- Global charity fundraising incorporated into policy document; selected charity during last 12 months was the International Red Cross Hurricane Sandy Disaster Relief Fund;
- Ongoing employee communications through a Charity page on the Company's Intranet and regular front page articles on the Intranet.

## Marketplace and Suppliers

Micro Focus products and services can help organizations lower their energy impact. For example, during FY13, products provided to customer Kansas City Southern Railway enabled the Company's data centre to benefit from a smaller carbon footprint.

- Suppliers to the Group continue to be sent Micro Focus' Corporate Social Responsibility charter and are encouraged to follow carbon responsible practices.
- Marketplace – customers increasingly recognize benefits provided by using Micro Focus products; and
- Suppliers – CSR charter included in communication to suppliers.

## Employees and ethics

During the year ended 30 April 2013, Micro Focus has further developed its recruitment and retention programmes through strengthened training and performance management initiatives across the organization. The Group continues 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.

– Key HR Metrics (30 April 2013):

- Total Number of Employees Worldwide – 1,221 (1,212 Full Time Equivalent 'FTE')
- Total Workforce Worldwide – 1,325 including temporary/contractors (1,310 FTE)
- % Women – Employees Worldwide – 27.9% (up from 27.8% at end of FY12)
- % Women – Senior Management – 17.1%
- % Women – Governance Body – 28.6% (2 out of 7 including Company Secretary)

- 466 leadership development training days conducted during the year ended 30 April 2013;
- A half year bonus was paid to 707 eligible employees. A full year bonus will be paid to 750 eligible employees;
- Comprehensive six monthly and full year performance management reviews of all non sales employees. More than 82% of employee population completed a half year performance management plan ('PMP') and more than 92% completed a full year PMP for the year ended 30 April 2013;
- Following extended roll out of the International Share Save Scheme in the previous year, 30% of eligible employees in 23 countries worldwide chose to participate (up from 25.7% at the end of the year ended 30 April 2012);
- Regular employee communications through intranet, video, email, and monthly 'town hall' meetings;
- Launch of online 'On-boarding' tool is enhancing new employee integration, induction training and engagement;
- Set up new pension and benefits provision in Ireland following the acquisition of the CORBA assets from Progress Software;
- Set up new Group Life and Medical benefit provision in Spain;
- Maintained excellent record in health and safety matters for all employees (no reportable incidents in last 12 months); and
- Launched two online training courses to staff worldwide – one on Anti-Bribery, another on Data Protection. Ongoing compliance with anti-bribery, data protection and market abuse and insider dealing laws and regulation is monitored continually.

# Prioritizing key risks and risk management

The Group, in common with all businesses, could be affected by risks which 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.

A full risk register has been developed for ongoing evaluation and mitigation and the following are the 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 22 to 27.

Principal risks have been identified in the following five categories – Products, Go To Market Models, Employees, Competition and Systems and Infrastructure.

## Products

### Risk

Investment in research and innovation in product development is essential to meet customer and partner requirements in order to drive revenue growth and corporate performance. In addition, the ability to cross-sell the Micro Focus product set is an opportunity to exploit additional customer opportunities.

### Potential impact

Insufficient focus on key research and development projects may damage the long-term growth prospects of the Group. Poor cross-selling of Micro Focus products will reduce the prospects for additional revenue streams going forward.

### Mitigation

*Mitigations* – Improving our Product Management was a key focus area in the year ended 30 April 2012 and continued to be so in the year ended 30 April 2013. In the year

ended 30 April 2013 we appointed a new General Manager responsible for Product Management, Product Development, Marketing and Customer Care, with the remit to improve the interaction between Product Management, Product Development, Sales and Marketing. With regard to cross selling, sales teams receive training to cover selling techniques for the full portfolio of products, and sales incentives and training have been further improved to encourage enhanced collaboration across product sets.

## 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 brand awareness programmes.

### 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 participates in weekly management team meetings to review sales performance and 'go to market' priorities.



## Go to market models continued

### Mitigation continued

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 programmes are assessed regularly to optimize levels of qualified pipeline and ensure that marketing programmes 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 presales management.

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

In the year ended 30 April 2013 we introduced an internal sales certification programme to improve the level of expertise across our sales force. This programme will be fully rolled out in the coming year. In addition we have launched the Micro Focus Sales Academy, a new initiative, through which we will be hiring an additional 50 graduate sales representatives to enhance our sales capability and train up new talent with the potential to progress within the sales organization.

## 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. At the start of the year ended 30 April 2012 a renewed vision and corporate objectives was shared throughout the organization and continues to be reinforced through regular employee communications plans and performance reviews.

## Competition

### Risk

Comprehensive information about the markets in which Micro Focus operates 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 programmes are mined for competitive intelligence.

## Systems and Infrastructure

### Risk

Adequate investment is required to develop effective systems and infrastructure that will support the ambitions of the Company. Management information must be of sufficient quality to allow effective and timely decision making.

### Potential impact

Ineffective Micro Focus systems and infrastructure could lead to an unstable platform for the Group's future success, and deliver inadequate management information.

### Mitigation

Group policies are in place to review the ongoing additional investment required to enhance key IT systems and processes. Management information draws on comprehensive product reports and functional plans to extract the key metrics needed to manage the Group at a corporate, regional and product level.

The Business Change function provides programme and project management support on key systems and infrastructure projects in order to ensure that the impact of planned changes to systems and infrastructure is properly assessed and the implementation of projects is effectively managed.

## Board of directors



**1. Kevin Loosemore, 54**  
(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.



**2. Mike Phillips, 50**  
(Chief Financial Officer)

Mike is a non-executive director of Parity Group plc. 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).



**3. David Maloney, 57**  
(Non-executive senior independent director and Deputy Chairman) \*†‡

David is a non-executive director of Cineworld Group plc and Enterprise Inns plc. He is also Chairman of the board of Trustees of Make-a-Wish Foundation (UK) Limited, Brandon Hire Group Holdings Limited and Reed & Mackay, a business travel management company. David was previously a non-executive director of Carillion plc and Ludorum plc and Chairman of Hoseasons Holdings Ltd. His most recent executive role was as Chief Financial Officer of the global hotel group Le Meridien Hotels and Resorts. Prior to that he was Chief Financial Officer of Thomson Travel Group and Preussag Airlines and Group Finance Director of Avis Europe plc. David was appointed non-executive senior independent director in 2005 and Deputy Chairman in April 2011. David is a fellow of the Chartered Institute of Management Accountants and has a degree in economics from Heriot-Watt University, Edinburgh.

\* Audit committee  
† Remuneration committee  
‡ Nomination committee



**4. Karen Slatford, 56**  
(Non-executive director) \*†

Karen is Chair of Neverfail Group Limited, the continuous availability firm, The Foundry, a leading special effects software company and Featurespace Ltd, a data analytics software company. Karen is also Deputy Chairman and non-executive director at Volex Group plc, the global supplier of components and cables and Cambridge Broadband Networks Ltd, a market leader in wireless solutions. Prior to her current board responsibilities, she has held various roles at board level since 2001 at a range of technology companies, including 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 Organisation, 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.



**5. Tom Skelton, 52**  
(Non-executive director) \*†‡

Tom is Chief Executive Officer of Foundation Radiology Group and a founding member of Confluence Medical Systems, a healthcare and technology consulting partnership. Previously, he served as Chief Executive Officer for 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.



**6. Tom Virden, 55**  
(Non-executive director) \*†

Tom is a non-executive director of Atari Inc (publicly traded on the French stock exchange) and 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 International Business Development Director at lastminute.com with responsibility for International Strategy for the company and launching subsidiaries and fully localised 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 8,000 yachts worldwide. Tom holds a Bachelor of Arts, Double Major in Psychology and Economics from Stanford University in the US.

# 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 2013.

## Principal activities

The principal activity of the Company and its direct and indirect subsidiaries (the 'Group') during the year was the making and selling of software products.

The Company is limited by shares and is domiciled and incorporated in the United Kingdom. The registered office of the Company is: The Lawn, 22–30 Old Bath Road, Newbury, Berkshire RG14 1QN.

## Business review

The Group is required to produce a business review complying with the requirements of the Companies Act 2006. The information that fulfils these requirements can be found in this directors' report and in the following sections:

The Executive Chairman's statement on pages 3 to 6, the operational and financial review on pages 7 to 11 which include details of the Group's activity and the future focus of the Group, the statement on corporate social responsibility set out on pages 12 to 13, the principal risks and uncertainties set out on pages 14 and 15 and the key performance indicators ('KPIs') on page 35, each of which are incorporated into this directors' report by reference.

## Corporate governance

The Group is required to produce a corporate governance statement pursuant to the 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 22 to 27 which are incorporated into this directors' report by reference.

## Dividends

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus whilst targeting a level of dividend cover for the year ended 30 April 2013 of approximately 2 times on a pre-exceptional post-tax earnings basis. The directors recommend payment of a final dividend in respect of the financial year ended 30 April 2013 of 28.1 cents per share, which, taken together with the interim dividend of 11.9 cents per share paid in January 2013, gives a total dividend in respect of 2013 of 40.0 cents per share which is 2.07 times covered on a pre-exceptional post-tax earnings basis. Subject to shareholder approval, the final dividend will be paid on 2 October 2013 to shareholders on the register on 6 September 2013. Dividends will be paid in sterling based on an exchange rate of £1 = \$1.57, equivalent to approximately 17.90p per share, being the rate applicable on 18 June 2013, the date on which the board resolved to propose the final dividend.

## 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 2013, \$52.6m was charged to the consolidated statement of comprehensive income (2012: \$58.3m) in respect of research and development expenditure. This charge is after net capitalization of development expenditure of \$1.7m (2012: \$3.2m) consisting of \$20.0m (2012: \$19.4m) of capitalized development expenditure offset by \$18.3m (2012: \$16.2m) of amortization of previously capitalized development expenditure.

## Donations

The Group's policy is to make no donations or contributions to political parties (2012: nil). During the year reported on, the Group made charitable donations of \$62,000 to a number of local and national charities and other local organizations (2012: \$53,000).

The Group has a gift programme that matches employee donations and a give as you earn scheme to allow employees to donate to their chosen charity through the Group's payroll. It also has a policy in place to encourage employees to volunteer a certain number of hours to assist local organizations.

## 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 as follows:

---

### Executive

Kevin Loosemore	(Executive Chairman)
Mike Phillips	(Chief Financial Officer)

---

### Non-executive

David Maloney	(Non-executive senior independent director and Deputy Chairman)
---------------	---

Tom Skelton
Karen Slatford
Tom Virden

---

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 28 to 34.

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 33 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 against liabilities they may incur in the execution of their duties as directors of the Company. A copy of the Articles of Association is available for review at the registered office of the Company.

## 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, 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 programme.

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 ongoing 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 22 to 27. 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 29 to the financial statements.

## Payment of creditors

The Company and the Group seeks the best possible terms from suppliers appropriate to the business and in placing orders gives consideration to quality, delivery, price and terms of payment. The Company and the Group do not follow a specific payment code but have a policy to pay suppliers in accordance with the specific terms agreed with each supplier. The average number of days' credit provided by suppliers in the year to 30 April 2013 for the Group was 28 days (2012: 20 days) and for the Company was 11 days (2012: 55 days), based on the Company and Group's trade payables at the end of the year and the amounts invoiced during the year by the Company and Group's trade suppliers.

## 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 21 to the financial statements.

## Substantial shareholding

In accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, at 18 June 2013, the Company had been advised of the following notifiable interests in its voting rights:

Name of holder	Ordinary shares of 12½ pence each	Percentage of issued capital
Standard Life Investments Limited	13,451,432	9.01%
Prudential Plc*	15,277,963	8.23%
Artemis Investment Management LLP*	9,378,513	5.05%
Norges Bank	6,138,347	4.11%
Legal and General Group Plc*	7,835,219	3.88%

\* These interests were notified to the Company prior to the share consolidations which took place in January and October 2012.

## Future developments

Further information regarding the Group's future development can be found in the Executive Chairman's statement on pages 3 to 6 and the operational and financial review on pages 7 to 11.

## Additional information for shareholders

Following the implementation of the EU Takeover Directive into English law, the following description provides the required information for shareholders where not already provided elsewhere in this report. This summary is based on the Company's Articles of Association (the 'Articles').

# Directors' report

continued

## Share capital

The Company has a single class of share capital which is divided into ordinary shares of 12½ pence each. In November 2012 a Return of Value was made to all shareholders amounting to \$128.8m in cash after including a foreign exchange contract gain of \$2.4m (50 pence 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 10 for 11 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, further details of which can be found in note 25 to the financial statements. Shares held in treasury were consolidated in the same way as all other shares. During the year 506,717 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 26 September 2013 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 26 September 2012) to buy back up to 14.99% of issued share capital. At that time this amounted to 24,552,297 ordinary shares, and the authority remains outstanding until the conclusion of the next AGM on 26 September 2013. The minimum price which must be paid for such shares is now 12½ 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 buyback programmes 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 22,320,270.

### 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 eleven 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 may by ordinary resolution of which special notice has been given remove and the board by unanimous decision may remove any director before the expiration of his 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

The business of the Company will be managed by the board who may exercise all the powers of the Company, subject to the provisions of the Company's Memorandum of Association, the Articles, the Companies Act 2006 and any ordinary resolution of the Company.

### 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.

### 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 1 December 2011, the Company entered into a \$275m credit facility provided through a syndicated loan consortium comprising Barclays Bank PLC, HSBC Bank plc, Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Clydesdale Bank plc to assist with the funding of the Return of Value and for general corporate purposes.

The business review 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 in Denmark, Finland, Hong Kong, Mexico, Portugal, Sweden, the People's Republic of China and Spain.

### 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 26 September 2013 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.

PricewaterhouseCoopers LLP 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.

By order of the board,



**Jane Smithard**  
Company Secretary  
18 June 2013

# Corporate governance

## Introduction

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 (the 'Corporate Governance Code'). Through its commitment to the highest standards of corporate governance, the board endorses and supports the essential elements of the Corporate Governance Code and, apart from a limited exception as explained below, believes the Group has fully complied with the Corporate Governance Code during the year reported on.

## 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 – The Corporate Governance Code requires that the roles of Chairman and Chief Executive 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 considered 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 ongoing commercial success of the Company. Furthermore, Kevin Loosemore has been with the Company since its flotation in 2005 and can therefore provide 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 also appointed as Deputy Chairman on 14 April 2011 and continues to perform his role as Non-executive senior independent director.

Following Kevin Loosemore's appointment as Executive Chairman and David Maloney's appointment as Deputy Chairman, the terms of reference for each role were agreed by the board and 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. David Maloney chairs the nomination committee and is therefore responsible for succession planning. He 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. The board also has a clear majority of independent directors, with four out of six directors being fully independent.

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 28 to 34) the following section sets out how the board has applied these principles. The Corporate Governance Code can be accessed at [www.frc.org.uk/corporate/ukcgcode.cfm](http://www.frc.org.uk/corporate/ukcgcode.cfm).

## The Board

The Group is controlled by the board, which is responsible for the Group's system of corporate governance. As at 30 April 2013, the board comprised six directors, all of whom served throughout the year:

Kevin Loosemore	Executive Chairman
Mike Phillips	Chief Financial Officer
David Maloney	Non-executive senior independent director and Deputy Chairman
Tom Skelton	Non-executive director
Karen Slatford	Non-executive director
Tom Virden	Non-executive director

The role of the non-executive directors is to ensure that independent judgement 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.

David Maloney, the Non-executive senior independent director and Deputy Chairman, Tom Skelton, Karen Slatford and Tom Virden, 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 the 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.

In the year ending 30 April 2014, 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 on ten occasions, five such meetings being scheduled formal board meetings with a further five additional meetings of the board to provide interim updates or consider matters arising between scheduled 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 other senior managers reporting to the executives.



The board 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.

Any 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.

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 monitors financial progress against budget.

Last year the board commissioned leading search company, Russell Reynolds, to conduct a detailed evaluation of the board and its committees as required by Corporate Governance Code provisions B6.1 and B6.2. 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 board's performance and its compliance with corporate governance principles. The evaluation found the performance of each director to be effective and that the board provides effective leadership and control. Specifically 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 included recommendations to continue refining the succession planning and developing executive talent which are being implemented

### Attendance at meetings

The number of board meetings and committee meetings attended by each director in the year ended 30 April 2013 was as follows:

	Board		Audit committee		Remuneration committee		Nomination committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Kevin								
Loosemore	10	10	–	–	–	–	2	2
Mike Phillips	10	10	–	–	–	–	–	–
David Maloney	10	10	5	5	5	5	2	2
Tom Skelton	10	10	5	5	5	5	2	2
Karen Slatford	10	10	5	5	5	5	–	–
Tom Virden	10	10	5	5	5	5	–	–

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 at 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 their 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.

# Corporate governance

continued

## Audit committee

The audit committee is comprised entirely of non-executive directors of the Company. It is chaired by David Maloney, who the board considers has recent and relevant financial experience. The other members are Tom Skelton, Karen Slatford and Tom Virden.

The audit committee has met five times during the financial year and will meet at least four times during the coming financial year (and, additionally as appropriate). A schedule of meetings for the coming year has been established.

The audit 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 audit committee provides a forum through which the Group's external and internal auditors report to the board. The auditors are invited to attend meetings of the committee on a regular basis and have the opportunity to meet privately with committee members in the absence of executive management. The audit committee oversees the relationship with the external auditor, including the independence and objectivity of the auditor (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.

In addition, the audit committee has developed a policy designed to ensure that the auditor's objectivity and independence is not compromised by it undertaking inappropriate non-audit work. All significant non-audit work commissioned from the external auditor requires audit committee approval. During the year the fees paid to the auditor were \$825,000 (2012: \$747,000) for audit services and \$214,000 (2012: \$461,000) for non-audit services. The majority of the non-audit services provided by the auditor were in respect of the Return of Value and the audit committee concluded that it was in the interests of the Group to use the auditor for this work as the auditor was considered to be best placed to provide these services and was the provider that offered the best value. Auditor objectivity was safeguarded by the audit committee considering several factors: the standing, experience and tenure of the external audit partner; the nature and level of services provided by the external auditor; and confirmation from the external auditor that it has complied with relevant UK independence standards.

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 role of internal audit is to advise executive management and the board on the extent to which the Group's systems of internal control are effective. The internal audit plan for each year is determined through a structured process of risk assessment and is approved by the audit committee.

The nature and scope of the internal audits to be completed during the year was reviewed and approved by the audit committee and the reports of results of completed audits received and responses of executive management were considered. The plan set out at the beginning of the year was achieved and the outcome of the work was in line with expectations.

The audit 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 audit committee 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 making 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 control;
- 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; and
- To oversee the relationship with the Company's auditors, ensuring the independence and objectivity of the auditor, 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.

In addition, during the year, the committee:

- Reviewed the Company's plans for business continuity and IT Disaster recovery testing;
- Reviewed and agreed an updated Risk Register;
- Reviewed and approved management recommendations for improvements in administrative purposes relating to statutory compliance in overseas territories;
- Reviewed and recommended to the board the approval of a second Return of Value proposal;

- Oversaw the appointment of a new lead audit partner from PricewaterhouseCoopers LLP from June 2012 for the Group;
- Considered whether the Group should issue a tender for the provision of external audit services and having taken into account the tenure, the recent appointment of the new audit partner and the quality and fees of the auditors, the committee determined that a tender for the audit work was not necessary at that time. This position will be kept under annual review;
- Reviewed the external auditor's performance (through an evaluation by both the directors and the Company's financial management) as a result of which the board is recommending that shareholders approve the reappointment of PricewaterhouseCoopers LLP as external auditor for the financial year ending 30 April 2014 at the forthcoming AGM on 26 September 2013. Since the Company's initial public offering in 2005, PricewaterhouseCoopers LLP have remained the external auditor to the Group. There are no contractual restrictions on the Company's choice of external auditor;
- Reviewed the management of corporate, strategic and fraud risks; and
- Reviewed the internal auditor's performance (through an evaluation by both the audit committee and the Company's financial management) and concluded it was satisfactory.

#### **Nomination committee**

The nomination committee is comprised of David Maloney (Non-executive senior independent director and Deputy Chairman) who chairs the committee, Kevin Loosemore (Executive Chairman) and Tom Skelton (Non-executive director). The committee met twice during the financial year. The nomination committee will meet at least twice during the coming financial year.

The nomination 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 nomination committee uses consultants to identify suitable candidates where a position is identified 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, knowledge and experience on the board. The Group has formal policies to promote equality of opportunity, across the whole organization. Currently, the board comprises five men (83%) and one woman (17%) and the Company Secretary who is also a woman, but the board does not think it appropriate to impose a specific gender quota at this stage.

The terms of reference of the nomination 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.

Any search and selection process for a new director will, if appropriate, involve the appointment of an external search consultancy and will take account of the existing directors' skill sets and experience as well as the overall diversity of the board. Following an initial search, preliminary interviews are normally conducted by the chairs of both the nomination and remuneration committees, with a shortlist being recommended to the nomination committee and subsequently the board. In addition the nomination committee reviewed the board succession plan.

The nomination committee also discussed and revised the succession plans and individual plans for the executive committee and the top talent/critical employees within the Group.

#### **Remuneration committee**

Details of the remuneration committee are described in the remuneration report on pages 28 to 34.

#### **Accountability and audit**

The board is responsible for the preparation of financial statements that present a balanced assessment of the Group's financial position and prospects. This responsibility is administered primarily by the audit committee.

## Risk management

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 audit 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 audit 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 audit committee requires appropriate action to be taken by management and may request internal audit to perform a specific review into these areas if required.

## Internal controls

The board is ultimately responsible for establishing and monitoring internal control systems throughout the Group and reviewing their effectiveness. 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 ongoing internal process for identifying, evaluating and managing the significant risks faced by the Company 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 Company 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 requirement is set out in the audit committee's terms of reference to report on a regular basis to the board on the Group's internal financial control procedures and to make recommendations to the board in this area.

The external auditor provides 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 audit committee and the board.

To ensure auditor objectivity and independence there is a stringent process in place to approve non-audit work.

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 programmes are subject to formal review and monitoring procedures.

## 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 flows are produced twice 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; and
- All the major trading entities completed a self assessment on the effectiveness of their internal control environment.

### Consolidation reporting

- The consolidation process entails the combining and adjusting of financial information from the individual financial statements of Micro Focus International plc and its subsidiary undertakings to prepare consolidated financial statements that present financial information for the Group as a single economic entity. The Group accounting policies on pages 43 to 47 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 always 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, and the Companies Act 2006 and Article 4 of the IAS Regulation.

### 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 that are derived from the Group's business objectives and 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.

### 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 its portfolio of insurance policies with its insurance brokers 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 four times a year, around June (preliminary announcement of annual results) and December (interim statement) and the Company also publishes interim management statements in or around August and February each year. The annual report is expected to be 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, David Maloney (the Non-executive senior independent director and Deputy Chairman) is available to meet with shareholders as and when required. 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, which will be held on 26 September 2013 at 3pm (UK time), 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 20 of the directors' report and in note 23 to the financial statements.

# Remuneration report

## Introduction

In anticipation of new legislation regarding revised directors' remuneration reporting coming into force later this year the Company will continue to keep the structure of its remuneration arrangements under review and will prepare for the new executive remuneration reporting requirements.

## Executive summary

### Performance vs. pay for financial year ending 30 April 2013

The Remuneration Committee ('the committee') has reviewed the Company's financial performance in relation to the financial year ending 30 April 2013 taking into account the market in which the Company operates and the performance of comparator companies.

The year ended 30 April 2013 has been a year of consolidation for Micro Focus. The Company has seen an increase in Adjusted EBITDA to \$188.1m (2012: \$179.8m), a continued strong cash conversion ratio of 103.4% (2012: 108.0%), steady maintenance revenues and licence revenues of \$168.6m despite an uncertain macroeconomic environment. The key results have been:

- Underlying Adjusted EBITDA at constant currency has grown by 9.5% from \$169.8m to \$185.9m;
- Return on Equity is 12.18% (from 13.51% in the year ended 30 April 2012);
- Maintenance revenues have held steady;
- Cash conversion of Adjusted EBITDA at 103.4% (2012: 108.0%);
- Adjusted earnings per share ('EPS') is 88.69 cents (2012: 73.07 cents); and
- Total distributions and dividends paid to shareholders in the year were \$186.0m comprising \$57.2m of dividends and \$128.8m relating to the Return of Value (as described in more detail on page 64).

Based on this level of performance, the committee determined bonus payments for the year as follows:

- Kevin Loosemore received a performance-related bonus of £676,200 (i.e. 138% of salary out of a maximum potential of 150% of salary);
- Mike Phillips received a performance-related bonus of £270,480 (i.e. 92% of salary out of a maximum potential of 100% of salary); and
- Total staff bonuses were \$7.6m (2012: \$12.0m).

## Review of remuneration

During the year the committee completed an annual review of senior management's remuneration. Pay levels at companies of a similar size and in a similar sector were considered along with each individual's role, experience and contribution to the business. The review concluded that:

- Total cash (i.e. salary plus on-target bonus) for the Executive Chairman (£1,005,000) is between market median (£857,000) and upper quartile (£1,154,000);

- Total cash for the Chief Financial Officer (£500,000) is in line with median (£501,000). Upper quartile is £693,000;
- Total remuneration for the Executive Chairman (£1,461,000) is slightly above median (£1,331,000). Upper quartile is £1,904,000; and
- Total remuneration for the Chief Financial Officer (£698,000) is below median (£817,000). Upper quartile is £1,126,000.

The following has been approved by the committee applicable from 1 May 2013:

- The Executive Chairman and the Chief Financial Officer have not received an increase in salary;
- The Chief Financial Officer received an increase in Company pension contributions from 5% to 12.5% of his base salary effective 1 March 2013;
- Performance-related bonus opportunities will be the same as last year, i.e. up to 150% of salary for the Executive Chairman and up to 100% of salary for the Chief Financial Officer;
- Performance stock grants will be the same as last year, i.e. of 200% of salary and 150% of salary for the Executive Chairman and the Chief Financial Officer, respectively to be granted following the announcement of the audited results for the year ended 30 April 2013; and
- Clawback provisions related to Performance Related bonuses will again apply for the coming year.

The committee is keen to ensure that management reward is commensurate with delivery of performance in order to ensure we appropriately motivate and retain high calibre individuals. The committee has communicated with the Company's top 20 shareholders during the year who controlled 66% of the Company's shares and received mainly positive feedback in relation to the Company's remuneration policy. The committee feels it is important to engage with shareholders before making any significant changes to executive remuneration. Therefore, if appropriate, this consultative approach will be adopted again in the coming year.

## Membership of the remuneration committee

The committee comprises four independent non-executive directors.

Karen Slatford, Chair	Non-executive director
David Maloney	Non-executive senior independent director and Deputy Chairman
Tom Skelton	Non-executive director
Tom Virden	Non-executive director

Where appropriate the committee invites the views of each of the Executive Chairman, the Chief Financial Officer, the Group Human Resources Director and the Company Secretary, however they do not participate in discussions relating to their own remuneration.

The committee has also been assisted by Kepler Associates ('Kepler'), Steen and Co, solicitors, Linklaters LLP, solicitors, Travers Smith LLP, solicitors and by Lawrence Graham LLP, solicitors, who each provided

advice to the committee on remuneration related issues. 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)). The terms of Kepler's engagement are available from the Company Secretary. Steen and Co and Linklaters provided employment law advice to the Group and Lawrence Graham provided employment and corporate law advice.

The committee has met five times during the financial year. The attendance record of each committee member is set out on page 23. The committee will meet at least four times during the coming financial year.

### 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, Chief Executive 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 ongoing appropriateness and relevance of the remuneration policy.

The terms of reference of the committee are available from the Company Secretary and are on the Company's website [www.microfocus.com](http://www.microfocus.com) under 'Investor Relations'.

### 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 year ending 30 April 2014 is set out below;

Date	Purpose	Matters reviewed and/or approved
Q1 (May – July)	Annual Report and Payments	Directors' remuneration report Bonus payments and any vesting of awards under all plans for previous year Grants of equity awards to Executives, top talent and all employee share schemes
Q2 (August – October)	AGM	Investor engagement Review committee agenda for following year
Q3 (November – January)	Strategic Outlook and Policy Review	Interim progress of half year business performance Ongoing appropriateness and effectiveness of remuneration and benefits policies/strategy External remuneration consultants Business objectives for following year
Q4 (February-April)	Year End Remuneration Approvals	Executive director, Company Secretary and Executive Committee remuneration reviews including benchmarking of base salaries and benefits Group wide pay and benefit reviews Share awards and their performance conditions for grants to executives, top talent and employee share plans Design and targets for annual performance-related bonus arrangements for Executives and employees for forthcoming year Review of performance and terms of reference of committee

# Remuneration report

continued

## Remuneration policy

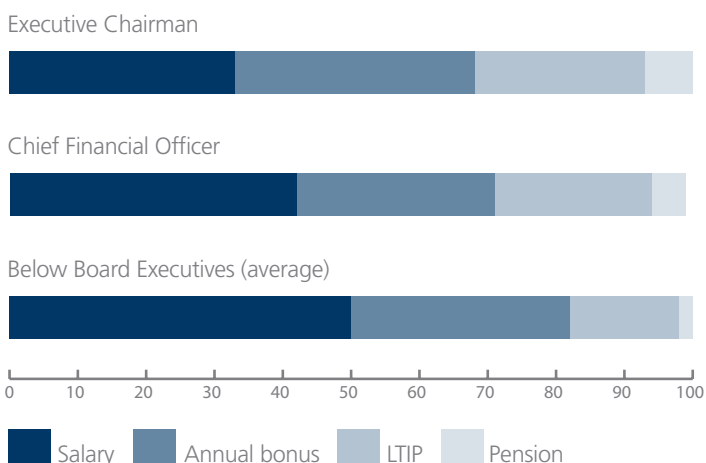
The Company's policy on the remuneration of executive directors and their direct reports is established by the committee and approved by the board. The individual remuneration package of each executive director is determined by the committee. No executive director or employee participates in discussions 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. 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 (see chart below). Conditions for performance-related bonuses and long-term incentives, i.e. Adjusted EBITDA and EPS respectively, will represent challenging targets which are designed to increase shareholder value. The committee will review the performance conditions annually to ensure that they remain demanding and appropriate.

The chart below shows the relative importance of the various elements of remuneration for the Executive Chairman, Chief Financial Officer and the average for the remainder of the executive committee. Annual performance-related bonuses have been valued at 'On Target', and LTIP awards have been valued on an expected 'Fair Value' basis.



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 Company complies with the relevant provisions of the Companies Act 2006 and seeks to comply with the relevant provisions of the UK Corporate Governance Code as published by the Financial Reporting Council.

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.

In accordance with the Companies Act 2006, a resolution to approve the remuneration report will be proposed at the Company's AGM on 26 September 2013. Details of the resolution may be found in the notice of meeting accompanying this annual report. As always, any shareholder feedback will be considered carefully by the members of the committee in the formulation and approval of the Company's future remuneration policies.

## Directors' service contracts

### Executive directors

The Group's policy in entering into service contracts with executive directors is to enable the recruitment of high-quality executives and to obtain protection from their sudden departure whether or not to competitor companies. In addition, service contracts are an important element in maintaining maximum protection for the Group's intellectual property rights and other commercially sensitive information.

Kevin Loosemore was appointed as the Company's Executive Chairman on 14 April 2011. His service contract, dated 14 April 2011, requires each party to give twelve months' notice of termination. Mike Phillips was appointed as the Chief Financial Officer on 7 September 2010. His service contract dated 7 September 2010 requires each party to give six months' notice of termination after the first year.

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

Should an executive director be dismissed other than as described above, the Company may pay him, in lieu of notice, a sum equal to his basic pay over his notice period. In respect of Kevin Loosemore, such sum is equal to 150% of his basic pay to reflect the value of salary and benefits. In addition, if Kevin Loosemore is dismissed other than for cause (or if his role is diminished), the recruitment share awards summarized below will vest and he may be entitled to a pro-rated bonus only for any period worked.



At the discretion of the committee, having regard to the Company's performance at the time of dismissal, the committee may in addition pay all or a proportion of the bonus which would, but for the dismissal, have become payable up to the date of notice being served by the Company. The committee also has discretion to pay an executive director compensation for other contractual benefits for the unexpired period of notice.

The committee's policy is that executive directors may, by agreement with the board, serve as non-executives of other companies and retain any fees payable for their services. Executive directors may not accept non-executive appointments without the consent of the board. Kevin Loosemore acted in the capacity of director/trustee of Farnham Castle until 6 March 2013, for which he received no fee during the year. Mike Phillips acts in the capacity of a non-executive director of Parity Group Plc for which he receives a fee of £40,000 per annum.

#### Non-executive directors

Non-executive directors are appointed by letter of appointment for a fixed term of three years or less subject to earlier termination by either the director or the Company on 90 days notice. Each non-executive director still serving at the end of his or her term will have his or her appointment reviewed by the board and the reappointment of that director may be agreed.

Non-executive directors receive fees for services as members of the board and its committees. The level of fees is determined by the board after taking into account appropriate advice. Where a non-executive director does not serve until the end of his term, the policy is to pay the fees due pro rata to the date of cessation.

Non-executive directors do not participate in the Group's share incentives or otherwise receive performance related pay, and do not receive any pension contributions or benefits in kind.

Details of the contract of service of each non-executive director who has served as a director of the Company at any time during the financial year are set out below:

Non-executive directors	Date of contract	Unexpired term of contract on 30 April 2013
David Maloney	14 April 2011	11 months
Tom Skelton	23 October 2012	6 months
Karen Slatford	5 July 2010	2 months
Tom Virden	5 January 2012	1 year 8 months

All appointments are currently subject to election by the shareholders at the first AGM of the Company after their appointment and, on an annual basis thereafter. Therefore, all the directors will be offering themselves for re-election at the AGM to be held on 26 September 2013.

#### Remuneration package

Executive directors' remuneration currently comprises annual salary, a performance-related bonus, a long-term incentive in the form of share incentives, pension contributions and other benefits.

#### Annual salary

The board approves the overall budget for employee salary increases and the committee agrees the specific increases for executive directors and certain other senior members of the management team. In doing so it seeks to ensure that the approach taken for executive directors is consistent with that used for other employees. Salaries for executive directors and other senior employees are reviewed annually with changes typically becoming effective from within the first quarter of the new financial year. During the financial year ending 30 April 2013 the cost of the salary increase programme across the Group was 1.96% of total base salaries prior to the increase.

In determining appropriate salary levels for each executive director and for senior employees, the committee considers both the nature and the status of the Company's operations and the responsibilities, skills, experience and performance of the executive director or employee in question. The committee compares the Group's remuneration packages for its directors and employees with those for directors and employees of similar seniority in companies whose activities and size are comparable with the Group and with which it competes for staff. The committee has used Kepler Associates in making these comparisons.

At 30 April 2013, the salaries of the executive directors serving during the financial year ending 30 April 2013 were as follows:

- Executive Chairman: £490,000
- Chief Financial Officer: £294,000

#### Performance-related bonus

The executive directors and all other employees, except for sales staff, participate in a Group performance-related bonus scheme. The level of bonus is based on overall Group performance in meeting its primary financial objectives in worldwide earnings before interest, tax, depreciation and amortization and revenue goals. The committee also takes into consideration non-financial metrics in relation to the executives' performance contribution.

The committee will continue to place a significant proportion of executive pay 'at risk', so that it is closely linked to the interests of shareholders. The committee will ensure that there is a balance between setting targets for executive directors which are challenging and clearly assessable, ensuring that the performance targets do not encourage undue risk-taking, whilst ensuring the performance-related bonus is motivational.

# Remuneration report

continued

Bonuses paid to executive directors in respect of the year ended 30 April 2013 are shown on page 33. For the year ending 30 April 2014, maximum bonus opportunities for the Executive Chairman and the Chief Financial Officer will remain at 150% and 100% of salary respectively.

Claw back provisions also apply in relation to performance-related bonuses.

## Long-term incentives

The board believes that long-term incentive schemes are important in retaining and recruiting high-calibre individuals and ensuring that the performance of executives is focused on creating long-term shareholder value. Awards in the form of options will be considered by the committee on an ongoing basis.

The Company adopted the Micro Focus International plc Incentive Plan 2005 (the 'Plan') prior to admission to the London Stock Exchange in 2005. This is intended to provide a flexible framework to allow the Company to make awards of shares in the form of nil-cost options, conditional awards or forfeitable shares, or to grant market value options ('awards'). Currently, the Company's ongoing policy is to make annual awards of market value options or nil cost options to the executive directors and other senior and key employees. Granting annual awards is intended to ensure that executives are not encouraged to undertake any undue risks in order to maximize the value of a particular award.

The maximum aggregate value of awards that can normally be granted to any individual in any financial year will not exceed two times his or her basic salary. For these purposes, the value of the awards is deemed to be equal to the market value of shares at the time of the award or, in the case of market value options, 50% of the market value of the shares under option at the time of the award (i.e. awards of market value share options with a face value up to four times salary can be made each year). This limit may be exceeded only where the committee determines that there are exceptional circumstances.

The forthcoming awards will 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.

## Directors' interests in share capital

At 30 April 2013 the directors owned the following shares in the Company including interests held by their connected persons:

Director	At 30 April 2013	At 30 April 2012
Kevin Loosemore	209,534	186,000
Mike Phillips	88,036	70,400
David Maloney	40,000	44,000
Tom Skelton	—	—
Karen Slatford	—	—
Tom Virden	4,909	5,400

As at 18 June 2013 there had been no changes to these interests.

The interests of David Maloney and Tom Virden have been adjusted to account for the 10 for 11 share consolidation completed on 26 October 2012.

Prior to the share consolidation Kevin Loosemore and Mike Phillips each bought 15,000 ordinary shares in the Company. Their resulting interests were then consolidated on a 10 for 11 share basis on 26 October 2012. After the share consolidation and prior to the year end Kevin Loosemore bought 34,807 ordinary shares and sold 8,100 ordinary shares whilst Mike Phillips and his wife bought a total of 10,400 ordinary shares.

## All-employee share incentives

Executive directors are entitled to participate in the Company Sharesave scheme. Under the UK Sharesave and equivalent international schemes employees are eligible to acquire shares in the Company at a discount of up to 20% to the market value at date of grant if they agree to enter into a savings contract for a period (up to a 15% discount for US Employee Stock Purchase Plan grants). Consistent with the relevant legislation, no performance conditions apply.

## Pension contributions

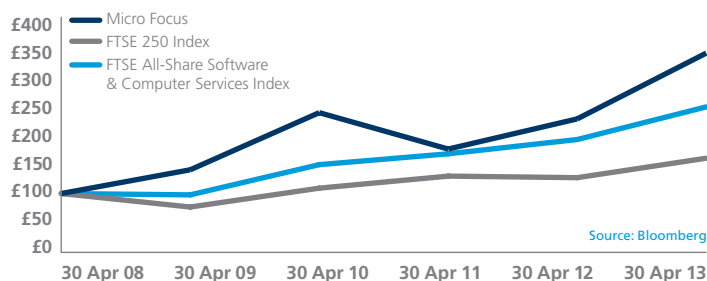
All employees, including executive directors, are invited to participate in a Group Personal Pension Plan. All major schemes are money purchase in nature and have no defined benefits. Defined benefit schemes are operated in Japan and France, but, given the number of members, are insignificant for Group purposes. The Group has no obligation to the Group Personal Pension Scheme beyond the payment of contributions.

The Company's pension contribution for the Chief Financial Officer increased from 5% to 12.5% of salary with effect from 1 March 2013. A 20% of salary allowance is paid to the Executive Chairman in lieu of pension contributions.

## Other benefits

Benefits in kind for executive directors can include death in service benefit, the provision of a company car allowance or service, fuel, life insurance and medical benefits.

## Total shareholder return



This graph shows the value, by 30 April 2013, of £100 invested in Micro Focus International plc on 30 April 2008 compared with the value of £100 invested in the FTSE 250 and the FTSE Software & Computer Services Indices. The intervening points are at financial year ends. The FTSE 250 and the FTSE Software & Computer Services Indices have been chosen as they are considered the most relevant indices for comparison with the Company.

## Audited information

### Detailed emoluments of the directors of the Company

The aggregate remuneration paid to or receivable by directors of the Company during the year ending 30 April 2013 was as follows:

	Base salary and fees £'000	Bonus £'000	Benefits in kind £'000	Other benefits <sup>1</sup> £'000	Total 2013 £'000	Total 2012 £'000
<b>Executive directors</b>						
Kevin Loosemore	490	676	40	98	1,304	1,291
Mike Phillips	294	270	36	–	600	581
<b>Total</b>	<b>784</b>	<b>946</b>	<b>76</b>	<b>98</b>	<b>1,904</b>	<b>1,872</b>
<b>Non-executive directors</b>						
David Maloney	100	–	–	–	100	100
Tom Skelton	50	–	–	–	50	50
Paul Pester (resigned 5 January 2012)	–	–	–	–	–	34
Karen Slatford	60	–	–	–	60	60
Tom Virden	50	–	–	–	50	16
<b>Total non-executive directors</b>	<b>260</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>260</b>	<b>260</b>
<b>Total</b>	<b>1,044</b>	<b>946</b>	<b>76</b>	<b>98</b>	<b>2,164</b>	<b>2,132</b>

1 Kevin Loosemore receives cash payments in lieu of pension benefits.

Non-executive director annual fees on 30 April 2013 were £100,000 for the Non-executive senior independent director and Deputy Chairman, David Maloney (2012: £100,000); £50,000 for Tom Skelton (2012: £50,000); £60,000 for Karen Slatford (2012: £60,000); £50,000 for Tom Virden (2012: £16,000).

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

The following grants were made to the executive directors under the terms of the Plan during the financial year ended 30 April 2013.

	Number at 1 May 2012	Number granted in financial year	Number exercised in financial year	Number lapsed in financial year	Number at 30 April 2013	Exercise price	Dates of exercise
Kevin Loosemore <sup>1</sup>	–	192,157	–	–	192,157	0.0p	27 June 2015 to 26 June 2022
Mike Phillips <sup>2</sup>	269,801	–	–	–	269,801	316.9p	7 September 2013 to 6 September 2020 1 July 2014
Mike Phillips <sup>3</sup>	146,504	–	–	–	146,504	0.0p	to 17 April 2021
Mike Phillips <sup>1</sup>	–	86,471	–	–	86,471	0.0p	27 June 2015 to 26 June 2022

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 requires that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 11% per annum (at which point 25% of awards will vest), 60% of shares will vest for cumulative EPS growth at RPI plus 13% per annum 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. Performance against these objectives is determined by the committee based on the Company's audited results.

3 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 291.8p plus dividend and cash distributions over the vesting period) is below 150p or increased by 50% if the ASR is 300p or above.

# Remuneration report

continued

## LTIP – combined options

During the year to 30 April 2013, no grants were made to executive directors:

	Number at 1 May 2012	Number exercised in financial year	Number at 30 April 2013	Exercise price	Dates of exercise
Kevin Loosemore <sup>1,2</sup>	652,000	–	652,000	0.0p	14 April 2014 to 13 April 2016

1 Performance condition provides for awards to vest by reference to the percentage increase in the Company's total shareholder return (share price plus dividends and cash distributions but not assuming reinvestment of any dividends) over the performance period. The base share price at the time of the award was 300p. The level of vesting is the percentage increase and is not capped. A further condition exists in respect of 50% of the award (326,000 options), under which Kevin Loosemore is required to hold at least 163,000 shares over the vesting period). At the point of vesting the committee will adjust the vesting to reflect any significant changes (e.g. Return of Value) so that the performance conditions are no easier or harder to achieve than at the date of grant. Awards benefit from the value of dividends over the vesting period.

2 As a consequence of Kevin Loosemore's divorce, 25% of any award resulting from his share grant on 14 April 2011 will be deliverable to his ex-wife as soon as such award vests on 14 April 2014.

The share price on the date of the award was 320p.

## Sharesave

In relation to the Sharesave scheme, none of the directors have any outstanding options.

## Share option schemes

Details of the Company's share option schemes are given in note 29 of the financial statements.

The mid-market price of the shares at 30 April 2013 was 671.0p per share and during the financial year ended 30 April 2013 the price varied between 467.8p and 706.0p per share.

On behalf of the board,



## Karen Slatford

Chair of the remuneration committee  
18 June 2013

## Key performance indicators

The Company uses several key performance indicators internally to monitor the performance of the business against objectives. A summary of some of the more important KPIs that are used with a brief description on how they are calculated and the results of the year are as follows:

Description	Metrics	Performance
Revenue growth	<b>2013</b> <b>(2.4%)</b>  2012 (1.7%)	Revenue comprises total revenues including the contribution of acquisitions and is compared with the prior year at constant currency.
Adjusted EBITDA margin	<b>2013</b> <b>45.4%</b>  2012 41.4%	Earnings before interest, tax, depreciation and amortization of intangible fixed assets, exceptional items and share based compensation charges. The Adjusted EBITDA margin represents Adjusted EBITDA divided by revenue for the year.
Cash conversion	<b>2013</b> <b>103.4%</b>  2012 108.0%	This ratio is calculated using the cash flows generated from operating activities (after exceptional costs) divided by Adjusted EBITDA – the result indicates that the Group is generating cash from its ongoing business which can be used to reinvest in the development of the business including financing acquisitions, funding liabilities and paying dividends to shareholders.
Adjusted EPS	<b>2013</b> <b>88.69c</b>  2012 73.07c	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 ordinary shares in issue during the year. This measure indicates the ability of the Company to continue to adopt a progressive dividend policy.
Renewal rates on maintenance contracts	<b>2013</b>	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.
CDMS Borland/Niche	<b>91.0%</b> <b>83.9%</b>	
CDMS Borland/Niche	2012 88.9% 80.9%	

# 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 judgements 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 directors' report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, 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  
18 June 2013

# Independent auditors' report to the members of Micro Focus International plc

We have audited the Group financial statements of Micro Focus International plc for the year ended 30 April 2013 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, summary of significant accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

## Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 36, the directors are responsible for the preparation of the Group 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 Group financial statements in accordance with applicable law and International Standards on Auditing (UK and 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.

## Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 April 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with 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.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 36, in relation to going concern;
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

## Other matter

We have reported separately on the parent company financial statements of Micro Focus International plc for the year ended 30 April 2013 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  
18 June 2013

# Consolidated statement of comprehensive income

for the year ended 30 April 2013

	Notes	2013 \$'000	2012 \$'000
<b>Revenue</b>	1,2	<b>413,989</b>	434,838
Cost of sales		<b>(34,069)</b>	(49,267)
Gross profit		<b>379,920</b>	385,571
Selling and distribution costs		<b>(117,558)</b>	(127,253)
Research and development expense		<b>(52,599)</b>	(54,768)
Administrative expenses		<b>(48,503)</b>	(47,759)
<b>Operating profit</b>		<b>161,260</b>	155,791
<b>Analyzed as:</b>			
<b>Operating profit before exceptional items</b>		<b>161,260</b>	153,349
Exceptional items	3	–	2,442
<b>Operating profit</b>	1	<b>161,260</b>	155,791
Finance costs	5	<b>(8,307)</b>	(6,836)
Finance income	5	<b>413</b>	295
<b>Profit before tax</b>	3	<b>153,366</b>	149,250
Taxation	6	<b>(30,202)</b>	(28,630)
<b>Profit for the year</b>		<b>123,164</b>	120,620
<b>Other comprehensive income:</b>			
Currency translation differences		<b>(2,458)</b>	1,045
<b>Other comprehensive income for the year</b>		<b>(2,458)</b>	1,045
<b>Total comprehensive income for the year</b>		<b>120,706</b>	121,665
<b>Profit attributable to:</b>			
Owners of the parent		<b>120,706</b>	121,665
Earnings per share expressed in cents per share		<b>cents</b>	cents
– basic	8	<b>78.72</b>	65.77
– diluted	8	<b>76.09</b>	64.11
Earnings per share expressed in pence per share		<b>pence</b>	pence
– basic	8	<b>50.00</b>	41.29
– diluted	8	<b>48.33</b>	40.25



# Consolidated statement of financial position

as at 30 April 2013

	Notes	2013 \$'000	2012 \$'000
<b>Non-current assets</b>			
Goodwill	9	<b>284,661</b>	274,340
Other intangible assets	10	<b>93,644</b>	97,811
Property, plant and equipment	11	<b>21,157</b>	22,302
Deferred tax assets	22	<b>38,134</b>	39,782
		<b>437,596</b>	434,235
<b>Current assets</b>			
Inventories	12	<b>144</b>	460
Trade and other receivables	13	<b>92,496</b>	91,856
Cash and cash equivalents	14	<b>37,943</b>	30,410
		<b>130,583</b>	122,726
<b>Total assets</b>		<b>568,179</b>	556,961
<b>Current liabilities</b>			
Trade and other payables	15	<b>54,370</b>	61,164
Borrowings	16	<b>215,634</b>	143,613
Provisions	20	<b>8,992</b>	3,721
Current tax liabilities	17	<b>42,423</b>	35,438
Deferred income	18	<b>138,306</b>	136,135
		<b>459,725</b>	380,071
<b>Non-current liabilities</b>			
Deferred income	19	<b>9,646</b>	12,611
Long-term provisions	20	<b>2,009</b>	6,794
Deferred tax liabilities	22	<b>37,042</b>	39,939
		<b>48,697</b>	59,344
<b>Total liabilities</b>		<b>508,422</b>	439,415
<b>Net assets</b>		<b>59,757</b>	117,546
<b>Equity attributable to owners of the parent</b>			
Share capital	23	<b>37,797</b>	37,787
Share premium account	26	<b>16,083</b>	61,311
Retained earnings (deficit)		<b>(63,672)</b>	(6,480)
Foreign currency translation (deficit)		<b>(7,349)</b>	(4,891)
Other reserves	27	<b>76,898</b>	29,819
<b>Total equity attributable to owners of the parent</b>		<b>59,757</b>	117,546

The consolidated financial statements on pages 38 to 69 were approved by the board of directors on 18 June 2013 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 2013

	Notes	Share capital \$'000	Share premium account \$'000	Retained earnings (deficit) \$'000	Foreign currency translation reserve (deficit) \$'000	Other reserves <sup>1,2</sup> \$'000	Total \$'000
<b>Balance as at 1 May 2011</b>		37,713	115,789	108,217	(5,936)	(27,085)	228,698
Currency translation differences		–	–	–	1,045	–	1,045
Profit for the year		–	–	120,620	–	–	120,620
Total comprehensive income		–	–	120,620	1,045	–	121,665
Transactions with owners:							
Dividends	7	–	–	(46,262)	–	–	(46,262)
Issue of share capital	23	74	1,879	(700)	–	–	1,253
Repurchase of shares	24	–	–	(62,498)	–	–	(62,498)
Return of Value to shareholders	25	–	–	(129,604)	–	–	(129,604)
Issue and redemption of B shares	23	–	(56,359)	–	–	–	–
Sales of fractional shares	23	–	2	–	–	56,359	2
Expenses and foreign exchange relating to Return of Value	25	–	–	(1,026)	–	545	(481)
Movement in relation to share options		–	–	4,931	–	–	4,931
Corporation tax on share options	6	–	–	(189)	–	–	(189)
Deferred tax on share options	6	–	–	31	–	–	31
<b>Balance as at 30 April 2012</b>		<b>37,787</b>	<b>61,311</b>	<b>(6,480)</b>	<b>(4,891)</b>	<b>29,819</b>	<b>117,546</b>
Currency translation differences		–	–	–	(2,458)	–	(2,458)
Profit for the year		–	–	123,164	–	–	123,164
Total comprehensive income		–	–	123,164	(2,458)	–	120,706
Transactions with owners:							
Dividends	7	–	–	(57,160)	–	–	(57,160)
Issue of share capital	23	10	2,793	(2,073)	–	–	730
Return of Value to shareholders	25	–	–	(131,171)	–	–	(131,171)
Issue and redemption of B shares	23	–	(47,079)	–	–	47,079	–
Sales of fractional shares	23	–	3	–	–	–	3
Expenses and foreign exchange relating to Return of Value	25	–	–	1,902	–	–	1,902
Movement in relation to share options		–	(945)	7,257	–	–	6,312
Corporation tax on share options	6	–	–	694	–	–	694
Deferred tax on share options	6	–	–	195	–	–	195
<b>Balance as at 30 April 2013</b>		<b>37,797</b>	<b>16,083</b>	<b>(63,672)</b>	<b>(7,349)</b>	<b>76,898</b>	<b>59,757</b>

1 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.

2 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. A further \$47,079,000 was added to the capital redemption reserve following the redemption of the B shares (see note 25).

# Consolidated statement of cash flows

for the year ended 30 April 2013

	Notes	2013 \$'000	2012* \$'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	28	<b>194,461</b>	196,659
Interest paid		<b>(5,076)</b>	(2,545)
Tax paid		<b>(22,072)</b>	(11,936)
<b>Net cash generated from operating activities</b>		<b>167,313</b>	182,178
<b>Cash flows from investing activities</b>			
Payments for intangible assets	10	<b>(20,327)</b>	(20,946)
Purchase of property, plant and equipment	11	<b>(3,312)</b>	(18,273)
Interest received		<b>413</b>	295
Payments for the acquisition of business		<b>(15,000)</b>	–
<b>Net cash used in investing activities</b>		<b>(38,226)</b>	(38,924)
<b>Cash flows from financing activities</b>			
Payments for repurchase of shares	24	–	(62,498)
Proceeds from issue of ordinary share capital	23	<b>730</b>	1,253
Return of value paid to shareholders		<b>(131,171)</b>	(129,604)
Foreign exchange gain on hedging contracts related to the Return of Value		<b>2,393</b>	635
Costs associated with the return of value		<b>(491)</b>	(1,116)
Proceeds from sale of fractional shares		<b>3</b>	2
Repayment of bank borrowings		<b>(142,307)</b>	(203,000)
Proceeds from bank borrowings		<b>212,307</b>	308,000
Bank loan costs		<b>(3,231)</b>	(4,293)
Dividends paid to owners	7	<b>(57,160)</b>	(46,262)
<b>Net cash used in financing activities</b>		<b>(118,927)</b>	(136,883)
Effects of exchange rate changes		<b>(2,627)</b>	(2,041)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7,533</b>	4,330
Cash and cash equivalents at 1 May		<b>30,410</b>	26,080
<b>Cash and cash equivalents at 30 April</b>	14	<b>37,943</b>	30,410

\* The comparatives have been restated to report the foreign exchange gain on hedging contracts related to the Return of Value within financing activities.

# Summary of significant accounting policies

for the year ended 30 April 2013

## 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 29 countries worldwide and employs approximately 1,200 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 18 June 2013.

## I Group accounting policies

### A Basis of preparation

The consolidated financial statements of Micro Focus International plc have been prepared in accordance with EU endorsed International Financial Reporting Standards ('IFRS'), 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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement 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, prepared at the balance sheet date. Control exists where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. 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.

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.

### 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) upon persuasive 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 evidence of fair value exists or undelivered elements of the arrangement are delivered.

If the arrangement includes acceptance criteria, revenue is not recognized until the Group can objectively demonstrate that the acceptance criteria has 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 recognised upon delivery, unless future substantive upgrades or similar future performance obligations are committed to, in which case revenue is deferred and recognised rateably over the specified period. 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.

## 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 as set out in note 4. The Group has operating segments relating to the three geographic regions. The Executive Committee has delegated responsibilities for directly managed costs to the Regional Presidents of the three geographic regions of the Group and then allocated centrally managed costs to those regions, consequently for the three 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 programmes or cost of integrating acquired businesses.

## F Employee benefit costs

### a) Pension obligations

Group companies operate various pension schemes. All of the major schemes are defined contribution plans for which 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.

### b) Share based compensation

The Group operated various equity-settled, share based compensation plans during the year.

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. Market vesting conditions are taken into account when determining the fair value of the options at grant date. At each balance sheet 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 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.

### 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 balance sheet presented are translated at the closing rate at the date of that balance sheet;
- 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.

# Summary of significant accounting policies

for the year ended 30 April 2013 continued

## 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:

	2013		2012	
	Average	Closing	Average	Closing
£1 = \$	1.57	1.55	1.59	1.63
€1 = \$	1.29	1.31	1.37	1.32
100 Yen = \$	0.84	0.98	0.79	0.80

## 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 programmes and significant enhancement of existing computer software programmes 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 years
Technology	Five to ten years
Customer relationships	Two to ten 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 period 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:

Land and buildings	Thirty years
Leasehold improvements	Three to ten years
Fixtures and fittings	Five to seven years
Computer equipment	One to five years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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.

## 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.

### **K Inventories**

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

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 balance sheet.

### **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.

### **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 balance sheet 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 balance sheet 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 balance sheet 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.

# Summary of significant accounting policies

for the year ended 30 April 2013 continued

## 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 2012, 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:
- Amendments to IFRS 7, 'Financial instruments: Disclosures on Derecognition' for periods beginning on or after 1 July 2011. These amendments arise from the IASB's review of off-balance sheet activities and will promote transparency in the reporting of transfer transactions.
- (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:
- IFRS 9, 'Financial Instruments', for periods beginning on or after 1 January 2015.
  - Amendment to IAS 12, 'Income Taxes' applies for periods beginning on or after 1 January 2013.
  - Amendment to IAS 19, 'Employee Benefits', for periods beginning on or after 1 January 2013.
  - Amendment to IAS 1 'Financial Statement Presentation' applies for periods beginning on or after 1 July 2013.

- IFRS 10, 'Consolidated Financial Statements' applies for periods beginning on or after 1 January 2014.
- IFRS 11, 'Joint Arrangements' applies for periods beginning on or after 1 January 2014.
- IFRS 12, 'Disclosures of Interests in Other Entities' applies for periods beginning on or after 1 January 2014.
- IFRS 13, 'Fair Value Measurement', applies for periods beginning on or after 1 January 2013.
- IAS 27 (Revised 2011), 'Separate Financial Statements', applies for periods beginning on or after 1 January 2014.
- IAS 28 (Revised 2011), 'Associates and Joint Ventures' applies for periods beginning on or after 1 January 2014.
- Amendment to IAS 32, 'Financial Instruments: Presentation' applies to periods beginning on or after 1 January 2013.

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 judgements 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 judgements, and matters that are inherently uncertain.

### a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy 1J. 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 judgement 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 judgements and best estimates about the fair value allocation of the purchase price. Appropriate advice is sought from professional advisors before making such allocations. 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 judgement, 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 judgement. These judgements 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.

### 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 ongoing 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 UK sterling, the 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 2013.

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 operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. 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.

Borrowings relate to our unsecured \$275m bank facility (see note 16). The balance is considered current as it is a revolving credit facility renewable each month.

Onerous lease provisions are expected to mature between less than twelve months and six years.

# Notes to the consolidated financial statements

for the year ended 30 April 2013

## 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. The measure used by the Executive Committee is the adjusted operating profit for the Group as a whole (note 4). The Group has operating segments relating to the three geographic regions. The Executive Committee has delegated responsibilities for directly managed costs to the Regional Presidents of the three geographic regions of the Group and then allocated centrally managed costs to those regions, consequently for the three operating segments the Group measures Adjusted Operating Profit (note 4).

Operating segments for the year ended 30 April 2013:

	Note	North America \$'000	International \$'000	Asia Pacific and Japan \$'000	Total \$'000
<b>Segment revenue</b>		<b>191,818</b>	<b>157,816</b>	<b>64,355</b>	<b>413,989</b>
Directly managed costs		(34,731)	(48,786)	(16,368)	(99,885)
Allocation of centrally managed costs		(64,088)	(49,660)	(16,334)	(130,082)
<b>Total segment costs</b>		<b>(98,819)</b>	<b>(98,446)</b>	<b>(32,702)</b>	<b>(229,967)</b>
<b>Adjusted operating profit</b>	4	<b>92,999</b>	<b>59,370</b>	<b>31,653</b>	<b>184,022</b>
Exceptional items	3				–
Share-based compensation charges	29				(6,639)
Amortization of purchased intangibles	10				(16,123)
<b>Operating profit</b>	4				<b>161,260</b>
<b>Total assets</b>					<b>568,179</b>
<b>Total liabilities</b>					<b>508,422</b>

Operating segments for the year ended 30 April 2012:

	Note	North America \$'000	International \$'000	Asia Pacific and Japan \$'000	Total \$'000
<b>Segment revenue</b>		200,291	169,379	65,168	434,838
Directly managed costs		(37,430)	(60,137)	(15,879)	(113,446)
Allocation of centrally managed costs		(70,651)	(58,679)	(16,955)	(146,285)
<b>Total segment costs</b>		<b>(108,081)</b>	<b>(118,816)</b>	<b>(32,834)</b>	<b>(259,731)</b>
<b>Adjusted operating profit</b>	4	<b>92,210</b>	<b>50,563</b>	<b>32,334</b>	<b>175,107</b>
Exceptional items	3				2,442
Share-based compensation charges	29				(6,056)
Amortization of purchased intangibles	10				(15,702)
<b>Operating profit</b>	4				<b>155,791</b>
<b>Total assets</b>					<b>556,961</b>
<b>Total liabilities</b>					<b>439,415</b>

## 2 Supplementary information

Set out below is an analysis of revenue recognized between the principal product categories for the year ended 30 April 2013:

	CD \$'000	MS \$'000	Borland (Test) \$'000	CORBA \$'000	Niche \$'000	Total \$'000
Licence	112,200	26,690	16,064	10,990	2,605	168,549
Maintenance	120,866	40,067	41,087	14,376	13,295	229,691
Consulting	1,393	8,202	2,920	310	2,924	15,749
<b>Total</b>	<b>234,459</b>	<b>74,959</b>	<b>60,071</b>	<b>25,676</b>	<b>18,824</b>	<b>413,989</b>

Set out below is an analysis of revenue recognized between the principal product categories for the year ended 30 April 2012:

	CD \$'000	MS \$'000	Borland (Test) \$'000	CORBA \$'000	Niche \$'000	Total \$'000
Licence	108,437	25,047	20,069	13,769	9,250	176,572
Maintenance	115,149	42,173	42,594	12,029	18,958	230,903
Consulting	2,787	10,803	5,064	342	8,367	27,363
<b>Total</b>	<b>226,373</b>	<b>78,023</b>	<b>67,727</b>	<b>26,140</b>	<b>36,575</b>	<b>434,838</b>

We now have focus on five Product Portfolios; COBOL Development (CD), Mainframe Solution (MS), Borland (Test), CORBA and Niche. Visibroker (previously included in Niche (2012: \$26.1m)), our own CORBA based product, has been combined with Iona to form a new CORBA Product Portfolio. We have also transferred some of the products acquired from Compuware in 2009 (2012: \$12.6m) that were previously included within Borland (Test) to Niche as their characteristics are now closer to this Product Portfolio. We exited during the year the Java related Consultancy business in Brazil (2012: \$5.6m) and these revenues are now included in Niche. We have also transferred TM ART (2012: \$0.3m) from Niche to Borland (Test). As a result of the above the comparatives for Borland (Test), Niche and CORBA have been restated.

## 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	2013 \$'000	2012 \$'000
Staff costs	29	170,816	166,682
Depreciation of property, plant and equipment – owned assets	11	3,483	3,810
Amortization of intangibles	10	35,122	32,840
Inventories – cost of inventories recognized as an expense (included in cost of sales)	12	403	260
Operating lease rentals payable – plant and machinery – other		1,386	1,603
		7,358	7,585
Provision for receivables impairment	13	(860)	959
Foreign exchange gains		(543)	(3,572)

### Exceptional items

	2013 \$'000	2012 \$'000
Restructuring costs and property rationalization	–	(2,442)

In the year ended 30 April 2012, a credit of \$2.4m for restructuring arose following releases of provisions related to the restructuring programme undertaken at the end of the year ended 30 April 2011 which was no longer required. The release resulted mainly from lower settlements paid to staff made redundant by the restructuring, from our ability to avoid repaying a grant and settlement of property lease liabilities at lower levels than originally expected.

Severance costs included within reorganization costs in 2012 are not included within staff costs disclosed in note 29.

# Notes to the consolidated financial statements

for the year ended 30 April 2013

continued

## 3 Profit before tax continued

### 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:

	2013 \$'000	2012 \$'000
Audit of Company	130	113
Audit of subsidiaries	695	634
<b>Total audit</b>	<b>825</b>	747
Audit related assurance services	47	48
Tax compliance services	10	74
Tax advisory services	11	9
<b>Services relating to taxation</b>	<b>21</b>	83
<b>Other non-audit services</b>	<b>146</b>	330
<b>Total</b>	<b>1,039</b>	1,208

The Group's auditors, PricewaterhouseCoopers LLP, 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 reviews 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 corporate advice on the Return of Value.

## 4 Reconciliation of operating profit to EBITDA

	Notes	2013 \$'000	2012 \$'000
<b>Operating profit</b>		<b>161,260</b>	155,791
Exceptional items – restructuring costs and property rationalization	3	–	(2,442)
Share based compensation charges	29	6,639	6,056
Amortization of purchased intangibles	10	16,123	15,702
<b>Adjusted operating profit</b>		<b>184,022</b>	175,107
Depreciation	11	3,483	3,810
Amortization of software	10	643	921
<b>Adjusted EBITDA</b>		<b>188,148</b>	179,838
<b>Operating profit</b>		<b>161,260</b>	155,791
Amortization of intangible assets	10	35,122	32,840
Depreciation of property, plant and equipment	11	3,483	3,810
<b>EBITDA</b>		<b>199,865</b>	192,441
Amortization of development costs	10	(18,356)	(16,217)
Exceptional items – restructuring costs and property rationalization	3	–	(2,442)
Share based compensation charge	29	6,639	6,056
<b>Adjusted EBITDA</b>		<b>188,148</b>	179,838
Foreign exchange credit		(543)	(3,572)
Net capitalization of development costs		(1,662)	(3,241)
<b>Underlying Adjusted EBITDA</b>		<b>185,943</b>	173,025

The directors use EBITDA and EBITDA before exceptional items, share based compensation charge and amortization of purchased intangibles ('Adjusted EBITDA') as key performance measures of the business.

Under the terms of the Group's Revolving Credit Facility ('RCF'), the Net debt to RCF EBITDA covenant is limited to two times in the period to 30 April 2013 and 1.5 times thereafter. RCF EBITDA is defined as Adjusted EBITDA before Amortization of Development Costs and for the year ended 30 April 2013 RCF EBITDA amounted to \$206.5m (2012: \$196.1m).

**5 Finance income and finance costs**

	2013 \$'000	2012 \$'000
<b>Finance costs</b>		
Finance costs on bank borrowings	3,926	2,208
Commitment fees	650	1,599
Amortization of facility costs	2,558	2,694
Other	1,173	335
<b>Total</b>	<b>8,307</b>	6,836

**Finance income**

Finance income consists of interest receivable \$413,000 (2012: \$295,000) which relates to bank deposits and tax repayments.

**6 Taxation**

	2013 \$'000	2012 \$'000
<b>Current tax</b>		
Current year	34,020	32,123
Adjustments to tax in respect of previous years	(2,643)	(6,557)
	<b>31,377</b>	25,566
<b>Deferred tax</b>		
Current year	2,596	7,039
Adjustments to tax in respect of previous years	(3,331)	(3,069)
Impact of change in the UK tax rate	(440)	(906)
	<b>(1,175)</b>	3,064
<b>Total</b>	<b>30,202</b>	28,630

A deferred tax credit of \$0.2m (2012: \$0.03m credit) and a corporation tax credit of \$0.7m (2012: \$0.2m charge) have been recognized in equity in the year in relation to share options.

The tax for the year is lower (2012: lower) than the standard rate of corporation tax in the UK 23.9% (2012: 25.8%). The differences are explained below:

	2013 \$'000	2012 \$'000
Profit before taxation	153,366	149,250
Tax at UK corporation tax rate 23.9% (2012: 25.8%) applicable to profits in the respective countries	36,654	38,507
Effects of:		
Adjustments to tax in respect of previous years – current tax	(2,643)	(6,557)
Adjustments to tax in respect of previous years – deferred tax	(3,331)	(3,069)
Adjustment for foreign tax rates	2,236	3,165
Expenses not deductible for tax purposes	4,749	4,132
Tax loss utilization	(267)	(294)
Effect of change in tax rates	(440)	(906)
Research and development tax benefit	(1,344)	(935)
Other permanent differences	(5,412)	(5,413)
<b>Total taxation</b>	<b>30,202</b>	28,630

The movement in deferred tax assets and liabilities during the period is provided in note 22.

The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013: as this reduction was substantively enacted by the balance sheet date it is reflected in the annual report and accounts for the year ended 30 April 2013. Accordingly the Company's profits for this accounting period are taxed at an effective rate of 23.9% and will be taxed at 23% in the future.

# Notes to the consolidated financial statements

for the year ended 30 April 2013

continued

## 6 Taxation continued

In addition to the changes in rates of corporation tax disclosed above, the Government intends to enact a number of further changes to the UK corporation tax system to reduce the main rate of corporation tax to 20% by 1 April 2015. As this rate reduction has not been substantively enacted at the balance sheet date, the rate reduction is not yet reflected in the financial statements in accordance with IAS10, as it is a non-adjusting event occurring after the reporting period. It is estimated that the future rate change to 20% would further reduce the recognized UK deferred tax liability at 30 April 2013 by \$1.2m. The actual impact will be dependent on the Company's deferred tax position at the time.

## 7 Dividends

### Equity – ordinary

	2013 \$'000	2012 \$'000
2012 final paid 23.4 cents (2011: 16.2 cents) per ordinary share	39,665	30,920
2013 interim paid 11.9 cents (2012: 8.2 cents) per ordinary share	17,495	15,342
<b>Total</b>	<b>57,160</b>	46,262

The directors are proposing a final dividend in respect of the year ended 30 April 2013 of 28.1 cents per share which will utilize approximately \$42.0m 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.

	2013				2012			
	Earnings \$'000	Weighted average number of shares '000	Per share amount cents	Per share amount pence	Earnings \$'000	Weighted average number of shares '000	Per share amount cents	Per share amount pence
<b>Basic EPS</b> Earnings attributable to owners of the parent	123,164	156,456	78.72	50.00	120,620	183,391	65.77	41.29
<b>Effect of dilutive securities</b> Options		5,408				4,758		
<b>Diluted EPS</b> Earnings attributable to owners of the parent	123,164	161,864	76.09	48.33	120,620	188,149	64.11	40.25
Supplementary EPS to exclude exceptional items								
<b>Basic EPS</b> Adjusted items <sup>1</sup> Tax relating to adjusted items	123,164 22,762 (7,163)	156,456	78.72	50.00	120,620 19,316 (5,936)	183,391	65.77	41.29
<b>Basic EPS – adjusted</b>	138,763	156,456	88.69	56.33	134,000	183,391	73.07	45.87
<b>Diluted EPS</b> Adjusted items <sup>1</sup> Tax relating to adjusted items	123,164 22,762 (7,163)	161,864	76.09	48.33	120,620 19,316 (5,936)	188,149	64.11	40.25
<b>Diluted EPS – adjusted</b>	138,763	161,864	85.73	54.45	134,000	188,149	71.22	44.71

<sup>1</sup> Adjusted items comprise amortization of purchased intangibles \$16,123,000 (2012: \$15,702,000), share based compensation \$6,639,000 (2012: \$6,056,000) and exceptional costs \$nil (2012: \$2,442,000 credit). 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 \$1.57 to £1 (2012: \$1.59 to £1).

## 9 Goodwill

	Note	2013 \$'000	2012 \$'000
Cost and net book amount			
At 1 May		<b>274,340</b>	274,355
Acquisitions	34	<b>10,321</b>	–
Revaluation		–	(15)
<b>At 30 April</b>		<b>284,661</b>	274,340
A segment-level summary of the goodwill allocation is presented below:			
North America		<b>215,056</b>	215,056
International		<b>66,166</b>	55,860
Asia Pacific and Japan		<b>3,439</b>	3,439
Revaluation		–	(15)
<b>At 30 April</b>		<b>284,661</b>	274,340

The additions to goodwill in the year relate to the acquisition of the Iona business (note 34).

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).

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 CGUs are determined based on the value in use ('VIU') calculations. The determination of whether or not goodwill 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. In all cases the approved budget for the following financial year forms the basis for the cash flow projections for a CGU. The cash flow projections in the three financial years following the budget year reflect management's expectation of the medium and long-term operating performance of the CGU and growth prospects in the CGU's market.

### 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 balance sheet date and risks specific to the CGU. The discount rate applied to each CGU's operations was:

	2013	2012
North America	<b>16.4%</b>	17.0%
International	<b>13.3%</b>	13.9%
Asia Pacific and Japan	<b>14.9%</b>	15.5%

### 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 margins applied to each CGU is 42.5% (2012: 40.0%).

# Notes to the consolidated financial statements

for the year ended 30 April 2013

continued

## 9 Goodwill continued

### 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% (2012: 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 (2012: 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% (2012: 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% (2012: 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 bases its estimate for the long-term pre tax discount rate on its weighted average cost of capital (WACC) using long-term market data and industry data to derive the appropriate inputs to the calculation. The Directors have assessed that a 2.0% (2012: 2.0%) change in the absolute discount rate is the maximum change that could be considered as reasonably possible and this would represent a 12.0% (2012: 12.0%) reduction in the assumption. If the estimated pre-tax discount rates applied to the discounted cash flows of all CGUs were 2.0% (2012: 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 a 1.0% (2012: 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% 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 CGU 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 margins applied to each CGU is 42.5% (2012: 40.0%). The medium-term growth rates of net operating cash flows are assumed to be 4.0% for each CGU (2012: 4.0%).



## 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 2012	8,944	96,195	65,876	1,175	55,473	1,303	228,966
Additions	309	20,018	3,426	–	7,759	–	31,512
Disposals	(1,225)	–	–	–	–	–	(1,225)
Exchange adjustments	(442)	–	–	–	–	–	(442)
<b>At 30 April 2013</b>	<b>7,586</b>	<b>116,213</b>	<b>69,302</b>	<b>1,175</b>	<b>63,232</b>	<b>1,303</b>	<b>258,811</b>
<b>Accumulated amortization</b>							
At 1 May 2012	7,300	66,353	29,928	1,175	25,516	883	131,155
Charge for the year	643	18,356	8,561	–	7,257	305	35,122
Disposals	(1,192)	–	–	–	–	–	(1,192)
Exchange adjustments	82	–	–	–	–	–	82
<b>At 30 April 2013</b>	<b>6,833</b>	<b>84,709</b>	<b>38,489</b>	<b>1,175</b>	<b>32,773</b>	<b>1,188</b>	<b>165,167</b>
<b>Net book amount at 30 April 2013</b>	<b>753</b>	<b>31,504</b>	<b>30,813</b>	<b>–</b>	<b>30,459</b>	<b>115</b>	<b>93,644</b>
Net book amount at 1 May 2012	1,644	29,842	35,948	–	29,957	420	97,811

	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 2011	8,552	76,737	65,876	1,175	55,473	1,303	209,116
Additions	1,488	19,458	–	–	–	–	20,946
Disposals	(871)	–	–	–	–	–	(871)
Exchange adjustments	(225)	–	–	–	–	–	(225)
<b>At 30 April 2012</b>	<b>8,944</b>	<b>96,195</b>	<b>65,876</b>	<b>1,175</b>	<b>55,473</b>	<b>1,303</b>	<b>228,966</b>
<b>Accumulated amortization</b>							
At 1 May 2011	7,337	50,136	21,506	1,175	18,573	546	99,273
Charge for the year	921	16,217	8,422	–	6,943	337	32,840
Disposals	(763)	–	–	–	–	–	(763)
Exchange adjustments	(195)	–	–	–	–	–	(195)
<b>At 30 April 2012</b>	<b>7,300</b>	<b>66,353</b>	<b>29,928</b>	<b>1,175</b>	<b>25,516</b>	<b>883</b>	<b>131,155</b>
<b>Net book amount at 30 April 2012</b>	<b>1,644</b>	<b>29,842</b>	<b>35,948</b>	<b>–</b>	<b>29,957</b>	<b>420</b>	<b>97,811</b>
Net book amount at 1 May 2011	1,215	26,601	44,370	–	36,900	757	109,843

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 accounting policy IH(d).

The additions to Technology and Customer Relationships in the year relate to the acquisition of the Iona business (note 34).

At 30 April 2013, the unamortized lives of technology assets were in the range of three to seven years and for customer relationships in the range of two to eight years.

Amortization of \$7.6m (2012: \$7.3m) is included in selling and distribution costs, \$26.9m (2012: \$24.6m) is included in research and development expense and \$0.6m (2012: \$0.9m) is included in administrative expenses in the consolidated statement of comprehensive income.

# Notes to the consolidated financial statements

for the year ended 30 April 2013

continued

## 11 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 2012	14,832	6,648	7,526	1,705	30,711
Additions	–	409	2,749	154	3,312
Disposals	–	(79)	(609)	(596)	(1,284)
Reclassifications	–	(269)	90	179	–
Exchange adjustments	(687)	(209)	(276)	(127)	(1,299)
<b>At 30 April 2013</b>	<b>14,145</b>	<b>6,500</b>	<b>9,480</b>	<b>1,315</b>	<b>31,440</b>
<b>Accumulated depreciation</b>					
At 1 May 2012	231	4,147	3,616	415	8,409
Charge for the year	271	866	1,877	469	3,483
Disposals	–	(51)	(318)	(545)	(914)
Reclassifications	–	(26)	99	(73)	–
Exchange adjustments	(15)	(326)	(245)	(109)	(695)
<b>At 30 April 2013</b>	<b>487</b>	<b>4,610</b>	<b>5,029</b>	<b>157</b>	<b>10,283</b>
<b>Net book amount at 30 April 2013</b>	<b>13,658</b>	<b>1,890</b>	<b>4,451</b>	<b>1,158</b>	<b>21,157</b>
Net book amount at 1 May 2012	14,601	2,501	3,910	1,290	22,302

	Land and buildings \$'000	Leasehold improvements \$'000	Computer equipment \$'000	Fixtures and fittings \$'000	Total \$'000
<b>Cost</b>					
At 1 May 2011	–	6,675	10,310	3,508	20,493
Additions	14,832	1,018	2,379	44	18,273
Disposals	–	(703)	(3,690)	(1,475)	(5,868)
Exchange adjustments	–	(342)	(1,473)	(372)	(2,187)
<b>At 30 April 2012</b>	<b>14,832</b>	<b>6,648</b>	<b>7,526</b>	<b>1,705</b>	<b>30,711</b>
<b>Accumulated depreciation</b>					
At 1 May 2011	–	3,340	6,545	1,560	11,445
Charge for the year	231	1,116	1,920	543	3,810
Disposals	–	(127)	(3,669)	(1,428)	(5,224)
Exchange adjustments	–	(182)	(1,180)	(260)	(1,622)
<b>At 30 April 2012</b>	<b>231</b>	<b>4,147</b>	<b>3,616</b>	<b>415</b>	<b>8,409</b>
<b>Net book amount at 30 April 2012</b>	<b>14,601</b>	<b>2,501</b>	<b>3,910</b>	<b>1,290</b>	<b>22,302</b>
Net book amount at 1 May 2011	–	3,335	3,765	1,948	9,048

Depreciation of \$0.1m (2012: \$0.3m) is included within selling and distribution costs and \$3.4m (2012: \$3.5m) 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 made some reclassifications as a result between categories.

## 12 Inventories

	2013 \$'000	2012 \$'000
Work in progress	95	405
Finished goods	49	55
<b>Total</b>	<b>144</b>	<b>460</b>

The Group utilized \$0.4m (2012: \$0.3m) of inventories included in cost of sales during the year.

**13 Trade and other receivables**

	2013 \$'000	2012 \$'000
Trade receivables	<b>84,364</b>	84,035
Less: provision for impairment of trade receivables	<b>(2,137)</b>	(2,757)
Trade receivables net	<b>82,227</b>	81,278
Prepayments	<b>9,973</b>	10,481
Other receivables	<b>267</b>	64
Accrued income	<b>29</b>	33
<b>Total</b>	<b>92,496</b>	91,856

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. 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 2013 and 2012, the carrying amount approximates the fair value of the instrument due to the short-term nature of the instrument.

At 30 April 2013, trade receivables of \$11.0m (2012: \$12.9m) 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 28 days in excess of due date (2012: 33 days).

As at 30 April 2013, trade receivables of \$2.1m (2012: \$2.8m) were either partially or fully impaired. The amount of the provision was \$2.1m (2012: \$2.8m). The ageing of these receivables is as follows:

	2013 \$'000	2012 \$'000
Three to four months	<b>72</b>	152
Over four months	<b>2,065</b>	2,605
<b>Total</b>	<b>2,137</b>	2,757

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

	2013 \$'000	2012 \$'000
At 1 May	<b>2,757</b>	4,416
Provision for receivables impairment	<b>(860)</b>	959
Acquisition of the Iona business	<b>1,173</b>	–
Receivables written off as uncollectable	<b>(890)</b>	(2,501)
Exchange adjustments	<b>(43)</b>	(117)
<b>At 30 April</b>	<b>2,137</b>	2,757

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.

**14 Cash and cash equivalents**

	2013 \$'000	2012 \$'000
Cash at bank and in hand	<b>33,828</b>	30,015
Short-term bank deposits	<b>4,115</b>	395
<b>Total</b>	<b>37,943</b>	30,410

At 30 April 2013 and 2012, 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.

# Notes to the consolidated financial statements

for the year ended 30 April 2013

continued

## 15 Trade and other payables – current

	2013 \$'000	2012 \$'000
Trade payables	5,715	6,168
Tax and social security	8,449	8,391
Accruals	40,206	46,605
<b>Total</b>	<b>54,370</b>	61,164

At 30 April 2013 and 2012, the carrying amount approximates to the fair value.

## 16 Borrowings

	2013 \$'000	2012 \$'000
Bank loan – unsecured	216,000	146,000
Unamortized prepaid facility arrangement fees	(366)	(2,387)
	<b>215,634</b>	143,613

At 30 April 2013, the Group had an unsecured \$275m revolving credit facility in place, denominated in US dollars, which expires on 1 December 2014. Interest on the facility was payable at US Dollar LIBOR plus 2.1% from 2 December 2011 for a period of approximately six months. The rate then payable is dependent upon the Group's net debt to RCF EBITDA ratio on a periodic basis. The range payable is 1.75% to 2.35% over US Dollar LIBOR.

The facility can be used on an ongoing basis for the payment of distributions to shareholders, acquisitions and general corporate purposes.

Borrowings are stated after the deduction of unamortized prepaid facility costs. Facility arrangement costs are being amortized over the expected life of the facility. The amortization of facility arrangement costs was accelerated in the year, as the Group is anticipating refinancing the existing bank facility in the near future.

## 17 Current tax liabilities

	2013 \$'000	2012 \$'000
Corporation tax	42,423	35,438

## 18 Deferred income – current

	2013 \$'000	2012 \$'000
Deferred income	138,306	136,135

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 balance sheet to be recognized in future periods.

## 19 Deferred income – non-current

	2013 \$'000	2012 \$'000
Deferred income	9,646	12,611

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 balance sheet to be recognized in future periods in excess of one year.

## 20 Provisions

	2013 \$'000	2012 \$'000
Onerous leases and dilapidations	2,589	4,128
Restructuring	513	2,369
Other	7,899	4,018
<b>Total</b>	<b>11,001</b>	10,515
Current	8,992	3,721
Non-current	2,009	6,794
<b>Total</b>	<b>11,001</b>	10,515

	Onerous leases and dilapidations \$'000	Restructuring \$'000	Other \$'000	Total \$'000
At 1 May 2012	4,128	2,369	4,018	10,515
Additional provisions in the period	183	–	3,881	4,064
Utilisation of provisions	(1,152)	(1,332)	–	(2,484)
Released	(637)	(511)	–	(1,148)
Unwinding of discount	115	(4)	–	111
Exchange adjustments	(48)	(9)	–	(57)
<b>At 30 April 2013</b>	<b>2,589</b>	<b>513</b>	<b>7,899</b>	<b>11,001</b>

	Onerous leases and dilapidations \$'000	Restructuring \$'000	Other \$'000	Total \$'000
At 1 May 2011	5,708	19,164	–	24,872
Additional provisions in the period	1,068	715	4,418	6,201
Utilisation of provisions	(2,527)	(14,327)	(400)	(17,254)
Released	(235)	(2,442)	–	(2,677)
Unwinding of discount	151	–	–	151
Exchange adjustments	(37)	(741)	–	(778)
<b>At 30 April 2012</b>	<b>4,128</b>	<b>2,369</b>	<b>4,018</b>	<b>10,515</b>

The onerous lease and dilapidations provision relates to leased Group properties and this position is expected to be fully utilized within six years.

Restructuring provisions relates to the restructuring and property rationalization that was undertaken during the year ended 30 April 2011. Included within this is \$0.4m for property costs incurred as part of the restructuring and \$0.1m for other miscellaneous costs associated with the restructuring. The provisions are expected to be fully utilized within twelve months. Restructuring provisions as at 30 April 2012 included \$0.3m of legal costs associated with the restructuring, \$0.5m for redundancy and \$1.6m for property costs incurred as part of the restructuring.

Other provisions include \$0.1m (2012: \$0.1m) of costs relating to a rationalization of non-trading subsidiaries, \$3.8m (2012: \$nil) relating to potential liabilities acquired with the Iona acquisition and \$4.0m (2012: \$3.9m) relating to tax due for pension and bonus payments prior to July 2011 for our subsidiary in Brazil. The majority of the Brazil provision was paid in May 2013.

## 21 Financial instruments

### Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 30 April 2013 was:

	2013 \$'000	2012 \$'000
Trade and other receivables	82,227	81,278
Cash and cash equivalents	37,943	30,410
<b>Total</b>	<b>120,170</b>	111,688

# Notes to the consolidated financial statements

for the year ended 30 April 2013

continued

## 21 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.

### 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 balance sheet date. The analysis covers only financial assets and liabilities held at the balance sheet date.

	2013		2012	
	Consolidated statement of comprehensive income \$'000	Equity \$'000	Consolidated statement of comprehensive income \$'000	Equity \$'000
Euro/USD exchange rate +/- 5%	875	1,025	1,308	740
US LIBOR +/- 1%	2,160	–	1,460	–

### 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 Group's committed credit facilities contain two principal financial covenants. The Group has complied with these covenant requirements during the year ended 30 April 2013. Further details on the covenant requirements and Group performance against these can be found on page 4 of the Business Review.

The capital structure of the Group at the balance sheet date is as follows:

	2013 \$'000	2012 \$'000
Bank and other borrowings – current (see note 16)	215,634	143,613
Less cash and cash equivalents (see note 14)	(37,943)	(30,410)
Total net debt	177,691	113,203
Total equity	59,757	117,546
<b>Debt/equity %</b>	<b>297.4%</b>	96.3%

### Market risk

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

	Financial 2013 \$'000	Non financial 2013 \$'000	Total 2013 \$'000	Financial 2012 \$'000	Non financial 2012 \$'000	Total 2012 \$'000
<b>Financial assets – loans and receivables</b>						
<b>Current</b>						
Cash and cash equivalents (note 14)	37,943	–	37,943	30,410	–	30,410
Trade and other receivables (note 13)	82,227	10,269	92,496	81,278	10,578	91,856
<b>At 30 April</b>	<b>120,170</b>	<b>10,269</b>	<b>130,439</b>	111,688	10,578	122,266

## 21 Financial instruments continued

	Financial 2013 \$'000	Non financial 2013 \$'000	Total 2013 \$'000	Financial 2012 \$'000	Non financial 2012 \$'000	Total 2012 \$'000
<b>Financial liabilities – financial liabilities at amortized cost</b>						
<b>Non-current</b>						
Provisions (note 20)	825	1,184	2,009	2,381	1,340	3,721
<b>Current</b>						
Borrowings (note 16)	216,000	–	216,000	146,000	–	146,000
Trade and other payables (note 15)	5,715	48,655	54,370	6,168	54,996	61,164
Provisions (note 20)	1,764	7,228	8,992	1,747	5,047	6,794
<b>At 30 April</b>	<b>224,304</b>	<b>57,067</b>	<b>281,371</b>	156,296	61,383	217,679

## 22 Deferred tax

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

	2013 \$'000	2012 \$'000
<b>Group</b>		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	27,746	26,655
– Deferred tax asset to be recovered within 12 months	10,388	13,127
	<b>38,134</b>	39,782
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	(30,456)	(35,607)
– Deferred tax liability to be recovered within 12 months	(6,586)	(4,332)
	<b>(37,042)</b>	(39,939)
<b>Deferred tax asset/(liability) (net)</b>	<b>1,092</b>	(157)
	2013 \$'000	2012 \$'000
<b>Net deferred tax (liability)/asset</b>		
At 1 May	(157)	2,911
Charged to consolidated statement of comprehensive income	735	(3,970)
Credited/(charged) directly to equity	195	31
Foreign exchange adjustment	(121)	(35)
Effect of change in tax rates – charged to consolidated statement of comprehensive income	440	906
<b>At 30 April</b>	<b>1,092</b>	(157)

	Tax losses \$'000	Other temporary differences \$'000	Total \$'000
<b>Deferred tax assets</b>			
At 1 May 2011	33,790	11,999	45,789
Charged to consolidated statement of comprehensive income	(4,145)	(1,697)	(5,842)
Credited directly to equity	–	31	31
Foreign exchange adjustment	–	(35)	(35)
Effect of change in tax rates – charged to consolidated statement of comprehensive income	–	(161)	(161)
<b>At 30 April 2012</b>	<b>29,645</b>	<b>10,137</b>	<b>39,782</b>

# Notes to the consolidated financial statements

for the year ended 30 April 2013

continued

## 22 Deferred tax continued

	Tax losses \$'000	Other temporary differences \$'000	Total \$'000
<b>Deferred tax assets</b>			
<b>At 1 May 2012</b>			
Charged to consolidated statement of comprehensive income	29,645	10,137	39,782
Credited directly to equity	(1,553)	(40)	(1,593)
Foreign exchange adjustment	–	195	195
Effect of change in tax rates – charged to consolidated statement of comprehensive income	–	(121)	(121)
	–	(129)	(129)
<b>At 30 April 2013</b>	<b>28,092</b>	<b>10,042</b>	<b>38,134</b>

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 income tax assets of \$9.0m (2012: \$11.1m) in respect of losses amounting to \$25.6m (2012: \$31.3m) that can be carried forward against future taxable income. The losses not recognized expire in the years from 2024 to 2028.

The deferred tax asset relating to other temporary differences of \$10.0m (2012: \$10.1m) includes temporary differences arising on fixed assets, share options, deferred income and other items.

	Other temporary differences \$'000
<b>Deferred tax liabilities</b>	
<b>At 1 May 2011</b>	42,878
Charged to consolidated statement of comprehensive income	(1,872)
Effect of change in tax rates – charged to consolidated statement of comprehensive income	(1,067)
<b>At 30 April 2012</b>	<b>39,939</b>
<b>At 1 May 2012</b>	39,939
Charged to consolidated statement of comprehensive income	(2,328)
Effect of change in tax rates – charged to consolidated statement of comprehensive income	(569)
<b>At 30 April 2013</b>	<b>37,042</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 of \$37.0m includes \$25.2m (2012: \$27.0m) relating to temporary differences on acquired intangibles and \$7.0m (2012: \$8.1m) relating to temporary differences on capitalized research and development expenditure.

Following changes in UK tax legislation, deferred tax on UK assets and liabilities at 30 April 2013 is recognized at 23% (2012: 24%). The effect of the change in tax rates is disclosed separately.

## 23 Share capital

Ordinary shares at 12½p each (2012: 11¼/11p each)

	2013		2012	
	Shares	\$'000	Shares	\$'000
<b>Issued and fully paid</b>				
<b>At 1 May</b>	<b>181,552,160</b>	<b>37,787</b>	205,947,870	37,713
Shares issued to satisfy option awards	53,069	10	349,489	74
Treasury shares cancelled	(3)	–	(5)	–
Share reorganization	(16,509,566)	–	(24,745,194)	–
<b>At 30 April</b>	<b>165,095,660</b>	<b>37,797</b>	181,552,160	37,787



**23 Share capital continued****Shares issued during the year**

During the year, nil (2012: 262,085) ordinary shares of 10p each and 53,069 (2012: 87,404) ordinary shares of 11<sup>4</sup>/<sub>11</sub>p each were issued by the Company to settle exercised share options. The gross consideration received was \$0.7m (2012: \$1.3m). No ordinary 12<sup>1</sup>/<sub>2</sub>p shares were issued in the year.

**Potential issues of shares**

Certain employees hold options to subscribe for shares in the Company at prices ranging from nil pence to 582.7 pence under the share option schemes approved by shareholders in 2001, the long-term Incentive Plan 2005, Sharesave and ESPP.

The number of shares subject to options at 30 April 2013 was 5,854,881 (2012: 6,225,398). Further information on these options is disclosed in note 29.

**'B' shares at 50p each**

	2013		2012	
	Shares	\$'000	Shares	\$'000
<b>Issued and fully paid</b>				
At 1 May	–	–	–	–
Issue of 'B' shares	58,937,244	47,079	–	–
Redemption of 'B' shares	(58,937,244)	(47,079)	–	–
<b>At 30 April</b>	–	–	–	–

On 26 October 2012, 58,937,244 'B' shares were issued at 50p each, resulting in a total of \$47.1m being credited to the 'B' share capital account. On 12 November 2012, 58,937,244 'B' shares were redeemed at 50p each and an amount of \$47.1m was deducted from the 'B' share capital account.

**'B' shares at 45p each**

	2013		2012	
	Shares	\$'000	Shares	\$'000
<b>Issued and fully paid</b>				
At 1 May	–	–	–	–
Issue of 'B' shares	–	–	81,230,534	56,359
Redemption of 'B' shares	–	–	(81,230,534)	(56,359)
<b>At 30 April</b>	–	–	–	–

On 12 January 2012, 81,230,354 'B' shares were issued at 45p each, resulting in a total of \$56.4m being credited to the 'B' share capital account. On 17 January 2012, 81,230,354 'B' shares were redeemed at 45p each and an amount of \$56.4m was deducted from the 'B' share capital account.

**'C' shares at 0.0000001p each**

	2013		2012	
	Shares	\$'000	Shares	\$'000
<b>Issued and fully paid</b>				
At 1 May	–	–	–	–
Issue of 'C' shares	105,147,405	–	104,609,278	–
Cancellation of 'C' shares	(105,147,405)	–	(104,609,278)	–
<b>At 30 April</b>	–	–	–	–

On 26 October 2012, 105,147,405 'C' shares were issued at 0.0000001p each, resulting in a total of \$17 being credited to the 'C' share capital account. On 1 November 2012 a dividend of 50 pence per 'C' share was declared and was payable on 12 November 2012. 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, an amount of \$17 was deducted from the 'C' share capital account.

On 12 January 2012, 104,609,278 'C' shares were issued at 0.0000001p each, resulting in a total of \$16 being credited to the 'C' share capital account. On 18 January 2012, a dividend of 45 pence per 'C' share was declared and was payable on 24 January 2012. 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, an amount of \$16 was deducted from the 'C' share capital account.

# Notes to the consolidated financial statements

for the year ended 30 April 2013

continued

## 24 Share buyback

During the year ended 30 April 2013 the Company repurchased nil ordinary shares (2012: 12,298,791) under an authority obtained from shareholders at the AGM held in September 2012.

The Group obtained shareholder authority at the AGM held on 26 September 2012 to buy back up to 14.99% of its issued share capital, which will remain outstanding until the conclusion of the AGM on 26 September 2013. Following the Return of Value and associated share consolidation this authority related to a maximum of 22,320,270 ordinary shares of 12½ pence per share. The minimum price which was to be paid for such shares was the nominal value of the ordinary shares, 12½ pence per share, and the maximum price payable was the higher of (i) 105 per cent 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 buyback programmes and stabilization of financial instruments (2273/2003).

No shares have been bought back under the terms of this resolution. At 30 April 2013 a total of 15,705,645 treasury shares were held (2012: 17,805,145).

## 25 Return of Value to shareholders

During the year, the Group announced a Return of Value to shareholders of 50 pence per ordinary share amounting to \$128.8m in cash after including a foreign exchange contract gain of \$2.4m, by way of a B and C 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 2012. The Return of Value was accompanied by a 10 for 11 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.

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 (45 pence per share, equivalent to approximately 69.4 cents per share), by way of a B and C share scheme, which gave shareholders (other than certain overseas subsidiaries) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by a 22 for 25 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.

## 26 Share premium account

	2013 \$'000	2012 \$'000
At 1 May	61,311	115,789
Movement in relation to share options exercised (see note 29)	1,848	1,879
Sales of fractional shares	3	2
Issue of B shares (see note 25)	(47,079)	(56,359)
<b>At 30 April</b>	<b>16,083</b>	<b>61,311</b>

## 27 Other reserves

	Notes	Capital redemption <sup>2</sup> \$'000	Other reserves <sup>1</sup> (deficit) \$'000	Total \$'000
Balance as at 1 May 2012		56,904	(27,085)	29,819
Currency translation differences		–	–	–
Profit for the year		–	–	–
Total comprehensive income		56,904	(27,085)	29,819
Transactions with owners:				
Redemption of B shares	25	47,079	–	47,079
<b>Balance as at 30 April 2013</b>		<b>103,983</b>	<b>(27,085)</b>	<b>76,898</b>

1 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.

2 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 (see note 25). 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. A further \$47,079,000 was added to the capital redemption reserve following the redemption of the B shares.

## 28 Cash generated from operations

	Notes	2013 \$'000	2012 restated \$'000
Profit after tax		<b>123,164</b>	120,620
<b>Adjustments for:</b>			
Net interest	5	<b>7,894</b>	6,541
Taxation	6	<b>30,202</b>	28,630
Depreciation	11	<b>3,483</b>	3,810
Loss on disposal of property, plant and equipment		<b>370</b>	146
Amortization of intangibles	10	<b>35,122</b>	32,840
Share based compensation charges	29	<b>6,639</b>	6,056
Exchange movements		<b>50</b>	131
Provisions		<b>(780)</b>	2,897
<b>Changes in working capital:</b>			
Inventories		<b>316</b>	1,158
Trade and other receivables		<b>4,400</b>	13,697
Payables and other non-current liabilities		<b>(16,399)</b>	(19,867)
<b>Cash generated from operating activities</b>		<b>194,461</b>	196,659

The comparatives have been restated to report the foreign exchange gain on hedging contracts related to the Return of Value within financing activities.

## 29 Employees and directors

	2013 \$'000	2012 restated \$'000
<b>Staff costs</b>		
Wages and salaries	<b>144,451</b>	157,423
Social security costs	<b>14,445</b>	10,725
Other pension costs (note 30)	<b>5,281</b>	3,825
Cost of employee share schemes (note 29)	<b>6,639</b>	6,056
<b>Total</b>	<b>170,816</b>	178,029

The Group has reviewed the definitions within the staff costs analysis and restated the 2012 disclosures accordingly.

	2013 Number	2012 Number
<b>Average monthly number of people (including executive directors) employed by the Group:</b>		
Sales and distribution	<b>666</b>	658
Research and development	<b>316</b>	320
General and administration	<b>224</b>	213
<b>Total</b>	<b>1,206</b>	1,191

	2013 \$'000	2012 \$'000
<b>Key management compensation</b>		
Short-term employee benefits	<b>5,751</b>	5,663
Share based payments	<b>3,012</b>	2,773
<b>Total</b>	<b>8,763</b>	8,436

The key management figures above include the executive management team and directors. Directors remuneration is disclosed in the remuneration report on page 33.

# Notes to the consolidated financial statements

for the year ended 30 April 2013

continued

## 29 Employees and directors continued

### Share based payments

The Group has various equity-settled share based compensation plans details of which are provided below.

#### 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 is 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.

For certain options issued during the year ended 30 April 2011 to Kevin Loosemore, the performance condition provides for awards to vest by reference to the percentage increase in the Company's total shareholder return over the performance period. The level of vesting is the percentage increase and is not capped. No return will be delivered on these options unless there is an absolute return for shareholders.

	2013		2012	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
Outstanding at 1 May	5,365,663	176p	6,173,553	218p
Exercised	(793,230)	260p	(880,614)	228p
Forfeited	(652,086)	167p	(1,153,527)	243p
Granted	1,298,553	6p	1,226,251	64p
<b>Outstanding at 30 April</b>	<b>5,218,900</b>	<b>122p</b>	5,365,663	176p
<b>Exercisable at 30 April</b>	<b>806,700</b>	<b>269p</b>	927,917	233p

The weighted average share price for options exercised in the year was 629p (2012: 384p).

The amount charged to the consolidated statement of comprehensive income in respect of the scheme was \$4.6m (2012: \$4.5m). In addition to this \$1.6m (2012: \$1.1m) was charged to the consolidated statement of comprehensive income in respect of National Insurance on share options.

Range of exercise prices	2013			2012		
	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	4	2,590	8.3	5	2,375	9.0
£0.11 – £1.00	11	686	9.1	11	75	9.8
£1.01 – £2.00	116	39	2.2	155	109	5.1
£2.01 – £3.00	262	817	5.8	262	1,159	6.9
£3.01 – £4.00	341	634	7.0	350	1,107	8.0
More than £4.00	405	453	7.2	410	541	8.1
	<b>122</b>	<b>5,219</b>	<b>7.7</b>	176	5,366	8.2

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was £4.67 (2012: £2.59). The significant inputs into the model were weighted average share price of £5.47 (2012: £3.49) at the grant date, exercise price shown above, expected volatility of 47.9% (2012: 51.0%), expected dividend yield of 4.78% (2012: 5.1%), an expected option life of three years and an annual risk-free interest rate of 1.67% (2012: 3.12%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

#### 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

## 29 Employees and directors continued

('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 2012.

	2013		2012	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
<b>Sharesave</b>				
Outstanding at 1 May	659,286	277p	447,781	293p
Exercised	(131,554)	312p	(92,367)	219p
Forfeited	(203,671)	298p	(5,353)	312p
Granted	199,845	387p	309,225	234p
<b>Outstanding at 30 April</b>	<b>523,906</b>	<b>300p</b>	659,286	277p
<b>Exercisable at 30 April</b>	<b>5,292</b>	<b>377p</b>	13,176	223p

Options	Date of grant	Exercise price per share pence	Exercise period
5,292	11 March 2010	377.1p	1 April 2013 – 30 September 2013
8,469	1 September 2010	335.7p	1 October 2013 – 31 March 2014
45,003	1 October 2010	291.2p	1 October 2013 – 31 March 2014
1,628	17 February 2011	323.2p	1 April 2014 – 30 September 2014
14,056	17 February 2011	323.2p	1 April 2014 – 30 September 2014
36,276	1 June 2011	248.8p	1 June 2014 – 30 November 2014
162,480	1 September 2011	218.4p	1 October 2014 – 31 March 2015
88,103	19 September 2011	218.4p	1 October 2014 – 31 March 2015
23,190	14 February 2012	337.2p	1 April 2015 – 30 September 2015
11,127	14 February 2012	337.2p	1 April 2015 – 30 September 2015
8,395	1 October 2012	428.0p	1 October 2015 – 31 March 2016
48,675	1 October 2012	428.0p	1 October 2015 – 31 March 2016
19,630	1 April 2013	481.6p	1 April 2016 – 30 September 2016
51,582	1 April 2013	481.6p	1 April 2016 – 30 September 2016
523,906			

	2013		2012	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
<b>ESPP</b>				
At 1 May	200,449	328p	376,026	300p
Exercised	(37,443)	295p	(34,155)	365p
Forfeited	(109,296)	344p	(204,953)	270p
Granted	58,365	524p	63,531	327p
<b>Outstanding at 30 April</b>	<b>112,075</b>	<b>426p</b>	200,449	328p
<b>Exercisable at 30 April</b>	<b>33,926</b>	<b>274p</b>	1,903	321p

Options	Date of grant	Exercise price per share pence	Exercise period
33,926	1 October 2011	273.7p	1 October 2013 – 31 March 2014
27,947	23 March 2012	401.5p	1 October 2014 – 31 March 2015
24,825	1 October 2012	500.2p	1 October 2014 – 31 December 2014
25,377	1 April 2013	582.7p	1 April 2015 – 30 June 2015
112,075			

The amount charged to the consolidated statement of comprehensive income in respect of the Sharesave and ESPP schemes was \$0.2m (2012: \$0.4m).

# Notes to the consolidated financial statements

for the year ended 30 April 2013

continued

## 29 Employees and directors continued

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 £1.79 (2012: £0.97). The significant inputs into the model were weighted average share price of £5.51 (2012: £3.20) at the grant date, exercise price shown above, expected volatility of 47.9% (2012: 51.0%), expected dividend yield of 4.78% (2012: 5.1%), an expected option life of two or three years and an annual risk-free interest rate of 1.67% (2012: 3.12%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

## 30 Pension commitments

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, the UK and Germany. These are 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:

	2013 \$'000	2012 \$'000
Defined contribution schemes	5,281	3,825

## 31 Operating lease commitments – minimum lease payments

At 30 April 2013 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:

	2013 \$'000	2012 \$'000
Commitments under non-cancellable operating leases expiring:		
No later than one year	3,754	4,241
Later than one year and no later than five years	16,343	17,822
Later than five years	6,993	9,401
<b>Total</b>	<b>27,090</b>	<b>31,464</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.

## 32 Contingent liabilities

The Group had contingent liabilities of \$96,242 at 30 April 2013 (2012: \$156,337).

## 33 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 29.

**34 Business combinations**

On 15 February 2013, the Group acquired from Progress Software Corporation, the CORBA related assets and liabilities of its Iona division for \$15.6m, inclusive of \$0.6m of acquisition related costs. The division had three product lines: Orbix, Orbacus and Artix. The acquisition costs of \$0.6m have been expensed through the Income Statement. The consideration of \$15.0m was paid in full on completion.

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	Fair value \$'000
Intangible assets	–	11,185
Tangible assets	3	–
Trade and other receivables	3,782	2,852
Provisions	(3,750)	(3,750)
Deferred income	(5,904)	(5,608)
Net (liabilities)/assets	(5,869)	4,679
Goodwill (note 9)		10,321
Consideration		15,000
Consideration satisfied by:		
Cash		15,000

The intangible assets acquired as part of the acquisition can be analyzed as follows:

	Fair value \$'000
Developed Technology (note 10)	3,426
Customer Relationships (note 10)	7,759
	11,185

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. This acquisition strengthens the Group's capabilities in the CORBA software marketplace and complements existing products well.

The Group has used acquisition accounting for the purchase and the goodwill arising on consolidation of \$10.3m has been capitalized. There are no contingent consideration payments and any retention bonuses have been expensed through the Income Statement.

The estimated results of the above acquisition if it had been made at the beginning of the accounting period to 30 April 2013, would have been as follows:

	\$m
Continuing revenue	26.2
Continuing adjusted EBITDA	8.0

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

From the date of acquisition to 30 April 2013, the acquisition contributed \$3.4m to revenue and \$0.9m to Adjusted EBITDA.

**35 Principal subsidiaries**

Details of principal subsidiaries are provided in note V of the Micro Focus International plc company financial statements.

# Independent auditors' report to the members of Micro Focus International plc

We have audited the parent company financial statements of Micro Focus International plc for the year ended 30 April 2013 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 36, the directors are responsible for the preparation of the parent company 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 parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and 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.

## Scope of the audit of the financial statements

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 parent 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 April 2013;
- 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.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Other matter

We have reported separately on the Group financial statements of Micro Focus International plc for the year ended 30 April 2013.



**Andrew Paynter** (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Reading  
18 June 2013



# Company balance sheet

as at 30 April 2013

	Note	2013 \$'000	2012 \$'000
<b>Fixed assets</b>			
Investments	V	6,337	2,966
		<b>6,337</b>	2,966
<b>Current assets</b>			
Deferred tax assets		1,221	800
Debtors	VI	552,989	740,291
Cash at bank and in hand		392	4,952
		<b>554,602</b>	746,043
Creditors: amounts falling due within one year	VII	10,449	10,117
Net current assets		<b>544,153</b>	735,926
<b>Assets less current liabilities</b>		<b>550,490</b>	738,892
<b>Capital and reserves</b>			
Called up share capital	VIII	37,797	37,787
Share premium account	X	13,523	58,751
Profit and loss account	XI	395,187	585,450
Other reserves	XI	103,983	56,904
<b>Total shareholders' funds</b>		<b>550,490</b>	738,892

The Company financial statements on pages 71 to 77 were approved by the board of directors on 18 June 2013 and were signed on its behalf by:



**Kevin Loosemore**  
Executive Chairman



**Mike Phillips**  
Chief Financial Officer

# Notes to the Company financial statements

for the year ended 30 April 2013

---

## **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.

### **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 paid.

### **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.

**I Summary of significant accounting policies** continued

The shares are recognized when the options are exercised and the proceeds received allocated between called up share capital and share premium account.

**G 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 & Measurement'.

**II Profit and recognized gains and losses of 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 \$9.1m (2012: profit of \$323.7m).

**III Employees and directors**

Staff costs for the Company during the year

	2013 \$'000	2012 \$'000
Wages and salaries	3,788	3,250
Social security costs	578	(73)
Other pension costs	40	–
Cost of employee share schemes	3,366	2,102
<b>Total</b>	<b>7,772</b>	5,279

The average monthly number of employees of the Company, including remunerated directors, during the year was six (2012: seven). For further information on the directors of the Company please refer to the remuneration report on pages 28 to 34.

**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.

**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 is 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 28 to 34.

For certain options issued during the year ended 30 April 2011 to Kevin Loosemore, the performance condition provides for awards to vest by reference to the percentage increase in the Company's total shareholder return over the performance period. The level of vesting is the percentage increase and is not capped. No return will be delivered on these options unless there is an absolute return for shareholders.

# Notes to the Company financial statements

for the year ended 30 April 2013

continued

## III Employees and directors continued

	2013		2012	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
At 1 May	1,521,727	115p	1,574,161	120p
Exercised	–	–	(52,434)	245p
Forfeited	(213,333)	117p	–	–
Granted	337,452	–	–	–
<b>Outstanding at 30 April</b>	<b>1,645,846</b>	<b>91p</b>	1,521,727	115p
<b>Exercisable at 30 April</b>	–	–	–	–

There were no share options exercised in the year. In 2012 the weighted average share price for options exercised in the year was 334p.

The amount charged to the profit and loss account in respect of the scheme was \$2.0m (2012: \$1.7m). In addition to this \$1.3m (2012: \$0.4m) was charged to the profit and loss account in respect of National Insurance on these options.

	2013			2012		
	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	–	1,141	8.3	–	927	9.2
£2.01 – £3.00	277p	235	7.3	277p	325	8.3
£3.01 – £4.00	317p	270	7.4	317p	270	8.4
	<b>91p</b>	<b>1,646</b>	<b>8.0</b>	115p	1,522	8.7

337,452 (2012: nil) 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 £4.60. The significant inputs into the model were weighted average share price of £5.31 at the grant date, exercise price shown above, volatility of 47.9%, dividend yield of 4.7%, an expected option life of three years and an annual risk-free interest rate of 1.67%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

## IV Dividends

A final dividend in respect of the year ended 30 April 2012 of 23.4 cents per share was proposed and paid during the year (\$39.7m in total). In addition, an interim dividend in respect of the year ended 30 April 2013 of 11.9 cents per share (2012: 8.2 cents per share) was proposed and paid \$17.5m in total. The directors are proposing a final dividend in respect of the year ended 30 April 2013 of 28.1 cents per share, which would reduce shareholders' funds by approximately \$41.7m. 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 2012	2,966
Additions	3,371
<b>At 30 April 2013</b>	<b>6,337</b>

The additions of \$3.4m (2012: \$4.0m) relate to capital contributions arising from share based payments as set out in note III.

At 30 April 2013, the Company held directly or indirectly 100% of the ordinary share capital of the following subsidiary undertakings which in the opinion of the directors principally affect the amount of profit or the amount of the assets of the Group.

Only Micro Focus Group Limited is directly owned by the Company with all other subsidiaries being indirectly owned.

**V Fixed asset investments** continued

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	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	Sale and 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, sale and support of software
Micro Focus KK	Japan	Sale and support of software
Micro Focus Limited	UK	Development, sale and support of software
Micro Focus NV	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 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	Holding company, development, sale and support of software
Micro Focus (US) Group Inc	USA	Holding company
Micro Focus (US) Holdings	UK	Holding company
Borland BV	Netherlands	Sale and support of software
Borland Co. Limited	Japan	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 Software Corporation	USA	Development, sale and support of software
Borland Srl	Italy	Sale and support of software
Borland (UK) Limited	UK	Sale and support of software

These companies operate principally in the country in which they are incorporated.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

**VI Debtors**

	2013 \$'000	2012 \$'000
Amounts owed by Group undertakings	552,871	740,243
Other debtors	14	3
Prepayments	104	45
<b>Total</b>	<b>552,989</b>	<b>740,291</b>

The amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

# Notes to the Company financial statements

for the year ended 30 April 2013

continued

## VII Creditors: amounts falling due within one year

	2013 \$'000	2012 \$'000
Trade creditors	–	391
Taxation and social security	108	95
Amounts owed to Group undertakings	7,143	6,200
Accruals	3,198	3,431
<b>Total</b>	<b>10,449</b>	10,117

The amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

## VIII Called up share capital

	Number	2013 \$	Number	2012 \$
<b>Allotted and fully paid</b>				
Ordinary shares of 11 <sup>4</sup> / <sub>11</sub> pence each	–	–	181,552,160	37,787,382
Ordinary shares of 12 <sup>1</sup> / <sub>2</sub> pence each	165,095,660	37,796,366	–	–

Further information on share capital is provided in notes 23 and 24 of the Group accounts.

During the year nil (2012: 262,085) ordinary shares of 10p each and 53,069 (2012: 87,404) ordinary shares of 11<sup>4</sup>/<sub>11</sub>p each were issued by the Company to settle exercised share options. The gross consideration received was \$0.7m (2012: \$1.3m). No ordinary 12<sup>1</sup>/<sub>2</sub>p each shares were issued in the year.

## IX Share buyback

During the year ended 30 April 2012 the Company repurchased 12,298,791 10p ordinary shares (2011: 8,223,092) under an authority obtained from shareholders at the AGM held in September 2010. Distributable reserves were reduced by \$62.5m in the year ended 30 April 2012 (2011: \$42.0m) being the consideration paid for these shares.

The Group obtained shareholder authority at the AGM held on 22 September 2012 to buy back up to 14.99% of its issued share capital, which remained outstanding until the conclusion of the AGM on 26 September 2013. Following the Return of Value and associated share consolidation this authority related to a maximum of 22,320,270 ordinary shares of 12<sup>1</sup>/<sub>2</sub>p per share. The minimum price which was to be paid for such shares was the nominal value of the ordinary shares, 12<sup>1</sup>/<sub>2</sub>p per share, and the maximum price payable was 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 buyback programmes and stabilization of financial instruments (2273/2003).

No shares have been bought back under the terms of this resolution.

At 30 April 2013 a total of 15,705,645 treasury shares were held (2012: 17,805,145).

## X Share premium account

	2013 \$'000	2012 \$'000
At 1 May	58,751	113,229
Movement in relation to shares issued	2,793	1,879
Issue of B shares	(47,079)	(56,359)
Sale of fractional shares	3	2
Movement in share options	(945)	–
<b>At 30 April</b>	<b>13,523</b>	58,751

**XI Reserves and reconciliation of movements in shareholders' funds**

	Called up share capital \$'000	Share premium account \$'000	Profit and loss account \$'000	Other reserves <sup>1</sup> \$'000	Total \$'000
<b>Balance as at 1 May 2011</b>	<b>37,713</b>	<b>113,229</b>	<b>144,045</b>	<b>–</b>	<b>294,987</b>
Profit for the year	–	–	323,744	–	323,744
Unrealized profit on disposal of investment	–	–	352,820	–	352,820
Dividends (see note IV)	–	–	(46,262)	–	(46,262)
Issue of share capital	74	1,879	(700)	–	1,253
Repurchase of shares	–	–	(62,498)	–	(62,498)
Return of Value to shareholders (see note XIV)	–	–	(129,604)	–	(129,604)
Issue and redemption of B shares	–	(56,359)	–	56,359	–
Sale of fractional shares	–	2	–	–	2
Expenses and foreign exchange relating to Return of Value	–	–	(1,026)	545	(481)
Movement in relation to share options	–	–	–	–	–
– Value of subsidiary employee services (see note V)	–	–	3,263	–	3,263
– Value of services provided (see note III)	–	–	1,668	–	1,668
Total changes in shareholders' funds	74	(54,478)	441,405	56,904	443,905
<b>Balance as at 30 April 2012</b>	<b>37,787</b>	<b>58,751</b>	<b>585,450</b>	<b>56,904</b>	<b>738,892</b>
Loss for the year	–	–	(9,132)	–	(9,132)
Dividends (see note IV)	–	–	(57,160)	–	(57,160)
Issue of share capital	10	2,793	(2,073)	–	730
Return of Value to shareholders (see Note XIV)	–	–	(131,171)	–	(131,171)
Issue and redemption of B shares	–	(47,079)	–	47,079	–
Sale of fractional shares	–	3	–	–	3
Expenses and foreign exchange relating to Return of Value	–	–	1,902	–	1,902
Movement in relation to share options	–	–	–	–	–
– Value of subsidiary employee services (see note V)	–	–	3,891	–	3,891
– Value of services provided (see note III)	–	(945)	3,366	–	2,421
Deferred tax on share options	–	–	114	–	114
Total changes in shareholders' funds	10	(45,228)	(190,263)	47,079	(188,402)
<b>Balance as at 30 April 2013</b>	<b>37,797</b>	<b>13,523</b>	<b>395,187</b>	<b>103,983</b>	<b>550,490</b>

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 (see note 25). 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. A further \$47,079,000 was added to the capital redemption reserve following the redemption of the B shares.

Of the unrealized profit on disposal of investments at 30 April 2012 of \$352,820,000, \$186,069,000 was realized during the year as a result of the settlement of outstanding intercompany debtor balances between Micro Focus Group Limited and the Company. As at 30 April 2013 the value of distributable reserves was \$228,436,000 (2012: \$232,630,000).

**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**

During the year, the Group announced a Return of Value to shareholders of 50p per ordinary share amounting to \$128.8m in cash after including a foreign exchange contract gain of \$2.4m, by way of a B and C 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 2012. The Return of Value was accompanied by a 10 for 11 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.

In January 2012 a Return of Value was made to all shareholders amounting to \$129.1m in cash after including a foreign exchange contract gain of \$0.6m (45p per share, equivalent to approximately 69.4 cents per share), by way of a B and C share scheme, which gave shareholders (other than certain overseas subsidiaries) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by a 22 for 25 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.

# Offices Worldwide

## Europe & Middle East

### Austria – Linz (B)

Borland Entwicklung GmbH  
Freistaedter Strasse 400  
Linz 4040  
Austria  
T: 43 70 33 66 94 0

### Belgium – Brussels virtual office

EU Parliament  
4th Floor  
37 Square de Meeus  
1000 Brussels  
Belgium

### Bulgaria – Sofia

76A James Bourchier Blvd  
Lozenetz  
Sofia 1407  
Bulgaria  
T: 359 2 400 6937

### Denmark – Copenhagen virtual office

Sluseholmen 2-4  
Copenhagen  
2450  
Denmark

### France – Paris

Micro Focus Sas  
Tour Atlantique 22E La Defense 9  
1 Place De La Pyramide  
92911 La Defense Cedex France  
T: 33 (0)1 55 70 30 13

### Germany – Ismaning

Frauenhofer Strasse 7  
D-85737 Ismaning  
D-85737  
Germany  
T: 011 49 89 42094 0

### Israel – Haifa Office

Matam Advanced Technology  
Centre  
Building 5/1  
Haifa 31905  
Israel  
T: 972 4 813 0501

### Milan (SRL)

Micro Focus, Via Enrico Cialdini 16  
Milano, 20161  
Italy  
T: 39 02 366 349 00

### Rome

Palazzo dell'Arte Moderna – EUR  
P.zza Marconi 15  
Roma 00144  
Italy  
T: 39 06 52 62 19 1

### Portugal – Lisbon virtual office

Centro Empresarial Torres de  
Lisbon  
Rue Tomas de Fonseca, Torre C  
Lisbon, 1600-209  
Portugal

### Netherlands – Schiphol

Micro Focus N.V.  
World Trade Center Schiphol  
Schiphol Boulevard 127  
1118 BG Schiphol  
The Netherlands

### Northern Ireland – Belfast (B)

Micro Focus House  
2 East Bridge St, Belfast BT1 3NQ  
N Ireland  
T: 44 (0) 28 9026 0000

### Norway – Oslo

C. J. Hambros Plass 2C  
1st Floor, City Ibsen, Oslo 0164  
Norway  
T: 47 22 91 07 21

### Spain – Barcelona virtual office

World Trade Center  
Edificio Sur – 2a Planta  
Muelle de Barcelona  
Barcelona  
Spain

### Spain – Madrid

Paseo de la Castellana 42; 5º  
Madrid 28046  
T: 34 91 781 5004

### Sweden – Stockholm virtual office

Master Samuelsensgatan 60  
8th Floor, Stockholm, 11121  
Sweden

### Switzerland – Zürich virtual office

Micro Focus  
Suite 4, Thurgauerstrasse 40  
8050 Zürich  
Switzerland

### UK – Newbury Office – Distribution

Units 1 – 4  
River Park Industrial Est  
Ampere Road  
Newbury Berkshire  
RG14 2DQ  
United Kingdom  
44 (0)1635 565 399

### UK – Newbury Office

The Lawn  
22-30 Old Bath Road  
Newbury  
Berkshire  
RG14 1QN  
T: 44(0)1635 565 200

### North America

#### US – Atlanta New

400 Interstate North Parkway  
Suite 1050, Floor 10  
Atlanta 30339  
USA

#### US – Austin (B)

8310 North Capital of Texas  
Highway, Building 2 Suite 100  
Austin TX 78731  
USA  
T: 1 512 340 2200

#### US – Chicago

One Tower Lane  
Suite 1700  
Oakbrook Terrace  
Illinois 60181  
USA

#### US – Rockville Office – MD

One Irvington Centre  
700 King Farm Boulevard  
Suite 400  
Rockville MD 20850  
USA  
T: 1 301 838 5000

#### US – Troy – MI

50 W. Big Beaver Road  
Suite 500  
Troy MI 48084  
USA  
T: 1 248 824 1661

#### US – Santa Clara – CA

Micro Focus  
3979 Freedom Circle  
Suite 330  
Santa Clara  
California 95054  
USA

### US – Costa Mesa – CA

575 Anton Blvd  
Suite 510  
Costa Mesa  
CA 92626  
USA  
T: +1 714 455 4400

### Rest of the World

#### Australia – Melbourne

SUITE 1410,1411, Level 14  
530 Little Collins Street  
Melbourne Victoria 3000  
Australia  
T: 61 3 9526 2900

#### Australia – Sydney

Micro Focus  
Level 13  
67 Albert Avenue  
Chatswood  
New South Wales 2067  
Australia  
T: 61 2 9904 6111

#### Brazil – Sao Paulo (B)

Rua Joaquim Floriano  
466-12 Andar  
Office Corporate  
Sao Paulo CEP 04534-002  
Brazil  
T: 5511 2165 8000

#### China – Beijing

Hyundai Motor Tower  
38 Xiaoyun Road  
Chaoyang District  
Beijing 100027  
China  
T: (8610) 5811 1888

#### China – Hong Kong

20th Floor  
Central Tower  
28 Queen's Road, Central  
Hong Kong China  
T: +852 2159 4800

#### China – Shanghai

20/F Mirae Asset Tower  
166 Lujiazui Ring Road  
Pudong, Shanghai 200120  
China

### India – Bangalore

Level 14 & 15  
Concorde Towers, UB City  
1 Vittal Malla Road  
Bangalore 560001  
India  
T: +91 80 4030 0700

### India – New Delhi

1st Floor  
Southern Park  
Saket, New Delhi 110017  
India  
T: 91 11 3019 4400

### India – Mumbai

Suite # 909, Level 9, Platina,  
Block G, Plot C-59  
Bandra-Kurla Complex, Platina  
Mumbai – 400051  
India  
T: +91 22 3953 0500

### Japan – Tokyo

Sumitomo Fudosan Roppongi-dori  
Bldg. 9F  
7-18-18 Roppongi  
Minato-ku  
Tokyo 106-0032 Japan  
T: 81 3 5413 4800

### Korea – Seoul

Micro Focus  
41/F Gangnam Finance Centre  
737, Yeoksam-dong,  
Gangnam-gu  
Seoul – 135-984  
Korea  
T: (822) 2008 4500

### Mexico – virtual office

Insurgentes Sur No. 1898 P. 12  
Col. Florida  
C.P. 01020  
Mexico, D.F.

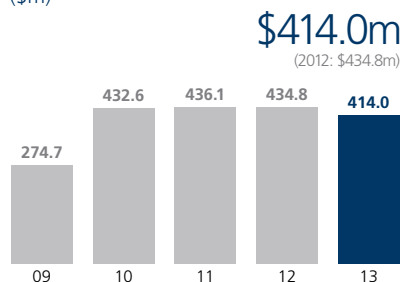
### Singapore – Singapore (B1)

3 Harbour Front Place #13-01/04  
Harbour Front Tower 2  
Singapore 099254  
T: 65 6510 4200

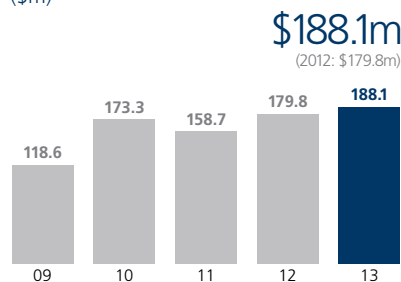


## Historical Summary

### Revenue (\$m)



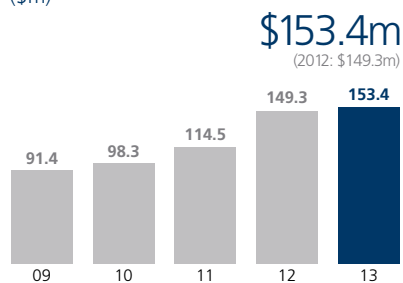
### Adjusted EBITDA (\$m)



### Adjusted operating profit (\$m)



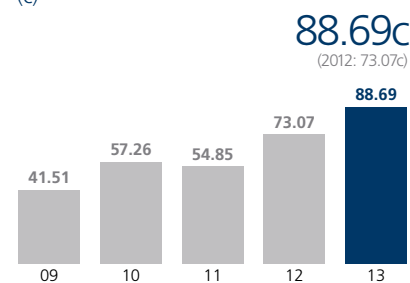
### Profit before tax (\$m)



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



### Adjusted earnings per share (c)



### Summarized Group consolidated statement of comprehensive income for the year ended 30 April

	2009 \$'000	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000
Revenue	274,731	432,579	436,130	434,838	<b>413,989</b>
Operating profit before exceptional items	106,118	150,505	135,072	153,349	<b>161,260</b>
Exceptional items	(14,907)	(45,088)	(14,540)	2,442	–
Operating profit	91,211	105,417	120,532	155,791	<b>161,260</b>
Profit before tax	91,449	98,325	114,541	149,250	<b>153,366</b>
<b>Earnings per share</b>					
Basic (cents)	32.87	37.49	47.04	65.77	<b>78.72</b>
Diluted (cents)	31.92	36.71	46.15	64.11	<b>76.09</b>

### Summarized Group balance sheet as at 30 April

Non-current assets	208,899	456,537	439,035	434,235	<b>437,596</b>
Current assets	138,786	154,807	133,558	122,726	<b>130,583</b>
Current liabilities	(143,307)	(327,800)	(278,485)	(380,071)	<b>(459,725)</b>
Non-current liabilities	(35,650)	(64,118)	(65,410)	(59,344)	<b>(48,697)</b>
<b>Total equity</b>	<b>168,728</b>	<b>219,406</b>	<b>228,698</b>	<b>117,546</b>	<b>59,757</b>

# Key dates and share management

---

## Key dates for 2014

### Annual General Meeting

26 September 2013

### Dividend Payments

Final payable – year ended 30 April 2013

2 October 2013

Interim payable – period ending 31 October 2013

January 2014

### Results announcements

Interim results – period ending 31 October 2013

4 December 2013

Final results – year ending 30 April 2014

26 June 2014

---

## 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 on-line at [www.shareview.co.uk](http://www.shareview.co.uk).

\* Calls to this number cost 8p per minute plus network extras.

## Company information

### Directors, Secretary, registered office and advisers

#### Directors

Kevin Loosemore  
(Executive Chairman)

Mike Phillips  
(Chief Financial Officer)

David Maloney  
(Non-executive senior independent  
director and Deputy Chairman)

Tom Skelton  
(Non-executive director)

Karen Slatford  
(Non-executive director)

Tom Virden  
(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

Lawrence Graham LLP  
4 More London Riverside  
London  
SE1 2AU  
United Kingdom

Travers Smith LLP  
10 Snow Hill  
London  
EC1A 2AL  
United Kingdom

#### Auditors

PricewaterhouseCoopers LLP  
9 Greyfriars Road  
Reading  
Berkshire RG1 1JG  
United Kingdom

#### Registrars

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
United Kingdom  
www.shareview.co.uk

#### Brokers

Numis Securities Limited  
The London Stock Exchange Building  
10 Paternoster Square  
London EC4M 7LT  
United Kingdom

### 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 Services 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.



This Report is printed on materials which are FSC® certified from well-managed forests.

These materials contain ECF (Elemental Chlorine Free) pulp and are 100% Recyclable.

Designed by Carnegie Orr  
(a Workspace Group customer)  
+44 (0)20 7610 6140.  
www.carnegieorr.com

---

## Micro Focus International plc

The Lawn  
22-30 Old Bath Road  
Newbury  
Berkshire RG14 1QN  
United Kingdom  
Tel: +44 (0) 1635 565200  
Fax: +44 (0) 1635 33966  
[www.microfocus.com](http://www.microfocus.com)  
Registered No. 5134647