MICRO FOCUS®

Annual Report and Accounts 2014

Solid progress

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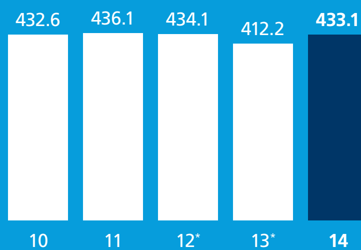
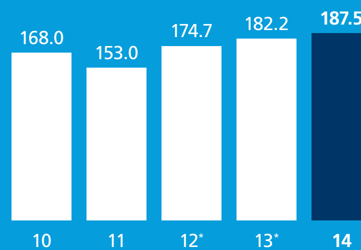
Key highlights

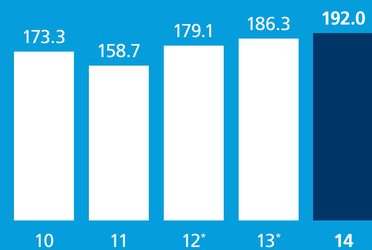
Revenue ($m)
$433.1m



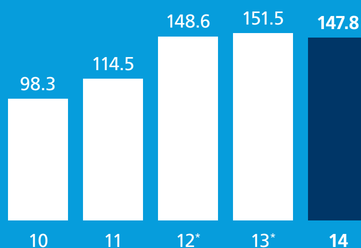
Adjusted operating profit ($m)
$187.5m



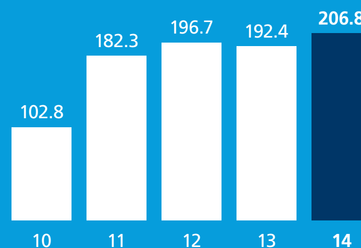
Adjusted EBITDA ($m)
$192.0m



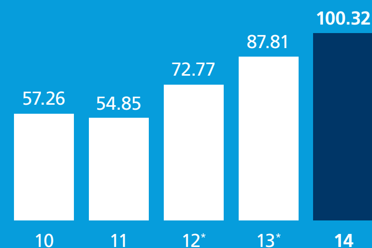
Profit before tax ($m)
$147.8m



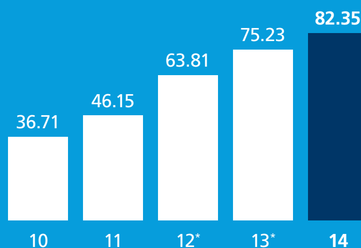
Cash generated from continuing operations ($m)
$206.8m



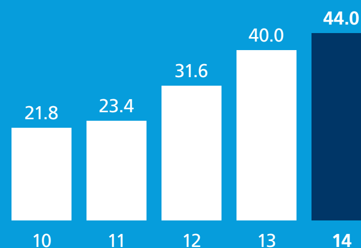
Adjusted earnings per share (c)
100.32c



Diluted earnings per share (c)
82.35c



Total dividend per share (c)
44.0c



* Financial years 2012 and 2013 have been restated (see note 34).

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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 the old and the new, across distributed and mainframe 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

Progress against our three year plan

FY12: Stabilization

FY13: Plant seeds for growth

FY14 and going forward: Deliver sustainable returns

- Leading provider of software products that bridge the old and the new, preserving and protecting established customer investments in technology
- Focus on 'sticky' products – maintain, innovate and grow our core COBOL Development and Mainframe Solutions product portfolios
- Develop product capabilities:
  - extend to capitalize on the mainframe development opportunity (COBOL, PL/I)
  - extend to participate in the cloud and mobile testing opportunity
- 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

Our Business Model – strong and established technology franchises

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

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

In any IT system the customers' business logic and data remain their competitive advantage. The key is unlocking this competitive advantage through exploitation of the latest technology innovation such as 'cloud', 'big data' or virtualization. Typically customers would be forced into costly, disruptive and risky application re-writes to make this possible but with Micro Focus, customers can take a different approach which we characterize as bridging the old and the new.

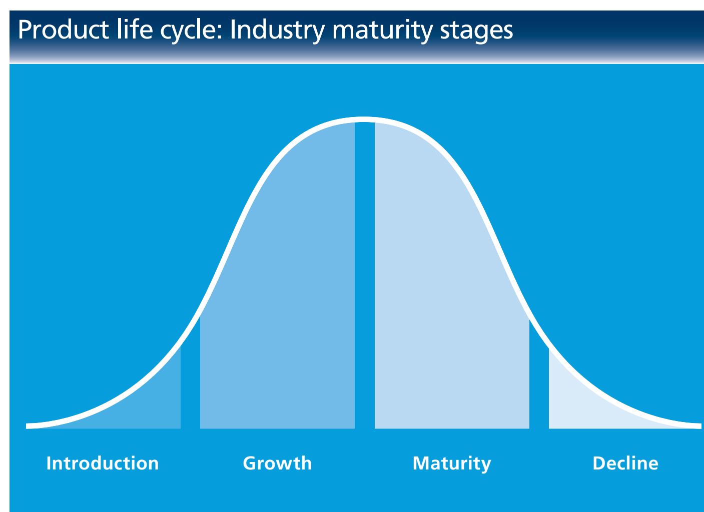
By enabling our customers to link their investments in established technology with the latest innovation, Micro Focus helps customers gain incremental returns on investments they have already made and to preserve and protect their data and business logic. The most striking example of this is that an application written in Micro Focus COBOL 37 years ago – before anyone had thought of Linux, Windows, virtualization, cloud or wireless communications – will work today in all of those environments. Micro Focus has made this a reality. By contrast if a COBOL application had been rewritten in another language, to execute in Java or .NET the customer would have to do additional incremental re-writes and incur significant costs every time there was a major technology change.

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

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

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

Product life cycle: Industry maturity stages

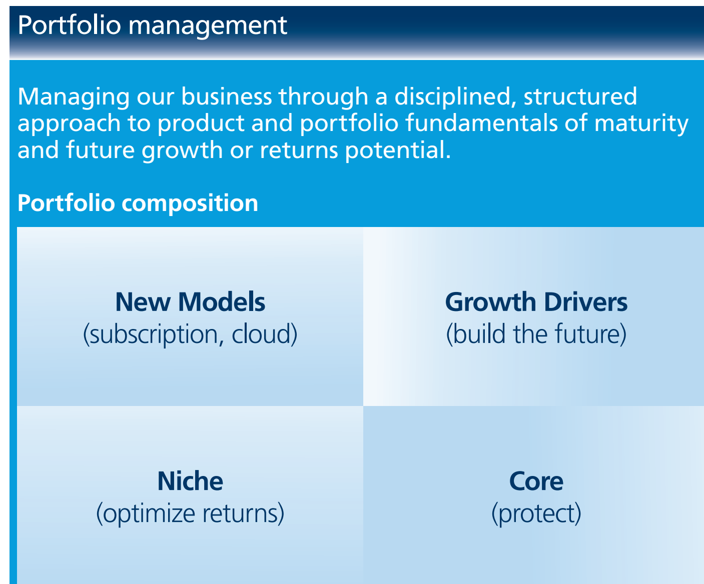


When considering the investment priorities, both organic and inorganic, we evaluate our options against a set of characteristics mapped to each stage of this adoption cycle enabling the categorization of our product portfolio into one of the four quadrants represented in the chart below.

Portfolio management

Managing our business through a disciplined, structured approach to product and portfolio fundamentals of maturity and future growth or returns potential.

Portfolio composition



Our approach to each category is summarized below:

- Growth Drivers and Core: represent the great majority of our revenue and investment focus. We look to identify critical technologies that have delivered significant value for customers and where the costs and risks of replacement or re-write are high and the returns from such activities are questionable. We determine how to enable these technologies for the latest IT innovations whether new operating environments such as JAVA or .NET or new use cases such as the cloud or mobile. For example, Visual COBOL enables customers to take COBOL applications forward with confidence into the next phase of IT industry innovation, specifically cloud and mobile, whilst protecting their investments in business logic and data built up through prior investments. Similarly within Core, our investments in CORBA enable customers to connect critical business applications into the broader Service-Orientated Architecture and web services world ensuring their continued capability to drive business value and avoiding costly and disruptive application re-writes.

- New Models: our focus is on identifying new innovation in the marketplace that is applicable to our core and growth driver propositions. This is the case where new innovation is needed to connect or leverage existing IT or application assets to deliver returns or open new opportunities. An example of this is Silk Performer Cloudburst; a cloud based implementation of our highly successful on premise Silk Performer product. This combination enables customers to execute a hybrid on premise/cloud solution ensuring day to day operations are handled effectively on premise but offering broadly unlimited additional capacity as and when needed to support business operational peaks, underpinned by the flexibility and ease of use of a common solution in both cases.

- Niche: some technologies eventually approach end of life as the majority of customers replace them with new solutions. For the remaining customers they still represent significant value. Our approach is to continue to offer flexible commercial and support models to enable customer access to the intellectual property and capabilities of these technologies for extended periods, again ensuring protection of customer investment for as long as possible technically and commercially.

Within this overall portfolio we have some products that are growing significantly (50% plus) and others that are stable or in decline. Our business model means the way we manage the portfolio is analogous to a 'fund of funds' with an objective to generate moderate growth over the medium term, delivering high levels of profitability and strong cash generation and cash conversion ratio with a balanced portfolio approach. We will continue to focus investment in growth and core products and will not dispose of declining products unless we can achieve greater than the discounted cash flow they would generate in our ownership.

Market leadership through strong technology franchises; substantial and broad customer base:

- Micro Focus serves more than 10,500 customers in more than 30 countries;
- More than one million licenced users of Micro Focus COBOL;
- Approximately nine in every ten Micro Focus COBOL customers renew maintenance every year; and
- Micro Focus has more than 30 years of COBOL expertise.

Our overall portfolio is managed and run in the following individual product portfolios:

1. COBOL Development;
2. Mainframe Solutions (during the year we acquired SoforTe GmbH);
3. Borland (Test) (during the year we acquired AccuRev Inc.);
4. CORBA (during the year we acquired the CORBA assets from PrismTech Group Limited); and
5. Niche.

In addition to creating incremental value in our base by managing our current franchises, we see further opportunities arising from current global industry trends.

The proliferation of mobile devices (now some five billion in number) and the emergence of the 'internet of things' is driving significant growth in transaction volumes as users access systems when they want and from where they want. These transactions most often occur on the 'old' large COBOL and PL/I transaction systems that lie at the heart of the world's major organizations. In turn, these transactions produce ever-increasing volumes of data.

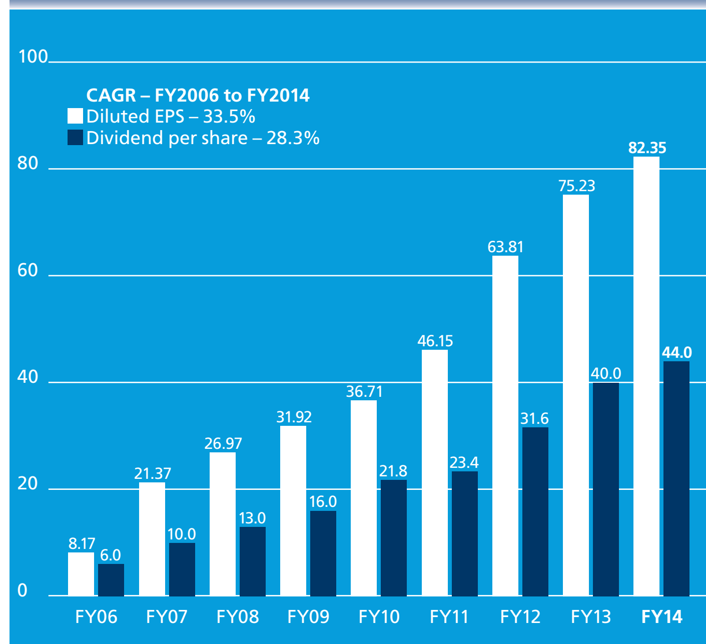
Executive Chairman's statement
continued

This drives complexity (in development and testing) and cost (in terms of load and volume), both of which provide opportunity to assist customers in addressing these challenges. At the same time, these 'old' mature systems become ever bigger and more embedded. It has been estimated that of all new lines of code written each year some 20% are COBOL.

COBOL – Here to stay for the long-term:

- 240 billion lines of COBOL code today, and growing steadily;
- 95% of all ATM transactions use COBOL;
- 200 times more COBOL transactions than Google and YouTube searches every day;
- COBOL represents 77% of all 310 billion lines of code in use;
- COBOL supports 90% of Fortune 500 companies' business systems every day; and
- COBOL powers around 85% of all daily business transactions processed.

Diluted earnings per share and dividend per share (in cents)



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

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

The Company was listed on the London Stock Exchange on 12 May 2005 at a price of 130 pence and in the year ended 30 April 2006 reported diluted EPS of 8.17 cents and declared total dividends for the year of 6 cents. In the year ended 30 April 2014 diluted EPS is 82.35 cents and proposed full year dividend is 40.0 cents representing a compound annual growth rate of 33.5% and 28.3% respectively.

Full year dividends on our shares have totalled 107.58 pence and since January 2012 we have made three Returns of Value totalling 155 pence per share. On 30 April 2014 our share price had increased to 775 pence. A shareholder who invested at the time of IPO and had reinvested the Returns of Value would have grown their investment by 579.9% which is a compound annual return of 23.8%.

On 28 March 2011, on the back of two profit warnings and poor performance in the year ended 30 April 2011, the Company announced a share buy-back programme. The closing share price on 25 March 2011, the day before the announcement, was 308.6 pence and the dividends received since IPO at that time were 43.56 pence. The annual rate of return for the shareholder from IPO to 25 March 2011 was 18.5% per annum. The Company's market capitalization on that date was £635.0m and by 30 April 2014 this had increased to £1,081.4m. The Company made cash returns to shareholders during this period of £424.3m, consisting of share buy-backs of £65.0m, ordinary dividends of £103.6m and Returns of Value of £255.7m. These cash returns represent 66.8% of the market capitalization of the Company on 25 March 2011 and the annual compound return for shareholders from that date to 30 April 2014 is 38.1% per annum.

Our performance in the year

The year ended 30 April 2014 has been a year of improvement for Micro Focus where management's guidance for revenue growth was marginally exceeded. The Group delivered total revenues of $433.1m (2013: $412.2m) which was an increase of 6.4% compared to constant currency ('CCY') revenue for the comparable period of $407.1m. At the beginning of the financial year we forecasted that overall revenue would increase by between 0% and 5% with growth weighted to the second half of the year. At the Interims in December 2013 we announced three acquisitions, AccuRev Inc., SoforTe GmbH and the OpenFusion CORBA assets from PrismTech Group Limited, and as a consequence revised the overall revenue growth target upwards to 3% to 6%. We managed to exceed the top of this range with overall revenues growing by 6.4%. It was particularly pleasing to see growth in sales in the products in which we had invested, notably Visual COBOL where Licence revenues grew by 91% and the significant improvement in product and sales execution delivered strong performance in our CORBA portfolio.

Once the impact of the $6.1m of revenues generated from current year acquisitions are excluded, revenues grew by 4.9% to $427.0m on a CCY basis. Licence fees increased by 8.5% to $177.9m (2013: CCY $163.9m), Maintenance fees increased by 6.8% to $243.2m (2013: CCY $227.7m) and Consultancy revenues were down by 22.6% to $12.0m (2013: CCY $15.5m). When comparing revenues on a 'like for like' basis we also exclude both prior year as well as current year acquisitions. In the year ended 30 April 2014, we delivered like for like revenues of $402.0m which is a decline of 0.4% (2013: CCY $403.7m). On a like for like basis, Licence fees increased by 2.3% to $167.6m (2013: CCY $163.8m), Maintenance fees decreased by 0.8% to $222.7m (2013: CCY $224.4m) and Consultancy revenues were down by 24.5% to $11.7m (2013: CCY $15.5m). In the second half of the year we saw a return to organic revenue growth with like for like revenues growing by 2.2% compared to the second half of last year. In the first half year, like for like revenues had declined by 3.1%.

Group delivered total revenues of $433.1m which was an increase of 6.4% at constant currency and a return to organic revenue growth in the second half of the year with revenues up by 2.2%

Revenues for our International region excluding the acquisitions in the year increased by 10.8% to $178.3m (2013: CCY $160.9m) benefiting from strong performances in the Nordic countries, Brazil and UK. On a like for like basis International grew by 7.4% (2013: decline of 2.8%).

North America revenues for the full year excluding this year's acquisitions increased by 1.5% to $194.1m (2013: CCY $191.3m). Like for like revenues declined by 5.2% from $188.8m to $178.9m. The decline in the first six months was 2.3% and the second six months was 7.8%. As explained below under Go to Market we have taken action to address this issue.

Our Asia Pacific and Japan region, excluding this year's acquisitions delivered overall revenue decline of 0.5% to $54.6m (2013: CCY $54.9m). Asia Pacific and Japan declined by 6.8% (2013: increase of 1.4%) on a like for like basis. The decline was in large part accounted for by the absence of a single large deal to match that which occurred in the prior year offset by a stronger performance in Japan.

The year also saw significant investments in the business – our first Sales Academy, patent box, sales enablement through product playbooks and the delivery of more than 2,000 days of education, a Customer Relationship Management ('CRM') system upgrade and the restructuring of our salesforce to improve alignment and revitalize skills. We also completed three acquisitions to further strengthen our product portfolios and our customer propositions. SoforTe GmbH was a technology acquisition enabling us to complete our vision of supporting the full application life cycle from maintenance through to modernization for mainframe COBOL applications. AccuRev Inc. provides additional scale and new technology capabilities in our source code and change management solutions as well as a strong and loyal customer base where we can now offer our full testing suite of solutions, and OpenFusion builds on our strength and commitment to CORBA, giving customers even more confidence in the on-going relevancy of and investment in this key technology.

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 maintaining all options to deliver shareholder value. Additional revenues allowed room for additional expenditure related to the acceleration of change and evaluation of earnings enhancing acquisitions.

Executive Chairman's statement
continued

Operating costs on a CCY basis before exceptional items, share based payments and amortization of purchased intangibles ('Adjusted Operating Costs') increased by 6.8% to $245.6m (2013: $229.9m). The increase of $15.7m includes $8.5m from the current year acquisitions and the remaining $7.2m is largely accounted for by the $6.7m year on year change in a charge for net amortization of development costs of approximately $nil (2013: net capitalization credit of $1.7m) and a foreign exchange loss of $4.4m (2013: gain $0.5m) from our existing business. During the period we have invested in excess of $12.9m in a combination of our Sales Academy, investigating acquisitions, implementing a new CRM front end, restructuring parts of the sales organization and filing patents. Even with these investments, Adjusted Operating Profit for the year ended 30 April 2014 on a CCY basis increased by 5.8% to $187.5m (2013: CCY $177.2m), Adjusted EBITDA increased by 5.9% to $192.0m (2013: CCY $181.3m) and Underlying Adjusted EBITDA increased by 9.7% to $196.4m (2013: CCY $179.1m) at a margin of 45.3% (2013: CCY 44.0%).

Cash generated from operating activities increased to $206.8m (2013: $192.4m) representing a cash conversion ratio of 107.7% (2013: 103.4%) as a proportion of Adjusted EBITDA less exceptional items.

The average employee headcount during the year ended 30 April 2014 was 1,219 (2013: 1,206). At 30 April 2014 headcount was 1,227.

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 2014 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 120% of the level earned in the year ended 30 April 2013.

Our business by product portfolio

COBOL Development ('CD') – 53.5% of revenues

We have continued to invest in and strengthen our core product portfolio of CD which primarily targets the off mainframe distributed development market. The CD portfolio delivers products that enable programmers to develop and deploy applications written in COBOL across multiple platforms including Windows, UNIX and LINUX and to the Cloud. We have introduced further developments to Visual COBOL and have received a positive response from customers and the partner community. Visual COBOL V2.2 provides the fastest way for customers to move to Java Virtual Machine ('JVM'), .NET or Cloud environments whilst protecting their existing investments and intellectual property. Revenues from Visual COBOL grew strongly in the year contributing in excess of $16.4m in Licence fees, up 91% from 2013. 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 to power the majority of large organizations' key business operations. Maintaining our leadership position in CD is at the core of our value proposition. By embedding our products in industry standard IDEs, specifically Visual Studio and Eclipse, we have addressed the perceived skill issues, and expect that COBOL will provide a stable base and strong cash flow for the Group over the coming decades.

We have seen a significant number of customers commit to Visual COBOL to take advantage of operating COBOL in a modern IDE

Mainframe Solutions ('MS') – 17.9% of revenues

Our MS product set addresses a customer's need to get the most value out of their mainframe environment. Following the launch of our MS strategy in 2013 we have seen positive growth in 2014. Feedback from our customers and prospects has been very positive and emphasizes that the positioning is relevant to the current marketplace. Our product offering was further enhanced by the purchase of the technology of SoforTe GmbH which enabled us to speed up delivery of our product roadmap.

Enterprise Developer takes our core Visual COBOL technology and by delivering it in the Eclipse IDE makes the capabilities available to the mainframe COBOL user. During 2013 we launched a significant extension to this product line Enterprise Developer for zEnterprise which when combined with the technology provided through the acquisition of SoforTe GmbH enables us to complete our vision of supporting the full application life cycle from maintenance through to full modernization for mainframe COBOL applications. We estimate that the mainframe COBOL development market opportunity is approximately three times as large as that for off mainframe distributed COBOL development. In April 2014 we announced our first significant contract to provide our MS tool set on a subscription basis to a major systems integrator.

Borland ('Test') – 15.0% of revenues

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

We have invested significantly in the product line to ensure relevance to key market growth areas, specifically: agile development, cloud based service delivery models, and the rapid adoption of mobile devices as a business technology platform. The product strategy reflects both these growth opportunities and a continued commitment to the success of our existing customers, informed through direct customer feedback and independent market research. As a result, our product portfolio is better positioned and stronger and our customer engagement more effective enabling the delivery of organic growth in 2014. We also completed the acquisition of AccuRev Inc. in December 2013, which extended the portfolio further and improved our execution capability enabling coverage of more of the market opportunity and offering a compelling value-add for existing customers of both companies.

Borland's products (Silk, Caliber, StarTeam and AccuRev) have a large addressable market, clear product roadmaps and differentiated customer propositions in their own right, in addition to a compelling value proposition based on the increasingly tight integrations between the products. As an example of the individual product standard, Micro Focus was again placed in the leaders' quadrant of the 2013 Gartner Magic Quadrant for Integrated Quality Suites.

The challenge for our Borland portfolio is the balance between Licence and Maintenance income within overall revenues where Maintenance accounts for approximately 65% of total like for like revenues (2013: CCY 69%). We are fully aware of this dynamic and during 2014 have reduced the drag on total revenues by increasing Licence sales. This is set to improve further as we release additional new products to extend our market presence, and continually innovate to support the ever-changing needs of our existing customers and the growing available market beyond.

CORBA – 10.8% of revenues

Following the purchase of the CORBA assets from Progress Software in February 2013 we have further strengthened our position in this product portfolio by buying the CORBA assets from PrismTech Group Limited in November 2013. As a result we have seen significant revenue growth. We now own the three leading CORBA products: VisiBroker, Orbix and OpenFusion 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.

Niche – 2.8% of revenues

Our Niche portfolio comprises mature products that are expected to see on-going revenue decline but that provide good margins and strong cash flow.

Operational strategy to deliver our core objective

Operational excellence

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

The outputs of our portfolio focus and operational strategy are:

1. Revenue growth;

2. Operating leverage; and

3. Significant cash generation.

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

Go to Market – sales enablement, marketing and sales productivity

During 2012 and 2013 we made good progress on our product strategy, direction and underlying roadmap, started adjusting our Go to Market structures including our channel strategy, marketing and lead generation execution capability.

In 2014 we began to reskill our sales force through improved training and sales effectiveness tools, started to pilot activity based compensation in our field organization and launched our first Sales Academy. This major initiative involved hiring over 50 graduate sales trainees across our International and North America regions. Having completed training 22 of the graduates assumed direct sales roles for the second half of the year ended 30 April 2014 with a further 18 assuming overlay roles. The 22 direct sales contributed $4.8m of Licence revenue with six being in the top 25 inside sales performers for the year. Our direct investment in the academy in the year ended 30 April 2014 was $3.5m on which we have achieved a financial return within the year as well as enabling us to reduce the average age and average cost of our sales force. Following on from this we have already commenced an academy for the year ended 30 April 2015 recruiting 30 graduates who will start on 30 June 2014. We are also introducing a development academy for the first time and are hiring 16 graduate level trainees in development.

Executive Chairman's statement
continued

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 including the addition of more Enterprise Business Representatives to ensure we supply this increased inside sales engine with more qualified leads. The room for improvement is greatest in North America where poor sales execution has been a continuing theme for a number of years. As a result we decided to take more decisive action in the year ended 30 April 2014. This broad based action aimed at delivering a more permanent solution focused on replacing first line sales management and sales representatives who did not have the right attitude or approach to delivering sustainable results for the long-term.

We continue to believe that we have significant room for improvement in sales productivity

In the year ended 30 April 2014 our priority was to ensure that we invested in the organic development of the business. In the second half of the year we have seen a return to organic revenue growth with like for like revenues up by 2.2% compared to the second half of the year ended 30 April 2013. In the first half of the year ended 30 April 2014 our like for like revenues were down 3.1% and so for the full year like for like revenues are down slightly from $403.7m to $402.0m, a decrease of 0.4%.

We aim to increase sales productivity and predictability further by continuing to improve customer insight by generating closer interaction between Sales, Product Management and Marketing and Product Development. In order to drive greater interaction with our partners we created a Partner Relationship Management portal.

Our marketing programmes continue to raise brand awareness, build understanding of our product propositions and increasingly target the right audiences to generate qualified leads for new business opportunities. For example, our investment in Eloqua Marketing Automation continues to drive our reach and engagement through Direct Marketing as evidenced by the following key performance metrics:

- A run rate of 17,000 new contacts added per month to our marketing database;
- A 55% increase in the number of engaged contacts year on year; and
- Email open rates have stabilised at 12.1% globally – slightly above Industry benchmark standard.

Our social media programmes continue to extend our reach to target audiences in new and innovative ways:

- LinkedIn activities year to date have delivered almost 500,000 impressions and we add on average 300 new connections per month delivering $240,000 of 'advertising equivalency' per annum. We have recently passed the 7,000 followers milestone;
- Our Twitter activities have delivered over 16m year to date impressions with a greater than $800,000 advertising equivalency;
- The Micro Focus and new Borland Blogs are performing well with increased levels of traffic and lower bounce rates. For example, the new Borland blog is now delivering more than 1,000 hits a month;
- A move to more technical content on YouTube has led to a decrease in overall visitors with an increase in traffic quality. Average viewing times have risen by an average of six percentage points in the past 12 calendar months; and
- Our Community platform has grown from 11,000 visitors per month at the start of the year to 18,000 per month and is now an important channel for customers to access Support.

Product development

We continue to invest in product development and are excited by both the significant enhancements to existing products and the new products released in the past year. Micro Focus will maintain its leadership position in CD and strengthen other portfolios by continuing to innovate as demonstrated through products such as Visual COBOL, Enterprise Developer and Silk Performer. MS revenue growth will be achieved by delivering solutions addressing the mainframe COBOL opportunity. We will continue to improve the Borland business performance by focusing on clear development and communication of our strengths in supporting an increasingly dynamic and heterogeneous software development environment. We will work with our independent software vendors and customers to ensure that they can reap the benefits of these new significant developments.

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

Micro Focus has a strong financial discipline around the uses of cash. The Company has a base case model that estimates the returns to shareholders from organic execution and the return of excess cash. This gives a sound basis on which to evaluate M&A where any acquisition contemplated would need to generate a risk adjusted return greater than the base case. Successful execution of M&A has been instrumental in achieving a return of 23.8% since IPO compared to a base case target of 15% to 20%.

Industry and market dynamics mean that there are significant numbers of potential assets that could fit with our business model. These are either (i) bolt-on transactions like those completed in the last two years, (ii) significant transactions or (iii) transformational deals. Each year the world of IT gets a year older (and we should remember that IT is still a relatively young industry) and whilst the vast majority of companies will focus on the 'new and exciting', we believe that there will be an increasing opportunity to help clients derive value from their existing and often highly complex IT investments.

Linkage of management incentive to shareholder returns

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

The stock plan starts to vest at RPI plus 3%, with maximum vesting at RPI plus 9%. With RPI of approximately 3% and dividends approximately 3% to 4% this means that full vesting needs is consistent with the overall objective of 15% to 20% returns.

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

Delivering value to shareholders

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

Our priority is to improve the business in order to maximize the opportunity to generate modest 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 2013 we made a Return of Value to all shareholders amounting to $140.2m in cash (60 pence per share, equivalent to approximately 93.3 cents per share), by way of a D 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 12 for 13 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the D shares.

$206.8m

Cash generated from operating activities increased to $206.8m (2013: $192.4m) representing a cash conversion ratio of 107.7% (2013: 103.4%) as a proportion of Adjusted EBITDA less exceptional items

In July 2013 we signed a new $420m Revolving Credit Facility ('RCF') provided by six banks which expires on 16 July 2017. Net debt to RCF EBITDA (being our Adjusted EBITDA before Amortization of Capitalized Development Costs) is limited to 3.0 times. At 30 April 2014 our net debt was $261.0m and based on the reported RCF EBITDA in the year to 30 April 2014 of $210.5m this represented a net debt to RCF EBITDA multiple of 1.3 times. When compared to our Adjusted EBITDA figure of $192.0m, the multiple is 1.4 times.

For the past two years the board has targeted a net debt to RCF 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. As the business has been stabilized and has on-going, long-term prospects for modest growth and continued cash generation, the board has decided that it would be comfortable with net debt levels of up to 2.5 times RCF EBITDA. We are confident that this level of debt would not reduce our ability to deliver growth, invest in products and/or make appropriate acquisitions.

In line with our dividend policy of two times cover we are announcing an increase of the proposed final dividend of 6.8% to 30.0 cents per share, (2013: 28.1 cents per share) and an increase in the proposed total dividend for the year of 10.0% to 44.0 cents per share (2013: 40.0 cents per share). The final dividend will be paid in Sterling equivalent to 17.7 pence per share, based on an exchange rate of £ = $1.697, being the rate applicable on 18 June 2014, the date on which the board resolved to propose the final dividend. The final dividend will be proposed to shareholders at the AGM on 25 September 2014 and, if approved, will be paid on 3 October 2014 to shareholders on the register at 5 September 2014.

Outlook

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

Kevin Loosemore
Executive Chairman
18 June 2014

Operational and financial review

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. Their incentives are weighted more towards growth in revenues. The segmental analysis is shown in note 2.

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

	Year ended 30 April 2014 Existing $m	Year ended 30 April 2014 Acquisitions $m	Year ended 30 April 2014 As reported $m	Year ended 30 April 2013 As reported (restated) $m	Year ended 30 April 2013 CCY (restated) $m
International	178.3	0.3	178.6	157.8	160.9
North America	194.1	5.8	199.9	191.8	191.3
Asia Pacific and Japan	54.6	–	54.6	62.6	54.9
Total revenue	**427.0**	**6.1**	**433.1**	**412.2**	**407.1**

Group revenues in this financial year grew to $433.1m which, on a CCY basis, is a growth rate of 6.4%. This growth rate marginally exceeds the guidance range of 3% to 6% and was weighted to the second half of the year where overall revenues grew by 10.4% to $225.6m and like for like revenues grew by 2.2%. Revenues excluding current year acquisitions grew to $427.0m, an increase of 4.9%. This year the Iona business, an acquisition that was completed last year, delivered revenues of $25.0m (2013: CCY $3.4m from 15 February 2013), so excluding these revenues, like for like revenues declined by 0.4% from $403.7m to $402.0m (2013: decline of 3.4%). On a like for like basis International grew by 7.4% (2013: decline of 2.8%), North America saw a decrease of 5.2% (2013: decline of 5.5%), and Asia Pacific and Japan declined by 6.8% (2013: increase of 1.4%). Once the revenues from the last two years' acquisitions are taken into account International grew by 11.0%, North America revenue grew by 4.5% and Asia Pacific and Japan declined by 0.5%.

The International region has performed strongly this year at CCY with revenues growing by 11.0% and on a like for like basis growing by 7.4%. Licence revenues grew by 18.6%, Maintenance revenues grew by 5.4% and Consultancy revenues grew by 5.4% and on a like for like basis: Licence revenues grew by 15.3% predominantly from higher sales of Visual COBOL and our Enterprise suite of products, Maintenance revenues grew by 1.5% as a result of the Licence revenue growth, and Consultancy revenues grew by 2.7%, mostly as a result of higher MS business, offset by exiting a non-core Consultancy contract in Brazil. We saw growth in CD, MS, Borland and CORBA with a decline in Niche.

In North America, for the full year on a like for like CCY basis, all three revenue lines have declined, Licence revenue by 4.1%, Maintenance revenue by 2.8% and Consultancy revenue by 51.3%. The primary reason for the decline is as a result of lower COBOL Licence revenues and a $3.9m reduction in Consultancy revenues, mostly connected with the MS business. Poor sales execution in North America has been a continuing theme for Micro Focus over the last five years. The decisive action referenced earlier and undertaken in the year ended 30 April 2014 is aimed at delivering a more permanent solution and higher, more predictable levels of performance. Specifically, we have invested in significant levels of training for both sales management and sales representatives which when combined with the Sales Academy initiative allowed us to identify those managers and sales representatives who were unable to deliver for the long-term in the right way. As a result we replaced more than 25% of the first lines sales managers and more than 33% of the sales representatives with people we believe can execute the right way and deliver for the long-term.

In Asia Pacific and Japan, like for like CCY revenues have declined for the full year with Licence fees declining by 13.5% (2013: decrease of 1.4%), Maintenance revenues increasing by 0.8% (2013: 6.0%) and a very small reduction in Consultancy. The region benefited last year from a large Licence fee transaction that represented approximately 1% of last year's CCY Group revenue. The stronger performance in Japan this year has mostly offset the absence of a large transaction.

Revenue for the year by category at actual reported and CCY was as follows:

	Year ended 30 April 2014 Existing $m	Year ended 30 April 2014 Acquisitions $m	Year ended 30 April 2014 As reported $m	Year ended 30 April 2013 As reported (restated) $m	Year ended 30 April 2013 CCY (restated) $m
Licence	175.5	2.4	177.9	167.0	163.9
Maintenance	239.7	3.5	243.2	229.5	227.7
Consultancy	11.8	0.2	12.0	15.7	15.5
Total revenue	**427.0**	**6.1**	**433.1**	**412.2**	**407.1**

The revenues from the Iona business for this year were $25.0m (2013: CCY $3.4m from 15 February 2013), being Licence revenues of $7.9m (2013: $0.1m), Maintenance revenues of $17.0m (2013: $3.3m) and Consultancy revenues of $0.1m (2013: $nil). Like for like revenues are $402.0m (2013: $403.7m) consisting of Licence revenues of $167.6m (2013: $163.8m), Maintenance revenues of $222.7m (2013: $224.4m) and Consultancy revenues of $11.7m (2013: $15.5m).

Revenue by product portfolio on a CCY basis is shown as follows:

Revenue by product portfolio

	Year ended 30 April 2014 Existing $m	Year ended 30 April 2014 Acquisitions $m	Year ended 30 April 2014 As reported $m	Year ended 30 April 2013 CCY $m	Change before acquisitions in FY14 %	Change like for like %	Change as reported at CCY %
COBOL							
Licence	107.7	–	107.7	109.1	-1.3	-1.3	-1.3
Maintenance	122.9	–	122.9	118.6	3.6	3.6	3.6
Consultancy	0.9	–	0.9	1.4	-35.7	-35.7	-35.7
	231.5	**–**	**231.5**	**229.1**	**1.0**	**1.0**	**1.0**
Mainframe Solutions							
Licence	28.9	–	28.9	26.4	9.5	9.5	9.5
Maintenance	42.3	–	42.3	40.9	3.4	3.4	3.4
Consultancy	6.1	0.2	6.3	8.2	-25.6	-25.6	-23.2
	77.3	**0.2**	**77.5**	**75.5**	**2.4**	**2.4**	**2.6**
Borland (Test)							
Licence	17.3	2.1	19.4	15.3	13.1	13.1	26.8
Maintenance	39.0	2.7	41.7	40.9	-4.6	-4.6	2.0
Consultancy	3.9	–	3.9	2.5	56.0	56.0	56.0
	60.2	**4.8**	**65.0**	**58.7**	**2.6**	**2.6**	**10.7**
CORBA							
Licence	19.1	0.3	19.4	10.6	80.2	6.7	83.0
Maintenance	25.9	0.8	26.7	14.2	82.4	-18.3	88.0
Consultancy	0.7	–	0.7	0.3	133.3	100.0	133.3
	45.7	**1.1**	**46.8**	**25.1**	**82.1**	**-4.6**	**86.5**
Sub-total excluding Niche							
Licence	173.0	2.4	175.4	161.4	7.2	2.4	8.7
Maintenance	230.1	3.5	233.6	214.6	7.2	0.9	8.9
Consultancy	11.6	0.2	11.8	12.4	-6.5	-7.3	-4.8
Revenue at CCY	**414.7**	**6.1**	**420.8**	**388.4**	**6.7**	**1.2**	**8.3**
Niche							
Licence	2.5	–	2.5	2.5	–	–	–
Maintenance	9.6	–	9.6	13.1	-26.7	-26.7	-26.7
Consultancy	0.2	–	0.2	3.1	-93.5	-93.5	-93.5
	12.3	**–**	**12.3**	**18.7**	**-34.2**	**-34.2**	**-34.2**
Total revenue							
Licence	175.5	2.4	177.9	163.9	7.1	2.3	8.5
Maintenance	239.7	3.5	243.2	227.7	5.3	-0.8	6.8
Consultancy	11.8	0.2	12.0	15.5	-23.9	-24.5	-22.6
Revenue at CCY	**427.0**	**6.1**	**433.1**	**407.1**	**4.9**	**-0.4**	**6.4**

Operational and financial review
continued

Three acquisitions completed in the year at a total cost of $35.2m

Excluding the Niche product portfolio and the acquisitions during the year ended 30 April 2014, our other four product portfolios grew from $388.4m to $414.7m, with the growth in revenues being mostly due to the incremental revenue of $21.6m for the Iona product group. On a like for like basis revenues from these four product portfolios grew by 1.2% in the year.

In the second half of the year compared to the second half of last year CD had revenue growth of 4.6% (first half of the year compared to first half of last year was a 2.7% decline). CD continues to represent the core of Micro Focus revenues and consequently receives our continued focus. Innovation in the product set and re-engagement with the customer base, both on and off maintenance, have seen Licence revenue growth in the second half of the year and the stickiness of our product portfolio deliver overall revenue of $231.5m. For the full year there was an overall revenue growth of 1.0% compared with a decline of 2.7% at the half year. We continue to believe there is a strong demand for our COBOL products.

MS grew by 2.6% over last year on a CCY basis. This annual growth rate compares to a revenue decline in the first half of the financial year. This performance has been largely driven by the International region that is starting to reap the benefits of the work done on the solution in the last three years. On a like for like basis revenues grew by 2.4% on a CCY basis. MS had a strong second half with like for like revenues growing by 7.4%.

The Borland (Test) product portfolio now consists of the Caliber, StarTeam and Silk Product Brands that were included last year together with the AccuRev Inc. acquisition, completed on 31 December 2013. Overall revenues grew by 10.7%. However, once we exclude AccuRev Inc. revenues the growth rate drops to 2.6%. Growth in Licence and Consultancy revenue is offset by the decline in Maintenance revenues.

Over the last two years in our CORBA product group we have augmented our VisiBroker product offering by adding the Iona assets from Progress Software and the OpenFusion assets from PrismTech Group Limited. We are now the leading provider of CORBA technology on a worldwide basis. The CORBA product portfolio saw revenue growth of 86.5% from $25.1m to $46.8m. The Iona acquisition contributed $21.6m and the OpenFusion CORBA assets contributed $1.1m of the growth and thus like for like revenues decreased by 4.6%.

Revenues in the second half of the year increased by 10.4% on the same period last year and like for like revenues increased by 2.2%, with Licence revenue growth of 5.7%, Maintenance revenue growth of 0.4% and a Consultancy revenue decline of 6.9%.

The overall performance on Maintenance revenues was encouraging with a decrease on a like for like basis of 0.8%.

We are providing maintenance renewal rates by each product portfolio and for the year ended 30 April 2014 these rates were CD – 90% (2013: 91%), MS – 90% (2013: 90%), Borland (Test) – 83% (2013: 88%), CORBA – 81% (2013: 73%) and Niche – 66% (2013: 77%).

Costs

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

	Year ended 30 April 2014 Existing $m	Year ended 30 April 2014 Acquisitions $m	Year ended 30 April 2014 As reported $m	Year ended 30 April 2013 As reported $m	Year ended 30 April 2013 CCY $m
Cost of goods sold	29.5	0.4	29.9	34.1	33.7
Selling and distribution	118.6	2.1	120.7	117.6	117.2
Research and development	54.9	2.9	57.8	52.6	53.5
Administrative expenses	65.8	3.1	68.9	48.5	48.3
Total costs	**268.8**	**8.5**	**277.3**	**252.8**	**252.7**

During the year we purchased the OpenFusion CORBA assets from PrismTech Group Limited and the legal entities of SoforTe GmbH and AccuRev Inc. Included within the acquisition costs are third party acquisition related costs of $1.4m which are shown within administrative expenses.

Excluding the costs related to acquisitions made during the year ended 30 April 2014 and on a CCY basis:

- Cost of goods sold for the year decreased by 12.5% to $29.5m (2013: CCY $33.7m). 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 Consultancy revenues that had reduced by $3.7m on a CCY basis.
- Selling and distribution costs increased by 1.2% to $118.6m (2013: CCY $117.2m) as a result of the investment in our graduate sales scheme and higher sales incentive payments from higher Licence fee revenues offset by lower external marketing costs.
- Research and development expenses increased by 2.6% to $54.9m (2013: CCY $53.5m), equivalent to approximately 12.7% of revenue (2013: CCY 13.1%). The amount spent on research and development excluding the current year acquisitions prior to the impact of net capitalization of development costs was $54.9m (2013: CCY $55.2m) representing 31.3% of Licence fee revenue (2013: CCY 33.7%). At 30 April 2014 the net book value of capitalized development costs on the consolidated statement of financial position was $31.5m (2013: $31.5m).
- Administrative expenses were $65.8m (2013: CCY $48.3m). Excluding share based compensation of $12.8m (2013: $6.6m) and exchange loss of $4.4m (2013: gain of $0.5m) administrative expenses increased by 15.2% to $48.6m (2013: CCY $42.2m). The primary increases arose from costs on abortive acquisitions, resolution of the India revenue restatement issues, patent box applications and higher bonuses.

A general pay review for staff resulted in an average increase in salaries of 3.0% which will mainly take effect from 1 May 2014.

Currency impact

53.9% of our revenue is contracted in US dollars, 23.1% in Euros, 8.6% in Yen and 14.4% in other currencies. In comparison, 30.8% of our costs are US dollar denominated, 30.0% in Sterling, 20.2% in Euros, 2.8% in Yen and 16.2% 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 2013 CCY revenue is 1.2% lower at $407.1m and profit before tax before the exchange gain above of $0.5m is 2.7% lower than the reported numbers at $151.0m. The currency movement for Sterling, Euro and Yen against the dollar were 8.5%, 5.9% and 4.6% respectively.

Intercompany loan arrangements within the Group are denominated in the local currency of the overseas affiliate. Consequently, any movement in the respective local currency and US$ will have an impact on the converted US$ value of the loans. This foreign exchange movement is taken to the consolidated statement of comprehensive income. The Group's UK Corporation Tax liability is denominated in Sterling and any movement of the US$:Sterling rate will give rise to a foreign exchange gain or loss which is also taken to the consolidated statement of comprehensive income. The foreign exchange loss for the year is approximately $4.4m (2013: gain of $0.5m).

Adjusted EBITDA and Underlying Adjusted EBITDA

Adjusted EBITDA in the period was $192.0m (2013: CCY $181.3m) and Underlying Adjusted EBITDA was $196.4m (2013: CCY $179.1m) at a margin of 45.3% (2013: 44.0%). The Adjusted EBITDA for the three acquisitions made in this year was a loss of $2.5m including transaction costs of $1.4m.

	Year ended 30 April 2014 Existing $m	Year ended 30 April 2014 Acquisitions $m	Year ended 30 April 2014 As reported $m	Year ended 30 April 2013 As reported (restated) $m	Year ended 30 April 2013 CCY (restated) $m
Reported revenue	427.0	6.1	433.1	412.2	407.1
Adjusted EBITDA	194.5	(2.5)	192.0	186.3	181.3
Foreign exchange loss/(gain)	4.4	–	4.4	(0.5)	(0.5)
Net capitalization of development costs	(0.1)	0.1	–	(1.7)	(1.7)
Underlying Adjusted EBITDA	**198.8**	**(2.4)**	**196.4**	**184.1**	**179.1**
Underlying Adjusted EBITDA Margin	**46.6%**	**(39.3)%**	**45.3%**	**44.7%**	**44.0%**

$196.4m

Underlying Adjusted EBITDA in the period was $196.4m (2013 CCY: $179.1m)

Operational and financial review
continued

Operating profit
Operating profit was $155.7m (2013: $159.4m). Adjusted operating profit was $187.5m (2013: $182.2m).

Net finance costs
Net finance costs were $7.9m (2013: $7.9m), including the amortization of $2.4m of prepaid facility arrangement and facility fees incurred on the Group's RCF (2013: $3.2m), RCF interest of $5.2m (2013: $3.9m) and other interest costs of $0.6m (2013: $1.2m) offset by $0.3m of interest received (2013: $0.4m).

Taxation
Tax for the period was $25.8m (2013: $29.8m) with the Group's effective tax rate being 17.4% (2013: 19.7%).

In the year the Group recognized additional deferred tax assets of $2.0m (2013: $2.1m) all of which were 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 17% and 19%.

With effect from 1 April 2014, the UK Government has introduced Patent Box legislation that provides a reduced rate of tax on profits arising from qualifying IP rights. As previously highlighted, the Patent Box presents a potentially significant opportunity for the Group. We have incurred costs of $0.5m in the year ended 30 April 2014 further exploring the regime and applying for relevant patents and we expect to spend a further $0.3m in the next financial year. The Group has been granted patents that are expected to result in qualifying IP rights and is in the process of quantifying the expected benefit from the Patent Box legislation. It is expected that any benefit accruing in respect of the year ended 30 April 2014 will be recognized in the financial statements for the year ended 30 April 2015, once the level of benefit has been quantified. To the extent that a benefit is recognized in future periods, this would reduce the medium-term effective tax rate compared to the range stated above.

The Group's medium-term effective tax rate is currently expected to be between 17% and 19%

As previously disclosed, the Group has benefited from a lower cash rate of tax during the last three years as a result of an on-going claim with HMRC in the UK, based on tax legislation, impacting its tax returns for the year ended 30 April 2009 and subsequent years. The Group is one of a number of companies that have submitted similar claims. HMRC has chosen a test case to establish the correct interpretation of the legislation and we await the outcome of this tribunal hearing. The Group has taken no benefit to the consolidated statement of comprehensive income during the periods affected and the potential tax liability is recognized on the Group's consolidated statement of financial position, but has paid reduced cash tax payments in line with its claim. The cash tax benefit in the year was $4.9m (2013: $4.8m) and the total cash tax benefit to date is $25.9m based on the difference between the Group's claimed tax liability and the tax liability in the consolidated statement of financial position. Due to the nature of the claim and the advice the Group has received, if HMRC were successful then it is unlikely that any penalties would be payable by the Group 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 consolidated statement of financial position, there would be a positive benefit to the tax charge in the consolidated statement of comprehensive income in the year of settlement. The current maximum benefit is $28.2m, which equates to 19.0 cents per share on a fully diluted basis.

Profit after tax
Profit after tax increased by 0.2% to $122.1m (2013: $121.8m).

Goodwill
The largest item on the consolidated statement of financial position is goodwill at $308.2m (2013: $284.7m) and arose from acquisitions made by the Group in the period to 31 July 2009, the acquisition of the Iona CORBA assets from Progress Software in February 2013 and from three acquisitions made in this financial year of AccuRev Inc. (December 2013), OpenFusion CORBA assets from PrismTech Group Limited (November 2013) and SoforTe GmbH (October 2013). The three acquisitions made in this year added $23.2m of the goodwill with a further $0.4m coming from the Iona asset purchase. 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.

$202.8m

Dividends and Return of Value during the year totalled $202.8m

Return of Value

During the year, the Group announced and completed a Return of Value to shareholders of 60 pence per ordinary share by way of a D share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving cash in the form of income or capital. The Return of Value was approved by shareholders on 26 September 2013.

The Group entered into forward exchange contracts to hedge the US dollar amount of the liability and the Return of Value was paid to shareholders on 12 November 2013 at a total cost of $140.2m. The Return of Value was accompanied by a 12 for 13 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the D shares.

Total equity attributable to the parent

The total equity attributable to the parent has reduced by $74.1m during the year from $57.8m to a deficit of $16.3m. $18.1m of this reduction is explained by the difference between the Return of Value of $140.2m and the profit after tax for the year of $122.1m. The remaining $56.0m of reduction comprises dividends of $62.6m and exchange rate movements of $4.4m offset by $7.0m of movement in relation to share options and other items of $4.0m. Details are provided in the consolidated statement of changes in equity.

Whilst the financial position of the Group is presented as being in net deficit, as a function of the Return of Value, liquidity risk and working capital is managed effectively as a result of strong operating cash flows and the revolving credit facility.

The board recognizes that by accessing the distributable reserves of $230.7m in the Company's retained reserves to provide further significant distributions to shareholders, whether by share buy-backs, 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 greater deficit. This 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 continue to consider the impact of such future distributions at the appropriate time.

Cash flow

The Group's operating cash flow from continuing operations was $206.8m (2013: $192.4m). This represented a cash conversion ratio when compared to Adjusted EBITDA before exceptional items of 107.7% (2013: 103.4%).

At 30 April 2014, the Group's net debt was $261.0m (2013: $177.7m) and during the year the Group increased net borrowings by $83.3m. The most significant cash outflows during the year were $144.7m in respect of the Return of Value, $35.2m on acquisitions and $62.6m of dividends.

Dividend

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus. Our dividend policy is a dividend cover of approximately two times on a pre-exceptional earnings basis. The proposed final dividend is 30.0 cents per share (2013: 28.1 cents per share) giving a total proposed dividend of 44.0 cents per share (2013: 40.0 cents per share) an increase of 10.0%. If approved by shareholders, the final dividend will be paid on 3 October 2014 to shareholders on the register on 5 September 2014.

Dividends will be paid in Sterling equivalent to 17.7 pence per share, based on an exchange rate of £1 = $1.697, being the rate applicable on 18 June 2014, 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 18 and 19.

Mike Phillips
Chief Financial Officer
18 June 2014

Key performance indicators

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

Shareholder returns

Description	Metrics	Performance
Compound growth: – Since IPO – Over last five years – Over last three years – Over last year	**2014:** 23.8% 22.1% 31.2% 19.7%	These ratios demonstrate the compound growth in shareholder returns assuming reinvestment of Return of Values, since the IPO in May 2005, over the last five years from 30 April 2009 to 30 April 2014, over the last three years from 30 April 2011 to 30 April 2014 and over the last year from 30 April 2013 to 30 April 2014. We continue to believe that with low single digit revenue growth, our industry leading margins and strong cash conversion we are able to deliver shareholder returns of 15% to 20% per annum over the long-term.

Financial performance

Our financial performance KPIs helped us to monitor our progress towards our 2014 revenue and EBITDA growth targets.

Description	Metrics	Performance
Revenue growth	**2014:** 6.4% **2013:** (2.7%)	Revenue comprises total revenues including the contribution of acquisitions and is compared with the prior year at constant currency.
Adjusted EBITDA margin	**2014:** 44.3% **2013:** 44.5%	Adjusted EBITDA is the Adjusted Operating Profit prior to depreciation and amortization of purchased software. The Adjusted EBITDA margin represents Adjusted EBITDA divided by revenue for the year on a constant currency basis.
Underlying Adjusted EBITDA margin	**2014:** 45.3% **2013:** 44.0%	Underlying Adjusted EBITDA removes the impact of net capitalization of development costs and foreign currency gains and losses from Adjusted EBITDA. The Underlying Adjusted EBITDA margin represents Underlying Adjusted EBITDA divided by revenue for the year on a constant currency basis.
Cash conversion	**2014:** 107.7% **2013:** 103.4%	This ratio is calculated using the cash flows generated from operating activities divided by Adjusted EBITDA less exceptional items – the result indicates that the Group is generating cash from its on-going business which can be used to reinvest in the development of the business including financing acquisitions, funding liabilities and paying dividends to shareholders.
Adjusted EPS	**2014:** 100.32c **2013:** 87.81c	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.

Financial strength and capital discipline

Our financial strength and capital discipline KPIs are used to monitor our gearing and interest cover levels. At the beginning of the year we had a target of net debt to our RCF EBITDA being approximately less than 1.5 times by 30 April 2015. This target net debt to RCF EBITDA has now been increased to 2.5 times. We have achieved these objectives even after a Return of Value of $140.2m, $35.2m on acquisitions and ordinary dividends of $62.6m.

Description	Metrics	Performance
Net debt to RCF EBITDA	**2014:** 1.3 times **2013:** 0.9 times	Net value of cash less borrowings expressed as a multiple of the RCF EBITDA.
Interest cover	**2014:** 21 times **2013:** 21 times	EBIT expressed as a multiple of finance costs. The Group RCF has a covenant at a minimum of four times.

Growth metrics

Our strategy for growing our revenue comes from both our existing business (Organic) and from our acquisitions.

Description	Metrics	Performance
Organic revenue growth	**2014:** (0.4%) **2013:** (3.2%)	Organic revenue comprises total revenues excluding the impact of acquisitions done in the last two years compared with the prior year at constant currency.
Acquisitions revenue	**2014:** $31.1m **2013:** $3.4m	On 15 February 2013 we acquired the Iona assets. We expected at the time of the acquisition to achieve a minimum full year revenue of $14m and we achieved $25.0m. This year's acquisitions contributed $6.1m which is line with management's expectations.
Growth in Visual COBOL Licence revenue	**2014:** $16.4m **2013:** $8.6m	This is Licence revenues for the Visual COBOL products compared with the prior period at constant currency.
Growth in Enterprise Licence revenue	**2014:** $18.3m **2013:** $12.4m	This is the total Licence revenues for the Enterprise suite of products within Mainframe Solutions compared with the prior period at constant currency.
Research and development as a percentage of Licence revenue	**2014:** 31.3% **2013:** 33.7%	This ratio measures the amount spent on research and development prior to the impact of capitalization and amortization of development costs and current year acquisitions development costs divided into Licence revenue (excluding current year acquisitions) on a constant currency basis.

Customers

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

Description	Metrics		Performance
Renewal rates on maintenance contracts	**2014:**	**2013:**	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.
CD	90%	91%	
MS	90%	90%	
Borland	83%	88%	
CORBA	81%	73%	
Niche	66%	77%	

Principal risks and uncertainties

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

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

A full risk register has been developed for on-going 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 28 to 31.

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

Products

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

Potential impact
If products do not meet the requirements of customers they will seek alternative solutions, resulting in the loss of new revenue opportunities and the cancellation of existing contracts. Insufficient focus on key research and development projects may damage the long-term growth prospects of the Group. Poor cross-selling of Micro Focus products will reduce the prospects for additional revenue streams going forward.

Mitigation
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. The Group has developed a structured approach to managing its products, which will be further enhanced during the year ended 30 April 2015.

During the year ended 30 April 2014 the Group has also strengthened its product portfolio through three acquisitions. Two of these acquisitions added additional products, strengthening the Group position in existing markets, the third, SoforTe GmbH, was acquired for its technology and development expertise, enabling more rapid development of the Group's Enterprise Developer product in order to meet customer requirements.

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.

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.

Go to Market models

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

In addition, brand awareness programmes are in place and reviewed on an on-going basis to draw on differentiated and consistent PR plans across key geographies. These are supported by targeted industry analyst relations to reach and raise Micro Focus 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 was fully rolled out during the year ended 30 April 2014.

In the year ended 30 April 2014 we launched the Micro Focus Sales Academy, a new initiative, through which we hired an additional 56 graduate sales representatives to enhance our sales capability and train up new talent with the potential to progress within the sales organization. 52 of these graduates successfully completed a 13 week intensive training programme and have now been deployed into a variety of sales and pre-sales roles across the organization. These new recruits are already making a positive contribution to the sales organization and a further intake of 30 graduates has been enrolled into a second Academy commencing 30 June 2014.

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.

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.

The Micro Focus Sales Academy has been a key initiative during the year ended 30 April 2014 to attract new talent to the sales organization. As well as running a further Sales Academy, a Development Academy will be launched during the year ended 30 April 2015, focused on addressing areas of potential medium to long-term skills shortages within the development organization.

Succession plans have been developed and are in place for key leadership positions within the Company.

Corporate social responsibility

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

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

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

During the year ended 30 April 2014 the CSR committee met four 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 CSR committee meetings.

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

In October 2013, Micro Focus was awarded a Bronze Award by Nick Hurd MP, the Minister for Civil Society, to recognize the Company's decision to foster a culture of philanthropy and committed giving in the workplace, by making Payroll Giving available to employees. The certificate acknowledges Micro Focus' success in generating sustainable income sources for UK charities through Payroll Giving.

For a two year period up to 31 March 2014, Micro Focus held the 'Carbon Trust Standard' certification, and as part of an on-going commitment to the Carbon Trust, the Company is currently renewing its certification.

The table right outlines the CSR progress that Micro Focus has made in the year ended 30 April 2014 across the four focus areas, with additional focus this year on the Greenhouse Gas Emissions ('GHG') reporting requirements.

CSR progress in the year ended 30 April 2014

Environment

- Micro Focus products and services can help customers to reduce their carbon footprint and adopt carbon friendly IT strategies by enabling greater efficiency and longer life from existing technology and equipment. In addition to offering organizations alternative strategies to 'rip and replace' IT policies, Micro Focus continues to develop its own policies to record, monitor and achieve improvements in its own carbon footprint;

- Continued progress towards reducing environmental emissions, renewing the 'Carbon Trust Standard' certification for a second consecutive period:

  - Micro Focus in the UK already holds the Carbon Trust Standard for Energy; and
  - Establishing processes to enable submission for Certification of Waste and Water, where eligible to join the scheme. Currently, consumption of water levels is below the threshold for reporting, but consumption monitoring will be put in place as part of an environmental dashboard for internal reporting. The Carbon Trust externally verifies Micro Focus data within its certification assessment processes;

- Fifth year of commitment to the Carbon Disclosure Project ('CDP'), further promoting and managing emission reductions across our globally located facilities:

  - Scope 1 and Scope 2 emissions reported to CDP;
  - Scores have improved year on year since joining in 2009. In this reporting period Micro Focus will be reporting a 7% absolute reduction in year on year consumption; and
  - In this year's submission, Micro Focus' response will be extended to include Forestry, Supply Chain and Water;

- Carbon Reduction Commitment Energy Efficiency Scheme – Micro Focus falls below the minimum threshold for entry into the scheme so there is no requirement to submit data. Despite this, the Company is committed to continue disclosing its carbon data via CDP externally published reports;

- On-going commitment to promote electronic product distribution, with approximately 95% of all electronic and approximately 5% physical distribution of products;

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

- Further improvements across all locations either by moving to more modern and efficient office environments or by improving the assets already deployed. Part of Micro Focus' decision making process when sourcing locations is to identify LEED ratings wherever possible. In recent years four premises moves have been from buildings with no LEED rating to sites with Silver, Gold and Platinum ratings;

- Continued landlord performance monitoring in all locations where Micro Focus operations are sited in leasehold premises;

- Re-deployed and consolidated data-centre power optimization thereby improving efficiencies and reducing cost and consumption;

- In the UK headquarters various environmental project investments have delivered further energy efficiencies such as a voltage optimizer, new lighting and the replacement of old boilers with modern, more energy efficient heating systems. Additional initiatives are being evaluated to further reduce emissions; and

- Having achieved an annual increase in office waste recycling capabilities by almost 20% in the prior year, the roll out of recycling has continued across the organization and processes are being adapted to monitor, measure and report these results in the future.

Greenhouse Gas Emissions ('GHG')

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

Reporting year

- The GHG reporting year is the same as Micro Focus' fiscal year being 1 May 2013 to 30 April 2014 to align with financial reporting and the relevant CDP reporting time frame.

Organization boundary and responsibility

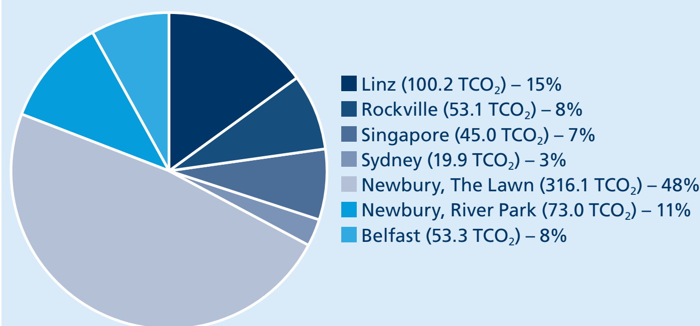
- In accordance with the definitional requirements of the 'Regulations', in respect of emissions for which Micro Focus is responsible, emissions data is reported using an Operational Control approach to define the Organizational Boundary; and

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

Corporate social responsibility
continued

Environment

CO_2 (tonnes) produced – actual



Methodology

– The methodology used to calculate emissions is based on the most current set of regulations published by the Department for Environment and Rural Affairs ('DEFRA') dated June 2013. Wherever possible, the energy Companies' most current 'Energy Fuel Mix' numbers have been utilized and DEFRA's conversion factors have been inserted to calculate total GHG emissions; and

– Where the timing of the receipt of energy suppliers' periodic invoices do not match the Micro Focus reporting period, the most recent figures available have been extrapolated to ensure a full set of data has been allocated to the entire reporting period.

Scope of reporting emissions

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

  - Newbury (UK), Belfast (Northern Ireland), Sydney (Australia), Singapore, Linz (Austria), Sao Paulo (Brazil), Rockville (US) and River Park (UK);

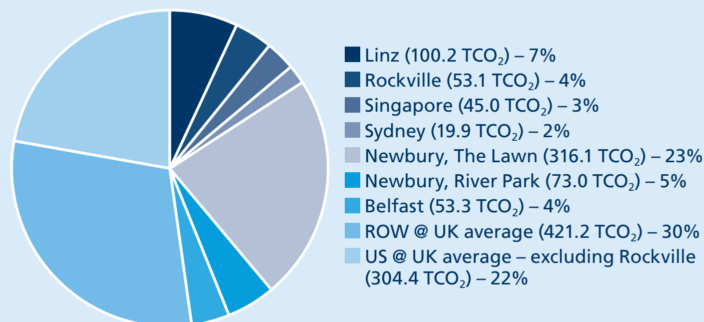
– The following locations are out of scope due to size or lack of availability of information:

  - Ismaning (Germany), Haifa (Israel), Dublin (Ireland), Madrid (Spain), Sofia (Bulgaria), Atlanta (US), Santa Clara (US), Chicago (US), Austin (US), Tokyo (Japan), Melbourne (Australia), Troy (US), New Delhi (India), Mumbai (India), Hong Kong (China), Shanghai (China), Beijing (China), Seoul (Korea), Paris (France), Schiphol (Netherlands), Brussels (Belgium), Oslo (Norway), Rome (Italy), Milan (Italy) and Sao Paulo (Brazil).

Intensity ratio

– To achieve a global picture of emissions, whilst recognizing that not all of our locations can be in scope, an intensity ratio of CO_2 per tonne/per head has been used. As not all entities are revenue generating and not all can calculate emissions, this ratio should demonstrate a more comprehensive assessment.

CO_2 (tonnes) by region



2015 targets

– During the year ended 30 April 2014, Micro Focus has made three acquisitions and managed a significant level of organizational development. This has generated physical changes within the Group's property portfolio, with many locations moving, restructuring, or increasing in size and this activity is continuing into the 2015 financial year. The expectation is for a year on year increase in overall emissions for the year ended 30 April 2015. A target of below 1% increase is expected in absolute terms, however, a year on year improvement in the intensity ratio is expected, given the environmental initiatives adopted worldwide. Given the level of organizational activity in the year ended 30 April 2014, Micro Focus expected a 1% reduction in overall emissions. A year on year reduction in absolute consumption was achieved. In terms of an intensity ratio, improvement is also expected given the environmental initiatives adopted worldwide and Micro Focus is working towards a target of 1% reduction in the next reporting period.

Charity and community support

Micro Focus supports its employees' charity and community involvement in two ways. 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. Employee engagement is actively encouraged, along agreed criteria and guidelines. A global charity was selected by the charity committee for the first half of the year, with the focus in the second six months turning to a number of local charities to achieve a balance between international and country level fundraising initiatives.

- All initiatives follow core themes of education and local community support;
- Total level of funds raised and contributed was more than $75,000, $41,700 on local causes across seven countries, $22,400 on international causes and $12,600 on national causes in the UK, US and Philippines;
- The local 'project grants' initiative was continued for the third year and in the last 12 months just under $35,000 supported 12 charity or community organizations with wide geographic spread across Micro Focus operations worldwide. Projects included:
    - 'The Harbor' in Detroit, US, which was an abandoned school that has been transformed into a recreational facility to provide children with a safe after school place, off the streets in Detroit in which to learn;
    - Thames & Kennet Narrow Boat Trust, UK, is a boat project dedicated to providing young people with an inland waterways boating experience to build their confidence and skills; and
    - Enabling an elementary school in the US to provide iPads for use by students in an underprivileged area;
- Global charity fundraising in the first six months was focused on UNICEF raising a total of $9,000 and also an ad hoc initiative to support the International Red Cross Philippines Typhoon Emergency Fund with a corporate donation of $12,000 in addition to an extra $7,400 for a further seven charities nominated by staff to help the relief efforts for this natural disaster zone;
- In the second half of the year, a broad range of local charities and initiatives were supported around Micro Focus operations in seven countries, selected within the guidelines of education and community support;
- In June 2013, the Micro Focus board and management team participated in a sponsored car wash at the Company's Newbury headquarters, raising $2,000 for the UK charity Make A Wish which enables very ill children and their families to enjoy special and memorable experiences; and
- On-going employee communications through a Charity page on the Company's Intranet and regular front page articles.

Marketplace and suppliers

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

Suppliers to the Group are sent Micro Focus' Corporate Social Responsibility charter and are encouraged to follow carbon responsible practices.

- Micro Focus currently operates a Supplier Review Programme and part of that programme is to request the details of the supplier's environmental credentials;
- At initial engagement with all suppliers information is requested to improve understanding of their environmental position and policies;
- During the year ended 30 April 2014, supplier environmental credentials have been tested further by working with The Chartered Institute of Purchasing and Supply ('CIPS') Sustainability Scheme to put processes in place to formally review the environmental performance of the Micro Focus supply chain; and
- With 12% of the supply chain currently covered by this scheme, Micro Focus has set a target of 50% by the end of the year, and work will continue with suppliers to increase scores in this area.

Corporate social responsibility
continued

Employees and ethics

During the year ended 30 April 2014, Micro Focus has continued to develop a culture that provides a rewarding and enjoyable working environment for employees who in turn are able to develop their careers in a professional and successful organization. The development of talent delivers an essential base from which the Group can achieve its objectives. During the year, recruitment and retention programmes have developed through comprehensive training and performance management initiatives across the organization.

- Key HR metrics at 30 April 2014:
  - Total number of employees worldwide – 1,237 (1,227 full time equivalent 'FTE');
  - Total workforce worldwide – 1,356 including temporary/contractors (1,340 FTE);
  - Percentage of women – employees worldwide – 27.9% (2013: 27.9%);
  - Percentage of women – senior management – 14.8% (2013: 17.1%);
  - Percentage of women – governance body – 22.2% (two out of nine including Company Secretary) (2013: 28.6%);
- Micro Focus continues to strive for a diverse range of candidates for new roles – 50% female intake achieved in 'Sales Academy' hiring of 56 new trainees;
- The Micro Focus Sales Academy was launched to hire and train graduate level recruits with identified potential for sales roles. Trainees enjoyed an intensive 13 week training programme and, after graduation, were deployed into sales teams worldwide;
- A half year bonus was paid to 670 eligible employees. A full year bonus will be paid to 685 eligible employees;
- Comprehensive six monthly and full year performance management reviews of all non-sales employees. 92% of employee population completed a half year performance management plan ('PMP') and 98.5% completed the full year PMP;
- Continued roll out of the international Share Save Scheme which is now available to 96% of all employees, where 35% of eligible employees in 23 countries worldwide chose to participate (up from 30% at 30 April 2013);
- Regular employee communications through intranet, video, email, and monthly 'town hall' meetings;
- Online 'on-boarding' tool launched in prior year is now being used for all new hires and is enhancing new employee integration, induction training and engagement;
- New performance review system launched during the year ended 30 April 2014; trialled in the first six months reviews and extended to the whole Company at year end;
- Maintained excellent record in health and safety matters for all employees (no reportable incidents in the last 12 months); and
- Continued commitment to Anti-Bribery and Data Protection training through regular communications and online courses during the period as well as continuous checks to ensure compliance with anti-bribery, data protection and market abuse and insider dealing laws.

1,237

Total number of employees worldwide – 1,237 (1,227 full time equivalent 'FTE')

Directors' approval statement

The strategic report, as set out on pages 2 to 24, has been reviewed and approved by our board of directors.

Kevin Loosemore
Executive Chairman

Executive Chairman's introduction

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

During the financial year ended 30 April 2014, the board has considered future succession planning in relation to my role as Executive Chairman and has announced that there will be a transition back to the separate roles of a Chairman and a Chief Executive in 12 to 24 months. Following a review of the balance and skills of the board (as described in the nomination report) a new non-executive director and a Chief Operating Officer were appointed during the year. I believe that the board is well balanced, with a broad range of skills and a good understanding of the market in which we operate and the challenges which we face. During the next financial year, we will continue to review proactively the business decisions made and the governance framework in which we operate.

Kevin Loosemore
Executive Chairman
18 June 2014

Board of directors

1. 2. 3. 4.

1. Kevin Loosemore, 55
(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, 51
(Chief Financial Officer)
Mike joined Micro Focus on 7 September 2010 and was previously Chief Executive Officer at Morse plc, following his initial role as Group Finance Director. Mike left Morse plc in July 2010 following the turnaround and successful corporate sale to 2e2 in June 2010. From 1998 to 2007, Mike was Group Finance Director at Microgen plc and played a lead role in the transformation of the company to an international software and services business with sustainable and profitable growth. Earlier roles include seven years corporate finance work at Smith & Williamson, as well as two years at PricewaterhouseCoopers LLP 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. Stephen Murdoch, 47
(Chief Operating Officer)
As Chief Operating Officer, Stephen is responsible for the day to day execution of Micro Focus operations. Stephen has a 25 year track record of success in the IT industry spanning hardware, software and services. He has held senior executive positions in general management, sales and strategy with IBM and Dell. Most recently, Stephen was the General Manager of Europe, Middle East and Africa for Dell's Public Sector and Large Commercial Enterprise business unit. Stephen joined Micro Focus on 5 November 2012 as General Manager of Products and Marketing Strategy and became a director on 16 April 2014.

4. David Maloney, 58
(Senior independent non-executive director and Deputy Chairman) *†‡
David is also the senior independent non-executive director of Cineworld Group plc, Enterprise Inns plc and Stock Spirits Group plc. In addition he is 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 senior independent non-executive 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.

5. 6. 7. 8.

5. Karen Slatford, 57
(Non-executive director) *†‡

Karen is Chair of Volex plc, The Foundry, a leading special effects software company, e-conomic international, a SaaS based accounting software provider, and also a non-executive director at Cambridge Broadband Networks Ltd and Intelliflo Ltd. Prior to her current board responsibilities, she has held various roles at board level since 2001 at a range of technology companies, including 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.

6. Richard Atkins, 62
(Non-executive director) *†

Richard is currently a non-executive director of Aon UK Limited and Chairman of Acora Limited, Entanet International Limited, Sub 10 Systems Limited and Miles 33 Limited. He was previously a non-executive director at Compel plc, Morse plc, Global Crossing (UK) Telecommunications Ltd, Global Crossing (UK) Finance plc and Message Labs Ltd. He was previously non-executive Chairman of TripleArc plc, Easynet and 7city. He has spent the majority of his career within the IT industry, most recently at IBM Global Services, where he held a number of senior general management positions. In 1991 as Finance Director he led the MBO of Data Services Ltd from Thorn EMI plc before managing its acquisition by IBM in 1996. Richard qualified as a Chartered Accountant with Ernst & Young. He was appointed as a non-executive director of Micro Focus on 16 April 2014.

7. Tom Skelton, 53
(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.

8. Tom Virden, 56
(Non-executive director) *†

Tom is a non-executive director of Atari SA. (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 localized sites in France, Germany, Sweden, Italy, Spain, Netherlands, Australia and Ireland. Prior to that, he was Vice President, Marketing at Digidesign, a California company that brought digital multitrack recording and editing to personal computers. Tom has also started and led a number of technology companies including Katz Media SARL, Virtual European Office (VEO), and most recently, Boatbookings.com, the world's largest online yacht charter site, with 8,000 yachts worldwide. Tom holds a Bachelor of Arts, Double Major in Psychology and Economics from Stanford University in the US.

* Audit committee
† Remuneration committee
‡ Nomination committee

Corporate governance report

The principal corporate governance guidance that applies to companies listed with the UK Listing Authority during the year reported on is contained in the Financial Reporting Council's UK Corporate Governance Code 2012 (the 'Corporate Governance Code'), which is available at www.frc.org.uk.

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 utilise the proven leadership qualities and significant experience of Kevin Loosemore through a challenging period for the Company and to ensure the on-going commercial success of the Company. Furthermore, Kevin Loosemore has been with the Company since its flotation in 2005 and has therefore provided stability and continuity through his detailed understanding of the Group's operations and the markets in which it operates. In order to mitigate any potential concerns over the combined role, David Maloney was also appointed as Deputy Chairman on 14 April 2011 and continues to perform his role as senior independent non-executive director. On 15 April 2014 the Company announced that the board plans to separate the roles of Chairman and Chief Executive over the coming 12 to 24 months. This will include the evaluation of internal and external candidates for the role of Chief Executive whilst at all times aiming to ensure continued focus on performance.

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. Also, in his role as Deputy Chairman and senior independent director, David Maloney leads on governance issues, including the annual review of board effectiveness, and acts as an intermediary, if necessary, between non-executive directors and the Executive Chairman and between the Company and shareholders, providing a point of contact for those shareholders who wish to raise issues with the board, other than through the Executive Chairman. In addition, the non-executive directors have met without the Executive Chairman present to appraise the Executive Chairman's performance. The meeting was chaired by the Deputy Chairman and senior independent director, David Maloney. The board also has a clear majority of independent directors, with five out of eight directors being fully independent.

David Maloney will retire from the board at the AGM in September 2014 having served for nine years and Karen Slatford will assume the role of senior independent director at the AGM and assume the duties fulfilled by David Maloney as Deputy Chairman to the point where the Chairman and Chief Executive Officer roles are split. Richard Atkins has been appointed as a non-executive director during the year and will replace David Maloney as chairman of the audit committee following the sign-off of the 30 April 2014 Annual Report and Accounts on 18 June 2014.

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 38 to 57) the following section sets out how the board has applied these principles.

The board

The Group is controlled by the board, which is responsible for the Group's system of corporate governance. The biographies of each director can be found on pages 26 and 27. As at 30 April 2014, the board comprised eight directors:

Kevin Loosemore	Executive Chairman
Mike Phillips	Chief Financial Officer
Stephen Murdoch	Chief Operating Officer (appointed 16 April 2014)
David Maloney	Senior independent non-executive director and Deputy Chairman
Tom Skelton	Non-executive director
Karen Slatford	Non-executive director
Tom Virden	Non-executive director
Richard Atkins	Non-executive director (appointed 16 April 2014)

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 senior independent non-executive director and Deputy Chairman, Tom Skelton, Karen Slatford, Tom Virden and Richard Atkins, 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. The letters of appointment for the non-executive directors are available for inspection by any person at the Company's registered office during normal business hours and at the AGM (during, and for 15 minutes prior to, the meeting).

For the year ended 30 April 2015, the board has scheduled meetings on a regular basis approximately every one to two months, with additional meetings when circumstances and business dictate. In months in which the board does not meet update calls are scheduled to review progress. All directors receive an agenda and board papers in advance of meetings to help them make an effective contribution at the meetings. The board makes full use of appropriate technology as a means of updating and informing all its members. Board papers are circulated electronically to a tablet device, allowing directors to access documentation more easily and securely. The executive directors ensure regular informal contact is maintained with non-executive directors who are invited to accompany the executive directors when visiting the Group's offices.

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

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

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

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

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

Corporate governance report
continued

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

In 2012 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. Russell Reynolds has no other connection with the Company. Last year and during the year under review, the evaluation of the board was conducted internally and took the form of surveys completed by members of the board with respect to the performance of the board and each of its committees, as well as individual director surveys. The surveys included assessment of the effectiveness of the performance of the board and its committees and compliance with corporate governance principles. A summary of the results of the evaluation was discussed by each of the committees and by the board. The evaluation found the performance of each director to be effective, that each director had demonstrated commitment to the role and that the board had provided effective leadership and control. The evaluation established that the board had a good balance of skills and personalities and continued to operate in a culture of openness and mutual respect. The results of the evaluation are used to assist the board in developing its approach going forward and included recommendations to continue refining the succession planning and developing and retaining executive talent, which are being implemented.

An external evaluation will be conducted in 2015.

Attendance at meetings

The number of board meetings and committee meetings attended by each director in the year ended 30 April 2014 was as follows:

	Board		Audit committee		Remuneration committee		Nomination committee	
	Held*	Attended	Held*	Attended	Held	Attended	Held	Attended
Kevin Loosemore	7	7	–	–	–	–	5	5
Mike Phillips	7	7	–	–	–	–	–	–
Stephen Murdoch[1]	1	1	–	–	–	–	–	–
David Maloney	7	7	4	4	5	5	5	5
Tom Skelton	7	7	4	4	5	5	5	5
Karen Slatford	7	6	4	4	5	5	–	–
Tom Virden	7	7	4	4	5	5	–	–
Richard Atkins[1]	1	1	1	1	–	–	–	–

* During period of appointment.

1 Stephen Murdoch and Richard Atkins were appointed on 16 April 2014.

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.

Remuneration committee

Details of the remuneration committee are described in the remuneration report on pages 38 to 57.

Accountability and audit

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

This responsibility is administered primarily by the audit committee and details of how this was done are described in the audit committee report on pages 32 to 36.

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.

Management structure

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

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

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

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

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

Announcements

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

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

Budgetary process

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

Insurance

The Group keeps under review 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 Deputy Chairman and senior independent non-executive director) and the other non-executive directors are available to meet with shareholders as and when required in order to develop a balanced understanding of the issues and concerns particularly of major shareholders. The whole board is kept up to date at its regular meetings with the views of shareholders and analysts. External analysts' reports are also circulated to directors.

The Company's website (www.microfocus.com) 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 25 September 2014 at 9am (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 59 of the directors' report and in note 23 to the financial statements.

Audit committee report

Chairman's introduction

Dear fellow shareholders,

I am pleased to report on the activities of the audit committee (the 'committee') during the year ended 30 April 2014, a year that has seen a number of regulatory changes which have reinforced the role of the committee, on behalf of the board, in ensuring that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable.

In this report I have detailed how the committee has discharged its responsibilities in relation to the three areas highlighted in the recently revised Corporate Governance Code, being

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

Composition of the committee

The committee was chaired during the year by myself with the other non-executive directors, Karen Slatford, Tom Skelton, Tom Virden and Richard Atkins (from his appointment on 16 April 2014) being members of the committee. By virtue of my former executive and current non-executive responsibilities (full details of which are set out on page 28) the board considers that I have recent and relevant financial experience and that all members of the committee are independent.

Following the annual cycle of work of the audit committee, the committee concluded that sound risk management and internal control systems had been maintained during the year. With respect to risk management, the committee was satisfied that there was a high level of assurance provided by the internal auditors, KPMG Audit PLC ('KPMG'), the external audit review conducted by PricewaterhouseCoopers LLP ('PwC') at the half-year and full year and the information provided by the senior management. The committee was satisfied that the Annual Report and Accounts, taken as a whole, provides a fair, balanced and understandable assessment of the Company's position at 30 April 2014 and the information necessary for shareholders to assess the Company's performance, business model and strategy.

Committee responsibilities

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

The written terms of reference of the committee are reviewed annually and have been updated to reflect recent changes to the UK Corporate Governance Code 2012 requiring a determination as to whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. The committee is satisfied that the terms of reference enable it to fulfil its responsibilities. The terms of reference include, among other things, the following responsibilities:

- To report to the board on its proceedings, identifying any matters in respect of which it considers that action or improvement is needed and 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 auditors, considering audit fees and fees for non-audit work and making recommendations to the board in relation to the appointment, reappointment and removal of the Company's external auditor.

The audit committee's terms of reference can be found on the Company's website at www.microfocus.com.

What the committee did during the year ended 30 April 2014

The committee met four times during the financial year, during which time, in addition to standing items on the agenda, we:

– Reviewed the interim and year end results and preliminary announcements;

– Received and considered, as part of the review of interim and annual financial statements, reports from the external auditor in respect of the auditors' review of the interim results, the audit plan for the year and the results of the annual audit. These reports included the scope of the interim review and annual audit, the approach to be adopted by the auditors to address and conclude upon key estimates and other key audit areas, the basis on which the auditors assess materiality, the terms of engagement for the auditors and an on-going assessment of the impact of future accounting developments for the Group;

– Considered the Annual Report and Accounts in the context of fair, balanced and understandable and reviewed the content of a paper prepared by management with regard to this principle in relation to the 2014 Annual Report and Accounts. This provided us with the supporting detail to ensure that we were in a position to report to the board that the 2014 Annual Report and Accounts when taken as a whole were fair, balanced and understandable on the basis that the description of the business agrees with our own understanding, the risks reflect the issues that concern us, appropriate weight has been given to the 'good and bad' news, the discussion of performance properly reflects the 'story' of the year and that there is a clear and well-articulated link between all areas of disclosure;

– Reviewed a report from the internal auditors' KPMG on the investigation into the misstatement of revenues in the Group's Indian Sales Channel and recommended to the board how the restatement of revenues should be explained and concluded that the monies received should be returned to the appropriate parties;

– Considered the effectiveness and independence of the external audit and recommended to the board the re-appointment of PwC as external auditors;

– Received reports from management concerning various historical taxation issues;

– Considered and agreed the annual internal audit plan and reviewed reports of the work done by internal audit in respect of those plans;

– Considered the review of material business risks, including reviewing internal control processes used to identify and monitor principal risks and uncertainties;

– Reviewed the effectiveness of the Group's whistleblowing policy;

– Reviewed the committee's composition and confirmed that there is sufficient expertise and resource for us to fulfil our responsibilities effectively; and

– Reviewed the committee's terms of reference; and carried out an annual review of the committee's performance.

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

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

Significant issues considered in relation to the financial statements

During the year the committee in conjunction with management and the external auditors considered and concluded on what the significant issues were in relation to the financial statements and how these would be addressed.

Revenue recognition

The Group has a detailed policy on revenue recognition for each category of revenue: Licence, Maintenance and Consultancy. This includes the application of rules relating to the allocation of fair values between these categories in accordance with the policy and the timing of their recognition. As is the case with many technology companies the profile of sales is weighted to the end of the financial quarter. Other than in the case of subscription Licence, Maintenance and Consultancy revenue the impact on recognized revenue is also weighted to the end of each financial quarter. This can lead to the risk of misstatement of revenues from one period to the next. In addition, the key guidance measure that management provide to the market is constant currency revenue growth which at the beginning of the year was a range of 5% and at the Interims was narrowed to a 3% range. This equates to a range of $20m reducing to a range of $12m.

The committee received a paper from management on revenue recognition methodology and the appropriateness of allocation of fair values between Licence, Maintenance and Consulting as presented in the financial statements, which concluded that no change to the allocation of fair values was necessary. The committee also considered the controls that management has in place to ensure that the fair value allocation of revenue is appropriate. The external auditors reported that they target tested in detail all larger deals above a certain threshold and had not identified any exceptions. This testing covered 28% of Licence revenue in the year. They had also tested a sample of transactions from the remaining population and tested the operation of certain key controls over fair value allocation and found these to be operating satisfactorily.

Audit committee report
continued

A close relationship between revenue recognition and cash collection is a good indicator of solid revenue recognition policies and the Group has a very satisfactory cash conversion ratio, low level of days sales outstanding and bad debt provision. At the half year the Company restated prior year revenues for a misstatement of revenues in its Indian Sales Channel. This was an unusual situation as most of the revenue recognized by the Company had been received in cash. The committee appointed the forensic department of KPMG to undertake a full investigation that provided comfort that this was an isolated incident. The report identified areas of risk that could exist in higher risk countries and following their report, management has implemented stronger controls in these countries in order to minimize the risk of any reoccurrence.

All monies have been repaid to the affected customers/partners of Micro Focus and this matter is now closed. Management reported to the committee that they were not aware of any other revenue reporting irregularities similar to those in India. Management proposed to the committee that, due to the material qualitative impact on the relative revenue performance, the financial statements for prior years be restated. The committee considered the proposal and concluded that a restatement was the correct action and also agreed on the relevant disclosures in the financial statements.

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

Tax provisions
As set out on page 14 the Group has had lower cash than the consolidated statement of comprehensive income tax rate due to an on-going claim with HMRC. The Group also has a number of tax provisions and deferred tax assets that are subject to a degree of judgement in determining the value in the financial statements.

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

On the basis of the above the committee concluded that the Group's tax provisions are appropriate.

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

The committee considered the method of testing for potential impairment used by management and the reasonableness of the assumptions applied. The committee addressed this through consideration of a report from management covering these areas and detailing both the capitalization and amortization processes applied and the new expenditure that was capitalized. It also looked at the levels that were capitalized in relation to Licence revenue generated and capitalized costs as a percentage of the total research and development costs of the Group in the year and also in relation to prior years. Following a review during the year of the process by KPMG, management implemented some improvements. The external auditors looked at these improvements and observed that there had been an improvement since the KPMG review. The committee concluded that the assumptions made by management were reasonable and the carrying value of capitalized development costs was appropriate.

Assessment of effectiveness of external audit
The committee reviewed the performance of the external auditors taking into account the fulfilment of the agreed audit plan and amendments to it, input from management, responses to questions from the committee and audit findings reported to the committee. As part of this process the committee reviewed the feedback from the 'Public Report on the Audit Quality Inspection of PricewaterhouseCoopers LLP', issued by the FRC in May 2014.

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

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

The current external auditors, PwC, have been auditors since Micro Focus became a UK listed company in 2005 at which time they were also the tax advisors to the Group. In 2008 Micro Focus appointed Deloitte as principal tax advisors for the Group and they remain in that position today. The external audit has not been formally tendered in the period since Micro Focus became a listed company.

The committee approves all significant non-audit work greater than £25,000 commissioned from the external auditors. During the year the fees paid to the auditor were $786,000 (2013: $825,000) for audit services and $560,000 (2013: $214,000) for non-audit services. The majority of the non-audit services provided by the auditors were in respect of the Return of Value ($64,000) and financial due diligence work on one acquisition and one aborted acquisition ($472,000). The committee concluded that it was in the interests of the Group to use the auditors for this work as they were considered to be best placed to provide these services. Auditor objectivity was safeguarded by the committee considering several factors: the standing and experience of

the external audit partner; the nature and level of services provided by the external auditors; and confirmation from the external auditors that they have complied with relevant UK independence standards.

External audit appointment

The committee reviews and makes recommendations with regard to the reappointment of the external auditors. In making these recommendations, the committee considers auditor effectiveness and independence, partner rotation and any other factors that may impact the external auditors' reappointment. The external auditors are required to rotate the audit partner every five years. The most recent change in audit partner happened in the year ended 30 April 2013 and, therefore, partner rotation is due in the year ended 30 April 2018. The current external auditors, PwC, have been auditors since IPO. The committee is confident that the effectiveness and independence of the external auditors is not impaired in any way. There are no contractual restrictions on the choice of external auditors and therefore a resolution proposing the reappointment of PwC as external auditors will be put to the shareholders at the 2014 Annual General Meeting. The committee will continue to assess the effectiveness and independence of the external auditors. In doing so, the committee will consider a formal tender process in accordance with the provisions of the UK Corporate Governance Code 2012 and the European Commission Audit Reform proposals. The committee are monitoring the current proposals on tendering and once they are finalised will determine when the Group's audit should be placed out to tender.

Internal audit

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

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

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

Effective internal control and risk management

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

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

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

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

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

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

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.

Audit committee report
continued

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

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

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

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

- There are Group policies covering what is reported monthly to the board and the executive committee. The Group's financial reporting system has been guided by the requirement to ensure consistency and visibility of management information to enable the board and the executive team to review the Group's worldwide operations effectively;
- Cash 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;
- All the major trading entities completed a self-assessment on the effectiveness of their internal control environment;
- The consolidation process entails the combining and adjusting of financial information 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. Note 1, Group accounting policies, sets out the basis of preparation and consolidation, including the elimination of inter-company transactions, balances and unrealized gains between Group companies;
- Financial information from subsidiaries is 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.

There have been no significant changes in the Company's internal control over financial reporting during the year under review that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting. As a result of the India issue, the Company has improved its controls over revenue in high risk countries.

The board, with advice from the committee, is satisfied that an effective system of internal control and risk management processes are in place which enable the Company to identify, evaluate and manage keys risks and which accord with the guidance of the Turnbull guidance on internal control updated by the FRC in 2005. These processes have been in place since the start of the financial year up to the date of approval of the accounts. Further details on the risks faced by the Group are set out on pages 18 and 19.

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

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

David Maloney
Chairman of the Audit committee
18 June 2014

Nomination committee report

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

The committee is responsible to the full board for proposing candidates to the board, having regard to the balance and structure of the board and takes into consideration the benefits of diversity in terms of both gender and ethnicity. The committee uses consultants to identify suitable candidates 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, experience, independence and knowledge on the board. All board appointments will be made on merit based on the aim of achieving a correct balance. The board intends to move in the medium-term to a composition where in excess of 25% of members are female provided the above principle is not compromised. The Group has formal policies to promote equality of opportunity, across the whole organization. Currently, the board comprises seven men (87.5%) and one woman (12.5%) and the Company Secretary who is also a woman. As opportunities arise the board will seek to increase the presence of women on the board consistent with the above policy.

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

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

The committee's terms of reference can be found on the Company's website: www.microfocus.com.

During the year the committee was responsible for the search and selection process for a new non-executive director. This was led by the Deputy Chairman and the committee appointed Odgers Berndtson to assist. The committee discussed and agreed a detailed specification which was provided to Odgers Berndtson who do not have any other connection with the Company. This took account of the existing directors' skill sets and experience as well as the overall diversity of the board. Odgers Berndtson were specifically asked to present a minimum of one third female candidates. Following an initial search and preliminary interviews by the chairs of both the nomination and remuneration committees, a shortlist was recommended to the committee and subsequently the board. All qualified female candidates approached to join the shortlist expressed a preference to seek positions in FTSE100 companies. The process culminated in the appointment of Richard Atkins as an independent non-executive director with effect from 16 April 2014. In addition the committee reviewed the board succession plan.

The committee also recommended the appointment of Stephen Murdoch as Chief Operating Officer and as an executive director of the Company. In addition the committee discussed and revised the succession plans and individual plans for the executive committee and the top talent/critical employees within the Group.

Directors' Remuneration report

Remuneration committee Chairman's statement

On behalf of your board, I am pleased to present our Directors' Remuneration report for the financial year ended 30 April 2014. In August 2013, the UK Government Department for Business Innovation & Skills (BIS) published regulations setting out what companies must disclose in the Directors' Remuneration report with the aim of improving transparency and promoting best practice. This report is therefore divided into three sections:

- This Remuneration committee (the 'committee') Chairman's statement;
- The Directors' Remuneration Policy, which details Micro Focus' remuneration policies and their link to Group strategy, as well as projected pay outcomes under various performance scenarios; and
- The Annual Report on Remuneration, which focuses on the remuneration arrangements and outcomes for the year under review, and how the committee intends to implement the remuneration policy in the year ended 30 April 2015.

The Directors' Remuneration Policy (set out on pages 40 to 47) will be put to shareholders for approval in a binding vote at the forthcoming AGM on 25 September 2014, and every three years thereafter. The Annual Report on Remuneration will be subject to an advisory vote at the forthcoming AGM. We hope that you find the report to be clear, transparent and consistent with the new reporting requirements. We continue to monitor best practice in this area and to consult with our shareholders and other stakeholders and we welcome feedback on any issue regarding this report or executive remuneration.

Business context

The Company has a clear strategy that defines an operating and financial model to deliver superior shareholder return. This model is underpinned by a remuneration model that ensures rewards only accrue as value is delivered to shareholders.

In the year ended 30 April 2014 the Company has delivered another strong financial performance and returns for shareholders. Constant currency (CCY) revenue growth at 6.4% was marginally ahead of the guidance that had been given with a return to organic revenue growth in the second half of the year. Underlying Adjusted EBITDA increased to $196.4m at a margin of 45.3%. Our KPI of shareholder return in the year to 30 April 2014 was 19.7% which is towards the upper end of the range of our core objective to deliver 15% to 20% per annum.

Since March 2011, when our market capitalization was £635m, we have returned £424.3m in cash to shareholders through share buy-back, dividends and Returns of Value and our market capitalization has increased to £1,081.4m. During this period we have improved the operational efficiency of the business by increasing the Underlying Adjusted EBITDA margin from 35.5% to 45.3% and taking the absolute figure from $155.0m to $196.4m. Long-Term Incentive Plan ('LTIP') awards granted in the year ended 30 April 2011 based on three year cumulative earnings per share growth vested at 100% and those based on cumulative earnings per share growth and absolute shareholder return are expected to vest at 150%. On 14 April 2011 the Company appointed Kevin Loosemore as Executive Chairman combining the roles of Chairman and Chief Executive Officer. As announced on 15 April 2014, his recruitment Share Incentive vested at 198.67%.

As also announced on 15 April 2014, the board plans to conduct an orderly separation of the roles of Chairman and Chief Executive Officer over the coming 12 to 24 months. This will include the evaluation of internal and external candidates for the role of Chief Executive Officer whilst at all times aiming to ensure appropriate continuity and continued focus on performance. In the meantime, Kevin Loosemore will continue to be remunerated as the Executive Chairman, within the policy for executive directors as detailed on pages 40 to 47.

Remuneration decisions in the year ended 30 April 2014

The Company's Remuneration Policy has remained fundamentally unchanged during the year. Our objective is that the policy should be stable, easy to understand and aligned with shareholder returns and the business strategy.

In the final quarter of 2014, the Group undertook a review of salaries for all employees against comparative companies in the technology sector and FTSE 250. In respect of the executive directors and senior managers, the committee reviewed their salaries against the same comparators. The committee awarded the Chief Financial Officer, Mike Phillips, a salary increase of 19% to bring him in line with his peers in the industry as he had fallen significantly behind this group. This increase took effect from 1 April 2014. The Chief Operating Officer, Stephen Murdoch, was appointed to the board on 16 April 2014 and his base salary was increased by 16% with effect from 1 May 2014 to reflect the new responsibilities of this role. No salary increase was awarded to the Executive Chairman, Kevin Loosemore, which means his base salary continued to be positioned below median when compared with the market.

The Company announced on 15 April 2014 the vesting of the Share Incentive Award granted to Kevin Loosemore when he assumed the role of Executive Chairman on 14 April 2011. The committee determined that the award under the Share Incentive Award amounted to 1,295,328 shares representing 198.67% of the base Share Incentive Award of 652,000. In accordance with the terms of the Share Incentive Award, 198.67% represents the same percentage as the return to any shareholder who had held shares throughout the period and reinvested Returns of Value. The calculation of the amount due has been verified by the Group's remuneration advisers and auditors.

On 18 April 2011, Mike Phillips received an award of 146,504 nil-cost options at zero pence per share, equal to approximately 150% of salary. Vesting of the award was based on annualized EPS growth in excess of RPI over three years ended 30 April 2014 with 100% of the award vesting if the annualized EPS growth was RPI plus 9%, The resulting level of vesting will be reduced by 25% if the Absolute Shareholder Return ('ASR') is below 150 pence or increased by 50% if the ASR is 300 pence or above. Although the vesting date is not until 1 July 2014 the committee has included this award in Mike Phillips single figure of remuneration for the year as it relates to the period under review.

Calendar of activities

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

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 the previous year; and Grants of equity awards to executives, top talent and all employee share schemes.
Q2 (August – October)	AGM	Investor engagement; and Review committee agenda for following year.
Q3 (November – January)	Strategic Outlook and Policy Review	Progress of half year business performance; On-going appropriateness and effectiveness of remuneration and benefits policies/strategy and their linkages to the overall business strategy; Review of external remuneration consultants; Review of revised remuneration reporting regulations; Corporate Governance developments; and Business objectives for the following year.
Q4 (February – April)	Year End Remuneration Approvals	Executive director, Company Secretary and executive committee remuneration reviews including benchmarking (where appropriate) 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; and Review of vesting of long-term incentive awards.

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

The effective date of the policy is 25 September 2014 which is the date shareholder approval is being sought for the policy for the first time under the new reporting rules. The policy remains consistent with that operated during the year ended 30 April 2014 and approved at the AGM in September 2013 under the previous reporting framework, following extensive consultation with shareholders.

Karen Slatford
Chair of the Remuneration committee
18 June 2014

Directors' Remuneration report
continued

Directors' 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. It also takes into consideration that individuals may have different levels of experience, capability, and market demand for their services. To determine the elements and level of remuneration appropriate to each executive director, the committee considers benchmark remuneration data for selected comparable technology companies as well as a broader group of companies of a similar size to the Company.

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

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

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

Terms of reference

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

- To determine and agree with the board the framework or broad policy for the remuneration of the Company's Chairman, 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 on-going 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 under 'Investor Relations'.

The table below sets out the remuneration policy that we intend to apply, subject to shareholder approval on, 25 September 2014 (the date of the forthcoming AGM).

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

Executive Directors' Remuneration Policy table

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
Base salary			
Supports the recruitment and retention of executive directors of the calibre required to deliver the Group's strategy. Rewards executives for the performance of their role. Set at a level that allows fully flexible operation of our variable pay plans.	Normally reviewed annually. Increases generally apply from the first quarter of the financial year. When determining base salary levels, consideration is given to the following: – Pay increases for other employees of the Group; – The individual's skills, experience and responsibilities; – Pay at companies of a similar size, complexity and international scope, in particular those within the technology sector, the FTSE 250, US listed technology companies and privately owned Software companies; and – Corporate and individual performance.	Ordinarily, salary increases will be in line with increases awarded to other employees of the Group. However, increases may be made above this level at the committee's discretion to take account of individual circumstances such as: – Increase in scope and responsibility; – Increase to reflect the individual's development and performance in role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level); and – Alignment with market level.	None, although overall performance of the individual is considered by the committee when setting and reviewing salaries annually.
Benefits			
Provides a competitive and cost-effective benefits package to executives to assist them to carry out their duties effectively.	The Group provides a range of benefits which may include a car benefit (or cash equivalent), private medical insurance, permanent health insurance and life assurance. Additional benefits may also be provided in certain circumstances which may include (but are not limited to) relocation expenses, housing allowance, school fees and temporary increase in responsibilities. Other benefits may be offered if considered appropriate and reasonable by the committee.	Set at a level which the committee considers: – Appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; and – Provides a sufficient level of benefit based on the role and individual circumstances, such as relocation.	None.
Pension			
Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Defined contribution plan (with Company contributions set as a percentage of base salary). An individual may elect to receive some or all of their pension contribution as a cash allowance.	20% of base salary.	None.

Directors' Remuneration report
continued

Element of pay and alignment with strategy	Operation	Maximum opportunity	Performance measures
Annual bonus			
Rewards and incentivizes the achievement of annual financial and strategic targets.	Measures and targets are set annually and payout levels are determined by the committee after the year end based on performance against those targets. The committee may, in exceptional circumstances, amend the bonus payout should the formulaic outcome not, in the view of the committee, reflect overall business performance or individual contribution. Any such adjustments would be disclosed in the relevant year's Annual Report on Remuneration and bonuses would not exceed the stated maximum. The annual bonus is delivered in cash. In the case of fraud; mis-statement of accounts; or misconduct; claw-back provisions are in place for a period of up to one year after a bonus payment has been made.	For maximum performance: – 150% of salary for Executive Chairman; and – 100% of salary for other executive directors. The maximum bonus will be achieved by growing the Underlying Adjusted EBITDA by 10% year on year excluding the impact of in year acquisitions and currency on a straight line basis.	The measures and targets are set by the committee each year. The measures that applied for the financial year 2014, and that will apply for the financial year 2015, are described in the Annual Report on Remuneration. Targets are set that drive improvement in the underlying performance of the business ensuring a link to shareholder return. Currently measures are limited to growth in Underlying Adjusted EBITDA excluding the impact of in year acquisitions and currency. This may change if needed to support a change in business strategy.
Long-Term Incentive Plan (LTIP)			
Motivates and rewards the achievement of long-term business goals. Supports the creation of shareholder value through the delivery of strong market performance aligned with the long-term business strategy, both organic and inorganic. Supports achievement of our strategy by targeting performance under our key financial performance indicators of revenue growth and EPS growth. Aligns executive interest with those of long-term shareholders.	Contingent awards of performance shares structured as nil-cost options are made annually with vesting dependent upon the achievement of performance conditions over three years. The committee has discretion to decide whether and to what extent targets have been met, and if an exceptional event occurs that causes the committee to consider that the targets are no longer appropriate, the committee may adjust them, provided the new conditions are no tougher or easier than the original conditions at the time they were set. The committee has the discretion to adjust the LTIP outcomes to ensure alignment of pay with performance to ensure the outcome is a true reflection of the performance of the Company. Any such adjustments would be disclosed in the relevant year's Annual Report on Remuneration. There is no opportunity to re-test.	Maximum opportunity contained within the plan rules is 200% of salary. The maximum face value of annual awards will be 200% of salary.	The performance measures and respective weightings may vary year on year to reflect strategic priorities, subject to retaining at least 50% on EPS. Details of the measure and performance targets used for specific LTIP grants are included in the Annual Report on Remuneration. Threshold performance will result in 25% vesting.

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

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

Element of pay and alignment with strategy	Operation
Non-executive director fees	
Provides an appropriate reward to attract and retain high-calibre individuals.	The non-executive Chairman and non-executive directors are paid a basic fee. Additional fees are paid for chairmanship of board committees and for the roles of the senior independent director and Deputy Chairman: – Fees are currently paid in cash but the Company may choose to provide some of the fees in shares. Fees are set at a level which: – Reflects the commitment and contribution that is expected from the non-executive Chairman and non-executive directors; and – Is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market, especially companies of a similar size and international scope to Micro Focus, in particular those within the technology sector, the FTSE 250, US listed technology companies and privately owned Software companies. Fees are reviewed periodically. Increases will typically be in line with market levels of fee inflation. In exceptional circumstances (including, but not limited to, material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a non-executive director role) the board has discretion to make appropriate adjustments to fee levels to ensure they remain market competitive and fair to the director. Aggregate fees paid to non-executive directors will remain within the limit stated in our articles of association, currently £1m. Actual fee levels are disclosed in the Directors' Annual Report on Remuneration for the relevant financial year. Non-executive directors do not participate in any incentive scheme.

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

Directors' Remuneration report
continued

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

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

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

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

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

What discretions are retained by the committee in operating its incentive plans?
The committee will operate the annual bonus and LTIP according to their respective rules (or relevant documents) and in accordance with the Listing Rules where relevant. The committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans. These include, but are not limited to, the following in relation to the LTIP:

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

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

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

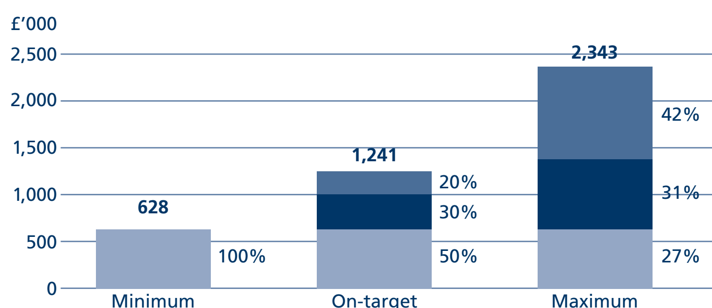
In relation to both the Company's LTIP and annual bonus plan, the committee retains the ability to adjust the targets and/or set different measures if events occur (e.g. material acquisition and/or divestment of a Group business) which cause it to determine that the conditions are no longer appropriate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

The use of discretion in relation to the Company's Sharesave and Share Incentive Plan will be as permitted under HMRC rules and the Listing Rules. Details of share awards granted to existing executive directors are set out on page 56 of the Annual Report on Remuneration. These remain eligible to vest based on their original award terms.

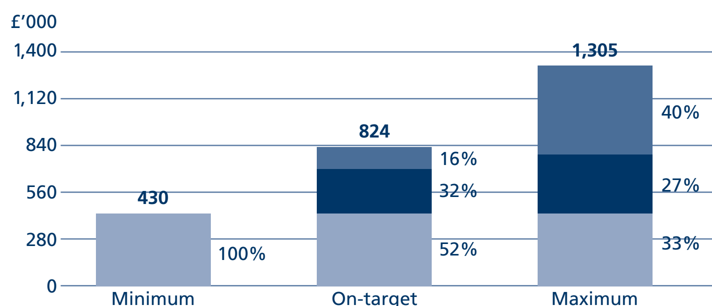
Illustrations of the application of remuneration policy

The value and composition of the executive directors' remuneration packages for the year ended 30 April 2015 at 'minimum', 'on-target' and 'maximum' scenarios under the policy are set out in the charts below. The graphs show an estimate of the remuneration that could be achieved by the executive directors under the policy set out in the report. Each bar represents the minimum amount of remuneration payable, remuneration payable at target performance and remuneration payable at maximum performance under the policy.

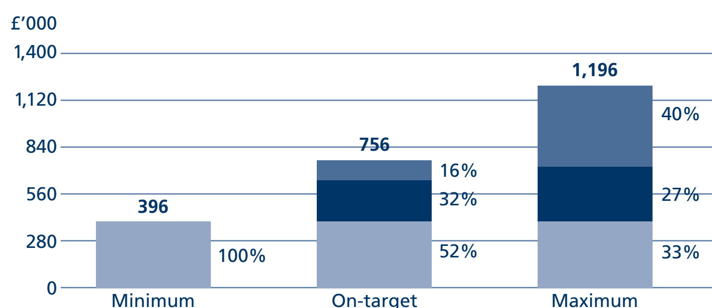
Kevin Loosemore



Mike Phillips



Stephen Murdoch



■ Long-term incentives ■ Annual bonus ■ Salary, pension and benefits

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

The 'on-target' scenario shows fixed remuneration as above, plus a payout of 50% of the maximum annual bonus and 25% vesting for long-term incentives.

The 'maximum' scenario reflects fixed remuneration, plus full payout of all incentives.

Note that the projected values exclude the impact of any share price movements.

Recruitment of executive directors

The remuneration package for a new executive director would be set in accordance with the terms of the approved remuneration policy in force at the time of appointment and taking account of the experience and skills of the individual and prevailing market conditions. In determining the appropriate remuneration structure and levels, the committee will take into consideration all relevant factors to ensure that the arrangements are in the best interests of Micro Focus and its shareholders. The committee may also make an award in respect of a new appointment to 'buy-out' incentive arrangements forfeited on leaving a previous employer and may exercise the discretion available under the relevant Listing Rule to facilitate this, i.e. in the event that a structure that is different from those detailed in the policy would be required. For example, the committee may offer additional cash and/or share based elements as part of the buy-out when it considers these to be in the best interests of the Company and, therefore, of its shareholders. Any such buy-out payments would be based solely on remuneration lost when leaving the former employer, would be no higher in fair value terms, and would reflect the delivery mechanism (i.e. cash, shares, options), time horizons and performance requirements attaching to that remuneration. However, the committee has the discretion in unforeseen and exceptional circumstances to offer awards of variable remuneration in excess of the maximums stated in the policy table if judged necessary to procure the services of the most appropriate candidate. If it were to do so, any such arrangements would be put to shareholders at the following AGM.

Internal appointment of executive directors

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

Directors' Remuneration report
continued

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

Executive directors appointed as a result of mergers and acquisitions
As merger and acquisition activity is part of the Company's strategy, the committee recognizes that such activity may give rise to situations where there are exceptional circumstances in relation to executive directors and certain senior management. Should it be necessary to match compensation in an acquired company and/or adjust compensation of existing management to deliver significant shareholder benefits then the Company may offer awards of variable remuneration in excess of the maximum stated in the policy table.

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

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

Provision	Detailed terms
Normal remuneration arrangements	Base salary, pension and benefits; Company car or cash allowance; Private health insurance; Life assurance; 25 days' paid annual leave; Participation in annual bonus plan, subject to plan rules; and Participation in LTIP, subject to plan rules.
Change of control	No special contractual provisions apply in the event of a Change of Control. Details of the treatment of LTIP awards is provided on page 47.
Notice period	A maximum of 12 months' notice from the Company or the director.
Termination payment	Payment in lieu of notice equal to: – A maximum of 12 months' base salary; – Pension supplement; and – Cash supplement in lieu of other benefits.
Restrictive covenants	During employment and for a maximum of 12 months after leaving.

Executive Director	Date of service contract
Kevin Loosemore	14 April 2011
Mike Phillips	7 September 2010
Stephen Murdoch	16 April 2014

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

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

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

In respect of Kevin Loosemore, his loss of office compensation is equal to 150% of his basic pay to reflect the value of salary and benefits.

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

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

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

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

Change of control

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

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

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

Policy in respect of external board appointments

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

Non-executive directors' terms of appointment

The non-executive directors' terms of appointment are recorded in letters of appointment. The required notice from the Company is three months in all cases. The non-executive directors are not entitled to any compensation for loss of office and stand for re-election at each AGM. Details of the letters of appointment of each non-executive director who has served as a director of the Company at any time during the financial year are set out below:

Non-executive director	Re-appointment date	Expiration date
David Maloney	14 April 2014	25 September 2014
Tom Skelton	23 October 2013	23 October 2014
Karen Slatford	5 July 2013	5 July 2016
Tom Virden	5 January 2012	5 January 2015
Richard Atkins	16 April 2014	16 April 2017

All appointments of non-executive directors are subject to election by the shareholders at the first AGM of the Company after appointment and, on an annual basis thereafter. Except for David Maloney who having served for nine years will not be standing for re-election at the forthcoming AGM, all the directors will be offering themselves for election or re-election at the AGM to be held on 25 September 2014.

Shareholding guidelines

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

Non-executive directors do not have a shareholding requirement.

Consultation with employees

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

Consideration of shareholder views

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

Annual Report on Remuneration

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

Remuneration committee membership during the year ended 30 April 2014

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

Committee member	Membership throughout the year	Number of meetings attended
Karen Slatford (Chair)	Yes	5
David Maloney	Yes	5
Tom Skelton	Yes	5
Tom Virden	Yes	5

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

Agenda during the year ended 30 April 2014

The key activities of the committee were as follows:

- Approved of the directors remuneration report for the year ended 30 April 2014;
- Reviewed salaries of the executive directors and their reportees;
- Reviewed bonus payments and LTIP against targets;
- Determined the pay out under the Executive Chairman's appointment award;
- Conducted annual review and ratification of remuneration packages for executive directors and senior executives, incorporating institutional investor feedback;
- Considered current guidelines on executive compensation from advisory bodies' and institutional investors;
- Reviewed Group wide pay and benefits;
- Established targets for annual cash bonuses for the year ended 30 April 2015; and
- Reviewed the performance and terms of reference of the committee.

External advisers

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

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

The fee incurred with Kepler in the year under review amounted to £41,997.

Single figure for total remuneration (audited)

The following table sets out the single figure for total remuneration for Directors for the financial year ended 30 April 2014 and 2013.

	Base salary and fees £'000		Benefits in kind £'000		Bonus £'000		LTIPs vested £'000		Pension £'000		Total	
Director	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Executive directors												
Kevin Loosemore	490	490	34	40	735	676	11,111	–	98	98	12,468	1,304
Mike Phillips	299	294	13	15	299	270	2,924	–	37	21	3,572	600
Stephen Murdoch	11	–	1	–	11	–	–	–	1	–	24	–
Total	**800**	**784**	**48**	**55**	**1,045**	**946**	**14,035**	**–**	**136**	**119**	**16,064**	**1,904**
Non-executive directors												
David Maloney	100	100	–	–	–	–	–	–	–	–	100	100
Tom Skelton	50	50	–	–	–	–	–	–	–	–	50	50
Karen Slatford	60	60	–	–	–	–	–	–	–	–	60	60
Tom Virden	50	50	–	–	–	–	–	–	–	–	50	50
Richard Atkins	2	–	–	–	–	–	–	–	–	–	2	–
Total non-executive directors	**262**	**260**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**262**	**260**
Total	**1,062**	**1,044**	**48**	**55**	**1,045**	**946**	**14,035**	**–**	**136**	**119**	**16,326**	**2,164**

Notes:

1. Mike Phillips' base salary was increased to £350,000 on 1 April 2014.
2. Taxable benefits for executive directors include car benefits, private medical insurance, permanent health insurance, life assurance.
3. LTIP awards vested during the year include an award for Mike Phillips that does not vest until 1 July 2014 but for which the committee believes the performance measures have been substantially completed during the year. Further details of the LTIP awards are included in the notes on pages 50 and 51.
4. Stephen Murdoch was appointed to the board on 16 April 2014 and his remuneration represents the amount due for the period from appointment to the year end. His base salary was reviewed with effect from 1 May 2014.
5. Kevin Loosemore receives a payment of 20% of base salary in lieu of a pension. The Company's pension contribution for Mike Phillips and Stephen Murdoch is 12.5% of salary or a cash payment in lieu of a pension contribution of 10.98% of salary.
6. Richard Atkins was appointed on 16 April 2014 and receives an annual fee of £50,000.

Base salary

Market positioning of base salary is approached on an individual basis, taking account of advice received from the committee's independent advisors on the rates for salary for similar roles in selected groups of comparable companies and the individual performance and experience of each executive. The aim is for base salary to be set with reference to the market median, dependent on the committee's view of individual and Group performance. The committee decided not to increase Kevin Loosemore's salary which remains below median.

The table below shows the base salary committee approved the following annual salary increases during the year:

Executive director	At 1 May 2014*	At 1 May 2013	% change
Kevin Loosemore	£490,000	£490,000	0%
Mike Phillips	£350,000	£294,000	19%
Stephen Murdoch	£320,000	£275,000	16%

* Or from appointment to the board, in Stephen Murdoch's case.

Directors' Remuneration report
continued

Annual bonus for the year ended 30 April 2014 (audited)
For the year ended 30 April 2014, the maximum bonus opportunity was 150% of salary for Kevin Loosemore and 100% of salary for Mike Phillips and Stephen Murdoch. The executive directors are on the same bonus plan as all non-commissioned employees and their bonuses are capped at the percentages above. There is no bonus pay out if Underlying Adjusted EBITDA on a constant currency basis and excluding the impact of in year acquisitions is the same as the reported level for the previous year and maximum bonuses are earned if the increase in this measure is 10% or more. Underlying Adjusted EBITDA on a constant currency basis and excluding the impact of in year acquisitions grew by 10.4% over the reported figure for the year ended 30 April 2013 prior to the restatement.

Executive director	Maximum bonus	Bonus for 2014	% of maximum
Kevin Loosemore	£735,000	£735,000	100%
Mike Phillips	£298,667	£298,667	100%
Stephen Murdoch	£11,458	£11,458	100%

Total staff bonuses were $9.7m (2013: $7.6m).

Vesting of long-term incentives for performance to the year ended 30 April 2014
Awards granted in year ended 30 April 2011
On 7 September 2010, Mike Phillips received a recruitment award of 269,801 market value options, equal to approximately 300% of salary. Vesting of the award was based on annualized EPS growth in excess of RPI for the three financial years ended 30 April 2013.

Annualized EPS growth of the Company in excess of RPI over the Performance Period	Vesting percentage of the shares subject to an award*
Less than 11% p.a.	0%
Equal to 11% p.a.	25%
Equal to 13% p.a.	60%
Equal to or above 15% p.a.	100%

* Awards vest on a straight line basis between these points.

The Company's annualized EPS growth over the performance period was 27.57%. RPI increased by 3.84% per annum over the period resulting in 100% of the award vesting as the growth was in excess of 18.84%. The exercise price was 316.9 pence, and the share price at vest was 759.5 pence.

On 14 April 2011, Kevin Loosemore received an award of 326,000 nil-cost options at zero pence per share, equal to approximately 200% of salary and a further award of 326,000 nil-cost shares at zero pence per share, equal to approximately 200% of salary, provided that he continued to hold at least 163,000 shares over the three year vesting period.

The combined Share Incentive Award over 652,000 shares vested on a straight-line basis in line with the return delivered to shareholders over a three year performance period to 14 April 2014. To ensure alignment with shareholders the percentage of shares vesting is the same percentage as the return to any shareholder who had held shares throughout the period and reinvested Returns of Value.

This was calculated by taking the increase in share price from a start point of 300 pence; adding regular dividends and dividing by 300, to give a multiplier percentage to be used against the 652,000 base figure.

The committee determined that the award under the Share Incentive Award was 198.67% or 1,295,328 shares, based upon the average of the closing share price from 7 to 11 April 2014 (inclusive) of 832 pence. The closing mid-market price on the date of exercise was 793.75 pence. The calculation of the amount due has been verified by the Group's remuneration advisers and auditors.

In addition Kevin Loosemore's Share Incentive Award entitled him to receive dividends paid in the period on the gross number of shares. This resulted in a gross payment of £829,269 which was settled through payroll.

This award should be considered in the following context – since assuming the position of Executive Chairman, the Company has performed as follows:

– The share price has increased to 832 pence;

– There have been Returns of Value of 155 pence per share; and

– Regular dividends have been 64.02 pence per share.

As we have flagged in the last two Annual Reports, as a consequence of Kevin Loosemore's divorce, 25% of any award resulting from his share grant on 14 April 2011 was deliverable to his ex-wife as soon as such award vested.

In order to satisfy this requirement Kevin Loosemore exercised his entire award and the committee decided to satisfy Kevin Loosemore's award by granting him stock to the value of the award less applicable taxes and national insurance. As a result 686,524 shares were issued; 514,893 to Kevin Loosemore which he has retained and 171,631 to his ex-wife. We believe that this was the most appropriate way to handle the requirement.

On 18 April 2011, Mike Phillips received an award of 146,504 nil-cost options at zero pence per share, equal to approximately 150% of salary. Vesting of the award was based on annualized EPS growth in excess of RPI over the three years ended 30 April 2014 as set out in the table below.

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

The resulting level of vesting will be reduced by 25% if the ASR is below 150 pence or increased by 50% if the ASR is 300 pence or above. ASR at vesting is to be calculated by the committee as the share price at vesting less the reference price of 291.8 pence plus dividends per share over the vesting period. The annualized EPS growth over the period exceeded 11.94% being RPI plus 9% and so 100% of the award vested. In order for the ASR to be less than 300 pence, the share price on the vesting date of 1 July 2014 would need to be 527.77 pence, and therefore the committee believe that the amount of the award that will vest is 150%, or 219,756 options. These options are valued at the average share price in the last quarter of this financial year being 787 pence and it is unlikely that the share price will fall below 527.77 pence in the next two weeks. Consequently, the committee has included the value of this increased award at 787 pence in the vested LTIPs for Mike Phillips in the year. The award will not vest until 1 July 2014 and any change in the value of the award will be reflected in next year's remuneration report.

Directors' Remuneration report
continued

Share interest awards made during the year (audited)

On 26 June 2013, Kevin Loosemore and Mike Phillips were granted awards of nil-cost options under the LTIP. Details are provided in the table below. The three year period over which performance will be measured will be 1 May 2013 to 30 April 2016. The awards are eligible to vest on the third anniversary of the date of grant (i.e. 26 June 2016), subject to EPS performance.

Executive director	Date of grant	Awards made during the year	Middle market closing price at date of award	Face value at date of award	Face value at date of award (% of salary)
Kevin Loosemore	26 June 2013	142,132	689.5p	£980,000	200%
Mike Phillips	26 June 2013	63,959	689.5p	£440,997	150%

The table below sets out targets for the EPS measure and vesting of the awards:

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

Percentage change in Executive Chairman remuneration

The table below shows the percentage change in the Executive Chairman's remuneration from the prior year compared to the average percentage change in remuneration for all staff who were on the corporate bonus scheme and were employed at the beginning and end of the financial year. We have selected our staff on the corporate bonus scheme (around 640 staff) for this comparison as it is considered to be the most relevant for structure of remuneration.

	Executive Chairman £000			Other employees
	2014	2013	% change	% change
Salary	**490**	490	+0.0%	+1.9%
Taxable benefits	**34**	40	-15.0%	+2.5%
Annual performance bonus	**735**	676	+8.7%	+21.5%
Total	**1,259**	1,206	+4.4%	+4.2%

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (i.e. dividends and share buy-backs) from the financial year ended 30 April 2013 to the financial year ended 30 April 2014.

	2014 $m	2013 $m	% change
Distribution to shareholders			
– Dividends paid	**62.6**	57.2	+9.4%
– Return of Value	**144.7**	131.2	+10.3%
Employee remuneration	**173.1**	164.2	+5.4%

The directors are proposing a final dividend for the year ended 30 April 2014 of 30.0 cents (17.7 pence) per share (2013: 28.1 cents (17.9 pence)).

Payments for loss of office (audited)

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

Payments to past directors (audited)

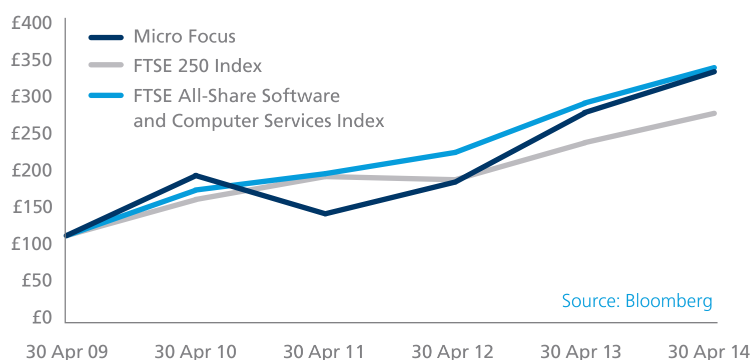
There were no payments to past directors during the year.

Other directorships
Mike Phillips acted in the capacity of a non-executive director of Parity Group Plc until the 26 September 2013, for which he received a fee of £40,000 per annum.

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

The graph below shows the value, by 30 April 2014, of £100 invested in Micro Focus International plc on 30 April 2009 compared with the value of £100 invested in the FTSE 250 and the FTSE All-Share Software and Computer Services Indices. The intervening points are at financial year ends. The FTSE 250 and the FTSE All-Share Software and Computer Services Indices have been chosen as they are considered the most relevant indices for comparison with the Company.

Historical TSR performance
Growth in the value of a hypothetical £100 holding over the five years to 30 April 2014.



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

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

Directors' Remuneration report
continued

Implementation of executive director remuneration policy for the year ended 30 April 2015

Base salary

The committee approved the following salaries for executive directors for the year ended 30 April 2015.

Executive director	% change	£'000
Kevin Loosemore	0%	490
Mike Phillips	19%	350
Stephen Murdoch	16%	320

A salary increase averaging 3% across the Group was awarded at the annual pay review, effective 1 May 2014. With regard to the Chief Financial Officer, Mike Phillips, the committee awarded a salary increase of 19% to bring him in line with his peers in the industry as he had fallen significantly behind his peer group (based on companies in the technology sector and the FTSE 250). Stephen Murdoch was appointed to the board as Chief Operating Officer on 16 April 2014 and his new salary takes effect from 1 May 2014. The increase reflects the change in his responsibilities on his promotion to Chief Operating Officer. No change was made to Kevin Loosemore's base salary which remains below median relative to comparable companies.

Pension

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

Annual bonus

The annual bonus for the financial year ended 30 April 2015 will operate on the same basis as the year ended 30 April 2014. The committee has approved a maximum bonus opportunity of 150% of salary for the Executive Chairman and 100% for the other executive directors.

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

LTIP

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

There will be no change to the performance conditions to the LTIP which are as follows:

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

Awards will vest three years from the grant date. Further details of the grant date and quantum of shares will be disclosed in the 2015 Annual Report on Remuneration.

Implementation of non-executive director remuneration for the year ended 30 April 2015

Following the annual benchmarking of non-executive director fees in March 2014, the board determined that there should be no changes in fees for the financial year ended 30 April 2015.

Non-executive director base fee	£50,000 per annum
Additional fee for chairing a committee	£10,000 per annum
Additional fee for the Deputy Chairman	£40,000 per annum

Directors' shareholdings and share interests (audited)

The table below shows the shareholding of each director against their respective shareholding requirement as at 30 April 2014:

		Nil-cost options held		Options				
Director	Shares held (owned outright)	Vested but not exercised	Unvested and subject to performance	Vested but not exercised	Unvested and subject to performance	Shareholding requirement (% of salary)	Current shareholding (% of salary)	Requirement met?
Kevin Loosemore[1]	739,919	Nil	334,289	Nil	Nil	200%	1,170%	Yes
Mike Phillips[2]	130,000	Nil	296,934	Nil	Nil	150%	288%	Yes
Stephen Murdoch	–	Nil	136,121	Nil	Nil	150%	Nil	At beginning of three year build-up period
David Maloney	36,923	Nil	Nil	Nil	Nil	Nil	Nil	Yes
Tom Skelton	–	Nil	Nil	Nil	Nil	Nil	Nil	Yes
Karen Slatford	–	Nil	Nil	Nil	Nil	Nil	Nil	Yes
Tom Virden	4,531	Nil	Nil	Nil	Nil	Nil	Nil	Yes
Richard Atkins	–	Nil	Nil	Nil	Nil	Nil	Nil	Yes

Based on Micro Focus' share price of 775 pence as at 30 April 2014.

Details of shares held outright that relate to options exercised during the year are included in the tables on page 56.

1. 49,067 shares are held by Kevin Loosemore's wife, Joy Loosemore.

2. 114,448 shares are held by Mike Phillips' wife, Josephine Phillips.

Between 1 May and 18 June 2014 there had been no changes to these interests.

Directors' Remuneration report
continued

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

The executive directors hold awards granted under the terms of the Plan. The movements in these awards during the financial year are shown below.

	Number at 1 May 2013	Number granted in financial year	Number exercised in financial year	Number lapsed in financial year	Number at 30 April 2014	Exercise price	Dates of exercise
Kevin Loosemore[1]	192,157	–	–	–	192,157	0.0p	27 June 2015 to 26 June 2022
Kevin Loosemore[1]	–	142,132	–	–	142,132	0.0p	26 June 2016 to 25 June 2023
Mike Phillips[2]	269,801	–	(269,801)	–	–	316.9p	7 September 2013 to 6 September 2020
Mike Phillips[3]	146,504	–	–	–	146,504	0.0p	1 July 2014 to 17 April 2021
Mike Phillips[1]	86,471	–	–	–	86,471	0.0p	27 June 2015 to 26 June 2022
Mike Phillips[1]	–	63,959	–	–	63,959	0.0p	26 June 2016 to 25 June 2023
Stephen Murdoch[1]	96,237	–	–	–	96,237	0.0p	27 December 2015 to 26 December 2022
Stephen Murdoch[1]	–	39,884	–	–	39,884	0.0p	26 June 2016 to 25 June 2023

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 291.8 pence plus dividend and cash distributions over the vesting period) is below 150 pence or increased by 50% if the ASR is 300 pence or above. Mike Phillips' award of 146,504 nil cost options (contained within the total number of options of 296,934) vests on 1 July 2014 and the performance criteria has been substantially completed at 30 April 2014 and it is disclosed within his remuneration for the year.

LTIP – combined options

During the year to 30 April 2014, no grants were made to executive directors:

	Number at 1 May 2013	Increase at vesting due to performance	Number exercised in financial year	Number at 30 April 2014	Exercise price	Dates of exercise
Kevin Loosemore[1,2]	652,000	643,328	(1,295,328)	–	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 300 pence. 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 the award resulting from his share grant on 14 April 2011 was deliverable to his ex-wife Diane on the 14 April 2014.

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

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 28 of the financial statements.

The mid-market price of the shares at 30 April 2014 was 775 pence per share and during the financial year ended 30 April 2014 the price varied between 851.0 pence and 621.9 pence per share.

Statement of shareholding voting

The table below sets out the results of the vote on the Remuneration report at the 2013 AGM:

Votes For		Votes Against			
Number	Percentage	Number	Percentage	Votes cast	Votes withheld
116,018,549	98.06%	2,300,147	1.94%	119,612,472	1,293,776

On behalf of the board

Karen Slatford
Chair of the Remuneration committee
18 June 2014

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 2014.

Strategic report

The Group is required by the Companies Act 2006 to present a fair review of the business during the year to 30 April 2014 and of the position of the Group at the end of the financial year along with a description of the principal risks and uncertainties faced by the Group. In addition, the Group is also required to present the future developments of the Company. The information that fulfils these requirements can be found on pages 2 to 9 of the strategic report.

Corporate governance

The Group is required to produce a corporate governance statement pursuant to the Financial Conduct Authority's ('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 28 to 31 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 2014 of approximately two 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 2014 of 30.0 cents per share, which, taken together with the interim dividend of 14.0 cents per share paid in January 2014, gives a total dividend in respect of 2014 of 44.0 cents per share which is two times covered on a pre-exceptional post-tax earnings basis. Subject to shareholder approval, the final dividend will be paid on 3 October 2014 to shareholders on the register on 5 September 2014. Dividends will be paid in sterling based on an exchange rate of £1 = $1.697, equivalent to approximately 17.7 pence per share, being the rate applicable on 18 June 2014, the date on which the board resolved to propose the final dividend.

Interests in share capital

Directors and their interests

The directors of the Company who served during the year reported on and up to the date of signing this report are as follows:

Executive	
Kevin Loosemore	(Executive Chairman)
Mike Phillips	(Chief Financial Officer)
Stephen Murdoch	(Chief Operating Officer) (appointed 16 April 2014)
Non-executive	
David Maloney	(Senior independent non-executive director and Deputy Chairman)
Tom Skelton	
Karen Slatford	
Tom Virden	
Richard Atkins	(Appointed 16 April 2014)

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 38 to 57.

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 32 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.

Substantial shareholding

At 30 April 2014 the following percentage interests in the ordinary share capital of the Company, disclosable under the FCA's Disclosure and Transparency Rules, have been notified to the Company:

Name of holder	Ordinary shares of 13 13/24 pence each	Percentage of issued capital
Prudential Plc*	11,282,188	8.09
Standard Life Investments Limited	10,944,301	7.84
Artemis Investment Management LLP*	6,925,671	4.96
Old Mutual Plc	6,924,974	4.96
Norges Bank	5,072,849	3.64

* These interests were notified to the Company prior to the share consolidations which took place in January 2012, October 2012 and October 2013 and have been adjusted accordingly.

The following changes in the interests disclosed to the Company have been notified between 30 April 2014 and 18 June 2014:

Name of holder	Ordinary shares of 13 13/24 pence each	Percentage of issued capital
Prudential Plc	10,153,978	7.27
Artemis Investment Management LLP	9,068,122	6.50

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. The programme is designed to provide employees with awareness of the financial and economic factors affecting the Group's performance.

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

Further education and training

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

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

The board has undertaken a formal and rigorous process for the evaluation of its own performance and that of its committees and individual directors. Further information with regard to the evaluation can be found in the corporate governance report on pages 28 to 31. 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 28.

Statutory and other disclosures

Greenhouse gas emissions

All disclosures concerning the Group's greenhouse gas emissions (as required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013)) are contained in the corporate social responsibility report on pages 20 to 24.

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.

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 2014, $57.8m was charged to the consolidated statement of comprehensive income (2013: $52.6m) in respect of research and development expenditure. This charge is after net amortization of development expenditure of approximately $nil (2013: net capitalization credit of $1.7m) consisting of $18.4m (2013: $20.0m) of capitalized development expenditure offset by $18.5m (2013: $18.4m) of amortization of previously capitalized development expenditure.

Political donations

The Group's policy is to make no donations or contributions to political parties (2013: $nil).

Share capital

The Company has a single class of share capital which is divided into ordinary shares of $13^{13}/_{24}$ pence each. In November 2013 a Return of Value was made to all shareholders amounting to $140.2m in cash (60 pence per share), by way of a D 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 12 for 13 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the D shares, further details of which can be found in note 24. Shares held in treasury were consolidated in the same way as all other shares. During the year 1,663,648 shares were transferred out of treasury to meet the Company's obligations under its employee share plans.

Directors' report
continued

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 25 September 2014 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 2013) to buy back up to 14.99% of issued share capital. At that time this amounted to 22,395,015 ordinary shares, and the authority remains outstanding until the conclusion of the next AGM on 25 September 2014. The minimum price which must be paid for such shares is now $13^{13}/_{24}$ pence and the maximum price which may be paid for each Ordinary Share is an amount equal to the higher of (i) 105% of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the shares concerned; and (ii) the higher of the price of the last independent trade of any Ordinary Share and the highest current bid for an Ordinary Share as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy-back 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 20,672,321.

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 in relation to share capital

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

- At the AGM held on 26 September 2013 the directors were granted the powers to allot equity securities with a nominal value of up to £6,224,987 and to make market purchases of the Company's shares as set out on page 60; and

- At a general meeting held on 26 September 2013 to facilitate the Return of Value the directors were granted the powers to allot equity securities with a nominal value of up to £6,239,276 and to make market purchases of the Company's shares as set out on page 96.

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 16 July 2013, the Company entered into a $420m credit facility provided through a syndicated loan consortium comprising Barclays Bank PLC, HSBC Bank plc, Lloyds Bank plc (previously known as Lloyds TSB Bank plc), The Royal Bank of Scotland plc, Clydesdale Bank plc and Santander UK plc to assist with the funding of the Return of Value and for general corporate purposes.

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

Branches

The Group continues to operate overseas branches in Chile, Denmark, Finland, Hong Kong, Mexico, Portugal, Spain, Sweden and the People's Republic of China.

Annual General Meeting

The notice convening the AGM of the Company together with the explanatory notes on the resolutions proposed at the AGM accompanies this report. The meeting will be held at The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN on 25 September 2014 at 9am (UK time).

Independent auditors and disclosure of information to auditors

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

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

Going concern

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

Post balance sheet events

There have been no material events from 30 April 2014 to the date of this report.

Directors' report
continued

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 board of directors section within corporate governance on pages 26 to 27 confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the board

Jane Smithard
Company Secretary
18 June 2014

Micro Focus International plc
Registered office:
The Lawn
22-30 Old Bath Road
Newbury
Berkshire RG14 1QN
Registered in England
Company number: 5134647

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

Report on the Group financial statements

Our opinion

In our opinion the financial statements, defined below:

– give a true and fair view of the state of the Group's affairs as at 30 April 2014 and of the Group's profit and cash flows for the year then ended;

– have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and

– have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements (the 'financial statements'), which are prepared by Micro Focus International plc, comprise:

– the Consolidated statement of financial position as at 30 April 2014;

– the Consolidated statement of comprehensive income for the year then ended;

– the Consolidated statement of changes in equity and statement of cash flows for the year then ended; and

– the summary of significant accounting policies and notes to the consolidated financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

– whether the accounting policies are appropriate to the 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole to be $7.6m. This represents approximately 5% of profit before tax. We had regard to profit before tax as we believe this is the most appropriate measure of the Group's performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $0.4m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The financial statements are a consolidation of a significant number of reporting units, comprising the Group's operating businesses across its three segments. There is also a centralized function through which the Group controls and processes revenue related transactions for the majority of the Group's reporting units.

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

In establishing the overall approach to the Group audit, we assessed the audit significance of each of the reporting units by reference to both their financial significance and other indicators of audit risk such as the complexity of their operations and the degree of estimation and judgement in their financial results. Following this assessment we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or by component auditors within PwC UK and other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

Our work on the centralized function covered reporting units that comprise 89% of the Group's revenue. The remaining 11% of Group revenue resides in Japan and Brazil where we used other PwC network firms to perform targeted audit testing. We additionally used component auditors within PwC UK to perform audits of financial information of four reporting units and PwC network firms to perform specified audit procedures over a further four reporting units, together comprising 80% of the Group's cost base.

In addition we performed Group-level analytical procedures over the remaining reporting units. This, together with additional procedures performed at the Group level over the consolidation process, gave us the evidence we needed for our opinion on the financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the audit committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 33 and 34.

Area of focus	How the scope of our audit addressed the area of focus
Revenue recognition	
We focused on this area because ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition (due to the pressure management may feel to achieve the planned results). We also focused on this area due to the judgements that are needed regarding the determination of appropriate fair values of Licence, Maintenance and Consulting revenue components when sold together in more significant, and potentially more complex, sales transactions. We also focused on whether revenue was recorded in the correct period and how processes may have been circumvented and manual adjustments made to revenue.	Our testing focused on the larger and more complex revenue transactions and in aggregate these accounted for about 28% of total Licence revenue. We supplemented this testing by a further haphazard sample over the remaining population of Licence revenue. We also evaluated the design and operating effectiveness of certain key controls that management has in place over revenue recognition. In respect of sales contracts tested, we checked that the fair value allocation of revenue between the Licence, Maintenance and Consulting components at deal inception was appropriate and in line with the terms of sales contracts and Group accounting policies. This included considering any unusual terms in sales contracts and the period during which maintenance is to be provided to the customer. Particular focus was given to sales made around the year end to check these were accounted for in the correct period. We also analysed manual journal entries impacting revenue across all significant reporting units. Our work specifically focused on understanding the reasons for any adjustments and examining appropriate evidence.
Risk of management override of internal controls	
ISAs (UK & Ireland) require that we consider this to be a significant risk in all audits.	We considered areas where management may have exercised bias in judgements formed over accounting estimates. We identified the principal risks associated with this to be the possible manipulation of fair value accounting for the multiple components of revenue. Our response to this is noted above. We also assessed the overall control environment of the Group which included interviewing senior management and the Group's internal audit function. We analysed manual journals posted across reporting units to identify and test higher risk journals. We also tested significant adjustments made to the financial statements at the Group level.
Capitalization of development expenditure	
The Group capitalizes a material level of development expenditure on an annual basis. We focused on this area because the decision as to the amounts of development expenditure to be capitalized requires judgement.	We considered the key areas of judgement, including evaluating management's assessment that the necessary criteria for capitalization under IFRSs were met at the point of commencement of capitalization. We also tested costs that were capitalized to supporting evidence to check that these were accurately recorded.

Area of focus	How the scope of our audit addressed the area of focus
Taxation provisions	
The Group has a material level of provisions in respect of taxation. These provisions require the directors to make estimates of amounts that will be required to settle the Group's obligations in respect of uncertain tax positions. These estimates are inherently subjective and therefore give rise to greater audit risk.	We obtained the latest correspondence between the Group and the relevant tax authorities, understood the judgements made by the directors, held meetings with senior management and reviewed correspondence from the Group's external advisers and considered their views on these matters. We challenged the judgements made by the directors and evaluated the appropriateness of the provisions and disclosures made.

Going concern
Under the Listing Rules we are required to review the directors' statement, set out on page 61, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 30 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On pages 33 and 34, as required by C.3.8 of the Code, the audit committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report
Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 62, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have reported separately on the Company financial statements of Micro Focus International plc for the year ended 30 April 2014 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
London
18 June 2014

Consolidated statement of comprehensive income

for the year ended 30 April 2014

	Notes	2014 $'000	Restated* 2013 $'000
Revenue	1,2	**433,058**	412,167
Cost of sales		**(29,912)**	(34,069)
Gross profit		**403,146**	378,098
Selling and distribution costs		**(120,669)**	(117,558)
Research and development expense		**(57,833)**	(52,599)
Administrative expenses		**(68,924)**	(48,503)
Operating profit	1,4	**155,720**	159,438
Finance costs	5	**(8,197)**	(8,307)
Finance income	5	**318**	413
Profit before tax	3	**147,841**	151,544
Taxation	6	**(25,759)**	(29,767)
Profit for the year		**122,082**	121,777
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		**2,176**	(2,458)
Other comprehensive income for the year		**2,176**	(2,458)
Total comprehensive income for the year		**124,258**	119,319
Profit attributable to:			
Owners of the parent		**124,258**	119,319
		cents	cents
Earnings per share expressed in cents per share			
– basic	8	**84.75**	77.83
– diluted	8	**82.35**	75.23
		pence	pence
Earnings per share expressed in pence per share			
– basic	8	**52.92**	49.43
– diluted	8	**51.43**	47.78

* The comparatives for April 2013 have been restated to reflect the impact of a misstatement of revenue caused by invalid orders within our sales channel network in India (note 34).

Consolidated statement of financial position
as at 30 April 2014

	Notes	2014 $'000	Restated* 2013 $'000
Non-current assets			
Goodwill	9	**308,182**	284,661
Other intangible assets	10	**92,533**	93,644
Property, plant and equipment	11	**21,599**	21,157
Deferred tax assets	22	**42,631**	38,134
		464,945	437,596
Current assets			
Inventories	12	**133**	144
Trade and other receivables	13	**107,139**	92,496
Cash and cash equivalents	14	**32,800**	37,943
		140,072	130,583
Total assets		**605,017**	568,179
Current liabilities			
Trade and other payables	15	**77,876**	56,939
Borrowings	16	**293,830**	215,634
Provisions	20	**4,382**	8,992
Current tax liabilities	17	**42,177**	41,795
Deferred income	18	**150,168**	138,306
		568,433	461,666
Non-current liabilities			
Deferred income	19	**12,629**	9,646
Long-term provisions	20	**4,920**	2,009
Deferred tax liabilities	22	**35,286**	37,042
		52,835	48,697
Total liabilities		**621,268**	510,363
Net (liabilities)/assets		**(16,251)**	57,816
Equity attributable to owners of the parent			
Share capital	23	**37,802**	37,797
Share premium account	25	**14,546**	13,523
Retained earnings		**(140,324)**	(63,053)
Foreign currency translation		**(5,173)**	(7,349)
Other reserves	26	**76,898**	76,898
Total (deficit)/equity attributable to owners of the parent		**(16,251)**	57,816

The consolidated financial statements on pages 67 to 110 were approved by the board of directors on 18 June 2014 and were signed on its behalf by:

Kevin Loosemore
Executive Chairman

Mike Phillips
Chief Financial Officer

Registered number: 513647

* The comparatives for April 2013 have been restated to reflect the impact of a misstatement of revenue caused by invalid orders within our sales channel network in India and a reclassification between share premium and retained reserves (note 34).

Consolidated statement of changes in equity
for the year ended 30 April 2014

	Notes	Share capital $'000	Share premium account $'000	Retained earnings (deficit) $'000	Foreign currency translation reserve (deficit) $'000	Other reserves[1,2] $'000	Total $'000
Balance as at 1 May 2012 – as previously reported		37,787	61,311	(6,480)	(4,891)	29,819	117,546
Prior year restatement	34	–	(2,560)	2,006	–	–	(554)
Balance as at 1 May 2012 – as restated		37,787	58,751	(4,474)	(4,891)	29,819	116,992
Currency translation differences		–	–	–	(2,458)	–	(2,458)
Profit for the year		–	–	121,777	–	–	121,777
Total comprehensive income		–	–	121,777	(2,458)	–	119,319
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	24	–	–	(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	24	–	–	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
Balance as at 30 April 2013		**37,797**	**13,523**	**(63,053)**	**(7,349)**	**76,898**	**57,816**
Currency translation differences		**–**	**–**	**–**	**2,176**	**–**	**2,176**
Profit for the year		**–**	**–**	**122,082**	**–**	**–**	**122,082**
Total comprehensive income		**–**	**–**	**122,082**	**2,176**	**–**	**124,258**
Transactions with owners:							
Dividends	7	**–**	**–**	**(62,633)**	**–**	**–**	**(62,633)**
Issue of share capital	23	**5**	**1,023**	**(9,422)**	**–**	**–**	**(8,394)**
Return of Value to shareholders	24	**–**	**–**	**(144,664)**	**–**	**–**	**(144,664)**
Expenses and foreign exchange relating to Return of Value	24	**–**	**–**	**3,934**	**–**	**–**	**3,934**
Movement in relation to share options		**–**	**–**	**7,017**	**–**	**–**	**7,017**
Corporation tax on share options	6	**–**	**–**	**2,883**	**–**	**–**	**2,883**
Deferred tax on share options	6	**–**	**–**	**3,532**	**–**	**–**	**3,532**
Balance as at 30 April 2014		**37,802**	**14,546**	**(140,324)**	**(5,173)**	**76,898**	**(16,251)**

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 24).

Consolidated statement of cash flows
for the year ended 30 April 2014

	Notes	2014 $'000	Restated* 2013 $'000
Cash flows from operating activities			
Cash generated from operations	27	**206,775**	192,440
Interest paid		**(5,752)**	(5,076)
Tax paid		**(26,049)**	(22,072)
Net cash generated from operating activities		**174,974**	165,292
Cash flows from investing activities			
Payments for intangible assets	10	**(19,055)**	(20,327)
Purchase of property, plant and equipment	11	**(2,908)**	(3,312)
Interest received		**317**	413
Payments for the acquisition of business	33	**(35,195)**	(15,000)
Net cash acquired with acquisitions	33	**3,261**	–
Net cash used in investing activities		**(53,580)**	(38,226)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	23	**1,028**	730
Return of value paid to shareholders	24	**(144,664)**	(131,171)
Foreign exchange gain on hedging contracts related to the Return of Value	24	**4,470**	2,393
Costs associated with the return of value	24	**(536)**	(491)
Proceeds from sale of fractional shares		**–**	3
Repayment of bank borrowings		**(134,000)**	(142,307)
Proceeds from bank borrowings		**215,000**	212,307
Bank loan costs		**(5,248)**	(1,210)
Dividends paid to owners	7	**(62,633)**	(57,160)
Net cash used in financing activities		**(126,583)**	(116,906)
Effects of exchange rate changes		**46**	(2,627)
Net (decrease)/increase in cash and cash equivalents		**(5,143)**	7,533
Cash and cash equivalents at 1 May		**37,943**	30,410
Cash and cash equivalents at 30 April	14	**32,800**	37,943

* The comparatives for April 2013 have been restated to reflect the impact of a misstatement of revenue caused by invalid orders within our sales channel network in India (note 34).

Summary of significant accounting policies

for the year ended 30 April 2014

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 31 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 2014.

I Group accounting policies

A Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with EU endorsed International Financial Reporting Standards ('IFRS'), interpretations issued by the IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the consolidated statement of comprehensive income.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its 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 consolidated statement of financial position 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 unrealised 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 firm evidence of an arrangement, delivery of the software and determination that collection of a fixed or determinable fee is reasonably assured. ISV revenue includes fees based on end usage of ISV applications that have our software embedded in their applications. When the fees for software upgrades and enhancements, maintenance, consulting and training are bundled with the licence fee, they are unbundled using the Group's objective evidence of the fair value of the elements represented by the Group's customary pricing for each element in separate transactions. If evidence of fair value exists for all undelivered elements and there is no such evidence of fair value established for delivered elements, revenue is first allocated to the elements where fair value has been established and the residual amount is allocated to the delivered elements. If evidence of fair value for any undelivered element of the arrangement does not exist, all revenue from the arrangement is deferred until such time that 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 recognized 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

Summary of significant accounting policies for the year ended 30 April 2014 continued

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.

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

D Segment reporting

In accordance with IFRS 8, 'Operating Segments', the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker ('the Executive Committee'). Operating segments are consistent with those used in internal management reporting and the measure used by the Executive Committee is the adjusted operating profit for the Group as a whole as set out in note 4 and Adjusted EBITDA and Underlying Adjusted EBITDA as set out in note 4. The Group has operating segments relating to the three geographic regions. 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 consolidated statement of financial position date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.

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

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

The 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 consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;

ii) Income and expenses for each consolidated statement of comprehensive income item are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

iii) All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate, with the exception for goodwill arising before 1 May 2004 which is treated as an asset of the Company and expressed in the Company's functional currency.

d) Exchange rates

The most important foreign currencies for the Group are pounds sterling, the Euro and Japanese Yen. The exchange rates used are as follows:

	2014		2013	
	Average	**Closing**	Average	Closing
£1 = $	**1.60**	**1.68**	1.57	1.55
€1 = $	**1.35**	**1.38**	1.29	1.31
100 Yen = $	**0.81**	**0.97**	0.84	0.98

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

Summary of significant accounting policies
for the year ended 30 April 2014
continued

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

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 consolidated statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the consolidated statement of comprehensive income.

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

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

When work has been performed and the revenue is not yet recognized, the direct costs of third party contractors and staff will be treated as work in progress where the probability of invoicing and evidence of collectability can be demonstrated.

L Trade receivables
Trade receivables are initially recognized at fair value and subsequently measured at amortized cost less provisions for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the consolidated statement of comprehensive income.

M Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

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

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

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

Q Ordinary shares, share premium and dividend distribution
Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividend distributions to the Company's shareholders are recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognized when they are paid.

R Financial instruments and hedge accounting
Financial assets and liabilities are recognized in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provision of the instrument. Trade receivables are non-interest bearing and are stated at their fair value less the amount of any appropriate provision for irrecoverable amounts. Trade payables are non-interest bearing and are stated at their fair value.

In accordance with its treasury policy, the Group does not typically hold or issue derivative financial instruments for hedge accounting or trading purposes.

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as an interest expense.

T Adoption of new and revised International Financial Reporting Standards
The accounting policies adopted in these consolidated financial statements are consistent with those of the annual financial statements for the year ended 30 April 2013, 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 offsetting financial assets and financial liabilities for periods beginning on or after 1 January 2013. This amendment includes new disclosures to aid comparison between those entities that prepare IFRS financial statements to those that prepare their financial statements according to US GAAP.

- 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. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

- Amendment to IAS 1, 'Financial Statement Presentation' applies for periods beginning on or after 1 January 2013.

- IFRS 10, 'Consolidated Financial Statements' applies for periods beginning on or after 1 January 2013 and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It defines the principle of control and establishes controls as the basis for consolidation.

Summary of significant accounting policies for the year ended 30 April 2014 continued

- IFRS 13, 'Fair Value Measurement' applies for periods beginning on or after 1 January 2013 and aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements.

b) The following standards, interpretations and amendments to existing standards are not yet effective, or 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 2018 and is the first standard issued as part of a process to replace IAS 39. It simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value.

- Amendment to IAS 32, 'Financial Instruments: Presentation' applies to periods beginning on or after 1 January 2014 and clarifies some of the requirements for offsetting financial assets and financial liabilities in the consolidated statement of financial position.

- Amendment to IAS 36, 'Impairment of Assets' applies to periods beginning on or after 1 January 2014 and relates to the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- Amendment to IAS 39, 'Financial Instruments: Recognition and Measurement' applies to periods beginning on or after 1 January 2014 and provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets certain criteria.

- IFRS 11, 'Joint Arrangements' applies to periods beginning on or after 1 January 2014 and provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.

- IFRS 12, 'Disclosure of Interests in Other Entities' applies for periods beginning on or after 1 January 2014 and includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purchase vehicles and other vehicles off the consolidated statement of financial position.

- IFRS 15, 'Revenue From Contracts With Customers Issued' applies for periods beginning on or after 1 January 2017 and specifies how and when revenue is recognized as well as requiring such entities to provide users of the financial statements with more informative, relevant disclosures.

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 Group accounting policy J. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the Group's impairment review and sensitivities to changes in assumptions are disclosed in note 9.

B Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant 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. Where acquisitions are significant, appropriate advice is sought from professional advisors before making such allocations otherwise valuations are done by management using consistent methodology used on prior year acquisitions where appropriate professional advice was sought. The valuation of goodwill and other intangibles is tested annually or whenever there are changes in circumstances indicating that the carrying amounts may not be recoverable. These tests require the use of estimates. Note 9 gives details of the Group's impairment reviews.

D Development expenditure
The Group invests in the development of future products in accordance with the Group 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.

E Revenue recognition
The key area of judgement in respect of recognizing revenue is the timing of recognition, specifically in relation to recognition and deferral of revenue on support contracts where management assumptions and estimates are necessary.

III Financial risk factors
The Group's multi-national operations expose it to a variety of financial risks that include the effects of changes in credit risk, foreign currency risk, interest rate risk and liquidity risk. Risk management is carried out by a central treasury department under policies approved by the board of directors. Group treasury identifies and evaluates financial risks alongside the Group's operating units. The board provides written principles for risk management together with specific policies covering areas such as foreign currency risk, interest rate risk, credit risk and liquidity risk, use of derivative financial instruments and non-derivative financial instruments as appropriate, and investment of excess funds.

In accordance with the treasury policy, the Group does not typically hold or issue derivative financial instruments.

A Credit risk
Financial instruments which potentially expose the Group to a concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash equivalents are deposited with high-credit quality financial institutions. The Group provides credit to customers in the normal course of business. Collateral is not required for those receivables, but on-going credit evaluations of customers' financial conditions are performed. The Group maintains a provision for impairment based upon the expected collectability of accounts receivable. The Group sells products and services to a wide range of customers around the world and therefore believes there is no material concentration of credit risk.

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

There were no hedging transactions in place at 30 April 2014.

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 $420m 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 12 months and five years.

Notes to the consolidated financial statements
for the year ended 30 April 2014

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 2014:

	Note	North America $'000	International $'000	Asia Pacific and Japan $'000	Total $'000
Segment revenue		**199,900**	**178,616**	**54,542**	**433,058**
Directly managed costs		**(35,905)**	**(59,758)**	**(14,666)**	**(110,329)**
Allocation of centrally managed costs		**(65,833)**	**(51,325)**	**(18,091)**	**(135,249)**
Total segment costs		**(101,738)**	**(111,083)**	**(32,757)**	**(245,578)**
Adjusted operating profit	4	**98,162**	**67,533**	**21,785**	**187,480**
Share based compensation charges	28				**(12,837)**
Amortization of purchased intangibles	10				**(18,923)**
Operating profit	4				**155,720**
Total assets					**605,017**
Total liabilities					**621,268**

Operating segments for the year ended 30 April 2013 (restated):

	Note	North America $'000	International $'000	Asia Pacific and Japan $'000	Total $'000
Segment revenue		191,818	157,816	62,533	412,167
Directly managed costs		(41,489)	(53,526)	(17,509)	(112,524)
Allocation of centrally managed costs		(57,330)	(44,920)	(15,193)	(117,443)
Total segment costs		(98,819)	(98,446)	(32,702)	(229,967)
Adjusted operating profit	4	92,999	59,370	29,831	182,200
Share based compensation charges	28				(6,639)
Amortization of purchased intangibles	10				(16,123)
Operating profit	4				159,438
Total assets					568,179
Total liabilities					510,363

1 Segmental reporting continued

Analysis by geography

The Group is domiciled in the UK. The result of its revenue from external customers in the UK is $25.1m (2013: $17.8m), the total in the USA is $185.1m (2013: $178.3m) and the total of revenue from external customers from other countries is $222.9m (2013: $216.1m). The breakdown of the major component of the total revenue from external customers from other countries is disclosed above.

The total of non-current assets other than financial instruments and deferred tax assets located in the UK is $156.2m (2013: $145.7m), the total in the USA is $246.1m (2013: $234.3m) and the total of such non-current assets located in other countries is $20.0m (2013: $7.7m). Segmental non-current assets are based on the location of the assets. They exclude trade and other receivables, derivative financial instruments and deferred tax.

2 Supplementary information

Set out below is an analysis of revenue recognized between the principal product categories for the year ended 30 April 2014:

	CD $'000	MS $'000	Borland (Test) $'000	CORBA $'000	Niche $'000	Total $'000
Licence	**107,733**	**28,882**	**19,396**	**19,343**	**2,541**	**177,895**
Maintenance	**122,871**	**42,311**	**41,695**	**26,739**	**9,567**	**243,183**
Consulting	**919**	**6,255**	**3,905**	**687**	**214**	**11,980**
Total	**231,523**	**77,448**	**64,996**	**46,769**	**12,322**	**433,058**

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

	CD $'000	MS $'000	Borland (Test) $'000	CORBA $'000	Niche $'000	Total $'000
Licence	111,163	26,649	15,523	10,990	2,605	166,930
Maintenance	120,738	40,063	41,016	14,376	13,295	229,488
Consulting	1,393	8,202	2,920	310	2,924	15,749
Total	233,294	74,914	59,459	25,676	18,824	412,167

Notes to the consolidated financial statements
for the year ended 30 April 2014
continued

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	2014 $'000	2013 $'000
Staff costs	28	**185,916**	170,816
Depreciation of property, plant and equipment			
– owned assets	11	**3,846**	3,483
Amortization of intangibles	10	**38,047**	35,122
Inventories			
– cost of inventories recognized as an expense (included in cost of sales)	12	**87**	403
Operating lease rentals payable			
– plant and machinery		**1,424**	1,386
– other		**8,134**	7,358
Provision for receivables impairment	13	**727**	(860)
Foreign exchange losses and (gains)		**4,400**	(543)

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:

	2014 $'000	2013 $'000
Audit of company	**173**	130
Audit of subsidiaries	**613**	695
Total audit	**786**	825
Audit related assurance services	**78**	47
Tax compliance services	**6**	10
Tax advisory services	**–**	11
Services relating to taxation	**84**	21
Other non-audit services	**555**	146
Total	**1,425**	1,039

3 Profit before tax continued

The Group's auditors, PwC, provide non-audit services for the Group over and above the external audit, principally tax compliance, tax advice and due diligence work. The board of directors 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 and acquisition due diligence costs.

4 Reconciliation of operating profit to EBITDA

	Notes	2014 $'000	Restated 2013 $'000
Operating profit		**155,720**	159,438
Share based compensation charges	28	**12,837**	6,639
Amortization of purchased intangibles	10	**18,923**	16,123
Adjusted operating profit		**187,480**	182,200
Depreciation	11	**3,846**	3,483
Amortization of software	10	**640**	643
Adjusted EBITDA		**191,966**	186,326
Amortization of development costs		**18,484**	18,356
RCF EBITDA		**210,450**	204,682
Operating profit		**155,720**	159,438
Amortization of intangible assets	10	**38,047**	35,122
Depreciation of property, plant and equipment	11	**3,846**	3,483
EBITDA		**197,613**	198,043
Amortization of capitalized development costs	10	**(18,484)**	(18,356)
Share based compensation charge	28	**12,837**	6,639
Adjusted EBITDA		**191,966**	186,326
Foreign exchange debit/(credit)		**4,400**	(543)
Net capitalization of development costs		**36**	(1,662)
Underlying Adjusted EBITDA		**196,402**	184,121

The directors use EBITDA and EBITDA before exceptional items, share based compensation charge and amortization of purchased intangibles ('Adjusted EBITDA') and Underlying 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 3.0 times for the duration of the facility. RCF EBITDA is defined as Adjusted EBITDA before amortization of development costs and for the year ended 30 April 2014 RCF EBITDA amounted to $210.5m (2013: $204.7m). Where a special dividend or a share buy-back is to be made, the Company must certify to the facility agent that the projected ratio of net debt to RCF EBITDA on a 12 month look forward and 12 month look back basis will not exceed 2.5 times. The ratio of net debt to RCF EBITDA at 30 April 2014 was 1.3 times.

Notes to the consolidated financial statements
for the year ended 30 April 2014
continued

5 Finance income and finance costs

	2014 $'000	2013 $'000
Finance costs		
Finance costs on bank borrowings	**5,187**	3,926
Commitment fees	**884**	650
Amortization of facility costs	**1,541**	2,558
Other	**585**	1,173
Total	**8,197**	8,307

Finance income
Finance income consists of interest receivable $318,000 (2013: $413,000) which relates to bank deposits and tax repayments.

6 Taxation

	2014 $'000	Restated 2013 $'000
Current tax		
Current year	**34,432**	33,585
Adjustments to tax in respect of previous years	**(4,580)**	(2,643)
	29,852	30,942
Deferred tax		
Current year	**784**	2,596
Adjustments to tax in respect of previous years	**(3,700)**	(3,331)
Impact of change in the UK tax rate	**(1,177)**	(440)
	(4,093)	(1,175)
Total	**25,759**	29,767

A deferred tax credit of $3.5m (2013: $0.2m credit) and a corporation tax credit of $2.9m (2013: $0.7m credit) have been recognized in equity in the year in relation to share options.

The tax for the year is lower (2013: lower) than the standard rate of corporation tax in the UK 22.8% (2013: 23.9%). The differences are explained below:

	2014 $'000	Restated 2013 $'000
Profit before taxation	**147,841**	151,544
Tax at UK corporation tax rate 22.8% (2013: 23.9%) applied to profit	**33,708**	36,219
Effects of:		
Adjustments to tax in respect of previous years – current tax	**(4,580)**	(2,643)
Adjustments to tax in respect of previous years – deferred tax	**(3,700)**	(3,331)
Adjustment for foreign tax rates	**1,685**	2,236
Expenses not deductible for tax purposes	**5,151**	4,749
Tax loss utilization	**(429)**	(267)
Effect of change in tax rates	**(1,177)**	(440)
Research and development tax benefit	**–**	(1,344)
Other permanent differences	**(4,899)**	(5,412)
Total taxation	**25,759**	29,767

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

6 Taxation continued

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014 as this reduction was substantively enacted by the consolidated statement of financial position date it is reflected in the annual report and accounts for the year ended 30 April 2014. Accordingly the Company's profits for this accounting period are taxed at an effective rate of 22.8%.

In addition to the change in Corporation tax rate disclosed above, the Government has enacted a further change to the UK Corporation tax system to reduce the main rate of corporation tax to 20% with effect from 1 April 2015. As this rate reduction has been substantively enacted at the consolidated statement of financial position date, the rate reduction is reflected in the financial statements.

The UK Government have introduced a new research and development tax regime which recognizes the tax benefit on qualifying research and development activities as a credit against the relevant cost in the financial statements. The Group is intending to elect into the new regime with effect from 1 May 2013, as a result there is no adjustment within the reconciliation above in the current year in relation to the tax benefit on qualifying research and development expenditure.

As the Group capitalizes development expenditure in line with the accounting policy H(c), the proportion of the UK research and development tax credit relating to the capitalized expenditure has also been capitalized with the effect of reducing the current year additions to intangibles in note 10 by $1.5m. The research and development tax credit is subsequently amortized in line with the expenditure to which it relates.

The total research and development tax credit for the current period is $1.9m of which $0.4m has been recognized directly in the consolidated statement of comprehensive income and $1.5m has been capitalized. Of the $1.5m capitalized, $0.3m has been recognized in the consolidated statement of comprehensive income as amortization in the current period.

7 Dividends

Equity – ordinary

	2014 $'000	2013 $'000
2013 final paid 28.1 cents (2012: 23.4 cents) per ordinary share	43,072	39,665
2014 interim paid 14.0 cents (2013: 11.9 cents) per ordinary share	19,561	17,495
Total	**62,633**	57,160

The directors are proposing a final dividend in respect of the year ended 30 April 2014 of 30.0 cents per share which will utilize approximately $41.9m 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.

Notes to the consolidated financial statements
for the year ended 30 April 2014
continued

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.

	2014				2013 (restated)			
	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
Basic EPS								
Earnings attributable to owners of the parent	122,082	144,057	84.75	52.92	121,777	156,456	77.83	49.43
Effect of dilutive securities								
Options		4,193				5,408		
Diluted EPS								
Earnings attributable to owners of the parent	122,082	148,250	82.35	51.43	121,777	161,864	75.23	47.78
Supplementary EPS								
Basic EPS	122,082	144,057	84.75	52.92	121,777	156,456	77.83	49.43
Adjusted items[1]	31,760				22,762			
Tax relating to adjusted items	(9,323)				(7,163)			
Basic EPS – adjusted	144,519	144,057	100.32	62.65	137,376	156,456	87.81	55.77
Diluted EPS	122,082	148,250	82.35	51.43	121,777	161,864	75.23	47.78
Adjusted items[1]	31,760				22,762			
Tax relating to adjusted items	(9,323)				(7,163)			
Diluted EPS – adjusted	144,519	148,250	97.48	60.88	137,376	161,864	84.87	53.90

1 Adjusted items comprise amortization of purchased intangibles $18,923,000 (2013: $16,123,000), share based compensation $12,837,000 (2013: $6,639,000) and exceptional items $nil (2013: $nil). Estimated tax relief on these items is as shown above.

Earnings per share expressed in pence has used the average exchange rate for the year of $1.60 to £ (2013: $1.57 to £1).

9 Goodwill

	Note	2014 $'000	Restated 2013 $'000
Cost and net book amount			
At 1 May		284,661	274,340
Acquisitions	33	23,521	10,321
At 30 April		308,182	284,661
A segment-level summary of the goodwill allocation is presented below:			
North America		202,066	187,472
International		102,677	93,750
Asia Pacific and Japan		3,439	3,439
At 30 April		308,182	284,661

The comparatives have been restated following a review during the year resulting in goodwill being reclassified to the location where it is held.

9 Goodwill continued

The additions to goodwill in the year relate to the acquisition of the AccuRev Inc., the OpenFusion CORBA assets from PrismTech Group Limited and SoforTe GmbH (note 33). In addition there was a hindsight adjustment made in the first 12 months after the completion of the acquisition of the Iona assets of $361,000 relating mostly to the fair value of the acquired deferred income.

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 consolidated statement of financial position date and risks specific to the CGU. The discount rate applied to each CGU's operations was:

	2014	2013
North America	14.1%	16.4%
International	11.4%	13.3%
Asia Pacific and Japan	12.8%	14.9%

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 44.0% (2013: 42.5%).

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% (2013: 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.

Notes to the consolidated financial statements
for the year ended 30 April 2014
continued

9 Goodwill continued
Summary of results
During the year, all goodwill was tested for impairment, with no impairment charge resulting (2013: 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% (2013: 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% (2013: 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% (2013: 2.0%) change in the absolute discount rate is the maximum change that could be considered as reasonably possible and this would represent a 23.2% (2013: 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% (2013: 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% (2013: 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 44.0% (2013: 42.5%). The medium-term growth rates of net operating cash flows are assumed to be 4.0% for each CGU (2013: 4.0%).

10 Other intangible assets

			Purchased intangibles				
	Purchased software $'000	Development costs $'000	Technology $'000	Trade names $'000	Customer relationships $'000	Non-compete agreements $'000	Total $'000
Cost							
At 1 May 2013	7,586	116,213	69,302	1,175	63,232	1,303	258,811
Additions	607	18,448	6,761	–	11,358	–	37,174
Disposals	(236)	–	–	–	–	–	(236)
Exchange adjustments	64	–	–	–	–	–	64
At 30 April 2014	**8,021**	**134,661**	**76,063**	**1,175**	**74,590**	**1,303**	**295,813**
Accumulated amortization							
At 1 May 2013	6,833	84,709	38,489	1,175	32,773	1,188	165,167
Charge for the year	640	18,484	9,720	–	9,088	115	38,047
Disposals	(144)	–	–	–	–	–	(144)
Exchange adjustments	210	–	–	–	–	–	210
At 30 April 2014	**7,539**	**103,193**	**48,209**	**1,175**	**41,861**	**1,303**	**203,280**
Net book amount at 30 April 2014	**482**	**31,468**	**27,854**	**–**	**32,729**	**–**	**92,533**
Net book amount at 30 April 2013	753	31,504	30,813	–	30,459	115	93,644

10 Other intangible assets continued

	Purchased software $'000	Development costs $'000	Purchased intangibles Technology $'000	Purchased intangibles Trade names $'000	Purchased intangibles Customer relationships $'000	Purchased intangibles Non-compete agreements $'000	Total $'000
Cost							
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)
At 30 April 2013	**7,586**	**116,213**	**69,302**	**1,175**	**63,232**	**1,303**	**258,811**
Accumulated amortization							
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
At 30 April 2013	**6,833**	**84,709**	**38,489**	**1,175**	**32,773**	**1,188**	**165,167**
Net book amount at 30 April 2013	**753**	**31,504**	**30,813**	**–**	**30,459**	**115**	**93,644**
Net book amount at 30 April 2012	1,644	29,842	35,948	–	29,957	420	97,811

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

The additions to Technology and Customer Relationships in the year relate to the acquisitions of SoforTe GmbH, the OpenFusion CORBA assets from PrismTech Group Limited and AccuRev Inc. (note 33).

In the year ended 30 April 2013, the additions to Technology and Customer Relationships in the year relate to the acquisition of the Iona business (note 33).

At 30 April 2014, 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 $9.2m (2013: $7.6m) is included in selling and distribution costs, $28.2m (2013: $26.9m) is included in research and development expense and $0.6m (2013: $0.6m) is included in administrative expenses in the consolidated statement of comprehensive income.

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11 Property, plant and equipment

	Land and buildings $'000	Leasehold improvements $'000	Computer equipment $'000	Fixtures and fittings $'000	Total $'000
Cost					
At 1 May 2013	14,145	6,500	9,480	1,315	31,440
Acquisitions (note 33)	–	33	545	181	759
Additions	147	875	1,343	543	2,908
Disposals	–	(1,693)	(381)	(448)	(2,522)
Reclassifications	247	7	(63)	(191)	–
Exchange adjustments	1,199	188	423	142	1,952
At 30 April 2014	**15,738**	**5,910**	**11,347**	**1,542**	**34,537**
Accumulated depreciation					
At 1 May 2013	487	4,610	5,029	157	10,283
Acquisitions (note 33)	–	–	552	36	588
Charge for the year	353	856	2,163	474	3,846
Disposals	–	(1,600)	(379)	(388)	(2,367)
Reclassifications	85	–	1	(86)	–
Exchange adjustments	143	121	216	108	588
At 30 April 2014	**1,068**	**3,987**	**7,582**	**301**	**12,938**
Net book amount at 30 April 2014	**14,670**	**1,923**	**3,765**	**1,241**	**21,599**
Net book amount at 1 May 2013	13,658	1,890	4,451	1,158	21,157

	Land and buildings $'000	Leasehold improvements $'000	Computer equipment $'000	Fixtures and fittings $'000	Total $'000
Cost					
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)
At 30 April 2013	**14,145**	**6,500**	**9,480**	**1,315**	**31,440**
Accumulated depreciation					
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)
At 30 April 2013	**487**	**4,610**	**5,029**	**157**	**10,283**
Net book amount at 30 April 2013	**13,658**	**1,890**	**4,451**	**1,158**	**21,157**
Net book amount at 1 May 2012	14,601	2,501	3,910	1,290	22,302

No depreciation is included within selling and distribution costs (2013: $0.1m) and $3.8m (2013: $3.4m) is included within administrative expenses in the consolidated statement of comprehensive income. The Group carried out a review of the fixed assets in the year and as a result made some reclassifications between categories.

12 Inventories

	2014 $'000	2013 $'000
Work in progress	**91**	95
Finished goods	**42**	49
Total	**133**	144

The Group utilized $0.1m (2013: $0.4m) of inventories included in cost of sales during the year.

13 Trade and other receivables

	2014 $'000	2013 $'000
Trade receivables	**97,508**	84,364
Less: provision for impairment of trade receivables	**(2,000)**	(2,137)
Trade receivables net	**95,508**	82,227
Prepayments	**10,640**	9,973
Other receivables	**971**	267
Accrued income	**20**	29
Total	**107,139**	92,496

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 2014 and 2013, the carrying amount approximates the fair value of the instrument due to the short-term nature of the instrument.

At 30 April 2014, trade receivables of $16.3m (2013: $11.0m) 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 22 days in excess of due date (2013: 28 days).

As at 30 April 2014, trade receivables of $2.0m (2013: $2.1m) were either partially or fully impaired. The amount of the provision was $2.0m (2013: $2.1m). The ageing of these receivables is as follows:

	2014 $'000	2013 $'000
Three to four months	**73**	72
Over four months	**1,927**	2,065
Total	**2,000**	2,137

Notes to the consolidated financial statements
for the year ended 30 April 2014
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13 Trade and other receivables continued

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

	2014 $'000	2013 $'000
At 1 May	**2,137**	2,757
Provision for receivables impairment	**727**	(860)
Acquisition of the Iona business	**–**	1,173
Receivables written off as uncollectable	**(897)**	(890)
Exchange adjustments	**33**	(43)
At 30 April	**2,000**	2,137

The creation and release of the 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

	2014 $'000	2013 $'000
Cash at bank and in hand	**25,521**	33,828
Short-term bank deposits	**7,279**	4,115
Total	**32,800**	37,943

At 30 April 2014 and 2013, the carrying amount approximates to the fair value. The Group's credit risk on cash and cash equivalents is limited as the counterparties are well established banks with high credit ratings. The credit quality of cash and cash equivalents is as follows:

	2014 $'000	2013 $'000
S&P/Moody's/Fitch rating:		
AA-	**19,811**	24,346
A+	**446**	3,218
A	**3,195**	2,492
A-	**320**	398
BBB+	**257**	–
BBB	**150**	7,314
BBB-	**8,118**	–
BB+	**–**	27
BB	**91**	45
BB-	**112**	103
B+	**300**	–
Total	**32,800**	38,000

15 Trade and other payables

	2014 $'000	Restated 2013 $'000
Trade payables	4,683	5,715
Tax and social security	25,884	8,449
Accruals	47,309	42,775
Total	**77,876**	56,939

At 30 April 2014 and 2013, the carrying amount approximates to the fair value.

16 Borrowings

	2014 $'000	2013 $'000
Bank loan – unsecured	297,000	216,000
Unamortized prepaid facility arrangement fees	(3,170)	(366)
	293,830	215,634

At 30 April 2014, the Group had an unsecured $420m revolving credit facility in place, denominated in US dollars, which expires on 16 July 2017. Interest on the facility was payable at US Dollar LIBOR plus 1.65% from 16 July 2013 for a period of approximately four 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 1.65% to 2.90% over US Dollar LIBOR.

The facility can be used on an on-going 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 three years.

The fair value of current borrowings equals their carrying amount.

17 Current tax liabilities

	2014 $'000	Restated 2013 $'000
Corporation tax	42,177	41,795

18 Deferred income – current

	2014 $'000	2013 $'000
Deferred income	150,168	138,306

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

Notes to the consolidated financial statements
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19 Deferred income – non-current

	2014 $'000	2013 $'000
Deferred income	12,629	9,646

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

20 Provisions

	2014 $'000	2013 $'000
Onerous leases and dilapidations	2,252	2,589
Restructuring	107	513
Other	6,943	7,899
Total	9,302	11,001
Current	4,382	8,992
Non-current	4,920	2,009
Total	9,302	11,001

	Onerous leases and dilapidations $'000	Restructuring $'000	Other $'000	Total $'000
At 1 May 2013	2,589	513	7,899	11,001
Additional provisions in the period	988	4	2,819	3,811
Utilization of provisions	(1,342)	(236)	(3,211)	(4,789)
Released	(50)	(190)	(246)	(486)
Unwinding of discount	79	–	–	79
Exchange adjustments	(12)	16	(318)	(314)
At 30 April 2014	2,252	107	6,943	9,302

	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
Utilization of provisions	(1,152)	(1,332)	–	(2,484)
Released	(637)	(511)	–	(1,148)
Unwinding of discount	115	(4)	–	111
Exchange adjustments	(48)	(9)	–	(57)
At 30 April 2013	2,589	513	7,899	11,001

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

20 Provisions continued

Restructuring provisions relates to the restructuring and property rationalization that was undertaken during the year ended 30 April 2011. Included within this is $0.1m for property costs incurred as part of the restructuring (2013: $0.4m) and in the year ended 30 April 2013 there was $0.1m for other miscellaneous costs associated with the restructuring. The provisions are expected to be fully utilized within 12 months.

Other provisions include $0.1m of costs relating to a rationalization of non-trading subsidiaries (2013: $0.1m), $3.8m relating to potential liabilities acquired with the Iona acquisition (2013: $3.8m), $1.8m relating to contingent consideration for the purchase of the OpenFusion CORBA assets from PrismTech Group Limited acquired during the year and $1.3m relating to tax due for pension and bonus payments prior to July 2011 for our subsidiary in Brazil (2013: $4.0m).

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 2014 was:

	2014 $'000	2013 $'000
Trade and other receivables excluding prepayments	96,499	82,523
Cash and cash equivalents	32,800	37,943
Total	**129,299**	120,466

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 loss in the year (2013: gain).

Sensitivity analysis

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

	2014		2013	
	Consolidated statement of comprehensive income $'000	Equity $'000	Consolidated statement of comprehensive income $'000	Equity $'000
Euro/USD exchange rate +/- 5%	1,078	1,140	875	1,025
US LIBOR +/- 1%	2,940	–	2,160	–

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21 Financial instruments continued
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 2014. Further details on the covenant requirements and Group performance against these can be found on page 9 of the strategic report.

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

	2014 $'000	Restated 2013 $'000
Bank and other borrowings – current (note 16)	293,830	215,634
Less cash and cash equivalents (note 14)	(32,800)	(37,943)
Total net debt	261,030	177,691
Total (deficit)/equity	(16,251)	57,816
Debt/equity %	**(1,606.24%)**	307.3%

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

	Financial 2014 $'000	Non-financial 2014 $'000	Total 2014 $'000	Financial 2013 $'000	Non-financial 2013 $'000	Total 2013 $'000
Financial assets – loans and receivables						
Current						
Cash and cash equivalents (note 14)	32,800	–	32,800	37,943	–	37,943
Trade and other receivables (note 13)	95,508	11,631	107,139	82,227	10,269	92,496
At 30 April	**128,308**	**11,631**	**139,939**	120,170	10,269	130,439

	Financial 2014 $'000	Non-financial 2014 $'000	Total 2014 $'000	Financial 2013 $'000	Non-financial 2013 $'000	Total 2013 $'000
Financial liabilities – financial liabilities at amortized cost						
Non-current						
Provisions (note 20)	1,070	3,850	4,920	825	1,184	2,009
Current						
Borrowings (note 16)	297,000	–	297,000	216,000	–	216,000
Trade and other payables – restated (note 15)	4,683	73,193	77,876	5,715	51,224	56,939
Provisions (note 20)	1,182	3,200	4,382	1,764	7,228	8,992
At 30 April	**303,935**	**80,243**	**384,178**	224,304	59,636	283,940

22 Deferred tax

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

	2014 $'000	2013 $'000
Group		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**31,092**	27,746
– Deferred tax asset to be recovered within 12 months	**11,539**	10,388
	42,631	38,134
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**(28,771)**	(30,456)
– Deferred tax liability to be recovered within 12 months	**(6,515)**	(6,586)
	(35,286)	(37,042)
Net deferred tax asset	**7,345**	1,092

	2014 $'000	2013 $'000
Net deferred tax asset		
At 1 May	**1,092**	(157)
Credited to consolidated statement of comprehensive income	**2,916**	735
Credited directly to equity	**3,532**	195
Acquisition of subsidiary (note 33)	**(1,952)**	–
Foreign exchange adjustment	**580**	(121)
Effect of change in tax rates – charged to consolidated statement of comprehensive income	**1,177**	440
At 30 April	**7,345**	1,092

	Tax losses $'000	Other temporary differences $'000	Total $'000
Deferred tax assets			
At 1 May 2012	29,645	10,137	39,782
Charged to consolidated statement of comprehensive income	(1,553)	(40)	(1,593)
Credited directly to equity	–	195	195
Foreign exchange adjustment	–	(121)	(121)
Effect of change in tax rates – charged to consolidated statement of comprehensive income	–	(129)	(129)
At 30 April 2013	**28,092**	**10,042**	**38,134**
At 1 May 2013	28,092	10,042	38,134
(Charged)/credited to consolidated statement of comprehensive income	(5,030)	4,173	(857)
Credited directly to equity	–	3,532	3,532
Acquisition of subsidiary (see note 33)	2,090	(10)	2,080
Foreign exchange adjustment	54	527	581
Effect of change in tax rates – charged to consolidated statement of comprehensive income	–	(839)	(839)
At 30 April 2014	**25,206**	**17,425**	**42,631**

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 $7.0m (2013: $9.0m) in respect of losses amounting to $19.9m (2013: $25.6m) that can be carried forward against future taxable income. The losses not recognized expire in the years from 2025 to 2028.

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22 Deferred tax continued
The deferred tax asset relating to other temporary differences of $17.4m (2013: $10.0m) includes temporary differences arising on fixed assets, share options, deferred income and other items. The amount of deferred tax asset relating to fixed assets is $0.7m (2013: $0.8m).

	Other temporary differences $'000
Deferred tax liabilities	
At 1 May 2012	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)
At 30 April 2013	**37,042**
At 1 May 2013	37,042
Charged to consolidated statement of comprehensive income	(3,773)
Acquisition of subsidiary (see note 33)	4,033
Effect of change in tax rates – charged to consolidated statement of comprehensive income	(2,016)
At 30 April 2014	**35,286**

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 $35.3m includes $25.8m (2013: $25.2m) relating to temporary differences on acquired intangibles and $6.3m (2013: $7.0m) 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 2014 is recognized at 20% (2013: 23%). The effect of the change in tax rates is disclosed separately.

23 Share capital
Ordinary shares at 13¹³⁄₂₄ pence each (2013: 12½ pence each)

	2014		2013	
	Shares	$'000	Shares	$'000
Issued and fully paid				
At 1 May	**165,095,660**	**37,797**	181,552,160	37,787
Shares issued to satisfy option awards	**24,675**	**5**	53,069	10
Treasury shares cancelled	**–**	**–**	(3)	–
Share reorganization	**(12,700,450)**	**–**	(16,509,566)	–
At 30 April	**152,419,885**	**37,802**	165,095,660	37,797

Share issued during the year
During the year, no ordinary shares of 11⁴⁄₁₁ pence each (2013: 53,069) and 24,675 (2013: nil) ordinary shares of 12½ pence each were issued by the Company to settle exercised share options. The gross consideration received was $1.0m (2013: $0.7m). No ordinary 13¹³⁄₂₄ pence shares were issued in the year.

At 30 April 2014 a total of 12,880,776 treasury shares were held (2013: 15,705,645).

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 2014 was 4,550,091 (2013: 5,854,881). Further information on these options is disclosed in note 28.

23 Share capital continued

'B' shares at 50 pence each

	2014		2013	
	Shares	**$'000**	Shares	$'000
Issued and fully paid				
At 1 May	–	–	–	–
Issue of 'B' shares	–	–	58,937,244	47,079
Redemption of 'B' shares	–	–	(58,937,244)	(47,079)
At 30 April	–	–	–	–

On 26 October 2012, 58,937,244 'B' shares were issued at 50 pence 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 50 pence each and an amount of $47.1m was deducted from the 'B' share capital account.

'C' shares at 0.0000001 pence each

	2014		2013	
	Shares	**$'000**	Shares	$'000
Issued and fully paid				
At 1 May	–	–	–	–
Issue of 'C' shares	–	–	105,147,405	–
Cancellation of 'C' shares	–	–	(105,147,405)	–
At 30 April	–	–	–	–

On 26 October 2012, 105,147,405 'C' shares were issued at 0.0000001 pence 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 and an amount of $17 was deducted from the 'C' share capital account.

'D' shares at 0.0000001 pence each

	Shares	**2014 $'000**
Issued and fully paid		
At 1 May	–	–
Issue of 'D' shares	**150,009,998**	–
Cancellation of 'D' shares	**(150,009,988)**	–
At 30 April	–	–

On 25 October 2013, 150,009,998 'D' shares were issued at 0.0000001 pence each, resulting in a total of $0.25 being credited to the 'D' share capital account. On 1 November 2013 a dividend of 60 pence per D share was declared and was paid on 12 November 2013.

The 'D' shares were subsequently reclassified as deferred shares and repurchased by the Company for an aggregate consideration of 1 pence and then subsequently cancelled and an amount of $0.25 was deducted from the 'D' share capital account.

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continued

24 Return of Value to shareholders
During the year, the Group announced a Return of Value to shareholders of 60 pence per ordinary share by way of a D share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving cash in the form of income or capital. The Return of Value was approved by shareholders on 26 September 2013. The Group entered into a forward exchange contract to protect the Company from any foreign exchange movement and so the resulting payment to shareholders of $144.7m was offset by a gain of $4.5m and costs of $0.6m on the foreign exchange forward contract such that the cost to the company of the Return of Value was $140.2m excluding transaction costs. The Return of Value was accompanied by a 12 for 13 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the D shares.

During the year ended 30 April 2013, 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.

25 Share premium account

	2014 $'000	2013 $'000
At 1 May – as previously reported	13,523	61,311
Prior year restatement (see note 34)	–	(2,560)
At 1 May – as restated	–	58,751
Movement in relation to share options exercised (see note 28)	1,023	1,848
Sales of fractional shares	–	3
Issue of B shares (see note 24)	–	(47,079)
At 30 April	**14,546**	13,523

26 Other reserves

	Notes	Capital redemption[2] $'000	Other reserves[1] (deficit) $'000	Total $'000
Balance as at 1 May 2013 and 30 April 2014		**103,983**	**(27,085)**	**76,898**

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 24).

27 Cash generated from operations

	Notes	2014 $'000	Restated 2013 $'000
Profit after tax		**122,082**	121,777
Adjustments for:			
Net interest	5	**7,879**	7,894
Taxation	6	**25,759**	29,767
Depreciation	11	**3,846**	3,483
Loss on disposal of property, plant and equipment		**123**	370
Amortization of intangibles	10	**38,047**	35,122
Share based compensation charges	28	**12,837**	6,639
Exchange movements		**712**	50
Provisions		**1,699**	(780)
Changes in working capital:			
Inventories		**11**	316
Trade and other receivables		**(13,175)**	2,379
Payables and other non-current liabilities		**6,955**	(14,577)
Cash generated from operating activities		**206,775**	192,440

28 Employees and directors

	2014 $'000	2013 $'000
Staff costs		
Wages and salaries	**154,252**	144,451
Social security costs	**13,957**	14,445
Other pension costs (note 29)	**4,870**	5,281
Cost of employee share schemes (note 28)	**12,837**	6,639
Total	**185,916**	170,816

	2014 number	2013 Number
Average monthly number of people (including executive directors) employed by the Group:		
Sales and distribution	**672**	666
Research and development	**321**	316
General and administration	**226**	224
Total	**1,219**	1,206

	2014 $'000	2013 $'000
Key management compensation		
Short-term employee benefits	**7,026**	5,751
Share based payments	**4,734**	3,012
Total	**11,760**	8,763

The key management figures above include the executive management team and directors. There are no post employment benefits. Directors' remuneration is shown overleaf.

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continued

28 Employees and directors continued
This is the share based payment charge arising under IFRS 2 'Share based Payment'.

	2014 $'000	2013 $'000
Directors		
Aggregate emoluments	**2,155**	2,045
Aggregate gains made on the exercise of share options	**14,035**	–
Company contributions to money purchase pension scheme	**136**	119
Total	**16,326**	2,164

For further information on the directors of the Company please refer to the Directors Remuneration report on pages 38 to 57.

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 652,000 options granted 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. As explained in the Directors' Remuneration report on pages 50 and 51 the total award on vesting was 1,295,328 shares.

	2014		2013	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
Outstanding at 1 May	**5,218,900**	**122p**	5,365,663	176p
Increase for performance	**643,328**	**–**	–	–
Exercised	**(2,657,333)**	**145p**	(793,230)	260p
Forfeited	**(186,695)**	**35p**	(652,086)	167p
Granted	**920,139**	**7p**	1,298,553	6p
Outstanding at 30 April	**3,938,339**	**63p**	5,218,900	122p
Exercisable at 30 April	**915,004**	**245p**	806,700	269p

The weighted average share price in the year for options on the date of exercise was 760 pence (2013: 629 pence).

28 Employees and directors continued

The amount charged to the consolidated statement of comprehensive income in respect of the scheme was $8.1m (2013: $4.6m). In addition to this $4.2m (2013: $1.6m) was charged to the consolidated statement of comprehensive income in respect of national insurance on share options.

Range of exercise prices	2014 Weighted average exercise price (pence)	2014 Number of shares ('000)	2014 Weighted average remaining contractual life (years)	2013 Weighted average exercise price (pence)	2013 Number of shares ('000)	2013 Weighted average remaining contractual life (years)
£0.10 or less	**4**	**2,213**	**7.8**	4	2,590	8.3
£0.11 – £1.00	**12**	**983**	**8.8**	11	686	9.1
£1.01 – £2.00	**116**	**38**	**1.6**	116	39	2.2
£2.01 – £3.00	**247**	**332**	**4.0**	262	817	5.8
£3.01 – £4.00	**362**	**175**	**5.3**	341	634	7.0
More than £4.00	**402**	**197**	**6.2**	405	453	7.2
	63	**3,938**	**7.5**	122	5,219	7.7

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was £7.40 (2013: £4.67). The significant inputs into the model were weighted average share price of £7.22 (2013: £5.47) at the grant date, exercise price shown above, expected volatility of 43.6% (2013: 47.9%), expected dividend yield of 4.10% (2013: 4.78%), an expected option life of three years and an annual risk-free interest rate of 2.20% (2013: 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.

Sharesave and Employee Stock Purchase Plan 2006

In August 2006, the Company introduced the Micro Focus Employee Stock Purchase Plan 2006 and the Micro Focus Sharesave Plan 2006, approved by members on 25 July 2006. The Group operates several plans throughout the world but the two main plans are the Sharesave Plan ('Sharesave') primarily for UK employees, and the Employee Stock Purchase Plan ('ESPP') for employees in the USA and Canada. The Sharesave and ESPP provide for an annual award of options at a discount to the market price and are open to all eligible Group employees. Further Sharesave and ESPP grants were made during the year to 30 April 2014.

Sharesave	2014 Options	2014 Weighted average exercise price pence	2013 Options	2013 Weighted average exercise price pence
Outstanding at 1 May	**523,906**	**300p**	659,286	277p
Exercised	**(69,967)**	**306p**	(131,554)	312p
Forfeited	**(44,443)**	**321p**	(203,671)	298p
Granted	**117,914**	**596p**	199,845	387p
Outstanding at 30 April	**527,410**	**364p**	523,906	300p
Exercisable at 30 April	**2,783**	**323p**	5,292	377p

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28 Employees and directors continued

Options	Date of grant	Exercise price per share pence	Exercise period
2,783	17 February 2011	323.2p	1 April 2014 – 30 September 2014
27,652	1 June 2011	248.8p	1 June 2014 – 30 November 2014
158,186	1 September 2011	218.4p	1 October 2014 – 31 March 2015
79,545	19 September 2011	218.4p	1 October 2014 – 31 March 2015
26,816	14 February 2012	337.2p	1 April 2015 – 30 September 2015
53,206	1 October 2012	428.0p	1 October 2015 – 31 March 2016
67,445	1 April 2013	481.6p	1 April 2016 – 30 September 2016
56,747	1 October 2013	598.4p	1 October 2016 – 1 April 2017
4,368	21 November 2013	649.6p	1 January 2017 – 1 July 2017
50,662	5 February 2014	612.0p	1 May 2017 – 1 November 2017
527,410			

ESPP	2014 Options	2014 Weighted average exercise price pence	2013 Options	2013 Weighted average exercise price pence
At 1 May	**112,075**	**426p**	200,449	328p
Exercised	**(13,272)**	**274p**	(37,443)	295p
Forfeited	**(31,481)**	**335p**	(109,296)	344p
Granted	**17,020**	**644p**	58,365	524p
Outstanding at 30 April	**84,342**	**528p**	112,075	426p
Exercisable at 30 April	**–**	**–**	33,926	274p

Options	Date of grant	Exercise price per share pence	Exercise period
21,976	23 March 2012	401.5p	1 October 2014 – 31 March 2015
20,728	1 October 2012	500.2p	1 October 2014 – 31 December 2014
24,618	1 April 2013	582.7p	1 April 2015 – 30 June 2015
17,020	1 October 2013	644.3p	1 October 2015 – 31 December 2015
84,342			

The amount charged to the consolidated statement of comprehensive income in respect of the Sharesave and ESPP schemes was $0.4m (2013: $0.2m).

The weighted average fair value of options granted in the Sharesave and ESPP schemes during the year determined using the Black-Scholes valuation model was £3.62 (2013: £1.79). The significant inputs into the model were weighted average share price of £7.67 (2013: £5.51) at the grant date, exercise price shown above, expected volatility of 43.60% (2013: 47.9%), expected dividend yield of 4.10% (2013: 4.78%), an expected option life of two or three years and an annual risk-free interest rate of 2.20% (2013: 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.

29 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:

	2014 $'000	2013 $'000
Defined contribution schemes	**4,870**	5,281

30 Operating lease commitments – minimum lease payments

At 30 April 2014 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.

	2014 $'000	2013 $'000
Commitments under non-cancellable operating leases:		
Within one year	**8,560**	3,754
Between one and five years	**13,008**	16,343
Beyond five years	**1,272**	6,993
Total	**22,840**	27,090

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.

31 Contingent liabilities

The Group had contingent liabilities of $69,026 at 30 April 2014 (2013: $96,242).

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

32 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 28.

33 Business combinations

Summary of acquisitions in the year ended 30 April 2014

	Carrying value at acquisition $'000	Fair value $'000	Goodwill $'000	Consideration – cash $'000	Consideration – contingent $'000	**Consideration – total $'000**
SoforTe GmbH	(133)	3,576	3,002	6,578	–	**6,578**
OpenFusion CORBA assets from PrismTech Group Limited	(992)	2,622	5,562	6,392	1,792	**8,184**
AccuRev Inc.	(563)	7,629	14,596	22,225	–	**22,225**
	(1,688)	13,827	23,160	35,195	1,792	**36,987**

Acquisition of Iona division of Progress Software Corporation

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 administrative expenses in the consolidated statement of comprehensive income. 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.

Notes to the consolidated financial statements
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33 Business combinations continued
Details of the net liabilities acquired and goodwill are as follows:

	Carrying value at acquisition $'000	Initial fair value $'000	Hindsight period adjustments $'000	**Fair value $'000**
Intangible assets	–	11,185	–	**11,185**
Property, plant and equipment	3	–	–	**–**
Trade and other receivables	3,782	2,852	248	**3,100**
Provisions	(3,750)	(3,750)	–	**(3,750)**
Deferred income	(5,904)	(5,608)	(609)	**(6,217)**
Net (liabilities)/assets	(5,869)	4,679	(361)	**4,318**
Goodwill (note 9)		10,321	361	**10,682**
Consideration		15,000	–	**15,000**
Consideration satisfied by:				
Cash				**15,000**

The hindsight period adjustments above relate to amendments to trade receivables and deferred income. Trade receivables adjustments relate to bad debt provision changes and additional trade receivables identified. The deferred income adjustment relates to invoices recorded as pre-acquisition now identified as relating to future periods.

Acquisition of SoforTe GmbH
On 9 October 2013, the Group acquired SoforTe GmbH for $6.9m, inclusive of $0.3m of acquisition related costs. The acquisition costs of $0.3m were expensed through administrative expenses in the consolidated statement of comprehensive income. The consideration of $6.6m 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	206	**3,942**
Property, plant and equipment	17	**17**
Trade and other receivables	48	**2**
Trade and other payables	(404)	**(10)**
Deferred tax liability	–	**(375)**
Net (liabilities)/assets	(133)	**3,576**
Goodwill (note 9)		**3,002**
Consideration		**6,578**
Consideration satisfied by:		
Cash		**6,578**

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

	Fair value $'000
Developed technology (note 10)	**3,942**
	3,942

33 Business combinations continued

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 MS marketplace and complements our existing Enterprise Developer products well.

The Group has used acquisition accounting for the purchase and the goodwill arising on consolidation of $3.0m has been capitalized. If certain revenue targets are achieved then a maximum of Euro 0.6m can be paid as contingent consideration to the previous shareholder of the SoforTe GmbH business. Any earnout bonuses have been expensed through the consolidated statement of comprehensive income.

From the date of acquisition to 30 April 2014, the acquisition has contributed $0.2m to revenue and $1.5m loss to Adjusted EBITDA.

The estimated results of the above acquisition if it had been made at the beginning of the accounting period to 30 April 2014 would have been as follows:

Continuing	$m
Revenue	0.4
Loss for the period	(2.2)
Adjusted EBITDA	(1.7)

The above figures are based on information provided to Micro Focus by SoforTe GmbH and the results since acquisition.

On 1 March 2014 the entity was merged with Micro Focus GmbH.

Acquisition of OpenFusion CORBA assets from PrismTech Group Limited

On 29 November 2013, the Group acquired from PrismTech Group Limited, the OpenFusion CORBA related assets for an initial consideration of £4.18m (equivalent to $6.4m) with up to £1.12m (equivalent to $1.8m) of contingent consideration. The initial consideration of £4.18m (equivalent to $6.4m) was satisfied in cash using Micro Focus' existing banking facilities. The acquisition costs incurred of $0.3m were expensed through administrative expenses in the consolidated statement of comprehensive income.

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	–	4,351
Trade and other receivables	3	–
Trade and other payables	(151)	(108)
Deferred income	(844)	(1,621)
Net (liabilities)/assets	(992)	2,622
Goodwill (note 9)		5,562
Consideration		8,184
Consideration satisfied by:		
Cash		6,392
Contingent consideration		1,792
		8,184

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33 Business combinations continued

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

	Fair value $'000
Developed technology (note 10)	479
Customer relationships (note 10)	3,872
	4,351

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 $5.6m has been capitalized. If certain revenue targets are achieved then a maximum of £1.12m (equivalent of $1.8m) can be paid as contingent consideration to PrismTech Group Limited. Any retention bonuses have been expensed through the consolidated statement of comprehensive income.

From the date of acquisition to 30 April 2014, the acquisition contributed $1.1m to revenue and $0.3m profit to Adjusted EBITDA.

The estimated results of the above acquisition if it had been made at the beginning of the accounting period to 30 April 2014 would have been as follows:

Continuing	$m
Revenue	2.7
Profit for the period	1.0
Adjusted EBITDA	1.4

The above figures are based on information provided to Micro Focus by PrismTech Group Limited and the results since acquisition.

Acquisition of AccuRev Inc.

On 30 November 2013, the Group signed a merger agreement for the acquisition of the application life cycle solutions company AccuRev Inc., a US company based in Concord, Massachusetts for an initial consideration of $21.5m, exclusive of $0.8m of acquisition related costs. This was settled on completion of the acquisition on 31 December 2013, using Micro Focus' existing banking facilities. Further consideration of $0.7m was paid following acquisition. The acquisition costs of $0.8m have been expensed through administrative expenses in the consolidated statement of comprehensive income.

A fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of intangible assets.

33 Business combinations continued

Details of the net liabilities acquired and goodwill are as follows:

	Carrying value at acquisition $'000	Fair value $'000
Intangible assets	–	9,826
Property, plant and equipment	208	154
Cash	3,261	3,261
Trade and other receivables	1,520	1,441
Trade and other payables	(530)	(701)
Deferred income	(5,022)	(4,775)
Deferred tax liability	–	(1,577)
Net (liabilities)/assets	(563)	7,629
Goodwill (note 9)		14,596
Consideration		22,225
Consideration satisfied by:		
Cash		22,225

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

	Fair value $'000
Developed technology (note 10)	2,340
Customer relationships (note 10)	7,486
	9,826

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Company's existing customer base with those of the acquired business. The combination of AccuRev Inc.'s strong product portfolio and employees' skills with our existing Borland suite of products and people and skills will strengthen the Group's capabilities in this software testing market.

The Group has used acquisition accounting for the purchase and the goodwill arising on consolidation of $14.6m has been capitalized. Any retention bonuses have been expensed through the consolidated statement of comprehensive income.

From the date of acquisition to 30 April 2014, the acquisition contributed $4.9m to revenue and $1.1m loss to Adjusted EBITDA.

The estimated results of the above acquisition if it had been made at the beginning of the accounting period to 30 April 2014 would have been as follows:

Continuing	$m
Revenue	11.9
Loss for the period	(2.7)
Adjusted EBITDA	(2.3)

The above figures are based on information provided to Micro Focus by AccuRev Inc. and the results since acquisition.

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34 Restatement of comparative figures for the years ended 30 April 2012 and 30 April 2013

On 29 October 2013, Group management was made aware by our Country General Manager in India of a claim by a partner in India that in July 2012 the partner entered into a transaction with what the partner believed to be a genuine customer introduced to them by a Micro Focus sales representative for the sale of Micro Focus software. The partner's invoice for the sale had been due to be settled in December 2012 but as at 29 October 2013 was still outstanding. Micro Focus had no record of the end user transaction nor of the involvement of the partner in the transaction and the Country General Manager was not contacted by the partner until October 2013.

Group management immediately appointed KPMG, the Group's Internal Auditors, to conduct an investigation into all sales in India within the current and the preceding two financial years and suspended the Micro Focus sales representative whilst the investigation took place. The investigation revealed further transactions initiated by the sales representative for which Micro Focus had received payment either directly or indirectly from the partner network in India for which no end user contract existed. The total amount of revenue impacted by the actions of the sales representative was $3.1m and covered a period dating back to October 2011. $2.5m relates to periods prior to 30 April 2013 and $0.6m impacts the current period. Micro Focus had received cash payments for $2.5m of these transactions. The current period Adjusted EBITDA is adversely impacted by $1.5m being the $0.6m of revenue and $0.9m of costs.

Considering the current year revenue guidance provided by Micro Focus to the market, the cumulative impact on the current period revenue of reversing the misstatement would have had a material qualitative impact on the relative revenue performance. Consequently, the directors have decided to restate the prior period reported and CCY revenues to reflect the period in which the original transactions took place.

The impact on the reported revenues is as follows:

	12 months to 30 April 2013 $'000	6 months to 30 April 2013 $'000	6 months to 31 October 2012 $'000	12 months to 30 April 2012 $'000	6 months to 30 April 2012 $'000	6 months to 31 October 2011 $'000
Total revenue – as reported						
Licence	168,549	83,228	85,321	176,572	89,027	87,545
Maintenance	229,691	116,248	113,443	230,903	113,957	116,946
Consultancy	15,749	7,208	8,541	27,363	12,752	14,611
	413,989	**206,684**	**207,305**	**434,838**	**215,736**	**219,102**
Adjustment for India						
Licence	(1,619)	(1,037)	(582)	(674)	–	(674)
Maintenance	(203)	(118)	(85)	(72)	(71)	(1)
Total adjustment	**(1,822)**	**(1,155)**	**(667)**	**(746)**	**(71)**	**(675)**
Total revenue – as restated						
Licence	166,930	82,191	84,739	175,898	89,027	86,871
Maintenance	229,488	116,130	113,358	230,831	113,886	116,945
Consultancy	15,749	7,208	8,541	27,363	12,752	14,611
	412,167	**205,529**	**206,638**	**434,092**	**215,665**	**218,427**

34 Restatement of comparative figures for the years ended 30 April 2012 and 30 April 2013 continued

The impact on the reported results for the Group, including tax, is as follows:

	12 months to 30 April 2013 $'000	6 months to 30 April 2013 $'000	6 months to 31 October 2012 $'000	12 months to 30 April 2012 $'000	6 months to 30 April 2012 $'000	6 months to 31 October 2011 $'000
Profit after tax – reported	**123,164**	**62,506**	**60,658**	**120,620**	**58,207**	**62,413**
Revenue adjustment	(1,822)	(1,155)	(667)	(746)	(71)	(675)
Corporation tax adjustment	435	276	159	192	18	174
Total prior period adjustments	(1,387)	(879)	(508)	(554)	(53)	(501)
Profit after tax – restated	**121,777**	**61,627**	**60,150**	**120,066**	**58,154**	**61,912**

The impact on the earnings per share for the Group is as follows:

	12 months to 30 April 2013 as reported cents	12 months to 30 April 2013 adjustment cents	12 months to 30 April 2013 restated cents	6 months to 31 October 2012 as reported cents	6 months to 31 October 2012 adjustment cents	6 months to 31 October 2012 restated cents
Basic	78.72	(0.89)	77.83	36.97	(0.31)	36.66
Diluted	76.09	(0.86)	75.23	35.60	(0.29)	35.31
Adjusted	88.69	(0.88)	87.81	41.58	(0.31)	41.27
Adjusted diluted	85.73	(0.86)	84.87	40.04	(0.30)	39.74

The impact on the consolidated statement of financial position for the Group is as follows:

	As at 30 April 2013 $'000	As at 31 October 2012 $'000	As at 30 April 2012 $'000	As at 31 October 2011 $'000
Net assets – reported	**59,757**	**9,489**	**117,546**	**200,043**
Increase in trade and other payables	(2,568)	(1,413)	(746)	(675)
Reduction in current tax liability	627	351	192	174
Total prior period adjustments	(1,941)	(1,062)	(554)	(501)
Net assets – restated	**57,816**	**8,427**	**116,992**	**199,542**

In addition to the above, the consolidated statement of cash flow has been restated for the year ended 30 April 2013 to reflect the exclusion of prepayment releases from bank loan costs incurred in the period. The effect is to reduce bank loan costs and increase the inflow from trade and other receivables (30 April 2013: $2,021,000).

The consolidated statement of changes in equity has been restated for the year ended 30 April 2013 to correct an error in the classification of equity reserves between the share premium account and retained earnings as previously reported of $2,560,000.

The restatement for the impact of the misstatement of revenue caused by invalid orders within our sales channel network in India of $2,006,000 and the reclassification within equity reserves of $2,560,000 gives rise to a total restatement in equity reserves of $554,000.

Notes to the consolidated financial statements
for the year ended 30 April 2014
continued

35 Principal subsidiaries
Details of principal subsidiaries are provided below.

Company name	Country of incorporation	Principal activities
Micro Focus Group Limited	UK	Holding company
Micro Focus AS	Norway	Sale and support of software
Micro Focus (Canada) Limited	Canada	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
AccuRev Inc.	USA	Sale and support of software
SoforTe GmbH	Germany	Development, sale and support of software
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.

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

Report on the Company financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 30 April 2014;
- 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Company financial statements (the 'financial statements'), which are prepared by Micro Focus International plc, comprise:

- the Company balance sheet as at 30 April 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example on significant accounting estimates. In making such judgements, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts ('the Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

Other information in the Annual Report
Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of directors' responsibilities set out on page 62, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have reported separately on the Group financial statements of Micro Focus International plc for the year ended 30 April 2014.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 June 2014

Company balance sheet
as at 30 April 2014

	Note	2014 $'000	2013 $'000
Fixed assets			
Investments	V	**65,923**	6,337
		65,923	6,337
Current assets			
Deferred tax assets		**1,160**	1,221
Debtors	VI	**347,545**	552,989
Cash at bank and in hand		**517**	392
		349,222	554,602
Creditors: amounts falling due within one year	VII	**28,160**	10,449
Net current assets		**321,062**	544,153
Total assets less current liabilities		**386,985**	550,490
Capital and reserves			
Called up share capital	VIII	**37,802**	37,797
Share premium account	X	**14,546**	13,523
Profit and loss account	XI	**230,654**	395,187
Other reserves	XI	**103,983**	103,983
Total shareholders' funds		**386,985**	550,490

The Company financial statements on pages 113 to 119 were approved by the board of directors on 18 June 2014 and were signed on its behalf by:

Kevin Loosemore
Executive Chairman

Mike Phillips
Chief Financial Officer

Registered number: 5134647

Notes to the Company financial statements
for the year ended 30 April 2014

I Summary of significant accounting policies
The basis of preparation and the principal accounting policies adopted in the preparation of the financial information are set out below.

A Basis of preparation
The Company financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and all applicable UK accounting standards. The principal accounting policies have been applied consistently throughout the year.

B Foreign currency translation
The functional currency of the Company is US Dollars. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

C Investments in subsidiaries
Investments in subsidiaries are held at cost less any accumulated impairment losses.

D Called up share capital, share premium and dividend distribution
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognized when declared.

E Taxation
Corporation tax is payable on taxable profits at amounts expected to be paid, or recovered, under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognized to take account of timing differences between the treatment of transactions for financial reporting purposes and their treatment for tax purposes. A deferred tax asset is only recognized when it is regarded as more likely than not that there will be a suitable taxable profit from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

F Employee benefit costs
a) Pension obligations
The Company operates a defined contribution plan for which it pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Share based compensation
The Company operated various equity-settled, share based compensation plans during the year.

No expense is recognized in respect of share options granted before 7 November 2002 and vested before 1 January 2005. For shares or share options granted after 7 November 2002 and vested after 1 January 2005 the fair value of the employee services received in exchange for the grant of the shares or options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or options granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

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

G Financial instruments
The accounting policy of the Company for financial instruments is the same as that shown in the Group accounting policies. This policy is in accordance with FRS 26, 'Financial Instruments Recognition and Measurement'.

II Profit and recognized gains and losses 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 profit for the financial year before dividends for the Company was $42.2m (2013: loss of $9.1m).

Audit fees for the Company of $173,000 (2013: $130,000) are borne by another company in the Group.

III Employees and directors

Staff costs for the Company during the year.

	2014 $'000	2013 $'000
Wages and salaries	**3,498**	3,788
Social security costs	**616**	578
Other pension costs	**67**	40
Cost of employee share schemes	**3,383**	3,366
Total	**7,564**	7,772

The average monthly number of employees of the Company, including remunerated directors, during the year was six (2013: six). For further information on the directors of the Company please refer to the remuneration report on pages 38 to 57.

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 38 to 57.

For 652,000 options granted 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. As explained in the Directors' Remuneration report on pages 50 and 51 the total award on vesting was 1,295,328 shares.

Notes to the Company financial statements
for the year ended 30 April 2014
continued

III Employees and directors continued

	2014		2013	
	Options	**Weighted average exercise price pence**	Options	Weighted average exercise price pence
At 1 May	**1,645,846**	**91p**	1,521,727	115p
Increase in performance	**643,328**	**–**		
Exercised	**(1,799,786)**	**84p**	–	–
Forfeited	**–**	**–**	(213,333)	117p
Granted	**206,091**	**–**	337,452	–
Outstanding at 30 April	**695,479**	**–**	1,645,846	91p
Exercisable at 30 April	**–**	**–**	–	–

The weighted average share price in the year for options on the date of exercise was 787 pence (2013: $nil).

The amount charged to the profit and loss account in respect of the scheme was $2.6m (2013: $2.0m). In addition to this $1.9m (2013: $1.3m) was charged to the profit and loss account in respect of national insurance on these options.

	2014			2013		
Range of exercise prices	**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	**8p**	**695**	**8.1**	–	1,141	8.3
£2.01 – £3.00	**–**	**–**	**–**	277p	235	7.3
£3.01 – £4.00	**–**	**–**	**–**	317p	270	7.4
	8p	**695**	**8.1**	91p	1,646	8.0

206,091 (2013: 337,452) 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 £6.08. The significant inputs into the model were weighted average share price of £6.88 at the grant date, exercise price shown above, volatility of 43.6%, dividend yield of 4.10%, an expected option life of three years and an annual risk-free interest rate of 2.20%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

IV Dividends

A final dividend in respect of the year ended 30 April 2013 of 28.1 cents per share was proposed and paid during the year ($43.1m in total). In addition, an interim dividend in respect of the year ended 30 April 2014 of 14.0 cents per share (2013: 11.9 cents per share) was proposed and paid $19.6m in total. The directors are proposing a final dividend in respect of the year ended 30 April 2014 of 30.0 cents per share, which would reduce shareholders' funds by approximately $41.9m. The proposed dividend is subject to approval at the forthcoming AGM.

V Fixed asset investments

	$'000
Cost and net book value:	
At 1 May 2013	**6,337**
Additions	**59,586**
At 30 April 2014	**65,923**

The additions of $59.6m relate to capital contributions arising from share based payments of $5.4m (2013: $3.4m) as set out in note III and $54.2m relating to a share acquisition of Micro Focus Group Limited.

At 30 April 2014, 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
AccuRev Inc.	USA	Sale and support of software
SoforTe GmbH	Germany	Development, sale and support of software
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. Our subsidiaries in Brazil, Bulgaria and SoforTe GmbH have a financial year end of 31 December. Our subsidiaries in India have an accounting year end of 31 March. These are due to historic reasons and were their year end on acquisition.

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

The directors consider that the above shows the principal subsidiaries but that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A full list of subsidiary undertakings, joint ventures and associates at 30 April 2014 will be annexed to the Company's next annual return.

VI Debtors

	2014 $'000	2013 $'000
Amounts owed by Group undertakings	346,464	552,871
Other debtors	995	14
Prepayments	86	104
Total	347,545	552,989

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 2014
continued

VII Creditors: amounts falling due within one year

	2014 $'000	2013 $'000
Amounts owed to Group undertakings	**10,992**	7,143
Taxation and social security	**9,132**	108
Accruals	**8,036**	3,198
Total	**28,160**	10,449

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

VIII Called up share capital

	2014		2013	
	Number	$'000	Number	$'000
Allotted and fully paid				
Ordinary shares of 12½ pence each	–	–	165,095,660	37,797
Ordinary shares of 13 13/24 pence each	**152,419,885**	**37,802**	–	–

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

During the year, no ordinary shares of 11 4/11 pence each (2013: 53,069) and 10,190 (2013: nil) ordinary shares of 12½ pence each and 15,985 (2013: nil) ordinary shares of 13 13/24 pence each were issued by the Company to settle exercised share options. The gross consideration received was $1.0m (2013: $0.7m).

IX Share buy-back

During the year ended 30 April 2012 the Company repurchased 12,298,791 10 pence 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 26 September 2013 to buy back up to 14.99% of its issued share capital, which remains outstanding until the conclusion of the AGM on 25 September 2014. Following the Return of Value and associated share consolidation this authority related to a maximum of 20,672,321 ordinary shares of 13 13/24 pence per share. The minimum price which was to be paid for such shares was the nominal value of the ordinary shares, 13 13/24 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 buy-back programmes and stabilization of financial instruments (2273/2003).

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

At 30 April 2014 a total of 12,880,776 treasury shares were held (2013: 15,705,645).

X Share premium account

	2014 $'000	2013 $'000
At 1 May	**13,523**	58,751
Movement in relation to shares issued	**1,023**	2,793
Issue of B shares	–	(47,079)
Movement in share options	–	(945)
Sale of fractional shares	–	3
At 30 April	**14,546**	13,523

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[1] $'000	Total $'000
Balance as at 1 May 2012	**37,787**	**58,751**	**585,450**	**56,904**	**738,892**
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	–	–	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)
Balance as at 30 April 2013	**37,797**	**13,523**	**395,187**	**103,983**	**550,490**
Profit for the year	–	–	42,242	–	42,242
Dividends (see note IV)	–	–	(62,633)	–	(62,633)
Issue of share capital	5	1,023	(9,422)	–	(8,394)
Return of Value to shareholders (see Note XIV)	–	–	(144,664)	–	(144,664)
Expenses and foreign exchange relating to Return of Value	–	–	3,934	–	3,934
Prior year corporation tax	–	–	(786)	–	(786)
Movement in relation to share options					
– Value of subsidiary employee services	–	–	2,880	–	2,880
– Value of services provided (see note III)	–	–	3,383	–	3,383
Deferred tax on share options	–	–	533	–	533
Total changes in shareholders' funds	5	1,023	(164,533)	–	(163,505)
Balance as at 30 April 2014	**37,802**	**14,546**	**230,654**	**103,983**	**386,985**

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 24). 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.

As at 30 April 2014 the value of distributable reserves was $230,657,000 (2013: $228,436,000).

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 Disclosures' 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 60 pence per ordinary share amounting to $140.2m in cash after including a foreign exchange contract gain of $4.5m, by way of a D share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving cash in the form of income or capital. The Return of Value was approved by shareholders on 26 September 2013. The Return of Value was accompanied by a 12 for 13 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the D shares.

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92911 La Defense Cedex France
T: 33 (0)1 55 70 30 13

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Germany
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Sir John Rogerson's Quay
Dublin 2
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World Trade Center
Muelle de Barcelona
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Muelle de barcelona
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Spain – Madrid
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Sweden
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Switzerland – Zürich – virtual office
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Switzerland
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UK – Newbury Office – Distribution
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UK – Newbury Office
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US – Rockville Office – MD
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US – Troy – MI
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T: 1 248 824 1661

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Office Corporate
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China – Beijing
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China – Hong Kong
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China
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Mexico – virtual office
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C.P. 01020
Mexico, D.F.
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Singapore – Singapore (B1)
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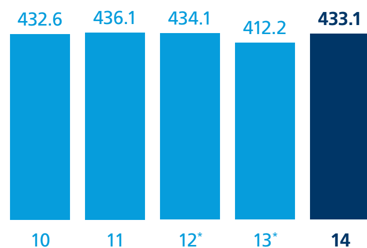
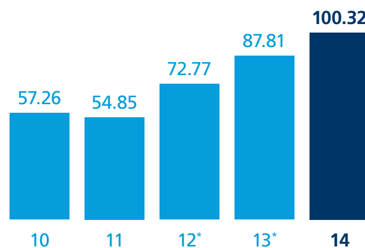
South Africa – Cape Town – virtual office
1st floor Convention Towers
Cnr. Heerengracht and Walter Sisulu Street
Foreshore
Cape Town 8001
South Africa
T: 44 (0) 7584 487 103

Historical summary

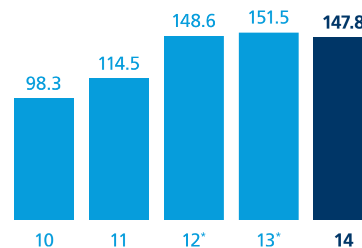
Revenue ($m)
$433.1m



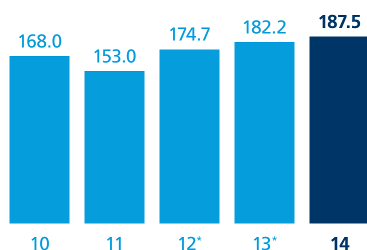
Adjusted earnings per share (c)
100.32c



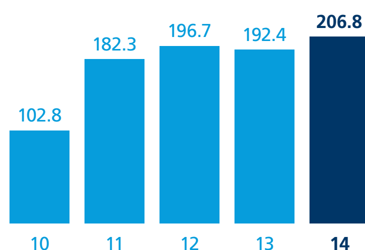
Profit before tax ($m)
$147.8m



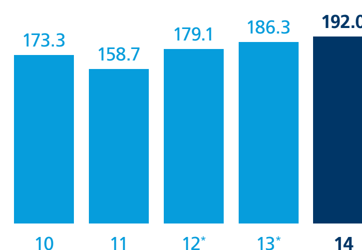
Adjusted operating profit ($m)
$187.5m



Cash generated from continuing operations ($m)
$206.8m



Adjusted EBITDA ($m)
$192.0m



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

	2014 $'000	2013* $'000
Revenue	433,058	412,167
Operating profit	155,720	159,438
Profit before tax	147,841	151,544
Earnings per share		
Basic (cents)	84.75	77.83
Diluted (cents)	82.35	75.23

Summarized Group consolidated statement of financial position as at 30 April

	2014 $'000	2013 $'000
Non-current assets	464,945	437,596
Current assets	140,072	130,583
Current liabilities	(569,565)	(461,666)
Non-current liabilities	(51,703)	(48,697)
Total equity	(16,251)	57,816

* Financial years 2012 and 2013 have been restated (see note 34).

Key dates for 2014

Annual General Meeting	25 September 2014

Dividend payments

Final payable – year ended 30 April 2014	3 October 2014
Interim payable – period ended 31 October 2014	January 2015

Results announcements

Interim results – period ended 31 October 2014	4 December 2014
Final results – year ended 30 April 2015	25 June 2015

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 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 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.

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

Company information

Directors
Kevin Loosemore
(Executive Chairman)

Mike Phillips
(Chief Financial Officer)

Stephen Murdoch
(Chief Operating Officer)

David Maloney
(Senior independent non-executive director and Deputy Chairman)

Tom Skelton
(Non-executive director)

Karen Slatford
(Non-executive director)

Tom Virden
(Non-executive director)

Richard Atkins
(Non-executive director)

Company Secretary, Registered and Head Office
Jane Smithard
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www.microfocus.com
Registered in England number 5134647

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Independent auditors
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Forward-looking statements

Certain statements contained in this annual report, including those under the captions entitled Executive Chairman's statement, operational and financial review, directors' report, corporate governance and remuneration report constitute 'forward-looking statements', including, without limitation, those regarding the Company's financial condition, business strategy, plans and objectives. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative or other variations or comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Such risks, uncertainties and other factors include, among others: the level of expenditure committed to development and deployment applications by organizations; the level of deployment-related revenue expected by the Company; the degree to which organizations adopt web-enabled services; the rate at which large organizations migrate applications from the mainframe environment; the continued use and necessity of the mainframe for business critical applications; the degree of competition faced by Micro Focus; growth in the information technology services market; general economic and business conditions, particularly in the United States; changes in technology and competition; and the Company's ability to attract and retain qualified personnel. These forward-looking statements are made by the directors in good faith based on the information available to them at the time of their approval of this annual report. Except as required by the Financial Conduct Authority, or by law, the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

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