

Run and transform – at the same time

Annual Report and Accounts 2021



Run and transform

Micro Focus is one of the world's largest enterprise software providers. We deliver mission-critical technology and services to help customers solve the digital dilemma – running and transforming simultaneously.

2021 highlights

Revenue¹

\$2,900m

2020: \$3,001m

Cash generated from operations³

\$691m

2020: \$1,083m

Adjusted EBITDA^{1,2}

\$1,040m

2020: \$1,174m

Adjusted free cash flow^{2,3}

\$292m

2020: \$660m

Loss before tax

\$518m

2020: \$2,940m

Notes:

1. Revenue and Adjusted EBITDA in FY20 and FY21 exclude discontinued operations.
2. Adjusted EBITDA and Adjusted free cash flow are defined in the "Alternative Performance Measures" of these financial statements.
3. Adjusted free cash flow and cash generated from operations include discontinued operations for all periods.

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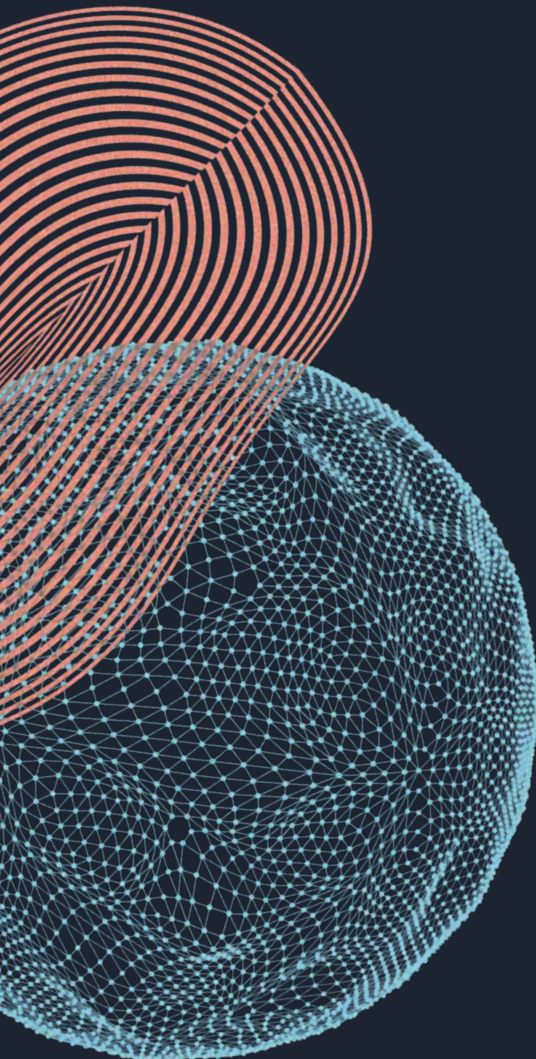
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Our purpose:

To deliver mission-critical enterprise software that powers the digital economy.

Strategic priorities:

Focusing the energy of the entire organisation externally onto customers and capturing the significant opportunities for value creation.

1. Transition to a product group operating model.
2. Continued focus on installed base.
3. Utilise the enterprise-wide platform to create an agile and lean organisation.

Pages 12-15

Creating stakeholder value:

Creating and contributing value through transparency and consideration of the broader impact of our business decisions on all stakeholder.

Investors, [page 34](#)
 Employees, [page 35](#)
 Marketplace, [page 38](#)
 Community & Social Impact, [page 40](#)
 Environment & Sustainability, [page 42](#)

United Nations Sustainable Development Goals

Accelerating sustainable solutions to the world's biggest challenges by 2030. Micro Focus supports the following United Nations Sustainable Development Goals:



Delivering innovation



Jaguar TCS Racing

As the technical partner for Jaguar TCS Racing, Micro Focus provides world-class software to support their push for more points, podiums, and wins – both on and off the track – in the fast-changing environment of the ABB FIA Formula E World Championship.

In FY21 we helped Jaguar TCS Racing with data analytics for car telemetry; video and speech analytics; secure data for hybrid IT; and, building secure software.

“Our technical partnership with Micro Focus is allowing Jaguar TCS Racing to use their world-class software behind the scenes to gain meaningful improvements and results – which are pivotal in the fast-changing environment of Formula E racing.”

James Barclay

Managing Director, JLR Motorsport and Team Principal, Jaguar TCS Racing Formula E Team

Modernising applications

Modernise core applications

Kmart, a proud Aussie brand, leveraged Micro Focus Enterprise solutions and AWS-driven modernisation to form the transformation launchpad for new growth, innovation, and \$4m in annual operational savings. By creating a single source of truth and focusing on the data, Kmart uses cloud services to connect to the rehosted, rationalised database on AWS. The data is leveraged to solve different business problems and support new business models.

"Intelligent data analytics drive data-driven decision making. Leveraging the new infrastructure, we use machine-learning models to more accurately allocate stock to stores, correlating sales directly with seasonal stock projections and loss analysis. We weren't able to do this until Micro Focus helped us unlock the valuable data we have."

Group Head of Merchandizing and Inventory IT, Kmart



Reducing complexity

Single enterprise-wide platform

FY21 has been a transformational year for Micro Focus. In the year we delivered our new end-to-end single enterprise-wide platform, significantly reducing complexity. We migrated our entire employee base and are in the process of reducing business applications from 2,000 to 500; and, we removed over 400 business processes. This was a fundamental strategic objective of the business and provides the foundations from which to deliver on our wider business objective of simplification.

"We now have a single set of systems and standardised global processes. This has already enabled us to start to simplify the organisation and identify significant opportunities for efficiency and productivity improvements."

Matt Ashley
Chief Financial Officer


Strengthening governance

Leadership

Strong leadership and governance is critical to deliver our change programmes. We have continued to add strength to our board through the appointment of new executives and non-executives. We have also created a new board committee focused on ESG to ensure we can fully embed those principles into the way we do business.

"In the 18 months I have been here, there have been some significant executive leadership changes and some significant board changes. I now believe we are well positioned from a leadership standpoint with the skills, capabilities, determination and ambition that we need."

Greg Lock
Non-executive Chairman



Continuing progress

"I am encouraged by the position we are now in, though much remains to be done, and I look forward to continuing progress in the next couple of years. On we go to sell more and spend less."

Non-executive Chairman's statement



Greg Lock
Non-executive Chairman

The year ended 31 October 2021 showed progress in sales with the revenue decline halving versus 2020. We made good progress with our systems transition and are now established with a single enterprise-wide platform. Having a systems platform we can rely on gives us the opportunity to look for and create value-enhancing options in investment, organisation and disposals.

A good example of the last was the announcement of sale of our Archiving business at the end of the year for \$375m, a value-enhancing price for a business in which we could not prioritise necessary investment in.

We were disappointed with our cash flow which was dented by a number of one-off items during the year, Maintenance renewals need and are getting much attention and our cost base is too high.

So we have set out to remove \$400m to \$500m of gross costs over the next two years and to restore our cash-generating ability to \$500m annually as we exit FY23.

More can be read about our plans in these areas on pages 12 to 15.

ESG is an area of growing importance and as a board we are seeking to ensure the Company responds to these changes in a responsible and representative fashion. To this end, our new Environmental, Social and Governance committee was launched in the summer with the goal of ensuring we continue to embed ESG into the core of our operations.

During the year Brian McArthur-Muscroft left the board and Sander van 't Noordende will leave us in March to become CEO of Randstad, one of the Netherlands largest public companies. I thank them for their help and support and wish them well in their future endeavours. In their places we welcomed Matt Ashley and Pauline Campbell. Subsequently Karen Slatford, after 11 years on the board, has decided not to offer herself for re-election at the AGM. I want to record a very special thank you to Karen who, as Senior Independent Director has given outstanding support and insight in our efforts to improve our prospects and operations. She has been exemplary!

A great deal of hard work has gone into the changes needed in our Company. I thank our employees, customers, and partners for their support in making these changes.

Greg Lock
Non-executive Chairman
7 February 2022

The background features two overlapping spheres. The left sphere is a teal wireframe mesh. The right sphere is a pink dashed line pattern. The text is centered over the intersection of these two spheres.

Delivering the next stage

"We are now able to focus the energy of the entire organisation externally onto customers and capturing the significant opportunities for value creation."

Chief Executive's Strategic review



Stephen Murdoch
Chief Executive Officer

Performance in the period Delivering on our objectives

At the beginning of this year our operational objectives were:

1. To complete the transition to one single enterprise-wide platform as effectively as possible with minimum disruption to day-to-day operations.
2. To create one global Go-to-Market organisation that can deliver consistent, sustained improvement to our revenue performance through improved sales productivity and the more effective alignment of our resources to opportunity.
3. To improve our product positions across the portfolio making us more competitive and delivering the innovation our customers want.

I am proud of how our team has executed against all three of these objectives in parallel.

In terms of progress, we now have a single set of systems and standardised global processes. This significant milestone is an important foundation of our drive to improve business agility and has already enabled us to start to simplify the organisation and identify very material opportunities for efficiency and productivity improvements. Examples of the way we have simplified our business are outlined on page 4.

We have restructured our Go-to-Market teams, moving from three distinct geographic organisations to one consistent global approach. This is enabling us to build deeper, more specialist skills that are better aligned by product portfolio. This is underpinned by a management system aimed at ensuring improved consistency of execution and accountability, supported by a single set of sales tools and improved data accuracy.

Whilst further improvements are required to achieve the levels of productivity and effectiveness we believe possible, the foundations are now in place to support delivery of this goal.

Additionally, we have invested in building a dedicated customer success team and increased the number of specialist resources within our Maintenance Renewals and Professional Services teams. These actions are intended to help accelerate customer adoption of the product innovation and improvements delivered in the past year and planned for this year. Compared to 12 months ago each of our product portfolios is better positioned competitively and better aligned to the growth opportunities that exist in the marketplace.

We have delivered significant new innovation in each portfolio and packaged that innovation through Licence, SaaS and subscription offerings to enable customers to consume it more effectively and quickly.

Key examples of progress include: the removal of dependencies on third party products embedded in the core of some of our key solutions, the delivery of comprehensive artificial intelligence, machine learning and analytics capabilities in every portfolio, and the work to rearchitect many of our products to support new cloud and hybrid deployment options. Within each portfolio we have introduced new SaaS offerings, improved the existing SaaS offerings and invested significantly in our SaaS delivery infrastructure.

Overall, we exited the year with improved competitive positioning, with highlights by portfolio including:

- **AMC** – we made continued progress with our AWS relationship and are a strategic partner enabling their new AWS Mainframe Modernisation service.
- **ADM** – we delivered material improvements to our existing SaaS offerings and launched new native cloud solutions.
- **ITOM** – we released OPTIC (Operations Platform for Transformation, Intelligence and Cloud), empowering IT operations with built-in, unlimited-use intelligence at the core and the ability to optimise the cloud. Additionally, we have revitalised roadmaps to focus on the delivery of artificial intelligence and SaaS capabilities.
- **CyberRes** – in data security, integration with Amazon Macie provides a new and unique solution allowing AWS customers to automate data-centric protection onto data discovery, classification, and remediation processes. New SaaS capabilities in Identity Management enable customers to exploit new use cases and advanced analytics enable threat detection and remediation at scale with ArcSight.
- **IM&G** – our new unified SaaS offering, Vertica Accelerator, delivers high-performance and scalable analytics as well as end-to-end, in-database machine learning.

Improving the product portfolios through a return to our customer-centric innovation roots and targeted investment is fundamental to our competitiveness and more specifically to improving Maintenance renewal rates as it underpins customer confidence in our ability to deliver what they need now and for the longer term. This longer-term perspective, grounded in our customer-centric approach to innovation, is a historic strength of the Company. Improvements to our Maintenance performance are a critical focus area and the strategic priorities in respect to this are set out on the following pages 12 to 15.

Through the combination of these three initiatives – systems, products and Go-to-Market – we are building a business that is much more specialist and focused by product portfolio and able to be agile in pursuit of the right opportunities to improve performance overall. This enhanced agility is required to be delivered within the context of a very dynamic set of global influences on the workplace resulting from the impact of the pandemic on customer purchasing behaviours and new working practices. These impacts are cross-industry and like many companies, we are responding by developing new hybrid working models

aimed at addressing the challenges and opportunities of developing a global team that is characterised by increased mobility, flexibility and heightened levels of attrition.

In essence, we aim to deliver the right balance between agility, efficiency and focus such that our employees are highly skilled and engaged, our customer service value propositions are excellent, and through this combination we compete more effectively in the markets addressed by each of our product portfolios.

Early indicators of an improvement in financial performance

The results of these actions are beginning to show within our financial performance. For the year ended 31 October 2021 ("FY21"), we reported revenues of \$2,899.9m (FY20: \$3,001.0m). This represents a 3.4% decline on an actual basis and a 5.3% decline on a constant currency basis. On a constant currency basis, the rate of revenue decline has halved in the period, demonstrating the progress we are making.

	FY21 Actual \$m	CCY* Change %
Licence	688.6	4.9%
Maintenance	1,791.7	(8.6%)
SaaS & other recurring	239.8	(3.8%)
Consulting	179.8	(8.4%)
Revenue	2,899.9	(5.3%)

* CCY Revenue by stream performance presented before \$0.6m deferred revenue haircut in FY20.

Within this performance, an increase in Licence revenue, with growth of 4.9%, is underpinned by improvements in sales execution and the benefit of investments made in our portfolios as outlined above.

Maintenance revenue declined by 8.7% with the current period performance driven broadly by a reduction in Licence volume over multiple previous financial periods combined with elevated attrition rates in four sub-portfolios. Over the past 12 months we have implemented significant changes across these four sub-portfolios based on direct customer feedback and focused on improving the overall customer experience. We have also invested in additional resources, including the customer success team referenced earlier, added new leadership capability in several key areas and changed sales compensation to improve focus. Driving improvements in this area is a key management focus.

SaaS and other recurring revenue declined by 3.8%. Included within this is \$108m of revenue from the Digital Safe Business which we have sold and are in the process of performing operational separation.

This business declined approximately 9% on a constant currency basis. Excluding the Digital Safe business, SaaS revenue increased 0.2% year-on-year.

Consulting revenue declined by 8.4% in the current period. The repositioning of this revenue stream is now complete and going forward our focus is on supporting new and existing customers as they implement and drive return on investment from our products.

We generated a statutory operating loss of \$265.6m for FY21 (FY20: \$2,661.4m). The improvement was driven by the prior year inclusion of a \$2,799.2m impairment charge against the Group's goodwill.

From an operational standpoint, Micro Focus remains highly profitable and cash generative delivering \$1.0bn in Adjusted EBITDA at a margin of 35.9% (FY20: CCY: \$1.2bn Adjusted EBITDA at 38.7% margin).

Our Adjusted free cash flow of \$292.4m (FY20: \$660.1m) was impacted by a significant outflow in working capital in the period, some of which was driven by timing differences in the payment of receivables and additional tax charges not expected to repeat. Further details of our financial performance can be found on pages 48 to 59 of the Chief Financial Officer's report.

Micro Focus' purpose

In FY20 we set out our purpose: to deliver mission-critical enterprise software that powers the digital economy. Our aim is to put sustainability and responsibility at the core of the way we operate.

We continue to make progress in this area and the impact we have on our stakeholders can be seen on pages 32 to 45.

Our new Environmental, Social and Governance ("ESG") committee was launched in the summer with the goal of ensuring we continue to embed ESG into the core of our operations.

Our plan to exit FY23

On 30 November 2021, we set out our objectives for the business in a Strategy Update to investors and analysts. In summary, our priorities are to continue and where possible accelerate the:

- Transition of our business model to be product group-centric end-to-end.
- Delivery the innovation our customers need in the way they want to consume it.
- Capture of cost efficiencies enabled by the enterprise-wide platform.

As we exit FY23, we believe successful execution can deliver:

- A flat or better year-on-year revenue trajectory.
- The removal of \$400m to \$500m gross annual costs from the FY21 exit cost base to leave between c.\$1.5bn to c.\$1.6bn (allowing for cost inflation).
- Adjusted free cash flow run rate of approximately \$500m.

Over the medium-term our revenue growth target is 1-2%, with AMC, CyberRes and IM&G all growing in the low-to-mid single-digit percentages, and ITOM and ADM achieving low single-digit declines or better.

These objectives and financial targets have been discussed in more detail on pages 12 to 15 of the Strategic Report.

Summary

In summary, we believe that the foundations we committed to deliver are now in place and we are at an inflection point where we can put the challenges of integration and the unavoidable internal focus it required behind us. As we turn the energy of the Company and all of our team to delivering for customers we believe we are much better positioned to be able to capture the significant opportunities we see in the market for our products.

I would like to finish by saying thank you to our employees for the commitment, passion and skill they brought to bear in FY21 in delivering for our customers and improving the operational fundamentals of our business.

Strategic report

The Strategic report, comprising the information on pages 6 to 73 inclusive, was approved by the board of directors on 7 February 2022 and signed on its behalf by:

Stephen Murdoch

Chief Executive Officer
7 February 2022

Investment proposition

1. Large digital transformation portfolio

A broad product portfolio supporting critical use cases, with balanced revenue generation across four essential outcomes organisations are striving to achieve.

2. Global scale, global reach and global relevance

One of the world's largest enterprise software companies, supporting thousands of customers worldwide.

3. Highly diversified and recurring revenue base

No revenue concentration by end market, with approximately 70% recurring revenues.

4. Strong and consistent free cash flow generation

Our strategy underpins sustainable cash flow generation.

5. Efficient allocation of capital

Methodical approach to investment to deliver value to our customers and shareholders.

Our strategy

Our strategy is to deliver shareholder returns through sustainable free cash flow generation.

Our three strategic priorities are as follows:

Transition to a product group operating model



Why we are focused on this

Our product groups operate in highly competitive markets with often specific challenges and opportunities. By moving to this product group operating model we aim to enable more agility and effective execution within each product group in responding to these challenges and opportunities.

As a result, this will improve our ability to deliver innovation into the hands of customers.

How this will impact the way we operate

During FY21 we made good progress in repositioning our product portfolio and changing our Go-to-Market approach; the next phase is to evolve our business model to be much more product group focused and aligned end-to-end. We began this transition in CyberRes and Vertica a year ago and we are starting to see signs of progress from improved alignment and engagement.

The aim over the next two years is to align the Group by product portfolio, creating specialist and focused execution capability by product group. Better alignment, specialist skills and more focused execution will improve speed and agility in the market and better position our portfolios to succeed. We will support these specialist units through centres of excellence as we aim to balance focus with delivery of economies of scale.

Continued focus on installed base



Why we are focused on this

The improvement of customer retention rates is critical to the future success of the business.

Whilst executing the HPE integration, the Group has been heavily internally focused and as a result we have lost direct engagement with our customer base. In some portfolios, this combined with poorly aligned product roadmaps led to elevated levels of Maintenance attrition. There has been great progress made in revitalising roadmaps delivering innovative new capabilities which we now need to make sure our customers exploit.

How we are focusing on improving retention

- 1. Proactive customer engagement** – A detailed understanding of customer concerns to enable highly focused response through more skilled and specialised resources earlier in, and at every stage, of the cycle.
- 2. Product innovation and adoption** – Ensuring customers are using the latest versions of our software to enable adoption of new innovation and increase value from existing investments.
- 3. SaaS and subscription** – Help customers blend new offerings with existing investments to realise value quickly and further future-proof their solutions.
- 4. Leadership and alignment** – Strengthened and increased leadership, re-aligned compensation and reduced handoffs across the customer journey.
- 5. Sweat the details** – Active management of renewals pipeline at detailed level by sub-portfolio, tailored to customer size and renewal risk profile across multiple periods.

Utilise the enterprise-wide platform to create an agile and lean organisation



Why we are focused on this

The Group has been operating on multiple systems with significant levels of manual support which was highly inefficient. In July 2021 we went live on our new, single enterprise-wide platform. This gives us the foundation to drive simplification of our business. The priority now is to leverage the platform to deliver efficiencies through the removal of duplication, effectiveness through the provision of better tools for our teams and the insight required to improve customer service.

How simplifying our business will help transform our business

Since go-live in July 2021, we have visibility of our end-to-end processes. This is the first major step for us in being able to identify the root causes of inefficiencies. The next stage is to focus on delivering improvements by:

- Removing duplicative costs and processes from every function within the organisation.
- Streamlining processes by reducing the number of systems, people and process interactions.
- Optimising the balance of work done locally and centrally in low-cost locations.

These actions are designed to simplify and improve our ability to respond to customers and ensure they can exploit the innovation we are delivering.

Outcomes that define
strategic success as
we exit FY23:

Revenue stabilisation and growth

Performance

We are seeking to deliver a flat or better year-on-year revenue trajectory as we exit FY23. Over the medium term, we are seeking to drive growth in over 50% of our portfolios and moderate the rate of decline in the remainder such that the Group overall grows by 1-2%.

Medium-term target revenue growth **+1-2%**

AMC Application Modernisation & Connectivity **>+5%**
growth goal

Growth driver
Mainframe to cloud modernisation

ADM Application Delivery Management **<-5%**
growth goal

Growth driver
Value stream management

ITOM IT Operations Management **<-5%**
growth goal

Growth driver
AIOps and value foundry

CRes CyberRes **>+5%**
growth goal

Growth driver
Well-positioned portfolio in growing
Cyber Security market

IM&G Information Management & Governance **>0%**
growth goal

Growth driver
Well-positioned portfolio in growing
big data market



Recurring cost savings

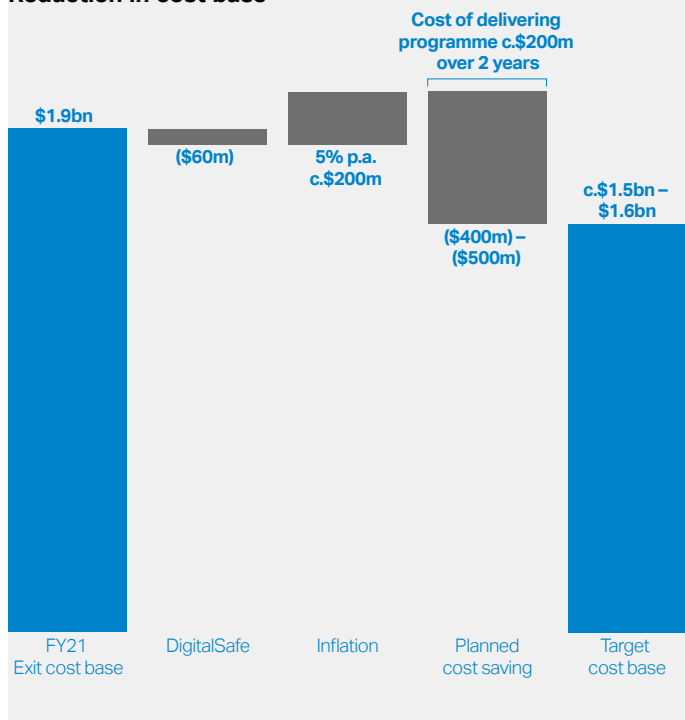
Performance

In total we are targeting gross annual recurring cost reductions of between c.\$400m to c.\$500m over the next two years (\$200m to \$300m net of inflation). These cost savings will be delivered across all of our functions using the enterprise-wide platform as an enabler.

Target cost reduction

**Gross – \$0.4bn-
\$0.5bn**

Reduction in cost base



Sustainable Adjusted free cash flow

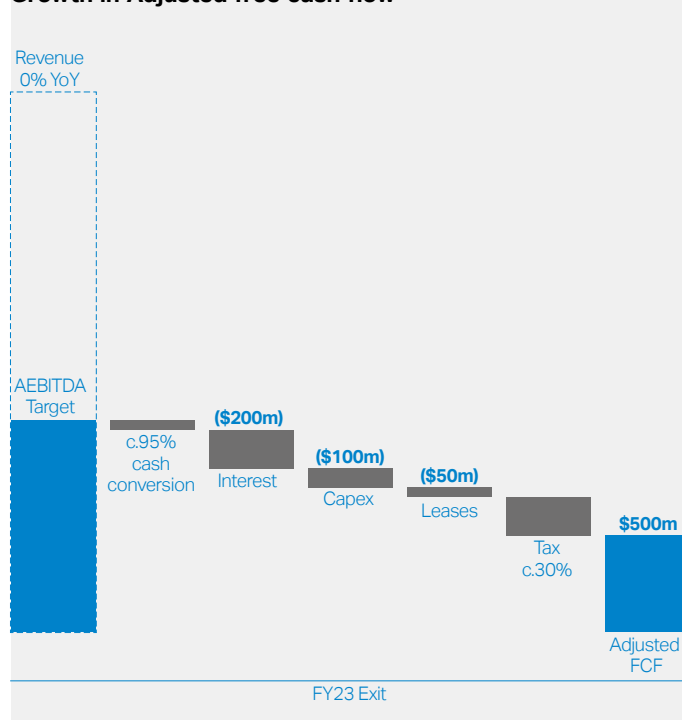
Performance

The combination of revenue stabilisation and cost reductions are designed to deliver \$500m of Adjusted free cash flow as we exit FY23.

Target Adjusted free cash flow

\$500m

Growth in Adjusted free cash flow



Key performance indicators

How we measure progress

We track and report both financial and non-financial key performance indicators ("KPIs") to measure the performance of our business.

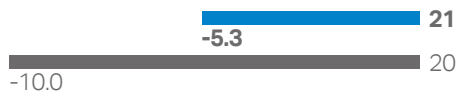
On 30 November 2021, the Group presented the key strategic initiatives for the next two years. As a result, the board is currently reviewing the key performance indicators of the Group and as such these may change in future accounting periods.

Financial

Trading performance

Constant currency revenue decline

(%)



A definition of constant currency revenue can be found on page 140.

CCY revenue decline is a core financial target for the business which is seeking to exit FY23 with a flat or better revenue trajectory. In the period, the Group has moderated the rate of decline from 10% to 5% demonstrating progress made against this objective.

SaaS and other recurring

CCY revenue decline

(%)



A definition of constant currency revenue can be found on page 140.

As the Group launches new SaaS offerings, the expectation is the revenue stream will deliver sustainable levels of growth. SaaS and other recurring revenue declined by 3.8% compared to 11.8% in FY20. This includes the revenue from the Digital Safe business which we are currently in the process of performing the operational separation. Excluding the Digital Safe business, SaaS revenue increased 0.2% year-on-year.

Adjusted EBITDA margin

(%)



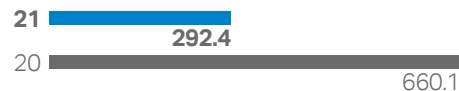
A definition of Adjusted EBITDA can be found on page 133.

Adjusted EBITDA is considered a key indicator of the Group's trading profitability and is linked directly to the strategic outcomes set out on the previous pages. The Group has set out a target to stabilise revenue and deliver c.\$400m to c.\$500m of gross cost savings. The combination of which is intended to drive margin expansion as we exit FY23.

Cash generation

Adjusted free cash flow

(\$m)



A reconciliation of Adjusted free cash flow can be found on page 139.

The KPI is intended to demonstrate the underlying cash generating ability of the business absent the transformation programmes which are currently being undertaken.

Explanation of performance is outlined on page 56.

This measure is used by both equity and debt investors when evaluating the Company. The Group has set a target of \$500m of Adjusted free cash flow as we exit FY23.

Net debt/Adjusted EBITDA ratio

(Ratio of Net Debt to Adjusted EBITDA)



A definition of this measure can be found on page 139.

The Group's net debt ratio is used by our investors to consider the Group's indebtedness in the context of the Group's trading performance.

The Group is seeking to reduce this leverage level to 3.0x.

Adjusted cash conversion

(%)



A definition of this measure can be found on page 140.

The current year performance has been impacted by a large number of one-off working capital items which have been outlined within the CFO report on page 56.

Over the medium-term, this figure is expected to be between 95-100%.

Non-financial

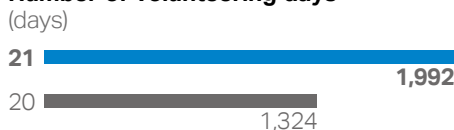
Customer experience Net Promoter Score



The Net Promoter Score is an index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging the customers' overall satisfaction with a company's product or service and the customers' loyalty to the brand.

Our analysis indicates our score has increased by 2 points versus FY20, evidence of an improving customer experience.

Number of volunteering days



To demonstrate the Company's commitment to social purpose, we launched the introduction of employee volunteer days in FY19. Full and part-time employees can take one day to support a charity or community project of their choice; and an additional day aligned to the Company's social purpose. A further two days were introduced in May 2020 to enable employees to volunteer in their communities in response to COVID-19.

In the period, a growing number of employees have taken the opportunity to volunteer virtually offering their skills to local communities in response to the various lockdown restrictions in place globally.

Energy from renewable sources (%)



This year is our second year reporting energy from renewable sources as a KPI and the targets we have set ourselves in this area are key aspects of our Micro Focus INSPIRE programme.

Energy from renewable sources reflects the amount of our energy arising from renewable sources divided by total energy.

We set out our ambitions to ensure 50% of our energy comes from renewal sources by the end of FY21. We are seeking to increase this to 80% by the end of FY25 and 100% by the end of FY30.

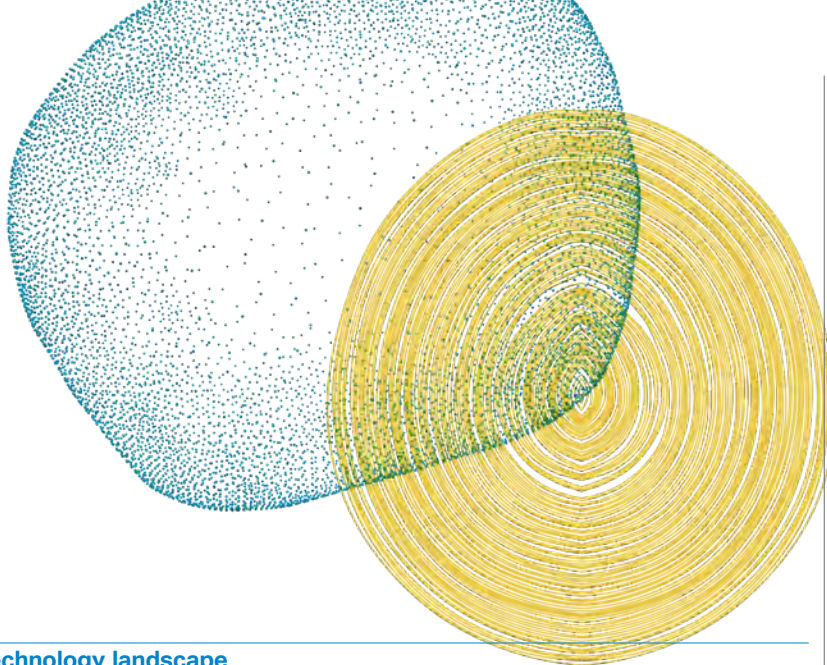
Energy consumed (MWh)



Micro Focus continued its commitment to deliver its target of achieving year-on-year reductions of emissions. We committed to a Greenhouse Gas (GHG) reduction target of 2-5% by the end of FY21, based on the previous year and achieved a 7.8% reduction, based on a like-for-like basis. Energy consumption also reduced on a like-for-like basis by 6.4%.



**Delivering
mission-critical
enterprise software
that powers the
digital economy**



Today's technology landscape

Digital transformation has been at the top of virtually every organisation's list of objectives for several years. Often, it represents a foundational programme of technology change to underpin a significant business change.

Leveraging enterprise technology to embrace organisational change is not a new phenomenon. However, few will argue that the recent past has been a uniquely difficult period. Significant changes to customer behaviour, staff locations, supply chains, technology strategies, and market trends have introduced tremendously diverse, time-critical requirements on the IT organisation. Many consider the last two years to be the most dramatic chapter yet in the digital transformation era.

Change often necessitates investment. Rather than tapering off after enterprises reacted to the challenges presented by the pandemic, spending on solutions in the digital transformation space is expected to continue to increase at a solid pace. "From 2021 through 2024, IDC forecasts \$7.8trn of direct digital transformation (DX) investments across services, hardware, and software; growing at a 16.4% CAGR vs (0.1%) CAGR reduction for non-DX investments over the same timeframe," according to Shawn Fitzgerald, Research Director, Worldwide Digital Transformation Strategies.

Major investment in change also carries significant business risk. It is difficult to switch from what's tried-and-true to new technology when it could significantly disrupt the flow of everyday business. Still, organisations need a way to enhance the customer experience, accelerate new business models, and foster rapid growth. They just want certainty before they press the "go" button.

In the end, IT leaders must find a strategy that allows them to continue to invest in digital transformation, while still protect existing operations that are already under significant strain. Enterprises need to be in it for now and for the future. A successful transformation strategy is more imperative than ever before.

This is our customers' digital dilemma – how to run and transform their business at the same time so they can achieve the critical elements of a successful digital transformation programme. Micro Focus helps organisations simultaneously manage both the existing operational landscape, and emerging technology and innovation requirements of the future.

How FordonsData runs and transforms

Challenge

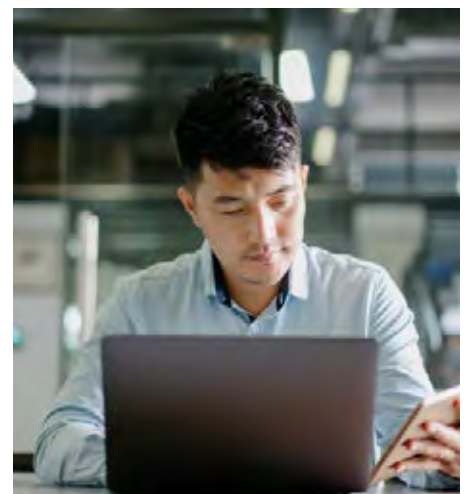
Needed to move from a monolithic, waterfall-driven development model to an agile and flexible environment to respond faster to business requirements

Products and Services

Micro Focus Visual COBOL for Eclipse

Critical Success Factors

- + Improved development capacity and application quality
- + Supported transparent team collaboration with DevOps principles
- + Enabled clear view on task priorities and future design directions
- + Future-proofed 30-year-old business-critical COBOL solution



Trusted by many of the largest companies in the world:

We supply sector-agnostic products across multiple markets that are focused on digital transformation. We have tens of thousands of customers, including many of the largest companies in the world.

Our broad set of technology for security, IT operations, application delivery, governance, modernisation, and analytics provides the innovative solutions that the world's largest organisations need to run and transform concurrently.

We work with most of the largest companies, according to the Fortune Global 500, across a number of key sectors:



How Bon Secours Mercy Health runs and transforms

Challenge

Needed to manage increased testing workload and introduce flexibility to adapt to fast-changing requirements

Products and Services

ALM Octane, ALM/Quality Center, UFT One, LoadRunner Enterprise, Fortify

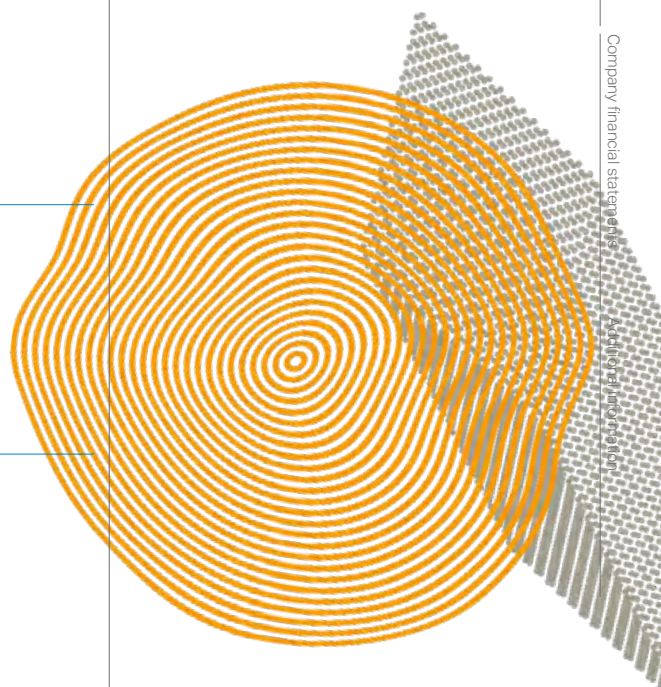
Critical Success Factors

- + 20% testing productivity improvement through ease-of-use and test reuse
- + Accelerated defect management through enhanced team collaboration
- + Testing flexibility supported rapid COVID-19 response
- + Faster and more in-depth application testing

Micro Focus works across the enterprise

Digital transformation touches virtually every corner of the organisation, and technology priorities often vary among numerous stakeholders. We find there are four key outcomes that our customers demand.

Customer outcome	Digital transformation results	Case study
Accelerate Application Delivery	<p>Customers can employ Agile and DevOps practices supported by value stream management capabilities to sustain delivery velocity requirements as operations run.</p> <p>At the same time, they can create digital value – from strategy through release – as they transform using AI and machine learning to deliver high-quality applications at scale.</p>	See page 22
Simplify IT Transformation	<p>Customers can simplify the complexity of running a mix of traditional and cloud services by taking a Digital Factory approach to running today.</p> <p>With a unified platform for IT operations, they can integrate or replace incompatible tools collected over decades – freeing up resources and accelerating transformation.</p>	See page 23
Strengthen Cyber Resilience	<p>Customers can protect what matters most by detecting threat actors, responding to advanced threats, and recovering from an attack, as their operations run today.</p> <p>Then they can evolve at the speed of change using security analytics for hybrid environments to help their organisation transform.</p>	See page 24
Analyse Data in Time to Act	<p>Customers can unify their analytics today, without moving their data to one place so they can run their analytics practice more efficiently.</p> <p>As they transform their organisation to grow, they can ensure they're able to support more users and greater data volumes with the highest performance at scale for accurate and actionable predictive insights.</p>	See page 25





Accelerate

Accelerate application delivery

As a global provider of critical medical systems, Roche Diagnostics understands the importance of software development and delivery that is innovative, timely, and reliable. Determined to adopt DevOps and move to an Agile model, Roche deployed Micro Focus UFT One to leverage its AI capabilities and accelerate enterprise-level application testing across desktop, web, and mobile channels. Implemented in just one month, UFT One has reduced regression test times by 90% through automation and the effective reuse of test cases.

“The AI-driven UFT One capabilities have drastically reduced test creation time and test maintenance work, while improving test reuse. This enhances our test coverage and increases our test asset resilience.”

Tony Tao

Digital Solutions Manager of Commercial Innovation Department
Roche Diagnostics

Simplify

Simplify IT transformation

Sopra Steria and Micro Focus collaborate regularly on a range of IT initiatives aimed at championing digital transformation, both within Sopra Steria and on behalf of its clients. Aligning with corporate green initiatives to move to cloud deployment, Sopra Steria achieved cost reductions and built-in scalability by migrating from Micro Focus Service Manager to Micro Focus SMAX, gaining AI and machine learning capabilities, and delivering agile and cost-effective service management to clients. The team achieved improved service delivery with additional modules, and increased service agent productivity.

"The team immediately identified the value of the extra SMAX functionality, such as social interaction, machine learning analytics, and AI-driven ticket routing management and classification. We could leverage our existing investment with Micro Focus, and a proof-of-concept demonstrated that migrating from Service Manager to SMAX was easier than migrating to ServiceNow."

Patrick Bailly

Domain Owner ITSM & Tools
Sopra Steria



Strengthen

Strengthen cyber resilience

PricewaterhouseCoopers ("PwC") Brazil is a top professional services company, supporting its clients' complex security requirements. The turbulence of COVID-19 and the introduction of LGPD (Brazil's answer to GDPR) regulation have highlighted security as a strategic initiative for many Brazilian organisations, so PwC Brazil turned to its strategic alliance with Micro Focus CyberRes. ArcSight is a key part of the PwC Brazil Security Operations Centre where clients benefit from a full security infrastructure, including governance, vulnerability management, risk reporting, and forensic security investigations.

"Great ArcSight data compression ratios means that we can process higher event volumes per second, helping our clients save data storage and networking costs, and resulting in lower total cost of ownership."

Fernando Mitre
Cybersecurity and Privacy Partner
PwC Brazil

Analyse

Analyse data in time to act

As a digital travel company, the online customer experience is crucial to Agoda, and data analytics are key to its competitive market strategy. Agoda uses Vertica Analytics Platform to detect and remove inefficiencies in the customer experience by analysing billions of records in just seconds. Employees have complete freedom to examine complex patterns of user behaviour in near-real time to improve the customer experience.

"We serve millions of customers daily, and website usability is a major competitive factor. With high-speed analytics from Vertica, we can tune our website intelligently to stay ahead of other players in the market."

Idan Zalberg
VP Data
Agoda

Meeting customer demands

Our competitive advantage:

1. Talent
2. Innovation
3. Relationships
4. Sustainability

How Court of Justice of the Federal District and Territories Brazil ("TJDFT") runs and transforms

Challenge
Needed to simplify IT and non-IT service management to improve issue resolution time, empower users, and reduce costs

Critical Success Factors
+ 40% annual cost saving through simplified service management
+ Increased first contact issue resolution from 9% to 45%
+ High SMAX adoption for non-IT processes
+ Smooth transition to remote working practices in a crisis
+ Improved end-user collaboration and self-service



Talent

Our talented employees deliver customer-centric innovation and solve complex real-life problems for the world's largest organisations.

We employ 11,355 people in 48 countries and this diversity of thought is fundamental to our success.

Innovation

Our unique approach to innovation helps customers solve real-world problems and solve the promise of digital transformation.

By helping customers run and transform we help them balance cost, risk and agility and help derive value over the long-term.

Relationships

Our relationships with customers and partners are longstanding, with over 45 years of experience in managing a deep and broad portfolio of solutions.

We have an installed base of tens of thousands of customers, and are trusted by the world's largest organisations to deliver mission-critical applications.

Sustainability

Our aim is to put sustainability and responsibility at the core of the way we operate.

The Micro Focus ESG framework supports our aim of developing whilst improving the quality of life for our workforce and their families, local communities, and society.

How Câmara de Comercialização de Energia Elétrica ("CCEE") runs and transforms

Challenge
Needed to support a move from weekly to hourly energy pricing model in a fast-growing industry while maintaining system performance

Products and Services
Vertica Analytics Platform

- Critical Success Factors**
- + Hourly pricing model reflects energy demand curve, preventing market imbalance
 - + 97% performance improvement compared to previous solution
 - + Improved system stability with 99.9% platform availability
 - + Reduced TCO through ease of maintenance and lower data storage costs
 - + Data analytics improve stakeholder communication and decision making

Helping customers run and transform

To deliver on the promise of digital transformation customers need to balance the often conflicting challenges of running and transforming their businesses simultaneously.

This requires finding the right balance between cost, risk, and agility. We help them do that by focusing on four key

outcomes which customers are striving to achieve: accelerate application delivery, simplify IT transformation, strengthen cyber resilience, and analyse data in time to act. See Our markets for further detail.

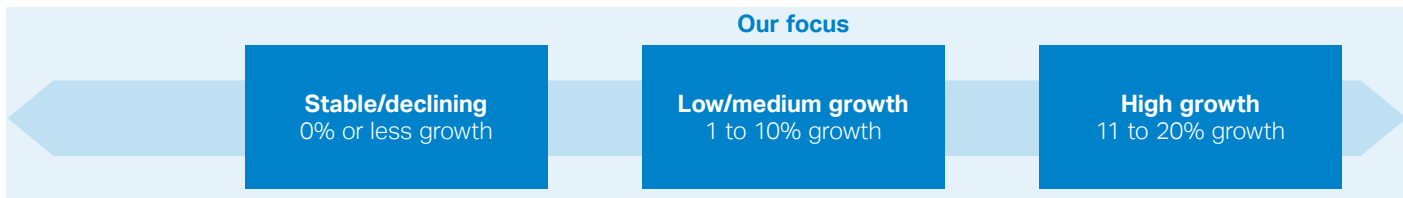
With nearly 40% of our employee base dedicated to R&D, we are able to

integrate the latest technology into more than 1,000 product releases in FY21.

Combining decades of technical expertise with a unique approach to innovation we create new and better solutions to help our customers thrive with ever-evolving technologies.

Customer-centric innovation

The Group operates in multiple markets with growth dynamics and characteristics which are outlined in the table below:



	Stable/declining	Low growth	High growth
Customer expectations	Customer use cases are typically mature and broadly static and the primary goal is about protection of investment for the longer-term.	Customers focused on ensuring continued operational effectiveness and protection of investment.	Customer use cases are typically dynamic, evolve quickly and can be targeted at a single problem or opportunity.
Innovation requirements	Consistent level of investment in research and development tailored specifically to the installed base.	Innovation is targeted at maximising customers' return on investments by delivering new capabilities that can be leveraged in combination with existing technologies adding new features and bridging to new technologies.	Rapid pace of change in terms of technology and technology adoption and flexibility in delivery models are key requirements.
Financial	<p>High levels of recurring revenue with minimal new customers.</p> <p>Licence revenue primarily derived from expansion of installed base.</p> <p>Consistent investment requirements which generate highly stable levels of free cash flow.</p>	<p>High levels of recurring revenue, Licence and SaaS revenue.</p> <p>Customers focused on new use cases and emerging business opportunities or threats.</p> <p>Rapid delivery of new innovation and flexible consumption models are the main priorities.</p>	<p>New project expansion within existing and new customers drive growth in Licence, SaaS and Maintenance dependent on consumption model.</p> <p>Profitability and free cash flow are lower as the business continues to invest to deliver growth in future periods.</p>

How Generali France runs and transforms

Challenge

Needed to focus developers on adding value to applications by moving from an on-premises static code scanning model to a cloud-based SaaS model

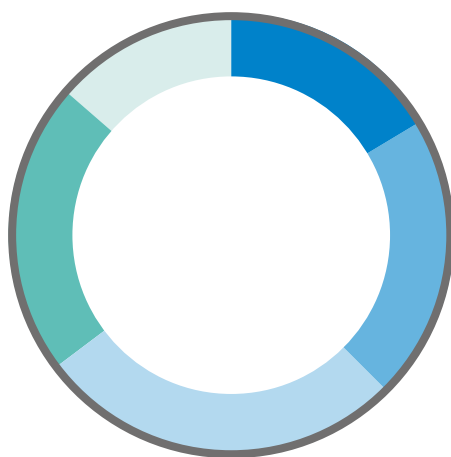
Products and Services

Micro Focus Fortify on Demand

Critical Success Factors

- + Increased focus on application quality rather than managing infrastructure
- + Consolidated scan reports support priority management and budgeting
- + Dashboard reporting improves collaboration and management communication
- + DevSecOps process streamlined by flexible SaaS model

Our product groups



Micro Focus has a broad and diverse portfolio of products which are organised into five groups with each group containing multiple products that operate at the varying stages of the continuum presented on the opposite page.

The financial performance of each product group in any given financial period is driven in part by the mix of products across this spectrum with the goal being to optimise the delivery of cash, profit and revenue from this breadth.

AMC Application Modernisation & Connectivity

Our AMC solutions help customers unlock the value from core business applications through the provision of innovative solution for modernisation which enable a transformational journey to deliver on-going value and greater flexibility from longstanding IT investments, on or off the mainframe.

ADM Application Delivery Management

Our ADM solutions help customers increase velocity, remove bottlenecks and deliver high-performing applications to better support their digital business. Combined, these solutions increase stakeholder alignment and the delivery of value, while liberating resources to release faster without compromising quality.

ITOM IT Operations Management

Our ITOM Solutions simplify the complexity of IT operations. Powered by built-in analytics, they help business users easily engage with IT through Enterprise Service Management, deliver Full-Stack AIOps for service assurance, automate the service fulfilment life cycle, and strengthen IT service governance.

CRes Cyber Resilience

Our comprehensive security solutions help enterprises create cyber resilience through detecting threats, securing data and applications, and protecting identities – enabling customers to adapt and evolve for the future. Artificial Intelligence, machine learning and behavioural analytics capabilities enable this to be done at enterprise scale.

IM&G Information Management & Governance

Our IM&G solutions help customers analyse, understand, and control data – to derive value and manage enterprise risk. Efficient compliance, governance, customer behaviour, and IOT analytics are representative use cases.

	31 October 2021 \$m
● Application Modernisation & Connectivity	481.5
● Application Delivery Management	612.1
● IT Operations Management	791.1
● Cyber Resilience	623.8
● Information Management & Governance	391.4
Revenue	2,899.9

How we seek to create value

Investors

Employees

Marketplace

**Community &
Social Impact**

**Environment &
Sustainability**

Creating a foundation for sustainable growth in Adjusted free cash flow

\$292m
FY20: \$660m

Creating an engaging, agile and innovative place to work

51,000
Hours of staff training
FY20: 45,000

Creating products that meet our customers' needs

+2
points increase in the Net Promoter Score

Creating communities where people are equipped with skills to thrive in the digital future

1,992
Number of volunteer days
FY20: 1,324

Creating a company which seeks to do business in a sustainable way

6%
Reduction in energy consumption





Creating and contributing value through transparency and consideration of the impact of our business decisions

The Micro Focus INSPIRE Environmental, Social and Governance ("ESG") framework covers every aspect of the organisation.

Investors
page 34

Employees
page 35

Marketplace
page 38

Community & Social Impact
page 40

Environment & Sustainability
page 42



Our impact

Micro Focus creates and contributes value through transparency and consideration of the impact of our business decisions.

The Micro Focus INSPIRE Environmental, Social and Governance (“ESG”) framework covers every aspect of the organisation, including:

- Environmental: How we reduce our environmental footprint and support the transition to a low-carbon business.
- Social: How we manage relationships with employees, suppliers, customers, partners, and local communities.
- Governance: How we govern our business including executive pay, audits, internal controls, and shareholder rights.

Our ESG framework contributes to economic development while improving the quality of life for our workforce and their families, local communities, and society. We seek to align the success of these groups to build a successful and sustainable business for our stakeholders, ultimately leading to value creation for all of the groups we impact.

ESG governance

Further to the ESG committee being established as referenced on page 98, an ESG working group (“ESGWG”) was also established, and its role is to execute and implement the Group’s ESG strategy, activities and disclosures. The ESGWG consists of various functional representatives across Environmental, Social, Risk, Investor Relations, Governance, Cyber/IT/Business Resilience, Marketing, Procurement, Finance/Reporting and Product/GTM and helps embed the ESG strategy into business as usual across the Group. To further increase our focus on environmental matters, an Environmental SubGroup was also formed to ensure there is adequate focus and attention on this important area.

Sustainable Development Goals

To further demonstrate our commitment as a socially responsible and sustainable organisation, Micro Focus is supporting a number of the United Nations Sustainable Development Goals (“UN SDGs”) – developed as a blueprint to achieve a better and more sustainable future for all. We actively support five UN SDGs:





Investors

Shareholders engagement

150+ meetings

Adjusted free cash flow

\$292m

"Our strategic plan is designed to deliver consistent returns built on sustainable foundations of free cash flow and efficient capital allocation."

Matt Ashley

Chief Financial Officer

Our investors include both equity and debt holders. As a company listed on both the London and the New York Stock Exchanges, we have a large number of institutional and retail investors. We recognise the important role our investors play in monitoring and safeguarding the governance of our Group.

How we engage

We are committed to engaging proactively with our investors. Over the last year we hosted approximately 155 meetings and calls with investors. We strictly adhere to market regulations, and to ensure we remain compliant we consult our advisors as required.

Our aim is to discuss Micro Focus with investors openly and provide as much access to our management team as is practical. The Head of Investor Relations is always available to speak at short notice and the CEO and CFO place a high degree of importance on investor communications.

In FY21, we commissioned an investor perception study in which a third party interviewed a sample of past, current, and prospective shareholders to receive feedback on the strategy, performance and approach to investor communications. The feedback received in this study was factored into the Group's strategy briefing held on 30 November 2021.

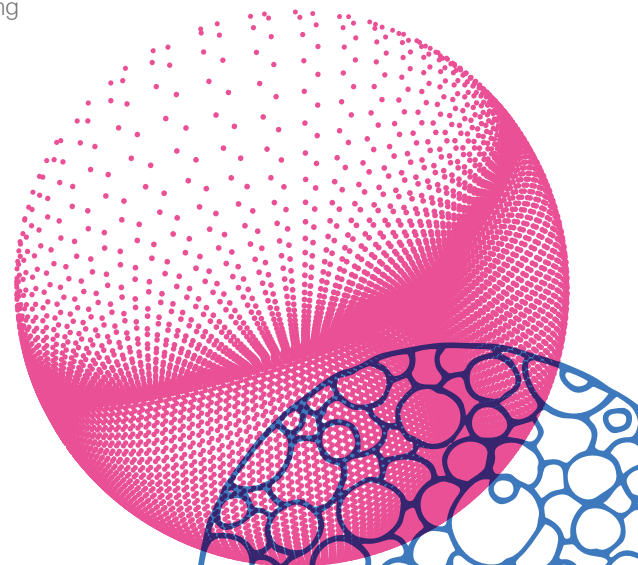
Areas our investors are focused on

The perception study reinforced our belief that stability and ultimately growth in free cash flow are the most important financial metrics for investors.

Investor meetings are therefore focused on the operational performance of the business, our customer proposition and the strategic initiatives required in order to stabilise revenue and maximise free cash flow.

We value feedback from investors and frequently ask for it. The Chair of the remuneration committee and the Chairman consulted with our leading equity investors to help shape our new remuneration strategy and remain available to shareholders for further consultation as required.

Sustainability continues to be an area of increasing focus for the investor community, and we aim to give greater disclosure in this area.





Employees

Employees

11,355

Participation rate in My Voice survey

86%

Learning content consumed

>70k hours

External hires from referral

>28%

Female employees worldwide

29%

Females on the board

40%

“Software – from vision to execution – is a people business. At Micro Focus, our drive to come to work is fuelled by our passion and commitment to the outstanding people we work with every day.”

Susan Ferguson

Chief Human Resources Officer

How we engage

At Micro Focus, we embrace a culture of openness where every voice and all perspectives are valued. We want to know what all our people think, feel, and have to say about what matters most. Through our My Voice all-employee survey and other opportunities, managers create targeted go-forward plans.

We also conducted two Employee Engagement Panels. These 60-minute open conversations included a nominated global group of cross-level, cross-business, and mixed tenure employees facilitated by Senior Independent non-executive director Karen Slatford and attended by board members. These sessions create a direct connection and dialogue between our board of directors and employees, enabling the board to understand the views of our employees.

An additional way we gather feedback is through Glassdoor. Both current and former employees contribute input, and we take care to respond to their comments and integrate their feedback into improvement planning.

Studies have shown that Employee Volunteering is a key avenue to build strong employee engagement. Across the globe, employees at Micro Focus have participated in new virtual volunteering activities benefiting their local communities.

Our overall engagement efforts yielded:

- 86% participation rate in the My Voice survey (FY20: 85%).
- Over 66,000 employee comments read and analysed in the My Voice survey. (FY20: 45,000).
- 21 nominated employees and leaders participated in two Employee Engagement Panels. (FY20: 22 employees in two panels).

The areas our employees focus on Practicing wellbeing and building healthy habits

Wellbeing continues to be a critical priority and component of employee engagement. In the period we have made a number of notable achievements to support our workforce in this area.

In the midst of COVID-19 and country lockdowns, we have seen increased interest and use of our Employee Assistance Programme.

A key milestone this year was our new partnership with Headspace. Available to every employee, Headspace provides 24x7 meditation and mindfulness opportunities via an app.

We expanded our Wellbeing portal that contains a library of resources for our employees and managers.

During World Wellbeing Week, employees participated in daily wellbeing activities globally. Senior executives shared their personal and professional journeys aligned to the Five Ways of Wellbeing. The campaign was designed to help break down barriers, encourage employees to speak up and ask for help, when needed.

We continue to highlight and share opportunities to integrate wellbeing practices throughout the year, including Mental Health Awareness Week, Mental Health Awareness Month, PTSD Awareness Month, and World Mental Health Day.

Our impact continued



Developing and growing careers

Helping employees build exciting and enriching careers is a key priority for us and critical to keeping them engaged, productive and challenged.

In FY21, we enhanced the employee onboarding experience, including a new employee curriculum highlighting both required and orientation courses. Our My Voice sentiment survey showed our new hires are experiencing a positive onboarding experience.

Beyond onboarding, employees have access to a large catalogue of virtual instructor-led and self-paced learning. In FY21, we saw a significant increase in the usage of leadership, sales, professional, and technical solutions provided by our 24x7 learning partners and our internal instructors. This included:

- Over 70,500 hours of learning content consumed (FY20: 50,000 hours).
- Over 51,000 hours of learning around specific skills and live online virtual training through our learning partners (FY20: 45,000 hours).

Technological skills are essential to our business. For our software development communities, we provided learning opportunities and certification preparation and practice tests. These focused on leading-edge technologies such as artificial intelligence, machine learning, data science, and security. Our technologists participated in a variety of peer-to-peer knowledge sharing forums, including brown bag sessions, sandbox coding practice, and R&D engineering seminars.

Our internal mobility site posts open roles globally within Micro Focus, enabling employees to find available opportunities for career growth. Additionally, we piloted “gigs” to facilitate temporary project assignments with broader implementation planned for next year. As a result:

- Over 28% of external hires came from employee referrals (FY20: 33%).
- A 50% increase in internal hires in our requisition-based hiring activity (FY20: 2% increase).

Building current and future leaders

Ensuring a strong pipeline of leaders is essential to our success at Micro Focus. Through our Leadership Development programme, we focus on equipping managers to deepen their skills, leading to greater productivity and engagement of their teams.

We continued to build our leadership with a widespread roadmap of solutions, providing easily accessible virtual training for all managers, 24x7 leadership and management content, and assessments to provide feedback and build self-awareness.

Our newest learning programme is Lead, Energise, and Accelerate Performance (“LEAP”). It is a series of one-hour scenario-based courses to provide managers with learning focused on succinct, prioritised leadership situations in an easy-to-join facilitated workshop format.

Quarterly, we delivered eight sessions as part of our FY21 series of Raise the Bar leadership discussion virtual sessions, with a total of 553 participants.

We launched CourseClub, a new virtual offering based on a pre-packaged, agile discussion format. It combines a 30- to 60-minute self-study, and then provides follow-up through a focused 45-minute team dialogue. Each CourseClub includes an application discussion to make the learning personal and actionable.

To enhance leadership performance, managers and executives participated in 360-degree assessments to raise self-awareness. Each was also required to develop an action plan to ensure follow-up and changes in behaviour, where needed. We use Hogan to assess performance capabilities, challenges and core drivers that help current and future leaders excel. We have updated our Hogan offering to include an easy-to-use report format for executives, including coaching.

Ensuring ready talent

Through robust talent and succession planning, we continue to focus on building a diverse pipeline to ensure we have the right talent ready to fill key roles within our Company. We identify potential successors and emerging talent and implement individual development plans to prepare them for executive-level positions and critical roles throughout the Company.



Creating belonging through diversity and inclusion

Diversity and inclusion (“D&I”) at Micro Focus means “each of us and all of us” and is fundamental to our business success and our culture. In every regard, our best work for our customers and for each other is grounded in our differences.

We are working to ensure that every employee feels valued and has a sense of belonging, with opportunities to collaborate, contribute unique perspectives, and grow professionally. We are also committed to creating a culture that promotes equal employment opportunities, ethical and professional behaviours, and an environment free of harassment, bullying, and hostility.

Embedding D&I strategy

This year, we have developed clear D&I commitments through to 2025 as part of our ESG strategy. We are focused on five key areas: setting clear company goals, strengthening accountability, developing a more diverse talent pipeline, driving awareness and education, and building a sense of belonging and engagement. Across these five areas, we delivered on our 2021 commitments.

1. Strengthening accountability company-wide

Our new ESG committee serves as an executive-level council and provides strategic oversight of and guidance for Micro Focus D&I strategy and goals. In addition, our senior executives are prioritising D&I within their organisations, aligning to our Micro Focus D&I strategy.

2. Created and communicated a new D&I policy statement

Our new global policy statement clearly underlines our commitment to D&I, sets expectations, and defines responsibilities to foster a diverse, inclusive, and equitable environment. This translates to acting honestly, with integrity, fostering collaboration, being free to openly participate and contribute, and recognising and mitigating conscious and unconscious bias.

Our Code of Conduct and D&I policy statement, together with our values, guide our culture and reflect our commitments to our people, our customers, and our business.

3. Increased Employee Resource Groups (“ERGs”) membership by 34%

Our 10 ERGs are executive-sponsored and employee-led communities, open to anyone and everyone. Executive sponsors serve as influential advocates to support and act as catalysts for change. Each ERG has governance through specific objectives and initiatives aligned to our business priorities, and fosters belonging, diversity, and inclusion. They raise awareness, provide collaboration and allies, offer leadership, provide learning and volunteering opportunities, and elevate our Micro Focus brand internally and externally. This year, the ERGs promoted increased synergies among the 10 groups to share knowledge and increase their contributions to positive business outcomes. An example of this collaboration was hosting cross-ERG conversations during our virtual annual Sales Summit to create greater D&I awareness within the sales and marketing organisations.

4. Established new advocacy partnerships

In addition to our existing relationships with Girls in Tech and Out & Equal, this year we added new partnerships with Disability:IN and the Information Technology Senior Management Forum (“ITSMF”).

Highlights of key accomplishments:

- Supported development of Black professionals in technology by participating in ITSMF webinar series.
- Sponsored the Girls in Tech conference with over 200 Micro Focus employees in attendance.
- Recognised as one of the “Best Places to Work for Disability Inclusion” as part of the Disability Equality Index (“DEI”) survey.
- Joined the Business Coalition for Equality Act in support of workplace fairness for lesbian, gay, bisexual, transgender, and queer (“LGBTQ”) employees.

5. Recognised and celebrated our diversity

As part of our D&I calendar, we highlighted over 100 events around the world. Key examples included: Black History Month, International Women’s Day, Pride Month, Hispanic Heritage Month, Developmental Disabilities Month, and Earth Day. As part of these celebrations, we hear from internal and external speakers, conduct employee-led discussion panels, share resources and learning, and hear from our executives who share their insights.

Marketplace Customers, Partners & Suppliers

Customers – Net Promoter Score

47

Partners – strong partner network

7,500+

“Enabling customer-centric innovation is in our DNA. Our solutions help organisations realise more value from their existing investments, minimising expensive and carbon-intensive “rip and replace” product migrations. Whilst we help customers and partners to embrace new business models, and solve real-world problems in a hybrid world, we also protect their investments for the long-term.”

Stephen Murdoch
Chief Executive Officer



At Micro Focus, we collaborate with suppliers and partners who share the same values and hold themselves accountable to the same high standards as we do. Micro Focus' technology is business-critical to many customers and our partners' products and services and helps keep their enterprises running.

We aim to ensure our products play a part in improving society, people's health and wellbeing, as well as having a reducing impact on the environment.

Customers How we engage

Micro Focus supports tens of thousands of customers, and engagement means something different to each one of them. Our focus on customer-centric innovation requires regular, open dialogue that meets the unique needs of each customer.

By close and careful listening, we can embed their requests directly into product roadmaps. This results in a pragmatic and methodical approach to investments that seek to deliver value directly to our customers.

One place we do this is at our annual conference, Micro Focus Universe. For FY21, we expanded this virtual event to occur in three regional time zones to cover the entire world. Universe 2021 drew a record number of participants with many opportunities to provide direct feedback, such as Voice of the Customer sessions.

An area where we have received consistent feedback is to embed accessibility standards into our products and services. In response, we have increased our commitment to these regulations, including the Voluntary Product Accessibility Template ("VPAT®")

used by the US Government, EN 301 549 used by the European Union, and the Web Content Accessibility Guidelines ("WCAG") which is an international standard.

Partners How we engage

Our global network of more than 7,500 authorised partners and alliances is at the heart of what makes Micro Focus successful. Ensuring the highest level of customer satisfaction depends on exceptional product and solution implementation together with the exclusive skills and knowledge that our partners deliver. In 2021 we were recognised for the third consecutive year with a 5-star rating in the CRN Partner Program Guide.

When you consider all of the people, processes, and technology needed to run and transform an enterprise, very few organisations have all of the in-house resources and knowledge required to achieve their goals. Our extensive and strong partner network allows our customers to access the very specific skills and specialisms needed to fill any internal gaps they might encounter, no matter the industry or vertical, wherever they may be around the world. It also allows them to access flexible delivery and consumption models. Whether customers are looking for on-premise, hybrid, or SaaS implementations, our partners can deliver the scenario that works best.

Most of all, our partners inspire confidence and trust in Micro Focus products and services. Our partners have the expertise our customers need to solve their digital dilemmas – running their businesses today and transforming them for tomorrow's opportunities.



Ethics at Micro Focus

Our goal is to maintain the highest standards of ethical behaviours with all of our stakeholders, including our investors, employees, contractors, customers, partners and suppliers.

Micro Focus also fosters a culture of openness and transparency across the organisation so employees and third parties can raise concerns where they feel that our people, customers or suppliers are at risk, or where areas of misconduct have been identified or are suspected.

We also ensure a strong culture of compliance and ethical behaviours by implementing training programmes and awareness campaigns.

Mandatory Code of Conduct training was successfully delivered to all employees of the Company in the year ended 31 October 2021. The Group's anti-slavery and human trafficking policy has been incorporated into the Code of Conduct and a statement has been published on our website to comply with the UK's Modern Slavery Act 2015.

In addition, we have delivered specific anti-bribery and anti-fraud training to hundreds of employees in higher-risk jurisdictions.

Suppliers

How we engage

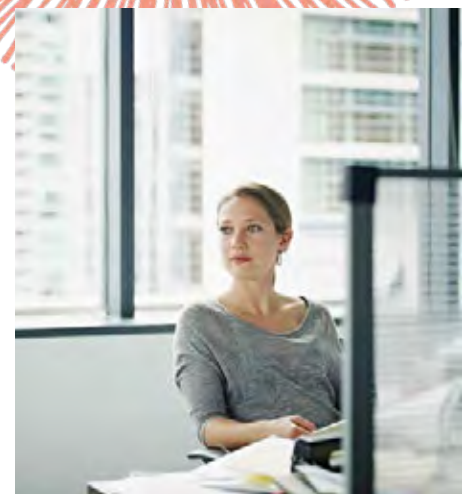
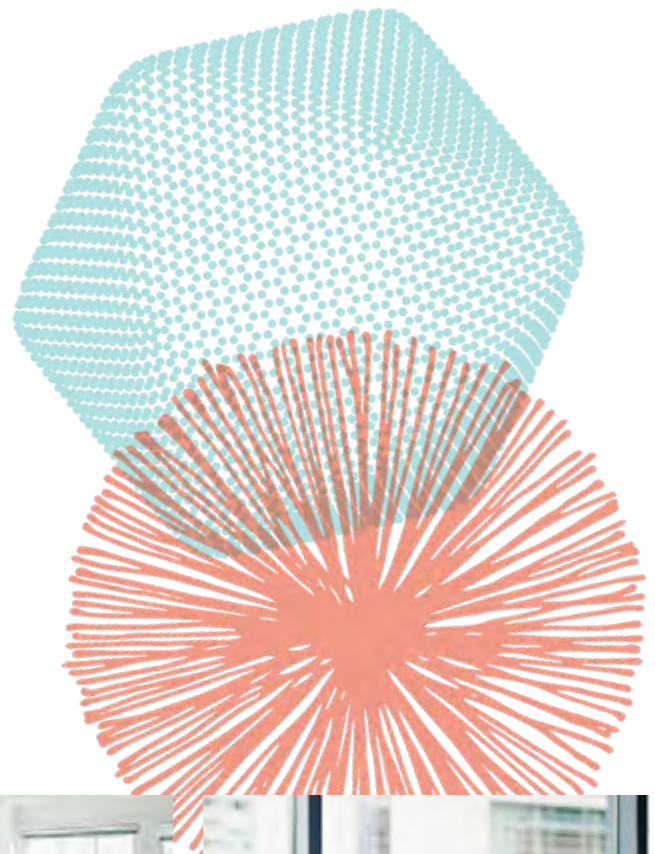
Our supply chain is critical to our success. Managed by our Global Procurement team, in FY21 the Vendor Rationalisation programme continued. The goal was to streamline our Company's spend to fewer and preferred suppliers, which enables us to drive greater value from those relationships. As of the year ended 31 October 2021, the number of vendors has been reduced to less than 5,000 from 10,000 at the beginning of the year.

Embedding ESG

In FY22, the Global Procurement team will communicate Micro Focus' ESG strategy and goals to tier one suppliers. ESG questions have been embedded into Request for Proposal ("RFP") templates for key suppliers and will be weighted at 10% during proposal reviews. ESG assessments of tier one suppliers will be piloted and at least 70% of the procurement team are to be trained on sustainable procurement in FY22.

Diverse supplier programme

Micro Focus is committed to fostering diversity within our supplier base. We proactively identify and encourage diverse suppliers to compete for our business and build long-term relationships with them. Led by Global Procurement, a diverse supplier is defined as at least 51% owned and operated by an individual or group that is part of a traditionally under-represented or under-served group. This includes small business enterprises, minority-owned enterprises, and woman-owned enterprises, and has recently expanded to include LGBTQ, veterans, and proprietors with disabilities.



Community & Social Impact

Countries in which we operate

48

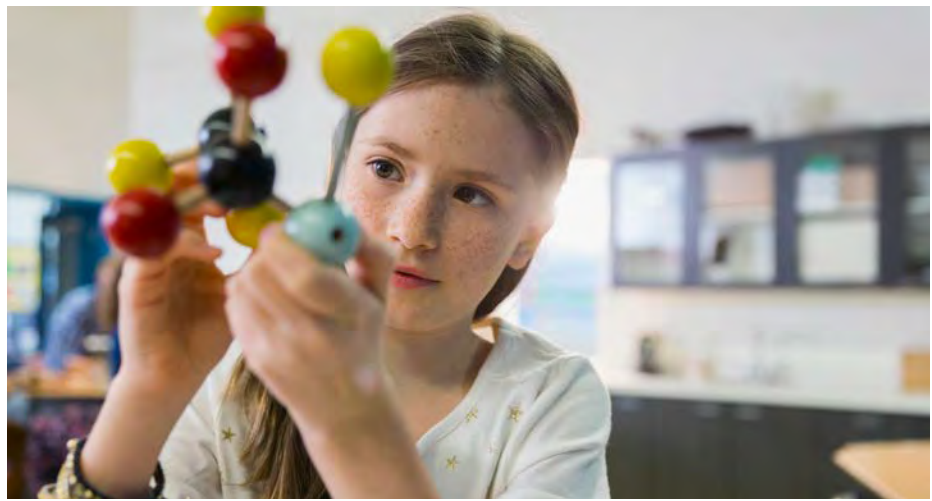
Employee volunteer days supporting communities

1,992

"It is more important than ever that we make a positive impact in our communities. Our employees have contributed 1,992 volunteer days this year alone and I am proud to have witnessed first-hand the impact our employees can have to causes which matter to each of them."

Karen Slatford

Senior Independent Director
and Chair of the ESG committee



Micro Focus strengthened its support for communities in the year ended 31 October 2021. Focused on those particularly impacted by COVID-19, we entered a series of new partnerships and launched a global Virtual Volunteering programme. This helped to further engage employees in equipping communities with the right skills to be successful in the digital world, today and in the future.

Over 1,992 volunteering days were contributed to causes around the world in year ended 31 October 2021. As the COVID-19 situation begins to improve around the world, the two employee volunteering days introduced for employees to support communities impacted by COVID-19 will be focused on projects that support one or more of the five UN SDGs the Company is supporting, as outlined on page 33. This will provide a broader selection of volunteering opportunities to engage both employees who volunteer regularly and appeal to those to whom volunteering is new.

Every employee can take four paid days a year to volunteer: one to support a charity or cause of choice, one to support our social impact goal of helping equip communities with the right skills to be successful in their digital lives, and two to support one or more of the five UN SDGs.

During June 2021, employees across North America teamed up to take part in a volunteering month of service to harness team spirit while making positive impacts in their local communities. The initiative leveraged Virtual Volunteering for Teams and Inspire a Million Lives to bring our diverse talents together. The 30-day initiative saw North American colleagues from nine business units volunteer to support 53 causes.

Micro Focus introduces Virtual Volunteering for Teams

To make volunteering easy and accessible and to help employees stay connected during COVID-19, Micro Focus introduced a new global volunteering programme for teams to give back virtually.

Micro Focus partnered with Goodera, a global volunteering company, that brings businesses and non-profits together to help make positive impacts. Since launching the Virtual Volunteering for Teams program in May 2021, over 900 employees have volunteered to support 100 causes. To further champion diversity and inclusion, Micro Focus also introduced virtual volunteering activities aligned to the Company's 10 Employee Resource Groups and the UN SDGs.

No poverty



In North America, Micro Focus colleagues volunteered at their local Feeding America food banks to pack, sort and deliver more than 1.4 million meals to people in need within four months.

Quality education



Micro Focus partnered with the United Nations Children's Fund ("UNICEF") to ensure that children everywhere can access their right to learn. Together we are reimagining education by strengthening national education systems, improving the quality of learning, and helping children and young people around the world to thrive in a digital future.

Decent work and economic growth



In December 2020, Micro Focus South Africa launched a partnership with The Frida Hartley Shelter ("FHS") for abused



women and children, to help women at the shelter upskill and find employment.

The employee-led programme offers coaching, mentoring, and computer skills for the women who rely on the charity to help rebuild their lives. Our goal is to help the women find meaningful work and earn a living to support themselves and their children.

Micro Focus is also supporting 150 students from the Samarthanam Trust for the Disabled in India to acquire skills-based training through a three-month residential course at a Livelihood Resource Centre ("LRC"). The programme also helps the students secure long-term meaningful employment.

Gender equality



Micro Focus Israel has partnered with Applesseeds Academy, a non-profit organisation that promotes digital equality, to design and introduce an online personal development and mentoring programme called One by One. This programme aims to empower and support women to enter technology fields and develop meaningful careers.

Micro Focus Australia teamed up with Protégé to sponsor and support delivery of its inaugural nine-month mentoring programme for 60 women, to support the advancement of women in leadership.

Micro Focus Costa Rica joined with Inspiring Girls International, a not-for-profit organisation dedicated to raising the aspirations of young girls around the world. They teamed up to deliver a virtual programme designed to inspire girls about the exciting careers in tech and the skills needed to get there. Female role models from Micro Focus led the virtual workshops for 60 female students from two local schools.

Climate action



In celebration of Earth Day 2021, Micro Focus pledged to encourage and inspire sustainable actions – because we believe we all have a role to play in looking after our environment. In addition, all our employees were invited to Pledge to Do an Act of Green and make a commitment to take action to help Restore Our Earth – the Earth Day theme.

Micro Focus is the official technical partner of Jaguar TCS Racing, and we were delighted to celebrate Earth Day with them. They compete in the ABB FIA Formula E World Championship, an all-electric motorsport series. Several members of the race team joined our employees by making their own pledges.

Here are just a few examples of how our employees have been making a difference: from volunteering to clean their local beaches and natural spaces, to pledging to use less and recycle more, to committing to learn about the critical importance of sustainability:

- Having smashed their goal to raise enough funds to buy 100 saplings, Costa Rican colleagues came together and used their Micro Focus INSPIRE volunteering days to plant the trees. This was an initiative run in partnership with local non-profit Friends of a Million Trees Association ("Amigos de Millón de Árboles Costa Rica").
- From California to Italy to Israel, Micro Focus colleagues around the world used their volunteering days to team up and clean their local beaches in celebration of Earth Day and Beyond.
- Micro Focus graduates based in Northern Ireland worked with Mourne & Down District Council to organise a volunteer litter clean up at Murlough Beach in County Down.

Micro Focus launches Inspire a Million Lives

In June 2021, Micro Focus partnered with a variety of non-profits and charities to support people in need and help eliminate digital exclusion. Our goal is to Inspire a Million Lives by driving our focus on assisting people affected by COVID-19 and responding to digital exclusion by building long-term and sustainable partnerships that deliver measurable impact.

In FY21, Micro Focus helped numerous charities and non-profits around the world with over £1million worth of support through a combination of donations, partnerships and employee volunteering.



Environment & Sustainability

Year-on-year reduction
of carbon emissions

7.8%

Year-on-year reduction
of energy consumption

6.4%

"At Micro Focus, we are committed to reducing our environmental impact, as are our customers, partners, and suppliers.

Our aim is to make sustainable and responsible business part of the way we operate."

Sarah Atkinson

Director, Environmental, Social & Governance ("ESG")



We are committed to reducing our environmental footprint and supporting the transition to a low carbon business. We continue to encourage our employees to live and work sustainably.

In addition, we're helping our customers implement carbon-friendly IT strategies through greater efficiency and extending the life of their existing technology and equipment such as moving to public clouds that use renewable energy and optimising resource, improving operational efficiencies to reduce energy consumption, streamlining equipment usage through management, computing and storage efficiencies, prolonging software life cycles and improving production along with recycling processes.

In the year ended 31 October 2021, the Group published a new environmental policy statement reaffirming its commitment to climate action.

Micro Focus commissioned an independent review of its Scope 1 & 2 carbon data collection to better understand the strengths and weaknesses of its processes with a view to identifying areas for improvement. The findings and recommendations will be implemented in FY22, where possible.

Environmental Management System

Micro Focus will also begin to develop and deploy a global Environmental Management System ("EMS") in the year ended 31 October 2022.

Our approach

Our environmental approach is focused on:

- Achieving targets
- Energy efficiency plans
- Switching to renewable
- Educating and encouraging carbon consciousness amongst employees
- Supporting standards

Achieving targets

We committed to a Greenhouse Gas ("GHG") reduction target of 2-5% in FY21, compared to the previous year.

Based on a like-for-like comparison of our FY20 locations to FY21 locations, we achieved a 7.8% reduction of carbon emissions and a 6.4% reduction of energy consumption.

In FY21, we have increased the number of locations in scope from 64% to 68% and based on this increased FY21 global footprint compared to the FY20 footprint, our overall GHG emissions have increased by 1.5% and our energy consumption increased by 3.8%.

In FY22, our aim is to reduce our GHG emissions further by 2-5%.

We also committed to source 50% of energy usage from renewable sources globally by the end of FY21. We exceeded that goal, with 52% of energy used now coming from renewable sources. This is an increase from 40% at the end of FY20. We're targeting 80% of our energy to come from renewable sources by the end of FY25 and 100% by the end of FY30.

See page 124 for full details.



Energy efficiency plans

Micro Focus energy conservation efforts are focused on driving down total energy consumption. The importance of reducing energy consumption levels is underlined within the Group by sharing data and seeking employee guidance on how to reduce our consumption within the boundaries of our operational control.

Key strategies include further improvements to our office environments either through upgrades or moves, and the continuation of data centre consolidation.

The Micro Focus Workplace Policy ensures that when sourcing new locations, we give greater weight to LEED/BREEAM rated properties wherever available.

- 10 of our existing properties representing 6% of global square footage now carry either a LEED or BREEAM rating.
- We increased our net footprint of sites with direct metering in place from 63% to 68% of its global square footage.

Despite the pandemic impact, we can clearly see the results of our operational boundary changes in this year's reduction. Micro Focus will continue its strategy of consolidation wherever possible to ensure the minimum footprint is achieved. As we emerge from the impact of COVID-19, we will respond to the new needs of the business to optimise the way the property portfolio is shaped.

Switching to renewable

Micro Focus has continued its strategy, wherever possible, to renew energy contracts with suppliers who provide higher ratios of renewable or cleaner energy. We increased the percentage of renewable energy sources. We are actively pursuing additional options in areas under our control, and have signed contracts in Australia, Spain, Ireland, and UK to power our entire operations in these countries by 100% renewable sources.

Education and encouragement of carbon consciousness amongst employees

Sustainability and climate change is important for everyone to understand, so Micro Focus has introduced a new Sustainability Education Programme that is available to all employees. The programme includes a collection of engaging short courses, delivered via LinkedIn Learning, together with videos designed to enhance understanding of sustainability, and why it matters to all of us. The courses offer something for everyone, ranging from introductory to leadership level.

In January 2021, Micro Focus launched its newest employee resource group called PLANET, dedicated to sustainability awareness and advocacy. Through PLANET, colleagues have an opportunity to not only contribute to shaping the Group's approach to reducing its environmental impact, but to also further enable our customers to be more sustainable by teaching them how our solutions can help them reduce their carbon footprint.

Micro Focus also announced its support for The Nature Conservancy's Global Climate Programs.

Supporting standards

We are pleased that in the year ended 31 October 2021, we maintained our score of a B for the second consecutive year from the Carbon Disclosure Project ("CDP") and we are seeing great results from some of the measures we have implemented.

This year's report sees an increase in the number of sites achieving a reduction in consumption and subsequent emissions. We continued to use all audit and report findings in our energy roadmap for driving down our carbon output. Micro Focus will continue the Group's commitment to CDP in the next reporting period and continue to further raise awareness of the importance of managing emission reductions across global facilities. CDP practices continue to be deployed in order to maintain the standards that are embedded, and delivering encouraging improvements year-on-year in energy reduction.

Task Force on Climate-Related Financial Disclosures

At Micro Focus, behaving responsibly as an organisation, both internally for our employees and externally within the marketplace, communities and environment, is a fundamental principle for our operations around the globe.



Micro Focus recognises the risks posed by climate change and fully supports the aim of the Task Force on Climate-Related Financial Disclosures (“TCFD”) recommendations. As a premium listed company, Micro Focus is committed to working towards incorporating the TCFD recommendations and aiming to be fully aligned for the first time in our annual report for the year ended 31 October 2022.

In the subsequent paragraphs our progress to date is summarised. This has been supported by an independent gap analysis we commissioned during the year related to the four pillars of the TCFD.

Governance

The board assumes overall responsibility and accountability for the management of climate-related risks and opportunities. In June 2021, a new Environmental, Social and Governance (“ESG”) framework, which aggregated the Group’s existing forums for ESG matters, was introduced along with a new board-level committee to ensure the board has oversight of climate-related issues, further details of which can be found in our ESG committee report on page 98. The ESG committee is supported by an ESG working group which is made up of senior leaders across the business to ensure accountability and an environmental sub-group with specific responsibilities for our environmental strategy.

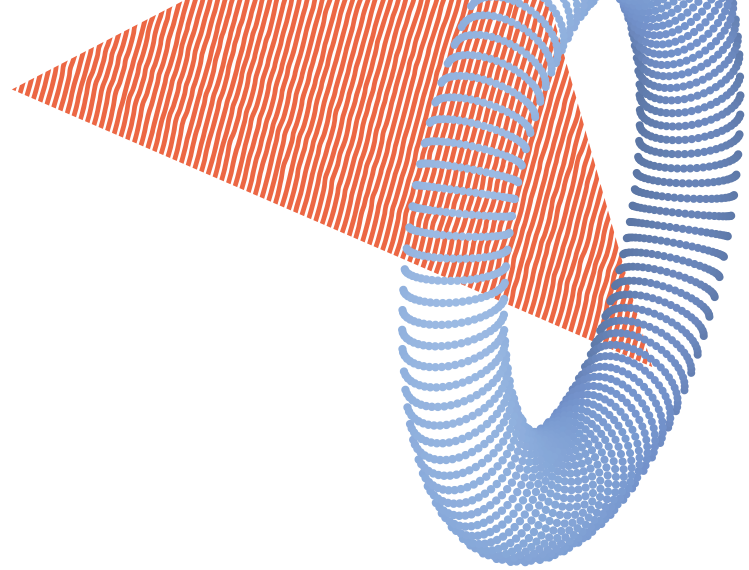
To help the board and management monitor progress against climate-related targets, the Group has appointed a specialist agency to help develop and implement a company-wide Environmental Management System (“EMS”) which involves implementing a systematic framework that manages the immediate and long-term environmental impacts of the organisation. Once the EMS is developed and deployed the framework will be able to set out environmental

policies, track environmental progress through KPIs and targets in line with latest climate science, engage staff and stakeholders, and align with best practice. This will help Micro Focus integrate sustainability efforts deeper into the business and further strengthen relationships with clients and suppliers.

Strategy: identifying risks and opportunities

We are continuing to assess how climate-related risks and opportunities impact our business. This includes looking at our products and how these support our customers in responsibly achieving their business objectives and our strategy for engaging with suppliers to address environmental-related risk. We are conducting cross-functional workshops, initially with our Finance, Risk and Real Estate teams, to better understand the physical risks (both acute and chronic) and transitional risks (such as policy, regulatory and market changes) that affect our business.

As part of assessing ESG-related risks and opportunities and to support our ESG strategy, we anticipate implementing climate-related scenario analysis. The scenario analysis will be used to financially quantify the material impacts of climate change to our business over different time horizons and will inform us in planning and prioritising future business strategies, investments and establishing policies to improve the resilience of our business and continuity long-term.



Risk management

We have an established risk management framework we use to identify, assess, mitigate and monitor enterprise risk across the organisation and we have broadened our risk management policy and procedure in the period to incorporate ESG matters into this process. The ESG committee receives reporting on ESG risks identified through the Group’s risk management process. A focus for the coming year will be the continued refinement of this risk management process to better identify the physical and transitional climate-related risks and opportunities we face as a business. Further details on the Group’s risk management process are noted in the Principal Risks and Uncertainties section on pages 61 to 73, while details regarding the activity of the ESG committee in the period is noted in the ESG committee report on page 98.

Metrics and targets

The Group discloses energy consumption and Greenhouse Gas (“GHG”) emission metrics (including scope 1 and 2 data) in our Directors’ report on page 124 and short-term targets for GHG emission reductions and renewable energy usage on page 17. As part of implementing our environmental strategy over the coming year we will assess which specific targets and metrics we consider to be most relevant for our business in direct response to climate-related risks and opportunities.

As part of the readiness assessment a detailed review was conducted of our carbon emissions including assessing the current GHG emissions profile. As a result, we are considering how we could improve our existing Scope 1 and 2 reporting and how we could adequately measure and report Scope 3.

Non-financial information statement

We aim to comply with the Non-Financial Reporting Directive requirements from sections 414CA and 414CB of the UK Companies Act 2006. The table below sets out where the key content requirements of the non-financial information statement can be found within this Strategic Report included in this Annual Report.

Reporting requirement	Some of our relevant policies	Relevant section(s) within the Annual Report	Page(s)
Environmental matters	Environmental policy statement	Environment	42 to 45
Employees	Code of Conduct Whistleblowing Diversity and Inclusion policy Health and safety	Employees	35 to 37
Human rights	Modern Slavery policy	Ethics at Micro Focus	39
Social matters	Code of Conduct	Stakeholder engagement	35
	Whistleblowing	Embedding Diversity and Inclusion	37, 85
Anti-corruption and anti-bribery	Diversity and Inclusion policy	Community & Social impact	37, 40, 41
	Code of Conduct	How we manage it	62
Principal risks and uncertainties	Whistleblowing	Ethics at Micro Focus	37, 85
	Anti-Bribery and corruption, Gifts and Hospitality policies		
Non-financial key performance indicators	Anti-Fraud and Anti-Bribery training		
			61 to 73
			17
Business model			26 to 31

Section 172 statement

In accordance with Section 172 of the UK Companies Act 2006, the board has a duty to promote the success of the Company for the benefit of its members as a whole.

In doing so, it must have regard to the matters set out in Section 172(1)(a) to (f) of the UK Companies Act 2006, including the interests of the Company's employees, its business relationships with suppliers and customers, and the impact of its operations on communities and the environment ("s172 matters").

Stakeholder engagement

The Group's stakeholders are an important part of our operations and the impacts are referenced throughout this report.

The key stakeholders of the Group are set out within Our impact on pages 32 to 43. In that section we set out who these stakeholders are, our engagement with each, and the area of focus which concerns each stakeholder.

In their decision making during the year, the directors of the Company sought to take decisions for the long-term with the aim to uphold high standards of business conduct through their regard to s172 matters, and also to other relevant factors, as they reviewed and considered proposals from senior management, and as they governed the Company on behalf of its shareholders through the board and its committees. Illustrations of how s172 matters have been applied by the board are summarised here and are cross-referenced to the relevant areas of the Annual Report in the table on the following page.

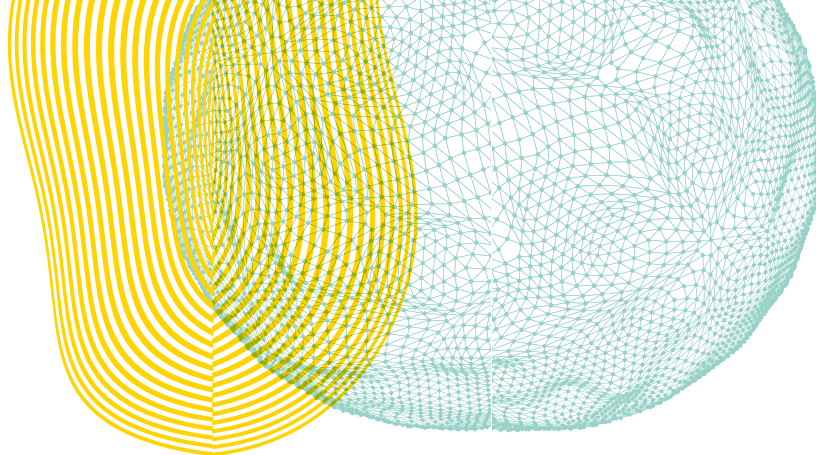
Enterprise-wide platform

In June 2021, the board approved the migration of our operational systems to a single enterprise-wide platform, the purpose of which was designed to make the business simpler, making it easier for customers to do business with us and improving our employees' user experience by significantly reducing complexity. The decision, whilst critical to the transformation of the business, was not taken lightly.

The decision to migrate to the single enterprise-wide platform was subject to regular board scrutiny due to the impact this could have on employees and the customer experience. There was heightened risk with the transition due to challenges experienced as we merged to live production systems, causing disruption to day-to-day operations. The transition was closely monitored by the board and an independent programme assurance led by a specialist third party, together with senior management, kept the board regularly apprised during the planning, cut-over and ensuing hypercare. The board's decision to make the transition to the single enterprise-wide platform was taken with all stakeholders in mind, and the benefits of creating an agile and lean organisation, has improved engagement and significantly reduced complexity across the business, with our employees, customers and partners all seeing the benefits.

Amazon Web Services ("AWS")

On 3 March 2021 the board approved the decision for the Company to enter into a commercial agreement with AWS, formalising a strategic collaboration to accelerate the modernisation of mainframe applications and workloads of large public and private enterprises to the AWS Cloud. The board made the decision to enter into the agreement on the basis that this would help our customers modernise their mainframe applications and workloads more quickly and easily, and to also improve Group revenue, in considering the success of the Group in the long-term.



Digital Safe

On 3 November 2021, the Group announced it had agreed to sell its Archiving and Risk Management Portfolio (the Digital Safe business) to Smarsh Inc. In the lead up to the agreement, the board identified that archiving and risk management was changing rapidly and becoming an increasingly specialised area. In making this decision to combine the Digital Safe business with Smarsh, a leading innovator in this area, the board decided that our Digital Safe customers and employees would see significant benefits and would be better served for the long-term.

ESG committee

As explained in the ESG committee report on pages 98 to 99, the board made the decision during the year to consolidate the existing forums for corporate social responsibility ("CSR") under a new formal ESG committee. The committee provides board-level focus and oversight of this critical and growing area, and ensures that our developing ESG strategy is closely aligned to our Group goals and values and embedded into the business for the benefit both internally for our employees and externally within the marketplace, communities, and environment. The board acknowledges that it is also a key factor for customers when choosing their business partners.

Section 172 matters	Specific examples	Page(s)
(a) The likely consequences of any decision in the long-term	- Our strategy	12
	- Refinancing activities	51
	- Our governance framework shows how the board delegates its authority	80
(b) The interests of the Company's employees	- Protecting our people during the COVID-19 pandemic	35
	- Employee engagement	35
(c) The need to foster the Company's business relationships with suppliers, customers and others	- Settlement of patent infringement litigation without admission of liability, in the interest of possible time, cost and significant resources required for the appeal process concluding that it was in the best interests of the Company and stakeholders that a settlement should be reached	171
	- Voluntarily complying with regulations and standards to improve accessibility in our products	38
	- Virtual Micro Focus Universe event bringing together participants over two events	38
(d) The impact of the Company's operations on the community and the environment	- Helping equip communities with the skills needed to be successful in the digital world	40
	- Implementation of targets in respect of emissions and renewable energy	42
	- Formation of ESG committee	98
(e) The desirability of the Company maintaining a reputation for high standards of business	- Upholding high ethical standards through our Code of Conduct	37, 39
(f) The need to act fairly between members of the Company	- Stakeholder engagement	46
	- AGM	86



A large value creation opportunity

"I joined Micro Focus because I could see a significant value opportunity. We have many customers in many attractive markets spending record levels on enterprise software. The challenges faced by the Company have been well documented, and a lot of the heavy lifting has been done and we are entering an exciting phase of our development."

Chief Financial Officer's report



Matt Ashley
Chief Financial Officer

FY21 highlights

Revenue

\$2.9bn

Cash generated from operations

\$691m

Adjusted free cash flow

\$292m

Adjusted EBITDA

\$1.0bn

Loss before tax

\$0.5bn

Introduction

Since joining in July I have been pleased with the progress made against our strategic objectives. Highlights include:

- The rate of constant currency revenue decline has halved year-on-year driven by material improvements in our customer propositions across the product groups, supported by the roll-out of a consistent global sales approach.
- The go-live of the new enterprise-wide platform has meant the transition of our entire employee base to one single IT platform providing a foundation to materially simplify the Group's operations.
- The sale of Digital Safe for \$375m demonstrates the value of our portfolio and highlights how improvements made to the underlying assets over the last two years can deliver incremental value to shareholders.
- On 17 January 2022, the Group announced the successful re-financing of approximately \$1.6bn. Following the consummation of the transaction, the average maturity of Micro Focus' debt has been extended from 2.7 years to 3.6 years.

My priorities over the next two years are to support Stephen in our delivery of the turnaround of the business which manifests itself in three ways. Firstly, prioritising investment in products to improve our revenue trajectory. Secondly, to utilise our new enterprise-wide platform to reduce the cost of operation. Thirdly, to optimise cash generation and ensure we use our cash efficiently to generate future revenues, reduce debt and continue to pay the dividend.

To this end, on 30 November 2021, the board set out the financial objectives for the business exiting FY23. These are:

- To achieve flat or better revenues;
- To remove \$400m to \$500m gross annual costs from the FY21 exit cost base to leave between c.\$1.5bn to c.\$1.6bn (allowing for cost inflation); and
- To generate an Adjusted free cash flow target of approximately \$500m.

We remain on track to deliver against each of these and believe these outcomes will deliver significant value creation for our shareholders.

Statutory results

	FY21 \$m	FY20 \$m
Continuing operations		
Revenue	2,899.9	3,001.0
Operating profit prior to depreciation, amortisation and exceptional items	1,044.9	1,143.2
Depreciation and amortisation	(1,063.4)	(793.0)
Exceptional items	(247.1)	(3,011.6)
Operating loss	(265.6)	(2,661.4)
Net finance costs	(252.2)	(279.0)
Loss before tax	(517.8)	(2,940.4)
Taxation	82.7	(34.2)
Loss from continuing operations	(435.1)	(2,974.6)
Profit from discontinued operations	10.7	5.1
Loss for the year	(424.4)	(2,969.5)

Revenue

In the year ended 31 October 2021 ("FY21"), the Group generated revenue of \$2,899.9m, which represents a decrease of 3.4% on the results for the year ended 31 October 2020 ("FY20"). The rate of decline includes a 1.9% offset due to the weakening of the US dollar against most major currencies.

In order to fully understand the underlying trading performance of the continuing operations, the directors feel revenue is better considered on a constant currency basis ("CCY") when comparing FY21 and FY20. Excluding the impact of foreign exchange, revenue declined by 5.3%. Revenue performance presented on a CCY basis can be found later in this report.

Operating profit prior to depreciation, amortisation and exceptional items

The Group generated an operating profit prior to depreciation, amortisation and exceptional items of \$1,044.9m in the period (FY20: \$1,143.2m) with the year-on-year decline due to the reduction in revenue in the period.

Operating loss

In FY21, the Group generated an operating loss of \$265.6m (FY20: \$2,661.4m). The improvement from the prior year was due to an impairment charge of \$2,799.2m against the Group's goodwill in FY20 which compares to no impairment in the current period. This benefit was partially offset by the reduction in revenue outlined above and an increase in the amortisation expense of intangible assets of \$282.3m following a review of intangible asset lives acquired as part of the HPE Software business acquisition.

Exceptional items (included within operating loss)

	FY21 \$m	FY20 \$m
System and IT infrastructure costs	98.0	100.6
Integration, Severance and Property costs	38.4	83.9
MF/HPE Software business integration-related costs	136.4	184.5
Legal settlement and associated costs	75.4	–
Other restructuring property costs, severance and legal, acquisition and divestiture costs	35.3	27.9
Impairment charge	–	2,799.2
Total exceptional costs (reported in Operating loss)	247.1	3,011.6

In FY21, exceptional costs totalled \$247.1m, and can be split into two categories. Firstly, the Group incurred \$136.4m (FY20: \$184.5m) of integration-related costs in respect of the HPE Software business. This figure primarily relates to the migration of Micro Focus to one single enterprise-wide platform. In total, exceptional costs incurred in relation to the integration of the HPE Software business since the acquisition are \$1,036.2m at 31 October 2021 (total cumulative cost at 31 October 2020: \$899.8m). In the period, the Group incurred incremental HPE-related exceptional spend in order to accelerate the completion of the integration programme and systems migration and as a result no further exceptional spend in relation to the HPE Software business integration is expected.

Secondly, other exceptional spend totalled \$110.7m of which \$75.4m relates to the cost of settling the Wapp patent infringement case. The remaining exceptional spend mainly reflects severance and other costs incurred as part of the continued simplification of the Group's continuing operations resulting from the further review of the Group's required operating model.

On 30 November 2021, the Group announced the objective to remove a further c.\$400m to c.\$500m of gross annualised operating costs which is anticipated to be undertaken during FY22 and FY23. As a result of this programme, exceptional spend in relation to delivering these plans is expected to total approximately \$200m over the next two financial years.

The cash impact of exceptional items is presented later within this report.

Net finance costs

Net finance costs were \$252.2m in FY21, compared to \$279.0m in FY20. Included within the net finance costs is \$34.0m (FY20: \$58.0m) in relation to the amortisation of facility costs and original issue discounts, which were paid on initiation of the term loans. The decrease on the prior year related to an acceleration of fees and discounts resulting from the refinancing completed in that period.

On 17 January 2022, the Group announced the refinancing of \$1.6bn of existing term loans. This refinancing comprised a €750m and a \$750m Senior Secured Term Loan B. The new 5-year Facilities will be used by the Group to fully refinance its existing Senior Secured Term Loan B Euro facility due June 2024 as well as partially refinance the existing Senior Secured Term Loan B USD facilities also due in June 2024.

The new 5-year facilities incur interest at 4.00% above EURIBOR (subject to 0% floor) at an original issue discount of 0.5% on the Euro denominated tranche, and 4.00% above SOFR and CSA (subject to 0.5% floor) at an original issue discount of 1.0% on the US Dollar denominated tranche. This represents an increase in annualised interest costs of approximately \$23.0m.

The Group holds interest rate swaps to hedge against the cash flow risk in the LIBOR rate charged on \$2,250.0m of the debt which expires on 30 September 2022. Under the terms of the interest rate swaps, the Group pays a fixed rate of 1.95% and receives one-month USD LIBOR. In addition, the Group has transacted interest rate swaps to hedge the cash flow risk on 1M Term SOFR related to its newly issued \$750m debt. The SOFR swaps have an effective date of 21 September 2022 and a maturity date of 28 February 2027 fixing SOFR at 1.656%. The Group continually reviews the currency mix of its borrowings and the projected forward curves associated with the benchmark rates of its debt to assess market risk.

Taxation

The Group reported a tax credit for FY21 of \$82.7m (FY20: charge \$34.2m). See note 7 for additional details.

Profit from discontinued operation

The profit on the disposal of discontinued operation of \$10.7m in FY21 (FY20: \$5.1m) results from the finalisation of indemnity-related balances in relation to SUSE.

Reconciliation from statutory results to Alternative Performance Measures

This section sets out a reconciliation from the statutory results presented above to Alternative Performance Measures used by the business to assess operating performance and liquidity including Adjusted EBITDA, Adjusted Profit before and after tax and Adjusted EPS. For further details relating to the definition and relevance of such measures, please refer to the Alternative Performance Measures of these financial statements. The Group believes that these and similar measures are used widely by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

Adjusted EBITDA

A reconciliation between Operating loss and Adjusted EBITDA is shown below:

	FY21 \$m	FY20 \$m
Operating (loss)	(265.6)	(2,661.4)
Add back/(deduct):		
Amortisation of intangible assets	956.4	674.1
Exceptional items (reported in Operating loss)	247.1	3,011.6
Depreciation of property, plant and equipment and right-of-use assets	107.0	118.9
Share-based compensation charge	14.3	17.0
Foreign exchange loss	0.1	29.7
Product development intangible costs capitalised	(19.1)	(16.2)
Adjusted EBITDA* at actual rates	1,040.2	1,173.7
Constant currency adjustment	–	13.3
Constant currency Adjusted EBITDA*	1,040.2	1,187.0

* Adjusted EBITDA is for continuing operations only.

Adjusted Profit after taxation

Adjusted Profit before tax is defined as loss before tax excluding the effects of share-based compensation, the amortisation of purchased intangible assets, and all exceptional items. Adjusted profit after taxation reflects adjusted profit before tax less the taxation charge associated with these profits.

The following table presents both actual and adjusted profit/(losses) before and after taxation:

	FY21			FY20		
	Reported \$m	Adjusting items \$m	Adjusted measures \$m	Reported \$m	Adjusting items \$m	Adjusted measures \$m
(Loss)/profit before tax	(517.8)	1,160.8	643.0	(2,940.4)	3,632.7	692.3
Taxation	82.7	(238.0)	(155.3)	(34.2)	(139.9)	(174.1)
(Loss)/profit after tax	(435.1)	922.8	487.7	(2,974.6)	3,492.8	518.2
Effective tax rate	16.0%		24.2%	(1.2%)		25.1%

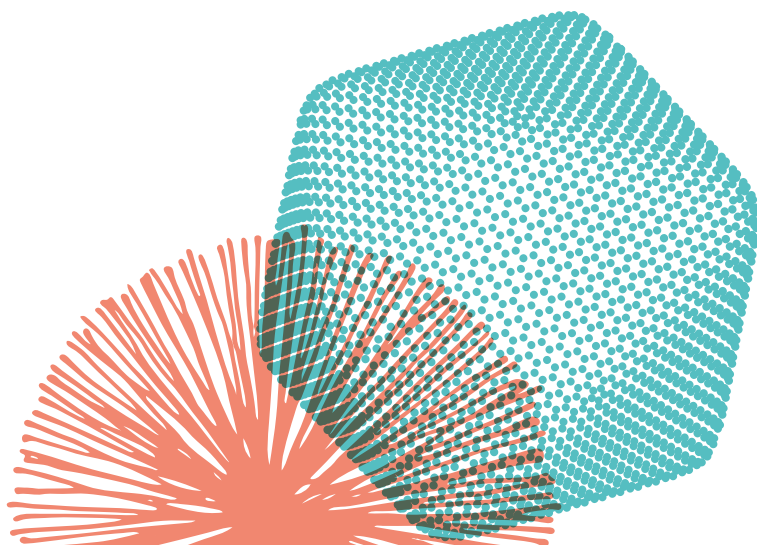
In computing adjusted Profit before tax for FY21, \$1,160.8m of Adjusting items have been added back. These items are made up as follows:

	FY21 \$m	FY20 \$m
Share-based compensation charge	14.3	17.0
Amortisation of purchased intangibles	899.4	604.1
Exceptional items	247.1	3,011.6
Adjusting items	1,160.8	3,632.7

The tax charge on Adjusted Profit before tax for FY21 was \$155.3m (FY20: \$174.1m), which represents an effective tax rate ("ETR") on Adjusted Profit before tax ("Adjusted ETR") of 24.2% (FY20: 25.1%). The tax associated with the Adjusting items is \$238.0m (FY20: \$139.9m) (see Alternative Performance Measure 3 for tax split by adjusting item).

The Group's Adjusted tax charge is subject to various factors, many of which are outside the control of the Group. The current economic environment increases the level of uncertainty that may result in changes to this tax rate in future accounting periods.

As previously disclosed, in April 2019, the European Commission published its final decision on its State Aid investigation into the UK's "Financing Company Partial Exemption" legislation and concluded that part of the legislation is in breach of EU State Aid rules. Similar to other UK-based international groups that have acted in accordance with the UK legislation in force at the time, the Group may be affected by the finding and is monitoring developments. The UK government and UK-based international companies, including the Group, have appealed to the General Court of the European Union against the decision. In February 2021 the Group received and settled State Aid charging notices (excluding interest) totalling \$44.2m, issued by HM Revenue and Customs, following the requirement for the UK government to start collection proceedings. In May 2021, the Group received and settled State Aid interest charging notices from HM Revenue and Customs totalling \$2.6m. In addition, there has been a challenge from the UK Tax Authorities into the historic financing arrangements of the Group. Based on its current assessment and supported by external professional advice, the Group considers the maximum liability of both of these items to be \$60m. Based on its current assessment and also supported by external professional advice, the Group believes that no provision is required in respect of these issues and a long-term current tax receivable has been recognised in respect of the amounts paid.



Earnings per share and Adjusted Earnings per share

The table below sets out the Earnings per Share ("EPS") on both a reported and Adjusted basis. The Group is also required to present EPS for both the continuing and discontinued operations.

	FY21		FY20	
	Basic Cents	Diluted ¹ Cents	Basic Cents	Diluted ¹ Cents
Continuing operations	(129.30)	(129.30)	(886.15)	(886.15)
Discontinued operations	3.18	3.18	1.52	1.52
Total EPS	(126.12)	(126.12)	(884.63)	(884.63)
Adjusted EPS				
Continuing operations	144.93	144.93	154.37	154.37
Discontinued operations	–	–	2.17	2.17
Adjusted EPS	144.93	144.93	156.54	156.54

¹ The Group reported a loss from continuing operations attributable to the ordinary equity shareholders of the Company for the years ended 31 October 2021 and 2020. The Diluted EPS is reported as equal to Basic EPS, as no account can be taken of the effect of dilutive securities under IAS 33.

The Adjusted EPS is defined as Basic EPS where the earnings attributable to ordinary shareholders are adjusted by adding back gains on discontinued operations, exceptional items, share-based compensation charge and the amortisation of purchased intangibles and the tax attributable to these charges. These are presented as management believes they are important to understanding the impact that the underlying trading performance has on the Group's EPS.

In FY21, the Group generated an Adjusted EPS from continuing operations of 144.93 cents, this compares to 154.37 cents in FY20. The decrease was primarily related to a reduction in Adjusted EBITDA as the Group seeks to stabilise the business as part of the three-year turnaround plan.

Micro Focus – Alternative Performance Measures

	FY21 (Actual) \$m	FY20 (CCY) \$m	Year-on-year change %
Licence	688.6	656.7	4.9%
Maintenance	1,791.7	1,961.0	(8.6%)
SaaS & other recurring	239.8	249.4	(3.8%)
Consulting	179.8	196.3	(8.4%)
Revenue	2,899.9	3,063.4	(5.3%)
Cost of sales	(463.9)	(462.9)	0.2%
Selling and distribution	(685.1)	(690.6)	(0.8%)
Research and development	(514.6)	(509.2)	1.1%
Administrative	(196.1)	(213.6)	(8.2%)
Total costs (included in Adjusted EBITDA)	(1,859.7)	(1,876.4)	(0.9%)
Adjusted EBITDA	1,040.2	1,187.0	(12.4%)
Adjusted EBITDA margin %	35.9%	38.7%	(2.8ppt)

¹ Total costs included in Adjusted EBITDA reflect costs included within the definition of Adjusted EBITDA only. A reconciliation of these costs can be found within the Alternative Performance Measures section on pages 133 to 135.

Revenue by stream performance (versus constant currency comparatives)

Licence revenue grew by 4.9%. The Group's Licence revenue performance in the year benefited from improvements in sales execution and the benefit of investments made in our growth portfolios.

Maintenance revenue declined by 8.6% with the current period performance impacted by a reduction in Licence volume over multiple previous financial periods combined with elevated attrition rates in four sub-portfolios. This is a major area of management focus, and over the past 18 months the Group has implemented material changes across these product portfolios driven by direct customer feedback and focused on improving the overall user experience. There have also been significant new capabilities introduced to expand cloud, artificial intelligence and analytics capabilities. In addition, multiple leadership changes have been made within underperforming portfolios and the compensation of sales leadership is now linked to customer retention. These actions were embedded in the first half of FY21 and the operational metrics highlight early indications of improvement in the underlying renewal rates in the second half of FY21, however actions will take time to yield more material benefits.

SaaS and other recurring revenue declined by 3.8%. Included within SaaS and other recurring revenue is \$108m of revenue for the Digital Safe business. The SaaS Digital Safe revenue declined approximately 9% on a constant currency basis. Excluding the Digital Safe business, SaaS revenue increased 0.2% year-on-year.

Consulting revenue declined by 8.4%. The repositioning of this revenue stream is complete and is now focused on improving return on investment to new and existing customers supporting new Licence and SaaS installations.

Revenue by product group (versus constant currency comparatives)

	FY21				Total \$m
	Licence \$m	Maintenance \$m	SaaS & other recurring \$m	Consulting \$m	
Product group*:					
AMC	155.3	315.9	–	10.3	481.5
ADM	106.1	408.5	78.9	18.6	612.1
ITOM	172.7	507.8	4.3	106.3	791.1
CyberRes	174.5	383.9	36.3	29.1	623.8
IM&G	80.0	175.6	120.3	15.5	391.4
Haircut	–	–	–	–	–
Revenue	688.6	1,791.7	239.8	179.8	2,899.9

	CCY % change to FY20**				
	Licence %	Maintenance %	SaaS & other recurring %	Consulting %	Total %
Product group*:					
AMC	9.8%	(3.2%)	–	(1.0%)	0.7%
ADM	2.1%	(8.9%)	3.3%	13.4%	(5.1%)
ITOM	(2.7%)	(11.3%)	(17.3%)	(10.8%)	(9.5%)
CyberRes	5.9%	(9.5%)	6.5%	(14.7%)	(5.1%)
IM&G	15.8%	(7.6%)	(10.2%)	(4.3%)	(4.3%)
Haircut	–	(100.0%)	(100.0%)	–	(100.0%)
Revenue	4.9%	(8.6%)	(3.8%)	(8.4%)	(5.3%)

* The product group trends discussed in this section are presented before the impact of the deferred revenue haircut of \$0.6m in FY20.

** See page 169 for underlying data for the year ended 31 October 2020.

Application Modernisation & Connectivity ("AMC")**\$482m**

(17% of total FY21 revenue)

Licence revenue increased by 9.8% in FY21 underpinned by strong performance in mainframe modernisation. On 3 March 2021, the Group signed a strategic commercial agreement with Amazon Web Services ("AWS") to accelerate the modernisation of mainframe applications and workloads of large public and private enterprises to the AWS Cloud. This contract is expected to generate Consulting revenue in FY22 and Licence and Maintenance revenue from FY23 onwards.

Maintenance declined by 3.2% and Consulting revenue was broadly flat.

Application Delivery Management ("ADM")**\$612m**

(21% of total FY21 revenue)

Licence revenue increased by 2.1%, SaaS and other recurring revenues increased by 3.3%, Consulting revenue increased by 13.4% while Maintenance revenue declined by 8.9% in FY21.

In the period, the Group has made good progress in repositioning our ADM portfolio, which has led to improved performance in all revenue streams. This included launching a number of cloud-native products which was the primary driver of the increase in SaaS and other recurring revenues in the period. The Maintenance performance in the period was driven by a weak Licence performance in FY20 combined with an element of transitioning some customers to SaaS-based solutions within our performance testing portfolio.

IT Operations Management ("ITOM")**\$791m**

(27% of total FY21 revenue)

Licence revenue declined by 2.7% and Maintenance revenue by 11.3% in FY21. This performance reflects a moderation in the rate of revenue decline in both revenue streams compared to FY20 but remains below our medium-term expectations for the product group. The improvements made to the product roadmaps and in refocusing resources are key to improving attrition in sub-portfolios which will impact overall performance if successful.

SaaS revenue declined by 17.3% in the year ended 31 October 2021 as we completed the repositioning of historic offerings. This revenue stream is currently very small but during FY21 the Group launched a number of new SaaS-based products, with a clear roadmap for further releases in the next 12 months intended to form the foundations for growth in this important area.

Consulting revenue declined by 10.8% in the year ended 31 October 2021.

Cyber Resilience ("CyberRes")**\$624m**

(22% of total FY21 revenue)

Investments made in this product portfolio have resulted in new offerings and significant enhancements to existing offerings yielding growth in Licence for the portfolio and growth in total revenue for two of the four sub-portfolios. Licence revenue increased by 5.9% in FY21 with growth in three out of the four sub-portfolios.

Maintenance revenue declined by 9.5% in the year ended 31 October 2021. This performance is broadly driven by one single product portfolio where we witnessed elevated attrition rates. This product has had significant investment over the last 24 months resulting in material improvements to both the underlying architecture and overall capabilities. It is now much better positioned competitively and we expect to drive a significant moderation in the overall rate of Maintenance decline in the medium-term.

SaaS revenue increased by 6.5% in the year ended 31 October 2021 reflecting the continued investment in delivering new and improved solutions in this important area.

Consulting revenue declined by 14.7% in the year ended 31 October 2021 as we work to more closely align our consulting offerings to product implementation and growth in new Licence sales.

Information Management & Governance ("IM&G")**\$391m**

(13% of total FY21 revenue)

Licence revenue increased by 15.8% in FY21. This increase is primarily driven by growth in Vertica, the Group's Big Data offering. In the fourth quarter, the Group launched Vertica Accelerator which is delivered in a subscription form as a managed service. The Group has made encouraging progress with this transition to subscriptions, with both bookings and new logos up substantially year-on-year.

Maintenance revenues declined by 7.6%, partly driven by mix within the portfolio and weaker Licence performance in the prior year.

In addition, SaaS and other recurring revenue declined 10.2% primarily due to performance from the Digital Safe business. On 3 November 2021, the Group announced the sale of this business for \$375m. This transaction completed on 31 January 2022.

Consulting revenue declined by 4.3% over the same period.

Adjusted EBITDA performance (versus constant currency comparatives)

The Group generated an Adjusted EBITDA of \$1,040.2m in FY21, at an Adjusted EBITDA margin of 35.9%. This represents a 2.8 ppt decrease in Adjusted EBITDA margin between the periods on a continuing basis. This decline was driven by the overall revenue decline and the full run-rate impact of investments in the product portfolio in FY20.

On 30 November 2021, the Group announced the intention to reduce gross annual recurring overheads by between c.\$400m to c.\$500m by the end of FY23. As a result, the Group's cost base is expected to reduce from \$1.9bn reported in FY21 to between c.\$1.5bn and c.\$1.6bn (allowing for inflation) as we exit FY23.

Adjusted free cash flow

The Group's consolidated statement of cash flows is presented on page 156. The table presented below focuses on those items which specifically relate to the Group's Adjusted free cash flow, which is considered to be a Key Performance Indicator ("KPI") of the Group.

	FY21 \$m	FY20 \$m
Adjusted EBITDA	1,040.2	1,173.7
Less:		
Exceptional items (reported in Operating loss)	(247.1)	(3,011.6)
Goodwill impairment charge	–	2,799.2
Other non-cash items	24.8	26.5
Movement in working capital	(127.4)	95.0
Cash generated from operations	690.5	1,082.8
Interest payments	(218.1)	(207.1)
Bank loan costs	(1.5)	(47.9)
Tax payments	(270.3)	(149.6)
Purchase of intangible assets	(47.5)	(60.6)
Purchase of property, plant and equipment	(17.7)	(26.3)
Lease-related capital payments	(79.5)	(80.1)
Free cash flow	55.9	511.2
Cash impact of exceptional items	236.5	148.9
Adjusted free cash flow	292.4	660.1

The Group has continued to be cash generative in FY21 despite significant one-off items impacting free cash flow. As a result, the Group generated \$55.9m of free cash flow compared to \$511.2m in FY20. The Group generated an Adjusted free cash flow of \$292.4m (FY20: \$660.1m).

The Group had a working capital outflow in the period of \$127.4m in the period which is presented in the table below:

	FY21 \$m	FY20 \$m
Inventories	–	0.1
Trade and other receivables and contract-related costs	(195.2)	251.6
Payables and other liabilities	36.9	(62.4)
Provisions	14.1	8.8
Contract liabilities – deferred income	16.8	(103.1)
Movement in working capital	(127.4)	95.0

The Group had a cash outflow of \$195.2m in relation to Trade and other receivables caused primarily by an increase in year-on-year billings towards the end of Q4 FY21. This improvement in billings also caused a cash inflow in respect of deferred income of \$16.8m. This resulted in an Adjusted cash conversion rate of 87.1% (FY20: 112.6%). See page 140 in the Alternative Performance Measures for further detail of cash conversion.

The Group made tax payments totalling \$270.3m in FY21, including a payment made in respect of EU State Aid (excluding interest) of \$44.2m and another c.\$42.0m of payments relating to a catch up of prior year tax liabilities in certain jurisdictions. These payments are not expected to recur in future accounting periods.

In FY21, purchases of intangible assets (relating predominantly to software licences) totalled \$47.5m compared to \$60.6m in FY20. In addition, purchase of property, plant and equipment decreased from \$26.3m to \$17.7m over the same period.

The Group's ability to continue to generate free cash flow whilst transforming our business demonstrates the resilience of our business model. The cash impact of exceptional items reduced FY21 cash flow by \$236.5m (2020: \$148.9m) and includes the payment to settle the Wapp patent infringement case and the EU State Aid payment.

A reconciliation of the exceptional charge to the cash impact of exceptional items is included in Alternative Performance Measure 5 on page 139. Excluding these items, the Group generated an Adjusted free cash flow of \$292.4m (2020: \$660.1m).

On 30 November 2021, the Group set out expectations to grow Adjusted free cash flow such that we exit FY23 with a run rate Adjusted free cash flow of \$500m.

Non-operating cash flows

	FY21	FY20
Net cash used in investing	(75.9)	(89.2)
Net cash used in financing	(301.5)	(198.2)

Cash used in investing of \$75.9m declined from \$89.2m in FY20 reflecting the lower purchase of intangibles and property, plant and equipment partially offset by an increase in small bolt-on acquisitions in the period.

Cash used in financing of \$301.5m increased from \$198.2m in FY20 as a result of the reintroduction of the dividend (\$81.1m) and the purchase of shares into the Group's Employee Benefit Trust to settle employee share options (\$27.2m).

On 20 December 2021, the Group's Employee Benefit Trust commenced the purchase of 12 million shares. These shares will be purchased on the open market and will be used for the settlement of existing and future employee share schemes awarded to senior leaders and employees who are critical to achieving the strategic initiatives set out by Stephen in the Chief Executive Officer's report.

Net debt

As at 31 October 2021, net debt was \$4,195.9m (31 October 2020: \$4,153.5m). The small increase in net debt reflects the reduction in cash during the period of \$178.8m mostly offset by repayments made against the Group's term loans. In addition to the term loans and cash reserves, the Group has access to a \$250m Revolving Credit Facility which remains undrawn.

This represents a net debt to Adjusted EBITDA ratio as follows:

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Adjusted EBITDA	1,040.2	1,173.7
Net debt*	(4,195.9)	(4,153.5)
Net debt/Adjusted EBITDA ratio	4.0 times	3.5 times

* Includes lease obligations included in current liabilities held for sale, see note 30 Discontinued operation and Assets held for sale.

The Group's medium-term leverage target is 3.0x Adjusted EBITDA. The Group intends to reduce leverage back to this level in the medium-term and will balance debt repayments and equity returns in the short-term in order to deliver on this.

Consolidated statement of financial position

The Group's consolidated statement of financial position is presented on page 152. A summarised version is presented below:

	31 October 2021 \$m	31 October 2020 \$m
Non-current assets	8,439.5	9,605.0
Current assets	1,907.1	1,541.8
Total assets	10,346.6	11,146.8
Current liabilities	1,860.9	1,788.3
Non-current liabilities	5,664.7	6,143.4
Total liabilities	7,525.6	7,931.7
Net assets	2,821.0	3,215.1
Total equity attributable to owners of the parent	2,821.0	3,215.1
Total equity	2,821.0	3,215.1

The net assets of the Group have decreased from \$3,215.1m to \$2,821.0m between 31 October 2020 and 31 October 2021.

In the year, the key movements were as follows:

- Non-current assets decreased by \$1,165.5m to \$8,439.5m primarily due to the annual amortisation charge on intangible assets of \$956.4m. In addition, \$340.9m of non-current assets were reclassified as current assets driven by the recognition of the Digital Safe business as held for sale and right-of-use assets decreased by \$54.0m primarily due to depreciation of \$73.3m.
- Current assets increased by \$365.3m to \$1,907.1m, driven mostly by the recognition of the Digital Safe business as held for sale (\$370.3m) and an increase in trade and other receivables of \$154.9m, which were offset by a reduction in cash and cash equivalents of \$178.8m. Trade and other receivables increased due to an increase in both trade receivables and contract assets resulting from the high level of Licence revenue recognised in October compared to the prior year. The decrease in cash and cash equivalents reflects the debt repayments and dividends paid in the period of \$114.1m and \$81.1m respectively offset by the \$55.9m of free cash flow discussed above.
- Current liabilities increased by \$72.6m to \$1,860.9m primarily due to the recognition of the Digital Safe business as held for sale (\$68.4m) and the recognition of derivative financial liabilities of \$35.7m as a current liability due to the September 2022 maturity date. This was partially offset by a reduction in current tax liabilities of \$56.0m.
- Non-current liabilities decreased by \$478.7m to \$5,664.7m, primarily due to a \$242.0m reduction in deferred tax liabilities, a decrease in borrowings of \$94.8m, a decrease in lease obligations of \$48.6m and a \$77.9m decrease in the derivative liability as a result of the reclassification to current liabilities, in combination with a reduction in the derivative valuation year-on-year.

Other financial matters

Changes to key performance indicators

On 30 November 2021, the Group announced the intention to change the definition of Adjusted EBITDA to exclude capitalised development costs. It is intended that the Group will report Adjusted EBITDA under this new definition from FY22 onwards.

The purpose of this change is to align the presentation to the definition included within our facility loan agreements and therefore simplify the reporting of profitability for the Group.

The impact of this change on FY21 and FY20 would have been as follows:

	FY21	FY20
Adjusted EBITDA (reported)	1,040.2	1,173.7
Add back: capitalised development costs	19.1	16.2
Restated Adjusted EBITDA	1,059.3	1,189.9

Contractual cash obligations

The following table reflects a summary of obligations and commitments outstanding as of 31 October 2021.

	Payment due by period				Total \$m
	Less than 1 year \$m	1-3 years \$m	3-5 years \$m	After 5 years \$m	
Debt principal repayment	42.0	3,365.5	1,200.5	–	4,608.0
Interest payments on debt	160.6	279.2	35.0	–	474.8
Total excluding lease obligations	202.6	3,644.7	1,235.5	–	5,082.8
Lease obligations	74.9	69.6	28.5	49.1	222.1
Total including leases	277.5	3,714.3	1,264.0	49.1	5,304.9

The table above does not include any amounts that the Group may pay to fund its retirement benefit plans as the timing and amount of any such future funding is unknown and dependent on, among other things, the future performance of defined benefit pension plan assets, interest rate assumptions and other factors. The net retirement benefit scheme liabilities totalled \$147.1m as of 31 October 2021 which is net of pension assets of \$173.6m, see note 22 for additional details. The Group expects to contribute approximately \$7.7m to its defined benefits plans during 2022.

Dividend

The board proposes a final dividend of 20.3 cents, taking total dividend per share to 29.1 cents for the year. The dividend will be paid in Pound Sterling and the sterling amount payable per share will be fixed and announced approximately two weeks prior to the payment date, based on the average spot exchange rate over the five business days preceding the announcement date. Subject to approval by shareholders, the dividend will be paid on 21 April 2022 to shareholders on the register as at 11 March 2022.

Financial guidance

Revenue	On track to exit FY23 with flat or better revenues. No change in assumptions on FY22, with progress not expected to be linear.
Costs included within Adjusted EBITDA	On track to exit FY23 with a c.\$300m reduction in the cost base net of inflation.
Exceptional spend	Approximately \$100m in both FY22 and FY23.
Capital expenditure and leases	FY22 total of approximately \$200m per annum.
Taxation	FY22 cash tax of approximately \$130m.
Interest	FY22 Estimated cash interest including fees associated with refinancing of c.\$230m based on current rates.
Digital Safe disposal	Disposal completed on 31 January 2022. The three-months trading to this date resulted in c.\$25m revenue and c.\$13m of Adjusted EBITDA. Net proceeds of \$335m plus a reduction in lease obligations of c.\$40m.
Other	Employee Benefit Trust purchase of 12m shares at estimated cost of \$70m.

The Group has robust and granular plans for the next two years that give us confidence to achieve our core financial objectives as we exit FY23, and a strong foundation from which to execute thereafter.

The core financial objectives remain:

- A flat or better year-on-year revenue trajectory as we exit FY23, from 5% revenue decline in FY21.
- Over the medium-term, revenue growth target of 1-2%, with AMC, CyberRes, IM&G all growing in the low-to-mid single digit percentages, and ITOM and ADM achieving low single digit declines or better.
- Removing c.\$400m to c.\$500m of gross annual recurring cost to achieve a reduction from the FY21 exit cost base to between c.\$1.5bn to c.\$1.6bn (allowing for cost inflation) by the end of FY23, requiring Exceptional spend of c.\$200m to deliver the savings.
- Adjusted free cash flow run rate of \$500m by the end of FY23.

Matt Ashley

Chief Financial Officer
7 February 2022

Viability statement

The context for the assessment

In accordance with provision 31 of the Code, the directors have assessed the prospects of the Group over a period significantly longer than 12 months. The directors' assessment of the prospects of the Group covers a three-year period. This period has been selected as it is consistent with delivery on our strategic vision for the Group which considers the Group as it exits FY23. The Group's strategy and business model are central to an understanding of its prospects, and details can be found on pages 12 to 31.

The assessment process and key assumptions

The Group's prospects have primarily been assessed through the Group's forecasting and planning cycle. This updated the outputs from the Strategic and Operational Review of the business performed in FY19 to reflect the progress made in the succeeding years against those initiatives, see section 'Our strategy' on pages 12 to 15. As discussed on page 47 the Group has agreed the disposal of the Digital Safe business which completed on 31 January 2022. As this disposal has been completed, this assessment reflects the Group excluding the Digital Safe business.

Since year end, the Group has refinanced \$1.6bn of the 2024 term loans extending the maturity until 2027 and extended its Revolving Credit Facilities ("RCF") by 18 months to December 2026, reducing the facility to \$250m and increasing the Group's ability to utilise the facility. See note 18 for further details.

The forecasting and planning cycle resulted in a FY22 budget and a long-range plan which are used to generate income statement and cash flow projections for the Group including and excluding the Digital Safe business. This assessment uses the projections excluding the Digital Safe business following the completion on 31 January 2022 and the net proceeds from the disposal are used to reduce gross debt. The FY22 budget and long-range plan was agreed at the 15 November 2021 board meeting.

The budget and long-range plan includes:

- Revenue growth assumptions consistent with our stated strategy;
- Cost savings being achieved each year; and

- Refinancing of the Group's debt due for repayment in June 2024 and June 2025 which are expected to be refinanced during the viability period on commercially acceptable terms and in advance of maturity. This has been updated for the January 2022 refinancing and December 2021 RCF amendment (see note 18 for further details).

Assessment of viability Stress testing

Although the outputs from the forecasting and planning cycle represents the directors' best estimate of the future prospects of the business, the directors have also considered the potential impact on the Group of a number of scenarios over and above those included in the forecast and planning cycle. The estimated impact of these scenarios has been quantified and overlaid on the detailed financial projections resulting from the forecast and planning cycle. These scenarios take into account the principal risks as set out in pages 61 to 73, covering the three-year period. In particular, the Group has included scenarios reflecting potential wider macro-economic impacts of COVID-19 in the assessment of viability.

These scenarios include the cumulative effect of various 'severe but plausible' circumstances that the Group could experience, including:

- A greater level of revenue decline/slower growth compared to the Group's forecast;
- Lower than forecast cost reductions achieved;
- Delays in cash collection; and
- Greater than forecast financing costs payable on refinancing the June 2024 and June 2025 debt.

Assessment process

In making their assessment, the board considered the Group's liquidity over the three-year period, including:

- The headroom available on the Group's undrawn amended \$250m revolving credit facilities which is committed until December 2026. A net leverage covenant applies on the revolving credit facility when it is more than 40% drawn (see note 18 for additional details) however under the Group's forecast the revolving credit facility is not expected to be drawn and therefore the covenant is not expected to apply. Under the Group's stress testing the revolving credit facility is not expected to be drawn beyond 40%, therefore no tests of this covenant would be expected to apply;

- The Group's ability to generate sufficient cash to meet its liabilities under current borrowing arrangements after the impact of the post year end refinancing;
- The Group's need to refinance the remaining borrowings, following the post year end refinancing, which mature in June 2024 and June 2025 (see note 18 for further details);
- Any mitigating actions, within the Group's control, that can be taken if performance is below that expected in the Group's forecast. Mitigating actions could include pausing dividend payments or implementing further cost savings measures if performance is below expectations; and
- The results of this stress testing which showed that the Group would be able to withstand the impact of these scenarios occurring over the next three years by making adjustments to its operating plans within the normal course of business.

The Group also considered if there were scenarios that would represent serious threats to its liquidity. Nothing was identified that was considered plausible. In assessing liquidity, the board also considered the reported net current liability position of \$255.7m at 31 October 2021. This is the result of advance billing for services which is required to be recognised as a contract liability (see note 20 for further details). The cost of delivering these services is fully included in the Group's forecast and the 'severe but plausible' scenarios.

Viability statement

Based on their assessments of prospects and viability above, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three-year period ending 31 October 2024.

Going concern

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the Directors' report, see page 129.

Principal risks and uncertainties

Risk management overview

We, like all businesses, continue to navigate through a period of disruption, as we respond to the continued and dynamic effects of COVID-19. This has included changes to the way we work and changes to the way we serve our customers. COVID-19 and its variants still present fast moving, and in some areas unpredictable, direct and indirect risks to our business.

The board continues to closely monitor the status of COVID-19 and is taking prudent steps to mitigate any potential impacts to the health and safety of employees, customers, partners, suppliers and other stakeholders, and to the successful operation of the business. Further details on employee wellbeing are noted in Our impact section on page 35. COVID-19 governance structures continue and have been adapted accordingly, while the Group Risk Register ("GRR") continues to track COVID-19 sensitive Group risks.

The Group continues to follow the guidance of the World Health Organization and other government health agencies. The Group remains prepared to implement appropriate mitigation strategies to minimise any potential business disruption and continues to carry out regular and robust assessments and management of the Group's risks.

Our business model, future performance, solvency, liquidity and/or reputation are exposed to a variety of risks and uncertainties. The board's role is to determine the emerging and principal risks the Group is willing to take to achieve its long-term strategic objectives and enhance the sustainability of value creation. Underpinning the operation of, and central to, the risk management process is the culture of the Group, led by the board, of openness, transparency, debate, trust and accountability. On behalf of the board, the audit committee reviews and challenges the effectiveness and robustness of the risk management process.

The board manages risk in accordance with the enterprise Risk Management Framework ("RMF") under the Group's Risk Management Policy and Procedure, including emerging and principal risks. As set out below, the Risk Management Policy and Procedure was updated during the period under review to incorporate ESG considerations as part of the overall risk management approach. The RMF is aligned to the business objectives and strategy (see Chief Executive's Strategic review on pages 08 to 11). A key component of the RMF for the board is that, while the RMF enables an assessment of risk, it is also practical and proportionate. This ensures that the RMF is embedded into the day-to-day business processes across the Group, to drive risk awareness and risk culture. The board continues to build upon the RMF to respond to any future change in the Group's risk profile. During the period, the board continued to assess the gross and net risks against the defined risk appetite statements of the Group and to further align the risks to the Group's strategy. The risk appetite statements set out the board's risk-taking approach to ensure a balanced view between risk aversion, opportunity and gains, against a background of maintaining reputation, financial stability and compliance.

Risk management process

The Group maintains a risk-based annual internal audit plan (see page 94 for the report on internal control and risk management). As the risks assessed under the RMF change, the annual internal audit plan is flexed to ensure appropriate levels of assurance. The Group Risk Register was reviewed with internal audit during the development of the annual internal audit plan, and subsequently at each update of the Group Risk Register throughout the period, to ensure alignment of the internal audit plan to the Group's risk profile. To underpin the robustness of the RMF, as part of the risk-based internal audit process, the internal auditors assess the gross and net risk ranking assigned by the risk owners. The RMF is also subject to an annual review and shared with the internal audit team. A key area of focus for improving the RMF in the forthcoming year is to continue to leverage and refine functional risk management practices within the centralised enterprise risk management ("ERM") framework and to broaden the bottom-up view of risk management, including environmental, social and governance ("ESG") risk areas. As noted in our Our impact on page 44, we are focused on continuing to refine ESG risk management processes in readiness for Task Force on Climate-Related Financial Disclosures ("TCFD") reporting next year, including embedding of ESG risk and opportunity management into the business functions. The ERM reporting cycle and alignment with internal audit and the wider business is as follows:

Principal risks and uncertainties

continued

Risks are identified, assessed and recorded across the Group. Each business area director and Group function head is responsible for the identification, assessment and management of risk in their area. Each risk is owned by an individual in that area. The process includes the use of risk registers and one-to-one interviews with business area directors, Group function heads and board members. Risks are assessed on a gross and net basis against a consistent set of criteria defined by the board. The criteria measure the likelihood of occurrence against the potential impact to the Group including financial results, strategic plans, operations and reputation. Each risk is allocated a risk appetite category and a risk tolerance; changes in the risk profile are tracked at each reporting point during the period and presented to the audit committee. The assessment includes current and emerging risks. Principal risks are categorised into four distinct areas, both externally and internally driven, which include financial, infrastructure, marketplace, and reputational risks. Existing controls and improvement actions are recorded on the risk register for each risk, together with internal audit reviews.

The RMF sets out a continuous cycle of review, reporting and improvement over the period. Following one-to-one interviews with the business area directors and Group function heads, the individual risk registers are consolidated to form the Group risk profile. The Group risk profile is reported to the executive directors for monitoring, review and challenge. A report is made to every audit committee meeting during the period for review, to challenge the effectiveness of current controls and planned mitigations across the Group's risks. The audit committee reports on its risk management dealings to the board, and the board has a standing ERM agenda item. Risks identified as ESG-related are reported to each meeting of the ESG committee. An ESG working group was established in the period, reporting to the ESG committee, with the role to execute and implement the Group's ESG strategy, activities and disclosures, in the context of the Group's overall strategy.

As part of the RMF, an annual review of internal risk management is also undertaken, which is aligned with the annual review of internal audit. These annual reviews focus on areas for improvement in the process, as well as the key emerging areas of risk for the Group in the year ahead. The board and the audit committee also receive detailed risk assessments as part of reports on material projects across the Group.

During the period, we continued to work to improve the way we manage risk and embed risk methodology into the business at the management level. We updated the Risk Management Policy and Procedure to incorporate ESG matters into the established risk management process and our aims with respect to TCFD are noted on pages 44 to 45. Metrics over risks (i.e. trend analysis) are reported periodically to the audit committee. We maintained our Fraud Risk Management policy, procedures and tools, including our fraud response plan. In the period as part of normal practice, the Fraud Risk Universe and Fraud Risk Register were reviewed and updated for changes in risk due to both COVID-19 and normal business operations. We continued to deliver live interactive online Code of Conduct and anti-corruption training, focusing on high risk countries.

The operational risk and compliance committee ("ORCC") continued to meet regularly, with the ORCC covering compliance and risk topics cross-functionally on a monthly basis. The ORCC membership includes senior members of management and is designed to bring a greater level of cross-functional management to enterprise risk management and compliance.

How we manage risk

Enterprise Risk Management ("ERM") reporting cycle

Risk oversight and monitoring
AC and board take accountability for oversight of risk environment

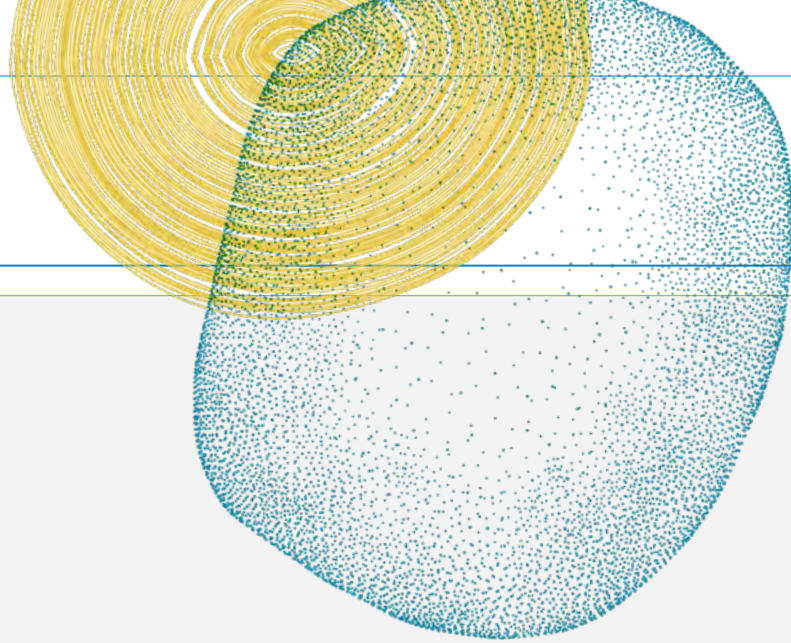
Policy guidance
A Policy, Procedure and Framework details the ERM process and accountabilities

Risk updates
Meet with individuals across senior management, review and update Group Risk Register ("GRR"), including consideration of any ESG risks or opportunities

Risk consolidation
Assessment and consolidation of risks, including mitigations, across business into GRR

Finalise
Proposed GRR and analysis of key themes, changes and mitigations reviewed with executive directors

Final report
Report risks to audit committee ("AC"), internal audit



Risk updates

Risk reviews

Alerts from the business or other areas of assurance, which require internal risk management review and analysis of risks and business mitigations.

Internal risk management reviews and monitors any business changes, including an on-going assessment of emerging risks, to understand impact from a risk perspective.

Follow-up and confirmation, of both risks and mitigations, with risk register owners to finalise periodic review of GRR.

COVID-19

Group Risk Register ("GRR") continued to monitor risks identified as sensitive to the impacts of COVID-19. COVID-19 risks separately extracted for reporting purposes.

COVID-19 risks and mitigations reviewed regularly, as part of existing risk review process.

COVID-19 GRR extract reported regularly to COVID-19 steering committee, ORCC, audit committee and board. Operational risks monitored in real time through Operational Response Team.

ESG

Group Risk Management Policy and Procedure updated in the period to include ESG considerations as part of the 'Risk update' process described to the right.

GRR reviewed with stakeholders. ESG risks and opportunities considered and risks within GRR tagged if impacted by emerging ESG-related regulations, activities or market sentiment.

ESG-related risks extracted and reported regularly to audit committee and newly established ESG committee.

Cross-functional reviews

Operational risk and compliance committee meeting monthly.

Rotational deep dives into areas of risk and compliance cross-functionally.

Review risks, controls and mitigations to better manage high risk areas.

Internal audit ("IA")

Final copies of GRR shared with IA. Risk-based IA plan reviewed and any revisions to the plan are submitted for audit committee approval.

IA plan flexed in response to changing risk environment of the Group (e.g. COVID-19). Reviews addressing new or emerging risks escalated on IA plan.

Update IA plan. IA remediation continuously monitored and tracked and reported to Risk team.

Principal risks and uncertainties

continued

COVID-19

The nature of the COVID-19 risk changed throughout the period and the Group's management approach adjusted accordingly. As effective working practices were established, governance was modified, with the cadence of COVID-19 steering committee meetings adjusted to weekly intervals. The governance structures that were established in the prior year were in place throughout the period, under the continued sponsorship of the CEO. These structures provide a centralised point for the Group's response, streamline decision making and allow for greater efficiency and clarity of messaging to internal and external stakeholders. The risk function continues to be represented in these structures. The status of key COVID-19 operational risks continue to be monitored in real time through reporting provided weekly to the COVID-19 Operational Response Team on indicators such as rates of illness and facility occupancy levels.

Changes in the period

The risk profile of the Group has continued to change to reflect the key activities and challenges across the business, as set out in the Chief Executive's Strategic review on pages 08 to 11.

As previously mentioned, major activities included transitioning the business to the new enterprise platform, continuing to navigate the COVID-19 pandemic and the continuing work on broader transformation aims across the Group. The enterprise platform represents a significant step forward for the Group and provides a strong foundation to simplify and enhance the internal control environment. Detail regarding the programme governance and audit committee oversight of the enterprise platform migration is noted in the audit committee report on pages 89 to 95. The board is mindful of the interdependencies and speed of some risks. To help transition faster to deliver against its critical priorities, management has put appropriate governance structures in place.

In the period, the Group devolved relevant Brexit matters into the business units. Trade considerations remain under review and the Group will continue to work through future changes in the UK-EU trade relationship through business-as-usual processes.

Environmental, Social and Governance ("ESG")

In the period, the Group's Risk Management Policy and Procedure was updated to include ESG risks as part of the risk management approach. An ESG board committee has been established to guide the Group's ESG agenda and is supported by workstreams under the Environmental, Social and Governance pillars' respectively. The focus in the coming year will be to continue to embed ESG into key decision making and mature ESG governance ahead of TCFD reporting. Further information on the Group's TCFD ambitions is detailed on pages 44 to 45.

Emerging risk

As part of the Group's risk management framework, risk updates with key stakeholders include a review of the emerging risk environment (as noted in the risk diagram on pages 62 to 63). Emerging risks, by their nature, can be difficult to gauge and there may be insufficient information to accurately determine factors such as likelihood, impact and velocity.

In addition to monitoring for 'new' emerging risks, the Group tracks how known principal risks evolve over time and monitors emerging threats given conditions in the external environment. The ERM team provides regular reporting to the audit committee on the status of emerging risks, including analysis of how emerging threats may impact upon existing risks.

Principal risks and uncertainties

In common with all businesses, the Group could be affected by risks and uncertainties that may have a material adverse effect on its business operations and achieving its strategic objectives including its business model, future performance, solvency, liquidity and/or reputation. This includes any new, emerging or continuing direct or indirect risks posed by COVID-19. These risks could cause actual results to differ materially from forecasts or historic results. Accepting that risk is an inherent part of doing business, the board is mindful of the interdependencies of some risks. Where possible, the Group seeks to mitigate risks through its RMF, internal controls and insurance, but this can only provide reasonable assurance and not absolute assurance against material losses. In particular, insurance policies may not fully cover all of the consequences of any event, including damage to persons or property, business interruptions, failure of counterparties to conform to the terms of an agreement or other liabilities. The following are the principal risks and uncertainties, potential impacts and mitigations that are relevant to the Group as a provider of software products and associated services at this time. They do not comprise all of the risks associated with the Group and are not set out in priority order. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the Group.

The net risk movement from the prior period for each principal risk has been assessed and presented as follows:

No change	
Increased net risk exposure	
Reduced net risk exposure	
New net risk exposure	

Products

Risk trend

No change



Link to strategy

Transition to a product group operating model, Continued focus on installed base

Risk category

Marketplace

Principal risk description

To remain successful, the Group must ensure that its products continue to meet the requirements of customers and investment must be effectively balanced between growth and mature products. Investment in research and innovation in product development is essential to meet customer and partner requirements in order to maximise customer value, 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 prioritised considering the expected future prospects and market demand.

Potential impact

If products do not meet the requirements of customers, they will seek alternative solutions, resulting in the loss of existing maintenance and 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. The Group's business and reputation may be harmed by innovation that falls behind competitors, or by errors or defects in its products.

How we manage it

As set out in Our strategy on pages 12 to 15, a strategic priority for the Group is the transition to a product group operating model.

The Group continues to take a more definitive approach to delivering Subscription and SaaS-based offerings and to accelerate the transition to these models where appropriate within the Group's portfolios. The transition is being managed over multiple financial periods with initial focus on products where this model is the emerging or de-facto market standard. The Group continues to invest in Security and Big Data. The priorities remain delivering new innovation in response to rapidly changing market opportunities, expanded cloud and cross-industry use case support and further modernising our portfolio to address new SaaS and subscription requirements.

As set out on pages 18 to 25 (Our markets) the Group aligns resources and develops propositions across four main outcomes for its customers: Accelerate application delivery; Simplify IT transformation; Strengthen cyber resilience; and Analyse data in time to act. The Micro Focus Product Portfolio consists of five product groups with more than 300 product lines, as set out on pages 29 (Our business model), which are uniquely positioned to help customers address digital transformation, run and transform their business and maximise existing software investments. Continued evolution of product strategy occurs as part of the annual product planning process, where senior leaders from across the business determine appropriate product sales, marketing and investment strategies to best align to the market opportunities. More details on the business model can be found on pages 26 to 31.

Sales/Go-to-Market ("GTM") models

Risk trend
No change



Link to strategy

Transition to a product group operating model, Continued focus on installed base

Risk category

Marketplace

Principal risk description

For the Group to succeed in meeting sales revenue and growth targets, it requires successful GTM models across the full Product Portfolio, with effective strategies and plans to exploit all routes to market, including direct and channel/partner led sales. In addition, the Group must focus the sales force on targeted customer segments and ensure appropriate responses to the market dynamics related to changes in customer buying behaviours. Effective GTM models may be more successful if accompanied by compelling Micro Focus brand awareness programmes. The Group is dependent upon the effectiveness of its sales force and distribution channels to drive Licence and Maintenance sales and a reference-based selling model.

Potential impact

Poor design and/or execution of GTM plans may limit the success of the Group by targeting the wrong customers through the wrong channels and positioning the wrong product or solution offerings, reducing the value that customers receive from Micro Focus.

How we manage it

As set out in Our strategy on pages 12 to 15, a strategic priority for the Group is a continued focus on our installed base. The Group has made good progress in restructuring its Go-to-Market approach such that it executes more consistently globally and can align the resources of the Company better end-to-end to support execution. The Group has now transitioned the organisation from three very distinct geographically based approaches to one consistent global approach.

Across the five product categories that the Group reports against, the Group has great depth of capability and experience to help its customers address some of the most complex challenges they face. To best enable the Group's customers and exploit this capability, the Group continues to align resources and developing compelling propositions across four customer outcomes – Accelerate application delivery; Simplify IT transformation; Strengthen cyber resilience; and Analyse data in time to act.

The Group has invested additional resources to support the sales workforce in virtual selling and customer engagement. Sales enablement and execution has received considerable attention and improvement measures have focused on improving consistency of approach and simplifying the organisational structure to support more effective and efficient decision making, greater accountability and a holistic approach to customer success. This has been achieved through the further removal of unnecessary global structures and management layers, and the introduction of a single global sales methodology based on value-driven outcomes.

Industry events, such as Micro Focus Universe, continue to be delivered remotely, helping showcase the Group's Product Portfolio and strengthening customer, partner and industry relationships. Additionally, the Group coordinates a programme of subject matter expert led media engagement on industry innovation and emerging industry trends, targeted mainly around social and web media, that serve to further increase brand awareness.

Competition

Risk trend
No change



Link to strategy

Transition to a product group operating model, Continued focus on installed base

Risk category

Marketplace

Principal risk description

Comprehensive information about the markets in which Micro Focus operates is required for the Group to assess competitive risks effectively and to perform successfully. The Group operates in a number of competitive markets and success in those markets depends on a variety of factors.

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. If the Group is not able to compete effectively against its competitors, it is likely to lose customers and suffer a decrease in sales, which may result in lost market share and weaker financial performance.

How we manage it

Group product plans contain an analysis of both traditional and emerging competitive threats and subscriptions to industry analyst firms are leveraged to better understand market dynamics and competitor strategies. In addition, customer surveys and customer advisory boards are used to validate product direction – both standalone and in the context of competitors. Micro Focus continues to monitor and review intelligence on market threats to focus on offering best in class service to customers. Marketing and product teams monitor a variety of metrics (such as NPS, including competitive benchmark) to analyse customer satisfaction relative to industry benchmarks.

Employees and culture

Risk trend

Increased net risk exposure



Link to strategy

Transition to a product group operating model, Utilise the enterprise-wide platform to create an agile and lean organisation

Risk category

Infrastructure

Principal risk description

The recruitment and retention 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 operates. Employees require clear business objectives and a well communicated vision and set of values for the Group to achieve high levels of employee engagement and a common sense of corporate purpose among the workforce. There is a significant increase in attrition in the marketplace, with the rise of flexible working arrangements, changing employee/candidate work-life priorities, combined with industry-wide changes in the nature of the hiring market which has increased the risk across all competencies of attracting and retaining talent.

Potential impact

Failure to attract, develop and retain skill sets, particularly in sales and research & development, may hinder the Group's sales and development plans. Talent market conditions could lead to further attrition and result in difficulties in meeting talent demands. Weak employee engagement, organisational alignment and inadequate incentivisation may lead to poor performance and instability. It could also have an adverse impact on the realisation of transformation aims and strategic plans.

How we manage it

As noted in the Chief Executive's Strategic review on pages 08 to 11, the Group is developing new hybrid working models aimed at addressing the challenges and opportunities of developing a global team that is characterised by increased mobility, flexibility and heightened levels of attrition. In response to the changing environment, the Group has increased its investment in talent sourcing &

acquisition dedicated resources and strategies including focus on ensuring ease of accessing and engaging with potential candidates through expanded use of on-line tools, employee referrals and greater use of third party specialists. It has also increased its focus on internal movement of the Group's existing workforce into new roles which provides both career opportunities and retention of skills as well as the ability to close open positions faster than may be possible in the current market conditions. The Group continues to actively calibrate its value proposition to potential and existing team members in line with market trends and benchmark remuneration packages to stay competitive.

Developing the most appropriate culture, aligned to driving productive management behaviours focused on delivering business priorities, is critical. The Group continues to operate a flexible working environment whereby up to 90% of the workforce continue to work remotely. Productivity tools and wellbeing programmes continue to be utilised to support effective home working and employee connectedness. Training was rolled out across the Group for managers, with a particular focus on employee support and wellbeing. Further details of the actions taken by the Group to support its employees are provided in Our impact section on pages 35 to 37.

The Group has statements, policies and programmes in place, including diversity and inclusiveness, to help ensure that it is able to attract and retain employees of a high calibre with the required skills. These include Employee Resource Groups, our Micro Focus INSPIRE Programme, training, career development and long-term financial incentives. Succession plans have been developed and are in place for key leadership positions across the Group. In the period, the Group also took significant action to develop its management capability both internally, by training and promotions, and through external hires. Regular communications during the period focused on keeping the workforce updated on business objectives, progress against the strategic plan and the Group's overall response to COVID-19 and the future of work.

Cyber security

Risk trend

No change



Link to strategy

Utilise the enterprise-wide platform to create an agile and lean organisation

Risk category

Infrastructure

Principal risk description

There could be a data security breach (Micro Focus data or customer data) involving personal, commercial or product data, either directly from Micro Focus or a third party. This could occur as a result of a malicious or criminal act, or an inadvertent system error.

Potential impact

Data loss, which could harm client and customer relationships, compliance and/or perception of the effectiveness of the Group's products.

How we manage it

The Group works continually to counter the risk posed by the current and emerging cyber security threat landscape. In the period our resilience has improved through improved mobile device management and increased use of two-factor authentication. The cyber team manages the security of the Group's data, technology and training programme to protect the performance, security and availability of the Group's IT systems. Group-wide cyber policies and processes are in place. Cyber security testing in critical areas of the business is on-going. Group-specific vulnerabilities are reviewed and continually managed and incident response processes remain in place. The Group utilises monitoring tools to identify unusual activity. Cyber security training is available for new hires and awareness material is available on the intranet for all employees. The cyber team works closely with the UK National Cyber Security Centre ("NCSC") and the US Cybersecurity and Infrastructure Security Agency ("CISA"). The Group's threat posture, including in response to COVID-19, is continually reviewed and managed.

IT systems and information

Risk trend

Reduced net risk exposure



Link to strategy

Utilise the enterprise-wide platform to create an agile and lean organisation

Risk category

Infrastructure

Principal risk description

The Group's operations, as with most businesses, are dependent on maintaining and protecting the integrity and security of the IT systems and management of information. The Group now operates on a single enterprise platform for its core business processes. The achievement of this milestone has decreased the net risk exposure and set the platform for further operational simplification and decommissioning.

Potential impact

Disruption to the IT systems could adversely affect business and Group operations in a variety of ways, which may result in an adverse impact on business operations, revenues, customer relations, supplier relations, and reputational damage. Dependency on IT providers could have an adverse impact on revenue and compliance in the event that they cannot resume business operations.

How we manage it

As set out in the Chief Executive's Strategic review on pages 08 to 11, in the period the Group successfully migrated its core business processes to the simplified enterprise platform. The work represented a significant milestone for the Group and delivery of the programme was supported by appropriate programme governance and change management practices. The enterprise platform has enabled us to increase our use of SaaS services, materially improved our resilience and provides the foundation for continued process simplification and decommissioning. In conjunction with the Product Group's, we are continuing to modernise the labs and SaaS platforms as part of improving customer service and enabling our SaaS strategy.

The Group has in place appropriate business continuity and IT disaster recovery plans that have evolved to incorporate our increased SaaS adoption and include interlocks with SaaS software release schedules.

To maintain the required control environment the Group relies upon automated, semi-automated and manual controls together with a combination of preventative and detective controls. The IT control environment continues to be improved as part of the implementation of controls to meet Sarbanes-Oxley Act 2002 ("SOX") compliance, as set out on pages 87 to 88.

Business strategy and change management

Risk trend

No change



Link to strategy

Transition to a product group operating model, Continued focus on installed base, Utilise the enterprise-wide platform to create an agile and lean organisation

Risk category

Marketplace

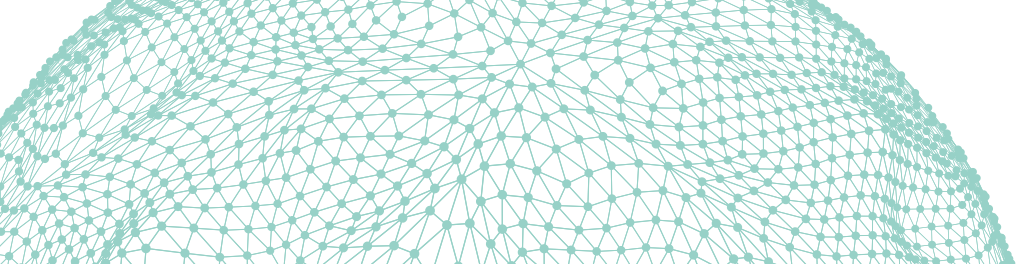
Principal risk description

The Group is engaged in a number of major change projects, including acquisitions and divestments, to shape and grow the business by strengthening the portfolio of products and capabilities and IT projects to standardise systems and processes.

The Group is also executing a series of operational transformation initiatives. These projects expose the Group to significant transformation risks. The Group's strategy may involve the making of further acquisitions or divestments to protect or enhance its competitive position and failure to identify, manage, complete and integrate acquisitions, divestments and other significant transactions successfully could have a material adverse effect on the Group's business.

Potential impact

Failure to successfully analyse, execute and coordinate the implementation and delivery of the core systems and associated business processes with the various integration, divestment and transformation programmes may result in the disruption of the on-going business without delivering the anticipated strategic and operational benefits of such transactions and/or initiatives. In addition, this may affect the ability to execute strategic plans for growth.



How we manage it

As detailed in Our strategy on pages 12 to 15, the Group is focused around three strategic priorities. These are transitioning to a product group operating model, continued focus on the Group's installed base and utilising the enterprise-wide platform to create an agile and lean organisation. These Group wide priorities are being pursued concurrently, through both Business-as-usual ("BAU") activities and transformation initiatives. In the period, resources have been aligned to better govern and deliver the on-going change, with new structures in place to manage dependencies, prioritise initiatives and reduce the impact on BAU.

The Group continues to execute multiple programmes to deliver on these aims. Programme risks and interdependencies are managed by utilising deep dives, cross-functional and cross-programme review sessions and a cadence of regular risk reviews, to ensure that execution of the various programmes is successfully aligned to minimise disruption to BAU. The Group continues to utilise governance structures to manage change for the business in a structured manner and these governance structures are adjusted where necessary to meet the changing needs of the business.

As noted within the 'IT systems and information' risk on page 68, the Group has successfully migrated its core business processes to the simplified enterprise platform. Throughout the programme, an independent programme assurance view was regularly provided to the board by a specialist third party, together with senior management. This transition sets a solid base for improved execution and continued process simplification across the business.

Legal and regulatory compliance

Risk trend

No change



Link to strategy

Utilise the enterprise-wide platform to create an agile and lean organisation

Risk category

Reputational

Principal risk description

The Group operates across a number of jurisdictions and two regulated exchanges. Compliance with national and regional laws and regulations, including those that relate to ESG matters, such as the Task Force on Climate-Related Financial Disclosure ("TCFD") requirements, is essential to successful business operations. The Group may be involved in legal and other proceedings from time to time, and as a result may face damage to its reputation or legal liability. The Group has entered into various acquisitions and disposals over recent years and may be subject to, or have the benefit of, certain residual representations, warranties, indemnities, covenants or other liabilities, obligations or rights. The Group has a variety of customer contracts in a variety of sectors, including Government clients. This Legal and regulatory compliance risk was increased in the prior period due to the COVID-19 restrictions in place across regions in which the Group operates and the heightened complexity this posed to securing personal and/or sensitive information, particularly in work-from-home settings. This level of risk has continued to apply during the period.

Potential impact

Failure to comply could result in civil or criminal sanctions (including personal liability for directors), as well as possible claims, legal proceedings, fines, loss of revenue and reputational damage.

How we manage it

The Group has in place policies and procedures to mitigate these risks. The Group's legal and corporate compliance team, including specialist external advisers as required, monitor and review compliance. During the period, the operational risk and compliance committee, which reports to the audit committee, continued to meet regularly to monitor cross-functional risk management and compliance activity. The Group is committed to ensuring on-going compliance with anti-bribery and corruption, data protection and market abuse and insider dealing laws and has in place a Code of Conduct with supporting training materials. Mandatory Code of Conduct online training is provided annually and during the year was completed by all employees. In addition, virtual anti-corruption and anti-fraud training was carried out widely across the regions in which the Group operates, with particular focus on higher risk territories.

The Group maintains processes and policies to ensure it is compliant with data protection requirements imposed by data protection and privacy laws, including GDPR. Data protection and privacy compliance is driven and monitored by the Group's legal and corporate compliance team, supported by technical and other subject matter experts as required. Data protection compliance is built into the Group's corporate-wide information security management system and is kept under review to ensure that required standards are met. The compliance environment is also strengthened by the implementation of SOX controls, as set out on pages 87 to 88.

The Group is committed to working towards incorporating the TCFD recommendations for the first time in our annual report for the year ended 31 October 2022, as set-out on pages 44 to 45.

Principal risks and uncertainties

continued

Intellectual property ("IP")

Risk trend

Increased net risk exposure 

Link to strategy

Utilise the enterprise-wide platform to create an agile and lean organisation

Risk category

Marketplace

Principal risk description

The Group is dependent on its IP and its rights to such IP may be challenged or infringed by others or otherwise prove insufficient to protect its business. The Group's products and services depend in part on IP and technology licensed from third parties. Third party claims of IP infringement against the Group may disrupt its ability to sell its products and services. Defending and/or resolving such claims may cause the Group to incur substantial expense. The Group has increased its assessment of the risk in view of indications of increasing litigation activity from non-practicing patent entities.

Potential impact

This IP risk could adversely affect the ability of the Group to compete in the market and/or affect the Group's revenue and reputation.

How we manage it

There are procedures in place across the Group to ensure the appropriate development, protection and use of the Group's brands and IP, including vigilance with respect to copyright and other IP infringement. These procedures are monitored by the Group's IP panel and IP Legal team.

During the period, an additional review of the Group's IP protection procedures was undertaken by the Group's IP Legal team. The Group's management of this risk includes membership of organisations designed to reduce the risk of patent infringement litigation.

Treasury

Risk trend

Reduced net risk exposure 

Link to strategy

Utilise the enterprise-wide platform to create an agile and lean organisation

Risk category

Financial

Principal risk description

The Group's operational and financial flexibility may be restricted by its level of liquidity, indebtedness and covenants. Financing costs could increase or financing could cease to be available in the long-term. The Group may incur materially significant costs if it breaches its covenants under its banking arrangements.

The Group targets a net debt to Adjusted EBITDA ratio of three times in the medium-term and may require additional debt funding in order to execute its strategy. The Group is exposed to interest rate risk related to its variable rate indebtedness, which could cause its indebtedness service obligations to increase significantly.

The Group operates across a number of jurisdictions and so is exposed to currency fluctuations.

Potential impact

Insufficient access to funding could limit the Group's ability to achieve its desired capital structure or to complete acquisitions. An increase in interest rates could have a significant impact on business results.

The relative values of currencies can fluctuate and may have a significant impact on business results.

How we manage it

The Group has significant committed financing facilities in place, the earliest of which matures in June 2024. The Group closely monitors its liquidity and funding requirements to ensure it maintains sufficient headroom to meet its operational requirements. The Group seeks to maintain strong relationships with its key banking partners and lenders, proactively monitors the loan market and

will opportunistically enter the loan market to refinance portions of the Group's debt. The Group also has strong engagement with the providers of equity capital, which represents an alternative source of capital.

The Group holds interest rate swaps to hedge against the cash flow risk in the LIBOR rate charged on \$2,250m of total borrowings for the period to 30 September 2022. Under the terms of the interest rate swaps, the Group pays a fixed rate of 1.94% and receives one month USD LIBOR. In addition, the Group has transacted interest rate swaps to hedge the cash flow risk on 1m Term SOFR related to its newly issued \$750m debt. The SOFR swaps have an effective date of 21 September 2022 and a maturity date of 28 February 2027 fixing SOFR at 1.656%. The Group continually reviews the currency mix of its borrowings and the projected forward curves associated with the benchmark rates of its debt to assess market risk.

Monitoring policies and procedures are in place to reduce the risk of any covenant breaches under the Group's banking arrangements. At 31 October 2021, \$nil of the \$350m Revolving Facility was drawn. As a covenant test is only applicable when the Revolving Facility is drawn down by 35% or more, and \$nil of the Revolving Facility was drawn at 31 October 2021, no covenant test is applicable. This facility was amended post year end, reducing the size to \$250m, increasing the leverage covenant to 5x and increasing the amount of the facility able to be drawn when above the covenant threshold to 40%. The increased leverage covenant gives the Group greater flexibility in accessing the Revolving Facility.

Currency fluctuations are monitored by the treasury risk committee on an on-going basis. Key currency exposures are detailed on page 202. Changes in foreign exchange rates are monitored, exposures regularly reviewed and actions taken to reduce exposures where necessary. The Group provides extensive constant currency reporting to enable investors to better understand the underlying business performance.

Tax

Risk trend

Increased net risk exposure



Link to strategy

Utilise the enterprise-wide platform to create an agile and lean organisation

Risk category

Financial

Principal risk description

The tax treatment of the Group's operations is subject to the risk of challenge by tax authorities in all territories in which it operates. Cross-border transactions may be challenged under tax and transfer pricing rules and initiatives targeting multinationals' tax arrangements.

International tax rules continue to develop at each of the OECD, EU and national levels and the pace of change is expected to increase in the short-term, in particular as a result of recent announcements in the US and at the OECD level. The impact of COVID-19 is also expected to drive further changes in approaches taken by individual country tax authorities. Future changes to tax laws could adversely affect the Group across the territories in which it operates.

As a result of the HPE Software merger, the Group may be required under the Tax Matters Agreement entered into with HPE (the "TMA") to indemnify HPE, if actions undertaken by the Group affect the tax treatment of the separation of the HPE Software business from HPE.

Potential impact

Tax liabilities in the territories in which the Group operates could increase as a result of either challenges of existing positions by tax authorities or future changes in tax law. Specifically, given the substantial operations in the US any changes in tax policy in the US could have a significant impact on the Group. Furthermore, if the Group is required to make indemnification payments to HPE under the TMA, these could be substantial.

How we manage it

Tax laws, regulations and interpretations are kept under on-going review by the Group, with input from external advisors where appropriate. The Group also reviews its operations, including the structuring of intra-group arrangements, on a periodic basis to ensure that all relevant laws are complied with and that risks are identified and mitigated appropriately.

External professional advice is obtained ahead of significant transactions or structuring activity, and to support positions taken in financial statements and local tax returns where there is significant uncertainty or risk of challenge.

The risk that any actions taken by the Group going forwards have an impact on the tax treatment of the HPE transaction and the potential indemnification under the TMA is now considered to be very low.



Macro-economic environment and pandemics

Risk trend
No change



Link to strategy

Transition to a product group operating model, Continued focus on installed base, Utilise the enterprise-wide platform to create an agile and lean organisation

Risk category
Marketplace

Principal risk description

The Group's businesses may be subject to inherent risks arising from the general and sector specific economic, public health and political conditions, including as a result of any pandemics or natural disasters, in one or more of the markets in which the Group operates. This is heightened by the fact the Group sells and distributes its software products globally. Exposure to political developments in the United Kingdom, United States or other jurisdictions in which the Group operates could have an adverse effect on the Group. Further deterioration of the macro environment could result in more conservatism and longer decision making cycles within the Group's customer base.

Potential impact

Adverse economic conditions could affect sales, and other external economic or political matters, such as price controls, could affect the business and revenues.

How we manage it

The spread of jurisdictions allows the Group to be flexible to adapt to changing localised market risks, including navigating the continuing effects of COVID-19 and its variants across different geographies.

The Group is cognisant of inflationary pressures and incorporates these considerations into organisational planning activities. The effects of changes in interest rates or foreign exchange rates across regions in which the Group operates are actively monitored through the treasury risk committee. Further details on the management of these factors are noted in the Treasury risk on page 70.

The Group has business continuity plans and crisis management procedures in place in the event of political events, pandemics or natural disasters.

COVID-19

Risk trend
No change



Link to strategy

Utilise the enterprise-wide platform to create an agile and lean organisation

Risk category
Marketplace

Principal risk description

The Group, like all businesses continues to navigate through a period of disruption, as it has responded to the practical and macro-economic impacts of COVID-19. COVID-19 still presents fast moving, and in some areas unpredictable, direct and indirect risks to the Group's businesses. The Group may be subject to inherent risks arising from the continuation of the on-going COVID-19 pandemic, including the emergence of virus variants.

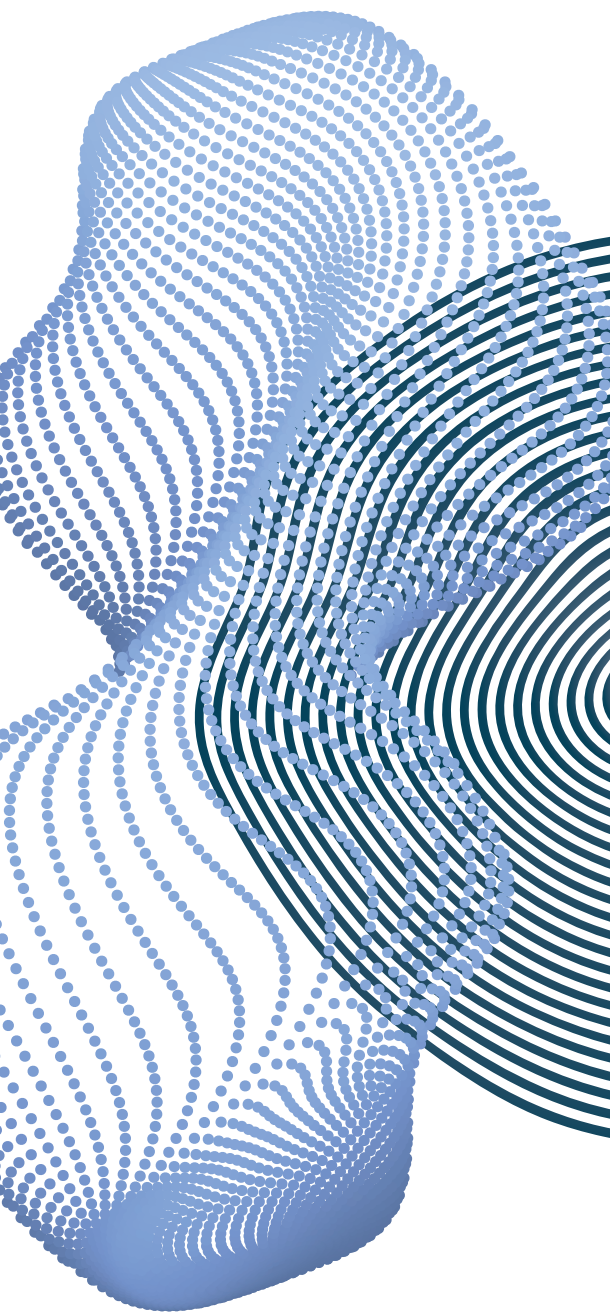
Potential impact

Adverse economic conditions arising as a result of the continuation of the COVID-19 pandemic could affect sales performance and business operations.

How we manage it

The Group continues to maintain its key COVID-19 decision making structures, including the COVID-19 steering committee and COVID-19 Operational Response Team. The status of key COVID-19 operational risks is monitored in real time through reporting provided daily to the COVID-19 Operational Response Team on indicators such as rates of infection, illness and facility occupancy levels.

The Group continues to closely monitor the status of the COVID-19 pandemic, including the emergence of variants, and continues to follow all local government laws in the regions in which it operates.



Internal controls over financial reporting

Risk trend

No change



Link to strategy

Utilise the enterprise-wide platform to create an agile and lean organisation

Risk category

Financial

Principal risk description

Internal controls over financial reporting may not prevent or detect an error, fraud, financial misstatement or other financial loss, leading to a material misstatement in the Group's financial statements.

Potential impact

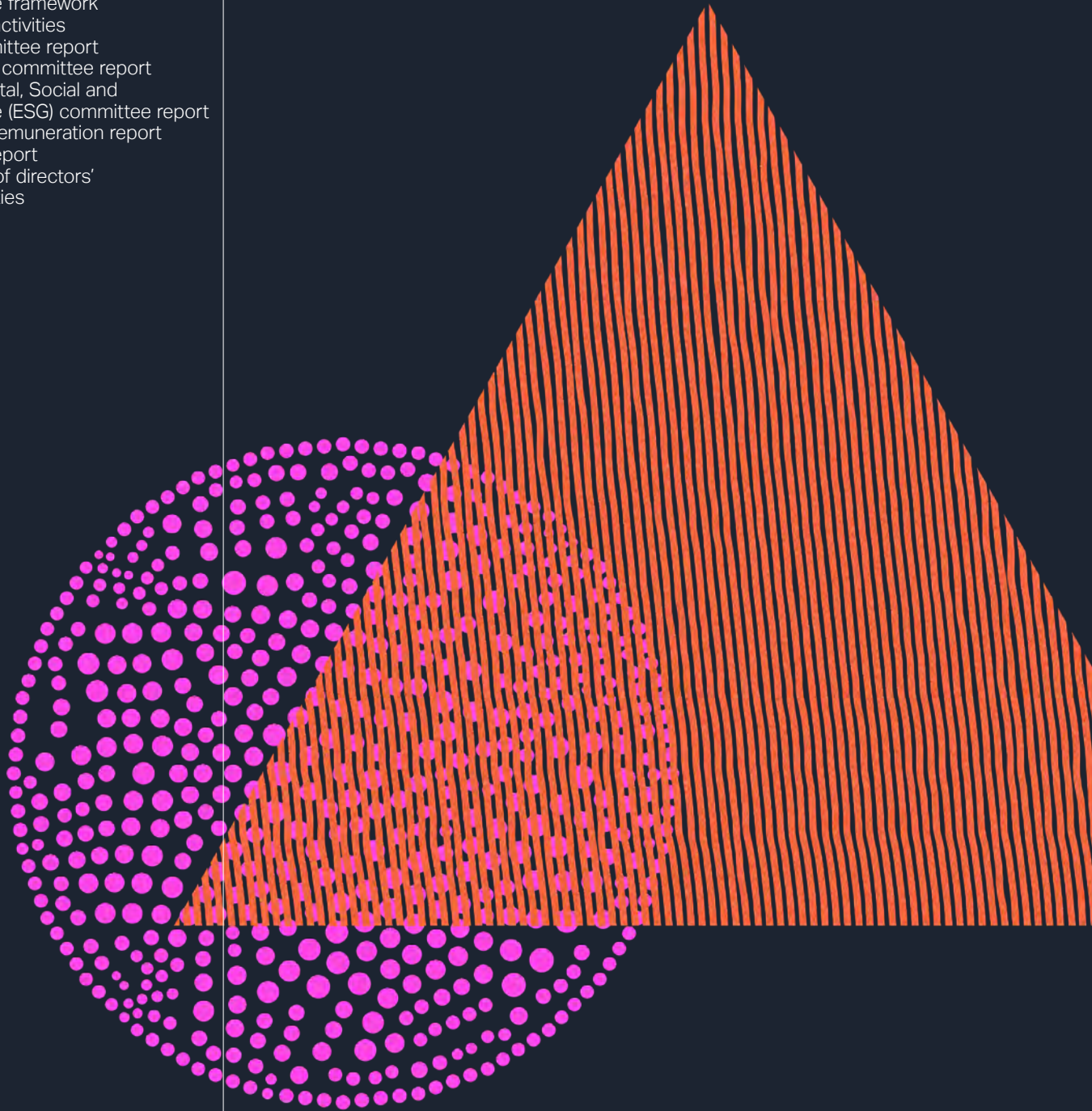
Failure to discover and address any material weaknesses or deficiencies in the Group's internal controls over financial reporting could result in material misstatement in the Group's financial statements and impair the Group's ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. Based on the assessment as at 31 October 2021, management identified a material weakness in the Group's internal controls over financial reporting where there was insufficient time to allow ITGC's and related business controls to operate effectively by 31 October 2021 following the implementation of the new enterprise-wide application platform in July, which included new business controls and IT ITGC's. Please refer to the FY21 annual report on SOX compliance as set out on pages 87 to 88 for further details. Although the Group continues to implement measures to address and remediate this material weakness, failure to do so, and the risk that other deficiencies may be identified, could also result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of the Group's financial statements and could have a material adverse effect on the Group's business, financial condition, results of operation and prospects.

How we manage it

The Group has a cross-functional SOX steering group chaired by the CFO, reporting to the audit committee to implement, review and monitor SOX compliant internal controls and any required remediation. Further details of the Group's SOX compliance programme and FY21 annual report on SOX compliance are set out on pages 87 to 88.

Corporate governance

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Non-executive Chairman's introduction



Greg Lock
Non-executive Chairman

Strong corporate governance is the key to driving effective decision making and oversight across our business.

Dear fellow shareholders,

Our Corporate governance report for 2021 describes the Company's governance arrangements, the operation of the board and its committees, and how the board discharged its responsibilities, including our compliance with the relevant provisions of the UK Corporate Governance Code 2018 ("the Code") (details of which can be found on page 77). The Code is available on the website of the Financial Reporting Council at www.frc.org.uk.

To cultivate a company culture of integrity, leading to positive performance and a sustainable business overall, our board relies on high standards of corporate governance. This involves a comprehensive set of procedures and processes to enable us to fulfil our purpose and to contribute to the communities in which we operate and to society as a whole. We believe that the Group's corporate governance framework operates effectively as we continue to navigate the effects of the pandemic and future of working for all of our stakeholders.

The governance arrangements we have in place have helped the board during the pandemic to support the Company's response to COVID-19, provide a framework for effective decision making, concentrate on our changing responsibilities to all stakeholders, and put plans in place for the business to be in a strong position in the long-term.

During 2021, the board reviewed appropriate governance around Environmental, Social and Governance (ESG) matters, taking a proportionate and pragmatic approach, and appointed a new formal committee of the board to provide focus and oversight on ESG matters. One of the principal aims of the ESG committee is to embed ESG into our core strategy and business purpose (see page 98 for ESG committee report). The ESG committee is comprised of a combination of both board members and senior management.

This is only the second year that the Annual Report has reported against the requirements of the Code, and I am pleased to report that, with the exception of one element of Provision 38 in relation to the alignment of pension contribution rates (as explained below), we have complied with the relevant provisions of the Code.

During 2021, the board continued to focus on board composition. As previously announced, Brian McArthur-Muscroft left the board in June 2021 to assume the CFO position at a technology-based financial services company. On behalf of the board, I would like to thank Brian for the significant contribution he made to the Group during his tenure and wish him well in his new role. The board appointed Matt Ashley as the new Chief Financial Officer, bringing a highly relevant mix of operational experience together with a history of delivering significant value creation.

As part of the continuing focus on composition, the board, with the support of the nomination committee successfully appointed Pauline Campbell as a non-executive director in October 2021. As a former PwC audit partner, she brings extensive financial, regulatory and governance experience which complements and further enhances the depth and strength of our board.

As announced in October 2021, Sander van 't Noordende notified the board of his intention to retire as a director of the Company following the conclusion of the 2022 Annual General Meeting ("AGM") to take up the post of chief executive officer of Randstad N.V. On behalf of the board, we wish to congratulate Sander on his new appointment and thank him for his counsel whilst on the board.

Karen Slatford continued to play a key role as Senior Independent Director and as the nominated Workforce Engagement Director and chair of the newly established ESG committee. After 11 years on the board, Karen has decided not to offer herself for re-election at the forthcoming AGM. Karen has provided outstanding support and insight and the board wishes to thank her for her exemplary contribution.

The nomination committee is taking Sander and Karen's departures into consideration whilst reviewing the on-going composition of the board.

The board places great importance on engaging with all our stakeholders and we have processes in place to make sure that their voices are heard and inform the decisions made by the board.

**Non-executive
Chairman's introduction**
continued

The board is committed to effective communication with our shareholders and hearing your views through our AGM and investor meetings where we engage on key topics. Our AGM on 25 March 2021 was held behind closed doors, due to the pandemic, with no shareholder attendance permitted. Arrangements were made for shareholders to raise questions of directors and management via the Company's investors' website in advance of the meeting and responses were provided. We hope to be able to return to our usual AGM format in 2022 and I look forward to welcoming you to the meeting.

In March 2021 the Government (BEIS) published its consultation on reforms aimed at "restoring trust in audit and corporate governance". We are monitoring progress and any potential impact of these reforms on our business so that appropriate additional reporting and procedures can be established. We are also making preparations for the implementation of the Task Force on Climate-related Financial Disclosures ("TCFD") reporting and the outcomes applicable to listed companies from COP26 held in November 2021. Our TCFD Disclosures can be found on page 44.

I would like to conclude by thanking all members of the board and the Company for their continued support and commitment over the past year.

Greg Lock

Non-executive Chairman
7 February 2022

Attendance at board and committee meetings

The number of board and committee meetings attended by each director in the year ended 31 October 2021, relative to the number of meetings held during their time in office, was as follows:

Director	Board	Audit committee	Nomination committee	Remuneration committee	ESG committee ⁴
Greg Lock	11/11	–	5/5	6/6	–
Stephen Murdoch	11/11	–	–	–	–
Brian McArthur-Muscroft ¹	9/10	–	–	–	–
Matt Ashley ²	1/1	–	–	–	–
Karen Slatford	11/11	6/6	5/5	–	2/2
Richard Atkins	10/11	6/6	4/5	5/6	–
Amanda Brown	11/11	6/6	5/5	6/6	2/2
Pauline Campbell ³	1/1	1/1	1/1	1/1	–
Lawton Fitt	11/11	6/6	5/5	6/6	2/2
Sander van 't Noordende	11/11	–	5/5	6/6	2/2
Robert Youngjohns	11/11	6/6	5/5	6/6	–

¹ Brian McArthur-Muscroft ceased to serve as a director from 30 June 2021.

² Matt Ashley joined the Company as CFO on 28 June 2021 and as executive director from 1 July 2021.

³ Pauline Campbell served as a director from 1 October 2021.

⁴ Suzanne Chase (Group Company Secretary and Head of Assurance) and Susan Ferguson (Chief Human Resources Officer & SVP Business Operations) are management members of the ESG committee.

If any director is unable to attend a meeting, they provide feedback to the non-executive Chairman, the chair of the committee or the Company Secretary, who will ensure that their comments are then communicated to the meeting. Each board committee provides a standing invitation for any non-executive director to attend the committee meetings. Committee agendas and papers are provided to all directors as appropriate to ensure they are aware of matters to be discussed.

Compliance statement

As a UK-incorporated company with a premium listing on the Official List of the UK Financial Conduct Authority, we are required to comply with the UK Corporate Governance Code. For the year ended 31 October 2021, the Company was subject to the edition of this document published by the Financial Reporting Council in July 2018 (the "Code") (which is available at www.frc.org.uk). This report represents our second year of reporting under the current Code.

The directors are committed to ensuring that the Company operates in compliance with the principles of the Code, as this provides a robust governance framework in support of the delivery of value to shareholders, whilst considering the views of other stakeholders. While recognising that departure from the Code may be

necessary in appropriate circumstances the board considers that throughout the year ended 31 October 2021 and to the date of this report, other than one element of Provision 38 in relation to alignment of pension contribution rates (as explained below), the Company has been in compliance with the principles of the Code, and with each of its provisions.

Provision 38 – the Company is partially compliant with this provision and will be fully compliant in the alignment of pension contribution rates for the executive directors with the wider workforce at the end of 2022. The pension contribution rate for Stephen Murdoch will be aligned at the end of 2022 as set out in the Directors' Remuneration Policy which was approved by shareholders at the 2020 AGM (see page 93 of the 2019 Annual

Report) and more detail is provided on page 102 of this year's Annual Remuneration Report. The rate for Matt Ashley is already aligned, and the rates for any new director on joining would be aligned with the wider workforce.

How our governance operated in the year

The Code sets out a number of principles grouped under five broad headings, as shown in the table below. With the exception of remuneration (which is dealt with separately in the Remuneration report from page 100 to 119), the areas of this Annual Report highlighted in the below table, together with the following sections of this report set out how the board applied these principles in the year ended 31 October 2021.

Principles and provisions	Annual Report content	Page(s)
Board leadership and company purpose	Strategic report	07-73
	Non-executive Chairman's introduction	75
	Board of directors' profile pages	78-79
	Section 172 statement	46-47
Division of responsibilities	The board	80
	Board of directors' profile pages	78-79
	Division of responsibilities	81-82
Composition, Succession and Evaluation	Roles of board members	81
	Composition, Succession and Evaluation	96-97 & 83
	Nomination committee report	96-97
Audit, risk and internal control	Principal risks and uncertainties	61-73
	Audit, risk and internal control	84
	Audit committee report	89-95
	Fair, balanced and understandable statement	92
	Viability statement	60
Remuneration	Annual statement from the chair of the remuneration committee	100-101
	Executive directors' remuneration at a glance and How our incentive measures link to strategy	102-103
	Annual Report on Remuneration	104-119

The information required to be disclosed under UK FCA Disclosure Guidance and Transparency Rules, DTR 7.2.6R and DTR 7.2.8AR can be found in the Directors' report on pages 120 to 130 and the nomination committee report on pages 96 and 97, which are each hereby incorporated into this Corporate governance report by reference.

The Corporate governance statement was approved by the board and signed on its behalf

Greg Lock

Non-executive Chairman
7 February 2022

Board of directors



Greg Lock
Non-executive Chairman



Before embarking on his adventures as a PLC Chairman Greg enjoyed 30 years at the IBM Corporation. There he served, inter alia, as assistant to the Chairman, a member of the IBM Worldwide Management Council, Governor of the IBM Academy of Technology and Global General Manager for Industrial Sector. In that role he had P&L responsibility for a \$12 billion unit representing about 15% of the Corporation's revenues.

In his second career he has been Chairman of FTSE-listed companies Orchestream, SurfControl, Kofax, UBM, Computacenter, and Deputy Chairman of Informa.

Greg holds an MA in Natural Sciences from Churchill College, Cambridge, where he is a Fellow and member of the Development Board. Greg, together with his wife, Rosie, have established a charitable foundation aimed, inter alia, at supporting education for the less privileged. Through the foundation they have endowed Lock Bursaries at Churchill, aimed at supporting less financially advantaged state school pupils to pursue STEM subjects.



Stephen Murdoch
Chief Executive Officer

Stephen is our Chief Executive Officer and a member of the Micro Focus board, positions he has held since 19 March 2018. Stephen joined Micro Focus in 2012, first serving as General Manager of the Product Group and Chief Marketing Officer, responsible for all software product and services offerings development, customer services, corporate marketing and strategy. In 2014, he was appointed as Chief Operating Officer and Executive Director, having responsibility for sales and marketing, product strategy, development and management, services and business operations.

Prior to Micro Focus, Stephen spent seven years at Dell, first building Dell's Global Infrastructure Consulting Services organisation, and then leading its business in Europe, Middle East and Africa. Before Dell, Stephen had 17 years' experience at IBM, latterly serving as Vice President, Communications Sector with responsibility for the entire telco, media, and utilities industry portfolio. During his IBM career, Stephen held a number of Global, EMEA and UK senior management roles with experience spanning software and services, storage, and enterprise systems.



Matt Ashley
Chief Financial Officer

Matt is our Chief Financial Officer and a member of the Micro Focus board since 1 July 2021. Matt joined from William Hill plc, a sports betting and gaming business, where he was chief financial officer and member of the board. In December 2021, Matt was appointed as a non-executive director of Robert Walters plc. Matt has previously held several positions at National Express Group plc including group CFO and president and CEO of its North America business based in Chicago.

He was a director of transport, infrastructure and public company reporting at Deloitte LLP and began his career as an auditor in London. Matt brings considerable public company experience to Micro Focus including business transformation, acquisitions and divestitures, debt and rights issues and public reporting.

He is a graduate of Leeds University and a member of the Institute of Chartered Accountants in England and Wales.



Karen Slatford*
Senior Independent Director



Karen is a non-executive director of Softcat plc, Chair of FTSE 250-listed Molten Ventures plc (formerly AIM-Listed Draper Esprit plc) and a non-executive director at Accesso Technology Group plc. Prior to her current responsibilities, she held various roles at board level since 2001 at a range of technology companies. Karen began her career at ICL before spending 20 years in Hewlett-Packard, where she headed up worldwide sales and marketing. Karen holds a BA Joint Honours degree in European Studies, French and Spanish from Bath University.

* Karen has informed the board of her intention to retire as a director following the conclusion of the next AGM and consequently will not be seeking re-election.



Richard Atkins
Independent non-executive director



Richard is Chairman of Acora, an IT Services outsourcing company and YSC, an international Leadership Development company. He has spent the majority of his career within the IT industry. Previously, he was a director at Data Sciences where he led its MBO from Thorn EMI in 1991 and then managed its successful sale to IBM in 1996. His final role at IBM was as General Manager for IBM Global Services Northern Europe where he was also a member of the IBM worldwide senior leadership team. Since leaving IBM in 2005 he has acted as a non-executive director for several companies including Aon, Compel, Message Labs, Global Crossing, Morse and Easynet. Richard qualified as a Chartered Accountant with EY.



Amanda Brown
Independent non-executive director



Amanda is the Chief Human Resources Officer at Hiscox Ltd, a FTSE 250 business and specialist insurer with offices in 14 countries.

Amanda has more than 20 years of international HR experience in a variety of industries, including consumer goods, leisure, hospitality, and financial services. Prior to Hiscox, Amanda held a number of leadership roles with Mars, PepsiCo, and Whitbread plc. She has expertise in human resources, remuneration strategy, and managing organisations through periods of significant change.



Pauline Campbell
Independent non-executive director



Pauline joined the Micro Focus board on 1 October 2021. She is a recently retired PricewaterhouseCoopers Audit Partner who worked with company boards across a number of industries, both private and publicly owned. Pauline has experience of companies going through business cycles of trading, acquisition, disposal and raising finance. She has worked internationally across a broad range of sectors including IT services and support services amongst many others. As an Audit Partner, Pauline has wide experience of risk and quality assessment.

Pauline also served on the Governance Board of the UK firm including the Public Interest Body and the equivalent body at PwC's Global Network, so brings a wealth of governance experience and has recently been appointed to the board of Computacenter plc as a non-executive director.

Pauline was a Trustee for a social business that supports young adults in achieving their potential and is currently a Trustee for Catch 22 Multi Academy Trust and the Latymer Foundation.



Lawton Fitt
Independent non-executive director



Lawton is an investment banker and a highly experienced corporate director. She currently serves on the boards of Ciena Corporation, The Progressive Corporation and The Carlyle Group, and was previously a non-executive director at ARM plc and Thomson Reuters. Lawton worked at Goldman Sachs for over 23 years in investment banking, equities and asset management, and for more than a decade she led the equity capital markets team focused on technology companies. She was elected a Partner in 1994 and worked in the London and New York offices.

From 2002 to 2005 Lawton was the Secretary (Chief Executive Officer) of the Royal Academy of Arts in London, and has served as a trustee for a number of not-for-profit organisations and foundations, including the Goldman Sachs Foundation and the Thomson Reuters Foundation. She received her undergraduate degree in European History from Brown University and her MBA from the Darden School of the University of Virginia.



Alexander van 't Noordende*
Independent non-executive director



Sander is a non-executive director of AECOM and a member of the Executive board of Randstad N.V.

Sander has had a 32 year career in Technology and Professional Services at Accenture, where he was a member of the Global Management Committee from 2006 to 2019. His last role in Accenture was Group Chief Executive of the Products Operating Group which serves clients in the consumer goods, retail, travel, life sciences and industrial & automotive industries. Before that he looked after Management Consulting, the Resources Operating Group and The Netherlands. He also served on the board of Avanade (an Accenture JV with Microsoft).

Sander is passionate about equality and belonging in the workplace, especially the LGBT+ agenda. He has been recognised several times by the FT as one of the top 100 global LGBT+ Executives. He currently serves on the board of Out & Equal (the world's premier LGBT workplace equality organisation).

He holds a Master's degree in Industrial Engineering and Management Science from the Eindhoven University of Technology.

* As announced on 21 October 2021, Sander has informed the board of his intention to retire as a director following the conclusion of the next AGM and consequently will not be seeking re-election.



Robert Youngjohns
Independent non-executive director



Robert is a board member at a small number of growth companies in the technology sector and an operating executive at Marlin Equity Partners. Robert previously served as Executive Vice President and General Manager of HP Software at Hewlett Packard Enterprises (HPE). During his tenure at Hewlett Packard, Robert was a member of HP's Executive Council, as well as a Senior Vice President.

Prior to his work at HPE, Robert was a Senior Vice-President of Microsoft and President of Microsoft North America. He has held senior leadership positions at Sun Microsystems and IBM. Robert holds a Master's degree with honours in Physics and Philosophy from Oxford University.

Board committee memberships as at 7 February 2022:

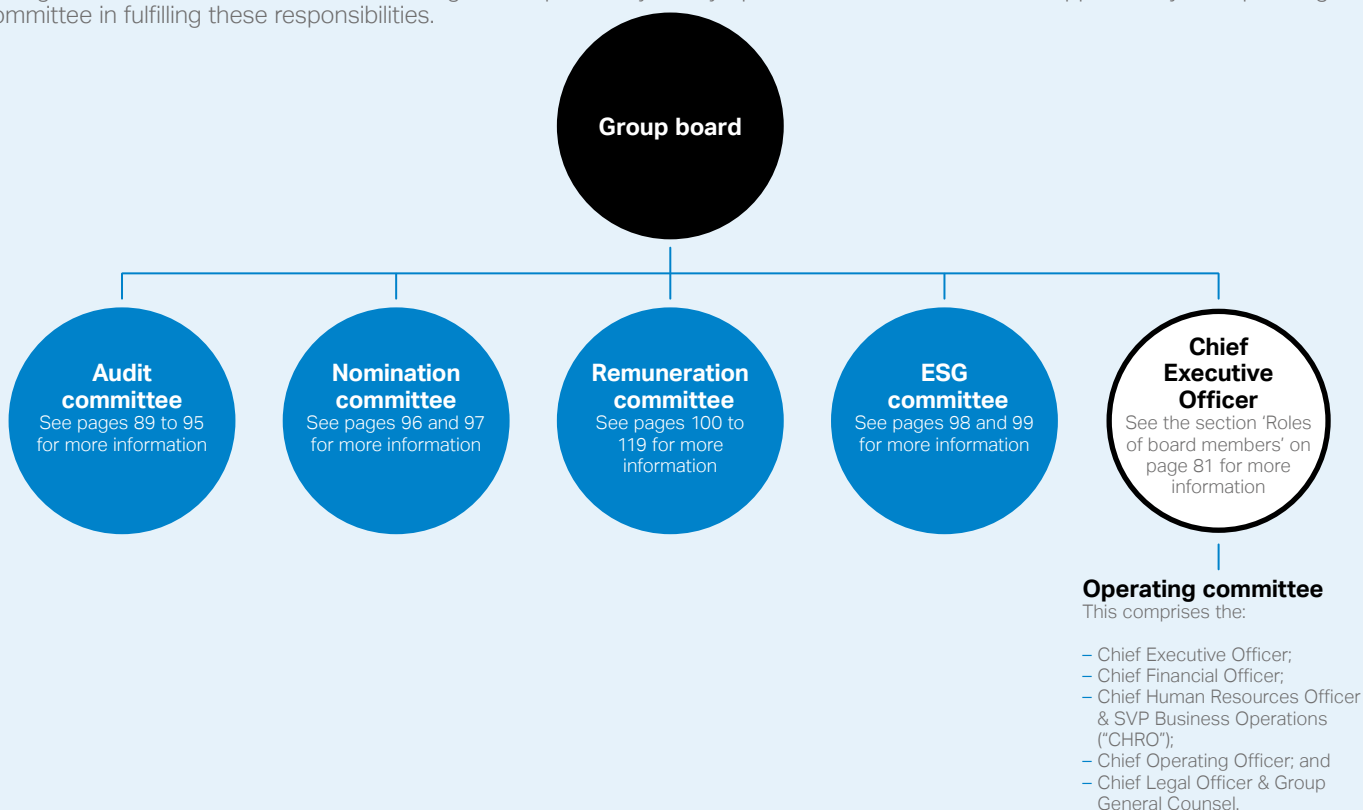
Audit committee	
Remuneration committee	
Nomination committee	
ESG committee*	
Chair of the committee	

* The ESG committee also has two members of the management team, Suzanne Chase (Group Company Secretary and Head of Assurance) and Susan Ferguson (Chief Human Resources Officer & SVP Business Operations).

Governance framework

Board committees

The board has created and empowered four committees to support the effective delivery of its governance obligations: an audit committee, a nomination committee, a remuneration committee and an environmental, social and governance (“ESG”) committee. The Chief Executive Officer is accountable for the delivery of the board approved strategic objectives, including operating within the values and standards set by the board and for implementing and maintaining appropriate internal controls and risk management activities. In turn, the CEO delegates responsibility to key operational executives and is supported by the operating committee in fulfilling these responsibilities.



Role of the board

The board leads and controls the Company and has collective responsibility for promoting the long-term success of the Group. While the board delegates some responsibilities to its committees or, through the Chief Executive Officer, to management, it has agreed a formal schedule of matters that are specifically reserved for its consideration and are publicly available on the investor relations section of the Company’s website. These include key areas such as:

- Strategy and Management – including the Group’s purpose, values and strategy, annual operating and capex budget approval, oversight of operations ensuring maintenance of sound management and internal control systems, reviewing performance in light of the Group’s strategy and objectives, extension of activities into new business or geographical areas and any decisions to cease any material part of the Group’s business

- Structure and Capital – including changes to the Group’s capital structure such as share issues and buybacks or reduction in capital, major changes to the Group’s corporate structure including material acquisitions and disposals and changes to the Group’s management and control structure
- Financial reporting and Controls – including results announcements, dividend policy and declarations, significant changes in accounting policies or practices, treasury policies and the Annual Report
- Internal Controls – including monitoring the effectiveness of the Group’s risk management and internal controls processes
- Material Contracts Approvals; Communications with Shareholders; Board membership (following recommendations from the nomination committee); Approval of Remuneration Policy and Delegations of Authority.

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;
- ESG activities;
- Investor relations; and
- Corporate governance.

While the board retains overall accountability for, and control of, the Company, the executive directors are responsible for conducting the day-to-day management of the business. The review of the Group’s principal business activities is the responsibility of the operating committee (the composition of which is detailed above) which is chaired by the Chief Executive Officer, Stephen Murdoch.

Division of responsibilities

Roles of board members

The non-executive Chairman has responsibility for leading the board, including setting the agenda (in conjunction with the Senior Independent Director and the Company Secretary), style and tone of board discussions to promote effective decision making and constructive debate and for shaping the culture of the boardroom. He is also responsible for shareholder and stakeholder engagement, including listening to the views of the workforce, customers and other stakeholders and ensuring that their views are conveyed to the board as a whole. He chairs board meetings, facilitating the effective contribution of non-executive directors by drawing on their skills, experience and knowledge and ensuring that the board

is effective in all aspects of its role, and for upholding the highest standards of integrity and probity. He also chairs shareholder meetings and is responsible for ensuring effective communication with shareholders.

The Senior Independent Director meets or speaks with the Chairman regularly and will work with the Chairman and other directors to resolve any significant issues which may arise, acting as an intermediary for other non-executive directors if necessary; and is also available to shareholders if they have concerns in circumstances where contact through the normal channels of Chairman, CEO or CFO has either failed to resolve the concern or are inappropriate. Each of the non-executive directors has been appointed for a specific term, subject to annual re-election by shareholders. The independent non-executive directors comprise a majority of the board.

The executive directors are responsible for developing the Group's strategy and proposing the annual budget for board approval and are accountable to the board through the Chief Executive Officer. They are also responsible for the financial and operational performance of the Group and, in conjunction with the operating committee, they are collectively responsible for the day-to-day running of the business. There is a clear and documented division of responsibilities between the non-executive Chairman, who is responsible for running the board and shareholder and stakeholder engagement, and the Chief Executive Officer, who is responsible for strategy, investment and financing, risk management and the day-to-day operation of the business. The role of the Senior Independent Director is also documented.

Responsibilities of Non-executive Chairman, Chief Executive Officer and Senior Independent Director

Non-executive Chairman	Chief Executive Officer	Senior Independent Director
Leadership – leading the board, ensuring the board's effectiveness in all aspects of its role, upholding the highest standards of integrity and probity, and maintaining focus on the long-term sustainability of the business.	Leadership – day-to-day running of the Group's business and profitability and representing the Group to its stakeholders.	Support to the Chairman and other directors – e.g., deputising for the Chairman, if necessary; acting as a sounding board; and working to resolve any significant issues which may arise.
Meetings – including setting the board agenda; ensuring a timely flow of accurate information within the board and committees and between senior management and non-executive directors; ensuring appropriate delegation of authority from the board to executive management and overseeing effective implementation of board decisions; maintaining a culture of openness, trust, respect and debate; chairing board, nomination committee and general meetings; and arranging for committee chairs to be available to answer questions at the AGM.	Business Strategy and Management – including development and achievement of objectives, having regard to stakeholders and long-term stability; budgets; optimisation of resources; networking with current and prospective major customers; overseeing delegation from the board to the Executive Management Team ("EMT"); regular review of operational performance, strategic direction and organisational structure; identifying strategic opportunities for the Group; ensuring board decisions are implemented and the EMT complies with terms on which matters are delegated to it.	Lead the orderly succession process for the appointment of a chairman, including chairing the relevant nomination committee meetings.
	Investment and Financing – including examining all trade investments and major capital expenditure; identifying and executing acquisitions and disposals; leading geographic diversification initiatives; and identifying and executing new business and strategic opportunities outside of current core activities.	

Governance framework

continued

Non-executive Chairman	Chief Executive Officer	Senior Independent Director
Directors – including facilitating the effective contribution of non-executive directors; ensuring constructive relations between executive and non-executive directors; holding meetings with the non-executive directors without the executive directors present; planning board succession and reviewing composition of board committees.	Directors and management team – ensuring performance of the directors and the EMT is monitored by the board and providing counsel, advice, and support to those persons; formalising the roles of the executive directors and the EMT; and ensuring management provide the board with the necessary information and knowledge of the Company.	Governance – including assisting in maintaining the stability of the board and Company, particularly during periods of stress – e.g., in the event of dispute between the Chairman and the CEO; monitoring the Chairman's performance and leading his performance evaluation; and acting as an intermediary for other non-executive directors.
Risk management and controls – ensuring the board determines the type of risks the Company may take to implement its strategy, that the directors are aware of, and able to discharge their statutory duties and that high standards of corporate governance are promoted.	Risk management and controls – including managing the Group's risk profile, including health and safety performance; ensuring appropriate internal controls and policies are in place, are followed and conform to the highest standards; and setting Group HR policies.	
Induction, development and performance evaluation – including guiding and mentoring new directors, ensuring directors' development needs are monitored; identifying development needs of the board as a whole to enhance its overall effectiveness; and overseeing board, committee and directors' performance evaluation (at least annually) including external evaluations.	Board committees – including making recommendations to the remuneration committee on remuneration policy, executive remuneration and terms of employment of other executive directors and the EMT; and making recommendations to the nomination committee on succession planning and replacement of key personnel.	
Relations with stakeholders and regulators – including ensuring effective communication with stakeholders; maintaining sufficient contact with major shareholders; ensuring that the views of shareholders are communicated to the board as a whole; balancing the interests of shareholders with other stakeholders; and acting as a conduit for regulators.	Communication – including timely and accurate disclosure of information; communicating expected culture and behaviours to the workforce; ensuring effective communication with shareholders; and ensuring the board is fully briefed on the views of management and the workforce and fully informed about all issues on which it will have to make a decision.	Relations with stakeholders and regulators (where the normal channels of Chairman, CEO or CFO have failed to resolve the concern or are inappropriate). Attend sufficient meetings with major shareholders and financial analysts to obtain a balanced understanding of the issues and concerns of such shareholders.
Relationships with CEO and CFO – developing productive working relationships.	Relationship with Chairman – maintain dialogue with the Chairman on important and strategic issues.	

The role of the non-executive directors is to ensure that independent judgement is brought to board deliberations and decisions and to provide constructive challenge as appropriate. They promote the highest standards of integrity, probity and corporate governance throughout the Company. 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.

The non-executive directors, led by the Senior Independent Director, met regularly throughout the year in private session without executive directors in attendance.

The Company Secretary is accountable to the board through the Chief Financial Officer, to whom she reports. It is the responsibility of the Company Secretary to ensure that agreed 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. In addition, all directors have direct access to the advice and services of the Company Secretary. Appointment of the Company Secretary is a matter for the whole board.

The responsibilities of the Chairman, Chief Executive Officer, Senior Independent Director, board and committees have been clearly defined and set out in writing and are available to download from the investor relations section of our website.

Board and committee evaluation

A comprehensive evaluation of the performance of the board, its committees and each of its directors is carried out annually.

Having undertaken an externally facilitated review of the performance of the board and its committees in 2019, this year's evaluation was again performed internally.

The most recent board evaluation was structured as follows:

Stage 1 – Comprehensive questionnaires covering a wide range of areas including Strategic Oversight, Leadership, Culture and Values were completed by board members and senior managers who regularly attend board meetings. The questionnaires were completed on an open, confidential and non-attributable basis.

Stage 2 – Compilation and evaluation of results from all participants' responses was carried out by the Company Secretary. A full report including a suggested improvement plan was issued to the board.

Stage 3 – Reporting and discussion – the report and suggested improvement plan was discussed with the non-executive Chairman and the board reviewed the report in detail.

The board agreed a performance improvement plan, which will be monitored throughout the year, of which the main areas of focus are:

- Monitoring succession planning, skillsets and diversity for board, senior management and other key roles;
- More interaction and informal discussions between board and senior management, COVID-19 restrictions permitting;
- Cross-functional training of the board, increasing the depth of board knowledge in product and marketing through training, informal meetings and reviews; and
- Continuing to ensure that ESG matters are embedded into board and committee considerations.

The board also noted progress from the FY20 evaluation actions, including board composition from the board appointments made during the year.

Director evaluation

In accordance with the recommendations of the Code, the Company's articles of association ("Articles") require that 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 thereafter. Prior to proposing any director for re-election, the board operates a formal process, led by the non-executive Chairman, to assess the effectiveness of each director and, in the case of the non-executive directors, their continued independence and to assess whether the individual is willing to continue in office.

Informed by individual feedback from the board review, the non-executive Chairman has assessed the contribution of each board member, discussed this when needed with the Senior Independent Director and made suggestions for improvement where appropriate. Following such review, he has no hesitation in recommending the re-election of all those directors who are standing for re-election at the AGM.

In addition, the Senior Independent Director meets with the non-executive and executive directors at least once a year to review the performance of the Chairman and to consider whether to recommend his re-election, providing feedback directly to the Chairman.

All the individuals proposed for re-appointment at the 2022 AGM have been subject to an evaluation procedure in the last 12 months. The board also believes that the skills and experience of each of the non-executive directors enables them to continue to provide valuable contributions to the board, and is satisfied that each of them continues to exercise rigorous and objective judgement.

Non-executive directors' independence

Each of the non-executive directors who served during the period was considered by the board to be independent. The non-executive Chairman was independent on appointment when assessed against the Code. Karen Slatford was appointed to the board in July 2010 and has, therefore, now served for more than nine years. The board has specifically considered whether this was likely to affect, or could appear to affect, her independence and concluded that she continued to demonstrate independence in thought and judgement, noting that there were no other relationships or circumstances that could affect her independence. The independent non-executive directors comprise a majority of the board.

Board members' external commitments

Each of the non-executive directors confirms on appointment that they will devote sufficient time to meet what is expected of them in their role. They have each disclosed their other significant commitments and the time involved in these and advise the board of any changes. The prior approval of the board is sought before any director undertakes an additional appointment.

Board meetings

The board schedules meetings approximately every two months, with a scheduled update call in the months with no formal meeting. Additional meetings are arranged as necessary, especially when circumstances or the nature of the matter means that the business could not be dealt with on a regular update call. All directors receive an agenda and board papers in a timely manner 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, including the use of board portal software.

In the year ended 31 October 2021, the board met formally on 11 occasions. As a result of the COVID-19 pandemic, which led to restrictions on travel and meetings, all meetings were held via video conference such that all members could see and hear each other, with no disruption to the schedule of meetings. The board has extensive interaction with senior management, who frequently attend board meetings and engage in discussions with directors. The board, led by the chair, also holds discussions in the absence of management at each board meeting.

Board information

The directors are provided with the agenda and supporting papers in a timely manner in advance of the relevant board or committee meeting. The board is satisfied that the information provided is in an appropriate form and of a quality that should enable the directors to discharge their duties satisfactorily.

Independent advice

The board has agreed procedures for directors, including the non-executive directors, to follow if they believe they require independent professional advice in the furtherance of their duties. These procedures allow the directors to take such advice at the Company's expense.

Conflicts of interest

In accordance with the Companies Act 2006, the Company has put in place procedures to deal with conflicts of interest, 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.

Operational management structure

The Group's organisational structure allocates individual responsibilities, the performance of which are monitored on an on-going basis. The management of the Group as a whole is delegated to the Chief Executive Officer and, through him, to the operating committee. This body is chaired by the Chief Executive Officer, Stephen Murdoch, and also comprises the Chief Financial Officer, Chief Operating Officer, Chief Human Resources Officer & SVP Business Operations, and the Chief Legal Officer & Group General Counsel. It meets regularly to develop strategic plans, monitor operational performance and consider key business issues. As part of these reviews, it considers the risks associated with the delivery of strategy and any material governance issues within the Group's operating companies.

A number of Group administrative functions such as Finance, Tax, Treasury, Human Resources, IT, Corporate Communications and Legal report to the board through the operating committee.

The conduct of Micro Focus' business is delegated to local and regional executive management teams subject to a chart of approvals policy, which is approved by the board and communicated to all employees in the Group. These teams are accountable for the conduct and performance of their businesses within the agreed business strategy and a number of Group-wide policies, intended to drive compliance with key governance standards. These policies cover areas including finance, contract approvals, data protection, share dealing, business conduct, ethics, anti-bribery and corruption and anti-slavery and human trafficking.

Audit, risk and internal control

The board is responsible for the preparation of the Annual Report and Accounts. In doing so, it has established formal and transparent arrangements for considering how best to apply corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's external auditors, KPMG. Details of the internal control and risk management systems as they relate to the financial reporting process can be found on page 73.

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 position and prospects, including its performance, business model and strategy. While this is the board's responsibility, it is overseen by the audit committee and details of how this is done are described in the Audit committee report on page 92.

Internal control and risk management

The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives, and for implementing and maintaining sound risk management systems. Through this approach, a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity and or reputation has been carried out as part of our on-going risk management process. In the period this included any new, emerging or continuing direct or indirect risk posed by COVID-19 and an overview of management's actions and strategies in addressing such matters. The way in which this is done is described in the Principal risks and uncertainties section on pages 61 to 73.

The board also has responsibilities in relation to internal control which are described in the Audit committee report on pages 89 to 95.

Managing our wider accountability obligations

The Group is required to comply with anti-bribery and corruption ("ABC") legislation in many countries around the world, including the UK's Bribery Act 2010 and the US's Foreign Corrupt Practices Act 1977. To help manage these ABC risks, the Group operates a global compliance programme to implement a Code of Conduct, which was last reviewed by the board in March 2021, and which is supported by an anti-bribery and corruption policy and a gifts and hospitality policy.

The Code of Conduct also includes policies on whistleblowing, charitable donations and sets out the appropriate level of behaviour expected from all staff. Training on the Code of Conduct and processes has been rolled out to all employees.

The Group's anti-slavery and human trafficking policy has been incorporated into the Code of Conduct and a statement has been published on our website to comply with the UK's Modern Slavery Act 2015.

Key board activities

Key matters considered by the board during the financial year

The key matters that the board discussed at each meeting and the key activities that have taken place throughout this period are set out below.

Key matters considered at all scheduled board meetings	Key activities for the board in the year to 31 October 2021
<ul style="list-style-type: none"> - Project(s) status and progress - Strategy - Financial reports and statements - Operational reports, issues and highlights - Investor relations and capital markets update - Legal updates - Transactions - Assurance and risk management - Compliance and governance reports - Committee reports 	<ul style="list-style-type: none"> - Strategic & operational review updates - Formation of the ESG committee - COVID-19 response and monitoring - Dividend policy and dividend recommendation - Reviewed 2021 budget and approved 2022 preliminary budget - Considered content of trading update - CFO succession - Conducted board performance evaluation - Reviewed and approved changes to the membership of the board and its committees - Transition to a single enterprise-wide platform - Reviewed compliance with debt covenants and liquidity - Settlement of patent infringement litigation without admission of liability - Investor perception survey reports

Culture

Micro Focus is committed to being a company known for its high standards and ethical behaviour and encourages a culture of openness and transparency across the organisation. This culture is reinforced through our employee engagement activities in a wide range of areas including inclusion and diversity, ethics and risk management.

Each and every employee plays a vital role in protecting and enhancing our reputation for integrity and is encouraged to speak up if they feel our people and/or customers are at risk, or they suspect wrongdoing. Our Whistleblowing Policy sets out the methods available to employees to raise any concerns they may have. These include internal contact points within the Group's Corporate Compliance and Ethics team and an independent whistleblowing hotline (which is also accessible to our commercial business partners), run by an external provider, Ethicspoint.

Every whistleblowing report is referred to the Litigation and Investigations team who then investigate each one, engaging with other teams, such as Employee Relations or Internal Audit to ensure that appropriate action is taken. The audit committee receives regular updates on all whistleblowing reports received, enabling it to monitor practices and behaviours across the Group and to report any significant matters to the board.

Recognising that culture cannot be assessed by a single metric, the board and committees consider a range of issues which help to guide the discussion and provide key signposts on the Company's culture including COVID-19 updates, employee surveys, all employee engagement session feedback, inclusion and diversity updates as well as risk reviews and annual code of conduct training.

Our approach to investing in and rewarding our workforce is set out under 'Our impact' in the Strategic report on pages 32 to 43.

Stakeholder engagement

With any significant decision made, the board is mindful of the impact of those decisions on the business' various stakeholders and on its long-term, sustainable success, in line with Section 172(1) of the Companies Act 2006. Details of how key stakeholders' interests were considered in board discussions and decision making during the year are set out in the Section 172 statement on pages 46 and 47.

The Group's stakeholders – our investors, employees, partners, suppliers, communities and the environment – and the ways we engage with each of them are set out in detail under 'Our impact' in the Strategic report on pages 32 to 45.

The board received regular updates on the Group's ESG activities via Karen Slatford in her capacity as chair of the CSR executive committee, and as chair of the ESG committee which superseded the CSR executive committee following its establishment in June 2021.

This year the board commissioned a perception survey to further engage with shareholders to understand their views, which provided valuable insight to the board and will be used to guide positive change.

It has been important to help our teams, partners and customers adjust to a new way of life during the pandemic. In 2020 we launched our first Virtual Universe programme – converting a large-scale live marketing and engagement event into a well-attended content-rich and real-time digital experience for our customers. We repeated the approach for this year's event in March 2021 and experienced even higher registration and attendee participation figures compared to last year's event.

The board's focus during the year has been its strategic priorities and FY22/23 transformation plan. As a complementing initiative and to demonstrate the importance of building connection to the Company and its goals and developing the culture and behaviours we need for success we have sought the support of a third party organisation to drive employee engagement around our transformation plans and strategic narrative.

Key board activities

continued

Workforce engagement

Karen Slatford (our Senior Independent Director) is appointed to the role of non-executive director responsible for workforce engagement, in light of her in-depth and longstanding knowledge of the Group and its businesses. This included the results of the My Voice all-employee annual and “pulse” surveys which provided an effective (albeit less formalised) mechanism to enable the board to understand the views of the workforce.

In her capacity as Workforce Engagement Director, Karen Slatford, supported by our Chief Human Resources Officer, conducted two panel sessions designed to create a direct connection and dialogue between our board of directors and employees, enabling the board to understand the top-of-mind views of our employees. These 60-minute open conversations included a nominated global group of cross-level, cross business, and tenured employees. The Chairman also attended these sessions, with other board members. The sessions comprised 10 to 12 employees. The board receives regular reports on workforce engagement activities (including feedback on all areas resulting from these panel sessions) for its review, consideration and action.

Shareholder relations

Shareholder communications

The board recognises its responsibilities as the steward of shareholders’ funds. It values the views of shareholders and recognises their interests in the Group’s strategy and performance. The board aims to promote a dialogue with shareholders based on the mutual understanding of objectives and has a collective responsibility for ensuring that a satisfactory dialogue takes place. The whole board is kept up to date at its regular meetings with the views of shareholders and analysts, and reports published by sell-side analysts are also circulated to directors.

The board reports formally to shareholders on the Group’s performance twice a year, in February (preliminary announcement of annual results) and July (interim results) and trading updates are issued whenever appropriate. The Annual Report and Accounts is published shortly after the preliminary announcement and, where relevant, hard copies are mailed to shareholders at least 20 business days before the AGM. Unfortunately, once again the AGM held on 25 March 2021 took place behind closed doors as a result of the UK national lockdown (caused by the COVID-19 pandemic). 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 Chairman, Chief Executive Officer and Chief Financial Officer, who have regular contact with investors, Karen Slatford (the Senior Independent Director) and the other non-executive directors are available to meet with the Company’s shareholders as and when required in order to develop a balanced understanding of the issues and concerns, particularly of major shareholders.

Separate regulatory announcements are published to the markets without delay whenever there is a material event and are available through the Company’s website (www.microfocus.com), which also provides an overview of the Group’s business including its strategy, products and objectives. The terms of reference of each of the board’s four committees and other important corporate governance documents are also available on the Company’s website and on request from the Company Secretary.

The non-executive Chairman, the Chief Executive Officer, the Chief Financial Officer and the Company’s Investor Relations function all provide focal points for shareholders’ enquiries. Further details of these are available through the Company’s website.

Annual General Meeting

The board recognises the importance of the Company’s retail investors and encourages their participation. Under normal circumstances, the main opportunity for the directors to communicate with, and hear from, our retail shareholders is at the AGM which provides an opportunity for the directors to meet shareholders and deal with any questions that may be raised either formally at the AGM or informally after the meeting closes, in addition to the statutory business. The next AGM will be held on 30 March 2022 at 3pm (UK time) at the Company’s registered office, The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN. Shareholders are invited to submit questions in advance and these questions, along with the Company’s responses, will be published on our website. Further details are set out in the Notice of Meeting.

In line with the Code recommendations, separate resolutions are being proposed on each substantive issue.

For further information on stakeholder engagement, see our Section 172 statement on pages 46 and 47.

US Sarbanes-Oxley Act 2002

Disclosure controls and procedures

Disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")) are designed to provide reasonable assurance that the information required to be (i) recorded, processed, summarised and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Management recognises that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgement in evaluating the cost benefit relationship of possible controls and procedures.

Based on their most recent evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of 31 October 2021, the Company's disclosure controls and procedures were not effective as a result of the material weakness in our internal control over financial reporting described below. Notwithstanding the material weakness described below, our management, including our Chief Executive Officer and Chief Financial Officer, believe that the audited consolidated financial statements contained in this Annual Report fairly present, in all material respects, our financial condition, results of operations and cash flows for the fiscal years presented in conformity with IFRS. In addition, the material weaknesses described below did not result in a material misstatement to the financial statements.

Management's report on internal control over financial reporting

As a foreign issuer with American Depositary Shares ("ADSs") listed on the New York Stock Exchange ("NYSE") the Group, as part of its disclosure and reporting obligations in the United States, is required to furnish this Annual Report by its management on its internal control over financial reporting, including an attestation report issued by its independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX") as at 31 October 2021.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Group. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act. The Group's internal control over financial reporting include policies and procedures which:

- are designed to give reasonable assurance that the transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS as adopted by the EU and IFRS as issued by the IASB, and that receipts and expenditures are being made only in accordance with authorisation of management and the directors;
- relate to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposal of assets; and
- give reasonable assurance regarding the prevention or timely detection of unauthorised use, acquisition or disposal of the Group's assets that could have a material impact on the financial statements.

Any internal control network will have inherent limitations, such that the possibility of human error and circumvention or overriding of controls and procedures may not prevent or detect misstatements. In addition, the projection of any controls to future periods are subject to the risk that controls may become inadequate due to changes in conditions or because the degree of compliance with policies and procedures may deteriorate.

Management assessed the effectiveness of internal control over financial reporting as at 31 October 2021 based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission 2013. Based on the assessment, management concluded that its internal control over financial reporting was not effective due to the following material weakness: In July, the Company completed the migration to its new enterprise-wide application platform ("Enterprise Platform") which included new business controls and IT general controls ("ITGC's). There was not sufficient time to allow ITGC's and related business controls to operate effectively by 31 October 2021. In aggregate, these control deficiencies impact all financial reporting processes and constitute a material weakness. This material weakness did not result in a material misstatement to the financial statements.

Our consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm, which will issue an attestation report expressing an adverse opinion on the effectiveness of internal control over financial reporting, with respect to this material weakness within the Form 20-F.

Changes in internal control over financial reporting

In the period, the Group completed the migration from legacy IT applications and infrastructure to the Enterprise Platform. The Enterprise Platform enables further improvement to process and controls. Improvements for the business include refining functional processes and organisational simplification as referred to in the Chief Executive's Strategic review and Our strategy on pages 08 to 15. The migration was successfully completed in two planned phases, the first completed in January 2021 and the second completed in July 2021. The majority of the work was carried out within the requirements of remote working under COVID-19 restrictions. The timing of the phases meant that there was insufficient time prior to the financial year end to allow ITGC's and related business controls to operate effectively.

During the period the Group continued to enhance and maintain the framework of internal controls under its central SOX Compliance Programme ("SCP") on the legacy systems as well as preparing and implementing controls for the Enterprise Platform. The SCP was supported by a specialist team from its outsourced internal audit partner, PwC. Governance for the SCP included a cross-functional SOX steering group ("SSG"). In addition the cross functional disclosure committee continued to meet to assist the Chief Executive Officer and Chief Financial Officer in fulfilling their responsibilities in connection with the accuracy of financial reporting. The Group strengthened internal compliance by the appointment of an additional team from PwC to work alongside the business and the Enterprise Platform implementation project team to carry out end-to-end process mapping and support Risk and Control Matrix ("RACM") development for the new Enterprise Platform controls. A key work stream of the SCP also relates to the

adequacy of ITGCs. The work undertaken as part of the SCP identified a number of areas for improvement in the Group's ITGCs. A remediation plan was agreed, which forms part of the SCP. Work in this area was carried out under an IT SOX Compliance Group chaired by the Chief Information Security Officer (CISO) reporting to the main SSG.

In the year the Group has also reviewed its entity-level controls including continued supplementary SOX training across relevant parts of the Group. As part of the overall governance, the SSG continues to monitor potential adverse impacts of organisational change to the SCP.

In the Annual Report and Accounts 2020 and the 2020 Form 20-F the Group reported certain weaknesses in its internal control over financial reporting, which under Public Company Accounting Oversight Board auditing standards were considered, when aggregated, to be a material weakness. The material weakness related to the fact that Company did not have adequate controls at that time surrounding existing IT applications, in particular regarding change management and access control. These controls and control deficiencies were then superseded in the year by the controls on the Enterprise Platform.

Remediation

The Group continues its work under the SCP to remediate the material weakness and other control deficiencies, and any other matters, which arise during its progress towards SOX compliance. As the business commenced the new financial year operating on the Enterprise Platform it has also been able to implement an enhanced testing programme for FY22.

To maintain the required control environment the Group relies upon automated, semi-automated and manual controls together with a combination of preventative and detective controls. The material weakness, control deficiencies and other matters may not be able to be remediated by 31 October 2022, and there is a risk that other deficiencies for the purposes of SOX may be identified. Failure to correct the material weakness, or our failure to discover and address any other material weakness or control deficiencies, could result in inaccuracies in our financial statements, and impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. It could also result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of the Group's financial statements and could have a material adverse effect on the Group's business, financial condition, results of operation and prospects.



Richard Atkins
Chairman, audit committee

I am pleased to present our Audit committee report for the year ended 31 October 2021.

Audit committee members and meeting attendance

	Meeting attendance ¹
Richard Atkins	6/6
Amanda Brown	6/6
Pauline Campbell ²	1/1
Lawton Fitt	6/6
Karen Slatford	6/6
Robert Youngjohns	6/6

1 Attendance is expressed as the number of meetings attended out of the number eligible to be attended.
2 Pauline Campbell served as a director and member of the audit committee from 1 October 2021.

Dear fellow shareholders,

I am pleased to present our Audit committee report for the year ended 31 October 2021. In the report below we explain how the committee discharged its responsibilities during the year, including the significant issues that we considered in relation to the financial statements and how we safeguarded the independence and objectivity of the external auditors. The work of the committee has focused on reviewing the enterprise risk management framework, including the Group's on-going response to COVID-19 and the business impact following the transformation to the Enterprise Platform. SOX compliance also continues to be a key matter under review as we embed it into the business. Throughout the year, I am pleased to report that our working relationships with PwC, providing internal audit services, and KPMG, as external auditors, have continued to develop well.

Composition of the committee

The audit committee comprises myself (who serves as its chair), Amanda Brown, Pauline Campbell, Lawton Fitt, Karen Slatford and Robert Youngjohns. All members of the committee are independent non-executive directors. The board considers that:

- for UK purposes, myself, as a chartered accountant, has recent and relevant financial experience by virtue of my previous executive and current non-executive responsibilities (details of which can be found in my biography on page 78). The audit committee as a whole has competence relative to the sector in which the Company operates; and
- for US purposes, each of the audit committee members is independent under the SEC and NYSE definitions of that term; that I am an audit committee financial expert, am independent of management, and have accounting or related financial management expertise; and that all of the audit committee members are financially literate.

Executive directors and senior executives (most often the Director of Finance, Director Group Finance, the Head of Tax, Head of Treasury, Head of Investor Relations and the Group Company Secretary and Head of Assurance) attend meetings by invitation as required, but do not do so as of right. Representatives of KPMG LLP (external auditor), PricewaterhouseCoopers LLP (internal auditor) and external tax advisors (when considered appropriate) also attend the committee meetings and meet privately with committee members, in the absence of executive management, prior to each committee meeting.

The committee normally meets at least four times during each financial year and more frequently as required.

Role and responsibilities of the committee

The committee's principal responsibilities are to:

- monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them. The committee also reviews the Group's Annual Report and Accounts and Interim Report prior to submission to the full board for approval;
- monitor the Group's accounting policies and review the Company's internal financial controls and financial reporting procedures and, on behalf of the board, the Company's internal control and risk management systems;
- monitor the adequacy and effectiveness of the Company's internal controls and internal financial controls, risk management systems and insurance arrangements;
- ensure that a robust assessment of the principal and emerging risks facing the Company, including those that would threaten the business model, future performance, solvency or liquidity and reputation is undertaken at least once a year;

- monitor and review the effectiveness of the Company's internal audit function, including agreeing and approving the annual internal audit plan;
- make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- oversee the relationship with the external auditors and review and monitor their independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK and US professional and regulatory requirements;
- develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, 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;
- provide a forum through which the Group's external and internal auditors and external tax advisors report to the board; and
- report to the board on how it has discharged its responsibilities.

The committee's terms of reference are published on the Company's website, www.microfocus.com.

Key activities in the year ended 31 October 2021

The committee met six times during the year, details of meeting attendance can be found on page 89 of this report.

Save for matters directly arising from its terms of reference, the main items of business the committee reviewed and discussed at those meetings were:

- Reports from the SOX steering group and monitoring the progress of SOX compliance (please refer to pages 87 and 88 for further information on the SOX compliance);
- Updates from the Controllership function, including the status of the finance transformation programme and other key projects;
- Reports from the disclosure committee, including an assessment of the Company's status as a Foreign Private Issuer for SEC purposes;
- Updates from the Treasury & Tax functions, including refinancing;
- Assurance updates, including reports on the status of the Group's enterprise risk, fraud risk and internal audit programmes;
- Updates on COVID-19, including risk management and an overview of management's actions and strategies in addressing COVID-19 matters;
- Classification of exceptional items and alternative performance measures;
- Updates on the migration to a single enterprise platform;
- Updates from the operational risk and compliance committee on the activities of risk management and compliance;
- Updates on the Group's insurance programme;
- Reports on contentious legal matters, including the WAPP patent infringement case, as well as internal investigations and other whistleblowing matters; and
- Considering the effectiveness and independence of the external tax advisors.

The committee met in private session both with and without management attendance at the majority of its meetings. As noted above, the committee also meets with the external auditors, internal auditors and tax advisors in private session. The committee chairman maintains regular contacts outside the formally scheduled meetings with the partners of professional firms responsible for external and internal audit and tax advice.

Significant estimates and judgements considered in relation to the Annual Report and Accounts

The committee reviewed the draft Annual Report and Accounts, together with the appropriateness and application of accounting policies and considered areas in which there were significant estimates or exercises of judgement. The significant matters considered by the committee are set out below. For each area, the committee was satisfied with the accounting and disclosure in the financial statements.

Revenue recognition

The Group's multi-element arrangements give rise to risks in the identification of performance obligations and the allocation of revenue between performance obligations, which is an inherently complex aspect of IFRS 15.

Note I "Significant Accounting policies" section D "Revenue recognition" sets out the Group's policies on accounting for revenue under IFRS 15.

To address this risk the committee:

- reviewed a paper from management on key revenue recognition judgements made on contracts during the period;
- assessed the level of coverage from the Group's material contract reviews;
- reviewed the disclosed accounting policy and related disclosure included in the Annual Report and Accounts; and
- challenged KPMG on the scope of their revenue audit as part of agreeing the audit plan.

Impairment of goodwill and purchased intangibles

Impairment testing is an area of focus as significant judgements are made in performing the test. The principal judgements relate to the assumptions around the achievability of the average annual revenue growth rate for each product group and other related modelling assumption (pre-tax discount rate and long-term growth rate) used in calculating value in use.

Note 10 "Goodwill" provides details of the impairment test performed including the assumptions used.

In considering this area of focus the committee reviewed and discussed reports with management and challenged the appropriateness of the assumptions made, including:

- the achievability of the business plans (including the average annual revenue growth rate for each product group);
- modifications made to the business plans to comply with IAS 36;
- the consistent application of management's impairment testing methodology understanding any changes made from the prior year methodology;
- the discount rate; and
- the long-term growth rate.

In addition, the committee reviewed the sensitivity analyses on key assumptions and the related sensitivity disclosure.

During the period no impairments in respect of goodwill and purchased intangibles were recorded.

Exceptional items and Alternative Performance Measures ("APMs")

The classification of items as exceptional is an area of focus for the committee as exceptional items are adjusted for in the Group's non-GAAP measures which are presented as APMs and used alongside the statutory measures to report the Group's financial performance and prospects.

Note I "Significant Accounting policies" section H "Exceptional items" sets out the Group's policies for classifying an item as exceptional and section Alternative Performance Measures includes the definitions and use of the Group's APMs.

The committee took the following actions to assess the classification of exceptionals:

- reviewed a report by management describing the treatment and disclosed amount of each exceptional;
- assessed the classification of the settled patent litigation costs as exceptional as this was a new material exceptional item in the period. The committee were satisfied that the cost was exceptional as whilst the group routinely faces litigation costs and settlements no cases of this type and magnitude have arisen before;
- reviewed the consistency of classification both period-on-period and of gains and losses; and
- assessed the classification of on-going multi-year integration and restructuring programmes as exceptional.

Provision for income taxes

The tax treatment of the Group's operations is subject to the risk of challenge by tax authorities across the jurisdictions in which the Group operates. Tax authorities may challenge allocations of profit under transfer pricing rules; or there may be differences of interpretation of tax rules. Taxation is therefore an area of risk as it is necessary to apply judgements in order to calculate tax liabilities.

Note 7 "Taxation" provides details of the Group's tax accounting, including the reserve for uncertain tax positions and management's assessment of the EU State Aid and UK tax authority challenge. The committee met with the Group's Head of Tax during the year and at the January 2022 meeting. The committee examined the judgements underpinning both the provision and disclosures adopted for the most significant components of the Group's tax risks including the treatment of the EU State Aid and UK tax authority challenge.

These judgements considered:

- The advice received from the Group's tax advisors and the assessment by the Group's Head of Tax in respect of (i) the probability of success of either the appeal by the UK Government or the Group itself in respect of the EU State Aid, (ii) the probability of success of UK tax authority challenge, and (iii) the interaction of the two matters in the context of the overall exposure associated with both the UK State Aid and UK tax authority challenge; and
- The assessment by the Group's Head of Tax also supported by the Group's tax advisors of the calculation of the Group's on-going risks in respect of Transfer Pricing and other significant matters.

Retirement benefit obligations

The committee assesses retirement benefit obligations as the obligation is material to the Group and the assumptions used in valuing the obligation, in particular the discount rate, have resulted in material changes in the obligation over recent years.

Note 22 "Pension and other long-term benefit commitments" provides details of the Group's pension arrangements and the principal assumptions applied in valuing the Group's defined benefit obligations and the related sensitivity of the obligation to these assumptions.

The committee:

- reviewed a report from management summarising the primary assumptions including the rates at which scheme liabilities had been discounted, mortality and inflation;
- assessed the sources used and understood whether any deviations from third party advised primary assumptions arose; and
- reviewed the sensitivity of the defined benefit obligation to these assumptions.

Useful economic life of purchased intangible assets

The useful economic lives of purchased intangibles are reassessed annually. This is an area of focus for the committee as the net book value of such assets is high at \$4,226.1m and so a small change in useful economic life could have a significant impact on the future amortisation charge. The Group uses future value in use to determine whether the useful economic lives are appropriate. Following the significant impairment of goodwill recorded in the prior year, the useful economic lives of certain of the HPE software business purchased intangible assets were revised down with effect from 1 November 2020.

Note 11 "Other Intangible assets" provides details of the change in useful economic lives in the period and the sensitivity of the annual amortisation charge to changes in the estimated lives.

The committee:

- reviewed a report from management summarising the methodology applied to determine the revised useful economic lives;
- assessed the revised economic lives and the impact of the amended lives on the financial statements; and
- reviewed the disclosure and sensitivity analysis included in the Annual Report.

Fair, balanced and understandable

The committee is satisfied, and has recommended to the board, that the 2021 Annual Report and Accounts, taken as a whole, provide a fair, balanced and understandable assessment of the Company's position and prospects at 31 October 2021 and the information necessary for shareholders to assess the Company's performance, business model and strategy.

The committee assessed the processes and controls followed in preparing the 2021 Annual Report and Accounts, which included the following:

- papers provided by the executive directors and senior management summarising all areas where significant judgements have been applied;
- papers outlining the process by which the financial statements were prepared and reviewed by the finance management team and other senior managers and the executive directors;

- ensuring that all contributors, the financial reporting team and senior management are aware of the requirements and their responsibilities;
- the committees discussions with the external auditors, senior management and executive directors; and
- the committee reviewed a draft of the Annual Report to enable input and comment.

These activities provided the committee with the detail necessary to reach the recommendation to the board, which was supported by the collective judgement of the committee that:

- the description of the business agrees with its own understanding;
- the stated risks reflect the issues that concern the individual members of the committee;
- suitable weight has been given to both "good" and "bad" news and there was an appropriate balance between these;
- the discussion of performance properly reflects the performance of the period;
- the narrative reporting is consistent with the financial statements and the notes to the accounts; and
- there is a clear and well-articulated link between all areas of disclosure.

Viability statement

The committee also assisted the board in relation to producing the Group's viability statement. This work encompassed a detailed consideration of the viability statement, including:

- consideration of the review period and alignment of this period to long-term plans;
- the assessment of the Group's capacity to remain viable after consideration of future cash flows, expected debt requirements and access to capital markets;
- modelling of the financial impact of certain of the Group's principal risks and uncertainties using severe, but plausible scenarios; and
- ensuring clear disclosure in the Annual Report as to why the assessment period selected was appropriate, what qualifications and assumptions were made and how the assessment was performed.

Following its review the committee agreed to recommend to the board that it was appropriate to make a viability statement for a three-year period and that the board could have a reasonable expectation that the Group would remain viable and have access to sufficient liquid resources to meet its liabilities as they fell due throughout that period. The viability statement is on page 60.

External audit

External auditor appointment

The committee has the primary responsibility for monitoring the independence and objectivity of the external auditors and assessing their performance and effectiveness. Informed by this knowledge, the committee makes recommendations to the board on the appointment and reappointment of the external auditors, taking into account partner rotation and other relevant factors.

The current external auditors, KPMG LLP, undertook their first audit of the Group for the period ended 31 October 2018, having been appointed following a competitive audit tender process in the 2017 financial year. That tender process sought to identify an audit firm who would provide the highest quality, most effective and efficient audits. Critical success factors included sector experience and knowledge, cultural fit, geographical coverage, the audit record of the lead partner and firm as well as the use of technology. Under UK rules, the appointment of the senior statutory auditor (the lead audit partner) rotates every five years, regardless of whether there has been an audit tender. The lead audit partner from KPMG is John Edwards, who took up the post for FY21 and he will be required to rotate at the end of FY25.

The committee agrees the scope and focus areas of the external audit, including key risks and the alignment of this with the Group's known risks and the work of other assurance functions. The committee has primary responsibility for agreeing the fees payable for the statutory audit and all other fees payable to the external audit firm.

Non-audit services and fees

It can occasionally be more efficient or necessary to engage the external auditors to provide non-audit services because of their knowledge and experience and/or for reasons of confidentiality. However, safeguarding the objectivity and independence of the external auditors is an overriding priority. For this reason, the committee has approved a written policy governing the services that can be provided by the external auditors. The policy also sets out a process for prior approval of both the nature of the service to be provided and the associated fees. The external auditors would only be appointed to perform a service when doing so would be consistent with both the requirements and principles of the relevant external regulations, and when their skills and experience make the firm the most suitable supplier.

We classify work that the external auditors might be permitted to perform into one of three categories and manage these as follows:

- Audit services – the scope and fees for the statutory audit are agreed by the committee;
- Audit-related services (including the review of interim financial information and work such as Sarbanes-Oxley attestation which the auditors are required to perform) – the scope of any such services and the fees must be pre-approved by the committee; and
- Other non-audit services (such as taxation compliance support and other assurance-type work) – the scope of any such services and the fees must be pre-approved by the committee, with an additional requirement that where the expected fee exceeds a predetermined level, the appointment must be subject to the Group's normal tender procedures.

There is a further requirement that the external auditors may not undertake any work that would generate a fee which is material relative to the audit fee or to the compensation of the individuals performing the audit.

Our policy includes a list of services which the external auditors are prohibited from performing. To mitigate any risks threatening, or appearing to threaten, the external auditors' independence and objectivity, they may not perform any functions of management, undertake any work which they may later need to audit or rely upon in the audit or serve in an advocacy role for the Company or any other role which may otherwise create a conflict of interest.

During the year ended 31 October 2021, the fees paid to the external auditors were:

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Audit services – Parent	8.0	7.2
Audit services – Subsidiaries	2.8	2.9
Audit-related services	5.2	3.3
Sub-total: audit and audit-related fees	16.0	13.4
Other assurance services	–	–
Services related to taxation	–	–
Other non-audit services	–	–
Sub-total: fees other than audit and audit-related fees	–	–
Total	16.0	13.4

Non-audit fees paid in the year ended 31 October 2021 amounted to nil of the audit and audit-related fees (year ended 31 October 2020, nil), which the committee concluded was an acceptably low level.

Of the audit-related services undertaken in the year ended 31 October 2021, only one was considered to be significant. This related to the controls attestation of the Group's Sarbanes-Oxley Section 404, for which a fee of \$4.7m was paid.

Independence and objectivity of the external auditors

The committee is responsible for safeguarding the independence and objectivity of the external auditors and has developed a robust policy designed to ensure that this is not compromised. As explained above, the committee manages the risks that the external auditors undertake inappropriate non-audit work or earn material levels of fees for non-audit services. It also considers the standing and experience of the external audit partner and takes comfort from the fact that KPMG provided confirmation that they have complied with relevant UK and US independence standards.

The committee is satisfied that the independence and objectivity of the external auditors has been maintained throughout the year ended 31 October 2021 and to the date of this report.

Effectiveness of the external auditors

The committee has reviewed the effectiveness of the external auditors, taking into account the fulfilment of the agreed audit plan, the views of management, the external auditors' findings reported to the committee and the audit team's responses to questions from committee members. The committee also reviewed publicly available information published by the Financial Reporting Council ("FRC") in relation to KPMG LLP at the level of the UK audit firm. Based on this combined information, the committee concluded that the external audit process was operating effectively, and KPMG were effective in their role as external auditor.

Interactions with the Financial Reporting Council

There were no interactions with the FRC's Audit Quality review ("AQR") team in relation to KPMG's audits of the 2020 Annual Report and Accounts.

In September 2021, the Group received a letter from the FRC in respect of their thematic review of companies' disclosures of alternative performance measures in relation to the Group's Annual Report and Accounts for the year ended 31 October 2020. The FRC requested explanation on tax related to APMs and multi-year integration and restructuring programmes. Explanation has since been provided enabling the FRC to close their enquiry. We have provided additional disclosure on the cumulative costs, expected duration and expected future cash costs in relation to multi-year integration and restructuring programmes in the CFO report on page 50. The responses to the FRC were agreed by the committee.

The FRC's review is based on our published Annual Report and Accounts and does not benefit from detailed knowledge of our business or an understanding of the underlying transactions. It provides no assurance that our Annual Report and Accounts is correct in all material respects. The FRC's role is not to verify the information provided, but to consider compliance with reporting requirements. The FRC accepts no liability for reliance on the FRC's review by the Company or any third party, including but not limited to investors and shareholders.

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014

The Company confirms that it complied with the provisions of this legislation throughout the year ended 31 October 2021.

Internal control and risk management **Effective internal control and risk management**

Following the annual cycle of work of the committee, it concluded that sound risk management and internal control systems had been maintained during the period. With respect to risk management, under the Risk Management Framework the committee receives and reviews a report at each meeting on the principal risks across the Group, which is discussed with senior management. This included COVID-19 risks and ESG risks as outlined in the Enterprise Risk Management reporting cycle diagram on pages 62 to 63. The committee was satisfied with the process and risks identified. It was also satisfied that there was a high level of assurance provided by the internal auditors, the external reviews conducted by KPMG for the interim period and their full period-end audit, together with the input of the Group's tax advisors, Deloitte.

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 recognises 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.

A significant step forward in the period in this respect was the completion of the migration to the Enterprise Platform, a change which provides a strong foundation to simplify and enhance the internal control environment. The work represented a significant milestone for the Group and delivery of the programme was supported by appropriate programme governance and change management practices. The Micro Focus delivery team were aided by specialist third parties embedded within the programme, supporting across planning, cut-over and hypercare. The committee received regular updates throughout the delivery of the programme on the risks arising and the associated mitigations.

As the Company's American Depositary Shares ("ADSs") are listed in the US, the Group's internal controls over financial reporting are subject to the requirements of the Sarbanes-Oxley Act 2002 ("SOX"). Please refer to pages 87 and 88 for the update on the Group's SOX implementation plan. The requirements under SOX require a greater degree of evidence and formal documentation of controls. However, the audit committee has reviewed and discussed this position with its auditors and advisors and satisfied itself that the current control environment is effective under the UK Corporate Governance Code.

There is an on-going internal process under the Risk Management Framework 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 period and up to the date of approval of the Annual Report and Accounts and it is regularly reviewed by the board and accords with the FRC Guidance on Audit Committees published in April 2016.

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 categorised 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 internal 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 authorisation 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.

The board recognises the need to understand and control the variety of risks to which the Group is exposed. During the period, in order to address this on behalf of the board, the committee oversaw the executive management's risk management activities under the Risk Management Framework. 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 period under review and is up to date at the time of this report. Please refer to pages 61 to 73 for the report on principal risks and uncertainties.

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

Financial reporting

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

- there are Group policies covering what is reported monthly to the board and the executive committee. The Group's financial reporting system has been guided by the requirement to ensure consistency and visibility of management information to enable the board and the executive team to review the Group's worldwide operations effectively;
- cash flow forecasts are produced monthly. These are reviewed by the Group treasury function to ensure effective cash management by the Group;
- the consolidation process entails the combining and adjusting of financial information contained in the individual financial statements of the Company and its subsidiary undertakings in order to prepare consolidated Annual Report and Accounts that present financial information for the Group as a single economic entity. The Group accounting policies set out the basis of preparation and consolidation, including the elimination of inter-company transactions and balances between Group companies;
- financial information from subsidiaries is reviewed for accuracy by internal review and externally audited where required; and
- the consolidated financial statements are completed in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs).

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 key risks and which accord with the FRC Guidance on Audit Committees published in April 2016. These processes have been in place since the start of the financial period up to the date of approval of the Annual Report and Accounts. Further details of the risks faced by the Group are set out on pages 61 to 73.

Internal audit

PwC continued to provide internal audit services to the Group throughout the year ended 31 October 2021, having been the Group's internal audit provider since their appointment on 1 September 2017. The Group Company Secretary and Head of Assurance provides oversight and coordination of internal audit. In order to ensure independence, internal audit has a direct reporting line to the committee and to me, its chairman.

The committee monitored and reviewed the scope and results of the internal auditor's activities as well as its effectiveness during the period. The annual internal audit plan was approved by the committee at the beginning of the financial period. However, as the internal audit plan is risk-based, changes in the risk profile of the Group in the period (e.g. COVID-19) necessitated changes to the internal audit plan from time-to-time. These changes were approved by the committee and fast track reviews were added to ensure that timely assurance was provided in a rapidly changing environment.

The nature and scope of the internal auditor'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 the issues identified.

At each meeting, the committee received papers prepared by Suzanne Chase (Group Company Secretary and Head of Assurance) in order to ascertain progress in completing the internal audit plan and to review results of the audits.

Committee evaluation

As noted on page 83, an internal committee review was undertaken during the year. The committee was considered to be operating effectively, with its reviews continuing to be conducted at the level of detail required. The risk processes remain highly regarded and the committee will focus on challenging the mitigation strategies.

Richard Atkins

Chairman, Audit committee
7 February 2022

Nomination committee report



Greg Lock

Chair, nomination committee

The appointments made during the year have led to an improved balance and blend of complementary experiences and attributes among board members.

Nomination committee members and meeting attendance

	Meeting attendance ¹
Greg Lock	5/5
Richard Atkins	4/5
Amanda Brown	5/5
Pauline Campbell ²	1/1
Lawton Fitt	5/5
Karen Slatford	5/5
Sander van 't Noordende	5/5
Robert Youngjohns	5/5

¹ Attendance is expressed as the number of meetings attended out of the number eligible to be attended.

² Pauline Campbell served as a director and member of the nomination committee from 1 October 2021.

Dear fellow shareholders,

I am pleased to present the nomination committee report on behalf of the board for the year ended 31 October 2021, which explains the committee's activities during the year. This year the committee continued to focus on succession planning and ensuring the board has the correct balance of skills, knowledge, experience and independence. This year we welcomed one new non-executive director and a new executive director to complement and further enhance the depth and strength of the board and gave due consideration to diversity and inclusion and corporate governance.

Composition of the committee

The nomination committee comprises myself (who serves as its chair), Karen Slatford, Richard Atkins, Amanda Brown, Pauline Campbell, Lawton Fitt, Sander van 't Noordende and Robert Youngjohns. All members of the committee are independent non-executive directors. Executive directors and senior executives attend the meetings by invitation, as required, but do not do so as of right.

The committee normally meets at least twice during each financial year, and more frequently as required.

Role and responsibilities

The committee's principal responsibility is proposing candidates for appointment to the board, having regard to the balance and structure of the board and taking into consideration the benefits of diversity in all its forms, including gender, ethnicity, religion, disability, age and sexual orientation. 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 are available on the Company's website: www.microfocus.com.

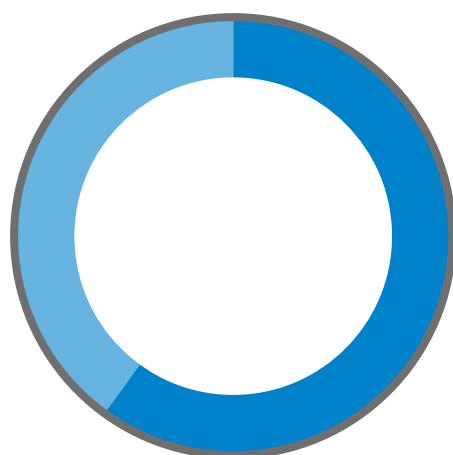
Diversity

The board has considered diversity in broader terms than just gender and ethnicity, and believes it is also important to reach the correct balance of skills, knowledge, experience and independence on the board. The Group has formal policies in place to promote equality of opportunity across the whole organisation, regardless of gender, ethnicity, religion, disability, age or sexual orientation. In working towards greater diversity, the committee requires that all lists of candidates for new board positions include where possible a diverse set of candidates and aims to keep the Company policy statement relating to diversity and inclusion under review, to attract and retain the most talented people who can deliver sustained outstanding performance.

At 31 October 2021 the board comprised six male members (60%) and four female members (40%), from three different nationalities, bringing experience across a diverse range of disciplines and experience. The board is also supported by a female Company Secretary. The board is pleased that it has achieved the recommendations set out in the Hampton-Alexander Review of having a minimum 33% female representation on its board. The committee will continue to consider candidates from a wide range of backgrounds, assessing them on merit against objective criteria to maximise the benefits of diversity on the board.

Our most senior management forum is the operating committee, which has three male members and one female member, so 25% of its members are female. The operating committee is the senior sub-set of the executive committee, which has nine male members and three female members, so 25% of its members are female. Of the 95 employees who report directly to the executive committee members, 18 are female, being 18.9%. The board is committed to increasing the representation of women in executive management and improving diversity more generally, whilst it recognises that it is in an industry which is traditionally male dominated.

Board gender



● Male 6
● Female 4

Board changes

Progressively refreshing the board remains a priority given the challenges we face are constantly evolving. During the year ended 31 October 2021 there were three changes to the board:

- Matt Ashley joined the Company as Chief Financial Officer on 28 June 2021 and joined the board as an executive director from 1 July 2021;
- Brian McArthur-Muscroft left the Company as Chief Financial Officer and executive director on 30 June 2021; and
- Pauline Campbell joined the board as an independent non-executive director on 1 October 2021.

The process to find our new Chief Financial Officer was led by the nomination committee, appointing a search committee, which was a mix of board members, committee members and management, and instructing Russell Reynolds, an external search consultancy. A full role profile was prepared, discussed and agreed with Russell Reynolds. The CEO and CHRO reviewed the initial list of candidates with Russell Reynolds for the purposes of initial screening. The CEO and the search committee then reviewed an updated long list of candidates. A shortlist of candidates was interviewed initially by the CEO and then by members of the search committee, board and other management (taking different formats of meeting subject to COVID-19 restrictions).

The committee took the opportunity to strengthen existing board expertise and experience in recruiting a further independent non-executive director, Pauline Campbell on 1 October 2021. The main recruitment focus areas were strengthening the board's financial, regulatory and governance experience, which informed the candidates brief for the internally managed recruitment process.

In accordance with our policy of all board appointments being made with the aim of achieving a correct balance and blend of skills, experience, knowledge, backgrounds and diversity, in all its forms, the recruitment process aims to ensure that new additions to the board have the ability to connect with a geographically diversified employee and customer base and has sufficient time to dedicate to the role. The recruitment process for a new non-executive director involves an interview process by a selection panel made up of the Chairman, CEO and the Senior Independent Director, from which a shortlist of candidates meet with each member of the board. The views of the directors are provided to the committee and a recommendation is made to the board by the committee.

Russell Reynolds has no other connection with the Company.

The appointments made during the year have led to an improved balance and blend of complementary experiences, and attributes among board members.

On joining, each new director receives a comprehensive, formal and tailored induction into the Company's operations. This includes briefings on the Company's business, strategy, constitution and decision making process, the roles and responsibilities of a director and the legislative and regulatory framework. New directors also meet (whether virtually or physically) with the Group's CEO, CFO, senior product and other managers and, under normal circumstances, have the opportunity to meet shareholders face-to-face at the AGM. All directors regularly update and refresh their skills and knowledge and can request that appropriate training is provided, at the Company's expense, as required. The executive directors ensure regular informal contact is maintained with non-executive directors throughout the year, and this would conventionally include providing opportunities to visit Group offices around

the world. The non-executive directors have unrestricted access to anyone in the Company. The non-executive Chairman also meets separately with the non-executive directors.

Key activities in the year ended 31 October 2021

The committee met five times during the year, all of which were held virtually due to COVID-19 restrictions, and attendance at those meetings is shown in the table on page 76 of the Corporate governance report. The main items of business discussed at those meetings were:

- continued succession planning for board and senior executive roles, through a review of the management structure and a talent review update, to maintain a diverse pipeline of talent;
- recruitment and onboarding of a new non-executive director and new CFO and executive director;
- reviewing and updating the composition of board committees;
- reviewing governance trends and updating the terms of reference; and
- reviewing the status of the Company's diversity and inclusion initiatives.

Committee evaluation

As noted on page 83, an internally facilitated review was undertaken during the year. The main finding was that, while the committee had focused on board and senior management succession, it recognises that this continues to be an area of work for the committee, along with managing diversity for board, senior management and other key roles.

Greg Lock

Chair, nomination committee
7 February 2022

Environmental, Social and Governance (“ESG”) committee report



Karen Slatford
Chair, ESG committee

We are working to ensure that our ESG strategy is closely aligned to our Company goals and values and embedded into the business.

ESG committee members and meeting attendance

	Meeting attendance ¹
Karen Slatford	2/2
Amanda Brown	2/2
Lawton Fitt	2/2
Sander van 't Noordende	2/2
Susan Ferguson (Chief Human Resources Officer & SVP Business Operations)	2/2
Suzanne Chase (Group Company Secretary and Head of Assurance)	2/2

¹ Attendance is expressed as the number of meetings attended out of the number eligible to be attended.

Dear fellow shareholders,

I am pleased to present the Environmental, Social and Governance (“ESG”) committee report on behalf of the board for the year ended 31 October 2021. The committee was set up on 10 June 2021 to help the Company recognise the significance of ESG within our business by aggregating its work on environmental, social and governance matters under a formal framework. We have taken a proportionate and pragmatic approach, bringing together representatives from existing forums for Corporate Social Responsibility (“CSR”), Operational Risk and Compliance, Business Resilience, Governance and other relevant work streams relating to ESG matters under a new formal ESG board committee for board level focus and oversight.

The ESG committee is supported by an ESG working group which is made up of senior leaders across the business to ensure accountability and an environmental sub group with specific responsibilities for our environmental strategy.

The board continues to define the ESG scope for the Company, taking into account our business purpose and stakeholders. In FY21 we continued to make progress, focusing on the development of a fit for purpose ESG strategy including the setting of appropriate targets, and monitoring progress against those key targets and initiatives. A materiality assessment and current state analysis were conducted by an independent consultant alongside a TCFD readiness assessment and carbon emissions audit to help further inform our developing strategy.

Composition of the committee

The ESG committee comprises four non-executive members – myself (who serves as its chair), Amanda Brown, Lawton Fitt and Sander van 't Noordende – plus two members of the management team – Susan Ferguson (Chief Human Resources Officer & SVP Business Operations) and Suzanne Chase (Group Company Secretary and Head of Assurance). Directors and senior executives attend the meetings by invitation, as required, but do not do so as of right.

The committee will meet at least twice during each financial year, and more frequently as required. There were two committee meetings held during the year and following each one, I reported to the board on the key issues that we covered.

Role and responsibilities

The role of the ESG committee is to provide guidance on behalf of and to the board in relation to the Group’s ESG strategy, activities, and disclosures, in the context of the Group’s overall strategy and purpose. Day-to-day responsibility for and management of ESG risk and compliance matters remain with the boards and management of each Group Company, subsidiary entity and undertaking.

The committee as it matures will seek to define the scope, strategy, policy, oversight, monitoring, risk review and disclosures in relation to ESG for the Company.

The committee’s terms of reference are available on the Company’s website, www.microfocus.com.

Environment

Collectively our leadership team and employees are committed to reducing our environmental footprint and supporting the transition to a low carbon business.

Micro Focus has been focused on reducing its Greenhouse Gas (“GHG”) emissions and moving to renewable energy sources, further details of our GHG emissions is set out in the Directors’ report on page 124. Additionally, engaging employees is key and the Company has launched a sustainability education programme for all employees.

Social

Our goal is to embed a diverse, inclusive, and equitable culture for employees and communities. Diversity and inclusion remains a key priority. I am pleased a new Diversity and Inclusion policy statement has been published and a series of targets will follow in FY22, however there is more work to do.

The Group’s Modern Slavery Statement is submitted to the board for approval each year, and the statement is published on the Company’s website.

Governance

Our aspiration is to be a company with the highest level of ethics in how it treats its employees, and does business with its partners, customers, and suppliers. In pursuit of this aim, we enforce rigorous standards in our relationships with our customers and partners and apply stringent due diligence requirements when entering into any new association to prevent inappropriate, illegal, or corrupt behaviours or activities. As part of our global guidelines supporting our ethics and values, Micro Focus has in place robust policies on Anti-Bribery and Corruption, Gifts and Hospitality, and our Partner Code of Conduct. Micro Focus complies with anti-trust and competition laws, enabling us to do business in a commercially and legally-sound manner.

Key activities in the year ended 31 October 2021

The committee was set up in June 2021, meeting twice before the year end on 31 October 2021, and attendance at those meetings is shown in the table on page 76 of the Corporate governance report. The committee discussed:

- the implementation of the Company’s ESG Governance Framework;
- setting the key areas of focus for the committee;
- an ESG Risk Review;
- an update from the ESG working group;
- Diversity and Inclusion policy statement and targets update;
- environmental policy statement;
- commencement of a materiality assessment, current state analysis, TCFD readiness assessment and carbon emissions audit;
- enterprise-wide environmental targets, adoption of an Environment Management System and TCFD reporting preparations; and
- the updates on social and broader ESG activities and engagement.

The committee prepared its terms of reference and recommended them for approval to the board in June 2021, a copy of which is available on our website www.microfocus.com.

Karen Slatford

Chair, ESG committee
7 February 2022

Directors' Remuneration report



Amanda Brown
Chair, remuneration committee

Remuneration committee members and meeting attendance

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

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

Annual statement from the chair of the remuneration committee

Dear fellow shareholders,

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

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

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

Context for FY21

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

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

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

Business performance and FY21 incentive outcomes

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

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

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

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

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

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

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

Implementation of policy in FY22

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

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

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

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

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

In summary

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

Amanda Brown

Chair, Remuneration committee
7 February 2022

Directors' Remuneration report

continued

Compliance statement

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

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

Executive directors' remuneration at a glance

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

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

1 The current Remuneration Policy, which was approved by shareholders at the Annual General Meeting on 25 March 2020, can be found at www.investors.microfocus.com and on pages 91 to 100 of the 2019 Annual Report and Accounts.

2 Details of the malus and clawback trigger events and how the Remuneration Committee could enforce malus and clawback are set out on page 95 of the 2019 Annual Report and Accounts.

How our incentive measures link to strategy

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

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

Annual Report on Remuneration

Single total figure of remuneration – executive directors (audited)

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

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

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

Annual bonus for FY21 (audited)

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

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

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

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

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

KPO	Relative weighting	Achievement vs KPO	Weighted payout %
CEO			
Key business objectives	10.0%	Business systems and infrastructure	9.5%
Complete the transition to a single enterprise-wide platform as effectively as possible with minimum disruption to day-to-day operations and agree specific actions for further business simplification.		<ul style="list-style-type: none"> Successfully completed the transfer to a single Enterprise Platform by transferring Stack B to Stack C in H1 FY21 and Stack A to Stack C in H2 FY21, enabling the Company to unlock further efficiencies. Closed two financial quarters (including peak Q4 trading period) on new systems with no business impacting issues. Through an Activity Insight Survey, identified and initiated key change initiatives (functional and cross-functional) to improve opportunities, simplify processes and make decisions faster. Examples include moving from six quoting systems to one, reducing SaaS applications from 70 to 20, moving 2,000 business applications to 500 and a 75% reduction in the number of different types of sales compensation plans in operation. 	
Improve our product positions across the portfolio making us more competitive and delivering the innovation our customers want.		Product portfolios <ul style="list-style-type: none"> Rearchitected key solutions within each portfolio (Vertica, Digital Safe, ArcSight, OpsBridge) to better position the portfolio to focus on growth opportunities, improved product innovation and related market recognition. Dependencies on third party products embedded in the core of some of our key solutions have been removed, comprehensive artificial intelligence, machine learning and analytics capabilities delivered in every portfolio and rearchitected many products to support new cloud and hybrid deployment options. In every portfolio, we have introduced new SaaS offerings, improved the existing SaaS offerings and invested significantly in SaaS delivery infrastructure. 	
Create one single go-to-market organisation that can deliver consistent, sustained improvement to our revenue performance through improved sales productivity and the more effective alignment of our resources to opportunity.		Go-to-market organisation <ul style="list-style-type: none"> Successfully created one single go-to-market organisation with a consistent global approach. Aligned resources with greater specialist skillsets and consistency of execution, built deeper levels of specialism and alignment by portfolio. Implemented a management system aimed at ensuring execution to a common set of standards and levels of accountability, supported by a single set of sales tools and improved data accuracy. Established a dedicated customer success team supported by increased levels of specialist resources within Maintenance Renewals and Professional Services. 	
Continue to improve governance and structures to monitor and respond quickly to on-going impact of COVID-19.		COVID-19 <ul style="list-style-type: none"> Further enhanced the governance and structures in place to be able to monitor and respond quickly to ensure wellbeing of employees and minimise business disruption through COVID-19, including implementing a package of measures in the summer of 2021 to address the extreme challenges faced by colleagues in India. Maintained operational effectiveness, product development cadence, customer support and delivery and transitioned core systems during constraints of global pandemic and local lockdowns. 	
Continue to strengthen the leadership team through rigorous succession planning and talent management.		Succession planning and talent management <ul style="list-style-type: none"> Completed a global calibration of talent and succession for key talent to include executives and emerging talent across the business and implemented individual development plans for executive potential successors and emerging talent. Recruited new executive leadership in critical product and support functions. 	

KPO	Relative weighting	Achievement vs KPO	Weighted payout %
<p>ESG milestones Ensure that we have an appropriate ESG programme reflecting focus on our employees, customers, shareholders and partners. This must be part of our corporate governance responsibilities, including continuous improvements in our control/SOX processes.</p>	10.0%	<p>General</p> <ul style="list-style-type: none"> – Adopted, aligned and communicated support for five of the United Nations Sustainable Development Goals (no poverty, quality education, gender equality, decent work and economic growth and climate action). <p>Environment</p> <ul style="list-style-type: none"> – Target of achieving a normalised Greenhouse Gas (GHG) reduction of 2-5% by the end of FY21, based on our 2018 baseline data, was achieved. Comparing like-for-like FY20 to FY21 global footprint, we achieved a GHG emissions reduction of -7.8%. Due to the increase in the amount of properties in scope from 64% in FY20 to 67.7% in FY21, there has been an overall increase of +1.5% in GHG emissions. – Met target of increasing the percentage of our energy which comes from renewable sources globally from 40% to over 50% by the end of FY21 (52% achieved). – Established a cross-functional Environmental Working Group, which includes a focus on the Task Force on Climate-Related Financial Disclosures (TCFD). <p>Employees and community</p> <ul style="list-style-type: none"> – Published and implemented a global diversity and inclusion (D&I) policy statement, created new D&I strategy through FY25 with oversight by recently formed ESG Committee and agreed a set of internal I&D goals for FY22. – Improved employee engagement scores from the FY19 baseline, maintained “My Voice” employee survey participation levels at over 85% and grew membership of Employee Resource Groups by 34% in FY21 from FY20. – Target of having 25% of our employees taking part in community volunteering by the end of FY21 was not fully achieved. This goal for FY21 was largely based on in person volunteering, which was significantly impacted by COVID-19. Nonetheless, we achieved 11% of employees volunteering in FY21, which is an increase from FY20 and we introduced an option (supported by technology) to enable virtual volunteering with 976 employees taking part in virtual volunteering in FY21. <p>Customers and suppliers</p> <ul style="list-style-type: none"> – Increased our Customer double-blind Net Promoter Score to 47 for FY21 (from 45% for FY20) and our double-blind Relative Net Promoter Score to +5 compared to the competition for FY21 (from 0 for FY20). – Established and implemented a global diverse supplier programme which ensures that we proactively identify and encourage diverse suppliers to compete for our business and build long-term relationships with them. <p>Governance</p> <ul style="list-style-type: none"> – Implemented an ESG framework and programme reflecting focus on our employees, customers, shareholders and partners, including appointment of an ESG Board Committee to provide Board ESG focus and oversight and establishment of an ESG cross functional Working Group to ensure that ESG considerations are part of “business as usual” decision making processes at all levels and to develop the strategy going forward. – The Enterprise Risk Management framework was enhanced to include existing and new ESG risks and was approved by the audit committee. 	8.5%
Total	20.0%	Looking at the complete scorecard of achievement against all objectives for the year, the committee considered that the CEO had performed extremely well, highlighting in particular the completion of the transfer to a single enterprise platform and the significant progress which has been made on the turnaround plan, resulting in a KPO achievement of 90% (i.e. 18% out of a possible 20%).	18.0%

KPO	Relative weighting	Achievement vs KPO	Weighted payout %
CFO (4 months)			
3-year plan Build a revised 3-year plan with specific goals for the exit of FY23 that will be the foundations for our execution plan going forward and for communication externally to shareholders and the market more broadly.	10.0%	<ul style="list-style-type: none"> The 3-year plan has been revised and the core financial objectives for the next two financial years and our longer-term ambitions were laid out in our 30 November 2021 Strategy Update. The new plan, developed by the CFO in conjunction with the CEO, reflects a reset of expectations with realistic and achievable goals which lays the foundations for the business transformation. A granular operational plan to execute the strategy has been put in place, which includes the appointment of a Chief Transformation Officer to co-ordinate multiple workstreams and the successful sale of the Digital Safe business. The external financial KPIs were refined to provide greater clarity on the Group's financial performance and more closely align the metrics to those used by the Group's debt holder. The CFO has concluded that there will be no more integration costs associated with the HPE Software acquisition classified as exceptional spend going forward. The CFO has laid foundations for future financial effectiveness, having assessed and made recommendations on how we leverage advisors and formal relationships and our overall use of consultancies to improve effectiveness and value for money in the mid-term. 	9.5%
Business systems and infrastructure Support the effective transition to a single enterprise platform overall and specifically from a core financial perspective.	10.0%	<ul style="list-style-type: none"> Successfully completed the transfer to a single enterprise platform by transferring Stack A to Stack C in H2 FY21, enabling the Company to unlock further efficiencies. FY21 Q3 and Q4 were successfully delivered on the new platform. Business as usual has not been impacted by the transition with minimal disruption to revenue and the payment of employees and suppliers. 	8.5%
Total	20.0%	The Committee recognised that in four months, the CFO has had a significant impact, in particular in revising the 3-year plan, resulting in a KPO achievement of 90% (i.e. 18% out of a possible 20%).	18.0%

Lapse of 2018 and 2019 LTIP awards (audited)

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

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

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

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

Scheme interests awarded during the financial year ended 31 October 2021 (audited)
LTIP – nil-cost options

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

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

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

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

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

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

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

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

Relative TSR is measured over the same three financial years.

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

Deferred Share Bonus Plan (DSBP)

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

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

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

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

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

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

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

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

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

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

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

2 Current shareholding includes the value of any shares held (owned outright) together with the net after-tax value of any vested but unexercised nil-cost options valued based on the closing mid-market price on 29 October 2021 of £3.57.

3 As at 31 October 2021, Matt Ashley had only recently joined the Company and he has five years from joining to build up to the 200% of salary shareholding requirement. He did not receive any grants or vestings of share awards in FY21 and was unable to acquire shares during his time employed in FY21 due to dealing restrictions.

4 Brian McArthur-Muscroft stepped down from the board on 30 June 2021. In accordance with our policy, he is not required to hold any Company shares post-cessation of employment. However, he does have a deferred share bonus plan award, as detailed in the table above, which relates to the one-third portion of his FY20 annual bonus which was deferred into share awards.

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

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

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

Outstanding share-based awards (audited)

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

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

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

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

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

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

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

	Grant Date	Number at 1 November 2020	Number granted in the financial year	Number exercised in the financial year	Number lapsed in the financial year	Number at 31 October 2021	Dates for exercise
Stephen Murdoch	13 September 2016	39,640	–	–	–	39,640	26 July 2019 to 25 July 2026
Stephen Murdoch	20 September 2018	67,537	–	–	67,537 ¹	–	n/a
Stephen Murdoch	18 February 2019	101,190	–	–	–	101,190²	n/a – will lapse
Stephen Murdoch	23 April 2020	250,000	–	–	–	250,000³	23 April 2023 to 22 April 2030
Stephen Murdoch	26 March 2021	–	350,515	–	–	350,515⁴	26 March 2024 to 25 March 2031
Brian McArthur-Muscroft ⁵	22 November 2018	80,482	–	–	80,482	–	n/a
Brian McArthur-Muscroft ⁵	22 November 2018	80,482	–	–	80,482	–	n/a
Brian McArthur-Muscroft ⁵	23 April 2020	300,000	–	–	300,000	–	n/a
Kevin Loosemore	18 February 2019	52,083	–	–	–	52,083²	n/a – will lapse

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

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

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

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

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

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

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

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

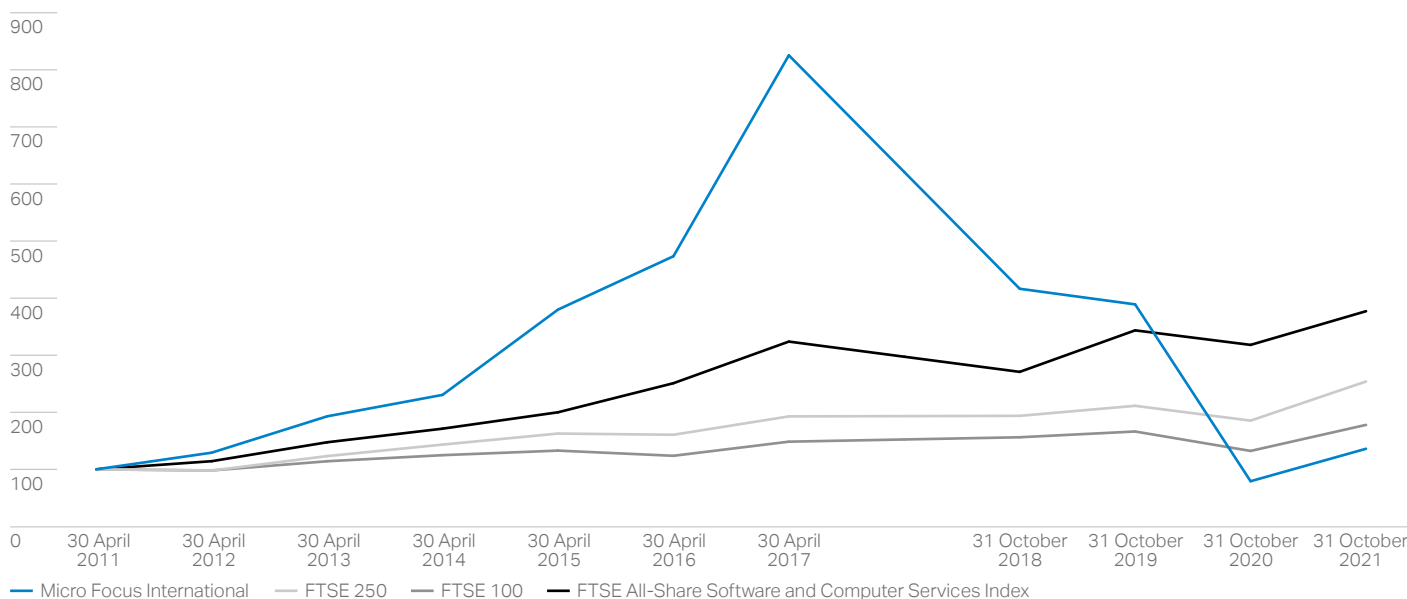
TSR performance graph and CEO historical pay table

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

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

TSR performance graph

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



CEO historical pay table

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

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

Annual percentage change in remuneration of directors and employees

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

Director	% change from FY20 to FY21			% change from FY19 to FY20		
	Salary/fees	Benefits	Annual bonus	Salary/fees	Benefits	Annual Bonus
Stephen Murdoch	0%	(10%)	159%	0%	7%	n/a
Matt Ashley ¹	n/a	n/a	n/a	n/a	n/a	n/a
Greg Lock ²	n/a	n/a	n/a	n/a	n/a	n/a
Karen Slatford	0%	0%	n/a	0%	0%	n/a
Richard Atkins	0%	0%	n/a	0%	0%	n/a
Amanda Brown	0%	0%	n/a	0%	0%	n/a
Lawton Fitt	0%	0%	n/a	0%	0%	n/a
Robert Youngjohns ²	n/a	n/a	n/a	n/a	n/a	n/a
Sander van 't Noordende ²	n/a	n/a	n/a	n/a	n/a	n/a
Pauline Campbell ³	n/a	n/a	n/a			n/a
Average employee⁴	3%	(2%)⁵	169%	4.4%	4.5%	1.9%

1 Matt Ashley joined the board on 1 July 2021.

2 N/a has been included for percentage change in fees for Greg Lock, Robert Youngjohns and Sander van 't Noordende to reflect that part service in FY20 would otherwise be compared to full service in FY21.

3 Pauline Campbell joined the board on 1 October 2021.

4 Under the UK Regulations, we are required to show the comparison change in salary, benefits and annual bonus for employees of the parent Company (Micro Focus International plc) other than directors. However, as there are no other employees of this Company other than the directors, we have instead voluntarily disclosed the required information for the average employee across Micro Focus. The average employee is based on all employees globally who were in the Company Bonus Plan in both FY20 and FY21 (i.e. excluding employees on sales commission) and were employed throughout the two-year period. We have selected employees in the Company Bonus Plan for this comparison as it reflects approximately 80% of the total employee population and is considered the most relevant comparator group given the structure of these employees' remuneration relative to the executive directors (in contrast to those on sales commission plans).

5 The reduction in benefits for the average employee from FY20 to FY21 reflects an overall reduction in the modelled cost of providing the benefits.

UK pay ratios

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

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

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

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

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

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

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

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

Remuneration for the wider workforce and workforce engagement

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

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

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

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

Directors' Remuneration report

continued

Relative importance of spend on pay

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

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

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

Payments for loss of office (audited)

Brian McArthur-Muscroft

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

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

Payments to past directors (audited)

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

Executive directors' notice periods

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

¹ Stephen Murdoch stepped down from the board on completion of the HPE Software business acquisition on 1 September 2017 to become Chief Operating Officer. He was reappointed to the board as Chief Executive Officer on 19 March 2018.

² Matt Ashley joined the Company on 28 June 2021 and was appointed to the board as Chief Financial Officer on 1 July 2021.

³ The executive directors do not have a fixed term.

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

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

Base salary

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

Benefits

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

Pension

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

Annual bonus

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

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

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

FY22 LTIP

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

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

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

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

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

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

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

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

FY21 Recruitment LTIP for CFO

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

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

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

1 Greg Lock's benefits value reflects private medical and dental cover (single person coverage).

2 Lawton Fitt receives an additional fee of £10,000 per annum due to her SEC and SOX experience.

3 Sander van 't Noordende's GBP fee is paid to him in US dollar (converted based on the average monthly FX rate in the month prior to payment).

4 Pauline Campbell joined the board on 1 October 2021.

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

Non-executive directors' fees for FY22

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

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

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

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

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

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

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

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

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

Non-executive directors' terms of appointment

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

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

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

Remuneration committee information

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

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

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

Directors' Remuneration report
continued

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

Factor	How has this been addressed
<p>Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.</p>	<p>We wrote to key shareholders in advance of granting the FY22 LTIP awards regarding the change in weighting of performance measures from the FY21 awards (see page 115 for more details).</p> <p>The Company engages with employees in connection with their remuneration through a variety of methods including explanatory guides and face-to-face briefings and seeks their views on reward via employee opinion surveys. We also share more information with employees about executive pay (see page 113).</p>
<p>Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.</p>	<p>Our incentive structure for executive directors comprises an annual bonus plan (with one-third deferral into share awards for three years) and one long-term incentive plan (with a two-year post-vesting holding period).</p> <p>The performance measures for the annual bonus plan and the LTIP underpin our strategic objectives (see page 103).</p>
<p>Risk Remuneration arrangements should ensure that reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.</p>	<p>Our Remuneration Policy incorporates a number of design features in order to take into account and minimise risk as follows:</p> <ul style="list-style-type: none"> – The committee can apply discretion to override formulaic incentive outcomes if it believes this would result in a fairer outcome and would disclose this in the next Annual report on Remuneration (this includes reviewing at the time of vesting any windfall gains arising from a reduced share price at the time of grant). – We operate bonus deferral, post-vesting holding periods for vested LTIP awards and post-cessation shareholding requirements. – Extensive malus and clawback provisions are in place for the annual bonus and LTIP.
<p>Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.</p>	<p>At the time of approving the current Remuneration Policy, charts were included (page 98 of the FY19 Directors' Remuneration report) which provided an estimate of the potential reward opportunities for the executive directors. The discretions available to the committee, for example to override formulaic incentive outcomes and to apply malus and clawback, were described on page 98 of the FY19 Directors' Remuneration report.</p> <p>The maximum award levels are also included on page 102 of this Annual report on Remuneration.</p>
<p>Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.</p>	<p>Performance measures are designed to align to strategy and incentive plans provide for a range of payout levels which are dependent on and linked to Company performance. We made changes to the weighting of performance measures for the FY22 LTIP awards to enhance alignment with the Transformation Strategy announced on 30 November 2021.</p> <p>Deferral periods and holding periods help to further align incentive outcomes for executives to the shareholder experience.</p> <p>The committee is satisfied that incentive outcomes for FY21 (zero vesting for the CEO's 2018 and 2019 LTIP and an FY21 bonus payout of 57% of the maximum opportunity) are reflective of the Company's performance over the respective performance periods.</p>
<p>Alignment to culture Incentive schemes should drive behaviours consistent with Company purpose, values and strategy.</p>	<p>The performance measures for the LTIP and the annual bonus plan underpin our strategic objectives (see page 103).</p> <p>In addition, individual KPOs for the personal element of the annual bonus are designed to focus on key non-financial goals which are linked to the Company's business strategy and key annual ESG milestones.</p>

Remuneration committee advice

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

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

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

Shareholder voting at Annual General Meetings

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

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

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

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

On behalf of the board,

Amanda Brown

Chair, Remuneration committee
7 February 2022

Directors' report

The directors of Micro Focus International plc ("Company") present their report and the audited consolidated financial statements of the Company for the year ended 31 October 2021.

Scope of this report

The Group is required by the Companies Act 2006 to present a fair review of the business during the year ended 31 October 2021, of the position of the Group at the end of the financial period along with a description of the principal risks and uncertainties faced by the Group and insight into the likely future developments. The information that fulfils these requirements can be found in the Strategic report from pages 06 to 73. Certain items that would otherwise need to be included in this Directors' report (including an indication of likely future developments in the business of the Company and the Group and how the directors consider business relationships with stakeholders when making key decisions) have, as permitted, instead been discussed in the Strategic report which incorporates our Section 172 statement on pages 46 and 47, while details of the Group's policy on addressing financial risks and details about financial instruments are shown in note 24 to the Group financial statements.

For the purposes of compliance with the requirements of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules ("DTR"), and specifically DTR 4.1.5R(2) and DTR 4.1.8R, the required content of the "management report" can be found in the Strategic report or this Directors' report, including the material incorporated by reference.

Taken together, the Strategic report and this Directors' report are intended to provide a fair, balanced and understandable assessment of the development and performance of the Group's business during the year and its position at the end of the year, its strategy, likely developments, and any principal risks and uncertainties associated with the Group's business.

Under DTR 7.2.1R the Company is required to produce a corporate governance statement, the required content of which can be found in this Directors' report or in the Corporate governance section on pages 75 to 88 which is hereby incorporated into this Directors' report by reference.

Dividends

The board follows a policy of declaring a level of full year dividend that is covered approximately five times by the adjusted profit after tax. For the year ended 31 October 2021, the directors have recommended a final dividend of 20.3 cents per share. When taken together with the interim dividend of 8.80 cents per share paid on 6 August 2021, this gives a total dividend in respect of the year ended 31 October 2021 of 29.1 cents per share. Subject to its approval by shareholders at the forthcoming Annual General Meeting ("AGM"), the final dividend will be paid on 21 April 2022 to shareholders on the register at the close of business on 11 March 2022.

In prior periods we have declared our dividend in USD, then converted this to a GBP equivalent amount at the date of announcement, which was then paid to shareholders. For the payment of the FY21 interim dividend, and the FY21 final dividend:

- holders of the Company's ordinary shares receive GBP calculated using a conversion rate fixed two weeks prior to the payment date based on the average spot exchange rate over the five business days preceding the announcement date; and
- holders of ADS receive directly in USD.

The trustee of the Micro Focus Employee Benefit Trust ("EBT") has waived its right to dividends paid on any shares it holds on the terms of the EBT in respect of the period covered by the financial statements and future periods.

Directors and directors' interests

The names, roles and short biographical details of the directors of the Company in office at 31 October 2021, all of whom continued to serve to the date of this report, are given on pages 78 and 79. In addition Brian McArthur-Muscroft served as Chief Financial Officer until 30 June 2021.

Sander van 't Noordende and Karen Slatford have notified the board of their intention to step down as directors at the conclusion of the 2022 Annual General Meeting.

Details of the interests of the directors and their families in the ordinary shares of the Company are given in the Directors' Remuneration report on pages 100 to 119.

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 period, as disclosed in note 29 to the financial statements.

Directors' insurance and indemnity provisions

The Company maintains insurance cover for all directors and officers of Group companies against liabilities which may be incurred by them while acting in that capacity at the Group's request.

During the year and to the date of this report, qualifying third party indemnities were in force under which the Company has agreed to indemnify the directors, to the extent permitted by law and by the Articles of the Company, against liabilities they may incur in the execution of their duties as directors of the Company.

Share capital

As at 31 October 2021 the Company has a single class of shares in existence, being ordinary shares of 10 pence each.

During the year ended 31 October 2021, 304,361 ordinary shares were issued, and a further 441,549 ordinary shares were transferred from treasury, to satisfy obligations under employee share plans.

As at 31 October 2021, the total share capital of the Company was 364,849,738 ordinary shares, of which 29,203,078 were held in treasury. Therefore, the total number of ordinary shares with voting rights in the Company as at 31 October 2021 was 335,646,660.

American Depositary Shares

The Company has a Sponsored Level III American Depositary Receipt ("ADR") facility that is listed on the NYSE under the symbol MFGP. Each American Depositary Share ("ADS") is equivalent to one ordinary share and each ADS holder is entitled to the financial rights attaching to such shares, although the ADR depository, Deutsche Bank, is the registered holder. As at 31 October 2021, the equivalent of 92,985,425 shares were held in ADS form.

Rights and obligations attaching to shares

Voting

At 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 AGM to be held on 30 March 2022 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 certificated 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 certificated share which is not a fully paid share provided that, where any such shares are admitted to the Official List maintained by the Financial Conduct 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 recognise 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 (as defined in the Articles) accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person to do so). In the case of a transfer of shares in certificated form by a recognised clearing house or a nominee of a recognised clearing house or of a recognised 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 2001 (SI 2007 No.3755), as amended), and apart from any class of wholly dematerialised 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.

Powers of the directors to issue or buy back shares

In managing the business of the Company, the board 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 Articles, the Companies Act 2006 and any resolution of the Company.

At the AGM held on 25 March 2021 the directors were granted the powers to allot equity securities with a nominal value of up to £22,347,738 (provided that any amount in excess of £11,173,869 was applied to fully pre-emptive rights issues only) and to make market purchases of the Company's shares on the terms set out above. No such shares have been issued.

At the last AGM, shareholders further renewed authority to buy back up to 14.99% of its issued share capital. At that time, this amounted to 50,248,890 ordinary shares. This authority remains outstanding until the conclusion of the next AGM on 30 March 2022. No purchases were made under this authority during the year.

Shares held in the Employee Benefit Trust

Where the trustee of the EBT holds shares in the Company and the beneficial interest in those shares has not been transferred to a beneficiary of the EBT, the trustee may not vote in relation to those shares at any meeting of shareholders of the Company.

Substantial shareholdings

At 31 October 2021, the Company had been notified, pursuant to DTR5, of the following information in relation to investors' interests in voting rights, attached to ordinary shares and financial instruments relating to the share capital of the Company:

	Number of voting rights	Percentage of voting rights
Dodge & Cox	57,130,923	17.01%
BlackRock, Inc.	26,546,176	7.93%
M&G plc	16,912,423	5.05%
Causeway Capital Management LLC	16,322,007	4.88%

There have been three changes in the interests disclosed to the Company notified between 31 October 2021 and 4 February 2022. On 15 December 2021, 20 December 2021 and 21 December 2021 BlackRock, Inc. advised changes took place. The percentage interest of BlackRock, Inc. in the voting rights of the Company in the final disclosure was 5.82% (19,572,136 voting rights).

Employment policies

The Group endeavours to appoint employees with appropriate skills, knowledge and experience for the roles they undertake. The Group has a range of policies aimed at retaining and providing incentives for key employees. Objectives are set for departments and employees derived from the Group's business objectives. Performance is monitored throughout the year and formally measured against these objectives twice each year. The Group has a clear and well-understood organisational structure and each employee knows his or her line of accountability and their responsibilities.

Equality and diversity

Micro Focus is proud to be an Equal Opportunity Employer and a place of belonging. All employees and prospective employees receive consideration without discrimination because of race, colour, religion, creed, gender, national origin, age, disability, marital or veteran status, sexual orientation, genetic information, citizenship or any other legally protected status. This is in accordance with the Group's Equal Opportunities policy, Code of Conduct and Diversity and Inclusion policy statement.

Disabled employees

Applicants with disabilities are given equal consideration in our application process. 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. Disabled employees have equipment and working practices modified for them as far as possible and practicable.

Employee involvement

The Group believes it is important that employees are aware of the Group's business strategy and the objectives, to enable them in working towards these goals. The Group's communication and consultation programme is designed to provide employees with information on matters of concern to them as employees, and as a means of consulting employees (or their representatives) on a regular basis so that employees' views can be taken into account in making decisions, which are likely to affect their interests. Key features of the programme include My Voice, our all-employee internal survey for employees to provide confidential and anonymous feedback, regular CEO-led All Employee Meetings, our company-wide intranet InFocus and employee-wide communications at the time of key announcements, including conference calls and webinars for senior managers and presentations by directors to all employees throughout the period. In addition, regular meetings are held with staff and managers, to raise issues and achieve common employee awareness of the financial and economic factors affecting the Group's performance.

These meetings also provide an opportunity for a two-way flow of information, supported by an online process which enables employees to express views and suggest improvements.

During FY21 we held two employee panel sessions with Karen Slatford, our Senior Independent Director and Workforce Engagement Director. This creates direct communication between our board of directors and employees and allows the board to hear employee feedback about overall employee sentiment and engagement, which in turn informs and supports their decision making in accordance with s172 of the Companies Act 2006, see pages 46 and 47.

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 analysed 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.

Share plans

The directors remain committed to the principle of employee share ownership throughout the Company. Employees globally are able to participate in one of the Group's all-employee share plans (a Sharesave plan and an Employee Stock Purchase Plan), which are intended to encourage employee share ownership and involvement in the Company's performance. For more senior employees who are better placed to contribute to the development and performance of the Group, the Group operates a discretionary long-term incentive plan ("LTIP"). Details of all the Group's share-based plans, whether operating on an all-employee or discretionary basis, are given in note 28.

Amendment to the articles of association

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

Appointment and replacement of directors

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

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

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

The office of director shall be vacated if:

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

Significant agreements

There are a number of agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of significant agreements of this kind are as follows:

Bank borrowings

On 17 January 2022, the Group announced the refinancing of \$1.6bn of existing term loans. This refinancing comprised a €750m and a \$750m Senior Secured Term Loan B. The new 5-year facilities have been used by the Group to fully refinance its existing Senior Secured Term Loan B Euro facility issued by MA FinanceCo., LLC due June 2024 as well as partially refinance the existing Senior Secured Term Loan B USD facilities issued by Seattle SpinCo, Inc., (\$750m refinanced, \$1,678m remaining) and MA FinanceCo., LLC, (\$359.5m B-3 fully replaced by additional Euro borrowing) due June 2024.

The new 5-year facilities incur interest at 4.00% above EURIBOR (subject to 0% floor) at an original issue discount of 0.5% on the Euro denominated tranche, and 4.00% above SOFR and CSA (subject to 0.5% floor) at an original issue discount of 1.0% on the US dollar denominated tranche. This represents an increase in annualised interest costs of approximately \$23.0m.

The following facilities were drawn as at 31 October 2021:

- The €585.0m (equivalent to \$676.0m) senior secured five-year term loan B-1 issued by MA FinanceCo., LLC maturing in June 2025, is priced at EURIBOR plus 4.5% (subject to a EURIBOR floor of 0.00%) with an original issue discount of 3.0%;
- The \$359.5m senior secured seven-year term loan B-3 issued by MA FinanceCo., LLC, maturing in June 2024, is priced at LIBOR plus 2.75% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%;
- The \$633.7m senior secured five-year term loan B-4 issued by MA FinanceCo., LLC, maturing in June 2025, is priced at LIBOR plus 4.25% subject to a LIBOR floor of 1.00% with an original issue discount of 2.5%;

- The \$2,427.9m senior secured seven-year term loan B issued by Seattle SpinCo, Inc., maturing in June 2024, is priced at LIBOR plus 2.75% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%; and
- The €442.2m (equivalent to \$510.9m) senior secured seven-year term loan B issued by MA FinanceCo., LLC, maturing in June 2024, is priced at EURIBOR plus 3.00% (subject to a EURIBOR floor of 0.00%) with an original issue discount of 0.25%.

The following facilities were undrawn as at 31 October 2021:

- A senior secured revolving credit facility of \$350.0m ("Revolving Facility"), with an interest rate of 3.25% above LIBOR on amounts drawn (and 0.5% on amounts undrawn) thereunder (subject to a LIBOR floor of 0.00%).

At 31 October 2021, none of the Revolving Facility was drawn (31 October 2020: \$nil), together with \$4,608.0m of term loans giving gross debt of \$4,608.0m drawn.

Details of repayment requirements and the financial covenants related to these term-loan borrowings are disclosed in note 18.

Share plans and compensation for loss of office

Information on payments for loss of office of employment is set out on page 114. The Executive Directors' policy on payments for loss of office and change of control is set out in the Company's Remuneration Policy (see pages 99 to 100 of the FY19 Annual Report), which includes a summary of the share plan provisions on a change of control. Under the Company's share plans, awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plan. Subject to that, there are no other significant agreements between the Company and its employees providing for compensation for loss of office or employment which occurs because of a takeover bid.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

Greenhouse gas emissions

This section includes Micro Focus' mandatory reporting of GGE pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008/2014.

Reporting year

The Greenhouse Gas ("GHG") reporting period is the same as Micro Focus' fiscal period being 1 November 2020 to 31 October 2021.

Organisational 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 organisational boundary.

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

Methodology

The methodology used to calculate emissions is based on the most current set of regulations published by the Department for Environment, Food and Rural Affairs ("DEFRA") relating to relevant reporting periods.

Year-on-year comparisons for energy consumed and carbon emissions

	FY21	FY20	Change %
Total energy consumption (metered) MWh	51,146	49,296	3.8%
Scope 1 Total energy consumption kWh	6,030,482	6,050,349	-0.3%
Scope 2 Total energy consumption kWh	45,115,726	43,245,367	4.3%
Energy consumed (metered) kWh per employee	8,313	8,299	0.2%
Scope 1 UK only consumption kWh	1,296,857	1,412,935	-8.2%
Scope 2 UK only consumption kWh	2,156,324	2,614,354	-17.5%
Scope 1 & 2 combined UK only consumption (6.8% of total global consumption)	3,453,181	4,027,289	-14.3%
GHG emissions (tCO ₂ e)	25,242	24,858	1.5%
Scope 1 global GHG emissions (tCO ₂ e)	1,109	1,113	-0.4%
Scope 2 global GHG emissions (tCO ₂ e)	24,133	23,745	1.6%
GHG emissions per employee (tCO ₂ e)	4.10	4.18	-1.9%
Scope 1 UK only emissions (tCO ₂ e2)	238	260	-8.5%
Scope 2 UK only emissions (tCO ₂ e)	493	600	-17.8%
Scope 1 & 2 UK only combined emissions (tCO ₂ e) (2.9% of total global emissions)	731	860	-15.0%
Total estimated GHG emissions (KtCO ₂ e)	47.0	50.0	-6.0%

Adjusted like-for-like basis	FY21	FY20	Change %
Total energy consumption (metered) MWh	46,164	49,296	-6.4%
Scope 1 Total energy consumption kWh	6,030,482	6,050,349	-0.3%
Scope 2 Total energy consumption kWh	40,134,308	43,245,367	-7.2%
Energy consumed (metered) kWh per employee	8,110	8,299	-2.3%
GHG emissions (tCO ₂ e)	23,298	24,858	-7.8%

Scope of reporting emissions

Micro Focus' operational footprint reduced over the reporting period. On a like-for-like basis Micro Focus' energy consumption was lower than the previous reporting period -6.4%, with continued best practice across the entire real estate, further capital investment in "green" projects and targeted employee communication, staff focused on reducing emissions. GHG emissions decreased by 7.8% on a like-for-like basis.

During the year ended 31 October 2021, Micro Focus collaborated with Schneider Electric to further develop our Energy Management System and monitor and review the energy across the global estate.

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

Please see page 43 for details of principal measures taken for the purpose of increasing the businesses energy efficiency in FY21.

The Streamlined Energy and Carbon Reporting ("SECR")

Whilst Micro Focus in the UK has achieved a reduction in Scope 1 & 2 GHG emissions and energy consumption, we believe these numbers are under potential. This is due to a number of the planned principal measures to increase energy efficiency having been delayed due to reasons beyond our control, such as accessing materials and supplies. The energy saving projects, such as upgrading to LED lights and improving building insulation, will continue into FY22. For more information on our energy efficiency plans please see page 43.

Streamlined Energy and Carbon Reporting (SECR) Disclosure for Micro Focus Limited

The SECR disclosure presents the Company's carbon footprint within the United Kingdom across Scope 1, 2 and to some extent Scope 3 emissions, an appropriate intensity metric, the total energy use of electricity, gas and transport fuel and an energy efficiency actions summary taken during the relevant financial year.

	Year to 31 October 2021	Year to 31 October 2020
Energy consumption used to calculate emissions (kWh)	2,200,351	2,230,353
Emissions from combustion of gas (Scope 1) tCO ₂ e	127	122
Emissions from business travel in rental cars or employee-owned vehicles where the Company is responsible for purchasing the fuel (Scope 3) tCO ₂ e	8	3
Emissions from purchased electricity (Scope 2, location-based) tCO ₂ e	315	361
Total gross tCO ₂ e based on above	450	486
Intensity ratio (tCO ₂ e/ft ²)	0.00710	0.00752
Intensity ratio (tCO ₂ e/FTE)	0.95175	0.97629

Energy efficiency action summary

Due to the COVID-19 pandemic Micro Focus Limited postponed the energy efficiency improvement projects to the coming financial years.

Methodology notes

Reporting period	1 November 2020 – 31 October 2021
Boundary (consolidation approach)	Operational approach
Alignment with financial reporting	SECR disclosure has been prepared in line with Micro Focus Limited's annual accounts made up to 31 October 2021.
Reporting method	GHG Emissions reporting are in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard.
Emissions and Conversion factor source	DEFRA, 2021 for all emissions and conversion factors https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021
Calculation method	Activity Data x Emission Factor = GHG emissions Activity Data x Conversion Factor = kWh consumption
Conversion factor source	Federal Register EPA for natural gas and gasoline (petrol) https://www.ecfr.gov/cgi-bin/text-idx?SID=ae265d7d6f98ec86fcd8640b9793a3f6&mc=true&node=pt40.23.98&rgn=div5#ap40.23.98_138.1 U. S. Energy Information Administration for diesel https://www.eia.gov/totalenergy/data/monthly/pdf/sec12_2.pdf
Other relevant information on calculation	Scope 3 transport emissions data was calculated from expense claims after personal car mileage, and short-term car rentals. The expense claims were divided between petrol and diesel using VEH0203. The mileage expense was converted from pounds into mileage using the tax rates per business mile (https://www.gov.uk/expenses-and-benefits-business-travel-mileage/rules-for-tax) and then converted into kWh and litres using DEFRA 2021 factors. The car rental expenses were converted into litres using the average weekly fuel prices of the reporting period (https://www.gov.uk/government/statistics/weekly-road-fuel-prices). This is a likely overestimation of the fuel usage.
Information on the intensity ratios	Micro Focus Limited uses the total area of our sites in square feet and the number of full-time employees at the reporting sites in the disclosure's financial year, as these metrics are the best aligned to the nature of our business.
Rounding	Due to rounding there might be a minor difference compared to the actual GHG emissions.

Streamlined Energy and Carbon Reporting (SECR) Disclosure for Micro Focus Software UK Limited

The SECR disclosure presents the Company's carbon footprint within the United Kingdom across Scope 1, 2 and to some extent Scope 3 emissions, an appropriate intensity metric, the total energy use of electricity, gas and transport fuel and an energy efficiency actions summary taken during the relevant financial year.

	Year to 31 October 2021	Year to 31 October 2020
Energy consumption used to calculate emissions (kWh)	282,773	762,298
Emissions from combustion of gas (Scope 1) tCO ₂ e	0	28
Emissions from combustion of fuel for transport purposes (Scope 1) tCO ₂ e	29	2
Emissions from business travel in rental cars or employee-owned vehicles where the Company is responsible for purchasing the fuel (Scope 3) tCO ₂ e	23	59
Emissions from purchased electricity (Scope 2, location-based) tCO ₂ e	12	81
Total gross tCO ₂ e based on above	64	170
Intensity ratio (tCO ₂ e/ft ²)	0.01377	0.00706
Intensity ratio (tCO ₂ e/FTE)	1.17765	0.87600

Energy efficiency action summary

Due to the COVID-19 pandemic Micro Focus Software UK Limited postponed the energy efficiency improvement projects to the coming financial years.

Methodology notes

Reporting period	1 November 2020 – 31 October 2021
Boundary (consolidation approach)	Operational approach
Alignment with financial reporting	SECR disclosure has been prepared in line with Micro Focus Software UK Limited's annual accounts made up to 31 October 2021.
Reporting method	GHG Emissions reporting are in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard.
Emissions and Conversion factor source	DEFRA, 2021 for all emissions and conversion factors https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021
Calculation method	Activity Data x Emission Factor = GHG emissions Activity Data x Conversion Factor = kWh consumption
Conversion factor source	Federal Register EPA for natural gas and gasoline (petrol) https://www.ecfr.gov/cgi-bin/text-idx?SID=ae265d7d6f98ec86fcd8640b9793a3f6&mc=true&node=pt40.23.98&rgn=div5#ap40.23.98_138.1 U. S. Energy Information Administration for diesel https://www.eia.gov/totalenergy/data/monthly/pdf/sec12_2.pdf
Other relevant information on calculation	7% of the electric power consumption was based on estimated data. Scope 1 transport emissions were calculated from mileage data into kWh and litres using DEFRA 2021 factors. The electric power consumption of an electric vehicle for 3,146 miles in not included in the emissions table to avoid double counting, as we had no information on the location of the charging station. Scope 3 transport emissions data was calculated from expense claims after personal car mileage, and short-term car rentals. The expense claims were divided between petrol and diesel using VEH0203. The mileage expense was converted from pounds into mileage using the tax rates per business mile (https://www.gov.uk/expenses-and-benefits-business-travel-mileage/rules-for-tax) and then converted into kWh and litres using DEFRA 2021 factors. The car rental expenses were converted into litres using the average weekly fuel prices of the reporting period (https://www.gov.uk/government/statistics/weekly-road-fuel-prices). This is a likely overestimation of the fuel usage.
Information on the intensity ratios	Micro Focus Software UK Limited uses the total area of our sites in square feet and the number of full-time employees at the participating sites in the report's financial year, as these metrics are the best aligned to the nature of our business.
Rounding	Due to rounding there might be a minor difference compared to the actual GHG emissions.

Streamlined Energy and Carbon Reporting (SECR) Disclosure for Autonomy Systems Limited

The SECR disclosure presents the Company's carbon footprint within the United Kingdom across Scope 1, 2 and to some extent Scope 3 emissions, an appropriate intensity metric, the total energy use of electricity, gas and transport fuel and an energy efficiency actions summary taken during the relevant financial year.

	Year to 31 October 2021	Year to 31 October 2020
Energy consumption used to calculate emissions (kWh)	1,228,772	1,022,232
Emissions from combustion of gas (Scope 1) tCO ₂ e	111	68
Emissions from combustion of fuel for transport purposes (Scope 1) tCO ₂ e	0	0
Emissions from business travel in rental cars or employee-owned vehicles where the Company is responsible for purchasing the fuel (Scope 3) tCO ₂ e	0	0
Emissions from purchased electricity (Scope 2, location-based) tCO ₂ e	131	151
Total gross tCO ₂ e based on above	242	219
Intensity ratio (tCO ₂ e/ft ²)	0.00507	0.00459
Intensity ratio (tCO ₂ e/FTE)	2.57447	2.19000

Energy efficiency action summary

Due to the COVID-19 pandemic Autonomy Systems Limited postponed the energy efficiency improvement projects to the coming financial years.

Methodology notes

Reporting period	1 November 2020 – 31 October 2021
Boundary (consolidation approach)	Operational approach
Alignment with financial reporting	SECR disclosure has been prepared in line with Autonomy Systems Limited's annual accounts made up to 31 October 2021.
Reporting method	GHG Emissions reporting are in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard.
Emissions and Conversion factor source	DEFRA, 2021 for all emissions and conversion factors https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021
Calculation method	Activity Data x Emission Factor = GHG emissions Activity Data x Conversion Factor = kWh consumption
Conversion factor source	Federal Register EPA for natural gas and gasoline (petrol) https://www.ecfr.gov/cgi-bin/text-idx?SID=ae265d7d6f98ec86fcd8640b9793a3f6&mc=true&node=pt40.23.98&rgn=div5#ap40.23.98_138.1
Information on the intensity ratios	Autonomy Systems Limited uses the total area of our sites in square feet and the number of full-time employees at the participating sites in the report's financial year, as these metrics are the best aligned to the nature of our business.
Rounding	Due to rounding there might be a minor difference compared to the actual GHG emissions.

Locations and approach taken

Actual emissions data used 40 properties/locations, has increased to 67.7% of our global operational footprint – Sydney (Australia), Canberra (Australia), Melbourne (Australia), Bangalore x 3, (India), Barcelona (Spain), Beijing (China), Belfast x 2, (Northern Ireland), Bellingham (US), Cambridge (UK), Dalian (China), Dublin (Ireland), Düsseldorf (Germany), Galway (Ireland), Haifa (Israel), Hanau (Germany), Hillsboro (US), Johannesburg (South Africa), Kiev (Ukraine), León (Spain), Linz (Austria), Milan (Italy), Mumbai (India), Newbury x 2, (UK), Prague (Czech Republic), Provo x 2, (US), Rome (Italy), São Paulo (Brazil), Shanghai (China), Singapore (Singapore), Sofia (Bulgaria), Stockholm (Sweden), Troy (US) and Yehud (Israel).

The following locations are out of scope due to size and/or lack of availability of information: Where the data is not available, the same intensity ratio is used for the location on a headcount basis. Average UK CO₂/employee multiplied by headcount – Abu Dhabi (United Arab Emirates), Aguadilla (Puerto Rico), Ahaus (Germany), Alpharetta (United States), Ankara (Turkey), Ballerup (Denmark), Boeblingen (Germany), Bucharest (Romania), Cambridge, (United States), Chennai (India), Chongqing (China), Cluj x 2, (Romania), Costa Mesa (US), Dornach (Germany), Dubai (United Arab Emirates), Dubai (UAE), Erskine (United Kingdom), Espoo (Finland), Fort Collins (United States), Geneva (Switzerland), Gurgoan (India), Heredia (Costa Rica), Hong Kong (China), Houston (US), Istanbul (Turkey), Jakarta (Indonesia), Lisbon (Portugal), Loveland (US), Madrid (Spain), Montreal (Canada), Moscow (Russian Federation),

Nagoya (Japan), New York (US), Osaka (Japan), Oslo (Norway), Ottawa (Canada), Paris (France), Pittsburg (United States), Plano (United States), Pleasanton (United States), Ratingen (Germany), Rockville (US), Rotterdam (Netherlands), Santa Clara (US), Seattle (US), Seoul (South Korea), Shenzhen (China), South Euclid (US), Tacoma (US), Taguig (Philippines), Tlaquepaque (Mexico), Taipei (Taiwan), Tokyo (Japan), Toronto (Canada), Utrecht (Netherlands), Vienna (Austria), Vienna (US), Vilvoorde (Belgium), Wallisellen (Switzerland) and Wroclaw (Poland).

The following locations are sub-let in their entirety and are out of scope for this year's report: Bracknell (UK) and Richmond (UK).

Intensity ratio

To achieve a global picture of emissions, whilst recognising that not all locations can be in scope, an intensity ratio of CO₂ 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.

Statutory and other required disclosures

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 24 to the financial statements.

Post balance sheet events

Post balance sheet events have been reported in note 33 of the financial statements.

Research and development

All expenditure on research is expensed as incurred. The Group capitalises development expenditure from the point that all the relevant criteria are met. The capitalised cost is then amortised over the useful life of the software. During the year ended 31 October 2021, \$521.8m was charged to the consolidated statement of comprehensive income (2020: \$513.6m) in the research and development expenses category. This charge is after capitalisation of internal development expenditure of \$19.1m (2020: \$16.2m). Within the cost of sales category \$19.6m of amortisation of development costs (2020: \$23.5m) and \$257.2m of amortisation of purchased intangibles technology (2020: \$190.2m) were charged to the consolidated statement of comprehensive income.

Political donations

In line with the Group's policy, no donations were made to, or expenditure incurred in respect of, EU or non-EU political parties during the year (2020: \$nil).

Branches

The Company had no branches in existence during the year under review and to the date of this report. The Group, through its subsidiaries, has branches in a number of jurisdictions. Further details are included in note 34.

Listing Rules disclosures

In fulfilment of its obligations under Listing Rule 9.8.4.R, the Company provides the following disclosures:

Areas for disclosure	Location of details in the Annual Report and Accounts
(1) Interest capitalised	Not applicable
(2) Publication of unaudited financial information	Strategic report, Chief Financial Officer's report, Alternative Performance Measures
(4) Detail of any long-term incentive schemes	Directors' Remuneration report
(5) Waiver of emoluments by a director	Not applicable
(6) Waiver of future emoluments by a director	Not applicable
(7) Non pre-emptive issues of equity for cash	Note 25 to the Group's consolidated financial statements
(8) Non pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	Not applicable
(9) Parent Company participation in a placing by a listed subsidiary	Not applicable
(10a) Contracts of significance to which the Company is a party and in which a director is materially interested	Not applicable
(10b) Contracts of significance between a Company and a controlling shareholder	Not applicable
(11) Provision of services by a controlling shareholder	Not applicable
(12) Shareholder waiver of dividends	Dividends, page 120
(13) Shareholder waiver of future dividends	Dividends, page 120
(14) Agreements with controlling shareholders	Not applicable

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 Company's headquarters at The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN at 3pm (UK time) on 30 March 2022. Due to on-going uncertainty relating to the COVID-19 pandemic, the Company may need to adapt the format of the AGM and any changes to the arrangements will be communicated via a RNS announcement and the AGM page of the Company's website (www.microfocus.com/en-us/investors).

Independent auditor

KPMG LLP has indicated its willingness to continue as the auditor of the Group and, as explained in the Audit committee report on pages 92 and 93, a resolution regarding KPMG LLP's appointment will be proposed at the AGM.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Going concern

In line with IAS 1 'Presentation of financial statements', and the FRC guidance on 'risk management, internal control and related financial and business reporting', management has taken into account available information about the future for a period of at least, but not limited to, 12 months from the date of approval of the consolidated financial statements when assessing the Group's ability to continue as a going concern.

The Strategic report on pages 08 to 31 includes information on the Group's market, structure, strategy and business model. The Chief Financial Officer's report on pages 48 to 59 includes information on our Group financial results, financial outlook, cash flow and net debt, and the balance sheet position. This report also covers the agreed disposal of the Digital Safe business for estimated net consideration of \$335m. The transaction completed on 31 January 2022, therefore this going concern assessment is prepared for the Group excluding the Digital Safe business.

The Group manages solvency and liquidity as part of its budgeting and performance management. The Group's forecasting and planning cycle consists of a budget and a long-range plan which are used to generate income statement and cash flow projections. The cash flow projections also forecast the headroom on the Groups undrawn Revolving Credit Facility ("RCF") and expected net leverage. Actual and forecast liquidity are reviewed at least weekly by the Group's working capital management group which reports to the Chief Financial Officer.

In making this assessment, the directors considered the Group's liquidity and solvency position. Since the year end the Group has refinanced \$1.6bn of the 2024 term loans extending the maturity until 2027 and extended its RCF by 18 months to December 2026, reducing the facility to \$250m and increasing the Group's ability to utilise the facility. See note 18 for further details of the Groups borrowings, including the RCF, and the refinancing. Whilst the Group has quarterly instalment payments due and, dependent on leverage, may be subject to an excess cash sweep against its external borrowing in the period to February 2023 the Group has no term loans maturing until June 2024. Under the amended RCF agreement the net leverage covenant applies when the RCF is more than 40% drawn at a quarter end. Under the Group's forecast the RCF is not forecast to be drawn in the period to February 2023, nor in the viability period; see statement on long-term viability on page 60, and therefore no tests of this covenant are expected to apply.

Also, in assessing liquidity, the board considered the reported net current liability position of \$255.7m at 31 October 2021. This is the result of \$984.6m of advance billing for services which is required to be recognised as a contract liability. The cost of delivering these services is fully included in the Group's forecasting and sensitivities.

Sensitivity

In assessing going concern, the Group has estimated the financial impact of the severe but plausible scenarios considered in assessing viability on the going concern assessment period. The scenarios considered are described further in the Group's statement on long-term viability on page 60. This stress testing confirmed that existing projected cash flows and cash management activities provide us with significant headroom over the going concern assessment period. In addition, under the severe but plausible scenarios, there is no point at which the Group would likely need to draw upon the RCF in the period to February 2023 and therefore the covenant test on the RCF would not be expected to apply.

In reaching its conclusion on the going concern assessment, the directors also considered the findings of the work performed to support the statement on the long-term viability of the Group, see page 60.

Conclusion

Having performed the assessments discussed above, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the consolidated and Company financial statements. This assessment covers the period to February 2023, which is consistent with the FRC guidance.

By order of the board,

Suzanne Chase

Company Secretary
7 February 2022

Micro Focus International plc
Registered office:
The Lawn,
22-30 Old Bath Road
Newbury
Berkshire RG14 1QN

Registered in England
Company number: 5134647

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. In addition, the Group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU").

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 parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU");

- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic report, Directors' report, Directors' Remuneration report and Corporate governance statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

On behalf of the board of directors, we confirm that to the best of our knowledge:

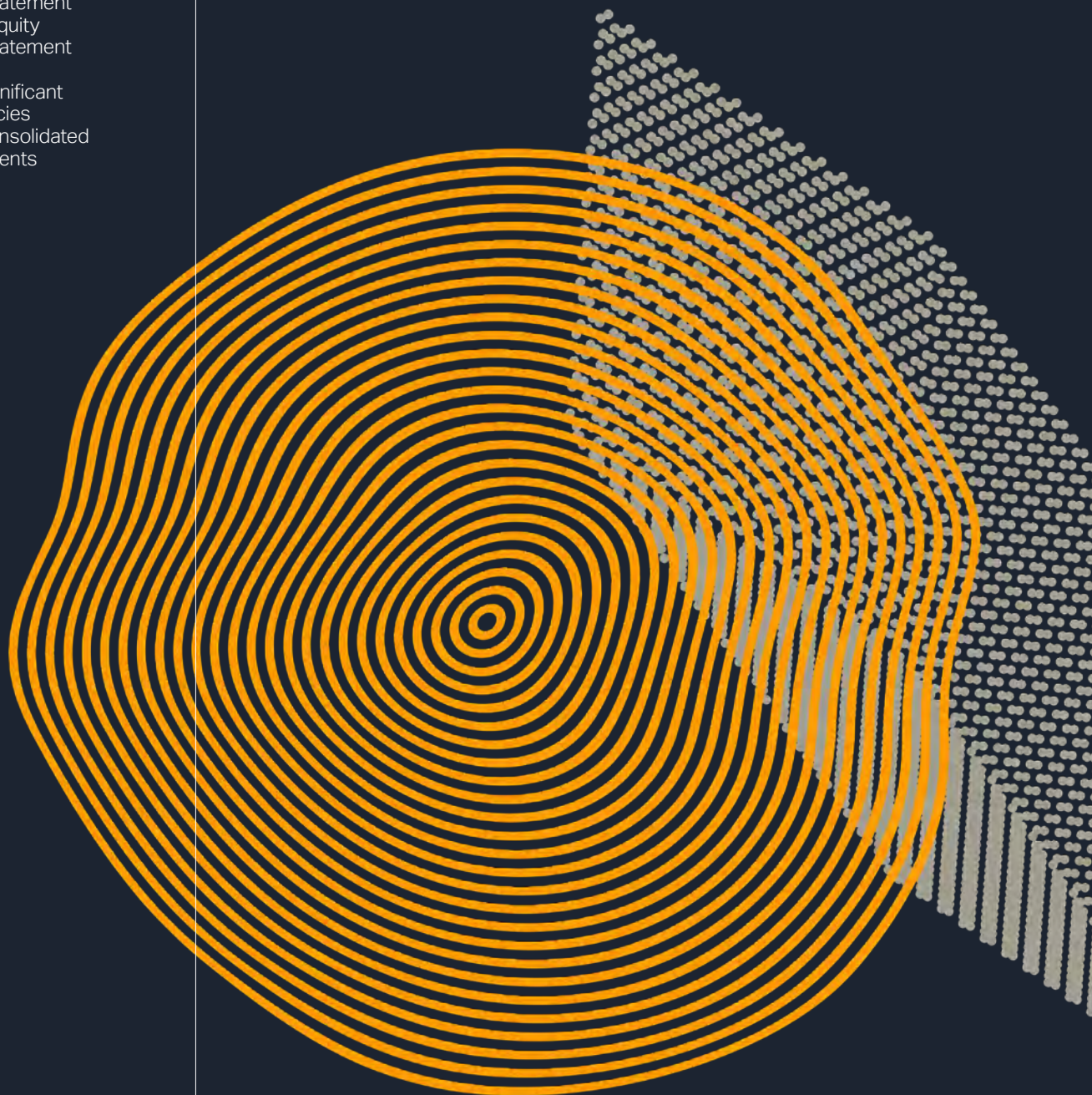
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report and the Directors' report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Stephen Murdoch
Chief Executive Officer

Matt Ashley
Chief Financial Officer

Consolidated financial statements and notes

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Alternative Performance Measures

The Group uses certain measures to assess the financial performance of its business. These measures are termed “Alternative Performance Measures” because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS.

The Group uses such measures to measure operating performance and liquidity in presentations to the board and as a basis for strategic planning and forecasting, as well as monitoring certain aspects of its operating cash flow and liquidity. The Group believes that these and similar measures are used widely by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

The Alternative Performance Measures may not be comparable to other similarly titled measures used by other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS.

An explanation of the relevance of each of the Alternative Performance Measures, a reconciliation of the Alternative Performance Measures to the most directly comparable measures calculated and presented in accordance with IFRS and a discussion of their limitations is set out below. The Group does not regard these Alternative Performance Measures as a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS.

The impact of deferred revenue haircut APM is no longer presented as due to the period of time since the last major acquisition the impact on reported revenue is not material.

1 EBITDA and Adjusted EBITDA

The Group presents EBITDA because it is widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. EBITDA is defined as net earnings before finance costs, finance income, taxation, depreciation of property, plant and equipment, right-of-use asset depreciation and amortisation of intangible assets. EBITDA eliminates potential differences in performance caused by variations in capital structures (affecting net finance costs), tax positions (such as the availability of net operating losses against which to relieve taxable profits), the cost and age of tangible assets (affecting relative depreciation expense) and the extent to which intangible assets are identifiable (affecting relative amortisation expense).

Adjusted EBITDA is the primary measure used internally to measure performance and to incentivise and reward employees. The Group defines Adjusted EBITDA as comprising of EBITDA (as defined above), adding back exceptional items including the profit on disposal of discontinued operations, share-based compensation and foreign exchange (gains)/losses, and adjusting for product development intangible costs capitalised.

Adjusted EBITDA margin refers to the measure defined above as a percentage of actual revenue recorded in accordance with IFRS for the year.

Adjusted EBITDA is a key profit measure used by the board to assess the underlying financial performance of the Group. Adjusted EBITDA is stated before the following items for the following reasons:

- Exceptional items (note 4), including the profit/(loss) on disposal of discontinued operation, are excluded by virtue of their size, nature or incidence, in order to show the underlying business performance of the Group.
- Share-based payment charges are excluded from the calculation of Adjusted EBITDA because these represent a non-cash accounting charge for transactions that could otherwise have been settled in cash or not be limited to employee compensation. These charges also represent long-term incentives designed for long-term employee retention, rather than reflecting the short-term underlying operations of the Group's business. The directors acknowledge that there is an on-going debate on the add-back of share-based payment charges but believe that as they are not included in the analysis of segment performance used by the Chief Operating Decision Maker and their add-back is consistent with metrics used by a number of other companies in the technology sector, that this treatment remains appropriate.
- Actual spend on product development costs during the year is deducted from Adjusted EBITDA as this reflects the required underlying expenditure. This is because the capitalisation and subsequent amortisation of such costs are based on judgements about whether they meet the capitalisation criteria set out in IAS 38 “Intangible Assets” and on the period of their estimated economic benefit. In addition, product development costs capitalised for the year are included in the analysis of segment performance used by the Chief Operating Decision Maker.
- Foreign exchange movements are excluded from Adjusted EBITDA in order to exclude foreign exchange volatility when evaluating the underlying performance of the business.

Alternative Performance Measures

continued

1 EBITDA and Adjusted EBITDA continued

The following table is a reconciliation from statutory results for the period to EBITDA and Adjusted EBITDA:

	Year ended 31 October 2021									
	Statutory \$m	Intangibles amortisation \$m	Depreciation ¹ \$m	Revenue to EBITDA \$m	Exceptional costs \$m	Share-based payments \$m	Capitalised Product development costs \$m	FX loss \$m	Revenue to Adjusted EBITDA \$m	
Revenue	2,899.9	–	–	2,899.9	–	–	–	–	2,899.9	
Cost of sales	(776.3)	276.8	33.0	(466.5)	2.6	–	–	–	(463.9)	
Gross profit	2,123.6	276.8	33.0	2,433.4	2.6	–	–	–	2,436.0	
Selling & Distribution	(1,344.6)	642.2	12.4	(690.0)	4.8	0.1	–	–	(685.1)	
Research & Development	(521.8)	–	26.7	(495.1)	(0.4)	–	(19.1)	–	(514.6)	
Administrative expenses	(522.8)	37.4	34.9	(450.5)	240.1	14.2	–	0.1	(196.1)	
Operating loss/EBITDA/ AEBITDA	(265.6)	956.4	107.0	797.8	247.1	14.3	(19.1)	0.1	1,040.2	
Finance costs	(253.9)									
Finance income	1.7									
Taxation	82.7									
Loss for the period from continuing operations	(435.1)									
Profit from discontinued operations	10.7									
Loss for the period	(424.4)									
Adjusted EBITDA margin										35.9%

1 Includes depreciation of property, plant and equipment and right-of-use assets. See note 3 "Loss before tax" for split.

1 EBITDA and Adjusted EBITDA continued

	Year ended 31 October 2020								
	Statutory \$m	Intangibles amortisation \$m	Depreciation ¹ \$m	Revenue to EBITDA \$m	Exceptional costs \$m	Share-based payments \$m	Capitalised Product development costs \$m	FX loss \$m	Revenue to Adjusted EBITDA \$m
Revenue	3,001.0	–	–	3,001.0	–	–	–	–	3,001.0
Cost of sales	(702.7)	213.7	33.1	(455.9)	4.0	–	–	–	(451.9)
Gross profit	2,298.3	213.7	33.1	2,545.1	4.0	–	–	–	2,549.1
Selling & Distribution	(1,112.1)	413.9	12.0	(686.2)	12.9	–	–	–	(673.3)
Research & Development	(513.6)	–	30.3	(483.3)	0.9	–	(16.2)	–	(498.6)
Administrative expenses	(3,334.0)	46.5	43.5	(3,244.0)	2,993.8	17.0	–	29.7	(203.5)
Operating loss/EBITDA/ AEBITDA	(2,661.4)	674.1	118.9	(1,868.4)	3,011.6	17.0	(16.2)	29.7	1,173.7
Finance costs	(281.6)								
Finance income	2.6								
Taxation	(34.2)								
Loss for the period from continuing operations	(2,974.6)								
Profit from discontinued operations	5.1								
Loss for the period	(2,969.5)								
Adjusted EBITDA margin									39.1%

1 Includes depreciation of property, plant and equipment and right-of-use assets. See note 3 "Loss before tax" for split.

Alternative Performance Measures

continued

2 Adjusted Profit before tax

Adjusted Profit before tax is presented as it is required for the calculation of the Group's adjusted effective tax rate.

Adjusted Profit before tax is defined as (loss)/profit before tax excluding the effects of share-based compensation, the amortisation of intangible assets acquired in a business combination and all exceptional items including profit on disposal of discontinued operation. These adjusting items are items that are not considered to be representative of the trading performance of the Group:

- Exceptional items (note 4), including the profit/(loss) on disposal of discontinued operation, are excluded by virtue of their size, nature or incidence, in order to show the underlying business performance of the Group.
- Share-based payment charges are excluded from the calculation of Adjusted Profit before tax because these represent a non-cash accounting item. These charges also represent long-term incentives designed for long-term employee retention, rather than reflecting the short-term trading performance of the Group's business. The directors acknowledge that there is an on-going debate on the add-back of share-based payment charges but believe that as they are not included in the analysis of segment performance used by the Chief Operating Decision Maker and their add-back is consistent with metrics used by a number of other companies in the technology sector, that this treatment remains appropriate.
- Charges for the amortisation of intangible assets acquired in a business combination are excluded from the calculation of Adjusted Profit before tax. This is because these charges are a non-cash accounting item based on judgements about their value and economic life, are the result of the application of acquisition accounting, and whilst revenue recognised in the income statement does benefit from the intangibles that have been acquired, the amortisation costs bear no relation to the Group's trading performance in the period. In addition, amortisation of acquired intangibles is not included in the analysis of segment performance used by the Chief Operating Decision Maker.

The following table is a reconciliation from profit before tax for the year to Adjusted Profit before tax:

	Year ended 31 October 2021			Year ended 31 October 2020		
	Continuing operations \$m	Discontinued operation \$m	Total \$m	Continuing operations \$m	Discontinued operation \$m	Total \$m
(Loss)/profit before tax	(517.8)	10.7	(507.1)	(2,940.4)	(3.0)	(2,943.4)
Share-based compensation charge	14.3	–	14.3	17.0	–	17.0
Amortisation of intangible assets acquired in a business combination	899.4	–	899.4	604.1	–	604.1
Exceptional items, including (profit)/loss on disposal of discontinued operation	247.1	(10.7)	236.4	3,011.6	3.0	3,014.6
Adjusting items	1,160.8	(10.7)	1,150.1	3,632.7	3.0	3,635.7
Adjusted Profit before tax	643.0	–	643.0	692.3	–	692.3

3 Adjusted Profit After Tax and Adjusted Effective Tax Rate

This is an Alternative Performance Measure and is presented because management believe it is important to understanding the Group's tax position on its operating performance. Adjusted Effective Tax Rate is used to assess the trend in the Group tax rate. Adjusted profit after taxation reflects adjusted profit before tax (see above) less the taxation charge associated with these profits. The Adjusted Effective Tax Rate is defined as the reported tax (charge)/credit on continuing operations, less tax on adjusting items on continuing operations (share-based compensation, the amortisation of intangible assets acquired in a business combination and exceptional items), divided by the Adjusted Profit Before Tax on continuing operations (defined above).

The tax charge on Adjusted Profit before tax for the year ended 31 October 2021 was \$155.3m (2020: \$174.1m). This represents an Adjusted Effective Tax Rate ("Adjusted ETR") of 24.2% (2020: 25.1%). The calculation of the Adjusted ETR is set out below.

	Year ended 31 October 2021			Year ended 31 October 2020		
	Statutory \$m	Adjusting items \$m	Adjusted measures \$m	Statutory \$m	Adjusting items \$m	Adjusted measures \$m
Effective tax rate (continuing operations)						
(Loss)/profit before tax	(517.8)	1,160.8	643.0	(2,940.4)	3,632.7	692.3
Taxation	82.7	(238.0)	(155.3)	(34.2)	(139.9)	(174.1)
(Loss)/profit after tax	(435.1)	922.8	487.7	(2,974.6)	3,492.8	518.2
Effective tax rate	16.0%		24.2%	(1.2)%		25.1%

In computing Adjusted Profit before tax for the year ended 31 October 2021, \$1,160.8m (2020: \$3,632.7m) of adjusting items have been added back (see Adjusted Profit before tax section above) and the associated tax credit is \$238.0m (2020: \$139.9m) which relates to share-based payments compensation charge of \$1.1m (2020: credit \$0.6m), amortisation of intangible assets acquired in a business combination of \$160.6m (2020: \$101.8m) and exceptional items of \$76.3m (2020: \$38.7m).

4 Adjusted Earnings per Share and Diluted Adjusted Earnings per Share

Adjusted Earnings per Share ("EPS") are presented as management believe they are important to understanding the change in the Group's EPS. Adjusted EPS is used in certain LTIP awards, awarded in 2019, as disclosed in the Directors' Remuneration report. The Adjusted EPS is defined as Basic EPS where the earnings attributable to ordinary shareholders are adjusted by adding back all exceptional items including the profit on the disposal of discontinued operation, share-based compensation charge and the amortisation of intangibles acquired in a business combination because they are individually or collectively material items that are not considered to be representative of the trading performance of the Group.

	Year ended 31 October 2021	Year ended 31 October 2020
CENTS		
EPS from continuing operations attributable to the ordinary equity shareholders of the Company		
Basic EPS – cents	(129.30)	(886.15)
Diluted EPS – cents ¹	(129.30)	(886.15)
Basic Adjusted EPS – cents	144.93	154.37
Diluted Adjusted EPS – cents ¹	144.93	154.37
EPS from discontinued operation		
Basic EPS – cents	3.18	1.52
Diluted EPS – cents	3.18	1.52
Basic Adjusted EPS – cents	–	2.17
Diluted Adjusted EPS – cents	–	2.17
Total EPS attributable to the ordinary equity shareholders of the Company		
Basic EPS – cents	(126.12)	(884.63)
Diluted EPS – cents ¹	(126.12)	(884.63)
Basic Adjusted EPS – cents	144.93	156.54
Diluted Adjusted EPS – cents ¹	144.93	156.54
PENCE		
EPS from continuing operations attributable to the ordinary equity shareholders of the Company		
Basic EPS – pence	(94.09)	(693.45)
Diluted EPS – pence ¹	(94.09)	(693.45)
Basic Adjusted EPS – pence	105.46	120.81
Diluted Adjusted EPS – pence ¹	105.46	120.81
EPS from discontinued operation		
Basic EPS – pence	2.31	1.19
Diluted EPS – pence	2.31	1.19
Basic Adjusted EPS – pence	–	1.70
Diluted Adjusted EPS – pence	–	1.70
Total EPS attributable to the ordinary equity shareholders of the Company		
Basic EPS – pence	(91.78)	(692.26)
Diluted EPS – pence ¹	(91.78)	(692.26)
Basic Adjusted EPS – pence	105.46	122.51
Diluted Adjusted EPS – pence ¹	105.46	122.51

1 The Group reported a loss from continuing and discontinued operations and a loss for the year attributable to the ordinary equity shareholders of the Company for the years ended 31 October 2021 and 31 October 2020. The Diluted EPS is reported as equal to Basic EPS (similarly for Adjusted EPS) as no account can be taken of the effect of dilutive securities under IAS 33, "Earnings per Share".

Alternative Performance Measures

continued

4 Adjusted Earnings per Share and Diluted Adjusted Earnings per Share continued

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Loss for the year and earnings attributable to ordinary shareholders	(424.4)	(2,969.5)
From continuing operations	(435.1)	(2,974.6)
From discontinued operation	10.7	5.1
Earnings attributable to ordinary shareholders	(424.4)	(2,969.5)
Adjusting items:		
(Profit)/loss on discontinued operation	(10.7)	3.0
Exceptional items	247.1	3,011.6
Share-based compensation charge	14.3	17.0
Amortisation of intangible assets acquired in a business combination	899.4	604.1
	1,150.1	3,635.7
Tax relating to above adjusting items	(238.0)	(140.7)
Adjusted earnings attributable to ordinary shareholders	487.7	525.5
From continuing operations	487.7	518.2
From discontinued operation	–	7.3
Adjusted earnings attributable to ordinary shareholders	487.7	525.5
	Number	Number
Weighted average number of shares:	m	m
Basic	336.5	335.7
Effect of dilutive securities – Options	–	–
Diluted	336.5	335.7

	Year ended 31 October 2021			Year ended 31 October 2020		
	Continuing operations \$m	Discontinued operation \$m	Total \$m	Continuing operations \$m	Discontinued operation \$m	Total \$m
Adjusting items:						
Exceptional items, including (profit)/loss on disposal of discontinued operation	247.1	(10.7)	236.4	3,011.6	3.0	3,014.6
Share-based compensation charge	14.3	–	14.3	17.0	–	17.0
Amortisation of intangible assets acquired in a business combination	899.4	–	899.4	604.1	–	604.1
	1,160.8	(10.7)	1,150.1	3,632.7	3.0	3,635.7
Tax relating to above adjusting items	(238.0)	–	(238.0)	(139.9)	(0.8)	(140.7)
	922.8	(10.7)	912.1	3,492.8	2.2	3,495.0

5 Free cash flow and Adjusted free cash flow

Free cash flow is presented as it is widely used by securities analysts, investors and other interested parties to understand the Group's cash flow as it provides an indication of the Group's cash generation in the period which is available for investment in debt repayments, dividend payments or other discretionary activity. Free cash flow is defined as cash generated from operations less interest payments, bank loan costs, tax payments, purchase of intangible assets, purchase of property, plant and equipment and interest and capital payments in relation to leases.

Adjusted free cash flow, which is Free cash flow as previously defined, excluding the cash impact of exceptional items. This adjusted measure is intended to present the cash-generating qualities of the Group from trading performance only. In our view, this enables an understanding of the Group's underlying trajectory as we deliver our plans.

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Cash generated from operations	690.5	1,082.8
Less:		
Interest payments	(218.1)	(207.1)
Bank loan costs	(1.5)	(47.9)
Tax payments	(270.3)	(149.6)
Purchase of intangible assets	(47.5)	(60.6)
Purchase of property, plant and equipment	(17.7)	(26.3)
Lease-related interest and capital payments	(79.5)	(80.1)
Free cash flow	55.9	511.2
Exclude the cash impact of exceptional items*	236.5	148.9
Adjusted free cash flow	292.4	660.1

* Cash impact of exceptional items is exceptional charge for the period \$247.1m (2020: \$3,011.6m) adjusted for the related movements in payables \$1.4m (2020: \$(23.0)m) and provisions \$3.6m (2020: \$6.7m) and non-cash items \$(8.9)m (2020: \$2,804.4m), and tax on exceptionals \$(53.5)m (2020: \$42.0m) calculated at the weighted average rate of tax applied in the territories the exceptional charges are recognised in. An additional payment of the EU State Aid tax item \$46.8m (2020: nil), (see notes 4 "Exceptional items" and 7 "Taxation") has been recorded as an exceptional cash item by virtue of size and nature as it relates to historic tax structures and is not indicative of current trading performance.

6 Net debt

Net debt is presented as it is a key component of the Net Debt to Adjusted EBITDA ratio which is the primary liquidity measure used by management. Net debt is defined as cash and cash equivalents less borrowings and lease obligations.

	31 October 2021 \$m	31 October 2020 \$m
Borrowings	(4,548.4)	(4,640.3)
Cash and cash equivalents	558.4	737.2
Lease obligations*	(205.9)	(250.4)
Net debt	(4,195.9)	(4,153.5)

* Includes lease obligations included in current liabilities held for sale, see note 30 "Discontinued operation and Assets held for sale."

Alternative Performance Measures

continued

7 Adjusted cash conversion ratio

Adjusted cash conversion ratio is presented as management believe it is important to the understanding the Group's conversion of underlying results to cash. The Group's adjusted cash conversion ratio is defined as cash generated from operations divided by Adjusted EBITDA less exceptional items (reported in Operating loss and excluding any goodwill impairment charge, as this is deemed non-cash related). Adjusted cash conversion ratio is used to track and measure timing differences between profitability and cash generation through working capital management, including seasonality or one-offs.

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Cash generated from operations	690.5	1,082.8
Adjusted EBITDA	1,040.2	1,173.7
Less: exceptional items (reported in Operating loss)	(247.1)	(3,011.6)
Excluded: Goodwill impairment charge	–	2,799.2
Adjusted EBITDA less exceptional items	793.1	961.3
Adjusted cash conversion ratio	87.1%	112.6%

8 Constant currency

The Group's reporting currency is the US dollar; however, the Group's significant international operations give rise to fluctuations in foreign exchange rates. To neutralise foreign exchange impact and to illustrate the underlying change in results from one year to the next, the Group has adopted the practice of discussing results on an as reported basis and in constant currency.

The Group uses US dollar-based constant currency models to measure performance. These are calculated by restating the results of the Group for the comparable year at the same average exchange rates as those used in reported results for the current year. This gives a US dollar denominated income statement, which excludes any variances attributable to foreign exchange rate movements.

The most important foreign currencies for the Group are: Pounds Sterling, the Euro, Canadian Dollar, Japanese Yen, Indian Rupee and Australian Dollar. The exchange rates used are as follows:

	Year ended 31 October 2021		Year ended 31 October 2020	
	Average	Closing	Average	Closing
£1 = \$	1.37	1.37	1.28	1.30
€1 = \$	1.19	1.16	1.13	1.17
C\$ = \$	0.80	0.81	0.74	0.75
AUD = \$	0.75	0.75	0.68	0.70
100 INR = \$	1.36	1.33	1.36	1.34
100 JPY = \$	0.92	0.88	0.93	0.96

Independent auditor's report to the members of Micro Focus International plc

1 Our opinion is unmodified

We have audited the financial statements of Micro Focus International plc ("the Company") for the year ended 31 October 2021 which comprise the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company balance sheet, company statement of changes in equity, company statement of cash flows and the related notes, including the summary of significant accounting policies in note I for the Group financial statements and including the accounting policies in note II to the parent Company's financial statements.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 October 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

Additional opinion in relation to IFRSs as issued by the IASB

As explained in the basis of preparation to the Group financial statements, the Group, in addition to complying with its legal obligation to apply international accounting standards in conformity with the requirements of the Companies Act, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 4 September 2017. The period of total uninterrupted engagement is for the four financial years ended 31 October 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	\$18.5m (2020: \$20.5m)
	0.64% (2020: 0.68%) of total revenue
Coverage	80% (2020: 81%) of total revenue

Key audit matters

	vs 2020	
Recurring risks for the Group	Upfront licence revenue – identification of all performance obligations in large multiple element arrangements	No change
	Goodwill impairment review	Decrease
	Presentation of exceptional items (before tax)	Decrease
Recurring risks for the parent Company	Recoverability of amounts owed from Group undertakings to the parent Company	No change

**Independent auditor's report to the members
of Micro Focus International plc**

continued

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
<p>Upfront licence revenue – identification of all performance obligations in large multiple element arrangements</p> <p>(\$688.6m; 2020: \$646.5m)</p> <p>Refer to page 90 (Audit committee report), page 158 (accounting policy) and page 168 (financial disclosures)</p>	<p>Accounting treatment: Licence revenue recognition requires significant judgement in identifying each separate performance obligation of the contract (for example licence, maintenance, subscription, and consulting), when sold together in a bundle.</p> <p>This judgement could materially affect the timing and quantum of revenue and profit recognised in each financial year.</p> <p>We assessed this risk to be greatest in larger contracts with upfront licence revenue recognised in the financial year, where there is an increased likelihood of unusual sales arrangements containing bespoke terms, potentially leading to unidentified contract performance obligations.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> – Accounting analysis: We assessed the Group's policy in respect of identification of contract performance obligations against the relevant accounting standards. – Test of details: We selected all contracts over our determined set thresholds and inspected key documents including the signed contract, purchase orders, delivery of software licences, sales invoices and related payment, and the Group's revenue recognition checklist for that contract to identify revenue performance obligations and assessed the appropriateness of the directors' judgements in determining each separate performance obligation of the contract (undelivered and delivered). – Assessing transparency: We assessed the adequacy of the Group's critical judgement disclosures in respect of licence revenue recognition. <p>We performed the detailed tests above rather than seeking to rely on any of the group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.</p> <p>Our results As a result of our work, we found the Groups' identification of separate performance obligations to be acceptable (2020 results: acceptable).</p>

2 Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
<p>Goodwill Impairment Review</p> <p>(\$3,725.5m carrying value, \$nil impairment charge; 2020: \$3,835.4m carrying value, \$2,799.2m impairment charge)</p> <p>Refer to page 91 (Audit committee report), page 162 (accounting policy) and page 180 (financial disclosures)</p>	<p>Forecast-based assessment: Goodwill allocated to the Micro Focus CGU is significant and at risk of irrecoverability due to the Group's trading performance and the macro-economic environment when compared to the original projections produced at the time of the HPE Software acquisition. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The key assumptions with the greatest judgement in these forecasts are the discount rate applied and forecasting of revenue growth by product group in the initial five-year forecast.</p> <p>The effect of these matters is that the value in use of the CGU has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 10) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> – Our sector expertise: We evaluated assumptions used, in particular those relating to the discount rate and revenue growth by product group in the initial five-year forecast. We used our own valuation specialist to assist in assessing the discount rate. – Benchmarking assumptions: We compared the Group's assumptions to externally derived data in relation to key assumptions such as discount rates and revenue growth by product group in the initial five-year forecast. – Historical comparisons: We challenged the reasonableness of the revenue growth by product group in the initial five-year forecast assumption by assessing the historical accuracy of the Group's ability to forecast accurately and comparing to previous assumptions. – Sensitivity analysis: We performed sensitivity analysis which considered reasonably possible changes in the key assumptions that had the greatest judgements and their impact on the valuation. – Assessing transparency: We assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to reasonably possible changes in the discount rate and revenue growth by product group in the initial five-year forecast reflected the risks inherent in the recoverable amount of the CGU. <p>We performed the detailed tests above rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.</p> <p>Our results We found the Group's conclusion that there is no impairment of goodwill in 2021 to be acceptable (2020 result: acceptable). We found the disclosure of the sensitivity of the outcome of the impairment assessment in 2021 to be acceptable (2020 result: acceptable).</p>
<p>Presentation of exceptional items (before tax)</p> <p>(\$247.1m; 2020: \$3,011.6m)</p> <p>Refer to page 91 (Audit committee report), page 160 (accounting policy) and page 170 (financial disclosures)</p>	<p>Presentation appropriateness: The Group separately presents exceptional items within the consolidated statement of comprehensive income and in deriving related Alternative Performance Measures for the financial year. Adjusted EBITDA excludes exceptional items and is also the principal measure that determines the annual cash bonus to all members of staff and therefore gives rise to a risk of management bias.</p> <p>The determination of whether certain items should be classified as an exceptional item requires judgement on its nature and incidence, and its use requires judgement as to whether it provides a better understanding of the Group's underlying trading performance.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> – Assessing principle: We evaluated the appropriateness of the Group's accounting policy for identifying and classifying exceptional items, through consideration against external regulator guidance and accounting standards. – Assessing application: A statistical sample of items presented as exceptional were selected to assess if their presentation was consistent with Group's policy and consistent with underlying documentation. – Assessing disclosure and balance: We assessed the adequacy of the disclosure concerning the definition and composition of exceptional items (before tax). <p>We performed the detailed tests above rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.</p> <p>Our results As a result of our work, we found the presentation of exceptional items (before tax) to be acceptable (2020 result: acceptable).</p>

2 Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
<p>Recoverability of amounts owed from Group undertakings to the parent Company</p> <p>(\$4,403.1m; 2020: \$4,536.3m)</p> <p>Refer to page 233 (accounting policy) and page 235 (financial disclosures)</p>	<p>Low risk, high value:</p> <p>The carrying amount of the intra-group debtor balance represents 90% (2020: 90%) of the parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> – Test of details: Assessing a sample of the highest value Group debtors representing 90% (2020: 90%) of the total Group debtor balance to identify, with reference to the relevant debtors' draft balance sheet, whether they have positive net asset values and therefore the coverage of the debtor owed, as well as assessing whether those debtor companies have historically been profit-making. <p>We performed the detailed test above rather than seeking to rely on any of the group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.</p> <p>Our results</p> <p>We found the conclusion that there is no impairment of the intra-group debtor balance to be acceptable (2020 result: acceptable).</p>

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at \$18.5m (2020: \$20.5m), determined with reference to a benchmark of total revenue, of which it represents 0.64% (2020: 0.68%). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year-on-year rather than profit before tax.

Materiality for the parent Company financial statements was set at \$15.7m (2020: \$17.4m), determined with reference to a benchmark of total assets, of which it represents 0.32% (2020: 0.35%).

We agreed to report to the audit committee any corrected and uncorrected identified misstatements exceeding \$0.9m (2020: \$1.0m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 223 (2020: 224) reporting components, we subjected 16 (2020: 16) to full scope audits for Group purposes and 1 (2020: 1) to specified risk-focused audit procedures in respect of revenue and related account balances. The component for which we performed specified risk-focused procedures was not individually financially significant enough to require an audit for Group reporting purposes but did present specific individual risks that needed to be addressed.

For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 20% (2020: 19%) of total Group revenue, 19% (2020: 14%) of Group profit before tax and 1% (2020: 2%) of total Group assets is represented by 206 (2020: 208) of reporting components, none of which individually represented more than 2% (2020: 1%) of any of total Group revenue, Group profit before tax or total Group assets.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from \$0.8m to \$14.0m (2020: \$1.0m to \$14.0m), having regard to the mix of size and risk profile of the Group across the components.

The work of 16 out of the 17 (2020: 16 of the 17) components was performed by component auditors, with the remainder and the audit of the parent Company being performed by the Group team.

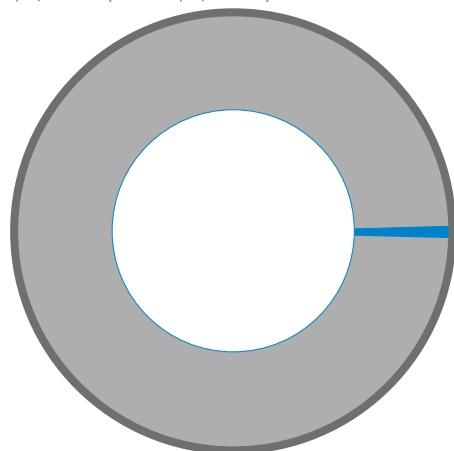
The Group audit team held video and telephone conferences with component audit teams to discuss the audit risk and strategy and to assess the audit work performed.

During these meetings the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

3 Our application of materiality and an overview of the scope of our audit continued

Total revenue

\$2,900m (2020: \$3,001m)



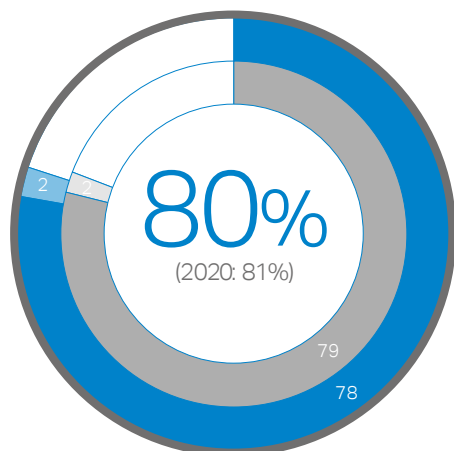
● Total revenue
● Group materiality

Group materiality

\$18.5m (2020: \$20.5m)

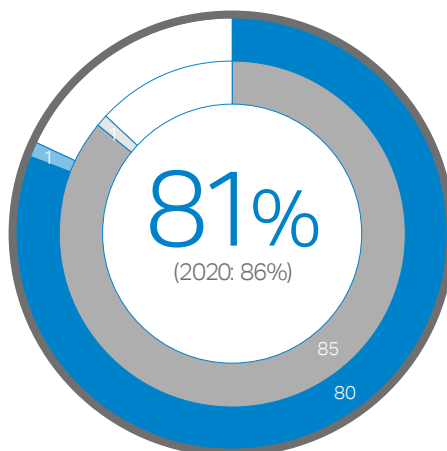


Group revenue

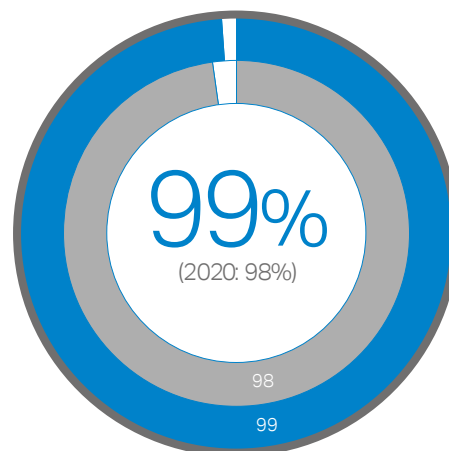


● Full scope for group audit purposes 2021
● Specified risk-focused audit procedures 2021
● Full scope for group audit purposes 2020
● Specified risk-focused audit procedures 2020
○ Residual components

Group profit before tax



Group total assets



4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and the parent Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to affect the Group's and the parent Company's available financial resources adversely over this period were:

- The achievement of budget licence and maintenance revenue in FY22;
- The achievement of operational efficiencies; and
- The achievement of Adjusted EBITDA growth.

4 Going concern continued

We have also considered less predictable but realistic second order impacts, such as the erosion of customer or supplier confidence, as well as claims under the indemnification in relation to potential tax liabilities arising from the HPE acquisition in 2018 which could result in a rapid reduction of available financial resources. We considered whether these risks could plausibly affect the Group and parent Company's liquidity in the going concern period by assessing the Directors' sensitivities applied to the level of available financial resources indicated by the Group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included:

- Critically assessing assumptions in base case and downside scenarios, in particular in relation to the potential impact of a decline in revenue, and overlaying knowledge of the entity's plans based on approved budgets and our knowledge of the entity and the sector in which it operates
- We also compared past budgets to actual results to assess the directors' track record of budgeting accurately
- We considered whether the going concern disclosure on page 129 gives a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in Note I to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure set out on page 129 to be acceptable; and
- the same statement under the Listing Rules set out on page 129 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and other key management personnel, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board meeting minutes and by attending audit committee meetings.
- Considering remuneration incentive schemes and performance targets for management, directors, and sales staff, including the adjusted EBITDA target which drive management and staff remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

Our forensic specialists assisted us in identifying key fraud risks. This included attending the Risk Assessment and Planning Discussion, holding a discussion with the engagement team, and assisting with designing and executing relevant audit procedures to respond to the identified fraud risks.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to component audit teams of relevant fraud risks identified at the Group level and requesting that component audit teams report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, and taking into account possible pressures to meet expectations, and management and staff remuneration targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that additional revenue is allocated to performance obligations recognised at a point in time in order to meet short-term revenue targets and annual results, and the risk that Group management may be in a position to make inappropriate accounting entries.

5 Fraud and breaches of laws and regulations – ability to detect continued

We also identified a fraud risk related to the presentation of exceptional items (before tax) in response to possible pressures to meet adjusted EBITDA targets.

Further detail in respect of Upfront licence revenue – identification of all performance obligations in large multiple element arrangements, and Presentation of exceptional items (before tax) is set out in the key audit matter disclosures in section 2 of this report.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the Group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to revenue and exceptional item related accounts. For the parent Company this also included entries posted to cash or borrowing related accounts which are deemed unusual.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the Group's regulatory and legal correspondence, and discussions with the directors' and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout the audit team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at the Group level, and a request to component audit teams to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including form and content), distributable profits legislation, pensions legislation, and taxation legislation (including related EU State Aid legislation – see note 7) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: anti-bribery and corruption, including the UK Bribery Act 2010 and the US Foreign Corrupt Practices Act 1977 (as amended) recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from the relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration report

In our opinion the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 60 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal risks and uncertainties disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement set out on page 60 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the audit committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review, and to report to you if a corporate governance statement has not been prepared by the Company. We have nothing to report in these respects.

7 We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 131, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Edwards (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, Canary Wharf, London, E14 5GL

7 February 2022

Consolidated statement of comprehensive income

For the year ended 31 October 2021

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Continuing operations			
Revenue	2	2,899.9	3,001.0
Cost of sales		(776.3)	(702.7)
Gross profit		2,123.6	2,298.3
Selling and distribution expenses		(1,344.6)	(1,112.1)
Research and development expenses		(521.8)	(513.6)
Administrative expenses		(522.8)	(3,334.0)
Operating loss		(265.6)	(2,661.4)
Operating profit prior to depreciation, amortisation and exceptional items		1,044.9	1,143.2
Depreciation and amortisation	3	(1,063.4)	(793.0)
Exceptional items	4	(247.1)	(3,011.6)
Operating loss		(265.6)	(2,661.4)
Finance costs	6	(253.9)	(281.6)
Finance income	6	1.7	2.6
Net finance costs	6	(252.2)	(279.0)
Loss before tax		(517.8)	(2,940.4)
Taxation*	7	82.7	(34.2)
Loss from continuing operations		(435.1)	(2,974.6)
Profit from discontinued operation (attributable to equity shareholders of the Company)	30	10.7	5.1
Loss for the year		(424.4)	(2,969.5)
Attributable to:			
Equity shareholders of the Company		(424.4)	(2,969.5)
Loss for the year		(424.4)	(2,969.5)

* Taxation includes a credit of \$76.3m (2020: credit \$38.7m) relating to exceptional items, see note 4

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Loss for the year		(424.4)	(2,969.5)
Other comprehensive income/(expense) for the year:			
Items that will not be reclassified to profit or loss			
Continuing operations:			
Actuarial gain/(loss) on pension schemes liabilities	22	33.4	(0.4)
Actuarial gain on non-plan pension assets	22	0.2	0.4
Deferred tax movement on pension schemes		–	(5.0)
Continuing operations: Items that may be subsequently reclassified to profit or loss			
Cash flow hedge movements	27	42.2	(41.3)
Current tax movement on cash flow hedge movements	27	(8.0)	7.8
Deferred tax movement on currency translation differences		(7.8)	(8.7)
Current tax movement on Euro loan foreign exchange hedging		6.0	–
Deferred tax movement on Euro loan foreign exchange hedging		(8.1)	11.1
Currency translation differences		68.6	(67.0)
Other comprehensive income/(expense) for the year		126.5	(103.1)
Total comprehensive expense for the year		(297.9)	(3,072.6)
Attributable to:			
Equity shareholders of the Company		(297.9)	(3,072.6)
Total comprehensive expense for the year		(297.9)	(3,072.6)
Total comprehensive expense attributable to the equity shareholders of the Company arises from:			
Continuing operations		(308.6)	(3,077.7)
Discontinued operation	30	10.7	5.1
Total comprehensive expense for the year		(297.9)	(3,072.6)
Earnings per share (cents)			
From continuing and discontinued operations		cents	cents
– basic	9	(126.12)	(884.63)
– diluted	9	(126.12)	(884.63)
From continuing operations			
– basic	9	(129.30)	(886.15)
– diluted	9	(129.30)	(886.15)
Earnings per share (pence)			
From continuing and discontinued operations			pence
– basic	9	(91.78)	(692.26)
– diluted	9	(91.78)	(692.26)
From continuing operations			
– basic	9	(94.09)	(693.45)
– diluted	9	(94.09)	(693.45)

The accompanying notes form part of the financial statements.

Consolidated statement of financial position

As at 31 October 2021

	Note	31 October 2021 \$m	31 October 2020 \$m
Non-current assets			
Goodwill	10	3,725.5	3,835.4
Other intangible assets	11	4,331.2	5,383.0
Property, plant and equipment	12	75.4	93.7
Right-of-use assets	19	153.2	207.2
Long-term pension assets	22	17.1	18.2
Contract-related costs	15	31.9	35.7
Non-current tax receivable	7	48.0	–
Deferred tax asset	7	15.0	–
Other non-current assets	13	42.2	31.8
		8,439.5	9,605.0
Current assets			
Trade and other receivables	14	886.3	731.4
Contract-related costs	15	33.0	27.9
Current tax receivables	7	59.1	45.3
Cash and cash equivalents	16	558.4	737.2
		1,536.8	1,541.8
Current assets classified as held for sale	30	370.3	–
		1,907.1	1,541.8
Total assets		10,346.6	11,146.8
Current liabilities			
Trade and other payables	17	513.0	503.5
Borrowings	18	24.3	21.4
Lease obligations	19	74.9	82.2
Provisions	21	65.7	49.7
Current tax liabilities	7	94.1	150.1
Derivative liability	24	35.7	–
Contract liabilities	20	984.6	981.4
Other current liabilities		0.2	–
		1,792.5	1,788.3
Current liabilities classified as held for sale	30	68.4	–
		1,860.9	1,788.3
Non-current liabilities			
Contract liabilities	20	131.8	117.2
Borrowings	18	4,524.1	4,618.9
Lease obligations	19	119.6	168.2
Derivative liability	24	–	77.9
Retirement benefit obligations	22	147.1	155.0
Provisions	21	19.8	22.5
Other non-current liabilities	23	31.3	39.9
Non-current tax liabilities	7	91.9	102.7
Deferred tax liabilities	7	599.1	841.1
		5,664.7	6,143.4
Total liabilities		7,525.6	7,931.7
Net assets		2,821.0	3,215.1

	Note	31 October 2021 \$m	31 October 2020 \$m
Capital and reserves			
Share capital	25	47.4	47.3
Share premium account	26	46.8	46.5
Merger reserve	27	1,659.1	1,767.4
Capital redemption reserve	27	2,485.0	2,485.0
Hedging reserve	27	(28.9)	(63.1)
Retained earnings		(1,120.4)	(741.3)
Foreign currency translation reserve		(268.0)	(326.7)
Total equity attributable to owners of the parent		2,821.0	3,215.1
Total equity		2,821.0	3,215.1

The accompanying notes form part of the financial statements.

The consolidated financial statements on pages 150 to 226 and accompanying notes were approved by the board of directors on 7 February 2022 and were signed on its behalf by:

Stephen Murdoch
Chief Executive Officer

Matt Ashley
Chief Financial Officer

Registered number: 5134647

Consolidated statement of changes in equity

For the year ended 31 October 2021

Year ended 31 October 2021

Note	Share capital \$m	Share premium account \$m	Retained earnings \$m	Foreign currency translation reserve \$m	Capital redemption reserves \$m	Hedging reserve \$m	Merger reserve \$m	Total equity attributable to owners of the parent \$m	Total equity \$m
Balance as at 1 November 2020	47.3	46.5	(741.3)	(326.7)	2,485.0	(63.1)	1,767.4	3,215.1	3,215.1
Loss for the financial year	–	–	(424.4)	–	–	–	–	(424.4)	(424.4)
Other comprehensive income for the year	–	–	33.6	58.7	–	34.2	–	126.5	126.5
Total comprehensive expense for the year	–	–	(390.8)	58.7	–	34.2	–	(297.9)	(297.9)
Transactions with owners									
Dividends	8	–	(81.1)	–	–	–	–	(81.1)	(81.1)
Share options:									
Issue of share capital – share options	25,26	0.1	0.3	(0.1)	–	–	–	0.3	0.3
Share-based payment charge	28	–	12.0	–	–	–	–	12.0	12.0
Deferred tax on share options	7	–	(0.2)	–	–	–	–	(0.2)	(0.2)
Purchase of treasury shares¹		–	(27.2)	–	–	–	–	(27.2)	(27.2)
Transfer from merger reserve	27	–	108.3	–	–	–	(108.3)	–	–
Total movements for the year	0.1	0.3	(379.1)	58.7	–	34.2	(108.3)	(394.1)	(394.1)
Balance as at 31 October 2021	47.4	46.8	(1,120.4)	(268.0)	2,485.0	(28.9)	1,659.1	2,821.0	2,821.0

¹ During the 12 months ended 31 October 2021 the Micro Focus Employee Benefit Trust ("EBT") purchased four million of the Group's shares from the market. The EBT will hold these shares to satisfy future exercises of share options. In accordance with the requirement of IFRS 10 the EBT is treated as if it is a subsidiary of the Group. As a result, the purchase of shares held by the EBT is reported as a purchase of treasury shares by the Group.

The accompanying notes form part of the financial statements.

Year ended 31 October 2020

Note	Share capital \$m	Share premium account \$m	Retained earnings \$m	Foreign currency translation reserve \$m	Capital redemption reserves \$m	Hedging reserve \$m	Merger reserve \$m	Total equity attributable to owners of the parent \$m	Non- controlling interests \$m	Total equity \$m
Balance as at 1 November 2019	47.2	44.0	2,250.7	(262.1)	2,485.0	(29.6)	1,739.8	6,275.0	1.3	6,276.3
Impact of adoption of IFRS 16	–	–	(8.4)	–	–	–	–	(8.4)	–	(8.4)
Revised balance at 1 November 2019	47.2	44.0	2,242.3	(262.1)	2,485.0	(29.6)	1,739.8	6,266.6	1.3	6,267.9
Loss for the financial year	–	–	(2,969.5)	–	–	–	–	(2,969.5)	–	(2,969.5)
Other comprehensive expense for the year	–	–	(5.0)	(64.6)	–	(33.5)	–	(103.1)	–	(103.1)
Total comprehensive expense for the year	–	–	(2,974.5)	(64.6)	–	(33.5)	–	(3,072.6)	–	(3,072.6)
Share options:										
Issue of share capital – share options	25,26	0.1	2.5	0.3	–	–	–	2.9	–	2.9
Share-based payment charge	28	–	–	18.3	–	–	–	18.3	–	18.3
Current tax on share options	7	–	–	0.1	–	–	–	0.1	–	0.1
Deferred tax on share options	7	–	–	(1.5)	–	–	–	(1.5)	–	(1.5)
Purchase of remaining non- controlling interest		–	–	1.3	–	–	–	1.3	(1.3)	–
Transfer to merger reserve	27	–	–	(27.6)	–	–	–	27.6	–	–
Total movements for the year	0.1	2.5	(2,983.6)	(64.6)	–	(33.5)	27.6	(3,051.5)	(1.3)	(3,052.8)
Balance as at 31 October 2020	47.3	46.5	(741.3)	(326.7)	2,485.0	(63.1)	1,767.4	3,215.1	–	3,215.1

The accompanying notes form part of the financial statements.

Consolidated statement of cash flows

For the year ended 31 October 2021

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Cash flows from operating activities			
Cash generated from operations	32	690.5	1,082.8
Interest paid		(218.1)	(207.1)
Bank loan costs		(1.5)	(47.9)
Tax paid		(270.3)	(149.6)
Net cash generated from operating activities		200.6	678.2
Cash flows from investing activities			
Payments for intangible assets	11	(47.5)	(60.6)
Purchase of property, plant and equipment	12	(17.7)	(26.3)
Interest received		1.7	2.4
Payment for acquisition of business and net cash acquired with acquisitions	31	(12.4)	(6.0)
Investing cash flows generated from disposals	30	–	1.3
Net cash used in investing activities		(75.9)	(89.2)
Cash flows used in financing activities			
Proceeds from issue of ordinary share capital	25,26	0.4	2.6
Purchase of treasury shares and related expenses	25	(27.2)	–
Payment for lease liabilities	19	(79.5)	(80.1)
Settlement of foreign exchange derivative	24	–	(21.8)
Repayment of bank borrowings	18	(114.1)	(1,589.7)
Proceeds from bank borrowings	18	–	1,490.8
Dividends paid to owners	8	(81.1)	–
Net cash used in financing activities		(301.5)	(198.2)
Effects of exchange rate changes		(2.0)	(9.3)
Net (decrease)/increase in cash and cash equivalents		(178.8)	381.5
Cash and cash equivalents at beginning of the year		737.2	355.7
Cash and cash equivalents at end of the year	16	558.4	737.2

The accompanying notes form part of these financial statements.

Summary of significant accounting policies

For the year ended 31 October 2021

General information

Micro Focus International plc ("Company") is a public limited company incorporated and domiciled in England and Wales. 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 "Group") provide innovative software to clients around the world enabling them to dramatically improve the business value of their enterprise applications. As at 31 October 2021, the Group had a presence in 48 countries (2020: 48) worldwide and employed approximately 11,355 people (2020: 11,900).

The Company is listed on the London Stock Exchange and its American Depositary Shares are listed on the New York Stock Exchange.

The Group consolidated financial statements were authorised for issuance by the board of directors on 7 February 2022.

I Significant accounting policies

A Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"), in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU").

The consolidated financial statements are prepared on a going concern basis under the historical cost convention.

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, assumptions and judgements".

The principal accounting policies adopted by the Group in the preparation of the consolidated financial statements are set out below.

The accounting policies adopted are consistent with those of the Annual Report and Accounts for the year ended 31 October 2020 apart from standards, amendments to or interpretations of published standards adopted during the year, as set out in Accounting Policy W "Adoption of new and revised IFRS".

Going concern

The consolidated financial statements are prepared on a going concern basis. Additional details on the directors' going concern assessment are included in the Directors' report on pages 129 to 130. In assessing the appropriateness of the going concern basis, the directors have taken into account severe but plausible downside scenarios.

Consolidated statement of comprehensive income

The Group has revised the presentation of the Consolidated Statement of Comprehensive Income to remove the additional two columns showing exceptional items and the pre-exceptional item results which were included in prior periods. Instead additional disclosure has been included on the face of the Consolidated Statement of Comprehensive Income to show operating loss before depreciation, amortisation and exceptional items. The revised presentation is considered to be simpler to the users of the accounts and reflects the significant impact of amortisation, depreciation and exceptional items on the results of the Group. The comparatives have been represented to be consistent with the revised presentation format.

B Consolidation

The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company and its subsidiaries prepared at the consolidated statement of financial position date.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group has control over an entity where the Group is exposed to, or has rights to, variable returns from its involvement within the entity and it has the power over the entity to effect those returns. Control is presumed to exist when the Group owns more than half of the voting rights (which does not always equal percentage ownership) unless it can be demonstrated that ownership does not constitute control. The results of subsidiaries are consolidated from the date on which control passes to the Group. The results of disposed subsidiaries are consolidated up to the date on which control passes from the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, with costs directly attributable to the acquisition being expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Summary of significant accounting policies

For the year ended 31 October 2021 continued

Where new information is obtained within the "measurement period" (defined as the earlier of the period until which the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable, or one year from the acquisition date) about facts and circumstances that existed as at the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date, the Group recognises these adjustments to the acquisition balance sheet with an equivalent offsetting adjustment to goodwill. Where new information is obtained after this measurement period has closed, this is reflected in the post-acquisition period.

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 Assets held for sale and discontinued operations

A non-current asset (or disposal group) is classified as held for sale if the Group will recover the carrying amount principally through a sale transaction rather than through continuing use. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. If the asset (or disposal group) is acquired as part of a business combination it is initially measured at fair value less costs to sell.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position and are measured at the lower of their carrying amount and fair value less costs to sell. Property, plant and equipment, right-of-use assets and intangible assets are not depreciated or amortised once classified as held for sale.

The results of discontinued operations are shown as a single amount on the face of the Consolidated statement of comprehensive income comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. The Consolidated statement of cash flows has been presented including the discontinued operations.

D Revenue recognition

The Group follows the principle-based five-step model in IFRS 15 and recognises revenue on transfer of control of promised goods or services to customer when or as the performance obligation is satisfied at an amount that reflects the consideration, which the Group expects to be entitled in exchange for those goods, or services. Customer contracts can include combinations of goods and services, which are generally capable of being distinct and accounted for as separate performance obligations. Typically, a licence deal includes support, a separate performance obligation consisting of: call in assistance and when-and-if available updates. The right to get assistance and updates is not mandatory to use the licence. Contracts may also include professional services, which primarily comprise installation, implementation, configuration, advisory services and staff augmentation; these services are available both from the Group and other external service providers. All software is considered off-the-shelf and most services make use of existing configuration functionality and do not modify or customise the source code within the products, nor do they create custom software. The professional service personalise the software to the customer's requirements and preferences. Customers can benefit from both the software on its own and the subsequent services, individually and together. On this basis, the Group concludes that services are typically distinct from licences and constitute a separate performance obligation, although this is also assessed on an individual contract basis.

Revenue is allocated to the various performance obligations on a relative stand-alone selling price ("SSP") basis.

On an on-going basis, the Group utilises available data points based on relevant historical transactions, to establish the observable stand-alone selling prices to be used in allocating transaction consideration. For observable stand-alone sales a reasonable range of prices will be determined to represent the SSP of that performance obligation. Given the highly variable selling price of licences, the Group has not established SSP for licences. When SSP is established for the undelivered performance obligations (typically maintenance and professional services), the residual approach is used to allocate the transaction price to the delivered licences.

For performance obligations where observable stand-alone sales are not available, SSP will be estimated using the following methods in the order set out below:

- Market price
- Expected cost plus a margin
- Residual approach

The Group recognises revenues from sales of software licences (including Intellectual Property and Patent rights) to end-users, resellers and Independent Software Vendors ("ISV"), software maintenance, Software as a Service ("SaaS"), technical support, training and professional services. ISV revenue includes fees based on end usage of ISV applications that have our software embedded in their applications.

Software licence revenue is the sale of right to use the software and is recognised at a point in time when the software is made available to the customer and/or reseller (i.e. when control of the asset is transferred and the performance obligation is satisfied). Software licence revenue includes revenue resulting from term/time extensions to existing agreements and the sale of additional use rights associated to existing licences including granting third party access, virtualization or novation rights. Typically term extensions and these additional rights do not require incremental support as they do not result in an additional licence, only a different use of the existing licences. The Group enters into licence verification arrangements, for customers who are not in compliance with their contractual licence and/or maintenance terms, by agreeing a one-off settlement fee. If more than one performance obligation can be identified in the contract, revenue is allocated to each performance obligation, otherwise the Group policy is to recognise as licence revenue. The allocation of revenue does not impact the timing of revenue recognition in these deals, given the performance obligation(s) have already been fulfilled, but will impact the presentation of revenue recognised during the period, (as licence or licence and maintenance).

For SaaS arrangements, which include cloud arrangements, where customers access the functionality of a hosted software over the contract period without taking possession of the software, and performance obligations are provided evenly over a defined term, the Group recognises revenue over the period in which the subscriptions are provided as the service is delivered, generally on a straight-line basis.

In SaaS arrangements, which include cloud arrangements, where the customer has the contractual right to take possession of the software at any time during the contractual period without significant penalty and the customer can operate, or contract with another vendor to operate the software, the Group evaluates whether the arrangement includes the sale of a software licence. In SaaS arrangements where software licences are sold, licence revenue is generally recognised at a point in time when control of the software is transferred to the customer.

Maintenance revenue is recognised on a straight-line basis over the term of the contract, which in most cases is one year.

For time and material-based professional services contracts, the Group recognises revenue as services are rendered. The Group recognises revenue from fixed-price professional services contracts as work progresses over the contract period on a percentage of completion basis, as determined by the percentage of labour costs incurred to date compared to the total estimated labour costs of a contract. Estimates of total project costs for fixed-price contracts are regularly reassessed during the life of a contract. Service costs are expensed as incurred; amounts collected prior to satisfying the above conditions are shown as contract liabilities.

Where consideration is received in advance of satisfying the performance obligation and the performance obligation will be satisfied within one year of receipt of the consideration no significant financing component is recognised. The majority of the Group's SaaS and maintenance contracts are for periods of one year. In addition, for multi-year contracts where consideration is received in advance, the purpose of the upfront billing is not for the Group to obtain financing, rather to avoid the administrative tasks of subsequent invoicing, cash collection and risk of cancellation.

Rebates paid to resellers as part of a contracted programme are accounted for as a reduction of the transaction price and netted against revenue where the rebate paid is based on the achievement of sales targets made by the partner. If the Group receives an identifiable good or service from the reseller that is separable from the sales transaction and for which fair value can be reasonably estimated, the Group accounts for the purchase of the good or service in the same way that it accounts for other purchases from suppliers.

E Contract-related costs

The Group capitalises the costs of obtaining a customer contract when they are incremental and, if expected to be recovered, they are amortised over the customer life or pattern of revenue for the related contract.

Normally sales commissions paid for customer contract renewals are not commensurate with the commissions paid for new contracts. It follows that the commissions paid for new contracts also relate to expected future renewals of these contracts. Accordingly, the Group amortises sales commissions paid for new customer contracts on a straight-line basis over the expected customer life, based on expected renewal frequency. The current average customer life is five years. If the expected amortisation period is one year or less the costs are expensed when incurred.

Amortisation of the capitalised costs of obtaining customer contracts is classified as sales and marketing expense. Capitalised costs from customer contracts are classified as non-financial assets in our statement of financial position.

F Cost of sales

Cost of sales includes costs related to the amortisation of product development costs, amortisation of acquired technology intangibles, costs of the consulting business and helpline support and royalties payable to third parties.

Summary of significant accounting policies

For the year ended 31 October 2021 continued

G Segment reporting

In accordance with IFRS 8, "Operating Segments", the Group has derived the information for its segmental reporting using the information used by the Chief Operating Decision Maker ("CODM"), defined as the operating committee. The segmental reporting is consistent with those used in internal management reporting and the measure used by the operating committee is Adjusted EBITDA as set out in note 1, "Segmental reporting".

H 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. In setting the policy for exceptional items, judgement is required to determine what the Group defines as "exceptional". The Group considers whether an item is exceptional in nature by considering its materiality or the frequency of the transaction occurring or whether it reflects the underlying performance of the business. Exceptional items are allocated to the financial statement lines (for example: cost of sales) in the Consolidated statement of comprehensive income based on the nature and function of the costs, for example restructuring costs related to employees are classified where their original employment costs are recorded.

Management of the Group first evaluates Group strategic projects such as acquisitions, divestitures and integration activities and significant Group restructuring or similar activities. In determining whether an event or transaction is exceptional, management of the Group considers quantitative and qualitative factors such as its expected size, precedent for similar items and the commercial context for the particular transaction, while ensuring consistent treatment between favourable and unfavourable transactions impacting revenue, income and expense. Examples of transactions which may be considered of an exceptional nature include major restructuring programmes, cost of acquisitions, the cost of integrating acquired businesses, gains on the disposal of discontinued operations or impairment charges recognised against goodwill.

I Employee benefit costs

a) Pension and other defined benefit obligations and long-term pension assets

The Group operates various pension schemes and long-term employee benefit plans, including both defined contribution and defined benefit plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan or other long-term employee benefit that is not a defined contribution plan.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Typically, the Group's defined benefit pension plans define an amount of pension benefit that an employee will receive on retirement or termination. This is usually dependent on one or more factors such as age, years of service and compensation. Additionally, the Group sponsors vacation and other types of leave plans which qualify under IAS 19 as other long-term benefits as these liabilities are not expected to be settled within the next fiscal year. As such, these plans are defined benefit in nature. These plans are typically unfunded.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension and other long-term employee benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. Certain long-term pension assets do not meet the definition of plan assets as they have not been pledged to the plan and are subject to the creditors of the Group. Such assets are recorded separately in the consolidated statement of financial position as long-term pension assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to mature approximating to the terms of the related obligation.

For defined benefit pension plans, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. For other long-term benefit plans actuarial gains and losses are recognised in profit or loss in the period in which they arise.

The current service cost of the defined benefit plans, recognised in the Consolidated statement of comprehensive income in employee benefit expense reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements. Past-service costs are recognised immediately in the Consolidated statement of comprehensive income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in finance costs in the Consolidated statement of comprehensive income.

Long-term pension assets relate to the reimbursement right under insurance policies held in the Group with guaranteed interest rates that do not meet the definition of a qualifying insurance policy as they have not been pledged to the plan and are subject to the creditors of the Group. Such reimbursement rights assets are recorded in the Consolidated statement of financial position as long-term pension assets. These contractual arrangements are treated as financial assets measured at fair value through other comprehensive income. Gains and losses on long-term pension assets are charged or credited to equity in other comprehensive income in the period in which they arise.

b) Share-based compensation

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

The fair value of the employee services received in exchange for the grant of the shares or options is recognised 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 for non-market vesting conditions. It recognises 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 current reporting period.

The shares are recognised when the options are exercised and the proceeds received allocated between ordinary share capital and share premium account. Fair value is usually 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. Where appropriate, some LTIP options have a fair value measured using the share price or the Monte-Carlo simulation pricing model.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee.

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.

J 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 recognised in the Consolidated statement of comprehensive income within administrative expenses.

Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments (including purchased intangible assets) to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

On consolidation, 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 recognised 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 arising before 1 May 2004 is treated as an asset of the Company and expressed in the Company's functional currency.

Summary of significant accounting policies
For the year ended 31 October 2021 continued

c) Exchange rates

The most important foreign currencies for the Group are: Pounds Sterling, the Euro, Canadian Dollar, Japanese Yen, Indian Rupee and the Australian Dollar. The exchange rates used are as follows:

	Year ended 31 October 2021		Year ended 31 October 2020	
	Average	Closing	Average	Closing
£1 = \$	1.37	1.37	1.28	1.30
€1 = \$	1.19	1.16	1.13	1.17
C\$ = \$	0.80	0.81	0.74	0.75
AUD = \$	0.75	0.75	0.68	0.70
100 INR = \$	1.36	1.33	1.36	1.34
100 JPY = \$	0.92	0.88	0.93	0.96

K 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 or whenever there is an indication that the asset may be impaired. Goodwill is 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.

Where goodwill has been allocated to a cash-generating unit ("CGU") and part of the operation within that unit is classified as held for sale, the goodwill associated with the held-for-sale operation is measured based on the relative values of the held-for-sale operation and the portion of the CGU retained.

b) Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised using the straight-line method over their estimated useful lives of three to seven years for perpetual licence or based on the agreement for term licence.

c) Research and development

Research expenditure is recognised as an expense as incurred in the Consolidated statement of comprehensive income in research and development expenses. Costs incurred on product development projects relating to the developing of new computer software programmes and significant enhancement of existing computer software programmes are recognised 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 capitalised which are the software development employee costs and third party contractor costs. Product development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Product development costs are amortised 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, and are included in costs of sales in the consolidated statement of comprehensive income.

d) Intangible assets – arising on business combinations

Other intangible assets that are acquired by the Group as part of a business combination are recognised at their fair value at the date of acquisition, and are subsequently amortised. Amortisation 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 amortised from the date they are available for use. The estimated useful lives are as follows:

Purchased software	Licence agreement based, generally three to seven years
Technology	Three to 12 years
Trade names	Three to 20 years
Customer relationships	Two to 15 years

Amortisation of purchased software intangibles is included in administrative expenses, amortisation of purchased technology intangibles is included in cost of sales and amortisation of acquired purchased trade names and customer relationships are included in selling and distribution costs in the Consolidated statement of comprehensive income.

L 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 recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred. Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life as follows:

Buildings	30 years
Leasehold improvements	Three to 10 years (not exceeding the remaining lease period)
Fixtures and fittings	Two to seven years
Computer equipment	One to five years

Freehold land is not depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Consolidated statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the Consolidated statement of comprehensive income.

Property held for sale is measured at the lower of its carrying amount or estimated fair value less costs to sell.

M Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or whenever there is an indication that the asset may be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 of disposal 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 being cash-generating units. Any non-financial assets other than goodwill which have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Assets that are subject to amortisation and depreciation are also reviewed for any possible impairment at each reporting date.

N Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less provisions for impairment based upon an expected credit loss methodology. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. A provision of the lifetime expected credit loss is established upon initial recognition of the underlying asset and are calculated using historical account payment profiles along with historical credit losses experienced. The loss allowance is adjusted for forward-looking factors specific to the debtor and the economic environment. The amount of the provision is the difference between the asset's carrying amount and the present value of the probability weighted estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Consolidated statement of comprehensive income.

O Cash and cash equivalents

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

P Borrowings

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

Q Leases

As a lessee

When the Group leases an asset a 'right-of-use asset' is recognised for the leased item and a lease liability is recognised for any lease payments due over the lease term at the lease commencement date. The right-of-use asset is initially measured at cost, being the present value of the lease payments paid or payable, plus any initial direct costs incurred in entering the lease and less any lease incentives received.

Summary of significant accounting policies

For the year ended 31 October 2021 continued

Right-of-use assets are depreciated on a straight-line basis from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. The lease term is the non-cancellable period of the lease plus any periods for which the Group is 'reasonably certain' to exercise any extension options (note 19, "Leases"). The useful life of the asset is determined in a manner consistent to that for owned property, plant and equipment described in L above. If right-of-use assets are considered to be impaired, the carrying value is reduced accordingly.

Lease liabilities are initially measured at the value of the lease payments that are not paid at the commencement date and are usually discounted using the incremental borrowing rates of the Group for the relevant portfolio (the rate implicit in the lease is used if it is readily determinable). Lease payments included in the lease liability include both fixed payments and in-substance fixed payments during the term of the lease.

After initial recognition, the lease liability is recorded at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate (e.g. an inflation-related increase) or if the Group's assessment of the lease term changes; any change in the lease liability as a result of these changes also results in a corresponding change in the recorded right-of-use asset.

As a lessor

Where the Group is a lessor, it determines at inception whether the lease is a finance or an operating lease. When a lease transfers substantially all the risks and rewards of ownership of the underlying asset then the lease is a finance lease; otherwise, the lease is an operating lease.

Where the Group is an intermediate lessor, the interest in the head lease and the sub-lease is accounted for separately and the lease classification of a sub-lease is determined by reference to the right-of-use asset arising from the head lease.

Income from operating leases is recognised on a straight-line basis over the lease term. Income from finance leases is recognised in full at lease commencement.

R Taxation

Current and deferred tax are recognised 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 nor loss, it is not accounted for. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. 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 recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax is recognised 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.

S 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 recognised 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 recognised when they are paid.

T Derivative financial instruments and hedge accounting

Financial assets and liabilities are recognised 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 initially recognised at fair value and subsequently measured at amortised cost less provisions for impairment based upon an expected credit loss methodology. Trade payables are non-interest bearing and are stated at their fair value. Derivative financial instruments are only used for economic hedging purposes and not as speculative investments.

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Non-derivative financial instruments, such as Euro borrowings, have also been designated as hedges for net investments in foreign operations. Hedges of a net investment in a foreign operation are accounted for similarly to cash flow hedges.

Hedge accounting is permitted under certain circumstances provided the following criteria are met:

- At inception of the hedge, the documentation must include the risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. Such hedges are expected to be effective in achieving offsetting changes in cash flows and are assessed on an on-going basis to determine the level of effectiveness.
- The measurement of effectiveness determines the accounting treatment. For effective results, changes in the fair value of the hedging instrument should be recognised in other comprehensive income, while any material ineffectiveness should be recognised in the statement of comprehensive income. If effectiveness testing is not satisfactorily completed, all fair value movements on the hedging instrument should be recorded in the Consolidated statement of comprehensive income. The IFRS 9 hedge accounting requirements are applicable to the interest swaps and net investment hedges that have been designated for hedge accounting.

Hedge accounting is ceased prospectively if the instrument expires or is sold, terminated or exercised; the hedge criteria are no longer met or the forecast transaction is no longer expected to occur.

U Provisions

Provisions for onerous contracts, property restoration costs, restructuring costs and legal claims are recognised 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. Provisions are not recognised 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 recognised 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 where the impact is material. The increase in the provision due to the passage of time is recognised as an interest expense.

V Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by uncertain future events or present obligations that arise from past events where the transfer of economic resources is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised in the consolidated financial statements, except if they arise from a business combination; they are disclosed in the notes to the consolidated financial statements unless the likelihood of an outflow of economic resources is remote.

W Adoption of new and revised International Financial Reporting Standards

Other than as described below, the accounting policies, presentation and methods of calculation adopted are consistent with those of the Annual Report and Accounts for the year ended 31 October 2020, apart from standards, amendments to or interpretations of published standards adopted during the period.

The following standards, interpretations and amendments to existing standards are now effective and have been adopted by the Group. The impacts of applying these policies are not considered material:

- Amendments to References to the Conceptual Framework in IFRS Standards – Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to the revised the Conceptual Framework.
- Amendments to IFRS 3 “Business Combinations”, clarifies the definition of a business in acquisitions.
- Amendments to IAS 1 and IAS 8: guidance on the definition of material.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 16 and IFRS 4: Interest rate benchmark reforms. Phase 1 covers hedge accounting impacts and discontinuance exemptions. Managing the transition to new interest rate benchmarks is discussed further in note 24, “Financial risk management and financial instruments”).

Summary of significant accounting policies

For the year ended 31 October 2021 continued

Interpretations and amendments

The following interpretations and amendments to existing standards are not yet effective and have not been adopted early by the Group. These interpretations and amendments were not endorsed by the EU as at 31 December 2020 and have not yet been endorsed by the UK Endorsement Board ("UK EB") except where stated below:

Effective for periods commencing after 1 January 2021 (applicable to the Group from 1 November 2021):

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 16 and IFRS 4: Interest rate benchmark reforms phase 2. Phase 2 covers further disclosures on transition to a new benchmark, UK EB endorsed 5 January 2021.

Effective for periods commencing after 1 January 2022 (applicable to the Group from 1 November 2022):

- Annual Improvements cycle 2018-2020 includes relevant amendments clarifying capitalisation of transaction fees/inclusion of specific fees in modification/extinguishment test within IFRS 9 Financial Instruments. Other included improvement in IFRS 1 (First time adoption) and IAS 41 (agriculture) are not applicable to the Group.
- Amendments to IFRS 3 "Business combinations", IAS 16 "Property, plant and equipment" and IAS 37 "Provisions, Contingent assets and Contingent liabilities".

Effective for periods commencing after 1 January 2023 (applicable to the Group from 1 November 2023), subject to UK endorsement except as noted below:

- Amendments to IAS 1 "Presentation of financial statements". Amendment is presentational and relates to the classification of liabilities as current and non-current.
- Amendments to IAS 1 "Presentation of financial statements" aims to provide guidance on the application of materiality judgements to policy disclosures.
- Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" provides clarifications around the definition of accounting estimates and further clarification around the difference between policy changes and estimates.
- Amendments to IAS 12 "Income taxes" covering temporary timing differences for deferred tax on the recognition of asset and liabilities from a single transaction.
- IFRS 17 "Insurance contracts" and Amendments to IFRS 17 "Insurance contracts".

The impact of the amendments and interpretations listed above are not expected to have a material impact on the consolidated financial statements.

II Critical accounting estimates, assumptions and judgements

In preparing these 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 judgements and updates them as required. The Group has reviewed its critical accounting estimates, assumptions and judgements and a new critical accounting estimate has been identified in relation to the useful economic lives of the Group's purchased intangible assets. The critical judgement identified in the prior year in relation to the assessment of lease term is no longer considered critical as IFRS 16 has been applied for two years and the level of remaining judgement has reduced following changes to the Group's largest leases over the last two years.

Actual results could differ from these estimates. Unless otherwise indicated, the Group does not believe that there is a significant risk of a material change to the carrying value of assets and liabilities within the next financial year related to the accounting estimates and assumptions described below. The Group considers the following to be a description of the most significant estimates and judgements which require the Group to make subjective and complex judgements and matters that are inherently uncertain.

Critical accounting estimates

A Potential impairment of goodwill and other intangible assets

Each year, or whenever there are changes in circumstances indicating that the carrying amounts may not be recoverable, the Group carries out impairment tests of goodwill and other intangible assets which require estimates to be made of the value in use of its CGUs. These value in use calculations are dependent on estimates of future cash flows including long-term growth rates, the average annual revenue growth rate by product group and an appropriate discount rate to be applied to future cash flows. Further details on these estimates and sensitivity of the carrying value of goodwill to the discount rate, the average annual revenue growth rate by product group and the long-term growth rate are provided in note 10, "Goodwill".

B Retirement benefit obligations

The valuation of retirement benefit obligations is dependent upon a number of assumptions that are estimated at the year end date, including estimates of mortality rates, inflation, salary growth rates and the rate at which scheme liabilities are discounted. Further detail on these estimates and the sensitivity of the carrying value of the defined benefit obligation to these is provided in note 22, "Pension and other long-term benefit commitments".

C Useful economic lives of purchased intangible assets

The economic lives of the Group's purchased intangible assets are determined on initial acquisition and reassessed annually or whenever there are changes in circumstances indicating that the economic lives may not be appropriate. In reassessing the lives factors such as changes in actual and expected trading performance of the Group and how these compare to the initial acquisition assessment are considered. Using this information an estimate of the remaining useful economic lives is determined and if different to the currently applied life the remaining life is adjusted prospectively.

Following the goodwill impairment in the year ended 31 October 2020, management reviewed the estimated lives of purchased intangible assets. The assessment performed in the current year resulted in a reduction in the economic lives of certain purchased intangible assets, see note 11, "Other intangible assets", for details on the impacts in the current period, expected impact in future periods and sensitivity.

Critical accounting judgements

D Revenue recognition

Revenue recognition requires significant use of management judgement to produce financial information. The most significant accounting judgements in applying IFRS 15 are the identification of performance obligations and the determination of the transaction price when the contract contains variable considerations.

Judgement is required to (i) identify each distinct performance obligation requiring separate recognition in a multi element contract (e.g. licence, maintenance, material rights for option to acquire additional products or services at discounted prices), and (ii) allocate the transaction price to the various performance obligations. This judgement impacts the timing of revenue recognition, as certain performance obligations are recognised at a point in time and others are recognised over the life of the contract, as explained in Accounting Policy D "Revenue recognition", and therefore the judgement impacts the quantum of revenue and profit recognised in a period.

E Exceptional item classification

The Group classifies items as exceptional in line with Accounting Policy H "Exceptional items". The classification of these items as an exceptional is a matter of judgement. This judgement is made by management after evaluating each item deemed to be exceptional against the criteria set out within the defined accounting policy.

F Provision for income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes including structuring activities undertaken by the Group and the application of complex transfer pricing rules. The Group recognises liabilities for anticipated settlement of tax issues based on judgements of whether additional taxes will be due. Significant issues may take several periods to resolve. In making judgements on the probability and amount of any tax charge, management takes into account:

- Status of the unresolved matter;
- Strength of technical argument and clarity of legislation;
- External advice;
- Resolution process, past experience and precedents set with the particular taxing authority;
- Agreements previously reached in other jurisdictions on comparable issues; and
- Statute of limitations.

Key judgements in the year were related to the EU State Aid and UK tax authority challenge in respect of prior periods. Specifically, these judgements covered (i) the probability of success of either the appeal by the UK Government or the appeal by the Group itself in respect of the EU State Aid, (ii) the probability of success of UK tax authority challenge, and therefore recovery of the \$48m current tax receivable, and (iii) the interaction of the two matters in the context of the maximum liability, which we consider to be \$60m, associated with both the UK State Aid and UK tax authority challenge. Based on their assessment (and supported by advice received by the Group's tax advisors), the directors have concluded that no additional tax provisions are required with regards to these matters. See note 7, "Taxation", for additional details.

The ultimate tax liability may differ from the amount provided depending on interpretations of tax law, settlement negotiations or changes in legislation. 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 year in which such determination is made.

Notes to the consolidated financial statements

For the year ended 31 October 2021

1 Segmental reporting

In accordance with IFRS 8 "Operating Segments", the Group has derived the information for its segmental reporting using the information used by the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance. The Chief Operating Decision Maker ("CODM") is defined as the operating committee.

For the year ended 31 October 2021, the operating committee consisted of the Chief Executive Officer, the Chief Financial Officer, Chief Operating Officer, Chief HR Officer and Senior Vice President Business Operations and the Chief Legal Officer (to 7 August 2021). The Group is organised into a single reporting segment.

The Group's segment under IFRS 8 is the Micro Focus Product Portfolio. The Micro Focus Product Portfolio segment contains mature infrastructure software products that are managed on a portfolio basis akin to a "fund of funds" investment portfolio. This portfolio is managed with a single product group that makes and maintains the software, whilst the software is sold and supported through one single Go-to-Market organisation with specialist skills targeted by sub-portfolio. The products within the existing Micro Focus Product Portfolio are grouped together into five sub-portfolios based on industrial logic and management of the Micro Focus sub-portfolios: Application Modernisation & Connectivity ("AMC"), Application Delivery Management ("ADM"), IT Operations Management ("ITOM"), CyberRes and Information Management & Governance ("IM&G").

The segmental reporting is consistent with that used in internal management reporting and the profit measure used by the operating committee is Adjusted EBITDA.

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Reconciliation to Adjusted EBITDA:			
Loss before tax		(517.8)	(2,940.4)
Finance costs	6	253.9	281.6
Finance income	6	(1.7)	(2.6)
Depreciation of property, plant and equipment	12	33.7	42.0
Right-of-use asset depreciation	19	73.3	76.9
Amortisation of intangible assets	11	956.4	674.1
Exceptional items (reported in Operating loss)	4	247.1	3,011.6
Share-based compensation charge	28	14.3	17.0
Product development intangible costs capitalised	11	(19.1)	(16.2)
Foreign exchange loss	3	0.1	29.7
Adjusted EBITDA		1,040.2	1,173.7

For the reportable segment, the total assets were \$10,346.6m (2020: \$11,146.8m) and the total liabilities were \$7,525.6m (2020: \$7,931.7m) as at 31 October 2021.

2 Supplementary information

Analysis by geography

The Group is domiciled in the UK. The Group's total segmental revenue from external customers by geographical location is detailed below:

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
UK	160.0	173.0
US	1,263.0	1,289.8
Germany	223.0	218.7
Canada	110.3	108.0
France	100.7	101.4
Japan	95.6	96.9
Other	947.3	1,013.2
Total	2,899.9	3,001.0

The total of non-current assets as at 31 October 2021 located in the US is \$2,798.3m (31 October 2020: \$3,301.0m), the total in the rest of the world is \$5,641.2m (31 October 2020: \$6,304.0m).

2 Supplementary information continued

Analysis of revenue from contracts with customers

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Revenue from contracts with customers	2,899.9	3,001.0
Being:		
Recognised over time:		
Maintenance revenue	1,791.7	1,920.8
SaaS & other recurring revenue	239.8	245.3
	2,031.5	2,166.1
Recognised at point in time:		
Licence revenue	688.6	646.5
Consulting revenue	179.8	188.4
	868.4	834.9
Total Revenue	2,899.9	3,001.0

Analysis of revenue by product

Set out below is an analysis of revenue recognised between the principal Product Portfolios for the year ended 31 October 2021 with comparatives:

Year ended 31 October 2021:

	Licence \$m	Maintenance \$m	SaaS & other recurring \$m	Consulting \$m	Total \$m
AMC	155.3	315.9	–	10.3	481.5
ADM	106.1	408.5	78.9	18.6	612.1
ITOM	172.7	507.8	4.3	106.3	791.1
CyberRes	174.5	383.9	36.3	29.1	623.8
IM&G	80.0	175.6	120.3	15.5	391.4
Total Revenue	688.6	1,791.7	239.8	179.8	2,899.9

Year ended 31 October 2020:

	Licence \$m	Maintenance \$m	SaaS & other recurring \$m	Consulting \$m	Total \$m
AMC	138.6	321.6	–	10.1	470.3
ADM	102.0	439.2	73.9	15.9	631.0
ITOM	175.1	559.4	4.6	113.9	853.0
CyberRes	162.6	416.8	33.6	33.1	646.1
IM&G	68.2	184.2	133.4	15.4	401.2
Subtotal	646.5	1,921.2	245.5	188.4	3,001.6
Deferred revenue haircut	–	(0.4)	(0.2)	–	(0.6)
Total Revenue	646.5	1,920.8	245.3	188.4	3,001.0

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

3 Loss before tax

The loss before tax is stated after charging/(crediting) the following operating costs/(gains) classified by the nature of the costs/(gains):

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Staff costs	28	1,396.0	1,344.4
Depreciation of property, plant and equipment	12	33.7	42.0
Depreciation of right-of-use asset	19	73.3	76.9
Loss on disposal of property, plant and equipment	12	1.2	5.6
Amortisation of intangible assets	11	956.4	674.1
Provision for receivables impairment charge/(release)	14	0.6	(4.8)
Foreign exchange loss on derivative financial instruments		–	21.8
Foreign exchange loss		0.1	7.9

4 Exceptional items

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Reported within Operating loss:			
Integration costs		98.0	152.6
Divestiture and acquisition costs		3.6	0.2
Property-related costs		11.1	15.2
Severance and legal costs		27.3	33.7
Legal settlement and associated costs		75.4	–
Other restructuring costs		31.7	10.7
Goodwill impairment		–	2,799.2
Exceptional costs before tax		247.1	3,011.6
Tax effect of exceptional items		(76.3)	(38.7)
Reported within profit from discontinued operation (attributable to equity shareholders of the Company):			
(Gain)/loss on disposal of discontinued operation	30	(10.7)	2.2
Exceptional costs after tax		160.1	2,975.1

Exceptional items are allocated to the financial statement lines (for example: cost of sales) in the Consolidated statement of comprehensive income based on the nature and function of the costs; for example restructuring costs related to employees are classified where their original employment costs are recorded. Exceptional items included in operating profit are reported in the following financial statement lines Cost of sales \$2.6m (FY20: \$4.0m), Selling and distribution expenses \$4.8m (FY20: \$12.9m), Research and development expense \$0.4m credit (FY20: \$0.9m) and Administrative expenses \$240.1m (FY20: \$2,993.8m).

Integration costs

Integration costs of \$98.0m for the year ended 31 October 2021 (2020: \$152.6m) reflect the costs incurred in the IT design, build and migration onto a single new transformative IT platform for the entire group and a wide range of projects undertaken to conform, simplify and increase efficiency across the business and are exceptional by virtue of size and nature.

Divestiture and acquisition costs

Acquisition costs of \$1.3m in the year ended 31 October 2021 relate to the acquisitions of Streamworx and Full 360 and are exceptional by virtue of nature. Acquisition costs of \$0.2m in the year ended 31 October 2020 relate to the acquisition of Atar Labs. Divestiture costs of \$2.3m in the year ended 31 October 2021 relate to the disposal of the Digital Safe business and are exceptional by virtue of nature.

4 Exceptional items continued

Property-related costs

Property-related costs of \$11.1m for the year ended 31 October 2021 (2020: \$15.2m) relate to the impairment or amendment to the impairments of right-of-use assets for empty or sublet properties held by the Group, any related onerous non-rental costs and the cost of site consolidations. These costs are incurred as the Group simplifies and rationalises its real estate footprint as a result of the acquisition of HPE Software or other significant restructuring projects and are exceptional by virtue of nature.

Severance and legal costs

Severance and legal costs of \$27.3m for the year ended 31 October 2021 (2020: \$33.7m) relate mostly to termination costs for employees as the Group continues to remove duplication and simplify the continuing operations as it executes the target operating model resulting from the Strategic & Operational review and are exceptional by virtue of nature.

Legal settlements and associated costs

Legal settlements and associated costs of \$75.4m for the year ended 31 October 2021 (2020: \$nil) relate to the settlement of the Wapp patent infringement case and are exceptional by virtue of size and incidence. On 2 July 2018, Wapp Tech Limited Partnership and Wapp Tech Corp (collectively "Wapp") brought a claim against Micro Focus in the Eastern District of Texas, accusing the Company of infringing three patents in connection with Micro Focus' sale of certain products in the ADM product line, including LoadRunner and Performance Centre. The Company reached a settlement with Wapp on 15 July 2021 for payment of \$67.5m for complete resolution of the dispute without admission of liability. This amount was recognised as a provision in the Group's statement of financial position as at 30 April 2021.

In concluding this matter, the board considered a range of factors, including the possible time, cost and significant resources required for the appeal process and concluded that it was in the best interests of the Company that a settlement should be reached.

Pursuant to the settlement, the Company has been granted a fully paid-up, worldwide, irrevocable licence for the patents asserted by Wapp for current and future Micro Focus products and services, covering the Company as well as its customers. No consideration was allocated to the licence received.

The agreed settlement amount of \$67.5m was paid in September 2021 therefore no remaining balances are held in relation to Wapp at 31 October 2021.

Other restructuring costs

Other restructuring costs of \$31.7m for the year ended 31 October 2021 (2020: \$10.7m) relates to the costs of implementing the initiatives included in the Strategic & Operational review and are exceptional by virtue of nature. These include costs of restructuring of the Group to deliver the target operating model design and cost base and certain IT expenditure required to support the related simplification of the Group.

Goodwill impairment

No goodwill impairment charge was made in the year ended 31 October 2021 (2020: \$2,799.2m), see note 10, "Goodwill", for additional information.

Tax effect of exceptional items

The tax effect of exceptional items on the income statement is a credit of \$76.3m for the year ended 31 October 2021 (2020: \$38.7m credit). Exceptional items include a tax credit of \$19.1m (FY20 charge: \$19.1m) in relation to the transfer of assets between tax jurisdictions as a result of acquisitions by the Group in FY19. This is considered exceptional in nature as it has resulted from the integration activities to simplify and increase efficiency across the business.

Gain on disposal of discontinued operation

The gain on disposal of discontinued operation of \$10.7m in the year ended 31 October 2021 (2020: loss of \$2.2m) relates to adjustments in indemnification amounts owed to SUSE as part of the disposal agreement and is exceptional by virtue of nature.

EU State Aid

Whilst no income statement charge has been recognised in the period, payments totalling \$46.8m have been made in relation to the EU State Aid case which we consider to be exceptional. Details of this case are set out in note 7 "Taxation". Further information is included in APM 5, Free Cash Flow and Adjusted Free Cash Flow.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

5 Services provided by the Group's auditors and network of firms

During the year ended 31 October 2021, the Group obtained the following services from the Group's auditors as detailed below:

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Audit of Company	8.0	7.2
ICOFR audit	4.7	2.7
Audit of subsidiaries	2.8	2.9
Total audit	15.5	12.8
Audit-related assurance services	0.5	0.6
Total assurance services	0.5	0.6
Total	16.0	13.4

Of the audit-related assurance services engagements undertaken in the year ended 31 October 2021 only one (2020: one) was considered to be significant. This related to the review procedures over the Group's interim financial statements, for which a fee of \$0.5m (2020: \$0.6m) was paid.

6 Finance income and finance costs

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Finance costs			
Interest on bank borrowings		163.6	176.1
Commitment fees		1.3	1.7
Amortisation of facility costs and original issue discounts		34.0	58.0
Finance costs on bank borrowings		198.9	235.8
Net interest expense on retirement obligations	22	1.5	1.8
Interest on lease liabilities	19	10.0	13.2
Interest rate swaps: cash flow hedges		41.3	23.7
Other		2.2	7.1
Total		253.9	281.6

		Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Finance income			
Bank interest		1.5	2.4
Interest on non-plan pension assets	22	0.2	0.2
Total		1.7	2.6
Net finance costs		252.2	279.0

7 Taxation

A Taxation in the Consolidated statement of comprehensive income

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Continuing operations		
Current tax		
Current year	145.7	175.4
Adjustments to tax in respect of previous periods	0.9	7.8
	146.6	183.2
Deferred tax		
Origination and reversal of temporary differences	(237.9)	(195.3)
Adjustments to tax in respect of previous periods	(23.3)	10.7
Impact of changes in tax rates	31.9	35.6
	(229.3)	(149.0)
Total tax (credit)/charge	(82.7)	34.2

For the year ended 31 October 2021, a deferred tax charge of \$0.2m (2020: \$1.5m charge) and no current tax impact (2020: \$0.1m credit) have been recognised in equity in relation to share options. A current tax charge of \$8.0m (2020: \$7.8m credit) has been recognised in the hedging reserve (note 27, "Other reserves"). There is also a current tax credit of \$6.0m (2020: no tax impact) and a deferred tax charge of \$8.1m (2020: \$11.1m credit) in relation to the currency translation differences. In addition, a deferred tax charge of \$7.8m (2020: \$8.7m) has been recognised in the Consolidated statement of comprehensive income in relation to foreign exchange movements on intangibles and no charge (2020: \$5.0m charge) in relation to defined benefit pension schemes.

There are also profits of \$10.7m in respect of discontinued operations and we do not expect a tax charge to arise on these.

The tax charge for the year ended 31 October 2021 is higher than the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%). The differences are explained below:

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Loss before taxation	(517.8)	(2,940.4)
Tax at UK corporation tax rate 19.00% (2020: 19.00%)	(98.4)	(558.7)
Effects of:		
Tax rates other than the UK standard rate	(8.6)	(78.0)
Intra-Group financing	0.3	(21.0)
Innovation tax credit benefits	(22.3)	(31.8)
US foreign inclusion income	15.5	20.4
Share options	1.6	4.1
Movement in deferred tax not recognised	5.3	11.1
Impact of rate changes	31.9	35.6
Goodwill impairment	-	592.8
Expenses not deductible and other permanent differences	14.4	41.2
	(60.3)	15.7
Adjustments to tax in respect of previous periods:		
Current tax	0.9	7.8
Deferred tax	(23.3)	10.7
	(22.4)	18.5
Total taxation	(82.7)	34.2

The Group continues to benefit from the UK's Patent Box regime, US R&D tax credits and other innovation-based tax credits offered by certain jurisdictions, the benefit for the year ended 31 October 2021 being \$22.3m (2020: \$31.8m). Following the unwind of the intra-Group financing in FY20, the Group does not realise a benefit from this for this period onwards (2020: \$21.0m).

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

7 Taxation continued

US foreign inclusion income of \$15.5m arising in the year ended 31 October 2021 (2020: \$20.4m) is largely driven by new US tax legislation introduced as part of US tax reforms in 2018.

A change to the future main UK corporation tax rate, announced in the 2021 UK Budget, was substantively enacted for IFRS purposes on 24 May 2021. The rate applicable from 1 April 2023 will be increased from 19% to 25%. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at a blended rate, based on when the UK temporary differences are expected to reverse. The impact of this and other changes in tax rate across the Group has resulted in a tax charge of \$31.9m in the income statement.

The expenses not deductible and other permanent differences charge of \$14.4m (2020: \$41.2m) includes \$6.4m in relation to uncertain tax positions, \$16.3m in respect of US Base Erosion ("BEAT") rules and \$9.9m related to irrecoverable withholding tax. Following an election made in the US for an intangible asset previously transferred into the US, tax deductions are now available on the amortisation of the asset. There is a tax benefit of \$19.1m in the year ended 31 October 2021 which is included in expenses not deductible and other permanent differences.

The Group realised a net credit in relation to the true-up of prior periods, current and deferred tax estimates of \$22.4m credit for the year ended 31 October 2021 (2020: \$18.5m charge).

The Group's tax charge is subject to various factors, many of which are outside the control of the Group, including changes in local tax legislation, and specifically additional changes expected to be introduced in the US and global tax reform as governments respond to COVID-19 and the OECD's Base Erosion and Profit Shifting ("BEPS") project.

In April 2019, the European Commission published its final decision on its State Aid investigation into the UK's 'Financing Company Partial Exemption' legislation and concluded that part of the legislation is in breach of EU State Aid rules. Similar to other UK-based international groups that have acted in accordance with the UK legislation in force at the time, the Group may be affected by the finding and is monitoring developments. The UK Government and UK-based international companies, including the Group, have appealed to the General Court of the European Union against the decision. In February 2021 the Group received and settled State Aid charging notices (excluding interest) totalling \$44.2m, issued by HM Revenue and Customs, following the requirement for the UK Government to start collection proceedings. In May 2021, the Group received and settled State Aid interest charging notices from HM Revenue and Customs totalling \$2.6m. In addition, there has been a challenge from the UK Tax Authorities into the historic financing arrangements of the Group. Based on its current assessment and supported by external professional advice, the Group consider that the maximum liability of both of these items to be \$60m. Based on its current assessment and also supported by external professional advice, the Group believes that no provision is required in respect of these issues and a long-term current tax receivable has been recognised in respect of the amounts paid (including movements due to FX) at the balance sheet date. No additional liability should accrue in future periods in respect of these matters, following (i) an amendment of the UK legislation affected by the EU Commission finding on 1 January 2019, to be compliant with EU law, and (ii) the unwind of the financing company arrangements in question. A judgement in respect of the appeal that was heard in the General Court in November 2021 is expected in 2022 and Management intend to reassess the above position at that time.

B Current tax receivables

	31 October 2021 \$m	31 October 2020 \$m
Corporation tax	59.1	45.3

C Non-current tax receivables

	31 October 2021 \$m	31 October 2020 \$m
Corporation tax	48.0	—

The non-current tax receivable is \$48.0m (2020: nil). This non-current receivable reflects the payment that was made following the final decision published by the European Commission on its State Aid investigation into the UK's 'Financing Company Partial Exemption' legislation. As this amount was paid in GBP, the long-term debtor balance will vary year on year as a result of foreign exchange movements.

7 Taxation continued

D Current tax liabilities

	31 October 2021 \$m	31 October 2020 \$m
Corporation tax	94.1	150.1

The current tax creditor at 31 October 2021 is \$94.1m (2020: \$150.1m). The current tax creditor includes liabilities in respect of uncertain tax positions, net of overpayments.

Within current tax liabilities is \$75.1m (2020: \$84.8m) in respect of the Group income tax reserve, the majority of which relates to the risk of challenge from the local tax authorities. Due to the uncertainty associated with such tax items, it is possible that at a future date, on conclusion of open tax matters, the final outcome may vary significantly.

E Non-current tax liabilities

	31 October 2021 \$m	31 October 2020 \$m
Corporation tax	91.9	102.7

The non-current tax creditor is \$91.9m (2020: \$102.7m). The non-current creditor reflects the US transition tax payable more than 12 months after the balance sheet date.

F Deferred tax

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Net Deferred tax liability			
At 1 November		(841.1)	(987.1)
Reallocated to deferred tax assets		(15.0)	–
Credited to consolidated statement of comprehensive income:		229.3	147.9
– Continuing operations	7A	229.3	149.0
– Discontinued operation		–	(1.1)
Charged directly to equity		(0.2)	(1.5)
Charged to other comprehensive income:		(15.9)	(2.5)
Acquisitions in the period		(1.9)	–
Reallocated to liabilities held for sale	30	45.5	–
Impact of adoption of IFRS 16		–	1.8
Foreign exchange adjustment		0.2	0.3
At 31 October		(599.1)	(841.1)
Net Deferred tax asset			
At 1 November		–	–
Reallocated from deferred tax liabilities		15.0	–
At 31 October		15.0	–

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

7 Taxation continued

Deferred tax assets and liabilities below are presented net where there is a legally enforceable right to offset and the intention to settle on a net basis.

Deferred tax assets

	Tax losses and interest restrictions \$m	Share-based payments \$m	Deferred revenue \$m	Tax credits \$m	Intangible assets \$m	Other temporary differences \$m	Research and development \$m	Total \$m
At 1 November 2020	133.5	0.8	90.5	16.3	–	69.7	86.5	397.3
Credited/(charged) to consolidated statement of comprehensive income – continuing operations	8.0	3.3	7.7	(8.4)	–	11.4	36.3	58.3
Credited to consolidated statement of comprehensive income – discontinued operation	–	–	–	–	–	–	–	–
Charged directly to equity	–	(0.2)	–	–	–	–	–	(0.2)
Charged to other comprehensive income	–	–	–	–	–	(8.1)	–	(8.1)
Foreign exchange adjustment	–	0.1	–	–	–	(0.1)	–	–
Subtotal	141.5	4.0	98.2	7.9	–	72.9	122.8	447.3
Jurisdictional offsetting								(432.3)
At 31 October 2021								15.0

	Tax losses and interest restrictions \$m	Share-based payments \$m	Deferred revenue \$m	Tax credits \$m	Intangible assets \$m	Other temporary differences \$m	Research and development \$m	Total \$m
At 1 November 2019	100.5	5.0	108.6	6.8	–	88.6	–	309.5
Transferred from deferred tax liabilities	–	–	–	–	–	–	13.6	13.6
Credited/(charged) to consolidated statement of comprehensive income – continuing operations	33.0	(2.7)	(18.1)	9.5	0.2	(24.4)	72.9	70.4
Credited to consolidated statement of comprehensive income – discontinued operation	–	–	–	–	–	(1.1)	–	(1.1)
Credited directly to equity	–	(1.5)	–	–	–	–	–	(1.5)
Debited to other comprehensive income	–	–	–	–	–	6.2	–	6.2
Foreign exchange adjustment	–	–	–	–	(0.2)	0.4	–	0.2
Subtotal	133.5	0.8	90.5	16.3	–	69.7	86.5	397.3
Jurisdictional offsetting								(397.3)
At 31 October 2020								–

A deferred tax charge to equity of \$0.2m (2020: \$1.5m) arises during the year in relation to share-based payments.

The deferred tax asset relating to other temporary differences of \$72.9m as at 31 October 2021 (2020: \$69.7m) has increased during the year primarily due to the movement of various short-term timing differences. Deferred tax assets are recognised in respect of tax losses carried forward to the extent that the realisation of the related tax benefit through the utilisation of future taxable profits is probable.

7 Taxation continued

The Group did not recognise deferred tax assets in relation to the following gross temporary differences, the expiration of which is determined by the tax law of each jurisdiction:

	Expiration: 2022 \$m	2023 \$m	2024 \$m	2025 \$m	2026 \$m	Thereafter \$m	No expiry \$m	Total \$m
At 31 October 2021								
Type of temporary difference:								
Losses	0.6	7.4	23.8	40.5	8.2	2,045.1	54.1	2,179.7
Credits	3.2	1.8	1.4	1.4	0.9	4.7	41.1	54.5
Other	–	–	–	–	–	35.3	23.9	59.2
Total	3.8	9.2	25.2	41.9	9.1	2,085.1	119.1	2,293.4

	Expiration: 2021 \$m	2022 \$m	2023 \$m	2024 \$m	2025 \$m	Thereafter \$m	No expiry \$m	Total \$m
At 31 October 2020								
Type of temporary difference:								
Losses	5.0	11.9	23.7	43.4	13.3	2,226.7	50.7	2,374.7
Credits	3.5	3.1	1.8	1.4	0.7	5.5	45.4	61.4
Other	–	–	–	–	–	88.4	23.9	112.3
Total	8.5	15.0	25.5	44.8	14.0	2,320.6	120.0	2,548.4

Deferred tax liabilities

	Intangible assets \$m	Research and development \$m	Other temporary differences \$m	Total \$m
At 1 November 2020	(1,180.5)	–	(57.9)	(1,238.4)
Charged to Consolidated statement of comprehensive income – continuing operations	176.8	–	(5.8)	171.0
Credited to other comprehensive income – continuing operations	(7.8)	–	–	(7.8)
Acquisitions	(1.9)	–	–	(1.9)
Deferred tax liabilities reallocated to liabilities held for sale	45.5	–	–	45.5
Foreign exchange adjustment	0.2	–	–	0.2
Subtotal	(967.7)	–	(63.7)	(1,031.4)
Jurisdictional offsetting				432.3
At 31 October 2021				(599.1)

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

7 Taxation continued

	Intangible assets \$m	Research and development \$m	Other temporary differences \$m	Total \$m
At 1 November 2019	(1,257.1)	13.6	(53.1)	(1,296.6)
Transferred to deferred tax assets	–	(13.6)	–	(13.6)
Charged to Consolidated statement of comprehensive income – continuing operations	85.4	–	(6.8)	78.6
Credited to other comprehensive income – continuing operations	(8.7)	–	–	(8.7)
Credited to equity – impact of adoption of IFRS 16	–	–	1.8	1.8
Foreign exchange adjustment	(0.1)	–	0.2	0.1
Subtotal	(1,180.5)	–	(57.9)	(1,238.4)
Jurisdictional offsetting				397.3
At 31 October 2020				(841.1)

No deferred tax liability is recognised in respect of temporary differences associated with investments in subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and none are expected to reverse in the foreseeable future.

8 Dividends

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Equity – ordinary		
Final paid 15.5 cents (2020: nil cents) per ordinary share	51.7	–
Interim paid 8.8 cents (2020: nil cents) per ordinary share	29.4	–
	81.1	–

The directors announced a final dividend of 20.3 cents per share payable on 21 April 2022 to shareholders who are registered at 11 March 2022. This final dividend, amounting to \$68.2m, has not been recognised as a liability as at 31 October 2021.

9 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.

Reconciliation of the earnings and weighted average number of shares:

	Year ended 31 October 2021	Year ended 31 October 2020
Earnings (\$m)		
Loss for the year from continuing operations	(435.1)	(2,974.6)
Profit for the year from discontinued operation	10.7	5.1
	(424.4)	(2,969.5)
Number of shares (m)		
Weighted average number of shares	336.5	335.7
Dilutive effects of shares	–	–
	336.5	335.7
Earnings per share		
Basic earnings per share (cents)		
Continuing operations	(129.30)	(886.15)
Discontinued operation	3.18	1.52
Total Basic earnings per share	(126.12)	(884.63)
Diluted earnings per share (cents)		
Continuing operations ¹	(129.30)	(886.15)
Discontinued operation	3.18	1.52
Total Diluted earnings per share¹	(126.12)	(884.63)
Basic earnings per share (pence)		
Continuing operations	(94.09)	(693.45)
Discontinued operation	2.31	1.19
Total Basic earnings per share	(91.78)	(692.26)
Diluted earnings per share (pence)		
Continuing operations ¹	(94.09)	(693.45)
Discontinued operation	2.31	1.19
Total Diluted earnings per share¹	(91.78)	(692.26)
Earnings attributable to ordinary shareholders		
From continuing operations	(435.1)	(2,974.6)
Excluding non-controlling interests		–
Loss for the year from continuing operations	(435.1)	(2,974.6)
From discontinued operation	10.7	5.1
	(424.4)	(2,969.5)
Average exchange rate	\$1.37/£1	\$1.28/£1

¹ The Group reported a loss from continuing operations and a loss for the year attributable to the ordinary equity shareholders of the Company for the years ended 31 October 2021 and 31 October 2020. The Diluted EPS is reported as equal to Basic EPS, as no account can be taken of the effect of dilutive securities under IAS 33.

The weighted average number of shares excludes treasury shares that do not have dividend rights (note 25, "Share capital").

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

10 Goodwill

	Note	31 October 2021 \$m	31 October 2020 \$m
Net book value			
At 1 November		3,835.4	6,671.3
Acquisitions	31	7.2	1.4
Impairment charge		-	(2,799.2)
Effects of movements in exchange rates		30.1	(38.1)
Transferred to assets held for sale	30	(147.2)	-
At 31 October		3,725.5	3,835.4
A CGU-level summary of the goodwill allocation is presented below:			
Micro Focus		3,725.5	3,835.4

Goodwill acquired through business combinations has been allocated to a cash-generating unit ("CGU") for the purpose of impairment testing.

The goodwill arising in the year ended 31 October 2021, related to the Streamworx and Full 360 acquisitions of \$7.2m (note 31, "Acquisitions") (2020: \$1.4m related to the acquisition of Atar Labs), has been allocated to the Micro Focus CGU as this is consistent with the segment reporting that is used in internal management reporting. Of the addition to goodwill, all amounts are expected to be deductible for tax purposes.

Goodwill with a net book value of \$147.2m (Costs \$253.4m, impairment (\$106.2m) has been allocated to the Digital Safe business and been reclassified as held for sale in the period and is shown as part of the current assets held for sale in the consolidated statement of financial position and not included in the balance at 31 October 2021 shown above. See note 30, "Discontinued operation and assets held for sale" for additional details.

Impairment test

Goodwill is tested annually for impairment, or more frequently where there is an indication of impairment. 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's annual test is performed at 31 October.

The Group has performed the impairment test at 31 October 2021 incorporating its knowledge of the business into that testing and noting at that date the market capitalisation was less than the net assets of the Group, which was taken into account during the impairment test. The recoverable amount of the Micro Focus CGU is \$9.3bn and excludes the Digital Safe business which is held for sale (2020: \$9.3bn including the Digital Safe business) based on its value in use ("VIU") calculation. As of 31 October 2021 the Group's recoverable amount exceeds the carrying value of the net assets of the CGU by \$1.2bn (31 October 2020: an impairment charge of \$2.8bn, solely related to goodwill, was recognised in administrative expenses as an exceptional cost in the consolidated statement of comprehensive income).

The recoverable amount of the Micro Focus CGU is determined based on its VIU. The VIU includes estimates about the future financial performance of the CGU and is based on five-year projections and then a terminal value calculation. It utilises board approved forecasts for the first four years discounted to present value and the fifth year reflects management's expectations of the long-term growth prospects which have been applied based upon the expected operating performance of the CGU and growth prospects in the CGU's market. The cash flow projections and inputs combine past performance with adjustments as appropriate where the directors believe that past performance and rates are not indicative of future performance and rates.

Impairment reviews under IAS 36 are required to exclude cost savings resulting from restructuring activities which have not yet commenced. The VIU calculation excludes such cost saving impacts, which are included in the board approved forecasts.

10 Goodwill continued

Key assumptions

Key assumptions in the VIU are considered to be the discount rate, average annual revenue growth rate by product group and the long-term cash flow growth rate. These have been assessed taking into consideration the current economic climate and the resulting impact on expected growth and discount rates.

The average annual revenue growth rate by product group, long-term cash flow growth rate and discount rate used in the VIU calculation are:

	31 October 2021	31 October 2020	Basis of assumptions
Long-term cash flow growth rate for terminal value	1.0%	1.0%	Long-term growth rate into perpetuity is based on nominal long-term GDP growth forecasts for the main countries in which the CGU operates adjusted where deemed relevant by management to factor in competition and the maturity of the business.
Pre-tax discount rate ¹	10.6%	10.9%	The discount rate applied to the cash flows is based on the risk free rate for 30 year US government bonds. This rate is adjusted for a risk premium to reflect the increased risk of investing in equities. This risk premium is derived by observing an equity market risk premium (that is the required return over and above a risk free rate by an investor who is investing in the market as a whole) based on external sources and adjusting this with reference to both a beta and a size premium to reflect the risk of the cash-generating unit relative to the market as a whole to provide a cost of equity. Cost of debt is based on external indices reflecting the Group's credit rating. Cost of equity and debt are then weighted based on market participant leverage.
Average annual revenue growth rate by product group	(4.2)% to 4.5%	(8.1)% to 2.2%	Average annual growth rates by product group are based on a combination of management's past experience, management's plans and observable trends in the markets in which the Group's products operate in and updated for the impact of significant new agreements entered into where relevant, for example, the agreement with AWS on the modernisation of mainframe applications and workloads signed in FY21.

¹ This equates to a post-tax discount rate of 8.0% (2020: 8.2%).

Sensitivity analysis

In undertaking this analysis, the directors have considered reasonably possible changes in the key assumptions, taking into consideration that the Group is insulated from some significant adverse impacts by its geographical spread and could quickly respond to market changes. The sensitivities are prepared on the basis that the reasonably possible change in each key assumption would not have a consequential impact on other key assumptions used in the impairment review. The sensitivities disclosed below are on the VIU calculation, which, as explained above, excludes the cost savings expected from restructuring which has not commenced as at 31 October 2021.

The directors have assessed that a reasonably possible change in the discount rate is an absolute movement of 1.0% (2020: 1.0%). An increase in the discount rate of 1% to 11.6% would reduce the headroom at 31 October 2021 by \$0.8bn to \$0.4bn. An increase in the discount rate of 1.5% would reduce the amount by which the recoverable amount exceeds its carrying value from \$1.2bn to \$nil. A decrease in the discount rate of 1% to 9.6% would increase the headroom at 31 October 2021 by \$1.0bn to \$2.2bn.

The directors have assessed that a reasonably possible change in the average annual revenue growth rate by product group is an absolute reduction of 2.0% (2020: 2.0%). A decrease in the average annual revenue growth rate by product group of 2.0% would result in an impairment recognised at 31 October 2021 of \$0.8bn. A decrease in the average annual revenue growth rate by product group of 1.2% would reduce the amount by which the recoverable amount exceeds its carrying value from \$1.2bn to \$nil. This sensitivity has been presented before the impact of mitigating actions, such as cost saving that would be taken in such a scenario and which would at least partially offset such a reduction in cash inflows.

The directors have assessed that a reasonably possible change in the long-term growth rate is an absolute change of 0.5% (2020: 0.5%). An increase of 0.5% would increase the headroom at 31 October 2021 by \$0.4bn to \$1.6bn. A decrease of 0.5% would decrease the headroom at 31 October 2021 by \$0.3bn to \$0.9bn. The directors have assessed that there is not a reasonable possible change in the long-term growth rate that would reduce the recoverable amount to below its carrying value.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

11 Other intangible assets

	Note	Purchased software \$m	Product development costs \$m	Purchased intangibles			Total \$m
				Technology \$m	Trade names \$m	Customer relationships \$m	
Cost							
At 1 November 2020		191.5	274.0	2,201.2	269.2	5,364.0	8,299.9
Acquisitions	31	–	–	7.8	–	–	7.8
Additions		28.4	19.1	–	–	–	47.5
Disposals		(13.5)	–	–	–	–	(13.5)
Effects of movements in exchange rates		1.2	(0.1)	10.4	1.2	26.3	39.0
Transferred to current assets classified as held for sale	30	–	–	(82.0)	(7.0)	(185.5)	(274.5)
At 31 October 2021		207.6	293.0	2,137.4	263.4	5,204.8	8,106.2
Accumulated amortisation							
At 1 November 2020		113.5	237.9	865.7	87.9	1,611.9	2,916.9
Amortisation charge for the year		37.4	19.6	257.2	20.7	621.5	956.4
Disposals		(13.5)	–	–	–	–	(13.5)
Effects of movements in exchange rates		0.6	–	2.6	0.2	4.2	7.6
Transferred to current assets classified as held for sale	30	–	–	(37.6)	(1.9)	(52.9)	(92.4)
At 31 October 2021		138.0	257.5	1,087.9	106.9	2,184.7	3,775.0
Net book amount at 31 October 2021		69.6	35.5	1,049.5	156.5	3,020.1	4,331.2
Net book amount at 31 October 2020		78.0	36.1	1,335.5	181.3	3,752.1	5,383.0

	Note	Purchased software \$m	Product development costs \$m	Purchased intangibles				Total \$m
				Technology \$m	Trade names \$m	Customer relationships \$m	Lease contracts \$m	
Cost								
At 31 October 2019		146.7	257.0	2,178.6	267.3	5,323.3	14.9	8,187.8
Transfers to right-of-use assets ¹		–	–	–	–	–	(14.9)	(14.9)
At 1 November 2019		146.7	257.0	2,178.6	267.3	5,323.3	–	8,172.9
Acquisitions – Atar Labs	32	–	–	6.6	–	–	–	6.6
Additions		55.5	16.2	–	–	–	–	71.7
Additions – external consultants		–	0.8	–	–	–	–	0.8
Disposals		(11.2)	–	–	–	–	–	(11.2)
Effects of movements in exchange rates		0.5	–	16.0	1.9	40.7	–	59.1
At 31 October 2020		191.5	274.0	2,201.2	269.2	5,364.0	–	8,299.9
Accumulated amortisation								
At 31 October 2019		76.9	214.3	668.9	68.0	1,204.3	13.1	2,245.5
Transfers to right-of-use assets ¹		–	–	–	–	–	(13.1)	(13.1)
At 1 November 2019		76.9	214.3	668.9	68.0	1,204.3	–	2,232.4
Amortisation charge for the year		46.5	23.5	190.2	19.1	394.8	–	674.1
Disposals		(10.6)	–	–	–	–	–	(10.6)
Effects of movements in exchange rates		0.7	0.1	6.6	0.8	12.8	–	21.0
At 31 October 2020		113.5	237.9	865.7	87.9	1,611.9	–	2,916.9
Net book amount at 31 October 2020		78.0	36.1	1,335.5	181.3	3,752.1	–	5,383.0
Net book amount at 31 October 2019		69.8	42.7	1,509.7	199.3	4,119.0	1.8	5,942.3

¹ Lease contracts have been reclassified to right-of-use assets following the adoption of IFRS 16 on 1 November 2019.

11 Other intangible assets continued

Intangible assets, with the exception of purchased software and internally generated product development costs, relate to identifiable assets purchased as part of the Group's business combinations. Intangible assets are amortised on a straight-line basis over their expected useful economic life – see Accounting Policy K.

Expenditure totalling \$47.5m (2020: \$72.5m) was made in the year ended 31 October 2021, including \$19.1m in respect of development costs and \$28.4m of purchased software primarily related to the development of the Group's single IT platform.

The acquisition of Streamworx and Full 360 in the year ended 31 October 2021 gave rise to additions of \$7.8m to purchased intangibles. The acquisition of Atar Labs in the year ended 31 October 2020 gave rise to an addition of \$6.6m to purchased intangibles (note 31, "Acquisitions").

All of the \$19.1m of additions to product development costs (2020: \$16.2m of \$17.0m) relates to internal product development costs and \$nil (2020: \$0.8m) to external consultants' product development costs.

At 31 October 2021, the unamortised lives of technology assets were in the range of two to eight years, customer relationships in the range of one to 11 years and trade names in the range of three to 15 years. The HPE Software business acquired purchased intangibles, the largest component of the Group's purchased intangibles, have up to another eight years' life remaining for technology (carrying value \$1.0bn) and up to 11 years' life remaining for customer relationships purchased intangibles (carrying value \$3.0bn), assuming no further investments were made.

Included in the consolidated statement of comprehensive income was:

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
For continuing operations:		
Cost of sales:		
– amortisation of product development costs	19.6	23.5
– amortisation of acquired purchased technology	257.2	190.2
Selling and distribution:		
– amortisation of acquired purchased trade names and customer relationships	642.2	413.9
Administrative expenses:		
– amortisation of purchased software	37.4	46.5
Total amortisation charge for the year	956.4	674.1
Research and development:		
– capitalisation of product development costs	19.1	16.2

On 1 November 2020, the Group conducted a review on the estimated lives of its intangible assets with specific focus on those recognised as part of the HPE Software acquisition. This review considered the actual and expected trading performance of the Group compared to the original projections produced at the time of HPE Software acquisition as the directors believe these forecasts better reflect the expected future use of the economic benefits in these acquired intangibles. As a result of this review, the expected lives of certain purchased technology and customer relationship intangibles with a carrying value of \$3,736.8m as at 1 November 2020 have been reduced with the shorter lives applied from 1 November 2020.

The intangibles assets impacted by this change are customer relationships in the ITOM and ADM product groups and customer relationships within certain products in IM&G, which had a total carrying value of \$2,770.4m as at 1 November 2020. These have reduced from 12 years remaining life to between five and 11 years. In addition, purchased technology in the ITOM and ADM product groups and certain purchased technology in IM&G, which had a carrying value of \$966.4m as at 1 November 2020, have reduced from seven years remaining life to five years.

In line with the requirements of IFRS 3, these technology assets were originally recognised at the acquisition date in September 2017 and so the asset life represented the estimated period of time before the technology became obsolete if no future investment into that technology were made. However there has been and continues to be significant R&D activity across these portfolios with the Group releasing c.500 product releases each year to ensure that the technology remains relevant beyond the life assigned under the requirements of IFRS 3.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

11 Other intangible assets continued

The effect of these changes on actual and expected amortisation expense is as follows:

\$m	Impact in the year ended 31 October					Impact in all later periods	
	2021	2022	2023	2024	2025		2026
Increase/(decrease) in amortisation expense	261	261	261	261	192	(145)	(1,091)
Recognised in:							
Costs of sales (amortisation of acquired purchased)	59	59	59	59	25	(141)	(120)
Selling and distribution expenses (amortisation of customer relationships)	202	202	202	202	167	(4)	(971)
	261	261	261	261	192	(145)	(1,091)

If the remaining economic lives of all purchased intangibles were one year longer than the revised lives, expected amortisation would be \$158.1m lower than that shown in the table above in the year ended 31 October 2021, with consequential impacts in subsequent years. If the remaining economic lives of all purchased intangibles were one year shorter than the revised lives, amortisation would be \$166.4m higher than that shown in the table above in the year ended 31 October 2021, with consequential impacts in subsequent years.

12 Property, plant and equipment

	Note	Freehold land and buildings \$m	Leasehold improvements \$m	Computer equipment \$m	Fixtures and fittings \$m	Total \$m
Cost						
At 1 November 2020		14.0	83.6	107.9	7.8	213.3
Acquisition		–	–	–	0.1	0.1
Additions		–	1.2	15.6	0.9	17.7
Disposals		–	(4.5)	(14.0)	(0.8)	(19.3)
Effects of movements in exchange rates		0.8	0.6	1.9	0.2	3.5
Transferred to current assets classified as held for sale	30	–	(4.1)	(2.3)	–	(6.4)
At 31 October 2021		14.8	76.8	109.1	8.2	208.9
Accumulated depreciation						
At 1 November 2020		2.5	47.3	69.5	0.3	119.6
Disposals		–	(3.6)	(14.0)	(0.5)	(18.1)
Charge for the year		0.4	10.9	20.3	2.1	33.7
Effects of movements in exchange rates		0.1	0.2	1.6	0.2	2.1
Transferred to current assets classified as held for sale	30	–	(1.8)	(2.0)	–	(3.8)
At 31 October 2021		3.0	53.0	75.4	2.1	133.5
Net book amount at 31 October 2021		11.8	23.8	33.7	6.1	75.4
Net book amount at 1 November 2020		11.5	36.3	38.4	7.5	93.7

12 Property, plant and equipment continued

Note	Freehold land and buildings \$m	Leasehold improvements \$m	Computer equipment \$m	Fixtures and fittings \$m	Total \$m
Cost					
At 31 October 2019	14.0	113.5	144.4	13.2	285.1
Transfers to right-of-use assets ¹	–	(9.8)	(50.6)	–	(60.4)
At 1 November 2019	14.0	103.7	93.8	13.2	224.7
Additions	–	4.8	28.4	2.9	36.1
Other ²	–	(9.8)	–	–	(9.8)
Disposals	–	(15.3)	(14.1)	(8.5)	(37.9)
Effects of movements in exchange rates	–	0.2	(0.2)	0.2	0.2
At 31 October 2020	14.0	83.6	107.9	7.8	213.3
Accumulated depreciation					
At 31 October 2019	2.2	51.7	85.1	5.6	144.6
Transfers to right-of-use assets ¹	–	(5.2)	(29.7)	–	(34.9)
At 1 November 2019	2.2	46.5	55.4	5.6	109.7
Disposals	–	(11.0)	(13.5)	(7.8)	(32.3)
Charge for the year	0.3	11.9	27.6	2.2	42.0
Effects of movements in exchange rates	–	(0.1)	–	0.3	0.2
At 31 October 2020	2.5	47.3	69.5	0.3	119.6
Net book amount at 31 October 2020	11.5	36.3	38.4	7.5	93.7
Net book amount at 31 October 2019	11.8	61.8	59.3	7.6	140.5
Transfers to right-of-use assets ¹	–	(4.6)	(20.9)	–	(25.5)
Net book amount at 1 November 2019	11.8	57.2	38.4	7.6	115.0

1 Property, plant and equipment held under finance leases and hire purchase contracts under IAS 17 and assets recognised in relation to asset retirement obligations on leased asset have been reclassified to right-of-use assets following the adoption of IFRS 16 on 1 November 2019.

2 Other movements of \$9.8m relates to amounts received in relation to the reimbursement of leasehold improvement costs.

Depreciation for the year ended 31 October 2021 of \$33.7m (2020: \$42.0m) is included within administrative expenses and cost of sales in the Consolidated statement of comprehensive income.

13 Other non-current assets

	31 October 2021 \$m	31 October 2020 \$m
Employee benefit deposit	22.6	17.9
Long-term rent deposits	8.3	5.3
Long-term prepaid expenses	4.0	2.3
Net investment in finance sub-leases	6.0	5.5
Other	1.3	0.8
	42.2	31.8

Employee benefit deposits are held in Israel (\$17.3m), Italy (\$2.5m) and the Netherlands (\$2.8m) (2020: Israel \$12.8m, Italy \$2.4m and the Netherlands \$2.7m). Employers in Italy and Israel are required by law maintain funds to satisfy certain employee benefit liabilities, including free time off and compensation for involuntary termination of employment. These investment-based deposits are managed by third parties and the carrying values are marked-to-market based on third party investment reports. In addition, a cash deposit was held in the Netherlands on behalf of certain employees to cover legacy employment subsistence benefits.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

14 Trade and other receivables

	31 October 2021 \$m	31 October 2020 \$m
Trade receivables	738.8	628.4
Loss allowance	(14.0)	(17.9)
Trade receivables net	724.8	610.5
Prepayments	40.1	49.1
Other receivables	59.4	38.1
Contract assets	62.0	33.7
	886.3	731.4

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. The Group considers the credit quality of trade and other receivables on a customer-by-customer basis. The Group considers that the carrying value of the trade and other receivables that is disclosed below gives a fair presentation of the credit quality of the assets. This is considered to be the case as there is a low risk of default due to the high number of recurring customers and credit control policies. In determining the recoverability of a trade receivable, the Group considers the ageing of each debtor and any change in the circumstances of the individual receivable. Other than ageing (included below), no other credit rating grades are assessed. Due to this, management believes there is no further credit risk provision required in excess of the normal provision determined by the expected credit loss methodology applied.

At 31 October 2021 and 31 October 2020, the carrying amount approximates the fair value of the instrument due to the short-term nature of the instrument. As at 31 October 2021, a loss allowance of \$14.0m (2020: \$17.9m) was recognised for trade receivables.

The ageing of these receivables is as follows:

	Current \$m	Up to three months \$m	Three to four months \$m	Over four months \$m	Total \$m
31 October 2021:					
Gross trade receivables	655.3	61.3	6.6	15.6	738.8
Loss allowance	(2.6)	(1.1)	(0.5)	(9.8)	(14.0)
Net trade receivables	652.7	60.2	6.1	5.8	724.8
31 October 2020:					
Gross trade receivables	561.4	42.3	4.3	20.4	628.4
Loss allowance	(6.1)	(0.9)	(0.4)	(10.5)	(17.9)
Net trade receivables	555.3	41.4	3.9	9.9	610.5

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

	31 October 2021 \$m	31 October 2020 \$m
At 1 November	17.9	42.4
Loss allowance provided/(released) in the year	0.6	(4.8)
Receivables written off as uncollectable	(4.5)	(19.7)
At 31 October	14.0	17.9

The creation and release of the loss allowance for 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. The loss allowance for trade receivables is measured at an amount equal to the lifetime expected credit losses as allowed for under IFRS 9.

14 Trade and other receivables continued

Contract assets relate to amounts not yet billed and so not yet due from customers and which are expected to be invoiced to customers. The movement in contract assets in the year is primarily the result of a number of multi-year billing contracts, totalling circa \$14m, entered into shortly before the period end where the licences were delivered in October. Excluding these contracts, the level of new contract assets that have arisen during the year is consistent with the level of billings on existing contract assets. The Group considers the credit quality of contract assets on a customer-by-customer basis. As with trade receivables, which contract assets convert to upon invoicing, there is considered to be a low risk of default due to the high number of recurring customers. In determining the recoverability of a contract asset, the Group considers the specific circumstances of each contract asset and any change in the circumstances of the balance. Due to this management believes significant provision is not required.

15 Contract-related costs

	31 October 2021 \$m	31 October 2020 \$m
Current	33.0	27.9
Non-current	31.9	35.7
	64.9	63.6

The Group capitalises the costs of obtaining a customer contract when they are incremental and, if expected to be recovered, they are amortised over the customer life or pattern of revenue for the related contract. All amounts capitalised relate to commission costs.

Normally sales commissions paid for customer contract renewals are not commensurate with the commissions paid for new contracts. It follows that the commissions paid for new contracts also relate to expected future renewals of these contracts. Accordingly, we amortise sales commissions paid for new customer contracts on a straight-line basis over the expected customer life, based on expected renewal frequency. The current average customer life is five years. If the expected amortisation period is one year or less the Group expenses the costs when incurred.

The amortisation expenses in the year for the costs of obtaining customer contracts were \$22.6m (2020: \$16.1m).

Amortisation of the capitalised costs of obtaining customer contracts is classified as sales and marketing expense. Capitalised costs from customer contracts are classified as non-financial assets in our statement of financial position.

	31 October 2021 \$m	31 October 2020 \$m
Asset recognised from costs incurred to acquire a contract	27.2	29.1
Amortisation and impairment loss recognised as cost of providing services during the year	(22.6)	(16.1)

16 Cash and cash equivalents

	31 October 2021 \$m	31 October 2020 \$m
Cash at bank and in hand	355.9	374.3
Short-term bank deposits	202.5	362.9
Cash and cash equivalents	558.4	737.2

At 31 October 2021 and 31 October 2020, 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 generally high credit ratings. The credit quality of cash and cash equivalents is as follows:

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

16 Cash and cash equivalents continued

	31 October 2021 \$m	31 October 2020 \$m
S&P/Moody's/Fitch rating:		
AAA	184.8	358.4
AA-	2.8	27.2
A+	348.6	318.6
A	11.6	9.9
A-	2.6	9.1
BBB+ to C-	8.0	14.0
	558.4	737.2

Where the opinions of the rating agencies differ, the lowest applicable rating has been assigned to the counterparty.

17 Trade and other payables – current

	31 October 2021 \$m	31 October 2020 \$m
Trade payables	80.9	71.5
Tax and social security	72.9	84.3
Accruals	359.2	347.7
	513.0	503.5

At 31 October 2021 and at 31 October 2020, the carrying amount approximates to the fair value. At 31 October 2021 accruals include vacation and payroll – \$79.7m (2020: \$82.8m), commission and employee bonuses – \$133.1m (2020: \$90.5m), integration and divestiture expenses – \$6.6m (2020: \$30.1m) and consulting and audit fees – \$26.8m (2020: \$23.8m).

18 Borrowings

	31 October 2021 \$m	31 October 2020 \$m
Bank loan secured	4,608.0	4,733.2
Unamortised prepaid facility arrangement fees and original issue discounts	(59.6)	(92.9)
Carrying value	4,548.4	4,640.3

	31 October 2021			31 October 2020		
	Bank loan secured \$m	Unamortised prepaid facility arrangement fees and original issue discounts \$m	Total \$m	Bank loan secured \$m	Unamortised prepaid facility arrangement fees and original issue discounts \$m	Total \$m
Reported within:						
Current liabilities	42.0	(17.7)	24.3	34.2	(12.8)	21.4
Non-current liabilities	4,566.0	(41.9)	4,524.1	4,699.0	(80.1)	4,618.9
	4,608.0	(59.6)	4,548.4	4,733.2	(92.9)	4,640.3

18 Borrowings continued

The carrying value for borrowings are stated after deducting unamortised prepaid facility fees and original issue discounts. Facility arrangement costs and original issue discounts are originally amortised between three and six years. The remaining unamortised fees of \$59.6m have a remaining period of amortisation of up to two years. Long-term borrowings have a drawn value of \$4,608.0m before unamortised prepaid facility fees. The fair value of the long-term borrowings before unamortised prepaid facility fees can be found in note 24, "Financial risk management and financial instruments".

Short-term borrowing of \$24.3m represents capital repayments of \$42.0m falling due on the Group borrowings within one year less unamortised prepaid facility arrangement fees and original issue discounts of \$17.7m.

The Group's earliest debt maturity is in June 2024, however as described below, annual instalment payments are required.

The following facilities were drawn as at 31 October 2021:

- The €585.0m (equivalent to \$676.0m) senior secured five-year term loan B-1 issued by MA FinanceCo., LLC, maturing in June 2025, is priced at EURIBOR plus 4.5% (subject to a EURIBOR floor of 0.00%) with an original issue discount of 3.0%;
- The \$359.5m senior secured seven-year term loan B-3 issued by MA FinanceCo., LLC, maturing in June 2024, is priced at LIBOR plus 2.75% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%;
- The \$633.7m senior secured five-year term loan B-4 issued by MA FinanceCo., LLC, maturing in June 2025, is priced at LIBOR plus 4.25% (subject to a LIBOR floor of 1.00%) with an original issue discount of 2.5%;
- The \$2,427.9m senior secured seven-year term loan B issued by Seattle SpinCo, Inc., maturing in June 2024, is priced at LIBOR plus 2.75% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%; and
- The €442.2m (equivalent to \$510.9m) senior secured seven-year term loan B issued by MA FinanceCo., LLC, maturing in June 2024, is priced at EURIBOR plus 3.00% (subject to a EURIBOR floor of 0.00%) with an original issue discount of 0.25%.

The following facilities were undrawn as at 31 October 2021:

- A senior secured revolving credit facility of \$350.0m ("Revolving Facility"), with an interest rate of 3.25% above LIBOR on amounts drawn (and 0.5% on amounts undrawn) thereunder (subject to a LIBOR floor of 0.00%).

At 31 October 2021, none of the Revolving Facility was drawn (31 October 2020: \$nil), together with \$4,608.0m of term loans giving gross debt of \$4,608.0m drawn.

On 17 January 2022, the Group announced the refinancing of \$1.6bn of existing term loans. This refinancing comprised a €750m and a \$750m Senior Secured Term Loan B. The new 5-year facilities have been used by the Group to fully refinance its existing Senior Secured Term Loan B Euro facility issued by MA FinanceCo., LLC due June 2024 as well as partially refinance the existing Senior Secured Term Loan B USD facilities issued by Seattle SpinCo, Inc., (\$750m refinanced, \$1,678m remaining) and MA FinanceCo., LLC, (\$359.5m B-3 fully replaced by additional Euro borrowing) due June 2024.

The new 5-year facilities incur interest at 4.00% above EURIBOR (subject to 0% floor) at an original issue discount of 0.5% on the Euro denominated tranche, and 4.00% above SOFR and CSA (subject to 0.5% floor) at an original issue discount of 1.0% on the US dollar denominated tranche. This represents an increase in annualised interest costs of approximately \$23.0m.

The following covenants related to net leverage apply to the Group's term-loan borrowing facilities:

- The Revolving Facility is subject to a single financial covenant, only in circumstances when more than 35% of the Revolving Facility is outstanding at a fiscal quarter end. Throughout the year the applicable covenant threshold was 3.85x, however no test was applicable at 31 October 2021 or any previous test date, as the facility was not drawn in excess of the 35% threshold. This facility has been amended post year end with the facility reduced to \$250m and with maturity extended until December 2026, subject to tests for the term loan maturities in June 2024 and June 2025. The amended facility is subject to a covenant test when more than 40% of the revolving credit facility is outstanding at a fiscal quarter end with a 5.00x net leverage covenant being applied.
- Additional debt repayments when the Group's net leverage at 31 October exceeds 3.00x, when 25% of excess cash flow for the year is required to be paid, and 3.30x, when 50% of excess cash flow for the year is required to be paid;
- Net proceeds from divestitures in excess of \$45m are required to be used to make debt repayments. When the Group's net leverage exceeds 3.00x, 100% of net proceeds must be used for debt repayments. When net leverage is below 3.00x, 50% of net proceeds must be used to make a debt repayment; however no further debt repayment is required once repayment reduces net leverage below 2.50x on a pro forma basis therefore use of excess disposal proceeds at this point is at the Group's discretion; and
- An additional 25 basis points of margin is required to be paid on the term loans maturing in June 2024 when net leverage exceeds 3.00x. The Group is currently paying this margin.

These covenants are not expected to inhibit the Group's future operations or funding plans.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

18 Borrowings continued

Net leverage is defined as net debt (see note 24)/Adjusted EBITDA. The credit facility agreements apply frozen GAAP for IFRS 16 and allows certain expected cost savings to be included in the measurement therefore the calculated value differs from that using net debt/Adjusted EBITDA as presented in this annual report. The difference has not exceeded 0.20x during the current period.

In addition to the net leverage related payments the Group's borrowing arrangements include annual repayments of 1% of the initial par value for the B-3, Seattle Spinco and Euro term B loans and 2.5% of the initial par value for the B-1 and B4 loans with the amount paid in four equal quarterly instalments and then a final balloon payment on maturity.

The movements on the Group loans in the year were as follows:

	Term loan B-1 EUR \$m	Term loan B-2 USD \$m	Term loan B-3 USD \$m	Term loan B-4 USD \$m	Seattle Spinco term loan B \$m	Euro term loan B \$m	Revolving Facility \$m	Total \$m
At 1 November 2020	700.3	-	368.2	650.0	2,486.3	528.4	-	4,733.2
Draw downs	-	-	-	-	-	-	-	-
Repayments	(17.9)	-	(8.7)	(16.3)	(58.4)	(12.8)	-	(114.1)
Foreign exchange	(6.4)	-	-	-	-	(4.7)	-	(11.1)
At 31 October 2021	676.0	-	359.5	633.7	2,427.9	510.9	-	4,608.0
At 1 November 2019	-	1,414.7	368.2	-	2,486.3	505.8	-	4,775.0
Draw downs	665.8	-	-	650.0	-	-	175.0	1,490.8
Repayments	-	(1,414.7)	-	-	-	-	(175.0)	(1,589.7)
Foreign exchange	34.5	-	-	-	-	22.6	-	57.1
At 31 October 2020	700.3	-	368.2	650.0	2,486.3	528.4	-	4,733.2

The maturity of borrowings can be seen in note 24, "Financial risk management and financial instruments".

Assets pledged as collateral

All assets security has been granted in the US and England & Wales by certain members of the Micro Focus Group organised in such jurisdictions, including security over intellectual property rights and shareholdings of such members of the Micro Focus Group.

19 Leases

The Group enters into leasing arrangements in the normal course of its business including:

- Office space (included in "Leasehold land and buildings");
- Data centres (included in "Leasehold land and buildings");
- Vehicles (included in "Other"); and
- Computer equipment.

The Group's lease arrangements can contain a number of features including some or all of:

- Extension and break options;
- Variable lease payments;
- Annual or periodic set rental increases; and
- Indexed or market-based rental increases.

Consistent with the requirements of IFRS 16, extension options are only included in the lease liability where they are considered reasonably certain, see below, and only fixed rental increases are included in the lease liability. Indexed or market-based rental increases are only included in the lease liability once the indexation or rent review date has passed. Variable lease payments are expensed as incurred. The Group makes no material payments for variable payments not included in the lease liability.

19 Leases continued

Two individual leased properties are material to the Group. One is located in Provo, Utah, where the Group currently leases approximately 405,700 square feet of office space. The Group has recently concluded negotiations with the landlord for this facility for which the lease was set to end in 2024 to extend the lease term with a reduction in floor space in stages. In February 2022, an initial reduction to approximately 239,100 square feet, then from June 2024 to approximately 219,900 square feet with a further reduction in floor space from December 2024 to approximately 142,300 square feet. This new lease agreement expires in 2034, with an option to extend for a further three, five-year periods. The Group's current annual rent under this lease is \$8.7m (2020: \$8.4m) and this will reduce as the floor space reduces to \$5.3m per annum in February 2022 and \$3.6m per annum from December 2024. Since 1 March 2019, part of the property has been sublet. Current annual sub-lease income is \$1.1m (2020: \$1.1m). The second property is located in Santa Clara, California, where the Group currently leases approximately 635,000 square feet of office space. The lease on this facility expires in 2029, with an option to extend for one further five-year period. The Group's current annual rent under this lease is \$4.9m (2020: \$4.7m). The Group is currently not utilising one and a half floors of this facility and the related right-of-use assets has been tested for impairment with a partial impairment recorded.

Right-of-use assets

During the year the Group entered into new leasing arrangements, extended existing leasing agreements and was party to rent reviews and therefore recognised additions to right-of-use assets of \$38.8m (2020: \$42.0m). Right-of-use assets of \$8.9m were transferred to held for sale during the period, see note 30, "Discontinued operation and Assets held for sale".

	Leasehold land and buildings \$m	Computer equipment \$m	Other \$m	Total \$m
Net book value at 31 October 2021	128.5	16.0	8.7	153.2
Net book value at 31 October 2020	180.1	20.4	6.7	207.2
Depreciation charge for the year ended 31 October 2021	56.9	9.6	6.8	73.3

Amounts recognised in the statement of comprehensive income:

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Interest on lease liabilities	6	10.0	13.2
Depreciation of right-of-use assets		73.3	76.9
Impairment of right-of-use assets*		5.6	5.9
Income from sub-leasing right-of-use assets		0.2	0.4

* The Group assessed right-of-use assets for indicators of impairment during the year in particular leases, which have become vacant or part vacant or changes in sub-lease expectations on existing vacant properties. As a result, an additional impairment of \$5.6m was recognised in the year (2020: \$5.9m). The impairment against the right-of-use asset carrying value reflects any expected sub lease-income over the remainder of the lease.

Amounts recognised in statement of cash flows:

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Interest payments on lease liabilities	10.0	13.2
Payment for lease liabilities	79.5	80.1
Total cash outflow for leases	89.5	93.3

Extension options

Some property leases contain extension options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. As a lessee, optional periods are included in the lease term if the Group is reasonably certain it will exercise an extension option or will not exercise a termination option; this depends on an analysis by management of all relevant facts and circumstances including the leased asset's nature and purpose, the economic and practical potential for replacing the asset and any plans that the Group has in place for the future use of the asset. Where it is impractical or uneconomic to replace then the Group is more likely to judge that lease extension options are reasonably certain to be exercised.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

19 Leases continued

The normal approach adopted for lease term by asset class is described below.

The lease terms can vary significantly by type and use of asset and geography. In addition, the exact lease term is subject to the non-cancellable period and rights and options in each contract. Generally, lease terms are judged to be the longer of the minimum lease term and:

- Up to five years for offices, unless the non-cancellable period exceeds this, with optional extension periods only included in leases expiring in the earlier part of this period and where clear plans to extend the leases are already in place; and
- Up to three years for data centres with optional extensions periods, where they exist, only included for leases expiring in the next year and for which relocation of the assets located in the data centre is considered uneconomic.

For vehicle leases the minimum lease term, typically three to four years, is judged to be the lease term. Extension options for vehicles are not considered reasonably certain as the assets are not highly customised or difficult to replace.

The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control. Significant changes in assumptions or activities e.g. such as an acquisition or disposal, would impact the expected future cash outflows related to leasing activities. Where a significant event or change in circumstances does not occur, the lease term and therefore the lease liability and right-of-use asset, will decline over time. The Group's cash outflow for leases in the year ended 31 October 2021 was \$89.5m (2020: \$93.3m). Leases with annual cash outflows during the year ended 31 October 2021 of \$3.0m (2020: \$8.9m) ended and were not renewed or replaced. Considering the impact of these terminations and absent significant future changes in the volume of the Group's activities or strategic changes to lease fewer assets the Group's cash outflow would be expected to continue for future periods at a consistent level, subject to any contractual price increases. The maturity analysis of the Group's lease liability, in note 24 "Financial risk management and financial instruments", only includes the reasonably certain payments to be made; cash outflows in these future periods will likely exceed these amounts as payments will be made on optional periods not considered reasonably certain at present and on new leases entered into in future periods.

Lease obligations:

Under IFRS 16 "Leases", the Group recognises the discounted future lease payments over the reasonably certain lease term as a liability along with an associated right-of-use asset, see above.

The movement on the Group lease obligations in the year were as follows:

	Note	31 October 2021 \$m	31 October 2020 \$m
IFRS 16 adoption		–	269.8
Transfer from Finance lease liability		–	23.5
Balance at 1 November		250.4	293.3
Additions		35.1	41.6
Disposals		–	(0.2)
Payments		(89.5)	(93.3)
Interest	6	10.0	13.2
Transferred to held for sale	30	(11.4)	–
Foreign exchange		(0.1)	(4.2)
Balance at 31 October		194.5	250.4
Included within:			
Current liabilities		74.9	82.2
Non-current liabilities		119.6	168.2
Total		194.5	250.4

Leases as lessor

The Group acts as a lessor where it is able to sub-lease vacant property space. Sub-leases are classified as either finance leases or operating leases dependent upon the transfers of substantially all of the risk and rewards associated with the head lease to the lessee in the sub-lease agreement.

Finance leases

The Group has six lease arrangements classified as finance leases. The long-term element of net investment in leases of \$6.0m as at 31 October 2021 (2020: \$5.5m) is included in note 13 "Other non-current assets". The short-term element of net investments in leases of \$1.9m as at 31 October 2021 (2020: \$2.1m) is included in other receivables in note 14 "Trade and other receivables".

20 Contract liabilities

	31 October 2021 \$m	31 October 2020 \$m
Current	984.6	981.4
Non-current	131.8	117.2
	1,116.4	1,098.6

Revenue billed but not recognised in the Consolidated statement of comprehensive income under the Group's accounting policy for revenue recognition is classified as contract liabilities in the Consolidated statement of financial position and recognised over the period of the contract. Contract liabilities primarily relates to undelivered maintenance and subscription services on billed contracts.

Contract liabilities as at 31 October 2021 were \$1,116.4m (2020: \$1,098.6m). The movement in contract liabilities in the year mainly results from new amounts being deferred, where the billing is in advance of satisfaction of the related performance obligation, and amounts being recognised as revenue, where performance obligations have been satisfied. The amount of revenue recognised in the reporting year that was included in the contract liability balance as at 1 November 2020 was \$981.4m (2020: \$1,045.9m).

Remaining performance obligations

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognised which includes unearned revenue and amounts that will be invoiced and recognised as revenue in future periods. The remaining performance obligations revenue was \$1,563.9m as at 31 October 2021, of which approximately 76% of the revenue is expected to be recognised over the next 12 months and the remainder thereafter.

This amount mostly comprises obligations to provide maintenance and SaaS subscriptions as the contracts have durations of one or multiple years.

21 Provisions and contingent liabilities

	31 October 2021 \$m	31 October 2020 \$m
Onerous leases and dilapidations	25.4	16.9
Restructuring	23.0	30.8
Legal	25.0	9.7
Other	12.1	14.8
Total	85.5	72.2
Current	65.7	49.7
Non-current	19.8	22.5
Total	85.5	72.2

	Note	Onerous contracts and dilapidations \$m	Restructuring \$m	Legal \$m	Other \$m	Total \$m
At 1 November 2020		16.9	30.8	9.7	14.8	72.2
Acquisitions	31	–	–	–	0.1	0.1
Additional provision in the year		17.9	32.6	93.3	3.1	146.9
Released		(2.5)	(7.6)	(2.5)	(2.8)	(15.4)
Utilisation of provision		(5.9)	(32.8)	(75.6)	(3.1)	(117.4)
Effects of movements in exchange rates		0.2	–	0.1	–	0.3
Transferred to current liabilities classified as held for sale		(1.2)	–	–	–	(1.2)
At 31 October 2021		25.4	23.0	25.0	12.1	85.5
Current		11.6	19.0	25.0	10.1	65.7
Non-current		13.8	4.0	0.0	2.0	19.8
Total		25.4	23.0	25.0	12.1	85.5

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

21 Provisions and contingent liabilities continued

Onerous contracts and dilapidations provisions

The onerous contracts include onerous non-rental related property costs and other onerous contracts. Additional onerous contracts in relation to property of \$4.8m was recorded in the year ended 31 October 2021 (2020: \$3.2m), mainly across European and US sites, as the property portfolio was reassessed, including planned site vacations. Additional provisions of \$10.4m were also recorded for other onerous contracts principally related to IT contracts in relation to the Group's former enterprise platforms.

The dilapidations provision relates to obligations to restore leased Group properties. The positions regarding the non-rental related property costs are expected to be fully utilised within 13 years. An additional provision of \$2.7m was recorded in the year ended 31 October 2021 (2020: \$3.2m) following a review of obligations to restore leased property at the end of the lease period.

Restructuring provisions

Restructuring provisions relate to severance resulting from headcount reductions. The majority of provisions are expected to be fully utilised within 12 months. Restructuring costs are reported within note 4 "Exceptional items".

Legal provisions and Contingent liabilities

Legal provisions include the directors' best estimate of the likely outflow of economic benefits associated with on-going legal matters. This includes the following two matters:

Patent litigation

On the matter of litigation with Wapp the Company reached a settlement with Wapp for payment of \$67.5m to completely resolve the dispute for itself and its customers without admission of liability during the year. The matter was previously disclosed as a contingent liability. The provision movement in the period includes this settlement and associated costs. In line with our accounting policy, the cost of recording this provision has been treated as an exceptional cost in the consolidated statement of comprehensive income for the year ended 31 October 2021 and further details can be found in note 4, "Exceptional items".

Shareholder litigation

The shareholder litigation complaint in the United States District Court for the Southern District of New York, previously disclosed as a contingent liability, has been followed by a mediation during the period where the parties have reached an agreement to settle the case on terms including a payment of \$15.0m to a settlement class. The proposed settlement is subject to the court's approval. The Group has recognised a legal provision of \$15.0m and an insurance receivable, within other receivables, of \$15.0m. Therefore, the charge to establish the provision nets to zero in the consolidated statement of comprehensive income for the shareholder litigation. The settlement amount will be paid from insurance coverage. The Company and all defendants have denied, and continue to deny, the claims alleged in the case and the settlement does not reflect any admission of fault, wrongdoing or liability as to any defendant.

In the Superior Court of California, the matter is on-going. No liability has been recognised in this case as it is too soon to estimate whether there will be any financial impact.

California employee claim

In 2018, a putative class action complaint was filed alleging that HPE pays California-based female employees "systemically lower compensation" than male employees performing substantially similar work. This action remains on-going. As part of the Group's acquisition of the HPE Software business, terms were agreed that allocate potential financial responsibility for litigation between both parties. The Group has recognised no liability in this case as we are unable to estimate whether there will be any financial impact.

Other provisions

Other provisions at 31 October 2021 predominantly relate to interest on uncertain tax provisions of \$5.6m (2020: \$7.6m) and a provision for estimated unclaimed property exposure pertaining to accounts payable of \$4.2m (2020: \$4.4m). Discussion on the EU State Aid tax contingent liability in relation to the EU State Aid case is included in note 7, "Taxation".

22 Pension and other long-term benefit commitments

a) Defined contribution

The Group has established a number of pension schemes around the world covering many of its employees. The principal funds are those in the US, UK and Germany. These were funded schemes of the defined contribution type.

Pension costs for defined contribution schemes are as follows:

		Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Continuing operations	Note		
Defined contribution schemes	28	34.2	31.2

22 Pension and other long-term benefit commitments continued

b) Defined benefit

	31 October 2021 \$m	31 October 2020 \$m
Within non-current assets:		
Long-term pension assets	17.1	18.2
Within non-current liabilities:		
Retirement and other benefit obligations	(147.1)	(155.0)

As of 31 October 2021, there are a total of 36 defined benefit plans in 12 countries around the world (2020: 33). The highest concentration of the defined benefit plans are in Germany, where the Group sponsors 12 (2020: 12) separate schemes that comprise over 73% (2020: 83%) of the total net retirement benefit obligation recorded in the Group's consolidated statement of financial position. The Group's German schemes are primarily final salary pension plans, which provide benefits to members either in the form of a lump sum payment or a guaranteed level of pension payable for life in the case of retirement, disability and death. The level of benefits provided depends not only on the final salary but also on member's length of service, social security ceiling and other factors. Although most of these schemes in Germany are funded at some level, there are typically no funding requirements in Germany. There are no requirements for the appointment of independent trustees in Germany, and all of these schemes are administered locally with the assistance of German pension experts. Final pension entitlements, including benefits for death in service and disability amounts, are calculated by these experts. Plan assets for three of our German schemes include re-insurance contracts with guaranteed interest rates, while the majority of the schemes invest in funds focusing on equities and debt instruments. Most of the Group's German schemes are closed to new entrants, however, three of the schemes are open to new members.

The remainder of the Group's defined benefit schemes are comprised of a mix of final salary plans, termination or retirement indemnity plans, other types of statutory plans that provide a one-time benefit at termination and leave plans which allow the participants to carry over leave time earned for a period of time exceeding one year. Final pension entitlements are calculated by local administrators in the applicable country. They also complete calculations for cases of death in service and disability. Where required by local or statutory requirements, some of the schemes are governed by an independent Board of Trustees that is responsible for the investment strategies with regard to the assets of the funds; however, other schemes are administered locally with the assistance of local pension experts. Many of the Group's plans outside of Germany are funded and the Group makes at least the minimum contributions required by local government, funding and taxing authorities. Plan assets for these schemes include a range of assets including investment funds or re-insurance contracts. Not all of these plans are closed to new members. The Group sponsors 24 plans outside of Germany (2020: 12). Of these, 17 plans are open to new members, most of which are termination or retirement indemnity plans, statutory plans providing a one-time benefit at termination, retirement, death or disability and leave plans. The Group participates in multi-employer plans in Switzerland and Japan. These plans are accounted for as defined benefit plans and the Group's obligations are limited to the liabilities of our employees.

There were seven leave plans reclassified to the net retirement and other defined benefit obligation during the year ended 31 October 2021 and three plans reclassified to the net retirement obligation during the year ended 31 October 2020. None of the plans are final salary plans and none are material.

Long-term pension assets

Long-term pension assets relate to the contractual arrangement under insurance policies held by the Group with guaranteed interest rates that do not meet the definition of a qualifying insurance policy, as they have not been pledged to the plan or beneficiaries and are subject to the creditors of the Group. Such arrangements are recorded in the consolidated statement of financial position as long-term pension assets. During the years ended 31 October 2021 and 2020, some of the insurance policies previously unpledged were pledged to the pension plans and transferred to plan assets. These contractual arrangements are treated as financial assets measured at fair value through other comprehensive income. Movement in the fair value of long-term pension assets is included in other comprehensive income. All non-plan assets are held in Germany.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

22 Pension and other long-term benefit commitments continued

The movement on the long-term pension assets is as follows:

	Note	31 October 2021 \$m	31 October 2020 \$m
As at 1 November		18.2	17.1
Transfer to plan assets		(1.2)	(0.4)
Interest on non-plan assets	6	0.2	0.2
Benefits paid		(0.2)	(0.1)
Contributions		0.1	0.3
Included within other comprehensive income:			
– Change in fair value assessment		0.2	0.4
		0.2	0.4
Effects of movements in exchange rates		(0.2)	0.7
As at 31 October		17.1	18.2
Included within other comprehensive income:			
Continuing operations		0.2	0.4
		0.2	0.4

The non-plan assets are considered to be Level 3 asset under the fair value hierarchy as of 31 October 2021. These assets have been valued by an external insurance expert by applying a discount rate to the future cash flows and taking into account the fixed interest rate, mortality rates and term of the insurance contract. There have been no transfers between levels for the year ended 31 October 2021 (2020: none).

Retirement and other long-term benefit obligations

The following amounts have been included in the consolidated statement of comprehensive income for defined benefit arrangements:

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Current service charge	28	11.3	10.4
Changes in other long-term benefits		1.4	–
Charge to operating loss		12.7	10.4
Interest on defined benefit liabilities		2.6	3.1
Interest on defined benefit assets		(1.1)	(1.3)
Charge to finance costs	6	1.5	1.8
Total continuing charge to loss for the year		14.2	12.2

The contributions for the year ended 31 October 2022 are expected to be broadly in line with the year ended 31 October 2021. The Group funds the schemes so that it makes at least the minimum contributions required by local government, funding and taxing authorities. There are no funding requirements in Germany.

22 Pension and other long-term benefit commitments continued

The following amounts have been recognised as movements in the statement of other comprehensive income:

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Actuarial return on assets excluding amounts included in interest income	20.7	1.8
Re-measurements – actuarial gains/(losses):		
– Demographic	1.3	–
– Financial	9.8	(0.6)
– Experience	1.6	3.0
	12.7	2.4
Reclassification from defined contribution scheme or other assets and liabilities to defined benefit scheme	–	(4.6)
Movement in the year	33.4	(0.4)
Continuing operations	33.4	(0.4)
	33.4	(0.4)

The weighted average key assumptions used for the valuation of the schemes were:

	31 October 2021			31 October 2020		
	Germany	Rest of World	Total	Germany	Rest of World	Total
Rate of increase in final pensionable salary	2.50%	3.10%	2.69%	2.50%	3.09%	2.64%
Rate of increase in pension payments	1.75%	1.50%	1.75%	1.50%	1.50%	1.50%
Discount rate	1.07%	1.87%	1.25%	0.79%	1.41%	0.90%
Inflation	1.75%	1.36%	1.69%	1.50%	1.25%	1.47%

The mortality assumptions for the German schemes are set based on the 'Richttafeln 2018 G' by Prof. Dr. Klaus Heubeck. The mortality assumptions for the remaining schemes are set based on actuarial advice in accordance with published statistics and experience in each territory.

These assumptions translate into a weighted average life expectancy in years for a pensioner retiring at age 65:

	31 October 2021			31 October 2020		
	Germany	Rest of World	Total	Germany	Rest of World	Total
Retiring at age 65 at the end of the reporting year:						
Male	20	21	21	20	22	20
Female	24	24	24	24	25	24
Retiring 15 years after the end of the reporting year:						
Male	23	22	23	22	23	22
Female	26	25	26	26	26	25

The net liability included in the consolidated statement of financial position arising from obligations in respect of defined benefit schemes is as follows:

	31 October 2021			31 October 2020		
	Germany	Rest of World	Total	Germany	Rest of World	Total
Present value of defined benefit obligations	246.1	74.5	320.6	248.4	54.9	303.3
Fair values of plan assets	(138.8)	(34.7)	(173.5)	(119.1)	(29.2)	(148.3)
	107.3	39.8	147.1	129.3	25.7	155.0

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

22 Pension and other long-term benefit commitments continued

The defined benefit obligation has moved as follows:

	31 October 2021								
	Germany			Rest of World			Total		
	Defined benefit obligations \$m	Scheme assets \$m	Net defined benefit obligations \$m	Defined benefit obligations \$m	Scheme assets \$m	Net defined benefit obligations \$m	Defined benefit obligations \$m	Scheme assets \$m	Net defined benefit obligations \$m
Defined benefit obligations									
At 1 November 2020	248.4	(119.1)	129.3	54.9	(29.2)	25.7	303.3	(148.3)	155.0
Current service cost	6.1	–	6.1	5.2	–	5.2	11.3	–	11.3
Changes in other long-term benefits	1.4	–	1.4	–	–	–	1.4	–	1.4
Reclassification from other liabilities/assets	–	–	–	20.2	–	20.2	20.2	–	20.2
Transferred to current assets classified as held for sale	–	–	–	(0.2)	–	(0.2)	(0.2)	–	(0.2)
Transfer from long-term pension assets	–	(1.2)	(1.2)	–	–	–	–	(1.2)	(1.2)
Benefits paid	(1.9)	1.9	–	(1.9)	1.9	–	(3.8)	3.8	–
Contributions by plan participants	1.2	(1.2)	–	0.6	(0.6)	–	1.8	(1.8)	–
Contribution by employer	–	(1.7)	(1.7)	–	(6.0)	(6.0)	–	(7.7)	(7.7)
Interest cost/(income) (note 6)	1.9	(0.8)	1.1	0.7	(0.3)	0.4	2.6	(1.1)	1.5
Included within other comprehensive income:									
Re-measurements – actuarial (gains) and losses:									
– Demographic	–	–	–	(1.3)	–	(1.3)	(1.3)	–	(1.3)
– Financial	(6.7)	–	(6.7)	(3.1)	–	(3.1)	(9.8)	–	(9.8)
– Experience	(2.1)	–	(2.1)	0.5	–	0.5	(1.6)	–	(1.6)
Actuarial return on assets excluding amounts included in interest income	–	(18.8)	(18.8)	–	(1.9)	(1.9)	–	(20.7)	(20.7)
	(8.8)	(18.8)	(27.6)	(3.9)	(1.9)	(5.8)	(12.7)	(20.7)	(33.4)
Effects of movements in exchange rates	(2.2)	2.1	(0.1)	(1.1)	1.4	0.3	(3.3)	3.5	0.2
At 31 October 2021	246.1	(138.8)	107.3	74.5	(34.7)	39.8	320.6	(173.5)	147.1

22 Pension and other long-term benefit commitments continued

	31 October 2020								
	Germany			Rest of World			Total		
	Defined benefit obligations \$m	Scheme assets \$m	Net defined benefit obligations \$m	Defined benefit obligations \$m	Scheme assets \$m	Net defined benefit obligations \$m	Defined benefit obligations \$m	Scheme assets \$m	Net defined benefit obligations \$m
Defined benefit obligations									
At 1 November 2019	213.5	(92.0)	121.5	48.0	(28.1)	19.9	261.5	(120.1)	141.4
Current service cost	6.9	–	6.9	3.5	–	3.5	10.4	–	10.4
Reclassification from other liabilities/assets	14.7	(17.8)	(3.1)	1.5	–	1.5	16.2	(17.8)	(1.6)
Transfer from long-term pension assets	–	(0.4)	(0.4)	–	–	–	–	(0.4)	(0.4)
Benefits paid	(0.6)	0.6	–	(2.9)	2.9	–	(3.5)	3.5	–
Contributions by plan participants	1.1	(1.1)	–	0.6	(0.6)	–	1.7	(1.7)	–
Contribution by employer	–	(0.7)	(0.7)	–	(2.3)	(2.3)	–	(3.0)	(3.0)
Interest cost/(income) (note 6)	2.3	(1.0)	1.3	0.8	(0.3)	0.5	3.1	(1.3)	1.8
Included within other comprehensive income:									
Re-measurements – actuarial (gains) and losses:									
– Demographic	–	–	–	–	–	–	–	–	–
– Financial	(0.4)	–	(0.4)	1.0	–	1.0	0.6	–	0.6
– Experience	(2.0)	–	(2.0)	(1.0)	–	(1.0)	(3.0)	–	(3.0)
Actuarial return on assets excluding amounts included in interest income	–	(2.4)	(2.4)	–	0.6	0.6	–	(1.8)	(1.8)
Reclassification to defined benefit scheme	3.1	–	3.1	1.5	–	1.5	4.6	–	4.6
	0.7	(2.4)	(1.7)	1.5	0.6	2.1	2.2	(1.8)	0.4
Effects of movements in exchange rates	9.8	(4.3)	5.5	1.9	(1.4)	0.5	11.7	(5.7)	6.0
At 31 October 2020	248.4	(119.1)	129.3	54.9	(29.2)	25.7	303.3	(148.3)	155.0

None of the scheme assets are represented by financial instruments of the Group. None of the scheme assets are occupied or used by the Group. The major categories of the scheme assets are as follows:

	31 October 2021								
	Germany			Rest of World			Total		
	Quoted \$m	Unquoted \$m	Total \$m	Quoted \$m	Unquoted \$m	Total \$m	Quoted \$m	Unquoted \$m	Total \$m
Funds that invest in:									
– Equity instruments	69.0	–	69.0	4.9	3.0	7.9	73.9	3.0	76.9
– Debt instruments	61.7	–	61.7	4.1	5.4	9.5	65.8	5.4	71.2
– Real estate	–	–	–	3.5	0.1	3.6	3.5	0.1	3.6
Cash and cash equivalents	–	–	–	–	1.6	1.6	–	1.6	1.6
Re-insurance contracts with guaranteed interest rates*	–	8.1	8.1	–	–	–	–	8.1	8.1
Other	–	–	–	–	12.1	12.1	–	12.1	12.1
Total	130.7	8.1	138.8	12.5	22.2	34.7	143.2	30.3	173.5

* The majority of the re-insurance contracts have guaranteed interest rates of 4.0%, with the remaining at 3.25% or 2.75%.

Notes to the consolidated financial statements

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22 Pension and other long-term benefit commitments continued

	31 October 2020								
	Germany			Rest of World			Total		
	Quoted \$m	Unquoted \$m	Total \$m	Quoted \$m	Unquoted \$m	Total \$m	Quoted \$m	Unquoted \$m	Total \$m
Funds that invest in:									
– Equity instruments	49.3	–	49.3	–	6.4	6.4	49.3	6.4	55.7
– Debt instruments	63.3	–	63.3	2.6	4.9	7.5	65.9	4.9	70.8
– Real estate	–	–	–	–	2.9	2.9	–	2.9	2.9
Cash and cash equivalents	–	–	–	–	2.6	2.6	–	2.6	2.6
Re-insurance contracts with guaranteed interest rates*	–	6.5	6.5	–	–	–	–	6.5	6.5
Other	–	–	–	–	9.8	9.8	–	9.8	9.8
Total	112.6	6.5	119.1	2.6	26.6	29.2	115.2	33.1	148.3

* The majority of the re-insurance contracts have guaranteed interest rates of 4.0%, with the remaining at 3.25% or 2.75%.

Risk management

Through its defined benefit schemes the Group is exposed to a number of risks, the most significant of which are detailed below:

- Changes in bond yields – A decrease in corporate bond yields will increase the Group's IAS 19 plan liabilities, although this will be partially offset by increases in the value of scheme assets.
- Inflation – Some of the Group pension obligations are linked to inflation, and higher inflation will lead to higher liabilities.
- Life expectancy – The majority of the plan obligations are to provide benefits over the life of the member, so increases in life expectancy will result in an increase in the plan liabilities as benefits would be paid over a longer period.
- Asset returns – Returns on plan assets are subject to volatility and may not move in line with plan liabilities. The Group ensures that the investment positions are managed within an asset liability matching ("ALM") to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework the Group's objective is to match assets to the pension obligations by investing in assets that match the benefit payments as they fall due and in the appropriate currency.

Sensitivities

The table below provides information on the sensitivity of the defined benefit obligation to changes to the most significant actuarial assumptions. The table shows the impact of changes to each assumption in isolation, although, in practice, changes to assumptions may occur at the same time and can either offset or compound the overall impact on the defined benefit obligation.

These sensitivities have been calculated using the same methodology as used for the main calculations. The weighted average duration of the defined benefit obligation is 22 years for Germany and 12 years for all other schemes.

	Germany				Rest of World			
	Increase in assumption	Change in defined benefit obligation	Decrease in assumption	Change in defined benefit obligation	Increase in assumption	Change in defined benefit obligation	Decrease in assumption	Change in defined benefit obligation
Discount rate for scheme liabilities	0.50%	(10.1%)	0.50%	11.8%	0.50%	(5.5%)	0.50%	6.1%
Price inflation/rate of increase in pension payments*	0.25%	3.67%	0.25%	(3.49%)	0.25%	1.0%	0.25%	(1.0%)
Salary growth rate	0.50%	1.1%	0.50%	(1.0%)	0.50%	3.0%	0.50%	(3.0%)
Life expectancy	1 year	4.0%	–	–	1 year	2.0%	–	–

* For the German schemes the same values are used for both the inflation assumption and the rate of increase in pension payments.

23 Other non-current liabilities

	31 October 2021 \$m	31 October 2020 \$m
Accruals	31.3	39.9
	31.3	39.9

Accruals includes employee benefit liability \$31.3m (2020: \$30.6m) that relates to employee obligations in certain countries.

24 Financial risk management and financial instruments

Risk factors and treasury 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 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.

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/capital risk. Treasury 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 business management. 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, the use of derivative and non-derivative financial instruments as appropriate, and investment of excess funds.

Liquidity and capital 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 facilities. 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 are invested in interest bearing current accounts, time deposits, earning credit programmes or money market deposits of the appropriate maturity period determined by consolidated cash forecasts.

The Group seeks to maximise financial flexibility and minimise refinancing risk by issuing debt from a variety of sources and with a range of maturities. The level of facilities required are determined through the preparation of cash flow forecasts which consider a range of business performance scenarios. Borrowings are refinanced substantially prior to falling current to minimise refinancing risk.

The Group's objective when managing its capital structures is to minimise the cost of capital while maintaining adequate capital to protect against volatility in earnings and net asset values. The strategy is designed to maximise shareholder return over the long-term.

In the current year, a conservative dividend policy has been reinstated and the Company announced an interim dividend of 8.80 cents per share. Final dividends for the current year are set out in note 8, "Dividends".

On 17 January 2022, the Group announced the refinancing of \$1.6bn of existing term loans and the RCF was refinanced in December 2021, see note 18, "Borrowings".

The financial covenants related to the RCF and term loans are disclosed in note 18, "Borrowings".

The Group uses cash pooling structures and intercompany loans to mobilise cash efficiently within the Group. The key objectives of the treasury function with respect to cash and cash equivalents are to protect their principal value, concentrate cash centrally, minimise the requirements for external borrowing and optimise yield.

As part of its short-term cash management the Group invests in a range of cash and cash equivalents, including money market funds, which are considered to be highly liquid and not exposed to significant changes in fair value.

Subsidiary companies are funded through share capital, retained earnings and loans from central finance companies on commercial terms. Subsidiary companies do not enter into local borrowings with external counterparties.

Interest rate risk

The Group's income and cash generated from operations are substantially independent of changes in market interest rates. The Group's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group currently uses four interest rate swaps to manage its cash flow interest rate risk arising from potential increases in the LIBOR interest rate.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

24 Financial risk management and financial instruments continued

The objective of the Group's interest rate risk management policy is to manage the uncertainty and adverse impact on the Group's net interest charge due to changes in interest rates to an acceptable level. In doing so, the Group seeks to minimise the cost of hedging and the level of associated counterparty risk.

The Group has set a target of approximately half its borrowings being subject to fixed interest rates in order to minimise its exposure to changes in interest rates. This is achieved through four US dollar interest swaps for a total notional value of \$2.25bn, with a maturity date of September 2022. The hedge accounting is discussed further later in the note.

The Group's borrowing facilities do not contain any covenants with respect to interest cover ratios.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, UK Pound Sterling, Indian Rupee, Israeli Shekel, Japanese Yen, Australian Dollar and the Canadian Dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations where the transactions are denominated in a currency that is not the entity's functional currency.

The Group is subject to exposure on the translation of the net assets of foreign currency subsidiaries into its reporting currency, US dollar. The Group's primary balance sheet translation exposures are noted in the exposure analysis below. These exposures are kept under regular review with the Group treasury function providing reporting to the treasury risk committee and the audit committee.

Group borrowings are denominated in US dollars and Euros. The Group seeks to match the currency profile of borrowings to the cash flows arising from the Group's operations used to service those borrowings. The May 2020 and January 2022 debt refinancings both included an additional proportion of Euro debt and a reduction in US dollar debt which is intended to better match the currency profile of the Group's debt with the cash flows used to service that debt (note 18 "Borrowings"). Group Treasury will continually review the EBITDA currency profile of the business and to take actions to align the group's debt profile with its EBITDA.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The Group faces currency exposures arising from the translation of profits earned in foreign currency subsidiaries into the Group's reporting currency of US dollars. As at 31 October 2021 two net investment hedges totalling €1.03bn have been designated using non-derivative Euro debt instruments to minimise the volatility in shareholders' equity arising from foreign currency translation (2020: two net investment hedges totalling €1.05bn).

Exposures also arise from foreign currency denominated trading transactions undertaken by subsidiaries and exposures here are not hedged. The Group utilises constant currency reporting to enable management and investors to understand the underlying performance of the Group excluding exchange rate impacts. Please refer to Alternative Performance Measure 8, "Constant currency", for additional information.

Credit risk

The Group provides credit to customers in the normal course of business. Collateral is not required for those receivables but the Group has policies in place requiring appropriate credit checks on potential customers before sales commence and a monitoring process for assessing overdue receivables and customer payment behaviour post sale. These policies and procedures include assessing customer credit limits and the use of third party financial and risk reporting to control our exposure and 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.

The Group maintains a provision for impairment based upon the measurement of lifetime expected credit losses for all trade receivables using the IFRS 9 simplified approach.

The risk management practices noted above provide the historical customer payment profiles and a view on customer behaviour with any historical credit losses experienced. The loss allowance is adjusted for forward-looking factors specific to the debtor and the economic environment resulting in an overall assessment of any provision required.

The Group sells products and services to a wide range of customers around the world and therefore believes there is no significant concentration of customer credit risk.

The Group's credit risk on cash and cash equivalents is limited as the counterparties are generally well established financial institutions with generally high credit ratings.

24 Financial risk management and financial instruments continued

Cash deposits and other financial instruments give rise to credit risk on the amounts due from the related counterparties. Generally, the Group aims to transact with counterparties with strong investment grade credit ratings. However, the Group recognises that due to the need to operate over a large geographic footprint, this will not always be possible. Counterparty credit risk is managed on a global basis by limiting the aggregate amount of exposure to any one counterparty, taking into account its credit rating. The credit ratings of all counterparties are reviewed regularly. All derivatives are subject to ISDA (International Swaps and Derivatives Association) agreements or equivalent documentation.

The maximum exposure to the credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Group's balance sheet. Please refer to the credit risk table further below. The credit quality of cash and cash equivalents is listed in note 16 "Cash and cash equivalents" with 96% rated from A+ to AAA.

Financial instruments

The tables below sets out the measurement categories and carrying values of financial assets and liabilities with fair value inputs where relevant.

	Note	Measurement category	Carrying value 31 October 2021 \$m		Fair value 2021	Fair value hierarchy 2021/2020	Carrying value 31 October 2020 \$m
Financial assets:							
Non-current							
Long-term pension assets	22	FV OCI	17.1	Fair value insurance-based input	Level 3		18.2
Current							
Cash and cash equivalent	16	Amortised cost	558.4		–	–	737.2
Trade and other receivables	14	Amortised cost	784.2		–	–	648.6
Contract assets	14	Amortised cost	62.0		–	–	33.7
			1,421.7				1,437.7
Financial liabilities:							
Non-current							
Derivative financial instruments – interest rate swaps ¹	24	FV OCI	–	Fair value Bank institutions	Level 2		77.9
Borrowings (gross) ²	18	Amortised cost	4,566.0		4,556.5	–	4,699.0
Lease obligations	19	Amortised cost	119.6		–	–	168.2
Current							
Derivative financial instruments – interest rate swaps ¹	24	FV OCI	35.7	Fair value Bank Institutions	Level 2		–
Borrowings (gross) ²	18	Amortised cost	42.0		41.9	–	34.2
Lease obligations	19	Amortised cost	74.9		–	–	82.2
Trade payables and accruals	17	Amortised cost	440.1		–	–	419.2
			5,278.3				5,480.7

1 Derivative interest rate swaps are measured at Fair Value through Other Comprehensive Income ("FV OCI") as a result of hedge accounting. All interest rate swaps are in designated hedge relationships and there are no other derivative financial instruments held as Fair Value through Profit or Loss ("FVTPL").

2 Borrowings have a carrying value (net of unamortised prepaid facility arrangement fees and original issue discount) of \$4,548.4m (2020: \$4,640.4m). Total borrowings (gross) are shown in this table as \$4,608.0m (2020: \$4,733.2m) for the fair value comparison.

Fair value measurement

For trade and other receivables, cash and cash equivalents, trade and other payables, fair values approximate to book values due to the short maturity periods of these financial instruments. For trade receivables, allowances are made for credit risk.

Long-term borrowings with a carrying value of \$4,548.4m (2020: \$4,640.3m) (note 18 "Borrowings") including unamortised prepaid facility fees and discounts, have a fair value estimate of \$4,598.4m (2020: \$4,535.1m) based on trading prices obtained from external banking providers as at 31 October 2021.

Derivative financial instruments measured at fair value are classified as Level 2 in the fair value measurement hierarchy as they have been determined using significant inputs based on observable market data. The fair values of interest rate derivatives are derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest rates. Valuations are updated by the counter-party banks on a monthly basis.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

24 Financial risk management and financial instruments continued

The long-term pension assets are considered to be Level 3 assets under the fair value hierarchy as of 31 October 2021. These assets have been valued by an external insurance expert, by applying a discount rate to the future cash flows and taking into account the fixed interest rate, mortality rates and term of the insurance contract. The movement in the long-term pension assets is disclosed in note 22 "Pension and other long-term benefit commitments".

For derivatives and long-term pension assets there were no transfers of assets or liabilities between levels of the fair value hierarchy during the year.

	31 October 2021 \$m	31 October 2020 \$m
Interest rate risk		
Interest rate swaps (receive variable, pay fixed)		
Fair value of Derivative liability (total of 4 swaps)	(35.7)	(77.9)
Notional amount (4 x \$562.5m)	2,250.0	2,250.0
	30 September 2022	30 September 2022
Maturity date		
Change in fair value of outstanding hedging instruments (OCI hedging reserve excluding deferred tax) (note 27)	42.2	(41.3)
Change in value of hedging instruments (as above adjusted for impact of credit risk)	41.9	(39.9)
Hedging ratio	1:1	1:1

The Group has four interest rate swaps, which are designated in a hedge relationship.

The Group's approved strategy in accordance with our risk management policies is to minimise the risk of cash flow fluctuations due to interest rate changes in relation to the 1M-USD LIBOR rate for up to half of the Group's external borrowings for the period 19 October 2017 to 30 September 2022.

The specific risk management objective of the four interest rate swaps is to hedge the interest rate risk (cash flow risk) due to changes in the 1M-USD LIBOR rate charged on \$2,250.0m of the debt issued by Seattle Spin Co Inc. between 19 October 2017 and 30 September 2022.

Derivatives are only used for economic hedging purposes and not as speculative investments.

The swap contracts require settlement of net interest receivable or payable on a monthly basis. The fixed interest rate for each swap is 1.949% and the Group receives a variable rate in line with LIBOR. The Seattle loan is priced at LIBOR (with a 0% floor) plus a current margin of 2.75% with the swaps aimed at addressing the risk of a rising LIBOR element. As such, the total interest cost of the hedged element of the Seattle loan is 4.699%. For the year to 31 October 2021, net interest (finance cost) paid for the swaps amounted to \$41.3m. For the life of the swap, net interest paid to date amounted to \$58.5m.

Non-Derivative financial instruments – Designated Euro borrowings

	31 October 2021 \$m	31 October 2020 \$m
Foreign exchange risk		
Debt designated in hedge relationships		
Euro B-1 2020 tranche €600m, (Borrowing maturity date: June 2025), €585m designated	676.0	700.3
Foreign exchange gain/(loss) on revaluation transferred to OCI-CTA – no sources of ineffectiveness observed in review	6.5	(34.5)
Euro 2017 tranche €453m (Borrowing maturity date: June 2024) €442m designated	510.9	528.5
Foreign exchange gain/(loss) on revaluation transferred to OCI-CTA – no sources of ineffectiveness observed in review	4.8	(24.2)
Hedge ratio for each of the two Net investment hedges	1:1	1:1

The Group has designated two tranches of non-derivative Euro borrowings in two hedge relationships. The borrowings in place have a designated carrying value of approximately €1.03bn (note 18 "Borrowings") hedged against Euro designated net investments in foreign operations.

The specific risk management objective is to carry out a net investment hedge in the consolidated financial statements of the Group, to reduce the foreign currency translation exposure arising from the Group's investments in foreign entities with Euro functional currency through the use of Euro currency borrowings as hedging instruments as permitted by the Group's Treasury policy.

24 Financial risk management and financial instruments continued

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument. The testing determined that the hedges met the IFRS 9 requirements for the financial reporting year. The IFRS 9 hedging requirements apply to both the interest swaps and the net investment hedges.

The impact of changes in the fair value of interest rate swaps in the year ended 31 October 2021 is shown in the Consolidated statement of comprehensive income. The foreign exchange gains/losses for the revaluation of the net investment hedging instruments are compared against the translation of goodwill and intangibles affecting the cumulative translation reserve on consolidation. No amounts have been reclassified from the hedging reserve to the loss for the year.

Hedge effectiveness may be affected by credit risk (in the case of the interest rate swaps) and the net investment hedged items may be affected by events impacting the carrying value of goodwill and intangible assets such as asset disposals or impairment reviews.

IBOR transition

Managing interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates (referred to as "IBOR reform").

The Group has exposures to IBORs on its financial instruments that may be replaced or reformed as part of these market-wide initiatives. The Group holds four interest rate swaps for risk management purposes which are designated in cash flow hedging relationships. The interest rate swaps have floating legs that are indexed to US LIBOR. The Group's exposure to LIBOR designated in hedging relationships is \$2,250m nominal amount at 31 October 2021, representing the nominal amount of the four interest rate swaps.

The Treasury risk management committee monitors and manages the Group's transition to alternative rates. The committee evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee reports to the Company's board of directors quarterly and collaborates with other business functions as needed. It provides periodic reports to management of interest rate risk and risks arising from IBOR reform.

Possible (phase 1) reliefs available for hedging exposures have not been applied as the benchmark quotes will continue to be available through to the maturity of the swaps in September 2022. The interest rate cash flows for the hedged debt have not been and will not be impacted by any IBOR-related matters in the period as referenced benchmarks were still available in the reporting period.

The Group has evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at 31 October 2021. The Group's hedged items and hedging instruments continue to be referenced to US LIBOR. These benchmark rates are quoted each day and the IBOR cash flows are exchanged with counterparties as usual. This allows market participants to continue to use LIBOR for existing contracts and the Group expects that LIBOR will continue to exist as a benchmark rate until June 2023. The Group is actively working to refinance the near-term debt of the group into SOFR-based debt instruments to address the cessation of LIBOR. The Group plans to have all LIBOR denominated debt repaid or refinanced prior to the planned LIBOR cessation date of June 2023.

The Group has measured its hedging instruments indexed to LIBOR using available quoted market rates for LIBOR-based instruments of the same tenor and similar maturity and has measured the cumulative change in the present value of hedged cash flows attributable to changes in LIBOR on a similar basis.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

24 Financial risk management and financial instruments continued

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 October 2021 was:

	Note	31 October 2021 \$m	31 October 2020 \$m
Trade receivables (gross)	14	738.8	628.4
Cash and cash equivalents	16	558.4	737.2
		1,297.2	1,365.6

The Group applies the IFRS 9 expedited approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables.

A provision of the lifetime expected credit loss is established upon initial recognition of the underlying asset by predicting the future cash flows based upon the days past due status of an invoice and other relevant information. The model uses historical collection data along with historical credit losses experienced. The loss allowance is adjusted for forward-looking factors specific to the receivable and the economic environment.

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Ageing is the main internal rating assessment around credit quality for trade receivables. The ageing of gross trade receivables and associated loss allowances can be found in note 14, "Trade and other receivables". Contract assets relate to amounts not yet due from customers and contain no amounts past due.

On that basis, the loss allowance as at 31 October 2021 and 2020 and movements in the loss allowance during each year were as disclosed in note 14 "Trade and other receivables":

Foreign exchange risk

The Group's currency exposures comprise those that give rise to net currency gains and losses to be recognised 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 dollar.

Note 3 "Loss before tax" shows the impact on the Consolidated statement of comprehensive income of foreign exchange losses in the year ended 31 October 2021 of \$0.1m (2020: \$29.7m loss). The foreign exchange loss in the prior year includes the loss of \$21.8m due to the settlement of the foreign exchange contract regarding the cancelled dividend.

24 Financial risk management and financial instruments continued

Exposure report analysis

The Group's principal exposures in relation to market risks are the changes in the exchange rates between the US dollar and transactions made in other currencies as well as changes in interest rates from US and Euro capital markets. Foreign exchange exposures for all re-measuring balances are tracked and reported to management.

The key drivers for foreign exchange exposure are cash, borrowings and inter-company positions with trade receivables and trade payables having less relative aggregate exposure. The table below represents a key currency extract from the Group exposures to movements in currency presenting exposures in excess of \$10m equivalent. The key exposure relates to the increased Euro debt profile since the May refinancing. This Euro exposure is shown in its totality and is not represented by the offsetting net investment hedge The GB Pound, Japanese Yen, Indian Rupee, Australian Dollar, Canadian Dollar and Israeli Shekel also had key inter-company positions during the year.

Foreign exchange analysis is shown as for reporting to the Treasury Risk committee. Please note that aggregate foreign exchange exposures for the Euro below do not consider the impact of the net investment hedges. However, the impact can be seen in the hedging table above.

Key aggregate currency exposures*	Group exposure \$m	+/- 5% \$m	+/- 10% \$m
Euro (EUR)	1,504.6	75.2	150.4
GB Pounds (GBP)	156.7	7.8	15.6
Indian Rupee (INR)	64.4	3.2	6.4
Japanese Yen (JPY)	53.0	2.7	5.3
Australian Dollar (AUD)	32.5	1.6	3.3
Canadian Dollar (CAD)	31.9	1.6	3.2
Israeli Shekel (ILS)	29.5	1.5	3.0
Chinese Yuan (CNY)	27.3	1.4	2.7
Swedish Krona (SEK)	24.3	1.2	2.4
United Arab Emirates Dirham (AED)	24.2	1.2	2.4
Czech Koruna (CZK)	12.0	0.6	1.2
Mexican Peso (MXN)	10.4	0.5	1.0
Turkish Lira (TRY)	10.2	0.5	1.0
Danish Krone (DKK)	10.1	0.5	1.0

* Presenting aggregate foreign exchange exposures in excess of \$10m equivalent.

Interest rate exposure

Borrowings exposures to variable interest rate changes (based on gross debt excluding the effects of hedging)	Note	Group exposure \$m	LIBOR, EURIBOR +1% \$m
Euro		1,186.9	11.9
US dollar		3,421.1	34.2
Total gross debt	18	4,608.0	46.1

Net debt

The net debt of the Group at the Consolidated statement of financial position date is as follows:

	Note	31 October 2021 \$m	31 October 2020 \$m
Borrowings	18	(4,548.4)	(4,640.3)
Cash and cash equivalents	16	558.4	737.2
Lease obligations	19	(194.5)	(250.4)
Net debt		(4,184.5)	(4,153.5)

Borrowings are shown net of unamortised prepaid facility arrangement fees of \$59.6m (2020: \$92.9m). Gross borrowings are \$4,608.0m (2020: \$4,733.2m).

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

24 Financial risk management and financial instruments continued

Change in liabilities arising from financing activities for interest bearing loans (note 18 "Borrowings") and lease obligations (note 19 "Leases") were as follows:

	Interest bearing loans \$m	Lease obligations \$m	Total \$m
At 1 November 2020	4,733.2	250.4	4,983.6
Movements arising from financing cash flows			
Repayments	(114.1)	(89.5)	(203.6)
Other changes			
New leases	–	35.1	35.1
Interest	–	10.0	10.0
Transfer to held for sale	–	(11.4)	(11.4)
The effect of change in foreign exchange rates	(11.1)	(0.1)	(11.2)
At 31 October 2021	4,608.0	194.5	4,802.5

Maturity analysis of non-derivative and derivative financial liabilities

The following table summarises the contractual maturities of the Group's financial liabilities as at 31 October 2021. The amounts are reported gross and un-discounted and include contractual interest payments where applicable. As a result, these amounts can differ from both the reported carrying value and fair value.

As at 31 October 2021

	Borrowings \$m	Lease obligations \$m	Derivatives – interest rate swaps \$m	Trade payables & accruals \$m	Total \$m
Within one year	202.6	74.9	35.7	440.1	753.3
In one to two years	191.1	39.9	–	–	231.0
In two to three years	3,453.6	29.7	–	–	3,483.3
In three to five years	1,235.5	28.5	–	–	1,264.0
In more than five years	–	49.1	–	–	49.1
Total	5,082.8	222.1	35.7	440.1	5,780.7
Impact of discount/financing rates	–	(27.6)	–	–	(27.6)
Total	5,082.8	194.5	35.7	440.1	5,753.1

As at 31 October 2020

	Borrowings \$m	Lease obligations \$m	Derivatives – interest rate swaps \$m	Trade payables & accruals \$m	Total \$m
Within one year	203.6	82.2	–	419.2	705.0
In one to two years	224.2	69.5	77.9	–	371.6
In two to three years	230.3	43.3	–	–	273.6
In three to five years	3,487.7	49.3	–	–	3,537.0
In more than five years	1,242.0	36.3	–	–	1,278.3
Total	5,387.8	280.6	77.9	419.2	6,165.5
Impact of discount/financing rates	–	(30.2)	–	–	(30.2)
Total	5,387.8	250.4	77.9	419.2	6,135.3

25 Share capital

Ordinary shares at 10 pence each as at 31 October 2021 (2020: 10 pence each).

	31 October 2021		31 October 2020	
	Shares	\$m	Shares	\$m
Issued and fully paid				
At 1 November	364,545,377	47.3	363,583,328	47.2
Shares required to satisfy option awards	745,910	0.1	1,518,327	0.1
Shares utilised to satisfy option awards	(441,549)	–	(556,278)	–
At 31 October	364,849,738	47.4	364,545,377	47.3

Share issuances during the year ended to 31 October 2021

In the year ended 31 October 2021, 745,910 ordinary shares of 10 pence each (2020: 1,518,327) were required, of which 441,549 (2020: 556,278) were transferred from treasury shares by the Company to settle exercised share options. The gross consideration received in the year ended to 31 October 2021 was \$0.1m (2020: \$2.6m).

At 31 October 2021, 29,203,078 treasury shares were held (2020: 29,644,627) such that the number of ordinary shares with voting rights was 335,646,660 (2020: 334,900,750) and the number of listed shares at 31 October 2021 was 364,849,738 (2020: 364,545,377). In addition, 4,002,089 shares are held by the Micro Focus Employee Benefit Trust (2020: 2,089).

Potential issues of shares

Certain employees hold options to subscribe for shares in the Company at prices ranging from nil pence to 1,411 pence under the following share option schemes approved by shareholders in 2005 and 2006: The Long-Term Incentive Plan 2005, the Additional Share Grants, the Sharesave Plan 2006 and the Employee Stock Purchase Plan 2006.

The number of shares subject to options at 31 October 2021 was 18,877,264 (2020: 18,856,680).

Commercial Agreement with Amazon Web Services

On 2 March 2021, the Company entered into a commercial agreement with Amazon Web Services ("AWS"), which grants AWS the right to deploy the Company's technology to migrate customers to the AWS' cloud. The launch was announced on 1 December 2021. Warrants have been issued to Amazon NV Investment Holdings LLC to subscribe for ordinary shares (the "warrants") at 446.60 pence per share, with 398,110 vesting on signing on 2 March 2021 and a further 1,194,329 vesting on launch on 1 December 2021.

As at 31 October 2021, AWS have not exercised any of the warrants earned on signing.

26 Share premium account

	Note	31 October 2021 \$m	31 October 2020 \$m
At 1 November		46.5	44.0
Movement in relation to share options exercised	28	0.3	2.5
At 31 October		46.8	46.5

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

27 Other reserves

	Note	Capital redemption reserve ¹ \$m	Merger reserve ² \$m	Hedging reserve ³ \$m	Total \$m
As at 1 November 2020		2,485.0	1,767.4	(63.1)	4,189.3
Hedge accounting	24	–	–	42.2	42.2
Current tax movement on hedging		–	–	(8.0)	(8.0)
Transfer from merger reserve to retained earnings		–	(108.3)	–	(108.3)
As at 31 October 2021		2,485.0	1,659.1	(28.9)	4,115.2
As at 1 November 2019		2,485.0	1,739.8	(29.6)	4,195.2
Hedge accounting	24	–	–	(41.3)	(41.3)
Current tax movement on hedging		–	–	7.8	7.8
Transfer to merger reserve from retained earnings		–	27.6	–	27.6
As at 31 October 2020		2,485.0	1,767.4	(63.1)	4,189.3

1 The capital redemption reserve, a non-distributable reserve, was created as a result of Returns of Value in prior periods.

2 The merger reserve is an unrealised profit until it can be realised by the settlement of the intercompany loan by qualifying consideration.

In the year ended 31 October 2020, it was disclosed that \$337.0m of the merger reserve would be settled in the following year. However, as at 31 October 2021, only \$123.3m of the balance was settled and the balance of \$213.7m was transferred back to the merger reserve. However, \$322.0m is expected to be settled in qualifying consideration during the year ended 31 October 2022 and as such an equivalent proportion of the merger reserve of \$332.0m is considered realised, in accordance with section 3.11(d) of Tech 02/17 and therefore has been transferred to retained earnings. As a result a net transfer of \$108.3m from the merger reserve to retained earnings has occurred.

3 A credit of \$34.2m was recognised in the hedging reserve in relation to hedging transactions entered into in the year ended 31 October 2021 (2020: \$33.5m debit).

28 Employees and directors

Staff costs

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Staff costs		
Wages and salaries	1,231.5	1,187.3
Redundancy and termination costs (non-exceptional)	1.2	1.0
Social security costs	103.5	97.5
Other pension costs	45.5	41.6
	1,381.7	1,327.4
Cost of employee share schemes (Share-based payments section below)	14.3	17.0
Total	1,396.0	1,344.4

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Pension costs comprise:			
Defined benefit schemes	22	11.3	10.4
Defined contribution schemes	22	34.2	31.2
Total		45.5	41.6

28 Employees and directors continued

Staff numbers

	Year ended 31 October 2021 Number	Year ended 31 October 2020 Number
Average monthly number of people (including executive directors) employed by the Group:		
Continuing operations		
Sales and distribution	4,300	5,066
Research and development	5,272	5,091
General and administration	2,210	1,937
Total	11,782	12,094

Directors and key management

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Directors		
Aggregate emoluments	5.4	4.1
Aggregate gains made on the exercise of share options	–	0.3
Total	5.4	4.4

For further information on the directors of the Company, refer to the Directors' Remuneration report.

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Key management compensation		
Short-term employee benefits	13.5	12.4
Share-based payments	1.9	2.2
Total	15.4	14.6

The key management figures above include the executive management team and directors.

Share-based payments

The amount charged to the Consolidated statement of comprehensive income in respect of share-based payments was \$14.3m for the year ended 31 October 2021 (2020: \$17.0m).

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Share-based compensation – IFRS 2 charge	12.0	18.3
Employer taxes	2.3	(1.3)
Total	14.3	17.0

As at 31 October 2021, accumulated employer taxes of \$1.3m (2020: \$0.6m) are included in trade and other payables and \$nil (2020: \$nil) is included in other non-current liabilities.

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

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

28 Employees and directors continued

a) Incentive Plan 2005

The Micro Focus International plc Incentive Plan 2005 ("LTIP") permits the granting of share awards to executive directors and selected employees on a discretionary basis. Awards can be granted as conditional awards of shares or as nil-cost options.

	Year ended 31 October 2021		Year ended 31 October 2020	
	Number of awards '000	Weighted average exercise price of awards pence	Number of awards '000	Weighted average exercise price of awards pence
Outstanding at 1 November	14,222	–	9,227	6
Exercised	(576)	1	(734)	1
Forfeited/lapsed	(5,496)	–	(2,100)	22
Granted	4,566	–	7,829	–
Outstanding at 31 October	12,716	–	14,222	–
Exercisable at 31 October	732	5	938	4

The weighted average share price for awards on the date of exercise was 469 pence for the year ended 31 October 2021 (2020: 526 pence).

The amount charged to the consolidated statement of comprehensive income in respect of the LTIP scheme was \$6.7m for the year ended 31 October 2021 (2020: \$9.3m). In addition to this \$2.3m (2020: \$1.3m credit) was charged to the consolidated statement of comprehensive income in respect of National Insurance on these share awards.

	31 October 2021			31 October 2020		
	Weighted average exercise price pence	Number of awards '000	Weighted average remaining contractual life years	Weighted average exercise price pence	Number of awards '000	Weighted average remaining contractual life years
Range of exercise prices						
£0.10 or less	–	12,607	5.0	–	14,104	17.2
£0.11 – £1.00	13	109	1.8	13	118	2.8
	–	12,716	4.9	–	14,222	17.1

Unvested awards granted are subject to the following vesting conditions of either:

Performance criteria	Unvested options Number '000	Description
Free cash flow/Relative TSR growth	4,267	Awards made with a free cash flow target and relative TSR target over a three-year period.
Continued employment	6,277	Awards under a continuing employment criteria over a two or three-year period.
Cumulative Earnings per share ("EPS") growth	1,309	EPS for these awards is defined as Diluted Adjusted EPS. Where the cumulative EPS growth over a three- or four-year period is at least equal to RPI plus 3% per annum 25% of awards will vest, with full vesting achieved when the cumulative EPS growth is RPI plus 9% per annum. Straight-line vesting will apply between these points.
Other	131	Various other vesting conditions.
	11,984	

Further details regarding awards to executive directors are provided in the Directors' Remuneration report.

28 Employees and directors continued

The weighted average fair value of awards granted during the year ended 31 October 2021 determined using the Black-Scholes valuation model was £4.51 (2020: £2.01). The significant inputs into the model for the year ended 31 October 2021 were:

	Year ended 31 October 2021	Year ended 31 October 2020
Weighted average share price at the grant date	£5.25	£2.50
Expected volatility	between 68.42% and 70.03%	72.85%
Expected dividend yield	between 4.89% and 5.10%	23.76%
Expected option life	two or three years	two years
Annual risk-free interest rate	between 0.75% and 0.80%	0.17%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

The fair value of awards granted in the year ended 31 October 2021, as determined using the Monte Carlo simulation was \$2.80 (2020: \$2.67) and the fair value of awards granted using the share price at the date of grant was \$7.32 (2020: \$4.65).

b) Additional Share Grants

	Year ended 31 October 2021				Year ended 31 October 2020			
	Number of Options			Weighted average exercise price pence	Number of Options			Weighted average exercise price pence
	TAG ASGs '000	HPE Software ASGs '000	Total '000		TAG ASGs '000	HPE Software ASGs '000	Total '000	
Outstanding at 1 November	446	–	446	–	461	3,215	3,676	–
Granted	–	–	–	–	–	–	–	–
Exercised	(40)	–	(40)	–	(15)	–	(15)	–
Surrendered	–	–	–	–	–	(2,385)	(2,385)	–
Lapsed	–	–	–	–	–	(830)	(830)	–
Outstanding at 31 October	406	–	406	–	446	–	446	–
Exercisable at 31 October	406	–	406	–	446	–	446	–

Additional Share Grants – The HPE Software business acquisition

The remuneration committee awarded a number of Additional Share Grants ("ASGs") to a number of senior managers and executives, critical to delivering the anticipated results of the acquisition of the HPE Software business, which completed on 1 September 2017.

All awards were either surrendered by the Executive Directors or lapsed in the prior year.

The amount charged to the consolidated statement of comprehensive income in respect of the ASGs was \$nil for the year ended 31 October 2021 (2020: \$3.9m).

Additional Share Grants – The Attachmate Group ("TAG") acquisition

The remuneration committee awarded ASGs to a number of senior managers and executives, critical to delivering the anticipated results of the acquisition of The Attachmate Group, which completed on 20 November 2014. These TAG ASG options vested in full.

As at 31 October 2021, 405,917 (2020: 445,917) of these options were vested but not yet exercised.

	31 October 2021			31 October 2020		
	Weighted average exercise price pence	Number of options '000	Weighted average remaining contractual life years	Weighted average exercise price pence	Number of options '000	Weighted average remaining contractual life years
Range of exercise prices						
£0.00	–	406	3.1	–	446	4.1
	–	406	3.1	–	446	4.1

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

28 Employees and directors continued

c) Sharesave and Employee Stock Purchase Plan 2006

In August 2006, the Company introduced the Micro Focus Employee Stock Purchase Plan 2006 and the Micro Focus Sharesave Plan 2006, approved by members on 25 July 2006. The Group operates two all-employee plans; the Micro Focus Sharesave Plan 2006 ("Sharesave") for UK and Ireland based employees and the Micro Focus Employee Stock Purchase Plan 2006 ("ESPP") for employees in all other locations. 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. Under these plans employees make monthly savings over a period (Sharesave three years, ESPP two years) linked to the grant of an option with an option price which can be at a discount (for Sharesave this can be up to 20% of the market value of the shares on grant and for ESPP, this can be up to 15% of the market value of the shares on grant or maturity, whichever is lower). The option grants are subject to employment conditions and continuous savings.

Further Sharesave and ESPP grants were made during the 12 months to 31 October 2021.

Sharesave

	Year ended 31 October 2021		Year ended 31 October 2020	
	Number of options '000	Weighted average exercise price pence	Number of options '000	Weighted average exercise price pence
Outstanding at 1 November	1,935	293	438	1,221
Exercised	(2)	241	–	1,023
Forfeited	(316)	408	(912)	855
Granted	355	203	2,409	338
Outstanding at 31 October	1,972	259	1,935	293
Exercisable at 31 October	14	1,023	–	–

	Number of options '000	Date of grant	Exercise price per share pence	Exercise period
	13	3 August 2018	1,023.0	1 October 2021 – 31 March 2022
	1	3 August 2018	1,159.0	1 October 2021 – 31 March 2022
	8	7 March 2019	1,344.0	1 April 2022 – 30 September 2022
	1	7 March 2019	1,533.0	1 April 2022 – 30 September 2022
	6	5 August 2019	1,411.0	1 October 2021 – 31 March 2023
	1	5 August 2019	1,574.3	1 October 2021 – 31 March 2023
	54	5 March 2020	617.7	1 April 2023 – 30 September 2023
	3	5 March 2020	728.2	1 April 2023 – 30 September 2023
	1,494	21 August 2020	241.3	1 October 2023 – 31 March 2024
	86	21 August 2020	241.1	1 October 2023 – 31 March 2024
	135	5 March 2021	373.2	1 April 2024 – 30 September 2024
	10	5 March 2021	373.2	1 April 2024 – 30 September 2024
	160	6 August 2021	321.8	1 October 2024 – 31 March 2025
	1,972			

28 Employees and directors continued

ESPP

	Year ended 31 October 2021		Year ended 31 October 2020	
	Number of options '000	Weighted average exercise price pence	Number of options '000	Weighted average exercise price pence
Outstanding at 1 November	2,255	617	1,192	1,182
Exercised	(1,022)	1,430	(1,472)	1,027
Forfeited	(238)	1,341	(423)	1,082
Granted	2,789	360	2,958	660
Outstanding at 31 October	3,784	384	2,255	617
Exercisable at 31 October	–	–	–	–

	Number of options '000	Date of grant	Exercise price per share pence	Exercise period
	684	1 March 2020	635.9	1 March 2022 – 31 May 2022
	1,085	1 September 2020	270.2	1 September 2022 – 1 October 2022
	1,258	1 April 2021	369.2	1 March 2023 – 31 May 2023
	757	1 October 2021	344.8	1 October 2023 – 1 November 2023
	3,784			

The amount charged to the consolidated statement of comprehensive income in respect of the Sharesave and ESPP was \$5.3m for the year ended 31 October 2021 (2020: \$5.1m).

The weighted average fair value of options granted under Sharesave and ESPP during the year ended 31 October 2021 determined using the Black-Scholes valuation model was £1.61 (2020: £1.27).

The significant inputs into the model for the year ended 31 October 2021 were:

	Year ended 31 October 2021	Year ended 31 October 2020
Weighted average share price at the grant date	£4.23	£4.38
Expected volatility	between 68.86% and 77.52%	between 57.72% and 72.37%
Expected dividend yield	between 4.73% and 5.78%	between 8.22% and 16.11%
Expected option life	two or three years	two or three years
Annual risk-free interest rate	between 0.52% and 0.76%	between 0.20% and 0.52%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

29 Related party transactions

The Group's related parties are its subsidiary undertakings, key management personnel and post-employment benefit plans.

Subsidiaries

Transactions between the Company and its subsidiaries have been eliminated on consolidation.

Remuneration of key management personnel

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, "Employees and directors". There are no loans between the Group and the key management personnel.

Transactions with other related parties

The following transactions occurred with other related parties:

- Contributions made to pension plans by the Group on behalf of employees are set out in note 22, "Pension and other long-term benefit commitments".
- Sales and purchases of goods and services between related parties are not considered material.

30 Discontinued operation and Assets held for sale

A. SUSE business

The sale of the SUSE business was completed on 15 March 2019. The profit on disposal of the SUSE business for the year ended 31 October 2021 of \$10.7m (2020: \$5.1m) related to adjustments in indemnification amounts owed to SUSE as part of the disposal agreement. The profit in the year ended 31 October 2020 related to the conclusion of the working capital settlement and adjustments in respect of income tax balances owed in respect of pre-transaction periods.

B. Archiving and Risk Management portfolio

On 3 November 2021, the Group announced the agreement of definitive terms to sell its Archiving and Risk Management portfolio (the "Digital Safe business") to Smarsh Inc., for a total cash consideration of \$375m (subject to customary completion accounts adjustments based on net debt and working capital) which is payable in full on completion of the transaction. On 31 January 2022, the sale was completed.

As a consequence, the assets and liabilities of the Digital Safe business have been classified as held for sale in these financial statements.

The Digital Safe business forms part of the IM&G Product Group and includes the Digital Safe products and the complementary offerings of Social Media Governance, Supervisor and eDiscovery.

Net assets classified as held for sale

Reported in:	Year ended 31 October 2021		Total \$m
	Current assets \$m	Current liabilities \$m	
Digital Safe	370.3	68.4	301.9

The net asset assets classified as held for sale relating to the disposal of Digital Safe are detailed in the tables below. These include non-current assets and non-current liabilities that are shown as current assets and liabilities in the Consolidated statement of financial position.

30 Discontinued operation and Assets held for sale continued

	Note	Year ended 31 October 2021 \$m
Non-current assets		
Goodwill	10	147.2
Other Intangible assets (including purchased software)	11	182.1
Property, plant and equipment (including right-of-use assets)	12,19	11.5
Other non-current assets		0.1
		340.9
Current assets		
Trade and other receivables		24.6
Other current assets		4.8
		29.4
Total assets held for sale		
		370.3
Current liabilities		
Trade and other payables		1.8
Lease obligations	19	3.1
Contract liabilities		4.8
Other current liabilities		3.0
		12.7
Non-current liabilities		
Deferred tax liabilities	7	45.5
Lease obligations	19	8.3
Contract liabilities		0.5
Other non-current liabilities		1.4
		55.7
Total liabilities held for sale		
		68.4

Allocation of assets and liabilities to the Digital Safe business and held for sale

Assets and liabilities related to the Digital Safe business are included as held for sale where they can be allocated directly, or allocated on a reasonable and consistent basis to the Digital Safe business.

Goodwill and intangible assets allocated to the Digital Safe business.

Trade names and acquired technology-related intangibles were separately valued as part of the HPE software business acquisition and are included based on their current carrying values.

Customer relationships were valued at an IM&G level as part of the HPE software business therefore an allocation to the Digital Safe business based on a relative value of the Digital Safe business versus the total value of IM&G has been performed.

The goodwill allocated to the Digital Safe business has been allocated based on a relative value of the Digital Safe business versus the total Micro Focus Product Portfolio. Information on the basis of the Group's value in use, used in the allocations for goodwill and customer relationships, including the key assumptions made are included in note 10, "Goodwill". We have considered the sensitivity of the allocation to these key assumptions and no reasonably possible movements would result in a material change in the allocation.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

31 Acquisitions

Summary of acquisitions

	Carrying value at acquisition \$m	Intangible assets \$m	Goodwill \$m	Consideration		
				Shares \$m	Cash \$m	Total \$m
Acquisitions in the year ended 31 October 2021:						
Full 360	(0.3)	3.4	1.0	–	3.3	3.3
Streamworx	0.2	4.4	6.2	–	9.7	9.7
	(0.1)	7.8	7.2	–	13.0	13.0
Acquisitions in the year ended 31 October 2020:						
ATAR Labs	0.9	6.6	1.4	–	7.3	7.3
	0.9	6.6	1.4	–	7.3	7.3

The Group has not presented the full IFRS 3 “Business Combinations” disclosures as these acquisitions are not material to the Group.

Acquisitions in the year ended 31 October 2021:

Full 360

On 11 June 2021, the Group completed the acquisition of Full 360 inc. Full 360 inc will integrate into the Vertica portfolio to create proven unified analytics platform in public clouds and in enterprise data centres. Total consideration of \$3.3m was paid in cash at the point of acquisition, when the business had a carrying value comprising \$0.3m of assets and \$0.6m of liabilities. A fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of purchased intangible assets of \$3.4m.

Streamworx

On 19 August 2021, the Group completed the acquisition of Streamworx.ai. Streamworx.ai will integrate into the CyberRes product group to create proven unified analytics platform in public clouds and in enterprise data centres. Total consideration of \$9.7m was paid in cash at the point of acquisition, when the business had a carrying value comprising \$0.8m of assets and \$0.6m of liabilities. A fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of purchased intangible assets of \$4.4m.

Acquisitions in the year ended 31 October 2020:

ATAR Labs

On 7 July 2020, the Group completed the acquisition of ATAR Labs. ATAR Labs integrates into the ArcSight portfolio to create a fast-acting environment against threats with top-of-the-line capabilities. Total consideration of \$7.3m consists of initial consideration of \$6m with a further deferred consideration payment of \$1.3m to be paid in two yearly instalments. At acquisition the business had a carrying value of \$1.7m of assets and \$0.8m of liabilities. A fair value review was carried out on the assets and liabilities of the acquired business, resulting in the identification of intangible assets of \$6.6m.

32 Cash flow statement

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Cash flows from operating activities			
Loss from continuing operations		(435.1)	(2,974.6)
Profit from discontinued operation		10.7	5.1
(Loss) for the year		(424.4)	(2,969.5)
Adjustments for:			
(Gain)/Loss on disposal of discontinued operation	30	(10.7)	3.0
Net finance costs	6	252.2	279.0
Taxation – continuing operations	7	(82.7)	34.2
Taxation – discontinued operation	30	–	(8.1)
Operating loss (attributable to continuing and discontinued operations)		(265.6)	(2,661.4)
Goodwill impairment charge	10	–	2,799.2
Research and development tax credits		(1.1)	(1.8)
Property, plant and equipment depreciation	12	33.7	42.0
Right-of-use asset depreciation	19	73.3	76.9
Loss on disposal of property, plant and equipment	12	1.2	5.6
Loss on disposal of intangible assets	11	–	0.6
Amortisation of intangible assets	11	956.4	674.1
Leases impairment	19	5.6	5.9
Share-based compensation charge	28	14.3	17.0
Foreign exchange loss	3	0.1	29.7
Changes in working capital:			
Inventories		–	0.1
Trade and other receivables and contract-related costs ¹		(195.2)	251.6
Payables and other liabilities		36.9	(62.4)
Provisions ²	21	14.1	8.8
Contract liabilities – deferred income		16.8	(103.1)
Cash generated from operations		690.5	1,082.8

1 Change in trade and other receivables and contract-related costs is adjusted for non-cash movements of (\$19.0m) (2020: (\$51.7m)).

2 In the year ended 31 October 2021 provisions movements have been presented net, in the year ended 31 October 2020 they were presented gross as provision movements \$46.3m and provision utilisation (\$37.5m).

33 Post balance sheet events

Subsequent to the end of the reporting period for the year ended 31 October 2021 the following events have taken place:

Re-purchase of shares

On 20 December 2021, the Group's employee benefit trust ("EBT") commenced the purchase of 12m shares, equivalent to £43.4m at the share price on 20 December 2021. These shares will be purchased on the open market and will be used for the settlement of existing and future employee share schemes awarded to senior leaders and employees who are critical to achieving the strategic initiatives set out in the Chief Executive Officer's report. In accordance with the requirement of IFRS 10 the EBT is treated as if it is a subsidiary of the Group. As a result, the purchase of shares held by the EBT will reported as the purchase of Treasury shares by the Group.

Archiving and Risk management portfolio: Completion of Digital Safe disposal

As disclosed in note 30, "Discontinued operations and assets held for sale", on 3 November 2021, the Group announced the agreement of definitive terms to sell its Archiving and Risk Management portfolio (the "Digital Safe business") to Smarsh Inc., for a total cash consideration of \$375m. On 31 January 2022, this disposal was completed.

Re-financing of long-term debt and revolving credit facility

On 17 January 2022, the Group announced the refinancing of \$1.6bn of existing term loans and updates to the revolving credit facility were announced in December. Further details can be found in Note 18, "Borrowings".

Standard overnight financing rate ("SOFR") 1M USD interest rate swap

On 19 January 2022, the Group executed a new 1m USD SOFR swap with J.P Morgan Securities plc with a notional value of \$750m and a maturity date of 28 February 2027. The forward swap is effective on 21 September 2022 with a fixed interest rate of 1.656% swapped against the variable 1m SOFR USD rates.

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

34 Related undertakings

In accordance with section 409 of the UK Companies Act 2006 (the "Act"), information on all related undertakings of the Group is set out below. Related undertakings are categorised in the Act as being "subsidiaries", "associated undertakings" and "significant holdings in undertakings other than subsidiary companies". The information below is stated as at 31 October 2021.

The definition of a subsidiary undertaking in the Act is different from the definition of that term under IFRS. As a result, related undertakings included within this list may not be the same as the related undertakings consolidated in the Group IFRS financial statements. The Group owns 100% of all subsidiary undertakings.

	Company name	Country of incorporation	Principal activities	Key to Registered office address
	Subsidiaries			
1	Attachmate Australasia Pty. Ltd.	Australia	In Liquidation	1
2	Attachmate Group Australia Pty Ltd	Australia	Sale and support of software	1
3	Autonomy Australia Pty Ltd	Australia	In Liquidation	1
4	Autonomy Systems Australia Pty Ltd	Australia	In Liquidation	1
5	Borland Australia Pty Ltd	Australia	In Liquidation	1
6	Entcorp Australia Pty Limited	Australia	In Liquidation	1
7	Full 360 Pty Ltd	Australia	Sale and support of software	2
8	Micro Focus Australia Pty Ltd	Australia	Sale and support of software	1
9	Micro Focus Pty Limited	Australia	Sale and support of software	1
10	Serena Software Pty Limited	Australia	In Liquidation	1
11	Micro Focus Austria GmbH	Austria	Development of software	3
12	Autonomy Belgium BV	Belgium	Sale and support of software	4
13	Micro Focus Belgium BV	Belgium	Sale and support of software	4
14	Micro Focus S.r.l	Belgium	Sale and support of software	5
15	Borland Latin America Ltda	Brazil	Sale and support of software	6
16	Cambridge Technology Partners do Brasil Ltda	Brazil	Dormant	6
17	Micro Focus Brasil Serviços de Tecnologia Ltda	Brazil	Sale and support of software	6
18	Micro Focus Programação de Computadores Ltda	Brazil	Sale and support of software	6
19	Peregrine Systems do Brasil Ltda.	Brazil	Sale and support of software	7
20	Serena Software Do Brasil Ltda	Brazil	Sale and support of software	6
21	Micro Focus APM Solutions EOOD	Bulgaria	Development of software	8
22	Micro Focus Bulgaria EOOD	Bulgaria	Sale and support of software	8
23	Autonomy Systems (Canada) Ltd.	Canada	Sale and support of software	9
24	GWAVA ULC	Canada	Holding Company	10
25	Intersect Software ULC	Canada	Holding Company	10
26	Micro Focus (Canada) ULC	Canada	Development, sale and support of software	10
27	Micro Focus Acquisition Canada ULC	Canada	Sale and support of software	11
28	Micro Focus Software (Canada) ULC	Canada	Sale and support of software	12
29	Micro Focus Software Solutions Canada Co./ Solutions Logiciels Micro Focus Canada Cie.	Canada	Sale and support of software	13
30	NetManage Canada ULC	Canada	Dormant	10
31	Entco Capital Co	Cayman Islands	In Liquidation	14
32	Entco Investment Co	Cayman Islands	In Liquidation	14
33	Micro Focus International Limited	Cayman Islands	In Liquidation	14
34	Micro Focus IP Ltd.	Cayman Islands	In Liquidation	14
35	Micro Focus Marigalante Ltd.	Cayman Islands	Sale and support of software	15
36	Autonomy Systems (Beijing) Limited Company	China	Sale and support of software	16
37	Micro Focus Limited Beijing Representative Office	China	Sale and support of software	17
38	Shanghai Micro Focus Software Technology Co., Ltd	China	Sale and support of software	18
39	Shanghai Micro Focus Software Technology Co., Ltd, Beijing Branch	China	Sale and support of software	19
40	Shanghai Micro Focus Software Technology Co., Ltd. Shandong Branch	China	Sale and support of software	20
41	Shanghai Micro Focus Software Technology Co., Ltd., Chongqing Branch	China	Sale and support of software	21

34 Related undertakings continued

	Company name	Country of incorporation	Principal activities	Key to Registered office address
42	Shanghai Micro Focus Software Technology Co., Ltd., Shenzhen Branch	China	Sale and support of software	22
43	Singapore Micro Focus Pte. Ltd Shanghai Representative Office	China	Sale and support of software	23
44	Micro Focus Software LATAM S.A.S	Colombia	Sale and support of software	24
45	Micro Focus Centroamerica CAC Limitada	Costa Rica	Sale and support of software	25
46	Micro Focus Costa Rica Limitada	Costa Rica	Sale and support of software	25
47	NetIQ Software International Limited	Cyprus	In Liquidation	26
48	Micro Focus Czechia s.r.o.	Czech Republic	Sale and support of software	27
49	Micro Focus Denmark, filial af Micro Focus AS, Norge Branch	Denmark	Sale and support of software	28
50	Micro Focus Software Denmark ApS	Denmark	Sale and support of software	28
51	Micro Focus AS, Filial i Finland	Finland	Sale and support of software	29
52	Borland (France) Sarl	France	Sale and support of software	30
53	Cobol-IT, SAS	France	Sale and support of software	30
54	Micro Focus France SAS	France	Sale and support of software	31
55	Micro Focus SAS	France	Sale and support of software	31
56	Attachmate Group Germany GmbH	Germany	Sale and support of software	32
57	Borland GmbH	Germany	Dormant	32
58	GWAVA EMEA GmbH	Germany	Sale and support of software	33
59	Micro Focus Deutschland GmbH	Germany	Sale and support of software	32
60	Micro Focus GmbH	Germany	Sale and support of software	32
61	Novell Holding Deutschland GmbH	Germany	Holding Company	32
62	Serena Software GmbH	Germany	Sale and support of software	34
63	EntCorp Hong Kong Limited	Hong Kong	Sale and support of software	35
64	Micro Focus Limited Hong Kong Branch	Hong Kong	Sale and support of software	36
65	Micro Focus Software HK Limited	Hong Kong	Sale and support of software	36
66	Autonomy Software Asia Private Limited	India	Sale and support of software	37
67	Entco IT Services Private Limited	India	Sale and support of software	38
68	Interwoven, Inc., India Branch	India	Sale and support of software	39
69	Micro Focus Software India Private Limited	India	Development, sale and support of software	40
70	Micro Focus Software Solutions India Private Limited	India	Sale and support of software	41
71	Micro Focus Software Pte. Ltd. – Representative Office	Indonesia	Sale and support of software	42
72	Attachmate Ireland Limited	Ireland	Sale and support of software	43
73	Entsoft Holding Ireland Unlimited Company	Ireland	In Liquidation	43
74	Micro Focus (IP) Ireland Limited	Ireland	Dormant	44
75	Micro Focus Galway Limited	Ireland	Sale and support of software	43
76	Micro Focus Group Holdings Unlimited	Ireland	Holding Company	44
77	Micro Focus International Holdings Limited	Ireland	Holding Company	44
78	Micro Focus Ireland Limited	Ireland	Development, sale and support of software	44
79	Micro Focus Software (Ireland) Limited	Ireland	Development, sale and support of software	43
80	Micro Focus Software Solutions Ireland Limited	Ireland	Sale and support of software	43
81	NetIQ Europe Limited	Ireland	Sale and support of software	44
82	NetIQ Ireland Limited	Ireland	Holding Company	44
83	Novell Cayman Software International Unlimited Company	Ireland	Holding Company	44
84	Novell Cayman Software Unlimited Company	Ireland	Holding Company	44
85	Novell Software International Limited	Ireland	Holding Company	45
86	Micro Focus Interactive Israel Ltd	Israel	Sale and support of software	46
87	Micro Focus Israel Limited	Israel	Development and support of software	45
88	Micro Focus Software Israel Ltd	Israel	Sale and support of software	47
89	N.Y. NetManage (Yerushalayim) Ltd	Israel	Dormant	48

Notes to the consolidated financial statements

For the year ended 31 October 2021 continued

34 Related undertakings continued

	Company name	Country of incorporation	Principal activities	Key to Registered office address
90	Novell Israel Software Limited	Israel	Dormant	49
91	Micro Focus Italiana S.r.l.	Italy	Sale and support of software	49
92	Micro Focus S.r.l.	Italy	Sale and support of software	50
93	Verity Italia S.r.l.	Italy	In Liquidation	51
94	Entcorp Japan K.K.	Japan	Sale and support of software	52
95	Micro Focus Enterprise Ltd	Japan	Sale and support of software	52
96	Micro Focus LLC	Japan	Sale and support of software	52
97	Novell Japan, Ltd	Japan	Sale and support of software	52
98	Serena Software Japan LLC	Japan	Sale and support of software	53
99	Micro Focus Luxembourg S.à r.l.	Luxembourg	Sale and support of software	54
100	Verity Luxembourg S.à r.l.	Luxembourg	Sale and support of software	55
101	Micro Focus Malaysia Sdn. Bhd.	Malaysia	Sale and support of software	56
102	Novell Corporation (Malaysia) Sdn. Bhd.	Malaysia	Sale and support of software	57
103	Micro Focus International Mexico, S. de R.L. de C.V.	Mexico	Sale and support of software	57
104	Micro Focus Limited Mexico Branch	Mexico	Sale and support of software	57
105	Micro Focus Software Mexico, S. De R.L. De C.V.	Mexico	Sale and support of software	57
106	Micro Focus Software Solutions Mexico, S. de R.L. de C.V.	Mexico	Sale and support of software	58
107	Authasas B.V.	Netherlands	Sale and support of software	58
108	Autonomy HoldCo B.V.	Netherlands	Sale and support of software	58
109	Autonomy Netherlands B.V.	Netherlands	Sale and support of software	58
110	Borland B.V.	Netherlands	Sale and support of software	58
111	Entco Eastern Holding B.V.	Netherlands	In Liquidation	58
112	Entco Gatriam Holding B.V.	Netherlands	Holding Company	58
113	Entco Holding Berlin B.V.	Netherlands	Holding Company	58
114	Entco Holding Hague II B.V.	Netherlands	Holding Company	58
115	Entco Sinope Holding B.V.	Netherlands	Holding Company	58
116	Entcorp Nederland B.V.	Netherlands	Sale and support of software	58
117	Micro Focus B.V.	Netherlands	Sale and support of software	58
118	Micro Focus Caribe Holding B.V.	Netherlands	Sale and support of software	58
119	Micro Focus Eastern Holding II B.V.	Netherlands	Holding Company	58
120	Micro Focus Enterprise B.V.	Netherlands	Sale and support of software	59
121	Micro Focus HoldCo B.V.	Netherlands	Holding Company	58
122	Micro Focus Holding Finance B.V.	Netherlands	Holding Company	58
123	Micro Focus Holding Hague B.V.	Netherlands	Holding Company	58
124	Micro Focus Holding PR B.V.	Netherlands	Sale and support of software	58
125	Micro Focus International Trade B.V.	Netherlands	Sale and support of software	58
126	Micro Focus Nederland B.V.	Netherlands	Sale and support of software	58
127	Verity Benelux B.V.	Netherlands	Sale and support of software	58
128	Micro Focus Software (New Zealand) Unlimited	New Zealand	Sale and support of software	59
129	Micro Focus AS	Norway	Sale and support of software	60
130	Micro Focus Software, Inc.	Philippines	Sale and support of software	61
131	Micro Focus Polska sp. z o.o.	Poland	Sale and support of software	62
132	Micro Focus Portugal Informática, Lda	Portugal	Sale and support of software	63
133	Micro Focus, S.L.- Sucursal em Portugal Branch	Portugal	Sale and support of software	63
134	Micro Focus Caribe Holding B.V. LLC Branch	Puerto Rico	Sale and support of software	64
135	Micro Focus Holding PR B.V. LLC Branch	Puerto Rico	Sale and support of software	64
136	Micro Focus Software Romania SRL	Romania	Sale and support of software	65
137	Limited Liability Company Micro Focus	Russian Federation	Sale and support of software	66
138	Micro Focus LLC	Saudi Arabia	Sale and support of software	67
139	Autonomy Systems Singapore Pte. Ltd.	Singapore	In Liquidation	68
140	Borland (Singapore) Pte. Ltd.	Singapore	In Liquidation	68
141	Entco Software Pte. Ltd.	Singapore	Sale and support of software	68
142	Mercury Interactive (Singapore) Pte Ltd	Singapore	In Liquidation	68
143	Micro Focus Pte. Ltd.	Singapore	Sale and support of software	68

34 Related undertakings continued

Company name	Country of incorporation	Principal activities	Key to Registered office address
144 Micro Focus Software Pte. Ltd.	Singapore	Sale and support of software	68
145 Autonomy Systems Software South Africa Pty Ltd	South Africa	Sale and support of software	69
146 Micro Focus Software South Africa (Pty) Ltd	South Africa	Sale and support of software	70
147 Micro Focus South Africa (Pty) Ltd	South Africa	Sale and support of software	71
148 Micro Focus Korea Ltd	South Korea	Sale and support of software	72
149 Micro Focus Field Delivery Spain S.L.U.	Spain	Sale and support of software	73
150 Micro Focus S.L.U.	Spain	Sale and support of software	73
151 Micro Focus Software Spain S.L.U.	Spain	Sale and support of software	73
152 Micro Focus AS, Norge, filial i Sverige Branch	Sweden	Sale and support of software	74
153 Micro Focus Sverige AB	Sweden	Sale and support of software	74
154 Micro Focus Enterprise B.V., Amstelveen, Wallisellen Branch	Switzerland	Sale and support of software	75
155 Micro Focus GmbH	Switzerland	Sale and support of software	76
156 Micro Focus International Suisse Sàrl	Switzerland	Sale and support of software	77
157 Micro Focus Schweiz GmbH	Switzerland	Sale and support of software	76
158 Entco, LLC Taiwan Branch	Taiwan	Sale and support of software	78
159 Micro Focus Taiwan Co., Ltd	Taiwan	Sale and support of software	79
160 Micro Focus Enterprise Tunisia SARL	Tunisia	Sale and support of software	80
161 Atarlabs Bilişim Anonim Şirketi	Turkey	Development and support of software	81
162 Micro Focus Teknoloji Çözümleri Limited Şirketi	Turkey	Sale and support of software	82
163 Micro Focus Ukraine, LLC.	Ukraine	Sale and support of software	83
164 Entco International SARL – Jebel Ali Free Zone Branch	United Arab Emirates	Sale and support of software	84
165 Entco International SARL-Abu Dhabi Branch	United Arab Emirates	Sale and support of software	85
166 Micro Focus Software Middle East FZ-LLC	United Arab Emirates	Sale and support of software	86
167 Attachmate Sales UK Limited	United Kingdom	Sale and support of software	87
168 Autonomy Systems Limited	United Kingdom	Sale and support of software	87
169 Borland (Holding) UK Limited	United Kingdom	In Liquidation	87
170 Borland (UK) Limited	United Kingdom	In Liquidation	87
171 Dart UK Newco Limited	United Kingdom	Divestiture company	87
172 Entco Holding Berlin B.V. – UK Branch	United Kingdom	Holding Company	87
173 Longsand Limited	United Kingdom	Sale and support of software	87
174 Merant Holdings	United Kingdom	Holding Company	87
175 Micro Focus (IP) Holdings Limited	United Kingdom	Dormant	87
176 Micro Focus (IP) Ltd	United Kingdom	Holding Company	87
177 Micro Focus (US) Holdings	United Kingdom	Holding Company	87
178 Micro Focus CHC Limited	United Kingdom	Holding Company	87
179 Micro Focus Foreign HoldCo Ltd	United Kingdom	Holding Company	87
180 Micro Focus Global Limited	United Kingdom	Sale and support of software	87
181 Micro Focus Group Limited	United Kingdom	Holding Company	87
182 Micro Focus Holdings Unlimited	United Kingdom	Holding Company	87
183 Micro Focus Integration Limited	United Kingdom	Sale and support of software	87
184 Micro Focus IP Development Limited	United Kingdom	Development and support of software	87
185 Micro Focus Limited	United Kingdom	Sale and support of software	87
186 Micro Focus Marigalante Ltd. – UK Branch	United Kingdom	Sale and support of software	87
187 Micro Focus MHC Limited	United Kingdom	Holding Company	87
188 Micro Focus Midco Holdings Limited	United Kingdom	Holding Company	87
189 Micro Focus Midco Limited	United Kingdom	Holding Company	87
190 Micro Focus Situla Holding Ltd	United Kingdom	Holding Company	87
191 Micro Focus Software (IP) Holdings Limited	United Kingdom	Holding Company	87
192 Micro Focus Software Holdings Ltd	United Kingdom	Sale and support of software	87

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For the year ended 31 October 2021 continued

34 Related undertakings continued

Company name	Country of incorporation	Principal activities	Key to Registered office address
193 Micro Focus Software UK Ltd	United Kingdom	Sale and support of software	87
194 Micro Focus UK Limited	United Kingdom	Dormant	87
195 Serena Holdings	United Kingdom	Holding Company	87
196 Serena Software Europe Limited	United Kingdom	Sale and support of software	87
197 Attachmate Corporation	United States	Development and support of software	88
198 Borland Corporation	United States	Holding Company	89
199 Borland Software Corporation	United States	Development and support of software	89
200 Borland Technology Corporation	United States	Dormant	89
201 Dart US Newco LLC	United States	Divestiture company	89
202 Entco Delaware LLC	United States	Sale and support of software	89
203 Entco, LLC	United States	Sale and support of software	89
204 Full 360 Group Inc.	United States	Holding Company	89
205 Full 360 Inc	United States	Sale and support of software	90
206 GWAVA Technologies, Inc.	United States	Sale and support of software	89
207 MA FinanceCo., LLC	United States	Holding Company	89
208 Marcel Holdings LLC	United States	Sale and support of software	89
209 Micro Focus (US) Group, Inc.	United States	Holding Company	89
210 Micro Focus (US) International Holdings, Inc.	United States	Holding Company	89
211 Micro Focus (US), Inc.	United States	Development and support of software	89
212 Micro Focus Brazil Holdings LLC	United States	Holding Company	89
213 Micro Focus Government Solutions LLC	United States	Sale and support of software	89
214 Micro Focus LLC	United States	Sale and support of software	89
215 Micro Focus Software Inc.	United States	Development and support of software	89
216 NetIQ Corporation	United States	Development and support of software	89
217 Novell Holdings, Inc.	United States	Holding Company	89
218 Novell International Holdings, Inc.	United States	Holding Company	89
219 Seattle SpinCo, Inc.	United States	Holding Company	89
220 Serena Software, Inc.	United States	Holding Company	89
221 Stratify, Inc.	United States	Sale and support of software	89
222 The Attachmate Group, Inc.	United States	Holding Company	89
223 Vertica Systems, LLC	United States	Sale and support of software	89

The Group has a 100% equity ownership interest in each of the subsidiary undertakings.

The ultimate parent Company is Micro Focus International plc (the "Company"). The Company has a direct interest in Micro Focus Midco Holdings Limited and an indirect interest in all of the other related undertakings. The Company has an effective interest of 100% in all of the related undertakings listed in the table.

The financial results of all of the related undertakings listed above are included in the Group's consolidated financial statements. None of the related undertakings holds any shares in the Company.

34 Related undertakings continued

For each of the subsidiaries listed above, the registered office or, in the case of undertakings other than subsidiaries, the principal place of business is as follows:

Registered office addresses:

Number	Address
1	Level 8, 76 Berry Street, North Sydney NSW 2060, Australia
2	Suite 9, 191 Victoria Road, Gladesville NSW 2111, Australia
3	Donau-City-Straße 7, 40. OG, 1220 Wien, Austria
4	Officenter, Luchthavenlaan 27, 1800 Vilvoorde, Belgium
5	EU Parliament, 4th Floor, 37 De Meeussquare, 1000 Brussels, Belgium
6	Rua Joaquim Floriano, 466 – 12 Andar, Ed. Corporate, Itaim Bibi, São Paulo, SP, 04534-002, Brazil
7	Avenida das Nações Unidas, 1201, conj. 2302. sala 72, São Paulo, SP, 04578-000, Brazil
8	76A James Boucher Blvd., Hill Tower 3rd floor, Lozenets District, Sofia, 1407, Bulgaria
9	200-204 Lambert Street, Whitehorse Y1A 3T2, Canada
10	250, Howe Street, Suite 1400-C, Vancouver BC V6C 3S7, Canada
11	1300-1969 Upper Water Street, McInnes Cooper Tower – Purdy's Wharf Halifax, NS, B3J 3R7, Canada
12	4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary T2P 5C5, Canada
13	Cogswell Tower, 2000 Barrington Street, Suite 1101-C., Halifax NS B3J 3K1, Canada
14	PwC Corporate Finance & Recovery (Cayman) Limited., P.O. Box 258, 18 Forum Lane, Camana Bay, Grand Cayman, KY1-1104, Cayman Islands
15	Ocorian Trust (Cayman) Limited, Windward 3, Regatta Office Park, PO Box 1350, West Bay Road, Grand Cayman, KY1-1108, Cayman Islands
16	Unit 601, Block A, Yuanyang International Center, No. 56 Dong Si Huan Zhong Road, Beijing, Chaoyang District, China
17	Unit 04, B01, 3rd Floor, 101 1st Floor, No.1 building, No.8 Yard Guangshun South Avenue, Chaoyang District, Beijing, China
18	Floor 2, Building 1, No. 799 Naxian Road, Pilot Free Trade Zone, Shanghai, China
19	8 Guangshun Avenue South, B01, 3F Building 1, Chaoyang District, China
20	1807-1811, 18th Floor, Kechuang Building, interchange of Yingxiong Mountain Road and 2nd Ring South Rd, Shizhong District, Jinan, Shangdong, China
21	No. 209, Chuangxin Plaza, No. 5 Keyuanyi Road, Jiulongpo District, Chongqing, China
22	14/F, Office 1436, Times Financial Center, 4001 Shennan Avenue, Futian District, Shenzhen, Guangdong, 518046, China
23	Unit B011, 3rd Floor, No. 1 building, No.799 Naxian Road, Free Trade Zone, Shanghai, China
24	Calle 111 # 47A-96, Bogotá D.C., Colombia
25	San José, Cantón Montes de Oca, Distrito San Pedro, cincuenta metros al sur del Restaurante Le Chandelier, Edificio Blanco, Costa Rica
26	Digeni Akrita, 54, Akritas, Floor 2, Flat 201-202, 1061, Nicosia, Cyprus
27	Za Brumlovkou 1559/5, Michle, Prague, 140 00, Czech Republic
28	Borupvang 3, 2750, Ballerup, Denmark
29	Accountor Turku Oy, Yliopistonkatu 34,5 krs, Turku, FI-20100, Finland
30	5 place de la Pyramide, Tour Ariane, La Défense 9, 92088, Paris, France
31	Tour Carpe Diem, 31 Place des Corolles, 92400, Courbevoie, France
32	Herrenberger Strasse 140, 71034, Böblingen, Germany
33	Von-Braun-Strabe 38a, 48683, Ahaus, Germany
34	Nördlicher Zubringer 9-11, 40470, Düsseldorf, Germany
35	19th Floor, Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
36	21st Floor, Henley Building, 5 Queens Road Central, Hong Kong
37	4th Floor, Laurel Building 'A' Block, Bagmane Tech Park, Survey no.65/2, C.V.Raman Nagar, Byrasandra Village, KR Pura Hobli, Bangalore South Taluk, Bengaluru-560093, India
38	4th Floor, Bagmane Tech Park, Olympia Building Survey Nos. 66/1, 66/66-1 & 66/1-3, CV Raman Nagar, Bangalore, 560093, India
39	7th Floor, Unit 705 Leela Business Park, Andheri – Kurla Road, Andheri East, Mumbai, 400059, India
40	Laurel Block D 65/2, Bagmane Tech Park, C.V. Raman Nagar Byrasandra Post, Bangalore, India
41	66/1, 6th Floor, Olympia Building, Bagmane Tech Park, Byrasandra, C V Raman Nagar, Bangalore, Karnataka, 560093, India
42	WTC 3, Unit no. 207, Jalan Jenderal Sudirman Kav 29-31, Kel. Karet Semanggi, Kec. Setiabudi, Kota Adm, Jakarta Selatan, DKI Jakarta, Indonesia

Notes to the consolidated financial statements

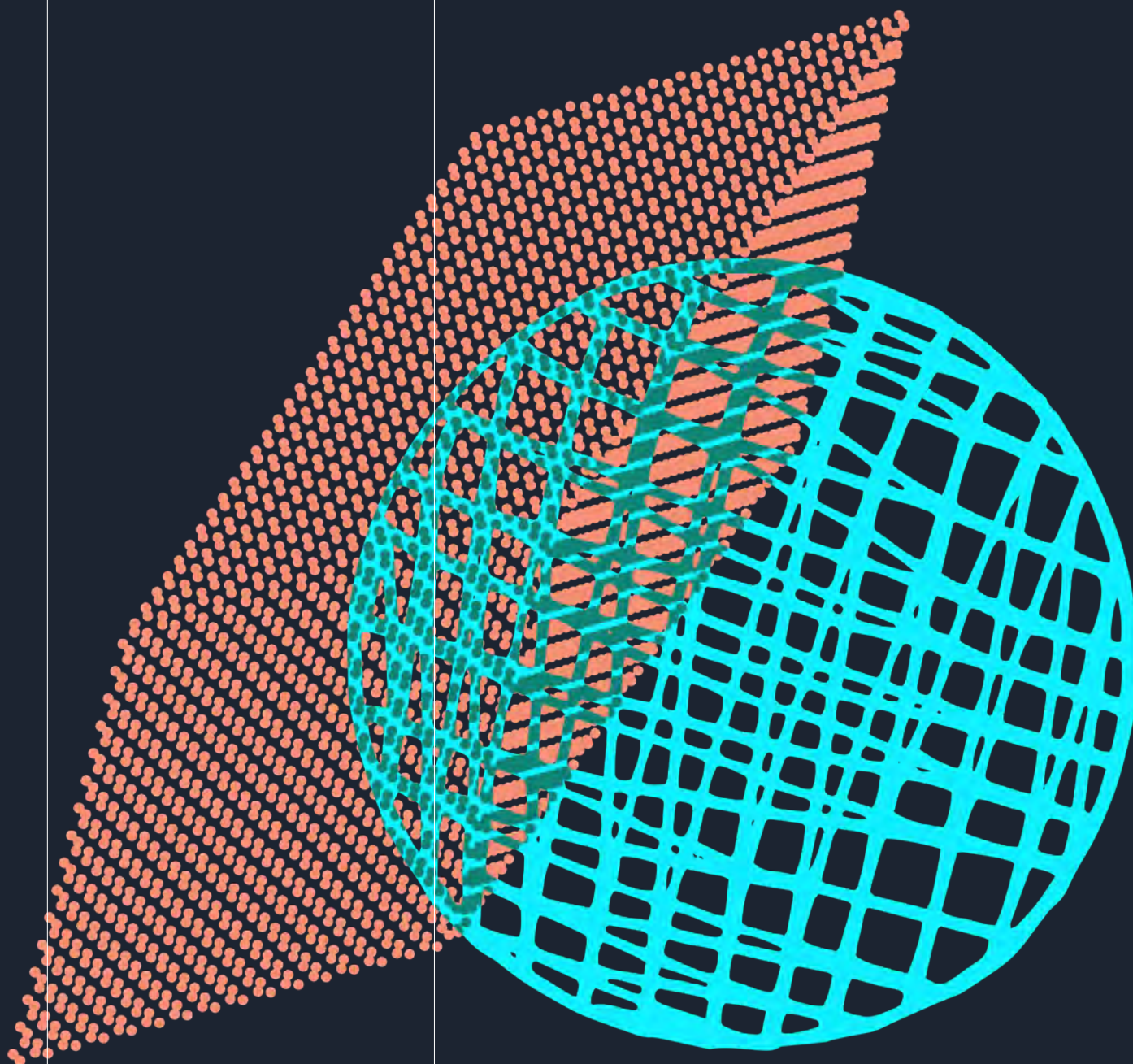
For the year ended 31 October 2021 continued

34 Related undertakings continued

Number	Address
43	Block A, Ballybrit Business Park, Ballybane Road, Galway, H91 WP08, Ireland
44	One Spencer Dock, North Wall Quay, Dublin 1, D01 X9R7, Ireland
45	5 Altalef St., Yahud, Israel
46	Matam Advanced Tech Center, Building 5/1, Haifa, 31 905, Israel
47	Scientific Industries Center, Haifa, 33263, Israel
48	17 Hatidhar St, Raannana, 43665, Israel
49	Viale Sarca 235, 20126, Milan, Italy
50	Via Santa Maria alla Porta 9, 20123, Milan, Italy
51	No. 8 Center Plaza Bldg, 5F, 1-10-16 Horidomecho Nihonbashi, Chuo-ku, Tokyo 103-0012, Japan
52	Midtown Tower 19F, 9-7-1 Akasaka, Minato-ku, Tokyo, 107-6219, Japan
53	12 rue Jean Engling, L-1466, Luxembourg
54	15, Boulevard F.W. Raiffeisen, L – 2411, Luxembourg
55	Level 11, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, 50470 59200 Kuala Lumpur, Malaysia
56	Unit 501, Level 5, Uptown 1, 1 Jalan SS21/58, Damansara Uptown, 47400 Selangor Darul Ehsan, Malaysia
57	Av. Periférico Sur 6751, Col. Toluquilla, Municipio Tlaquepaque, Jalisco, CP 45610, Mexico
58	Van Deventerlaan 31, 3528 AG, Utrecht, Netherlands
59	Level 26, PWC Tower, 15 Customs Street West, Auckland, 1010, New Zealand
60	C/O House of Business AS, 7th Floor Dronning Eufemias gate 16, Oslo, 0191, Norway
61	2/F Three World Square, Upper Mckinley Road, Taguig City, Philippines
62	ul. Sucha 2/3, 50-086 Wrocław, Poland
63	Centro Empresarial Torres de Lisboa, Rua Tomás da Fonseca, Torre G, 1.º, Sala 111, Freguesia de São Domingos de Benfica, 1600 203, Lisboa, Portugal
64	Metro Office Park, Metro Parque 7, Street # 1, Suite 204, Guaynabo, PR 00968, Puerto Rico
65	2nd District, 3 George Constantinescu Street, BOC Office Building, 4th floor, entrance B, 2nd District, Bucharest, PC 020339, Romania
66	Leningradskoye shosse 16 A, building 3, floor 10, premise XV, room 16, 125171, Moscow, Russian Federation
67	Nimr Al Nakheel Centre, Building A, 1st floor, Imam Saud Bin Abdulaziz Bin Muhammad Road, Riyadh, 11564, Saudi Arabia
68	#12-04/06, 1 Harbourfront Place, Harbourfront Tower 1, Singapore, 098633, Singapore
69	78 Sophia Street, Fairland, 2195, South Africa
70	Novell House, MorningWedge Office, 255 Rivonia Road, Morningside, 2196, South Africa
71	Morningside Wedge Office Park, 255 Rivonia Road, Morningside, Sandton, Gauteng, 2057, South Africa
72	Yeoidodong, SK Building, 15F, 31 Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul, Korea, Republic of
73	Torre Espacio, Planta 16, Paseo de la Castellana, 259D, 28046 Madrid, Spain
74	Kronborgsgränd 1, 164 46 Kista, Stockholm, Sweden
75	Richtistrasse 7, 8304 Wallisellen, Switzerland
76	Wallisellen Business Park, Offices 201-204, Richtistrasse 7, 8304, Wallisellen, Switzerland
77	Chemin Jean-Baptiste Vandelle 3A, 1290 Versoix, Switzerland
78	10F.-1 No.66, Jing Mao 2nd Road, Nangang District, Taipei City, 115, Taiwan
79	9F., No. 200, Sec. 1, Keelung Rd., Xinyi Dist., Taipei City, 110, Taiwan
80	ZI Chotrana, Technopole El Ghazala, Lot No 45, Ariana, 2088, Tunisia
81	Üniversiteler Mahallesi 1605 Cad. No: 3A, Çankaya, Ankara, Turkey
82	AND Plaza Kozyatağa İçerenköy Mahallesi Umud Sk. 10/12, Kat: 16 34752 Ataşehir/İstanbul, Turkey
83	13 Pimonenko Str., building 6, Office 6A/61, Kiev, 04050, Ukraine
84	JAFZA One building, Unit No. AB 1005, Jebel Ali Free Zone, Dubai, United Arab Emirates
85	Al Hilal Building, Al Falah Road, Office 318, Abu Dhabi, United Arab Emirates
86	1204-1205, Floor 12 Al Shatha Tower, Dubai, United Arab Emirates
87	The Lawn, 22-30 Old Bath Road, Newbury, Berkshire, RG14 1QN, United Kingdom
88	Corporation Service Company, MC-CSC1, 300 Deschutes Way SW, Suite 208, Tumwater, WA98501, United States
89	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States
90	Corporation Service Company, 80 State Street, Albany, NY 12207-2543, United States

Company financial statements and notes

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- 230 Company statement of cash flows
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Company balance sheet

As at 31 October 2021

	Note	31 October 2021 \$m	31 October 2020 \$m
Fixed assets			
Investments	VIII	467.5	455.1
		467.5	455.1
Current assets			
Debtors (including \$1,008.1m due after more than one year (2020: \$3,820.0m))	IX	4,422.8	4,541.7
Cash at bank and in hand		0.5	22.8
		4,423.3	4,564.5
Current liabilities			
Trade and other payables	X	39.3	49.3
Provisions	XI	15.0	–
		54.3	49.3
Net current assets		4,369.0	4,515.2
Total assets less current liabilities		4,836.5	4,970.3
Capital and reserves			
Called up share capital	XIII	47.4	47.3
Share premium account	XIII	46.8	46.5
Capital redemption reserve	XIII	2,485.0	2,485.0
Merger reserve	XIII	1,686.2	1,794.5
Retained earnings		571.1	597.0
Total equity		4,836.5	4,970.3

The loss for the year ended 31 October 2021 for the Company was \$37.9m (2020: loss of \$15.9m).

The Company financial statements on pages 228 to 237 were approved by the board of directors on 7 February 2022 and were signed on its behalf by:

Stephen Murdoch
Chief Executive Officer

Matt Ashley
Chief Financial Officer

Registered number: 5134647

The accompanying notes form part of the financial statements.

Company statement of changes in equity

For the year ended 31 October 2021

	Note	Called up share capital \$m	Share premium account \$m	Retained earnings \$m	Merger reserve \$m	Capital redemption reserve \$m	Total equity \$m
Balance as at 31 October 2020		47.3	46.5	597.0	1,794.5	2,485.0	4,970.3
Loss for the year		–	–	(37.9)	–	–	(37.9)
Other comprehensive income for the year		–	–	–	–	–	–
Total comprehensive income for the year		–	–	(37.9)	–	–	(37.9)
Transaction with owners:							
Issue of share capital		0.1	0.3	–	–	–	0.4
Movement in relation to share options:							
– Value of subsidiary employee services	VIII	–	–	12.0	–	–	12.0
– Value of services provided	VI	–	–	–	–	–	–
Dividends	V	–	–	(81.1)	–	–	(81.1)
Purchase of treasury shares¹		–	–	(27.2)	–	–	(27.2)
Transfer from merger reserve	XIII	–	–	108.3	(108.3)	–	–
Total changes in equity		0.1	0.3	(25.9)	(108.3)	–	(133.9)
Balance as at 31 October 2021		47.4	46.8	571.1	1,686.2	2,485.0	4,836.5

As at 31 October 2021, the value of distributable reserves was \$374.4m (2020: \$412.8m). The accompanying notes form part of the financial statements.

- 1 During the 12 months ended 31 October 2021 the Micro Focus Employee Benefit Trust ("EBT") purchased four million of the Company's shares from the market. The EBT will hold these shares to satisfy future exercises of share options. In accordance with the requirement of IFRS 10 the EBT is treated as if it is part of the Company. As a result, the purchase of shares held by the EBT is reported as a purchase of treasury shares by the Company.

	Note	Called up share capital \$m	Share premium account \$m	Retained earnings \$m	Merger reserve \$m	Capital redemption reserve \$m	Total equity \$m
Balance as at 31 October 2019		47.2	44.0	621.9	1,766.9	2,485.0	4,965.0
Loss for the year		–	–	(15.9)	–	–	(15.9)
Other comprehensive income for the year		–	–	–	–	–	–
Total comprehensive income for the year		–	–	(15.9)	–	–	(15.9)
Transaction with owners:							
Issue of share capital		0.1	2.5	0.3	–	–	2.9
Movement in relation to share options:							
– Value of subsidiary employee services	VIII	–	–	17.8	–	–	17.8
– Value of services provided	VI	–	–	0.5	–	–	0.5
Transfer to merger reserve	XIII	–	–	(27.6)	27.6	–	–
Total changes in equity		0.1	2.5	(24.9)	27.6	–	5.3
Balance as at 31 October 2020		47.3	46.5	597.0	1,794.5	2,485.0	4,970.3

Company statement of cash flows

For the year ended 31 October 2021

	Note	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Loss for the financial year		(37.9)	(15.9)
Adjustments for:			
Net interest		0.3	0.1
Share-based payment charge		7.5	0.5
Exchange movements		(7.2)	(3.7)
Changes in working capital:			
Decrease in amounts owed from Group undertakings		133.2	35.4
Decrease in amounts owed to Group undertakings		6.2	–
Increase in other debtors		(14.3)	(0.3)
Decrease in creditors		(1.2)	(10.5)
Net cash generated from operating activities		86.6	5.6
Cash flows from investing activities			
Interest paid		(0.3)	–
Net cash used in investing activities		(0.3)	–
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		0.4	2.5
Treasury shares acquired	XIII	(27.2)	–
Dividends paid to owners	V	(81.1)	–
Net cash (used in)/generated from financing activities		(107.9)	2.5
Effects of exchange rate changes		(0.7)	–
Net (decrease)/increase in cash and cash equivalents		(22.3)	8.1
Cash and cash equivalents at beginning of the year		22.8	14.7
Cash and cash equivalents at end of the year		0.5	22.8

The accompanying notes form part of the financial statements.

Notes to the Company financial statements

For the year ended 31 October 2021

I Statement of compliance

The Company financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006.

II Summary of significant accounting policies

The basis of preparation and the principal accounting policies adopted in the preparation of the Company financial information are set out below. These policies have been applied consistently to all years presented.

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 preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note III.

B Going concern

The directors, having made enquiries, consider that the Company has 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. In assessing the appropriateness of the going concern basis, the directors have taken into account severe but plausible downside scenarios.

C Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has not taken advantage of any available exemption for qualifying entities.

D 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 recognised in the statement of comprehensive income.

E Employee benefits

a) Short-term benefits

Short-term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the year in which the service is received.

b) Defined contribution pension plan

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 recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

c) Share-based payments

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

The fair value of the employee services received in exchange for the grant of the shares or awards is recognised 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 awards granted. Non-market vesting conditions are included in assumptions about the number of awards that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of awards that are expected to become exercisable. It recognises 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 awards 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 recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the Company financial statements.

The social security contributions payable in connection with the grant of the share awards is considered an integral part of the grant itself and the charge is treated as a cash-settled transaction.

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

II Summary of significant accounting policies continued

F 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 recognised 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 recognised when it is probable 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.

G Investments in subsidiaries

Investments in subsidiaries are held at cost less any accumulated impairment losses. At the end of each reporting year, investments in subsidiaries are assessed for indicators of impairment. If an impairment indicator is identified an impairment test is performed. An impairment loss resulting from this impairment test is recognised in profit or loss.

H Financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

a) Financial assets

Basic financial instruments, including cash at bank and in hand and amounts owed by Group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest rate method.

At the end of each reporting year, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss, which is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate, is recognised in profit or loss.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, are settled or substantially all the risks and rewards are transferred to another party.

b) Financial liabilities

Basic financial liabilities, including amounts owed to Group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future payments discounted at a market rate of interest. Such liabilities are subsequently carried at amortised cost using the effective interest rate method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

I 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 recognised as a liability in the Company's financial statements in the year in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

J Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned.

K Provisions

Provisions for legal claims are recognised 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. Provisions are not recognised for future operating losses.

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 where the impact is material. The increase in the provision due to the passage of time is recognised as an interest expense.

III Critical accounting judgements and estimation uncertainty

The Company makes an estimate of the recoverable value of investments in subsidiaries and intercompany receivables. When assessing impairment of investments and intercompany receivables, management consider both internal and external indicators. If the recoverable amount is less than the carrying amount of the investment and intercompany receivable, the asset is considered to be impaired and is written down to its recoverable amount. No indicators of impairment were identified.

The Group has performed an impairment test against goodwill in the Group's financial statements, no impairment or significant change in the estimated recoverable amount to the Group was identified. See note 10 in the Group's financial statements for more detail on Group value in use. This showed that there was no impairment of the Company investments or intercompany receivables. The reasonably possible change in the key assumptions used in the Group value in use calculation as set out in note 10 in the group's financial statements could reduce the recoverable amount of the investments and intercompany receivables to below its carrying value.

To reduce the amount by which the estimated recoverable amount exceeds the carrying value of the Company's investment in subsidiaries or intercompany receivables to nil, the following movement to the key assumptions, which are considered reasonably possible, would have to:

- Increase by 0.8% (2020: Increase by 0.2%) for the pre-tax discount rate; or
- Decrease by 0.4% (2020: Decrease by 0.2%) for the average annual revenue growth rate by product group.

These sensitivities are presented exclusive of mitigating activities, such as cost saving, that could be taken in such a scenario and which would at least partially offset such a reduction.

There have been no other critical judgements made in applying the Company's accounting policies.

IV Profit and recognised gains and losses attributable to the Company

As permitted by Section 408 of the Companies Act 2006, no separate statement of comprehensive income is presented in respect of the Company.

The loss for the year ended 31 October 2021 for the Company was \$37.9m (2020: loss of \$15.9m).

V Dividends

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Equity – ordinary		
Final paid 15.5 cents (2020: nil cents) per ordinary share	51.7	–
Interim paid 8.8 cents (2020: nil cents) per ordinary share	29.4	–
	81.1	–

The directors announced a final dividend of 20.3 cents per share payable on 21 April 2022 to shareholders who are registered at 11 March 2022. This final dividend, amounting to \$68.2m, has not been recognised as a liability as at 31 October 2021.

VI Employees and directors

Staff costs for the Company during the year ended to 31 October 2021:

	Year ended 31 October 2021 \$m	Year ended 31 October 2020 \$m
Wages and salaries	2.6	3.4
Social security costs charge	1.1	0.5
Cost of employee share schemes	7.6	0.5
Total	11.3	4.4

The average monthly number of employees of the Company, including remunerated directors and non-executive directors, during the year was 10 (2020: seven). Stephen Murdoch is remunerated by another Group company. For further information on the directors of the Company, please refer to the Directors' Remuneration report.

Key management personnel costs

All the key management of the Company are directors and are therefore included in note 28 of the Group financial statements.

Notes to the Company financial statements
For the year ended 31 October 2021 continued

VII Share-based payments

The Company has various equity-settled share-based compensation plans. These disclosures are in respect of the entity only; full share-based payment disclosures for the Group are included within note 28 of the Group financial statements.

a) Incentive Plan 2005

The Micro Focus International plc Incentive Plan 2005 ("LTIP") permits the granting of share awards to executive directors and selected employees on a discretionary basis. Awards can be granted as conditional awards of shares or as nil-cost options.

	Year ended 31 October 2021		Year ended 31 October 2020	
	Number of awards '000	Weighted average exercise price pence	Number of awards '000	Weighted average exercise price pence
Outstanding at 1 November	519	–	454	–
Granted	384	–	300	–
Transfer	395	–	–	–
Exercised	–	–	(106)	–
Lapsed	(461)	–	(129)	–
Outstanding at 31 October	837	–	519	–
Exercisable at 31 October	40	–	–	–

No options were exercised in the year ended 31 October 2021. For 2020 the prior year weighted average share price for awards at the date of exercise was £4.67.

\$0.1m credit charged to the statement of comprehensive income in respect of the LTIP scheme (2020: \$0.3m). No charge (2020: \$0.1m credit) was made to the statement of comprehensive income in respect of National Insurance on these share awards.

Range of exercise prices	31 October 2021			31 October 2020		
	Weighted average exercise price pence	Number of awards '000	Weighted average remaining contractual life years	Weighted average exercise price pence	Number of awards '000	Weighted average remaining contractual life years
£0.00	–	837	8.1	–	519	9.1
	–	837	8.1	–	519	9.1

Unvested awards granted are subject to the following vesting conditions of either:

Performance criteria	Unvested options Number '000	Description
Free cash flow/Relative TSR growth	601	Awards made with a free cash flow target and relative TSR target over a three-year period
Cumulative Earnings per share ("EPS") growth	153	EPS for these awards is defined as Diluted Adjusted EPS. Where the cumulative EPS growth over a three-year period is at least equal to RPI plus 3% per annum 25% of awards will vest, with full vesting achieved when the cumulative EPS growth is RPI plus 9% per annum. Straight-line vesting will apply between these points.
Other	83	Various other vesting conditions
	837	

Further details regarding awards to executive directors are provided in the Directors' Remuneration report.

VII Share-based payments continued

b) Additional Share Grants

	Year ended 31 October 2021		Year ended 31 October 2020	
	Number of awards '000	Weighted average exercise price pence	Number of awards '000	Weighted average exercise price pence
Outstanding at 1 November	-	-	1,869	-
Surrendered	-	-	(1,438)	-
Lapsed	-	-	(431)	-
Exercised	-	-	-	-
Granted	-	-	-	-
Outstanding at 31 October	-	-	-	-
Exercisable at 31 October	-	-	-	-

Additional Share Grants – The HPE Software business acquisition

The remuneration committee awarded a number of Additional Share Grants (“ASGs”) to a number of executives, critical to delivering the anticipated results of the acquisition of the HPE Software business, which completed on 1 September 2017.

1,438,000 awards were surrendered by the executive directors in the prior year. The remaining 430,518 HPE Software ASG’s lapsed on 7 July 2020 due to performance conditions not being met.

The amount charged to the statement of comprehensive income in respect of the ASGs was \$nil for the year ended 31 October 2021 (2020: \$0.2m).

VIII Investments

	\$m
Cost and net book value:	
At 1 November 2020	455.1
Additions	12.4
At 31 October 2021	467.5
At 1 November 2019	437.3
Additions	17.8
At 31 October 2020	455.1

The additions in the year ended 31 October 2021 of \$12.4m relate to capital contributions arising from share-based payments (2020: \$17.8m). The directors believe that the carrying value of investments is supported by their underlying net assets. A full list of subsidiary undertakings, joint ventures and associates at 31 October 2021 is included in note 34 of the Group financial statements. Only Micro Focus Midco Holdings Limited is directly owned by the Company with all other subsidiaries being indirectly owned.

IX Debtors

	31 October 2021 \$m	31 October 2020 \$m
Amounts owed by Group undertakings	4,403.1	4,536.3
Prepayments and other debtors	19.7	5.4
Total	4,422.8	4,541.7

Of the amounts owed by Group undertakings, \$4,368.3m (2020: \$3,820.0m) relates to two intercompany loan note facilities of up to \$7,000.0m (\$3,360.2m drawn) due within one year and \$1,100m (\$1,008.1m drawn) due after more than one year. Excluding these intercompany loan note facilities, the amounts owed by Group undertakings are unsecured, interest free and repayable on demand. Other debtors includes an amount for a \$15m in relation to an insurance receivable, see note XI.

Notes to the Company financial statements
For the year ended 31 October 2021 continued

X Creditors: amounts falling due within one year

	31 October 2021 \$m	31 October 2020 \$m
Amounts owed to Group undertakings	6.4	0.2
Trade payables	5.8	–
Other payables	7.4	–
Accruals	19.7	49.1
Total	39.3	49.3

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

XI Provisions and contingent liabilities

	Legal \$m	Total \$m
At 1 November 2020	–	–
Additional provision in the year	15.0	15.0
At 31 October 2021	15.0	15.0

Shareholder litigation

The shareholder litigation complaint in the United States District Court for the Southern District of New York, previously disclosed as a contingent liability, has been followed by a mediation during the period where the parties have reached an agreement to settle the case on terms including a payment of \$15.0m to a settlement class. The proposed settlement is subject to the court's approval. The Company has recognised a legal provision of \$15.0m and an insurance receivable, within other receivables, of \$15.0m. Therefore, the charge to establish the provision nets to zero in the Statement of comprehensive income for the shareholder litigation. The settlement amount will be paid from insurance coverage. The Company and all defendants have denied, and continue to deny, the claims alleged in the case and the settlement does not reflect any admission of fault, wrongdoing or liability as to any defendant.

In the Superior Court of California, the matter is on-going. No liability has been recognised in this case as it is too soon to estimate whether there will be any financial impact.

XII Financial instruments

The Company has the following financial instruments:

	31 October 2021 \$m	31 October 2020 \$m
Financial assets measured at amortised cost		
Amounts owed by Group undertakings	4,403.1	4,536.3
Total	4,403.1	4,536.3
Financial liabilities measured at amortised cost		
Amounts owed to Group undertakings	6.4	0.2
Accruals	47.9	49.1
Total	54.3	49.3

XIII Called up share capital, share premium account and other reserves

Further information can be found in the Group financial statements as follows:

- Share capital (note 25);
- Share premium (note 26);
- Capital redemption reserve (note 27).

Merger reserve

The merger reserve was created as follows:

	31 October 2021 \$m	31 October 2020 \$m
Arising on the acquisition of The Attachmate Group ¹	1,372.7	1,372.7
Arising on the acquisition of HPE Software ²	6,485.4	6,485.4
	7,858.1	7,858.1
Utilisation:		
Issue and redemption of B shares related to Returns of Value	(2,190.8)	(2,190.8)
Transfers to retained earnings	(3,981.1)	(3,872.8)
At 31 October	1,686.2	1,794.5

- On 20 November 2014, The Attachmate Group ("TAG") acquisition was completed and a merger reserve was created of \$1,372.7m. The acquisition of TAG was structured by way of a share for share exchange. This transaction fell within the provisions of section 612 of the Companies Act 2006 (merger relief) such that no share premium was recorded in respect of the shares issued. The Company chose to record its investment in TAG at fair value and therefore recorded a merger reserve equal to the value of the share premium which would have been recorded had section 612 of the Companies Act 2006 not been applicable (i.e. equal to the difference between the fair value of TAG and the aggregate nominal value of the shares issued). This merger reserve was initially considered unrealised on the basis it was represented by the investment in TAG, which is not considered to represent qualifying consideration (in accordance with Tech 02/17 (Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006)). Immediately following the acquisition of TAG, the Company's investment in TAG was transferred to another Group Company in exchange for an intercompany loan.
- The Company completed the HPE Software business transaction on 1 September 2017. This was structured in a similar way to the TAG acquisition and created a merger reserve of \$6,485.4m. During the period to 31 October 2018, the Company transferred the investment in the HPE Software business to a wholly owned subsidiary in exchange for an intercompany receivable of \$6,803.2m. To the extent this loan is settled in qualifying consideration, the related proportion of the merger reserve is considered realised.

The merger reserve is an unrealised profit until it can be realised by the settlement of the intercompany loan by qualifying consideration.

In the year ended 31 October 2020, it was disclosed that \$337.0m of the merger reserve would be settled in the following year. However, as at 31 October 2021, only \$123.3m of the balance was settled and the balance of \$213.7m was transferred back to the merger reserve. However, \$322.0m is expected to be settled in qualifying consideration during the year ended 31 October 2022 and as such an equivalent proportion of the merger reserve is considered realised, in accordance with section 3.11(d) of Tech 02/17 and therefore has been transferred to retained earnings. Therefore, an additional transfer of \$108.3m from the merger reserve to retained earnings has been recognised.

XIV Contingent liabilities

The Company has guaranteed certain contracts in the normal course of business and the bank borrowings of its subsidiaries.

XV Related party transactions

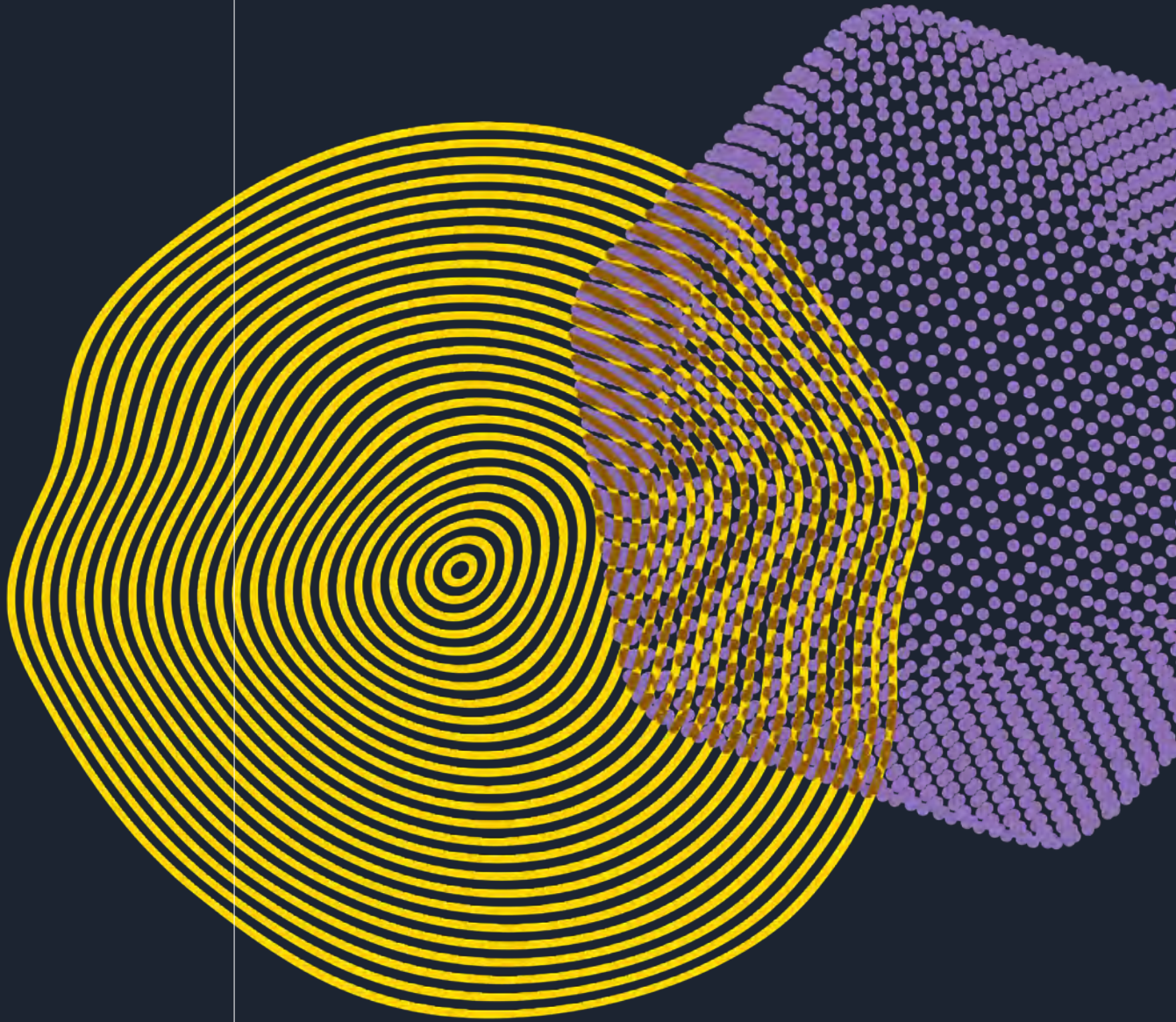
The Company has taken advantage of the exemption under FRS 102 paragraph 33.1A, from disclosing transactions with other wholly-owned members of the Group headed by Micro Focus International plc. There are no related party transactions or other external related parties.

XVI Controlling party

The Company is the ultimate controlling party of the Micro Focus International plc Group.

Additional information

- 239 Offices worldwide
- 243 Investor information
- 244 Company information



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Units 1-4 Riverpark Industrial Estate
Ampere Road, Newbury,
Berkshire RG14 2DQ
United Kingdom
T: +44 (0)1635 233 100

Ukraine – Kiev

13 Pimonenko Street
Building 6A/Office 61
Kiev 04050 Ukraine
T: +38 044 58 61282

North America

US – Alpharetta – Georgia

900 North Point Parkway,
Alpharetta, GA 30005
USA
T: +1 877 686 9637

US – Bellingham – Washington

2925 Roeder Avenue,
Suite 300
Bellingham, WA 98225
USA
T: +1 877 686 9637

US – Cambridge – Massachusetts

150 Cambridge Park Drive
Suite 800
Cambridge MA 02140
USA
T: +1 877 686 9637

US – Costa Mesa – California

575 Anton Blvd
Suite 510 Costa Mesa,
CA, 92626
USA
T: +1 714 445 4000

US – Fort Collins – Colorado

3420 East Harmony Road
Building 5 Fort Collins
CO 80528-9544
USA
T: +1 877 686 9637

US – Hillsboro – Oregon

2345 NW Amberbrook Drive
Suite 200 Hillsboro,
OR 97006
USA
T: +1 877 686 9637

US – Houston – Texas

515 Post Oak Boulevard
Suite 1200,
Houston,
TX 77027,
USA
T: +1 713 548 1700

US – Loveland – Ohio

6281 Tri-Ridge Boulevard,
Loveland, OH 4514,
USA
T: +1 513 965 8030

US – Pittsburgh – Pennsylvania

1 Allegheny Square Nova Tower 1,
Suite 205,
Pittsburgh,
PA 15222
USA
T: +1 877 686 9637

US – Plano – Texas

The Campus @ Legacy,
5340 Legacy Drive
Plano,
TX 75024
USA
T: +1 877 686 9637

US – Pleasanton – California

6701 Koll Center Parkway
Suite 300 Pleasanton,
CA 94566
USA
T: +1 877 686 9637

US – Provo – Utah

1800 South Novell Place
Provo,
UT 84606
USA
T: +1 801 861 7000

US – Provo – Utah Warehouse

2202 South 950 East,
Provo,
UT, 84606
USA
T: +1 801 861 7000

US – Rockville – Maryland

One Irvington Center
700 King Farm Boulevard
Suite 125 Rockville
MD 20850-5736
USA
T: +1 301 838 5000

US – Santa Clara – California

4555 Great American Parkway
Suite 400 Santa Clara
CA 95054
USA
T: +1 877 686 9637

US – Seattle – Washington

1111 Third Avenue
Suite 2300, Seattle
WA 98101,
USA
T: +1 877 686 9637

US – South Euclid – Ohio

1415 Argonne Road
Suite B South Euclid,
OH 44121-2920
USA
T: +1 877 686 9637

US – Tacoma

1102 A Street, Suite 300,
Tacoma,
WA 98402
USA
T: +1 877 686 9637

US – Troy – Michigan

50 W. Big Beaver Road
Suite 500 Troy
MI 48084
USA
T: +1 248.824 1661

Rest of the world**Australia – Canberra**

Part Level 2, Equinox 4,
70 Kent Street
Deakin, ACT 2600,
Australia
T: +1 800 784 389

Australia – Melbourne

Level 9, 330 Collins Street
Melbourne VIC 3000
Australia
T: +61 3 9825 2300

Australia – Sydney

Level 8, 76 Berry Street
North Sydney NSW 2060
Australia
T: +61 2 8281 3400

Brazil – São Paulo

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

Canada – Ottawa

411 Legget Drive,
Suite 503 Ottawa,
ON K2K 3C9
Canada
T: +1 844 241 2163

China – Beijing

Building No. 1,
8 Guangshun South Street
Chaoyang District,
Beijing 100102
China
T: +86 21 80383010

China – Chongqing

Room 209, Innovation Building,
No. 5 Ke Yuan First Road,
Jiulongpo District,
Chongqing 400039
China
T: +86 21 80383010

Offices worldwide

continued

China – Dalian

9/F, Xiwang Tower, No.136 Zhongshan Road Zhongshan District Dalian, Dalian Liaoning – LN 116001 China
T: +86 21 80383010

China – Hong Kong

The Henley Building,
21st Floor, Queen's Road Central,
China
T: + 852 3018 3711

China – Shanghai

Zhang Jiang Hi-Tech Zone,
No. 799 Na Xian Road,
Shanghai 201203
China
T: +86 21 80383010

China – Shenzhen

14/F Times Financial Centre
No. 4001 Shennan Avenue,
Futian District Shenzhen,
Guangdong 518046
China
T: +755 8435 6288

Costa Rica – Heredia

Heredia Building 8 UltraPark,
La Aurora,
Heredia San Jose
Costa Rica
T: +1 877 686 9637

India – Bangalore

2, 6th & 7th Floor
Bagmane Tech Park – Olympia Building
Olympia Bagmane Tech Park
Bangalore 560093,
Karnataka
India
T: +91 80 45682600

India – Bangalore

'Laurel', Block 'A', 4th & 5th Floor
& Block 'D'65/2,
Bagmane Tech Park
C.V. Raman Nagar,
Byrasandra Post
Bangalore 560093
India
T: +91 80 4002 2300

India – Chennai

Hardy Tower
8th Floor, TRIL Info Park,
Ramanujan IT SEZ Park,
Chennai, Tamil Nadu
India
T: +91 044 48133811

India – Gurgaon

Vatika City Point,
10th Floor Mehrauli Gurgaon Road,
Heritage City, Sector 25, Gurugram,
Haryana 122002,
India
T: +91 11 41 41170132

India – Mumbai

7th floor, unit 705
Leela Business Park
Andheri (E),
Mumbai 400059
India
T: +91 22 6127 4180

Indonesia – Jakarta

WTC3, 20th.Floor
Jakarta 12920
Indonesia
Tel: +62 21 2555-5610

Japan – Nagoya

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Nagoya 450-6425
Japan
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Japan – Osaka

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Osaka, 530-0001
Japan
T: +81 6-7713-2633

Japan – Tokyo

Midtown Tower 19th Floor, Unit 1902
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Mexico – Guadalajara

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San Pedro Tlaquepaque,
Jalisco,
Mexico
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Philippines – Manila

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McKinley Hill Cyberpark,
Taguig, 1634 Metro Manila,
Philippines
T: +1 800 1 855 0165

Singapore – Singapore

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Harbour Front Tower 1
Singapore 098633
T: +65 3165 0600

South Korea – Seoul

15F, SK Securities Building
31 Gukjegeumyung-ro 8-gil
Seoul, 07332,
South Korea
T: +1 800 784 389

Taiwan – Taipei

Far Glory International Center, 9F (Zone B),
No. 200, Sec. 1, Keelung Road, Xinyi Dist
Taipei City 110
Taiwan
T: +886 223760000

Investor information

Key dates for 2022 and beyond

The following table sets out provisional future dates in the next financial and calendar year of interest to our shareholders. If there are changes to these dates, the market will be notified via RNS.

Annual General Meeting	30 March 2022
Results announcements	
Interim results – six months ending 30 April 2022	June 2022
Final results – year ending 31 October 2022	January 2023
Dividend payments	
Final dividend payable – year ended 31 October 2021	21 April 2022
Interim dividend payable – six months ending 30 April 2022	August 2022
Final dividend payable – year ending 31 October 2022	April 2023

Managing your investment

Share dealing services

Shareview dealing is a telephone and internet service provided by Equiniti for holders whose investment is held as shares on our UK share register 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 0345 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.

ShareGift

ShareGift is a charity share donation scheme for holders of shares in UK companies, administered by The Orr Mackintosh Foundation. It is especially well suited for those who may wish to dispose of a small number of shares, where the low value makes it uneconomical to sell on a commission basis.

Further information can be obtained at www.sharegift.org.uk or from Equiniti.

Investor enquiries

For investors who hold shares on our UK share register, Equiniti act as the Registrars to 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: 0371 384 2734 or, from overseas, +44 121 415 0804 Textphone for shareholders with hearing difficulties: 0371 384 2255

Equiniti also offer a range of shareholder information online at www.shareview.co.uk.

For investors who hold American Depositary Receipts ("ADRs") in respect of Company shares issued by Deutsche Bank, American Stock Transfer ("AST") act as the US transfer agent. If you have any queries concerning your holdings of American Depositary Shares ("ADSs"), or if any of your details change, please contact AST:

American Stock Transfer
Operations Center
6201 15th Avenue
Brooklyn
NY 11219
USA

Telephone: 1 800 622 1573 (if calling from within USA) or +1 201 806 4195 if calling from outside USA

Email: db@astfinancial.com

You can manage your ADS holding online at www.astfinancial.com

Be ScamSmart

Holders of shares in listed companies may sometimes receive unsolicited approaches, normally by phone, inviting them to undertake a transaction in shares they own. A common approach is to tell you that the price of the shares might be about to fall and offering to transfer your money into an alternative investment, perhaps re-investing in the shares later. These are usually fraudulent approaches, known as "boiler room" scams, and the FCA has found that the average investor who falls victim to these lost around £20,000, with the largest known loss being £6m.

If you don't know the source of the call, check the details against the FCA website and the FCA Warning List and, if you have any specific information, report it to the FCA using their Consumer Helpline or the Online Reporting Form.

If you have concerns, do not take any action and do not part with any money without being certain that:

- you fully understand the transaction;
- you know who you are dealing with and that they are registered with and authorised by the FCA; and
- you have consulted a financial adviser if you have any doubts.

Remember, if it sounds too good to be true, it almost certainly is. You run the risk of losing any money you part with.

For more information about boiler room scams and other investment-based fraud, please use the FCA resources below. If you are worried that you may already have been a victim of fraud, please report the facts immediately to Action Fraud, by phone or online:

FCA Consumer Helpline

0800 111 6768

FCA ScamSmart

www.fca.org.uk/scamsmart

Action Fraud Helpline

0300 123 2040

Action Fraud Website

www.actionfraud.police.uk

Company information

Directors

Greg Lock
(Non-executive Chairman)

Stephen Murdoch
(Chief Executive Officer)

Matt Ashley
(Chief Financial Officer)

Karen Slatford
(Senior Independent Director)

Richard Atkins
(Independent non-executive director)

Amanda Brown
(Independent non-executive director)

Pauline Campbell
(Independent non-executive director)

Lawton Fitt
(Independent non-executive director)

Alexander van 't Noordende
(Independent non-executive director)

Robert Youngjohns
(Independent non-executive director)

Company Secretary, Registered and Head Office

Suzanne Chase
The Lawn
22-30 Old Bath Road
Newbury
Berkshire RG14 1QN
United Kingdom

www.microfocus.com
Registered in England number 5134647

Legal advisors

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

Independent auditors

KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
United Kingdom

www.shareview.co.uk

Brokers

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

Forward-looking statements

Certain statements contained in this Annual Report and Accounts, including those in the sections entitled Non-executive Chairman's statement, Chief Executive's Strategic review, Chief Financial Officer's report, Directors' report, Corporate governance report and Directors' 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", "could", "plans" 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 organisations; the level of deployment-related revenue expected by the Company; the degree to which organisations adopt web-enabled services; the rate at which large organisations mitigate 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 law or regulation, 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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www.gather.london

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