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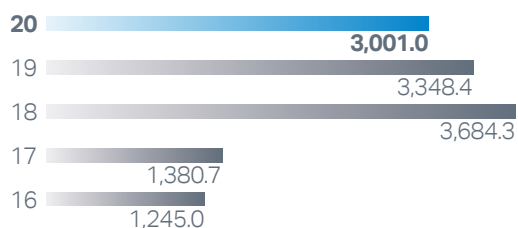
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Key highlights

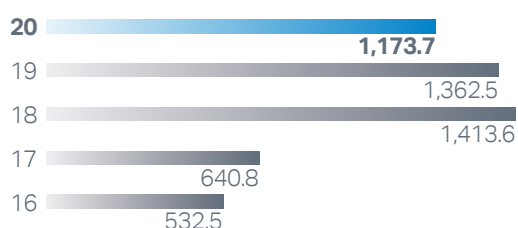
REVENUE¹

\$m



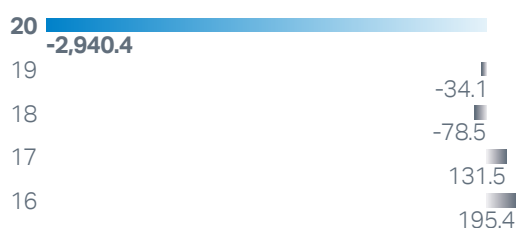
ADJUSTED EBITDA^{1,2}

\$m



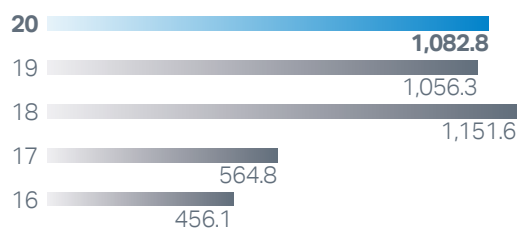
(LOSS)/PROFIT BEFORE TAX

\$m



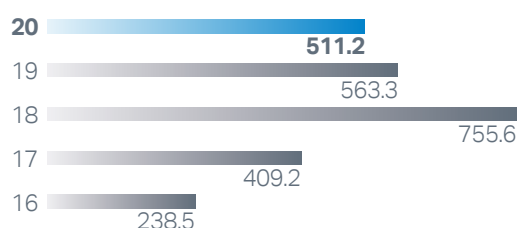
CASH GENERATED FROM OPERATIONS³

\$m



FREE CASH FLOW^{2,3}

\$m



Notes: All FY18 measures are for the 12 months ended 31 October 2018.

1. Revenue and Adjusted EBITDA in FY18 and FY19 exclude discontinued operations.
2. Adjusted EBITDA and Free cash flow are defined in the "Alternative Performance Measures" of these financial statements.
3. Free cash flow and cash generated from operations include discontinued for all periods.

Our purpose

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

We provide the technology that powers the digital economy and serves a central role in thousands of core strategic and operational functions.

We are committed to helping communities acquire the right skills to be successful in their digital lives, through our social responsibility programme, Micro Focus INSPIRE.



Micro Focus investment case

- 1. Large digital transformation portfolio**
More than 300 product lines supporting critical use cases, with balanced revenue generation across four emerging themes of digital transformation.
- 2. Global scale, global reach, global relevance**
One of the world's largest enterprise software companies supporting 40,000 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.

Company overview

Who we are

We deliver mission critical technology that serves a central role in thousands of core strategic and operational functions such as testing, monitoring, delivery, analysis, engagement, security and compliance for our 40,000 customers.

With a large software portfolio, backed by a deep inventory of advanced analytics that delivers insights, efficiencies, and automation, we help customers bridge existing and emerging technologies to adapt and succeed in the evolving economy. We call that Smart Digital Transformation.

We aim to have an unwavering focus on pragmatism, discipline, and customer-centric innovation. This helps our customers balance short-term business resiliency with long-term transformation, attain a high level of flexibility, future-proof investments in IT and related processes, and rest assured that they will be supported over time.

We support



10 out of the top 10 telecoms



10 out of the top 10 pharmaceuticals



10 out of the top 10 aerospace and defence companies



10 out of the top 10 electric utilities



9 out of the top 10 investment companies

What we do

We help organisations find a balance between safeguarding existing revenue models and taking the necessary steps to compete in an evolving marketplace over the long run. By delivering software that is open, flexible, and backwards compatible, we help bridge the existing and the emerging so customers can ultimately run and transform their business at the same time.

The rules of business are quickly being rewritten as new technologies, engagement models, and customer expectations force organisations to rethink their IT strategies. Those who can quickly transform and expose new business opportunities are most likely to achieve long-term success. However, speed must be balanced with pragmatism as organisations grapple with changes to how and where we do business, which can pose organisational uncertainty and risk.

Our portfolio, backed by a deep inventory of advanced analytics and on-going innovations, helps deliver the four key outcomes required to succeed in the digital economy:

What customers need

How we support them



Accelerate Application Delivery

Reliably scale Agile and DevOps across all environments, from mainframe to cloud – quickly bringing innovative ideas to life at the pace of business demands.



Simplify IT Transformation

Simplify the complexity of hybrid IT and transform into an agile, services-driven organisation.



Strengthen Cyber Resilience

Intelligently adapt security to respond to an ever-evolving threat landscape and protect the company's most important assets.



Analyse in Time to Act

Leverage machine learning to transform unlimited volumes of data into accurate, actionable, and automated insights.

Our purpose in action

Powering the digital economy

P. 06

For our customers

Micro Focus helps customers run and transform so they can adapt to evolving market conditions.

P. 08

For our employees

Micro Focus employees have adapted and overcome the challenges of the pandemic to support our customers, partners and their communities.

P. 10

For our communities

Micro Focus helps equip communities with the right skills to be successful in the digital world.



For our customers



The rules of business are being rewritten as new technologies, engagement models, and customer expectations force organisations to rethink their IT strategies. Those who can quickly transform and create new business opportunities are most likely to achieve long-term success. However, speed must be balanced with pragmatism as organisations grapple with changes to how and where we do business, which can pose organisational uncertainty and risk.

Run and Transform

Micro Focus helps customers run and transform their business at the same time, so they balance today's needs with tomorrow's opportunities. By bridging existing and emerging technologies organisations can

leverage what they already have to run their business today, while also transforming it to ensure it is flexible enough to respond to new realities as they emerge in the future.

We minimise the drama associated with operating a modern business and deliver our customers a broad portfolio of solutions that are tailored to the four critical outcomes of successful transformation: Accelerating Application Delivery, Simplifying IT Transformation, Strengthening Cyber Resilience and providing the ability to Analyse in Time to Act. This breadth is supplemented with a deep inventory of advanced analytics, a powerful innovation engine, and a deep ecosystem of experts, to help optimally position our customers for success in the digital economy.





These are some examples of how our customers have achieved these critical results:



Accelerate Application Delivery:

Airbus
Page 20



Simplify IT Transformation:

Vodafone
Page 21



Strengthen Cyber Resilience:

T-Mobile
Page 22



Analyse in Time to Act:

Domo
Page 23

"We do incredible work for customers on a daily basis and our customer-centric culture means that customer needs are directly linked to our innovation."

Stephen Murdoch
Chief Executive Officer

For our employees

Our employees each play an important part in powering the digital economy and this year we have been presented with new challenges and our workforce has been required to adapt in order to power the digital economy for our customers, partners and our communities.

As COVID-19 developed to have a global impact, our Company reacted quickly in developing a comprehensive approach focused on ensuring the health and safety of our employees and continuing to deliver great service to our customers and partners.

In support of this, our business continuity plans have been thoroughly tested and are proving robust. We also ensured that, to date, there have been no use of furlough schemes globally.

The health, safety and wellbeing of our employees is critical to the long-term success of the Company. We acted swiftly to ensure we were able to support our employees through these challenging times.

Our response included:

- Helping our employees get, and stay, connected to their colleagues and customers.
- Providing additional training on working and managing remotely.
- Expanding our Employee Assistance Programme to all countries.
- Providing webinars to support mental health concerns in the workplace.
- Re-launching our 10 Employee Resource Groups to help our diverse workforce stay connected.





Employee survey results:

97%

of our employees transitioned to home working with the Company providing additional equipment to those who needed it.

92%

of our employees, when asked, reported their manager kept them informed regarding COVID-19 updates/changes and they received helpful communication and resources.

93%

of our employees told us their manager has been supportive in helping them balance their personal needs with the needs of the business during COVID-19.

"I want to give my personal thanks to all our employees who rapidly had to switch to a completely different working environment, and who have made tremendous efforts to support our customers, partners and each other."

Greg Lock
Non-Executive Chairman

Our purpose in action

Powering the digital economy

COVID-19 accelerated the move to digital and highlighted the importance of being able to run and transform in both the personal and professional context. Overnight social lives, children's education and, for many, work moved online, excluding many without basic digital skills. While the crisis has enabled hundreds of millions to participate virtually, it has also exacerbated the digital divide for 47% of the world's population that remains unconnected, according to the World Economic Forum. In lower income economies, only 32% of the population has basic digital skills¹.

Micro Focus recognises that more needs to be done which is why our social purpose is to help equip communities with the right skills to be successful in the digital world, today and in the future.

Micro Focus INSPIRE is our commitment to be a socially responsible company and it provides a global framework, which empowers our staff to support projects and programmes in their local communities.

From helping to provide basic education in developing countries and nurturing digital skills in advanced economies, to social mobility, inclusion and diversity, our aim is to ensure that no one is left behind.

Each employee has two days per year to volunteer; one for a charity or cause of their choice and one to support our social impact goal. In May 2020, we added a further two days to enable our employees to volunteer specifically in response to the COVID-19 emergency.

For our communities

Digital transformation has revolutionised the way we live and work, but those without digital skills are being left behind.

1. World Economic Forum, July 2020, Accelerating Digital Inclusion in the New Normal, www.weforum.org/reports/accelerating-digital-inclusion-in-the-new-normal





Digital transformation to learning for children in Italy and Bulgaria

The impacts of COVID-19 shifted how we interact and digital became the engine in keeping connected to friends, family, work and society. However, those unfamiliar with collaborative technologies were at risk of digital exclusion.

When governments in Italy and Bulgaria announced schools were to close due to lockdown, both education ministries began to roll out virtual classrooms. The barrier to successfully delivering the virtual lessons was that many teachers had no experience in using the digital tools and struggled to get started.

Micro Focus employees acted fast and started working together to get teachers from their local schools set up and ready to teach online. Employees helped install software for the teachers and organised guidance webinars to equip them with the skills to effectively use Microsoft Teams – and to help get their students set up so they could take full advantage of the daily online lessons.

"We have seen a tremendous response from our 12,000 employees around the world and are proud to share some of their stories."

Susan Ferguson
Chief Human Resources Officer



**"May you live in
interesting times."**

Greg Lock
Non-Executive Chairman

Review of year

This is my first statement as Chairman of Micro Focus, having joined two weeks before the COVID-19 tsunami hit us all. Coinciding with my joining, the Company had announced the conclusion of a Strategic & Operational Review.

In summary we set out a three-year ambition to reduce our revenue decline to zero, be able to generate in excess of \$700m of annual free cash flow and have Adjusted EBITDA margins in the mid-forties percent. Clearly that ambition has been affected somewhat by the extraordinary changes the virus has wrought on businesses and, more importantly, individuals.

In the financial year, the business generated an operating loss of \$2,661.4m. Whilst substantial, this operating loss includes impairment charges totalling \$2,799.2m. The impairment charge is a non-cash item and so does not impact the cash generated by the business in the year which has remained strong.

The consequences of our acquisition of HPE's software assets have been daunting in many ways and dealing with the aftermath has been challenging to say the least, but we are beginning to see positive results from the comprehensive change programme put in place this year. I am well aware that continued improvement is needed to restore confidence in our future.

Talent

I want to give my personal thanks to all our employees who rapidly had to switch to a completely different working environment, and who have made tremendous efforts to support our customers, partners and each other.

The Micro Focus INSPIRE programme is now in its second year and is continuing to develop and improve. This year we provided the team with two additional volunteer days specifically in response to the COVID-19 emergency. We have seen a tremendous response from our employees around the world and have shared some of these stories on page 43.

At our peak, we had c.97% of our staff working from home and conduct almost every activity over the 'ether'. This, of course, pertains to the board as well. In that regard we have been encouraged by our ability to adapt to this new environment and have set about strengthening our capability and improving the way we work. To this end I was pleased to welcome Robert Youngjohns and Sander van 't Noordende to our team during the year.

On 8 January 2021, Brian McArthur-Muscroft informed the board of his decision to leave the Company for another opportunity. I wish Brian well in his future role and thank him for his efforts.

Looking forward

Turning to our ability to invest in order to achieve our three-year ambition, you will recall that as part of our plans we have chosen to increase investment in our Security and 'Big Data' products. We have seen much progress in Security and good progress in setting Vertica up for further growth in the future. This investment is incremental to approximately \$500m of research and development spent annually, adding capabilities across all of our product groups which deliver innovation to mission critical software for our customers.

The quantum of our debt interest payments is very well covered by our cash flow, but the scale of debt does mean that we have to be very selective in choosing areas of the business where we can afford significant investment. I am pleased to report that we successfully refinanced our debt arrangements so that we have a clear three years until any falls due.

Last year, the board set out the strategic initiatives required to turn around our business. We are one year into this plan; this year we have built a foundation on which to build despite the operational headwinds of COVID-19. Next year, we must continue to improve and demonstrate our ability to deliver incremental improvements to our performance. On a personal note I have been Chairman of some five 'quoted' companies; nothing I have found in my first year has unduly surprised me, the scale of the challenge is large and yes, we live in 'interesting times'.

Greg Lock

Non-Executive Chairman
8 February 2021



"We are now 12 months into our three-year turnaround plan and whilst there remains a great deal to do, I am pleased with progress made in delivery of our key strategic objectives and improvements in overall operational effectiveness."

Stephen Murdoch
Chief Executive Officer

Performance in the period

This time last year, we presented our three-year ambition for Micro Focus and the priorities for the period under review. Clearly, when doing so, we had no idea of the profound impact COVID-19 would have on our customers, employees and the communities we share.

The operational headwind and macro uncertainty resulting from the pandemic required us to be agile in adapting our approach and the sequencing of priorities as we executed multiple programmes that comprise the transformation of our business to deliver against the objectives we set.

I am proud of how our team has adapted to the challenges presented and ensured we stayed focused on delivering for our customers and other stakeholders whilst improving our business performance. Our business model remains resilient in the face of COVID-19, underpinned by high levels of recurring revenues and long-term customer relationships. As such, we made the decision not to furlough any employees as a result of the pandemic and have worked as a board to support our employees through these challenging times.

For the year ended 31 October 2020 ("FY20"), we reported revenues of \$3,001.0m (FY19: \$3,348.4m). This represents a 10% decline on both an actual and constant currency basis.

We made encouraging progress during the year in re-engineering our Go-To-Market approach, simplifying core operations and sharpening our focus on delivering product innovation in support of our customers' digital transformation programmes. This contributed to the improvement in the second half of the fiscal period despite the broader macro context, when we were able to deliver a moderation in the rate of revenue decline when compared to the first half of the year. Considering the year as a whole, the performance varied across the Product Portfolios.

In Application Modernisation & Connectivity ("AMC"), customer demand for mainframe application modernisation solutions, where we have a leadership position, has never been stronger but delays to customer projects as they dealt with the unique circumstances faced this year impacted our performance. We are increasingly confident that demand for mainframe application modernisation will increase and will contribute to the on-going strength and stability of this portfolio.

Performance in Application Delivery Management ("ADM") and IT Operations Management ("ITOM") was below our expectations. The actions taken to date have delivered some early signs of progress and further improving execution such that we accelerate progress is a key priority. Our objective remains to build a strong core of stable recurring revenues.

Initial progress within Security and IM&G has been encouraging. The targeted investments we have made in Security and Big Data (reported within IM&G) have yielded improvement in performance and we remain confident that the continued execution of our strategy will deliver revenue growth in these areas.

We generated a statutory operating loss of \$2,661.4m for FY20 (FY19 profit: \$221.7m), driven by total impairment charges of \$2,799.2m in the period. This impairment charge reflects our trading performance and the macro environment when

compared to the original projections produced at the time of the HPE Software acquisition, compounded by the impact of COVID-19. This charge is a non-cash item and so does not impact the cash generated by the business in the year which has remained strong.

From an operational standpoint, Micro Focus remains profitable and highly cash generative delivering \$1.2bn in Adjusted EBITDA at a margin of 39.1% (FY19: \$1.4bn Adjusted EBITDA at 40.7% margin) and free cash flow of \$511.2m in FY20 (FY19: \$563.3m).

Adjusted EBITDA and free cash flow were towards the upper end of our expectations in FY20. Enhancing cash flows through cost control measures and strong working capital management remains a primary focus area for management.

Further details of our financial performance can be found on pages 48 to 58 of the Chief Financial Officer's report.

Update on our three-year plan

The three-year ambition we set was to deliver stable revenues, Adjusted EBITDA margins towards the mid-forties percent, and be able to generate at least \$700m of free cash flow annually.

These targets were set prior to COVID-19 and given the on-going situation and associated uncertainty we remain unable to predict the magnitude and duration of the impact COVID-19 will have. The resulting macro-economic impacts are likely to delay the achievement of these specific objectives, but the principles of revenue stabilisation and margin expansion, in order to deliver strong and sustainable levels of free cash flow, remain the aim for FY23 and beyond.

In pursuit of this plan, our main initiatives are focused on two key objectives. Firstly, evolving our business model to ensure we continually assess and address customer needs and adapt to changes in the market to deliver value and capture growth opportunities. Secondly, delivering operational excellence through business process and infrastructure simplification with a relentless focus on improving levels and consistency of execution.

Overall, there was solid progress made in the period.

Evolving our business model

We deliver mission critical technology that helps power the digital economy. This means we serve a central role in thousands of core strategic and operational functions within our customers' business operations.

In doing this we take a differentiated approach focused on supporting our customers' need to both run and transform their businesses simultaneously in support of their digital transformation programmes. This means delivering innovation that enables customers to leverage existing investments to exploit new use cases or address new threats.

Our pragmatic approach supports customers in balancing agility, cost and risk by bridging their existing investments with the newest technology and helping ensure resources are deployed against the areas of highest return.

Chief Executive's Strategic review continued

In FY20 we continued to invest significantly in our products delivering key enhancements and major new releases across every portfolio. In total we delivered over 500 enhancements or new releases with notable developments including:

- **Information, Management & Governance:** major releases of our leading Compliance & Archiving and Big Data solutions to deliver expanded cloud capabilities and coverage and support new cross-industry use cases;
- **IT Operations & Management:** delivery of a new architecture and Artificial Intelligence capabilities to enable the rapidly increasing levels of operational data to be collected, analysed and actioned more effectively;
- **Application Delivery Management:** new SaaS capabilities and advancements in support of modern quality management practices;
- **Application Modernisation & Connectivity:** major enhancements to support customers in modernising mainframe workload with expanded cloud capability further consolidating our leadership position in this increasingly important area; and
- **Security:** new Artificial Intelligence and Machine Learning capabilities, expanded multi-cloud support and enhanced capabilities to support customers in their key data privacy initiatives.

Adapting to market changes: transition to SaaS and Subscription

In FY20 we also began to take a more definitive approach to delivering Subscription and SaaS-based offerings as a key part of our strategy and to accelerate the transition to these models where appropriate within our 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.

In FY20, accomplishments included:

- Investment in infrastructure to improve service levels and scale with our customer demands;
- The realignment of compensation plans to deliver this strategy; and
- The release of multiple Security and Big Data offerings in SaaS and Subscription form delivering year-on-year growth in bookings and new logos in both portfolios.

In FY21, we will continue to invest in improving our SaaS infrastructure and develop existing and new offerings. In FY21 we will lead with SaaS or Subscription in targeted areas of our portfolio and expect, by FY22, SaaS or Subscription to be the only offerings available in these targeted areas.

Capturing growth: Security and Big Data

In FY20 we began to take a differentiated approach to investment and operational management in Security and Big Data, in order to better position ourselves to address growth opportunities.

Examples of the initial output from this increased investment are outlined above and the priorities remain: delivering new innovation in response to rapidly changing market opportunities, expanded cloud and cross-industry use case support and further developing existing and new SaaS and Subscription offerings.

In Security we also completed a small acquisition to deliver native Security, Orchestration and Remediation (S.O.A.R.) capabilities, which removed a gap in our offering. Our Security portfolio is broad and our experience and expertise is deep. From this foundation we will continue to focus on delivering comprehensive solutions and thought leadership around Cyber Resilience as customers seek to protect their businesses from new and increasingly sophisticated threats.

Changes in operational management have focused on improving speed and agility through better end-to-end organisational alignment. This has been supported by more targeted customer coverage underpinned by the addition of dedicated and improved leadership capacity and talent, and specialist sales resources.

In FY21 we will consolidate improvements made and seek to accelerate in key areas of application security, data privacy and next generation security incident and event management. In addition to delivering on our product innovation commitments, progress will be underpinned by on-going investment in specialist sales capability and the development of improved indirect channels to market.

Operational effectiveness

Delivering consistently: Go-To-Market

Our goal is delivering consistent, sustained improvement to our revenue performance through increases in sales productivity and the more effective alignment of our resources to opportunity. Our sales processes have been overly complex in part because acquisitions have not been fully integrated.

Notable achievements include:

- A single methodology deployed globally to enable more consistent execution;
- A new planning process to drive more effective deployment of resources to the right opportunities within our customer base and specialisation by Product Portfolio to better pursue market opportunities;
- Improvements to the leadership team through internal moves and significant levels of external recruitment; and
- Improved enablement training and the implementation of new support tools.

In the second half of the year, these changes led to better predictability and improved performance across key sales metrics and over time we expect them to deliver better revenue performance for the Group.

The objective for FY21 is to ensure these changes are fully embedded in the organisation and accelerate initiatives aimed at improving performance in maintenance and delivering new capabilities in both SaaS and Subscription to capture new opportunities and further improve the mix of recurring revenue within the Group.

Improving infrastructure: completion of simplification programmes

We continue to execute multiple programmes to deliver improved operational effectiveness and agility. These programmes are advanced and the key project to complete remains the migration to one set of core IT systems.

Digital transformation programmes on this scale are inherently complex, in this instance made even more so by COVID-19 presenting the unique challenge of having to execute the programme with fully remote internal and system integration partner teams.

I am pleased to report that on 13 January we began to transition employees to our new IT infrastructure which is an important milestone for the Group but the work ahead remains significant, impacting every employee and our core business processes. This migration will happen in two phases, one now and the second in the summer, followed by the period of familiarisation and stabilisation typical in any global IT project.

The priority for FY21 is to complete this transition as effectively as possible with minimum disruption to day-to-day operations. When complete and embedded this will provide the foundation for capturing operational improvements and efficiencies evident and achievable in the business. The completion will also be an important step culturally, facilitating closer alignment of our operations, regardless of heritage company, enabling our people to work more effectively and productively as one team focused on improving our business and delivering a much smoother and richer experience for our customers.

The impact of COVID-19 has also presented opportunities for us to re-evaluate how and where we work. Not only the dynamic of home working versus office working, but also how and where key business processes are executed. This, combined with our systems work outlined above, presents additional opportunities to further improve efficiencies into the future. We will carefully consider each opportunity, in particular whether the future efficiencies and benefits outweigh the additional one-off costs in the short-term, and will proceed where we see the opportunity to generate longer-term value.

Environmental and social responsibility

Micro Focus is celebrating the one year anniversary of our INSPIRE programme, a framework for our environmental and social responsibility commitments, which contributes to economic development while improving the quality of life of our workforce and their families as well as of our local communities and society at large. The leadership team is proud of the significant progress made in our first year and I am confident that we can go much further in our goals in this important area.

Capital allocation

Cash generation and working capital management remain strengths and priorities for the Group. Improvements have been delivered in the period despite the challenges of COVID-19 and as a result Net debt reduced in absolute dollar terms by \$0.4bn in the fiscal period.

We refinanced our term loan structure and revolving credit facility with voluntary repayments made, revolving credit facility requirements reduced and maturities now extended to 2024 and beyond.

The cash generative nature of our business means we can operate effectively at current leverage levels. That said, the board remains committed to reducing leverage towards historical target levels and will continue to reduce net debt in absolute dollar terms in the coming fiscal periods.

The board has reviewed and considered the key factors of cash performance, balance sheet and macro-economic factors and has concluded it is now appropriate to re-instate the Group's dividend. The board is recommending a final dividend of 15.5 cents for FY20. This is equivalent to half a year's dividend at 5x cover.

In terms of dividend policy, we will initially aim to pay a dividend which is approximately 5x covered by our Adjusted Profit after tax in each financial period. Our aim is then to increase the percentage of profits distributed to shareholders as we execute our strategy of stabilising the business.

Outlook

Micro Focus delivers enterprise software across multiple geographies and vertical sectors. We believe our core value propositions and capabilities offer significant value to customers as they pursue their digital transformation programmes and remain fully focused on delivering the product innovation they need to succeed.

The majority of our revenues are contractual and recurring in nature and management is targeting initiatives to increase this mix. The resilience this high level of recurring revenue affords can be seen in the Company's ability to generate cash and manage costs as required even within a challenging macro environment. We have made significant progress in cost rationalisation and will continue to focus on this area in order to maximise the potential profit and cash flow that our revenue streams represent.

We are focused on delivering the objective of revenue stabilisation as we exit FY23 and continue to target incremental improvements in revenue trajectory annually in order to achieve this goal.

The second half of FY20 saw a sequential improvement in revenue performance and we have continued this momentum into the first quarter of FY21.

The board and management team are focused on delivering our three-year turnaround plan. We are confident this work will simplify operations, strengthen Product Portfolios and sharpen our ability to address the needs of our customers at the same time as delivering attractive and sustainable shareholder returns over the long-term.

Strategic report

The Strategic report, comprising the information on pages 12 to 75 inclusive, was approved by the board of directors on 8 February 2021 and signed on its behalf by:

Stephen Murdoch
Chief Executive Officer
8 February 2021

Technology trends

Run & Transform to succeed in the digital economy

Digital transformation

Digital transformation has been at the top of virtually every organisation's list of objectives and concerns for several years.

Digital transformation also plays a major role in enabling our customers to respond to the societal changes that we see at play in the global economy – from Big Data solutions ensuring logistic companies maximise routing efficiencies whilst minimising carbon emissions, to embedding the latest cyber resilience in smart cities to support rapid urbanisation.

A combination of technology advancements, evolving customer expectations, process enhancements (e.g. digitalisation), and new business models are forcing executives to rethink prior IT strategies, and digitally transforming the organisation represents an opportunity to meet these changing requirements.

There are several advantages to pursuing a transformation strategy, which can help our customers drive revenue (top-line benefits) or help organisations better manage risk and cost (bottom-line benefits) as outlined in the graphic (right).

In responding to the COVID-19 pandemic, IT executives across the world have had to make rapid changes to their working processes – rolling out capacity for remote work, online collaboration, and access to essential data and tools to whole workforces. The desire to “keep the lights on” soon became critical, and organisations started prioritising investments that were optimised to “run” the business instead of “transform” it.

As time went on, what was once considered a short-term anomaly, quickly became the ‘new normal’ for business. Organisations thus had to take immediate action and show customers that they could continue delivering value. The pendulum thus began to swing again, and organisations sought out an IT strategy that balances short-term business resiliency with long-term value capture.

Driving revenue Top-line benefits



Boost and sustain revenue

Access to increasing amounts of data and new ways to bridge formerly distinct data silos now enable organisations to achieve actionable insights. As a result, organisations can more effectively act on unmet customer needs, underfunded parts of the business, emerging business models, and more.



Drive customer engagement

Organisations are constantly looking for new and better ways to engage customers. With the right investments, they can eliminate intermediaries and employ digital platforms to reach and serve customers directly, closing the loop between data and action, and truly understand their customers and better satisfy their needs.



Deliver with greater speed

Customer expectations are constantly advancing, especially when it comes to accessing new and emerging benefits. With cognitive search, employees are able to perform knowledge discovery more efficiently; and with smarter functional testing, organisations can deliver innovation at lower risk than ever before.

Digital transformation

Managing risk and costs Bottom-line benefits



Improve quality and delivery

Gaining access to AIOps (“Artificial Intelligence for IT Operations”) helps organisations reduce event volumes and get to root cause faster, and emerging service assurance technology combines data from hundreds of tools into a single pane of glass to discover IT resources and dependencies and fast-track problem resolution.



Streamline and enhance processes

Organisations that digitally transform can better streamline the back office with Robotics Process Automation (“RPA”), drive intelligent manufacturing with IOT analytics, and automate planning monitoring and scheduling.



Detect and prevent risk

Evolving IT and processes help organisations efficiently manage policies and privileges, identify insider threats, better lock down mainframe access, comply with regulations, and protect consumer privacy.

With so many benefits, it is understandable why “transform” is a critical-path strategy for virtually every organisation on the planet.

Today, the market for digital transformation remains robust. IDC predicts that spending on solutions in this space will continue at a solid pace despite the challenges presented by the pandemic – with global spending projected to reach \$2.1trn by 2023, growing at 15.5% CAGR over that time. This is consistent with our own primary research, which suggests that organisations are not just maintaining a high level of spend for digital transformation, but in fact they are accelerating projects due to the benefits realised during the pandemic by organisations that proactively pursued these initiatives and adapted more quickly to evolving market conditions.

In helping organisations to bridge the gap between existing and emerging technologies our customers are able to balance the need to both run and transform their business at the same time – which we believe are key elements of a successful digital transformation programme.

With new expectations being placed on IT, and as organisations are finding new and better ways to bridge formerly distinct data silos, artificial intelligence/machine learning is quickly becoming a critical element of the digital transformation landscape. The advanced analytics can improve service management, streamline fulfilment, automate the data centre, expedite data classification, automate processes, and expedite analysis and action. With a strong set of artificial intelligence/machine learning intellectual property (e.g. Vertica, IDOL, Intersect), which is integrated across the portfolio, Micro Focus can deliver the insights, efficiencies, and automation necessary to succeed in today's rapidly evolving marketplace.

The key outcomes of digital transformation

While digital transformation touches virtually every corner of the organisation, and as a result is often the subject of varying priorities from numerous stakeholders, there are four key outcomes that our customers demand.

	How we help	How our customers use our technology
 Accelerate Application Delivery See page 20	Reliably scale Agile and DevOps across all our customers' environments, from mainframe to cloud – quickly bringing innovative ideas to life at the pace your business demands.	– Quality Improvement – Performance Engineering – Functional Testing – Modernisation (core applications & processes)
 Simplify IT Transformation See page 21	Simplify the complexity of hybrid IT and transform into an agile, services-driven organisation.	– Service Management – Service Assurance – Service Governance – Service Fulfilment
 Strengthen Cyber Resilience See page 22	Intelligently adapt customers' security to respond to an ever-evolving threat landscape and protect our customers' companies' most important assets.	– Data Security – Application Security – Security Operations – Identity & Access Management
 Analyse in Time to Act See page 23	Leverage machine learning so our customers can transform unlimited volumes of data into accurate, actionable, and automated insights.	– Customer Behavior Analytics – IOT Analytics – Cognitive Search & Knowledge Discovery – Operations Analytics – Security Analytics

AIRBUS



Accelerate Application Delivery

Airbus is a global leader in aeronautics, space and related services. In 2019, it generated revenues of €70bn and employed a workforce of around 135,000. Airbus offers the most comprehensive range of passenger airliners. It is also one of the world's leading space companies, a European leader in tanker, combat, transport, and mission aircraft, and it provides the most efficient civil and military rotorcraft solutions worldwide.

Using Micro Focus ALM Octane and ALM/Quality Center, they were able to adopt agile development and automated testing to shorten project timeframes and improve team collaboration.

"Working with Micro Focus helps shorten our project timeframes, saving us time and money. It is clear to us that efficient and agile development and testing practices are supporting our competitive market position."

Frank Westerbuhr
Expert 'System Test and Test Tools', Airbus





"We have noticed an alarm reduction rate of over 70%; monitoring requests which could take hours to resolve now take minutes."

Mohammed Shata
IT Operations Management Solutions Architect

Our objective

Working together to digitally transform Vodafone IT operations.

In response

Micro Focus Operations Bridge improves root cause analysis and mean time to repair with automated monitoring and remediation across cloud and traditional environments.

This provides Vodafone with a consolidated, end-to-end view of the environment. Operations Bridge has over 200 tool integrations available, allowing a hybrid IT infrastructure to be monitored by consolidating information rather than rip and replace. In Vodafone's case, central event monitoring draws data from AppDynamics, Dynatrace, VCenter with Cloud Optimizer, Oracle Enterprise Manager, and BMC Remedy. Operations Bridge distinguishes the signal from the noise, and focuses IT operations on root cause, rather than fighting symptoms.



Simplify IT Transformation



"With Micro Focus Fortify, we are truly accelerating our AppSec programme across T-Mobile. Fortify empowers us to scale, and the integrated DAST solution helps us meet our ambitious AppSec goals, now and in the future."

Garrison Hu

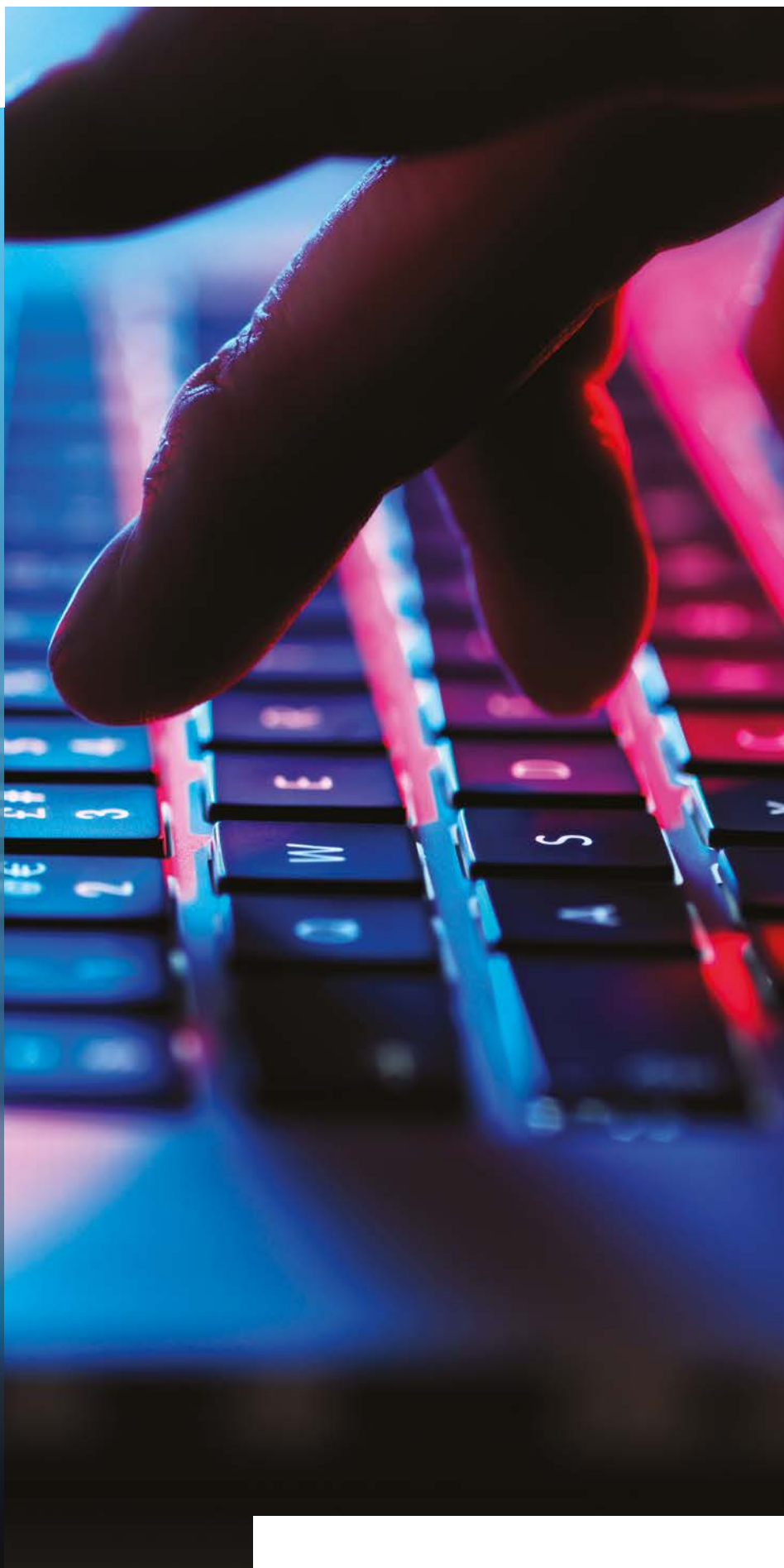
Application Security Manager,
T-Mobile Digital Security

T-Mobile U.S. Inc. is America's supercharged Un-carrier, delivering an advanced 4G LTE and transformative nationwide 5G network that offers reliable connectivity for all. T-Mobile's customers benefit from its unmatched combination of value and quality, unwavering obsession with offering them the best possible service experience and undisputable drive for disruption that creates competition and innovation in wireless and beyond.

T-Mobile uses Micro Focus Fortify as part of the company's comprehensive strategy to protect customer and employee data. Our application security (AppSec) software helps its software developers and security teams eliminate vulnerabilities and build more secure software.



**Strengthen
Cyber
Resilience**



DOMO



Analyse in Time to Act

Domo is a cloud-based software company that specialises in business intelligence (BI). With Domo Business Cloud, it enables organisations to dynamically integrate data from thousands of sources, turn data into live visualisations, and extend BI directly into workflows and applications that empower the entire organisation.

Domo leverages Micro Focus' Vertica in Eon Mode to help query, and derive insights from, more than 100 trillion rows of data each day on behalf of its 1,800 customers (including DHL, ESPN, L'Oréal, Telus, and Cisco). Domo's technology, powered by Vertica, was even employed to help fight COVID-19 – gathering and analyzing data from credible sources every 10 minutes, and making the results available to those fighting the pandemic so they could make more informed decisions.

"Our ability to ingest data from anywhere and build processes on top of that data is revolutionary in its simplicity. We regard Vertica's advanced analytics as the bridge between the automation we build and the autonomy our customers require."

Ben White
Senior Database Engineer, Domo

Micro Focus strategy

At Micro Focus we deliver mission critical software that powers the digital economy. We combine pragmatism, discipline, and innovation to deliver trusted, proven solutions that our customers need in order to succeed in today's rapidly evolving marketplace.

Our strategy to continue to deliver on this promise is to provide innovation to customers in a consumable and consistent way that facilitates adoption and value. We are delivering a Go-To-Market transformation that simplifies how we do business leading to operational efficiencies, predictable outcomes and scale.

We have created a working environment for our employees that is built on a culture of continuous learning and growth. This, we believe, will allow us to deliver a consistent return on investment to our customers, partners, employees and shareholders.



To deliver shareholder returns through sustainable free cash flow generation

As part of our FY19 Strategic & Operational Review we announced our strategic initiatives which, combined with existing programmes, are designed to deliver on our strategic vision for FY23 and create a business which is more efficient, agile and better aligned to our customers' value proposition. Our strategic vision was set in the months preceding the COVID-19 pandemic and as a result the execution of these initiatives is now being balanced with the new risks and opportunities which have arisen due to COVID-19 such that we adapt our approach as required to deliver against our goals.

Strategic initiative	Progress in the year You can read more about the progress against our strategic initiatives in the Chief Executive's Strategic review within pages 14 to 17.
Evolving our business model Delivering innovation We need to invest more in our growth. Evolving the operating model to improve the visibility of our product strategies and drive more differentiation with increased investment in Security and Big Data. SaaS and Subscription We need to accelerate the transition to SaaS and Subscription to better align to the market opportunity where these models are becoming the de facto standard.	In FY20 we continued to invest significantly in our Product Portfolio delivering key enhancements and major new releases across every portfolio. In total we delivered over 500 enhancements or new releases and 120+ relating to Security and Big Data. We have continued to build more discrete Go-To-Market capabilities in both Security and Big Data adding quota carriers and specialised sellers. Completed the acquisition of ATAR Labs and fully integrated this into our ArcSight SIEM offering. We have improved our own internal infrastructure so that we are able to scale with our SaaS and Subscription offerings in line with customer demand. The realignment of compensation plans to deliver this strategy. The release of multiple Security and Big Data offerings in SaaS and Subscription form delivering year-on-year growth in bookings and new logos in both portfolios.
Operational excellence Go-To-Market Transform our Go-To-Market function in order to improve our sales effectiveness. Complete core systems Complete the core systems and operational simplification work to deliver a robust and efficient operating platform.	A single methodology deployed globally to enable more consistent execution. A new planning process to drive more effective deployment of resources to the right opportunities within our customer base. Improvements to the leadership team through internal moves and significant levels of external recruitment. Improved enablement training and the implementation of new support tools. The Group continues to execute multiple programmes to deliver improved operational effectiveness and agility. These programmes are advanced and the key project to complete remains the migration to one set of core IT systems. Work to deliver this programme continued at pace in FY20 despite the pandemic. As a result of this hard work, we transitioned a significant portion of our employees in January 2021 to the new infrastructure.

Key performance indicators

More detail can be found in our Key performance indicators within pages 44 to 47.

(10)%

Revenue growth/(decline)

Principal risks

More detail can be found on our Principal risks and uncertainties within pages 60 to 73.

Evolving our operating model is tied to many of our principal risks including Products, Competition and Business strategy and change management.

Link to remuneration

More detail can be found in our Remuneration report within pages 103 to 122.

The changes we are making to these product groups are intended to support the delivery of revenue growth in these markets, increased profitability and ultimately Adjusted free cash flow, all of which are core performance measures for the Company bonus plan.

The Group's long-term incentive plan is based on Adjusted free cash flow and relative total shareholder return.

8.2%

SaaS and other recurring revenue as % of total revenue

Our Principal risks include risks in relation to Products, Competition, and Business strategy and change management, all of which relate to the acceleration to SaaS and Subscription.

The increase of recurring revenue streams is also a driver of total shareholder return despite the short-term impact on total revenue and earnings as the business will have sustainable longer-term cash flows which will ultimately increase the net present value.

(10)%

Revenue growth/(decline)

45

Customer experience NPS

We have identified principal risk specifically in relation to Go-To-Market models.

In addition, the transformation is also related to our Business strategy and change management risk.

This is intended to improve revenue growth and increase profitability.

Revenue and Adjusted EBITDA margin growth will ultimately drive free cash flow generation.

39.1%

Adjusted EBITDA margin

\$511.2m

Free cash flow

\$660.1m

Adjusted free cash flow

The completion of the system is directly linked to IT Systems and information, Cyber Security and the business strategy and change management risks. It also indirectly impacts and once complete will reduce risk in a number of the Group's other principal risks and uncertainties.

The systems projects will be a significant driver of cost reduction as we remove complexity from our business. This will lead to increased profitability and ultimately Adjusted free cash flow. In addition, the system is designed to be scalable for future inorganic opportunities and therefore links to the total shareholder return measure in the long-term incentive plan.

Our business model

Working with our stakeholders



Who we are and what we do

Micro Focus delivers mission critical software that keeps the digital world running. We aim to combine pragmatism, discipline, and innovation to deliver trusted, proven solutions that customers need in order to succeed in today's rapidly evolving marketplace.

Our 40,000 customers operate in both the private and public sector across all industry verticals and geographies. As a result, our revenues are highly diversified and predominantly recurring in nature. And with 12,000 employees in 48 countries and 7,500+ partners and alliances to draw upon, our sales footprint and breadth of expertise to help our customers run and transform is significant and global in nature.

Our track record	Our approach	Our commitment to innovation
 40+ years of experience in managing a deep and broad portfolio of solutions supported by core business fundamentals and business resiliency	 Pragmatic approach to R&D and a strong commitment to our customers and the value we can help them derive over the long-term	 One of the largest patent portfolios in the enterprise software space – enhanced by customer-centric innovation and a enhanced by a deep inventory of advanced analytics

How we operate

We operate globally but transact locally. This allows us to combine the expertise from our global workforce with local in-country knowledge to deliver tailored solutions for our customers.

Our goal is to maintain and build upon the highest level of ethics in how we treat our employees, and do business with our partners, customers and suppliers. In pursuit of this aim, we enforce rigorous standards in our relationships with our customers and partners.

Our sales organisation operates with a single global strategic plan and execution model. Sales teams are organised by geography with product specialists in larger jurisdictions.

Our research and development teams are organised by product group with an increasing focus on software factories with teams leveraging capabilities across the Group.

Our product teams leverage a centralised back-office function to allow scale of efficiency and the standardisation of approach across the Company.

As well as helping our customers address their carbon footprint and adopt carbon friendly IT strategies such as enabling greater efficiency and longer life from their existing technology, Micro Focus is committed to improving its own carbon footprint and has committed to Greenhouse Gas (GHG) reduction targets as well as a move to renewable energy, where possible.



Our competitive advantage

We balance the needs of an existing installed base of customers with those of new prospects. Our ability to bridge existing and emerging technologies and help our customers transition their business to the needs of tomorrow without disrupting the operations of today is one of our core advantages.

Core customer need	The Micro Focus advantage
Flexibility to address all critical elements of digital transformation	We deliver more than 300 product lines, which are focused on the key outcomes that organisations need to run and transform, so they can minimise vendors and evolve as their strategy dictates.
Tap into powerful innovation engine	Our talented team of more than 5,000 engineers has delivered more than 1,000 product releases in the last 24 months, so customers can trust us to deliver what they need in a way that is consumable to them here and now.
Leverage a deep portfolio of advanced analytics	Our strong artificial intelligence/machine learning portfolio is integrated across the portfolio, delivering insight, efficiency, and the automation necessary to succeed in the digital economy.
Access a broad ecosystem of digital transformation experts	We have built a broad network of 7,500+ partners to supplement customers' in-house resources and help them adapt to evolving market demands.
Future-proof investments in IT over the long run	Our solutions are open, integrated, and backward compatible to help customers bridge the existing and emerging.

Our business model

Working with our stakeholders continued

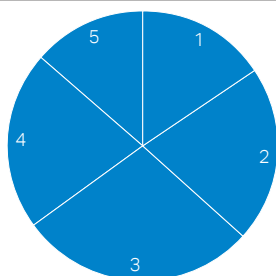


Our product groups

Micro Focus has over 300 products designed to support customers across the four outcomes set out on page 19. These products are grouped into five groups:

REVENUE BY PRODUCT GROUP

\$m



31 October
2020
\$m

1. Application Modernisation & Connectivity (AMC)	470.3
2. Application Delivery Management (ADM)	631.0
3. IT Operations Management (ITOM)	853.0
4. Security	646.1
5. Information Management & Governance (IM&G)	401.2

Application Modernisation & Connectivity (AMC)

AMC solutions help customers unlock the value from core business applications and support a transformational journey to create greater value from longstanding IT investments, on or off the mainframe.

Application Delivery Management (ADM)

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.

IT Operations Management (ITOM)

ITOM Solutions simplify the complexity of managing hybrid IT environments. Powered by analytics, they accelerate the service fulfilment life cycle, strengthen IT service assurance and governance, and help business users easily engage with IT.

Security

Security provides enterprises with intelligent solutions to create cyber resilience through detecting threats, securing data and applications, and protecting identities – enabling customers to adapt and evolve for the future.

Information Management & Governance (IM&G)

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.



How we generate value

We drive value for our customers and partners through the sale of our software solutions, supporting services and partnerships. Solutions are sold through a licence and maintenance model or SaaS and Subscription model. The type of delivery model is dependent on the individual products but we seek to offer customer choice so that they can select the deployment model that most fits their needs.

Our patent portfolio is one of the ten largest in the pure-play enterprise software market, which protects future revenue streams.

Our back-office functions are designed to be lean, efficient and agile making us easy to do business with.

These principles underpin strong Adjusted EBITDA margins and cash generation.

We deliver societal value through our Micro Focus INSPIRE programme, which helps equip communities with the skills needed to be successful in their digital future.

12,000

Employees

500+

Product releases

40,000

Customers

300+

Enterprise grade products

Who we create value for

Our key stakeholders



Our employees



Our marketplace
Customers, partners
and suppliers



Our investors



The communities
in which we operate



**Environment &
Sustainability**

Find out more about how Micro Focus impacts our stakeholders, see pages 32 to 43.

Micro Focus creates and contributes value to its stakeholder groups through transparency and consideration of the impact of our business decisions

This section outlines our impact on each of these stakeholders, how we engage and what is important to each stakeholder group.

Last year we launched Micro Focus INSPIRE which sets out our social responsibility agenda. This framework ensures there is a continuing commitment to behaving responsibly and contributing to economic development while improving the quality of life of our workforce and their families, as well as those of our local communities and society. Starting from how we play our part in shifting to a lower carbon economy and reducing the effects of climate change, to how we manage relationships with employees, suppliers, customers and local communities, through to the governance of our leadership team, executive pay, audits, internal controls, and shareholder rights.

Whilst FY20 was rich in challenges, we are pleased with the progress we are making following the launch of our framework, Micro Focus INSPIRE, which aligns both current and future efforts and serves as a means by which to more effectively measure the impact of our efforts to embed sustainability into our business.

In delivering against this programme, we seek to align the success of our stakeholder groups to build a successful and sustainable business for our shareholders, ultimately leading to value creation for all groups we impact.

Whilst this evidences progress of our journey, we acknowledge there is more work to do across a number of areas of our business.

There are five pillars which make up Micro Focus INSPIRE. Susan Ferguson, Chief Human Resources Officer, is the executive sponsor and is actively involved in the stewardship of the programme.

Micro Focus INSPIRE

Our five pillars		Our commitment
	Employees	Our commitment to treating employees with respect and being a great place to work
	Marketplace Customers, Partners & Suppliers	Our commitment to being a great company to do business with
	Ethics & Values	Our commitment to doing business the right way with trust and integrity
	Environment & Sustainability	Our commitment to reducing our environmental impact
	Community & Social Impact	Our commitment to helping equip communities with the skills to thrive in the digital future
		▼
	Investors	Our commitment Delivering consistent and sustainable returns through free cash flow generation



Investors

40,000+

Shareholders

\$511.2m

Free cash flow

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

Over the last year we had approximately 150 meetings and calls with investors and we are committed to engaging proactively with our investors.

We strictly adhere to market regulations and consult our advisors as required to ensure that we remain compliant with them.

Our aim is to discuss Micro Focus with investors openly and provide as much access to our management team as 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.

Following COVID-19, we responded quickly to ensure investor outreach was not impacted and moved to a virtual model for all investor communications. In FY20, this included our debt roadshow for the purposes of refinancing, our interim results roadshow, and multiple other investor meetings.

The areas our investors are focused on

Investor meetings are focused on the operational performance of the business, our customer proposition and the strategic initiatives required in order to stabilise revenues.

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 Policy ahead of the 2019 AGM.

Sustainability is becoming an area of increasing focus for the investor community and we aim to give greater disclosure in this area. We also refreshed our Investor Relations website to make it easier to find information including policies on Human Rights, Anti Bribery, Environment, Health & Safety, Code of Conduct, Privacy and Governance amongst other topics.



Employees

12,000

Employees

33.3%

Females on the board

Software – from vision to execution to sales to customer – is a people business. We focus on employee engagement throughout the employee journey – from recruiting and new employee onboarding, talent and development, attraction and selection, reward and recognition, through inclusion and diversity. Creating a unified culture where employees are informed, engaged, and equipped to deliver their best work for our customers and each other is critical. Everything we do is guided by our culture and values: Focus on the Customer, Team and Teaming, Decide and Act, and Learn and Adapt. As we continue to grow through acquisitions, we create a collaborative workplace to engage our employees regardless of how they join us. Even during 2020, with employees working from home due to COVID-19, we stayed connected across the world, enhancing our virtual communication and training platforms. We are committed to develop our people, reward and recognise great work, and nurture both an inclusive and diverse place to build an enriching career.

How we engage

Every voice is valued, and one of the important ways to improve our workplace is by listening and regularly inviting perspectives. We want to know what all our people think, feel, and have to say about what matters most, and act with that input in mind. Through My Voice, our all-employee internal survey, employees provide their confidential and anonymous feedback, and managers receive detailed feedback to help create action plans. This year we also conducted several “pulse” surveys, including how employees are navigating COVID-19, and surveys to assess future ways of working going forward. Regular cross-company feedback is critical to help us understand engagement across our Company and to prioritise action, help influence business and to make Micro Focus an even better place to work.

Employee Engagement Panels were launched in the year ended 31 October 2020 to create a direct connection and dialogue between our board of directors and employees. This programme enables the board to understand the views of employees to ensure their interests are taken into consideration in their decision making.

Karen Slatford, Senior Independent Director, who has taken up the role of Workforce Engagement Director for the board, facilitated four employee panel sessions. The board will continually review this engagement mechanism to ensure it remains effective.

Our overall engagement efforts yielded:

- 85% participation rate in “pulse” surveys in FY20 and targeted actions implemented.
- 45,000 employee comments read and analysed.
- 22 nominated employees and leaders across our global business and functions participated in four Employee Engagement Panels.

The areas our employees are focused on

Wellbeing and maintaining mental health

Wellbeing has been more important in FY20, than ever before. Our Micro Focus Wellbeing programme focuses on Five Ways to Wellbeing (Stay Connected, Be Active & Healthy, Maintain Emotional & Mental Health, Keep Learning, and Give Back). To support wellbeing, we have launched a rich, newly updated wellbeing portal containing a library of resources for our employees including tips, videos, and curated learning on building healthy habits, reducing stress and burnout, meditation and mindfulness.

We celebrated this year’s World Wellbeing and Mental Health Awareness Weeks and highlighted the importance of wellbeing for all employees and their families. In addition to launching our Wellbeing @ Micro Focus site, our senior executive leaders shared their personal and professional journeys in each of the Five Ways to Wellbeing.

- 14,000 site visits to executive leaders’ personal blogs on wellbeing.
- Mental Health Awareness training provided for managers, employees and HR.
- Broadened the availability and increased awareness of our comprehensive Employee Assistance Programme (EAP) available to all employees and their family members globally.

Our impact continued

Careers and employee development

Helping employees build an exciting and enriching career is a key priority and critical to keeping our employees engaged, productive and challenged. New employees begin their journey at Micro Focus with an immersive end-to-end onboarding experience to maximise their learning, accelerate their productivity and create a sense of belonging.

We enable continuous personal and professional development through a variety of career and development opportunities on our Career Centre and Aspire learning platform. In fact, LinkedIn Learning, one of our learning partners, ranked Micro Focus as one of their top consumers of learning.

Building a career at Micro Focus includes developing in role as well as gaining new experiences by internal job movement. Through our internal mobility platform, employees can explore and grow their careers by moving laterally or taking on more responsibility.

Employees can also share their pride in Micro Focus by referring a friend or colleague for a role.

- 33% of external hires came from employee referrals.
- Internal hires represent 16% of all requisition-based hiring activity*, an increase of 2% from FY19.
- >50,000 hours of learning content consumed in topic areas such as leadership, sales enablement, technical, professional and business skills and compliance.
- >45,000 hours' learning specific skills and live online virtual training through our learning partners.

Leadership and management development

This year, as part of our Leadership Roadmap to build leadership capacity and strengthen skills, we focused on our newest and emerging leaders. We provided a variety of development experiences for our current leaders globally, critical to supporting and driving our business.

In 2021, we will launch LEAP (Lead, Energise and Accelerate Performance), a programme to provide managers with moment of need learning, focused on succinct leadership situations in a workshop format.

- 125 new leaders attended first line manager training through virtual instructor led sessions.
- 1,450 participants from our sales team organisation in one-hour "Raise the Bar" sessions focused on critical topics such as communication, unconscious bias, people development, emotional intelligence, and goal-setting.
- 53 leaders participated in 360 degree assessments to raise self-awareness and develop action plans to enhance their leadership skills.

Talent and succession

Ensuring we have the right talent ready for the right opportunities within our Company is important in supporting our business success. Through robust talent and succession planning we continue to build a diverse pipeline. This focus ensures we have potential successors identified with talent action and development plans defined to ensure readiness for our key executive-level positions and critical roles throughout the Company.

* Requisition was raised as a competitive selection process was required (i.e., internal candidate was not pre-identified).

- Establishment of top talent programmes to accelerate the growth of this identified talent group and provide them with targeted development opportunities.
- Several key executive-level positions were filled from within our Company, including our Worldwide sales leader, AMC product leader, IM&G product leader, CMO, and CHRO – two of which were filled by women.

Inclusion 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 or marital status, sexual orientation, genetic information, citizenship or any other legally protected status.

Inclusion and Diversity ("I&D") 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 not being alike. In FY20:

- We have transformed and strengthened engagement across our 10 Employee Resource Groups (ERGs) – truABILITY, enABLE, dataGALS, FAMILIA, genNOW, inspirASIAN, PRIDE, SALUTE, SHINE, and our newest ERG, PLANET.
- Delivered Unconscious Bias training across the Company.
- Proudly partnered with Girls in Tech, Out and Equal and the Information Technology Senior Management Forum (ITSMF).
- Delivered an Agile/Dev Ops master class for Girls in Tech.
- Launched the INSPIRE 20 podcast series, a series of conversations with 20 industry executives advocating for inclusion and diversity in their own industries, organisations or communities.

In FY21, we will launch a cross-company I&D Council to continue our strong focus on improving inclusion and diversity at Micro Focus.

Employees worldwide

11,903

Total number of permanent regular active employees worldwide
31 October 2019: 12,077

Female employees worldwide

29.4% (3,500)

31 October 2019: 29.3% (3,539)

Female employees in senior management worldwide

20.1% (89)

(Director and above, including non-people leader executives)
31 October 2019: 20.0% (89)

Females on the board

33.3%

Including Company Secretary: 40.0%
31 October 2019: 50.0%



Marketplace

Customers, Partners & Suppliers

40,000

Customers

7,500+

Partners

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 partners' products and services and powers the digital economy.

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.

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.

Marketplace: Customers and Partners

How we engage

We support over 40,000 customers and have over 7,500 partners. Engagement means something different to each one of these customers but our focus on customer-centric innovation requires regular, consistent and open dialogue with our customers.

We interact with customers through an increasing number of channels. Listening to our customers' wants and needs and embedding these requests directly into product road maps results in a pragmatic and methodical approach to investments which seeks to deliver value directly for our customers.

In the period, we have hosted our two Micro Focus Universe events virtually for the first time with over 3,900 participants.

The areas our customers are focused on

Our customers rely on our mission critical technology to power their businesses. We help customers bridge existing and emerging technologies to adapt and succeed in the evolving economy. We call that Smart Digital Transformation. Our broad portfolio, backed by a deep inventory of advanced analytics intellectual property, helps deliver the four key outcomes required to succeed in the digital economy. Our customers need to:

- Accelerate Application Delivery
- Simplify Their IT Transformation
- Strengthen Their Cyber Resilience
- Analyse in Time to Act

Increasingly, in the same way we are, our customers are seeking to align with businesses who share the same values and hold themselves accountable to the same high standards.

For example, customers are increasingly demanding accessibility capabilities are embedded into the products and services that they purchase. In response to our customers, Micro Focus has increased its commitment to accessibility regulation and standards. Those regulations and standards are contained in 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), an international ISO standard.

To read more about our market and how we are making a material impact on the digital economy, see pages 18 to 23.

Marketplace: Suppliers

How we engage

As part of our commitment to being a great company to do business with, our Global Procurement team manages relationships with our suppliers.

In the period, we have undergone a vendor rationalisation programme to streamline our Company's spend to fewer and preferred suppliers, which enables us to drive greater value from those relationships. We have also improved supplier relationships via simplifying our terms and enhancing forecasting capability.

The areas we and our suppliers are focused on

We have focused on streamlining our supply chain and have reduced our vendor list from 50k to approximately 10k, in the year ended 31 October 2020. We are aiming to reduce this further and ensure that we are embedding sustainability into our supply chain, where possible.

COVID-19, has meant that suppliers are managing working capital and cash more closely than ever. At Micro Focus, we recognised this impacts everyone but specifically for small businesses defined as being certified as Minority-owned Businesses (MOB) or Small Medium Enterprise (SME). For these businesses, we have reduced our payment terms from 60 days to 30 days. The initiative has aligned us with industry standards and strengthened the financial position of our organisation.

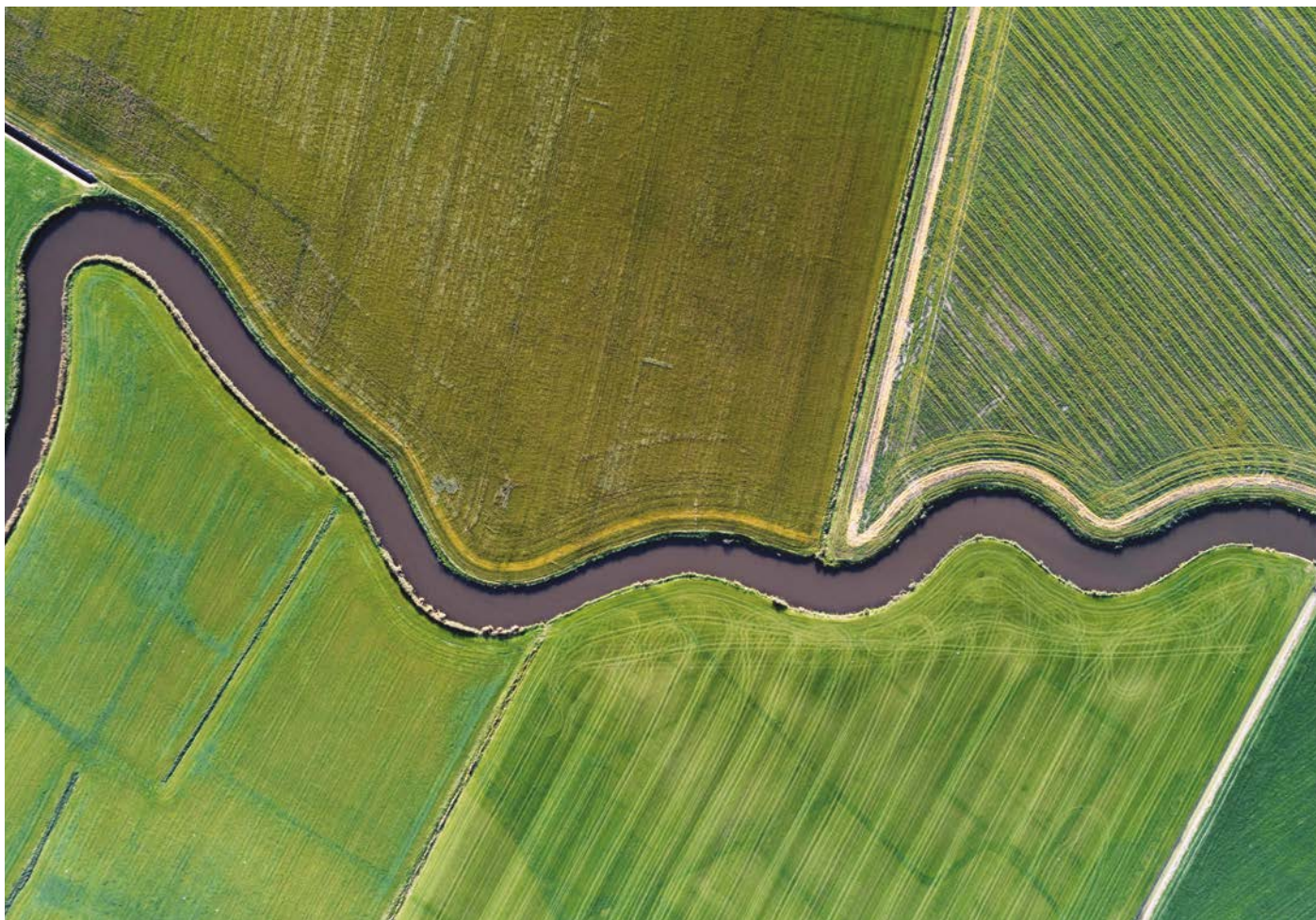
In FY21, we will put an increased focus on supplier diversity programmes that promote an inclusive approach to procurement. These programmes are more important than ever and have both social and commercial benefits. A diverse supplier is a business that is at least 51% owned and operated by an individual or group that is part of a traditionally underrepresented or underserved group. Common classifications are small-business enterprises (SBEs), minority-owned enterprises (MBEs), and woman-owned enterprises (WBEs). Over time, the definition of diversity has expanded to businesses owned by other minority groups such as LGBTQ, veterans, and proprietors with disabilities.

Ethics at Micro Focus

Our goal is to maintain the highest standards of ethical behaviours with all 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 2020.



Environment

29%

Year-on-year reduction of carbon emissions

19%

Year-on-year reduction of energy consumption

The natural environment provides Micro Focus with the resources needed to operate. We take our responsibility to protecting this environment seriously and support our marketplace in doing the same. Micro Focus products and services help customers to reduce their carbon footprint and adopt carbon friendly IT strategies by enabling greater efficiency and longer life from existing technology and equipment. In turn, Micro Focus continues to develop its own policies to record, monitor and achieve improvements in its own carbon footprint.

How we engage

We aim to make sustainable and responsible business part of the way we operate. We intend to transition to setting and measuring ourselves against stretching targets and focusing on areas where we as a business can make a tangible difference.

Our impact continued

Micro Focus' energy conservation is focused on energy efficiencies to drive 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. We were pleased to update that in the year ended 31 October 2020, we achieved an improved score 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 during the year ended 31 October 2020.

The areas we are focused on Implementing targets

Excepting the COVID-19 impact, we are committed to a normalised Greenhouse Gas ("GHG") reduction target of 2-5% by the end of FY21, based on our 2018 baseline data. Thereafter, our intention is to explore a Science Based Target objective.

Moving to renewables

Micro Focus has continued our strategy, wherever possible, to renew energy contracts with suppliers who provide higher ratios of renewable or cleaner energy. In this reporting period we have for the second successive year increased the percentage of energy used that comes from renewable sources. In addition, we have already signed contracts for more sites to convert to either 100% renewable energy or a higher renewable energy mix. This is directly in line with our energy sourcing policy. We are working with our supplier base to qualify their renewable sources and reflect that in our data.

- 40% of our energy comes from renewable sources globally and our ambition is to be at 50% by the end of FY21, 80% by the end of FY25 and 100% by the end of FY30.

Supporting standards

Building on previous success in reducing environmental emissions, Micro Focus has continued the implementation of targeted initiatives and recommendations following on from our ESOS Phase 2 audit.

Micro Focus improved its Carbon Disclosure Project ("CDP") score for the last reporting period. Once again, this saw an increase in the number of sites disclosed and due to the significant changes in the Operational boundaries, we are seeing good progress on the strategies we have deployed. 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.

Data centre power programme

Micro Focus will continue to reduce the quantity of dedicated server "environments" across the wider Group to significantly lessen the footprint impact. In the reporting period ended 31 October 2020, the delivery of a complex data centre consolidation project has significantly reduced our environmental impact through lower energy consumption and a sustainable approach to disposing of end-of-life electronic equipment.

The project consolidated three of our data centres in the US and one in Israel to enable more efficient IT architectures and at the same time reduce costs, saving \$3m in annual rent and energy consumption costs. This included a 51% reduction in racks across our four data centres.

IT assets within the data centres that were no longer fit for purpose were either decommissioned or repurposed across other areas of the business. In support of our ethical and sustainable commitments to reduce our environmental impact, equipment that was decommissioned was broken down to basic parts that could then be reused. The data centre consolidation project will continue into FY21.

Improving office environments

Further improvements across all region have been made, either by moving to more modern and efficient office environments or by improving the office environments already in use. It is now Micro Focus' Workplace Policy that when sourcing new locations we will give greater weight to LEED/BREEAM rated properties wherever available.

- Micro Focus has moved both of its Madrid locations into a property with a BREEAM Excellent rating.
- Seattle has relocated into another LEED Gold rated building and we have reduced the amount of space we occupy.
- Over 10% of our properties now carry either a LEED or BREEAM rating.
- increased its net footprint of sites with direct metering in place from 63% to 64% 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 possible 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.

Greenhouse Gas (GHG) emissions

On a like-for-like basis, across the entire Group, Micro Focus saw improvements in energy consumption and carbon emissions from the previous period. Total energy consumption decreased by 19% and total estimated GHG emissions reduced by 29%. Of course, COVID-19 contributed to this achievement.

More information can be found on this data on page 128.



Community & Social Impact

48

Countries in which we operate

1,324

Volunteer days within these communities

Micro Focus recognises that more needs to be done to help avoid digital exclusion in society. In the year ended 31 October 2020, we have supported more communities than ever before.

Alongside our longstanding community impact stories, our employees have used additional volunteer days provided in light of COVID-19 to do some remarkable things in the global communities we operate within.

How we engage

Through partnerships and employee volunteering, we have continued helping equip communities with the right skills to be successful in the digital world, today and in the future.

From helping to provide basic education in developing countries and nurturing digital skills in advanced economies, to social mobility, inclusion and diversity, our aim is to ensure that no one is left behind.

The areas we are focused on

Innovative open source coding project achieves positive outcomes

Micro Focus employees at the Research & Development ("R&D") Centre in Yehud, Israel, volunteered to support Codash, an open source coding project that develops apps for non-government organisations (NGOs) and charities to help make positive impacts in local communities. It is the fourth year the team has supported this programme.



In the year ended 31 October 2020, employees joined the project and mentored five computer science students, guiding them in developing apps to deliver important services to disadvantaged groups. The experience helped students enhance their digital skills by creating solutions to real-life challenges – an effort that will contribute towards the final thesis of their computer science degrees. For our employees, it was a chance to develop their leadership skills while supporting their local communities. Of the six apps created during this year's project, one identifies potentially dangerous areas in the home where people could slip and injure themselves. Another app connects breast cancer survivors of similar ages, treatment type, language and location; while another app connects parents of children with special needs to students who are studying courses related to those needs.

Micro Focus will continue to support the project in 2021.

Our impact continued

Nisvartha Foundation

Sugandhini is one of the 23 students Micro Focus has sponsored as part of its support for the Nisvartha Foundation. Sugandhini is in her third year of studying Computer Science at the Sir M Visvesvaraya Institute of Technology Bengaluru. Sugandhini says:

"After completing my schooling, I wanted to study engineering but my family could not afford the college fees. Nisvartha Foundation came to my rescue. I am honoured to be part of the Nisvartha Foundation scholarship programme and would like to take this opportunity to say thank you for the generous support. I can continue my studies and have a brighter future because of your financial support."



University Centre Newbury

Micro Focus has partnered with the newly opened University Centre Newbury ("UCN") in the United Kingdom to support the development of its digital programmes – further equipping students with the right skills to be successful in the digital world.

With key investments from local business and other foundation partners, UCN provides a solution for the community by expanding the current higher education provision and enabling more opportunities for talent to remain in the area and study university-level qualifications alongside their chosen career.

As part of our support, Micro Focus has contributed towards the funding of the UCN's digital lab, equipped with technologies for flexible digital learning and state-of-the-art facilities to provide a fully digital experience for students. Through our collaboration with the UCN, we will provide expertise to help shape course content – nurturing a pool of highly skilled talent within the community.

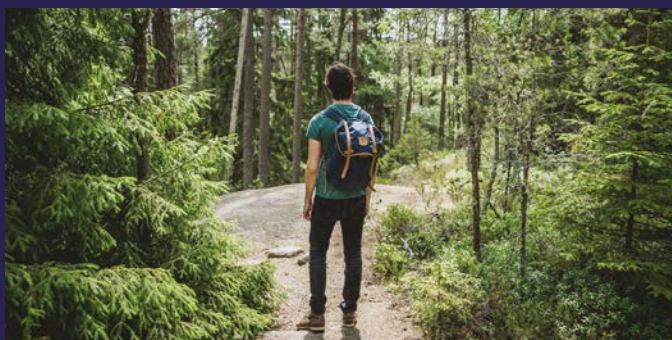
In the year ended 31 October 2020, Micro Focus joined the UCN's Virtual Digital Employer Forum where, together with Newbury College and other employers, we contribute towards upskilling, course content and relevant policy and process updates.

Jo Houghton, Director of Business and Partnerships, UCN, said: "With the opening of the University Centre Newbury we are delighted to start developing our partnership with our 'Digital Transformation Partner' Micro Focus. The support of Micro Focus will enable more people to progress their careers in the digital arena and together we will develop programmes that meet the skills needs of employers in the local region."



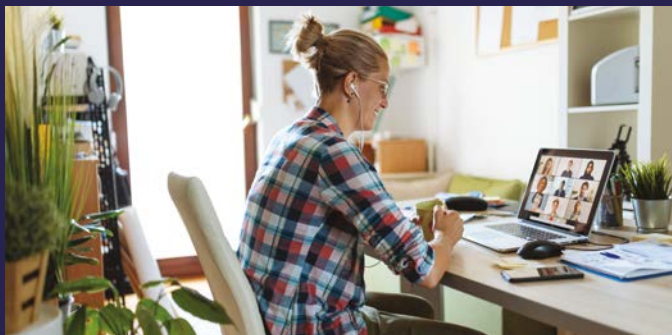
Small acts of kindness to support our communities during COVID-19

Around the globe, Micro Focus employees have used their additional COVID-19 volunteering time to help their local communities stay digitally connected and supported. Collectively, we have helped hundreds of school students adapt to new digital ways of learning; distributed thousands of food parcels to vulnerable people during lockdowns; helped communities prepare for remote ways of working; and used their creative skills to make personal protective equipment for key workers at the frontline.



Sofia team clean-up helps local mountain tourist area

Micro Focus employees in Sofia, Bulgaria, organised a mountain clean-up initiative to clear litter from a local tourist hiking area. Following strict COVID-19 regulations, the team helped the popular outdoor area 'breathe' more easily by removing rubbish left behind by visitors who had taken a break from the city after lockdown restrictions had been eased.



Connecting volunteers with those in need

An employee from Micro Focus in Washington, US, partnered with students from the University of Washington to create an online community group to mobilise local volunteers in the area to help those in need. With more than 600 members all willing to make a difference, the group supported the local community through various efforts, from providing food deliveries to running small errands for people unable to leave their homes.

Free food drive-thru

Micro Focus employees in Sacramento, California, converted a large empty car park into a food drive-thru for the day for families who were unable to afford basic food items. During the one-day food drive-thru, employees distributed food parcels to more than 1,600 people in need.



Micro Focus France raised almost €5,000 for local hospitals

Employees in France raised almost €5,000 to help equip local hospitals and nursing staff with supplies needed to support their efforts in caring for patients impacted by COVID-19. The proceeds were donated to the Fondation de France and AHP, a French hospital in Paris.



Micro Focus India employees contribute \$20,000 to fight COVID-19

Micro Focus India employees contributed over \$20,000 to help fight COVID-19. During lockdown, employees were concerned about the challenges faced by the most vulnerable sections of society – with many people unable to afford sanitisers, masks or gloves, or access quality and affordable healthcare if diagnosed positive.

Collectively, employees raised donations through a salary contribution programme. In one month, more than 3,000 employees raised over \$20,000 which was donated to The Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund.

Micro Focus employee opens internet café to keep community connected

To bring people together to connect online and improve their digital skills, a Micro Focus employee in Germany used his volunteering day to contribute towards setting up an internet café that doubles up as a gaming centre for teenagers – and as a place people in his community can visit to improve their digital skills.

Key performance indicators

How we measure progress

We track and report both financial and non-financial key performance indicators ("KPIs") to measure progress against our strategy of delivering shareholder returns through sustainable free cash flow generation.

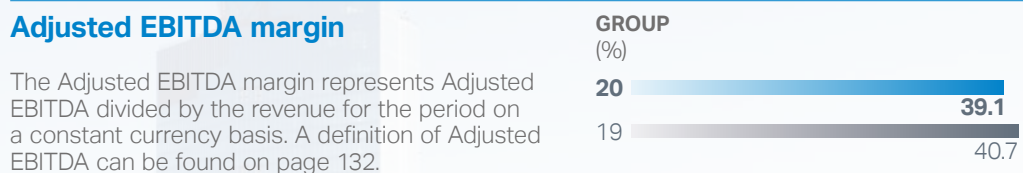
In the period, we have reduced the number of financial KPIs and changed certain definitions to align directly to the current strategic initiatives set out within the 'Our strategy' section (pages 24-27).

In addition, we have added KPIs designed to monitor our progress against the environmental and social impact targets we have set ourselves, to ensure our strategy is directly linked to our wider sustainability responsibilities.

Financial

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

Trading performance



Cash generation

Definition

Adjusted/Free cash flow

Free cash flow is defined as cash generated from operations less interest payments, bank loan costs, tax payments and capital expenditure.

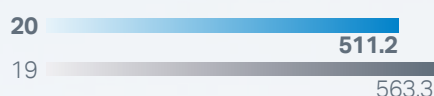
The free cash flow KPI used in the setting of remuneration targets now excludes the cash cost of exceptional items (defined as the income statement cost adjusted for non-cash items and movements in working capital relating to exceptional items, adjusted for the cash tax shield of exceptional costs in the year). In the year, the Group has therefore also included this measure as Adjusted free cash flow in its KPIs for the first time, and in order to aid comparison we have reported both measures for this financial period.

A reconciliation of free cash flow can be found on page 137.

Performance

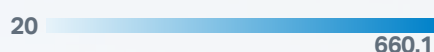
FREE CASH FLOW

(\$m)



ADJUSTED FREE CASH FLOW

(\$m)



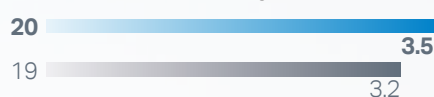
Net debt/Adjusted EBITDA ratio

Net borrowings less cash and cash equivalents and lease obligations expressed as a multiple of the Adjusted EBITDA.

A definition of this measure can be found on page 57.

GROUP

(Ratio of Net Debt to Adjusted EBITDA)



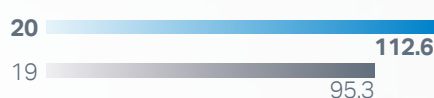
Adjusted cash conversion

This ratio is calculated using the cash flows generated from operations divided by Adjusted EBITDA less exceptional items (reported in operating profit).

A definition of this measure can be found on page 137.

GROUP

(%)



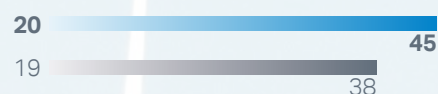
Non-financial

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 been tracking at +45, which compares to the industry average of +45 (FY19: 33).

CUSTOMER EXPERIENCE NET PROMOTER SCORE



Number of volunteering days

To demonstrate the Company's commitment to social purpose, we launched the introduction of employee volunteer days in May 2019. Full and part time employees can take one day to support a charity or community project of their choice; and one 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.

The initiative is in its first full year and the Company has set an ambitious goal to engage 25% of employees in volunteering by the year ending 31 October 2021.

NUMBER OF VOLUNTEERING DAYS (days)



Energy from renewable sources

This year is our first year of reporting Energy 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.

It is our ambition to ensure 50% of our energy comes from renewal sources by the end of FY21, 80% by the end of FY25 and 100% by the end of FY30.

ENERGY FROM RENEWABLE SOURCES (%)



Energy consumed

Micro Focus continued our commitment to deliver its target of achieving year-on-year reductions of emissions. We are committed to a Greenhouse Gas (GHG) reduction target of 2-5% by the end of FY21, based on our 2018 baseline data. Thereafter, our intention is to explore a Science Based Target objective.

ENERGY CONSUMED (MWhrs)





"Micro Focus has a highly cash generative operating model.

The Group is one year into a three-year transformation which we believe will deliver substantial returns for shareholders."

Brian McArthur-Muscroft
Chief Financial Officer

Statutory results

REVENUE FROM CONTINUING OPERATIONS

\$3.0bn

Compared to \$3.3bn in the year ended 31 October 2019.

OPERATING LOSS

\$2.7bn

After recognising an impairment charge of \$2.8bn. Compared to profit of \$0.2bn in the year ended 31 October 2019.

LOSS FOR THE YEAR

\$3.0bn

Compared to profit of \$1.5bn in the year ended 31 October 2019.

Introduction

The current financial period represents the first year of a three-year turnaround plan, which the Group has embarked upon following the Strategic & Operational Review presented in February 2020.

COVID-19 has required the board to adapt these plans in order to protect the business for the long-term. For Micro Focus, this meant the cancellation of the final FY19 dividend and the suspension of the FY20 interim dividend. However, the Group's business model has remained relatively resilient with only a modest impact on Adjusted EBITDA margins following the implementation of a number of cost control programmes. We have continued to deliver strong cash performance and have no significant bad debts. In addition, the board made the conscious decision to ensure no state support was requested in any of the countries we operate within during the period. The board also extended the Group's financing arrangements, with no maturities now until June 2024.

Statutory results

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Continuing operations		
Revenue	3,001.0	3,348.4
Operating profit (before exceptional items)	350.2	515.9
Exceptional items	(3,011.6)	(294.2)
Operating (loss)/profit	(2,661.4)	221.7
Net finance costs	(279.0)	(255.8)
Loss before tax	(2,940.4)	(34.1)
Taxation	(34.2)	16.0
Loss from continuing operations	(2,974.6)	(18.1)
Profit from discontinued operations	5.1	1,487.2
(Loss)/profit for the year	(2,969.5)	1,469.1

Revenue

In the year ended 31 October 2020, the Group generated revenue of \$3,001.0m, which represents a decrease of 10.4% on the results for the year ended 31 October 2019. The rate of decline includes a 0.4% decrease due to the strengthening of the 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 the year ended 31 October 2020 and the year ended 31 October 2019. Excluding the impact of foreign exchange, revenue declined by 10.0%. Revenue performance presented on a CCY basis can be found later in this report.

Operating loss

In the year ended 31 October 2020, the Group generated an operating loss of \$2,661.4m (31 October 2019 profit: \$221.7m). The reduction was driven by an impairment charge of \$2,799.2m which was recorded in the year. The impact of the impairment was partially offset by reduced spend on exceptional items which decreased from \$294.2m in the year ended 31 October 2019 to \$212.4m in the year ended 31 October 2020, as well as the multiple cost control programmes implemented in the year.

Exceptional items (included within operating profit)

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Exceptional items		
System and IT infrastructure costs	100.6	126.3
Integration costs	52.0	119.6
Severance	28.3	32.1
Property costs	3.6	16.3
MF/HPE Software business integration-related costs	184.5	294.3
HPE Software business acquisition/pre-acquisition costs	–	(3.9)
Other acquisition costs	0.2	5.4
Restructuring property costs	11.6	–
Restructuring severance	5.4	–
Gain on disposal of Atalla	–	(3.7)
Other costs	10.7	2.1
	212.4	294.2
Impairment charge	2,799.2	–
Total exceptional costs (reported in Operating (loss)/profit)*	3,011.6	294.2

* Exceptional costs excludes gain on disposal of SUSE which is separately included in Profit from discontinued operations.

Chief Financial Officer's report

continued

In the year ended 31 October 2020, exceptional costs totalled \$3,011.6m, of which \$2,799.2m related to impairment of goodwill (see below). Excluding this impairment charge, exceptional costs predominantly relate to the integration of the HPE Software business. The costs incurred in the year include:

- System and IT infrastructure costs of \$100.6m principally reflect the IT migration of the Micro Focus business onto a single IT platform ("Stack C");
- Integration costs of \$52.0m across a wide range of projects undertaken to conform, simplify and increase efficiency across the two businesses;
- Severance costs of \$28.3m in relation to on-going headcount reductions as we continue to remove duplication and streamline the continuing operations; and
- Property costs of \$3.6m as the Group continues the process of simplifying the real estate footprint.

The remaining costs of the HPE business integration primarily relate to the Stack C programme. In the year, we have made good progress in delivering this programme despite the substantial impact COVID-19 has had on the delivery of this project. At the date of this report, a substantial number of the workforce have transitioned to the new stack with the remaining employees transferring later in FY21. The remaining cost of the programme is estimated to be approximately \$80m and will be incurred in FY21.

In addition, the Group incurred costs of \$10.7m associated with the Strategic & Operational Review, included in Other costs. These costs reflect third party advisor fees in relation to the review of the business, potential strategic options available and implementation of these initiatives.

In the period, the board has undertaken an initial review of the Group's required operating model post-COVID-19 and as a result has identified material cost savings which can be achieved by adapting the way we work and the reduction of our real estate footprint. These programmes are designed to reduce fixed costs associated with property and gain efficiencies. We estimate the exceptional costs associated with this programme in FY21 to be between \$50.0m-\$60.0m and these programmes are expected to deliver annualised cost savings of approximately \$90.0m. More importantly, these changes will result in a more agile cost base in future years.

Goodwill impairment

Impairment of goodwill is tested annually, or more frequently where there is an indication of impairment. The Group has recognised an impairment charge of \$2,799.2m in the year. This impairment charge reflects our trading performance and the macro environment when compared to the original projections produced at the time of the HPE Software acquisition, which was exacerbated by the impact of COVID-19. This charge is a non-cash item and so does not impact the cash generated by the business in the year which has remained strong.

Net finance costs

Net finance costs were \$279.0m in the year ended 31 October 2020, compared to \$255.8m in the year ended 31 October 2019. Finance costs predominantly relate to interest on the term loans put in place as part of the transaction to acquire the HPE Software business. In addition, included within the net finance costs is \$58.0m in relation to the amortisation of facility costs and original issue discounts, which were paid on initiation of the term loan.

The majority of the increase in net finance costs was caused by bank interest received reducing by \$13.9m year-on-year. Interest income in the year ended 31 October 2019 was earned in respect of cash held following the \$2.53bn disposal of SUSE, prior to returns to shareholders. The remainder of the increase reflects the change in interest rates as a result of the refinancing activities undertaken by the Group in the current financial period.

In May 2020, the Group successfully refinanced its \$1.4bn term loan due for repayment in November 2021. The successful completion of this refinancing was particularly pleasing given the strong demand for the Group's debt, at a time of significant macro-economic uncertainty. The offering was substantially oversubscribed with approximately \$2.5bn in the order book at closing. As part of the refinancing the Group also elected to repay \$143m of the original term loan facility, which partially offset the increased interest expense.

Furthermore, the Group has access to a \$350m Revolving Credit Facility ("RCF") which was undrawn as at 31 October 2020. This facility was also refinanced in the period, with the Group electing to reduce the size of the facility from \$500m and extend the facility to June 2024.

As a result of the refinancing initiatives, there are no maturity dates on Group facilities prior to June 2024.

Following the adoption of IFRS 16 on 1 November 2019, finance costs also include a modest amount of interest in relation to capitalised leases.

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 issued by Seattle Spinco, Inc. (the investment company used to acquire the HPE Software business) from 19 October 2017 to 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.

Taxation

The Group reported a tax charge for the year ended 31 October 2020 of \$34.2m (2019: credit of \$16.0m).

Profit from discontinued operation

The profit on the disposal of discontinued operation of \$5.1m in the year ended 31 October 2020 related to conclusion of the working capital settlement on the disposal of the SUSE business and adjustments in respect of income tax balances in relation to pre-transaction periods (2019: profit \$1,487.2m).

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 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 profit and Adjusted EBITDA is shown below:

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Operating (loss)/profit	(2,661.4)	221.7
Add back/(deduct):		
Exceptional items (reported in Operating profit)	3,011.6	294.2
Share-based compensation charge	17.0	68.8
Amortisation of intangible assets	674.1	716.5
Depreciation of property, plant and equipment	42.0	52.6
Depreciation of right-of-use assets	76.9	13.9
Product development intangible costs capitalised	(16.2)	(16.5)
Foreign exchange loss	29.7	11.3
Adjusted EBITDA* at actual rates	1,173.7	1,362.5
Constant currency adjustment	–	(3.8)
Constant currency Adjusted EBITDA*	1,173.7	1,358.7

* Adjusted EBITDA is for continuing operations only.

Adjusted Profit before tax

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.

The following tables are reconciliations from loss before tax for the period to Adjusted Profit before tax:

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Continuing operations		
Loss before tax	(2,940.4)	(34.1)
Adjusting items:		
Share-based compensation charge	17.0	68.8
Amortisation of purchased intangibles	604.1	655.7
Exceptional items	3,011.6	294.2
	3,632.7	1,018.7
Adjusted Profit before tax	692.3	984.6

Chief Financial Officer's report

continued

Adjusted effective tax rate

The tax charge on Adjusted Profit before tax for the year ended 31 October 2020 was \$174.1m (2019: \$235.7m), which represents an effective tax rate ("ETR") on Adjusted Profit before tax ("Adjusted ETR") of 25.1% (2019: 23.9%). 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 creates an increase in the level of uncertainty and may result in changes to this tax rate in future accounting periods.

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. The UK government is required to start collection proceedings and on 5 February 2021 a State Aid charging notices (excluding interest) were received from HM Revenue and Customs totalling \$45.2m and will be settled by the Group within 30 days. 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 that the maximum liability of both of these items to be \$60m.

Effective tax rate (continuing operations)	Year ended 31 October 2020			Year ended 31 October 2019		
	Actual \$m	Adjusting items \$m	Adjusted measures \$m	Actual \$m	Adjusting items \$m	Adjusted measures \$m
(Loss)/profit before tax	(2,940.4)	3,632.7	692.3	(34.1)	1,018.7	984.6
Taxation	(34.2)	(139.9)	(174.1)	16.0	(251.7)	(235.7)
(Loss)/profit after tax	(2,974.6)	3,492.8	518.2	(18.1)	767.0	748.9
Effective tax rate	(1.2)%		25.1%	46.9%		23.9%

In computing Adjusted Profit before tax for the year ended 31 October 2020, \$3,632.7m of Adjusting items have been added back (see Adjusted Profit before tax section above) and the associated tax is \$139.9m.

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.

	Year ended 31 October 2020		Year ended 31 October 2019	
	Basic Cents	Diluted ¹ Cents	Basic Cents	Diluted Cents
Continuing operations	(886.15)	(886.15)	(4.87)	(4.87)
Discontinued operations	1.52	1.52	393.37	389.16
Total EPS	(884.63)	(884.63)	388.50	384.35
Adjusted EPS				
Continuing operations	154.37	154.37	198.01	195.89
Discontinued operations	2.17	2.17	8.25	8.16
Adjusted EPS	156.54	156.54	206.26	204.05

¹ The Group reported a loss from continuing and discontinued operations attributable to the ordinary equity shareholders of the Company for the year ended 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 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 the year ended 31 October 2020, the Group generated an Adjusted EPS from continuing operations of 154.37 cents. This compares to 198.01 cents in the year ended 31 October 2019. 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

CONSTANT CURRENCY REVENUE

(10.0)%

in the year ended 31 October 2020.

CONSTANT CURRENCY COSTS

(7.6)%

Continued operational efficiencies delivering cost reduction of 7.6% year-on-year.

CONSTANT CURRENCY ADJUSTED EBITDA

\$1.2bn

in the year ended 31 October 2020, compared to \$1.4bn in the year ended 31 October 2019.

CONSTANT CURRENCY ADJUSTED EBITDA MARGIN

39.1%

Adjusted EBITDA margin decrease of 1.6ppt from 40.7% in the year ended 31 October 2019.

The table below has been prepared on a constant currency basis and is for continuing operations only. See page 138 in the Alternative Performance Measures section for further detail.

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m	Year-on-year change %
Constant currency revenue:			
Licence	646.5	799.2	(19.1%)
Maintenance	1,921.2	2,050.0	(6.3%)
SaaS & other recurring	245.5	278.4	(11.8%)
Consulting	188.4	215.3	(12.5%)
Constant currency revenue before haircut	3,001.6	3,342.9	(10.2%)
Deferred revenue haircut	(0.6)	(6.8)	(91.2%)
Constant currency revenue	3,001.0	3,336.1	(10.0%)
Constant currency costs	(1,827.3)	(1,977.4)	(7.6%)
Constant currency Adjusted EBITDA	1,173.7	1,358.7	(13.6%)
Constant currency Adjusted EBITDA margin %	39.1%	40.7%	(1.6ppt)

Revenue by stream performance (versus constant currency comparatives)

In the year ended 31 October 2020, the four revenue streams performance versus the year ended 31 October 2019 was as follows:

Licence revenue declined by 19.1%. The Group's Licence revenue performance in the year was impacted by the Go-To-Market transformation activities undertaken during the period, which are designed to moderate the rate of revenue decline over the next three years. In the first quarter, a new global sales model was launched and a number of sales leadership changes were made as part of this transformation which has resulted in an improvement in the underlying sales operating metrics. This gives the board confidence that the changes are beginning to have an impact and in the second half of the financial period, the rate of Licence revenue decline moderated.

The stabilisation of Licence revenue remains a key objective of the Group and the steps outlined within the Chief Executive's Strategic review of this document are the focus areas required to improve the performance in future periods.

Maintenance revenue declined by 6.3%. The maintenance trends and renewal rates vary at a product group level with different growth profiles witnessed at a portfolio level (as set out later in this section).

The change in product mix combined with corrective actions in underperforming areas of the portfolio are intended to drive a gradual moderation in the rate of maintenance decline as part of the overall revenue stabilisation plans.

SaaS and other recurring revenue declined by 11.8%. In February 2020, the board outlined the intention to transition certain areas of the business to Subscription or SaaS revenue models. The current financial period is the first year of this multi-period transition and the focus has been on extending the capabilities within the Security and Big Data product offerings.

In addition, the Group also took deliberate actions to further rationalise unprofitable operations and practices and refocused resources and investments to deliver the product enhancements required for long-term success. As a result, SaaS and other recurring revenue declined in line with our expectations during the current financial year.

Consulting revenue declined by 12.5%. The work to re-position our Consulting revenue stream to focus on projects related to the sale of new licences and retention of the installed base is broadly complete and it is anticipated that this revenue stream will stabilise in future financial periods subject to the impact of COVID-19.

Chief Financial Officer's report

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Revenue by product group (versus constant currency comparatives)

The Group has more than 300 products reported under five product groups. Investment decisions are made at a granular level by product depending on their growth trajectories and the profile of markets they participate in, and are intended to deliver the greatest return on investment. The nature of the software order cycle means that when considering underlying revenue trends, year-on-year growth rates by product group are not always indicative of an underlying trend and will be impacted by the timing of customer projects.

	Year ended 31 October 2020				
	Licence \$m	Maintenance \$m	SaaS & other recurring \$m	Consulting \$m	Total \$m
Product group:					
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
Security*	162.6	416.8	33.6	33.1	646.1
IM&G*	68.2	184.2	133.4	15.4	401.2
Revenue before haircut	646.5	1,921.2	245.5	188.4	3,001.6
Haircut	–	(0.4)	(0.2)	–	(0.6)
Revenue	646.5	1,920.8	245.3	188.4	3,001.0
Regional:					
North America	276.4	974.1	187.0	65.8	1,503.3
International	264.7	735.5	46.2	98.8	1,145.2
Asia Pacific & Japan	105.4	211.6	12.3	23.8	353.1
Revenue before haircut	646.5	1,921.2	245.5	188.4	3,001.6
Haircut	–	(0.4)	(0.2)	–	(0.6)
Revenue	646.5	1,920.8	245.3	188.4	3,001.0

	CCY % change to year ended 31 October 2019**				
	Licence %	Maintenance %	SaaS & other recurring %	Consulting %	Total %
Product group:					
AMC*	(18.9%)	(1.3%)	–	(13.7%)	(7.5%)
ADM*	(21.4%)	(10.3%)	(15.3%)	(11.7%)	(12.9%)
ITOM*	(26.2%)	(12.7%)	(55.3%)	(9.6%)	(15.9%)
Security*	(12.3%)	1.0%	(4.0%)	(23.4%)	(4.5%)
IM&G*	(9.8%)	1.5%	(8.6%)	(6.1%)	(4.3%)
Revenue before haircut	(19.1%)	(6.3%)	(11.8%)	(12.5%)	(10.2%)
Haircut	–	(93.3%)	(75.0%)	–	(91.2%)
Revenue	(19.1%)	(6.0%)	(11.6%)	(12.5%)	(10.0%)
Regional:					
North America	(28.3%)	(9.3%)	(9.3%)	(13.6%)	(13.7%)
International	(10.1%)	(3.3%)	(21.4%)	(11.3%)	(6.6%)
Asia Pacific & Japan	(11.5%)	(1.8%)	(8.2%)	(14.1%)	(6.0%)
Revenue before haircut	(19.1%)	(6.3%)	(11.8%)	(12.5%)	(10.2%)
Haircut	–	(93.3%)	(75.0%)	–	(91.2%)
Revenue	(19.1%)	(6.0%)	(11.6%)	(12.5%)	(10.0%)

* The trends discussed in this section are presented before the impact of the deferred revenue haircut.

** See page 171 for underlying data for the year ended 31 October 2019.

Application Modernisation & Connectivity ("AMC")

\$470.3m

(15.7% of total FY20 revenue)

Licence revenue declined by 18.9% in the year ended 31 October 2020.

Period to period volatility is not unusual in AMC driven by the timing of large scale modernisation projects. In the current year, the Group witnessed increasing demand for such projects; however the initiation of new modernisation projects has been impacted by COVID-19, with customers electing to defer such projects to future accounting periods.

Maintenance and Consulting revenues declined by 1.3% and 13.7% respectively, as the level of maintenance and consulting support to licence sales continued to track at historical rates.

Application Delivery Management ("ADM")

\$631.0m

(21.0% of FY20 revenue)

Licence revenue declined by 21.4%, Maintenance revenue by 10.3% and SaaS and other recurring revenues declined by 15.3% in the year ended 31 October 2020.

The Group's ADM product group has performed below expectation in the current financial period. In addition to the actions within the overall Go-To-Market transformation, which are designed to improve sales execution, we have undertaken a number of corrective actions specific to ADM. These actions are focused on product positioning, maintenance renewals and SaaS offerings. The combination of the Go-To-Market transformation actions and portfolio specific actions are aimed at driving improvement in performance within the portfolio.

IT Operations Management ("ITOM")

\$853.0m

(28.4% of total FY20 revenue)

Licence revenue declined by 26.2% and Maintenance revenue by 12.7% in the year ended 31 October 2020. Management actions to exit non-core revenue and the licence performance drove the 9.6% decline in Consulting revenue.

This performance is below our expectations and significant focus is being applied to correct the trajectory. In addition to the actions within the overall Go-To-Market transformation, the Group is undertaking structural changes to products in order to re-position the core proposition within this product group and achieve a defensible core of stable recurring revenue.

Security

\$646.1m

(21.5% of total FY20 revenue)

Licence revenue declined by 12.3% in the year ended 31 October 2020. In the period, the Group has released a number of new capabilities and enhancements to the existing products following investments outlined within the Strategic & Operational Review. As a result, the Group is seeing moderation in the rate of decline in a number of sub-portfolios with some products returning to year-over-year licence growth.

Maintenance revenue increased by 1.0% in the year ended 31 October 2020. This growth is driven by a change in mix at a sub-portfolio level and an improvement in renewal rates in our core propositions.

SaaS revenue declined by 4.0% in the year ended 31 October 2020. The majority of work in re-architecting the product road maps is now complete and as a result, SaaS revenue in the second half of the current financial year returned to growth when compared to the second half of the previous period.

Consulting revenue declined by 23.4% in the year ended 31 October 2020 driven by the deliberate management actions to deliver a consulting practice more closely aligned to product implementation and growth in new licence sales.

Information Management & Governance ("IM&G")

\$401.2m

(13.4% of FY20 revenue)

Licence revenue declined by 9.8% in the year ended 31 October 2020.

Maintenance revenues increased by 1.5%. The increase is primarily driven by growth in Vertica, the Group's Big Data offering. In the period, the Group launched Vertica EON Mode which is delivered in a subscription form. This revenue is recorded as a term licence with associated maintenance, the impact of which being a greater portion of the revenue is deferred over the life of the contract when compared to a traditional perpetual model. In the period, the Group has made encouraging progress with this transition to subscriptions, with both bookings and new logos up substantially year-on-year.

In addition, SaaS revenue declined 8.6% due to a deliberate reduction in revenue generated from managed services offerings within the product group as we re-architect key offerings for more flexible cloud deployment options.

Consulting revenue declined by 6.1% over the same period.

Chief Financial Officer's report

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Adjusted EBITDA performance (versus constant currency comparatives)

The Group generated an Adjusted EBITDA of \$1,173.7m in the year ended 31 October 2020, at an Adjusted EBITDA margin of 39.1%. This represents a 1.6ppt decrease in Adjusted EBITDA margin between the periods on a continuing basis. This decline was driven by the overall revenue decline which has been partially offset by cost reduction programmes undertaken by the Group.

As indicated as part of our results for the six months ended 30 April 2020, we have taken steps to mitigate the impact on Adjusted EBITDA from COVID-19. This has been achieved primarily through close management of variable and discretionary costs, in addition to a natural reduction in certain costs as a direct result of COVID-19. These cost measures have been undertaken without the need to furlough any staff globally.

In addition to this cost management, the board continues to make the investments outlined as part of the Strategic & Operational Review primarily in our Security and Big Data products in order to drive incremental revenue and profit in future accounting periods.

MFI cash generation

The Group's Consolidated statement of cash flows is presented on page 154. 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. In the year, we have elected to change our KPI to Adjusted free cash flow. This change was made as the board feels this measure more accurately reflects the underlying cash generation of the business excluding transformation activities. The measure also aligns to our Remuneration Policy which was set last year, following a shareholder vote. In the current financial period we have elected to report both free cash flow and Adjusted free cash flow in order to aid comparability between periods. A definition of the Group's KPIs is found on page 44.

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Cash generated from operations before working capital	1,050.2	1,177.5
Movement in working capital	32.6	(121.2)
Cash generated from operations	1,082.8	1,056.3
Interest payments	(207.1)	(227.1)
Bank loan costs	(47.9)	—
Tax payments	(149.6)	(167.4)
Purchase of intangible assets	(60.6)	(29.3)
Purchase of property, plant and equipment	(26.3)	(56.3)
Lease-related capital payments ¹	(80.1)	(12.9)
Free cash flow	511.2	563.3
Cash impact of exceptionals	148.9	n/a
Adjusted free cash flow	660.1	n/a

¹ Lease-related capital payments are now included as a financing cash flow following the adoption of IFRS 16.

The Group has continued to be highly cash generative in the year ended 31 October 2020, generating \$511.2m of free cash flow compared to \$563.3m in the year ended 31 October 2019. Adjusted free cash flow for the period totalled \$660.1m.

Cash generation continues to be a key focus area of the business; the decline year-on-year includes one-time costs of \$47.9m associated with the refinancing of the Group's debt in the current fiscal period, the adoption of IFRS 16 and the inclusion of four months SUSE trading performance (Adjusted EBITDA c.\$40m) in the prior year. Excluding these items, the Group's free cash flow has increased year-on-year despite the reduction in Adjusted EBITDA.

The impact of IFRS 16 is such that the presentation of individual line items, notably Adjusted EBITDA, interest payments and lease-related capital payments are not comparable year-on-year. In the table above, the presentation of free cash flow in the year ended 31 October 2019 has been revised to include lease-related capital payments. This means total free cash flow is not impacted year-on-year by changes to IFRS 16 and is therefore comparable.

In addition, the Group continued to reduce the trade receivables balance and collect aged receivables in the period. This resulted in an Adjusted cash conversion rate of 112.6% (31 October 2019: 95.3%). See page 137 in the Alternative Performance Measures for further detail of cash conversion.

In the year ended 31 October 2020, purchases of intangible assets (relating predominantly to software licences) totalled \$60.6m compared to \$29.3m in the year ended 31 October

2019. In addition, purchase of property, plant and equipment decreased from \$56.3m to \$26.3m over the same period.

The Group's ability to preserve free cash flow whilst transforming our business demonstrates the resilience of our business model. The cash impact of exceptional items reduced FY20 cash flow by \$148.9m. Excluding these items, the Group generated an Adjusted free cash flow of \$660.1m.

Net debt

As at 31 October 2020, net debt was \$4,153.5m (31 October 2019: \$4,338.5m). In the period, the Group adopted the IFRS 16 accounting standard in respect of leases. This change in accounting standard results in an increase in both Net debt and Adjusted EBITDA, and modestly reduces leverage. In order to

demonstrate the impact the below table shows Net debt excluding IFRS 16 (as reported in FY19) and including IFRS 16, which is how the Group will disclose net debt going forward.

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

	Including IFRS 16 Lease liabilities		Excluding IFRS 16 Lease liabilities	
	Year ended 31 October 2020 Post-IFRS 16 \$m	Year ended 31 October 2019 Post-IFRS 16 \$m	Year ended 31 October 2020 Pre-IFRS 16 \$m	Year ended 31 October 2019 Pre-IFRS 16 \$m
Adjusted EBITDA*	1,173.7	1,428.4	1,098.0	1,362.5
Net debt	(4,153.5)	(4,608.3)	(3,923.3)	(4,338.5)
Net debt/Adjusted EBITDA ratio	3.5 times	3.2 times	3.6 times	3.2 times

We have continued to reduce our net debt in absolute dollar terms by \$454.8m in the fiscal period. The Group's medium-term leverage target remains 2.7x Adjusted EBITDA. The current leverage remains above this level, due to the on-going investments we are making in the business.

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.

In addition to the term loans and cash reserves, the Group has access to a \$350m revolving credit facility, which is undrawn at 31 October 2020.

Consolidated statement of financial position

The Group's Consolidated statement of financial position is presented on page 150. A summarised version is presented below:

	31 October 2020 \$m	31 October 2019 \$m
Non-current assets	9,605.0	12,846.7
Current assets	1,541.8	1,448.1
Total assets	11,146.8	14,294.8
Current liabilities	1,788.3	1,802.0
Non-current liabilities	6,143.4	6,216.5
Total liabilities	7,931.7	8,018.5
Net assets	3,215.1	6,276.3
Total equity attributable to owners of the parent	3,215.1	6,275.0
Non-controlling interests	–	1.3
Total equity	3,215.1	6,276.3

The net assets of the Group have decreased from \$6,276.3m to \$3,215.1m between 31 October 2019 and 31 October 2020.

In the year, the key movements were as follows:

- Non-current assets decreased by \$3,241.7m to \$9,605.0m primarily due to the impairment of the Group's goodwill of \$2,799.2m recognised in the year, as well as \$674.1m resulting from the annual amortisation charge on intangible assets. These reductions are partially offset by the recognition of \$207.2m of right-of-use assets as a result of the adoption of IFRS 16 "Leases" during the period;
- Current assets increased by \$93.7m to \$1,541.8m driven by an increase in cash and cash equivalents of \$381.5m, which was offset by a reduction in trade and other receivables of \$301.5m. Trade and other receivables decreased due to a reduction of aged receivables of \$225.0m. The reduction in aged receivables has been a continuing key focus of the finance team in the financial year. The increase in cash and cash equivalents is the result of the cash collected from trade and other receivables and actions taken during the period to retain cash so as to maximise the Group's resilience to any financial risks resulting from the on-going COVID-19 pandemic including the cancellation of the FY19 final dividend and the decision to not pay an FY20 interim dividend;

Chief Financial Officer's report

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- Current liabilities decreased by \$13.7m to \$1,788.3m, primarily due to a \$107.5m reduction in trade and other payables, offset by an increase in lease obligations of \$70.4m as a result of the adoption of IFRS 16 and an increase of \$21.4m in short-term borrowings; and
- Non-current liabilities decreased by \$73.1m to \$6,143.4m, primarily due to a \$163.0m reduction in current and deferred tax liabilities, a decrease in borrowings of \$51.8m, and a decrease of \$32.7m of contract liabilities, offset by an increase in lease obligations of \$156.5m as a result of the adoption of IFRS 16 and a \$41.4m increase in the derivative liability.

Other financial matters

IFRS 16 "Leases"

The Group adopted IFRS 16 "Leases" from the transition date of 1 November 2019. Under the IFRS 16 adoption method chosen by the Group, prior year comparatives are not restated to conform to the new policies.

Consequently, the year-on-year change of profit and Adjusted EBITDA in the year ended 31 October 2020 is impacted by the change in policies. The impact on Adjusted EBITDA and profit for the year ended 31 October 2020 is estimated at an increase of \$75.7m and a decrease of \$3.1m respectively.

Contractual cash obligations

The following table reflects a summary of obligations and commitments outstanding as of 31 October 2020:

	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	34.3	128.2	4,570.7	–	4,733.2
Interest payments on debt	169.3	326.3	159.0	–	654.6
Total excluding lease obligations	203.6	454.5	4,729.7	–	5,387.8
Lease obligations	82.2	112.8	49.3	36.3	280.6
Total including leases	285.8	567.3	4,779.0	36.3	5,668.4

Dividend

The board proposes a final dividend of 15.5 cents, taking total dividend per share to 15.5 cents for the period. The dividend will be paid in Pound Sterling equivalent to 11.3 pence per share, based on an exchange rate of £1 = \$1.37, the rate applicable

on 8 February 2021, the date on which the board resolved to propose the dividend. Subject to approval by shareholders, the dividend will be paid on 15 April 2021 to shareholders on the register at 12 March 2021.

Brian McArthur-Muscroft

Chief Financial Officer
8 February 2021

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 FY23. The Group's strategy and business model are central to an understanding of its prospects, and details can be found on pages 24 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 & Operational Review of the business performed in the prior period to reflect the progress made in the current year against those initiatives and as well as the risks and opportunities arising from COVID-19 on Group's forecast performance, see section 'Our strategy' on pages 24 to 27. The forecasting and planning cycle resulted in a FY21 budget and a long-range plan which are used to generate income statement and cash flow projections. The FY21 budget and long-range plan was agreed at the February 2021 board meeting.

The budget and long-range plan includes:

- Flat revenue as we exit FY23 in the Micro Focus Product Portfolio;
- Cost savings being achieved each year; and
- Refinancing of the Group's debt currently due for repayment in June 2024 which is expected to be refinanced during the viability period and in advance of maturity (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 have 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 60 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 combined and cumulative effect of various 'severe but plausible' circumstances that the Group could experience, including:

- A greater level of revenue decline/slower growth in the Micro Focus Product Portfolio compared to the Group's forecast;
- Wider macro-economic impacts resulting from COVID-19 on Group revenue to a greater extent and for a longer period than assumed in the forecast;
- A greater than forecast level of exceptional expenditure to complete the Group's IT implementation being incurred; and
- Adjusted EBITDA and Adjusted EBITDA margin decline.

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 \$350 million revolving credit facilities which is committed until June 2024 (see note 18). A net leverage covenant applies on the revolving credit facility when it is more than 35% drawn (see note 18 for additional details); however under both the Group's forecast and the stress testing the revolving credit facility is not expected to be drawn and therefore the covenant is not expected to apply;
- The Group's ability to generate sufficient cash to meet its liabilities under current borrowing arrangements;
- The Group's need to refinance the borrowings which mature in June 2024 (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 \$246.5m at 31 October 2020. 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 2023.

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, are navigating through a period of disruption, as we have 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 our business.

The board continues to closely monitor how matters develop 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. The Group acted quickly at the commencement of the pandemic, reviewing the existing business continuity plan ("BCP") structures and enhancing governance, by establishing a COVID-19 Steering Committee, to provide a strategic platform to identify and address the emerging risks of COVID-19 across the enterprise. A complete review of the Group Risk Register ("GRR") was undertaken for COVID-19 impacts across the Group, including the impacts on existing risks, and developments continue to be monitored on a cross-functional basis. The Group is following the guidance of the World Health Organization and other governmental 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. The RMF is aligned to the business objectives and strategy (see Chief Executive's Strategic review on pages 14 to 17). 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 19 for the report on internal controls). As the risks assessed under the RMF changed and the impacts of COVID-19 were assessed during the period, the annual internal audit plan was 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, to broaden the bottom-up view of risk management, including environmental, social and governance ("ESG") risk areas. The ERM reporting cycle and alignment with internal audit and the wider business is as follows:

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. 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.

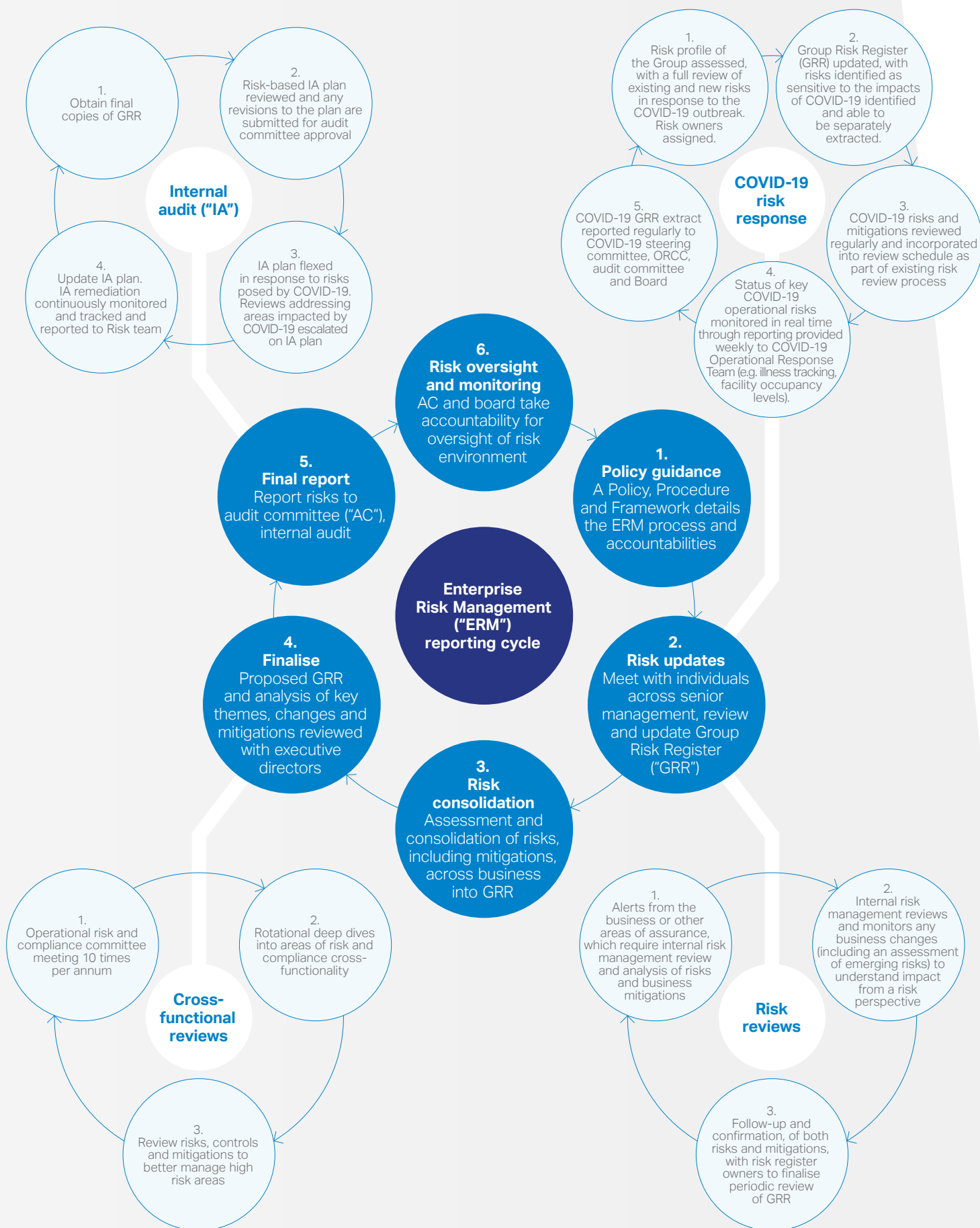
During the period, we continued to work to improve the way we manage risk and embed risk methodology into the business at the management level. Metrics over risks (i.e. trend analysis) are reported periodically to the audit committee. We reviewed and further developed our Fraud Risk Management policy, procedures and tools, including a revised fraud response plan. Additionally, the Fraud Risk Universe and Fraud Risk Register were reviewed and updated for changes in risk due to COVID-19. Code of Conduct and anti-corruption training was carried out widely across the regions in which we operate. We are in the process of expanding our RMF to review areas of emerging risk, such as ESG matters. Further details of initiatives the Group is already putting in place are detailed in the section entitled Our Impact on pages 32 to 43.

The operational risk and compliance committee ("ORCC") and business resilience committee ("BRC") 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. The BRC provides a governance forum by which the components of the Micro Focus business resilience approach can be cross-functionally monitored and reviewed.

COVID-19 risk response

In response to the commencement of the COVID-19 pandemic, the enterprise risk management approach was flexed, with a full review of existing and new risks to the business undertaken. Risks identified as sensitive to the impacts of COVID-19 were identified in the GRR and reported to the ORCC, audit committee and board meetings. Work included reviewing the existing BCP structures and enhancing governance, through the establishment of a cross-functional COVID-19 steering committee. The COVID-19 steering committee is sponsored by the CEO, reports directly to the board and includes senior leaders from across the Group, providing a strategic platform to identify and address the emerging risks of COVID-19 across the enterprise. Other governance structures were immediately enhanced, including a series of regional incident management teams ("RIMTs"), a centralised IT incident management team and a cross-functional operational response team ("ORT"), reporting daily to the COVID-19 steering committee. The Group's existing working capital group was also enhanced, with wider functional representation and increased meeting frequency, reporting into a Finance-specific BCP group chaired by the CFO. The Finance BCP group also received updates from teams in treasury, tax, procurement and finance operations (including Go-To-Market business partners). These structures centralised the Group's response, streamlined decision making and allowed for greater efficiency and clarity of messaging to internal and external stakeholders. The risk function continues to be represented at both the ORT and COVID-19 steering committee. The status of key COVID-19 operational risks is 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.

Principal risks and uncertainties continued



Changes in the period

The risk profile of the Group has continued to change to reflect the key activities and challenges across the period, the most significant of which are set out in the Chief Executive's Strategic review on pages 14 to 17. The business has continued to make progress against a number of initiatives stemming from the Strategic & Operational Review in pursuit of its three-year plan ambitions. Full details of this progress appear in the Chief Executive's Strategic review, as set on pages 14 to 17.

As previously mentioned, major activities in the period included navigating the COVID-19 pandemic, including the establishment of new governance structures such as the COVID-19 Steering Committee and the continuing work on the transformational and complex HPE Software business integration. The board is mindful of the interdependencies and speed of some risks. The operational change office (formerly the transformation programme office) has continued to govern the Micro Focus change programmes, with a focus on improving the quality of delivery, speed of decision making, management of inter-dependency risks and accountability across in-flight programmes. The governance framework for management of these programmes includes dedicated programme management offices and steering committees, managing risks and applying governance at the programme level, with the operational change office providing strategic oversight and portfolio management activity. Further details of the complexity and challenges for the business are set out in the Chief Executive's Strategic review on pages 14 to 17.

Brexit

The Brexit Working Group ("BWG") continued meeting throughout the year and following analysis of the EU-UK Trade and Cooperation Agreement agreed on 30 December 2020, the Group's mitigations and preparatory activity continued, preparing the Group for the transition. The areas reviewed for possible impacts included people, tax, transfer pricing, commercial contracts (buy and sell), privacy and data protection, intellectual property and regulatory matters. The BWG is phasing workstreams back into Group functions that will continue to work through changes. We recognise that it is early in the implementation of new rules and regulations and the position will continue to be monitored for any new or emerging risk areas.

Emerging risk

As part of the Group's risk management framework, risk updates with key stakeholders include a review of the emerging risk environment. One such emerging area is that of ESG matters.

Given the developing agenda on climate change, which poses a number of physical risks (i.e. weather-related) and compliance/regulatory risks (i.e. more sustainable business practices) for the Group, we are currently reviewing our internal processes for managing any associated emerging risks and will incorporate this into our broader risk management practices. Further information on our current progress on ESG initiatives is detailed in Our Impact section on pages 32 to 43.

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	

Principal risks and uncertainties

continued

Products	
Risk trend	No change 
Link to strategy	Delivering innovation, SaaS and Subscription
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 the Chief Executive's Strategic review on pages 14 to 17, a key initiative of the Group's three-year plan is to take a more definitive approach to delivering Subscription and SaaS-based offerings as a key part of the strategy 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. Additionally, in FY20 the Group began to take a differentiated approach to investment and operational management 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 developing existing and new SaaS and Subscription offerings.

As set out on pages 18 and 19 (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 in time to act. To improve the interaction between product management, product development, sales and marketing we implemented a new end-to-end planning process. The Micro Focus Product Portfolio consists of five product groups with more than 300 product lines, as set out on pages 28 to 31 (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 28 to 31.

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

Risk trend

Increased



Link to strategy

Go-To-Market

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. This risk was increased given the COVID-19 restrictions across various regions, from time to time in the period.

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 the Chief Executive's Strategic review on pages 14 to 17, a key initiative of the Group's three-year plan is to deliver consistent, sustained improvement to revenue performance through increases in sales productivity and the more effective alignment of resources to opportunity. The GTM team has made positive improvements to operationalise the recommendations set out at the beginning of the year, including good progress in the development of the Group's customer and partner propositions. 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 is aligning resources and developing compelling propositions across four customer outcomes – Accelerate application delivery; Simplify IT transformation; Strengthen cyber resilience; and Analyse in time to act.

As a result of the COVID-19 pandemic and the increase to 90% of our employees working from home, Micro Focus has invested further in additional resources to support the transition to 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. Further measures are being put in place to improve productivity and predictability. Other organisational changes that were made to align marketing and product teams, and to build a consistent approach to sales enablement globally, have been operationalised and continue to reflect the changing demands of the business.

Industry events, such as Micro Focus Universe, successfully adapted to a virtual format given COVID-19 restrictions, help showcase the Group's Product Portfolio and strengthen 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.

Principal risks and uncertainties

continued

Competition	Employees and culture
Risk trend Increased	Risk trend Increased
Link to strategy Delivering innovation, SaaS and Subscription	Link to strategy Complete core systems
Risk category Marketplace	Risk category Infrastructure
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. This risk increased in the period due to the on-going pace and scale of change across the IT competitive landscape.	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. This risk was increased given the COVID-19 restrictions across various regions, from time to time in the period.
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.	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. 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 strategic plans.
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.	How we manage it Developing the most appropriate culture, aligned to driving productive management behaviours focused on delivering business priorities, is critical. During the period the Group pivoted to have more than 90% of its employees working from home due to the COVID-19 pandemic. Productivity tools were rolled out to enable effective home working and employee connectedness. Training was rolled out across the Group for both employees and 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 and 36. The Group has policies in place to help ensure that it is able to attract and retain employees of a high calibre with the required skills. These policies include 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. The Group continued to attract external hires during the period and rolled out initiatives to ensure continued effective hiring practices and candidate on-boarding experience in a virtual environment. 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. Attrition dropped in the period.

IT systems and information

Risk trend

Increased



Link to strategy

Complete core systems

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. Following the integration of the HPE Software business the Group continues to operate on two IT architectures with the attendant complexity to business operations and the control environment. As set out in the Chief Executive's Strategic review on pages 14 to 17, work continues to transition the Group to a simplified IT systems architecture. The transition may be more time consuming and costly than anticipated, given the amount of change management that is involved. This risk was increased given the COVID-19 restrictions across various regions, from time to time in the period.

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 14 to 17, completion of simplification programmes that form the platform for improved operational effectiveness and agility remain a priority for the business. Key within this is the migration to one set of core IT systems. This is a global programme being executed principally in the UK, USA and India in conjunction with our Systems Integration partners. We have made good progress against our objectives for the programme during the period, with the first phase of employees transitioned on 13 January to the new IT infrastructure and the transition of remaining employees to occur later in the year. Further details regarding the IT transformation programme can be found in the Chief Executive's Strategic review on pages 14 to 17.

During the period the Group pivoted to have more than 90% of its employees working from home as a result of the COVID-19 pandemic. To support the increased demands on remote IT services and respond to other emerging IT requirements across the business, a centralised IT incident management team was established and continues to operate, reporting into a cross-functional operational response team (ORT). Further detail regarding the Group's response to COVID-19 is detailed on page 61.

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 90 and 91.

A vendor management process is in place and continues to be improved, to allow for better involvement and engagement with third party IT providers.

Principal risks and uncertainties

continued

Business strategy and change management	
Risk trend Increased	
Link to strategy Delivering innovation, SaaS and Subscription, Go-To-Market, Complete core systems	
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 continued integration of the HPE Software business is complex, with a range of integration and transformation risks. The integration of the HPE Software business with the existing businesses carried on by the Group may be more time consuming and costly than anticipated. 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. Further, the Group is progressing with a number of initiatives stemming from the Strategic & Operational Review carried out in the previous financial year, which may further increase disruption to 'business as usual' activities across the Group. This risk was increased given the COVID-19 restrictions across various regions, from time to time in the period.	
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 the Chief Executive's Strategic review on pages 14 to 17, the Group's three-year plan includes initiatives that are focused around two key objectives. Firstly, evolving our business model to ensure we continually adapt to changes in the market to deliver value and capture growth opportunities. Secondly, delivering operational excellence through business process and infrastructure simplification with a relentless focus on improving levels and consistency of execution.

The focus remains on delivering targeted, relevant business outcomes and the simplification of business operations to equip and enable the sales organisation, simplify operational support and improve compliance capability. The Group continues to execute multiple programmes to deliver on these aims. Programme risks and interdependencies are managed carefully including the utilisation of detailed deep dives, cross-functional and cross-programme review sessions and a cadence of weekly and monthly risk reviews, to ensure that execution of the various programmes is successfully aligned to minimise disruption to 'business as usual'. Given the volume of concurrent transformation activity being delivered across the business, the Group has put in place governance structures to manage change for the business in a structured manner. These governance structures continue to evolve to meet the changing needs of the business.

As noted within the 'IT systems and information' risk on page 67, the Group has made good progress in the IT transformation programme to transition to one set of core IT systems. The transition of both historical Micro Focus and HPE Software systems to the new simplified systems architecture will build a solid base for improved execution.

Legal and regulatory compliance

Risk trend

Increased



Link to strategy

Complete core systems

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 Task Force on Climate-related 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 risk was increased in the period due to the variety 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.

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 90 and 91.

Intellectual property ("IP")

Risk trend

No change



Link to strategy

Complete core systems

Risk category

Marketplace

Principal risk description

The Group is dependent upon 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.

Potential impact

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

How we manage it

There are procedures in place across the Group to ensure the appropriate protection and use of the Group's brands and IP and these are monitored by the Group's IP panel and legal IP team.

Principal risks and uncertainties

continued

Treasury	
Risk trend No change	
Link to strategy Complete core systems	
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 2.7 times 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.	How we manage it The Group has significant committed financing facilities in place which were refinanced during the period, 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. During the period, as a precautionary measure in response to the COVID-19 pandemic, the Group suspended the payment of dividends in order to maximise available liquidity during a period of increased economic uncertainty. The Group seeks to maintain strong relationships with its key banking partners and lenders and to proactively monitor the loan markets. 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. Monitoring policies and procedures are in place to reduce the risk of any covenant breaches under the Group's banking arrangements. At 31 October 2020, \$nil of the 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 2020, no covenant test is applicable. Currency fluctuations are monitored by the Treasury Risk Committee on an on-going basis. Key currency exposures are detailed on page 207. 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.
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.	

Tax

Risk trend

Decreased



Link to strategy

Complete core systems

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 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 may increase in the short-term as a result of the US election and the COVID-19 pandemic. 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 that might arise from the results of the US election 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 and its advisors. 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.

During the period, a governance framework and process has been in operation to remind relevant employees of the requirements and guiding principles to comply with the obligations under the TMA. The risk of actions taken by the Group impacting the tax treatment of the HPE transaction diminish over time and is now considered to be low.

Principal risks and uncertainties

continued

Macro-economic environment, pandemic and Brexit	COVID-19
Risk trend Increased 	Risk trend New risk 
Link to strategy Go-To-Market	Link to strategy Go-To-Market
Risk category Marketplace	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, including the terms and manner of the UK's withdrawal from the EU, 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. This risk was increased given the COVID-19 restrictions across various regions, from time to time in the period.	Principal risk description The Group, like all businesses, is navigating 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. 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.	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 spread of jurisdictions allows the Group to be flexible to adapt to changing localised market risks, including navigating the effects of COVID-19 across different geographies. The Group has business continuity plans and crisis management procedures in place in the event of political events, pandemics or natural disasters. The Brexit Working Group (BWG) continued meeting throughout the year and following analysis of the EU-UK Trade and Cooperation Agreement agreed on 30 December 2020, the Group's mitigations and preparatory activity continued, preparing the Group for the transition. The areas reviewed for possible impacts included people, tax, transfer pricing, commercial contracts (buy and sell), privacy and data protection, intellectual property and regulatory matters. The BWG is phasing workstreams back into Group functions that will continue to work through changes. We recognise that it is early in the implementation of new rules and regulations and the position will continue to be monitored for any new or emerging risk areas.	How we manage it The Group acted quickly at the commencement of the COVID-19 pandemic, reviewing the existing BCP structures and enhancing governance, through the establishment of a COVID-19 Steering Committee, to provide a strategic platform to identify and address the emerging risks of COVID-19 across the enterprise. 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. Further details on the Group's response and management of COVID-19 are provided on page 61 and additional details on how COVID-19 has impacted specific risks are provided in the respective risks set out in this section.

Cyber security

Risk trend

Increased



Link to strategy

Complete core systems

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. This risk was increased in the period due to the general increased threat of cybercrime and sudden increase of work-from-home employees caused by COVID-19 restrictions across various regions, from time to time in the period.

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. 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, incident response is in place for the Group, monitoring tools for unusual activity are in place, a cyber security training course is available for new hires and awareness material is available on the intranet. The cyber team works closely with the UK National Cyber Security Centre ("NCSC") and is part of the NCSC collaboration portal. The threat posture, including in response to COVID-19, is continually reviewed and managed.

Internal controls over financial reporting

Risk trend

No change



Link to strategy

Complete core systems

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 2020, management identified a material weakness in the Group's internal controls over financial reporting, relating to inadequate controls surrounding existing IT applications, in particular regarding change management and access controls. As a result of those deficiencies, automated controls and controls over information produced by the entity related to those applications could not be relied upon. Please refer to the FY20 annual report on SOX compliance as set out on pages 90 and 91. 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 FY20 annual report on SOX compliance are set out on pages 90 and 91.

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 impact and are referenced throughout this report.

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

Strategic & Operational Review

In the fourth quarter of FY19 and the first quarter of FY20, the Group undertook a detailed Strategic & Operational Review for the business evaluating a number of strategic options available to the business. The conclusions of this review resulted in a number of strategic initiatives which were designed to stabilise the business and closer align to the needs of our customer base. These initiatives resulted in increased investment in our products and Go-To-Market function, alongside transitioning the aspects of our business to a SaaS or Subscription basis and completing on-going simplification and systems projects to create a more agile business. This is set out in further detail on pages 24 to 27.

In making these decisions, as noted on page 34, following the announcement the strategic initiatives required to stabilise revenues were discussed at investor meetings and this was a matter on which all major shareholders were informed and given the opportunity to question management on the approach adopted. Following these discussions, and taking into consideration the other matters set out in s172, the Board concluded that the long-term prospects of the business for all our stakeholders would be better served by reducing profitability in the short-term in order to make these investments designed which were designed to deliver our three-year turnaround plan for FY23 and ultimately the long-term.

Refinancing activities

A proposed term loan refinancing was announced to the market in February 2020, the intention being to extend our existing financing facilities in line with market practice. However, due to adverse market conditions caused by global economic uncertainties at the time, the decision to postpone in March 2020 ensured terms were not agreed to that were less favourable than would have otherwise been available. The relaunch of these refinancing activities in May 2020 led to a successful completion of the term loan refinancing. Equally, the revision and extension of the terms under our revolving credit facility announced in September 2020 was taken with a view to provide additional liquidity for the long-term viability of the Group and therefore it was in the best interests of its employees and investors and its relationships with suppliers and customers.

Cancellation and suspension of dividend payments

As explained in our Chief Financial Officer's report, the decision to cancel the FY19 final dividend and suspend the FY20 interim dividend, whilst having an adverse short-term impact on investors, led to additional cash being available to the Group during a period of unprecedented global uncertainty, and offered certainty to employees, customers and suppliers. The Board decided that this trade-off between equity investors and other stakeholders was necessary to help maximise the Group's resilience and ability to continue on its journey of transformation, weathering any disruption to new sales activities. In addition, this decision contributed to ensuring the business did not receive any financial support from government and took the important decision to not furlough any of its workforce. In addition, the Group did not make any redundancies other than those already planned in the period.

Section 172 matters	Specific examples	Page(s)
(a) The likely consequences of any decision in the long-term	– Strategic & Operational Review	24
	– Refinancing activities	50
	– Cancellation of the FY19 final dividend and FY20 interim dividend	57
	– Our governance framework shows how the Board delegates its authority	81
(b) The interests of the Company's employees	– Protecting our people in the COVID-19 pandemic	08
	– Employee engagement	35
(c) The need to foster the Company's business relationships with suppliers, customers and others	– Reducing our payment terms from 60 days to 30 days for small businesses defined as being certified as Minority-owned Businesses (MOB) or Small Medium Enterprise (SME), five star rating in CRN Partnership programme.	38
	– Compliance with the requirements of The Reporting on Payment Practices and Performance Regulations (2017) for all of our in-scope UK companies.	
	– Virtual Micro Focus Universe event bringing together over 3,900 participants over two events.	
(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.	41
	– Implementation of targets in respect of emissions and renewable energy.	40
(e) The desirability of the Company maintaining a reputation for high standards of business	– Upholding high ethical standards through our Code of Conduct	38
(f) The need to act fairly between members of the Company	– Stakeholder engagement	32
	– AGM	85



**"Effective corporate governance
is the cornerstone to long-term
sustainable success."**

Greg Lock
Non-Executive Chairman

Dear fellow shareholders,

This is my first corporate governance section of our Annual Report, following my appointment as non-executive Chairman on 14 February 2020.

My appointment took place just as the potential impacts of what would soon be declared a global pandemic – and the far reaching effects this would have on everybody's lives – were beginning to emerge. Lockdowns were already in place for some of the locations in which we operate and the UK followed on 23 March 2020. This, unfortunately, led to our Annual General Meeting ("AGM") which took place on 25 March 2020 not being the opportunity to meet with shareholders I had envisaged, a situation which, regrettably, persists to this day, with the result that our 2021 AGM will also be held behind closed doors with no shareholder attendance permitted. There will be an opportunity for shareholders to raise questions, as set out in the Notice of Meeting for the AGM. The pandemic also led to the board's difficult decisions to both withdraw the proposed final dividend for FY19 and to not pay a FY20 interim dividend. On behalf of the board, I would like to thank shareholders for their patience during these unprecedented times and am pleased that we are now in a position to propose that a final dividend be paid for FY20. More information on dividend policy can be found in the Chief Executive's Strategic review on page 17.

This Annual Report marks the first time the Group has reported against the requirements of the UK Corporate Governance Code 2018 ("the Code"). Whilst my appointment as non-executive Chairman does mean we are now compliant with the Code in this respect, the Board recognises that there remains room for improvement in certain areas. The board is reviewing appropriate governance around ESG matters. The board seeks high standards of corporate governance and operates a strong corporate governance framework with a comprehensive set of procedures and processes to support and enable this governance requirement. Our governance function now sits within the remit of Suzanne Chase, a lawyer who was appointed as Group Company Secretary on 14 June 2020 and also heads up our Assurance function. Suzanne's appointment signals the board's recognition of good governance as a key mitigator of risk.

During the year ended 31 October 2020, the key developments in relation to our corporate governance were principally focused on board composition, the changes to the composition of the board since the last Annual Report being as follows: on 14 February 2020, Kevin Loosemore stepped down as Executive Chairman and I joined as non-executive Chairman. As mentioned earlier, my appointment as non-executive Chairman means that there is now a clear division of responsibilities between the leadership of the board and the executive leadership of the Company's business (as detailed on pages 86 to 88); and on 16 April 2020, Robert Youngjohns was appointed as a non-executive director, with Sander van 't Noordende also being appointed as a non-executive director on 2 June 2020, thus strengthening the blend of skills and experience of our board of directors.

Karen Slatford continues to play a key role as Senior Independent Director. While she has now served for more than the nine years highlighted by the Code, she is regarded by the board as retaining her independence and providing valuable counsel, at least in part informed by her long service as a director of the Company.

Finally, as we announced on 8 January 2021, Brian McArthur-Muscroft has notified the board of his intention to leave the Company. Brian continues in his role as CFO, whilst the board conducts a formal process to identify a new CFO to help drive the Group forward through the second half of our three-year plan and beyond.

Greg Lock
Non-Executive Chairman
8 February 2021

Board of directors



Greg Lock
Non-executive
Chairman



Chairman since February 2020.

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.



Brian McArthur-Muscroft*
Chief Financial Officer

Brian is our Chief Financial Officer and a member of the Micro Focus board, positions he has held since 21 February 2019.

Prior to joining Micro Focus Brian held a variety of senior management positions, including the role of Chief Financial Officer at TeleCity Group plc and most recently as Chief Financial Officer of Paysafe Group plc.

Also a restructuring specialist, Brian was the Interim CFO on the successful turnaround of MCI Worldcom EMEA.

He is a non-executive director and the senior independent director at Robert Walters plc, where he has been chair of the audit committee since 2013. In addition, Brian serves as the Responsible Officer for Hockerill Anglo-European College, a leading international secondary school in Hertfordshire.

Brian was named as Business Week's Finance Director of the Year in both 2013 and 2017, and the CBI's FTSE 250 Finance Director of the Year in 2012. Brian holds a Law degree and qualified as a chartered accountant with PricewaterhouseCoopers in London.

* As announced on 8 January 2021, Brian has notified the board of his intention to leave the Company.



Karen Slatford
Senior Independent
Director



Karen is a non-executive director of Softcat plc, Chair of 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.



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.



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 joined the Micro Focus board in June 2020. He 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 LGBTI 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.



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 8 February 2021:

Audit committee	
Remuneration committee	
Nomination committee	
Chair of the committee	

Corporate governance report

As a UK-incorporated company with a premium listing on the Official List of the UK Listing Authority, we are required to comply with the UK Corporate Governance Code. For the year ended 31 October 2020, 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) and applies for financial years beginning on or after 1 January 2019. Accordingly, this report represents our first year of reporting under this latest edition of the Code.

Compliance statement

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. Throughout the year ended 31 October 2020 and to the date of this report, the board considers that the Company has been in full compliance with the principles of the Code, and with each of its Provisions, save for Provisions 9 and 19 where, prior to the appointment of Greg Lock as non-executive Chairman in February 2020, the Company was not compliant as a result of Kevin Loosemore's role as Executive Chairman and his service beyond nine years. The appointment of an independent Chairman results in a clear division of responsibilities between the leadership of the board and the executive leadership of the Company's business in accordance with the Code.

For the period prior to the appointment of a non-executive Chairman, in order to mitigate any potential concerns around the concentration of decision making power within the role of the Executive Chairman, the Senior Independent Director, Karen Slatford, had separate and defined responsibilities, including leading the board's consideration of and deliberations on governance issues. In the year under review, this included overseeing the annual review of board effectiveness. These responsibilities were reviewed following the appointment of the non-executive Chairman and are outlined under Division of Responsibilities on pages 86 to 87. The independent non-executive directors comprise a majority of the board.

How our governance operated in the year

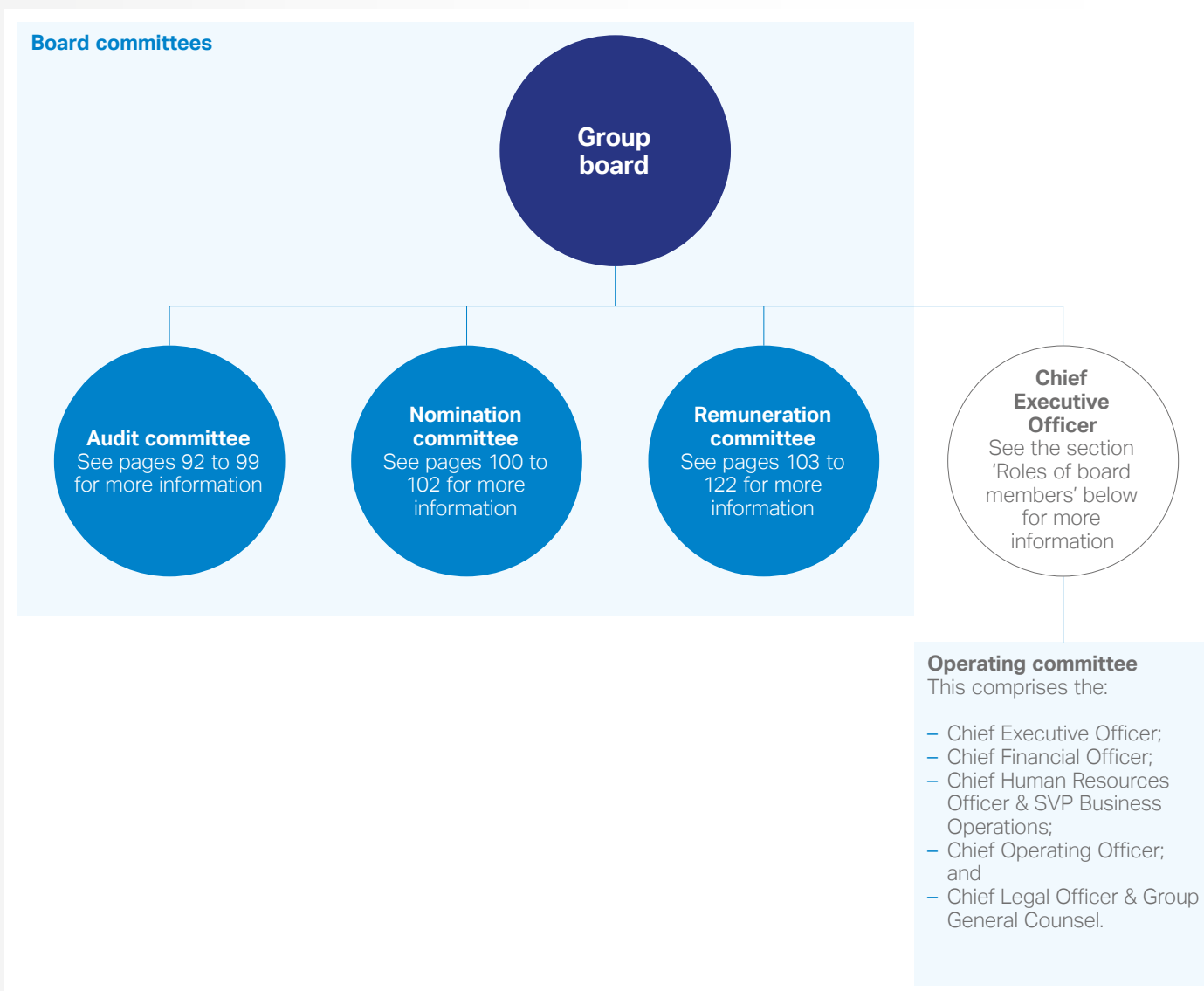
The Code sets out a number of principles grouped under five broad headings, as shown in the table below. With the exception of Remuneration (which is dealt with separately in the Remuneration report from page 103 onwards), the areas of this Annual Report highlighted in the below table, together with the following sections of this report set out how the board applied these principles in the year ended 31 October 2020.

Principles and provisions	Annual Report content	Page(s)
Board leadership and company purpose	Strategic report	12-75
	Non-executive Chairman's introduction	76
	Board of directors profile pages	78-79
	Board leadership and Company purpose	82-84
	Section 172 statement	74-75
Division of responsibilities	The board	82
	Board of Directors profile pages	78-79
	Division of responsibilities	86-88
Composition, succession and evaluation	Roles of board members	86-88
	Composition, succession and evaluation	88-89
	Nomination committee report	100-102
Audit, risk and internal control	Principal risks and uncertainties	60-73
	Audit, risk and internal control	89
	Audit committee report	92-99
	Fair, balanced and understandable statement	95
	Viability statement	59
Remuneration	Annual statement from the chair of the remuneration committee	103-105
	Executive directors' remuneration at a glance and How our incentive measures link to strategy	106-107
	Annual Report on Remuneration	108-122

The information required to be disclosed under DTR 7.2.6R and DTR 7.2.8AR can be found in the Directors' report on pages 123 to 129 and the Nomination committee report on pages 100 to 102, which are each hereby incorporated into this Corporate governance report by reference.

Governance framework

The board has created and empowered three committees to support the effective delivery of its governance obligations: an audit committee, a nomination committee and a remuneration 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.



Board leadership and Company purpose

The board

The names and biographies of each director in office on 31 October 2020 and to the date of this report can be found on pages 78 and 79. On 8 February 2021, the board comprised nine directors:

Name	Role
Greg Lock	Non-executive Chairman (appointed 14 February 2020)
Stephen Murdoch	Chief Executive Officer
Brian McArthur-Muscroft*	Chief Financial Officer
Karen Slatford	Senior Independent Director
Richard Atkins	Independent non-executive director
Amanda Brown	Independent non-executive director
Lawton Fitt	Independent non-executive director
Sander van 't Noordende	Independent non-executive director (appointed 2 June 2020)
Robert Youngjohns	Independent non-executive director (appointed 16 April 2020)

In addition, Kevin Loosemore served as Executive Chairman until 14 February 2020 and Silke Scheiber served as independent non-executive director until 4 February 2020.

* As announced on 8 January 2021, Brian McArthur-Muscroft has notified the board of his intention to leave the Company. Brian continues in his role as CFO, whilst the board conducts a formal process to identify a new CFO to help drive the Group forward through the second half of its three-year plan and beyond.

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;
- CSR 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 on page 81) which is chaired by the Chief Executive Officer, Stephen Murdoch.

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 2020, the board met formally on 20 occasions. As a result of the COVID-19 pandemic, which led to restrictions on travel and meetings, from March onwards, all meetings were held via videoconference such that all members could see and hear each other, with no disruption to the schedule of meetings.

Attendance at board and committee meetings

The number of board and committee meetings attended by each director in the year ended 31 October 2020, relative to the number of meetings held during their time in office, was as follows:

Director	Board	Audit committee	Nomination committee	Remuneration committee
Greg Lock ¹	16/16	–	4/4	6/6
Kevin Loosemore ²	4/4	–	–	–
Stephen Murdoch	20/20	–	–	–
Brian McArthur-Muscroft	20/20	–	–	–
Karen Slatford	19/20	8/8	8/8	–
Richard Atkins	18/20	8/8	7/8	10/10
Amanda Brown	20/20	8/8	8/8	10/10
Lawton Fitt	19/20	8/8	8/8	10/10
Silke Scheiber ³	3/4	3/3	3/4	4/4
Sander van 't Noordende ⁴	6/6	–	2/2	3/3
Robert Youngjohns ⁵	12/12	3/3	2/2	4/5

1. Greg Lock served as a director from 14 February 2020.

2. Kevin Loosemore ceased to serve as a director on 14 February 2020.

3. Silke Scheiber ceased to serve as a director on 4 February 2020.

4. Sander van 't Noordende served as a director from 2 June 2020.

5. Robert Youngjohns served as a director from 16 April 2020.

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.

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 2020
– 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 reports – Committee reports	– COVID-19 response and monitoring – Dividend cancellation in light of uncertainty resulting from COVID-19 – Reviewed 2020 budget and approved 2021 preliminary budget – Considered content of trading update – Revision and extension of Revolving Credit Facility – Term loan refinancing – Strategic & Operational Review updates – Conducted board performance evaluation – Reviewed and approved changes to the membership of the board and its committees – On-going review of HPE Software business integration – Reviewed compliance with debt covenants and liquidity – Reviewed risk and long-term viability and evolution of Risk Management Framework – Company Secretary appointment

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.

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.

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

The Group's stakeholders – our investors, employees, marketplace, environment and community – 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 43.

The board receives regular updates on the Group's CSR activities via Karen Slatford in her capacity as chair of the CSR Executive Committee.

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 74 and 75.

Workforce engagement

During the year, Karen Slatford (our Senior Independent Director) took up 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. Prior to formally taking up this role, Karen provided regular updates to the board on the Group's CSR activities in her capacity as chair of the CSR Executive Committee. This included the results of the My Voice all-employee annual and "pulse" surveys and thereby provided an effective (albeit less formalised) mechanism by which the board could understand the views of the workforce.

In her capacity as Workforce Engagement Director, Karen Slatford, supported by our Chief Human Resources Officer, conducted four panel sessions designed to hear directly from employees about their feedback and perspectives on working for Micro Focus. The non-executive Chairman also attended all of the sessions, with other board members attending some sessions. Each session comprised 10 to 12 employees representing different regions, organisations, length of tenure roles and diverse groups. These sessions identified both highlights (such as transparent and open All Employee meetings and the Group's positive response to COVID-19, including the work from home approach) and opportunities (such as providing clarity, relatability and goal alignment on strategy to enable employees to articulate it and addressing the challenge of moving to a virtual or hybrid selling environment). 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 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, the AGM held on 25 March 2020 took place behind closed doors as a result of the UK national lockdown (caused by the COVID-19 pandemic) which began on 23 March 2020. 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 three 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 25 March 2021 at 3pm (UK time) at the Company's registered office, The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN, but due to the on-going COVID-19 pandemic, the meeting will be held behind closed doors with no shareholder attendance permitted. 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 74 and 75.

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.

Prior to the appointment of the non-executive Chairman, the Senior Independent Director, Karen Slatford, chaired the nomination committee and was therefore responsible for succession planning; and also led on governance issues, including the annual review of overall board effectiveness. These responsibilities have now passed to the non-executive Chairman. During the year, Karen took up the role of non-executive director responsible for workforce engagement in accordance with the Code.

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 is 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 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. During the year, these responsibilities have been reviewed, updated and considered by the board, to reflect the changes resulting from the appointment of the non-executive Chairman during the year.

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.

Non-executive Chairman	Chief Executive Officer	Senior Independent Director
	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.	
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 and the appointment of Suzanne Chase, our Head of Assurance, to this role in June 2020 signals the Board's recognition of good governance as a key mitigator of risk.

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.

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 Provisions of the Code. Karen Slatford was appointed to the board in July 2010 and has 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.

One of the executive directors also has an external role. Brian McArthur-Muscroft is a non-executive director and the senior independent director of Robert Walters plc.

Composition, succession and evaluation

Board skills, experience, independence and knowledge of the Company

The appointments of Robert Youngjohns and Sander van 't Noordende to the board during the year have further strengthened the board's blend and balance of skills, experience, independence and knowledge of the Company, such that the board and its committees can continue to discharge their respective duties and responsibilities effectively. Progressively refreshing the board in this way is particularly relevant given that the challenges we face are constantly evolving. An explanation of how we manage succession planning at board level is included in the nomination committee report on pages 100 to 102. There is a formal, rigorous and transparent procedure for the appointment of new directors to the board, led by the nomination committee, which takes into account other demands on directors' time.

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.

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 performed internally. All of the board members participated and the process included benchmarking progress against the issues and actions identified from the externally facilitated review.

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:

- Continuing to improve the efficiency of board meetings, including ensuring that information supplied is clear and concise;
- Succession planning for the board, senior management and talent pipeline;
- Ensuring that the skill sets of individual board members are utilised effectively, including proactively supporting management through informal discussions; and
- Maintaining the focus on strategy, products and markets through formal and informal meetings and reviews.

The board also noted progress from the 2019 evaluation actions, including board composition from the 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 all Directors for re-election.

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 reappointment at the 2021 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.

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 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 95.

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 60 to 73.

The board also has responsibilities in relation to internal control which are described in the Audit committee report on pages 92 to 99.

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 July 2019 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.

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 2020, 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, believes 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 misstatement to the financial statements.

Management's report on internal control over financial reporting

As a foreign issuer with American Depositary Shares 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 controls 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 2020.

Management is responsible for establishing and maintaining adequate internal controls 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 controls 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 controls over financial reporting as at 31 October 2020 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: the Company did not have adequate controls surrounding existing IT applications in particular regarding change management and access controls. As a result of those deficiencies, automated controls and controls over information produced by the entity related to those IT applications could not be relied upon. In aggregate, these control deficiencies impact all financial reporting processes and constitute a material weakness. This material weakness did not result in 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 on the Company's internal control over financial reporting within the Form 20-F.

Changes in internal control over financial reporting

In the period, following the first full year of SOX implementation in FY19, the Group continued to embed and refine the framework of SOX compliant internal controls under its central SOX Compliance Programme ("SCP"), together with a specialist team from its outsourced internal audit partner, PwC. Governance for the SCP included a cross-functional SOX steering group ("SSG") chaired by the Group's Chief Financial Officer reporting to the audit committee. In addition, the disclosure committee, also chaired by the Chief Financial Officer, 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 a new SOX Assurance Director, increasing the internal compliance teams for Finance and IT, enhancing the Finance function Finance Processes and Compliance committee. The SCP continued to operate during a period of significant change across the organisation as well as within the requirements of remote working under COVID-19 restrictions. Change activities include embedding the phased finance transformation programme and the continuing work on preparation of the new IT stack including associated internal controls over financial reporting for launch in FY21, as set out in the Chief Executive's Strategic review on pages 14 to 17. As part of the governance, the SSG monitors potential adverse impacts of organisational change to the SCP.

The SCP included reviews of the end-to-end process mapping, walkthroughs, test of design and test of effectiveness across the Group's main processes, Hire to Retire, Quote to Cash, Procurement to Pay and Record to Report, as well as IT general controls ("ITGC"), leading to the refinement of documented controls for each process. A global process owner owns each process and its associated controls. In the period, the Group has also reviewed its entity level controls and continued with the implementation of a SOX training plan across relevant parts of the Group. A key work stream of the SCP related to continuing to improve the adequacy of ITGCs. The challenges with the IT systems, including controls acquired with the HPE Software business, were disclosed in our Annual Report and Accounts for 2018 and 2019, and the 2018 and 2019 Form 20-F. Consequently, the business remained on its legacy IT systems, necessitating business process controls and ITGCs across both systems with the attendant complexity to the control environment. 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 formed part of the SCP. Additionally an in-house team was onboarded to Micro Focus to ensure continuity for future years. 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 Annual Report and Accounts 2019 and the 2019 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 to be a material weakness. The material weakness related to the fact that the Group did not have adequate controls surrounding existing IT applications, in particular regarding change management and access controls. As a result of those deficiencies, automated controls and controls over information produced by the entity could not be relied upon. During the year, under the SCP, management, where possible, put in place a number of actions to remediate these weaknesses and strengthen internal controls. The actions included, but were not limited to, implementing new controls both preventative and detective in nature, increasing the precision with which controls operate, ensuring clear ownership of every control, and implementing checks on the completeness and accuracy of reports that are relied upon as part of key control operations. Within the IT environment, and where technical limitations allowed, improvements included enhanced cross-functional change management controls and oversight board, clear definition of access control parameters and monitoring of IT applications, reviewing IT applications in scope and working with vendors on the timely provision of SOC1 reports. As a result of the work undertaken under the SCP, there was a significant reduction in the number of control deficiencies identified in the year, including the remediation of controls for a number of IT applications, evidencing the strengthening in internal control over financial reporting.

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 set out in the Chief Executive's Strategic review on pages 14 to 17, the Group has a project underway to move to a simplified systems architecture enabling further automation of improved processes and controls. 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 2021, 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.

Audit committee report

Committee Chair's introduction



I am pleased to introduce our Audit committee report for the year ended 31 October 2020.

Richard Atkins
Chairman, audit committee

Audit committee members and meeting attendance

	Meeting attendance
Richard Atkins	8/8
Amanda Brown	8/8
Lawton Fitt	8/8
Silke Scheiber ¹	3/3
Karen Slatford	8/8
Robert Youngjohns ²	3/3

1. Silke Scheiber ceased to serve as a director and member of the audit committee on 4 February 2020.
2. Robert Youngjohns served as a director and member of the audit committee from 16 April 2020.

Dear fellow shareholders,

I am pleased to introduce our Audit committee report for the year ended 31 October 2020. 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 response to COVID-19. In response to new risks posed by COVID-19, the Internal Audit Plan has been flexed, to address the changing risk landscape and seek additional assurance. Following the introduction of SOX compliance, we also continue to develop the SOX programme and 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 been developing well.

Composition of the committee

The audit committee comprises myself (who serves as its chair), Amanda Brown, Lawton Fitt, Karen Slatford and Robert Youngjohns who joined the committee on 16 April 2020. Silke Scheiber also served on the audit committee until 4 February 2020. 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) and that 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 of Group Finance, the joint Heads 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 Deloitte LLP (external tax advisors) 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 2020

The committee met eight times during the year, details of meeting dates and attendance can be found on page 92 of this report.

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

Reviewing reports from the SOX steering group and monitoring the progress of SOX compliance (please refer to pages 90 and 91 for further information on the SOX compliance)

Reviewing updates from the Controllershship function, including the status of the finance transformation programme and other key projects

Reviewing reports from the disclosure committee, including an assessment of the Company's status as a Foreign Private Issuer for SEC purposes

Reviewing updates from the Treasury & Tax functions, including refinancing

Reviewing assurance updates, including reports on the status of the Group's enterprise risk, fraud risk and internal audit programmes

Reviewing updates on COVID-19, including risk management and an overview of management's actions and strategies in addressing COVID-19 matters

Reviewing updates on the status of Brexit planning from the Brexit Working Group

Reviewing updates from the operational risk and compliance committee on the activities of risk management and compliance

Reviewing updates on the Group's insurance programme

Reviewing reports on contentious legal matters, including internal investigations and other whistleblowing matters

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.

Audit committee report

continued

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 assessed all areas in which there were significant estimates or exercises of judgement. The significant matters considered by the committee were as follows:

Revenue recognition

The Group has a detailed policy on revenue recognition for each category of revenue: Licence, Maintenance, Software as a Service ("SaaS") and other recurring and Consultancy. This includes the application of rules to determine the standalone selling price for each category of revenue in a contract, allocating the transaction price between these categories in accordance with the policy and the timing and presentation of their recognition. It also identifies the different types of commercial contracts that the Group enters into and confirms that the revenue recognition is in line with IFRS.

The committee reviewed a paper from management on key revenue recognition judgments made on contracts during the period (which this year included consideration of whether revenue is likely collectable prior to recognition given the potential impact of COVID-19 on our customers' ability to pay) and reviewed the appropriateness of identifying multi-element arrangements and the associated allocation of the transaction price between Licence, Maintenance, SaaS and other recurring and Consultancy. The committee also considered the controls that management has in place to ensure that the transaction price allocation of revenue is appropriate including reviewing the level of coverage obtained from the Group's material contract reviews. On the basis of the above, the committee concluded that the Group's revenue recognition was appropriate.

Impairment of goodwill and purchased intangibles

Management completed an impairment review of its purchased goodwill and intangibles as part of the interim financial reporting as an indicator of impairment was identified at that time. This resulted in an impairment charge of \$922.2m being recorded as at 30 April 2020.

Management has since completed the annual impairment review, as at 31 October 2020, of its goodwill and purchased intangibles; this resulted in an additional impairment of \$1,877.0m. As a result the total impairment charge in the year ended 31 October 2020 is \$2,799.2m. The remaining net book value of the purchased intangibles is \$5,268.9m and goodwill is \$3,835.4m after recording the impairments recognised in the year.

The principal judgements in the impairment reviews are the achievability of business plans (and therefore future cash flows), the average annual revenue growth rate by product group, long-term growth rates beyond the period covered by the five-year forecasts and the appropriateness of the pre-tax discount rate applied to future cash flows. The committee discussed reports from management setting out the basis for the assumptions including the estimated impact of COVID-19 and confirmed that the cash flows used were derived from board approved forecasts. Where adjustments were made to the board approved forecasts to align with the impairment standard, IAS 36 (for example to ensure that cash flows associated with improving the performance of existing assets were excluded), the committee discussed with management the basis of the adjustments.

The committee reviewed the sensitivity analyses on key assumptions that showed there were reasonably possible changes in the discount rate, the average annual revenue growth rate by product group and the long-term growth rate that could have a future material impact on the level of impairment recognised. The committee agreed with the judgements made by management and that the key assumptions and sensitivities disclosed are appropriate and adequate.

Exceptional items

The committee considered a report from management that described the treatment and disclosure of amounts included within exceptional items. These totalled \$3,011.6m pre tax. This included \$2,799.2m of goodwill impairment charges which the committee was satisfied was appropriate given their size and non-recurring nature. Regarding the remainder of \$212.4m, following the \$6.5bn acquisition of the HPE Software business in September 2017, a material level of costs have continued to be incurred on one off integration activities that span multiple periods which management have deemed to be exceptional given their nature and significance. These costs have been necessary to bring together the base Micro Focus, TAG, Serena and HPE Software business into one organisation. The committee discussed the exceptional items and agreed that while the level of exceptional costs are high, they have been treated consistently year-on-year and reflect the substantial on-going integration activities. The classification of certain income statement items as exceptional by the Group and its impact on related non-IFRS measures have been reviewed by the committee during the year with reference to authoritative guidance and regulations as well as through discussions with management and external advisors. The committee is satisfied that the use of exceptional items and its impact on non-IFRS measures is appropriate and enhances the understanding of the Group's financial performance and its prospects. The committee concluded that exceptional items were disclosed appropriately and reflected how they review the underlying performance of the Group.

Provision for income taxes

Judgements have to be made by management on the tax treatment of a number of transactions in advance of the ultimate tax determination being known. In assessing the appropriateness of the provision recognised in respect of uncertain tax positions, the committee considered the report prepared by the Group's tax department setting out the basis for the assumptions made. They discussed the judgements in particular those in relation to EU state aid and the UK tax authority challenge in respect of prior periods in light of the current tax environment and the status of tax audits in the main jurisdictions in which the Group operates. The committee concluded that the position taken on uncertain tax positions was appropriate.

Retirement benefit obligations

The committee reviewed a report from management setting out the primary assumptions including mortality, inflation and the rates at which scheme liabilities had been discounted and the sensitivity of the defined benefit obligation recorded amounts recorded to changes in these assumptions. The committee concluded that the assumptions used, which were supported by reputable third party actuarial advice, and proposed sensitivity disclosures were appropriate.

Lease term

The committee reviewed a report from management on the implementation of the new lease standard, IFRS 16. This included the accounting policy for determining lease term which management had identified to be an item of significant judgement. This report also set out the basis under which the lease term judgements were made in applying this policy including a summary of the number of leases where extension options are included and excluded, together with the financial impact of this judgement. The committee concluded that the judgements made were appropriate.

Capitalised software costs

The committee reviewed reports from management setting out the nature of costs incurred in relation to the Group's on-going transition to its new single IT platform and the rationale used in determining which costs required capitalisation as intangible assets and which costs should be expensed as part of the integration exceptional cost. Whilst the committee was satisfied that the level of accounting judgement identified by management was not significant, the committee continued to monitor the type and quantum of costs that required capitalisation. The committee concluded that capitalisation of \$35.6m was appropriate.

Fair, balanced and understandable

The committee is satisfied, and has recommended to the board, that the 2020 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 2020 and the information necessary for shareholders to assess the Company's performance, business model and strategy. A paper prepared by management provided the committee with the detail necessary to reach this conclusion, 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.

The committee also assessed the robustness of the processes followed in preparing the 2020 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; and
- The review by the audit committee and its own discussions with the external auditors, senior management and executive directors.

Audit committee report

continued

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 a review of the principal risks and uncertainties facing the Company and of the stress testing carried out which considered the wider macro-economic impacts resulting from COVID-19 on the performance of the Group. 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 59.

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 and the lead partner Tudor Aw, 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 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.

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 2020, the fees paid to the external auditors were:

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Audit services – Parent	7.2	12.8
Audit services – Subsidiaries	2.9	3.9
Audit-related services	3.3	3.6
Sub-total: audit and audit-related fees	13.4	20.3
Other assurance services	–	–
Services related to taxation	–	0.1
Other non-audit services	–	–
Sub-total: fees other than audit and audit-related fees	–	0.1
Total	13.4	20.4

Non-audit fees paid in the year ended 31 October 2020 amounted to 0.2% of the audit and audit-related fees (year ended 31 October 2019, 0.5%), which the committee concluded was an acceptably low level.

Of the audit-related services undertaken in the year ended 31 October 2020 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 \$2.7m 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 took office relatively recently and from the external auditors' 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 2020 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. In addition, during the year, at its December 2019 meeting the Committee was presented with the findings of the FRC's Audit Quality Review ("AQR") of KPMG's audit of the 2018 Annual Report and Accounts, which was performed as part of its normal inspection processes. There were no material issues raised in relation to the financial statement and limited areas of audit improvement were identified. 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 AQR team in relation to KPMG's audits of the 2019 or 2020 Annual Report and Accounts. There were also no interactions with the FRC's Corporate Reporting Review team during the year.

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 2020.

Audit committee report

continued

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 as outlined in the Enterprise Risk Management reporting cycle diagram on page 62. 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.

As the Company's ADRs 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 90 and 91 for the update on the Group's SOX implementation plan. The requirements under SOX require a greater degree of formal documentation of controls. However, the audit committee has reviewed and discussed this position with its auditors 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 60 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 in conformity with IFRS as adopted by the European Union (collectively "IFRS"), IFRS Interpretations committee, the Companies Act 2006 and Article 4 of the IAS Regulation.

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 60 to 73.

Internal audit

PwC continued to provide internal audit services to the Group throughout the year ended 31 October 2020, 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, COVID-19 necessitated changes to the internal audit plan to align with new and modified risks. 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.

Whistleblowing

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

Committee evaluation

As noted on pages 88 to 89, an internal board review was undertaken during the year. The committee was considered to be operating effectively, with its reviews being conducted at the level of detail required. The committee's approach to risk management, which continues to be highly regarded, allows for specific "deep dives" to be conducted at board meetings.

Richard Atkins

Chairman, Audit committee
8 February 2021

Nomination committee report

Committee Chair's introduction



I am pleased to introduce our nomination committee report for the year ended 31 October 2020.

Greg Lock

Chair, nomination committee

Nomination committee members and meeting attendance

	Meeting attendance
Greg Lock ¹	4/4
Richard Atkins	8/8
Amanda Brown	8/8
Lawton Fitt	8/8
Silke Scheiber ²	3/4
Karen Slatford	8/8
Sander van 't Noordende ³	2/2
Robert Youngjohns ⁴	2/2

1. Greg Lock served as a director and member of the nomination committee from 14 February 2020.
2. Silke Scheiber ceased to serve as a director and member of the nomination committee on 4 February 2020.
3. Sander van 't Noordende served as a director and member of the nomination committee from 2 June 2020.
4. Robert Youngjohns served as a director and member of the nomination committee from 16 April 2020.

Dear fellow shareholders,

I am pleased to introduce our nomination committee report for the year ended 31 October 2020. I joined the board as non-executive Chairman on 14 February 2020, as noted in last year's annual report, and took over as nomination committee chair from 24 March 2020. My appointment as a non-executive chairman was a step change in terms of governance for the board, following on from an executive chair. In addition, Silke Schreiber also stepped down from the board on 4 February 2020 and we were joined by two new non-executive directors, Robert Youngjohns and Sander van 't Noordende. We also welcomed Suzanne Chase as Group Company Secretary. During the year, the committee also focused on board succession, revising board governance, reviewing management structure and succession planning, including diversity and inclusion, for senior management roles.

Composition of the committee

The nomination committee comprises myself, Greg Lock (who joined the committee from 14 February 2020 and served as committee chair from 24 March 2020), Karen Slatford (who chaired the committee during the period up until 24 March 2020), Richard Atkins, Amanda Brown and Lawton Fitt. From 16 April 2020, Robert Youngjohns and, from 2 June 2020, Sander van 't Noordende also joined the committee. Silke Scheiber served as a committee member until 4 February 2020, on which date she ceased to serve as a director. 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 published 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 a diverse set of candidates and aims to keep Company policies relating to diversity and inclusion under review, to attract and retain the most talented people who can deliver sustained outstanding performance.

At 31 October 2020 the board comprised six men (66%) and three women (33%), from three different nationalities, bringing experience across a diverse range of disciplines and experience. The Company Secretary is also a woman. The board is pleased that despite a change in the balance of gender on the board, it has achieved the recommendations set out in the Hampton-Alexander Review of having a minimum 33% female representation on its board. As opportunities arise the board will seek to broaden the diversity of the directorate. Our most senior management forum, the operating committee, has three male members and two female members, so 40% of its members are female. Of the 42 employees who report directly to the operating committee members, 12 are female, being 29%. 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 very male dominated.

Board changes

During the year ended 31 October 2020 there have been five changes to the board:

- Greg Lock joined the board as non-executive Chairman from 14 February 2020;
- Robert Youngjohns joined the board as non-executive director on 16 April 2020;
- Sander van 't Noordende joined the board as non-executive director on 2 June 2020;
- Silke Scheiber ceased to serve as a non-executive director on 4 February 2020; and
- Kevin Loosemore ceased to serve as executive Chairman from 14 February 2020.

The process to ensure a smooth transition from an executive chairman to a non-executive Chairman, was led by the then incumbent chair of the nomination committee and Senior Independent Director, Karen Slatford. Karen worked with external recruitment agents, Russell Reynolds, to formulate a position specification covering the experience and attributes required, culture fit, diversity criteria and time commitment for the role. The shortlisting and interview process with the Senior Independent Director and other board members led to the committee recommending my appointment as non-executive Chairman to the board.

Key activities in the year ended 31 October 2020

The committee met eight times during the year and attendance at those meetings is shown in the table on page 100 of the Corporate governance report. The main items of business discussed at those meetings were:

Reviewing 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 and support the development of the Go-To-Market and security teams in which new leadership talent has been added

Recruitment and on-boarding of a new non-executive chairman and two non-executive directors

Reviewing and updating the composition of board committees as new non-executive directors joined

Reviewing the governance, including approving an annual calendar and updating the terms of reference

Reviewing the status of the Company's diversity and inclusion initiatives

Recommending to the board that each of Richard Atkins and Lawton Fitt be offered an additional term of office as a non-executive director

Nomination committee report

continued

Following the departure of Silke Scheiber in February, the committee took the opportunity to assess and seek to strengthen existing board expertise and experience. The main focus areas were technology, digital and software, which informed the candidates brief for the internally managed recruitment process and the externally led recruitment process in which the committee worked with Russell Reynolds.

In accordance with our policy of all board appointments being made with the aim of achieving a correct balance and blend of skills, experience, backgrounds and diversity, in all its forms, the recruitment process aimed to ensure that new additions to the board would have the ability to connect with a geographically diversified employee and customer base. The recruitment process for the new non-executive directors involved an interview process by a selection panel made up of the Chairman, Chief Executive Officer and the Senior Independent Director, from which a shortlist of candidates met with each board director. The views of the directors were provided to the committee and a recommendation was made to the board by the committee. Robert Youngjohns and Sander van 't Noordende joined the board in April and June 2020 respectively. On joining the board, the non-executive directors each participated in our induction programme and training, which was carried out through virtual online meetings, due to travel restrictions in place as a result of the COVID-19 pandemic.

Russell Reynolds has no other connection with the Company. This review of the size and shape of the board, and subsequent appointments made during the year have led to a good balance and blend of complementary experiences, attributes among board members. New board members offer a strengthened insight into the future trends and opportunities in an evolving software landscape.

Committee evaluation

As noted on pages 88 and 89, an internally facilitated review was undertaken during the year. The main finding was that, while the committee had focused greatly on board succession planning and recruitment and the management structure as part of succession, it recognises that this is an area of on-going work for the committee along with maturing its diversity and inclusion agenda. The committee also plans to progress its oversight of the senior management team, to have a deeper understanding of competencies and capabilities, which the work of the committee will seek to bring greater focus to moving forward.

Greg Lock

Chair, Nomination committee
8 February 2021



I am pleased to introduce the remuneration committee report for the year ended 31 October 2020.

Amanda Brown
Chair, remuneration committee

Remuneration committee members and meeting attendance

	Meeting attendance
Amanda Brown	10/10
Richard Atkins	10/10
Lawton Fitt	10/10
Silke Scheiber ¹	4/4
Greg Lock ²	6/6
Robert Youngjohns ³	4/5
Sander van 't Noordende ⁴	3/3

1 Silke Scheiber left the board and the committee on 4 February 2020.

2 Greg Lock joined the board and the committee on 14 February 2020.

3 Robert Youngjohns joined the board and the committee on 16 April 2020.

4 Sander van 't Noordende joined the board and the committee on 2 June 2020.

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 ("DRR") for the year ended 31 October 2020.

The Annual Report on Remuneration on pages 108 to 122 provides details of remuneration earned by the directors in respect of the year ended 31 October 2020 and describes how the Remuneration Policy will be implemented for the year ending 31 October 2021.

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. A summary of the current Remuneration Policy can be found on page 106 under the section entitled "Executive directors' remuneration at a glance".

Context for FY20

In February 2020, the Company announced that the Executive Chairman was stepping down from the board and a new non-executive Chairman, Greg Lock, was being appointed with effect from 14 February 2020. We also announced the outcome of the FY19 Strategic & Operational Review and the three-year plan to achieve stable revenues, capable of delivering Adjusted EBITDA margins towards the mid-forties percent and generating annual free cash flow of at least \$700m. As mentioned in the Chief Executive's Strategic review, these targets were set prior to COVID-19 and given the on-going situation and associated uncertainty, we remain unable to predict the magnitude and duration of the impact COVID-19 will have. The resulting macro-economic impacts are likely to delay the achievement of these specific objectives, but the principles of revenue stabilisation and margin expansion in order to deliver strong and sustainable levels of free cash flow remain the aim for FY23 and beyond. To deliver this plan, the Company is focused on the strategic initiatives which are described further on page 107.

In order to underpin and support the strategic initiatives, our new Remuneration Policy widened the performance measures we use for incentives for executive directors, with a focus on Adjusted EBITDA and revenue for the FY20 bonus plan and Adjusted Free Cash Flow and relative Total Shareholder Return (TSR) for the 2020 LTIP awards. At the 2020 AGM, we were very pleased to receive strong support for our new Directors' Remuneration Policy and for our 2019 Annual Remuneration Report (97% and 95% votes in favour respectively).

Directors' Remuneration report

continued

When the three-year plan was announced, we were unable to predict the profound impact COVID-19 would have on our customers, employees and communities. The Company has responded, and continues to respond, to the needs of these groups expeditiously and with great care under the leadership of the COVID-19 Steering Committee.

- To date, the Company has not furloughed any employees or requested any other form of state support in any of the countries which we operate in. From the outbreak of the pandemic, management has been focused on protecting roles, supporting the workforce in the transition to working remotely and getting the right balance between employee safety and business continuity.
- The Company has not made any redundancies as a consequence of COVID-19, nor have any employees had their pay reduced or their terms and conditions adversely impacted.
- In order to preserve the Company's cash position, the Company cancelled the final dividend for FY19 and suspended the interim dividend for FY20. The Company will however be paying a final dividend for FY20, as described on page 58.

Business performance in FY20 and incentive outcomes

Whilst there remains a great deal to do, the Company is pleased with progress made towards the three-year turnaround plan announced in February 2020 following the FY19 Strategic & Operational Review. There has been progress in delivery of the key strategic objectives and improvements in overall operational effectiveness as outlined elsewhere in the Annual Report.

The annual bonus targets for FY20 for Adjusted EBITDA and revenue were set in the context of the three-year ambition, set prior to COVID-19, to deliver stable revenues, Adjusted EBITDA margins towards the mid-forties percent, and be able to generate at least \$700m of free cash flow annually. The annual bonus targets for FY20 were set prior to COVID-19 and have not been adjusted in light of COVID-19.

Full year revenue performance for FY20 was \$3bn, which represents a decline of approximately 10.0% on a constant currency basis compared with FY19. The constant currency Adjusted EBITDA margin for the year was 39.1%. This reflects a decrease of 1.6ppt over the year relative to FY19 and resulted in \$1.2bn Adjusted EBITDA for FY20 (on a constant currency basis).

These financial outcomes resulted in a bonus payout percentage of 6.9% under the Adjusted EBITDA measure (60% weighting) and 0% under the revenue measure (20% weighting). These outcomes are in line with the outcomes for the rest of the workforce who participate in the same bonus plan (i.e. all staff who are not on sales commission plans). The individual key performance objective (KPO) outcomes for the CEO and CFO reflect the achievement of critical objectives in very challenging circumstances. These are described in more detail in the report but include strong progress on sales infrastructure, IT systems transformation, employee engagement, succession planning and balance sheet management. The above threshold achievement under one financial measure meant that the executives were eligible to receive the amounts earned under the KPO element.

Overall payouts for the CEO and CFO were 22% of their maximum bonus opportunity (with one-third being deferred into an award over shares with a three-year vesting period). The committee considered the bonus outcomes to be a fair reflection of the result therefore did not exercise any discretion in determining the outcome.

Over the three years to the end of April 2020, the aggregate Diluted Adjusted EPS performance fell short of the threshold target of RPI plus 3% per annum for the 2017 LTIP. As a result, the 2017 LTIP awards lapsed in full for the CEO and the prior Executive Chairman, Kevin Loosemore in July 2020.

Decisions about executive pay outcomes for FY20 and implementation of policy for FY21 have been considered in light of all relevant circumstances including the Company's approach to managing COVID-19 on employees, customers and shareholders. The committee believes that these reward outcomes for executive directors appropriately reflect the Company's performance and the experience of all stakeholders in the current environment and overall fairly reflect the financial results for the year and the significant progress made against our strategic priorities. The Committee therefore believes the Company's Remuneration Policy has operated as intended over the year.

The committee also continues to take into account remuneration of the workforce when making decisions about executive pay and has now undertaken two detailed reviews of workforce reward and will continue to increase its knowledge in this area. More information about this is set out on page 117.

FY20 LTIP grants and shareholder consultation

Shortly after the 2020 AGM, we consulted on the 2020 LTIP grant proposals for executive directors. We wrote to shareholders representing 55% of the total share register, including all active funds within our top 30 shareholders, as well as ISS, Glass Lewis and the Investment Association. We received support for our proposals and the 2020 LTIP awards were granted on the following basis:

- We chose Adjusted Free Cash Flow (80% weighting) and TSR relative to the FTSE 250, excluding Investment Trusts (20% weighting) as the performance measures for the 2020 LTIP awards to support the aim of stabilisation of revenues, achieving adjusted EBITDA margin in the mid-forties and maximisation of Free Cash Flow.
- We did not disclose the Adjusted Free Cash Flow targets as they were, and continue to be, considered by the board to be commercially sensitive. We will disclose them at the end of the performance period. Should the formulaic outcome of the performance measures not, in the view of the committee reflect overall business performance, the committee has discretion to adjust the vesting level if it believes this would result in a fairer and more appropriate outcome.
- The LTIP award of 117% of salary for the CEO was significantly lower than the maximum 200% of salary available under the Remuneration Policy to reflect the share price decrease since the previous grant and to ensure no windfall gains, including as a result of COVID-19. The CFO received an award just under the maximum 200% of salary to reflect that he had no awards of any value in place since joining the Company in October 2018. The CFO's award lapsed effective 8 January 2021 on announcement that he was leaving the Company.

Details of the 2020 LTIP awards were published on our website in advance of the grant.

Implementation of policy in FY21

The committee determined that the salaries for executive directors will remain unchanged for FY21. Pension and benefits provided to the executive directors are also unchanged for FY21 and we will reduce the pension allowance for the CEO to the level for UK employees (currently 5%) by the end of 2022.

The performance measures and weightings for the FY21 annual bonus will remain the same as for FY20, i.e. Adjusted EBITDA (60% weighting), revenue (20% weighting) and individual KPOs (20%). The maximum annual bonus opportunity will remain at 150% of salary with a requirement to defer one-third of any bonus earned into shares for three years.

The performance measures for the LTIP will continue to be Adjusted Free Cash Flow and relative TSR as these still reflect the business strategy. The board has determined that the Adjusted Free Cash Flow targets for the 2021 LTIP awards are commercially sensitive and will be disclosed at the end of the performance period. The targets reflect the impact of COVID-19 and resulting macro-economic factors on the timing of achieving our aim of generating at least \$700m of Free Cash Flow annually. The committee believes that the targets set are sufficiently stretching and appropriate. The committee will review the outcome at the end of the performance period and can exercise discretion to ensure that the final vesting outcome reflects overall business performance over the period.

Having received a significantly reduced LTIP grant in 2020 to reflect the share price decrease since the 2019 grant, the committee considered the current share price relative to the share price at the time of the 2020 grant (just under £4.00) and determined that the 2021 LTIP grant for the CEO will be at the maximum level of 200% of salary.

CFO remuneration

It was announced on 8 January 2021 that the CFO, Brian McArthur-Muscroft, would be leaving the Company. He will continue in his role for approximately six months from the announcement and will continue to receive his salary, pension and contractual benefits as normal until the end of his employment.

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 for FY21). One-third of his bonus earned for FY20 will be deferred into an award over shares which will vest after three years. All of Mr McArthur-Muscroft's outstanding LTIP awards have lapsed and no further LTIP awards will be granted to him.

In summary

We are committed to building on the high level of support we received from shareholders for our new Directors' Remuneration Policy last year and the positive interactions we had with shareholders during our consultation on the 2020 LTIP awards. We are committed to continuing to have an open and transparent dialogue with our investors. We believe the reward outcomes for FY20 and the approach for FY21 are appropriate given the Company's performance and the current environment. I therefore hope to receive your support for the 2020 Annual Report on Remuneration at our upcoming AGM.

Amanda Brown

Chair, Remuneration committee
8 February 2021

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 FY20 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 FY20	Proposed approach for FY21
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 CFO: £600,000	No change from FY20. CEO: £850,000 CFO: £600,000
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 comprised car allowance, private medical and dental insurance, group income protection and life assurance.	No change from FY20.
Pension	New hires: Maximum aligned to pension provided to employees generally in the same location. Current CEO and CFO: Maximum is currently 15% cash in lieu of pension allowance, reducing to the general employee level for the UK by the end of 2022 in one step.	CEO and CFO: 15% cash in lieu of pension allowance.	No change from FY20. Maximum contributions aligned to workforce for new hires and will be for incumbent directors by 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.	Maximum 150% of salary. Performance measures: AEBITDA (60%) Revenue (20%) Personal KPOs (20%)	No change from FY20. Performance measures: AEBITDA (60%) Revenue (20%) Personal 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.	CEO: Reduced award level of 117% of salary to reflect share price decrease. CFO: Award level of 199% of salary. Performance measures: Adjusted Free Cash Flow (80%) Relative TSR (20%)	Award levels: CEO: 200% of salary No change to performance measures: Adjusted Free Cash Flow (80%) Relative TSR (20%)
Shareholding requirement	<i>In service requirement:</i> 200% of base salary, with executive directors given a period of time to build up to their requirement, typically five years. <i>Post-cessation requirement:</i> 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.

How our incentive measures link to strategy

As described on page 26, the business objectives for FY23 are stabilisation of revenues, achieving Adjusted EBITDA margin in the mid-forties and maximisation of free cash flow. As part of the FY19 Strategic & Operational Review, the Company announced strategic initiatives which, combined with existing programmes, are designed to deliver on the strategic vision for FY23 and create a business which is more efficient, agile and better aligned to the customer value proposition.

The financial performance measures in the annual bonus plan (60% Adjusted EBITDA and 20% revenue growth) and in the LTIP (80% Adjusted Free Cash Flow and 20% relative Total Shareholder Return) are designed to support and underpin the FY23 objectives and the strategic initiatives. Further detail on the linkage between our objectives, strategic initiatives and the incentive measures is set out below.

Objectives for FY23	Strategic initiative	Link to incentive measures
Stabilisation of revenues	Evolve our business model	
Achieving Adjusted EBITDA margin in the mid-forties	Delivering innovation More investment in growth.	Primarily revenue growth, leading to improved adjusted EBITDA margin growth and ultimately free cash flow generation.
Maximisation of free cash flow	Evolve the operating model to improve the visibility of our product strategies and drive more differentiation with increased investment in Security and Big Data.	Greater reflection of the value of specific businesses should also lead to an increase in total shareholder return.
	SaaS and Subscription Accelerate the transition to SaaS and Subscription to better align to the market opportunity where these models are becoming the de facto standard.	The increase of recurring revenue streams is also a driver of total shareholder return despite the short-term impact on total revenue and earnings as the business will have sustainable longer-term cash flows which will ultimately increase the net present value.
	Operational excellence	
	Go-To-Market Transform the Go-To-Market function in order to improve sales effectiveness.	Revenue growth, Adjusted EBITDA margin growth, and ultimately free cash flow generation.
	Complete core systems Complete the core systems and operational simplification work to deliver a robust and efficient operating platform.	Significant driver of cost reduction leading to Adjusted EBITDA margin growth and ultimately free cash flow generation. In addition, the system is designed to be scalable for future inorganic opportunities and therefore links to the total shareholder return measure.

Directors' Remuneration report

continued

Annual Report on Remuneration

Single total figure of remuneration – executive directors (audited)

Executive Directors		(a) Base salary ¹	(b) Benefits ²	(c) Annual bonus ³	(d) LTIP ⁴	(e) Pension ⁵	(f) Total	Total Fixed Remuneration (Total of (a), (b) and (e))	Total Variable Remuneration (Total of (c) and (d))
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Stephen Murdoch	2020	850	24	283	–	127	1,284	1,002	283
	2019	850	23	–	565	128	1,566	1,001	565
Brian McArthur-Muscroft	2020	600	25	199	–	90	914	715	199
	2019	600	21	–	–	90	711	711	–
Kevin Loosemore ⁶	2020	216	12	44	–	43	315	271	44
	2019	750	38	–	1,205	150	2,143	938	1,205

1 Base salary is the amount earned during the period in respect of service as a director.

2 Benefits include car allowance, private medical/dental insurance, group income protection and life assurance. Last year's benefits numbers have been restated to include the value of the life assurance benefit provided. There has been no change in the benefits offered to directors in FY20 versus FY19. Increases in the benefits numbers from FY19 to FY20 reflect increases in employer premiums for medical insurance and life assurance and, for the CFO, the full level of coverage for life assurance and group income protection being provided following completion of the underwriting process.

3 Annual bonus reflects payment for performance during the year in respect of service as a director. One-third of the annual bonus amount included in the table above for Stephen Murdoch and Brian McArthur-Muscroft 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 2020 reflects the lapse of the 2017 LTIP award on 7 July 2020 due to the performance conditions not being met. The 2019 figures reflect the 2016 LTIP which vested on 26 July 2019 at a vesting share price of £17,418. The amount for 2019 that directly relates to share price appreciation is zero. No discretion was applied by the remuneration committee in determining the vesting outcomes in 2019 or in 2020.

5 All pension amounts paid by the Company in the 2020 financial year are cash in lieu of pension allowances. The current executive directors will transition from their current contribution rates (15% of base salary) to the new hire pension maximum applicable to employees generally by the end of 2022 in one step.

6 Kevin Loosemore stepped down from the board on 14 February 2020. All amounts in the table above reflect the period of service as a director.

The total remuneration for directors is set out in note 29 to the consolidated financial statements on page 212.

Annual bonus for the 2020 financial year (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 2020 financial year.

Performance measure	Weighting	Financial targets (\$m) ¹			Achievement	Achievement vs Target	Payout %	Weighted payout %		
		Threshold ² (0%)	Target (50%)	Maximum (100%)				Stephen Murdoch	Brian McArthur-Muscroft	Kevin Loosemore ³
Adjusted EBITDA	60%	\$1,165	\$1,226	\$1,288	\$1,174	95.7%	6.9%	4.2%	4.2%	4.2%
Revenue	20%	\$3,095	\$3,158	\$3,221	\$3,027	95.8%	0.0%	0.0%	0.0%	0.0%
Key Personal Objectives (KPOs)	20%	A description of the KPOs for the CEO and CFO is set out below. There were no KPOs for the prior Executive Chairman.						18.0%	18.0%	1.0%
Total	100%	Payout % (of maximum bonus)						22.2%	22.2%	5.2%
		Payout % (of FY20 salary)						33.2%	33.2%	7.8%

1 Financial targets are on a post-IFRS 16 basis and performance is measured based on constant rates of currency exchange.

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 Kevin Loosemore reflect time served as a director, i.e. up to 14 February 2020. As disclosed in last year's report, given the announcement about Kevin Loosemore stepping down from the board, the committee determined that Kevin Loosemore would not have specific key deliverables under the KPO element for the 2020 bonus. Instead, the outcome under this element is determined by reference to the weighted average performance outcome under the financial measures.

This results in overall bonus payouts of £282,515 for the CEO and £199,422 for the CFO. Two-thirds of the overall amount (£188,343 for the CEO and £132,948 for the CFO) will be paid in cash in March 2021 and the remaining one-third is subject to deferral into an award over shares. Deferred share awards (with a current face value of £94,172 for the CEO and £66,474 for the CFO) will vest after three years, i.e. in Q2 FY24. The deferred share awards are not subject to any further performance conditions, but they are subject to malus and clawback and they include a right to dividend equivalents over the three-year vesting period. The bonus payout of £43,854 for the prior Executive Chairman will be paid in cash in March 2021.

	KPO	Relative weighting	Achievement vs KPO	Weighted payout %
CEO and CFO	React to prevailing circumstances and build a plan to allow the Company to deal with the employee, customer and environmental disruption caused by the COVID-19 crisis, while preserving the ambitions outlined in February 2020 when announcing the result of the Strategic & Operational Review.	10% (for both CEO and CFO)	Trading suffered during the first half of the year and stabilised in the second half as a direct consequence of the actions taken by the CEO and CFO. Some examples of achievements are set out below: – Leading the response to COVID-19 through a Steering Group ensuring employees were safe, supported and engaged and that we fully supported our customers and partners throughout. Employee support and communications were greatly enhanced overall and focused on the actions and support needed by our people to cope. The most recent employee opinion survey saw an improvement in overall employee engagement of 11% and a 30 point improvement in Employee Net Promoter Score. – The Revenue Growth Office was established to drive transformation of Go-To-Market and delivery of more effective end-to-end alignment by Product Portfolio. We simplified core operations and sharpened our focus on delivering product innovation in support of our customers' digital transformation programmes. – Improvements were made to the sales processes (such as single sales methodology, standard management systems and tools) as an important foundation for future revenue improvement. – Progress was made in setting up Security and Big Data for more autonomous operation. For example, we made changes in operational management, improved end-to-end organisational alignment and added specialist sales resources. – Preparations were completed for the recent cutover for a significant proportion of the company to comprehensive new systems and processes (referred to as 'Stack C'). The committee judged the plan and its implementation to have successfully achieved its objective of dealing with crisis and getting the best possible outcome for all stakeholders.	9% (for both CEO and CFO)

Directors' Remuneration report

continued

	KPO	Relative weighting	Achievement vs KPO	Weighted payout %
CEO	Build a leadership team capable of delivering our ambition of a company with stable revenues, capable of delivering AEBITDA in the mid-forties percent and free cash flow between of at least \$700 million per annum. To support this objective, demonstrate an effective succession planning process supported by Company-wide talent identification and development.	10%	In relation to this KPO, the following was achieved: – Comprehensive development and talent reviews were undertaken, resulting in a significant number of changes in management responsibilities and personnel in the executive leadership team, particularly in the HR and sales functions. These changes have led to improvements in the short-term and, more importantly, form a base for future development and identification of our leadership gaps and opportunities and the development plans needed to support our future ambitions. – In the broader senior leadership, particularly in the sales function, there have been key hires made through a combination of internal and external talent. – “Academies” have been established with the aim of infusing talent in AMC and inside sales and there has been additional investment in training, development and career planning. The committee considers the Company to be much better placed to enable changes where needed in identifying and developing leadership internally and recruiting externally where necessary.	9%
CFO	Manage the Company's response to COVID-19 from an overall finance perspective with particular focus on business continuity, cash management, overall balance sheet management and the interactions and messaging required externally to support the above.	10%	In relation to this KPO, the following was achieved: – The refinancing of longer-term debt, including restructuring the 'revolver' facility, has put us in a strong position with no obligations now falling due until 2024 and repaying a portion of our debt early and has given the Board the ability to reinstate a dividend. – Driving stable cash conversion during COVID-19, including resolution of aged debt, rationalising and consolidating vendors as well as optimising cash pooling to maximise liquidity. – Effectively navigated the Company during COVID-19 from a financial perspective ensuring that the Company came through the period with a strong balance sheet and employees' roles were protected. The committee considered the significant over-achievement of our cash targets and management of working capital to have been exemplary.	9%

This results in a KPO payout of 18% out of a possible 20% or 27% of salary for the personal objectives for each of the two executive directors. For completeness, this, together with the low payout for their other financial targets, made a total of 22% of maximum bonus (which equates to 33% of salary) for each of them.

Lapse of LTIP awards (audited)

The LTIP awards granted on 6 September 2017 as nil-cost options to Stephen Murdoch and Kevin Loosemore lapsed on 7 July 2020. These 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 these awards was based on average aggregate EPS growth in excess of RPI over the three years ended 30 April 2019, 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	Achievement against the performance range	Resulting vesting percentage
Less than 3% p.a.	0%		
Equal to 3% p.a.	25%		
Between 3% and 9% p.a.	Between 25% and 100% on a straight-line basis	Less than 3% p.a.	0%
Equal to or above 9% p.a.	100%		

The aggregate Diluted Adjusted EPS over the performance period of 579.94 cents was below the minimum threshold aggregate EPS of 592.01 cents required for the minimum level of vesting at 3% per annum above RPI from the base year figure of 270.60 cents. As a result, there was 0% vesting for these awards and they lapsed in full on 7 July 2020 (36,664 awards for Stephen Murdoch and 67,965 awards for Kevin Loosemore).

Scheme interests awarded during the financial year ended 31 October 2020 (audited)

LTIP – nil-cost options

	Date of grant	Basis on which award is made	Face value of award at grant	Percentage of maximum which would be received if threshold performance achieved	End of performance period
Stephen Murdoch	23 April 2020	Grant of award over 250,000 shares (117% of salary)	£994,250	0%	Adjusted Free Cash Flow: 31 October 2022
Brian McArthur-Muscroft	23 April 2020	Grant of award over 300,000 shares (199% of salary)	£1,193,100		Relative TSR: 22 April 2023

1 The grant face value of the LTIP awards granted on 23 April 2020 was calculated based on the closing mid-market share price on the business day before grant of £3.977. As published on the Company's website on 22 April 2020 in the statement called "Terms of 2020 LTIP grants to Executive Directors", the basis of grant for these awards was a fixed number of shares. The grant level for Stephen Murdoch was significantly lower than the maximum 200% to reflect the share price decrease since the time of the previous grant in 2019.

2 The 2020 LTIP award to Brian McArthur-Muscroft lapsed with effect from his resignation on 8 January 2021.

The LTIP awards granted in the 2020 financial year have the following performance conditions based on Cumulative Adjusted Free Cash Flow (80% weighting) and Relative Total Shareholder Return (20% weighting) over a three-year period. 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.

Directors' Remuneration report

continued

Adjusted Free Cash Flow means cash generated from operations adjusted for interest payments, bank loan costs, tax payments, capital expenditure and finance lease payments and excludes the cash impact of exceptional items. This is in line with the definition of Adjusted Free Cash Flow on page 45. For the 2020 LTIP awards, Adjusted Free Cash Flow will be measured on a cumulative basis over the three financial years ending 31 October 2020, 31 October 2021 and 31 October 2022.

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

Relative TSR is measured over a three-year period from grant. 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 will be entitled to dividend equivalents in accordance with the rules of the LTIP and the approved Directors' Remuneration Policy.

Executive directors' shareholding and share interests as at 31 October 2020 (audited)

Shareholding requirement and share interests

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. Post-cessation, executive directors will be required to hold shares subject to their shareholding requirement in accordance with the Company's designated mechanism from time to time in place.

The table below shows the shareholdings and share interests for all executive directors (and their connected persons) who served during the 2020 financial year as at 31 October 2020 (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 ³	280,669	39,640	10,013	418,727	200%	77%	Not yet due
Brian McArthur-Muscroft ⁴	–	–	–	460,964	200%	0%	Not yet due
Kevin Loosemore ⁵ (until 14 February 2020)	696,383	–	–	52,083	–	–	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 30 October 2020 of £2.159.

3 Stephen Murdoch is required to have a 200% shareholding within three years of re-joining the board on 19 March 2018, i.e. by 19 March 2021.

4 As at 31 October 2020, Brian McArthur-Muscroft was still within the time period (which is typically five years from joining) to build up to his 200% of salary shareholding requirement. He has not received any share award vesting since he joined the Company. As announced on 8 January 2021, Mr McArthur-Muscroft will be leaving the Company. In accordance with our policy, he is not required to hold any Company shares post-cessation of employment.

5 Mr Loosemore stepped down from the board on 14 February 2020. The shares held (owned outright) shown in the table above reflect the number of shares held as at 14 February 2020. After this date, the obligation to notify the company about transactions in shares ceased. Mr Loosemore has no awards which are subject to the new post-cessation shareholding requirement which was agreed as part of the remuneration policy approved at the 2020 AGM. However, as part of his leaving arrangements, Mr Loosemore voluntarily agreed to maintain a minimum shareholding of 200% of his salary, subject to a maximum of 200,000 shares, until 12 months after he stepped down from the board, i.e. until 14 February 2021.

Stephen Murdoch's shareholding percentage, based on the average share price for January 2021 (£4.137), is 147% of salary.

As a result of the announcement on 8 January 2021 that Brian McArthur-Muscroft would be leaving the Company, the outstanding unvested awards over a total of 460,964 shares held by him lapsed with effect from 8 January 2021. There were no other changes to the above interests between 31 October 2020 and 8 February 2021.

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 2020 financial year, 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. As a result of the announcement on 8 January 2021 that Brian McArthur-Muscroft would be leaving the Company, the outstanding unvested awards over a total of 460,964 shares held by him lapsed with effect from 8 January 2021. Between 31 October 2020 and the date of this report, there have been no other changes in the nil-cost options or awards held by the executive directors as set out below.

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

	Grant Date	Number at 1 November 2019	Number granted in the financial year	Number exercised in the financial year	Number lapsed in the financial year	Number at 31 October 2020	Dates for exercise
Stephen Murdoch	13 September 2016	39,640	–	–	–	39,640	26 July 2019 to 25 July 2026
Stephen Murdoch ¹	6 September 2017	36,664	–	–	36,664	–	n/a
Stephen Murdoch ³	20 September 2018	67,537	–	–	–	67,537	20 September 2021 to 19 September 2028
Stephen Murdoch ²	18 February 2019	101,190	–	–	–	101,190	18 February 2022 to 17 February 2029
Stephen Murdoch ⁵	23 April 2020	–	250,000	–	–	250,000	23 April 2023 to 22 April 2030
Brian McArthur-Muscroft ²	22 November 2018	80,482	–	–	–	80,482	22 November 2021 to 21 November 2028
Brian McArthur-Muscroft ⁴	22 November 2018	80,482	–	–	–	80,482	22 November 2022 to 21 November 2028
Brian McArthur-Muscroft ⁵	23 April 2020	–	300,000	–	–	300,000	23 April 2023 to 22 April 2030
Kevin Loosemore ⁶	13 September 2016	69,156	–	69,156	–	–	n/a
Kevin Loosemore ¹	6 September 2017	67,965	–	–	67,965	–	n/a
Kevin Loosemore ²	18 February 2019	89,285	–	–	37,202	52,083	18 February 2022 to 17 February 2029

- 1 Performance condition 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. These awards lapsed in full on 7 July 2020 as the minimum performance threshold was not met (see page 111 for further details).
- 2 Performance condition 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 on leaving the Company to reflect time served to 13 August 2020. The performance condition will be tested after the performance period ends on 31 October 2021.
- 3 Performance condition requires 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. The performance condition will be tested after the performance period ends on 30 April 2021.
- 4 Performance condition requires that cumulative EPS growth over a four-year performance period starting on the 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. The performance condition will be tested after the performance period ends on 31 October 2022. This performance condition is unique to Brian McArthur-Muscroft's award and this award, along with his other awards, lapsed on 8 January 2021.
- 5 The performance condition for this award is disclosed on page 111.
- 6 Kevin Loosemore exercised these nil-cost options on 9 July 2020 (i.e. after he had stepped down from the board but whilst he was still an employee) at a share price of £3.35, which was the closing mid-market quotation price on the day of exercise.

In considering the likely vesting level of the outstanding unvested LTIP awards granted before 2020 noted in the table above (i.e. awards to which footnotes 2 and 3 apply), due regard should be given to the performance conditions specified in footnotes 2 and 3 as well as performance to date and broker forecasts.

The aggregate amount of gains made by directors on the exercise of options during the financial year was zero. The exercise of options during the financial year by Kevin Loosemore was at a time when he was no longer a director of the Company.

Directors' Remuneration report

continued

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

	Grant Date	Number at 1 November 2019	Number granted in the financial year	Number vested in the financial year	Number lapsed in the financial year	Number at 31 October 2020	Date of release
Stephen Murdoch ¹	25 July 2017	5,051	–	5,051	–	–	25 July 2020
Stephen Murdoch	28 February 2019	10,013	–	–	–	10,013	28 February 2022

¹ The deferred bonus shares which were released on 25 July 2020 related to the one-third deferral of the annual bonus earned for financial year ending 30 April 2017. The awards were granted with the right to a dividend equivalent, so 3,501 additional shares were released to reflect the dividends paid between the date of grant and the date of vesting. The vesting share price was £2.82 (calculated based on the sale price for tax shares sold on 27 July 2020). The price which was used to determine the number of deferred bonus share awards granted in 2017 was £22.27.

Lapsed Additional Share Grants ("ASG") – nil-cost options

	Number at 1 November 2019	Number granted in the financial year	Number exercised in the financial year	Number lapsed in the financial year	Number at 31 October 2020	Dates for exercise
Kevin Loosemore ¹	1,100,000	–	–	1,100,000	–	n/a
Stephen Murdoch ¹	947,000	–	–	947,000	–	n/a
Brian McArthur-Muscroft ¹	338,000	–	–	338,000	–	n/a

¹ As disclosed in the 2019 Annual Report, the executive directors listed in the table above surrendered their outstanding ASG awards and, as a result, they lapsed on 3 February 2020.

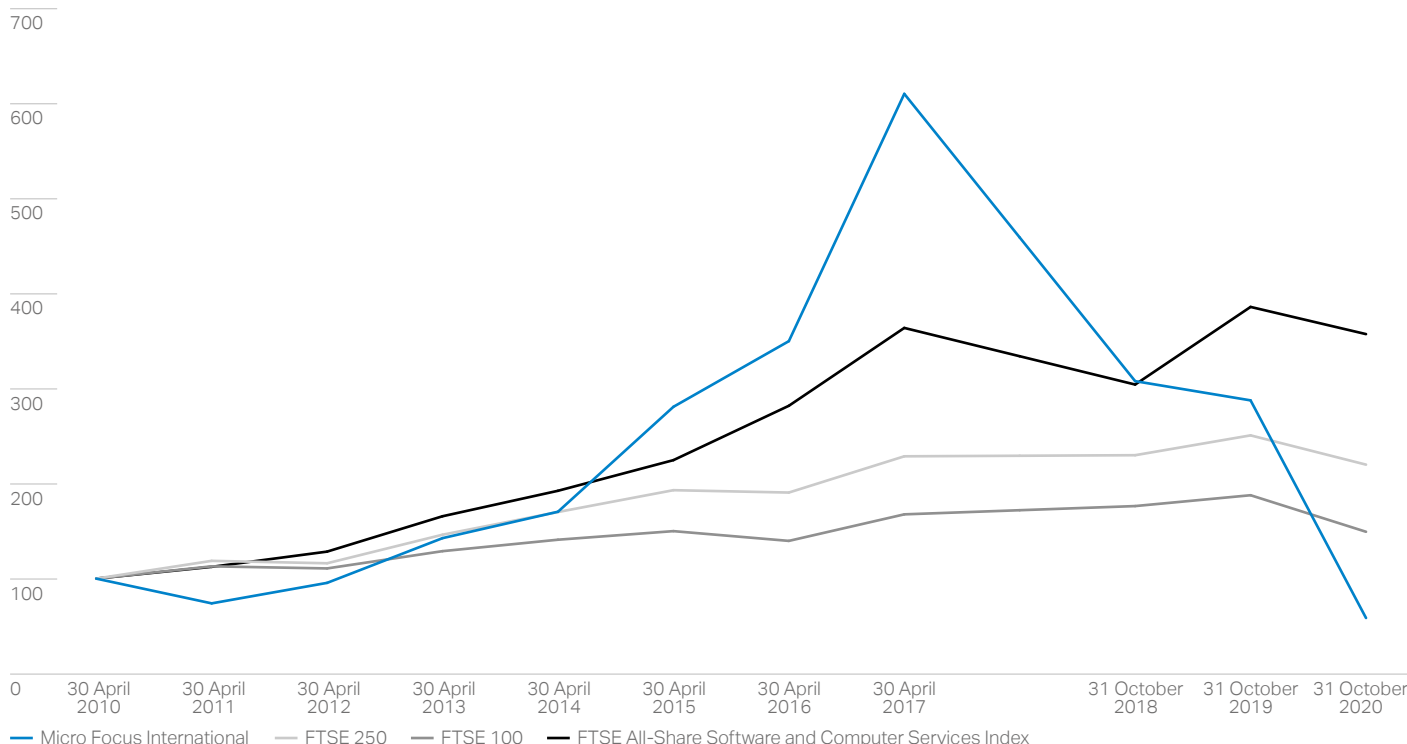
TSR performance graph and CEO historical pay table

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 on the next page shows the value, by 31 October 2020, of £100 invested in Micro Focus International plc on 30 April 2010 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 2010 to 31 October 2020.



CEO historical pay table

The table below details the Chief Executive Officer and Executive Chairman's (for the period from 14 April 2011 until 30 April 2017) 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	
	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000
	Kevin Loosemore/ Nigel Clifford		Kevin Loosemore					Stephen Murdoch ¹ / Chris Hsu ²	Stephen Murdoch	
Single total figure of remuneration	23/628	1,291	1,304	12,468	4,315	4,231	4,226	2,739/ 4,963	1,333	1,284
Annual bonus outcome (% of maximum)	Nil/Nil	90%	92%	100%	100%	100%	45%	57%/ 12%	Nil	22%
LTIP vesting (% of maximum)	Nil/Nil	Nil	Nil	199%	100%	100%	100%	100%/ n/a	100%	Nil

- 1 Stephen Murdoch assumed the Chief Executive Officer responsibilities from 1 May 2017 in the build up to the acquisition of the HPE Software business and stepped down on completion of the transaction on 1 September 2017 to take on the role of Chief Operating Officer. He was reappointed as Chief Executive Officer from 19 March 2018. The 2018 and 2019 figures are slightly different from those shown in the single figure for remuneration table as the value placed on the LTIP awards and ASG awards reflect the period of the relevant performance period that he was undertaking the Chief Executive Officer role. The 2018 figure has also been adjusted to take account of the restatement in the LTIP value to reflect the share price at vesting on 23 March 2019 of £19.39.
- 2 Chris Hsu's period as Chief Executive Officer was from 1 September 2017 to 19 March 2018. The 2018 single figure of remuneration includes the benefits in kind payment of \$5,918,705 to cover the grossed-up cost of the excise tax incurred as a result of US "inversion" tax treatment of the HPE Software business transaction, and has been adjusted to include a \$14,378 contractual tax equalisation payment relating to medical and other benefits deemed taxable in the UK which would not have been taxable in the US, which was finalised on filing his 2018/19 tax returns. The figure for his annual bonus outcome as a percentage of maximum has been calculated by reference to a maximum bonus of 150% of his salary earned over the period as a director.

Directors' Remuneration report

continued

Annual percentage change in remuneration of directors and employees

The table below shows the percentage change in remuneration (salary, benefits and annual bonus) from the 2019 financial year to the 2020 financial year for each of the directors who were on the board at 31 October 2020 compared with the average employee.

Director	% change from 2019 to 2020		
	Salary/fees	Benefits	Annual bonus ⁷
Stephen Murdoch ¹	0%	7.0%	n/a
Brian McArthur-Muscroft ²	0%	20.0%	n/a
Greg Lock ³	n/a	n/a	n/a
Karen Slatford	0%	0%	n/a
Richard Atkins	0%	0%	n/a
Amanda Brown	0%	0%	n/a
Lawton Fitt	0%	0%	n/a
Robert Youngjohns ⁴	n/a	n/a	n/a
Sander van 't Noordende ⁵	n/a	n/a	n/a
Average employee ⁶	4.4%	4.5%	1.9%

1 The benefits increase from FY19 to FY20 for the CEO reflects increases in employer premiums for medical insurance and life assurance. There has been no change in the actual benefits provided.

2 The benefits increase from FY19 to FY20 for the CFO reflects increases in employer premiums for medical insurance and life assurance and the full level of coverage for life assurance and group income protection being provided following completion of the underwriting process.

3 Greg Lock joined the board on 14 February 2020.

4 Robert Youngjohns joined the board on 16 April 2020.

5 Sander van 't Noordende joined the board on 2 June 2020. His GBP fee is paid to him in US dollar (converted based on the average monthly FX rate in the month prior to payment).

6 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 FY19 and FY20 (i.e. excluding employees on sales commission) and were employed throughout the 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 this group's remuneration (in contrast to those on sales commission plans).

7 As the FY19 annual bonus for executive directors was £0, no percentage change can be shown for 2019 to 2020.

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 2020 single total figure of remuneration of £1,284,000. All pay figures are rounded to the nearest £1,000.

Year	Method	25th percentile UK employee	Median UK employee	75th percentile UK employee
2020	Option B	26:1	17:1	13:1
		£49,000	£74,000	£101,000
		£43,000	£63,000	£85,000
2019	Option B	35:1	24:1	14:1
		£45,000	£66,000	£111,000
		£40,000	£59,000	£83,000

The ratios for 2020 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 gender pay gap information. This was deemed the most appropriate methodology for the Company and is consistent with last year's approach.

To ensure that the total remuneration for the financial year ended 31 October 2020 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 2020. They were based on total remuneration paid or receivable for the 2020 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 2020 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 the performance-related pay outcomes and share price movements. The Chief Executive Officer's 2020 single total figure of remuneration for FY20 reflects a bonus payout of 22% of his maximum opportunity and a 0% payout of the 2017 LTIP award during the year. These FY20 outcomes are in line with other participants in those plans. With regard to the 2019 ratios, there was no bonus payout for the Chief Executive Officer for that year, whereas there was a modest level of bonus payout for staff. The CEO's 2016 LTIP award vested at 100% during 2019 (in line with other participants) and is therefore included in his total remuneration for 2019.

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. During the year, the committee reviewed various aspects of workforce remuneration, for example annual salary increase budgets by country, retirement and benefits policies in major locations and take-up rates under the Company's all-employee share plans. 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.
- All employees globally participate in the Company Bonus Plan, with the exception of those on sales commission plans. For the majority of participants in the Micro Focus Company Bonus Plan, the same performance measures and targets apply, ensuring alignment from top to bottom of the Company. Bonus opportunity levels vary according to role and seniority. Financial outcomes for the FY20 bonus were the same for executive directors and all other participants in the same bonus plan.

- Between 350-450 executives participate in the Long Term Incentive Plan and all participants are subject to the same performance measures and targets. Award sizes vary according to role and seniority. In addition, selected employees below the board may receive non-performance related share-based awards.
- The Company operates all-employee share plans in 44 countries, allowing employees the chance to become shareholders in the Company.
- 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 current executive directors will be reduced to the same level as employees generally in the same location by the end of 2022 (currently 5% in the UK).

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 for the first time this year, with employees encouraged to direct any questions to the Chief HR Officer. This is a first step in starting a dialogue on this topic and we plan to build on this in the future to aid transparency and understanding.

A summary of the broader workforce engagement activity during FY20 is set out on page 85 of the Corporate Governance report.

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 2019 to 2020 financial years.

	2020 £m	2019 £m	% change
Employee costs ¹	1,344.4	1,409.0	-4.6%
Dividends	0	439.2	-100.0%
Share re-purchases	0	538.8	-100.0%
Return of Value	0	1,800.0	-100.0%

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)

Kevin Loosemore

Set out below is a summary of Kevin Loosemore's termination arrangements in respect of ceasing to be a director on 14 February 2020 and his employment terminating on 13 August 2020. This summary reflects the disclosure which was made in the Section 430 (2B) Statement, which was published on the Company's website on 4 February 2020,

Salary, pension and contractual benefits continued to be paid until he ceased employment on 13 August 2020. Eligibility for an FY20 annual bonus was pro-rata to his leave date and subject to the achievement of the Company financial measures. The FY20 bonus outcome for Kevin Loosemore is set out on pages 108 and 109. No share-based awards were granted to Kevin Loosemore following the announcement that he was stepping down from the board. His unvested LTIP awards were pro-rated and remained subject to performance measured over the original period.

Directors' Remuneration report

continued

Brian McArthur-Muscroft

It was announced on 8 January 2021 that Brian McArthur-Muscroft would be leaving the Company. Set out below is a summary of his termination arrangements, which reflects the Section 430 (2B) Statement which was published on the Company's website on 3 February 2021.

His salary, pension and contractual benefits will continue to be paid on the current basis until the end of his employment. 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 will be deferred into an award over shares which will vest after three years. All of Brian McArthur-Muscroft's outstanding LTIP awards have lapsed and he will not be granted any further LTIP awards. In line with our Remuneration Policy, as he is still within the five-year period to build up to his shareholding requirement and currently holds no shares, he is not required to hold any shares post-cessation of employment.

Payments to past directors (audited)

Mike Phillips

On 25 July 2020, 3,165 deferred bonus shares vested and were subsequently released to Mike Phillips. These shares related to the one-third deferral of the annual bonus earned by Mr Phillips for the financial year ending 30 April 2017. An additional 2,194 shares were released to reflect the dividends paid between the date of grant and the date of vesting in respect of the deferred bonus shares. The vesting share price was £2.82 (calculated based on the sale price for tax shares sold on 27 July 2020).

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
Brian McArthur-Muscroft ²	21 February 2019	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 Brian McArthur-Muscroft joined the Company on 5 November 2018 and was appointed to the board as Chief Financial Officer on 21 February 2019. It was announced on 8 January 2021 that he would be leaving the Company.

3 The Executive Directors do not have a fixed term.

Implementation of Remuneration Policy for the financial year ending 31 October 2021 – Executive directors

The following section details the proposed implementation of the Remuneration Policy for executive directors for the financial year ending 31 October 2021 (FY21).

Base salary

There will be no salary increases for executive directors for FY21. The FY21 salaries remain as follows: Stephen Murdoch (£850,000) and Brian McArthur-Muscroft (£600,000).

Benefits

The benefits provided to the executive directors are unchanged for FY21. Note however that employer costs for providing the same level of benefits can increase.

Pension

The Company pension contributions for the executive directors will remain at the same rates as currently for FY21 (15% of salary). The pension contribution levels for executive directors will reduce to the level for UK employees in general (currently 5%) by the end of 2022 in one step.

Annual bonus

The measures and weightings for the annual bonus in FY21 will remain as per the operation of the bonus in FY20, 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 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 FY21 bonus have been set to reflect the 2021 business plan, which takes into account all current factors impacting the business. The targets and the outcomes achieved will be fully disclosed in the FY21 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 2021 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. Following the announcement that he will be leaving the Company, Brian McArthur-Muscroft will not be eligible for a pro-rata FY21 bonus.

LTIP

The performance measures and weightings for the 2021 LTIP grants will be unchanged from the 2020 LTIP grants, i.e. Cumulative Adjusted Free Cash Flow (80%) and Relative TSR (20%). Further detail is 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 finance lease payments and excludes the cash impact of exceptional items. This is in line with the definition of Adjusted Free Cash Flow on page 45. For the 2021 LTIP awards, Adjusted Free Cash Flow will be measured on a cumulative basis over the three financial years ending 31 October 2021, 31 October 2022 and 31 October 2023. 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 at 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.

In 2020, the CEO's award was reduced from the maximum 200% of salary to 117% of salary to reflect the share price decrease since the time of the prior grant. For 2021, the LTIP award level for the CEO will be 200% of salary.

Following the announcement on 8 January 2021 that he will be leaving the Company, there will be no FY21 LTIP award granted to the current CFO, Brian McArthur-Muscroft.

Single Total Figure of Remuneration – Non-executive directors (audited)

	Fees (£'000)		Benefits		Total	
	2020	2019	2020	2019	2020	2019
Non-executive directors						
Greg Lock ¹	284	N/A	1	N/A	285	N/A
Karen Slatford	120	120	–	–	120	120
Richard Atkins	90	90	–	–	90	90
Amanda Brown ²	90	90	–	–	90	90
Lawton Fitt ³	80	80	–	–	80	80
Robert Youngjohns ⁴	38	N/A	–	N/A	38	N/A
Sander van 't Noordende ⁵	29	N/A	–	N/A	29	N/A
Silke Scheiber ⁶	18	70	–	–	18	70

1 Greg Lock joined the board on 14 February 2020. Greg Lock received private medical and dental cover (single person coverage) with effect from April 2020 following approval of the current Directors' Remuneration Policy at the AGM on 25 March 2020.

2 Prior to 1 January 2019, Amanda Brown's fees were paid direct to her employer.

3 Lawton Fitt receives an additional fee of £10,000 per annum due to her SEC and SOX experience.

4 Robert Youngjohns joined the board on 16 April 2020.

5 Sander van 't Noordende joined the board on 2 June 2020. His GBP fee is paid to him in US dollar (converted based on the average monthly FX rate in the month prior to payment).

6 Silke Scheiber left the board on 4 February 2020.

The total remuneration for directors is set out in note 29 to the consolidated financial statements on page 212.

Directors' Remuneration report

continued

Non-executive directors' fees for FY21

The table below shows the fees for the Chairman and the non-executive directors for FY21. There are no changes from the prior year.

Executive director	Annual fee 2021
Chairman ¹	£400,000 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.
Fee for the SID (including chairing committees)	£120,000 p.a.

¹ The Chairman is not eligible for Committee Chairmanship fees or other additional fees.

Non-executive directors' shareholdings as at 31 October 2020 (audited)

The table below shows the shareholdings and share interests for all non-executive directors (and their connected persons) who served during the 2020 financial year as at 31 October 2020 (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 (from 14 February 2020)	535,000
Karen Slatford	14,687
Richard Atkins	13,862
Amanda Brown	3,841
Lawton Fitt	–
Robert Youngjohns (from 16 April 2020)	–
Sander van 't Noordende (from 2 June 2020)	45,000
Silke Scheiber (until 4 February 2020)	–

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

There were no changes to the above shareholdings between 31 October 2020 and 8 February 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. 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 2020 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
Silke Scheiber ¹	15 May 2017	15 May 2020

¹ Silke Scheiber left the board on 4 February 2020.

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 FY20, the committee comprised entirely of non-executive directors. The Committee met 10 times during the year and the number of meetings attended by each member of the committee is set out on page 103.

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

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

Factor	How has this been addressed
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	Our Directors' Remuneration Policy, which was approved by shareholders in March 2020, was communicated in a clear and transparent way and we were open about the reasons for postponing the 2020 LTIP grants and disclosure of the details related to them (which were published on our website in advance of the grant in April 2020). We consulted with shareholders in advance of granting the 2020 LTIP awards (see page 122 for more details). The Company engages with employees in connection with their remuneration through a variety of methods including explanatory guides and face-to-face briefings and seeks their views on reward via regular employee opinion surveys. We have started to share more information with employees about executive pay (see page 117).
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	With effect from FY20, we simplified our incentive structure for executive directors so that we have an annual bonus plan (which incorporates one-third deferral into share awards for three years) and one long-term incentive plan (plus a two-year post-vesting holding period). The performance measures for the annual bonus plan and the LTIP underpin our strategic objectives (see page 107).
Risk Remuneration arrangements should ensure that reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	Our Remuneration Policy incorporates a number of design features in order to take into account and minimise risk as follows: – The committee can apply discretion to override formulaic incentive outcomes if it believes this would result in a fairer outcome (and would disclose this in the next Annual Remuneration Report); – 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 bonus and LTIP.
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	At the time of approving the current Remuneration Policy, charts were included (page 98 of the FY19 Directors' Remuneration report) which provided an estimate of the potential reward opportunities for the executive directors. The discretions available to the committee, for example to override formulaic incentive outcomes and to apply malus and clawback, were described on page 98 of the FY19 Directors' Remuneration report. The maximum award levels are also included on page 106 of this Annual Remuneration Report.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	Performance measures are designed to align to strategy and incentive plans provide for a range of payout levels which are dependent on and linked to Company performance. Deferral periods and holding periods help to further align incentive outcomes for executives to the shareholder experience. The committee is satisfied that incentive outcomes for FY20 (zero payout for the LTIP and a modest bonus payout) are reflective of the Company performance over the respective performance periods.
Alignment to culture Incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	The performance measures for the LTIP and the annual bonus plan underpin our strategic objectives (see page 107).

Directors' Remuneration report

continued

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 2020 relating to remuneration advice to the committee were determined on a time and materials basis and were £46,987 (excluding VAT).

Shareholder voting at 2020 Annual General Meeting

The following table shows the results of the approval vote on the Directors' Remuneration Policy and the advisory vote on the 2019 Directors' Remuneration report at the AGM held on 25 March 2020:

	Votes for		Votes against		Votes cast	Votes withheld
	Number	Percentage	Number	Percentage		
Directors' Remuneration Policy (approval)	242,371,213	97.05%	7,362,083	2.95%	249,733,296	227,378
2019 Directors' Remuneration report (advisory)	236,879,729	94.84%	12,892,752	5.16%	249,772,481	188,317

Following the AGM in March 2019, the board undertook a detailed review of all of the feedback received from our shareholders and proxy agencies on the 2018 Remuneration report and engaged with the Company's largest shareholders on the changes being proposed to the Remuneration Policy. This feedback was incorporated into the design of the new Remuneration Policy, which received a very high level of support at the 2020 AGM.

We further consulted with shareholders in advance of finalising the terms of the 2020 LTIP awards for executive directors. This consultation included writing to shareholders that represented around 55% of the total share register and included all active funds within the top 30 shareholders as well as ISS, Glass Lewis and the Investment Association. The letter set out our proposals in terms of performance measures and targets and grant levels for the 2020 LTIP awards. As a result of this letter and a follow up letter, we had meetings via telephone with shareholders representing around 40% of the total share register. Overall we received a very positive response and no major concerns were raised with regard to our LTIP proposals. Consequently, we granted the awards on the terms proposed on 23 April 2020 after publishing details on our website.

In advance of finalising the FY20 Annual Remuneration Report, we engaged with Glass Lewis and reviewed the updated investor and proxy agency guidelines for 2021.

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

On behalf of the board,

Amanda Brown

Chair, Remuneration committee
8 February 2021

The directors of Micro Focus International plc (the "Company") present their report and the audited consolidated financial statements of the Company for the year ended 31 October 2020.

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 2020, 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 12 to 75. 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 74 and 75, 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 report on pages 80 to 91 which is hereby incorporated into this Directors' report by reference.

Dividends

The board announced on 18 March 2020 that it was no longer recommending a final dividend of 58.33 cents per share for the year ended 31 October 2019. This announcement was made in the context of the increased macro-economic uncertainty, which has been uniquely impacted by the COVID-19 pandemic. Given the on-going uncertainty, the board decided in July 2020 that it would not be paying an interim dividend in the current financial period.

For the year ended 31 October 2020, the directors have recommended a final dividend of 15.5 cents per share. Subject to its approval by shareholders at the forthcoming AGM, the final dividend will be paid on 15 April 2021 to shareholders on the register at the close of business on 12 March 2021.

The final dividend will be paid:

- to holders of the Company's ordinary shares in Pound Sterling, calculated using an exchange rate of £1 = \$1.37 (the rate on 08 February 2021, being the date on which the board recommended the final dividend) meaning that the dividend will be 11.3 pence per share; or
- to the holders of American Depositary Receipts representing the Company's shares, in US dollars.

More information on dividend policy can be found in the Chief Executive's Strategic review on page 17.

The trustee of the Micro Focus Employee Benefit Trust (the "EBT") has waived its right to dividends paid on any ordinary 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 2020, all of whom continued to serve to the date of this report, are given on pages 78 and 79. In addition, Kevin Loosemore served as Executive Chairman until 14 February 2020 and Silke Scheiber served as a non-executive director until 4 February 2020. As announced on 8 January 2021, Brian McArthur-Muscroft has notified the board of his intention to leave the Company. Brian continues in his role as CFO, whilst the board conducts a formal process to identify a new CFO to help drive the Group forward through the second half of its three-year plan and beyond.

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 103 to 122.

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 31 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.

Directors' report

continued

Share capital

As at 31 October 2020 the Company has a single class of shares in existence, being ordinary shares of 10 pence each.

During the year ended 31 October 2020, 962,049 ordinary shares were issued, and a further 556,278 ordinary shares were transferred from treasury, to satisfy obligations under employee share plans.

As at 31 October 2020, the total share capital of the Company was 364,545,377 ordinary shares, of which 29,644,627 were held in treasury. Therefore, the total number of ordinary shares with voting rights in the Company as at 31 October 2020 was 334,900,750.

American Depositary Receipts

The Company has a Sponsored Level III American Depositary Receipt (ADR) facility that is listed on the NYSE under the symbol MFGP. Each ADR is equivalent to one ordinary share and each ADR 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 2020, the equivalent of 93,019,616 shares were held in ADR 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 Annual General Meeting (the "AGM") to be held on 25 March 2021 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 2020 the directors were granted the powers to allot equity securities with a nominal value of up to £22,258,922 (provided that any amount in excess of £11,129,461 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 50,049,189 ordinary shares. This authority remains outstanding until the conclusion of the next AGM on 25 March 2021. No purchases were made 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 2020, 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%

As at 5 February 2021, no further changes to the shareholdings reported above had been notified to the Company in accordance with DTR5.

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 staff. Objectives are set for departments and employees derived from the Group's business objectives. Performance is formally measured against these objectives twice each year. The Group has a clear and well-understood 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.

Disabled employees

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

Employee involvement

The Group believes it is important that employees are aware of the Group's business strategy and the objectives, 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, the launch of our new company-wide intranet InFocus and 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 2020 we held employee panel sessions with Karen Slatford, our Senior Independent Director who has taken up the role of Workforce Engagement Director. This created direct communication between our board of directors and employees and allowed 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 directors' duties, see pages 74 and 75.

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 29.

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

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

Bank borrowings

On 29 May 2020, the Group announced that it had successfully priced and allocated a €600m and a \$650m senior secured term loan. The new five-year facilities, along with \$143m of existing cash reserves, were used by the Group to fully refinance its existing senior secured term loan B due November 2021 and pay associated fees and expenses.

On 3 September 2020, the Group announced that it had successfully extended its revolving credit facility and reduced the size from \$500m to \$350m. The Group also confirmed that it had repaid the \$175m previously drawn during the year as a precautionary measure in response to the COVID-19 outbreak, resulting in a balance outstanding of \$nil. These actions resulted in a reduction in the Group's gross debt and the borrowing costs associated with the revolving credit facility.

Following these refinancing activities, the Group's earliest debt maturity is in June 2024.

The following facilities were drawn as at 31 October 2020:

- The €600m (equivalent to \$700.3m) senior secured five-year term loan B-1 issued by MA FinanceCo., LLC is priced at EURIBOR plus 4.5% (subject to a EURIBOR floor of 0.00%) with an original issue discount of 3.0%;
- The \$368.2m senior secured seven-year term loan B-3 issued by MA FinanceCo., LLC is priced at LIBOR plus 2.75% (subject to a LIBOR floor of 0.00%) with an original issue discount of 0.25%;
- The \$650m senior secured five-year term loan B-4 issued by MA FinanceCo., LLC is priced at LIBOR plus 4.25% (subject to a LIBOR floor of 1.00%) with an original issue discount of 2.5%;
- The \$2,486.3m senior secured seven-year term loan B issued by Seattle SpinCo, Inc. 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 €452.8m (equivalent to \$528.4m) senior secured seven-year term loan B issued by MA FinanceCo., LLC 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 2020:

- A senior secured revolving credit facility of \$350.0m (\$nil drawn), ("Revolving Facility"), with an interest rate of 3.50% above LIBOR on amounts drawn (and 0.5% on amounts undrawn) thereunder (subject to a LIBOR floor of 0.00%).

At 31 October 2020, \$nil of the Revolving Facility was drawn (31 October 2019: \$nil), together with \$4,733.2m of term loans giving gross debt of \$4,733.2m drawn.

There are no financial covenants on the Group's term loan borrowing facilities. The Revolving Facility is subject to a single financial covenant, being an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end. Throughout the year the applicable covenant threshold was 4.35x, however no test was applicable at 31 October 2020 or any previous test date, as the facility was not drawn in excess of the 35% threshold. This covenant is not expected to inhibit the Group's future operations or funding plans.

Share plans

The Company's share plans contain provisions as a result of which awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

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

Statutory and other required disclosures

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 2019 to 31 October 2020.

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. For consistency, in this reporting period our emissions have been calculated solely using DEFRA's conversion tables published on their website, rather than as in previous periods where the energy company's individual fuel mix was used.

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 -19%, with continued best practice across the entire real estate, further capital investment in "green" projects and targeted employee communication, staff focused on reducing emissions.

The Company has continued to implement the same systems and processes that heritage Micro Focus used in the past to have these operational across the entire organisation. This work is helping with the ability to monitor and report on year-on-year comparisons going forward. Actual consumption data has been used where available.

During the year ended 31 October 2020, 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.

Locations and approach taken

Actual emissions data used 35 properties, 64% of global footprint – 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), Canberra (Australia), 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 x 2 (Spain), Melbourne (Australia), 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), Shannon (Ireland), Shenzhen (China), South Euclid (US), Sydney (Australia), 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 is out of scope for this year's report:

Austin (US), Bracknell (UK), St Albans (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.

Directors' report

continued

Year-on-year comparisons for energy consumed and carbon emissions

	FY20	FY19	Change %
Total energy consumption (metered) MWhrs	49,296	60,941	-19%
Scope 1 Total energy consumption KWhrs	6,050,349	–	–
Scope 2 Total energy consumption KWhrs	43,245,367	–	–
Energy consumed (metered) KWhrs per employee	8,299	11,583	-28%
Scope 1 UK only consumption KWhrs	1,412,935	–	–
Scope 2 UK only consumption KWhrs	2,614,354	–	–
Scope 1 & 2 combined UK only consumption (8.17% of total global consumption)	4,027,289	–	–
GHG emissions (tonnes e-CO ₂)	24,858	30,688	-19%
Scope 1 global GHG emissions (tonnes e-CO ₂)	1,113	–	–
Scope 2 global GHG emissions (tonnes e-CO ₂)	23,745	–	–
GHG emissions per employee (tonnes e-CO ₂)	4.18	5.83	-28%
Scope 1 UK only emissions (tonnes e-CO ₂)	260	–	–
Scope 2 UK only emissions (tonnes e-CO ₂)	600	–	–
Scope 1 & 2 UK only combined emissions (tonnes e-CO ₂) (3.5% of total global emissions)	860	–	–
Total estimated GHG emissions (Ktons e-CO ₂)	50.0	70.4	-29%

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.

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 2020, \$513.6m was charged to the Consolidated statement of comprehensive income (2019: \$491.2m) in the research and development expenses category. This charge is after capitalisation of internal development expenditure of \$16.2m (2019: \$16.5m). Within the cost of sales category \$23.5m of amortisation of development costs (2019: \$26.7m) and \$190.2m of amortisation of purchased intangibles technology (2019: \$200.1m) 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 (2019: \$nil).

Branches

The Company had no branches in existence during the year under review and to the date of this report.

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 123
(13) Shareholder waiver of future dividends	Dividends, page 123
(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 25 March 2021. In light of the COVID-19 pandemic and the UK government's guidance on public gatherings, the AGM will be held as a closed meeting. Please refer to the Notice of Meeting for further information.

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 96 and 97, 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 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 they ought to have taken as a director to make themselves 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 14 to 31 includes information on the Group's market, structure, strategy and business model. The Chief Financial Officer's report on pages 48 to 58 includes information on our Group financial results, financial outlook, cash flow and net debt, and the balance sheet position.

In making this assessment, the directors considered the Group's liquidity and solvency position. 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 2022 the Group has no term loans maturing until June 2024 (see note 18 borrowings for an analysis of borrowing maturity and additional details on repayment requirements). As noted above, the Revolving Facility was undrawn at 31 October 2020 and the Group had \$737.2m of cash balances at 31 October 2020 providing total liquidity of \$1,087.2m. The Group's Revolving Facility is subject to a net leverage covenant when it is more than 35% drawn at the quarter end (see note 24 financial risk management and instruments for additional details). Under the Group's forecasts the Revolving Facility is not forecast to be drawn in the period to February 2022, nor in the period to October 2023 see statement on long-term viability on page 59, and therefore no covenant tests are expected to apply.

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 Group's undrawn Revolving Facility 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.

Also in assessing liquidity, the board considered the reported net current liability position of \$246.5m at 31 October 2020. This is the result of \$981.4m 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.

COVID-19 and 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 59. The impact of COVID-19 on the Group's cash flow in the current year has been limited however the severe but plausible scenarios reflect a wider macro-economic impact from COVID-19 continuing for the entire 12 month going concern assessment period to February 2022. 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 Revolving Facility in the period to February 2022 and therefore no covenant test would 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 59.

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 2022, which is consistent with the FRC guidance.

By order of the board,

Suzanne Chase

Company Secretary
8 February 2021

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 in respect of the Annual Report and the financial statements

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. 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"). They have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law including, FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 includes 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

Brian McArthur-Muscroft
Chief Financial Officer

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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, or are calculated using financial measures that are not calculated 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 Group has adopted IFRS 16 "Leases" at 1 November 2019, therefore results for the year ended 31 October 2020 include the impact of adopting IFRS 16. The impact of the adoption of IFRS 16 on the definition of Alternative Performance Measures is determined based on the relative importance of the impact as well as practicalities in obtaining relevant prior year data as follows:

- The definition of Alternative Performance Measure 6 "Free Cash Flow" has been adjusted, so that the resulting free cash flow is consistent for each period.
- Alternative Performance Measures 2 "EBITDA and Adjusted EBITDA", 7 "Net Debt" and 8 "Adjusted cash conversion ratio" have not been adjusted and therefore are not comparable year-on-year.
- Alternative Performance Measures 2 "EBITDA and Adjusted EBITDA" includes greater depreciation in the year ended 31 October 2020 than in the year ended 31 October 2019 as only depreciation on IAS 17 finance leases is included for the year ended 31 October 2019.
- Alternative Performance Measure 7 "Net Debt" includes higher lease liabilities at 31 October 2020 than 31 October 2019, as only IAS 17 finance lease liabilities were included at 31 October 2019.

No other Alternative Performance Measures are impacted by the adoption of IFRS 16.

1. Impact of deferred revenue haircut

The following table shows the impact of the acquisition accounting adjustment of deferred revenue haircut (i.e. the unwinding of fair value adjustment to acquired deferred revenue) on reported revenues.

	Year ended 31 October 2020			Year ended 31 October 2019		
	Continuing operations \$m	Discontinued operation \$m	Total \$m	Continuing operations \$m	Discontinued operation \$m	Total \$m
Revenue before deferred revenue haircut	3,001.6	–	3,001.6	3,355.2	127.1	3,482.3
Unwinding of fair value adjustment to acquired deferred revenue	(0.6)	–	(0.6)	(6.8)	(0.1)	(6.9)
Revenue	3,001.0	–	3,001.0	3,348.4	127.0	3,475.4

2. EBITDA and Adjusted EBITDA

EBITDA is defined as net earnings before finance costs, finance income, taxation, share of results of associates, depreciation of property, plant and equipment, right-of-use asset depreciation and amortisation of intangible assets. The Group presents EBITDA because it is widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. 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).

The Group defines Adjusted EBITDA as comprising of EBITDA (as defined above), exceptional items including the loss/(profit) on disposal of discontinued operation, share-based compensation, product development intangible cost capitalised and foreign exchange gains/losses. Adjusted EBITDA is the primary measure used internally to measure performance and to incentivise and reward employees.

2. EBITDA and Adjusted EBITDA continued

Adjusted EBITDA margin refers to each 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 loss/(profit) 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 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 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.

The following table is a reconciliation from profit for the period to EBITDA and Adjusted EBITDA:

	Year ended 31 October 2020			Year ended 31 October 2019		
	Continuing operations \$m	Discontinued operation \$m	Total \$m	Continuing operations \$m	Discontinued operation \$m	Total \$m
(Loss)/profit for the year	(2,974.6)	5.1	(2,969.5)	(18.1)	1,487.2	1,469.1
Finance costs	281.6	–	281.6	282.4	–	282.4
Finance income	(2.6)	–	(2.6)	(26.6)	–	(26.6)
Taxation	34.2	(8.1)	26.1	(16.0)	318.1	302.1
Share of results of associates	–	–	–	–	0.3	0.3
Depreciation of property, plant and equipment	42.0	–	42.0	52.6	–	52.6
Depreciation of right-of-use assets	76.9	–	76.9	13.9	–	13.9
Amortisation of intangible assets	674.1	–	674.1	716.5	–	716.5
EBITDA	(1,868.4)	(3.0)	(1,871.4)	1,004.7	1,805.6	2,810.3
Exceptional items (reported in loss/(profit) from discontinued operation)	–	3.0	3.0	–	(1,767.9)	(1,767.9)
Exceptional items (reported in Operating profit)	3,011.6	–	3,011.6	294.2	–	294.2
Share-based compensation charge	17.0	–	17.0	68.8	2.5	71.3
Product development intangible costs capitalised	(16.2)	–	(16.2)	(16.5)	–	(16.5)
Foreign exchange loss/(gain)	29.7	–	29.7	11.3	(0.2)	11.1
Adjusted EBITDA	1,173.7	–	1,173.7	1,362.5	40.0	1,402.5
Revenue	3,001.0	–	3,001.0	3,348.4	127.0	3,475.4
Adjusted EBITDA margin	39.1%	n/a	39.1%	40.7%	31.5%	40.4%

Alternative Performance Measures

continued

3. Adjusted Profit before tax

Adjusted Profit before tax is defined as (loss)/profit before tax excluding the effects of, share-based compensation, the amortisation of purchased intangible assets and all exceptional items including loss/(profit) on disposal of discontinued operation. These items are individually material items that are not considered to be representative of the trading performance of the Group:

- Exceptional items (note 4), including the loss/(profit) 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 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.
- Charges for the amortisation of intangibles are excluded from the calculation of Adjusted Profit before tax. This is because these charges are based on judgements about their value and economic life, are the result of the application of acquisition accounting rather than core operations, and whilst revenue recognised in the income statement does benefit from the underlying intangibles that has been acquired, the amortisation costs bear no relation to the Group's underlying on-going operational performance. In addition, amortisation of acquired intangibles is not included in the analysis of segment performance used by the Chief Operating Decision Maker.

Adjusted Profit before tax is presented as it is required for the calculation of the Group's effective tax rate.

The following table is a reconciliation from profit before tax for the year to Adjusted Profit before tax:

	Year ended 31 October 2020			Year ended 31 October 2019		
	Continuing operations \$m	Discontinued operation \$m	Total \$m	Continuing operations \$m	Discontinued operation \$m	Total \$m
(Loss)/profit before tax	(2,940.4)	(3.0)	(2,943.4)	(34.1)	1,805.3	1,771.2
Share-based compensation charge	17.0	–	17.0	68.8	2.5	71.3
Amortisation of purchased intangibles	604.1	–	604.1	655.7	–	655.7
Exceptional items, including loss/(profit) on disposal of discontinued operation	3,011.6	3.0	3,014.6	294.2	(1,767.9)	(1,473.7)
Adjusting items	3,632.7	3.0	3,635.7	1,018.7	(1,765.4)	(746.7)
Adjusted Profit before tax	692.3	–	692.3	984.6	39.9	1,024.5

4. Adjusted Effective Tax Rate

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 purchased intangible assets and exceptional items), divided by the Adjusted Profit Before Tax on continuing operations (defined above). This is an Alternative Performance Measure and is presented because management believe it is important to understanding the Group's tax position on its trading performance.

The tax charge on Adjusted Profit before tax for the year ended 31 October 2020 was \$174.1m (2019: \$235.7m). This represents an Adjusted Effective Tax Rate ("Adjusted ETR") of 25.1% (2019: 23.9%). The calculation of the Adjusted ETR is set out below.

	Year ended 31 October 2020			Year ended 31 October 2019		
	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	(2,940.4)	3,632.7	692.3	(34.1)	1,018.7	984.6
Taxation	(34.2)	(139.9)	(174.1)	16.0	(251.7)	(235.7)
(Loss)/profit after tax	(2,974.6)	3,492.8	518.2	(18.1)	767.0	748.9
Effective tax rate	(1.2)%		25.1%	46.9%		23.9%

In computing Adjusted Profit before tax for the year ended 31 October 2020, \$3,632.7m (2019: \$1,018.7m) of adjusting items have been added back (see Adjusted Profit before tax section above) and the associated tax credit is \$139.9m (2019: \$251.7m). In the period to 31 October 2019, the Group recognised a one-off credit within Adjusting items of \$48.6m in relation to the recognition of deferred tax on historical UK interest restrictions.

5. Adjusted Earnings per Share and Diluted Adjusted Earnings per Share

The Adjusted Earnings per Share ("EPS") is defined as Basic EPS where the earnings attributable to ordinary shareholders are adjusted by adding back all exceptional items including the loss/(profit) on the disposal of discontinued operation, share-based compensation charge and the amortisation of purchased intangibles because they are individually or collectively material items that are not considered to be representative of the trading performance of the Group. These are presented as management believe they are important to understanding the change in the Group's EPS.

	Year ended 31 October 2020	Year ended 31 October 2019
CENTS		
EPS from continuing operations attributable to the ordinary equity shareholders of the Company		
Basic EPS – cents	(886.15)	(4.87)
Diluted EPS – cents ¹	(886.15)	(4.87)
Basic Adjusted EPS – cents	154.37	198.01
Diluted Adjusted EPS – cents	154.37	195.89
EPS from discontinued operation		
Basic EPS – cents	1.52	393.37
Diluted EPS – cents	1.52	389.16
Basic Adjusted EPS – cents	2.17	8.25
Diluted Adjusted EPS – cents	2.17	8.16
Total EPS attributable to the ordinary equity shareholders of the Company		
Basic EPS – cents	(884.63)	388.50
Diluted EPS – cents ¹	(884.63)	384.35
Basic Adjusted EPS – cents	156.54	206.26
Diluted Adjusted EPS – cents	156.54	204.05
PENCE		
EPS from continuing operations attributable to the ordinary equity shareholders of the Company		
Basic EPS – pence	(693.45)	(3.82)
Diluted EPS – pence ¹	(693.45)	(3.82)
Basic Adjusted EPS – pence	120.81	155.49
Diluted Adjusted EPS – pence	120.81	153.82
EPS from discontinued operation		
Basic EPS – pence	1.19	308.89
Diluted EPS – pence	1.19	305.59
Basic Adjusted EPS – pence	1.70	6.48
Diluted Adjusted EPS – pence	1.70	6.41
Total EPS attributable to the ordinary equity shareholders of the Company		
Basic EPS – pence	(692.26)	305.07
Diluted EPS – pence ¹	(692.26)	301.81
Basic Adjusted EPS – pence	122.51	161.97
Diluted Adjusted EPS – pence	122.51	160.23

¹ The Group reported a loss from continuing and discontinued operations attributable to the ordinary equity shareholders of the Company for the year ended 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.

Alternative Performance Measures

continued

5. Adjusted Earnings per Share and Diluted Adjusted Earnings per Share continued

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
(Loss)/profit for the year	(2,969.5)	1,469.1
Non-controlling interests	–	(0.3)
Earnings attributable to ordinary shareholders	(2,969.5)	1,468.8
From continuing operations ¹	(2,974.6)	(18.4)
From discontinued operation	5.1	1,487.2
Earnings attributable to ordinary shareholders	(2,969.5)	1,468.8
Adjusting items:		
Loss/(profit) on discontinued operation	3.0	(1,767.9)
Exceptional items	3,011.6	294.2
Share-based compensation charge	17.0	71.3
Amortisation of purchased intangibles	604.1	655.7
	3,635.7	(746.7)
Tax relating to above adjusting items	(140.7)	57.7
Adjusted earnings attributable to ordinary shareholders	525.5	779.8
From continuing operations ¹	518.2	748.6
From discontinued operation	7.3	31.2
Adjusted earnings attributable to ordinary shareholders	525.5	779.8
	Number	Number
Weighted average number of shares:	m	m
Basic	335.7	378.1
Effect of dilutive securities – Options	–	4.1
Diluted	335.7	382.2

¹ For the purposes of calculating EPS measures, Earnings and Adjusted earnings attributable to ordinary shareholders from continuing operations excludes the impact of non-controlling interests since these are not attributable to ordinary shareholders.

	Year ended 31 October 2020			Year ended 31 October 2019		
	Continuing operations \$m	Discontinued operation \$m	Total \$m	Continuing operations \$m	Discontinued operation \$m	Total \$m
Adjusting items:						
Exceptional items, including loss/(profit) on disposal of discontinued operation	3,011.6	3.0	3,014.6	294.2	(1,767.9)	(1,473.7)
Share-based compensation charge	17.0	–	17.0	68.8	2.5	71.3
Amortisation of purchased intangibles	604.1	–	604.1	655.7	–	655.7
	3,632.7	3.0	3,635.7	1,018.7	(1,765.4)	(746.7)
Tax relating to above adjusting items	(139.9)	(0.8)	(140.7)	(251.7)	309.4	57.7
	3,492.8	2.2	3,495.0	767.0	(1,456.0)	(689.0)

6. Free cash flow and Adjusted Free cash flow

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 (which are now included as a financing cash flow following the adoption of IFRS 16). This is presented as management believe it is important to the understanding of the Group's Cash flow.

This measure has been adjusted for IFRS 16 as the adoption of IFRS 16 has no impact on the Group's Cash flow, therefore management believe it would be misleading to show an increase in Free cash flow. As a result, the year ended 2019 comparative has been revised below to present free cash flow on a consistent basis as in 2020 following the adoption of IFRS 16.

A new alternative performance measure Adjusted Free cash flow has been introduced in the year ended 31 October 2020. This measure adjusts Free cash flow for the exclusion of the cash impact of exceptional items and aligns the way Free cash flow is presented to the definition of Cumulative Free cash flow used in certain LTIP awards as disclosed in the Directors' Remuneration report. This adjustment was not made for the year ended 31 October 2019, as this definition did not apply for that period.

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Cash generated from operating activities	1,082.8	1,056.3
Less:		
Interest payments	(207.1)	(227.1)
Bank loan costs	(47.9)	–
Tax payments	(149.6)	(167.4)
Purchase of intangible assets	(60.6)	(29.3)
Purchase of property, plant and equipment	(26.3)	(56.3)
Lease-related interest and capital payments	(80.1)	(12.9)
Free cash flow	511.0	563.3
Exclude the cash impact of exceptional items	148.9	
Adjusted Free cash flow	660.1	

7. Net Debt

Net debt is defined as cash and cash equivalents less borrowings and finance lease obligations. The adoption of IFRS 16 has resulted in all lease obligations being included in Net Debt at 31 October 2020.

	31 October 2020 \$m	31 October 2019 \$m
Borrowings	(4,640.3)	(4,670.7)
Cash and cash equivalents	737.2	355.7
Lease obligations (2019: Finance lease obligations)	(250.4)	(23.5)
Net debt	(4,153.5)	(4,338.5)

8. Adjusted cash conversion ratio

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)/profit and excluding any goodwill impairment charge, as this is deemed non-cash related). This is presented as management believe it is important to the understanding the Group's conversion of underlying results to cash.

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Cash generated from operations	1,082.8	1,056.3
Adjusted EBITDA	1,173.7	1,402.5
Less: exceptional items (reported in Operating profit)	(3,011.6)	(294.2)
Excluded: Goodwill impairment charge	2,799.2	–
Adjusted EBITDA less exceptional items	961.3	1,108.3
Adjusted cash conversion ratio	112.6%	95.3%

Alternative Performance Measures

continued

9. 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 better 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, Israeli Shekel and Japanese Yen and in the year ended 31 October 2020 also the Indian Rupee and Chinese Yuan. The exchange rates used are as follows:

	Year ended 31 October 2020		Year ended 31 October 2019	
	Average	Closing	Average	Closing
£1 = \$	1.28	1.30	1.27	1.29
€1 = \$	1.13	1.17	1.12	1.12
C\$ = \$	0.74	0.75	0.75	0.76
ILS = \$	0.29	0.29	0.28	0.28
INR = \$	0.01	0.01	n/a	n/a
CNY = \$	0.14	0.15	n/a	n/a
100 JPY = \$	0.93	0.96	1.10	1.08

1. Our opinion is unmodified

We have audited the financial statements of Micro Focus International plc ("the Company") for the year ended 31 October 2020 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 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 2020 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;
- 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 three financial years ended 31 October 2020. 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	\$20.5m (2019: \$21.75m)	
	0.68% (2019: 0.65%) of total revenue	
Coverage	81% (2019: 78%) of total revenue	
Key audit matters	vs 2019	
Recurring risks for the Group	Goodwill impairment	Increase
	Upfront licence revenue – identification of all performance obligations in large multiple element arrangements	No change
	Presentation of exceptional items (before tax)	No change
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
Goodwill impairment (\$3,835m carrying value, \$2,799m impairment charge; 2019: \$6,671m carrying value, \$nil impairment charge) Refer to page 94 (Audit committee report), page 168 (accounting policy) and page 181 (financial disclosures).	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 a 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. The effect of these matters is that the value in use of goodwill 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, and possibly many times that amount. The financial statements (note 10) disclose the sensitivity estimated by the Group.	Our procedures included: – 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 and the resulting impairment charge. – Assessing transparency: We assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in the discount rate and revenue growth by product group in the initial five-year forecast appropriately reflects the risks inherent in the estimation of the recoverable amount of goodwill. Our results We found the goodwill balance, and the related impairment charge in 2020, to be acceptable (2019 result: we found the Group's conclusion that there is no impairment of goodwill to be acceptable).

2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Upfront licence revenue – identification of all performance obligations in large multiple element arrangements (\$646.5m; 2019: \$800m) Refer to page 94 (Audit committee report), page 156 (accounting policy) and page 170 (financial disclosures).	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. This judgement could materially affect the timing and quantum of revenue and profit recognised in each financial year. We assessed this risk to be greatest in larger contracts with licence revenue recognised in the financial year, where there is increased likelihood of unusual sales arrangements containing bespoke terms, potentially leading to unidentified contract performance obligations.	Our procedures included: – 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. Our results As a result of our work, we found the Group's identification of separate performance obligations to be acceptable (2019 results: acceptable).
Presentation of exceptional items (before tax) (\$3,012m; 2019: \$294m) Refer to page 94 (Audit committee report), page 158 (accounting policy) and page 172 (financial disclosures).	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. 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. In the current financial year this risk is elevated due to the value of transactions affected by this classification.	Our procedures included: – 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 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). Our results As a result of our work, we found the presentation of exceptional items (before tax) to be acceptable (2019 result: acceptable).

Independent auditor's report to the members of Micro Focus International plc

continued

2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Recoverability of amounts owed from Group undertakings to the parent Company (\$4,536m; 2019: \$4,572m) Refer to, page 239 (accounting policy) and page 242 (financial disclosures).	Low risk, high value: The carrying amount of the intra-group debtor balance represents 99% (2019: 91%) 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.	Our procedures included: – Test of detail: We assessed a sample of the highest value Group debtors representing 99% (2019: 99%) of the total Group debtor balance to identify, with reference to the relevant debtors' draft balance sheets, whether they have positive net assets values and therefore the coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making. – Comparing valuations: For the debtors where the carrying amount exceeded the net asset value, we compared the carrying amount of the debtors with the expected value of the business based on a value in use model, using the procedures performed outlined in the Goodwill Impairment key audit matter. Our results As a result of our work, we found the Group's assessment of the recoverability of the amounts owed by the Group undertakings to the parent Company to be acceptable (2019 result: acceptable).

We continue to perform procedures over complex tax judgements. However, in the current year audit we have not identified any significant activities undertaken by the Group and we have not assessed this as one of the most significant risks in our current year audit, therefore it is not separately identified in our report this year.

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 \$20.5m (2019: \$21.75m), determined with reference to a benchmark of total revenue, of which it represents 0.68% (2019: 0.65%). 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 \$17.4m (2019: \$18.5m), determined with reference to a benchmark of total assets, of which it represents 0.35% (2019: 0.37%).

We agreed to report to the audit committee any corrected and uncorrected identified misstatements exceeding \$1.0m (2019: \$1.1m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 226 (2019: 260) reporting components, we subjected 17 (2019: 17) to full scope audits for Group purposes and one (2019: none) 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 19% (2019: 22%) of total Group revenue, 14% (2019: 25%) of Group profit before tax and 2% (2019: 3%) of total Group assets is represented by 208 (2019: 243) of reporting components, none of which individually represented more than 1% (2019: 1%) of any of total Group revenue, Group profit before tax or total Group assets.

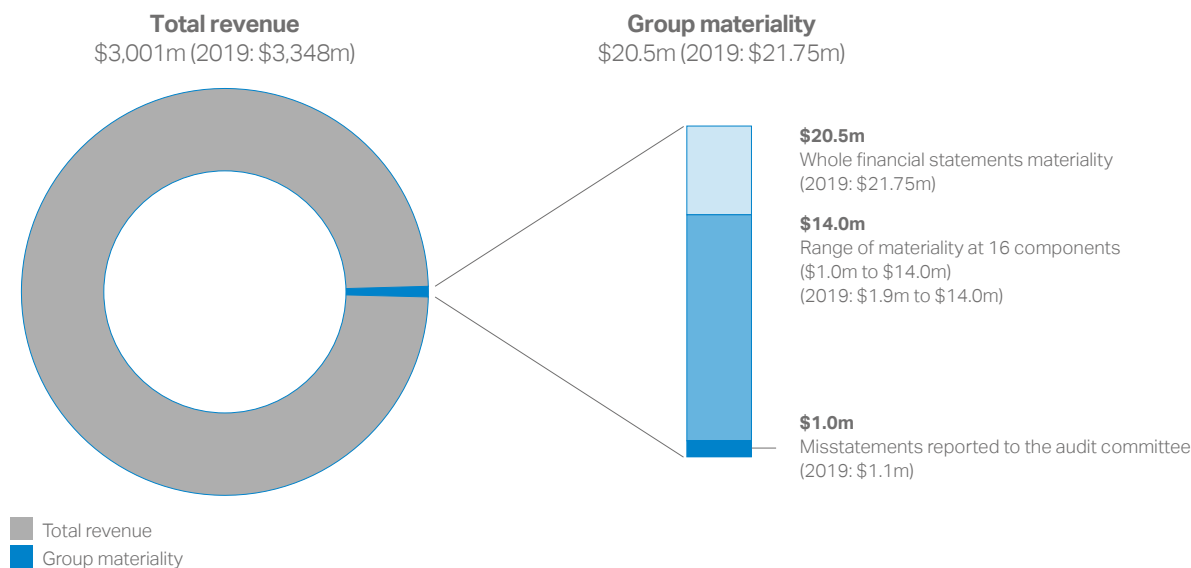
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from \$1.0m to \$14.0m (2019: \$1.9m to \$14.0m), having regard to the mix of size and risk profile of the Group across the components.

The work of 16 of the 18 (2019: 14 of the 17) components was performed by component auditors, with the remainder including the audit of the parent Company being performed by the Group team.

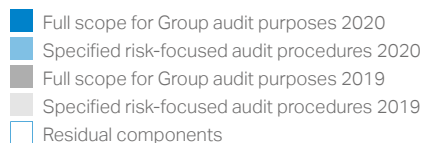
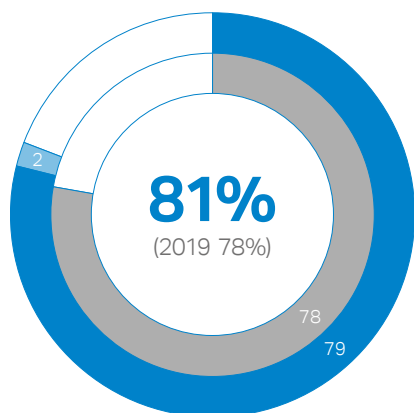
3. Our application of materiality and an overview of the scope of our audit continued

The Group audit team had planned to visit component locations in the United States and India (2019: 16 component locations in the United States, United Kingdom, Ireland, India, Mexico and France were visited). However, these visits in the current year were prevented by movement restrictions relating to the COVID-19 pandemic. Instead video and telephone conferences (in 2019 physical visits) were held to discuss the audit risk and strategy and to assess the audit work performed.

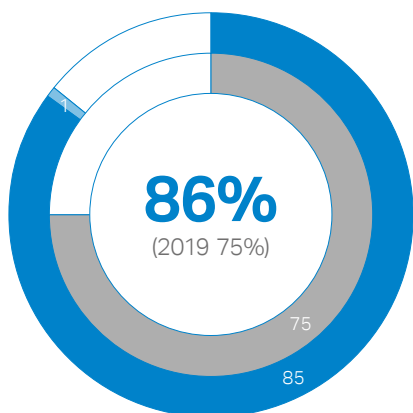
During these meetings (and in 2019 during visits), the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.



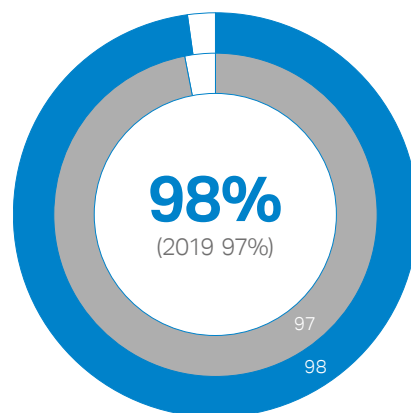
GROUP REVENUE



GROUP PROFIT BEFORE TAX



GROUP TOTAL ASSETS



Independent auditor's report to the members of Micro Focus International plc

continued

4. We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the parent Company or the Group or to cease their operations, and as they have concluded that the parent Company's and the Group'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").

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the parent Company will continue in operation.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's and the parent Company's 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 adversely affect the Group's and the parent Company's available financial resources over this period were:

- The achievement of budget licence and maintenance revenue in FY21;
- The achievement of operational efficiencies; and
- The achievement of Adjusted EBITDA growth.

As these were risks that could potentially cast significant doubt on the Group's and the parent Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit, COVID-19, macro-economic deterioration and the erosion of customer or supplier confidence, as well as the indemnification in relation to potential tax liabilities arising from the HPE acquisition which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in section 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 parent Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 129 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. 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

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 59 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 disclosures describing these risks 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.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

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 the parent Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and 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; or
- the section of the Annual Report describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Independent auditor's report to the members of Micro Focus International plc

continued

6. 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 130, 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 other irregularities (see below), 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, other irregularities 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.

Irregularities – ability to detect

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 and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our 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 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 related companies legislation), distributable profits legislation and taxation legislation 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), data protection and employment law 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. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. 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.

Tudor Aw (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, Canary Wharf, London, E14 5GL

8 February 2021

Consolidated statement of comprehensive income

For the year ended 31 October 2020

	Note	Year ended 31 October 2020			Year ended 31 October 2019 ¹		
		Before exceptional items \$m	Exceptional items (note 4) \$m	Total \$m	Before exceptional items \$m	Exceptional items (note 4) \$m	Total \$m
Continuing operations							
Revenue	1,2	3,001.0	–	3,001.0	3,348.4	–	3,348.4
Cost of sales		(698.7)	(4.0)	(702.7)	(777.3)	(12.6)	(789.9)
Gross profit		2,302.3	(4.0)	2,298.3	2,571.1	(12.6)	2,558.5
Selling and distribution expenses		(1,099.2)	(12.9)	(1,112.1)	(1,216.4)	(8.4)	(1,224.8)
Research and development expenses		(512.7)	(0.9)	(513.6)	(491.7)	0.5	(491.2)
Administrative expenses		(340.2)	(2,993.8)	(3,334.0)	(347.1)	(273.7)	(620.8)
Operating profit/(loss)		350.2	(3,011.6)	(2,661.4)	515.9	(294.2)	221.7
Finance costs	6	(281.6)	–	(281.6)	(282.4)	–	(282.4)
Finance income	6	2.6	–	2.6	26.6	–	26.6
Net finance costs	6	(279.0)	–	(279.0)	(255.8)	–	(255.8)
Profit/(loss) before tax		71.2	(3,011.6)	(2,940.4)	260.1	(294.2)	(34.1)
Taxation	7	(72.9)	38.7	(34.2)	(38.3)	54.3	16.0
(Loss)/profit from continuing operations		(1.7)	(2,972.9)	(2,974.6)	221.8	(239.9)	(18.1)
Profit from discontinued operation (attributable to equity shareholders of the Company)	32	7.3	(2.2)	5.1	28.7	1,458.5	1,487.2
Profit/(loss) for the year		5.6	(2,975.1)	(2,969.5)	250.5	1,218.6	1,469.1
Attributable to:							
Equity shareholders of the Company		5.6	(2,975.1)	(2,969.5)	250.2	1,218.6	1,468.8
Non-controlling interests		–	–	–	0.3	–	0.3
Profit/(loss) for the year		5.6	(2,975.1)	(2,969.5)	250.5	1,218.6	1,469.1

¹ In accordance with the requirements of IFRS 16 "Leases" the comparative amounts have not been restated.

The accompanying notes form part of the financial statements.

	Note	Year ended 31 October 2020			Year ended 31 October 2019 ¹		
		Before exceptional items \$m	Exceptional items (note 4) \$m	Total \$m	Before exceptional items \$m	Exceptional items (note 4) \$m	Total \$m
Profit/(loss) for the year		5.6	(2,975.1)	(2,969.5)	250.5	1,218.6	1,469.1
Other comprehensive (expense)/income for the year:							
Items that will not be reclassified to profit or loss							
Continuing operations:							
Actuarial loss on pension schemes liabilities	22	(0.4)	–	(0.4)	(26.2)	–	(26.2)
Actuarial gain on non-plan pension assets	22	0.4	–	0.4	0.3	–	0.3
Deferred tax movement on pension schemes		(5.0)	–	(5.0)	13.0	–	13.0
Discontinued operation:							
Actuarial gain on pension schemes liabilities	22	–	–	–	0.1	–	0.1
Actuarial gain on non-plan pension assets	22	–	–	–	0.1	–	0.1
Currency translation differences – discontinued operation recycled to profit and loss in the year		–	–	–	–	(1.5)	(1.5)
Continuing operations: Items that may be subsequently reclassified to profit or loss							
Cash flow hedge movements	27	(41.3)	–	(41.3)	(122.9)	–	(122.9)
Current tax movement on cash flow hedge movements	27	7.8	–	7.8	23.3	–	23.3
Deferred tax movement on currency translation differences		(8.7)	–	(8.7)	14.0	–	14.0
Deferred tax movement on Euro loan foreign exchange hedging		11.1	–	11.1	–	–	–
Currency translation differences		(67.0)	–	(67.0)	(206.2)	–	(206.2)
Other comprehensive (expense)/income for the year		(103.1)	–	(103.1)	(304.5)	(1.5)	(306.0)
Total comprehensive (expense)/income for the year		(97.5)	(2,975.1)	(3,072.6)	(54.0)	1,217.1	1,163.1
Attributable to:							
Equity shareholders of the Company		(97.5)	(2,975.1)	(3,072.6)	(54.3)	1,217.1	1,162.8
Non-controlling interests		–	–	–	0.3	–	0.3
Total comprehensive (expense)/income for the year		(97.5)	(2,975.1)	(3,072.6)	(54.0)	1,217.1	1,163.1
Total comprehensive (expense)/income attributable to the equity shareholders of the Company arises from:							
Continuing operations		(104.8)	(2,972.9)	(3,077.7)	(82.9)	(239.9)	(322.8)
Discontinued operation		7.3	(2.2)	5.1	28.9	1,457.0	1,485.9
		(97.5)	(2,975.1)	(3,072.6)	(54.0)	1,217.1	1,163.1
Earnings per share (cents)							
From continuing and discontinued operations				cents			cents
– basic	9			(884.63)			388.50
– diluted	9			(884.64)			384.35
From continuing operations							
– basic	9			(886.15)			(4.87)
– diluted	9			(886.15)			(4.87)
Earnings per share (pence)							
From continuing and discontinued operations				pence			pence
– basic	9			(692.26)			305.07
– diluted	9			(692.26)			301.81
From continuing operations							
– basic	9			(693.45)			(3.82)
– diluted	9			(693.45)			(3.82)

¹ In accordance with the requirements of IFRS 16 "Leases" the comparative amounts have not been restated.

The accompanying notes form part of the financial statements.

Consolidated statement of financial position

As at 31 October 2020

	Note	31 October 2020 \$m	31 October 2019 \$m ¹
Non-current assets			
Goodwill	10	3,835.4	6,671.3
Other intangible assets	11	5,383.0	5,942.3
Property, plant and equipment	12	93.7	140.5
Right-of-use assets	19	207.2	–
Long-term pension assets	22	18.2	17.1
Contract-related costs	15	35.7	31.5
Other non-current assets	13	31.8	44.0
		9,605.0	12,846.7
Current assets			
Inventories		–	0.1
Trade and other receivables	14	731.4	1,032.9
Contract-related costs	15	27.9	19.3
Current tax receivables	7	45.3	40.1
Cash and cash equivalents	16	737.2	355.7
		1,541.8	1,448.1
Total assets		11,146.8	14,294.8
Current liabilities			
Trade and other payables	17	503.5	611.0
Borrowings	18	21.4	–
Lease obligations (2019: Finance leases)	19	82.2	11.8
Provisions	21	49.7	29.3
Current tax liabilities	7	150.1	104.0
Contract liabilities	20	981.4	1,045.9
		1,788.3	1,802.0
Non-current liabilities			
Contract liabilities	20	117.2	149.9
Borrowings	18	4,618.9	4,670.7
Lease obligations (2019: Finance leases)	19	168.2	11.7
Derivative liability	24	77.9	36.5
Retirement benefit obligations	22	155.0	141.4
Provisions	21	22.5	49.1
Other non-current liabilities	23	39.9	50.4
Current tax liabilities	7	102.7	119.7
Deferred tax liabilities	7	841.1	987.1
		6,143.4	6,216.5
Total liabilities		7,931.7	8,018.5
Net assets		3,215.1	6,276.3

	Note	31 October 2020 \$m	31 October 2019 \$m ¹
Capital and reserves			
Share capital	25	47.3	47.2
Share premium account	26	46.5	44.0
Merger reserve	27	1,767.4	1,739.8
Capital redemption reserve	27	2,485.0	2,485.0
Hedging reserve	27	(63.1)	(29.6)
Retained earnings		(741.3)	2,250.7
Foreign currency translation reserve		(326.7)	(262.1)
Total equity attributable to owners of the parent		3,215.1	6,275.0
Non-controlling interests	28	–	1.3
Total equity		3,215.1	6,276.3

1 In accordance with the requirements of IFRS 16 "Leases" the comparative amounts have not been restated.

The accompanying notes form part of the financial statements.

The consolidated financial statements on pages 148 to 232 and accompanying notes were approved by the board of directors on 8 February 2021 and were signed on its behalf by:

Stephen Murdoch
Chief Executive Officer

Brian McArthur-Muscroft
Chief Financial Officer

Registered number: 5134647

Consolidated statement of changes in equity

For the year ended 31 October 2020

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	29	–	–	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	28	–	–	1.3	–	–	–	1.3	(1.3)	–
Reallocation of 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.

Year ended 31 October 2019¹

	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 2018		65.8	41.0	3,275.2	(51.7)	666.3	70.0	3,724.4	7,791.0	1.0	7,792.0
Impact of adoption of IFRS 15		–	–	52.4	–	–	–	–	52.4	–	52.4
Impact of adoption of IFRS 9		–	–	(15.6)	–	–	–	–	(15.6)	–	(15.6)
Revised balance as at 1 November 2018		65.8	41.0	3,312.0	(51.7)	666.3	70.0	3,724.4	7,827.8	1.0	7,828.8
Profit for the financial year		–	–	1,468.8	–	–	–	–	1,468.8	0.3	1,469.1
Other comprehensive income/(expense) for the year		–	–	4.0	(210.4)	–	(99.6)	–	(306.0)	–	(306.0)
Total comprehensive income/(expense) for the year		–	–	1,472.8	(210.4)	–	(99.6)	–	1,162.8	0.3	1,163.1
Transactions with owners:											
Dividends	8	–	–	(439.2)	–	–	–	–	(439.2)	–	(439.2)
Share options:											
Issue of share capital – share options	25,26	0.1	3.0	(3.8)	–	–	–	–	(0.7)	–	(0.7)
Share-based payment charge		–	–	64.5	–	–	–	–	64.5	–	64.5
Current tax on share options	7	–	–	13.1	–	–	–	–	13.1	–	13.1
Deferred tax on share options	7	–	–	(7.6)	–	–	–	–	(7.6)	–	(7.6)
Share reorganisation and buy-back:											
Return of Value – share consolidation	29,31	(18.7)	–	–	–	18.7	–	–	–	–	–
Expenses relating to Return of Value	27	–	–	(1.0)	–	–	–	–	(1.0)	–	(1.0)
Issue and redemption of B shares	25	–	–	(1,800.0)	–	1,800.0	–	(1,800.0)	(1,800.0)	–	(1,800.0)
Share buy-back	25	–	–	(544.7)	–	–	–	–	(544.7)	–	(544.7)
Reallocation of merger reserve	27	–	–	184.6	–	–	–	(184.6)	–	–	–
Total movements for the year		(18.6)	3.0	(1,061.3)	(210.4)	1,818.7	(99.6)	(1,984.6)	(1,552.8)	0.3	(1,552.5)
Balance as at 31 October 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

¹ In accordance with the requirements of IFRS 16 "Leases" the comparative amounts have not been restated.

The accompanying notes form part of the financial statements.

Consolidated statement of cash flows

For the year ended 31 October 2020

	Note	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m ¹
Cash flows from operating activities			
Cash generated from operations	34	1,082.8	1,056.3
Interest paid		(207.1)	(227.1)
Bank loan costs		(47.9)	–
Tax paid		(149.6)	(167.4)
Net cash generated from operating activities		678.2	661.8
Cash flows from investing activities			
Payments for intangible assets	11	(60.6)	(29.3)
Purchase of property, plant and equipment	12	(26.3)	(56.3)
Interest received		2.4	26.6
Payment for acquisition of business	33	(6.0)	(89.0)
Net cash acquired with acquisitions	33	–	1.2
Investing cash flows generated from disposals	32	1.3	20.0
Investing cash flows generated from discontinued operation, net of cash disposed	32	–	2,473.5
Tax paid on divestiture gain		–	(264.6)
Net cash (used in)/generated from investing activities		(89.2)	2,082.1
Cash flows used in financing activities			
Proceeds from issue of ordinary share capital	25,26	2.6	3.1
Purchase of treasury shares and related expenses	25	–	(544.7)
Return of Value paid to shareholders	25,27	–	(1,800.0)
Expenses relating to Return of Value	25	–	(1.0)
Payment for lease liabilities (2019: payment for finance lease liabilities)	19	(80.1)	(12.9)
Settlement of foreign exchange derivative	24	(21.8)	–
Repayment of bank borrowings	18	(1,589.7)	(212.6)
Proceeds from bank borrowings	18	1,490.8	–
Dividends paid to owners	8	–	(439.2)
Net cash used in financing activities		(198.2)	(3,007.3)
Effects of exchange rate changes		(9.3)	(1.8)
Net increase/(decrease) in cash and cash equivalents		381.5	(265.2)
Cash and cash equivalents at beginning of the year		355.7	620.9
Cash and cash equivalents at end of the year	16	737.2	355.7

¹ In accordance with the requirements of IFRS 16 "Leases" the comparative amounts have not been restated.

The accompanying notes form part of these financial statements.

Summary of significant accounting policies

For the year ended 31 October 2020

General information

Micro Focus International plc ("Company") is a public limited company incorporated and domiciled in the UK. The address of its registered office is: The Lawn, 22-30 Old Bath Road, Newbury, RG14 1QN, UK.

Micro Focus International plc and its subsidiaries (together "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 2020, the Group had a presence in 48 countries (31 October 2019: 48) worldwide and employed approximately 11,900 people (31 October 2019: 12,100).

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 8 February 2021.

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 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 have been 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 2019 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' considerations are provided in the Directors' report on page 129. In assessing the appropriateness of the going concern basis, the directors have taken into account the impact of the global COVID-19 pandemic, including severe but plausible downside scenarios.

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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing control. Control is presumed to exist when the Group owns more than half of the voting rights (which does not always equal percentage ownership) unless it can be demonstrated that ownership does not constitute control. The results of subsidiaries are consolidated from the date on which control passes to the Group. The results of disposed subsidiaries are consolidated up to the date on which control passes from the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, with costs directly attributable to the acquisition being expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Summary of significant accounting policies

For the year ended 31 October 2020 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.

For partly owned subsidiaries, the allocation of net assets and net earnings to outside shareholders is shown in the line "Attributable to non-controlling interests" on the face of the consolidated statement of comprehensive income and the consolidated statement of financial position.

Inter-company transactions, balances and 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 of disposal groups classified as held for sale are shown separately on the face of the balance sheet.

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 stand-alone selling price 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 on customer premises 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). Licence revenue is considered right to use as the customer receives the right to download and use the software. 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 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 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 2020 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.

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 if it is material or non-recurring or does not reflect 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, Group restructuring and other one-off events such as restructuring programmes. 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 obligations and long-term pension assets

The Group operates various pension schemes, including both defined contribution and defined benefit pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are 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, defined benefit 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.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. Certain long-term pension assets do not meet the definition of plan assets as they have not been pledged to the plan and are subject to the creditors of the Group. Such assets are recorded separately in the consolidated statement of financial position as long-term pension assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to mature approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income.

The current service cost of the defined benefit plan, recognised in the Consolidated statement of comprehensive income in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in 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. 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 shares and share premium account. Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. The Additional Share Grants have been valued using the Monte-Carlo simulation pricing model.

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 2020 continued

c) Exchange rates

The most important foreign currencies for the Group are: Pounds Sterling, the Euro, Canadian Dollar, Israeli Shekel and Japanese Yen and in the year ended 31 October 2020 also the Indian Rupee and Chinese Yuan. The exchange rates used are as follows:

	Year ended 31 October 2020		Year ended 31 October 2019	
	Average	Closing	Average	Closing
£1 = \$	1.28	1.30	1.27	1.29
€1 = \$	1.13	1.17	1.12	1.12
C\$ = \$	0.74	0.75	0.75	0.76
ILS = \$	0.29	0.29	0.28	0.28
INR = \$	0.01	0.01	n/a	n/a
CNY = \$	0.14	0.15	n/a	n/a
100 JPY = \$	0.93	0.96	1.10	1.08

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 cash-generating unit 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, determined at the acquisition date, will vary for each category of asset acquired and to date are as follows:

Purchased software	Term 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 period of borrowing on an effective interest basis.

Q Leases

As disclosed in W 'Adoption of new and revised International Financial Reporting Standards' below, the Group applied IFRS 16 "Leases" using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The detailed accounting policies under IAS 17 and IFRIC 4 are disclosed separately; key differences between IFRS 16 and IAS 17 and IFRIC 4 are described in W 'Adoption of new and revised International Financial Reporting Standards'.

Summary of significant accounting policies

For the year ended 31 October 2020 continued

Lease accounting policy under IFRS 16

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.

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). 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.

Lease policy in the prior periods under IAS 17 and IFRIC 4

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the Consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Operating sub-lease income is recorded as operating income on a straight-line basis over the sub-lease term.

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. The increase in the provision due to the passage of time is recognised as an interest expense.

Summary of significant accounting policies

For the year ended 31 October 2020 continued

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 2019, 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, except for IFRS 16 "Leases", which is covered in further detail below, are not considered material:

- IFRIC 23 "Uncertainty over Income Tax Treatments".
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – "Long-term Interests in Associates and Joint Ventures", clarifies that IFRS 9 "Financial instruments" applies.
- Amendments to IAS 19 "Employee Benefits".
- Annual Improvements 2017 includes amendments to IFRS 3 "Business combinations", IFRS 11 "Joint arrangements" and IAS 12 "Income taxes".

IFRS 16 "Leases"

IFRS 16 "Leases" establishes the principles that an entity should apply to report useful information to the uses of the financial statements about the nature, amount, timing and uncertainty of leases and cash flows associated with leases. Application of this standard was mandatory for annual reporting periods starting from 1 January 2019 onwards and was adopted by the Group on 1 November 2019. The standard replaced IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement contains a lease". Key changes to the accounting policy previously applied and the impact of adoption this on the financial statement at 1 November 2019 are described below. The Group's new IFRS 16 accounting policy and previous lease accounting policy under IAS 17 "Leases" are disclosed in Q above.

IFRS 16 "Leases" was adopted with the cumulative retrospective impact reflected as an adjustment to equity on the date of adoption and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The Group has applied the following expedients in relation to the adoption of IFRS 16:

- Arrangements were not reassessed to determine whether they are, or contained, a lease at 1 November 2019. Instead, the Group has applied IFRS 16 to leases that had previously been identified as leases under IAS 17 "Leases" and IFRIC 4 "Determining whether an arrangement contains a lease";
- Where there is a group of leases with reasonably similar characteristics, a single discount rate has been applied to each lease portfolio;
- The Group impaired the right-of-use asset recognised on adoption by the value of the provisions for onerous leases held under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" at 31 October 2019 instead of performing a new impairment review for those leases at 1 November 2019;
- The Group excluded initial direct costs from the measurement of the right-of-use asset at 1 November 2019;
- Where the Group measured right-of-use asset as if IFRS 16 had been applied since the inception of the lease, the Group applied hindsight in assessing extension or termination options; and
- Where the Group measured the right-of-use asset at an amount equal to the lease liability at 1 November 2019 lease prepayments and accruals previously recognised under IAS 17 at 31 October 2019 were added to and deducted from, respectively, the value of the right-of-use assets on adoption.

The key differences between the Group's IAS 17 accounting policy (the 'previous policy' which is disclosed in Q above) and the Group's IFRS 16 accounting policy (which is also provided in Q above), as well as the primary impacts of applying IFRS 16 in the current financial period are disclosed below.

Primary impacts of applying the IFRS 16 accounting policy

The primary impacts on the Group's financial statements, and the key causes of the movements recorded in the consolidated statement of financial position on 1 November 2019 (page 166), as a result of applying the IFRS 16 ('current') accounting policy in place of the previous policy are:

- Under IAS 17, lessees were classified leases as either operating or finance leases. Operating lease costs were expensed on a straight-line basis over the period of the lease. Finance leases resulted in the recognition, in the statement of financial position, of an asset and a corresponding liability for lease payments, at present value. Under IFRS 16 all lease agreements give rise to the recognition of a 'right-of-use asset' representing the right to use the leased item and a liability for any future lease payments (page 166 and note 19 "Leases") over the 'reasonably certain' period of the lease, which may include future lease periods for which the Group has extension options;
- Lessee accounting under IFRS 16 is similar to finance lease accounting for lessees under IAS 17; lease costs are recognised in the form of depreciation of the right-of-use asset and interest on the lease liability. The incremental borrowing rate of the Group for that lease portfolio is generally used for discounting, although the interest rate implicit in the lease is used when it is readily determinable. Interest charges will typically be higher in the early stages of a lease and will reduce over the term. Lease interest costs are recorded in financing costs and associated cash payments are classified as financing cash flows in the Group's cash flow statement;
- Under IFRS 16 cash inflows from operating activities and payments classified within cash flow from financing activities both increase, as payments made at both lease inception and subsequently are characterised as repayments of lease liabilities and interest. Under IAS 17 operating lease payments were treated as an operating cash outflows. Net cash flow is not impacted by the change in policy; lessor accounting under IFRS 16 is similar to IAS 17. The only substantive change is that when the Group sub-leases right-of-use assets it classifies the lease out as either operating or finance leases by reference to the terms of head lease contract whereas under IAS 17 the classification was determined by reference to the underlying asset leased out. This has resulted in additional finance leases ('net investment in leases') being recognised under IFRS 16 (page 166 and net investment in leases in note 14 "Trade and other receivables") as the Group only acts as a lessor in relation to under-utilised property leases;
- The expedients applied at adoption noted above have resulted in the following changes (page 166);
 - reclassifications of lease-related prepayments and accruals at 1 November 2019 to the right-of-use assets where the Group has measured the right-of-use at an amount equal to the liability.
 - release of lease-related prepayments and accruals at 1 November 2019 against retained earnings where the Group has measured the right-of-use asset as if IFRS 16 had been applied since inception of the lease.
 - re-classification of onerous leases provisions at 1 November 2019 to the right-of-use assets. Provisions remain for any onerous non-rental contracts related to these properties.

During the year ended 31 October 2019, a rental expense of \$65.9m was charged for operating leases and depreciation and interest of \$15.9m was charged for finance leases. During the year ended 31 October 2020, depreciation of \$76.9m and interest of \$13.2m has been charged in relation to all leases.

Adoption judgements

In adopting, and in the on-going application of, IFRS 16 judgements and estimates were made in relation to the grouping of leases for the purpose of assigning a discount rate and in calculating the discount rates. These judgements and estimates were significant for the Group's IFRS 16 adoption activities but are not considered critical accounting estimates or judgements for the Group as they are not considered to have a significant effect on the amounts recognised in the Group's financial statements.

Transition disclosures

The weighted average incremental borrowing rate applied to the Group's lease liabilities recognised in the balance sheet at 1 November 2019 is 4.7%.

The Group's undiscounted operating lease commitments at 31 October 2019 were \$301.2m; the most significant differences between the IAS 17 lease commitments and the lease liabilities recognised on transition to IFRS 16 are set out below:

	\$m
Operating lease commitments under IAS 17	301.2
Committed leases not commenced ¹	(0.3)
Cost of reasonably certain extensions ¹	1.3
Subtotal	302.2
Effect of discounting on payments included in the calculation of the lease liability (excluding finance lease balances)	(32.4)
Subtotal	269.8
Other ²	23.5
Lease liability opening balance to be reported as at 1 November 2019 (IFRS 16)	293.3

¹ Undiscounted.

² Includes Finance lease liabilities already reported under IAS 17.

Summary of significant accounting policies

For the year ended 31 October 2020 continued

The impact of the adoption of IFRS 16 on the consolidated statement of financial position at 1 November 2019 is set out below.

	31 October 2019 \$m	Impact of adoption of IFRS 16 \$m	1 November 2019 \$m
Non-current assets			
Goodwill	6,671.3	–	6,671.3
Other intangible assets	5,942.3	(1.8)	5,940.5
Property, plant and equipment	140.5	(25.4)	115.1
Right-of-use assets	–	253.4	253.4
Long-term pension assets	17.1	–	17.1
Contract-related costs	31.5	–	31.5
Other non-current assets	44.0	7.7	51.7
	12,846.7	233.9	13,080.6
Current assets			
Inventories	0.1	–	0.1
Trade and other receivables	1,032.9	0.3	1,033.2
Contract-related costs	19.3	–	19.3
Current tax receivables	40.1	–	40.1
Cash and cash equivalents	355.7	–	355.7
	1,448.1	0.3	1,448.4
Total assets	14,294.8	234.2	14,529.0
Current liabilities			
Trade and other payables	611.0	1.4	612.4
Lease obligations	11.8	74.7	86.5
Provisions	29.3	(4.3)	25.0
Current tax liabilities	104.0	–	104.0
Contract liabilities	1,045.9	–	1,045.9
	1,802.0	71.8	1,873.8
Non-current liabilities			
Contract liabilities	149.9	–	149.9
Borrowings	4,670.7	–	4,670.7
Lease obligations	11.7	195.1	206.8
Derivative liability	36.5	–	36.5
Retirement benefit obligations	141.4	–	141.4
Provisions	49.1	(12.4)	36.7
Other non-current liabilities	50.4	(10.1)	40.3
Current tax liabilities	119.7	–	119.7
Deferred tax liabilities	987.1	(1.8)	985.3
	6,216.5	170.8	6,387.3
Total liabilities	8,018.5	242.6	8,261.1
Net assets	6,276.3	(8.4)	6,267.9
Capital and reserves			
Share capital	47.2	–	47.2
Share premium account	44.0	–	44.0
Merger reserve	1,739.8	–	1,739.8
Capital redemption reserve	2,485.0	–	2,485.0
Hedging reserve	(29.6)	–	(29.6)
Retained earnings	2,250.7	(8.4)	2,242.3
Foreign currency translation deficit	(262.1)	–	(262.1)
Total equity attributable to owners of the parent	6,275.0	(8.4)	6,266.6
Non-controlling interests	1.3	–	1.3
Total equity	6,276.3	(8.4)	6,267.9

Interpretations and amendments

The following interpretations and amendments to existing standards are not yet effective and have not been adopted early by the Group:

Effective for periods commencing after 1 January 2020/2021:

- 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, effective for accounting periods beginning after 1 January 2020. EU endorsed 29 November 2019.
- Amendments to IFRS 3 “Business Combinations”, effective 1 January 2020 clarify the definition of a business in acquisitions. EU endorsed 15 January 2020.
- Amendments to IAS1 and IAS 8: guidance on the definition of material, effective 1 January 2020 and endorsed by the EU on 29 November 2019.
- Amendments to IFRS9, IAS 39, IFRS 7, IFRS 16 and IFRS 4: Interest rate benchmark reforms. Phase 1 effective 1 January 2020 and EU endorsed covers hedge accounting impacts and discontinuance exemptions, while Phase 2 effective January 2021 covers further disclosures on transition to a new benchmark, EU endorsed 14 January 2021.

Effective for periods commencing after 1 January 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, subject to EU endorsement. 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 liabilities” are all subject to EU endorsement.
- Amendments to IAS 37 “Provisions, Contingent assets and liabilities” – guidance on costs in fulfilling onerous contracts, subject to EU endorsement.

Effective for periods commencing after 1 January 2023, all subject to EU endorsement:

- Amendments to IAS 1 “Presentation of financial statements”. Amendment is presentational relates to the classification of liabilities current and non-current.
- Amendments to IFRS 17 “Insurance contracts”. Rent concessions is not relevant for the Group.

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 updates them as required. The Group has reviewed its critical accounting estimates, assumptions and judgements considering the impact of COVID-19 and no new critical accounting estimates, assumptions and judgements were identified. COVID-19 has increased the level of uncertainty in making the estimations required in relation to the potential impairment of goodwill and other intangible assets and retirement benefit obligations. Sensitivity analysis of these estimates, including the impact of COVID-19, are included in note 10 “Goodwill” and note 22 “Pension commitments”. COVID-19 has been assessed as having no material impact on the remaining critical estimates, assumptions and judgements disclosed below. Following the adoption of IFRS 16 “Leases” in the current year lease term has been determined as being a critical accounting judgement.

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.

Summary of significant accounting policies

For the year ended 31 October 2020 continued

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 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.

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.

Critical accounting judgements

C Revenue recognition

Revenue recognition requires significant use of management judgement to produce financial information. The most significant accounting judgement 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 judgment 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.

D 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.

E 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. Based on their assessment, the directors have concluded that no additional material tax provisions are required with regards to these matters (note 7).

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. There is not a significant risk that any estimate associated with the provision for income taxes will result in a material change within the next 12 months.

F Lease term

Where leases include additional optional periods after an initial lease term, significant judgement is required in determining whether these optional periods should be included when determining the lease term. 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.

Where extension options are included in the lease term the greater will be the value of the right-of-use asset and lease liability recognised. 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 5 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 3 years for data centres with optional extensions periods, where they exist, 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 3 to 4 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.

Notes to the consolidated financial statements

For the year ended 31 October 2020

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 2020, the Operating Committee consisted of the Chief Executive Officer, the Chief Financial Officer, Chief Operating Officer, Chief HR Officer and Vice President Business Operations and the Chief Legal Officer. The Group is organised into a single reporting segment.

The Group's segment under IFRS 8 is:

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 a geographic Go-to-Market organisation. 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, Application Delivery Management, IT Operations Management, Security and Information Management & Governance.

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 2020 \$m	Year ended 31 October 2019 \$m
Reconciliation to Adjusted EBITDA:			
Loss before tax		(2,940.4)	(34.1)
Finance costs	6	281.6	282.4
Finance income	6	(2.6)	(26.6)
Depreciation of property, plant and equipment	12	42.0	66.5
Right-of-use asset depreciation		76.9	–
Amortisation of intangible assets	11	674.1	716.5
Exceptional items (reported in Operating (loss)/profit)	4	3,011.6	294.2
Share-based compensation charge	29	17.0	68.8
Product development intangible costs capitalised	11	(16.2)	(16.5)
Foreign exchange credit	3	29.7	11.3
Adjusted EBITDA		1,173.7	1,362.5

For the reportable segment, the total assets were \$11,146.8m (2019: \$14,294.8m) and the total liabilities were \$7,931.7m (2019: \$8,018.5m) as at 31 October 2020.

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 2020 \$m	Year ended 31 October 2019 \$m
UK	173.0	206.9
USA	1,289.8	1,523.0
Germany	218.7	220.7
Canada	108.0	115.9
France	101.4	123.3
Japan	96.9	108.6
Other	1,013.2	1,050.0
Total	3,001.0	3,348.4

The total of non-current assets other than financial instruments and deferred tax assets as at 31 October 2020 located in the USA is \$3,301.0m (31 October 2019: \$4,623.0m), the total in the non-USA is \$6,304.0m (31 October 2019: \$8,192.2m). They exclude trade and other receivables, derivative financial instruments and deferred tax.

2 Supplementary information continued

Analysis of revenue from contracts with customers

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Revenue from contracts with customers	3,001.0	3,348.4
Being:		
Recognised over time:		
Maintenance revenue	1,920.8	2,051.6
SaaS & other recurring revenue	245.3	278.9
	2,166.1	2,330.5
Recognised at point in time:		
Licence revenue	646.5	800.0
Consulting revenue	188.4	217.9
	834.9	1,017.9
Total Revenue	3,001.0	3,348.4

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 2020 with comparatives:

Year ended 31 October 2020:

	Licence \$m	Maintenance \$m	SaaS & other recurring \$m	Consulting \$m	Total \$m
Application Modernisation & Connectivity	138.6	321.6	–	10.1	470.3
Application Delivery Management	102.0	439.2	73.9	15.9	631.0
IT Operations Management	175.1	559.4	4.6	113.9	853.0
Security	162.6	416.8	33.6	33.1	646.1
Information Management & Governance	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

Year ended 31 October 2019:

	Licence \$m	Maintenance \$m	SaaS & other recurring \$m	Consulting \$m	Total \$m
Application Modernisation & Connectivity	170.9	326.1	–	11.7	508.7
Application Delivery Management	130.3	485.4	87.8	18.2	721.7
IT Operations Management	237.5	645.8	11.0	127.5	1,021.8
Security	185.7	416.7	35.0	43.9	681.3
Information Management & Governance	75.6	183.6	145.9	16.6	421.7
Subtotal	800.0	2,057.6	279.7	217.9	3,355.2
Deferred revenue haircut	–	(6.0)	(0.8)	–	(6.8)
Total Revenue	800.0	2,051.6	278.9	217.9	3,348.4

Notes to the consolidated financial statements

For the year ended 31 October 2020 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 2020 \$m	Year ended 31 October 2019 \$m
Staff costs	29	1,344.4	1,409.0
Depreciation of property, plant and equipment	12	42.0	52.6
Depreciation of right-of-use assets ¹	19	76.9	13.9
Loss on disposal of property, plant and equipment	12	5.6	3.6
Amortisation of intangibles	11	674.1	716.5
Operating lease rentals payable ¹ :			
– plant and machinery		–	7.0
– property		–	58.9
Provision for receivables impairment (release)/charge	14	(4.8)	16.0
Foreign exchange loss/(gain) on derivative financial instruments		21.8	(6.9)
Foreign exchange loss		7.9	18.2

1 \$13.9m of depreciation on leased assets was included in depreciation of property, plant and equipment in the prior year. No depreciation in relation to leased assets is included in depreciation of property, plant and equipment in the year as all leased assets are classified as right-of-use assets following the adoption of IFRS 16.

4 Exceptional items

	Note	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Reported within Operating (loss)/profit:			
Integration costs		152.6	245.9
Acquisition costs		0.2	1.5
Property-related costs		15.2	16.3
Severance and legal costs		33.7	32.1
Other restructuring costs		10.7	–
Divestiture		–	2.1
Goodwill impairment		2,799.2	–
Gain on disposal of Atalla		–	(3.7)
Exceptional costs before tax		3,011.6	294.2
Tax effect of exceptional items		(38.7)	(54.3)
Reported within profit from discontinued operation (attributable to equity shareholders of the Company):			
Loss/(gain) on disposal of discontinued operation	32	2.2	(1,458.5)
Exceptional costs/(profit) after tax		2,975.1	(1,218.6)

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.

Integration costs

Integration costs of \$152.6m for the year ended 31 October 2020 (2019: \$245.9m) reflect the IT design, build and migration onto a single IT platform and a wide range of projects undertaken to conform, simplify and increase efficiency across the business.

Acquisition costs

Acquisition costs of \$0.2m in the year ended 31 October 2020 relate to the acquisition of Atar Labs. The acquisition costs of \$1.5m the year ended 31 October 2019 related to the acquisition of Interset Software Inc. (note 33).

Property-related costs

Property-related costs of \$15.2m for the year ended 31 October 2020 (2019: \$16.3m) 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 as the Group simplifies its real estate footprint as a result of the acquisition of HPE Software or other significant restructuring projects.

4 Exceptional items continued

Severance and legal costs

Severance and legal costs of \$33.7m for the year ended 31 October 2020 (2019: \$32.1m) and relate mostly to termination costs for employees as the Group continues to remove duplication and simplify the continuing operations as a result of the acquisition of HPE Software.

Other restructuring costs

Other restructuring costs of \$10.7m for the year ended 31 October 2020 (2019: \$nil) relates to the costs of implementing the initiatives included in the Strategic & Operational Review.

Divestiture

Divestiture costs of \$2.1m for the year ended 31 October 2019 related mostly to employee activities involved in the disposal of the SUSE business completed in 2019.

Goodwill impairment

A goodwill impairment charge of \$2,799.2m was made in the year ended 31 October 2020 (2019: \$nil), see note 10 for additional information.

Gain on disposal of Atalla

The non-recurring gain on disposal of \$3.7m for the year ended 31 October 2019 related to Atalla business disposal.

Tax effect of exceptional items

The tax effect of exceptional items on the income statement is a credit of \$38.7m for the year ended 31 October 2020 (2019: \$54.3m credit).

Loss/(gain) on disposal of discontinued operation

The loss on the disposal of discontinued operation of \$2.2m (2019: gain \$1,458.5m) in the year ended 31 October 2020 related to conclusion of the working capital settlement on the disposal of the SUSE business and adjustments in respect of income tax balances owed in respect of pre-transaction periods.

5 Services provided by the Group's auditors and network of firms

During the year ended 31 October 2020, the Group obtained the following services from the Group's auditors as detailed below:

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Audit of Company	7.2	12.8
ICOFR audit	2.7	3.0
Audit of subsidiaries	2.9	3.9
Total audit	12.8	19.7
Audit-related assurance services	0.6	0.6
Total assurance services	0.6	0.6
Tax advisory services	–	0.1
Services relating to taxation	–	0.1
Other non-audit services	–	–
Total	13.4	20.4

Of the audit-related assurance services engagements undertaken in the year ended 31 October 2020 only one (2019: one) was considered to be significant. This related to the controls attestation of the Group's implementation of Sarbanes-Oxley Section 404, for which a fee of \$2.7m (2019: \$3.0m) was paid.

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

6 Finance income and finance costs

	Note	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Finance costs			
Interest on bank borrowings		176.1	225.4
Commitment fees		1.7	1.9
Amortisation of facility costs and original issue discounts		58.0	46.7
Finance costs on bank borrowings		235.8	274.0
Net interest expense on retirement obligations	22	1.8	2.4
Interest on lease liabilities	19	13.2	2.0
Interest rate swaps: cash flow hedges		23.7	–
Other		7.1	4.0
Total		281.6	282.4

		Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Finance income			
Bank interest		2.4	16.3
Interest on non-plan pension assets	22	0.2	0.3
Interest rate swaps: cash flow hedges		–	9.9
Other		–	0.1
Total		2.6	26.6

Net finance cost		279.0	255.8
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7 Taxation

A Taxation in the Consolidated statement of comprehensive income

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Current tax		
Current year	175.4	163.9
Adjustments to tax in respect of previous periods	7.8	(35.3)
	183.2	128.6
Deferred tax		
Origination and reversal of temporary differences	(195.3)	(139.7)
Adjustments to tax in respect of previous periods	10.7	24.5
Previously unrecognised temporary differences	–	(29.4)
Impact of changes in tax rates	35.6	–
	(149.0)	(144.6)
Total tax charge/(credit)	34.2	(16.0)

For the year ended 31 October 2020, a deferred tax charge of \$1.5m (2019: \$7.6m debit) and a \$0.1m current tax credit (2019: \$13.1m credit) have been recognised in equity in relation to share options. A deferred tax credit of \$1.8m has been booked on initial adoption of IFRS 16 "Leases" in retained earnings. A current tax credit of \$7.8m (2019: \$23.3m credit) has been recognised in the hedging reserve (note 27). There is also a deferred tax credit of \$11.1m in relation to the currency translation differences. In addition, a deferred tax charge of \$5.0m (2019: \$13.0m credit) has been recognised in the Consolidated statement of comprehensive income in relation to defined benefit pension schemes and a deferred tax charge of \$8.7m (2019: \$14.0m) in relation to foreign exchange movements on intangibles.

7 Taxation continued

The tax charge for the year ended 31 October 2020 is higher than the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%). The differences are explained below:

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Loss before taxation	(2,940.4)	(34.1)
Tax at UK corporation tax rate 19.00% (2019: 19.00%)	(558.7)	(6.5)
Effects of:		
Tax rates other than the UK standard rate	(78.0)	(4.4)
Intra-Group financing	(21.0)	(42.8)
Innovation tax credit benefits	(31.8)	(13.5)
US foreign inclusion income	20.4	43.7
Share options	4.1	7.1
Movement in deferred tax not recognised	11.1	14.4
Previously unrecognised temporary differences	–	(29.4)
Impact of rate changes	35.6	–
Goodwill impairment	592.8	–
Expenses not deductible and other permanent differences	41.2	26.2
	15.7	(5.2)
Adjustments to tax in respect of previous periods:		
Current tax	7.8	(35.3)
Deferred tax	10.7	24.5
	18.5	(10.8)
Total taxation	34.2	(16.0)

A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted for IFRS purposes on 17 March 2020. Hence, the rate applicable from 1 April 2020 now remains at 19% rather than the previously enacted reduction to 17%. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at the rate of 19%. The impact of this and other changes in rate across the Group has resulted in the recognition of a deferred tax credit of \$35.6m in the income statement.

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 2020 being \$31.8m (2019: \$13.5m). The Group realised benefits in relation to intra-Group financing of \$21.0m for the year ended 31 October 2020 (2019: \$42.8m). The benefits mostly relate to arrangements put in place to facilitate the acquisition of the HPE Software business.

US foreign inclusion income of \$20.4m arising in the year ended 31 October 2020 (2019: \$43.7m) is largely driven by new US tax legislation introduced as part of US tax reforms in 2018.

The Group recognised a net overall charge in respect of share options due to deferred tax credits arising on options held at the balance sheet date being lower than the current tax charge because of the terms of the options.

The expenses not deductible and other permanent differences charge of \$41.2m (2019: \$26.2m) included \$4.6m in relation to uncertain tax positions and \$6.5m related to irrecoverable withholding tax.

The Group realised a net charge in relation to the true-up of prior period, current and deferred tax estimates of \$18.5m for the year ended 31 October 2020 (2019: \$10.8m credit).

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

7 Taxation continued

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 changes President Biden will seek to introduce and global tax reform as governments respond to COVID-19, the OECD's Base Erosion and Profit Shifting project and the consequences of Brexit.

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. The UK government is required to start collection proceedings and on 5 February 2021, State Aid charging notices (excluding interest) were received from HM Revenue and Customs totalling \$45.2m and will be settled by the Group within 30 days. 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. 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.

B Current tax receivables

	31 October 2020 \$m	31 October 2019 \$m
Corporation tax	45.3	40.1

The current tax receivable at 31 October 2020 is \$45.3m (2019: \$40.1m).

C Current tax liabilities

	31 October 2020 \$m	31 October 2019 \$m
Corporation tax	150.1	104.0

The current tax creditor at 31 October 2020 is \$150.1m (2019: \$104.0m). The current tax creditor includes liabilities in respect of uncertain tax positions, net of overpayments.

Within current tax liabilities is \$84.8m (2019: \$78.3m) in respect of the Group income tax reserve, the majority of which relates to the risk of challenge from the local tax authorities. Aside from the impact of any change in judgement as the State Aid and UK tax authority challenges progress, which is discussed above, the Group does not anticipate that there will be any material change to these provisions in the next 12 months. 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.

D Non-current tax liabilities

	31 October 2020 \$m	31 October 2019 \$m
Corporation tax	102.7	119.7

The non-current tax creditor is \$102.7m (2019: \$119.7m). The non-current creditor reflects the US transition tax payable more than 12 months after the balance sheet date.

7 Taxation continued

E Deferred tax

	Note	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Net Deferred tax liability			
At 1 November		(987.1)	(1,170.5)
Credited to consolidated statement of comprehensive income:		147.9	188.7
– Continuing operations	7A	149.0	156.4
– Discontinued operation		(1.1)	32.3
Debited directly to equity in relation to share options		(1.5)	(7.6)
(Debited)/credited to other comprehensive income:		(2.5)	27.0
Impact of adoption of IFRS 9		–	4.4
Impact of adoption of IFRS 15		–	(17.3)
Impact of adoption of IFRS 16		1.8	–
Foreign exchange adjustment		0.3	(11.8)
At 31 October		(841.1)	(987.1)

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 fixed 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								–

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

7 Taxation continued

	Tax losses and interest restrictions \$m	Share-based payments \$m	Deferred revenue \$m	Prepaid royalty \$m	Tax credits \$m	Intangible fixed assets \$m	Other temporary differences \$m	Total \$m
At 1 November 2018	26.6	17.4	119.9	41.9	29.7	3.0	70.8	309.3
Credited/(charged) to consolidated statement of comprehensive income – continuing operations	73.9	(5.1)	(12.0)	(41.9)	(22.9)	(3.0)	12.7	1.7
Credited/(charged) to consolidated statement of comprehensive income – discontinued operation	–	–	0.7	–	–	–	(12.3)	(11.6)
Credited directly to equity	–	(7.6)	–	–	–	–	–	(7.6)
Debited to other comprehensive income	–	–	–	–	–	–	13.0	13.0
Foreign exchange adjustment	–	0.3	–	–	–	–	–	0.3
Impact of adoption of IFRS 9	–	–	–	–	–	–	4.4	4.4
Subtotal	100.5	5.0	108.6	–	6.8	–	88.6	309.5
Jurisdictional offsetting								(309.5)
At 31 October 2019								–

A deferred tax charge to equity of \$1.5m (2019: \$7.6m) arises during the year in relation to share-based payments. The change is primarily due to the decrease in the Group's share price during the year ended 31 October 2020.

The deferred tax asset relating to other temporary differences of \$69.7m as at 31 October 2020 (2019: \$88.6m) has decreased during the year primarily due to the reversal of various short-term temporary 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.

Deferred tax assets

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: 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

	Expiration: 2020 \$m	2021 \$m	2022 \$m	2023 \$m	2024 \$m	Thereafter \$m	No expiry \$m	Total \$m
At 31 October 2019								
Type of temporary difference:								
Losses	56.3	99.2	40.1	33.6	41.8	2,191.6	50.7	2,513.3
Credits	3.5	3.6	2.1	1.3	0.7	1.7	28.9	41.8
Other	–	–	–	–	–	–	23.9	23.9
Total	59.8	102.8	42.2	34.9	42.5	2,193.3	103.5	2,579.0

7 Taxation continued

Deferred tax liabilities

	Intangible fixed 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)

	Intangible fixed assets \$m	Other temporary differences \$m	Total \$m
At 1 November 2018	(1,448.5)	(31.3)	(1,479.8)
Charged to Consolidated statement of comprehensive income – continuing operations	155.5	(0.8)	154.7
Charged to Consolidated statement of comprehensive income – discontinued operation	34.0	9.9	43.9
Credited to other comprehensive income – continuing operations	14.0	–	14.0
Impact of adoption of IFRS 15	–	(17.3)	(17.3)
Foreign exchange adjustment	(12.1)	–	(12.1)
Subtotal	(1,257.1)	(39.5)	(1,296.6)
Jurisdictional offsetting			309.5
At 31 October 2019			(987.1)

No deferred tax liability is recognised in respect of temporary differences associated with investments in subsidiaries and branches 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 2020 \$m	Year ended 31 October 2019 \$m
Equity – ordinary		
Final paid nil cents (2019: 58.33 cents) per ordinary share	–	240.7
Interim paid nil cents (2019: 58.33 cents) per ordinary share	–	198.5
	–	439.2

On 18 March 2020, given the increased macro-economic uncertainty as a result of the COVID-19 pandemic, as a precautionary measure, the directors withdrew their recommendation for the payment of a final dividend of 58.33 cents per share in respect of the year ended 31 October 2019. Similarly, no dividend was paid in respect of the six months to 30 April 2020.

The directors announced a final dividend of 15.5 cents per share payable on 15 April 2021 to shareholders who are registered at 12 March 2021. This final dividend, amounting to \$51.9m, has not been recognised as a liability as at 31 October 2020.

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

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 2020	Year ended 31 October 2019
Earnings (\$m)		
Loss for the year from continuing operations	(2,974.6)	(18.1)
Profit for the year from discontinued operation	5.1	1,487.2
	(2,969.5)	1,469.1
Number of shares (m)		
Weighted average number of shares	335.7	378.1
Dilutive effects of shares	–	4.1
	335.7	382.2
Earnings per share		
Basic earnings per share (cents)		
Continuing operations	(886.15)	(4.87)
Discontinued operation	1.52	393.37
Total Basic earnings per share	(884.63)	388.50
Diluted earnings per share (cents)		
Continuing operations ¹	(886.15)	(4.87)
Discontinued operation	1.52	389.16
Total Diluted earnings per share¹	(884.63)	384.35
Basic earnings per share (pence)		
Continuing operations	(693.45)	(3.82)
Discontinued operation	1.19	308.89
Total Basic earnings per share	(692.26)	305.07
Diluted earnings per share (pence)		
Continuing operations ¹	(693.45)	(3.82)
Discontinued operation	1.19	305.59
Total Diluted earnings per share¹	(692.26)	301.81
Earnings attributable to ordinary shareholders		
From continuing operations	(2,974.6)	(18.1)
Excluding non-controlling interests	–	(0.3)
Loss for the year from continuing operations	(2,974.6)	(18.4)
From discontinued operation	5.1	1,487.2
	(2,969.5)	1,468.8
Average exchange rate	\$1.28/£1	\$1.27/£1

¹ The Group reported a loss from continuing and discontinued operations attributable to the ordinary equity shareholders of the Company for the year ended 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).

10 Goodwill

	Note	31 October 2020 \$m	31 October 2019 \$m
Cost			
At 1 November		6,671.3	6,805.0
Acquisitions	33	1.4	26.8
Effects of movements in exchange rates		(38.1)	(160.5)
At 31 October		6,634.6	6,671.3
Impairment losses			
At 1 November		–	–
Impairment charge for the year		(2,799.2)	–
At 31 October		(2,799.2)	–
Net book value		3,835.4	6,671.3
A segment-level summary of the goodwill allocation is presented below:			
Micro Focus		3,835.4	6,671.3

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 2020, related to the acquisition of Atar Labs of \$1.4m (note 33), 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.

The goodwill arising in the year ended 31 October 2019, related to the acquisition of Intersect Software Inc. of \$26.8m (note 33), 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.

Impairment test

Impairment of goodwill is tested annually, 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. It was determined that the adverse impact of COVID-19 on the global economy and the challenging trading environment that is likely to result from this was an indicator of potential impairment as at 30 April 2020. Therefore, an additional impairment test was performed at this date. As a result, for the six months ended 30 April 2020, the Group recorded an impairment charge of \$0.9bn (2019: \$nil). The impairment charge related solely to goodwill and was recognised in administrative expenses as an exceptional cost in the Consolidated Statement of Comprehensive Income.

The Group then performed the impairment test at 31 October 2020 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. An additional impairment charge of \$1.9bn has been recognised resulting from the year end impairment test. The total impairment charge recorded in the year ended 31 October 2020 was \$2.8bn and has been recognised in administrative expenses as an exceptional cost in the Consolidated Statement of Comprehensive Income. The recoverable amount of the Micro Focus CGU is \$9.3bn, based on value in use calculations. The impairment charge relates solely to goodwill.

The recoverable amount of the Micro Focus CGU is determined based on its Value In Use ("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 discounted board approved forecasts for the five years. 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 the estimated cash inflow and outflows arising from improving or enhancing the performance of existing assets until the cash flow is incurred. Therefore, the VIU calculation excludes the cash outflows and resulting cash inflow arising from certain investment decisions made in the Strategic Review which are included within the board approved forecasts. In addition, the VIU calculation excludes the cost saving impacts, which are included in the board approved forecasts, resulting from restructuring activities which have not commenced.

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

10 Goodwill continued

The impairment charge recognised in the Micro Focus CGU primarily reflects our trading performance and the macro-economic environment when compared to the original projections produced at the time of the HPE Software acquisition, which was exacerbated by the impacts of the COVID-19 pandemic. Our assumption of a moderation in the revenue decline and delivery of flat to low single digit growth from the Strategic & Operational Review of February 2020 remains valid in the board approved five-year forecasts; although as the VIU calculation excludes the cash inflows resulting from a number of the investment decisions made in the Strategic review the VIU calculation has a delay in the achievement of flat growth versus the board approved five-year forecasts. Therefore as disclosed below, over the five-year forecast period, this has resulted in a reduction in the range of average annual revenue growth rates by product group.

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 2020	31 October 2019
Long-term cash flow growth rate for terminal value	1.0%	1.0%
Pre-tax discount rate ¹	10.9%	10.3%
Average annual revenue growth rate by product group ²	(8.1)% to 2.2%	(2.4)% to 0.8%

1 This equates to a post-tax discount rate of 8.2% (2019: 8.0%).

2 Medium-term annual revenue growth rate by product group was considered the key assumption in 2019 with a range of (2.0)% to 2.1% disclosed. Given the future macro-economic uncertainty caused by the on-going pandemic at the 30 April 2020 impairment test, the Group extended the key assumption going forward to cover the five-year forecasts used for impairment testing. The key assumption for 2019 has been restated to be presented on a consistent basis with 2020.

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 that the Group's cost base is flexible and could quickly respond to market changes as shown by our responses to the COVID-19 pandemic where margins have been largely maintained during the year. 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 and therefore leave all other assumptions unchanged. The headroom and impairments disclosed below are on the VIU calculation, which, as explained above, excludes the cash inflow and outflow assumptions arising from the investment decisions made in the Strategic Review where these have not been fully implemented. The directors considered whether the range of reasonably possible changes in key assumptions should be widened as a result of the increased uncertainty resulting from the COVID-19 outbreak. However, the directors concluded this was unnecessary as the assumptions are either long-term (i.e. five-year revenue growth and long-term growth) and therefore exceed the period expected to be impacted by COVID-19 or in the case of the discount rate, have not seen significant volatility due to COVID-19.

The directors have assessed that a reasonably possible change in the discount rate is an absolute movement of 1.0% (2019: 2.0%). The directors have considered the sensitivity of the discount rate in light of the impact of the significant economic uncertainty resulting from COVID-19 has had on the financial inputs used in determining the discount rate and have concluded that reducing the reasonably possible change from 2% to 1% is appropriate in light of the limited volatility seen since 2018. An increase in the discount rate of 1% to 11.9% would increase the impairment recognised at 31 October 2020 by \$0.8bn. A decrease in the discount rate of 1% to 9.9% would decrease the impairment recognised at 31 October 2020 by \$1.0bn.

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%. A decrease in the average annual revenue growth rate by product group of 2% would increase the impairment recognised at 31 October 2020 by \$2.0bn. This sensitivity has been presented exclusive of mitigating actions, such as cost saving that would be taken in such a scenario and which would at least be partially offset such a reduction in cash flows.

The directors have assessed that a reasonably possible change in the long-term growth rate is an increase or decrease of 0.5% to 1.5% or 0.5% respectively (2019: not reasonably possible). An increase of 0.5% would decrease the impairment recognised at 31 October 2020 by \$0.3bn. A decrease of 0.5% would increase the impairment recognised at 31 October 2020 by \$0.3bn.

11 Other intangible assets

	Note	Purchased software \$m	Product development costs \$m	Purchased intangibles			Lease contracts \$m	Total \$m
				Technology \$m	Trade names \$m	Customer relationships \$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	33	–	–	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.

	Note	Purchased software \$m	Product development costs \$m	Purchased intangibles			Lease contracts \$m	Total \$m
				Technology \$m	Trade names \$m	Customer relationships \$m		
Cost								
At 1 November 2018		141.1	259.1	2,158.5	267.7	5,377.2	15.0	8,218.6
Acquisitions – Intersect Software Inc	33	–	–	44.5	4.2	12.5	–	61.2
Additions		12.3	16.5	–	–	–	–	28.8
Additions – external consultants		–	0.5	–	–	–	–	0.5
Disposals		(7.4)	(19.1)	–	–	–	–	(26.5)
Effects of movements in exchange rates		0.7	–	(24.4)	(4.6)	(66.4)	(0.1)	(94.8)
At 31 October 2019		146.7	257.0	2,178.6	267.3	5,323.3	14.9	8,187.8
Accumulated amortisation								
At 1 November 2018		50.1	206.7	478.9	48.9	801.5	3.2	1,589.3
Amortisation charge for the year		34.1	26.7	200.1	20.9	424.8	9.9	716.5
Disposals		(7.4)	(19.1)	–	–	–	–	(26.5)
Effects of movements in exchange rates		0.1	–	(10.1)	(1.8)	(22.0)	–	(33.8)
At 31 October 2019		76.9	214.3	668.9	68.0	1,204.3	13.1	2,245.5
Net book amount at 31 October 2019		69.8	42.7	1,509.7	199.3	4,119.0	1.8	5,942.3
Net book amount at 31 October 2018		91.0	52.4	1,679.6	218.8	4,575.7	11.8	6,629.3

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

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 \$72.5m (2019: \$29.3m) was made in the year ended 31 October 2020, including \$17.0m in respect of development costs and \$55.5m of purchased software primarily related to the development of the Group's single IT platform.

The acquisition of Atar Labs in the year ended 31 October 2020 gave rise to an addition of \$6.6m to purchased intangibles (note 33). The acquisition of Intersect Software Inc. in the year ended 31 October 2019 gave rise to an addition of \$61.2m to purchased intangibles (note 33).

Of the \$17.0m of additions to product development costs, \$16.2m (2019: \$16.5m) relates to internal product development costs and \$0.8m (2019: \$0.5m) to external consultants' product development costs.

At 31 October 2020, the unamortised lives of technology assets were in the range of two to nine years, customer relationships in the range of one to 12 years and trade names in the range of four to 16 years. The HPE Software business acquired purchased intangibles, the largest component of the Group, have another nine years' life remaining for technology (carrying value \$1.2bn) and up to 12 years' life remaining for customer relationships purchased intangibles (carrying value \$3.5bn).

Included in the consolidated statement of comprehensive income was:

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
For continuing operations:		
Cost of sales:		
– amortisation of product development costs	23.5	26.7
– amortisation of acquired purchased technology	190.2	200.1
Selling and distribution:		
– amortisation of acquired purchased trade names and customer relationships (2019: amortisation of acquired purchased trade names, customer relationships and lease contracts)	413.9	455.6
Administrative expenses:		
– amortisation of purchased software	46.5	34.1
Total amortisation charge for the year	674.1	716.5
Research and development:		
– capitalisation of product development costs	16.2	16.5

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 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

	Note	Freehold land and buildings \$m	Leasehold improvements \$m	Computer equipment \$m	Fixtures and fittings \$m	Total \$m
Cost						
At 1 November 2018		14.3	79.2	103.3	29.1	225.9
Acquisition – Interset Software Inc.	33	–	–	0.2	0.1	0.3
Additions		–	37.7	24.6	3.0	65.3
Disposals		–	(3.6)	(3.0)	–	(6.6)
Reclassification		–	–	19.8	(19.8)	–
Effects of movements in exchange rates		(0.3)	0.2	(0.5)	0.8	0.2
At 31 October 2019		14.0	113.5	144.4	13.2	285.1
Accumulated depreciation						
At 1 November 2018		2.2	34.3	36.6	8.5	81.6
Charge for the year		0.3	18.8	46.1	1.3	66.5
Disposals		–	(1.7)	(1.3)	–	(3.0)
Reclassification		–	–	4.6	(4.6)	–
Effects of movements in exchange rates		(0.3)	0.3	(0.9)	0.4	(0.5)
At 31 October 2019		2.2	51.7	85.1	5.6	144.6
Net book amount at 31 October 2019		11.8	61.8	59.3	7.6	140.5
Net book amount at 1 November 2018		12.1	44.9	66.7	20.6	144.3

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 (2019: \$nil) relates to amounts received in relation to the reimbursement of leasehold improvement costs.

Depreciation for the year ended 31 October 2020 of \$42.0m (2019: \$66.5m) is included within administrative expenses and cost of sales in the Consolidated statement of comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

13 Other non-current assets

	31 October 2020 \$m	31 October 2019 \$m
Employee benefit deposit	17.9	33.4
Long-term rent deposits	5.3	4.9
Long-term prepaid expenses	2.3	4.5
Net investment in finance sub-leases	5.5	–
Other	0.8	1.2
	31.8	44.0

Employee benefit deposits are held in Israel (\$12.8m), Italy (\$2.4m) and the Netherlands (\$2.7m) (2019: Germany \$16.4m, Israel \$11.9m, Italy \$2.4m, and the Netherlands \$2.7m). Employers in Italy and Israel are required by law to 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. Certain employee benefit liabilities in Germany and the related benefit deposits were transferred to defined benefit obligations in the year (note 22).

14 Trade and other receivables

	31 October 2020 \$m	31 October 2019 \$m
Trade receivables	628.4	877.9
Loss allowance	(17.9)	(42.4)
Trade receivables net	610.5	835.5
Prepayments	49.1	53.9
Other receivables	38.1	87.2
Contract assets	33.7	56.3
	731.4	1,032.9

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 2020 and 31 October 2019, the carrying amount approximates the fair value of the instrument due to the short-term nature of the instrument. As at 31 October 2020, a loss allowance of \$17.9m (2019: \$42.4m) 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 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
31 October 2019:					
Gross trade receivables	696.0	110.1	8.9	62.9	877.9
Loss allowance	(8.9)	(3.8)	(1.5)	(28.2)	(42.4)
Net trade receivables	687.1	106.3	7.4	34.7	835.5

14 Trade and other receivables continued

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

	31 October 2020 \$m	31 October 2019 \$m
At 1 November (calculated under IAS 39)	42.4	41.9
Accounting policy change (IFRS 9 – recognised against retained earnings on 1 November 2018)	–	20.0
Revised 1 November	42.4	61.9
Loss allowance (releases)/provided in the year	(4.8)	16.0
Receivables written off as uncollectable	(19.7)	(35.5)
At 31 October	17.9	42.4

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.

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 the billing of one contract for \$20m on which revenue had been recognised in the year ended 31 October 2019 but invoicing occurred in the year ended 31 October 2020. Excluding this contract, 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 2020 \$m	31 October 2019 \$m
Current	27.9	19.3
Non-current	35.7	31.5
	63.6	50.8

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 \$16.1m (2019: \$10.2m).

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 2020 \$m	31 October 2019 \$m
Asset recognised from costs incurred to acquire a contract	29.1	31.4
Amortisation and impairment loss recognised as cost of providing services during the year	(16.1)	(10.2)

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

16 Cash and cash equivalents

	31 October 2020 \$m	31 October 2019 \$m
Cash at bank and in hand	374.3	292.2
Short-term bank deposits	362.9	63.5
Cash and cash equivalents	737.2	355.7

At 31 October 2020 and 31 October 2019, 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:

	31 October 2020 \$m	31 October 2019 \$m
S&P/Moody's/Fitch rating:		
AAA	358.4	69.8
AA-	27.2	87.6
A+	318.6	144.4
A	9.9	23.4
A-	9.1	14.4
BBB+	2.4	1.7
BBB	2.7	4.5
BBB-	0.4	0.8
BB+	0.6	0.8
BB	1.1	0.3
BB-	4.3	6.3
B+	0.2	0.2
CCC+	1.1	–
C-	1.2	–
Not Rated	–	1.5
	737.2	355.7

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 2020 \$m	31 October 2019 \$m
Trade payables	71.5	105.0
Trade and social security	84.3	80.7
Accruals	347.7	425.3
	503.5	611.0

At 31 October 2020 and at 31 October 2019, the carrying amount approximates to the fair value. At 31 October 2020 accruals include vacation and payroll – \$82.8m (2019: \$88.4m), commission and employee bonuses – \$90.5m (2019: \$74.9m), integration and divestiture expenses – \$30.1m (2019: \$26.4m) and consulting and audit fees – \$23.8m (2019: \$36.9m).

18 Borrowings

	31 October 2020 \$m	31 October 2019 \$m
Bank loan secured	4,733.2	4,775.0
Unamortised prepaid facility arrangement fees and original issue discounts	(92.9)	(104.3)
Carrying value	4,640.3	4,670.7

18 Borrowings continued

	31 October 2020			31 October 2019		
	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	34.2	(12.8)	21.4	–	–	–
Non-current liabilities	4,699.0	(80.1)	4,618.9	4,775.0	(104.3)	4,670.7
	4,733.2	(92.9)	4,640.3	4,775.0	(104.3)	4,670.7

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 amortised between three and six years. The remaining unamortised fees of \$92.9m have a remaining period of amortisation of three years. Long-term borrowings with a drawn value of \$4,733.2m before unamortised prepaid facility fees have a fair value estimate of \$4,535.1m based on trading prices as at 31 October 2020 (2019: \$4,686.0m).

Short-term borrowing of \$34.2m represents capital repayments falling due on the Group borrowings within one year less unamortised prepaid facility arrangement fees and original issue discounts of \$12.8m.

On 29 May 2020, the Group announced that it had successfully priced and allocated a €600.0m and a \$650m senior secured term loan. The new five-year facilities, along with \$143.0m of existing cash reserves, were used by the Group to fully refinance its existing senior secured term loan B due November 2021 and pay associated fees and expenses.

Prepaid facility fees of \$12.2m, which were still to be amortised, in relation to the senior secured term loan B due November 2021 were fully expensed in June 2020 with the cost recorded within finance costs in the Consolidated statement of comprehensive income. Fees of \$44m relating to the new senior secured term loans were capitalised in June 2020.

On 3 September 2020, the Group announced that it had successfully extended its revolving credit facility and reduced the size from \$500m to \$350m. The Group also confirmed that it had repaid the \$175.0m previously drawn during the year as a precautionary measure in response to the COVID-19 outbreak, resulting in a balance outstanding of \$nil. These actions resulted in a reduction in the Group's gross debt and the borrowing costs associated with the revolving credit facility. The remaining prepaid facility fees of \$4.5m to be amortised were expensed in the period and new fees of \$1.8m were capitalised for the new arrangement.

Following these refinancing activities, the Group's earliest debt maturity is in June 2024.

The following facilities were drawn as at 31 October 2020:

- The €600m (equivalent to \$700.3m) 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 \$368.2m 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 \$650.0m senior secured seven-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 \$2,486.3m 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 €452.8m (equivalent to \$528.4m) 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 at 31 October 2020:

- A senior secured revolving credit facility of \$350.0m (\$nil drawn), ("Revolving Facility"), with an interest rate of 3.50% above LIBOR on amounts drawn (and 0.5% on amounts undrawn) thereunder (subject to a LIBOR floor of 0.00%).

At 31 October 2020, \$nil of the Revolving Facility was drawn (31 October 2019: \$nil), together with \$4,733.2m of term loans giving gross debt of \$4,733.2m drawn.

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

18 Borrowings continued

There are no financial covenants on the Group's term-loan borrowing facilities. The Revolving Facility is subject to a single financial covenant, being an aggregate net leverage covenant only in circumstances where more than 35% of the Revolving Facility is outstanding at a fiscal quarter end. Throughout the year the applicable covenant threshold was 4.35x, however no test was applicable at 31 October 2020 or any previous test date, as the facility was not drawn in excess of the 35% threshold. This covenant is not expected to inhibit the Group's future operations or funding plans.

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. In addition, the borrowing arrangements require additional debt repayments where the Group's net leverage exceeds 3.00x, when 25% of excess cash flow for the prior year is required to be paid, and 3.30x, when 50% of excess cash flow for the prior year is required to be paid.

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 2018	–	1,503.8	382.1	–	2,580.5	530.5	–	4,996.9
Repayments	–	(89.1)	(13.9)	–	(94.2)	(15.4)	–	(212.6)
Foreign exchange	–	–	–	–	–	(9.3)	–	(9.3)
At 31 October 2019	–	1,414.7	368.2	–	2,486.3	505.8	–	4,775.0
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

Maturity of borrowings

The maturity profile of the anticipated future cash flows including interest in relation to the Group's borrowings on an undiscounted basis, which therefore, differs from both the carrying value and fair value, is as follows:

As at 31 October 2020:

	term loan B-1 EUR \$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
Within one year	49.0	11.0	50.3	74.6	16.9	1.8	203.6
In one to two years	52.6	12.4	53.5	82.7	21.5	1.5	224.2
In two to three years	47.4	14.6	48.6	98.4	21.3	–	230.3
In three to four years	46.6	369.7	47.8	2,496.5	527.1	–	3,487.7
In four to five years	642.8	–	599.2	–	–	–	1,242.0
At 31 October 2020	838.4	407.7	799.4	2,752.2	586.8	3.3	5,387.8

	Less than 1 year \$m	1-3 years \$m	3-5 years \$m	Total \$m
Debt principal repayment	34.2	128.2	4,570.8	4,733.2
Interest payment on debt	169.4	326.3	158.9	654.6
At 31 October 2020	203.6	454.5	4,729.7	5,387.8

18 Borrowings continued

As at 31 October 2019:

	term loan B-2 \$m	term loan B-3 \$m	Seattle Spinco term loan B \$m	Euro term loan B \$m	Revolving Facility \$m	Total \$m
Within one year	61.6	17.0	114.6	14.1	1.9	209.2
In one to two years	61.5	16.9	114.3	14.6	1.9	209.2
In two to three years	1,419.8	18.5	124.1	19.3	1.6	1,583.3
In three to four years	–	20.6	139.4	19.1	–	179.1
In four to five years	–	373.5	2,522.6	503.6	–	3,399.7
At 31 October 2019	1,542.9	446.5	3,015.0	570.7	5.4	5,580.5

	Less than 1 year \$m	1-3 years \$m	3-5 years \$m	Total \$m
Debt principal repayment	–	1,431.7	3,343.3	4,775.0
Interest payment on debt	209.2	360.8	235.5	805.5
At 31 October 2019	209.2	1,792.5	3,578.8	5,580.5

Assets pledged as collateral

An 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

As disclosed in I "Significant Accounting policies", W "Adoption of new and revised International Financial Reporting Standards" the Group applied IFRS 16 "Leases" using the modified retrospective approach and therefore comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 14. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed alongside the IFRS 16 in I "Significant Accounting policies", R "Leases"; key differences between IFRS 16 and IAS 17 and IFRIC 4 are described in I "Significant Accounting policies", W "Adoption of new and revised International Financial Reporting Standards".

The Group enters into leasing arrangements in the normal course of its business including:

- Office space (included in "Leasehold land and buildings");
- Data centers (included in "Leasehold land and buildings");
- Vehicles (included in "Other"); and
- Computer equipment.

Computer equipment leases were previously classified as finance leases under IAS 17, all other leases were previously categorised as operating leases under IAS 17.

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.

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 lease on this facility expires in 2024, with an option to extend for a further three, five-year periods. The Group's current annual rent under this lease is \$8.4m. Since 1 March 2019, part of the property has been sublet. Current annual sub-lease income is \$1.1m. The other 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 \$4.7m. The Group is currently not utilising one floor of this facility and the related right-of-use assets has been tested for impairment with a partial impairment recorded.

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

19 Leases continued

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 \$42.0m.

	Leasehold land and buildings \$m	Computer equipment \$m	Other \$m	Total \$m
Net book value at 31 October 2020	180.1	20.4	6.7	207.2
Net book value at 1 November 2019	223.6	20.8	9.0	253.4
Depreciation charge for the year ended 31 October 2020	60.3	11.2	5.4	76.9

Amounts recognised in the statement of comprehensive income:

	Note	Year ended 31 October 2020 Under IFRS 16 \$m	Year ended 31 October 2019 Under IAS 17 \$m
Under IFRS 16:			
Interest on lease liabilities	6	13.2	—
Depreciation of right-of-use assets		76.9	—
Impairment of right-of-use assets*		5.9	—
Income from sub-leasing right-of-use assets		0.4	—
Under IAS 17:			
Interest on lease liabilities	6	—	2.0
Depreciation of lease assets		—	13.9
Lease expense		—	65.9
Income from sub-leasing right-of-use assets		—	1.0

* 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 \$5.9m was recognised in the year. 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 2020 Under IFRS 16 \$m	Year ended 31 October 2019 Under IAS 17 \$m
Interest payments on lease liabilities	13.2	2.0
Payment for lease liabilities (2019: payment for finance lease liabilities)	80.1	12.9
Total cash outflow for leases	93.3	14.9

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. The Group policy on assessing and reassessing whether it is reasonably certain that the optional period will be included in the lease term is described in "II Critical accounting estimates, assumptions and judgements".

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.

19 Leases continued

The Group's cash outflow for leases in the year ended 31 October 2020 was \$93.3m. Leases with annual cash outflows during the year ended 31 October 2020 of \$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, below, 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	\$m
IFRS 16 adoption		269.8
Transfer from Finance lease liability		23.5
Balance at 1 November 2019		293.3
Additions		41.6
Disposals		(0.2)
Payments		(93.3)
Interest	6	13.2
Foreign exchange		(4.2)
Balance at 31 October 2020		250.4
Included within:		
Current liabilities		82.2
Non-current liabilities		168.2
Total		250.4

The maturity profile of the Group's lease obligations is as follows:

	\$m
Within one year	82.2
In one to two years	69.5
In two to three years	43.3
In three to five years	49.3
In more than five years	36.3
At 31 October 2020	280.6
Impact of discounting	(30.2)
Total lease obligations	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 \$5.5m as at 31 October 2020 is included in note 13 "Other non-current assets". The short-term element of net investments in leases of \$2.1m as at 31 October 2020 is included in other receivables in note 14 "Trade and other receivables". Under IAS 17, the Group did not recognise any net investment in leases.

Operating leases

The Group has six lease arrangements classified as operating leases. Rental income recognised by the Group for the year ended 31 October 2020 was \$0.4m (2019: \$1.0m).

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

20 Contract liabilities

	31 October 2020 \$m	31 October 2019 \$m
Current	981.4	1,045.9
Non-current	117.2	149.9
	1,098.6	1,195.8

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 in future years. Contract liabilities primarily relates to undelivered maintenance and subscription services on billed contracts.

Contract liabilities as at 31 October 2020 were \$1,098.6m (2019: \$1,195.8m). The movement in contract liabilities in the year mainly results from new amounts being deferred, where the billing is 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 2019 was \$1,045.9m (2019: \$1,134.7m).

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 years. The remaining revenue allocated to future performance obligations was \$1,598.1m as at 31 October 2020 (2019: \$1,468.9m), of which approximately 77% (2019: 80%) 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

	31 October 2020 \$m	31 October 2019 \$m
Onerous leases and dilapidations	16.9	34.2
Restructuring	30.8	36.4
Legal	9.7	5.7
Other	14.8	2.1
Total	72.2	78.4
Current	49.7	29.3
Non-current	22.5	49.1
Total	72.2	78.4

21 Provisions continued

	Note	Onerous contracts and dilapidations \$m	Restructuring \$m	Legal \$m	Other \$m	Total \$m
At 31 October 2019		34.2	36.4	5.7	2.1	78.4
Adoption of IFRS 16 ¹		(16.7)	–	–	–	(16.7)
At 1 November 2019		17.5	36.4	5.7	2.1	61.7
Acquisitions – ATAR Labs	33	–	0.4	–	–	0.4
Additional provision in the year		3.2	34.7	5.4	12.7	56.0
Released		(3.1)	(5.9)	(0.7)	–	(9.7)
Utilisation of provision		(1.0)	(35.7)	(0.8)	–	(37.5)
Effects of movements in exchange rates		0.3	0.9	0.1	–	1.3
At 31 October 2020		16.9	30.8	9.7	14.8	72.2
Current		5.0	20.2	9.7	14.8	49.7
Non-current		11.9	10.6	–	–	22.5
Total		16.9	30.8	9.7	14.8	72.2

1 As described in I Significant Accounting Policies W "Adoption of new and revised International Financial Reporting Standards" onerous lease provisions recognised at 31 October 2019 have been recorded as an impairment against the right-of-use assets recognised on adoption of IFRS 16.

	Note	Onerous contracts and dilapidations \$m	Restructuring \$m	Legal \$m	Other \$m	Total \$m
At 1 November 2018		35.1	50.7	7.0	–	92.8
Acquisitions – Intersect Software Inc.	33	–	–	–	0.7	0.7
Additional provision in the year		19.2	49.4	5.4	2.1	76.1
Released		(7.4)	(19.8)	(6.2)	–	(33.4)
Utilisation of provision		(13.9)	(43.5)	(0.5)	(0.7)	(58.6)
Unwinding of discount		1.1	–	–	–	1.1
Effects of movements in exchange rates		0.1	(0.4)	–	–	(0.3)
At 31 October 2019		34.2	36.4	5.7	2.1	78.4
Current		9.5	12.0	5.7	2.1	29.3
Non-current		24.7	24.4	–	–	49.1
Total		34.2	36.4	5.7	2.1	78.4

Onerous contracts and dilapidations provisions

The onerous contracts relate to onerous non-rental related property costs and dilapidations provision relates to obligations to restore leased Group properties. These positions are expected to be fully utilised within eight years. An additional provision of \$3.2m was recorded in the year ended 31 October 2020 (2019: \$19.2m), mainly across European and US sites, as the property portfolio was reassessed, including planned site vacations and 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 24 months. Restructuring costs are reported within exceptional costs (note 4).

Legal provisions

Legal provisions include the directors' best estimate of the likely outflow of economic benefits associated with on-going legal matters. Further information on legal matters can be found in note 30, contingent liabilities.

Other provisions

Other provisions at 31 October 2020 relate to interest on uncertain tax provisions of \$7.6m (2019: \$2.1m), a \$2.8m sales tax provision (2019: \$nil) and a provision for estimated unclaimed property exposure pertaining to accounts payable of \$4.4m (2019: \$nil).

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For the year ended 31 October 2020 continued

22 Pension commitments

a) Defined contribution

The Group has established a number of pension schemes around the world covering many of its employees. The principal funds are those in the US, UK and Germany. These were funded schemes of the defined contribution type.

Pension costs for defined contributions schemes are as follows:

		Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Continuing operations	Note		
Defined contribution schemes	29	31.2	32.7

b) Defined benefit

	31 October 2020 \$m	31 October 2019 \$m
Within non-current assets:		
Long-term pension assets	18.2	17.1
Within non-current liabilities:		
Retirement benefit obligations	(155.0)	(141.4)

As of 31 October 2020, there are a total of 33 defined benefit plans in 10 countries around the world (2019: 30). The highest concentration of the pension schemes are in Germany, where the Group sponsors 12 separate schemes that comprise over 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 in the form of a guaranteed level of pension payable for life in the case of retirement, disability and death. The level of benefits provided depends not only on the final salary but also on member's length of service, social security ceiling and other factors. 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 a 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 and other types of statutory plans that provide a one-time benefit at termination. 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 12 plans outside of Germany that are open to new members, most of which are termination or retirement indemnity plans or statutory plans providing a one-time benefit at termination, retirement, death or disability. 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 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 year ended 31 October 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.

22 Pension commitments continued

The movement on the long-term pension assets is as follows:

	Note	31 October 2020 \$m	31 October 2019 \$m
As at 1 November		17.1	16.7
Reclassification to assets held for sale		–	0.1
Transfer to plan assets		(0.4)	–
Interest on non-plan assets	6	0.2	0.3
Benefits paid		(0.1)	(0.1)
Contributions		0.3	0.3
Included within other comprehensive income:			
– Change in fair value assessment		0.4	0.4
		0.4	0.4
Effects of movements in exchange rates		0.7	(0.6)
As at 31 October		18.2	17.1
Included within other comprehensive income:			
Continuing operations		0.4	0.3
Discontinued operation		–	0.1
		0.4	0.4

The non-plan assets are considered to be Level 3 asset under the fair value hierarchy as of 31 October 2020. 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 2020 (2019: none).

Retirement benefit obligations

The following amounts have been included in the consolidated statement of comprehensive income for defined benefit pension arrangements:

	Note	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Current service charge		10.4	9.0
Charge to operating (loss)/profit	29	10.4	9.0
Current service charge – discontinued operations		–	0.1
Interest on pension scheme liabilities		3.1	4.2
Interest on pension scheme assets		(1.3)	(1.8)
Charge to finance costs	6	1.8	2.4
Total continuing charge to (loss)/profit for the year		12.2	11.5

The contributions for the year ended 31 October 2021 are expected to be broadly in line with the year ended 31 October 2020. 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.

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

22 Pension commitments continued

The following amounts have been recognised as movements in the statement of other comprehensive income:

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Actuarial return on assets excluding amounts included in interest income	1.8	5.9
Re-measurements – actuarial gains/(losses):		
– Demographic	–	(1.6)
– Financial	(0.6)	(38.8)
– Experience	3.0	8.4
	2.4	(32.0)
Reclassification from defined contribution scheme or other assets and liabilities to defined benefit scheme	(4.6)	–
Movement in the year	(0.4)	(26.1)
Continuing operations	(0.4)	(26.2)
Discontinued operation	–	0.1
	(0.4)	(26.1)

The weighted average key assumptions used for the valuation of the schemes were:

	31 October 2020			31 October 2019		
	Germany	Rest of World	Total	Germany	Rest of World	Total
Rate of increase in final pensionable salary	2.50%	3.09%	2.64%	2.50%	3.09%	2.65%
Rate of increase in pension payments	1.50%	1.50%	1.50%	1.75%	1.50%	1.75%
Discount rate	0.79%	1.41%	0.90%	1.09%	1.71%	1.20%
Inflation	1.50%	1.25%	1.47%	1.75%	1.16%	1.69%

During the year ended 31 October 2019, the model used to derive our discount rates was updated to better reflect yields on corporate bonds over the life of our schemes. The key difference in the revised model lies in the extrapolation of yields in the outlying years of the curve and uses AA government bond rates to determine these yields. This change resulted in a decrease in our defined benefit obligation of approximately \$14.0m in the year ended 31 October 2019. The old and revised models are both considered standard models devised by our external consolidating actuary.

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 2020			31 October 2019		
	Germany	Rest of World	Total	Germany	Rest of World	Total
Retiring at age 65 at the end of the reporting year:						
Male	20	22	20	20	20	20
Female	24	25	24	23	23	23
Retiring 15 years after the end of the reporting year:						
Male	22	23	22	22	23	22
Female	26	26	25	25	26	25

22 Pension commitments continued

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 2020			31 October 2019		
	Germany	Rest of World	Total	Germany	Rest of World	Total
Present value of defined benefit obligations	248.4	54.9	303.3	213.5	48.0	261.5
Fair values of plan assets	(119.1)	(29.2)	(148.3)	(92.0)	(28.1)	(120.1)
	129.3	25.7	155.0	121.5	19.9	141.4

The defined benefit obligation has moved as follows:

	31 October 2020								
	Germany			Rest of World			Total		
	Defined benefit obligations \$m	Scheme assets \$m	Retirement benefit obligations \$m	Defined benefit obligations \$m	Scheme assets \$m	Retirement benefit obligations \$m	Defined benefit obligations \$m	Scheme assets \$m	Retirement 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

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

22 Pension commitments continued

	31 October 2019								
	Germany			Rest of World			Total		
	Defined benefit obligations \$m	Scheme assets \$m	Retirement benefit obligations \$m	Defined benefit obligations \$m	Scheme assets \$m	Retirement benefit obligations \$m	Defined benefit obligations \$m	Scheme assets \$m	Retirement benefit obligations \$m
Defined benefit obligations									
At 1 November 2018	173.8	(82.1)	91.7	47.4	(28.7)	18.7	221.2	(110.8)	110.4
Reclassification to assets held for sale	0.3	–	0.3	0.2	(0.2)	–	0.5	(0.2)	0.3
Current service cost	6.0	–	6.0	3.1	–	3.1	9.1	–	9.1
Benefits paid	(0.4)	0.3	(0.1)	(4.2)	4.1	(0.1)	(4.6)	4.4	(0.2)
Contributions by plan participants	1.5	(1.5)	–	0.3	(0.3)	–	1.8	(1.8)	–
Contribution by employer	–	(0.3)	(0.3)	–	(4.2)	(4.2)	–	(4.5)	(4.5)
Interest cost/(income) (note 6)	3.1	(1.5)	1.6	1.1	(0.3)	0.8	4.2	(1.8)	2.4
Included within other comprehensive income:									
Re-measurements – actuarial (gains) and losses:									
– Demographic	1.6	–	1.6	–	–	–	1.6	–	1.6
– Financial	34.0	–	34.0	4.8	–	4.8	38.8	–	38.8
– Experience	(3.2)	–	(3.2)	(5.2)	–	(5.2)	(8.4)	–	(8.4)
Actuarial return on assets excluding amounts included in interest income	–	(8.0)	(8.0)	–	2.1	2.1	–	(5.9)	(5.9)
	32.4	(8.0)	24.4	(0.4)	2.1	1.7	32.0	(5.9)	26.1
Effects of movements in exchange rates	(3.2)	1.1	(2.1)	0.5	(0.6)	(0.1)	(2.7)	0.5	(2.2)
At 31 October 2019	213.5	(92.0)	121.5	48.0	(28.1)	19.9	261.5	(120.1)	141.4

None of the plan assets are represented by financial instruments of the Group. None of the plan assets are occupied or used by the Group. The major categories of the plan assets are as follows:

	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

22 Pension commitments continued

	31 October 2019								
	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	39.8	–	39.8	–	5.5	5.5	39.8	5.5	45.3
– Debt instruments	46.6	–	46.6	3.0	6.0	9.0	49.6	6.0	55.6
– Real estate	–	–	–	–	3.1	3.1	–	3.1	3.1
Cash and cash equivalents	–	–	–	–	1.7	1.7	–	1.7	1.7
Re-insurance contracts with guaranteed interest rates*	–	5.6	5.6	–	–	–	–	5.6	5.6
Other	–	–	–	–	8.8	8.8	–	8.8	8.8
Total	86.4	5.6	92.0	3.0	25.1	28.1	89.4	30.7	120.1

* 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 23 years for Germany and 14 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%	(10.5%)	0.50%	12.1%	0.50%	(6.5%)	0.50%	7.3%
Price inflation/rate of increase in pension payments*	0.25%	3.4%	0.25%	(3.2)%	0.25%	0.9%	0.25%	(0.9)%
Salary growth rate	0.50%	1.1%	0.50%	(1.1)%	0.50%	2.7%	0.50%	(2.8)%
Life expectancy	1 year	3.9%	–	–	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.

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23 Other non-current liabilities

	31 October 2020 \$m	31 October 2019 \$m
Accruals	39.9	50.4
	39.9	50.4

Accruals includes employee benefit liability \$30.6m (2019: \$33.3m) that relates to employee obligations in certain countries and an IT contractual liability \$5.9m (2019: \$6.6m). Certain employee benefit liabilities in Germany and the related benefit deposits were transferred to defined benefit obligations in the year (note 22).

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 facility. Surplus cash in the operating units over and above what is required for working capital needs is transferred to Group treasury. These funds are used to repay bank borrowings or are invested in interest bearing current accounts, time deposits 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 March 2020, given the increased macro-economic uncertainty as a result of the COVID-19 pandemic, as a precautionary measure, the directors withdrew their recommendation for the payment of a final dividend of 58.33 cents per share in respect of the year ended 31 October 2019. Similarly, no dividend was paid in respect of the six months to 30 April 2020. The decision to not pay these dividends has resulted in an increase in available liquidity compared to the payments that would otherwise have been made under the Group's existing dividend policy.

In May 2020, the Group refinanced its \$1,415m term loans maturing in November 2021 and made a voluntary debt repayment of \$143m. In September 2020, the Group refinanced its revolving credit facility and reduced its size from \$500m to \$350m. Following these refinancing activities the Group's earliest debt maturity is in June 2024. The repayment of debt and reduction in size of the revolving credit facility were made following an assessment of potential future performance scenarios, taking into account the current additional macro-economic uncertainties as a result of COVID-19.

The only financial covenant attaching to the Group's borrowing facilities relates to the revolving credit facility, which is subject to an aggregate net leverage covenant only in circumstances where more than 35% of the revolving credit facility is outstanding at a fiscal quarter end. Throughout the year the applicable covenant threshold was 4.35x; however no test was applicable at 31 October 2020 or any previous test date, as the facility was not drawn in excess of the 35% threshold. This covenant is not expected to inhibit the Group's future operations or funding plans.

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.

24 Financial risk management and financial instruments continued

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.

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 and the Chinese Yuan. 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 debt refinancing 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").

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 2020 two net investment hedges totalling €1.05bn have been designated using non-derivative Euro debt instruments to minimise the volatility in shareholders' equity arising from foreign currency translation (there were no net investment hedges as at 31 October 2019).

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 Measures 9 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.

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

24 Financial risk management and financial instruments continued

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.

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 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 over 95% 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 2020 \$m		Fair value Hierarchy 2020/2019	Carrying value 31 October 2019 \$m
Financial assets						
Non-current						
Long-term pension assets	22	FV OCI	18.2	Fair value insurance-based input	Level 3	17.1
Current						
Cash and cash equivalent	16	Amortised cost	737.2	–	–	355.7
Trade and other receivables	14	Amortised cost	648.6	–	–	922.7
Contract assets	14	Amortised cost	33.7	–	–	56.3
			1,437.7			1,351.8
Financial liabilities						
Non-current						
Derivative financial instruments – interest rate swaps ¹	24	FV OCI	77.9	Fair value Bank Institutions	Level 2	36.5
Borrowings (gross) ²	18	Amortised cost	4,699.0	4,535.1	–	4,775.0
Lease obligations	19	Amortised cost	82.2	–	–	11.7
Provisions	21	Amortised cost	22.5	–	–	49.1
Current						
Borrowings (gross) ²	18	Amortised cost	34.2	–	–	–
Lease obligations	19	Amortised cost	168.2	–	–	11.8
Provisions	21	Amortised cost	49.7	–	–	29.3
Trade and other payables – accruals	17	Amortised cost	419.2	–	–	530.3
			5,552.9			5,443.7

1 Derivative interest rate swaps are measured at 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 FVTPL.

2 Borrowings have a carrying value (net of unamortised prepaid facility arrangement fees and original issue discount) of \$4,640.4m (2019: \$4,670.7m). Total borrowings (gross) are shown in this table as \$4,733.2m (2019: \$4,775.0m) for the fair value comparison.

Fair value measurement

For trade and other receivables, cash and cash equivalents, provisions, 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 \$4,640.3m (2019: \$4,670.7m) (note 18 "Borrowings") including unamortised prepaid facility fees and discounts, have a fair value estimate of \$4,535.1m (2019: \$4,686.0m) based on trading prices obtained from external banking providers as at 31 October 2020.

24 Financial risk management and financial instruments continued

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.

The long-term pension assets are considered to be Level 3 assets under the fair value hierarchy as of 31 October 2020. 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 are disclosed in note 22 "Pension 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 2020 \$m	31 October 2019 \$m
Interest rate risk		
Interest rate swaps (receive variable, pay fixed)		
Fair value of Derivative liability (total of 4 swaps)	(77.9)	(36.5)
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)	(41.3)	(122.9)
Change in value of hedging instruments (as above adjusted for impact of credit risk)	(39.9)	(121.9)
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 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 2020, net interest (finance cost) paid for the swaps amounted to \$23.7m. For the life of the swap, net interest paid to date amounted to \$17.2m.

Non-Derivative financial instruments – Designated Euro borrowings

	31 October 2020 \$m	31 October 2019 \$m
Foreign exchange risk		
Notional amounts for Designated Euro borrowing		
Euro B-1 2020 tranche €600m (Borrowings maturity date: June 2025)	665.8	–
Foreign exchange (loss) on revaluation transferred to OCI-CTA	(34.5)	–
No sources of ineffectiveness observed in review	528.5	–
Euro 2017 tranche €453m (Borrowings maturity date: June 2024)		
Foreign exchange (loss) on revaluation transferred to OCI-CTA	(24.2)	–
No sources of ineffectiveness observed in review	1.1	–
Hedge ratio for each of the two Net investment hedges		

The Group has designated two tranches of non-derivative Euro borrowings in two hedge relationships. The borrowings in place have a designated initial carrying value of approximately €1.05bn (note 18 "Borrowings") hedged against Euro designated net investments in foreign operations.

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

24 Financial risk management and financial instruments continued

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.

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 2020 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.

The Group also utilised a forward exchange contract to fix the Sterling equivalent (£150.0m) on the cancelled May 2020 dividend payment. The forward contract was not designated for formal hedge accounting and was settled early for \$21.8m within the reporting year as the proposed dividend was cancelled. The charge was made to foreign exchange losses in the Consolidated statement of comprehensive income.

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 October 2020 was:

	Note	31 October 2020 \$m	31 October 2019 \$m
Trade receivables (gross)	14	628.4	877.9
Cash and cash equivalents	16	737.2	355.7
		1,365.6	1,233.6

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.

On that basis, the loss allowance as at 31 October 2020 and 2019 and movements in the loss allowance during each year were determined as follows for trade receivables (note 14 "Trade and other receivables"):

	31 October 2020 \$m	31 October 2019 \$m
At 1 November – calculated under IAS 39		41.9
Accounting policy change – IFRS 9 (recognised against retained earnings on 1 November 2018)		20.0
At 1 November – calculated under IFRS 9	42.4	61.9
Loss allowance provided in the year	(4.8)	16.0
Receivables written off as uncollectable	(19.7)	(35.5)
At 31 October	17.9	42.4

24 Financial risk management and financial instruments continued

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. Contract assets relate to amounts not yet due from customers and contain no amounts past due.

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 2020 of \$29.7m (2019: \$11.3m loss). The foreign exchange loss in the year includes the loss of \$21.8m due to the settlement of the foreign exchange contract regarding the cancelled dividend.

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. The Indian Rupee and Israeli Shekel 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	(1,280.1)	64.0	128.0
Indian Rupee (INR)	(42.4)	2.1	4.2
Israeli Shekel (ILS)	(29.2)	1.4	2.9
Chinese Yuan (CNY)	(25.6)	1.3	2.6
Australian Dollar (AUD)	(15.7)	0.8	1.6
Japanese Yen (JPY)	55.1	2.8	5.5
Swedish Krona (SEK)	23.5	1.2	2.4
Swiss Franc (CHF)	18.9	0.9	1.9
Danish Krone (DKK)	17.1	0.9	1.7
Canadian Dollar (CAD)	15.9	0.8	1.6
Mexican Peso (MXN)	14.6	0.7	1.5
United Arab Emirates Dirham (AED)	13.7	0.7	1.4
Czech Koruna (CZK)	10.3	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)	Group exposure \$m	LIBOR, EURIBOS +1% \$m
Euro	1,228.7	12.3
US dollar	3,504.5	35.0
Total gross debt (note 18)	4,733.2	47.3

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

24 Financial risk management and financial instruments continued

Net debt

The net debt of the Group at the Consolidated statement of financial position date is as follows:

	Note	31 October 2020 \$m	31 October 2019 \$m
Borrowings	18	(4,640.3)	(4,670.7)
Cash and cash equivalents	16	737.2	355.7
Lease obligations (2019: Finance lease obligations)	19	(250.4)	(23.5)
Net debt		(4,153.5)	(4,338.5)

Borrowings are shown net of unamortised prepaid facility arrangement fees of \$92.9m (2019: \$104.3m). Gross borrowings are \$4,733.2m (2019: \$4,775.0m).

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 2019	4,775.0	23.5	4,798.5
Adoption of IFRS 16	–	269.8	269.8
	4,775.0	293.3	5,068.3
Draw down/new leases	1,490.8	41.6	1,532.4
Repayments	(1,589.7)	(93.3)	(1,683.0)
Disposals	–	(0.2)	(0.2)
Interest	–	13.2	13.2
Foreign exchange	57.1	(4.2)	52.9
At 31 October 2020	4,733.2	250.4	4,983.6

25 Share capital

Ordinary shares at 10 pence each as at 31 October 2020 (2019: 10 pence each)

	31 October 2020		31 October 2019	
	Shares	\$m	Shares	\$m
Issued and fully paid				
At 1 November	363,583,328	47.2	436,800,513	65.8
Shares issued to satisfy option awards	1,518,327	0.1	6,109,091	0.1
Shares utilised to satisfy option awards	(556,278)	–	(4,804,817)	–
Share reorganisation	–	–	(74,521,459)	(18.7)
At 31 October	364,545,377	47.3	363,583,328	47.2

"B" shares at 335.859391 pence each (2019: 335.859391 pence each)

	31 October 2020		31 October 2019	
	Shares	\$m	Shares	\$m
Issued and fully paid				
At 1 November	–	–	–	–
Issue of B shares	–	–	413,784,754	1,800.0
Redemption of B shares	–	–	(413,784,754)	(1,800.0)
At 31 October	–	–	–	–

25 Share capital continued

Deferred D shares at 10 pence each

	31 October 2020		31 October 2019	
	Shares	\$m	Shares	\$m
Issued and fully paid				
At 1 November	–	–	–	–
Issue of Deferred shares	–	–	74,521,459	–
Redemption of Deferred shares	–	–	(74,521,459)	–
At 31 October	–	–	–	–

Share issuances during the year ended to 31 October 2020

In the year ended 31 October 2020, 1,518,327 ordinary shares of 10 pence each (2019: 6,109,091) were issued and 556,278 treasury shares were utilised by the Company to settle exercised share options (2019: 4,804,817). The gross consideration received in the year ended to 31 October 2020 was \$2.6m (2019: \$3.1m).

At 31 October 2020, 29,644,627 treasury shares were held (2019: 30,200,905) such that the number of ordinary shares with voting rights was 334,900,750 (2019: 333,382,423) and the number of listed shares at 31 October 2020 was 364,545,377 (2019: 363,583,328).

Potential issues of shares

Certain employees hold options to subscribe for shares in the Company at prices ranging from nil pence to 1,963.00 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 2020 was 18,856,680 (2019: 14,533,973).

Share buy-back

On 29 August 2018, the Company announced the start of a share buy-back programme for an initial tranche of up to \$200m, which was extended on 5 November 2018 to a total value of \$400m (including the initial tranche). On 14 February 2019, the buy-back programme was extended into a third tranche of up to \$110m up until the day before the AGM which took place on 29 March 2019 when the current buy-back authority approved by shareholders at the 2017 AGM to make market purchases of up to 65,211,171 ordinary shares expired.

On 17 July 2019, the Company announced a new share buy-back programme with an initial tranche of up to \$200m. The programme was effected in accordance with the terms of the authority granted by shareholders at the 2019 AGM and the Listing Rules. On 3 October 2019, the Company completed the \$200m share buy-back programme. The total amount bought back under share buy-back programmes was \$710.0m, excluding expenses.

In addition to purchasing ordinary shares on the London Stock Exchange, Citi acquired American Depositary Receipts representing ordinary shares ("ADRs") listed on the New York Stock Exchange which it cancelled for the underlying shares and then sold such shares to the Company.

Shares bought back under these programmes are held as treasury shares. Treasury share movements and share buy-back costs are shown below:

	Year ended 31 October 2020 Number	Year ended 31 October 2019 Number
Treasury shares		
Share buy-backs	–	29,160,054
Shares issued to satisfy option awards	–	(4,804,817)
Share reorganisation	–	(4,012,537)
	–	20,342,700
Share buy-backs numbers:		
Ordinary shares bought on the London Stock Exchange	–	25,766,919
ADRs purchased on the New York Stock Exchange	–	3,393,135
	–	29,160,054

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

25 Share capital continued

Share buy-back cost:	\$m	\$m
Share buy-back cost	–	538.8
Expenses	–	5.9
	–	544.7

The weighted average price of shares bought back in the year ended 31 October 2019 was £14.61 per share.

Return of Value

On 29 April 2019, a Return of Value was made to shareholders amounting to \$1,800.0m (£1,389.7m) in cash (335.89 pence per existing Ordinary Share and American Depositary Shares ("ADS") held at the Record Time of 6.00 pm on 29 April 2019). The Return of Value was approved by shareholders on 29 April 2019. The Return of Value was effected through an issue and redemption of B shares and resulted in a \$1,800.0m increase in capital redemption reserve and a \$1,800.0m reduction in the merger reserve. 413,784,754 "B" shares were issued at 335.859391 pence each, resulting in a total \$1,800.0m being credited to the "B" share liability account. Subsequently and on the same date, 413,784,754 "B" shares were redeemed at 335.859391 pence each and an amount of \$1,800.0m was debited from the "B" share liability account. The Group entered into a forward exchange contract to protect the Company from any foreign exchange movement and the resulting payment to shareholders of \$1,800.0m incurred net transaction costs of \$1.0m. The Return of Value was accompanied by a 0.8296 share consolidation and the share consolidation resulted in the issue of D deferred shares which were subsequently bought back for 1 pence, resulting in a transfer of \$18.7m to the capital redemption reserve. The settlement date was 13 May 2019 for the Ordinary Shares.

26 Share premium account

	Note	31 October 2020 \$m	31 October 2019 \$m
At 1 November		44.0	41.0
Movement in relation to share options exercised	29	2.5	3.0
At 31 October		46.5	44.0

27 Other reserves

	Note	Capital redemption reserve ¹ \$m	Merger reserve ² \$m	Hedging reserve ³ \$m	Total \$m
As at 1 November 2018		666.3	3,724.4	70.0	4,460.7
Return of Value – share consolidation	25	18.7	–	–	18.7
Return of Value – issue and redemption of B shares	25	1,800.0	(1,800.0)	–	–
Hedge accounting	24	–	–	(122.9)	(122.9)
Current tax movement on hedging		–	–	23.3	23.3
Reallocation of merger reserve		–	(184.6)	–	(184.6)
As at 31 October 2019		2,485.0	1,739.8	(29.6)	4,195.2
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
Reallocation of merger reserve		–	27.6	–	27.6
As at 31 October 2020		2,485.0	1,767.4	(63.1)	4,189.3

1 Capital redemption reserve

The capital redemption reserve, a non-distributable reserve, was created as a result of Returns of Value in prior periods (note 26).

2 Reallocation of merger reserve

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 2019, it was disclosed that \$400.0m of the merger reserve would be settled in the year. However, as at 31 October 2020, only \$35.4m of the balance was settled and the balance of \$364.6m was no longer required. However, \$337.0m is expected to be settled in qualifying consideration during the year ended 31 October 2021 and as such an equivalent proportion of the merger reserve of \$27.6m is considered unrealised, in accordance with section 3.11(d) of Tech 02/17 and therefore has been transferred from retained earnings.

3 Hedging reserve

A debit of \$33.5m was recognised in the hedging reserve in relation to hedging transactions entered into in the year ended 31 October 2020 (2019: \$99.6m debit).

28 Non-controlling interests

At 31 October 2019, the Group had minority shareholders in one subsidiary, Novell Japan Ltd. On 10 June 2020, a payment of 2,526,000 JPY (\$23,570) was made to acquire 842,000 ordinary 1 JYP shares held. This payment increased the Group's shareholding from 84.24% to 100%. The Group will therefore no longer have any non-controlling interests.

	31 October 2020 \$m	31 October 2019 \$m
At 1 November	1.3	1.0
Share of profit after tax	–	0.3
Purchase of non-controlling interests	(1.3)	–
At 31 October	–	1.3

Non-controlling interests relate to the companies detailed below:

Company name	Country of incorporation and principal place of business	31 October 2020 Proportion held	31 October 2019 Proportion held
Novell Japan Ltd	Japan	100%	84.24%

29 Employees and directors

Staff costs

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Staff costs		
Wages and salaries	1,187.3	1,204.4
Redundancy and termination costs (non-exceptional)	1.0	0.5
Social security costs	97.5	93.6
Other pension costs	41.6	41.7
	1,327.4	1,340.2
Cost of employee share schemes (Share-based payments section below)	17.0	68.8
Total	1,344.4	1,409.0

	Note	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Pension costs comprise:			
Defined benefit schemes	22	10.4	9.0
Defined contribution schemes	22	31.2	32.7
Total		41.6	41.7

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

29 Employees and directors continued

Staff numbers

	Year ended 31 October 2020 Number	Year ended 31 October 2019 Number
Average monthly number of people (including executive directors) employed by the Group:		
Continuing operations		
Sales and distribution	5,066	5,413
Research and development	5,091	5,056
General and administration	1,937	1,991
	12,094	12,460
Discontinued operation		
Sales and distribution	–	164
Research and development	–	170
General and administration	–	3
Total	–	337
Sales and distribution	5,066	5,577
Research and development	5,091	5,226
General and administration	1,937	1,994
Total	12,094	12,797

Directors and key management

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Directors		
Aggregate emoluments	4.1	3.7
Aggregate gains made on the exercise of share options	0.3	79.7
Total	4.4	83.4

For further information on the directors of the Company, refer to the Directors' Remuneration report.

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Key management compensation		
Short-term employee benefits	12.4	9.5
Share-based payments	2.2	25.3
Total	14.6	34.8

The key management figures above include the executive management team and directors. There are no post-employment benefits.

29 Employees and directors continued

Share-based payments

The amount charged to the Consolidated statement of comprehensive income in respect of share-based payments was \$17.0m for the year ended 31 October 2020 (2019: \$71.3m).

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Share-based compensation – IFRS 2 charge	18.3	62.0
Employer taxes	(1.3)	6.8
Continuing operations	17.0	68.8
Discontinued operation	–	2.5
Total	17.0	71.3

As at 31 October 2020, accumulated employer taxes of \$0.6m (2019: \$1.9m) are included in trade and other payables and \$nil (2019: \$nil) is included in other non-current liabilities.

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

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 2020		Year ended 31 October 2019	
	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	9,227	6	5,620	14
Exercised	(734)	1	(3,410)	17
Forfeited/lapsed	(2,100)	22	(545)	27
Granted	7,829	–	7,562	–
Outstanding at 31 October	14,222	–	9,227	6
Exercisable at 31 October	938	4	1,416	34

The weighted average share price for awards on the date of exercise was 526 pence for the year ended 31 October 2020 (2019: 1,707 pence).

The amount charged to the Consolidated statement of comprehensive income in respect of the LTIP scheme was \$9.3m for the year ended 31 October 2020 (2019: \$31.1m). In addition to this \$1.3m (2019: \$8.5m charge) was credited to the Consolidated statement of comprehensive income in respect of National Insurance on these share awards.

	31 October 2020			31 October 2019		
Range of exercise prices	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
£0.10 or less	–	14,104	17.2	1	8,982	3.4
£0.11 – £1.00	13	118	2.8	13	137	3.7
£1.01 – £2.00	–	–	–	–	–	–
£2.01 – £3.00	–	–	–	–	–	–
£3.01 – £4.00	–	–	–	–	–	–
More than £4.00	–	–	–	402	108	0.7
	–	14,222	17.1	6	9,227	3.4

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

29 Employees and directors continued

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	4,601	Awards made with a free cash flow target and relative TSR target over a three-year period.
Continued employment	3,528	Awards under a continuing employment criteria over a two or three-year period.
Adjusted EBITDA growth	2,609	Awards made with Adjusted EBITDA growth targets over a two-year period.
Cumulative Earnings per share ("EPS") growth	1,862	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	684	Various other vesting conditions
	13,284	

Further details regarding awards to executive directors are provided in the Directors' Remuneration report.

The weighted average fair value of awards granted during the year ended 31 October 2020 determined using the Black-Scholes valuation model was £2.01 (2019: £14.54). The significant inputs into the model for the year ended 31 October 2020 were:

	Year ended 31 October 2020	Year ended 31 October 2019
Weighted average share price at the grant date	£2.50	£16.44
Expected volatility	72.85%	between 48.91% and 49.68%
Expected dividend yield	23.76%	between 4.78% and 5.87%
Expected option life	2 years	0.76 to four years
Annual risk-free interest rate	0.17%	between 0.49% and 1.38%

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 2020, as determined using the Monte Carlo simulation was \$2.67 and the fair value of awards granted using the share price at the date of grant was \$4.65.

b) Additional Share Grants

	Year ended 31 October 2020				Year ended 31 October 2019			
	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	461	3,215	3,676	–	3,062	7,427	10,489	–
Granted	–	–	–	–	–	458	458	–
Exercised	(15)	–	(15)	–	(2,601)	–	(2,601)	–
Surrendered	–	(2,385)	(2,385)	–	–	–	–	–
Lapsed	–	(830)	(830)	–	–	(4,670)	(4,670)	–
Outstanding at 31 October	446	–	446	–	461	3,215	3,676	–
Exercisable at 31 October	446	–	446	–	461	–	461	–

29 Employees and directors continued

Additional Share Grants – The Attachmate Group (“TAG”) acquisition

The Remuneration Committee awarded Additional Share Grants (“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 2020, 445,917 (2019: 460,917) of these options were vested but not yet exercised.

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.

2,385,000 awards were surrendered by the Executive Directors in the year. The remaining HPE ASG awards lapsed in full on 7 July 2020 due to the performance conditions not being met.

The amount charged to the Consolidated statement of comprehensive income in respect of the ASGs was \$3.9m for the year ended 31 October 2020 (2019: \$30.6m). In addition to this \$nil (2019: \$1.7m charge) was credited to the consolidated statement of comprehensive income in respect of National Insurance on these share options in the year ended 31 October 2020.

	31 October 2020			31 October 2019		
	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	–	446	4.1	–	3,676	7.3
	–	446	4.1	–	3,676	7.3

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 are 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 2020.

Sharesave

	Year ended 31 October 2020		Year ended 31 October 2019	
	Number of options '000	Weighted average exercise price pence	Number of options '000	Weighted average exercise price pence
Outstanding at 1 November	438	1,221	496	1,185
Exercised	–	1,023	(81)	1,171
Forfeited	(912)	855	(102)	1,297
Granted	2,409	338	125	1,374
Outstanding at 31 October	1,935	293	438	1,221
Exercisable at 31 October	–	–	62	1,461

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

29 Employees and directors continued

	Number of options '000	Date of grant	Exercise price per share pence	Exercise period
	8	23 February 2018	1,720.0	1 April 2021 – 30 September 2021
	1	23 February 2018	1,963.0	1 April 2021 – 30 September 2021
	33	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
	10	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
	2	5 August 2019	1,411.0	1 October 2021 – 31 March 2023
	7	5 August 2019	1,574.3	1 October 2021 – 4 August 2022
	83	5 March 2020	617.7	1 April 2023 – 30 September 2023
	8	5 March 2020	728.2	1 April 2023 – 30 September 2023
	1,680	21 August 2020	241.3	1 October 2023 – 31 March 2024
	101	21 August 2020	241.1	1 October 2023 – 31 March 2024
	1,935			

c) Sharesave and Employee Stock Purchase Plan 2006 ESPP

	Year ended 31 October 2020		Year ended 31 October 2019	
	Number of options '000	Weighted average exercise price pence	Number of options '000	Weighted average exercise price pence
Outstanding at 1 November	1,192	1,182	800	1,047
Exercised	(1,472)	1,027	(17)	1,114
Forfeited	(423)	1,082	(44)	1,440
Granted	2,958	660	453	1,444
Outstanding at 31 October	2,255	617	1,192	1,182
Exercisable at 31 October	–	–	–	–

	Number of options '000	Date of grant	Exercise price per share pence	Exercise period
	244	1 March 2019	1,428.0	1 March 2021 – 31 May 2021
	209	1 October 2019	1,462.8	1 October 2021 – 31 December 2021
	689	1 March 2020	635.9	1 March 2022 – 31 May 2022
	1,113	1 October 2020	270.2	1 October 2022 – 31 December 2022
	2,255			

The amount charged to the Consolidated statement of comprehensive income in respect of the Sharesave and ESPP was \$5.1m for the year ended 31 October 2020 (2019: \$2.8m).

The weighted average fair value of options granted under Sharesave and ESPP during the year ended 31 October 2020 determined using the Black-Scholes valuation model was £1.27 (2019: £5.93).

29 Employees and directors continued

The significant inputs into the model for the year ended 31 October 2020 were:

	Year ended 31 October 2020	Year ended 31 October 2019
Weighted average share price at the grant date	£4.38	£17.56
Expected volatility	between 57.72% and 72.37%	between 49.06% and 49.68%
Expected dividend yield	between 8.22% and 16.11%	between 4.63% and 5.87%
Expected option life	two or three years	two or three years
Annual risk-free interest rate	between 0.20% and 0.52%	between 0.49% and 1.16%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

30 Contingent liabilities

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

Shareholder litigation

Micro Focus International plc and certain current and former directors and officers are involved in two consolidated class action lawsuits in which plaintiffs are seeking damages for alleged violations of the Securities Act of 1933 and the Exchange Act of 1934. Plaintiffs allege false and misleading statements or omissions in offering documents issued in connection with the Hewlett Packard Enterprise software business merger and issuance of Micro Focus American Depository Shares ("ADS") as merger consideration, and other purportedly false and misleading statements. No liability has been recognised in either case as the complaint in one lawsuit has been dismissed and plaintiffs are now seeking an appeal, and the other lawsuit is still at an early stage in proceedings and it is too soon to estimate whether there will be any financial impact.

Patent litigation

On 2 July 2018, Wapp Tech Limited Partnership and Wapp Tech Corp. (collectively, "Wapp") sued Micro Focus International plc in the Eastern District of Texas, accusing it of infringing claims of three patents in connection with Micro Focus International plc's purported manufacture and sale of certain products in the ADM product line, including LoadRunner and Performance Center. Wapp also sued HPE, Wells Fargo & Company, and Bank of America Corporation for their alleged use of the same accused products. On 13 August 2019, the Texas court dismissed Micro Focus International plc for lack of personal jurisdiction, but granted Wapp's request to amend its complaint to name Micro Focus International plc subsidiaries Seattle SpinCo, Inc., EntIT Software LLC, EntCo Interactive (Israel) Ltd., EntCo Government Software LLC, and Micro Focus (US) Inc. (collectively, the "Subsidiary Defendants") as defendants. On 20 August 2019, Wapp filed an amended (and operative) complaint in that case naming the Subsidiary Defendants as defendants. The Court stayed the cases against HPE, Bank of America, and Wells Fargo. On 11 December 2020, Micro Focus filed a motion for summary judgment, which the Court denied on 14 January 2021. On 18 December 2020, the case was mediated but did not settle. The Final Pretrial Conference is scheduled for February 2021, and the Micro Focus trial is set for 1 March 2021. Micro Focus' defences against liability include that the patent claims are not infringed, and that the patent claims are invalid. These infringement and invalidity claims will be contested on their merits at trial. Due to the Group's assessment that the asserted patent claims are not infringed and/or are invalid, no provision is recorded for this ; however as the outcome of the trial is uncertain we have disclosed this potential obligation.

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

31 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 29. 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.
- Sales and purchases of goods and services between related parties are not considered material.

32 Discontinued operation

A. SUSE business

On 2 July 2018, the Group announced the proposed sale of the SUSE business segment to Blitz 18-679 GmbH (subsequently renamed to Marcel Bidco GmbH), a newly incorporated directly wholly owned subsidiary of EQTVIII SCSp, which is advised by EQT Partners. The total cash consideration of \$2.5bn was on a cash and debt free basis and subject to normalisation of working capital.

On 21 August 2018, Shareholders voted to approve the proposed transaction whereby the Company agreed to sell its SUSE business segment to Marcel Bidco GmbH, for a total cash consideration of approximately \$2.5bn, subject to customary closing adjustments. Following this vote, all applicable antitrust, competition, merger control and governmental clearances was obtained. The sale was completed in the prior year (15 March 2019) and the SUSE business segment was treated as discontinued in the prior year financial statements and in the comparatives of these financial statements.

Discontinued operation – Financial performance

	Year ended 31 October 2020			Year ended 31 October 2019		
	Before Exceptional Items \$m	Exceptional Items \$m	Total \$m	Before Exceptional Items \$m	Exceptional Items \$m	Total \$m
Revenue	–	–	–	127.0	–	127.0
Operating costs	–	–	–	(89.3)	–	(89.3)
Operating profit	–	–	–	37.7	–	37.7
Share of results of associate	–	–	–	(0.3)	–	(0.3)
(Loss)/profit on disposal of the SUSE business	–	(3.0)	(3.0)	–	1,767.9	1,767.9
(Loss)/profit before taxation	–	(3.0)	(3.0)	37.4	1,767.9	1,805.3
Taxation	7.3	0.8	8.1	(8.7)	(309.4)	(318.1)
Profit for the year from discontinued operation	7.3	(2.2)	5.1	28.7	1,458.5	1,487.2

The profit on disposal of the SUSE business for the year ended 31 October 2020 related to conclusion of the working capital settlement and adjustments in respect of income tax balances owed in respect of pre-transaction periods.

The cash flow statement shows amounts related to the discontinued operations:

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Net cash inflows from operating activities	–	18.6
Net cash outflows from investing activities	1.3	–
Net cash flows from financing activities	–	–

32 Discontinued operation continued

Disposal of the SUSE business

In the prior year, on 15 March 2019, the Group disposed of the SUSE business for \$2,540.3m. Details of net assets disposed of and the profit on disposal are as follows:

	Carrying value pre-disposal \$m
Non-current assets classified as held for sale	989.8
Current assets classified as held for sale	127.3
Current liabilities classified as held for sale	(288.5)
Non-current liabilities classified as held for sale	(177.3)
Net assets disposed	651.3

The profit on disposal was calculated as follows:

	\$m
Disposal proceeds	2,540.3
Costs to sell recognised in the year	(45.3)
Disposal proceeds, less costs to sell recognised in the year	2,495.0
Net assets disposed	(651.3)
Profit on disposal	1,843.7
Cumulative exchange gain in respect of the net assets of the subsidiaries, reclassified from equity on disposal	(75.8)
Profit on disposal	1,767.9

The profit on disposal is reflected in the prior year in profit for the year from discontinued operations in the Consolidated statement of comprehensive income. All cash flows occurred in the prior year.

The inflow of cash and cash equivalents on the disposal of the SUSE business is calculated as follows:

	\$m
Disposal proceeds, less total costs to sell	2,495.0
Cash disposed	(21.5)
Investing cash flows generated from discontinued operations, net of cash disposed	2,473.5

B. Atalla

On 18 May 2018 the Company entered into an agreement with Utimaco Inc. ("Utimaco"), under which Utimaco would acquire Atalla for \$20m in cash. The deal was subject to regulatory approval by the Committee on Foreign Investment in the United States ("CFIUS"). CFIUS placed the deal into investigation in September and final approval was received 10 October 2018. The deal closed on 5 November 2018 and Utimaco acquired the Atalla HSM product line, the Enterprise Security Manager ("ESKM") product line, and related supporting assets, including applicable patents and other IP.

In the prior year, on 5 November 2018, the Group disposed of the Atalla business for a net cash consideration of \$20.0m. Details of net assets disposed of and the profit on disposal are as follows:

	Carrying value pre-disposal \$m
Goodwill	28.0
Property, plant and equipment	0.3
Non-current assets	28.3
Deferred income	(12.0)
Current liabilities	(12.0)
Net assets disposed	16.3

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

32 Discontinued operation continued

The profit on disposal was recorded as exceptional (note 4) in the prior year and in the comparatives of these financial statements was calculated as follows:

	\$m
Disposal proceeds	20.0
Net assets disposed	(16.3)
Profit on disposal	3.7

33 Acquisitions

Summary of acquisitions

	Carrying value at acquisition \$m	Fair value adjustments \$m	Goodwill \$m	Consideration		
				Shares \$m	Cash \$m	Total \$m
Acquisitions in the year ended 31 October 2020:						
ATAR Labs	0.9	5.0	1.4	–	7.3	7.3
	0.9	5.0	1.4	–	7.3	7.3
Acquisitions in the year ended 31 October 2019:						
Intersect Software Inc.	0.9	61.3	26.8	–	89.0	89.0
	0.9	61.3	26.8	–	89.0	89.0

Acquisitions in the year ended 31 October 2020:

ATAR Labs

On 7 July 2020, the Group completed the acquisition of ATAR Labs ("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. The Group has not presented the full IFRS 3 "Business Combinations" disclosures as this acquisition is not material to the Group, given that it was an acquisition of a business with 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.

	Note	Carrying value at acquisition \$m	Fair value adjustments \$m	Fair value \$m
Intangible assets – purchased ¹	11	1.6	5.0	6.6
Other current assets		0.1	–	0.1
Borrowings		(0.1)	–	(0.1)
Provisions – short-term	21	(0.4)	–	(0.4)
Deferred income – short-term		(0.3)	–	(0.3)
Net assets		0.9	5.0	5.9
Goodwill (note 10)				1.4
Consideration				7.3
Consideration satisfied by:				
Cash				6.0
Deferred consideration to be settled in cash				1.3
				7.3

The fair value adjustments relate to:

1 Purchased intangible assets of \$6.6m have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of ArcSight.

33 Acquisitions continued

Acquisitions in the year ended 31 October 2019:

Acquisition of Intersect Software Inc.

On 15 February 2019, the Group completed the acquisition of Intersect Software Inc. ("Intersect"), a worldwide leader in security analytics software that provides highly intelligent and accurate cyber-threat protection. The addition of this predictive analytics technology adds depth to Micro Focus' Security, Risk & Governance portfolio, and aligns with the Company's strategy to help customers quickly and accurately validate and assess risk as they digitally transform their businesses.

Consideration of \$89.0m consists of completion payment of \$85.0m, working capital adjustments and net cash adjustments. The Group did not present the full IFRS 3 "Business Combinations" disclosures as this acquisition is not material to the Group, given that it was an acquisition of a business with a carrying value of \$5.5m of assets and \$4.6m 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. The fair value review was finalised in the 12-month period following completion, which ended on 15 February 2020. No adjustments were identified.

	Note	Carrying value at acquisition \$m	Fair value adjustments \$m	Fair value \$m
Intangible assets – purchased ¹	11	–	61.2	61.2
Property, plant and equipment	12	0.3	–	0.3
Other non-current assets		0.2	–	0.2
Trade and other receivables		3.8	–	3.8
Cash and cash equivalent		1.2	–	1.2
Trade and other payables		(1.5)	–	(1.5)
Finance leases obligations – short-term		(0.1)	–	(0.1)
Provisions – short-term	21	(0.7)	–	(0.7)
Deferred income – short-term ²		(2.1)	0.1	(2.0)
Deferred income – long-term ²		(0.2)	–	(0.2)
Net assets		0.9	61.3	62.2
Goodwill (note 10)				26.8
Consideration				89.0
Consideration satisfied by:				
Cash				89.0

The fair value adjustments relate to:

- 1 Purchased intangible assets of \$61.2m (\$44.5m Technology, \$4.2m Trade names, \$12.5m Customer Relationships) have been valued based on a market participant point of view and the fair value has been based on various characteristics of the product lines and intangible assets of Intersect.
- 2 Deferred income has been valued taking account of the remaining performance obligations.

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Company's existing customers.

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

34 Cash flow statement

	Note	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Cash flows from operating activities			
Loss from continuing operations		(2,974.6)	(18.1)
Profit from discontinued operation		5.1	1,487.2
(Loss)/profit for the year		(2,969.5)	1,469.1
Adjustments for:			
Gain on disposal of discontinued operation	32	3.0	(1,767.9)
Net finance costs	6	279.0	255.8
Taxation – continuing operations	7	34.2	(16.0)
Taxation – discontinued operation	32	(8.1)	318.1
Share of results of associates	28	–	0.3
Operating (loss)/profit (attributable to continuing and discontinued operations)		(2,661.4)	259.4
– continuing operations		(2,661.4)	221.7
– discontinued operation	32	–	37.7
		(2,661.4)	259.4
Goodwill impairment charge	10	2,799.2	–
Research and development tax credits		(1.8)	(1.2)
Property, plant and equipment depreciation ¹	12	42.0	52.6
Right-of-use asset depreciation ¹	19	76.9	13.9
Loss on disposal of property, plant and equipment	12	5.6	3.6
Loss on disposal of intangible assets	11	0.6	–
Gain on disposal of Atalla	32,4	–	(3.7)
Amortisation of intangible assets	11	674.1	716.5
Amortisation of contract-related costs		16.1	10.2
Leases impairment	19	5.9	–
Share-based compensation charge	29	17.0	71.3
Foreign exchange movements	3	29.7	11.1
Provisions movements	21	46.3	43.8
Changes in working capital:			
Inventories		0.1	–
Trade and other receivables		262.0	183.0
Increase in contract-related costs		(26.5)	(36.7)
Payables and other liabilities		(69.8)	(114.8)
Provision utilisation	21	(37.5)	(58.6)
Contract liabilities – deferred income		(103.1)	(98.5)
Pension funding difference to operating profit charge		7.4	4.4
Cash generated from operations		1,082.8	1,056.3

¹ As a result of the adoption of IFRS 16, depreciation in the 12 months ended 31 October 2019 of \$66.5m has been represented as property, plant and equipment depreciation of \$52.6m and right-of-use asset depreciation of \$13.9m. The comparative of \$13.9m relates to assets classified as property, plant and equipment that were held under a finance lease.

35 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 2020.

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. As disclosed in note 28 the Group owns 100% of all subsidiary undertakings.

	Company name	Country of incorporation	Class(es) of shares held ^{1,2}	Principal activities	Key to Registered office address
Subsidiaries					
1	Attachmate Australasia Pty Limited	Australia	Ordinary Shares AU\$1.00	In liquidation	1
2	Attachmate Group Australia Pty Limited	Australia	Ordinary Shares	Sale and support of software	1
3	Autonomy Australia Pty Limited	Australia	Ordinary Shares AU\$1.00	In liquidation	1
4	Autonomy Systems Australia Pty Limited	Australia	Ordinary Shares AU\$1.00	In liquidation	1
5	Borland Australia Pty Limited	Australia	Ordinary Shares AU\$1.00	In liquidation	1
6	Entco Australia Pty Limited	Australia	Ordinary Shares AU\$1.00	In liquidation	1
7	Micro Focus Australia Pty Ltd	Australia	Ordinary Shares AU\$1.00	Sale and support of software	1
8	Micro Focus Pty Limited	Australia	Ordinary Shares AU\$1.00	Sale and support of software	1
9	Serena Software Pty Limited	Australia	Ordinary Shares AU\$1.00	In liquidation	1
10	Micro Focus Austria GmbH (formerly Borland Entwicklung GmbH)	Austria	Registered capital	Development of software	2
11	Autonomy Belgium BVBA	Belgium	Ordinary Shares	Sale and support of software	3
12	Micro Focus Belgium BV	Belgium	Ordinary Shares	Sale and support of software	3
13	Micro Focus Srl	Belgium	Ordinary Shares	Sale and support of software	4
14	Borland Latin America Ltda	Brazil	Quota RS\$1.00	Sale and support of software	5
15	Cambridge Technology Partners do Brasil s.c. Ltda	Brazil	Quota RS\$1.00	Dormant	5
16	Micro Focus Brasil Serviços de Tecnologia Ltda	Brazil	Quota RS\$1.00	Sale and support of software	5
17	Micro Focus Programmeação de Computadores Ltda	Brazil	Quota RS\$1.00	Sale and support of software	5
18	Peregrinne Systems do Brasil Ltda	Brazil	Quota RS\$1.00	Sale and support of software	6
19	Serena Software Do Brasil Ltda	Brazil	Quota RS\$1.00	Sale and support of software	5
20	Verity Worldwide Limited	British Virgin Islands	Ordinary shares US\$50,000.00	Sale and support of software	7
21	Micro Focus APM Solutions Limited (EOD)	Bulgaria	Ordinary Shares BGN1,000.00	Development of software	8
22	Micro Focus Bulgaria EOOD	Bulgaria	Ordinary Shares BGN1.00	Sale and support of software	8
23	Autonomy Systems (Canada) Limited	Canada	Class A Common Stock	Sale and support of software	9
24	GWAVA ULC	Canada	Common Stock	Holding Company	10
25	Micro Focus (Canada) ULC	Canada	Common Shares	Development, sale and support of software	10
26	Intersect Software ULC	Canada	Common Shares	Holding Company	11
27	Micro Focus Software (Canada), ULC	Canada	Common Shares	Sale and support of software	12
28	Micro Focus Software Solutions Canada Co./Solutions Logiciels Micro Focus Canada Cie.	Canada	Common Shares	Sale and support of software	13
29	NetManage Canada ULC	Canada	Common Shares	Dormant	10
30	Entco Capital Co	Cayman Islands	Ordinary Shares US\$1.00	Sale and support of software	14
31	Entco Investment Co	Cayman Islands	Ordinary Shares US\$1.00	Sale and support of software	14

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

35 Related undertakings continued

	Company name	Country of incorporation	Class(es) of shares held ^{1,2}	Principal activities	Key to Registered office address
32	Micro Focus International Limited	Cayman Islands	Class A Ordinary Shares US\$0.00001 Class B Ordinary Shares US\$0.00001 Class C Ordinary Shares US\$0.00001 Class L Ordinary Shares US\$0.00001	Dormant	14
33	Micro Focus IP Limited	Cayman Islands	Class A Ordinary Shares €0.01 Class B Preferred Redeemable Shares €0.01	Holding Company	14
34	Entco Marigalante Limited	Cayman Islands	Ordinary Shares US\$1.00	Sale and support of software	14
35	Autonomy Systems (Beijing) Limited Company	China	Registered Capital	Sale and support of software	15
36	Shanghai Micro Focus Software Technology Co. Limited (formerly Shanghai Entco Software Technology Co., Limited)	China	Registered Capital	Sale and support of software	16
37	Shanghai Micro Focus Software Technology Co. Limited (formerly Shanghai Entco Software Technology Co., Limited), Beijing Branch	China	Branch	Sale and support of software	17
38	Shanghai Micro Focus Software Technology Co. Limited (formerly Shanghai Entco Software Technology Co., Limited), Chongqing Branch	China	Branch	Sale and support of software	18
39	Shanghai Micro Focus Software Technology Co. Limited (formerly Shanghai Entco Software Technology Co., Limited), Shenzhen Branch	China	Branch	Sale and support of software	19
40	Shanghai Micro Focus Software Technology Co. Limited (formerly Shanghai Entco Software Technology Co., Limited), Shangdong Branch	China	Branch	Sales and support of software	20
41	Singapore Micro Focus Pte Ltd Shanghai Representative Office	China	Branch	Sale and support of software	21
42	UK Micro Focus Limited Beijing Representative Office	China	Branch	Sale and support of software	22
43	Micro Focus CentroAmerica CAC Limitada	Costa Rica	Quota CRC1,000.00	Sale and support of software	23
44	Micro Focus Costa Rica Limitada	Costa Rica	Quota CRC1,000.00	Sale and support of software	23
45	NetIQ Software International Limited	Cyprus	Ordinary Shares of C£1.00	Dormant	24
46	Micro Focus Czechia s.r.o	Czech Republic	Registered Capital	Sale and support of software	25
47	Micro Focus Denmark, filial af Micro Focus AS, Norge (Branch)	Denmark	Branch	Sale and support of software	26
48	Micro Focus Software Denmark ApS	Denmark	Ordinary Shares DKK1.00	Sale and support of software	26
49	Micro Focus AS, Filial i Finland (Branch)	Finland	Branch	Sale and support of software	27
50	Borland (France) Sarl	France	Ordinary Shares €15.25	Sale and support of software	28
51	Cobol-IT, SAS	France	Ordinary Shares €1.00	Sale and support of software	28
52	Micro Focus France SAS	France	Ordinary Shares €1.00	Sale and support of software	29
53	Micro Focus SAS	France	Ordinary Shares €10.00	Sale and support of software	28

35 Related undertakings continued

	Company name	Country of incorporation	Class(es) of shares held ^{1,2}	Principal activities	Key to Registered office address
54	Attachmate Group Germany GmbH	Germany	Ordinary Shares €191,000.00	Sale and support of software	30
55	Borland GmbH	Germany	Ordinary Shares €49,500.00 Ordinary Shares €450,000.00 Ordinary Shares €100,000.00 Ordinary Shares €500.00	Dormant	30
56	GWAVA EMEA GmbH	Germany	Registered Capital	Sale and support of software	31
57	Micro Focus Deutschland GmbH	Germany	Registered Capital	Sale and support of software	30
58	Micro Focus GmbH	Germany	Registered Capital	Sale and support of software	30
59	Novell Holdings Deutschland GmbH	Germany	Registered Capital	Holding Company	30
60	Serena Software GmbH	Germany	Registered Capital	Sale and support of software	32
61	Attachmate (Hong Kong) Limited	Hong Kong	Ordinary Shares HK\$1.00	In liquidation	33
62	Borland (H.K.) Limited	Hong Kong	Ordinary Shares HK\$1.00	In liquidation	33
63	EntCorp Hong Kong Limited	Hong Kong	Ordinary Shares HK\$1.00	Sale and support of software	34
64	Micro Focus Limited Hong Kong (Branch)	Hong Kong	Branch	Sale and support of software	33
65	Micro Focus Software HK Limited	Hong Kong	Ordinary Shares HK\$10.00	Sale and support of software	33
66	NetIQ Asia Ltd.	Hong Kong	Ordinary Shares HK\$1.00	In liquidation	33
67	Autonomy Software Asia Private Limited	India	Equity Shares INR10.00	Sale and support of software	35
68	Borland Software India Private Limited	India	Equity Shares INR10.00	Dormant	36
69	Entco IT Services Private Limited	India	Equity Shares INR10.00	Sale and support of software	37
70	Interwoven, Inc., India Branch	India	Branch	Sale and support of software	38
71	Micro Focus India Private Limited	India	Equity Shares INR10.00	In liquidation	36
72	Micro Focus Software India Private Limited	India	Equity Shares INR10.00	Development, sale and support of software	36
73	Micro Focus Software Solutions India Private Limited	India	Equity Shares INR10.00	Sale and support of software	39
74	Novell India Private Ltd.	India	Equity Shares INR10.00	In liquidation	40
75	Relativity Technologies Private Limited	India	Equity Shares INR10.00	In liquidation	36
76	Attachmate Ireland Limited	Ireland	Ordinary Shares €1.27	Sale and support of software	41
77	Entsoft Holding Ireland Unlimited Company	Ireland	Ordinary Shares US\$1.00	Holding Company	41
78	Micro Focus (IP) Ireland Limited	Ireland	Ordinary Shares US\$1.00	Dormant	42
79	Micro Focus (Ireland 1) Limited	Ireland	Ordinary Shares US\$1.00	In liquidation	42
80	Micro Focus (Ireland 2) Limited	Ireland	Ordinary Shares US\$1.00	In liquidation	42
81	Micro Focus Finance Ireland Limited	Ireland	Ordinary Shares US\$1.00	In liquidation	42
82	Micro Focus Galway Limited	Ireland	Ordinary Shares €1.00	Sale and support of software	41
83	Micro Focus Group Holdings Unlimited Company	Ireland	Ordinary Shares €1.00	Holding Company	42
84	Micro Focus International Holdings Limited	Ireland	Ordinary Shares €1.00	Holding Company	42
85	Micro Focus Ireland Limited	Ireland	Ordinary Shares €1.00	Development, sale and support of software	42
86	Micro Focus Software (Ireland) Limited	Ireland	Ordinary Shares €1.25 Ordinary Shares US\$1.00	Development, sale and support of software	43
87	Micro Focus Software Solutions Ireland Limited	Ireland	Ordinary Shares €1.00	Sale and support of software	41
88	NetIQ Europe Limited	Ireland	Ordinary Shares €1.00	Sale and support of software	41
89	NetIQ Ireland Limited	Ireland	Ordinary Shares €1.00	Holding Company	42

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

35 Related undertakings continued

	Company name	Country of incorporation	Class(es) of shares held ^{1,2}	Principal activities	Key to Registered office address
90	Novell Cayman Software International Unlimited Company	Ireland	Ordinary Shares US\$1.00	Holding Company	42
91	Novell Cayman Software Unlimited Company	Ireland	Ordinary Shares US\$1.00	Holding Company	42
92	Novell Ireland Real Estate Unlimited Company	Ireland	Ordinary Shares €1.25 A Ordinary Shares €1.25	In liquidation	42
93	Novell Software International Limited	Ireland	Ordinary Shares US\$1.00	Holding Company	42
94	Micro Focus Interactive Israel Ltd	Israel	Ordinary Shares of NIS1.00	Sale and support of software	44
95	Micro Focus Israel Limited	Israel	Ordinary Shares NIS1.00	Development and support of software	45
96	Micro Focus Software Israel Ltd	Israel	Ordinary Shares NIS1.00	Sale and support of software	44
97	N.Y. NetManage (Yerushalayim) Ltd	Israel	Ordinary Shares NIS1.00	Dormant	46
98	Novell Israel Software International Limited	Israel	Ordinary Shares NIS1.00	Dormant	47
99	Enterprise Corp Italiana S.r.l.	Italy	Quota €10,000.00	Sale and support of software	48
100	Micro Focus Italiana S.r.l.	Italy	Quota €1,000,000.00	Sale and support of software	49
101	Micro Focus Srl	Italy	Quota €1200,000.00	Sale and support of software	49
102	Serena Software Europe Limited – Italy Branch	Italy	Branch	Sale and support of software	49
103	Verity Italia S.r.l.	Italy	Quota €25,000.00	Sale and support of software	50
104	Entcorp Japan K.K.	Japan	Ordinary Shares	Sale and support of software	51
105	Micro Focus Enterprise Ltd	Japan	Ordinary Shares	Sale and support of software	52
106	Micro Focus LLC	Japan	Interest in Capital	Sale and support of software	52
107	Novell Japan, Ltd	Japan	Common Stock	Sale and support of software	52
108	Serena Software Japan LLC	Japan	Interest in Capital	Sale and support of software	52
109	Micro Focus Luxembourg S.à r.l.	Luxembourg	Ordinary Shares	Sale and support of software	53
110	Verity Luxembourg S.à r.l.	Luxembourg	Ordinary Shares €25.00	Sale and support of software	54
111	Micro Focus Malaysia Sdn. Bhd.	Malaysia	Ordinary Shares RM1,000.00	Sale and support of software	55
112	Novell Corporation (Malaysia) Sdn. Bhd.	Malaysia	Ordinary Shares RM1.00	Sale and support of software	56
113	Micro Focus International Mexico, S. de R.L. de C.V.	Mexico	Equity Interest Quota MXN1.00	Sale and support of software	57
114	Micro Focus Limited Mexico (Branch)	Mexico	Branch	Sale and support of software	57
115	Micro Focus Software Mexico, S. De R.L. De C.V.	Mexico	Equity Interest Quota MXN1.00	Sale and support of software	57
116	Micro Focus Software Solutions Mexico, S. de R.L. de C.V.	Mexico	Equity Interest Quota MXN1.00	Sale and support of software	57
117	Authasas B.V.	Netherlands	Ordinary Shares A €1.00 Ordinary Shares B €1.00	Sale and support of software	58
118	Autonomy HoldCo B.V.	Netherlands	Ordinary Shares US\$100.00	Sale and support of software	58
119	Autonomy Netherlands BV	Netherlands	Common Shares €100.00	Sale and support of software	58
120	Borland BV	Netherlands	Ordinary Shares €5.00	Sale and support of software	58
121	Entco Eastern Holding B.V.	Netherlands	Ordinary Shares US\$100.00	Holding Company	58
122	Entco Gatriam Holding B.V.	Netherlands	Ordinary Shares US\$100.00	Holding company	58
123	Entco Holding Berlin B.V.	Netherlands	Ordinary Shares US\$100.00	Holding company	58
124	Entco Holding Hague II B.V.	Netherlands	Ordinary Shares US\$100.00	Holding company	58
125	Entco Sinope Holding B.V.	Netherlands	Ordinary Shares US\$100.00	Holding company	58
126	Entcorp Nederland B.V.	Netherlands	Ordinary Shares €100.00	Sale and support of software	58
127	Micro Focus B.V.	Netherlands	Common Shares €100.00	Sale and support of software	58
128	Micro Focus Caribe Holding B.V.	Netherlands	Ordinary Shares US\$100.00	Sale and support of software	58
129	Micro Focus Eastern Holding II B.V.	Netherlands	Ordinary Shares US\$100.00	Holding Company	58
130	Micro Focus Enterprise B.V.	Netherlands	Ordinary Shares US\$100.00	Sale and support of software	58

35 Related undertakings continued

	Company name	Country of incorporation	Class(es) of shares held ^{1,2}	Principal activities	Key to Registered office address
131	Micro Focus HoldCo B.V.	Netherlands	Ordinary Shares US\$100.00	Holding Company	58
132	Micro Focus Holding Finance B.V.	Netherlands	Ordinary Shares US\$100.00	Holding Company	58
133	Micro Focus Holding Hague B.V.	Netherlands	Ordinary Shares US\$100.00	Holding Company	58
134	Micro Focus Holding PR B.V.	Netherlands	Ordinary Shares US\$100.00	Sale and support of software	58
135	Micro Focus International Trade B.V.	Netherlands	Ordinary Shares US\$100.00	Sale and support of software	58
136	Micro Focus Nederland B.V.	Netherlands	Ordinary Shares US\$100.00	Sale and support of software	58
137	Verity Benelux B.V.	Netherlands	Common Shares of €500.00	Sale and support of software	58
138	Micro Focus Software (New Zealand) Unlimited	New Zealand	Ordinary Shares	Sale and support of software	59
139	Micro Focus AS	Norway	Ordinary Shares NOK1,602.00	Sale and support of software	60
140	Entcorp Philippines, Inc.	Philippines	Common Stock PHP1.00	Sale and support of software	61
141	Micro Focus Polska sp. z.o.o.	Poland	Ordinary Shares PLN500.00	Sale and support of software	62
142	Micro Focus S.L. – Sucursal Em Portugal (Branch)	Portugal	Branch	Sale and support of software	63
143	Novell Portugal – Informática Lda	Portugal	Ordinary Shares €14,864.18 Ordinary Shares €99.76	Sale and support of software	63
144	Micro Focus Caribe Holding B.V. LLC Branch	Puerto Rico	Branch	Sale and support of software	64
145	Micro Focus Holding PR B.V. LLC Branch	Puerto Rico	Branch	Sale and support of software	65
146	Micro Focus Software Romania SRL	Romania	Ordinary Shares RON10.00	Sale and support of software	66
147	Limited Liability Company Micro Focus	Russian Federation	Interest in Capital	Sale and support of software	67
148	Micro Focus LLC	Saudi Arabia	Ordinary Shares SAR50	Sale and support of software	68
149	Autonomy Systems Singapore Pte. Ltd.	Singapore	Ordinary Shares	Sale and support of software	69
150	Borland (Singapore) Pte. Ltd.	Singapore	Ordinary Shares	Sale and support of software	69
151	Entco Software Pte. Ltd.	Singapore	Ordinary Shares	Sale and support of software	69
152	Mercury Interactive (Singapore) Pte Ltd	Singapore	Ordinary Shares	In liquidation	70
153	Micro Focus Pte. Ltd.	Singapore	Ordinary Shares	Sale and support of software	69
154	Micro Focus Software Pte. Ltd.	Singapore	Ordinary Shares	Sale and support of software	69
155	Autonomy Systems Software South Africa Pty Ltd	South Africa	Ordinary Shares ZAR1.00	Sale and support of software	71
156	Micro Focus Software South Africa (Pty) Ltd	South Africa	Ordinary Shares ZAR1.00	Sale and support of software	72
157	Micro Focus South Africa (Pty) Ltd	South Africa	Ordinary Shares ZAR1.00	Sale and support of software	72
158	Micro Focus Korea Limited	South Korea	Units KRW 5,000	Sale and support of software	73
159	Micro Focus Field Delivery Spain, S.L.U.	Spain	Ordinary Shares €1.00	Sale and support of software	74
160	Micro Focus S.L.U.	Spain	Registered Shares €9.00	Sale and support of software	74
161	Micro Focus Software Spain S.L.U.	Spain	Ordinary Shares €1.00	Sale and support of software	74
162	Micro Focus AS, Norge, filial i Sverige (Branch)	Sweden	Branch	Sale and support of software	75
163	Micro Focus Sverige AB	Sweden	Quota SEK1.00	Sale and support of software	75
164	Micro Focus Enterprise B.V., Amstelveen, Versoix Branch	Switzerland	Branch	Sale and support of software	76
165	Micro Focus GmbH	Switzerland	Quotas CHF100.00	Sale and support of software	77
166	Micro Focus International Suisse Sàrl	Switzerland	Ordinary Shares CHF1,000.00	Sale and support of software	76
167	Micro Focus Schweiz GmbH	Switzerland	Ordinary Shares CHF100.00	Sale and support of software	77
168	Trilead GmbH	Switzerland	Ordinary Shares CHF100.00	Sale and support of software	78
169	Interwoven, Inc., Taiwan Branch	Taiwan	Branch	Sale and support of software	79
170	Micro Focus Taiwan Co. Ltd (formerly Novell (Taiwan) Co., Ltd.)	Taiwan	Ordinary Shares NT\$10.00	Sale and support of software	80

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

35 Related undertakings continued

	Company name	Country of incorporation	Class(es) of shares held ^{1,2}	Principal activities	Key to Registered office address
171	Micro Focus Enterprise Tunisia SARL	Tunisia	Ordinary Shares TND10.00	Sale and support of software	81
172	Atarlabs Bilişim Anonim Şirketi	Turkey	Group A Shares TRY1.0	Development and support of software	82
173	Micro Focus Teknoloji Çözümleri Limited Şirketi	Turkey	Ordinary Shares TRY25.00	Sale and support of software	83
174	Micro Focus Ukraine, LLC (formerly Serena Software Ukraine LLC)	Ukraine	Interest in Capital	Sale and support of software	84
175	Entco International SARL – Abu Dhabi – Branch	United Arab Emirates	Branch	Sale and support of software	85
176	Entco International SARL – Jebel Ali Free Zone – Branch	United Arab Emirates	Branch	Sale and support of software	86
177	Entco Software Services Middle East FZ-LLC	United Arab Emirates	Ordinary Shares AED1,000.00	Sale and support of software	87
178	Attachmate Sales UK Limited	United Kingdom	Ordinary Shares £1.00	Sale and support of software	88
179	Autonomy Systems Limited	United Kingdom	Ordinary Shares £1.00	Sale and support of software	89
180	Borland (Holding) UK Ltd	United Kingdom	Ordinary Shares £1.00	Dormant	88
181	Borland (UK) Limited	United Kingdom	Ordinary Shares £1.00	Dormant	88
182	Entcorp Marigalante UK Limited	United Kingdom	Ordinary Shares £1.00	In liquidation	89
183	Longsand Limited	United Kingdom	Ordinary Shares £1.00	Sale and support of software	89
184	Merant Holdings	United Kingdom	Ordinary Shares £1.00	Holding Company	88
185	Micro Focus (IP) Holdings Limited	United Kingdom	Ordinary Shares US\$1.00	Dormant	88
186	Micro Focus (IP) Ltd	United Kingdom	Ordinary Shares £1.00	Holding Company	88
187	Micro Focus (US) Holdings	United Kingdom	Ordinary Shares US\$1.00	Holding Company	88
188	Micro Focus CHC Limited	United Kingdom	Ordinary Shares US\$0.01 Redeemable Preference Shares US\$1.00 C Preference Shares US\$1.00	Holding Company	88
189	Micro Focus Foreign HoldCo Ltd	United Kingdom	Ordinary Shares £1.00	Holding Company	89
190	Micro Focus Global Limited	United Kingdom	Ordinary Shares £1.00	Sale and support of software	88
191	Micro Focus Group Limited	United Kingdom	Ordinary Shares £1.00	Holding Company	88
192	Micro Focus Holdings Unlimited	United Kingdom	Ordinary Shares £0.01	Holding Company	88
193	Micro Focus Integration Holdings Limited	United Kingdom	Ordinary Shares US\$1.00	In liquidation	88
194	Micro Focus Integration Limited	United Kingdom	Ordinary Shares US\$1.00	Sale and support of software	88
195	Micro Focus IP Development Limited	United Kingdom	Ordinary Shares US\$1.00	Development and support of software	88
196	Micro Focus Limited	United Kingdom	Ordinary Shares £1.00	Sale and support of software	88

35 Related undertakings continued

	Company name	Country of incorporation	Class(es) of shares held ^{1,2}	Principal activities	Key to Registered office address
197	Micro Focus MHC Limited	United Kingdom	A Ordinary Shares £0.00001 B Ordinary Shares £0.00001	Holding Company	88
198	Micro Focus Midco Holdings Limited	United Kingdom	Ordinary Shares US\$0.01	Holding Company	88
199	Micro Focus Midco Limited	United Kingdom	Ordinary Shares US\$0.0001	Holding Company	88
200	Micro Focus Situla Holding Ltd	United Kingdom	Ordinary Shares £1.00	Holding Company	89
201	Micro Focus Software (IP) Holdings Limited	United Kingdom	Ordinary Shares US\$0.01 Preferred Shares US\$1.00	Holding Company	88
202	Micro Focus Software Holdings Ltd	United Kingdom	Ordinary Shares £1.00	Sale and support of software	88
203	Micro Focus Software UK Ltd	United Kingdom	Ordinary Shares £1.00	Sale and support of software	89
204	Micro Focus UK Limited	United Kingdom	Ordinary Shares £1.00	Dormant	88
205	NetIQ Limited	United Kingdom	Ordinary Shares £1.00	In liquidation	88
206	Serena Holdings	United Kingdom	Ordinary Shares US\$1.00	Holding Company	88
207	Serena Software Europe Limited	United Kingdom	Ordinary Shares £1.00	Sale and support of software	88
208	Attachmate Corporation	United States	Common Stock US\$0.01	Development and support of software	90
209	Borland Corporation	United States	Common Stock US\$0.01	Holding Company	91
210	Borland Software Corporation	United States	Common Stock US\$0.01	Development and support of software	91
211	Borland Technology Corporation	United States	Common Stock US\$0.01	Dormant	91
212	Entco Delaware LLC	United States	Interest in Capital	Sale and support of software	91
213	Entco, LLC	United States	Interest in Capital	Sale and support of software	91
214	GWAVA Technologies Inc.	United States	Common Stock of US\$1.00	Sale and support of software	91
215	MA FinanceCo., LLC	United States	Membership Units	Holding Company	91
216	Marcel Holdings LLC	United States	Limited Liability Company Interest US\$1.00	Sale and support of software	91
217	Micro Focus (US) Group, Inc	United States	Common Stock US\$0.01	Holding Company	91
218	Micro Focus (US) International Holdings, Inc.	United States	Common Stock US\$0.01	Holding Company	91
219	Micro Focus (US), Inc.	United States	Common Stock US\$0.01	Development and support of software	91
220	Micro Focus Brazil Holdings LLC	United States	Interest in Capital	Holding Company	91
221	Micro Focus Government Solutions LLC	United States	Interest in Capital	Sale and support of software	91
222	Micro Focus LLC	United States	Limited Liability Company Interests	Sale and support of software	91

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

35 Related undertakings continued

	Company name	Country of incorporation	Class(es) of shares held ^{1,2}	Principal activities	Key to Registered office address
223	Micro Focus Software Inc.	United States	Voting Common Stock US\$0.01 Non-voting Common Stock US\$0.01	Development and support of software	91
224	NetIQ Corporation	United States	Common Stock US\$0.001	Development and support of software	91
225	Novell Holdings, Inc.	United States	Common Stock US\$0.01	Holding Company	91
226	Novell International Holdings, Inc.	United States	Common Stock US\$0.01	Holding Company	91
227	Seattle SpinCo, Inc.	United States	Class A Common Stock US\$0.01 Class B Common Stock US\$0.01	Holding Company	91
228	Serena Software, Inc.	United States	Common Stock US\$0.01	Holding Company	91
229	Stratify, Inc.	United States	Common Stock US\$0.001	Sale and support of software	91
230	The Attachmate Group, Inc.	United States	Common Stock US\$0.001	Holding Company	91
231	Vertica Systems, LLC	United States	Limited Liability Company Interests	Sale and support of software	91

1 The Group has a 100% equity ownership interest in each of the subsidiary undertakings.

2 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.

35 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	Donau Centre, Hauptstrasse 4-10, Linz, 4040, Austria
3	Officenter, Luchthavenlaan 27, 1800 Vilvoorde, Belgium
4	EU Parliament, 4th Floor, 37 De Meeussquare, Brussels, 1000, Belgium
5	Rua Joaquim Floriano, 466-12 Andar, São Paulo, CEP 04534-002, Brazil
6	Avenida das Nações Unidas, nº 12.901, conjunto 2302, sala 72, Itaim Bibi, São Paulo, CEP 04578-000, Brazil
7	Estera Corporate Services (BVI) Limited, Jayla Place Wickhams Cay 1, Road Town, Tortola, Virgin Islands, British
8	76A James Bouchier Blvd, Lozenetz, 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	Suite 1700, Park Place, 666 Burrard Street, Vancouver BC V6C 2X8, Canada
12	4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, Alberta T2P 5C5, Canada
13	Cogswell Tower, 2000 Barrington Street, Suite 1101-C., Halifax NS B3J 3K1, Canada
14	Estera Trust (Cayman) Limited, PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands
15	Unit 601, Block A, Yuanyang International Center, Building 56, Dong Si Huan Zhong Dong Road, Beijing, Chaoyang District, China
16	Floor 2, Building 1, No. 799 Naxian Road, Pilot Free Trade Zone, Shanghai, China
17	8 Guangshun Avenue South, B01, 3F, Building 1, Chaoyang District, China
18	No. 209, Chuangxin Plaza, No. 5 Keyuanyi Road, Jiulongpo District, Chongqing, China
19	14/F, Office 1436, Times Financial Center, 4001 Shennan Avenue, Futian District, Shenzhen, Guangdong, 518046, China
20	1807-1811, 18th Floor, Kechuang Building, interchange of Yingxiong Mountain Road and 2nd Ring South Rd, Shizhong District, Jinan, Shangdong, China
21	Room 810, 8 /F, Tower B, No.8 Century Avenue, Shanghai Pilot Free Trade Zone, China
22	Unit 04, B01, 3rd Floor, 101 1st Floor, No.1 building, No.8 Yard Guangshun South Avenue, Chaoyang District, Beijing, China
23	San José, Cantón Montes de Oca, Distrito San Pedro, cincuenta metros al sur del Restaurante Le Chandelier, Edificio Blanco, Costa Rica
24	54 Digeni Akritas, Akritas 2nd Floor, Office 201-202, PC 1061, Nicosia, Cyprus
25	Za Brumlovkou 1559/5, Michle, Prague, 140 00, Czech Republic
26	Borupvang 3, 2750, Ballerup, Denmark
27	Accountor Turku Oy, Yliopistonkatu 34,5 krs, Turku FI-20100
28	Tour Atlantique, La Défense 9, 1 Place de la Pyramide, La Défense, Cedex, Paris, 92911, France
29	Tour Carpe Diem, 31 Place des Corolles, 92400, Courbevoie, France
30	Herrenberger Strasse 140, 71034, Böblinge, Germany
31	Von-Braun-Strabe 38a, 48683 Ahaus, Germany
32	Nöerdlicher Zubringer 9-11, 40470 Düsseldorf, Germany
33	21st floor, Henley Building, 5 Queen's Road Central, Hong Kong
34	19th Floor, Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
35	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
36	Laurel, Block D, 65/2, Bagmane Tech Park, C.V. Raman Nagar, Byrasasdraa Post, Bangalore 560093, India
37	4th Floor, Bagmane Tech Park, Olympia Building Survey Nos. 66/1, 66/66-1 & 66/1-3, CV Raman Nagar, Bangalore, 560093, India
38	602 MMTC House C-22 Bandra Kurla Complex Bandra East, Mumbai, MH 400051, India
39	66/1, 6th Floor, Olympia Building, Bagmane Tech Park, Byrasandra, C V Raman Nagar, Bangalore, Karnataka, 560093, India
40	Leela Galleria, 1st Floor, Andheri Kurla Road, Andheri(East), Mumbai – 400059, Maharashtra, India
41	Block A, Ballybrit Business Park, Ballybane Road, Galway, H01 WP08, Ireland
42	One Spencer Dock, North Wall Quay, Dublin 1, Ireland
43	Corrig Court, Corrig Road, Sandyford Industrial Estate, Sandyford, Dublin 18, Ireland
44	5 Altalef St., Yahud, Israel

Notes to the consolidated financial statements

For the year ended 31 October 2020 continued

35 Related undertakings continued

Number	Address
45	Matam Advanced Tech Center, Building 5/1, Haifa, 31 905, Israel
46	Scientific Industries Center, Haifa, 33263, Israel
47	17 Hatidhar St., Raannana, 43665, Israel
48	Via Filippo Turati 8, 20121, Milan, Italy
49	Viale Sarca 235, 20126, Milan, Italy
50	Via Santa – Maria alla Porta n.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	20, rue des Peupliers, L-2328 Luxembourg, 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 SS2, Selangor Darul Ehsan, Malaysia
57	Av. Periférico Sur 6751, Col. Toluquilla, Municipio Tlaquepaque, Jalisco, CP 45610, Mexico
58	Van Deventerlaan 31-51, 3528 AG Utrecht, The Netherlands
59	Level 26, PWC Tower, 15 Customs Street West, Auckland, 1010, New Zealand
60	7th Floor, Dronning Eufemias Gate 16, 0191 Oslo, Norway
61	2/F Three World Square, Upper Mckinley Road, Taguig City, Philippines
62	Centrum Biurowe Globis, Powstańców Śląskich 7A, 53-332, Wrocław, Poland
63	Centro Empresarial Torres de Lisboa, Rua Tomás da Fonseca, Torre G, 1.º, 1600-209 Lisbon, Portugal
64	110 Highway North Km. 28, Bldg. #1, Aguadilla, 00603, Puerto Rico
65	350 Chardon Avenue, Chardon Tower, Suite 801, San Juan, 00918, Puerto Rico
66	2nd District, 3 George Constantinescu Street, BOC Office Building, Bucharest, Romania
67	Leningradskoye shosse 16 A, Building 3, floor 10, premise XV, room 16, 125171, Moscow, Russian Federation
68	Regus Al-Nakheel Centre, Nimr Building A (1st Floor), 5176 Al-Imam Saud Ibn Abdul Aziz Road, Al Nakheel District, Saudi Arabia
69	#12-04/06, 1 Harbourfront Place, Harbourfront Tower 1, 098633, Singapore
70	450 Alexandra Road, Singapore 119960, Singapore
71	78 Sophia Street, Fairland, 2195, South Africa
72	Morning View Office Park 255 Rivonia Road, Morningside, South Africa
73	Yeoidodong, SK Building, 15F, 31 Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul, Korea
74	Torre Espacio, Planta 16, Paseo de la Castellana, 259D, 28046 Madrid, Spain
75	Kronborgsgränd 1, 164 46 Kista, Stockholm, Sweden
76	Chemin Jean-Baptiste Vandelle 3A, 1290 Versoix, Switzerland
77	Wallisellen Business Park, Offices 201-204, Richtistrasse 7, 8304, Wallisellen, Switzerland
78	C/O Centralis Switzerland GmbH, Bahnhofstrasse 10, 6300 Zug, Switzerland
79	10F-1 No.66, Jing Mao 2nd Road, Nangang Distric, Taipei City, 115, Taiwan
80	9F No 200, Sec. 1, Keelung Road, Xinyi Dist, Taipei City 110, Taiwan
81	ZI Chotrana, Technopole El Ghazala, Lot No 45, Ariana, 2088, Tunisia
82	Üniversiteler Mahallesi 1605 Cad. No: 3A, Çankaya, Ankara, Turkey
83	AND Plaza Kozyatağa İçerenköy Mahallesi Umut Sk. 10/12, Kat: 16 34752 Ataşehir/İstanbul, Turkey
84	13 Pimonenko str., building 1, Office 1B/22, Kiev 04050, Ukraine
85	Al Hilal Building, Al Falah Road, Office 318, Abu Dhabi, United Arab Emirates
86	JAFZA One building, Unit No. AB 1005, Jebel Ali Free Zone, Dubai, United Arab Emirates
87	1204 – 1205, Floor 12 Al Shatha Tower, Dubai, United Arab Emirates
88	The Lawn, 22-30 Old Bath Road, Newbury, Berkshire, RG14 1QN, United Kingdom
89	Cain Road, Amen Corner, Bracknell, Berkshire, RG12 1HN, United Kingdom
90	C T Corporation System, 711 Capitol Way S, Suite 204, Olympia 98501, United States
91	The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, DE19801, USA

Company financial statements and notes

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Company Balance Sheet

As at 31 October 2020

	Note	31 October 2020 \$m	31 October 2019 \$m
Fixed assets			
Investments	VIII	455.1	437.3
		455.1	437.3
Current assets			
Debtors (including \$3,820.0m due after more than one year (2019: \$3,573.9m))	IX	4,541.7	4,576.9
Cash at bank and in hand		22.8	14.7
		4,564.5	4,591.6
Creditors: amounts falling due within one year	X	(49.3)	(63.9)
Net current assets		4,515.2	4,527.7
Total assets less current liabilities		4,970.3	4,965.0
Capital and reserves			
Called up share capital	XII	47.3	47.2
Share premium account	XII	46.5	44.0
Capital redemption reserve	XII	2,485.0	2,485.0
Merger reserve	XII	1,794.5	1,766.9
Retained earnings		597.0	621.9
Total equity		4,970.3	4,965.0

The loss for the year ended 31 October 2020 before dividends for the Company was \$15.9m (2019: loss of \$55.5m).

The Company financial statements on pages 234 to 243 were approved by the board of directors on 8 February 2021 and were signed on its behalf by:

Stephen Murdoch
Chief Executive Officer

Brian McArthur-Muscroft
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 2020

	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
Reallocation of merger reserve	XII	–	–	(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

As at 31 October 2020, the value of distributable reserves was \$412.8m (2019: \$455.5m). The accompanying notes form part of the financial statements.

	Note	Called up share capital \$m	Share premium account \$m	Retained earnings \$m	Merger reserves \$m	Capital redemption reserves \$m	Total equity \$m
Balance as at 1 November 2018		65.8	41.0	3,217.0	3,751.5	666.3	7,741.6
Loss for the year		–	–	(55.5)	–	–	(55.5)
Other comprehensive income for the year		–	–	–	–	–	–
Total comprehensive income for the year		–	–	(55.5)	–	–	(55.5)
Transaction with owners:							
Dividends	V	–	–	(439.2)	–	–	(439.2)
Issue of share capital		0.1	3.0	(3.8)	–	–	(0.7)
Movement in relation to share options:							
– Value of subsidiary employee services	VIII	–	–	55.3	–	–	55.3
– Value of services provided	VI	–	–	9.2	–	–	9.2
Share reorganisation and buyback:							
Return of Value – share consolidation		(18.7)	–	–	–	18.7	–
Return of Value – expenses		–	–	(1.0)	–	–	(1.0)
Issue and redemption of B shares	XII	–	–	(1,800.0)	(1,800.0)	1,800.0	(1,800.0)
Share buy-back	XII	–	–	(544.7)	–	–	(544.7)
Reallocation of merger reserve	XII	–	–	184.6	(184.6)	–	–
Total changes in equity		(18.6)	3.0	(2,595.1)	(1,984.6)	1,818.7	(2,776.6)
Balance as at 31 October 2019		47.2	44.0	621.9	1,766.9	2,485.0	4,965.0

Company statement of cash flows

For the year ended 31 October 2020

	Note	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Loss for the financial year		(15.9)	(55.5)
Adjustments for:			
Net interest		0.1	(10.1)
Share-based payment charge		0.5	5.4
Exchange movements		(3.7)	0.7
Changes in working capital:			
Decrease in amounts owed from Group undertakings		35.4	3,048.8
Decrease in amounts owed to Group undertakings		–	(195.1)
Increase in other debtors		(0.3)	(0.7)
Decrease in creditors		(10.5)	(8.1)
Net cash generated from operating activities		5.6	2,785.4
Cash flows from investing activities			
Interest received		–	10.1
Net cash generated from investing activities		–	10.1
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		2.5	3.1
Return of Value paid to shareholders	XII	–	(1,800.0)
Return of Value expenses	XII	–	(1.0)
Treasury shares acquired	XII	–	(544.7)
Dividends paid to owners	V	–	(439.2)
Net cash generated/(used in) financing activities		2.5	(2,781.8)
Effects of exchange rate changes		–	–
Net increase in cash and cash equivalents		8.1	13.7
Cash and cash equivalents at beginning of the year		14.7	1.0
Cash and cash equivalents at end of the year		22.8	14.7

The accompanying notes form part of the financial statements.

Notes to the Company financial statements

For the year ended 31 October 2020

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 the impact of the global COVID-19 pandemic, including 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.

Notes to the Company financial statements

For the year ended 31 October 2020 continued

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. Costs incurred relating to acquisition of subsidiaries, yet to be completed, are included within prepayments. Upon completion, these costs are transferred to investments in subsidiaries.

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.

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. The market capitalisation of the Group and the impairment recorded against goodwill in the consolidated accounts are considered indicators the investment in subsidiaries and intercompany receivables may be impaired. 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.

Linked to the impairment recorded against goodwill in the consolidated accounts, there has been a significant reduction during the year in the estimated recoverable value of the Group as described in note 10. This means that there is a reasonably possible change in assumptions that could reduce the recoverable amount of the investments and intercompany receivables to below its carrying value. The approach to the impairment assessment performance along with the key assumptions and reasonably possible changes applied in this assessment are consistent with those included within note 10 of the Group's financial statements.

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 key assumptions would have to:

- Increase by 0.2% (2019: not a reasonably possible change) for the pre-tax discount rate;
- Decrease by 0.2% (2019: not a reasonably possible change) for the average annual revenue growth rate by product group; or
- Decrease by 0.3% (2019: not a reasonably possible change) for the long-term cash flow growth rate for terminal value.

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 2020 for the Company was \$15.9m (2019: loss of \$55.5m).

V Dividends

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Equity – ordinary		
Final paid nil cents (2019: 58.33 cents) per ordinary share	–	240.7
First Interim paid nil cents (2019: 58.33 cents) per ordinary share	–	198.5
	–	439.2

On 18 March 2020, given the increased macro-economic uncertainty as a result of the COVID-19 pandemic, as a precautionary measure, the directors withdrew their recommendation for the payment of a final dividend of 58.33 cents per share in respect of the year ended 31 October 2019. Similarly, no dividend was paid in respect of the six months to 30 April 2020.

The directors proposed a dividend in respect of the year ended 31 October 2020 of 15.5 cents per share which will utilise approximately \$51.9m of total equity. The directors have concluded that the Company has sufficient distributable reserves to pay the dividend. It has not been included as a liability in these financial statements as it has not yet been approved by shareholders.

VI Employees and directors

Staff costs for the Company during the year ended to 31 October 2020:

	Year ended 31 October 2020 \$m	Year ended 31 October 2019 \$m
Wages and salaries	3.4	2.9
Social security costs charge/(credit)	0.5	(3.5)
Cost of employee share schemes	0.5	9.2
Total	4.4	8.6

Notes to the Company financial statements

For the year ended 31 October 2020 continued

VI Employees and directors continued

The average monthly number of employees of the Company, including remunerated directors and non-executive directors, during the year was seven (2019: eight). Stephen Murdoch is remunerated by another Group company. For further information on the directors of the Company, please refer to the Remuneration Report.

Key management personnel costs

All the key management of the Company are directors and are therefore included in note 29 of the Group financial statements.

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 29 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 2020		Year ended 31 October 2019	
	Number of awards '000	Weighted average exercise price pence	Number of awards '000	Weighted average exercise price pence
Outstanding at 1 November	454	—	1,039	—
Granted	300	—	253	—
Exercised	(106)	—	(825)	—
Lapsed	(129)	—	(13)	—
Outstanding at 31 October	519	—	454	—
Exercisable at 31 October	—	—	106	—

The weighted average share price for awards at the date of exercise was £4.67 for the year ended 31 October 2020 (2019: £19.82).

The amount charged to the statement of comprehensive income in respect of the LTIP scheme was \$0.3m (2019: \$0.5m). In addition to this \$0.1m (2019: \$1.8m credit) was credited to the statement of comprehensive income in respect of national insurance on these share awards.

	31 October 2020			31 October 2019		
	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						
£0.00	—	519	9.1	—	454	8.5
	—	519	9.1	—	454	8.5

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	300	Awards made with a free cash flow target and relative TSR target over a three-year period.
Cumulative Earnings per share ("EPS") growth	219	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.
	519	

VII Share-based payments continued

Further details regarding awards to executive directors are provided in the Directors' Remuneration report.

The weighted average fair value of awards granted during the year ended 31 October 2020, as determined using the Black-Scholes valuation model, was £nil (2019: £13.45). The significant inputs into the model were:

	Year ended 31 October 2020	Year ended 31 October 2019
Weighted average share price at the grant date	n/a	£15.95
Expected volatility	n/a	48.91% – 49.10%
Expected dividend yield	n/a	4.40% – 5.43%
Expected option life	n/a	3 – 4 years
Annual risk-free interest rate	n/a	1.15% – 1.38%

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 2020, as determined using the Monte Carlo simulation was \$2.67 and the fair value of awards granted using the share price at the date of grant was \$4.65.

b) Additional Share Grants

	Year ended 31 October 2020		Year ended 31 October 2019	
	Number of awards '000	Weighted average exercise price pence	Number of awards '000	Weighted average exercise price pence
Outstanding at 1 November	1,869	–	3,400	–
Surrendered	(1,438)	–	–	–
Lapsed	(431)	–	(245)	–
Exercised	–	–	(1,624)	–
Granted	–	–	338	–
Outstanding at 31 October	–	–	1,869	–
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 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 \$0.2m for the year ended 31 October 2020 (2019: \$8.7m). In addition to this \$nil (2019: \$2.1m credit) was credited to the statement of comprehensive income in respect of National Insurance on these share options in the year ended 31 October 2020.

Notes to the Company financial statements

For the year ended 31 October 2020 continued

VIII Investments

	\$m
Cost and net book value:	
At 1 November 2018	382.0
Additions	55.3
At 31 October 2019	437.3
At 1 November 2019	437.3
Additions	17.8
At 31 October 2020	455.1

The additions in the year ended 31 October 2020 of \$17.8m relate to capital contributions arising from share-based payments (2019: \$55.3m). 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 2020 is included in note 35 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 2020 \$m	31 October 2019 \$m
Amounts owed by Group undertakings	4,536.3	4,571.7
Prepayments and other debtors	5.4	5.2
Total	4,541.7	4,576.9

Of the amounts owed by Group undertakings, \$3,820.0m (2019: \$3,573.9m) relates to an intercompany loan note facility of up to \$7,000.0m that is to be repaid after more than one year, when legally due. Excluding this intercompany loan note facility, the amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

X Creditors: amounts falling due within one year

	31 October 2020 \$m	31 October 2019 \$m
Amounts owed to Group undertakings	0.2	0.2
Other creditors including taxation and social security	–	0.3
Accruals	49.1	63.4
Total	49.3	63.9

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

XI Financial instruments

The Company has the following financial instruments:

	31 October 2020 \$m	31 October 2019 \$m
Financial assets measured at amortised cost		
Amounts owed by Group undertakings	4,536.3	4,571.7
Total	4,536.3	4,571.7
Financial liabilities measured at amortised cost		
Amounts owed to Group undertakings	0.2	0.2
Accruals	49.1	63.4
Total	49.3	64.6

XII 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 2020 \$m	31 October 2019 \$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	(3,872.8)	(3,900.4)
At 31 October	1,794.5	1,766.9

- 1 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.
- 2 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 2019, it was disclosed that \$400.0m of the merger reserve would be settled in the year. However, as at 31 October 2020, only \$35.4m of the balance was settled and the balance of \$364.6m was no longer required. However, \$337.0m is expected to be settled in qualifying consideration during the year ended 31 October 2021 and as such an equivalent proportion of the merger reserve of \$27.6m is considered unrealised, in accordance with section 3.11(d) of Tech 02/17 and therefore has been transferred from retained earnings.

XIII Contingent liabilities

The Company has guaranteed certain contracts in the normal course of business and bank borrowings of its subsidiaries.

XIV 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.

XV Controlling party

The Company is the ultimate controlling party of the Micro Focus International plc Group.

Additional information

- 245 Offices worldwide
- 249 Investor information
- 250 Company information

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Italy – Rome

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The Netherlands – Utrecht

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United Kingdom
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UK – Newbury Office – Company Headquarters

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UK – Newbury – River Park

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RG14 2DQ
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US – Bellingham – Washington

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T: +1 877 686 9637

US – Cambridge – Massachusetts

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US – Costa Mesa – California

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US – Hillsboro, Oregon

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US – Houston – Texas

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US – Loveland – Ohio

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T: +1 877 686 9637

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US – Provo – Utah Warehouse

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USA
T: +1 801 861 7000

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US – Santa Clara, California

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US – Seattle – Washington

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US – South Euclid – Ohio

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Rest of the world**Australia – Canberra**

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T: +886 223760000

Key dates for 2021 and beyond

Annual General Meeting	25 March 2021
Results announcements	
Interim results – six months ending 30 April 2021	July 2021
Final results – year ending 31 October 2021	February 2022
Dividend payments	
Final dividend payable – year ended 31 October 2020	15 April 2021
Interim dividend payable – six months ending 30 April 2021	October 2021
Final dividend payable – year ending 31 October 2021	April 2022

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 ADRs, 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 ADR 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)

Brian McArthur-Muscroft
(Chief Financial Officer)

Karen Slatford
(Senior Independent Director)

Richard Atkins
(Independent non-executive director)

Amanda Brown
(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
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www.microfocus.com
Registered in England number 5134647

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Independent auditors

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Registrars

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Brokers

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Forward-looking statements

Certain statements contained in this Annual Report and Accounts, including those under the captions 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" 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 the Financial Conduct Authority, or by law, the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.



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