

Progress report

Key highlights 2012

2012 overview

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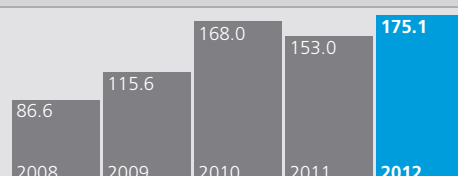
Revenue

\$434.8m (2011: \$436.1m)



Adjusted operating profit

\$175.1m (2011: \$153.0m)



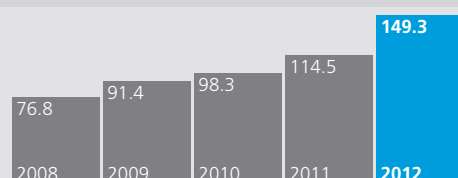
Adjusted EBITDA

\$179.8m (2011: \$158.7m)



Profit before tax

\$149.3m (2011: \$114.5m)



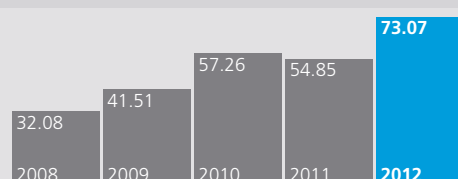
Cash generated from continuing operations

\$197.3m (2011: \$182.3m)



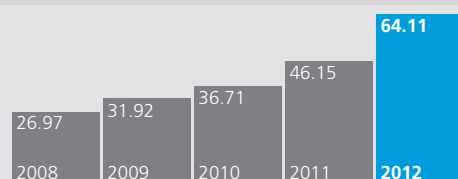
Adjusted earnings per share

73.07c (2011: 54.85c)



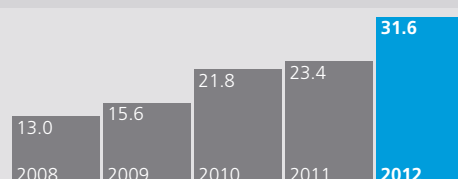
Diluted earnings per share

64.11c (2011: 46.15c)



Total dividend per share

31.6c (2011: 23.4c)



In assessing the performance of the business, the directors use non GAAP measures "Adjusted EBITDA", "Adjusted operating profit" and "Adjusted earnings per share", being the relevant statutory measures, prior to exceptional items, amortisation of purchased intangibles and share based compensation. Exceptional items, share based compensation and amortisation of purchased intangibles are detailed in note 4. EBITDA and Adjusted EBITDA are reconciled to operating profit in note 4. Earnings per share are detailed in note 8.

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Focused. On delivering.

Everything within the organisation is focused on either making or selling our software products.

- Continued investment in products, clear product roadmaps and compelling messaging for product deployment.
- A return to licence fee growth, an increase in Adjusted EBITDA and continued strong cash conversion.

We have a clear objective of setting the business to return to growth. This section reports on our progress.

The year ended 30 April 2012 has been a year of stabilization for Micro Focus following the disappointments of the previous year. I am pleased to report that we have seen a return to licence fee growth, an increase in Adjusted EBITDA to \$179.8m, and a continued strong cash conversion ratio of 108.3% (2011: 126.4%).

Overview and corporate developments

Micro Focus is a software product group with strong franchises and a robust and sustainable core business. We make software products and we sell software products. Everything within the organisation is focused on either making or selling our software products.

At the beginning of the financial year we expected overall revenue on a constant currency basis to decline year on year. Growth in licence fee revenue would offset the anticipated decline in maintenance revenues (following poor licence sales in the year ended 30 April 2011) and consulting revenue would decline due to increased focus and a reduction in loss making revenues. Growth in licence fee revenue would be against a backdrop of a 15.2% decline in the prior period. Against this revenue scenario management took the necessary steps to achieve appropriate margins and cash generation through a clear focus on sound business operations throughout the Group. All of our actions are consistent with the objective of setting the business to return to growth whilst maintaining all options to deliver shareholder value.

During the year to 30 April 2012, Micro Focus delivered revenues of \$434.8m (2011: \$436.1m) which compared to constant currency ("CCY") revenue for the comparable period of \$442.5m, a decline of 1.7%. Licence fees increased by 5.3% to \$176.6m, (2011: CCY \$167.7m), maintenance fees declined by 3.1% to \$230.9m (2011: CCY \$238.2m) and consultancy revenues were down by 25.4% to \$27.3m (2011: CCY \$36.6m).

Our Asia Pacific region benefited from a strong performance in the year from our Japanese operations after very difficult conditions following the Tsunami and Earthquake in 2011. Revenues increased by 8.5% to \$65.1m (2011: CCY \$60.0m). North America is our largest region and despite mixed economic indicators revenues grew by 1.0% to \$200.3m (2011: CCY \$198.4m). Our International region includes the Eurozone and the macro-economic factors affecting that region are well known. Overall revenues here have declined by 8.0% to \$169.4m (2011: CCY \$184.1m).

At the end of the year ended 30 April 2011 we undertook a significant restructuring exercise in order to align the cost base with our anticipated revenues. This led to restructuring charges of \$22.1m in the final quarter of the year offset by \$7.6m of releases from onerous lease provisions. In

the year ended 30 April 2012 we have released \$2.4m of the provisions made last year back to the consolidated statement of comprehensive income as these are no longer required. This figure is separately identified as an exceptional item. Of the provisions made last year, \$2.4m remains in the balance sheet at 30 April 2012, the majority of which relates to onerous lease provisions.

As a result of the restructuring exercise, the average employee headcount during the year ended 30 April 2012 was 1,191 (2011: 1,434). At 30 April 2012 headcount was 1,195. We currently anticipate that our headcount will increase slightly during the year ending 30 April 2013.

Consequently, operating costs before exceptional items, share based payments and amortisation of purchased intangibles ("Adjusted Operating Costs") were reduced by 8.3% to \$259.7m (2011: \$283.1m). On a CCY basis, Adjusted Operating Costs fell more sharply from \$286.9m to \$259.7m, with the largest reduction coming from personnel costs.

The stabilization of the revenue and reduction in costs enabled Micro Focus to report Adjusted Operating Profit for the year ended 30 April 2012 of \$175.1m (2011: \$153.0m), an increase of 14.4% and Adjusted EBITDA in the period increased by 13.3% to \$179.8m (2011: \$158.7m) at a margin of 41.4% (2011: 36.4%).

Our employees are key to the success of the organisation and we would like to thank them for their dedication, commitment and hard work in delivering the full year results. In the year ended 30 April 2011 minimal bonuses were paid to non-commissioned and quota bearing staff due to the results being significantly below the required level of performance. The performance in the year ended 30 April 2012 means that full year bonuses will be paid to those eligible staff as well as Executive and Senior Management.

During the year we reorganised Product Management and Development with the objective of delivering a product roadmap that better met our customer needs and optimised our development investment. The teams have established clear product roadmaps and release plans for each of our products and have developed compelling messaging around the deployment of those products. In the year ended 30 April 2012 Micro Focus spent \$58.3m (33.0% of licence fee sales) on research and development, a level which we believe is appropriate to our objective of achieving sustainable revenue growth.

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Having completed the product roadmaps we are now able to turn our attention to optimizing our channel strategy (both internal and with partners), and our marketing and lead generation plans. In preparation for this, in the year ended 30 April 2012 we have invested in a new online partner portal, a new lead management system and have upgraded our financial systems from Sun V4 to Sun V5 as well as enhancing our Pivotal CRM system.

Product Portfolio and Go to Market Strategy

We will be holding an Investor day on 10 July where we will explain our product plans in more detail.

We look at our business as comprising four product offerings; COBOL Development (CD); Modernization and Migration (MM), and Test and Niche which we refer to collectively as Borland.

We have continued to invest in and strengthen our core portfolio product of CD. The CD portfolio delivers products that enable programmers to develop and deploy applications written in COBOL across distributed platforms including Windows, UNIX and Linux. We have seen further developments to Visual COBOL and have received a positive response from customers and the partner community. Visual COBOL V2, which will be shipped in October 2012, will extend coverage to 85% of existing COBOL applications and provide the fastest way for customers to move to JVM, .net or Cloud environments whilst protecting their investments and intellectual property. At 30 April 2012 we had over 100 customers who have decided to migrate to Visual COBOL to take advantage of the opportunities provided by operating a modern language in an industry standard IDE. With Visual COBOL the perceived COBOL skill issues will be eliminated.

COBOL applications continue to be at the heart of the world's business transactions and power the majority of large organisations' key business operations. Maintaining our leadership position in CD is at the core of our value proposition. By embedding in industry standard IDE's and addressing the perceived skill issues, COBOL will provide a stable base and strong cash flow for the Group over the coming decades.

MM has evolved and been renamed Mainframe Solutions (MS). Our new Enterprise product set has been formed from existing products and enhanced to address application creation and then deployment on or off the mainframe. This approach provides a logical series of solutions which together will transform a customer's mainframe environment. MM had become too focused on purely application migration off the IBM mainframe whilst MS seeks to address a customer's need to get the most value out of their mainframe environment. MS was launched at our Sales Kick Off meeting in May 2012 and is being supported by innovative marketing campaigns. Further enhancements to the product set will be delivered during the coming year.

MM had seen strong growth rates in the period up to 30 April 2010 but saw a decline in overall revenues in the year ended 30 April 2011 with a significant decline in licence fee revenue. This decline in overall revenues has continued in the year ended 30 April 2012 because we have refocused on our target customers in this segment and we have reduced the sales emphasis on large projects and prime contracting. As a result of poor focus and consulting losses in the year ended 30 April 2011, we implemented a bid review process to ensure proper control over the services engagement around these contracts. In addition, we

have been harvesting the learning from over 500 completed migrations to improve our offer and make it more accessible to our business partners.

The combination of the bid process and the narrower focus on migrations has improved the profitability of the projects we have progressed whilst constraining revenue growth. The launch of MS seeks to provide more flexibility in the coming year, while maintaining a strong focus on the profitability of these projects. We believe that with the evolution of MS and proper targeting and execution there will be a return to growth.

In the second half of the year we established a global leadership team for the Borland product set incorporating Test and Niche under a General Manager for Borland. This was driven from the need to focus on this product set and to ensure that the Sales organisation was properly enabled to sell the leading technology that Borland provides. The Borland brand was re-launched at our Sales Kick Off meeting and the new website is now live. This provides relevant and helpful content and is targeted at the Developers and IT decision makers in customer organisations who use Borland's tools to support and manage the process of software development from beginning to end to accelerate delivery and improve quality. The re-launch of Borland is again supported by innovative marketing campaigns this summer.

Borland's Test products have a large addressable market and now have clear product roadmaps and differentiated customer propositions. Our Niche business comprises mature products that provide good margins and strong cash flow. The challenge for both revenue streams is the significant maintenance drag they suffer due to the balance between licence and maintenance in their overall revenues. We are fully aware of this dynamic and are seeking to reduce this drag through increasing licence sales and clear communications of product roadmaps and business benefits to increase maintenance renewal rates.

The operational changes made in the year ended 30 April 2012 have delivered progress but they are the first steps in an ongoing process and we have further improvement to make.

Having completed our product roadmaps we are now able to start adjusting our go to market structures. We continue to believe that we have room for improvement in sales productivity. As we enter the year ending 30 April 2013 we are starting to shift the balance between direct and inside sales, and have appointed EBR's ("Enterprise Business Representatives") to improve our lead qualification. In the year ended 30 April 2012 we had an average of 131 direct sales representatives and 58 inside sales representatives. For the year ending 30 April 2013 our plan is to increase to 142 direct and 77 inside. The number of EBR's is increasing from 7 to 22 and we anticipate increased productivity from our investment in an Eloqua lead management system. Through these investments we will be laying the foundations for further licence fee growth in 2014.

In the year ended 30 April 2012 we made solid progress on Inside Sales performance increasing sales by Inside Sales Representatives ("ISR's") from \$21.5m at CCY in the year ended 30 April 2011 to \$27.3m. During the year we launched the first phase of our web store. This had been identified as a channel to market we had not exploited in the past. A small number of products have been made available and some sales have been made. Most importantly we have

Executive Chairman's statement

continued

started to learn what we do not know about this channel and how to develop it. One of the outcomes of this learning was the appointment of Tom Virden as a non-executive director to help us progress in this space. We do not expect significant revenues through this channel in the year ending 30 April 2013 but believe that this is an important capability to build for the future and has important consequences in how we interact with our customers and partners.

We aim to increase sales productivity and predictability further by continuing to improve Product Management and by generating closer interaction between Sales, Product Management and Product Development. In addition we have provided the Sales organisation with increased levels of training, improved content from Product Management and coverage from Marketing.

In order to drive greater interaction with our partners we have created a Partner Relationship Management portal. This provides a single repository of information about our products for the benefit of our partners. We reinstated our partner conferences with the first being in Dallas in May and a second planned for Barcelona later this month.

We continue to invest in Product Development and are excited by the new products that we will be releasing in the next year. Micro Focus will maintain its leadership position in CD by continuing to innovate products as is evidenced by Visual COBOL. We will work with our independent software vendors and customers to ensure that they can reap the benefits of this new development environment. MS revenue growth will be achieved by leveraging our partner relationships and ensuring that our direct sales force targets the right opportunities. We are increasing the product focus on our Test and Niche business whilst integrating the channels into the three geographic regions to capitalise on opportunities for the wider portfolio of products to be sold to our customers.

Maintenance revenues declined in the year ended 30 April 2012 at CCY by 3.1%. Had the mathematical trends of the year ended 30 April 2011 been followed the decline would have been 5.3%. The improvement came primarily from winning back customers who were off maintenance. The CDMS maintenance revenues increased by 2.1%, and Borland declined by 12.6%, as a result of the maintenance attached to new licence fee sales not compensating for the attrition rates.

The renewal rates for CDMS have declined slightly from 89.5% to 88.9% and for Borland there has been an improvement from 78.6% to 80.9%, with the Borland improvement attributable to the changes made to the product roadmap, and product management. For the year ending 30 April 2013 a continuation of these renewal rates would see maintenance revenues decline by 2.3% over the year ended 30 April 2012 at CCY.

In the year ended 30 April 2012 consultancy revenues declined at CCY by 25.4% due to our decision to refer more consulting work to our global and local partners and our decision to focus on more profitable product related services. As we enter the year ending 30 April 2013 we still have a number of customer contracts which have revenues that do not meet our target profile. We would anticipate eliminating these by the end of the year ending 30 April 2013.

Delivering value to shareholders

The Company was in an offer period from 26 April 2011 to 22 August 2011 following a number of opportunistic approaches from private equity firms. During this process management explored all opportunities to deliver value to our shareholders and as a result the board has adopted a very clear plan of value creation.

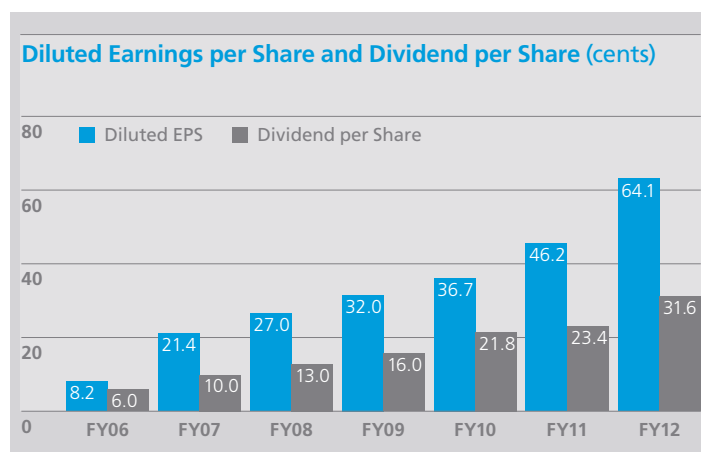
Our priority is improving the business operations to maximise the opportunity to return to growth. Based on our assessment of the asset base and our current markets we believe that Micro Focus is well positioned to deliver sustainable operational returns. At the same time, we have created flexibility to increase shareholder value by buybacks, cash distribution and/or acquisitions as appropriate. In creating this flexibility we will do nothing that will constrain our ability to achieve organic growth.

We have consulted with institutional shareholders on the options for achieving a more efficient capital structure for Micro Focus. In the period from 28 March 2011 to 21 September 2011 we completed a 10% share buyback programme using market purchases under an authority granted at our 2010 Annual General Meeting, at a total cost of \$104.5m. The average share price paid was 319p. At our AGM in September 2011 we renewed our buyback authority and we have not yet utilised that authority to make on market purchases.

On 2 December 2011 we announced that we had entered into a new three year Revolving Credit Facility ("RCF") of up to \$275m with a group of five banks. The existing banks, Barclays, HSBC, Lloyds and Royal Bank of Scotland, have been joined by Clydesdale Bank in the new facility. This increased facility is on better terms than the previous facility and has greater flexibility for its use including the ability to add value through suitable acquisitions should appropriate opportunities arise. Bolt on acquisition opportunities may arise that would enhance or accelerate the operational improvements being made. We have reviewed a number of opportunities in the period but have not found anything to match our criteria to have a payback within five years.

In January we made a Return of Value to all shareholders amounting to \$129.6m in cash (45 pence per share, equivalent to approximately 69.8 cents per share), by way of a B and C share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by a 22 for 25 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B and C shares.

Net Debt to RCF EBITDA (being our Adjusted EBITDA before Amortisation of Capitalised Development Costs) is limited to 2 times in the period to 30 April 2013 and 1.5 times thereafter. At the end of January 2011, after completion of the Return of Value our Net Debt was \$153.3m and based on the reported RCF EBITDA in the year to 30 April 2012 of \$196.1m this would have represented a net debt to RCF EBITDA multiple of 0.8 times. By 30 April 2012 bank borrowings had reduced to \$113.2m and the multiple was reduced to 0.6 times RCF EBITDA. When compared to our Adjusted EBITDA figure of \$179.8m then the multiple is also 0.6 times.



The board has considered the appropriate gearing level of the Group and has now concluded that it should target a Net Debt to Adjusted EBITDA multiple of approximately 1.5 times and would expect to reach that level in the course of the next 24 months. This is a modest level of gearing for a company with the cash generating qualities of Micro Focus and will provide options to give further returns to shareholders. We are confident that this level of debt will not reduce our ability to deliver growth, invest in products, and/or make appropriate acquisitions.

Since IPO the Company has had a dividend policy of distributing 40% of pre-exceptional post tax earnings. This 2.5 times dividend cover has provided shareholders with a compound increase in dividend from 2006 to 2011 of over 30% per annum. The board has decided to increase the payout ratio to 50% so that dividend cover will be 2 times for 2012 onwards. This change in policy results in an increase of the proposed final dividend of 44.4% to 23.4 cents per share, (2011: 16.2 cents per share) and an increase in the proposed total dividend for the year of 35.0% to 31.6 cents per share (2011: 23.4 cents per share). In a normal year there would be a third paid out at the interims and two thirds paid out at the final dividend. The final dividend will be paid in sterling equivalent to 14.90 pence per share, based on an exchange rate of £ = \$1.57, being the rate applicable on 20 June 2012, the date on which the board resolved to propose the final dividend. If approved by shareholders at the AGM on 26 September 2012 the final dividend will be paid on 2 October 2012 to shareholders on the register at 31 August 2012.

Outlook

Following the prior year's significant licence sales decline we are pleased to see a return to licence fee growth in the year ended 30 April 2012. The anticipated reduction in maintenance revenues provided a drag on overall revenues and this will continue in the new financial year. Consultancy revenues are down significantly but now provide a positive contribution to the Group after being significantly loss making in the prior year. We have seen some currency headwinds in the second half of the year and these are likely to continue in the first half of the year ending 30 April 2013.

In the year ending 30 April 2013 we anticipate delivering shareholders a return in excess of our cost of capital. During the year ending 30 April 2013 we will deliver many of the product enhancements and campaigns that we have been working on in the year ended 30 April 2012. Having completed the product plan we can now reengineer our internal go to market model, our partner network and our marketing campaigns around these roadmaps. By the end of the year ending 30 April 2013 the operations should be 'fit for purpose' and the integration of all prior acquisitions fully complete.

As many of our products have a six to nine month sales cycles we would expect to see some initial customer wins from these new products by the end of the year.

Our strategy (and pure mathematics) dictates that we will see some decline in maintenance and consultancy revenues and a decline in niche revenues in the year. These will be offset to some extent by growth in licence revenues. In addition we expect to see continued uncertainty in the Eurozone. As a result we anticipate that our overall revenues will be in the range of +1% to -3% on those reported in the year ended 30 April 2012 on a CCY basis. We anticipate that the quality of revenue delivered will improve year on year and the Group will exit the year positioned for growth in the year ending 30 April 2014. Our strategy of driving strong cash generation and using this to reinvest in our products and to generate enhanced returns for shareholders remains unchanged.

Kevin Loosemore
Executive Chairman
20 June 2012

Steadily improving our financial returns.

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

In previous years Micro Focus did not provide profitability by its operating segments as it controlled all costs globally. At the start of this financial year Adjusted EBITDA responsibility was delegated to the regional presidents. They have directly controllable costs and then allocated central costs. Their variable reward is now heavily weighted towards delivery of profitability in their region.

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

Figure 1 – Revenue by geographic region

	Year ended 30 April 2012 as reported \$m	Year ended 30 April 2011 as reported \$m	Year ended 30 April 2011 at constant currency \$m
North America	200.3	197.7	198.4
International	169.4	179.3	184.1
Asia Pacific	65.1	59.1	60.0
Total revenue	434.8	436.1	442.5

On a constant currency basis total revenues have declined by 1.7%. North America saw an increase of 1.0%, International declined by 8.0% and Asia Pacific increased by 8.5%. The decline in International is 6.6% after adjusting for the credit note issued in Brazil in the first half of last year.

In North America, licence fee revenue grew compared with the year ended 30 April 2011 and more than offset the anticipated declines in maintenance and consultancy revenues. The licence fee performance in the second half of the year showed an improvement over the comparable period.

For International reported revenues were similar in the second half of the year to the first half of the year but were down by 11.2% on the six months to 30 April 2011. Both licence and consultancy revenues have declined with maintenance remaining at the same level.

In Asia Pacific the overall increase in revenues was driven by a strong growth in licence fees largely as a result of a strong performance in Japan. Maintenance and consultancy revenues declined during the year.

Revenue for the year by category at actual reported and constant currency was as shown in Figure 2. Revenue by Product Portfolio on a constant currency basis is shown in Figure 3.

Figure 2 – Revenue by category

	Year ended 30 April 2012 as reported \$m	Year ended 30 April 2011 as reported \$m	Year ended 30 April 2011 at constant currency \$m
Licence	176.6	165.8	167.7
Maintenance	230.9	233.8	238.2
Consultancy	27.3	36.5	36.6
Total revenue	434.8	436.1	442.5

Total licence fee revenues grew by 5.3% at constant currencies. In the comparable period licence fee revenues included the impact of a credit note for \$2.1m issued in Brazil. Adjusting for the impact of this credit note, total licence fee revenue increased by 4.0%. CDMS licence fee revenues at constant currencies increased by 5.2%, due to a strong performance in COBOL development which offset the lower licence fee sales in our migration business. Borland licence fee revenues increased by 5.6%.

Maintenance revenues declined at constant currencies by 3.1%. The CDMS maintenance revenues increased by 2.1%, and Borland declined by 12.6% as a result of the maintenance attached to new licence fee sales not compensating for the attrition rates.

The renewal rates for CDMS have declined slightly from 89.5% to 88.9% whilst for Borland there has been an improvement from 78.6% to 80.9%. Consultancy revenues have declined at constant currency by 25.4% due to our decision to refer more consulting work to our global and local partners and our decision to focus on more profitable product related services.

Figure 3 – Revenue by Product Portfolio on a constant currency basis

	Year ended 30 April 2012 \$m	Year ended 30 April 2011 \$m	Growth v April 2011 %
CD			
Licence	108.5	96.8	12.1
Maintenance	115.1	112.8	2.0
Consultancy	2.8	2.1	33.3
	226.4	211.7	6.9
MS			
Licence	25.0	30.1	(16.9)
Maintenance	42.2	41.2	2.4
Consultancy	10.8	16.1	(32.9)
	78.0	87.4	(10.8)
CDMS			
Licence	133.5	126.9	5.2
Maintenance	157.3	154.0	2.1
Consultancy	13.6	18.2	(25.3)
Sub-total	304.4	299.1	1.8
Test			
Licence	26.6	22.7	17.2
Maintenance	52.5	58.7	(10.6)
Consultancy	12.0	16.5	(27.3)
	91.1	97.9	(6.9)
Niche			
Licence	16.5	18.1	(8.8)
Maintenance	21.1	25.5	(17.3)
Consultancy	1.7	1.9	(10.5)
	39.3	45.5	(13.6)
Borland			
Licence	43.1	40.8	5.6
Maintenance	73.6	84.2	(12.6)
Consultancy	13.7	18.4	(25.5)
Sub-total	130.4	143.4	(9.1)
Total revenue			
Licence	176.6	167.7	5.3
Maintenance	230.9	238.2	(3.1)
Consultancy	27.3	36.6	(25.4)
Revenue at constant currency	434.8	442.5	(1.7)

Costs

All comments relate to costs at actual reported \$.

Cost of sales for the year decreased by 22.3% to \$49.5m excluding exceptional credits of \$0.2m (2011: \$63.7m). The costs in this category predominantly relate to our consulting and helpline support operations. The majority of the cost reduction came from decreased consulting revenues and the impact of the restructuring undertaken at the end of the year ended 30 April 2011.

Selling and distribution costs decreased by 3.2% to \$128.1m excluding exceptional credits of \$0.8m (2011: \$132.3m excluding exceptional items of \$12.5m) as a result of the reduction in costs following the restructuring programme undertaken at the end of the year ended 30 April 2011.

Research and development expenses decreased slightly by 3.8% to \$55.0m excluding exceptional credits of \$0.2m (2011: \$57.2m excluding exceptional items of \$4.1m), equivalent to approximately 12.6% of revenue compared with 13.1% in the prior year. The charge to the consolidated statement of comprehensive income in the period is after taking account of the net capitalisation of development costs in the period. Additions to capitalised development costs in the period were \$19.5m (2011: \$21.7m) less amortisation of previously capitalised development costs of \$16.2m (2011: \$12.5m) resulting in a net credit to the consolidated statement of comprehensive income of \$3.3m (2011: \$9.2m). The amount spent on research and development prior to the impact of net capitalisation of development costs and exceptional items was \$58.3m (2011: \$67.1m) representing 33.0% of licence fee revenue (2011: 40.5%). At 30 April 2012 the net book value of capitalised development costs on the balance sheet was \$29.8m (2011: \$26.6m).

Administrative expenses, excluding a credit of exceptional items of \$1.3m (2011: credit of \$2.1m), and share based compensation of \$6.1m (2011: \$2.2m) decreased by 5.9% to \$43.0m (2011: \$45.7m). The current period includes a gain of \$3.6m (2011: loss of \$5.4m) in respect of mainly foreign exchange gains on intercompany balances denominated in Euros and Yen. Excluding the impact of foreign exchange, administrative expenses increased by 15.6% from \$40.3m to \$46.6m as a result \$1.0m in bid defence costs, \$3.2m (2011: \$0.4m) in bonuses paid to staff for the year ended 30 April 2012, \$0.7m in increased temporary staff costs, \$0.8m in increased tax and audit fees and \$0.8m in additional dilapidations for our Twyford leased property.

Currency impact

Intercompany loan arrangements within the Group are denominated in the local currency of the borrower. Consequently, any movement in the respective local currency and US\$ will have an impact on converted US\$ value of the loans. This foreign exchange movement is taken to the consolidated statement of comprehensive income. During the period there was a significant movement on Euro:US\$ and Yen:US\$ exchange rates that gave rise to the majority of the foreign exchange gain of approximately \$3.6m (2011: loss of \$5.4m).

53.1% of our revenue is contracted in US dollars, 23.0% in Euros and 23.9% in other currencies. In comparison, 31.6% of our costs are US dollar denominated, 27.2% in Sterling, 19.1% in Euros and 22.1% in other currencies.

Operational and financial review

continued

This weighting of revenue and costs means that if the US\$: Euro exchange rate moves during the year, the revenue impact is far greater than the cost impact, whilst if US\$: sterling rate moves during the year the cost impact far exceeds the revenue impact. Consequently, reported US\$ profit before tax can be impacted by significant movements in US\$ to Euro and sterling exchange rates. The impact of these movements can be seen by the changes to prior year reported numbers when they are stated at CCY. For the year ended 30 April 2011 CCY revenues are 1.46% higher at \$442.5m and profit before tax before the exchange loss above of \$5.4m is 2.41% higher than the reported numbers at \$122.8m.

The greatest volatility in exchange rates continues to be in the US\$ to Euro where the average US\$: Euro exchange rate in May 2012 was \$1.2835:Euro which is 9.2% lower than the average for the six months to 31 October 2011 and 2.8% lower than the six months to 30 April 2012. Consequently, if this rate was maintained for the remainder of the year ending 30 April 2013 then reported revenues will be adversely impacted which would not be offset by the cost benefit.

Adjusted EBITDA

Adjusted EBITDA in the period was \$179.8m (2011: \$158.7m) at a margin of 41.4% (2011: 36.4%).

At the Interim Results we gave guidance on our target margin for Underlying Adjusted EBITDA of 37% to 42%. Underlying Adjusted EBITDA removes the impact of net capitalisation of research and development and foreign currency gains and losses from our Adjusted EBITDA figure. We believe this provides a better indication of the underlying performance of the business. For the comparative figures we also have removed the impact of items identified during last year namely a credit note provision of \$2.1m and a property provision of \$0.9m.

Adjusted EBITDA	Year ended 30 April 2012 \$m	Year ended April 2011 as reported \$m
Reported revenue	434.8	436.1
Credit note in Brazil	–	2.1
Underlying Revenue	434.8	438.2
Adjusted EBITDA	179.8	158.7
Foreign exchange (credit)/charge	(3.6)	5.4
Credit note in Brazil	–	2.1
Property provision	–	0.9
Net capitalisation of software development	(3.3)	(9.2)
Underlying Adjusted EBITDA	172.9	157.9
Underlying Adjusted EBITDA Margin	39.8%	36.0%

Operating profit

Operating profit was \$155.8m (2011: \$120.5m). Adjusted operating profit was \$175.1m (2011: \$153.0m). The improvement in the adjusted operating profit was partly driven by the \$9.0m positive swing on foreign exchange and from the cost savings arising from the restructuring undertaken at the end of the year ended 30 April 2011.

Net finance costs

Net finance costs were \$6.5m (2011: \$6.0m), including the amortisation of \$4.3m of prepaid facility arrangement fees incurred on the Group's

bank loan facility (2011: \$4.1m), loan interest of \$2.2m (2011: \$1.7m) and other interest costs of \$0.3m (2011: \$0.6m) offset by \$0.3m of interest received (2011: \$0.4m). The increased charges in the second half of the year reflect the interest on the increased bank borrowings arising from the Return of Value. Unamortised prepaid facility arrangement fees were \$2.4m at 30 April 2012 (2011: \$2.2m).

Exceptional items

There was an exceptional credit in the year to 30 April 2012 of \$2.4m following releases of provisions related to the restructuring programme undertaken in the year ended 30 April 2011 which were no longer required (2010: \$14.5m charge). The release resulted mainly from lower settlements paid to staff made redundant by the restructuring, from our ability to avoid repaying a grant and settlement of property lease liabilities at amounts lower than expected.

Taxation

Tax for the year was \$28.6m (2011: \$18.1m) resulting in the Group's effective tax rate being 19.2% (2011: 15.8%). In the year the Group recognised additional deferred tax assets of \$3.0m all of which was taken to the consolidated statement of comprehensive income (2011: \$12.6m of which \$6.8m was taken to the consolidated statement of comprehensive income and \$5.8m was taken to goodwill) in respect of US tax losses arising from acquisitions made in prior periods. The impact of this recognition gives rise to a lower effective tax rate for the year. Additionally, in the current year a credit of \$2.6m (2011: nil) has been recognised as a result of the submission of claims for enhanced deductions for research and development expenditure in prior years. Excluding the impact of these adjustments the Group's effective tax rate would be 22.9% for the year (2011: 21.7%). The Group's medium term effective tax rate is currently expected to be between 19% and 22%. The Group has benefited from a lower cash rate of tax during the last two years as a result of an ongoing claim with HMRC in the UK, based on tax legislation, impacting its tax returns for the year ended 30 April 2009 and subsequent years. The Group is one of a number of companies that have submitted similar claims and it is now anticipated that HMRC will choose a test case to establish the correct interpretation of the legislation. The Group has taken no benefit to the consolidated statement of comprehensive income during the periods affected and the potential tax liability is recognised on the Group's balance sheet, but has paid reduced cash tax payments in line with its claim. The cash tax benefit in the year was \$9.2m (2011: \$5.5m) and the total cash tax benefit to date is \$14.7m based on the difference between the Group's claimed tax liability and the tax liability in the balance sheet. Due to the nature of the claim and the advice the Group has received, if HMRC were successful then it is unlikely that any penalties would be payable by the Group but there would be interest on any overdue tax. When the tax position relating to the claim is agreed with HMRC then to the extent that the tax liability is lower than that provided in the balance sheet there would be a positive benefit to the tax charge in the consolidated statement of comprehensive income in the year of settlement. The current maximum benefit is \$17.8m which equates to 10.5 cents per share on a fully diluted basis.

Profit after tax

Profit after tax increased by 25.1% to \$120.6m (2011: \$96.4m).

Goodwill

The largest item on the consolidated statement of financial position is goodwill at \$274.3m (2011: \$274.4m) and arose from acquisitions made by the Group in the period to 31 July 2009. Of this balance, \$162.5m was added when the Group acquired the ASQ Division of Compuware and Borland in May and July 2009. As a result of the change made at the beginning of the year to operate through the three geographic regions

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this balance of goodwill has been allocated into the geographic regions. These regions are considered by the board to be the cash generating units ("CGU's") of the Group. The annual impairment review of goodwill is based on the value in use of the CGU's to which the goodwill is allocated and based on the assumptions used by the board there is no impairment of goodwill in the year.

Purchase of property

In June 2011 the Group exchanged and completed on the purchase of the freehold of its Newbury headquarters from CIP Property for a total consideration of \$14.7m. The reduction in rental charge together with income from an existing tenant produces an initial yield on the purchase of 9.4% compared to the current cost of debt of 2.4%.

Return of Value

The Return of Value of \$129.6m announced in December 2011 was completed in January 2012. In preparation for the Return of Value and in order to provide flexibility for future distributions to shareholders there was an internal corporate reorganization effected by the sale and purchase of a subsidiary of the Company that created a profit of \$682.4m. Approximately \$352.8m of this profit is unrealized and will remain so until the Company receives repayment of the outstanding intercompany debtor. Repayment of the debtor is expected through cash generated through operations or by additional external borrowings. The transactions are reflected in the Company's own balance sheet but do not increase the consolidated profit and loss account reserves. The impact of the Return of Value on the consolidated statement of financial position was to reduce the share premium account by \$56.4m through the issue of B shares and by the issue and cancellation of the C shares, to increase the other reserves by \$56.4m through the creation of a Capital Redemption Reserve on redemption of the B shares and finally to reduce the retained earnings by \$129.6m.

Total equity attributable to the parent

The total equity attributable to the parent has reduced by \$111.2m during the year from \$228.7m to \$117.5m. \$9m of this reduction is explained by the difference between the Return of Value of \$129.6m and the profit after tax for the year of \$120.6m. The remaining \$102.2m of reduction comprises dividends of \$46.3m and share buyback of \$62.5m offset by \$6.1m of movement in relation to share options and other items of \$0.5m. Details are provided in the consolidated statement of changes in equity. The board recognizes that by accessing the unrealized profit of \$532.8m in the Company's retained reserves by further significant distributions to shareholders whether by share buybacks, dividends or returns of value it is possible for the equity attributable to the parent in the consolidated statement of financial position to go into deficit. If such a position were to arise in future it would not impact the Company's ability to make such distributions to shareholders but could impact the external perception of the financial position of the Group. The board will consider the impact of such future distribution at the appropriate time.

Balance sheet restatement

Following a review of our accruals reported in the financial statements for the years ended 30 April 2010 and 2011 we have determined that it is more appropriate to show some of these balances as provisions in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" where previously no provisions were disclosed. As a result, we have restated the prior year balance sheets with a reduction in accruals of \$24.9m for the year ended 30 April 2011 and \$16.1m for the year ended 30 April 2010 and a corresponding increase in provisions at each balance sheet date. For 2011 this meant trade and

other payables reduced from \$88.4m to \$63.6m whilst current provisions became \$17.5m and non-current provisions became \$7.4m. For 2010, trade and other payables reduced from \$90.7m to \$74.6m with current provisions at \$6.0m and non-current provisions at \$10.1m. The provisions as at 30 April 2012 are \$10.5m with them mostly related to onerous property leases, property dilapidations and potential tax liabilities in Brazil split between current liabilities of \$3.7m and non current liabilities of \$6.8m. In addition, bank borrowings are now stated after deduction of unamortised prepaid facility arrangement fees of \$2.2m at 30 April 2011 and \$4.5m at 30 April 2010 previously contained within trade and other receivables. There is no impact on the consolidated statement of comprehensive income in any of the years of the restatement. In accordance with the requirements of IAS 1, "Financial Statement Presentation", where a restatement of an opening consolidated statement of financial position is made then the prior year's consolidated statement of financial position should be published. We have therefore published restated 30 April 2010 numbers.

Cash flow and net debt

The Group's operating cash flow from continuing operations was \$197.3m (2011: \$182.3m). This represented a cash conversion ratio when compared to Adjusted EBITDA less exceptional items of 108.3% (2011: 126.4%). At 30 April 2012, the Group's net debt was \$113.2m (2011: \$12.7m) and during the year the Group increased net borrowings by \$100.5m. There were significant cash outflows totalling \$253.1m comprising the share buyback programme, at a cost of \$62.5m, the purchase of the freehold of the Group's Headquarters in Newbury for \$14.7m, the payment of dividends of \$46.3m and the Return of Value to shareholders of \$129.6m.

Dividend

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus. As outlined in the Executive Chairman's statement, the Group is now targeting a level of dividend cover of approximately 2 times on a pre-exceptional earnings basis reducing from the previous policy of approximately 2.5 times. Consequently, the proposed final dividend is 23.4 cents per share (2011: 16.2 cents per share) giving a total proposed dividend of 31.6 cents per share (2011: 23.4 cents per share) an increase of 35.0% and this is 2 times covered by the pre-exceptional diluted earnings per share. The final dividend will be paid on 2 October 2012 to shareholders on the register on 31 August 2012. Dividends will be paid in sterling equivalent to 14.90 pence per share, based on an exchange rate of £1 = \$1.57, being the rate applicable on 20 June 2012, the date on which the board resolved to propose the dividend.

Group risk factors

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

The principal risks and uncertainties facing the Group are set out on pages 14 and 15.



Mike Phillips
Chief Financial Officer
20 June 2012

Corporate social responsibility

The Micro Focus corporate social responsibility ("CSR") programme forms part of a broader commitment to effective corporate governance for the Group. CSR policies and activities at Micro Focus are reviewed and monitored at board level with non executive director involvement in the CSR committee. The Committee meets regularly to agree priorities and progress activities. During the year ended 30 April 2012, the CSR committee met five times.

The Micro Focus Group is committed to best practice in CSR. The board and management team, employees, shareholders, customers, business partners, suppliers and local communities all influence the structure and development of the CSR policies and plans. CSR considerations increasingly feature in day-to-day operations and planning of the Group.

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

The CSR Policy at Micro Focus covers four areas – the environment, people, charity and community support, employees and ethics and the marketplace and suppliers. Please visit our website (www.microfocus.com/about/responsibility) to read our full Corporate Responsibility Policy.

The table below outlines CSR progress in the year ended 30 April 2012 across the four focus areas:

Our CSR progress

CSR progress in the year ended 30 April 2012 across the four focus areas.

Environment

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

- During the year ending 30 April 2012, Micro Focus has started work with the 'Carbon Trust' organisation to independently audit and provide footprint certification towards the Carbon Trust Standard award which recognises environmental practices and achievements. Results of this first audit will be available during the summer of 2012;
- Third year of commitment to the Carbon Disclosure Project, targeting reductions in the emission of carbon across global operations in 29 countries;
- More than 90% of product deliveries are now electronic compared to physical product distribution;
- Year on year UK energy consumption figures submitted for external verification to obtain 'Carbon-Trust' certification in the year ending 30 April 2013;
- Commitments from growing number of location landlords concerning ongoing support of our eco-environmental objectives;
- New 'Gold' standard LEED certified office in Milan, Italy now fully operational;
- Changes made to recycling practices have resulted in UK corporate headquarters building achieving 'Zero-to-Landfill' waste production level; and
- Reduction in CO₂ emissions for 'year-on-year' of 5.53% (34.3 tonnes).

Charity and community support

Micro Focus employees increasingly support their local communities and this is actively encouraged by the Group, along agreed criteria and guidelines. Corporate support is provided on a funds-matching basis by allocating a number of employee days per month for team and national activities which directly benefit a charity or community initiative. (See the detailed table on page 13).

- Global and local charity and community support policy agreed and communicated to all staff;
- All new initiatives follow core themes of education and local community building;
- Total level of company matching funds were \$53,000 and communicated to all employees;
- Network of local office charity and community 'contacts' now established across the Group;
- Rolled out new "project grants" initiative worldwide, starting in October 2011;
- Global staff support for selected global charity (Red Cross) for two months; and
- Improved employee communications through Charity page on the Company Intranet.

Employees and ethics

During the year ended 30 April 2012, Micro Focus has refocused the workforce on its software products heritage, and aligned the organisation and employees to produce or sell those software products, or support those who do. In a year of stabilization, employee development plans have matured and the measurement and monitoring of those plans has also improved. The Group continues to develop a culture that provides a rewarding and enjoyable working environment for employees that are able to develop their careers in a professional and successful organisation.

Key HR Metrics at 30 April 2012:

- Total Number of Employees Worldwide – 1,195;
- Total Workforce Worldwide – 1,337 including temporary/contractors;
- % Women – Employees Worldwide – 27.8% (up from 25.96% at end of FY11);
- % Women – Senior Management – 20.2%;
- % Women – Directors and Officers – 28.6% (two out of seven including Company Secretary);
- 429 leadership development training days conducted during the year ended 30 April 2012;
- A half year bonus for financial year 2012 was paid to 677 eligible employees. A full year bonus was paid to 712 eligible employees;
- In the year ended 30 April 2012 an international Sharesave scheme roll out was completed. This has broadened access to equity ownership for employees. Sharesave is now available to 93.4% of employees in 23 countries around the world;
- Flexible Benefits scheme is offered to all UK employees. Approximately two thirds of employees choose to take advantage of flexible benefits compared to standard employee package;
- Launched new online recruitment and applicant tracking tool Open Hire in March 2012, along with training for hiring managers. This will enable enhanced reporting of candidate demographics;
- Regular employee communications through intranet, video, email, and monthly 'town hall' meetings;
- Spend on training within functions in the year ended 30 April 2012 increased by 40% compared to the prior year;
- Maintained excellent record in health and safety matters for all employees (no reportable incidents in last 12 months);
- The Company published a revised Worldwide Code of Business Conduct and Ethics in July 2011 which is regularly communicated to all staff and includes policies on anti-bribery and corruption and whistleblowing;
- Global Anti-Bribery, Corruption and Market Abuse Online training course rolled out to all employees, completed and passed by more than 95% of all employees; and
- More than 90% of employee population completed a half year performance management plan ("PMP") and more than 92% completed a full year PMP for the year ended 30 April 2012.

Corporate social responsibility

continued

Marketplace and suppliers

Micro Focus products and services can help organisations lower their carbon footprints. More details are provided in the case study below. Suppliers to the Group are sent Micro Focus' Corporate Social Responsibility charter and are encouraged to follow carbon responsible practices.

- Marketplace – increasing number of customers recognising benefits provided by using Micro Focus products;
- Suppliers – CSR charter included in communication to all UK and US suppliers. Rest of World to follow in the year ending 30 April 2013; and
- Supplier Rationalization – total number of suppliers has been reduced by 37% for better management, reduction in paperwork and carbon footprint. This rationalization review includes supplier CSR performance.

Leading Mexican energy supplier reduces carbon footprint with Micro Focus



"With fewer sites, the Micro Focus tools allow us to provide electricity to citizens in an environmentally conscious way."
Gerard Treviño, IT Sales Coordination Chief, CFE

- 60% reduction in electricity costs.
- Lower carbon footprint by reducing from 130 servers to 16.
- Saves over 3 million sheets of paper each month.

Since 1990 Micro Focus has been a fundamental part of the IT infrastructure of Mexico's Federal Electricity Commission (CFE), and is playing an important role in the energy company's commitment to environmental objectives. As an environmentally and socially responsible company, CFE designs, builds and operates an electrical infrastructure while promoting a 'Good Neighbour' philosophy. One of CFE's responsibilities is to select the best alternatives for location, construction design and its operations to avoid soil, air quality and water deterioration. CFE ensures the preservation of plant and animal species that make up the various ecosystems, as well as the conditions that enable people to maintain, and possibly improve, their quality of life.

Exceeding compliance requirements

Each project undertaken by CFE incorporates appropriate actions that go beyond compliance with current environmental protection and cultural heritage regulations, and projects are developed with sustainability as a priority. This extends to the company's approach to the technology it uses.

High integrity, availability and flexibility

CFE's IT infrastructure handles information concerning its 36m customers. It has to provide high availability during mission critical operations and total flexibility to make changes that the Commission requires. It therefore requires a robust, high performing and flexible infrastructure.

As the most prominent programming language in the industry, Micro Focus COBOL is used by CFE to process requests for information from the company in a way that is easy to implement and understand. CFE has the largest Liant COBOL product base in the world installed under an SCO platform, to handle its two main systems: SICOM and SICOSS. Over time, elements of the systems have been updated and modified. These systems scale up to accommodate an annual growth of around 4 to 5%, representing an annual increase of approximately a million additional users. By the end of 2012, CFE plans to migrate its current 130 servers in Mexico to a 16 (each one will administrate around three million users). This rationalisation project contributes to CFE's environmental commitment.

Server reduction delivers energy savings

"Transforming the technology platform to fewer servers will see us reduce costs by 70% and energy by 60%," says Gerardo Treviño, IT Sales Coordination Chief for the CFE. The server reduction has been carried out every five or six years and also involves changes in the company's processes including readings, invoicing, delivery, collection and registration. More than three million sheets of paper a month will be saved in printing due to the decrease in daily reports. This is thanks to the design of various repositories permitted by the advanced technology platform.

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A focus on charity and community relations

Micro Focus is committed to working with local communities on projects that help children and young adults in all regions of the world where there is a Group operational presence. The programme focuses on supporting education, music, sport and community building activities. The Group raises awareness of community issues, both internally and externally, through the allocation of project grants where money and employee time are used to help employee-nominated charities.

In the year ended 30 April 2012, the Group has continued to help many of the organisations it has supported in prior years, as well as new organisations, to ensure the beneficial impact is sustainable. Some examples are below:

Infrastructure for local community

- £2,000 and 24 employee hours spent building a sanitary block in St. Anne's School, Chennai, India to provide 1,100 pupils with access to sanitation
- Micro Focus Austin office furniture donated to Eagles Wings Retreat Centre to refurbish two dormitories and a meeting hall for youth in Central Texas, US

Community services and employee volunteering

- As part of "National Good Deeds Day" in Israel, 18 employees provided desks and spent 126 hours decorating them with disadvantaged Ethiopian children to equip 50 disadvantaged children at home, each with their own desk and chair
- £2,000 provided to help Westwind 4-H Riding for the Handicapped, Santa Clara, US, to offer riding instruction to physically and psychologically disabled children aged 5-19
- During "Be a Saint Day" in Belfast, Northern Ireland, a team of five employees spent 40 hours restoring and decorating a room in a Nursery to provide single mothers with a free nursery space so that they can return to work

Poverty alleviation

- Five employees renovated the library and purchased books for Webster Elementary School, Detroit, US, which has an 83% poverty level. All pupils now have access to books to improve their reading skills
- £2,000 funds provided and five employees helped St. John the Baptist school, Chatswood, NSW, Australia to provide backpacks with school uniform and supplies for 19 children of single parents, financially challenged or drug-dependent families
- Funds provided to help Mount Carmel School in New Delhi, India, to provide free education, meals counselling and medical care to 250 children in slum areas

Philanthropy and charitable giving

- £6,000 raised for global campaign 'Movember' to support research into prostate cancer
- £8,380 raised for Red Cross global Disaster Fund which enables support to any chosen disaster within the vital first few days
- £7,050 raised for National Autistic Society, UK to help fund counsellors and respite centres for sufferers and families

Total community and charity expenditure

- Project grants to support local communities totalled £16,000 and 190 employee hours were spent in Austria, Australia, India, Israel, UK, USA (St. Anne's school, Mount Carmel school, St. John the Baptist school, Webster Elementary school, Westwind 4-H Riding for the Handicapped, Stiftung Kindertraum, and the Western Haifa Community Centre)
- A total of £40,953 was given to charities, and 80 employee hours (Multiple Sclerosis, British Heart Foundation, Children's Leukemia Foundation, South Bulgaria Flood Relief, Ummah Welfare Trust, Home-Start UK, Scope, Oxfam, Praxis, Action Against Cancer, Manna Food Bank, The Prince's Trust, Swings and Smiles, CLIC Sargent, Inspired Living, Movember, Yabonga Children's Project, Marie Curie, Habitat for Humanity, National Autistic Society, and the International Red Cross)

Principal risks and uncertainties

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

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

A full risk register has been developed for ongoing evaluation and mitigation and the following are the key risks, potential impacts and mitigations that are relevant to the Group as a provider of software products and associated services. Please also refer to the section on internal controls within the corporate governance report on pages 22 to 27.

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

Products

Risk

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

Potential impact

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

Mitigation

Product Management has been a key focus area in the year ended 30 April 2012 and will continue to be so. The Product Management teams have been strengthened and refocused under new leadership promoted from within. Product Management has been more closely aligned with both Sales and Development. Product Management for the Borland product set has been given renewed focus and now reports directly to the General Manager for Borland, whilst Product Management for COBOL Development and Mainframe Solutions (CDMS) reports to the President of Sales. The Development teams are also structured with the same reporting lines, such that there is close alignment and collaboration between Sales, Product Management and Development. For the year ending 30 April 2013 product development plans have been approved, following detailed reviews, with additional investment frameworks undergoing assessment in response to marketplace trends and customer feedback. With regard to cross-selling, sales teams receive training to cover selling techniques for the full portfolio of products, and sales incentives and training have been further improved to encourage enhanced collaboration across product sets.

Go to market models

Risk

For the Group to succeed in meeting revenue and growth targets it requires successful go to market models across the full product portfolio, with effective strategies and plans to exploit channel opportunities and focus the salesforce on all types of customer categories. In addition, effective 'go to market' models will be more successful if accompanied by compelling Micro Focus brand awareness programmes.

Potential impact

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

Mitigation

Revenue plans are supported by a range of measures to monitor and drive improvements in 'go to market' operating models. In addition to quarterly business reviews with all geographies and monthly reviews with regional presidents, the President of Sales participates in weekly management team meetings to review sales performance and 'go to market' priorities. Customer sales cycles are reviewed regularly and a bid review process is in place to monitor and maximise customer revenue opportunities. In addition to sales performance reviews, marketing and product development programmes are assessed regularly to optimise levels of qualified pipeline and ensure that marketing programmes are supported by appropriate product offerings.

During the year a global leadership team for the Borland product set incorporating Test and Niche products, was established under a General Manager for Borland reporting directly to the Executive Chairman. This was driven by the need for greater focus on this product set and to ensure that the sales organisation was properly enabled to sell the Borland technology.

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

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Go to market models

The Group has introduced programmes to improve existing channels and expand into new routes to market. The Group has established a dedicated Partners and Alliances team to increase the focus on maximising the opportunities with new and existing partners. Strategic partners, such as systems integrators and key distributors, are served by tailored review and enablement programmes, while new online routes to market have been introduced, for example a web based sales site.

In addition, brand awareness programmes are in place and reviewed on an ongoing basis to draw on differentiated and consistent PR plans across key geographies. These are supported by targeted analyst relations to reach and raise Micro Focus brand awareness through key marketplace influencers. Brand building is also supported by a growing customer reference programme and online programmes such as effective search engine optimisation and improved corporate websites. In the year ending 30 April 2013 the Group will be running online advertising campaigns to increase awareness of the Micro Focus and Borland brands.

Employees

Risk

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

Potential impact

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

Mitigation

The Group has policies in place to help ensure that it is able to attract and retain employees with the required skills. These policies include training, career development and long-term financial incentives. Leadership training schemes are in place to support management development and succession plans. At the start of the year ended 30 April 2012 a renewed vision and corporate objectives were shared throughout the organisation and are reinforced through regular employee communications plans and performance reviews.

Competition

Risk

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

Potential impact

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

Mitigation

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

Systems and infrastructure

Risk

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

Potential impact

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

Mitigation

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

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

Board of directors



1. Kevin Loosemore, 53 (Executive Chairman) ‡

Kevin is a director of Farnham Castle and was previously non-executive Chairman of Morse plc and a non-executive director of Nationwide Building Society. His most recent executive roles were as Chief Operating Officer of Cable & Wireless plc, President of Motorola Europe, Middle East and Africa and before that, he was Chief Executive of IBM UK Limited. Kevin was appointed non-executive Chairman of the Company in 2005 and Executive Chairman in April 2011. He has a degree in politics and economics from Oxford University.



2. Mike Phillips, 49 (Chief Financial Officer)

Mike is a non-executive director of Parity Group plc. Mike joined Micro Focus on 7 September 2010 and was previously Chief Executive Officer at Morse plc, following his initial role as Group Finance Director. Mike left Morse plc in July 2010 following the turnaround and successful corporate sale to 2e2 in June 2010. From 1998 to 2007, Mike was Group Finance Director at Microgen plc and played a lead role in the transformation of the company to an international software and services business with sustainable and profitable growth. Earlier roles include seven years corporate finance work at Smith & Williamson, as well as two years at PricewaterhouseCoopers where he led the UK technology team, reporting to the global Head of Corporate Finance for the Technology Sector. Mike began his career at Peat Marwick Mitchell & Co (now KPMG).



3. David Maloney, 56 (Non-executive senior independent director and Deputy Chairman) *†‡

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



4. Karen Slatford, 55
(Non-executive director) *†

Karen is Chair of Neverfail Group Limited, the continuous availability firm, The Foundry, a leading special effects software company and Featurespace Ltd, a data analytics software company. Karen is also a non-executive director at Volex Group plc, the global supplier of components and cables and Cambridge Broadband Networks Ltd, a market leader in wireless solutions. Prior to her current board responsibilities, she has held various roles at board level since 2001 at a range of technology companies, including Portwise AB, Via Networks, Inc, Compel Group plc, HAL Knowledge Systems and Stepstone ASA. Karen began her career at ICL before spending 20 years at Hewlett Packard, where in 2000 she became Vice President and General Manager Worldwide Sales & Marketing for the Business Customer Organisation, responsible for sales of all Hewlett Packard's products, services and software to business customers globally. Karen holds a BA Honours degree in European Studies from Bath University and a Diploma in Marketing.



5. Tom Skelton, 51
(Non-executive director) *††

Tom is Chief Executive Officer of Foundation Radiology Group and a founding member of Confluence Medical Systems, a healthcare and technology consulting partnership. Previously, he served as Chief Executive Officer for Misys Healthcare Systems from January 2002 until March 2007 and as a director of Misys plc. Prior to that, he was Chief Executive Officer of Medic Computer Systems, a US-based software company focused on the healthcare information technology market. He earned his BSBA from Robert Morris University, Pittsburgh, PA.



6. Tom Virden, 54
(Non-executive director) *†

Tom is a non-executive director of Atari Inc (publicly traded on the French stock exchange) and technology start-up Sweetbeam. He began his career at Apple Inc and held a range of leadership roles in market development and product marketing, including the leadership of the company's introduction to Small Business and the Music industry. More recently, Tom was International Business Development Director at lastminute.com with responsibility for International Strategy for the company and launching subsidiaries and fully localised sites in France, Germany, Sweden, Italy, Spain, the Netherlands, Australia and Ireland. Prior to that, he was Vice President, Marketing at Digidesign, a California company that brought digital multitrack recording and editing to personal computers. Tom has also started and led a number of technology companies including Katz Media SARL, Virtual European Office (VEO), and most recently, Boatbookings.com, the world's largest online yacht charter site, with 8,000 yachts worldwide. Tom holds a Bachelor of Arts, Double Major in Psychology and Economics from Stanford University in the US.

Directors' report

The directors of Micro Focus International plc (the 'Company') present their report and the audited consolidated financial statements of the Company for the year ended 30 April 2012.

Principal activities

The principal activity of the Group during the year was the making and selling of software products.

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

Business review

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

The Executive Chairman's statement on pages 2 to 5, the operational and financial review on pages 6 to 9 which include details of the Group's activity and the future focus of the Group, the statement on corporate and social responsibility set out on pages 10 to 13, the principal risks and uncertainties set out on pages 14 and 15 and the key performance indicators ('KPIs') on page 35 are incorporated into this directors' report by reference.

Corporate governance

The Group is required to produce a corporate governance statement pursuant to the FSA's Disclosure and Transparency Rules. The information that fulfils this requirement can be found in this directors' report and in the corporate governance section on pages 22 to 27 which are incorporated into this directors' report by reference.

Dividends

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus whilst targeting a level of dividend cover for the year ended 30 April 2012 of approximately 2 times on a pre-exceptional diluted earnings per share basis. The directors recommend payment of a final dividend in respect of the financial year ended 30 April 2012 of 23.4 cents per share, which, taken together with the interim dividend of 8.2 cents per share paid in January 2012, gives a total dividend in respect of 2012 of 31.6 cents per share which is 2 times covered by pre-exceptional diluted earnings per share basis. Subject to shareholder approval, the final dividend will be paid on 2 October 2012 to shareholders on the register on 31 August 2012. Dividends will be paid in sterling based on an exchange rate of £1 = \$1.57, equivalent to approximately 14.90p per share, being the rate applicable on 20 June 2012, the date on which the board resolved to propose the final dividend.

Research and development

All expenditure on research is expensed as incurred. The Group 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 to 30 April 2012, \$58.3m was charged to the consolidated statement of comprehensive income (2011: \$67.1m) in respect of research and development expenditure. This charge is after net capitalisation of development

expenditure of \$3.3m (2011: \$9.2m) consisting of \$19.5m (2011: \$21.7m) of capitalised development expenditure offset by \$16.2m (2011: \$12.5m) of amortisation of previously capitalised development expenditure.

Donations

The Group's policy is to make no donations or contributions to political parties (2011: nil). During the year reported on, the Group made charitable donations of \$53,000 to a number of local and national charities and other local organisations (2011: \$56,000). The Group has a gift programme that matches employee donations and has implemented a give as you earn scheme to allow employees to donate to their chosen charity through the Group's payroll. It also has a policy in place to encourage employees to volunteer a certain number of hours to assist local organisations.

Directors and their interests

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

Executive

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

Non-executive

David Maloney	(Deputy Chairman and Senior Independent Director)
Paul Pester	(resigned 5 January 2012)
Tom Skelton	
Karen Slatford	
Tom Virden	(appointed 5 January 2012)

Paul Pester resigned as a non-executive director on 5 January 2012 and Tom Virden was appointed as a non-executive director on 5 January 2012. Details of the interests of the directors and their families in the ordinary shares of the Company, as disclosed in the register of directors' interests, are given in the remuneration report on pages 28 to 34.

None of the directors had a material interest in any contract of significance to which the Company or a subsidiary was a party during the financial year, as disclosed in note 33, related party transactions.

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

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

Employment policy Equal opportunities

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

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

Disabled employees

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

Employee involvement

The Group believes it is important that employees are aware of the Group's business strategy and the objectives which are in place to assist them to focus on working towards these goals. Communications at the time of key announcements, including presentations by directors to all employees, together with briefings throughout the year, are part of the communication and consultation programme. In addition, regular meetings are held with staff and managers, both to raise issues and to assist with the two-way flow of information. The Group also has an online method which enables employees to express views and improvements.

Further education and training

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

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

The board has undertaken a formal and rigorous process for the evaluation of its own performance and that of its committees and individual directors, further information with regard to the evaluation can be found in the corporate governance report on pages 22 to 27. The evaluation included an assessment of directors' training and development requirements.

Share option schemes

The directors remain committed to the principle that selected employees should be able to participate in the Group's progress through share based compensation schemes. Details of the Group's share based compensation schemes are given in note 29.

Payment of creditors

The Company and the Group seeks the best possible terms from suppliers appropriate to its business and in placing orders gives consideration to quality, delivery, price and terms of payment. The Company and the Group do not follow a specific payment code but have a policy to pay suppliers in accordance with the specific terms agreed with each supplier. The average number of days' purchases outstanding at 30 April 2012 for the Group was 20 days (2011: 38 days) and for the Company was 55 days (2011: 91 days), based on the Company and the Group's trade payables at the end of the year and the amounts invoiced during the year by the Company and Group's trade suppliers.

Financial instruments

The exposure of the Group to financial risks, including the use of financial instruments and policies for hedging and the exposure to price, credit, cash flow and liquidity risk, can be found in note 21 to the financial statements.

Substantial shareholding

In accordance with the Disclosure and Transparency Rules of the Financial Services Authority, at 20 June 2012, the Company had been advised of the following notifiable interests in its voting rights:

Name of holder	Ordinary shares of 11 $\frac{1}{11}$ pence each	Percentage of issued capital
Prudential Plc	15,277,963	8.23%
Artemis Investment Management LLP	9,378,513	5.05%
Legal and General Group Plc	7,835,219	3.88%
Norges Bank	7,311,808	3.94%

Future developments

Further information regarding the Group's future developments can be found in the Executive Chairman's statement on pages 2 to 5 and the operational and financial review on pages 6 to 9.

Additional information for shareholders

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

Directors' report

continued

Share capital

The Company has a single class of share capital which is divided into ordinary shares of 11 $\frac{1}{4}$ pence each. In January 2012 a Return of Value was made to all shareholders amounting to \$129.6m in cash (45 pence per share, equivalent to approximately 69.8 cents per share), by way of a B and C share scheme, which gave shareholders (other than certain overseas subsidiaries) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by a 22 for 25 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B and C shares, further details of which can be found in note 25. During the year a repurchase of shares was undertaken as set out in note 24. Shares held in treasury were consolidated in the same way as all other shares. During the year 272,316 shares were transferred out of treasury to meet the Company's obligations under its employee share plans.

Rights and obligations attaching to shares

Voting – in a general meeting of the Company:

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

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

Deadlines for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM to be held on 26 September 2012 are set out in the Notice of Meeting which accompanies this report.

Dividends and distributions

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

Transfer of shares

Subject to the Articles, any member may transfer all or any of his or her certified shares in writing by an instrument of transfer in any usual form or in any other form which the board may approve. The board may, in its absolute discretion and without giving any reasons, decline to register any instrument of transfer of a certified share which is not a fully paid share provided that, where any such shares are admitted to the Official List maintained by the UK Listing Authority, such

discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The board may decline to 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 accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transfer or to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do). In the case of a transfer of shares in certificated form by a 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, 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.

Repurchase of shares

The Company obtained shareholder authority at the last AGM (held on 22 September 2011) to buy back up to 14.99% of issued share capital. At that time this amounted to 29,642,168 ordinary shares, and the authority remains outstanding until the conclusion of the next AGM on 26 September 2012. The minimum price which must be paid for such shares is now 11 $\frac{1}{4}$ pence and the maximum price which may be paid for each Ordinary Share is an amount equal to the higher of (i) 105% of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the shares concerned; and (ii) the higher of the price of the last independent trade of any Ordinary Share and the highest current bid for an Ordinary Share as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buyback programmes and stabilisation of financial instruments (2273/2003). Following the Return of Value and associated share consolidation the limit on the number of shares to be purchased is 24,472,697 being 14.95% of the current voting rights of the Company.

Amendment to the Articles

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

Appointment and replacement of directors

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

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

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

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

Powers of the directors

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

Shares held in the Employee Benefit Trust

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

Significant agreements

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

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

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

Branches

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

Annual General Meeting ('AGM')

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 Micro Focus House, 2 East Bridge Street, Belfast, BT1 3NQ, Northern Ireland on 26 September 2012 at 1.15pm (UK time).

Independent auditors and disclosure of information to auditors

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

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

Going concern

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

By order of the board



Jane Smithard
Company Secretary
20 June 2012

Corporate governance

Introduction

The principal corporate governance guidance that applies to companies listed with the UK Listing Authority during the year reported on is contained in the Financial Reporting Council's UK Corporate Governance Code (the 'Corporate Governance Code'). Through its commitment to the highest standards of corporate governance, the board endorses and supports the essential elements of the Corporate Governance Code and, apart from a limited exception as explained below, believes the Group has fully complied with the Corporate Governance Code during the year reported on.

Compliance statement

The directors are committed to ensuring that the Company works towards compliance with the main principles of the Corporate Governance Code.

Throughout the year reported on the Company has been in compliance with the main principles of the Corporate Governance Code, except for the following:

A.2.1 – Chairman and Chief Executive – The Corporate Governance Code requires that the roles of Chairman and Chief Executive should not be exercised by the same individual. Kevin Loosemore (formerly non-executive Chairman) was appointed to the role of Executive Chairman on 14 April 2011. The nomination committee and the board considered that the combined role is in the interests of shareholders in order to utilise the proven leadership qualities and significant experience of Kevin Loosemore through a challenging period for the Company and to ensure the ongoing commercial success of the Company. In order to mitigate any potential concerns over the combined role, David Maloney was also appointed as Deputy Chairman on 14 April 2011 and continues to perform his role as Senior Independent Director.

Following Kevin Loosemore's appointment as Executive Chairman and David Maloney's appointment as Deputy Chairman, the terms of reference for each role have been agreed by the board and can be viewed on <http://investors.microfocus.com/corporate-governance>. Kevin Loosemore leads the board and the Company in its relationships with all stakeholders and customers. He is responsible for all aspects of executive management including business strategy and its successful achievement. He is also responsible for chairing board and general meetings, facilitating the effective contribution of non-executive directors, ensuring effective communication with shareholders and upholding the highest standards of integrity and probity. David Maloney chairs the nomination committee and is therefore responsible for succession planning. He leads on governance issues, including the annual review of board effectiveness, and acts as an intermediary, if necessary, between non-executive directors and the Executive Chairman and between the Company and shareholders. The board also has a clear majority of independent directors, with four out of six directors being fully independent.

The principles set out in the Corporate Governance Code cover five areas: leadership, effectiveness, accountability, remuneration and relations with shareholders. With the exception of remuneration (which is dealt with separately in the remuneration report on pages 28 to 34) the following section sets out how the board has applied these principles. The Corporate Governance Code can be accessed at www.frc.org.uk/corporate/ukcgcode.cfm.

The board

The Group is controlled by the board, which is responsible for the Group's system of corporate governance. As at 30 April 2012, the board comprised six directors:

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

Paul Pester resigned from the board as a non-executive director on 5 January 2012 and Tom Virden was appointed to the board as a non-executive director on 5 January 2012. Tom Virden was subsequently appointed as a member of the audit and remuneration committees. Tom Virden's extensive experience in the technology sector and of start-up businesses complements the skills and experience of the rest of the board. Tom Virden is a dual US and British citizen, living in France, and expands the geographical representation of the board.

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

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

Until his appointment as Executive Chairman on 14 April 2011, Kevin Loosemore operated in a non-executive capacity and was considered by the board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of his independent judgment.

David Maloney, the non-executive Senior Independent Director and Deputy Chairman, Tom Skelton, Karen Slatford and Tom Virden, each a non-executive director, are considered by the board to be independent.

In accordance with the Corporate Governance Code, all directors are subject to election by the shareholders at the first AGM of the Company after their appointment and to re-election by the shareholders on an annual basis at the AGM. Therefore all directors will retire at the forthcoming AGM. Non-executive directors are appointed for specific terms. Full terms of their appointment are to be found in the remuneration report.

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In the year ending 30 April 2013, the board has scheduled meetings on a regular basis approximately every one to two months, with additional meetings when circumstances and business dictate. In months in which the board does not meet update calls are scheduled to review progress. All directors receive an agenda and board papers in advance of meetings to help them make an effective contribution at the meetings. The board makes full use of appropriate technology as a means of updating and informing all its members. Board papers are circulated electronically to a tablet device, allowing directors to access documentation more easily and securely. The executive directors ensure regular informal contact is maintained with non-executive directors who are invited to accompany the executive directors when visiting the Group's offices.

In the year under review, the board met on fourteen occasions, six such meetings being scheduled formal board meetings with a further eight additional meetings of the board to provide interim updates or consider matters arising between scheduled meetings.

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

The board receives papers on key subjects in advance of each board meeting. These typically cover:

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

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

Any new director receives a comprehensive, formal and tailored induction into the Company's operations. The directors can request that appropriate training is available as required. Tom Virden was appointed to the board during the year and his induction included briefings on the Company's business, strategy, constitution and decision making process, the roles and responsibilities of a director and the legislative framework. Tom Virden also met with the Group's senior product and other managers.

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

During the year under review the board commissioned leading search company, Russell Reynolds, to conduct a detailed evaluation of the board and its committees as required by Corporate Governance Code provisions B6.1 and B6.2. This took the form of individual interviews with each of the directors and included an assessment of the effectiveness of the board's performance and its compliance with corporate governance principles. The conclusions of the report were positive including that the Group had a strong collegiate board which operated in a culture of openness and mutual respect. Recommendations were made with respect to continuing to refine succession planning and developing internal executive talent. Russell Reynolds presented their findings to the board which were reviewed by both the board and its committees and the resulting recommendations are being implemented. In addition the Deputy Chairman in his role as chairman of the nomination committee worked with Russell Reynolds to develop a succession plan for the board for the next three years.

Attendance at meetings

The number of board meetings and committee meetings attended by each director in the year to 30 April 2012 was as follows:

	Board		Audit committee		Remuneration committee		Nomination committee	
	Held*	Attended	Held*	Attended	Held*	Attended	Held*	Attended
Kevin Loosemore	14	13	–	–	–	–	4	4
Mike Phillips	14	14	–	–	–	–	–	–
David Maloney	14	14	5	5	5	5	4	4
Paul Pester ¹	12	7	3	2	–	–	–	–
Tom Skelton	14	14	5	5	5	5	4	4
Karen Slatford	14	14	5	5	5	5	–	–
Tom Virden ²	2	2	1	1	1	1	–	–

* During period of appointment.

Notes:

1 Paul Pester resigned on 5 January 2012.

2 Tom Virden was appointed on 5 January 2012.

Corporate governance

continued

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

Conflicts of interest

Following the implementation of the relevant provisions of the Companies Act 2006, the Company has put in place procedures to deal with conflicts of interests, which have operated effectively. The board is aware of the other commitments of its directors and changes to these commitments are reported to the board.

Board committees

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

Audit committee

The audit committee is comprised entirely of non-executive directors of the Company. It is chaired by David Maloney, who the board considers has recent and relevant financial experience. Paul Pester resigned from the committee on 5 January 2012 and Tom Virden was appointed to the committee on 21 February 2012. The other members are Tom Skelton and Karen Slatford.

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

The audit committee is responsible for reviewing the Group's annual accounts and interim reports prior to submission to the full board for approval. The committee also monitors the Group's accounting policies, internal financial control systems and financial reporting procedures. The audit committee provides a forum through which the Group's external and internal auditors report to the board. The auditors are invited to attend meetings of the committee on a regular basis and have the opportunity to meet privately with committee members in the absence of executive management. The audit committee oversees the relationship with the auditor, including the independence and objectivity of the auditor (taking into account UK professional and regulatory requirements and the relationship with the audit firm as a whole) and the consideration of audit fees and fees for non-audit work. In addition, the audit committee has developed a policy designed to ensure that the auditor's objectivity

and independence is not compromised by it undertaking inappropriate non-audit work. All significant non-audit work commissioned from the external auditor requires audit committee approval. During the year the fees paid to the auditor were \$0.8m for audit services and \$0.3m for non-audit services. Significant non-audit services were provided by the auditor in respect of bid defence costs and the Return of Value and the audit committee concluded that it was in the interests of the Group to use the auditor for this work as the auditor was considered to be best placed to provide these services and was the provider that offered the best value. Auditor objectivity was safeguarded by the audit committee considering several factors: the standing, experience and tenure of the external audit partner; the nature and level of services provided by the external auditor; and confirmation from the external auditor that it has complied with relevant UK independence standards.

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

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

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

The audit committee's terms of reference include a process for employees of the Company to raise, in confidence, concerns about possible impropriety in matters of financial reporting or other matters.

The written terms of reference of the audit committee include, among other things, the following responsibilities:

- To report to the board on its proceedings, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- To monitor the integrity of the financial statements of the Company and ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control;
- To keep under review the effectiveness of the Company's internal controls and risk management systems;

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- To review the Company's procedures for preventing and detecting fraud, the Company's systems and controls for the prevention of bribery, the adequacy and effectiveness of the Company's anti money laundering systems and the Company's arrangements for its employees to raise concerns about possible wrongdoing in financial reporting or other matters;
- To monitor and review the need for, and the effectiveness of, the Company's internal audit function in the context of the Company's overall risk management system; and
- To oversee the relationship with the Company's auditors, ensuring the independence and objectivity of the auditor, considering audit fees and fees for non-audit work and making recommendations to the board in relation to the appointment, reappointment and removal of the Company's external auditor.

In addition, during the year, the committee:

- Reviewed the Company's plans for business continuity and IT Disaster recovery testing;
- Reviewed and agreed an updated Risk Register;
- Reviewed and approved plans for investment in finance systems;
- Reviewed and recommended to the board the approval of a revised Worldwide Code of Business Conduct and Ethics;
- Reviewed and approved management recommendations for improvements in administrative processes relating to statutory compliance in overseas territories;
- Reviewed and recommended to the board the approval of the Group reorganisation and Return of Value proposal;
- Considered whether the Group should issue a tender for the provision of external audit services as the lead audit partner was due to retire by rotation. Having decided not to issue a tender, agreed the appointment of a new lead audit partner from PricewaterhouseCoopers LLP for the Group to take immediate effect;
- Reviewed the external auditor's performance (through an evaluation by both the directors and the Company's financial management) as a result of which the board is recommending that shareholders approve the reappointment of PricewaterhouseCoopers LLP as external auditor for the financial year ending 30 April 2013 at the forthcoming AGM on 26 September 2012. PricewaterhouseCoopers LLP have been the external auditor to the Group since the Company's initial public offering in 2005. There are no contractual restrictions on the Company on the choice of external auditor; and
- Reviewed the management of corporate, strategic and fraud risks.

Nomination committee

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

The nomination committee is responsible to the full board for proposing candidates to the board, having regard to the balance and structure of the board. The nomination committee uses consultants to identify suitable candidates where a position is identified.

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

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

During the year the nomination committee was responsible for the search and selection process for a new non-executive director. This was led by the Deputy Chairman and the committee appointed Russell Reynolds to assist. The nomination committee discussed and agreed a detailed specification which was provided to Russell Reynolds. This took account of the existing directors' skill sets and experience as well as the overall diversity of the board. Following an initial search and preliminary interviews by the chairs of both the nomination and remuneration committees, a shortlist was recommended to the nomination committee and subsequently the board. The process culminated in the appointment of Tom Virden as a new independent non-executive director with effect from 5 January 2012. In addition the nomination committee discussed and agreed a board succession plan.

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

Corporate governance

continued

Remuneration committee

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

Accountability and audit

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

Risk management

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

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

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

Internal controls

The board is ultimately responsible for establishing and monitoring internal control systems throughout the Group and reviewing their effectiveness. It 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.

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

As part of the process that the Company has in place to review the effectiveness of the internal control system, there are procedures designed to capture and evaluate failings and weaknesses, and in the case of those categorised by the board as 'significant', procedures exist to ensure that necessary action is taken to remedy any such failings.

The requirement is set out in the audit committee's terms of reference to report on a regular basis to the board on the Group's internal financial control procedures and to make recommendations to the board in this area.

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

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

The key elements of the control system are:

- The Group operates a structured, objectives-driven approach to fulfil its core purpose and goals in respect of sustained profitability and growth;
- Systems and procedures are in place for all major transaction types with appropriate 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.

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 committee to review the Group's worldwide operations effectively;
- Cash flows are produced twice monthly by all operations. These are reviewed by the Group treasury function to ensure effective cash management by the Group and to enable its bank funding to be repaid as soon as possible;
- Management representations covering compliance with Group policies and the accuracy of financial information are collected on a quarterly basis; and
- All the major trading entities completed a self assessment on the effectiveness of their internal control environment.

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Consolidation reporting

- The consolidation process entails the combining and adjusting of financial information from the individual financial statements of Micro Focus International plc and its subsidiary undertakings to prepare consolidated financial statements that present financial information for the Group as a single economic entity. Note I, Group accounting policies, sets out the basis of preparation and consolidation, including the elimination of inter-company transactions, balances and unrealised gains between Group companies;
- Financial information from subsidiaries is always reviewed for accuracy by internal review and externally audited where required; and
- The consolidated financial statements are completed in accordance with EU endorsed International Financial Reporting Standards, IFRIC interpretations, and the Companies Act 2006 and Article 4 of the IAS Regulation.

Human resources

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

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

Announcements

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

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

Budgetary process

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

Insurance

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

Shareholder relations

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

The Company reports formally to shareholders four times a year, around June (preliminary announcement of annual results) and December (interim statement) and the Company also publishes interim management statements in or around August and February each year. The annual report is expected to be mailed to shareholders at least 20 business days before the AGM. Separate announcements of all material events are made as necessary. Regular communications are maintained with institutional shareholders and presentations are given to shareholders when the half year and full year financial results are announced and at other times. In addition to the Executive Chairman and Chief Financial Officer, who have regular contact with investors, David Maloney (the Senior Independent non-executive Director and Deputy Chairman) is available to meet with shareholders as and when required. The whole board is kept up to date at its regular meetings with the views of shareholders and analysts. External analysts' reports are also circulated to directors.

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

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

AGM

The Company's AGM, which will be held on 26 September 2012 at 1.15pm (UK time), will provide an opportunity for the board to meet with all shareholders and the participation of shareholders is encouraged. At the meeting, in addition to the statutory business, the board will be available for questions from shareholders.

In accordance with the Corporate Governance Code recommendations, the Company will count all proxy votes and will indicate the level of proxies lodged, the number of proxy votes for and against each such resolution and the number of votes withheld. A resolution will be proposed for each substantive issue and the chairs of the audit, remuneration and nomination committees will attend to answer questions.

Information on share capital and other matters

The information about share capital required to be included in this statement can be found on page 20 of the directors' report and in note 23 to the financial statements.

Remuneration report

Executive summary

Performance vs. pay for financial year ending 30 April 2012

During recent months, the remuneration committee (the 'committee') has conducted a review of the Company's financial performance in relation to the prior year, taking into account the market in which the Company operates and the performance of comparator companies. Key performance highlights for the year include:

- Adjusted EBITDA has grown by 13.3%;
- Return on Equity is 13.51% (from 13.18% in the year ended 30 April 2011);
- Revenue decline of 0.3% (2011: 0.8% growth);
- Cash conversion of Adjusted EBITDA at 108.3% (2011: 126.4%);
- Adjusted EPS is 73.07 cents (2011: 54.85 cents); and
- Total distributions and dividends paid to shareholders in the year were £113.1m comprising £29.5m of dividends and £83.6m relating to the Return of Value.

In addition, the executive directors have managed an opportunistic approach from private equity firms, renegotiated financing on favourable terms in a tight market, and completed a capital restructuring, all helping to establish the company in a stronger position going forward.

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

- Kevin Loosemore's received an annual bonus of £661,500 (i.e. 135% of salary out of a maximum potential of 150% of salary)
- Mike Phillips received an annual bonus of £256,500 (i.e. 90% of salary out of a maximum potential of 100% of salary)
- Total staff bonuses were \$12.0m

Review of remuneration

The committee also undertook a review of senior management's remuneration at Micro Focus. This review took into account pay levels at companies of a similar size and sector, and each individual's role, experience and contribution to the business. The review concluded that:

- Total cash (i.e. salary plus on-target bonus) for the Executive Chairman (£858,000) is in line with market median (£835,000) and below upper quartile (£1,249,000);
- Total cash for the Chief Financial Officer (£428,000) is below median (£467,000). Upper quartile is £648,000;
- Total remuneration for the Executive Chairman (£1,224,000) is below median (£1,263,000). Upper quartile is £1,764,000; and
- Total remuneration for the Chief Financial Officer (£572,000) is below median (£696,000). Upper quartile is £909,000.

The following changes apply from 1 May 2012:

- The Executive Chairman has not received an increase in salary; the Chief Financial Officer received an increase of approximately 3.2%;
- Annual bonus opportunities will be the same as last year, i.e. up to 150% of salary for the Executive Chairman and up to 100% of salary for the Chief Financial Officer;
- Performance stock grants of 200% of salary and 150% of salary have been approved for Kevin Loosemore and Mike Phillips respectively and will be granted following the announcement of the audited results for the year ended 30 April 2012; and
- The remuneration committee has approved appropriate clawback provisions in relation to Performance Related bonus for the coming year.

The committee is keen to ensure that management reward is commensurate with delivery of performance in order to ensure we appropriately motivate and retain high calibre individuals. Accordingly, the committee will carry out a detailed review of remuneration policy and the reward arrangements next year, and consult with shareholders on any proposed changes as appropriate.

Membership of the remuneration committee

Committee membership comprises four independent non-executive directors.

Karen Slatford, Chair	Independent Director
David Maloney	Deputy Chairman and Independent Director
Tom Skelton	Independent Director
Tom Virden	Independent Director
(appointed to the committee 21 February 2012)	

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

The committee has also been assisted by Hewitt Associates Limited trading as Hewitt New Bridge Street ('HNBS'), by Kepler Associates ('Kepler'), by Steen and Co, solicitors, by Linklaters LLP, solicitors, Travers Smith LLP, solicitors and by Lawrence Graham LLP, solicitors, who each provided advice to the committee on remuneration related issues. Kepler attends remuneration committee meetings and provides advice on remuneration for executives, analysis on all elements of the remuneration policy and regular market and best practice updates. Kepler reports directly to the remuneration committee chair and complies with the Code of Conduct for Remuneration Consultants (which can be found at <http://www.remunerationconsultantsgroup.com>). The terms of HNBS and Keplers' engagement are available from the Company Secretary. Steen and Co and Linklaters provided employment law advice to the Group and Lawrence Graham also provided corporate law advice to the Group.

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

Terms of reference

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

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

The terms of reference of the committee are available from the Company Secretary and are on the Company's website www.microfocus.com under 'Investor Relations'.

Calendar of activities

During the year the committee has reviewed the annual calendar to improve its effectiveness. The calendar is driven by the business planning activity of the business prior to the start of the new financial year. The committee is fully informed of changes in business strategy which may affect its decision making. The annual timetable for the year ended 30 April 2012 is set out below for your information.

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

Remuneration report

continued

Remuneration policy

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

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

Policies on remuneration take account of the pay structure, employment conditions and relativities within the Group and also the industry sector. To determine the elements and level of remuneration appropriate to each executive director, the committee considers benchmark remuneration data for selected comparable technology companies as well as a broader group of companies of a similar size to the Company.

It is intended that a significant proportion of remuneration will continue to be performance related (see chart below). Conditions for performance-related bonuses and long-term incentives, i.e. Adjusted EBITDA and EPS respectively, will represent challenging targets which are designed to increase shareholder value. The committee will review the performance conditions annually to ensure that they remain demanding and appropriate.

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

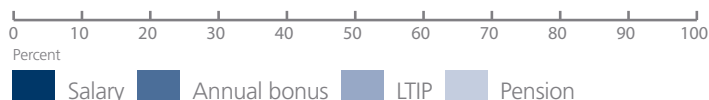
Executive Chairman



Chief Financial Officer



Below Board Executives (average)



In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the committee will ensure that the incentive structure for executive directors and senior management will not raise environmental, social or governance ('ESG') risks by inadvertently motivating irresponsible behaviour. More generally, with

regard to the overall remuneration structure, there is no restriction on the committee, which prevents it from taking into account corporate governance on ESG matters.

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

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

In accordance with the Companies Act 2006, a resolution to approve the remuneration report will be proposed at the Company's AGM on 26 September 2012. Details of the resolution may be found in the notice of meeting accompanying this annual report. As always, any shareholder feedback will be considered carefully by the members of the committee in the formulation and approval of the Company's future remuneration policies.

Directors' service contracts

Executive directors

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

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

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

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

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

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

Non-executive directors

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

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

Non-executive directors do not participate in the Group's share incentives or otherwise receive performance related pay.

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

Non-executive directors	Date of contract	Unexpired term of contract on 30 April 2012	Notice period under contract
David Maloney	4 April 2011	1 year 11 months	90 days from the Company or individual
Tom Skelton	23 October 2009	6 months	90 days from the Company or individual
Karen Slatford	5 July 2010	1 year 2 months	90 days from the Company or individual
Tom Virden	5 January 2012	2 years 8 months	90 days from the Company or individual

All appointments are currently subject to election by the shareholders at the first AGM of the Company after their appointment and to re-election on an annual basis thereafter. Therefore, all the directors will be offering themselves for re-election at the AGM to be held on 26 September 2012.

Remuneration package

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

Annual salary

The board approves the overall budget for employee salary increases and the committee agrees the specific increases for executive directors and certain other senior members of the management team. In doing so it seeks to ensure that the approach taken for executive directors is consistent with that used for other employees. Salaries for executive directors and other senior employees are reviewed annually with changes typically becoming effective from within the first quarter of the new financial year. During the financial year ending 30 April 2012 the cost of the salary increase programme for all employees was 3.9% of total base salaries prior to the increase.

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

At 30 April 2012, the salaries of the executive directors serving during the financial year ending 30 April 2012 were as follows:

- Kevin Loosemore: £490,000
- Mike Phillips: £285,000¹

¹ Mike Phillips base salary from May 1 2012 was increased by approximately 3.2% to £294,000.

Performance-related bonus

The executive directors and all other employees, except for sales staff, participate in a Group performance-related bonus scheme. The level of commission for sales staff is based on performance against sales quotas. The level of bonus for non-sales staff is based on overall Group performance in meeting its primary financial objectives in worldwide earnings before interest, tax, depreciation and amortisation and revenue goals.

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

Bonuses paid to executive directors in respect of the year ended 30 April 2012 are shown on page 33. For the year ending 30 April 2013, the cap on bonuses payable to Kevin Loosemore and Mike Phillips will remain at 150% and 100% of salary respectively.

The remuneration committee has approved clawback provisions in relation to Performance Related bonuses for the coming year.

Remuneration report

continued

Long-term incentives

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

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

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

The forthcoming awards will require that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 3% per annum (at which point 25% of awards will vest) and for full vesting the cumulative EPS growth will be required to be RPI plus 9% per annum. Straight-line vesting will apply between these points.

Directors' interests in share capital

At 30 April 2012 the directors owned the following shares in the Company including interests held by their connected persons:

Director	At 30 April 2012	At 30 April 2011
Kevin Loosemore	186,000	400,000
Mike Phillips	70,400	69,139
David Maloney	44,000	50,000
Tom Skelton	—	—
Karen Slatford	—	—
Tom Virden	5,400	—

As at 20 June 2012 there had been no changes to these interests.

The interests of Mike Phillips and David Maloney have been adjusted to account for the 22 for 25 consolidation completed on 12 January 2012.

The interest of Kevin Loosemore reduced by 50% due to his divorce during the year and further as a result of the share consolidation carried out during the year, partially offset by the purchase of 10,000 shares in March 2012.

A further consequence of Kevin Loosemore's divorce is that 25% of any award resulting from his share grant of 19 April 2011 will be deliverable to his ex-wife as soon as such award vests on 19 April 2014.

All-employee share incentives

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

Pension contributions

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

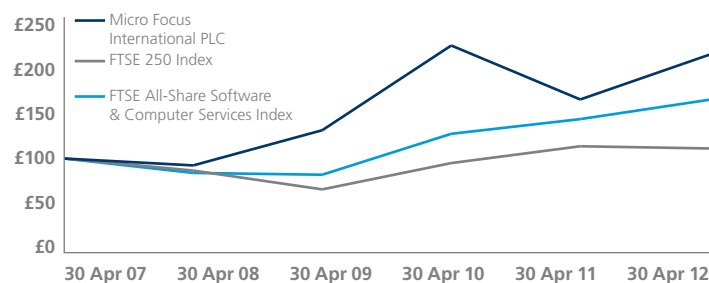
The Company's pension contribution for Mike Phillips is 5% of salary. A 20% allowance is paid to Kevin Loosemore in lieu of pension contributions.

Other benefits

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

Total shareholder return

Source: Bloomberg



This graph shows the value, by 30 April 2012, of £100 invested in Micro Focus International plc on 30 April 2007 compared with the value of £100 invested in the FTSE 250 and the FTSE Software & Computer Services Indices. The intervening points are at financial year ends. The FTSE 250 and the FTSE Software & Computer Services Indices have been chosen as they are considered the most relevant indices for the Company.

Audited information

Detailed emoluments of the directors of the Company

The aggregate remuneration paid or receivable by directors of the Company during the year ending 30 April 2012 was as follows:

	Base salary and fees £'000	Bonus £'000	Benefits in kind £'000	Other benefits ⁴ £'000	Total 2012 £'000	Total 2011 £'000
Executive directors						
Kevin Loosemore (from 14 April 2011)	490	662	41	98	1,291	24
Mike Phillips	285	259	37	–	581	196
Nigel Clifford (left the Company 14 April 2011) ¹	–	–	–	–	–	628
Nick Bray (resigned 23 June 2010) ²	–	–	–	–	–	88
Total executive directors	775	921	78	98	1,872	936
Non-executive directors						
Kevin Loosemore (until 13 April 2011) ³	–	–	–	–	–	215
David Maloney	100	–	–	–	100	73
Tom Skelton	50	–	–	–	50	50
Paul Pester (resigned 5 January 2012)	34	–	–	–	34	60
Karen Slatford	60	–	–	–	60	42
Tom Virden (appointed 5 January 2012)	16	–	–	–	16	–
Total non-executive directors	260	–	–	–	260	440
Total	1,035	921	78	98	2,132	1,376

1 Nigel Clifford was paid his base salary, in accordance with the notice period in his service contract.

2 Nick Bray was paid his base salary in accordance with the notice period in his service contract up until the date that he found new employment.

3 Kevin Loosemore was appointed Executive Chairman on 14 April 2011. He was paid his fee as non-executive Chairman from 1 May 2010 to 13 April 2011 which totalled £215,218 and his salary as Executive Chairman 14 April 2011 to 30 April 2011 totalled £23,218.

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

Non-executive director annual fees on 30 April 2012 were £100,000 for the Senior Independent Director and Deputy Chairman, David Maloney (30 April 2011: £100,000); £50,000 for Tom Skelton (30 April 2011: £50,000); £60,000 for Karen Slatford (30 April 2011 £60,000); £50,000 for Tom Virden, who was appointed with effect from 5 January 2012.

Gains made by director on share options

Details of gains arising on share options exercised during the year are as follows:

	2012	2011
	£'000	£'000
Director		
Nick Bray	–	38

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

No grants were made to the executive directors under the terms of the Plan during the financial year ended 30 April 2012.

The following awards are outstanding under the Plan:

LTIP	Number at 1 May 2011	Number granted in financial year	Number exercised in financial year	Number lapsed in financial year	Number at 30 April 2012	Exercise price	Dates of exercise
Mike Phillips ¹	269,801	–	–	–	269,801	316.9p	7 September 2013 to 6 September 2020
Mike Phillips ²	146,504	–	–	–	146,504	0.0p	1 July 2014 to 17 April 2021

1 Performance condition requires that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 11% per annum (at which point 25% of awards will vest), 60% of shares will vest for cumulative EPS growth of RPI plus 13% per annum and for full vesting the cumulative EPS growth will be required to be RPI plus 15% per annum. Straight-line vesting will apply between these points. Performance against these objectives is determined by the committee based on the Company's audited results.

2 Performance condition comprises a combination of EPS and share price targets which require that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 3% per annum (at which point 25% of awards will vest) and for full vesting the cumulative EPS growth will be required to be RPI plus 9% per annum. Straight-line vesting will apply between these points. The resulting level of vesting will be reduced by 25% if the Absolute Shareholder Return at vesting (equal to the share price at vesting less the reference price of 291.8p plus dividend and cash distributions over the vesting period) is below 150p or increased by 50% if the ASR is 300p or above.

Remuneration report

continued

LTIP – combined options

During the year to 30 April 2012, the following grants were made to the Executive Chairman, Kevin Loosemore, in accordance with the terms of the Plan:

	At 1 May 2011	Number granted in financial year	Number lapsed in financial year	At 30 April 2012	Exercise price	Dates of exercise
Kevin Loosemore ¹	652,000	–	–	652,000	0.0p	19 April 2014 to 18 April 2016

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

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

Sharesave

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

Share option schemes

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

The mid-market price of the shares at 30 April 2012 was 465.6p per share and during the financial year ended 30 April 2012 the price varied between 239.4p and 476.7p per share.

On behalf of the board,



Karen Slatford

Chair of the remuneration committee
20 June 2012

Key performance indicators

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

Description	Metrics	Performance
Revenue growth	2012 (0.3%) 2011 0.8%	Revenue comprises total revenues including the contribution of acquisitions and is compared with the prior year.
Adjusted EBITDA margin	2012 41.4% 2011 36.4%	Earnings before interest, tax, depreciation and amortisation of intangible fixed assets, exceptional items and share based compensation charges. The Adjusted EBITDA margin represents Adjusted EBITDA divided by revenue for the year.
Cash conversion	2012 108.3% 2011 126.4%	This ratio is calculated using the cash flows generated from operating activities (after exceptional costs) divided by Adjusted EBITDA less exceptional costs – the result indicates that the Group is generating cash from its ongoing business which can be used to reinvest in the development of the business including financing acquisitions, fund liabilities and pay dividends to shareholders.
Adjusted EPS	2012 73.07c 2011 54.85c	Adjusted EPS is calculated by taking profit after tax, prior to exceptional items, amortisation of purchased intangibles and share based compensation charges, and tax attributable to these charges divided by the weighted average number of ordinary shares in issue during the year. This measure indicates the ability of the Company to continue to adopt a progressive dividend policy.
Renewal rates on maintenance contracts	2012 CDMS 88.9% Borland 80.9% 2011 CDMS 89.5% Borland 78.6%	Customer retention is an important measure as it supports the maintenance revenue streams going forward. Renewal rates are calculated as the value of maintenance contracts which were renewed in the period divided by the value of contracts which were potentially renewable in the period.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent; and
- State whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure

that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors, whose names and functions are listed in the directors' report confirm that, to the best of their knowledge and belief:

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

The directors are responsible for the maintenance and integrity of the Company's website (www.microfocus.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board



Jane Smithard
Company Secretary
20 June 2012

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

We have audited the Group financial statements of Micro Focus International plc for the year ended 30 April 2012 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, summary of significant accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 36, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 April 2012 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

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

Other matter

We have reported separately on the parent company financial statements of Micro Focus International plc for the year ended 30 April 2012 and on the information in the directors' remuneration report that is described as having been audited.



Pauline Campbell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
20 June 2012

Consolidated statement of comprehensive income

for the year ended 30 April 2012

	Notes	2012 \$'000	2011 \$'000
Revenue	1,2	434,838	436,130
Cost of sales		(49,267)	(63,670)
Gross profit		385,571	372,460
Selling and distribution costs		(127,253)	(144,832)
Research and development expense		(54,768)	(61,302)
Administrative expenses		(47,759)	(45,794)
Operating profit		155,791	120,532
Analysed as:			
Operating profit before exceptional items		153,349	135,072
Exceptional items	3	2,442	(14,540)
Operating profit	1	155,791	120,532
Finance costs	5	(6,836)	(6,349)
Finance income	5	295	358
Profit before tax	3	149,250	114,541
Taxation	6	(28,630)	(18,105)
Profit for the year		120,620	96,436
Other comprehensive income			
Currency translation differences		1,045	607
Other comprehensive income for the year		1,045	607
Total comprehensive income for the year		121,665	97,043
Profit attributable to:			
Owners of the parent		121,665	97,043
Earnings per share expressed in cents per share		cents	cents
– basic	8	65.77	47.04
– diluted	8	64.11	46.15
Earnings per share expressed in pence per share		pence	pence
– basic	8	41.29	30.16
– diluted	8	40.25	29.58

Consolidated statement of financial position

as at 30 April 2012

	Notes	2012 \$'000	Restated 2011 \$'000	Restated 2010 \$'000
Non-current assets				
Goodwill	9	274,340	274,355	274,355
Other intangible assets	10	97,811	109,843	116,827
Property, plant and equipment	11	22,302	9,048	9,775
Deferred tax assets	22	39,782	45,789	55,560
		434,235	439,035	456,517
Current assets				
Inventories	12	460	1,618	153
Trade and other receivables	13	91,856	105,860	121,825
Cash and cash equivalents	14	30,410	26,080	32,829
		122,726	133,558	154,807
Total assets		556,961	572,593	611,324
Current liabilities				
Trade and other payables	15	61,164	63,556	74,643
Borrowings	16	143,613	38,788	96,537
Provisions	20	3,721	17,479	6,047
Current tax liabilities	17	35,438	22,393	24,921
Deferred income	18	136,135	136,269	125,652
		380,071	278,485	327,800
Non-current liabilities				
Deferred income	19	12,611	15,139	10,529
Long-term provisions	20	6,794	7,393	10,059
Deferred tax liabilities	22	39,939	42,878	43,530
		59,344	65,410	64,118
Total liabilities		439,415	343,895	391,918
Net assets		117,546	228,698	219,406
Equity attributable to owners of the parent				
Ordinary shares	23	37,787	37,713	37,583
Share premium account	26	61,311	115,789	112,700
Retained earnings		(6,480)	108,217	102,537
Foreign currency translation (deficit)		(4,891)	(5,936)	(6,329)
Other reserves (deficit)	27	29,819	(27,085)	(27,085)
Total equity attributable to owners of the parent		117,546	228,698	219,406

The consolidated financial statements on pages 38 to 69 were approved by the board of directors on 20 June 2012 and were signed on its behalf by:



Kevin Loosemore
Executive Chairman



Mike Phillips
Chief Financial Officer

Registered number: 5134647

Consolidated statement of changes in equity

for the year ended 30 April 2012

	Notes	Ordinary shares \$'000	Share premium account \$'000	Foreign currency translation reserve (deficit) \$'000	Other reserves (deficit) ^{1 2} \$'000	Retained earnings \$'000	Total \$'000
Balance as at 1 May 2010		37,583	112,700	(6,329)	(27,085)	102,537	219,406
Currency translation differences		–	214	393	–	–	607
Profit for the year		–	–	–	–	96,436	96,436
Total comprehensive income		–	214	393	–	96,436	97,043
Transactions with owners:							
Dividends	7	–	–	–	–	(50,313)	(50,313)
Issue of share capital	23	130	2,875	–	–	(1,484)	1,521
Movement in relation to share options		–	–	–	–	2,235	2,235
Repurchase of shares	24	–	–	–	–	(41,997)	(41,997)
Deferred tax on share options	6	–	–	–	–	803	803
Balance as at 30 April 2011		37,713	115,789	(5,936)	(27,085)	108,217	228,698
Currency translation differences		–	–	1,045	–	–	1,045
Profit for the year		–	–	–	–	120,620	120,620
Total comprehensive income		–	–	1,045	–	120,620	121,665
Transactions with owners:							
Dividends	7	–	–	–	–	(46,262)	(46,262)
Issue of share capital	23	74	1,879	–	–	(700)	1,253
Repurchase of shares	24	–	–	–	–	(62,498)	(62,498)
Return of value to shareholders	25	–	–	–	–	(129,604)	(129,604)
Issue of B shares	23	56,359	(56,359)	–	–	–	–
Redemption of B shares	23	(56,359)	–	–	56,359	–	–
Sales of fractional shares	23	–	2	–	–	–	2
Expenses and foreign exchange relating to return of value	25	–	–	–	545	(1,026)	(481)
Movement in relation to share options		–	–	–	–	4,931	4,931
Corporation tax on share options	6	–	–	–	–	(189)	(189)
Deferred tax on share options	6	–	–	–	–	31	31
Balance as at 30 April 2012		37,787	61,311	(4,891)	29,819	(6,480)	117,546

1 On 17 May 2005, the Company acquired the entire issued share capital of Micro Focus International Limited by way of a share for share exchange, pursuant to which the previous shareholders of Micro Focus International Limited were issued and allotted three ordinary shares in the capital of the Company for every one ordinary share they previously held in Micro Focus International Limited. This increase in share capital created a merger reserve deficit of \$27.1m.

2 In January 2012 a Return of Value was made to all shareholders amounting to \$129.6m in cash. As a result of this a capital redemption reserve was created following the redemption of the B shares (see note 25).

Consolidated statement of cash flows

for the year ended 30 April 2012

	Notes	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Cash generated from operations	28	197,294	182,337
Interest paid		(2,545)	(2,239)
Tax paid		(11,936)	(11,957)
Net cash generated from operating activities		182,813	168,141
Cash flows from investing activities			
Payments for intangible assets	10	(20,946)	(22,502)
Purchase of property, plant and equipment	11	(18,273)	(4,051)
Interest received		295	358
Net cash used in investing activities		(38,924)	(26,195)
Cash flows from financing activities			
Payments for repurchase of shares	24	(62,498)	(41,997)
Proceeds from issue of ordinary share capital	23	1,253	1,521
Bank loan costs		(4,293)	(1,292)
Costs associated with the Return of Value		(1,116)	–
Return of value paid to shareholders		(129,604)	–
Proceeds from sale of fractional shares		2	–
Repayment of bank borrowings		(203,000)	(60,000)
Proceeds from bank borrowings		308,000	–
Dividends paid to owners	7	(46,262)	(50,313)
Net cash used in financing activities		(137,518)	(152,081)
Effects of exchange rate changes		(2,041)	3,386
Net increase/(decrease) in cash and cash equivalents		4,330	(6,749)
Cash and cash equivalents at 1 May		26,080	32,829
Cash and cash equivalents at 30 April	14	30,410	26,080

Summary of significant accounting policies

for the year ended 30 April 2012

General information

Micro Focus International plc ("the Company") is a public limited company incorporated and domiciled in the UK. The address of its registered office is, The Lawn, 22-30 Old Bath Road, Newbury, RG14 1QN, UK. Micro Focus International plc and its subsidiaries (together 'the Group') provide innovative software to clients around the world enabling them to dramatically improve the business value of their enterprise applications. The Group has a presence in 29 countries worldwide and employs in excess of 1,100 people.

The Company is listed on the London Stock Exchange.

The Group consolidated financial statements were authorised for issue by the board of directors on 20 June 2012.

I Group accounting policies

A Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below in II, 'Critical accounting estimates and assumptions'.

Balances as at 30 April 2011 and 30 April 2010 have been restated to reflect adjustments made in the disclosure of provisions previously contained within trade and other payables (see notes 15 and 20). In addition, balances at 30 April 2011 and 30 April 2010 have been restated to reflect adjustments made in the disclosure of borrowings to show unamortised prepaid facility arrangement fees previously contained within trade and other receivables (see notes 13 and 16). In accordance with the requirements of IAS 1, Financial Statement Presentation, where a restatement of an opening consolidated statement of financial position is made then the prior year's consolidated statement of financial position should be published thus we have published 30 April 2010 numbers.

B Consolidation

The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company, its subsidiaries, prepared at the balance sheet date. Control exists where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries are consolidated from the date on which control passes to the Group. The results of disposed subsidiaries are consolidated up to the date on which control passes from the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, with costs directly attributable to the acquisition being expensed. Identifiable

assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adapted by the Group.

C Revenue recognition

The Group recognises revenue from sales of software licences to end-users or resellers upon persuasive evidence of an arrangement, delivery of the software and determination that collection of a fixed or determinable fee is reasonably assured. When the fees for software upgrades and enhancements, maintenance, consulting and training are bundled with the licence fee, they are unbundled using the Group's objective evidence of the fair value of the elements represented by the Group's customary pricing for each element in separate transactions. If evidence of fair value exists for all undelivered elements and there is no such evidence of fair value established for delivered elements, revenue is first allocated to the elements where fair value has been established and the residual amount is allocated to the delivered elements. If evidence of fair value for any undelivered element of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value exists or undelivered elements of the arrangement are delivered.

If the arrangement includes acceptance criteria, revenue is not recognised until the Group can objectively demonstrate that the acceptance criteria has been met, or the acceptance period lapses, whichever is earlier. The Group recognises licence revenue derived from sales to resellers upon delivery to resellers, provided that all other revenue recognition criteria are met, otherwise revenue is deferred and recognised upon delivery of the product to the end-user. Maintenance revenue is derived from providing technical support and software updates to customers. Maintenance revenue is recognised on a straight-line basis over the term of the contract, which in most cases is one year. Revenue from consulting and training services is recognised on a percentage of completion basis as the services are performed. The stage of completion is measured on the basis of services performed to date as a percentage of the total services to be performed. Amounts collected prior to satisfying the above revenue recognition criteria are included in deferred income.

D Segment reporting

In accordance with IFRS 8, "Operating Segments", the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker ('the Executive Committee'). Operating segments are consistent with those used in internal management reporting and the measure used by the Executive Committee is the adjusted operating profit for the Group as a whole as set out in note 4 and Adjusted EBITDA as set out in note 4. In the year ended 30 April 2011 resources were managed on a global basis and accordingly the Executive Committee did not measure costs or operating profit by segment and therefore the Group has not reported operating profit by segment for the year ended 30 April 2011. Effective from 1 May 2011, the Group has reduced its number of operating segments to the three geographic regions with the Borland business now integrated within the regional organisations. With effect from 1 May 2011 the Executive Committee delegated

responsibilities for directly managed costs to the Regional Presidents of the three geographic regions of the Group and then allocated centrally managed costs to those regions, consequently for the three operating segments the Group now measures Adjusted EBITDA.

E Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance.

Examples of transactions which may be considered of an exceptional nature include major restructuring programmes or cost of integrating acquired businesses.

F Employee benefit costs

a) Pension obligations

Group companies operate various pension schemes. All of the major schemes are defined contribution plans for which the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are 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.

b) Share based compensation

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

For shares or share options granted after 7 November 2002 and vested after 1 January 2005 the fair value of the employee services received in exchange for the grant of the shares or options is 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. At each balance sheet 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 remaining vesting 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 social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

G Foreign currency translation

a) Functional and presentation currency

The presentation currency of the Group is US dollars. Items included in the financial statements of each of the Group's entities are measured in the functional currency of each entity.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

d) Exchange rates

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

	2012		2011	
	Average	Closing	Average	Closing
£1 = \$	1.59	1.63	1.56	1.67
€1 = \$	1.37	1.32	1.33	1.48

H Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each area of operation by each primary reporting segment.

Summary of significant accounting policies

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continued

As permitted under IFRS 1, the Group has elected to deem the UK GAAP net book value at 1 May 2004 as the IFRS cost of goodwill at transition date.

b) Computer software

Computer software licences are 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 five years.

c) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to the developing of new computer software programmes and significant enhancement of existing computer software programmes are 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. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. 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.

d) Intangible assets – arising on business combinations

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation. 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 will vary for each category of asset acquired and to date are as follows:

Purchased software	Three to five years
Development costs	Three years
Trade names	Three years
Technology	Seven to ten years
Customer relationships	Two to ten years
Non-compete agreements	Three to five years

I Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or 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 period in which they are incurred. Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the consolidated statement of comprehensive income.

J Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows – cash-generating units.

K Inventories

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

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

L Trade receivables

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

M Cash and cash equivalents

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

N Borrowings

Borrowings are 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.

O Leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the

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lessor, are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

P Taxation

Current and deferred tax are 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 or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is 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.

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 balance sheet date.

Q Ordinary shares, share premium and dividend distribution

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividend distributions to the Company's shareholders are 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.

R Financial instruments and hedge accounting

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provision of the instrument. Trade receivables are non-interest bearing and are stated at their fair value less the amount of any appropriate provision for irrecoverable amounts. Trade payables are non-interest bearing and are stated at their fair value.

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

S Provisions

Provisions for onerous leases, 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. Restructuring provisions comprise lease

termination penalties and employee termination payments. 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.

T Adoption of new and revised International Financial Reporting Standards

The accounting policies adopted in these consolidated financial statements are consistent with those of the annual financial statements for the year ended 30 April 2011, with the exception of the following standards, amendments to or interpretations of published standards adopted during the year:

- a) The following standards, amendments to standards or interpretations became effective during the year to 30 April 2012 and have been adopted by the Group:
 - IAS 24 (Revised), "Related Party Disclosures", for periods beginning on or after 1 January 2011 and supersedes IAS 24, "Related Party Disclosures" which was issued in 2003. The amendment to this standard clarifies and simplifies the definition of a related party.
 - IAS 27 (Revised), "Consolidated and Separate Financial Statements" – The Group has adopted IFRS 3 (Revised), and so it is required to adopt IAS 27 (Revised) at the same time. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains or losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (Revised) has had no impact in the current period.
- b) The following standards, amendments to standards or interpretations were effective during the year ended 30 April 2012 but had no material impact on the Group:
 - IFRIC 14 (Amendment), "Prepayment of a Minimum Funding Requirement", applies for periods beginning on or after 1 January 2011. The amendments correct an unintended consequence of IFRIC 14. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions.
 - IFRIC 19, "Extinguishing Financial Liabilities With Equity Investments", applies for periods beginning on or after 1 July 2010. It clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor.

Summary of significant accounting policies

for the year ended 30 April 2012

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- Improvements to International Financial Reporting Standards – was issued in May 2010 with effective dates varying standard by standard.
 - c) The following standards, amendments to standards or interpretations are not yet effective and have not been adopted early by the Group:
 - Amendments to IFRS 7, “Financial instruments: Disclosures on Derecognition” for periods beginning on or after 1 July 2011. These amendments arise from the IASB’s review of off-balance sheet activities and will promote transparency in the reporting of transfer transactions.
 - d) The following standards, amendments to standards or interpretations are not yet effective, have not yet been endorsed by the EU and have not been adopted early by the Group:
 - IFRS 9, “Financial Instruments”, for periods beginning on or after 1 January 2015 – will replace IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 introduces new requirements for classifying and measuring financial assets.
 - Amendment to IAS 12, “Income Taxes” applies for periods beginning on or after 1 January 2012. Currently IAS 12, “Income Taxes”, requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.
 - IAS 19 (Revised), “Employee Benefits”, for periods beginning on or after 1 January 2013. The amendment eliminates the corridor approach and calculates finance costs on a net funding basis.
 - Amendment to IAS 1 “Financial Statement Presentation” applies for periods beginning on or after 1 July 2012. The main change resulting from this is a requirement for entities to group items presented in Other Comprehensive Income on the basis of whether they are potentially recycled to profit or loss.
 - IFRS 10, “Consolidated Financial Statements” applies for periods beginning on or after 1 January 2013 and provides additional guidance to assist in determining control where this is difficult to assess. The standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements.
 - IFRS 11, “Joint Arrangements” applies for periods beginning on or after 1 January 2013 and provides for a reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form.
 - IFRS 12, “Disclosures of Interests in Other Entities” applies for periods beginning on or after 1 January 2013. The standard includes the disclosure requirements for all forms of interests in other entities.
 - IFRS 13, “Fair Value Measurement”, applies for periods beginning on or after 1 January 2013. The standard aims to improve the consistency and reduce complexity by providing a precise definition of fair value and a source of fair value measurement and disclosure requirements. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied.
 - IAS 27 (Revised 2011), “Separate Financial Statements”, applies for periods beginning on or after 1 January 2013. The standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
 - IAS 28 (Revised 2011), “Associates and Joint Ventures” applies for periods beginning on or after 1 January 2013. The standard includes the requirements for joint ventures, as well as associates to be equity accounted following the issue of IFRS 11.
 - Amendment to IFRS 7, “Financial instruments: Disclosures”, applies for periods beginning on or after 1 January 2013 and reflects the joint IASB and FASB requirements to enhance correct offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements.
 - Amendment to IAS 32, “Financial instruments: Presentation”, applies for periods beginning on or after 1 January 2014 and clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- The directors anticipate that the future introduction of those standards, amendments and interpretations listed above will not have a material impact on the consolidated financial statements.

II Critical accounting estimates and assumptions

In preparing the consolidated financial statements, the Group has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Group regularly reviews these estimates and updates them as required. Actual results could differ from these estimates. Unless otherwise indicated, the Group does not believe that it is likely that materially different amounts would be reported related to the accounting estimates and assumptions described below. The Group considers the following to be a description of the most significant estimates, which require the Group to make subjective and complex judgments, and matters that are inherently uncertain.

a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy 1J. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the Group’s impairment review and sensitivities to changes in assumptions are disclosed in note 9.

b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these

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matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group carries appropriate provision, based on best estimates, until tax computations are agreed with the taxation authorities.

c) Acquisitions

When making acquisitions, the Group has to make judgments and best estimates about the fair value allocation of the purchase price. Appropriate advice is sought from professional advisors before making such allocations. The valuation of goodwill and other intangibles is tested annually or whenever there are changes in circumstances indicating that the carrying amounts may not be recoverable. These tests require the use of estimates. Note 9 gives details of the Group's impairment reviews.

d) Development expenditure

The Group invests in the development of future products in accordance with the accounting policy IH(c). The assessment as to whether this expenditure will achieve a complete product for which the technical feasibility is assured is a matter of judgment, as is the forecasting of how the product will generate future economic benefit. Finally, the period of time over which the economic benefit associated with the expenditure occurred will arise is also a matter of judgment. These judgments are made by evaluating the development plan prepared by the research and development department and approved by management, regularly monitoring progress by using an established set of criteria for assessing technical feasibility and benchmarking to other products.

III Financial risk factors

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

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

a) Credit risk

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

b) Foreign currency risk

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

There were no hedging transactions in place at 30 April 2012.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

c) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. The Group does not use interest rate swaps to manage its cash flow interest rate risk at the present time due to low market rates.

d) Liquidity risk

Central treasury carries out cash flow forecasting for the Group to ensure that it has sufficient cash to meet operational requirements and to allow the repayment of the bank facility.

Surplus cash in the operating units over and above what is required for working capital needs are transferred to Group treasury. These funds are used to repay bank borrowings or invested in interest bearing current accounts, time deposits or money market deposits of the appropriate maturity period determined by consolidated cash forecasts.

Trade payables arise in the normal course of business and are all current.

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

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

Notes to the consolidated financial statements

for the year ended 30 April 2012

1 Segmental reporting

In accordance with IFRS 8, "Operating Segments", the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker ("the Executive Committee"). Operating segments are consistent with those used in internal management reporting and the measure used by the Executive Committee is the Adjusted EBITDA for the Group as a whole as set out in note 4. In the year ended 30 April 2011 resources were managed on a global basis and accordingly the Executive Committee did not measure costs or operating profit by segment and therefore the Group has not reported operating profit by segment for the year ended 30 April 2011. Effective from 1 May 2011, the Group has reduced its number of operating segments to the three geographic regions with the Borland business now integrated within the regional organisations.

Operating segments for the year ended 30 April 2012:

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

Operating segments for the year ended 30 April 2012 in the same format as the year ended 30 April 2011 for comparability:

	Note	North America \$'000	International \$'000	Asia Pacific \$'000	Total \$'000
Segment revenue		200,291	169,379	65,168	434,838
Operating profit					155,791
Exceptional items	3				(2,442)
Share-based compensation charge	29				6,056
Amortisation of purchased intangibles	10				15,702
Adjusted operating profit	4				175,107
Total assets					556,961
Total liabilities					439,415

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Operating segments for the year ended 30 April 2011:

	Note	North America \$'000	International \$'000	Asia Pacific \$'000	AMQ \$'000	Total \$'000
Total segment revenue		129,045	125,751	38,771	142,563	436,130
Allocation of AMQ on a geographical basis		68,605	53,558	20,400	(142,563)	–
Comparable segment revenue		197,650	179,309	59,171	–	436,130
Operating profit						120,532
Exceptional items	3					14,540
Share-based compensation charges	29					2,235
Amortisation of purchased intangibles	10					15,709
Adjusted operating profit	4					153,016
Total assets						572,593
Total liabilities						343,895

2 Supplementary information

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

	CD \$'000	MS \$'000	Test \$'000	Niche \$'000	Total \$'000
Licence	108,437	25,047	26,617	16,471	176,572
Maintenance	115,149	42,173	52,525	21,056	230,903
Consultancy	2,787	10,803	12,035	1,738	27,363
Total	226,373	78,023	91,177	39,265	434,838

Set out below is an analysis of revenue recognised between the principal product categories for the year ended 30 April 2011:

	CD \$'000	MS \$'000	Test \$'000	Niche \$'000	Total \$'000
Licence	95,823	29,974	22,347	17,697	165,841
Maintenance	110,598	40,366	57,827	24,979	233,770
Consultancy	1,905	14,902	17,642	2,070	36,519
Total	208,326	85,242	97,816	44,746	436,130

3 Profit before tax

Profit before tax is stated after charging/(crediting) the following operating costs/(gains) classified by the nature of the costs/(gains):

	Note	2012 \$'000	2011 \$'000
Staff costs	29	166,682	173,656
Depreciation of property, plant and equipment			
– owned assets	11	3,810	4,675
Amortisation of intangibles	10	32,840	29,261
Inventories			
– cost of inventories recognised as an expense (included in cost of sales)	12	260	480
Operating lease rentals payable			
– plant and machinery		1,603	1,946
– other		7,585	17,674
Provision for receivables impairment	13	959	2,324
Foreign exchange (gains)/losses		(3,572)	5,436

Exceptional items

	2012 \$'000	2011 \$'000
Restructuring costs and property rationalization	(2,442)	14,540

Notes to the consolidated financial statements

for the year ended 30 April 2012

continued

3 Profit before tax continued

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

Prior year restructuring costs of \$14.5m relate to the Group restructuring that took place in March and April 2011. Salaries and severance costs were \$17.1m, facilities costs were \$3.8m and other costs were \$1.2m. These were offset by net releases of onerous lease provisions in the year of \$7.6m.

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

Services provided by the Group's auditors and network of firms

During the year the Group obtained the following services from the Group's auditor as detailed below:

	2012 \$'000	2011 \$'000
Audit services		
– Fees payable to the Company's auditor for the audit of the parent Company and consolidated accounts	113	86
Other services		
Fees payable to the Company's auditor and their associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	682	684
– Services related to taxation	83	72
– Other services	330	–
Total	1,208	842

The Group's auditors, PricewaterhouseCoopers LLP, provide non-audit services for the Group over and above the external audit, principally tax compliance, tax advice and due diligence work. The board of directors reviews the level of non-audit fees and is confident that the objectivity and independence of the auditors is not impaired in any way by reason of its non-audit work.

Other services relate to corporate advice relating to bid defence costs and the Return of Value.

4 Reconciliation of operating profit to EBITDA and Adjusted EBITDA

	Notes	2012 \$'000	2011 \$'000
Operating profit		155,791	120,532
Exceptional items – restructuring costs and property rationalization	3	(2,442)	14,540
Share based compensation charges	29	6,056	2,235
Amortisation of purchased intangibles	10	15,702	15,709
Adjusted operating profit		175,107	153,016
Depreciation	11	3,810	4,675
Amortisation of software	10	921	1,045
Adjusted EBITDA		179,838	158,736
Operating profit		155,791	120,532
Amortisation of intangible assets	10	32,840	29,261
Depreciation of property, plant and equipment	11	3,810	4,675
EBITDA		192,441	154,468
Amortisation of development costs	10	(16,217)	(12,507)
Exceptional items – restructuring costs and property rationalization	3	(2,442)	14,540
Share based compensation charge	29	6,056	2,235
Adjusted EBITDA		179,838	158,736

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

Under the terms of the Group's Revolving Credit Facility ("RCF"), the Net debt to RCF EBITDA covenant is limited to 2 times in the period to 30 April 2013 and 1.5 times thereafter. RCF EBITDA is defined as Adjusted EBITDA before Amortisation of Development Costs and for the year ended 30 April 2012 RCF EBITDA amounted to \$196.1m (2011: \$171.2m).

5 Finance income and finance costs

	2012 \$'000	2011 \$'000
Finance costs		
Finance costs on bank borrowings	2,208	1,679
Commitment fees	1,599	1,770
Amortisation of facility costs	2,694	2,341
Other	335	559
Total	6,836	6,349

Finance income

Finance income consists of interest receivable which relates to bank deposits and tax repayments.

6 Taxation

	2012 \$'000	2011 \$'000
Current tax		
Current year	32,123	22,594
Adjustments to tax in respect of previous years	(6,557)	(12,621)
	25,566	9,973
Deferred tax		
Current year	7,039	13,553
Adjustments to tax in respect of previous years	(3,069)	(4,696)
Impact of change in the UK tax rate	(906)	(725)
	3,064	8,132
Total	28,630	18,105

A deferred tax credit of \$31,000 (2011: \$0.8m credit) and a corporation tax charge of \$0.2m (2011: nil) has been recognised in relation to the share options charged against equity in the year. The adjustments in respect of prior year to current tax of \$6.6m and deferred tax of \$3.1m are comprised of a number of small items the most significant of which include the release of provisions based on prior best estimates which are no longer required.

The tax for the year is lower (2011: lower) than the standard rate of corporation tax in the UK 25.8% (2011: 27.8%). The differences are explained below:

	2012 \$'000	2011 \$'000
Profit before taxation	149,250	114,541
Tax at UK corporation tax rate of 25.8% (2011: 27.8%) applicable to profits in the respective countries	38,507	31,881
Effects of:		
Adjustments to tax in respect of previous years – current tax	(6,557)	(12,621)
Adjustments to tax in respect of previous years – deferred tax	(3,069)	(4,696)
Adjustment for foreign tax rates	3,165	4,793
Expenses not deductible for tax purposes	4,132	3,523
Tax loss utilisation	(294)	(13)
Effect of change in tax rates	(906)	(725)
Permanent differences	(6,348)	(4,037)
Total taxation	28,630	18,105

The movement in deferred tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is provided in note 22.

The standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1 April 2012: as this reduction was substantively enacted by the balance sheet date it is reflected in the annual report and accounts for the year ended 30 April 2012. Accordingly the Company's profits for this accounting period are taxed at an effective rate of 25.8% and will be taxed at 24% in the future.

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6 Taxation continued

In addition to the changes in rates of Corporation tax disclosed above a number of further changes to the UK Corporation tax system were announced in the March 2012 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is expected to be included in the Finance Act 2012. A further reduction to the main rate is proposed to reduce the rate by 1% to 22% by 1 April 2014. Neither of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in this annual report and accounts. It is expected that the effects of these changes will have an immaterial impact on the deferred tax assets and liabilities currently recognised.

7 Dividends

Equity – ordinary

	2012 \$'000	2011 \$'000
2011 final paid 16.2 cents (2010: 16.2 cents) per ordinary share	30,920	35,262
2012 interim paid 8.2 cents (2011: 7.2 cents) per ordinary share	15,342	15,051
Total	46,262	50,313

The directors are proposing a final dividend in respect of the year ended 30 April 2012 of 23.4 cents per share which will utilise approximately \$38.3m of total equity. The directors have concluded that the Company has sufficient reserves to pay the dividend. It has not been included as a liability in these financial statements.

8 Earnings per share

The calculation of the basic earnings per share has been based on the earnings attributable to owners of the parent and the weighted average number of shares for each year.

	2012			2011		
	Earnings \$'000	Weighted average number of shares '000	Per share amount cents	Earnings \$'000	Weighted average number of shares '000	Per share amount cents
Basic EPS						
Earnings attributable to owners of the parent	120,620	183,391	65.77	96,436	204,994	47.04
Effect of dilutive securities						
Options		4,758			3,961	
Diluted EPS						
Earnings attributable to owners of the parent	120,620	188,149	64.11	96,436	208,955	46.15
Supplementary EPS to exclude adjusted items						
Basic EPS	120,620	183,391	65.77	96,436	204,994	47.04
Impact of US tax losses ¹	–			(6,842)		
Adjusted items ²	19,316			32,484		
Tax relating to adjusted items ²	(5,936)			(9,630)		
Basic EPS – adjusted	134,000	183,391	73.07	112,448	204,994	54.85
Diluted EPS	120,620	188,149	64.11	96,436	208,955	46.15
Impact of US tax losses ¹	–			(6,842)		
Adjusted items ²	19,316			32,484		
Tax relating to adjusted items ²	(5,936)			(9,630)		
Diluted EPS – adjusted	134,000	188,149	71.22	112,448	208,955	53.81

1 The tax charge for the prior year includes a credit in respect of the recognition of an additional deferred tax asset of \$6.8m in respect of US tax losses. This credit does not result from the performance of the business in the period and has therefore been excluded in calculating Adjusted EPS.

2 Adjusted items comprise amortisation of purchased intangibles, share based compensation and exceptional costs. Estimated tax relief on these items is as shown above.

Earnings per share expressed in pence has been calculated using the average exchange rate for the year of \$1.59 to £1 (2011: \$1.56 to £1).

9 Goodwill

	2012 \$'000	2011 \$'000
Cost and net book amount		
At 1 May	274,355	274,355
Acquisitions	–	–
Adjustment relating to prior years	–	–
Exchange adjustments	(15)	–
At 30 April	274,340	274,355
A segment-level summary of the goodwill allocation is presented below:		
North America	215,056	215,056
International	55,860	55,860
Asia Pacific	3,439	3,439
Exchange adjustments	(15)	–
At 30 April	274,340	274,355

Goodwill acquired through business combinations has been allocated for impairment testing purposes to each individual cash generating unit ("CGU"). The Group conducts annual impairment tests on the carrying value of goodwill, based on the net present value on the recoverable amount of the CGU to which goodwill has been allocated. It has been determined that the Group has three CGUs being the three geographical segments (North America; International and Asia Pacific). The North American legal entities acquired the equity of the Borland Group and the assets of the ASQ division of Compuware. Therefore, AMQ has now been allocated to the North American region.

An impairment test is a comparison of the carrying value of the assets of the CGU with their recoverable amount, where the recoverable amount is less than the carrying value, an impairment results. The Group has carried out its annual impairment testing at 30 April each year.

The recoverable amounts of the CGUs are determined based on the value in use ("VIU") calculations. The determination of whether or not goodwill has been impaired requires an estimate to be made of the VIU of the CGUs to which goodwill has been allocated. The VIU calculation includes estimates about the future financial performance of the CGUs. In all cases the approved budget for the following financial year forms the basis for the cash flow projections for a CGU. The cash flow projections in the three financial years following the budget year reflect management's expectation of the medium and long-term operating performance of the CGU and growth prospects in the CGU's market.

Key assumptions

The key assumptions in the VIU calculations are the discount rate applied, the long-term operating margin and the long-term growth rate of net operating cash flows. In determining the key assumptions, management has taken into consideration the current economic climate, the resulting impact on expected growth and discount rates, and the pressure this places on impairment calculations.

Discount rate applied

The discount rate applied to each CGU represents a pre-tax rate that reflects market assessment of the time value of money at the balance sheet date and risks specific to the CGU. The discount rate applied to each CGU's operations was:

	2012	2011
North America	17.0%	16.7%
International	13.9%	14.1%
Asia Pacific	15.5%	15.2%

Long-term operating margin

The long-term operating margin for each CGU is primarily based upon past performance adjusted as appropriate where management believes that past operating margins are not indicative of future operating margins. The long-term EBITDA margins applied to each CGU is 40.0% (2011: 40.0%).

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for the year ended 30 April 2012

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9 Goodwill continued

Long-term growth rates of net operating cash flows

The long-term growth rates of net operating cash flows are assumed to be no greater than the long-term growth rate in the gross domestic product of the countries in which the CGU operates and were 2.0% (2011: 2.0%).

The long-term growth rate is applied consistently across all CGUs as:

- The businesses within the CGUs have similar trading characteristics;
- Future forecasts are considered to be similar across all CGUs;
- Business risks are considered to be the same across all CGUs; and
- The Group has announced an intention to increase net debt to Adjusted EBITDA ratio from 0.6 times at 30 April 2012 to 1.5 times by 30 April 2014. During the twelve months to 30 April 2013 all CGUs will be impacted as the Group changes its net debt to Adjusted EBITDA ratio.

Summary of results

During the year, all goodwill was tested for impairment, with no impairment charge resulting (2011: nil).

As the VIU calculation is most sensitive to a change in the long-term operating mode, the directors are of the opinion that it would take a systematic change to the market for long-term operating margins to fall to the level where an impairment would be required.

The directors consider that a reduction of 4.0% (2011: 4.0%) in the absolute value of long-term operating margins across all CGUs would be the limit of what could be considered to be reasonably possible on the basis that the Group's cost base is flexible and could quickly respond to market changes. The Group is spread across a range of geographies and sectors and also offers customer cost saving solutions, which help to insulate it from more significant changes. If the long-term margins used in the VIU calculations for all CGUs were 4.0% (2011: 4.0%) lower in absolute terms than management's estimates, the Group would not have any impairment charge. If the operating margins remain in perpetuity at the current year levels then there would also not be any impairment charge.

The Group bases its estimate for the long-term pre tax discount rate on its weighted average cost of capital (WACC) using long-term market data and industry data to derive the appropriate inputs to the calculation. The directors have assessed that a 2.0% (2011: 2.0%) change in the absolute discount rate is the maximum change that could be considered as reasonably possible and this would represent a 12.0% (2011: 15.0%) reduction in the assumption. If the estimated pre-tax discount rates applied to the discounted cash flows of all CGUs were 2.0% (2011: 2.0%) higher in absolute terms than the management's estimates, the Group would not have any impairment charge.

The Group considers that the long-term growth rates could change and that a 1.0% (2011: 1.0%) change is reasonably possible. If the absolute value of the long-term growth used in the VIU calculations for all CGUs were 1% lower than management's estimates, the Group would not have recognised any goodwill impairment charge.

The directors have considered combinations of a reduction in the long-term operating margins across all CGUs combined with a reasonably possible increase in the absolute discount rate and a reasonably possible decrease in the long-term growth rates and no impairment would occur in these scenarios.

The medium-term Adjusted EBITDA for each CGU is primarily based upon past performance adjusted as appropriate where management believes that past Adjusted EBITDA margins are not indicative of future Adjusted EBITDA margins. The medium-term Adjusted EBITDA margins applied to each CGU is 40.0% (2011: 40.0%). The medium-term growth rates of net operating cash flows are assumed to be 4.0% for each CGU (2011: 4.0%).

10 Other intangible assets

	Purchased software \$'000	Development costs \$'000	Technology \$'000	Trade names \$'000	Customer relationships \$'000	Non-compete agreements \$'000	Total \$'000
Cost							
At 1 May 2011	8,552	76,737	65,876	1,175	55,473	1,303	209,116
Additions	1,488	19,458	—	—	—	—	20,946
Disposals	(871)	—	—	—	—	—	(871)
Exchange adjustments	(225)	—	—	—	—	—	(225)
At 30 April 2012	8,944	96,195	65,876	1,175	55,473	1,303	228,966
Accumulated amortisation							
At 1 May 2011	7,337	50,136	21,506	1,175	18,573	546	99,273
Charge for the year	921	16,217	8,422	—	6,943	337	32,840
Disposals	(763)	—	—	—	—	—	(763)
Exchange adjustments	(195)	—	—	—	—	—	(195)
At 30 April 2012	7,300	66,353	29,928	1,175	25,516	883	131,155
Net book amount at 30 April 2012	1,644	29,842	35,948	—	29,957	420	97,811
Net book amount at 1 May 2011	1,215	26,601	44,370	—	36,900	757	109,843

	Purchased software \$'000	Development costs \$'000	Technology \$'000	Trade names \$'000	Customer relationships \$'000	Non-compete agreements \$'000	Total \$'000
Cost							
At 1 May 2010	7,909	55,069	65,876	1,175	55,473	1,303	186,805
Additions	834	21,668	—	—	—	—	22,502
Disposals	(559)	—	—	—	—	—	(559)
Exchange adjustments	368	—	—	—	—	—	368
At 30 April 2011	8,552	76,737	65,876	1,175	55,473	1,303	209,116
Accumulated amortisation							
At 1 May 2010	6,258	37,629	13,077	1,175	11,630	209	69,978
Charge for the year	1,045	12,507	8,429	—	6,943	337	29,261
Disposals	(320)	—	—	—	—	—	(320)
Exchange adjustments	354	—	—	—	—	—	354
At 30 April 2011	7,337	50,136	21,506	1,175	18,573	546	99,273
Net book amount at 30 April 2011	1,215	26,601	44,370	—	36,900	757	109,843
Net book amount at 1 May 2010	1,651	17,440	52,799	—	43,843	1,094	116,827

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

At 30 April 2012, the unamortised lives of technology assets were in the range of three to seven years and for customer relationships in the range of two to eight years.

Amortisation of \$7.3m (2011: \$7.3m) is included in selling and distribution costs, \$24.6m (2011: \$20.9m) is included in research and development expense and \$0.9m (2011: \$1.1m) is included in administrative expenses in the consolidated statement of comprehensive income.

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11 Property, plant and equipment

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

	Land and buildings \$'000	Leasehold improvements \$'000	Computer equipment \$'000	Fixtures and fittings \$'000	Total \$'000
Cost					
At 1 May 2010 – as restated	–	5,798	9,606	4,302	19,706
Additions	–	1,239	2,398	414	4,051
Disposals	–	(1,028)	(3,567)	(1,833)	(6,428)
Exchange adjustments	–	666	1,873	625	3,164
At 30 April 2011	–	6,675	10,310	3,508	20,493
Accumulated depreciation					
At 1 May 2010	–	2,190	6,024	1,717	9,931
Charge for the year	–	1,588	2,128	959	4,675
Disposals	–	(875)	(3,191)	(1,575)	(5,641)
Exchange adjustments	–	437	1,584	459	2,480
At 30 April 2011	–	3,340	6,545	1,560	11,445
Net book amount at 30 April 2011	–	3,335	3,765	1,948	9,048
Net book amount at 1 May 2010	–	3,608	3,582	2,585	9,775

Balances as at 1 May 2010 have been restated to reflect adjustments made in respect of goodwill on prior year acquisitions of \$610,000 following a revision of the valuation of computer equipment.

Depreciation of \$0.3m (2011: \$0.2m) is included within selling and distribution costs and \$3.5m (2011: \$4.5m) is included within administrative expenses in the consolidated statement of comprehensive income.

12 Inventories

	2012 \$'000	2011 \$'000
Work in progress	405	1,562
Finished goods	55	56
Total	460	1,618

The Group utilised \$0.3m (2011: \$0.5m) of inventories included in cost of sales during the year.

13 Trade and other receivables

	2012 \$'000	Restated 2011 \$'000	Restated 2010 \$'000
Trade receivables	84,035	98,217	102,614
Less: provision for impairment of trade receivables	(2,757)	(4,416)	(2,225)
Trade receivables net	81,278	93,801	100,389
Prepayments	10,481	11,623	17,077
Other receivables	64	396	—
Accrued income	33	40	4,359
Total	91,856	105,860	121,825

Balances at 30 April 2011 and 30 April 2010 have been restated to reflect adjustments made in the disclosure of unamortised prepaid facility arrangement fees previously contained within prepayments (see note 16).

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. In determining the recoverability of a trade receivable, the Group considers the ageing of each debtor and any change in the circumstances of the individual receivable. Due to this, management believes there is no further credit risk provision required in excess of the normal provision for doubtful receivables. At 30 April 2012 and 2011, the carrying amount approximates the fair value of the instrument due to the short-term nature of the instrument.

At 30 April 2012, trade receivables of \$12.9m (2011: \$15.9m) were past due but not impaired. These relate to a large number of independent companies for whom there is no recent history of default. The amounts are regarded as recoverable. The average age of these receivables was 33 days in excess of due date (2011: 42 days).

As at 30 April 2012, trade receivables of \$2.8m (2011: \$4.4m) were either partially or fully impaired. The amount of the provision was \$2.8m (2011: \$4.4m). The ageing of these receivables is as follows:

	2012 \$'000	2011 \$'000
Three to four months	152	381
Over four months	2,605	4,035
Total	2,757	4,416

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

	2012 \$'000	2011 \$'000
At 1 May	4,416	2,225
Provision for receivables impairment	959	2,324
Receivables written off as uncollectable	(2,501)	(316)
Exchange adjustments	(117)	183
At 30 April	2,757	4,416

The creation and release of provision for impaired receivables have been included in both selling and distribution costs and administrative expenses 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.

Notes to the consolidated financial statements

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14 Cash and cash equivalents

	2012 \$'000	2011 \$'000
Cash at bank and in hand	30,015	25,526
Short-term bank deposits	395	554
Total	30,410	26,080

At 30 April 2012 and 2011, the carrying amount approximates to the fair value of the instrument due to the instrument bearing interest at market rates and/or the short-term nature of the instrument. The Group's credit risk on cash and cash equivalents is limited as the counterparties are well established banks with high credit ratings.

15 Trade and other payables – current

	2012 \$'000	Restated 2011 \$'000	Restated 2010 \$'000
Trade payables	6,168	10,478	10,744
Tax and social security	8,391	10,729	7,977
Accruals	46,605	42,349	55,922
Total	61,164	63,556	74,643

At 30 April 2012 and 2011, the carrying amount approximates to fair value of the instrument due to the short-term nature of the instrument.

Balances as at 30 April 2011 and 30 April 2010 have been restated to reflect adjustments made in the disclosure of provisions previously contained within trade and other payables.

Balances at 30 April 2010 have been restated to reflect adjustments made in respect of goodwill on acquisitions made in the year ended 30 April 2012 of \$20,000 following a reduction of trade and other payables (see note 34).

16 Borrowings

	2012 \$'000	Restated 2011 \$'000	Restated 2010 \$'000
Bank loan – unsecured	146,000	41,000	101,000
Unamortised prepaid facility arrangement fees	(2,387)	(2,212)	(4,463)
Total	143,613	38,788	96,537

Borrowings are stated after deduction of unamortised prepaid facility arrangement costs. Facility arrangement fees are being written off over the period of the facility.

Balances at 30 April 2011 and 30 April 2010 have been restated to reflect adjustments made in the disclosure of borrowings to show unamortised prepaid facility arrangement fees previously contained within trade and other receivables (see note 13).

At 30 April 2011, the Group had a three year unsecured \$215m bank facility in place, denominated in US dollars, which expired on 6 May 2012. Interest on the loan is payable at US Dollar LIBOR plus 2.25% from 30 April 2010 depending on covenant ratios. A new unsecured revolving credit facility was entered into on 1 December 2011 with a three year term and a limit of up to \$275m. Interest is payable at an initial rate of US Dollar LIBOR plus 2.1% for a period of approximately six months. The rate then payable is dependent upon the Group's net debt to RCF EBITDA ratio on a periodic basis. The range payable is 1.75% to 2.35% over US Dollar LIBOR.

17 Current tax liabilities

	2012 \$'000	2011 \$'000
Corporation tax	35,438	22,393

18 Deferred income – current

	2012 \$'000	2011 \$'000
Deferred income	136,135	136,269

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

19 Deferred income – non-current

	2012 \$'000	2011 \$'000
Deferred income	12,611	15,139

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

20 Provisions

	2012 \$'000	Restated 2011 \$'000	Restated 2010 \$'000
Onerous leases and dilapidations	4,128	5,708	16,106
Restructuring	2,369	19,164	–
Other	4,018	–	–
Total	10,515	24,872	16,106
Current	3,721	17,479	6,047
Non-current	6,794	7,393	10,059
Total	10,515	24,872	16,106

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

	Onerous leases and dilapidations \$'000	Restructuring \$'000	Other \$'000	Restated Total \$'000
At 1 May 2010	16,106	–	–	16,106
Additional provision in the period	6,683	22,053	–	28,736
Utilisation of provision	(5,126)	(2,889)	–	(8,015)
Released	(12,263)	–	–	(12,263)
Unwinding of discount	308	–	–	308
At 30 April 2011	5,708	19,164	–	24,872

The onerous lease and dilapidations provision relates to leased Group properties and this position is expected to be fully utilised within six years. The credit of \$7.6m which was offset against the \$22.1m of restructuring costs in the year ended 30 April 2011 is included in the \$12.3m of releases in onerous leases and dilapidations.

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

Other provisions include \$0.1m of costs relating to a rationalization of non-trading subsidiaries and \$3.9m relating to our subsidiary in Brazil. Of this \$3.1m relates to taxes potentially due for pensions and bonus payments between July 2006 and July 2011, \$0.3m for potential claims from third party contractors for unpaid benefits in prior years and \$0.6m for potential claims from other third parties. The timing of these provisions is uncertain but it is expected to be over twelve months before the provisions are fully utilised.

In prior periods provisions totalling \$24.9m for the year ended 30 April 2011 and \$16.1m for the year ended 30 April 2010 had been included within accruals. However, following a review it has been determined that it is more appropriate to show these balances as provisions in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets".

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21 Financial instruments

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 30 April 2012 was:

	2012 \$'000	2011 \$'000
Trade and other receivables	81,278	93,801
Cash and cash equivalents	30,410	26,080
Total	111,688	119,881

Risk management

The Group's treasury function aims to reduce exposures to interest rate, foreign exchange and other financial risks, to ensure liquidity is available as and when required, and to invest cash assets safely and profitably. The Group does not typically engage in speculative trading in financial instruments. The treasury function's policies and procedures are reviewed and monitored by the audit committee and are subject to internal audit review.

Foreign exchange risk

The Group's currency exposures comprise those that give rise to net currency gains and losses to be 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 functional currency of the operating unit involved. Note 3 shows the impact of foreign exchange gains in the year.

Sensitivity analysis

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

	2012		2011	
	Consolidated statement of comprehensive income \$'000	Equity \$'000	Consolidated statement of comprehensive income \$'000	Equity \$'000
Euro/USD exchange rate +/- 5%	1,308	740	1,576	481
US LIBOR +/- 1%	1,460	—	410	—

Capital risk management

The Group's objective when managing its capital structure 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. The relative proportion of debt to equity will be adjusted over the medium-term depending on the cost of debt compared to equity and the level of uncertainty facing the industry and the Group. The Group's committed credit facilities contain two principal financial covenants. The Group has complied with these covenant requirements to the year ended 30 April 2012. During the year the Group increased its credit facilities to \$275m from \$215m and carried out a return of value to its shareholders which resulted in \$129.6m of cash being returned to shareholders (see note 25). Further details on the covenant requirements and Group performance against these can be found on page 4 of the Business Review. The capital structure of the Group at the balance sheet date is as follows:

	2012 \$'000	2011 \$'000
Bank and other borrowings-current (see note 16)	143,613	38,788
Less cash and cash equivalents (see note 14)	(30,410)	(26,080)
Total net debt	113,203	12,708
Total equity	117,546	228,698
Debt/equity %	96.3%	5.6%

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Market risk

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

	Financial 2012 \$'000	Non-financial 2012 \$'000	Total 2012 \$'000	Financial 2011 \$'000	Non-financial 2011 \$'000	Total 2011 \$'000
Financial assets – loans and receivables						
Current						
Cash and cash equivalents	30,410	–	30,410	26,080	–	26,080
Trade and other receivables	81,278	10,578	91,856	93,801	12,059	105,860
At 30 April	111,688	10,578	122,266	119,881	12,059	131,940

	Financial 2012 \$'000	Non-financial 2012 \$'000	Total 2012 \$'000	Financial 2011 \$'000	Non-financial 2011 \$'000	Total 2011 \$'000
Financial liabilities – financial liabilities at amortised cost						
Non-current						
Provisions	2,381	–	2,381	2,078	–	2,078
Current						
Borrowings	146,000	–	146,000	41,000	–	41,000
Trade and other payables	6,168	54,996	61,164	10,478	53,078	63,556
Provisions	1,748	–	1,748	6,361	–	6,361
At 30 April	156,297	54,996	211,293	59,917	53,078	112,995

22 Deferred tax

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

	2012 \$'000	2011 \$'000
Group		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	26,655	29,504
– Deferred tax asset to be recovered within 12 months	13,127	16,285
	39,782	45,789
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	(35,607)	(38,171)
– Deferred tax liability to be recovered within 12 months	(4,332)	(4,707)
	(39,939)	(42,878)
Deferred tax (liability)/asset (net)	(157)	2,911

Notes to the consolidated financial statements

for the year ended 30 April 2012

continued

22 Deferred tax continued

	2012 \$'000	2011 \$'000
Net deferred tax (liability)/asset		
At 1 May	2,911	12,030
Charged to consolidated statement of comprehensive income	(3,970)	(8,857)
Credited/(charged) directly to equity	31	(1,077)
Foreign exchange adjustment	(35)	90
Effect of change in tax rates – charged to consolidated statement of comprehensive income	906	725
At 30 April	(157)	2,911

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

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the utilisation of future taxable profits is probable.

The deferred tax asset relating to other temporary differences of \$10.1m (2011: \$12.0m) includes temporary differences arising on fixed assets, share options, deferred income and other items.

	Other temporary differences \$'000	Total \$'000
Deferred tax liabilities		
At 1 May 2011	42,878	42,878
Credited to consolidated statement of comprehensive income	(1,872)	(1,872)
Effect of change in tax rates – credited to consolidated statement of comprehensive income	(1,067)	(1,067)
At 30 April 2012	39,939	39,939

No deferred tax liability was recognised in respect of unremitted earnings of overseas subsidiaries as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The deferred tax liability of \$39.9m includes \$27.0m (2011: \$31.2m) relating to timing differences on acquired intangibles and \$8.1m (2011: \$6.9m) relating to timing differences on capitalised research and development expenditure.

Following changes in UK tax legislation, deferred tax on UK assets and liabilities at 30 April 2012 is recognised at 24% (2011: 26%). The effect of the change in tax rates is disclosed separately.

23 Share capital

Ordinary shares at 11⁴/₁₁p each (2011: 10p each)

	2012		2011	
	Shares	\$'000	Shares	\$'000
Issued and fully paid				
At 1 May	205,947,870	37,713	205,129,460	37,583
Shares issued to satisfy option awards	349,489	74	818,410	130
Treasury shares cancelled	(5)	—	—	—
Share consolidation (note 25)	(24,745,194)	—	—	—
At 30 April	181,552,160	37,787	205,947,870	37,713

Ordinary shares issued during the year

During the year, 262,085 (2011: 818,410) ordinary shares of 10p each and 87,404 (2011: nil) ordinary shares of 11⁴/₁₁ pence each were issued by the Company to settle exercised share options. The gross consideration received was \$1.3m (2011: \$1.5m).

Potential issues of ordinary shares

Certain employees hold options to subscribe for shares in the Company at prices ranging from nil pence to 494 pence under the share option schemes approved by shareholders in 2001, the long-term Incentive Plan 2005, Sharesave and ESPP. The number of shares subject to options at 30 April 2012 was 6,225,398 (2011: 6,997,360). Further information on these options is disclosed in note 29.

Each holder of an ordinary share is entitled to one vote for each share held at all meetings of shareholders and will be entitled to any dividends declared by the board of directors.

'B' shares at 45p each

	2012		2011	
	Shares	\$'000	Shares	\$'000
Issued and fully paid				
At 1 May	—	—	—	—
Issue of 'B' shares	81,230,534	56,359	—	—
Redemption of 'B' shares	(81,230,534)	(56,359)	—	—
At 30 April	—	—	—	—

On 12 January 2012, 81,230,534 'B' shares were issued at 45p each, resulting in a total of \$56.4m being credited to the 'B' share capital account. On 17 January 2012, 81,230,534 'B' shares were redeemed at 45p each and an amount of \$56.4m was deducted from the 'B' share capital account.

'C' shares at 0.0000001p each

	2012		2011	
	Shares	\$'000	Shares	\$'000
Issued and fully paid				
At 1 May	—	—	—	—
Issue of 'C' shares	104,609,278	—	—	—
Cancellation of 'C' shares	(104,609,278)	—	—	—
At 30 April	—	—	—	—

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

Notes to the consolidated financial statements

for the year ended 30 April 2012

continued

24 Share buyback

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

The Group obtained shareholder authority at the last AGM (held on 22 September 2011) to buy back up to 14.99% of its issued share capital, which remains outstanding until the conclusion of the next AGM on 26 September 2012. Following the Return of Value and associated share consolidation this authority now relates to a maximum of 24,472,697 ordinary shares of 11⁴/₁₁ pence per share. The minimum price which must be paid for such shares is the nominal value of the ordinary shares which is now 11⁴/₁₁ pence per share and the maximum price payable is the higher of (i) 105% of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the shares concerned; and (ii) the higher of the price of the last independent trade of any Ordinary Share and the highest current bid for an Ordinary Share as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buyback programmes and stabilisation of financial instruments (2273/2003).

No shares have been bought back under the terms of this resolution since 22 September 2011.

At 30 April 2012 a total of 17,805,145 treasury shares were held (2011: 8,223,092).

25 Return of Value to shareholders

In January 2012 a Return of Value was made to all shareholders amounting to \$129.6m in cash (45 pence per share, equivalent to approximately 69.8 cents per share), by way of a B and C share scheme, which gave shareholders (other than certain overseas subsidiaries) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by a 22 for 25 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B and C shares.

26 Share premium account

	2012 \$'000	2011 \$'000
At 1 May	115,789	112,700
Movement in relation to share options exercised	1,879	2,875
Sales of fractional shares	2	–
Issue of B shares	(56,359)	–
Movement in relation to foreign currency	–	214
At 30 April	61,311	115,789

27 Other reserves

	Notes	Capital redemption ² \$'000	Other reserves (deficit) ¹ \$'000	Total \$'000
Balance as at 1 May 2011		–	(27,085)	(27,085)
Currency translation differences		–	–	–
Profit for the year		–	–	–
Total comprehensive income		–	(27,085)	(27,085)
Transactions with owners:				
Redemption of B shares	25	56,359	–	56,359
Expenses and foreign exchange relating to return of value	25	545	–	545
Balance as at 30 April 2012		56,904	(27,085)	29,819

1 On 17 May 2005, the Company acquired the entire issued share capital of Micro Focus International Limited by way of a share for share exchange, pursuant to which the previous shareholders of Micro Focus International Limited were issued and allotted three ordinary shares in the capital of the Company for every one ordinary share they previously held in Micro Focus International Limited. This increase in share capital created a merger reserve deficit of \$27.1m.

2 In January 2012, a Return of Value was made to all shareholders amounting to \$129.6m in cash. As a result of this a capital redemption reserve was created following the redemption of the B shares (see note 25).

28 Cash generated from operations

	Notes	2012 \$'000	Restated 2011 \$'000	Restated 2010 \$'000
Profit after tax		120,620	96,436	76,358
Adjustments for:				
Net interest	5	6,541	5,991	7,092
Taxation	6	28,630	18,105	21,967
Depreciation	11	3,810	4,675	4,202
Loss on disposal of property, plant and equipment		146	234	197
Loss on disposal of intangible asset		—	225	—
Amortisation of intangibles	10	32,840	29,261	23,631
Share based compensation charges	29	6,056	2,235	3,069
Exchange movements		766	2,980	(2,780)
Provisions		2,897	16,781	—
Changes in working capital:				
Inventories		1,158	(1,465)	(25)
Trade and other receivables		13,697	15,320	(27,703)
Payables and other non-current liabilities		(19,867)	(8,441)	(3,224)
Cash generated from operating activities		197,294	182,337	102,784

29 Employees and directors

	2012 \$'000	2011 \$'000
Staff costs		
Wages and salaries	143,750	149,183
Social security costs	13,051	17,175
Other pension costs (note 30)	3,825	5,063
Cost of employee share schemes	6,056	2,235
Total	166,682	173,656

	2012 number	2011 number
Average monthly number of people (including executive directors) employed by the Group:		
Sales and distribution	658	814
Research and development	320	402
General and administration	213	218
Total	1,191	1,434

	2012 \$'000	2011 \$'000
Key management compensation		
Short-term employee benefits	4,035	1,716
Post-employment benefits	—	—
Share based payments	2,773	915
Total	6,808	2,631

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

Notes to the consolidated financial statements

for the year ended 30 April 2012

continued

29 Employees and directors continued

Share based payments

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

Share Purchase and Option Plan 2001

The Group had a share based compensation plan ('the Plan') under which employees and directors could be granted options to purchase the Company's ordinary shares. On the full listing of the Company on the London Stock Exchange the options were treated as having vested and were exchanged for three options in the ordinary shares of the newly listed entity. At this date the Plan was closed for new issues. No options were granted under the Plan during the year.

Options over ordinary shares held by employees under the Plan, all of which were exercisable, were as follows:

	2012		2011	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
Outstanding at 1 May	–	–	120,817	8p
Exercised	–	–	(97,192)	9p
Forfeited	–	–	(23,625)	6p
Outstanding at 30 April	–	–	–	–
Exercisable at 30 April	–	–	–	–

As at 30 April 2011 and 30 April 2012 none of these options were outstanding.

The weighted average share price for options exercised in the year was nil p (2011: 376p).

No amount was charged through the consolidated statement of comprehensive income (2011: nil).

Incentive Plan 2005

On 27 April 2005 the remuneration committee approved the rules of the Incentive Plan 2005 ('LTIP') which permits the granting of share options to executive directors and senior management. The total number of options they receive is determined by the performance criteria set by the remuneration committee over a three year performance period. Prior to 18 April 2011 performance conditions required that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 11% (at which point 25% of awards will vest), 60% of shares will vest for cumulative EPS growth of RPI plus 13% and for full vesting the cumulative EPS growth will be required to be RPI plus 15% per annum. Straight-line vesting will apply between these points. Awards granted on or after 18 April 2011 are subject to either Absolute Shareholder Returns ("ASR") over a three year period or a combination of cumulative EPS growth and ASR. For the latter, the cumulative EPS growth over a three year period must be at least equal to RPI plus 3% per annum (at which 25% of awards will vest) and full vesting the cumulative EPS growth will be required to be RPI plus 9% per annum. Straight line vesting will apply between these points. The resulting level of vesting will be reduced by 25% if the ASR is below 150 pence or increased by 50% if ASR is 300 pence or more. Further details are provided in the remuneration committee report.

	2012		2011	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
Outstanding at 1 May	6,173,553	218p	4,151,912	270p
Exercised	(880,614)	228p	(601,883)	217p
Forfeited	(1,153,527)	243p	(1,502,297)	321p
Granted	1,226,251	64p	4,125,821	202p
Outstanding at 30 April	5,365,663	176p	6,173,553	218p
Exercisable at 30 April	927,917	233p	514,550	220p

The weighted average share price on the date of exercise for options exercised in the year was 384p (2011: 363p).

The amount charged to the consolidated statement of comprehensive income in respect of the scheme was \$4.5m (2011: \$2.1m).

In addition to this \$1.1m (2011: \$0.5m) was charged to the consolidated statement of comprehensive income in respect of national insurance on share options.

	2012			2011		
	Weighted average exercise price (pence)	Number of shares ('000)	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)	Number of shares ('000)	Weighted average remaining contractual life (years)
Range of exercise prices						
£0.10 or less	5	2,375	9.0	3p	1,823	9.7
£0.11 – £1.00	11	75	9.8	–	–	–
£1.01 – £2.00	155	109	5.1	139p	163	–
£2.01 – £3.00	262	1,159	6.9	259p	2,069	7.5
£3.01 – £4.00	350	1,107	8.0	343p	1,367	8.8
More than £4.00	410	541	8.1	414p	752	9.1
	176	5,366	8.2	218p	6,174	8.6

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was £2.59 (2011: £1.82). The significant inputs into the model were weighted average share price of £3.49 (2011: £3.58) at the grant date, exercise price shown above, expected volatility of 51% (2011: 39%), expected dividend yield of 5.1% (2011: 3.3%), an expected option life of three years and an annual risk-free interest rate of 3.12% (2011: 3.35%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

Sharesave and Employee Stock Purchase Plan 2006

In August 2006, the Company introduced the Micro Focus Employee Stock Purchase Plan 2006, approved by members on 25 July 2006. The Group operates several plans throughout the world but the two main plans are the Sharesave Plan ('Sharesave') primarily for UK employees, and the Employee Stock Purchase Plan ('ESPP') for employees in the USA and Canada. The Sharesave and ESPP provide for an annual award of options at a discount to the market price and are open to all eligible Group employees. Further Sharesave and ESPP grants were made during the year to 30 April 2012.

	2012		2011	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
Sharesave				
Outstanding at 1 May	447,781	293p	369,791	278p
Exercised	(92,367)	219p	(53,117)	241p
Forfeited	(5,353)	312p	(28,984)	296p
Granted	309,225	234p	160,091	310p
Outstanding at 30 April	659,286	277p	447,781	293p
Exercisable at 30 April	13,176	223p	–	–

Options	Date of grant	Exercise price per share pence	Exercise period
7,138	4 August 2008	202.0p	1 October 2012 – 31 March 2012
7,221	19 February 2009	244.0p	1 April 2012 – 30 September 2012
149,433	8 September 2009	310.1p	1 October 2012 – 31 March 2013
29,287	11 March 2010	377.1p	1 April 2013 – 30 September 2013
11,673	1 September 2010	335.7p	1 October 2013 – 31 March 2014
71,322	1 October 2010	291.2p	1 October 2013 – 31 March 2014
3,342	17 February 2011	323.2p	1 April 2014 – 30 September 2014
70,645	17 February 2011	323.2p	1 April 2014 – 30 September 2014
182,229	1 September 2011	218.4p	1 October 2014 – 31 March 2015
87,387	19 September 2011	218.4p	1 October 2014 – 31 March 2015
23,190	14 February 2012	337.2p	1 April 2015 – 30 September 2015
16,419	14 February 2012	337.2p	1 April 2015 – 30 September 2015

Notes to the consolidated financial statements

for the year ended 30 April 2012

continued

29 Employees and directors continued

	2012		2011	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
ESPP				
At 1 May	376,026	300p	178,440	310p
Exercised	(34,155)	365p	(71,403)	253p
Forfeited	(204,953)	270p	(39,024)	259p
Granted	63,531	327p	308,013	278p
Outstanding at 30 April	200,449	328p	376,026	300p
Exercisable at 30 April	1,903	321p	–	–

Options	Date of grant	Exercise price per share pence	Exercise period
127	1 April 2009	253p	1 April 2012 – 30 September 2012
1,903	1 October 2009	321p	1 October 2012 – 31 March 2012
30,754	1 April 2010	439p	1 April 2012 – 30 September 2012
52,738	1 October 2010	324p	1 October 2012 – 31 March 2013
51,396	15 April 2011	269p	1 April 2013 – 30 September 2013
37,250	1 October 2011	274p	1 October 2013 – 31 March 2014
26,281	23 March 2012	402p	1 October 2014 – 31 March 2015

The amount charged to the consolidated statement of comprehensive income in respect of the Sharesave and ESPP schemes was \$0.4m (2011: \$0.1m).

The weighted average fair value of options granted in the Sharesave and ESPP schemes during the year determined using the Black-Scholes valuation model was £0.97 (2011: £0.89). The significant inputs into the model were weighted average share price of £3.20 (2011: £3.23) at the grant date, exercise price shown above, expected volatility of 51% (2011: 39%), expected dividend yield of 5.1% (2011: 3.3%), an expected option life of two or three years and an annual risk-free interest rate of 3.12% (2011: 3.35%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

30 Pension commitments

The Group has established a number of pension schemes around the world covering many of its employees. The principal funds are those in the US, the UK and Germany. These are funded schemes of the defined contribution type. Outside of these territories, the schemes are also of the defined contribution type, except for Japan and France which are defined benefit schemes, but which have few members and therefore is not significant to the Group.

Pension costs for defined contribution schemes are as follows:

	2012 \$'000	2011 \$'000
Defined contribution schemes	3,825	5,063

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31 Operating lease commitments – minimum lease payments

At 30 April 2012 the Group has a number of lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years.

	2012 \$'000	2011 \$'000
Commitments under non-cancellable operating leases expiring:		
No later than one year	4,241	6,918
Later than one year and no later than five years	17,822	22,360
Later than five years	9,401	17,510
Total	31,464	46,788

The Group leases various offices under non-cancellable operating lease agreements that are included in the table. The leases have various terms, escalation clauses and renewal rights.

32 Capital commitments and contingent liabilities

The Group had no capital commitments at 30 April 2012 (2011: \$87,150). The Group had contingent liabilities of \$156,337 at 30 April 2012 (2011: \$265,970).

33 Related party transactions

The Group has taken advantage of the exemption available under IAS 24, 'Related Party Disclosures', not to disclose details of transactions with subsidiary undertakings. There are no external related parties other than key management personnel.

34 Business combinations

During the year ended 30 April 2011 adjustments were made in respect of goodwill on prior year acquisitions of \$5.2m due to a decrease in the net assets following finalisation of the fair value of assets and liabilities.

As reported in our interim results for the period ended 31 October 2010, adjustments were made of \$4.0m. Subsequently it was discovered that this adjustment should have been \$5.2m.

35 Principal subsidiaries

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

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

We have audited the parent company financial statements of Micro Focus International plc for the year ended 30 April 2012 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 36, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 April 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Micro Focus International plc for the year ended 30 April 2012.



Pauline Campbell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
20 June 2012

Company balance sheet

as at 30 April 2012

	Note	2012 \$'000	2011 \$'000
Fixed assets			
Investments	V	2,966	126,535
		2,966	126,535
Current assets			
Deferred tax assets		800	69
Debtors	VI	740,291	175,689
Cash at bank and in hand		4,952	239
		746,043	175,997
Creditors: amounts falling due within one year	VII	10,117	7,545
Net current assets		735,926	168,452
Total assets less current liabilities		738,892	294,987
Capital and reserves			
Called up share capital	VIII	37,787	37,713
Share premium account	X	58,751	113,229
Profit and loss account	XI	585,450	144,045
Other reserves	XI	56,904	–
Total shareholders' funds		738,892	294,987

The Company financial statements on pages 71 to 79 were approved by the board of directors on 20 June 2012 and were signed on its behalf by:



Kevin Loosemore
Executive Chairman



Mike Phillips
Chief Financial Officer

Notes to the Company financial statements

for the year ended 30 April 2012

I Summary of significant accounting policies

The basis of preparation and the principal accounting policies adopted in the preparation of the financial information are set out below.

A Basis of preparation

The Company financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and all applicable UK accounting standards.

B Foreign currency translation

The functional currency of the Company is US Dollars. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

C Investments in subsidiaries

Investments in subsidiaries are held at cost less any accumulated impairment losses.

D Called up share capital, share premium and dividend distribution

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

E Taxation

Corporation tax is payable on taxable profits at amounts expected to be paid, or recovered, under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is 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 regarded as more likely than not that there will be a suitable taxable profit from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

F Employee benefit costs

a) Pension obligations

The Company operates a defined contribution plan for which it pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are 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.

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b) Share-based compensation

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

No expense is recognised in respect of share options granted before 7 November 2002 and vested before 1 January 2005. For shares or share options granted after 7 November 2002 and vested after 1 January 2005 the fair value of the employee services received in exchange for the grant of the shares or options is 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. At each balance sheet date, the Company 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 profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

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

G Financial instruments

The accounting policy of the Company for financial instruments is the same as that shown in the Group accounting policies. This policy is in accordance with FRS 26, 'Financial Instruments Recognition & Measurement'.

II Profit and recognised gains and losses of attributable to the Company

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the Company. The Company has also taken advantage of legal dispensation contained in S408 of the Companies Act 2006 allowing it not to publish a separate statement of Total Recognised Gains and Losses.

The profit for the financial year before dividends for the Company was \$323.7m (2011: profit of \$182.1m). In addition to this there is also unrealised profit of \$352.8m (see note XV).

III Employees and directors

Staff costs for the Company during the year

	2012 \$'000	2011 \$'000
Wages and salaries	3,250	1,717
Social security costs	(73)	735
Other pension costs	–	53
Cost of employee share schemes	2,102	611
Total	5,279	3,116

The average monthly number of employees of the Company, including remunerated directors, during the year was seven (2011: six). For further information on the directors of the Company please refer to the remuneration report on pages 28 to 34.

The credit to social security costs of \$0.1m has arisen following a reclassification in the year of directors national insurance on share options.

Notes to the Company financial statements

for the year ended 30 April 2012

continued

III Employees and directors continued

Share-based payments

The Company has various equity-settled share-based compensation plans, details of which are provided below. The interests of the directors and employees of the Company and the interests of the executive directors in share options are as below.

Incentive Plan 2005

On 27 April 2005 the remuneration committee approved the rules of the Incentive Plan 2005 ('LTIP') which permits the granting of share options to executive directors and senior management. The total number of options they receive is determined by the performance criteria set by the remuneration committee over a three year performance period. Prior to 18 April 2011 performance conditions required that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 11% (at which point 25% of awards will vest), 60% of shares will vest for cumulative EPS growth of RPI plus 13% and for full vesting the cumulative EPS growth will be required to be RPI plus 15% per annum. Straight-line vesting will apply between these points. Awards granted on or after 18 April 2011 are subject to either Absolute Shareholder Returns ("ASR") over a three year period or a combination of cumulative EPS growth and ASR. For the latter, the cumulative EPS growth over a three year period must be at least equal to RPI plus 3% per annum (at which 25% of awards will vest) and full vesting the cumulative EPS growth will be required to be RPI plus 9% per annum. Straight line vesting will apply between these points. The resulting level of vesting will be reduced by 25% if the ASR is below 150 pence or increased by 50% if ASR is 300 pence or more. Further details are provided in the remuneration committee report on pages 28 to 34. For certain options issued during the year ended 30 April 2011 to Kevin Loosemore, the performance condition provides for awards to vest by reference to the percentage increase in the Company's total shareholder return over the performance period. The level of vesting is the percentage increase and is not capped. No return will be delivered on these options unless there is an absolute return for shareholders.

	2012		2011	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
At 1 May	1,574,161	120p	540,691	293p
Exercised	(52,434)	245p	(192,849)	266p
Forfeited	–	–	(701,279)	311p
Granted	–	–	1,927,598	155p
Outstanding at 30 April	1,521,727	115p	1,574,161	120p
Exercisable at 30 April	–	–	–	–

The weighted average share price on the date of exercise for options exercised in the year was 334p (2011: 348p).

The amount charged to the profit and loss account in respect of the scheme was \$1.7m (2011: \$0.6m). In addition to this \$0.4m (2011: \$0.5m) was charged to the profit and loss account in respect of national insurance on these options.

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	2012			2011		
	Weighted average exercise price (pence)	Number of shares ('000)	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)	Number of shares ('000)	Weighted average remaining contractual life (years)
Range of exercise prices						
£0.10 or less	—	927	9.2	—	927	10.0
£0.11 – £1.00	—	—	—	—	—	—
£1.01 – £2.00	—	—	—	—	—	—
£2.01 – £3.00	277p	325	8.3	273p	377	9.0
£3.01 – £4.00	317p	270	8.4	317p	270	9.4
	115p	1,522	8.7	120p	1,574	9.6

No options were granted in the year. The weighted average fair value of options granted during the prior year was determined using the Black-Scholes valuation model and was £2.09. The significant inputs into the model were weighted average share price of £3.46 at the grant date, exercise price shown above, volatility of 39%, dividend yield of 3.3%, an expected option life of three years and an annual risk-free interest rate of 3.35%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

Sharesave 2006

In August 2006, the Company introduced the Micro Focus Employee Stock Purchase Plan 2006, approved by members on 25 July 2006. The Sharesave Plan ('Sharesave') is primarily for UK employees and provides for an annual award of options at a discount to the market price and is open to all eligible Group employees. Further Sharesave grants were made during the four years to 30 April 2012. The interests of the executive directors in Sharesave were:

	2012		2011	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
At 1 May	—	—	2,926	310p
Exercised	—	—	—	—
Forfeited	—	—	(2,926)	310p
Granted	—	—	—	—
Outstanding at 30 April	—	—	—	—
Exercisable at 30 April	—	—	—	—

	Date of grant	Exercise price per share pence	Exercise period
	8 September 2009	310p	1 October 2012 – 31 March 2013

No charge was made in the year to the profit and loss account in respect of the schemes (2011: nil).

No options were granted during the current or prior year.

IV Dividends

A final dividend in respect of the year ended 30 April 2011 of 16.2 cents per share was proposed and paid during the year (\$30.9m in total). In addition, an interim dividend in respect of the year ended 30 April 2012 of 8.2 cents per share (2011: 7.2 cents per share) was proposed and paid. A total of \$15.3m was proposed and paid during the year.

The directors are proposing a final dividend in respect of the year ended 30 April 2012 of 23.4 cents per share, which would reduce shareholders' funds by approximately \$38.3m. The proposed dividend is subject to approval at the AGM on 26 September 2012.

Notes to the Company financial statements

for the year ended 30 April 2012

continued

V Fixed asset investments

	2012 \$'000
Cost and net book value	
At 1 May 2011	126,535
Additions	4,027
Disposals	(127,596)
At 30 April 2012	2,966

The additions of \$4.0m (2011: \$1.6m) relates to capital contribution arising from share based payments as set out in note III. In the year ended 30 April 2011 there were also additions of \$68.3m relating to an intercompany loan with Micro Focus Holdings Ltd which had been capitalised.

The disposal of \$127.6m (2011: nil) relates to the sale of Micro Focus Holdings Limited to Micro Focus Group Limited as part of the restructuring undertaken during the Return of Value to shareholders.

At 30 April 2012, the Company held directly or indirectly 100% of the ordinary share capital of the following subsidiary undertakings which in the opinion of the directors principally affect the amount of profit or the amount of the assets of the Group. Only Micro Focus Group Limited is directly owned by the Company with all other subsidiaries being indirectly owned.

Company name	Country of incorporation	Principal activities
Micro Focus AS	Norway	Sale and support of software
Micro Focus (Canada) Limited	Canada	Sale and support of software
Micro Focus GmbH	Germany	Sale and support of software
Micro Focus Holdings Ltd	UK	Holding company
Micro Focus India Private Limited	India	Sale and support of software
Micro Focus Group Limited	UK	Holding company
Micro Focus (IP) Limited	UK	Holding company
Micro Focus Israel Ltd	Israel	Development and support of software
Micro Focus IP Development Limited	UK	Development, sale and support of software
Micro Focus KK	Japan	Sale and support of software
Micro Focus Limited	UK	Development, sale and support of software
Micro Focus NV	Belgium	Sale and support of software
Micro Focus NV	Netherlands	Sale and support of software
Micro Focus Pte Limited	Singapore	Sale and support of software
Micro Focus Pty Limited	Australia	Sale and support of software
Micro Focus APM Solutions EOOD	Bulgaria	Development of software
Micro Focus SAS	France	Sale and support of software
Micro Focus SL	Spain	Sale and support of software
Micro Focus Srl	Italy	Sale and support of software
Micro Focus (US) Inc	USA	Holding company, development, sale and support of software
Micro Focus (US) Group Inc	USA	Holding company
Micro Focus (US) Holdings	UK	Holding company
Borland BV	Netherlands	Sale and support of software
Borland Co. Limited	Japan	Sale and support of software
Borland Entwicklung GmbH	Austria	Development of software
Borland France Sarl	France	Sale and support of software
Borland GmbH	Germany	Sale and support of software
Borland Latin America Ltda	Brazil	Sale and support of software
Borland Software Corporation	USA	Development, sale and support of software
Borland Srl	Italy	Sale and support of software
Borland (UK) Limited	UK	Sale and support of software

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

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

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VI Debtors

	2012 \$'000	2011 \$'000
Amounts owed by Group undertakings	740,243	175,236
Other debtors	3	42
Prepayments	45	411
Total	740,291	175,689

The amounts owed by Group undertakings are unsecured, interest free and repayable on demand. The large increase in amounts owed by Group undertakings results from the Group restructuring that took place during the year (see note XV).

VII Creditors: amounts falling due within one year

	2012 \$'000	2011 \$'000
Trade creditors	391	468
Taxation and social security	95	96
Amounts owed to Group undertakings	6,200	5,304
Accruals	3,431	1,677
Total	10,117	7,545

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

VIII Called up share capital

	Number	2012 \$	Number	2011 \$
Allotted and fully paid				
Ordinary shares of 10 pence each	–	–	205,947,870	37,712,661
Ordinary shares of 11 ⁴ / ₁₁ pence each	181,552,160	37,787,382	–	–

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

During the year 262,085 (2011: 818,410) ordinary shares of 10p each and 87,404 (2011: nil) ordinary shares of 11⁴/₁₁p each were issued by the Company to settle exercised share options. The gross consideration received was \$1.3m (2011: \$1.5m).

Notes to the Company financial statements

for the year ended 30 April 2012

continued

IX Share buyback

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

The Group obtained shareholder authority at the last AGM (held on 22 September 2011) to buy back up to 14.99% of its issued share capital, which remains outstanding until the conclusion of the next AGM on 26 September 2012. Following the Return of Value and associated share consolidation this authority now relates to a maximum of 24,472,697 ordinary shares of 11⁴/₁₁ pence per share. The minimum price which must be paid for such shares is the nominal value of the ordinary shares which is now 11⁴/₁₁ pence per share and the maximum price payable is the higher of (i) 105% of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the shares concerned; and (ii) the higher of the price of the last independent trade of any Ordinary Share and the highest current bid for an Ordinary Share as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buyback programmes and stabilisation of financial instruments (2273/2003).

No shares have been bought back under the terms of this resolution since 22 September 2011.

At 30 April 2012 a total of 17,805,145 treasury shares were held (2011: 8,223,092).

X Share premium account

	2012 \$'000	2011 \$'000
At 1 May	113,229	109,325
Movement in relation to shares issued	1,879	3,904
Issue of B shares	(56,359)	–
Sale of fractional shares	2	–
At 30 April	58,751	113,229

XI Reserves and reconciliation of movements in shareholders' funds

	Called up share capital \$'000	Share premium account \$'000	Profit and loss account \$'000	Capital redemption \$'000	Total \$'000
Balance as at 1 May 2010	37,583	109,325	53,701	–	200,609
Profit for the year	–	–	182,070	–	182,070
Dividends (see note IV)	–	–	(50,313)	–	(50,313)
Issue of share capital	130	3,904	(1,484)	–	2,550
Repurchase of shares	–	–	(41,997)	–	(41,997)
Employee share option scheme:					
– Value of subsidiary employee services	–	–	1,624	–	1,624
– Value of services provided	–	–	611	–	611
Deferred tax on share options	–	–	(167)	–	(167)
Total changes in shareholders' funds	130	3,904	90,344	–	94,378
Balance as at 30 April 2011	37,713	113,229	144,045	–	294,987
Profit for the year	–	–	323,744	–	323,744
Unrealised profit on disposal of investment	–	–	352,820	–	352,820
Dividends (see note IV)	–	–	(46,262)	–	(46,262)
Issue of share capital	74	1,879	(700)	–	1,253
Repurchase of shares	–	–	(62,498)	–	(62,498)
Return of value to shareholders (see note XIV)	–	–	(129,604)	–	(129,604)
Issue of B shares	56,359	(56,359)	–	–	–
Redemption of B shares	(56,359)	–	–	56,359	–
Sale of fractional shares	–	2	–	–	2
Expenses and foreign exchange relating to return of value	–	–	(1,026)	545	(481)
Movement in relation to share options					
– Value of subsidiary employee services	–	–	3,263	–	3,263
– Value of services provided	–	–	1,668	–	1,668
Total changes in shareholders' funds	74	(54,478)	441,405	56,904	443,905
Balance as at 30 April 2012	37,787	58,751	585,450	56,904	738,892

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XII Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at 30 April 2012 (2011: nil). The Company has guaranteed certain contracts in the normal course of business and bank borrowings of its subsidiaries.

XIII Related party transactions

The Company has taken advantage of the exemption under FRS 8, 'Related Party Disclosures' from, disclosing transactions with other members of the Group headed by Micro Focus International plc. There are no related party transactions or other external related parties.

XIV Return of Value to shareholders

In January 2012 a Return of Value was made to all shareholders amounting to \$129.6m in cash (45 pence per share, equivalent to approximately 69.8 cents per share), by way of a B and C share scheme, which gave shareholders (other than certain overseas subsidiaries) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by a 22 for 25 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B and C shares.

XV Group restructuring

During the year ended 30 April 2012 a group restructuring was undertaken and a new company was set up called Micro Focus Group Limited. Micro Focus Holdings Limited was then sold by Micro Focus International plc to Micro Focus Group Limited resulting in a total profit of \$682.4m. Of this profit \$329.6m was realised and \$352.8m remains an unrealised profit on disposal. This unrealised profit will become realised through the settlement of the outstanding Intercompany debtor between Micro Focus Group Limited and the Company. As at 30 April 2012, the outstanding intercompany debtor due from Micro Focus Group Limited was \$660.4m. This will be repaid through cash generated within the Group or through additional external borrowings.

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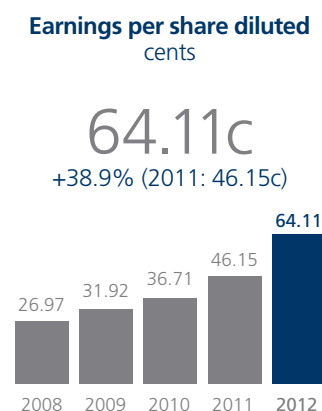
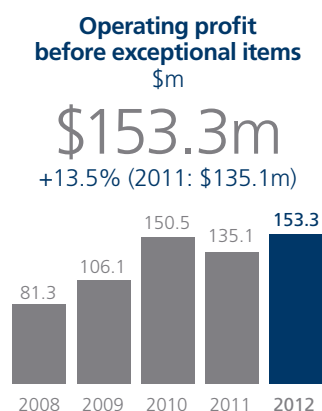
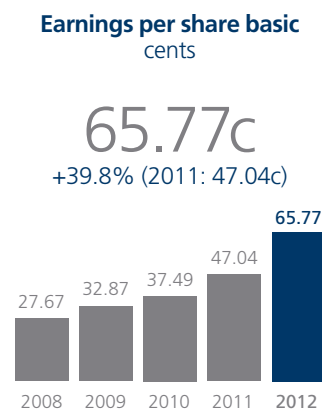
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Historical summary



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

	2008 \$'000	2009 \$'000	2010 \$'000	2011 \$'000	2012 \$'000
Revenue	228,196	274,731	432,579	436,130	434,838
Operating profit before exceptional items	81,294	106,118	150,505	135,072	153,349
Exceptional items	(6,502)	(14,907)	(45,088)	(14,540)	2,442
Operating profit	74,792	91,211	105,417	120,532	155,791
Profit before tax	76,823	91,449	98,325	114,541	149,250
Earnings per share					
Basic (cents)	27.67	32.87	37.49	47.04	65.77
Diluted (cents)	26.97	31.92	36.71	46.15	64.11

Summarised Group balance sheet as at 30 April

Non-current assets	121,002	208,899	456,537	439,035	434,235
Current assets	151,802	138,786	154,807	133,558	122,726
Current liabilities	(123,104)	(143,307)	(327,800)	(278,485 ¹)	(380,071)
Non-current liabilities	(23,178)	(35,650)	(64,118)	(65,410 ¹)	(59,344)
Total equity	126,522	168,728	219,406	228,698	117,546

¹ Balances as at 30 April 2011 and 30 April 2010 have been restated to reflect adjustments made in the disclosure of provisions previously contained within trade and other payables (see notes 15 and 20). In addition, balances at 30 April 2011 and 30 April 2010 have been restated to reflect adjustments made in the disclosure of borrowings to show unamortised prepaid facility arrangement fees previously contained within trade and other receivables (see notes 13 and 16).

Key dates and share management

Key dates for 2013

Annual General Meeting	26 September 2012
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Dividend Payments

Final payable – year ended 30 April 2012	2 October 2012
Interim payable – period ending 31 October 2012	January 2013

Results announcements

Interim results – period ending 31 October 2012	5 December 2012
Final results – year ending 30 April 2013	27 June 2013

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Managing your shares

Share dealing services

Shareview Dealing is a telephone and internet service provided by Equiniti and provides a simple and convenient way of buying and selling Micro Focus International plc shares.

Log on to www.shareview.co.uk/dealing or call 0845 603 7037 between 8.30am and 4.30pm, Monday to Friday, for more information about this service and for details of the rates and charges.

A weekly postal dealing service is also available and a form together with terms and conditions can be obtained by calling 0871 384 2734*. Commission is 1% with a minimum of £10.

ShareGift

ShareGift is a charity share donation scheme for shareholders, administered by The Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small number of shares whose value makes it uneconomical to sell on a commission basis. Further information can be obtained at www.sharegift.org or from Equiniti.

Shareholder enquiries

Equiniti maintain the register of members of the Company. If you have any queries concerning your shareholding, or if any of your details change, please contact the Registrars:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0871 384 2734*
Fax: 0871 384 2100*

Textphone for shareholders with hearing difficulties 0871 384 2255*

Equiniti also offer a range of shareholder information on-line at www.shareview.co.uk.

* Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary.

Company information

Directors, Secretary, registered office and advisers

Directors

Kevin Loosemore
(Executive Chairman)

Mike Phillips
(Chief Financial Officer)

David Maloney
(Non-executive Senior Independent Director
and Deputy Chairman)

Tom Skelton
(Non-executive director)

Karen Slatford
(Non-executive director)

Tom Virden
(Non-executive director)

Company Secretary, Registered and Head Office

Jane Smithard
The Lawn
22-30 Old Bath Road
Newbury
Berkshire RG14 1QN
United Kingdom

www.microfocus.com
Registered in England number 5134647

Legal advisers

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

Auditors

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

Registrars

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

Brokers

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

Forward-looking statements

Certain statements contained in this annual report, including those under the captions entitled Executive Chairman's statement, operational and financial review, directors' report, corporate governance and remuneration report constitute 'forward-looking statements', including, without limitation, those regarding the Company's financial condition, business strategy, plans and objectives. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative or other variations or comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Such risks, uncertainties and other

factors include, among others: the level of expenditure committed to development and deployment applications by 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 migrate applications from the mainframe environment; the continued use and necessity of the mainframe for business critical applications; the degree of competition faced by Micro Focus; growth in the information technology services market; general economic and business conditions, particularly in the United States; changes in technology and competition; and the Company's ability to attract and retain qualified personnel. These forward-looking statements are made by the directors in good faith based on the information available to them at the time of their approval of this annual report. Except as required by the Financial Services Authority, or by law, the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.



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