19 June 2014

Micro Focus International plc reports
audited preliminary results for the full year to 30 April 2014

Micro Focus International plc ("Micro Focus", "the Company" or “the Group”, LSE: MCRO.L), the international software product group, announces audited preliminary results for the year to 30 April 2014 after a year of solid progress, which saw Group revenue growth on a constant currency basis (‘CCY‘) marginally exceed the top end of previous guidance, and a 14.9% increase in adjusted diluted EPS.

Results at a glance	FY 2014	Restated * FY 2013	Change
Revenue			
Total Revenue			
Constant Currency	$433.1m	$407.1m	+6.4%
- Licence	$177.9m	$163.9m	+8.5%
- Maintenance	$243.2m	$227.7m	+6.8%
- Consultancy	$12.0m	$15.5m	-22.6%
Reported	$433.1m	$412.2m	+5.1%
Constant Currency			
Acquisitions in the year ended 30 April 2013			
- Licence	$7.9m	$0.1m	N/A
- Maintenance	$17.0m	$3.3m	N/A
- Consultancy	$0.1m	-	N/A
- Sub-total	$25.0m	$3.4m	N/A
Acquisitions in the year ended 30 April 2014			
- Licence	$2.4m	-	N/A
- Maintenance	$3.5m	-	N/A
- Consultancy	$0.2m	-	N/A
- Sub-total	$6.1m	-	N/A
Like for Like			
- Licence	$167.6m	$163.8m	+2.3%
- Maintenance	$222.7m	$224.4m	-0.8%
- Consultancy	$11.7m	$15.5m	-24.5%
- Sub-total	$402.0m	$403.7m	-0.4%
NON GAAP MEASURES			
Adjusted EBITDA**			
Constant Currency	$192.0m	$181.3m	+5.9%
Reported	$192.0m	$186.3m	+3.1%
Underlying Adjusted EBITDA**			
Constant Currency	$196.4m	$179.1m	+9.7%
Reported	$196.4m	$184.1m	+6.7%
STATUTORY MEASURES			
Pre-tax profit			
Constant Currency	$147.8m	$146.6m	+0.8%
Reported	$147.8m	$151.5m	-2.4%
Earnings per share ***			
Basic	84.75c	77.83c	+8.9%
Diluted	82.35c	75.23c	+9.5%
Adjusted	100.32c	87.81c	+14.2%
Adjusted diluted	97.48c	84.87c	+14.9%
Proposed final dividend per share	30.0c	28.1c	6.8%
Proposed total dividend per share	44.0c	40.0c	10.0%
Net debt	$261.0m	$177.7m	+46.9%

Key highlights

- Group revenue marginally ahead of the top end of previous guidance up 6.4% on a CCY basis
- Revenue excluding this year's acquisitions, up 4.9% on a CCY basis
- Like for like revenue (excluding acquisitions made in the last two years) down by 0.4% on a CCY basis
    - Second half like for like revenue growth of 2.2% with Licence fee revenue growth of 5.4%
    - Licence fee revenues grew by 2.3% year on year
    - Maintenance revenues declined by 0.8% year on year
    - Consultancy revenues lower as planned
- Adjusted EBITDA** margin on a CCY basis of 44.3% (2013: 44.5%)
    - Underlying** Adjusted EBITDA margin on a CCY basis of 45.3% (2013: 44.0%)
- Growth in earnings per share
    - Diluted EPS grew by 9.5% to 82.35 cents (2013: 75.23 cents)
    - Adjusted diluted EPS grew by 14.9% to 97.48 cents (2013: 84.87 cents)
- Strong cash conversion in the period
    - Cash generated from operations was $206.8m (2013: $192.4m) representing 107.7% (2013: 103.4%) of Adjusted EBITDA
    - Net debt at 30 April 2014 increased by $83.3m to $261.0m (2013: $177.7m) following payment of dividends of $62.6m (2013: $57.2m), Return of Value of $140.2m (2013: $128.8m) and acquisition consideration and costs of $36.6m (2013: $15.6m)
    - Net debt to RCF EBITDA multiple of 1.3 times (2013: 0.9 times)
- Enhanced returns for shareholders
    - Return of 60 pence per share in cash to shareholders (equivalent to 93.3 cents per share) (the "Return of Value") completed in November 2013 at a total cost of $140.2m
    - Proposed final dividend increased by 6.8% to 30.0 cents per share (2013: 28.1 cents per share)
    - Proposed total dividend increased by 10.0% to 44.0 cents per share (2013: 40.0 cents per share)

Statutory results

- Operating profit of $155.7m (2013: $159.4m)
- Profit before tax of $147.8m (2013: $151.5m)
- Basic earnings per share of 84.75 cents (2013: 77.83 cents) increased by 8.9%***

* The results for the prior period have been restated to reflect the impact of a misstatement of revenue caused by invalid orders within our sales channel network in India. The total amount of restatement of previously reported revenues is $2.5m. The impact of the restatement is to reduce revenues and adjusted EBITDA by $1.8m in the year to 30 April 2013 and $0.7m in the year ended 30 April 2012. The current year has been impacted by related costs of $0.9m. Further details are provided in note 19.

** In assessing the performance of the business, the directors use non GAAP measures "Adjusted operating profit" and "Adjusted earnings per share", being the relevant statutory measures, prior to exceptional items, amortization of purchased intangibles and share based compensation. "Adjusted EBITDA" is the Adjusted Operating Profit prior to depreciation and amortization of purchased software. Underlying Adjusted EBITDA removes the impact of net capitalization of development costs and foreign currency gains and losses from Adjusted EBITDA whilst RCF EBITDA is Adjusted EBITDA before amortization of capitalized development costs. A reconciliation of these profit measures is given in note 4.

*** Earnings per share are detailed in note 6.

Kevin Loosemore, Executive Chairman of Micro Focus International plc, commented:

"Following a strong close to the financial year, Micro Focus announces total revenue growth at constant currency of 6.4% which was marginally above the 3% to 6% guidance range that we gave at the interim results in December 2013. Particularly pleasing was the return to like for like organic revenue growth in the second half of the financial year of 2.2% compared to a 3.1% decline in the first six months of the year. We have now at least met or exceeded market expectations for 13 consecutive quarters.

In March 2011, when our market capitalization was £635.0m, we announced a share buy-back programme. Since then we have returned £424.3m in cash to shareholders through share buy-back, dividends and returns of value and our market capitalization has increased to £1,081.4m at 30 April 2014. During this period we have improved the operational efficiency of the business by increasing the Underlying Adjusted EBITDA margin from 35.5% to 45.3% and taking the absolute figure from $155.0m to $196.4m. We continue to believe that with low single digit revenue growth our industry leading margins and strong cash conversion are able to deliver shareholder returns of 15% to 20% per annum.

The board believes that the Company has demonstrated its ability to support a modest level of gearing and is now increasing the target net debt to RCF EBITDA multiple to 2.5 times. This will be achieved through planned returns of value and/or acquisitions should they be more value enhancing.

In line with the Company's dividend policy the proposed final dividend for the year is 30.0 cents per share (2013: 28.1 cents per share) giving an increase in total dividend per share for the year of 10.0% to 44.0 cents (2013: 40.0 cents). The final dividend will be 17.7 pence per share and, if approved, will bring the cash returns to shareholders since March 2011 to £449.0m representing 71% of the market capitalization at that date. In addition, in the absence of a significant

acquisition, share buy-back opportunity or unforeseen circumstances and subject to shareholder approval the Company intends to make a further Return of Value to shareholders in November 2014.

We believe that by continuing to execute our business strategy and financial model Micro Focus is positioned to continue to provide shareholders with returns in the coming years."

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About Micro Focus

Micro Focus, a constituent of the London Stock Exchange's FTSE 250 Index, provides innovative software that helps companies to improve the business value of their enterprise applications. Micro Focus Enterprise Application Modernization, Testing and Management software enables customers' business applications to respond rapidly to market changes and embrace modern architectures with reduced cost and risk.

Forward-looking statements

Certain statements in this preliminary results report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. The Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Strategic report

Our Business Model - strong and established technology franchises

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

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

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

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

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

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

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

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

NEW MODELS (subscription, cloud)	GROWTH DRIVERS (build the future)
NICHE (optimize returns)	CORE (protect)

Our approach to each category is summarized below:

- **Growth Drivers and Core:** represent the great majority of our revenue and investment focus. We look to identify critical technologies that have delivered significant value for customers and where the costs and risks of replacement or re-write are high and the returns from such activities are questionable. We determine how to enable these technologies for the latest IT innovations whether new operating environments such as JAVA or .NET or new use cases such as the cloud or mobile. For example, Visual COBOL enables customers to take COBOL applications forward with confidence into the next phase of IT industry innovation, specifically cloud and mobile, whilst protecting their investments in business logic and data built up through prior investments. Similarly within Core, our investments in CORBA enable customers to connect critical business applications into the broader Service-Orientated Architecture and web services world ensuring their continued capability to drive business value and avoiding costly and disruptive application re-writes.
- **New Models**: our focus is on identifying new innovation in the marketplace that is applicable to our core and growth driver propositions. This is the case where new innovation is needed to connect or leverage existing IT or application assets to deliver returns or open new opportunities. An example of this is Silk Performer Cloudburst; a cloud based implementation of our highly successful on premise Silk Performer product. This combination enables customers to execute a hybrid on premise/cloud solution that ensures day to day operations are handled effectively on premise but offering broadly unlimited additional capacity as and when needed to support business operational peaks, underpinned by the flexibility and ease of use of a common solution in both cases.
- **Niche**: some technologies eventually approach end of life as the majority of customers replace them with new solutions. For the remaining customers they still represent significant value. Our approach is to continue to offer flexible commercial and support models to enable customer access to the intellectual property and capabilities

of these technologies for extended periods, again ensuring protection of customer investment for as long as possible technically and commercially.

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

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

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

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

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

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

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

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

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

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

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

Our performance in the year

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

Once the impact of the $6.1m of revenues generated from current year acquisitions are excluded, revenues grew by 4.9% to $427.0m on a CCY basis. Licence fees increased by 8.5% to $177.9m, (2013: CCY $163.9m), Maintenance fees increased by 6.8% to $243.2m (2013: CCY $227.7m) and Consultancy revenues were down, by 22.6% to $12.0m

(2013: CCY $15.5m). When comparing revenues on a “like for like” basis we also exclude both prior year as well as current year acquisitions. In the year ended 30 April 2014, we delivered like for like revenues of $402.0m which is a decline of 0.4% (2013: CCY $403.7m). On a like for like basis, Licence fees increased by 2.3% to $167.6m (2013: CCY $163.8m), Maintenance fees decreased by 0.8% to $222.7m (2013: CCY $224.4m) and Consultancy revenues were down, by 24.5% to $11.7m (2013: CCY $15.5m). In the second half of the year we saw a return to organic revenue growth with like for like revenues growing by 2.2% compared to the second half of last year. In the first half year, like for like revenues had declined by 3.1%.

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

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

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

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

Management took the necessary steps to achieve appropriate margins and cash generation through a clear focus on sound business operations throughout the Group. All of our actions are consistent with the objective of returning the business to growth whilst maintaining all options to deliver shareholder value. Additional revenues allowed room for additional expenditure related to the acceleration of change and evaluation of earnings enhancing acquisitions.

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

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

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

We would like to thank our employees for their continued dedication, commitment and hard work in delivering the full year results. For the year ended 30 April 2014 bonuses will be paid to non-commissioned staff and executive management in line with the improvement in Underlying Adjusted EBITDA. Staff bonuses will be approximately 120% of the level earned in the year ended 30 April 2013.

Our business by product portfolio

COBOL Development (‘CD’) – 53.5% of revenues
We have continued to invest in and strengthen our core product portfolio of CD which primarily targets the off mainframe distributed development market. The CD portfolio delivers products that enable programmers to develop and deploy applications written in COBOL across multiple platforms including Windows, UNIX and LINUX and to the Cloud. We have introduced further developments to Visual COBOL and have received a positive response from customers and the partner community. Visual COBOL V2.2 provides the fastest way for customers to move to Java Virtual Machine (‘JVM’), .NET or Cloud environments whilst protecting their existing investments and intellectual property. Revenues from Visual COBOL grew strongly in the year contributing in excess of $16.4m in Licence fees, up 91% from 2013. We have seen a significant number of customers commit to Visual COBOL to take advantage of the opportunities provided by operating COBOL applications in a modern language format in an industry standard Integrated Development Environment (‘IDE’).

COBOL applications continue to be at the heart of the world's business transactions and to power the majority of large organizations' key business operations. Maintaining our leadership position in CD is at the core of our value proposition. By embedding our products in industry standard IDEs specifically Visual Studio and Eclipse, we have addressed the perceived skill issues, and expect that COBOL will provide a stable base and strong cash flow for the Group over the coming decades.

Mainframe Solutions ('MS') – 17.9% of revenues
Our MS product set addresses a customer's need to get the most value out of their mainframe environment. Following the launch of our MS strategy in 2013 we have seen positive growth in 2014. Feedback from our customers and prospects has been very positive and emphasizes that the positioning is relevant to the current marketplace. Our product offering was further enhanced by the purchase of the technology of SoforTe GmbH which enabled us to speed up delivery of our product roadmap.

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

Borland ('Test') – 15.0% of revenues
The Borland product portfolio enables companies to optimize the end to end supply chain process of delivering software, from definition (requirements capture) through to quality (testing and change management). Our portfolio enables companies to better align their teams, and for that alignment to extend outside the company to suppliers and partners. We provide solutions for both practitioners who want to work together more effectively, and IT decision makers who need to manage change in their business that they often cannot control. These capabilities provide the foundation for accelerated delivery of software projects and are leveraged by companies seeking competitive advantage, improved customer satisfaction, and optimized operational efficiency.

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

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

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

CORBA – 10.8% of revenues
Following the purchase of the CORBA assets from Progress Software in February 2013 we have further strengthened our position in this product portfolio by buying the CORBA assets from PrismTech Group Limited in November 2013. As a result we have seen significant revenue growth. We now own the three leading CORBA products: Visibroker, Orbix and OpenFusion as well as the Orbacus mainframe product. These products provide excellent functionality and performance to companies with installed networks with a requirement for high speed, secure transfer of data between systems.

Niche – 2.8% of revenues
Our Niche portfolio comprises mature products that are expected to see on-going revenue decline but that provide good margins and strong cash flow.

Operational strategy to deliver our core objective

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

The outputs of our portfolio focus and operational strategy are:

1. Revenue growth;
2. Operating leverage; and
3. Significant cash generation.

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

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

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

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

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

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

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

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

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

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

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

benefits of these new significant developments.

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

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

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

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

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

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

Our priority is to improve the business in order to maximize the opportunity to generate modest growth. At the same time we have created flexibility to allow value creation to shareholders through cash distributions or acquisitions as appropriate. We will do nothing that will constrain our ability to achieve organic growth and we are currently investing significant amounts on activities designed to enhance growth.

In November 2013 we made a Return of Value to all shareholders amounting to $140.2m in cash (60 pence per share, equivalent to approximately 93.3 cents per share), by way of a D share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving the cash in the form of income or capital. The Return of Value was accompanied by a 12 for 13 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the D shares.

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

For the past two years the board has targeted a net debt to RCF EBITDA multiple of approximately 1.5 times. This is a modest level of gearing for a Company with the cash generating qualities of Micro Focus. As the business has been stabilized and has on-going, long-term prospects for modest growth and continued cash generation, the board has decided that it would be comfortable with net debt levels of up to 2.5 times RCF EBITDA. We are confident that this level of debt would not reduce our ability to deliver growth, invest in products and/or make appropriate acquisitions.

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

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

Operational and financial review

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

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

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

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

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

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

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

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

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

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

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

Revenue by product portfolio on a CCY basis is shown below:

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

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

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

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

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

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

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

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

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

Costs

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

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

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

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

- Cost of goods sold for the year decreased by 12.5% to $29.5m (2013: CCY $33.7m). The costs in this category predominantly relate to our consulting and helpline support operations. The majority of the cost reduction came from decreased consulting costs to deliver the Consultancy revenues that had reduced by $3.7m on a CCY basis.

- Selling and distribution costs increased by 1.2% to $118.6m (2013: CCY $117.2m) as a result of the investment in our graduate sales scheme and higher sales incentive payments from higher Licence fee revenues offset by lower external marketing costs.

- Research and development expenses increased by 2.6% to $54.9m (2013: CCY $53.5m), equivalent to approximately 12.7% of revenue (2013: CCY 13.1%). The amount spent on research and development excluding the current year acquisitions prior to the impact of net capitalization of development costs was $54.9m (2013: CCY $55.2m) representing 31.3% of Licence fee revenue (2013: CCY 33.7%). At 30 April 2014 the net book value of capitalized development costs on the consolidated statement of financial position was $31.5m (2013: $31.5m).

- Administrative expenses were $65.8m (2013: CCY $48.3m). Excluding share based compensation of $12.8m (2013: $6.6m) exchange loss of $4.4m (2013: gain of $0.5m) administrative expenses increased by 15.2% to $48.6m (2013: CCY $42.2m). The primary increases arose from costs on abortive acquisitions, resolution of the India revenue restatement issues, patent box applications and higher bonuses.

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

Currency impact
53.9% of our revenue is contracted in US dollars, 23.1% in Euros, 8.6% in Yen and 14.4% in other currencies. In comparison, 30.8% of our costs are US dollar denominated, 30.0% in sterling, 20.2% in Euros, 2.8% in Yen and 16.2% in other currencies.

This weighting of revenue and costs means that if the US$: Euro or US$: Yen exchange rates move during the year, the revenue impact is far greater than the cost impact, whilst if US$: Sterling rate moves during the year the cost impact far exceeds the revenue impact. Consequently, reported US$ profit before tax can be impacted by significant movements in US$ to Euro, Yen and Sterling exchange rates. The impact of these movements can be seen by the changes to prior year reported numbers when they are stated at CCY. For the year ended 30 April 2013 CCY revenue is 1.2% lower at $407.1m and profit before tax before the exchange gain above of $0.5m is 2.7% lower than the reported numbers at $151.0m.The currency movement for Sterling, Euro and Yen against the dollar were 8.5%, 5.9% and 4.6% respectively.

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

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

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

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

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

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

In the year the Group recognized additional deferred tax assets of $2.0m (2013: $2.1m) all of which was taken to the consolidated statement of comprehensive income. The impact of this recognition gives rise to a lower effective tax rate for the year.

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

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

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

When the tax position relating to the claim is agreed with HMRC then to the extent that the tax liability is lower than that provided in the consolidated statement of financial position, there would be a positive benefit to the tax charge in the consolidated statement of comprehensive income in the year of settlement. The current maximum benefit is $28.2m, which equates to 19.0 cents per share on a fully diluted basis.

Profit after tax

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

Goodwill

The largest item on the consolidated statement of financial position is goodwill at $308.2m (2013: $284.7m) and arose from acquisitions made by the Group in the period to 31 July 2009, the acquisition of the Iona CORBA assets from Progress Software in February 2013 and from three acquisitions made in this financial year of AccuRev Inc. (December 2013), OpenFusion CORBA assets from PrismTech Group Limited (November 2013) and SoforTe GmbH (October 2013). The three acquisitions made in this year added $23.2m of the goodwill with a further $0.4m coming from the Iona asset purchase. The annual impairment review of goodwill is based on the value in use of the Cash Generating Units (our three Geographic Regions) to which the goodwill is allocated and, based on the assumptions used by the board, there is no impairment of goodwill in the year.

Return of Value

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

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

Total equity attributable to the parent

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

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

The board recognizes that by accessing the distributable reserves of $230.7m in the Company's retained reserves to provide further significant distributions to shareholders, whether by share buy-backs, dividends or Returns of Value it is possible for the equity attributable to the parent in the consolidated statement of financial position to go into greater deficit. This would not impact the Company's ability to make such distributions to shareholders but could impact the external perception of the financial position of the Group. The board will continue to consider the impact of such future distributions at the appropriate time.

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

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

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

Dividends will be paid in Sterling equivalent to 17.7 pence per share, based on an exchange rate of £1 = $1.697, being the rate applicable on 18 June 2014, the date on which the board resolved to propose the dividend.

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

The principal risks and uncertainties facing the Group are set out on pages 35 to 36.

Mike Phillips
Chief Financial Officer

18 June 2014

Micro Focus International plc
Consolidated statement of comprehensive income (audited)
For the year ended 30 April 2014

	Note	2014 $'000	Restated * 2013 $'000
Revenue	2,3	**433,058**	412,167
Cost of sales		**(29,912)**	(34,069)
Gross profit		**403,146**	378,098
Selling and distribution costs		**(120,669)**	(117,558)
Research and development expense		**(57,833)**	(52,599)
Administrative expenses		**(68,924)**	(48,503)
Operating profit	4	**155,720**	159,438
Finance costs		**(8,197)**	(8,307)
Finance income		**318**	413
Profit before tax		**147,841**	151,544
Taxation	7	**(25,759)**	(29,767)
Profit for the period		**122,082**	121,777
Other comprehensive income			
Currency translation differences		**2,176**	(2,458)
Other comprehensive income for the period		**2,176**	(2,458)
Total comprehensive income for the period		**124,258**	119,319
Profit attributable to:			
Owners of the parent		**124,258**	119,319
Earnings per share expressed in cents per share		cents	cents
- basic	6	**84.75**	77.83
- diluted	6	**82.35**	75.23
Earnings per share expressed in pence per share		pence	pence
- basic	6	**52.92**	49.43
- diluted	6	**51.43**	47.78

* The comparatives for April 2013 have been restated to reflect the impact of a misstatement of revenue caused by invalid orders within our sales channel network in India (note 19).

Micro Focus International plc
Consolidated statement of financial position (audited)
As at 30 April 2014

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

The accompanying notes are an integral part of this financial information.

* The comparatives for April 2013 have been restated to reflect the impact of a misstatement of revenue caused by invalid orders within our sales channel network in India and a reclassification between share premium and retained reserves (note 19).

Micro Focus International plc
Consolidated statement of cash flow (audited)
For the year ended 30 April 2014

	Note	2014 $'000	Restated * 2013 $'000
Cash flows from operating activities			
Net profit for the period		**122,082**	121,777
Adjustments for			
Net interest payable		**7,879**	7,894
Taxation		**25,759**	29,767
Depreciation		**3,846**	3,483
Loss on disposal of property, plant and equipment		**123**	370
Amortization of intangibles		**38,047**	35,122
Share-based compensation		**12,837**	6,639
Exchange movements		**712**	50
Provisions		**1,699**	(780)
Changes in working capital:			
Inventories		**11**	316
Trade and other receivables		**(13,175)**	2,379
Payables and other liabilities		**6,955**	(14,577)
Cash generated from operating activities		**206,775**	192,440
Interest paid		**(5,752)**	(5,076)
Tax paid		**(26,049)**	(22,072)
Net cash from operating activities		**174,974**	165,292
Cash flows from investing activities			
Payments for intangible assets	**9**	**(19,055)**	(20,327)
Purchase of property, plant and equipment	**10**	**(2,908)**	(3,312)
Interest received		**317**	413
Payments for acquisition of business	**18**	**(35,195)**	(15,000)
Net cash acquired with acquisitions	**18**	**3,261**	-
Net cash used in investing activities		**(53,580)**	(38,226)
Cash flows from financing activities			
(Charge) / proceeds from issue of ordinary share capital		**1,028**	730
Return of Value paid to shareholders	**17**	**(144,664)**	(131,171)
Foreign exchange gain on hedging contracts related to the Return of Value	**17**	**4,470**	2,393
Costs associated with the Return of Value		**(536)**	(491)
Proceeds from sale of fractional shares		**-**	3
Repayment of bank borrowings	**13**	**(134,000)**	(142,307)
Proceeds from bank borrowings	**13**	**215,000**	212,307
Bank loan costs		**(5,248)**	(1,210)
Dividends paid to owners	**5**	**(62,633)**	(57,160)
Net cash used in financing activities		**(126,583)**	(116,906)
Effects of exchange rate changes		**46**	(2,627)
Net (decrease) / increase in cash and cash equivalents		**(5,143)**	7,533
Cash and cash equivalents at beginning of period		**37,943**	30,410
Cash and cash equivalents at end of period		**32,800**	37,943

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

* The comparatives for April 2013 have been restated to reflect the impact of a misstatement of revenue caused by invalid orders within our sales channel network in India (note 19).

Micro Focus International plc
Consolidated statement of changes in equity (audited)
For the year ended 30 April 2014

	Note	Share capital	Share premium account	Retained earnings (deficit)	Foreign currency translation reserve (deficit)	Other reserves	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1 May 2012 – as previously reported		37,787	61,311	(6,480)	(4,891)	29,819	117,546
Prior year restatement	19	-	(2,560)	2,006	-	-	(554)
Balance as at 1 May 2012 – as restated		37,787	58,751	(4,474)	(4,891)	29,819	116,992
Currency translation differences		-	-	-	(2,458)	-	(2,458)
Profit for the period		-	-	121,777	-	-	121,777
Total comprehensive income		-	-	121,777	(2,458)	-	119,319
Transactions with owners:							
Dividends	5	-	-	(57,160)	-	-	(57,160)
Issue of share capital		10	2,793	(2,073)	-	-	730
Return of Value to shareholders		-	-	(131,171)	-	-	(131,171)
Issue and redemption of B shares		-	(47,079)	-	-	47,079	-
Sale of fractional shares		-	3	-	-	-	3
Expenses and foreign exchange relating to Return of Value		-	-	1,902	-	-	1,902
Movement in relation to share options		-	(945)	7,257	-	-	6,312
Corporation tax on share options		-	-	694	-	-	694
Deferred tax on share options		-	-	195	-	-	195
Balance as at 30 April 2013		**37,797**	**13,523**	**(63,053)**	**(7,349)**	**76,898**	**57,816**
Currency translation differences		**-**	**-**	**-**	**2,176**	**-**	**2,176**
Profit for the period		**-**	**-**	**122,082**	**-**	**-**	**122,082**
Total comprehensive income		**-**	**-**	**122,082**	**2,176**	**-**	**124,258**
Transactions with owners:							
Dividends	5	**-**	**-**	**(62,633)**	**-**	**-**	**(62,633)**
Issue of share capital		**5**	**1,023**	**(9,422)**	**-**	**-**	**(8,394)**
Return of Value to shareholders		**-**	**-**	**(144,664)**	**-**	**-**	**(144,664)**
Expenses and foreign exchange relating to Return of Value		**-**	**-**	**3,934**	**-**	**-**	**3,934**
Movement in relation to share options		**-**	**-**	**7,017**	**-**	**-**	**7,017**
Corporation tax on share options		**-**	**-**	**2,883**	**-**	**-**	**2,883**
Deferred tax on share options		**-**	**-**	**3,532**	**-**	**-**	**3,532**
Balance as at 30 April 2014		**37,802**	**14,546**	**(140,324)**	**(5,173)**	**76,898**	**(16,251)**

The accompanying notes are an integral part of this financial information. Other reserves includes a capital redemption reserve of $104.0m (2013: $104.0m) and a merger deficit reserve of $27.1m (2013: $27.1m).

* The comparatives for April 2013 have been restated to reflect the impact of a misstatement of revenue caused by invalid orders within our sales channel network in India and a reclassification between share premium account and retained earnings (note 19).

Group accounting policies

a. General information

Micro Focus International plc ('the Company') is a public limited company incorporated and domiciled the UK. The registered office address is The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN, UK. Micro Focus International plc and its subsidiaries (together 'the Group') provide innovative software to clients around the world enabling them to dramatically improve the business value of their enterprise applications. The Group has a presence in 31 countries worldwide and employs approximately 1,200 people.

The Company is listed on the London Stock Exchange.

The statutory accounts of the Company for the year ended 30 April 2014 which include the Group's consolidated financial statements for that year were audited at the date of this announcement. These financial results do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year ended 30 April 2013 were approved by the board of directors on 18 June 2013 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement under Section 498 of the Companies Act 2006.

This preliminary announcement was approved by the board of directors on 18 June 2014.

b. Basis of preparation

This audited preliminary consolidated financial information for the year ended 30 April 2014, has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Conduct Authority and International Financial Reporting Standards ('IFRSs') as endorsed by the European Union and those parts of the Companies Act 2006 that remain applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared 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.

c. Accounting policies

Other than as described below, the accounting policies adopted are consistent with those of the Annual Report and Accounts for the year ended 30 April 2013, as described in those financial statements.

(a) The following standards, interpretations and amendments to existing standards are now effective and have been adopted by the Group:

- Amendments to IFRS 7, "Financial instruments: Disclosures" on offsetting financial assets and financial liabilities for periods beginning on or after 1 January 2013. This amendment includes new disclosures to aid comparison between those entities that prepare IFRS financial statements to those that prepare their financial statements according to US GAAP.
- Amendment to IAS 12, "Income Taxes" applies for periods beginning on or after 1 January 2013.
- Amendment to IAS 19, "Employee Benefits", for periods beginning on or after 1 January 2013. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.
- Amendment to IAS 1, "Financial Statement Presentation" applies for periods beginning on or after 1 January 2013.
- IFRS 10, "Consolidated Financial Statements" applies for periods beginning on or after 1 January 2013 and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It defines the principle of control and establishes controls as the basis for consolidation.
- IFRS 13, "Fair Value Measurement" applies for periods beginning on or after 1 January 2013 and aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements.

(b) The following standards, interpretations and amendments to existing standards are not yet effective, or have not yet been endorsed by the EU and have not been adopted early by the Group:

- IFRS 9, "Financial Instruments" for periods beginning on or after 1 January 2018 and is the first standard issued as part of a process to replace IAS 39. It simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value.
- Amendment to IAS 32, "Financial Instruments: Presentation" applies to periods beginning on or after 1 January 2014 and clarifies some of the requirements for offsetting financial assets and financial liabilities on the consolidated statement of financial position.
- Amendment to IAS 36, "Impairment of Assets" applies to periods beginning on or after 1 January 2014 and relates to the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Group accounting policies continued

- Amendment to IAS 39, "Financial Instruments: Recognition and Measurement" applies to periods beginning on or after 1 January 2014 and provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets certain criteria.
- IFRS 11, "Joint Arrangements" applies to periods beginning on or after 1 January 2014 and provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12, "Disclosure of Interests in Other Entities" applies for periods beginning on or after 1 January 2014 and includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purchase vehicles and other vehicles off the consolidated statement of financial position.
- IFRS 15, "Revenue From Contracts With Customers Issued" applies for periods beginning on or after 1 January 2017 and specifies how and when revenue is recognized as well as requiring such entities to provide users of the financial statements with more informative, relevant disclosures.

The directors anticipate that the future introduction of these standards, amendments and interpretations listed above will not have a material impact on the consolidated financial statements.

1. Functional currency

The presentational 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.

2. Segmental reporting

In accordance with IFRS 8, "Operating Segments", the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker ('the Executive Committee'). Operating segments are consistent with those used in internal management reporting. The measure used by the Executive Committee is the Adjusted operating profit for the Group as a whole (note 4). The Group has operating segments relating to the three geographic regions. The Executive Committee has delegated responsibilities for directly managed costs to the Regional Presidents of the three geographic regions of the Group and then allocated centrally managed costs to those regions, consequently for the three operating segments the Group measures Adjusted Operating Profit (note 4).

Operating segments for the year ended 30 April 2014:

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

2. Segmental reporting continued

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

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

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

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

3. Analysis of revenue by product

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

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

3. Analysis of revenue by product continued

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

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

4. Reconciliation of operating profit to EBITDA

	2014	Restated 2013
	$'000	$'000
Operating profit	**155,720**	159,438
Share-based compensation charge	**12,837**	6,639
Amortization of purchased intangibles	**18,923**	16,123
Adjusted operating profit	**187,480**	182,200
Depreciation	**3,846**	3,483
Amortization of software	**640**	643
Adjusted EBITDA	**191,966**	186,326
Amortization of development costs	**18,484**	18,356
RCF EBITDA	**210,450**	204,682

	2014	Restated 2013
Operating profit	**155,720**	159,438
Amortization of intangible assets	**38,047**	35,122
Depreciation of property, plant and equipment	**3,846**	3,483
EBITDA	**197,613**	198,043
Amortization of capitalized development costs	**(18,484)**	(18,356)
Share-based compensation charge	**12,837**	6,639
Adjusted EBITDA	**191,966**	186,326
Foreign exchange debit / (credit)	**4,400**	(543)
Net capitalization of development costs	**36**	(1,662)
Underlying Adjusted EBITDA	**196,402**	184,121

The directors use EBITDA and EBITDA before exceptional items and share based compensation charge but allowing for amortization of development costs ('Adjusted EBITDA') and Underlying Adjusted EBITDA as key performance measures of the business.

Under the terms of the Group's Revolving Credit Facility ('RCF'), the Net debt to RCF EBITDA covenant is limited to 3.0 times for the duration of the facility. RCF EBITDA is defined as Adjusted EBITDA before amortization of development costs and for the year ended 30 April 2014 RCF EBITDA amounted to $210.5m (2013: $204.7m). Where a special dividend or a share buy-back is to be made, the Company must certify to the facility agent that the projected ratio of Net debt to RCF EBITDA on a 12 month look forward and 12 month look back basis will not exceed 2.5 times. The ratio of net debt to RCF EBITDA at 30 April 2014 was 1.3 times.

5. Dividends

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

The directors are proposing a final dividend in respect of the year ended 30 April 2014 of 30.0 cents per share which will utilize approximately $41.9m of total equity. The directors have concluded that the Company has sufficient reserves to pay the dividend. It has not been included as a liability in these financial statements as it has not yet been approved by shareholders.

6. Earnings per share

The calculation of the basic earnings per share has been based on the earnings attributable to ordinary shareholders and the weighted average number of shares for each period.

	Year ended 30 April 2014				Year ended 30 April 2013 (restated)			
	Earnings $'000	**Weighted average number of shares '000**	**Per share amount cents**	**Per share amount pence**	Earnings $'000	Weighted average number of shares '000	Per share amount cents	Per share amount pence
Basic EPS								
Earnings attributable to ordinary shareholders	**122,082**	**144,057**	**84.75**	**52.92**	121,777	156,456	77.83	49.43
Effect of dilutive securities								
Options		**4,193**				5,408		
Diluted EPS								
Earnings attributable to ordinary shareholders	**122,082**	**148,250**	**82.35**	**51.43**	121,777	161,864	75.23	47.78
Supplementary adjusted EPS **Basic EPS**	**122,082**	**144,057**	**84.75**	**52.92**	121,777	156,456	77.83	49.43
Adjusted items[1]	**31,760**				22,762			
Tax relating to above items	**(9,323)**				(7,163)			
Basic EPS – adjusted	**144,519**	**144,057**	**100.32**	**62.65**	137,376	156,456	87.81	55.77
Diluted EPS	**122,082**	**148,250**	**82.35**	**51.43**	121,777	161,864	75.23	47.78
Adjusted items[1]	**31,760**				22,762			
Tax relating to above items	**(9,323)**				(7,163)			
Diluted EPS – adjusted	**144,519**	**148,250**	**97.48**	**60.88**	137,376	161,864	84.87	53.90

6. Earnings per share continued

[1] Adjusted items comprise amortization of acquired intangibles $18,923,000 (2013: $16,122,000), share-based compensation $12,837,000 (2013: $6,639,000) and exceptional items of $nil (2013: $nil). Estimated tax relief on these items is as shown above.

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

7. Taxation

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

During the period the Group recognized an additional deferred tax asset of $2.0m in relation to US losses in line with the treatment in prior periods. The Group continues to carry deferred tax assets in respect of ten years' benefit of US tax losses being the period over which the Group feels able to forecast with reasonable certainty that these losses will be utilized.

8. Goodwill

	2014 $'000	2013 $'000
Cost and net book amount		
At 1 May	**284,661**	274,340
Acquisitions	**23,521**	10,321
At 30 April	**308,182**	284,661

The addition to goodwill in the year relates to the acquisition of the OpenFusion CORBA assets from PrismTech Group Limited and SoforTe GmbH and AccuRev Inc. (note 18) and a hindsight adjustment of $0.4m relating to the acquisition of Iona made in the year ended 30 April 2013. In the year ended 30 April 2013 the addition related to the acquisition of the Iona business.

9. Other intangible assets

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

Intangible asset expenditure totalling $37.2m (2013: $31.5m) was made in the period, which consisted of $18.4m in respect of development costs, $0.6m of purchased software and $3.9m relating to the acquisition SoforTe GmbH, $4.4m relating to the acquisition of the OpenFusion CORBA assets from PrismTech Group Limited and $9.8m relating to the acquisition of the AccuRev Inc. business (note 18).

10. Property, plant and equipment

Capital expenditure of $2.9m (2013: $3.3m) was made in the year.

11. Trade and other receivables

	2014	2013
	$'000	$'000
Trade receivables (net of provisions)	**95,508**	82,227
Prepayments	**10,640**	9,973
Other receivables	**971**	267
Accrued income	**20**	29
Total	**107,139**	92,496

12. Trade and other payables - current

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

13. Borrowings

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

At 30 April 2014, the Group had an unsecured $420m revolving credit facility in place, denominated in US dollars, which expires on 16 July 2017. Interest on the facility was payable at US Dollar Libor plus 1.65% from 16 July 2013 for a period of approximately four months. The rate then payable is dependent upon the Group's net debt to RCF EBITDA ratio on a periodic basis. The range payable is 1.65% to 2.90% over US Dollar LIBOR.

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

Borrowings are stated after the deducting of unamortized prepaid facility costs. Facility arrangement costs are being amortized over three years.

14. Provisions

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

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

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

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

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

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

15. Deferred income - current

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

Revenue not recognized in the consolidated statement of comprehensive income under the Group's accounting policy for revenue recognition is classified as deferred income in the balance sheet to be recognized in the year ending 30 April 2015.

16. 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 its subsidiary undertakings. There are no other external related party transactions.

17. Return of value to shareholders

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

During the year ended 30 April 2013, the Group announced a Return of Value to shareholders of 50 pence per ordinary share amounting to $128.8m in cash after including a foreign exchange contract gain of $2.4m, by way of a 'B and C' share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving cash in the form of income or capital. The Return of Value was approved by shareholders on 26 September 2012. The Return of Value was accompanied by a 10 for 11 share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B and C shares.

18. Business combinations

Summary of acquisitions in the year ended 30 April 2014

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

Acquisition of Iona division of Progress Software Corporation

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

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

18. Business combinations continued

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

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

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

Acquisition of SoforTe GmbH

On 9 October 2013, the Group acquired SoforTe GmbH for $6.9m, inclusive of $0.3m of acquisition related costs. The acquisition costs of $0.3m were expensed through administrative expenses in the consolidated statement of comprehensive income. The consideration of $6.6m was paid in full on completion.

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

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

	Carrying value at acquisition	Fair value
	$'000	$'000
Intangible assets	206	3,942
Property, plant and equipment	17	17
Trade and other receivables	48	2
Trade and other payables	(404)	(10)
Deferred tax liability	-	(375)
Net (liabilities) / assets	(133)	3,576
Goodwill	-	3,002
Consideration	-	6,578
Consideration satisfied by :		
Cash		6,578

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

	Fair value
	$'000
Developed Technology (note 9)	3,942
	3,942

18. Business combinations continued

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Company's existing customer base with those of the acquired business. This acquisition strengthens the Group's capabilities in the Mainframe Solutions marketplace and complements our existing Enterprise Developer products well.

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

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

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

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

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

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

Acquisition of OpenFusion CORBA assets from PrismTech Group Limited

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

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

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

	Carrying value at acquisition	**Fair value**
	$'000	**$'000**
Intangible assets	-	4,351
Trade and other receivables	3	-
Trade and other payables	(151)	(108)
Deferred income	(844)	(1,621)
Net (liabilities) / assets	(992)	2,622
Goodwill		5,562
Consideration		8,184

Consideration satisfied by :	
Cash	6,392
Contingent consideration	1,792
	8,184

18. Business combinations continued

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

	Fair value **$'000**
Developed Technology (note 9)	479
Customer relationships (note 9)	3,872
	4,351

The value of the goodwill represents the value of the assembled workforce at the time of the acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Company's existing customer base with those of the acquired business. This acquisition strengthens the Group's capabilities in the CORBA software marketplace and complements exiting products well.

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

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

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

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

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

Acquisition of AccuRev Inc.

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

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

18. Business combinations continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The impact on the reported revenues is as follows:

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

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

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

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

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

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

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

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

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

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

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

20. Principal risks and uncertainties

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

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

A full risk register has been developed for on-going evaluation and mitigation and the following are the key risks, potential impacts and mitigations that are relevant to the Group as a provider of software products and associated services. Please also refer to the section on internal controls within the corporate governance report on pages 28 to 31.

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

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

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

Mitigation
In the year ended 30 April 2013 we appointed a new General Manager responsible for Product Management, Product Development, Marketing and Customer Care, with the remit to improve the interaction between Product Management, Product Development, Sales and Marketing. The Group has developed a structured approach to managing its products, which will be further enhanced during the year ended 30 April 2015.

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

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

Potential impact
Poor execution of 'Go to Market' plans may limit the success of the Group by targeting the wrong customers through the wrong channels and using the wrong product offerings.

Mitigation
Revenue plans are supported by a range of measures to monitor and drive improvements in 'Go to Market' operating models. In addition to quarterly business reviews with all geographies and monthly reviews with regional presidents, the President of Sales participates in weekly management team meetings to review sales performance and 'Go to Market' priorities.

Customer sales cycles are reviewed regularly and a bid review process is in place to monitor and maximize customer revenue opportunities. In addition to sales performance reviews, marketing and product development programmes are assessed regularly to optimize levels of qualified pipeline and ensure that marketing programmes are supported by appropriate product offerings.

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

20. Principal risks and uncertainties continued

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

In the year ended 30 April 2013 we introduced an internal sales certification programme, to improve the level of expertise across our sales force. This programme was fully rolled out during the year ended 30 April 2014.

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

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

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

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

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

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

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

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

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