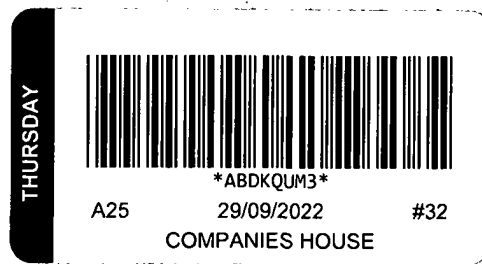


Micro Focus Software UK Ltd

Company registration number 10355616

Report and Financial Statements for the year ended 31 October 2021



Directors' Report and Financial Statements 2021

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Company Information

Directors

I Simmons

R Green

Auditor

KPMG LLP

15 Canada Square

London

E14 5GL

Registered Office

Micro Focus Software UK Ltd

The Lawn

22-30 Old Bath Road

Newbury

Berkshire RG14 1QN

Company Registration

10355616

Strategic report

The directors present their strategic report on the Company for the year ended 31 October 2021.

Principal activities

The Company's principal activity is the sale of software, and supply of software related services and support. The Company is a wholly-owned subsidiary of the Micro Focus International plc group, generating sales for the Group primarily in the UK market.

Review of the business

Archiving and Risk management portfolio: Completion of Digital Safe disposal:

On 3 November 2021, the Group ("Micro Focus International Plc") announced the agreement of definitive terms to sell its Archiving and Risk Management portfolio (the "Digital Safe business") to Smarsh Inc., for a total cash consideration of \$375,000,000 (subject to customary completion accounts adjustments based on net debt and working capital) which is payable in full on completion of the transaction. On 31 January 2022, the sale was completed.

Consequently, the Company transferred all of its Digital Safe (Dart) business related trade and assets including Dart personnel to Dart UK Newco in exchange for the transfer of a portion of the MHC Note receivable (such portion being equal to the market value of the Dart trade and business transferred, being \$4,471,000).

Further details have been exhibited in note 21 of notes accompanying these financial statements.

Key performance indicators

The board's policy is to monitor progress on the individual strategic elements by reference to turnover and profit before tax – whilst the Company forms part of the overall Micro Focus group where the Directors of the Group are focussed on the results of the Group as a whole, the standalone performance of the Company is still monitored by the Company's Directors.

This year our overall financial performance in the 12 months ending 31 October 2021 was in line with our expectations following the implementation of the group's strategic and operational review. For the 12 months ended 31 October 2021 turnover of £93,895,000 (FY 2020: £100,318,000) represents a 6% decline, which can be attributed to changes to our Go-To-Market operating model. This changed operating model in the long run is intended to improve revenue growth and increase profitability.

Performance during the year, together with historical trend data is set out below:

	2021 £'000	2020 £'000
Turnover	93,895	100,318
Profit before tax	4,366	4,598

Results

The profit for the year ended 31 October 2021 is shown on page 12. The company has net liabilities totalling £1,204,000 (2020: £6,716,000). The deficiency of net assets occurs due to two significant transactions during the prior period as detailed below:

- On 1 June 2017, the Company issued one share at a premium of £44,422,000 to its parent company Entco Holding Hague B.V. to fund the purchase of HPE software assets at their fair market value.
- The Company has applied the predecessor method of accounting for the purchase transaction, with the excess cost of the consideration over the carrying value of the identifiable assets and liabilities totalling £65,796,000 being debited to other reserves in the balance sheet.

The net effect of these transactions and the profit for the current and prior periods is to create net liabilities of £1,204,000 (2010: £6,716,000) detailed on page 13.

Strategic report (continued)

Results (continued)

In the current year, the cost of goods sold declined by £685,000. In the current year, the administrative and selling expense declined by £7,305,000. The profit before tax was broadly consistent with the Company's status as a reseller entity within the Micro Focus group that returns a positive arm's length profit margin relative to turnover.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. The principal risks and uncertainties of Micro Focus International plc, which include those of the company, have been identified in the following categories – Products, Go to market models, competition, employees, business strategy and change management, IT systems and information, legal and regulatory compliance, intellectual property, treasury, tax, Macro-economic environment, COVID-19, Brexit, Cyber Security and Internal controls over financial reporting. The group has policies in place and a risk management framework to help mitigate those risks. These principal risks and the risk management framework are described in the Micro Focus International plc Annual Report for the period ended 31 October 2021.

The company being a reseller entity within the Micro Focus group, it has a limited risk under the distribution model which guarantees fixed profit margin relative to turnover. Additional risks considering operating environment are discussed below.

COVID-19 Risk

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

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

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

Brexit Risk

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

Strategic report (continued)

Section 172 statement

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

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

From the perspective of the company, the Company's "s172 matters" are integrated with the "s172 matters" of the group and are not managed separately. These "s172 matters" are described in the Micro Focus International plc Annual Report for the period ended 31 October 2021.

Future developments

The Company expects its principal activity to continue to be the sale of software, and supply of software related services and support.

Micro Focus continues to invest in the latest technologies to help its customers unlock their competitive advantage through the exploration of its available technologies. By enabling our customers to link their investments in established technology with the latest innovation, Micro Focus will continue to help customers bridge the old and the new enabling them to leverage additional value from their investments in critical IT to infrastructure and business applications.

On behalf of the Board



Rupert Green

Micro Focus Software UK Ltd

Registered number 10355616

Date: 23 September 2022
The Lawn
22-30 Old Bath Road
Newbury
Berkshire RG14 1QN

Directors' report

The directors present their report and audited financial statements of the Company for the year ended 31 October 2021.

Dividends

No dividends were declared in the period ended 31 October 2021 and no final dividend is proposed.

Political and charitable contributions

During the current year and prior period, the Company made no charitable or political donations. The Company's policy is not to make donations to political parties.

Financial risk management

The Company's activities expose it to a variety of financial risks that include the effects of changes in credit risk and foreign currency risk. Risk management is carried out by a central treasury department of the ultimate parent company under policies approved by the board of directors of Micro Focus International plc. The board of that company provides written principles for risk management together with specific policies covering areas such as credit risk, foreign currency risk, interest rate management and investment of excess funds.

In accordance with the treasury policy, the Company does not hold or issue derivative financial instruments:

(a) Credit risk

Financial instruments which potentially expose the Company to a concentration of credit risk consist primarily of cash and cash equivalents and trade debtors. Cash equivalents are deposited with high-credit quality financial institutions and risk is further mitigated by limits in amounts that can be deposited with individual financial institutions.

Credit risk exposure related to trade debtors is limited by evaluating and monitoring the financial conditions of customers prior to providing services.

(b) Foreign currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and the US Dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's local currency. There were no hedging transactions in place during the year ended 31 October 2020. The risk of foreign exchange fluctuations may be increased as a result of Brexit.

(c) Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. There is interest payable on amounts held by group companies at 31 October 2020. The Company's cash flow interest rate risk arises from interest payable and receivable on Group company borrowings, held at variable rates, which exposes the Company to cash flow interest rate risk.

Directors

The directors who served the Company during the period, or have been appointed or resigned prior to signing, are as follows:

Jane Smithard (resigned on 30 June 2022)

Ian Simmons (appointed on 21 April 2021)

Rupert Green (appointed on 30 June 2022)

No director had an interest in the shares of the company. The directors hold interests in the shares of the ultimate parent company Micro Focus International. None of the directors exercised share options in the group company during the financial year (2020: 1 Director).

Directors' report (continued)

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Directors' indemnities

The ultimate parent undertaking, Micro Focus International plc, maintains liability insurance for the Company's directors and officers. From the date it acquired the company as part of its acquisition of the Hewlett Packard Enterprise Software business on 1 September 2017 to the date of approval of the financial statements, Micro Focus International plc has also provided an indemnity for the company's directors, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Disclosure of information to the auditor

At the date of approving this report the directors are not aware of any relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. The directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Research and development

The company was engaged in research and development activities during the year.

Employment policy

Equal opportunities

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

Directors' report (continued)

Disabled employees

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

Employee involvement

The Company believes it is important that employees are aware of the Company's policy is to examine ways and means to provide continuing employment under its existing terms and conditions and to provide training and career development, including promotion, wherever appropriate.

Going concern

The Company operates as a reseller entity within the Micro Focus Group. The company meets its day-to-day capital requirements through its bank facilities and intra-group funding arrangements.

The directors believe that preparing the financial statements on the going concern basis is appropriate as they consider that the Company has adequate resources to continue in operational existence for at least one year from the date of the financial statements.

The Company being a trading subsidiary in the Micro Focus Group, the Company has an indirect contribution to the external cash flows of the group. After making enquiries and considering the assessment included in the Group annual financial statements for the year ended 31 October 2021, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least one year from the date of these financial statements.

In assessing going concern the Group has estimated the financial impact of severe but plausible scenarios considered in assessing viability on the going concern assessment period. This stress testing confirmed that existing projected cash flows and cash management activities provided the Group, and therefore the Company through its ownership of cash flows within the Group, with adequate headroom over the going concern assessment period. This assessment covers the period up to September 2023. Further, the Strategic report includes the information on the agreed disposal of the Digital safe business. This transaction was completed on 31 January 2022, therefore this going concern assessment is prepared for the Company excluding the Digital Safe business. However, Digital Safe business being not a significant portion of the overall company's business. This disposal won't impact going concern assessment.

There is no intention to dissolve the company or cease trading. There is reasonable assurance that the company will be able to meet its obligations as they fall due. As such these financial statements have been prepared on a going concern basis.

On behalf of the Board



Rupert Green
Director
Micro Focus Software UK Ltd

Date: 23 September 2022

The Lawn
22-30 Old Bath Road
Newbury
Berkshire RG14 1QN

Independent Auditor's Report to the members of Micro Focus Software UK Limited

Opinion

We have audited the financial statements of Micro Focus Software UK Limited ("the company") for the year ended 31 October 2021 which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 October 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Considering remuneration incentive schemes and performance targets for management/ directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, and the risk of fraudulent revenue recognition, in particular the risk that for large contracts the additional revenue is allocated to the performance obligations recognised at point in time in order to meet short term revenue targets and annual results and the Company's management may be in a position to make inappropriate accounting.

We did not identify any additional fraud risks.

Independent Auditor's Report to the members of Micro Focus Software UK Limited (continued)

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to revenue or cash related accounts which are deemed unusual and entries posted by management after the close primary books for year end.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: anti-bribery and corruption including the UK Bribery Act 2010. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's Report to the members of Micro Focus Software UK Limited (continued)

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so

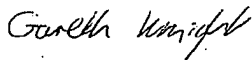
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Gareth Knight (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

Date: 27 September 2022

Micro Focus Software UK Ltd

Profit and Loss Account and Other Comprehensive Income for the year ended 31 October 2021

	Note	Year ended 31 October	
		2021 £000	2020 £000
Turnover	4	93,895	100,318
Cost of sales		(61,666)	(60,981)
Gross profit		32,229	39,337
Administrative expenses		(349)	(1,687)
Selling and distribution costs		(26,942)	(32,909)
Operating profit	5	4,938	4,741
Other interest receivable and similar income	7	118	488
Interest payable and similar expenses	8	(690)	(631)
Profit before taxation		4,366	4,598
Tax credit/(charge) for the year	9	219	(106)
Profit for the financial year		4,585	4,492
All amounts relate to continuing activities.			
Other comprehensive income			
Other comprehensive income for the year, net of tax			
Total comprehensive income for the year		4,585	4,492

The notes on pages 15 to 32 are integral part of these financial statements

Micro Focus Software UK Ltd

Balance sheet at 31 October 2021

		As at 31 October	
	Note	2021	2020
		£000	£000
Fixed assets			
Tangible assets	10	7,276	11,694
		<u>7,276</u>	<u>11,694</u>
Current assets			
Debtors	11	80,364	75,465
Contract related costs	12	2,127	2,224
Cash at bank and in hand		690	680
Current assets classified as held for sale	20	4,251	-
		<u>87,432</u>	<u>78,369</u>
Creditors: amounts falling due within one year	13	(78,110)	(77,327)
Current liabilities classified as held for sale	20	(7,844)	-
		<u>1,478</u>	<u>1,042</u>
Net current assets			
Non-current liabilities			
Creditors: amounts falling due after more than one year	13	(7,617)	(16,288)
Provision for other liabilities	14	(2,341)	(3,164)
		<u>(1,204)</u>	<u>(6,716)</u>
Net liabilities			
Capital and reserves			
Ordinary shares	18	-	-
Other reserves	18	(65,482)	(65,482)
Share premium	18	44,422	44,422
Capital contribution reserve	18	2,172	1,245
Profit and loss account		17,684	13,099
		<u>(1,204)</u>	<u>(6,716)</u>
Total shareholders' funds		<u>(1,204)</u>	<u>(6,716)</u>

The notes on pages 15 to 32 are integral part of these financial statements

The financial statements on pages 12 to 32 were approved by the board of directors and signed on its behalf by:

Rupert Green
Director



Company registration: 10355616

Date: 23 September 2022

Micro Focus Software UK Ltd

Statement of changes in equity for the year ended 31 October 2021

	Called-up share capital	Other reserve	Share premium	Capital contribution reserve	Retained earnings	Total shareholders' funds
	£000	£000	£000	£000	£000	£000
Balance as at 31 October 2019	-	(65,482)	44,422	1,371	10,146	(9,543)
Impact of adoption of IFRS 16	-	-	-	-	(1,539)	(1,539)
Revised balance as at 1 November 2019	-	(65,482)	44,422	1,371	8,607	(11,082)
Profit for the financial period ended 31 October 2020	-	-	-	-	4,492	4,492
Total comprehensive income for the year	-	-	-	-	4,492	4,492
Credit relating to equity-settled share-based payments	-	-	-	46	-	46
Deferred tax on share-based payments	-	-	-	(172)	-	(172)
Balance as at 31 October 2020	-	(65,482)	44,422	1,245	13,099	(6,716)
Profit for the financial year	-	-	-	-	4,585	4,585
Total comprehensive income for the year	-	-	-	-	4,585	4,585
Credit relating to equity-settled share-based payments	-	-	-	769	-	769
Deferred tax on share-based payments	-	-	-	166	-	166
Deferred tax on IFRS 16 adoption impact	-	-	-	(8)	-	(8)
Balance as at 31 October 2021	-	(65,482)	44,422	2,172	17,684	(1,204)

The notes on pages 15 to 32 are integral part of these financial statements

Notes to the financial statements

For the year ended 31 October 2021

1. Statement of compliance

The financial statements of Micro Focus Software UK Ltd have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

2. Accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention.

The preparation of financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101;

- Paragraphs 45 (b) and 46 to 52 IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise price of share options, and how the fair value of goods or services received was determined).
- The following paragraphs of IAS 1;
 - 10 (d) & 111 statement of cash flow and related notes,
 - 16 statement of compliance with all IFRS,
 - 134-136 capital management disclosures,
- IAS 7, 'Statement of cash flows'
- IAS 24, disclosures in respect of transactions with wholly owned subsidiaries;
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors', requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective.
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers'
- The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

As the consolidated financial statements of Micro Focus International plc include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- a) The requirements of IFRS 7 Financial instruments: Disclosures, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- b) Certain disclosures required by IFRS 13 Fair Value Measurement.

The principal accounting policies set out below have, unless otherwise stated, been applied consistently to the period presented in these financial statements

Notes to the financial statements

For the year ended 31 October 2021

Turnover and revenue recognition

The Company follows the five-step model and recognises revenue on transfer of control of promised goods or services to customers in an amount that reflects the consideration, which the Company expects to be entitled in exchange for those goods, or services. Customer contracts can include combinations of goods and services, which are generally capable of being distinct and accounted for as separate performance obligations.

Revenue is allocated to the various performance obligations on a relative stand-alone selling price ("SSP") basis.

On an on-going basis, the Company utilises available data points based on relevant historical transactions, to establish the observable stand-alone selling prices to be used in allocating transaction consideration. For observable stand-alone sales a reasonable range of prices will be determined to represent the stand-alone selling price of that performance obligation. Given the highly variable selling price of licenses, the Company has not established SSP for licenses. When SSP is established for the undelivered performance obligations (typically maintenance and professional services), the residual approach is used to allocate the transaction price to the delivered licenses

For performance obligations where observable stand-alone sales are not available, SSP will be estimated using the following methods in the order set out below:

- Market price
- Expected cost plus a margin
- Residual approach

The Company recognises revenues from sales of software Licences (including Intellectual Property and Patent rights) to end-users, resellers and Independent Software Vendors ("ISV"), software maintenance, subscription, Software as a Service ("SaaS"), technical support, training and professional services. ISV revenue includes fees based on end usage of ISV applications that have our software embedded in their applications.

Software licence revenue is the sale of right to use the software on customer premises and is recognised at a point in time when the software is made available to the customer and/or reseller (i.e. when control of the asset is transferred). The Company enters into licence verification arrangements, for customers who are not in compliance with their contractual licence and/or maintenance terms, by agreeing a one-off settlement fee. If the performance obligation can be identified in the contract, revenue is allocated to each performance obligation, otherwise the Company policy is to recognise it as licence revenue. The allocation of revenue does not impact the timing of revenue recognition in these deals, given the performance obligation(s) have already been fulfilled, but will impact the presentation of revenue recognised during the period (as licence or licence and maintenance).

For Subscriptions and SaaS arrangements where customers access the functionality of a hosted software over the contract period without taking possession of the software, and performance obligations are provided evenly over a defined term, the Company recognises revenue over the period in which the Subscriptions are provided as the service is delivered, generally on a straight-line basis.

In SaaS arrangements where the customer has the contractual right to take possession of the software at any time during the contractual period without significant penalty and the customer can operate, or contract with another vendor to operate the software, the Company evaluates whether the arrangement includes the sale of a software licence. In SaaS arrangements where software licences are sold, licence revenue is generally recognised at a point in time when control of the software is transferred to the customer.

Maintenance revenue is recognised on a straight-line basis over the term of the contract, which in most cases is one year.

For time and material-based professional services contracts, the Company recognises revenue as services are rendered. The Company recognises revenue from fixed-price professional services contracts as work progresses over the contract period on a percentage of completion basis, as determined by the percentage of labour costs incurred to date compared to the total estimated labour costs of a contract. Estimates of total project costs for fixed-price contracts are regularly reassessed during the life of a contract. Service costs are expensed as incurred; amounts collected prior to satisfying the above conditions are shown as contract liability and included in deferred income.

Notes to the financial statements

For the year ended 31 October 2021

Turnover and revenue recognition (continued)

Rebates paid to resellers as part of a contracted programme are accounted for as a reduction of the transaction price and netted against revenue where the rebate paid is based on the achievement of sales targets made by the partner. If the Company receives an identifiable good or service from the reseller that is separable from the sales transaction and for which fair value can be reasonably estimated, the Company accounts for the purchase of the good or service in the same way that it accounts for other purchases from suppliers.

Contract-related costs

The Company capitalises the costs of obtaining a customer contract when they are incremental and, if expected to be recovered, they are amortised over the customer life or pattern of revenue for the related contract.

Normally sales commissions paid for customer contract renewals are not commensurate with the commissions paid for new contracts. It follows that the commissions paid for new contracts also relate to expected future renewals of these contracts. Accordingly, the Company amortises sales commissions paid for new customer contracts on a straight-line basis over the expected customer life, based on expected renewal frequency. The current average customer life is five years. If the expected amortisation period is one year or less the costs are expensed when incurred.

Amortisation of the capitalised costs of obtaining customer contracts is classified as sales and marketing expense. Capitalised costs from customer contracts are classified as non-financial assets in our statement of financial position.

Going concern

The Company operates as a reseller entity within the Micro Focus Group. The company meets its day-to-day capital requirements through its bank facilities and intra-group funding arrangements.

The directors believe that preparing the financial statements on the going concern basis is appropriate as they consider that the Company has adequate resources to continue in operational existence for at least one year from the date of the financial statements.

The Company being a trading subsidiary in the Micro Focus Group, the Company has an indirect contribution to the external cash flows of the group. After making enquiries and considering the assessment included in the Group annual financial statements for the year ended 31 October 2021, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least one year from the date of these financial statements.

In assessing going concern the Group has estimated the financial impact of severe but plausible scenarios considered in assessing viability on the going concern assessment period. This stress testing confirmed that existing projected cash flows and cash management activities provided the Group, and therefore the Company through its ownership of cash flows within the Group, with adequate headroom over the going concern assessment period. This assessment covers the period up to September 2023. Further, the Strategic report includes the information on the agreed disposal of the Digital safe business. This transaction was completed on 31 January 2022, therefore this going concern assessment is prepared for the Company excluding the Digital Safe business. However, Digital Safe business being not a significant portion of the overall company's business. This disposal won't impact going concern assessment.

There is no intention to dissolve the company or cease trading. There is reasonable assurance that the company will be able to meet its obligations as they fall due. As such these financial statements have been prepared on a going concern basis.

Notes to the financial statements

For the year ended 31 October 2021

Depreciation

Depreciation is calculated to write off the cost of the tangible fixed assets, less their residual value, over their expected useful economic lives using the straight-line basis. The assessed useful lives for the classes of tangible fixed assets recognised are as follows:

Leasehold improvements	period of lease	Buildings	30 years
Computer equipment	3 years	Fixtures, fittings and equipment	5 years
Computer software	3 years		

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Lease accounting policy under IFRS 16

As a lessee

When the Company leases an asset a 'right-of-use asset' is recognised for the leased item and a lease liability is recognised for any lease payments due over the lease term at the lease commencement date. The right-of-use asset is initially measured at cost, being the present value of the lease payments paid or payable, plus any initial direct costs incurred in entering the lease and less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. The lease term is the non-cancellable period of the lease plus any periods for which the Company is 'reasonably certain' to exercise any extension options. The useful life of the asset is determined in a manner consistent to that for owned property, plant and equipment described in "Depreciation" section above. If right-of-use assets are considered to be impaired, the carrying value is reduced accordingly.

Lease liabilities are initially measured at the value of the lease payments that are not paid at the commencement date and are usually discounted using the incremental borrowing rates of the Company for the relevant portfolio (the rate implicit in the lease is used if it is readily determinable). Lease payments included in the lease liability include both fixed payments and in-substance fixed payments during the term of the lease.

After initial recognition, the lease liability is recorded at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate (e.g. an inflation related increase) or if the Group's assessment of the lease term changes; any change in the lease liability as a result of these changes also results in a corresponding change in the recorded right-of-use asset.

As a lessor

Where the Group is a lessor, it determines at inception whether the lease is a finance or an operating lease. When a lease transfers substantially all the risks and rewards of ownership of the underlying asset then the lease is a finance lease; otherwise, the lease is an operating lease.

Where the Group is an intermediate lessor, the interest in the head lease and the sub-lease is accounted for separately and the lease classification of a sub-lease is determined by reference to the right-of-use asset arising from the head lease.

Income from operating leases is recognised on a straight-line basis over the lease term. Income from finance leases is recognised in full at lease commencement.

Notes to the financial statements

For the year ended 31 October 2021

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents and trade and other creditors.

Trade and other debtors:

Trade and other debtors are initially recognised at fair value and subsequently measured at amortised cost less provisions for impairment based upon an expected credit loss methodology. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. A provision of the lifetime expected credit loss is established upon initial recognition of the underlying asset and are calculated using historical account payment profiles along with historical credit losses experienced. The loss allowance is adjusted for forward looking factors specific to the debtor and the economic environment. The amount of the provision is the difference between the asset's carrying amount and the present value of the probability weighted estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

These are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Trade and other creditors:

Trade and other creditors are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents:

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities. Cash and cash equivalents are initially measured at transaction price and subsequently measured at amortised cost.

Foreign currency

(i) Functional and presentational currency

The company's functional and presentation currency is United Kingdom Pound Sterling, denominated by the symbol '£' and unless otherwise stated is presented in £'000s.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at the foreign exchange rates ruling at the dates the fair value was determined.

At the end of each financial period foreign currency monetary items are translated to GBP using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at exchange rates at the end of the financial period of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement within administrative expenses.

Notes to the financial statements

For the year ended 31 October 2021

Employee benefits

The Company provides a range of benefits to employees, including short-term employee benefits such as annual bonus arrangements and paid holiday arrangements and post-employment benefits (in the form of defined contribution pension plans).

(i) Short-term employee benefits

Short-term employee benefits, including wages and salaries, paid holiday arrangements and other similar non-monetary benefits, are recognised as an expense in the financial period in which employees render the related service. The Company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the Company has a present legal or constructive obligation to make payments and a reliable estimate of the obligation can be made.

(ii) Post-employment benefits

Defined contribution plan

The Company operates a defined contribution plan for certain employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The assets of the plan are held separately from the company in independently administered funds. The contributions to the defined contribution plan are recognised as an expense when they are due. Amounts not paid are included in accruals in the balance sheet.

(iii) Share-based payments

The company's employees participate in share-based payment arrangements, details of which are set out in note 18. The ultimate parent company, Micro Focus International plc, operates equity settled, share-based compensation plans. Certain employees of the Company receive awards of options under one of these plans. The fair value of the employee services received in exchange for these awards is recognised as an expense, with a corresponding increase in capital contribution reserves (representing a capital contribution by the parent).

The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards granted. The valuation of the options is based on the Black Scholes option pricing model. At each balance sheet date, the Company revises its estimates of the awards that are expected to vest. It recognises the impact of the revision to original estimates.

(iii) Share-based payments

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

Notes to the financial statements

For the year ended 31 October 2021

Taxation

Income tax expense for the financial period comprises current and deferred tax recognised in the financial period. Income tax expense is presented in the profit and loss account or equity in line with the transaction or other event that resulted in the income tax expense.

Current and deferred tax assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the financial period or past financial periods. Current tax is measured as the amount of current tax that is expected to be paid using tax rates and laws that have been enacted or substantively enacted by the end of the financial period.

The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. A current tax liability is recognised where appropriate and measured on the basis of amounts expected to be paid to the tax authorities.

Wherever possible the company utilises group relief benefits as available. As a group policy the company does not cash settle for any group relief benefits availed.

ii) Deferred tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Distributions to equity shareholders

Dividends and other distributions to the company's equity shareholders are recognised as a liability in the financial statements in the financial period in which the dividends and other distributions are approved by the Company's shareholders.

Dividends on ordinary shares are recorded in the financial statements in the period in which they are approved by the directors, or in the case of interim dividends, in the period in which they are paid. Dividends to shareholders declared after the balance sheet date but before the financial statements are authorised for issue are not recognised as a liability at the balance sheet date but are disclosed separately in the notes.

Share capital presented as equity

Equity shares issued are recognised as the proceeds are received and presented as share capital and share premium. Incremental costs directly attributable to the issue of new equity shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Business combinations

The company accounts for Group reconstructions using the predecessor or merger accounting method. Therefore, the acquisition of other Group subsidiaries by the company are accounted for under this method. Under the predecessor method the identifiable assets acquired and liabilities in a business combination are measured at their carrying values and are not required to be adjusted to fair value.

Notes to the financial statements

For the year ended 31 October 2021

Assets held for sale

A non-current asset (or disposal group) is classified as held for sale if the Company will recover the carrying amount principally through a sale transaction rather than through continuing use. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. If the asset (or disposal group) is acquired as part of a business combination it is initially measured at fair value less costs to sell.

Assets and liabilities classified as held for sale are presented separately as current items in the Balance sheet and are measured at the lower of their carrying amount and fair value less costs to sell. Property, plant and equipment, right-of-use assets and intangible assets are not depreciated or amortised once classified as held for sale.

3. Accounting estimates and judgements

Estimates and judgements made in the process of preparing the entity financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting judgements

The directors make judgements concerning the future in the process of preparing the entity financial statements. See below for the significant judgements.

(i) Revenue recognition

The key areas of judgement in respect of recognising revenue are the timing of recognition and how the different elements of bundled contracts are identified, for example between licence and maintenance revenues.

Revenue recognition under IFRS 15 is significantly more complex than under previous reporting requirements and necessitates the increased use of management judgements and estimates to produce financial information. IFRS 15 also introduces management judgement in relation to the timing of recognition of certain categories of cost. The most significant accounting judgements in applying IFRS 15 are disclosed below.

Identification of performance obligations

Revenue recognition requires significant judgement in identifying each distinct performance obligation requiring separate recognition in a multi-element contract (e.g. licence, maintenance, material rights for option to acquire additional products or services at discounted prices). This judgement impacts the timing of revenue recognition, as certain performance obligations are recognised at a point in time and others are recognised over the life of the contract, as explained in Accounting Policies in Note 2, and therefore the quantum of revenue and profit recognised in each period.

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4 Turnover

The total turnover of the company has been derived from its principal activity for which a geographical analysis is given below by destination of sale which is not materially different to origin

	<i>Year ended 31 October</i>	
	<i>2021</i>	<i>2020</i>
	£000	£000
United Kingdom	81,609	91,096
Rest of Europe	8,318	5,285
Rest of world	3,968	3,937
	93,895	100,318

5 Operating profit

This is stated after charging:

	<i>Year ended 31 October</i>	
	<i>2021</i>	<i>2020</i>
	£000	£000
Depreciation of property, plant and equipment (Note 10)	4,223	5,269
Loss on disposal of tangible fixed assets	438	1
Net foreign currency exchange differences	1,574	297
Audit fees payable to the company's auditor in respect of the Company	102	106

6 Directors' remuneration and staff costs

(a) Directors' remuneration

	<i>Year ended 31 October</i>	
	<i>2021</i>	<i>2020</i>
	£000	£000
Directors' remuneration	-	371
Amounts receivable under long term incentive plans	-	1

	<i>Year ended 31 October</i>	
	<i>2021</i>	<i>2020</i>
Number of directors accruing benefits under: Defined benefit schemes	-	-
Number of directors who received shares in respect of qualifying services	-	1
Number of directors who exercised share options	-	1

In respect of the highest paid director:

	<i>Year ended 31 October</i>	
	<i>2021</i>	<i>2020</i>
	£000	£000
Directors' remuneration	-	342
Amounts receivable under long term incentive plans	-	-

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The directors of the Company were also directors of other Group companies. It is not practicable to apportion these amounts between the directors' services as directors of the Company and their services as directors of other Group companies.

The services provided by Jane Smithard and Ian Simmons as Director of the Company do not occupy a significant amount of their time and are considered to be incidental, consequently no disclosure has been made in respect of emoluments for this director. Directors' emoluments for Jane Smithard and Ian Simmons have been borne by fellow group undertakings.

(b) Staff costs

	<i>Year ended 31 October</i>	
	2021	2020
	£000	£000
Wages and salaries	44,218	42,740
Social security costs	4,574	4,949
Restructuring costs	1,142	1,285
Pension costs	2,449	2,353
	<u>52,383</u>	<u>51,327</u>
Cost of employee share schemes	769	46
	<u>53,152</u>	<u>51,373</u>

The average monthly number of employees during the period was made up as follows:

	2021	2020
	Number	Number
Sales and distribution	143	152
Services	220	194
Administration	78	90
	<u>441</u>	<u>436</u>

7 Other interest receivable and similar income

	<i>Year ended 31 October</i>	
	2021	2020
	£000	£000
Bank interest income	-	1
Interest on lease receivables	84	-
Intercompany loan interest received	34	487
Total interest receivable and similar income	<u>118</u>	<u>488</u>

8 Interest payable and similar expense

	<i>Year ended 31 October</i>	
	2021	2020
	£000	£000
Intercompany loan interest payable	(81)	(142)
Interest on lease liabilities	(609)	(489)
Total interest payable and similar expense	<u>(690)</u>	<u>(631)</u>

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For the year ended 31 October 2021

9 Income tax	<i>Year ended 31 October</i>	
Recognised in the profit and loss account	2021	2020
	£000	£000
Current tax:		
Current tax on profits for the year	3	1
Foreign tax suffered	52	27
Foreign tax relief	(3)	(1)
Adjustment in respect of prior period	-	-
Income tax interest expense	-	-
Total current tax charge	52	27
Deferred tax:		
Current year	95	104
Adjustment in respect of prior period	(232)	57
Effect of changes in tax rates	(134)	(82)
Total deferred tax (credit)/charge	(271)	79
Total tax (credit)/charge	(219)	106

Factors affecting total tax charge for the current year

The charge for the year can be reconciled to the profit per the income statement as follows:

Profit before taxation	4,366	4,598
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	830	874
Effects of:		
Expenses not deductible for tax purposes	7	61
Tax rate changes	(134)	(82)
Prior period adjustments	(232)	57
Income not taxable	(77)	-
Effects of overseas tax rate	42	22
Effects of group relief	(689)	(863)
Change in basis adjustment	(56)	(57)
Share options	90	94
Income tax interest expense	-	-
Total tax (credit)/charge	(219)	106

Factors affecting current tax and future tax charges

The Finance Bill 2021 included provisions to increase the main rate of UK corporation tax from 19% to 25% from 1 April 2023 and this was substantively enacted on 24 May 2021. Therefore, a rate of 19% was used to calculate the opening deferred tax balances. The closing deferred tax balance has been calculated using a blend of the 19% and 25% rates based on when the deferred tax asset will unwind, i.e. 19% if the asset will unwind between 1 November 2021 and 31 March 2023 and 25% if the asset will unwind from 1 April 2023 onwards.

The total tax credit for the year includes a prior period tax adjustment credit of £232,000.

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10 Tangible fixed assets

	Leashold Improvements	Computer equipment	Fixtures and fittings	Total
	£000	£000	£000	£000
Cost:				
At 1 November 2020	11,732	10,938	2,251	24,921
Additions	1,524	2,476	15	4,015
Disposals	(1,861)	(407)	(30)	(2,298)
Transferred to current assets classified as held for sale (Note 20)	(8,153)	(3,527)	-	(11,680)
At 31 October 2021	3,242	9,480	2,236	14,958
Depreciation and impairment:				
At 1 November 2020	5,885	6,322	1,020	13,227
Eliminated on disposal	(1,103)	(216)	(30)	(1,349)
Charge for the year	1,293	2,901	29	4,223
Impairment reversal	(199)	-	-	(199)
Transferred to current assets classified as held for sale (Note 20)	(5,047)	(3,173)	-	(8,220)
At 31 October 2021	829	5,834	1,019	7,682
Net book value:				
At 31 October 2020	5,847	4,616	1,231	11,694
At 31 October 2021	2,413	3,646	1,217	7,276

Right-of-use assets

Property, plant and equipment includes right-of-use assets with carrying amounts as follows

	Leashold Improvements	Computer equipment	Fixtures and fittings	Total
	£000	£000	£000	£000
Right-of-use assets				
At 01 November 2020	5,678	4,058	17	9,753
At 31 October 2021	2,382	3,456	2	5,840

Micro Focus Software UK Ltd
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For the year ended 31 October 2021

11 Debtors

	2021	2020
	£000	£000
Amounts due from group undertakings	53,444	51,236
Trade debtors	19,680	18,657
Deferred tax asset (Note 16)	1,486	1,057
Other debtors and accrued income	5,754	4,515
Total due within one year:	80,364	75,465

Included within amounts owed by group undertakings are balances that form part of the parent undertaking's group cash-pooling arrangements. For the period ended 31 October 2021, interest was receivable at an annual interest rate of LIBOR minus 0.15% on cash-pool deposits (2020: LIBOR minus 0.15%).

As at 31 October 2021, a loss allowance of £352,000 (2020: £504,000) was recognised for trade receivables. In the current year, £504,000 of the loss allowance as at 31 October 2020 was utilised to write off the uncollectable receivables.

12 Contract related costs

	2021	2020
	£000	£000
Current	959	1,002
Non-current	1,168	1,222
Total	2,127	2,224

13 Creditors: amounts falling due within one year

	2021	2020
	£000	£000
Trade creditors	2,414	3,255
Amounts owed to group undertakings	26,827	23,096
Taxation and social security	3,812	5,423
Accrued expenses	8,527	8,286
Contract liabilities	31,573	31,988
Other creditors	1,879	749
Lease obligations (Note 15)	3,078	4,530
	78,110	77,327

The amounts owed to fellow group undertakings are unsecured, have no fixed repayment term and are repayable on demand. Included within amounts owed to group undertakings are balances that form part of the parent undertakings group cash-pooling arrangements. For the period ended 31 October 2021, interest was payable at an annual interest rate of LIBOR plus 0.8889% on cash-pool deposits (2020: LIBOR plus 0.8889%).

Trade and other creditors are payable at various dates in the next three months in accordance with the suppliers' usual and customary credit term.

Taxation and social security costs are repayable at various dates over the coming months in accordance with the applicable statutory provisions.

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Notes to the financial statements
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13 Creditors: amounts falling due after more than one year (continued).

	2021	2020
	£000	£000
Contract liabilities	3,055	6,106
Lease obligations (Note 15)	4,265	9,900
Other creditors	297	282
	<u>7,617</u>	<u>16,288</u>

Contract liabilities as at 31 October 2021 were £34,628,000 (31 October 2020: £38,094,000). The movement in contract liabilities in the period mainly results from new amounts being deferred, where the billing is advance of satisfaction of the related performance obligation, and amounts being recognised as revenue, where performance obligations have been satisfied. The amount of revenue recognised in the reporting period that was included in the contract liability balance as at 1 November 2020 was £31,988,000 (1 November 2019 was £35,321,000).

Revenue billed but not recognised in the profit and loss account under the Company's accounting policy for revenue recognition is classified as contract liabilities in the statement of balance sheet to be recognised in future periods. Contract liabilities primarily relates to undelivered maintenance and subscription services on billed contracts.

Remaining performance obligations

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognised which includes unearned revenue and amounts that will be invoiced and recognised as revenue in future periods. The remaining revenue allocated to future performance obligations was £34,628,000 as at 31 October 2021 (31 October 2020 - £38,094,000), of which approximately 90% of the revenue is expected to be recognised over the next 12 months and the remainder thereafter.

This amount mostly comprises obligations to provide maintenance and SaaS subscriptions as the contracts have durations of one or multiple years.

14 Provision for other liabilities

	Dilapidation	Onerous lease provision	Total
	£000	£000	£000
At 1 November 2020	1,486	1,678	3,164
Additions	367	-	367
Utilised	(21)	(315)	(336)
Transferred to current liabilities classified as held for sale (Note 20)	(854)	-	(854)
At 31 October 2021	<u>978</u>	<u>1,363</u>	<u>2,341</u>

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For the year ended 31 October 2021

15 Leases

Right-of-use assets:

Right-of-use assets related to lease properties that do not meet the definition of investment properties are presented as property, plant and equipment (see note 10):

	Leashold Improvements	Computer equipment	Fixtures and fittings	Total
	£000	£000	£000	£000
Net book values				
Balance at 01 November 2020	5,678	4,058	17	9,753
Additions to right-of-use assets	1,517	1,474	14	3,005
Disposals to right-of-use assets	(758)	-	-	(758)
Depreciation and impairment charge for the year	(1,050)	(2,076)	(29)	(3,155)
Transferred to current assets classified as held for sale	(3,005)	-	-	(3,005)
Balance at 31 October 2021	2,382	3,456	2	5,840

Amount recognised in profit and loss account

The following amounts have been recognised in profit and loss for which the Company is a lessee:

	2021	2020
	£000	£000
Interest expense on lease liabilities	609	489
Depreciation of right-of-use assets	3,354	3,979
Impairment (reversal)/charge of right-of-use assets	(199)	293

Lease obligations:

Under IFRS 16 "Leases", the Company recognises the discounted future lease payments over the reasonably certain lease term as a liability along with an associated right-of-use asset.

The movement on the Company lease obligations in the year were as follows:

	2021	2020
	£000	£000
IFRS 16 adoption	-	8,695
Transfer from Finance lease liability	-	1,284
Balance at 1 November	14,430	9,979
Additions	1,966	8,872
Disposals	(439)	-
Payments	(4,359)	(4,910)
Interest	609	489
Transferred to current liabilities classified as held for sale	(4,864)	-
Balance at 31 October	7,343	14,430

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	2021	2020
	£000	£000
15 Leases (continued)		
Amounts payable:		
Within one year	3,174	4,795
In two to five years	4,733	10,806
In more than five years	-	301
	<u>7,907</u>	<u>15,902</u>
Less: finance charges allocated to future periods	(564)	(1,472)
	<u>7,343</u>	<u>14,430</u>

The present value of minimum lease payments is analysed as follows:

Not later than one year	3,078	4,530
After one year but not more than five years	4,265	9,607
After five years	-	293
	<u>7,343</u>	<u>14,430</u>

16 Deferred tax asset

The deferred tax included in the balance sheet is as follows:

	2021	2020
	£000	£000
<i>Deferred tax asset</i>		
Opening balance	1,057	957
IFRS 16 and 15 adoption adjustments deferred tax impact	(8)	291
<i>Revised opening balance</i>	<u>1,049</u>	<u>1,248</u>
Adjustment in respect of prior period	232	(252)
Deferred tax charge in equity for the period	166	23
Deferred tax charge to income statement for the year	39	(22)
Movement arising from transfer of trade	-	60
Deferred tax asset	<u>1,486</u>	<u>1,057</u>

17 Post-employment benefits

The Company operated a defined contribution pension scheme for which the pension cost charge for the year amounted to £2,449,000 (2020 - £2,353,000). At 31 October 2021 the Company had £315,000 (2020 - £380,000) accrued in respect of pension contributions.

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18 Share capital

		2021	2020
	No.	£	£
Allotted, called up and fully paid			
Ordinary shares of £1 each	2	2	2

There is a single class of equity shares. There are no restrictions on the distribution of dividends and the repayment of capital. All shares carry equal voting rights and rank for dividends to the extent to which the total amount of each share is paid up.

Retained earnings

Retained earnings represents accumulated comprehensive income for the financial period less dividends paid.

Share premium account

The share premium account represents the amount per share paid by subscribers in excess of the nominal amount of £1 per ordinary share.

Other reserves

This reserve arises from the completion of the purchase of the Hewlett-Packard Limited assets on 1 June 2017 and represents the excess of the purchase consideration over the total book value of the assets and liabilities acquired.

Controlling parties

The Company's immediate parent undertaking is Micro Focus Holding Hague BV. At the Balance Sheet date the Company's ultimate parent undertaking and controlling party is Micro Focus International plc, a company registered in the United Kingdom.

Copies of the group financial statements of Micro Focus International plc can be obtained from The Lawn, 22-30 Old Bath Road, Newbury, RG14 1QN, UK.

19 Contingent liabilities

There are no contingent liabilities at 31 October 2021.

20 Discontinued operation and Assets held for sale

Archiving and Risk management portfolio

On 3 November 2021, the Group ("Micro Focus International Plc") announced the agreement of definitive terms to sell its Archiving and Risk Management portfolio (the "Digital Safe business") to Smarsh Inc., for a total cash consideration of \$375,000,000 (subject to customary completion accounts adjustments based on net debt and working capital) which is payable in full on completion of the transaction. On 31 January 2022, the sale was completed.

Consequently, the Company transferred all of its Digital Safe (Dart) business related trade and assets including Dart personnel to Dart UK Newco in exchange for the transfer of a portion of the MHC Note receivable (such portion being equal to the market value of the Dart trade and business transferred, being \$4,471,000).

The assets and liabilities of the Digital Safe business have been classified as "held for sale" in these financial statements.

Net assets classified as held for sale

	Year ended 31 October 2021		
	Current assets £000	Current liabilities £000	Total £000
Reported in:			
Digital Safe	4,251	(7,844)	(3,593)

The net assets classified as held for sale relating to the disposal of Digital Safe are detailed in the tables below. These include Fixed assets and non-current liabilities that are shown as current assets and liabilities in the Balance sheet statement.

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20 Discontinued operation and Assets held for sale (continued)

	Note	2021 £000
Fixed Assets		
Tangible assets	10	3,460
Current Assets		
Debtors		791
Total assets held for sale		4,251
Current liabilities		
Creditors: amounts falling due within one year		(3,131)
Non-current liabilities		
Creditors: amounts falling due after more than one year		(3,859)
Provision for other liabilities	14	(854)
Total liabilities held for sale		(7,844)

Allocation of assets and liabilities to the Digital Safe business and held for sale

Assets and liabilities related to the Digital Safe business are included as held for sale where they can be allocated directly, or allocated on a reasonable and consistent basis to the Digital Safe business.

21 Post balance sheet events

Archiving and Risk management portfolio

As disclosed in note 20, on 3 November 2021, the Group ("Micro Focus International Plc") announced the agreement of definitive terms to sell its Archiving and Risk Management portfolio (the "Digital Safe business") to Smarsh Inc., for a total cash consideration of \$375,000,000 which is payable in full on completion of the transaction. On 31 January 2022, the sale was completed.

Consequently, the Company transferred all of its Digital Safe (Dart) business related trade and assets including Dart personnel to Dart UK Newco in exchange for the transfer of a portion of the MHC Note receivable (such portion being equal to the market value of the Dart trade and business transferred, being \$4,471,000).

Offer for Micro Focus to be acquired by OpenText Corporation

On 25 August 2022, the board of Micro Focus International Plc (hereinafter referred as 'Micro Focus' and is an ultimate parent company of the company) and Open Text Corporation reached an agreement on the terms of a recommended cash acquisition to be made by OpenText, through its wholly-owned subsidiary, Bidco, of the entire issued and to be issued share capital of Micro Focus. The cash acquisition scheme is subject to the approval of the relevant Micro Focus Shareholders, the sanction of the Scheme by the Court and the receipt of certain antitrust and foreign investment approvals. The company expect that the transaction will complete in the first calendar quarter of 2023, subject to shareholder approvals. More details on the proposed acquisition can be found at <https://www.microfocus.com/en-us/investors/regulatory-news>.