2007. Annual report

Taking our customers into the future

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1. Business focus

Welcome

Micro Focus provides innovative software solutions for assessing, managing and modernising existing applications. This helps organisations increase the value of their businesses through exploitation of their core IT assets and to swiftly respond to business change.

IT leaders face a very real problem. The enterprise applications that are at the heart of their businesses are absorbing human and financial resources. As much as 70% of IT spend may be taken up by simply maintaining an intimidating array of old and new technology. That leaves little for investing in the innovation and change that business leaders demand.

At Micro Focus we understand these problems. We know that IT must be agile and flexible to enable them to respond dynamically to changing business needs. We have extensive experience of enterprise technologies and have developed a comprehensive set of solutions, based on the latest development platforms. The key to helping organisations modernise their enterprise applications is the ability to respond rapidly to market change. Our Enterprise Application Management portfolio of solutions is our vision for driving IT evolution.

A process that enables rational decision making based on accurate and timely information, Enterprise Application Management is supported by powerful software tools for assessing and developing businesses portfolios. The result is the ability to manage, monitor, measure and modernise application portfolios effectively, and to introduce new strategic capabilities which deliver innovation and drive competitive advantage.

"We estimate our overall cost savings from improved productivity to be 40%."

Jay White, Director, CSC Financial Services Group, Life Sciences Division

Jo Nash
HR Business Partner, Go-to-Market team

2. Performance focus

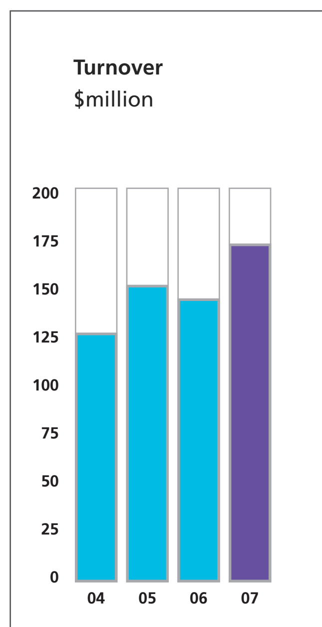
Key financial highlights

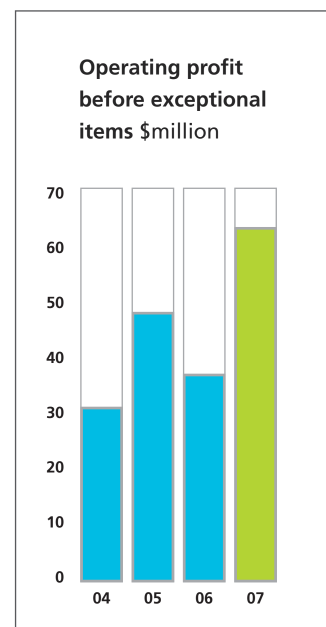
- Revenue up 19% to $171.6 million (2006: $143.7 million)
- Operating profit before exceptional items* up 70% to $63.0 million (2006: $36.9 million)
- EBITDA** before exceptional items* up 68% to $65.3 million (2006: $38.8 million)
- Profit before tax up 166% to $60.0 million (2006: $22.6 million)
- Basic earnings per share 21.96 cents (2006: 8.25 cents)†
- Cash balance as at 30 April 2007 of $85.0 million (2006: $56.1 million)
  – $40.7 million cash utilised post year end to fund the acquisition of Acucorp, Inc.
- Final proposed dividend of 7 cents per share; total dividend for the year up 67% to 10 cents per share (2006: 6 cents per share)
- Operating profit $57.3 million (2006: $22.7 million)
- EBITDA** $59.6 million (2006: $24.5 million)

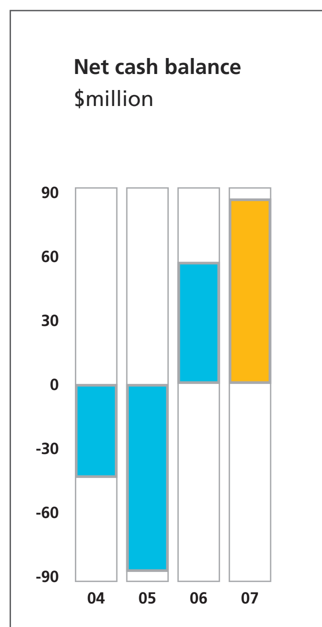
* Exceptional items are detailed in note 3
** EBITDA is reconciled to operating profit in note 4
† Earnings per share are detailed in note 8

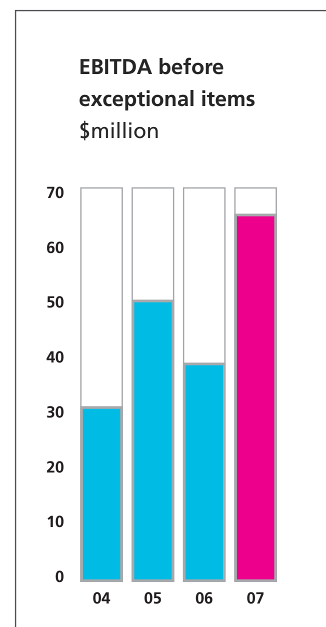
Business highlights

- Solid organic growth achieved for the year
- Direct sales into Global 2000 targets progressing well with larger value licence fee transactions ahead of expectations in the second half
- New customer wins in the year included Tesco, TNT, Australia National Tax Office and Nomura Securities
- Integration of HAL Knowledge Systems SpA ("HAL KS") now completed
- Integration of Acucorp, Inc. ("Acucorp"), acquired post period end, progressing well

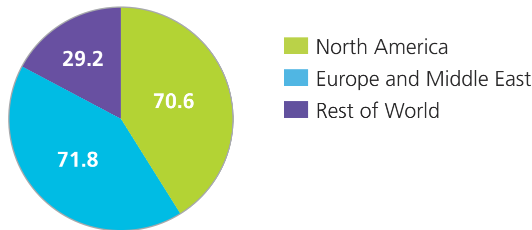




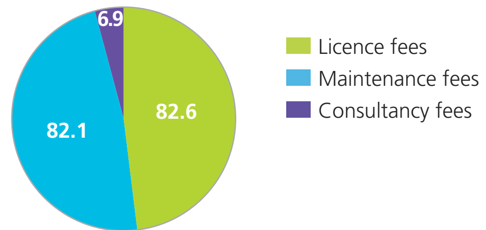




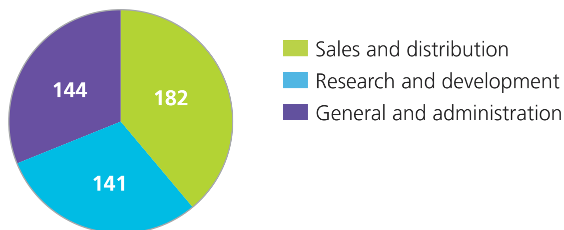
Revenue by geographic sector – 2007
$million



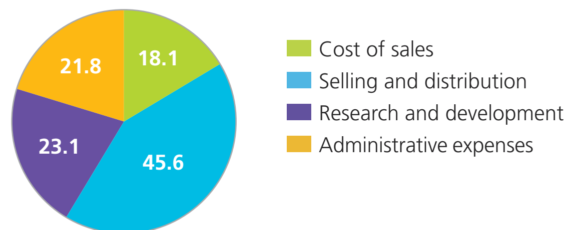
Revenue by type – 2007
$million



Employees by function – 2007
Number



Cost breakdown (pre exceptionals) – 2007
$million



"The speed of the recovery achieved over the past 12 months reflects well on the team and highlights the strong fundamentals of the business. We have first rate technology solutions, a loyal and satisfied customer base and a market leading position in a substantial, sustainable and growing market place. We now have the team to take full advantage of the market opportunity."

Kevin Loosemore Chairman

3. Market focus

Micro Focus delivers value through Enterprise Application Management in four principal areas. Our strategy review identified significant opportunities for further penetrating the Global 2000 market space. To support this drive, we will continue to partner effectively with key System Integrators ("SIs") to service new demand. In addition, our focus on Independent Software Vendors ("ISVs") will bring additional offerings to small and mid-sized enterprises ("SMEs").

"The sales team has been strengthened and we will continue to invest to drive the business forward. Our approach to marketing and sales has been refined, including a strong focus on developing senior level contacts within our target customers."

Stephen Kelly Chief Executive Officer

Micro Focus delivers value through Enterprise Application Management in four principal areas:

Global 2000

We continue to focus on the increasing need for businesses to re-energise and maximise the inherent value in their existing enterprise applications, more than 75%* of which run on COBOL technologies. In the case of the Global 2000, this means understanding the complexity of existing applications and the value they bring to the enterprise. Many large organisations, driven by the reduction in application knowledge and disappointment in the promised "packaged solution", need a pragmatic means of retaining, and building on, the best of what they have while achieving flexibility and agility to enable them to move forward. As a result, there are significant opportunities for Micro Focus, particularly in the Financial Services, Retail and Manufacturing sectors.

Systems Integrators

Systems Integrators present one of the most important of our opportunities, and many large companies are turning to them to better understand their existing IT environment, and to devise the most effective strategies to improve the IT support for their businesses. For many, SIs now manage the outsourced IT staff and applications which are already using Micro Focus technologies.

Independent software vendors
Independent software vendors ("ISVs") are at the core of Micro Focus' business. We continue to help ISVs deliver more value to their customers through new functionality, system interoperability and modern user interfaces.

Small and mid-sized enterprises
SMEs present a considerable business opportunity. Many SMEs are seeking ways to adapt applications and make them work better within their existing IT environments.

With more than 70%** of their IT budgets allocated to the operation and maintenance of existing applications, many organisations are looking to Micro Focus for tools and solutions to release the valuable resources they need to invest in the IT innovation which will give them competitive advantage.

* Gartner ** Forrester

Acquisitions

Micro Focus has completed two acquisitions to enable it to increase its ability to meet the market's need for Application Development and Application Portfolio Management – two key solutions within our enterprise application management portfolio.

In November 2006, we acquired HAL KS, the leading developer of Application Portfolio Management ("APM") technology. The addition of HAL KS's APM expertise puts us in a unique position to meet organisations' needs to understand, assess and extend the value of their existing applications.

In May 2007, we acquired Acucorp, Inc. This acquisition gives us additional software to address the specific Application Development needs of the broader ISV and SME markets.

Partners

No single company can provide a complete solution for every customer. To enable us to meet our customers' needs more comprehensively and effectively, we work with a selection of partners around the world, from strategic partnerships to key SI and ISV relationships through our consortium of partners, each of which has its own particular skills and area of specialisation.

"Micro Focus' modernisation expertise is not only helping us maintain the momentum behind this strategic IT project, but is also playing a key role in the development of our United States presence. This project will help us meet our goal of opening our first store in 2007."

Colin Cobain Group IT Director, Tesco

4. Solutions focus

Our extensive experience of working with thousands of customers worldwide, and the support of our powerful software tools and solutions ensures that organisations are better placed to manage, monitor, measure and modernise their application portfolios to:

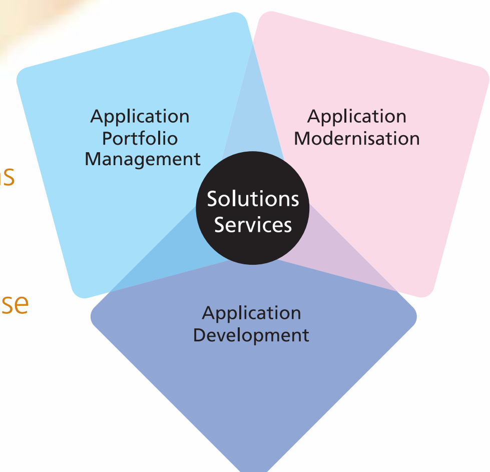
- improve dramatically the business value of their enterprise applications;
- embrace and respond rapidly to market changes;
- exploit modern architectures; and
- reduce risk.

Application Portfolio Management (“APM”) helps organisations align their IT spend with their business strategies by providing fact-based intelligence about their existing applications, what they are used for and the resources and costs associated with them.

The insight gained from the APM assessment phase enables IT executives to make rational decisions on the best modernisation approach that aligns IT implementation with business strategy. The right choice must be made on a case-by-case basis. With our unrivalled experience of business critical enterprise applications, Micro Focus has created a suite of modernisation options focused on speed of delivery combined with customer expectation of high quality and high availability. Modernisation solutions can deliver significantly higher return on investment without the high risk of re-write or replacement strategies.

In addition, our Application Development solution, provides our customers with a comprehensive family of integrated development environments, ensuring the latest methods and technologies can be used to take advantage of the best programming solution for the business.

Enterprise Application Management solutions help customers to manage, monitor, measure and modernise application portfolios.



5. People focus

Micro Focus places a high degree of focus on the development of its people to help them reach the highest possible standard of performance and, by doing that, to drive the company's continued growth.

As a company, our capacity to "scale" will derive from our ability to continue to lead, manage and execute, quickly, efficiently and effectively. To support this, our performance management process drives progress at individual, team and company level to enable us to deliver on our goals and objectives.

We know that our culture and values are reflected not only in what we deliver, but also in our behaviour and in the way we achieve results.

We continue to increase in strength as we embark on the next phase of our growth, and we have implemented a rigorous process to enable us to continue to attract and retain the best talent available in the market.

6. Customer focus

Our customers are at the heart of everything we do. Micro Focus has more than 30 years' experience and more than 15,000 customers, including more than 70 of the Global 100 companies and one million licensed users.

Our Enterprise Application Management solutions enable our customers to identify the value of the applications that run their businesses, increasing the value of IT, and communicating change more effectively.

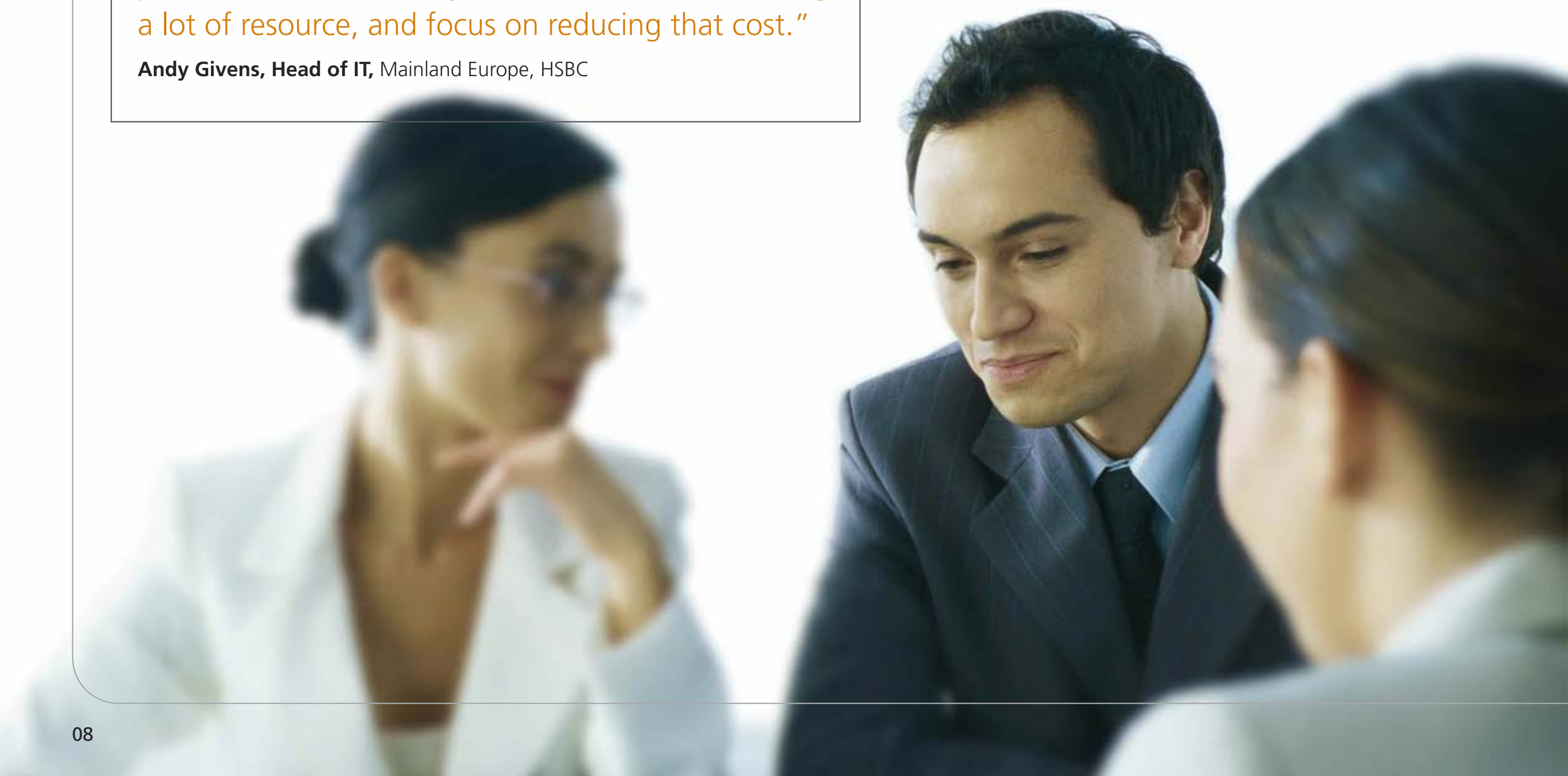
Micro Focus is a true business partner, bringing expertise and services to bear across its customers' businesses. We offer complete enterprise solutions, enabling deeper strategy, integration and extension – with market-leading products. Micro Focus provides a broad spectrum of enterprise application development services.

Micro Focus SupportLine is committed to the success of our customers and partners. Our dedicated and skilled staff, and our website, provide high-quality, highly-responsive technical support.

In summary, our mission is to provide innovative software that enables organisations to improve the business value of enterprise applications dramatically and to respond to changes rapidly.

"This solution gives us a view across our whole portfolio so we can analyse those areas that are using a lot of resource, and focus on reducing that cost."

Andy Givens, Head of IT, Mainland Europe, HSBC



Chairman's statement

I am encouraged by our performance over the past year. We have achieved good revenue growth and have increased our margin performance and profitability. Micro Focus is now well positioned for the future.

The new executive board members of Stephen Kelly (CEO), Nick Bray (CFO) and Mike Shinya (COO) have the skills, experience, commitment and drive necessary to lead our business strongly forward. Whilst we have refreshed and reinvigorated our Company with a number of new hires, the contribution of the existing executive talent within our Company has been considerable. Stephen, Nick and Mike aside, the remaining six members of the senior executive team have more than 80 years' combined experience with Micro Focus. Our Company has a 30-year heritage and over 60% of our employees have been with us for more than five years. The combination of both new and existing talent within our Company provides us with a formidable leadership team and skills base. I am also delighted to announce the appointment of Dr Paul Pester as a non-executive director with effect from 27 June 2007. Dr Pester has extensive experience in the Financial Services sector and is an important addition to our board.

The speed of the recovery achieved over the past 12 months reflects well on the team and highlights the strong fundamentals of the business. We have first rate technology solutions, a loyal and satisfied customer base and a market leading position in a substantial, sustainable and growing market place. We now have the team to take full advantage of the market opportunity.

Revenue growth combined with a firm control of expenses has resulted in a significant increase in profitability. We continue to make appropriate targeted investments in the areas of sales and marketing to support future growth whilst not sacrificing margins.

In line with our strategy, we have completed one acquisition during the year and a second in May 2007 designed to provide further opportunities for profitable growth. We have firm financial foundations from which to grow and I am pleased to announce a 75% increase in the final dividend to 7 cents per share, giving a full year dividend of 10 cents per share. We finished the financial year with cash of $85.0 million, and generated $58.2 million of cash from operations in the period. Our business has a low capital requirement and our ability to generate cash is encouraging. We have since put a significant proportion of this cash to good use with $40.7 million being used to fund the acquisition of Acucorp, Inc. post year-end.

The board would like to thank all our employees for their continued hard work and commitment throughout the past year. We have experienced significant change, have emerged much stronger as a result, and have an exciting opportunity ahead.

Our foundations are well established. We remain focused on profitable revenue growth and I am confident in the Company's ability to continue to deliver value to all of its stakeholders.

Kevin Loosemore Chairman

Chief Executive Officer's statement

On joining the Company it was imperative to ensure that we had the correct strategy to drive profitable revenue growth. A detailed review undertaken over a period of six months confirmed and clarified the board's view of the business. The key findings were:

- A firm opportunity exists for all of our solution areas; Application Development, Application Modernisation and Application Portfolio Management
- All solution areas combined can support solid growth over the long term
- Our key focus is organic growth; although acquisition opportunities exist
- Our primary opportunity is through sales to larger organisations

Execution

Over the past 12 months, we have strengthened the management team, delivered a strong set of financial results and made our first acquisition to further our strategic aims. Whilst we still have many areas on which to improve, we have successfully executed ahead of our initial expectations.

The sales team has been strengthened and we will continue to invest to drive the business forward. Our marketing and delivery have been refined, including a strong focus on developing senior level contacts within our target customers. All marketing spend is considered to be investment and is measured and monitored as such. We have a clear focus on only making appropriate investments and, with excellence in sales execution as our priority, every other function is aligned to support this.

Our strategy review identified the major growth opportunity around larger value licence fee transactions into the Global 2000 companies. I am encouraged that we signed a number of such deals in the second half year contributing to total revenue growth of 19%, ahead of our expectations. New customer wins included Tesco, TNT, Australia National Tax Office and Nomura Securities. In addition to revenues from new customers, we derived further new revenues from our existing customer base including wins with Oracle, Barclays and JP Morgan.

Our channels to market are through Independent Software Vendors ("ISV"), System Integrators ("SI") distributors and through our own direct sales force. Whilst keeping a firm focus on all channels, we are placing an increasing emphasis on sales to Global 2000 customers through a combination of both direct and SI sales. It is pleasing to note that in the second half year we signed a number of larger value transactions in Global 2000 accounts in conjunction with IBM, Microsoft, EDS, Oracle and Accenture.

The strategy review also highlighted the higher growth rate potential of the APM and Modernisation solution areas. Whilst we achieved growth across all solutions, it was encouraging to see the increase in our Modernisation solution sales. We have invested significantly in the development of this solution over the past three years and we firmly believe that we have a market leading proposition, the full benefits of which are now gaining recognition and traction with our existing and prospective customers.

The vast majority of our growth in both revenues and profits during the year to 30 April 2007 was derived from the core business with limited benefit from the acquisition of HAL Knowledge Solutions SpA ("HAL KS"). The full benefit of the acquisition will be seen in the year ahead.

The Company benefits from having a business model with a high proportion of predictable and recurring revenues. Micro Focus has an enviable customer base with 48% of turnover derived from low risk maintenance revenues. Maintenance growth is driven by the retention of existing customers as well as the addition of new maintenance revenue associated with the sale of new licences. An encouraging performance in both of these areas over the past 12 months positions us well for further maintenance growth in the year ahead.

The revenue growth achieved, when combined with a firm control of expenses, has resulted in a significant improvement in operating profit before exceptional items.

Strategy review

Geographically, the picture was strong overall, although some areas call for closer attention in the year ahead. We were pleased with the performance in Japan, the UK rebounded and Continental Europe produced positive improvements. Licence fee sales fell short of expectations in North America. Management changes were made recently and early signs are encouraging.

While organic revenue growth is our key focus, the strategy review highlighted the potential for further profitable revenue growth through acquisitions. With the strategy review completed in September 2006, I am pleased with the speed of execution resulting in the acquisition of HAL KS with effect from 1 November 2006 for $3.5 million before related costs. HAL KS provides us with a strong offering in a growing solution area identified from the strategy review, APM.

The acquisition of HAL KS provides market leading technology for APM. Since the acquisition we have integrated the company successfully into Micro Focus and improved its existing product offering with the launch of Micro Focus Enterprise View on 1 May 2007. Our objective for the year ahead is to leverage our extensive distribution footprint to drive further product sales.

The acquisition of Acucorp, Inc. ("Acucorp"), effective from 4 May 2007, for $40.7 million, provides technology that is highly complementary to Micro Focus' core business in the COBOL Development Tool space as well as providing the opportunity for Micro Focus to expand its reach into small and medium-sized enterprises ("SMEs"). The integration is progressing positively and we expect a meaningful contribution to both revenues and profits in the year ahead as a result of this acquisition.

We have firm financial foundations to support a platform for growth. The cash balance at 30 April 2007 was $85.0 million, up from $56.1 million at 30 April 2006 as a result of improvements in the underlying trading performance.

Outlook

Future revenue growth will be largely dependent on driving licence sales. Whilst encouraged by the performance in the year to 30 April 2007, it would be premature to conclude that we can repeat the number and value of larger transactions achieved in the second half year. A number of such prospective new licence opportunities remain in our pipeline although by their very nature and size they are less predictable. We do expect to continue organic growth in the year ahead.

Following a successful year of licence fee sales we would expect to achieve growth in our maintenance revenues for the year ahead. The smallest proportion of our revenues is derived from our consultancy services and it is intended that these revenues will remain a similar proportion of total revenues for the year ahead.

Chief Executive Officer's statement

During the year to 30 April 2007 we had the benefit of six months of trading from the HAL KS acquisition. On 8 December 2006 we had provided guidance that revenues would be in the range of $4.0 million to $5.0 million and can report that revenues were within this range, although at the lower end. We were disappointed to fall marginally short of our six month goal for the APM business of EBITDA break-even.

Whilst early days, the acquisition of Acucorp is progressing well. This acquisition is anticipated to provide revenues of approximately $17.0 million in the year to 30 April 2008 with margins being consistent with the existing Micro Focus business. The restructuring is progressing as planned. The related restructuring charge is expected to be approximately $8.0 million.

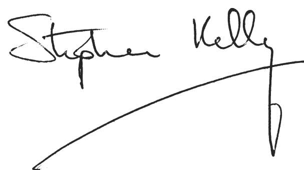
We have been encouraged by the margins achieved in the year to 30 April 2007. Our stated aim is to achieve profitable revenue growth and as such we will look to maintain margins at a consistent level for the year ahead.

In February 2007, we restructured the product group and established development Centres of Excellence for our solutions around Modernisation (United States – Washington), Development Tools (United Kingdom – Newbury), and Application Portfolio Management (Italy – Milan).

In addition, the purchase of HAL KS provided a team of 27 developers in Sofia, Bulgaria. This team has since been expanded to provide a high value development facility in support of the three Centres of Excellence. This development facility is expected to play a pivotal role in improving both our efficiency and productivity.

As a business, we have made encouraging progress over the past 12 months. It was pleasing to return to respectable organic revenue growth although we are fully conscious of the poor performance in the prior year. Looking ahead, the impact of both the acquisitions we have made, combined with further expected organic growth, is expected to provide annual revenue growth similar to the rate achieved in the year to 30 April 2007. Margins are expected to remain at a similar level. We have developed a clearly scoped out strategy and have a firm focus on execution and tight cost control.

Sustainable and profitable revenue growth is the key factor that will determine the long-term success of the Company. Management's emphasis will continue to be on licence fee sales to drive profitable growth.



Stephen Kelly Chief Executive Officer

Finance review

Revenue for the year ended 30 April 2007 increased to $171.6 million (2006: $143.7 million).

Whilst revenue growth was achieved across all areas, the primary driver of growth was from our European operations. These operations, including France, Italy, Benelux and our European distributor network, are managed by an experienced Micro Focus "Go to market" leadership team. With clear focus and direction, they have stepped up to the challenge and exceeded our expectations. We strengthened our UK operation towards the end of 2006. It has been encouraging to see the turnaround in this operation since this time with the UK significantly increasing licence fees in the six month period to 30 April 2007 as compared to the six month period to 31 October 2006.

Our "Rest of the World" operations had a positive year with our Japanese business producing growth of over 17%. Our Japanese operation has an experienced team in place, who have delivered consistent year-on-year revenue growth over a considerable period of time.

Our "North America" operations produced results below expected performance levels. A new senior leadership team was established during quarter four and a number of new sales hires have since taken place. With appropriate leadership, resource and focus, we anticipate that this key territory will return to an acceptable level of performance in the year ahead.

Revenue by geographic region was as follows:

	2007		2006	
	$m	%	$m	%
North America	**70.6**	**41.1**	68.9	47.9
Europe and the Middle East	**71.8**	**41.8**	54.0	37.6
Rest of the World	**29.2**	**17.1**	20.8	14.5
Total revenue	**171.6**	**100.0**	143.7	100.0

Revenue for the year by category was as follows:

	2007		2006	
	$m	%	$m	%
Licence fees	**82.6**	**48.2**	68.0	47.3
Maintenance fees	**82.1**	**47.8**	71.9	50.0
Consultancy fees	**6.9**	**4.0**	3.8	2.7
Total revenue	**171.6**	**100.0**	143.7	100.0

It can be seen that turnover improved across all revenue streams for the year to 30 April 2007. Licence fees increased by $14.6 million or 21.5% to $82.6 million (2006: $68.0 million). The growth in licence fee revenues was achieved by a combination of an increased volume of lower value orders as well as a number of larger value transactions. A number of large contracts remain in our pipeline although, by their very nature, they are unpredictable. The contribution from HAL KS was minimal, growth in the main being driven by core Micro Focus solution sales. Whilst growth was achieved across all solution areas, it was encouraging to see an increase in licence fee sales from our Modernisation solution area.

Maintenance revenues increased by $10.2 million or 14.2% to $82.1 million (2006: $71.9 million). Maintenance revenues are recognised evenly over the life of each contract, which is typically 12 months. As such, the profit and loss recognition of maintenance revenue lags the initial licence fee sale. Thus, it was encouraging to see the increase in maintenance revenues

following the disappointing licence fee performance in the prior year to 30 April 2006. The major factors driving maintenance growth in the year to 30 April 2007 are as follows:

- A solid year of licence fee growth
- An improvement in the renewal rate of existing customers
- Modest annual price increases to existing customers; and
- A focus on closing "contracts in negotiation" and the introduction of an automatic renewal process for our customers

Consulting revenues showed a positive improvement as against the prior year driven by growth in both core Micro Focus revenues and the additional consulting revenues as a result of the acquisition of HAL KS, this company and solution having a higher mix of consulting revenues as compared to the Micro Focus COBOL Development Tools and Modernisation solutions.

The impact of exchange rate movements in the year was to improve revenues by approximately 2%. Improvements in Sterling and the Euro as compared to the US Dollar were in part offset by a weakness in the Japanese Yen.

Costs

Whilst total costs, excluding exceptional items, were effectively flat year-on-year, it should be noted that this includes six months' costs for HAL KS in the year ended 30 April 2007. The restructuring of the core Micro Focus business, announced on 6 April 2006, delivered the expected level of savings. A firm control of expenses has been established and will be maintained.

Cost of sales for the year ended 30 April 2007 increased marginally by 3.4% to $18.1 million (2006: $17.6 million). The costs in this category predominantly relate to our consulting and helpline support operations. Costs within the consulting organisation increased in line with increased revenues although it should be noted that we intend, where possible, to increase the use of external consulting resources.

Selling and distribution costs reduced to $45.6 million for the year ended 30 April 2007 (2006: $48.5 million). We continue to make targeted investments in the areas of sales and marketing to drive future profitable revenue growth.

Research and development expenses for the year increased to $23.1 million (2006: $21.7 million). In February 2007, we restructured the Product Group and established development Centres of Excellence for our solutions.

Administrative expenses, excluding exceptional items of $5.7 million (2006: $14.2 million), increased to $21.8 million (2006: $19.0 million). This cost category contains $1.2 million in relation to exchange losses in the year to 30 April 2007. In the prior year costs were reduced by exchange gains of $0.3 million. As such, excluding the impact of this exchange movement, administrative expenses have increased by $1.3 million or 6.7% driven primarily by higher bonus payments to staff as a result of significantly improved performance as compared to the prior year.

Operating profit

Operating profit for the year was $57.3 million (2006: $22.7 million). Operating profit before exceptional items was $63.0 million (2006: $36.9 million), the improvement being driven by the combination of improved revenues and reduced costs.

EBITDA

EBITDA before exceptional items increased by 68.4% to $65.3 million (2006: $38.8 million) as a result of the factors described above.

Net finance income

Finance income of $2.8 million was achieved in the year to 30 April 2007 (2006: $1.0 million). Finance expense in the prior year of $1.1 million related to loans which were repaid following the IPO.

Taxation

Tax for the year ended 30 April 2007 was $16.1 million (2006: $6.3 million) based on increased profits. The Group's effective tax rate is 26.9% (2006: 28.1%). As a result of the significant increase in the share price in the year to 30 April 2007, a tax deduction has arisen on the stock options in issue. Excluding the effects of this beneficial tax deduction, the effective tax rate was 28.9%.

Profit after tax

Profit after tax for the year ended 30 April 2007 increased by 170.3% to $43.9 million (2006: $16.2 million) driven by a significant improvement in operating performance combined with lower exceptional charges.

Cash flow

For the year ended 30 April 2007, the Company generated a net cash inflow from operating activities of $53.6 million (2006: $35.0 million).

At 30 April 2007, the Company's cash balance was $85.0 million (2006: $56.1 million). Since that time, the Company has acquired Acucorp for a cash consideration of $40.7 million. Dividends of $14.0 million were paid in the year.

Dividend

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus whilst targeting a level of dividend cover for the financial year ending 30 April 2007 of approximately 2.5 times on a pre-exceptional earnings basis. In line with the above policy, the directors recommend payment of a final dividend in respect of the year to 30 April 2007 of 7 cents per share, which taken together with the interim dividend of 3 cents per share paid in January 2007, gives a total dividend in respect of 2007 of 10 cents per share, an increase of 67% as compared to the prior year. Subject to shareholder approval, the final dividend will be paid on 1 October 2007 to shareholders on the register on 7 September 2007.

Whilst the Group as a whole has a deficit in its profit and loss reserve, the directors of Micro Focus International plc have concluded that the Company has sufficient reserves to enable the payment of the final dividend.

Dividends will be paid in Sterling based on an exchange rate of £ = $2.00, equivalent to 3.5 pence per share, being the rate applicable on 27 June 2007, the date of recommendation of the dividend by the board.

Acquisition of HAL KS

On 2 November 2006, Micro Focus announced that it had agreed to acquire HAL KS, a leading provider of APM software in order to enhance the Company's enterprise application modernisation capabilities. The transaction successfully closed on 10 November 2006. HAL KS has been acquired by Micro Focus for a total consideration of $3.5 million in cash, subject to a net asset adjustment.

In the year to 31 December 2005, HAL KS reported a net loss before tax of $4.5 million and its gross assets as at 31 December 2005 were $9.5 million. Following the acquisition, we have restructured the business to reduce costs, with a restructuring charge of $2.8 million, falling in the current financial year. HAL KS was acquired with net balance sheet liabilities of approximately $4.5 million.

For the six month period to 30 April 2007, revenues were in the expected range of $4.0 million to $5.0 million. The business made an EBITDA loss in the six month period to 30 April 2007.

Acquisition of Acucorp

On 4 May 2007, Micro Focus announced that it had acquired Acucorp for a total cash consideration of $40.7 million, paid in full on completion, plus a working capital adjustment capped at a maximum value of $0.25 million.

In the year to December 2006, Acucorp generated an operating profit of $3.0 million and its gross assets as at 31 December 2006 were $13.1 million.

Revenues for the year to 30 April 2008 are anticipated to be approximately $17.0 million. We are in the process of restructuring the business with the aim of increasing margins over time to a level consistent or better than our existing business. The consequent restructuring charge is expected to be approximately $8.0 million in the year to 30 April 2008.

Nick Bray Chief Financial Officer

7. Board focus

Left to right: Kevin Loosemore, Stephen Kelly, Nick Bray, Prescott Ashe, David Dominik, Mike Shinya, Paul Pester, David Maloney, Tom Skelton

Kevin Loosemore, 48 (Non-executive Chairman) †‡

Kevin was the Chief Operating Officer of Cable & Wireless plc from April 2003 to 31 March 2005. He was previously President of Motorola Europe, Middle East and Africa and, before that, was Chief Executive of IBM UK and a member of the IBM Worldwide Management Committee. From 1997 to 1999 he was Managing Director of De La Rue Card Systems. He has a degree in politics and economics from Oxford University.

Stephen Kelly, 45 (Executive director and Chief Executive Officer)

Stephen Kelly was named Chief Executive Officer in May 2006. He was previously Chief Executive Officer of Chordiant, from January 2002 to February 2006. He served as Chordiant's President and Chief Operating Officer from October 2000 through January 2002, and as senior vice president of International operations from October 1998 to October 2000. Prior to this, he spent almost ten years in a number of senior management positions with Oracle. Stephen received his BSc with honours in business administration from the University of Bath.

Nick Bray, 42 (Executive director and Chief Financial Officer)

Nick became Chief Financial Officer in January 2006. He was previously Group Finance Director of Fibernet Group plc, having joined the company in February 2001. Before that, he held the positions of Group Chief Financial Officer of Gentia Software plc and Chief Accounting Officer of Comshare Inc. He started his career at Price Waterhouse where he qualified as a chartered accountant. Nick has a first class honours degree in civil engineering from Aston University.

Mike Shinya, 49 (Executive director and Chief Operating Officer)

Mike was named Chief Operating Officer in July 2006 and was appointed to the board in February 2007. Mike is responsible for leading the company's "Go to Market" operations. This encompasses all sales activity, professional/technical services, marketing and branding. He has held senior executive positions at SAS Institute, IBM, Oracle and Baan Company. From 2001 to the end of 2003, he was Chief Executive Officer of Sherwood International plc. Mike holds a BA (Hons) Degree in economics and social sciences and graduated from the University of East Anglia.

David Maloney, 51 (Non-executive director) *†‡

David is Chairman of Hoseasons Holdings Ltd and a non-executive director of Ludorum plc, Cineworld Group plc and Carillion plc. His most recent executive role was as Chief Financial Officer of the global hotel group Le Meridien Hotels and Resorts. Prior to that he was Chief Financial Officer of Thomson Travel Group and Preussag Airlines, and Group Finance Director of Avis Europe plc. David is a fellow of the Chartered Institute of Management Accountants and has a degree in economics from Heriot-Watt University, Edinburgh.

David Dominik, 51 (Non-executive director) ‡

David has been a Managing Director of Golden Gate Capital since its inception in 2000. He previously spent ten years as a Managing Director at Bain Capital. He managed Information Partners, a specialised fund within Bain Capital, that focused on opportunities in the information services and software markets and also served on the investment committee of Brookside, Bain Capital's public equity hedge fund. David has a juris doctor degree from Harvard Law School (cum laude) and an AB in social studies (economics and history) from Harvard College (magna cum laude; Phi Beta Kappa).

Prescott Ashe, 40 (Non-executive director)

Prescott has been a Managing Director of Golden Gate Capital since its inception in 2000. He was previously a principal at Bain Capital, which he joined in 1991 and, before that, was a consultant at the global strategy consultancy, Bain & Company. Prescott has a juris doctor degree from Stanford Law School and a bachelor of science degree in business administration from the University of California at Berkeley.

Tom Skelton, 45 (Non-executive director) *†

Tom served as Chief Executive Officer for Misys Healthcare Systems from January 2002 until March 2007 and as a director of Misys plc. Prior to that, he was Chief Executive Officer, Medic Computer Systems, a US-based software company focused on the healthcare information technology market. He earned his BSBA from Robert Morris University in Pittsburgh, Pa.

Paul Pester, 43 (Non-executive director) *†

Paul was appointed a non-executive director on 27 June 2007; he is Managing Director of Consumer Banking at Lloyds TSB Group. He is also Chairman of the British Bankers' Association (BBA) Retail Committee, and Chairman of the Travellers Cheque Association. From September 2007 he will join Moneyfacts Group as Chief Executive Officer. Paul holds a first class honours degree in physics from Manchester University and a doctorate in mathematical physics from Oxford University.

* Audit committee
† Remuneration committee
‡ Nomination committee

Directors' report

The directors of Micro Focus International plc ("the Company") present their report and the audited financial statements of the Company for the year ended 30 April 2007.

Principal activities

The principal activities of the Group during the year were the provision of enterprise application management solutions.

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

Review of business and future developments

For details regarding the Group's activity and the future developments of the Group, please refer to the Chief Executive Officer's statement on pages 10 to 12 and the finance review on pages 13 to 15.

Dividend

The board has adopted a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus whilst targeting a level of dividend cover for the financial year ended 30 April 2007 of approximately 2.5 times on a pre-exceptional earnings basis. In line with the above policy announced at the time of the IPO the directors recommend payment of a final dividend in respect of 2007 of 7 cents per share, which, taken together with the interim dividend of 3 cents per share paid in January 2007, gives a total dividend in respect of 2007 of 10 cents per share. Subject to shareholder approval, the final dividend will be paid on 1 October 2007 to shareholders on the register on 7 September 2007. Dividends will be paid in Sterling based on an exchange rate of 2.0 $/£, equivalent to approximately 3.5 pence per share, being the rate applicable on 27 June 2007, the date of recommendation of the dividend by the board.

Research and development

The Group invested $28.4 million in research and development during the year to 30 April 2007 (2006: $26.8 million) including $5.3 million of capitalised costs. This expenditure was incurred in improving the quality, functionality and extending the range of the Group's innovative software solutions.

Donations

The Company's policy is to make no donations to political parties (2006: nil). During the year, the Group made charitable donations of $16,000 to a variety of local and national charities in the UK and USA (2006: nil).

In the coming year, the Company and its employees will be raising funds to support its nominated charity "Street Child Africa". The Company will continue to support sporting activities in local schools, sports clubs and local charities.

Post balance sheet events

On 4 May 2007, the Company announced that it had agreed to acquire Acucorp, Inc. for a total cash consideration of $40.7 million paid in full on completion plus a working capital adjustment capped at a maximum of $0.25 million. Further information on the acquisition is to be found in the Chief Executive Officer's statement and in the finance review.

Directors and their interests

The directors of the Company who served during the year are as follows:

Executive	
Stephen Kelly	
Nick Bray	
Mike Shinya	(appointed 26 February 2007)
Non-executive	
Kevin Loosemore	(Chairman)*
David Maloney	
David Dominik	
Prescott Ashe	
John Browett	(resigned 27 September 2006)
Tom Skelton	(appointed 23 October 2006)
Paul Pester	(appointed 27 June 2007)

* Kevin Loosemore also served as interim Chief Executive Officer from 22 February 2006 to 21 May 2006.

Details of the interests of the directors and their families in the ordinary shares of the Company, as disclosed in the register of directors' interests, are given in the remuneration report on pages 26 to 31.

None of the directors has a material interest in any contract of significance to which the parent company or a subsidiary was a party during the financial year, as disclosed in note 29, related party transactions.

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

As at the date of this report indemnities are in force under which the Company has agreed to indemnify the directors to the extent permitted by law and by the Articles of Association against liabilities they may incur in the execution of their duties as directors of the Company.

Employment policy

Equal opportunities

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

Disabled employees

With regard to existing employees and those who may become disabled, the Group's policy is to examine ways and means to provide continuing employment under its existing terms and conditions and to provide training and career development, including promotion, wherever appropriate. All employees accept the commitment within this policy that the Group will not allow discrimination or harassment by employees or others acting on the Group's behalf, in respect of sex, age, marital status, race, nationality, disability or religious or political beliefs.

Employee involvement

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

Further education and training

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

Share option schemes

The directors remain committed to the principle that selected employees should be able to participate in the Group's progress through share-based compensation schemes. Details of the Group's share-based compensation schemes are given in note 24.

Payment of creditors

Micro Focus International plc, which holds the investments in the Group's companies, does not trade itself and does not have suppliers as defined by the Companies Act 1985. The directors believe, however, it would be helpful to give the disclosures on a consolidated basis.

The Group seeks the best possible terms from suppliers appropriate to their business and in placing orders gives consideration to quality, delivery, price and terms of payment. The Group does not follow a specific payment code but has a policy to pay its suppliers in accordance with the specific terms agreed with each supplier. The average number of days' purchases outstanding at 30 April 2007 for the Group was 35 days (2006: 30 days).

Substantial shareholding

On 20 January 2007 the Companies Act 1985 provisions in respect of substantial shareholdings were repealed and the Disclosure and Transparency Rules of the Financial Services Authority came into force. As at 25 July 2007, the Company had been advised of the following notifiable interests in its voting rights:

Name of holder	Ordinary shares of 10 pence each	Percentage of issued capital
Golden Gate Capital	70,026,157	35.00%
Majedie Asset Management Limited	16,330,461	8.17%
Barclays PLC	13,966,795	6.98%
Fidelity International Limited	6,605,572	3.30%

Annual General Meeting

The notice convening the Annual General Meeting of the Company together with the explanatory notes on the proposed resolutions accompanies this report. The meeting will be held at:
The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN
on 26 September 2007 at 3pm.

Auditors and disclosure of information to auditors

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

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

Going concern

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

By order of the board

Jane Smithard Company Secretary
31 July 2007

Corporate governance

Introduction

The principal corporate governance guidance that applies to companies listed with the UK Listing Authority that is applicable to the year is contained in the 2003 Financial Reporting Council's Combined Code ("the Combined Code"). The Combined Code, which operates on a "comply or explain" basis, incorporates, amongst others, recommendations by the Higgs Review regarding the role of non-executive directors, and the Smith Review, which refers to audit committees. Through their commitment to the highest standards of corporate governance, the board endorses and supports the essential elements of the Combined Code and, apart from a few limited exceptions as described below, believes the Group has fully complied with the Combined Code during the year reported on. Where it has not, an explanation has been provided.

Compliance statement

The directors are committed to ensuring that the Company will work towards compliance with the provisions set out in Section 1 of the Combined Code.

The Company has been in compliance with the Code provisions set out in Section 1 of the Combined Code on corporate governance, except for the following:

- A.2.1. – division of roles – Upon the resignation of Anthony Hill on 23 February 2006, the Chairman, Kevin Loosemore assumed the roles of both non-executive Chairman and interim Chief Executive Officer until a replacement Chief Executive Officer was recruited. Following the appointment of Stephen Kelly as Chief Executive Officer on 1 May 2006, Kevin Loosemore reverted back to the role solely of non-executive Chairman on 21 May 2006, after a handover period.

- A.3.2. – board of directors – The Combined Code requires that at least half the board, excluding the Chairman, should comprise non-executive directors determined by the board to be independent. With two non-executive directors not regarded as independent, the Company was not able to comply with this rule during the year ended 30 April 2007. With the appointment of Paul Pester on 27 June 2007, the Company is closer to compliance.

- B.2.1. – remuneration committee – The Company is aware that the Chairman is not regarded as independent for the purposes of the Combined Code. The Code states that the remuneration committee must comprise at least three independent non-executive directors. With the appointment of Tom Skelton and Paul Pester as independent non-executive directors, it is planned that Kevin Loosemore will hand over the chairmanship of the committee before the end of the year and be in compliance.

- C.3.1. – audit committee – Similarly, the audit committee should comprise at least three independent non-executive directors. As the Chairman was not regarded as independent throughout the year this requirement was not met. With Paul Pester's appointment as a non-executive director and appointment to the audit committee, Kevin Loosemore resigned from the audit committee and the Company is now in compliance.

The principles set out in the Combined Code cover four areas: the board, directors' remuneration, accountability and audit and shareholder relations. With the exception of directors' remuneration (which is dealt with separately in the remuneration report on pages 26 to 31) the following section sets out how the board has applied these principles.

The board

The Group is controlled by the board, which is responsible for the Group's system of corporate governance. As at 30 April 2007, the board comprised eight directors:

Kevin Loosemore	Non-executive Chairman*
Stephen Kelly	Chief Executive Officer
Nick Bray	Chief Financial Officer
Mike Shinya	Chief Operating Officer
David Maloney	Non-executive director
David Dominik	Non-executive director
Prescott Ashe	Non-executive director
Tom Skelton	Non-executive director

* Kevin Loosemore served as interim Chief Executive Officer from 22 February 2006 to 21 May 2006.

Paul Pester was appointed a non-executive director on 27 June 2007.

The role of the non-executive directors is to ensure that independent judgement is brought to board deliberations and decisions. The non-executive directors possess a wide range of skills and experience, relevant to the development of the Company, which complement those of the executive directors.

The Chairman ordinarily operates in a non-executive capacity and is considered by the board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of his independent judgement.

David Maloney, the senior independent non-executive director, and Tom Skelton and Paul Pester, non-executive directors, are considered by the board to be independent. Prescott Ashe and David Dominik are not

considered by the board to be independent by virtue of their positions with the Company's major shareholder, Golden Gate Capital.

In accordance with the Combined Code, all directors will be subject to election by the shareholders at the first AGM of the Company after their appointment, and, thereafter, at least every three years. Accordingly Tom Skelton, Mike Shinya and Paul Pester will be subject to election at the Company's AGM to be held on 26 September 2007. As the remaining non-executive directors were all elected to the board at the AGM of the Company in September 2005, the directors have agreed to offer themselves for re-election on a rotation basis. Accordingly, Kevin Loosemore retired voluntarily and was re-elected at the Company's AGM in September 2006 and David Maloney and David Dominik will be retiring voluntarily and submitting themselves for re-election by the shareholders at the AGM of the Company on 26 September 2007. The non-executive directors are appointed for specified terms.The board has agreed procedures for directors to follow if they believe they require independent professional advice in the furtherance of their duties and these procedures allow the directors to take such advice at the Company's expense. In addition, all the directors have direct access to the advice and services of the Company Secretary. The Company Secretary is accountable to the board through the Chairman on governance matters.
It is the responsibility of the Company Secretary to ensure that board procedures are followed and all rules and regulations are complied with. Under the direction of the Chairman, the Company Secretary's responsibilities include facilitating induction and professional development and ensuring the smooth flow of information within the board and its committees, and between non-executive directors and senior management. Any new director receives a comprehensive, formal and tailored induction into the Company's operations. Appropriate training is provided to new directors and is also available to other directors as required.

The terms of reference of the Chairman and Chief Executive Officer have been agreed with the board and, in accordance with best practice, their roles remain separate. Exceptionally, on 22 February 2006 the Chairman was additionally appointed interim Chief Executive Officer on the resignation of Anthony Hill, former Chief Executive Officer. Following the appointment of Stephen Kelly as Chief Executive Officer, the Chairman relinquished this additional appointment on 21 May 2006 and now remains solely the Chairman of the Company.

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

In the year to 30 April 2008, the board will meet, on a regular basis approximately every two months, with additional meetings when circumstances and business dictate. In months in which the board does not meet update calls are scheduled to review progress. A schedule of meetings has been established. All directors receive an agenda and board papers in advance of meetings to help them make an effective contribution at the meetings. In addition, the executive directors ensure regular informal contact is maintained with non-executive directors. The board makes full use of appropriate technology as a means of updating and informing all its members.

While the board retains overall responsibility for, and control of, the Company, day-to-day management of the business is conducted by the executive directors. Review of the Group's principal business activities is the responsibility of the executive management team, comprising the executive directors who are responsible for sales, marketing and finance, together with executives responsible for HR, legal, technology, development and customer care, who meet weekly.

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

- Strategy and budgets
- Business and financial performance
- Corporate activities
- Human resources
- Shareholders and city matters

The board has undertaken a formal and rigorous process for the evaluation of its own performance and that of its committees and individual directors (including the Chairman), as required by Combined Code provision A6.1. This process takes the form of questionnaires and personal interviews with the Chairman. The performance of the Chairman is reviewed by the non-executives.

The Chairman holds meetings with non-executive directors without the presence of executive directors.

Board committees
In accordance with best practice, the Company has established audit, nomination and remuneration committees, with written terms of reference for each that deal with their respective authorities and duties. The full terms of reference of all the committees are available from the Company Secretary or can be located on the Company's website. The Company is aware that the Chairman is not regarded as independent for purposes

of the Combined Code. As a result of the appointment of Tom Skelton and Paul Pester as additional independent non-executive directors to the remuneration committee, it is planned that Kevin Loosemore will hand over the Chairmanship of the committee before the end of the year. Kevin Loosemore has ceased to be a member of the audit committee.

Audit committee

The audit committee is comprised entirely of non-executive directors of the Company. It is chaired by David Maloney, who the board considers has recent and relevant financial experience. The other members are Tom Skelton and Paul Pester. Kevin Loosemore was a member of the committee until 27 June 2007.

The audit committee has met five times during the financial year. The audit committee is responsible for reviewing the Group's annual accounts and interim reports prior to submission for approval to the full board. This committee also monitors the Group's accounting policies, internal financial control systems and financial reporting procedures. The audit committee provides a forum through which the Group's external and internal auditors report to the board. The auditors are invited to attend meetings of the committee on a regular basis and have the opportunity to meet privately with committee members in the absence of executive management. The audit committee oversees the relationship with the auditor, including the independence and objectivity of the auditor (taking into account UK professional and regulatory requirements and the relationship with the audit firm as a whole) and the consideration of audit fees and fees for other non-audit work. In addition, the audit committee has developed a policy designed to ensure that the auditor's objectivity and independence is not compromised by its undertaking inappropriate non-audit work. All significant non-audit work commissioned from the external auditor requires audit committee approval.

An outsourced internal audit function was established on 5 April 2006 through the appointment of KPMG LLP.

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

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

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

- To report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- To ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control;
- To monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results announcements and any other announcement relating to its financial performance;
- To review the consistency of, and changes to, accounting policies;
- To keep under review the effectiveness of the Company's internal controls and risk management systems;
- To review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- To monitor and review the need for, and the effectiveness of, the Company's internal audit function in the context of the Company's overall risk management system; and
- To consider and make recommendations to the board in relation to the appointment, re-appointment and removal of the Company's external auditor.

Nomination committee

The nomination committee is comprised entirely of non-executive directors of the Company and has met three times during the financial year. The nomination committee will meet at least twice during the coming financial year. It is chaired by Kevin Loosemore and the other members are David Maloney and David Dominik.

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

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

- To review the structure, size and composition of the board and make recommendations to the board with regard to any changes;
- To identify and nominate, for the approval of the board, candidates to fill board vacancies as and when they arise;
- To give full consideration to succession planning for directors and other senior executives; and

- To keep under review the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the market place.

Remuneration committee
Details of the remuneration committee are described in the remuneration report on pages 26 to 31.

Accountability and audit
The board is responsible for the preparation of financial statements that present a balanced assessment of the Group's financial position and prospects. This responsibility is administered primarily by the audit committee, the terms of reference of which are referred to above.

Internal controls
The board is ultimately responsible for establishing and monitoring internal control systems throughout the Group and reviewing their effectiveness. It recognises that rigorous systems of internal control are critical to the Group's achievement of its business objectives, that those systems are designed to manage rather than eliminate risk and that they can only provide reasonable and not absolute assurance against material misstatement or loss.

The key elements of the control system are:

- The Group operates a structured, objectives-driven approach to fulfil its core purpose and goals in respect of sustained profitability and growth.

- Research and development and capital expenditure programmes are subject to formal review and monitoring procedures.

- All contracts are reviewed. The approval level of review depends on the size and complexity of the contracts and associated risks. There are formal limits above which the review level is escalated.

- Reconciliations are performed on a timely basis for all major accounts.

- Systems and procedures are in place for all major transaction types with appropriate authorisation controls.

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

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

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

The external auditors provide a supplementary, independent and autonomous perspective on those areas of the internal control system which they assess in the course of their work. Their findings are regularly reported to both the audit committee and the board. To ensure auditor objectivity and independence there is a stringent process in place to approve non-audit work.

Human resources
The Group endeavours to appoint employees with appropriate skills, knowledge and experience for the roles they undertake. The Group has a range of policies which are aimed at retaining and providing incentives for key staff. Objectives are set for departments and employees that are derived from the Group's business objectives. The Group has a clear and well-understood organisational structure and each employee knows his or her line of accountability.

Announcements

All major announcements are approved by the Chairman and executive directors and circulated to the board prior to issue. The Group also has internal and external checks to guard against unauthorised release of information.

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

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

Corporate governance

Attendance at meetings

The number of board meetings and committee meetings attended by each director in the year to 30 April 2007 was as follows:

	Board		Audit committee		Remuneration committee		Nomination committee	
	Held*	Attended	Held*	Attended	Held*	Attended	Held*	Attended
Kevin Loosemore	12	12	5	5	8	8	3	3
Stephen Kelly	12	12	–	–	–	–	–	–
Nick Bray	12	12	–	–	–	–	–	–
Mike Shinya	2	1	–	–	–	–	–	–
David Maloney	12	12	5	5	8	8	3	3
David Dominik	12	8	–	–	–	–	3	3
Prescott Ashe	12	6	–	–	–	–	–	–
John Browett	4	2	2	1	4	3	–	–
Tom Skelton	7	6	3	3	3	3	–	–

* during period of appointment.

Note:
John Browett resigned 27 September 2006.
Tom Skelton was appointed 23 October 2006.
Mike Shinya was appointed 26 February 2007.

Shareholder relations

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

The Company has historically reported formally to shareholders twice a year, around June (preliminary announcement of annual results) and December (interim statement). This shall remain the case going forward but, in addition, following the implementation of the Transparency Directive, the Company shall also be publishing interim management statements in or around August and February each year. The annual report is expected to be mailed to shareholders in August. Separate announcements of all material events are made as necessary. Regular communications are maintained with institutional shareholders and presentations are given to shareholders when the half-year and full-year financial results are announced. In addition to the Chief Executive Officer and Chief Financial Officer, who have regular contact with investors, Kevin Loosemore, Chairman, and David Maloney, Senior Independent Director, are available to meet with shareholders as and when required. The whole board is kept up to date at its regular meetings with the views of shareholders and analysts. External analysts' reports are also circulated to directors.

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

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

Annual General Meeting

The Company's AGM, which will be held on 26 September 2007, will provide an opportunity for the board to meet with all shareholders and participation of shareholders is encouraged. At the meeting, in addition to the statutory business, the board will be available for questions from shareholders.

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

Corporate and social responsibility

The board is committed to running the Company in accordance with best practice in corporate governance. This commitment includes recognition by the Company of the importance of taking into account its corporate social responsibilities ("CSR") in operating the business. In this context, Micro Focus seeks to integrate CSR considerations relating particularly to social, ethical and health, safety and environment ("HS&E") issues in its day-to-day operations. The board acknowledges its duty to ensure the Company conducts its activities responsibly and with proper regard for all its stakeholders including employees, shareholders, business partners, suppliers and the local communities.

In exercising its corporate social responsibility, Micro Focus seeks to ensure that:

- The board takes account of the significance of social, ethical and HS&E issues;
- Business practices are managed ethically;
- The business is focused on delivering value to stakeholders;
- Existing legislation, regulations and guidelines are adhered to as a minimum;
- Employees are recognised as key to the business with individual skills and experience being valued and developed; and
- Health, safety and environmental issues are treated as critical areas of concern for the business.

Social

The health, welfare and development of the Company's employees remain a priority. With the intent of attracting, recruiting, developing and retaining key employees, Micro Focus maintains a number of policies and procedures for the benefit of its employees, for example an equal opportunities policy approved by Acas. Employee development is encouraged through appropriate training. Regular and open communication between management and employees is viewed as essential for motivating a highly educated workforce. Briefings are held regularly to provide updates on Company business and to provide opportunity for questions and feedback. Review meetings are also held regularly within each department. The Company maintains both an internet website which is freely accessible and an intranet site accessible to all employees. During the year, a Sharesave scheme and a US ESPP scheme were introduced and the directors actively encourage employee equity participation, subject to compliance with the Group's share dealing policy. Details of the current employee share option schemes and options granted during the year are given in note 24.

Ethical

The Company manages its resources prudently to ensure appropriate investment is made in its research and development programmes and its commercialisation activities. Up-to-date security systems are utilised to protect the Company's IT systems. The Company's intellectual property is protected through an appropriate trademark registration and patenting programme. Close attention is paid to maintaining relationships with key stakeholders including business partners, suppliers and shareholders.

The Company has adopted a Code of Business Conduct and Ethics policy with which all Company staff are required to comply.

Health and safety

The Company has well-developed health and safety policies and procedures, safeguarding staff, contractors and visitors and it complies with current legislation and best practice.

Environment

Micro Focus complies with all local environmental legislation.

The directors acknowledge that the Company's business as a provider of enterprise application management solutions has a minimal direct impact on the environment. The Company has introduced a number of automated processes to reduce the quantity of paper and packaging that is used in the business. Employees are encouraged to eliminate unnecessary travel and use video conferencing facilities and other methods of communication in its place. Computer and other office equipment that has reached the end of its working life are resold, recycled or donated to local organisations as appropriate. Having many offices worldwide, the Company is conscious of its total energy consumption and the amount of waste materials generated and is actively working to reduce both energy usage and the quantity of waste materials produced that cannot be recycled.

Remuneration report

Introduction
This is the Company's remuneration report in respect of the year to 30 April 2007 and, subject to ongoing review by the remuneration committee (the "committee") as to its appropriateness, sets out the ongoing policy in respect of the following and subsequent years.

The Company seeks to comply with the relevant conditions of the 2003 Combined Code on corporate governance relating to directors' remuneration and the Directors' Remuneration Report Regulations 2002 (the "regulations"). The regulations require the auditors to report to the Company's members on the "auditable part" of the directors' remuneration report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the regulations). The report has therefore been divided into separate sections for audited and unaudited information.

In accordance with the Companies Act 1985, a resolution to approve the remuneration report will be proposed at the Company's AGM on 26 September 2007. Details of the resolution may be found in the notice of meeting accompanying this annual report. The vote will be advisory and will be considered carefully by the members of the committee in the formulation and approval of the Company's future remuneration policies.

Unaudited information

The remuneration committee

The committee met eight times during the financial year. The committee is responsible for reviewing remuneration arrangements for the Chairman and the executive management and for providing general guidance on aspects of remuneration policy throughout the Group. The committee will meet at least twice during the coming financial year.

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

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

Kevin Loosemore is the Chairman of the committee, with David Maloney, Tom Skelton and Paul Pester its other members. The Company is aware that the Chairman is not regarded as independent for the purposes of the Combined Code. As a result of the appointment of Tom Skelton and Paul Pester as additional independent non-executive directors to the committee, it is planned that Kevin Loosemore will hand over the chairmanship of the committee before the end of the year. Where appropriate the committee invites the views of the Chief Executive Officer, the Chief Financial Officer and the Vice President of Human Resources, as well as that of external remuneration consultants. Similarly the Chairman absents himself from any discussion relating to his own remuneration.

The committee has been materially assisted by New Bridge Street Consultants LLP (who are the principal advisers to the committee) in providing remuneration advice, by Steen and Co, solicitors, by the Company Secretary and by Linklaters, solicitors. New Bridge Street Consultants LLP was appointed by the committee and provided no other services to the Group. During the year the Chief Executive Officer attended some of the meetings by invitation of the committee on specific items, however he did not participate in discussions relating to his own remuneration.

Remuneration policy

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

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

It is intended that an appropriate and significant proportion of remuneration will continue to be performance-related (see details below). Performance conditions for performance-related bonuses and long-term incentives will represent challenging growth targets which are designed

to increase shareholder value. The committee will review the performance conditions used to ensure that they remain demanding and appropriate.

It is the board's intention to award share incentives to executive directors and selected employees as appropriate to reward and encourage performance. These share incentives will be granted at the discretion of the committee.

Policies on remuneration take account of the pay structure, employment conditions and relativities within the Group and also the industry sector. To determine the elements and level of remuneration appropriate to each executive director, the committee considered benchmark remuneration data for selected comparable technology companies and seeks to ensure that fixed costs are no higher than market median, that an appropriately significant proportion of potential pay is performance related and that total pay is consistent with appropriately competitive levels of pay for superior performance.

Directors' service contracts

Executive directors

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

The executive directors are employed subject to service contracts. The service contract dated 1 May 2006 with Stephen Kelly requires the Company to give 12 months' notice of termination. Stephen Kelly is required to give six months' notice of the termination of his employment should he wish to leave. The service contract dated 30 November 2005 with Nick Bray requires the Company to give 12 months' notice of termination. Nick Bray is required to give six months' notice of the termination of his employment should he wish to leave. The service contract dated 24 July 2006 and amending Deed dated 26 February 2007 with Mike Shinya requires the Company to give six months' notice of termination. Mike Shinya is required to give six months' notice of the termination of his employment should he wish to leave.

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

Should an executive director be dismissed other than as described above, the Company may pay him, in lieu of notice, a sum equal to his basic pay over his notice period.

At the discretion of the committee having regard to the Company's performance at the time of dismissal, the committee may in addition pay all or a proportion of the bonus which would, but for the dismissal, have become payable up to the date of notice being served by the Company. The Company's policy on the duration of such contracts with executive directors is explained above.

Stephen Kelly acts in the capacity of a non-executive director at Cúram Software Limited, for which he receives remuneration of £40,000 per annum.

Nick Bray and Mike Shinya do not serve as non-executive directors for any company. None of the executive directors may accept non-executive appointments without the consent of the board.

Non-executive directors

Non-executive directors are appointed by letter of appointment for a fixed term of three years subject to earlier termination by either the director or the Company on 90 days notice. Except for Prescott Ashe and David Dominik, who are directors of Golden Gate Capital, non-executive directors receive fees for services as members of the board and its committees. The level of fees is determined by the board after taking into account appropriate advice.

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

Kevin Loosemore and David Maloney signed appointment letters with the Company which became effective on 4 April 2005. Prescott Ashe and David Dominik are non-independent directors of the Company and signed appointment letters with the Company on 29 April 2005 which became effective immediately. Tom Skelton signed an appointment letter with effect from 23 October 2006. Paul Pester signed an appointment letter which took effect from 27 June 2007.

All appointments are subject to election by the shareholders at the first AGM of the Company after their appointment, and, thereafter, at least every three years. Accordingly, non-executive directors Tom Skelton and Paul Pester will be subject to election at the Company's AGM to be held on 26 September 2007. As the remaining non-executive directors were all elected to the board at the AGM of the Company in September 2005, the directors have agreed to offer themselves for re-election on a rotation basis. Accordingly, Kevin Loosemore retired voluntarily and was re-elected at the Company's AGM in September 2006 and David Maloney and David Dominik will be retiring voluntarily and submitting themselves for re-election by the shareholders at the AGM of the Company on 26 September 2007. Each non-executive director still serving at the end of his term will have his appointment reviewed by the board and a further term of office may be agreed. Where a non-executive director does not serve until the end of his term, the policy is to pay the fees due pro rata to the date of cessation.

Remuneration report

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

Annual salary
The board approves the overall budget for employee salary increases and the committee agrees the specific increases for executive directors and certain other senior members of the management team. In determining appropriate salary levels for each executive director and senior employee, the committee considers both the nature and the status of the Company's operations and the responsibilities, skills, experience and performance of the executive director or employee. The committee compares the Group's remuneration packages for its directors and employees with those for directors and employees of similar seniority in companies whose activities are comparable with the Group and with which it competes for staff. The committee has used New Bridge Street Consultants LLP in making these comparisons.

With effect from 1 July 2007, the salaries of the executive directors are as follows:

- Stephen Kelly £300,000
- Nick Bray £200,000*
- Mike Shinya £250,000

* With effect from 1 July 2007, the committee agreed to increase Nick Bray's salary from £180,000 to £200,000 to bring it in line with the current market salary.

Performance-related bonus
The executive directors and all other employees, except for sales staff, participate in a performance-related bonus scheme. The level of commission for sales staff is based on a percentage of revenue generated, with the percentages increasing as revenue exceeds target levels. The level of bonus for non-sales staff is based on overall Group performance in meeting its primary financial objectives in worldwide earnings before interest, tax, depreciation and amortisation ("EBITDA") and revenue goals. The percentages increase as revenue and profit exceed targets.

The committee will continue to place a significant proportion of executive pay "at risk", so that it is closely linked to the interests of shareholders. The committee will ensure that challenging and clearly-assessable targets are set for executive directors, which will include regard to consensus brokers' forecasts where relevant.

Details of bonuses paid to executive directors in the year to 30 April 2007 are detailed in the remuneration tables herein. For directors appointed during the year, remuneration is shown from date of appointment to 30 April 2007. Bonuses are awarded wholly in cash. The performance targets for Stephen Kelly were substantially met, resulting in a bonus of 145% of salary. The performance targets for Nick Bray were substantially met, resulting in a bonus of 97% of salary. The performance targets for Mike Shinya were substantially met, resulting in a bonus of 100% of salary. In respect of the year 2007-08 the cap on bonuses payable to Stephen Kelly and Mike Shinya remain at 150% of base salary and 100% of base salary for Nick Bray.

Long-term incentives
The board believes that long-term incentive schemes are important in retaining and recruiting high-calibre individuals and ensuring that the performance of executives is focused on creating long-term shareholder value whilst allowing the Group's cash reserves to be conserved. Further awards of options or free shares will be considered by the committee on an ongoing basis.

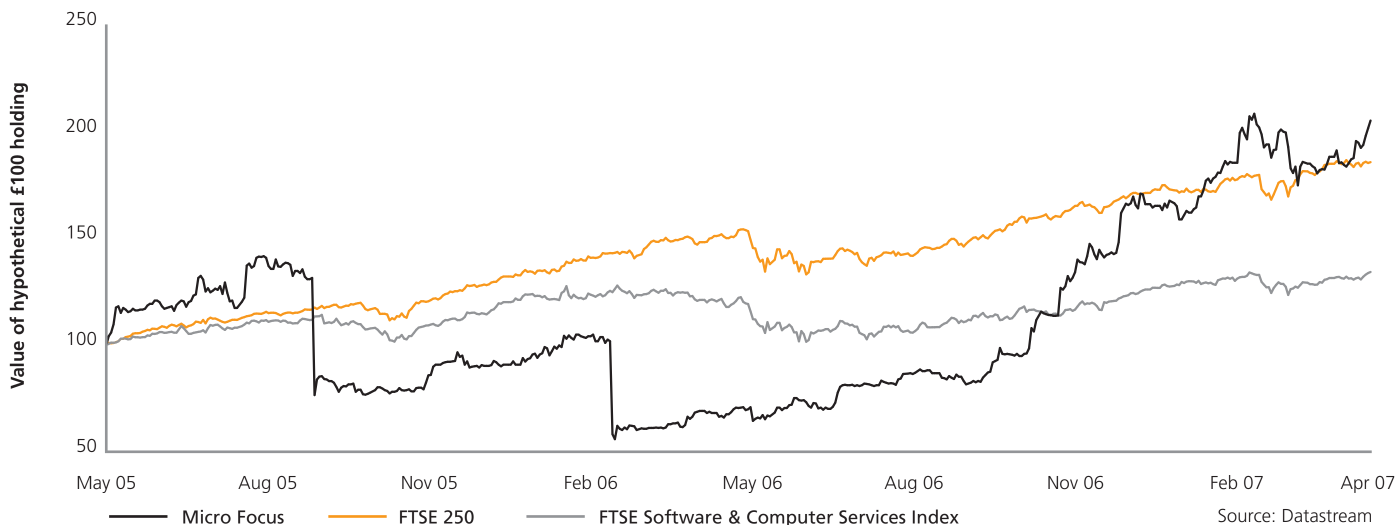
The Company adopted the Micro Focus International plc Incentive Plan 2005 (the "Plan") prior to admission. This is intended to provide a flexible framework to allow the Company to make awards of free shares in the form of nil-cost options, conditional awards or forfeitable shares, or to grant market value options ("awards"). Currently, the Company's on-going policy is to make awards of market value options, both to the executive directors and to other senior and key employees.

The market value options granted to executive directors in the year ending 30 April 2007 are subject to a performance condition measuring the Company's earnings per share ("EPS") growth and revenue growth over three financial years. The 2006 awards require that, for any awards to vest, compound annual EPS growth must be at least equal to 15% pa. Once this hurdle has been reached, awards may vest, provided revenue growth targets are reached. For 25% of awards to vest, compound annual revenue growth must be at least equal to 6%, with awards vesting in full for compound annual revenue growth of 15%.

The targets for market value option awards to be made to the executive directors during the year ended 30 April 2008 have been reviewed by the committee. These will require that cumulative EPS growth over a three year vesting period is at least equal to RPI+11% pa (at which point 25% of awards will vest). 60% of shares will vest for cumulative EPS growth of RPI+13% pa and for full vesting the cumulative EPS growth will be required to be RPI+15% pa. Straight line vesting will apply between these points.

The maximum aggregate value of awards that can normally be granted to any individual in any financial year will not exceed two-times his or her basic salary. For these purposes, the value of the awards is deemed to be equal to the market value of free shares at the time of award or, in the case of market value options, 50% of the market value of the shares

Total shareholder return



This graph shows the value, by 30 April 2007, of £100 invested in Micro Focus International plc on 17 May 2005 (the date of Admission) compared with the value of £100 invested in the FTSE 250 and the FTSE Software & Computer Services Indices. The intervening points are daily values.

under option at the time of award. This limit may be exceeded only where the committee determines that there are exceptional circumstances.

During the year, shareholders approved a resolution allowing the Company to satisfy option awards via the use of share appreciation rights. This is intended to allow the Company additional flexibility to manage dilution. Consistent with the ABI Guidelines, all the shares potentially subject to an outstanding option will count towards the limits until such time as a smaller number of shares are actually issued on exercise. The committee ensures that the Company complies with its dilution limits at all times.

Recruitment awards to executive directors

As disclosed in last year's remuneration report, Stephen Kelly was awarded options equivalent to four times annual basic salary and Nick Bray and Mike Shinya were awarded options equivalent to three times annual basic salary on joining the Company.

In addition, as disclosed last year, the three executive directors are entitled to a conditional amount of matching shares having purchased shares in the Company in their first year of employment. The shares they acquired during the first year of employment will be matched at a ratio of one share for every one acquired, up to a maximum 100% of salary for Stephen Kelly and Mike Shinya and up to a maximum of 50% of salary for Nick Bray, subject to continued employment for a period of three years from the purchase of the acquired shares, but no further performance conditions. Details of the directors' interests in these matching shares are shown on page 31.

The graph above shows the performance of the Company relative to the FTSE 250 index and the FTSE Software & Computer Services index which have been chosen as they are considered to be the most relevant indices for the Company.

All-employee share incentives

During the year, the Company in general meeting approved a Sharesave scheme and an Employee Share Purchase Plan ("ESPP") open respectively to all UK-based and US-based employees, including executive directors. Under the Sharesave scheme and ESPP, employees are eligible to acquire shares in the Company at a discount of up to 20% of the market value at grant (15% for the ESPP) if they agree to enter into a savings contract for a period. Consistent with the relevant legislation, no performance conditions apply. Awards were granted to 175 employees over 952,922 shares in the year ending 30 April 2007.

Pension contributions

All employees, including executive directors, are invited to participate in a Group Personal Pension Plan. All major schemes are money purchase in nature and have no defined benefits. A defined benefit scheme is operated in Japan, but given the number of members is insignificant for group purposes. The Group has no obligation to the pension scheme beyond the payment of contributions. The Company was not, therefore, impacted by the new pensions regime which came into force on 6 April 2006.

The company contributions for the executive directors are 5% of salary.

Pension benefits include death in service.

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

Audited information
Detailed emoluments of the directors of the Group
The aggregate remuneration paid to directors during the year ending 30 April 2007 was as follows:

	Base salary £'000	Bonus £'000	Benefits in kind £'000	Pensions £'000	Total 2007 £'000	Total 2006 £'000
Executive directors						
Stephen Kelly	**300**	**435**	**19**	**15**	**769**	–
Nick Bray	**180**	**175**	**13**	**9**	**377**	161
Mike Shinya (appointed 26 February 2007)	**44**	**44**	**3**	**2**	**93**	–
Total	**524**	**654**	**35**	**26**	**1,239**	161
Non-executive directors						
Kevin Loosemore	**152**	**–**	**–**	**–**	**152**	179
David Maloney	**60**	**–**	**–**	**–**	**60**	60
John Browett (resigned 27 September 2006)	**20**	**–**	**–**	**–**	**20**	25
Tom Skelton (appointed 23 October 2006)	**16**	**–**	**–**	**–**	**16**	–
Total	**248**	**–**	**–**	**–**	**248**	264

The table above includes £27,000 paid to Kevin Loosemore in the year ended 30 April 2007, as additional remuneration when acting as interim Chief Executive Officer (2006: £54,000).

Non-executive director fees for the year were £125,000 for the Chairman, Kevin Loosemore (2006: £125,000); £60,000 for the Senior Independent Director, David Maloney (2006: £60,000), £30,000 for each of John Browett (2006: £30,000) and Tom Skelton (prorated). Non-executive director fees are subject to periodic review.

Neither of the non-independent non-executive directors of the Company (David Dominik and Prescott Ashe) received any emoluments during the year ended 30 April 2007 (2006: nil). David Dominik and Prescott Ashe are directors of Golden Gate Capital.

Directors' interests in share capital
At 30 April 2007 the directors owned the following shares in the Company. These interests were all beneficially held.

Director	At 30 April 2007	At 30 April 2006 or date of appointment if later
Kevin Loosemore	**450,000**	406,640
Stephen Kelly	**125,000**	–
Nick Bray	**77,770**	20,000
Mike Shinya	**261,194**	261,194
David Maloney	**50,000**	30,000
David Dominik	**–**	–
Prescott Ashe	**–**	–
Tom Skelton	**–**	–
Paul Pester	**–**	–

As at 31 July 2007 there had been no changes to these interests.

Long-Term Incentive Plan 2005 ("LTIP")

The following grants were made to the executive directors under the terms of the Long-Term Incentive Plan 2005 are as follows:

	Number						
	At 1 May 2006	Granted in year	Exercised	Waived	At 30 April 2007	Exercise price	Dates of exercise
Stephen Kelly[1]	–	1,153,846	–	–	**1,153,846**	104.0p	17 July 2009 to 16 July 2016
Nick Bray[1,2]	412,955	–	–	–	**412,955**	123.5p	11 January 2009 to 10 January 2016
	–	100,000	–	–	**100,000**	104.0p	17 July 2009 to 16 July 2016
Mike Shinya[1]	–	717,703	–	–	**717,703**	104.5p	25 July 2009 to 24 July 2016
Total	**412,955**	**1,971,549**	**–**	**–**	**2,384,504**		

1 The performance condition applying to awards granted in the 12 months to 30 April 2007 awards require that, for any awards to vest, compound annual EPS growth must be at least equal to 15% pa. Once this hurdle has been reached, awards may vest, provided revenue growth targets are reached. For 25% of awards to vest, compound annual revenue growth must be at least equal to 6%, with awards vesting in full for compound annual revenue growth of 15%.

2 The performance condition applying to awards made to Nick Bray on 11 January 2006 was based on growth in EPS over a three-year performance period with a minimum average annual EPS growth of RPI + 3% (25% of awards vest) and 100% vesting at an average annual EPS growth of RPI + 7%.

LTIP – Matching Share Scheme

During the year the following additional grants were made to the executive directors in accordance with the terms of the Long-Term Incentive Plan 2005:

	Number				
	At 1 May 2006	Granted In year	At 30 April 2007	Exercise price	Vesting date
Stephen Kelly	–	125,000	**125,000**	10p	13 December 2009
Nick Bray	–	20,000	**20,000**	10p	17 July 2009
	–	57,659	**57,659**	10p	13 December 2009
Mike Shinya	–	239,234	**239,234**	10p	25 July 2009
Total	**–**	**441,893**	**441,893**		

These conditional matching shares will vest after three years to the extent that the purchased shares are held continuously by the participant until the vesting date.

Sharesave

In relation to the Sharesave scheme, the outstanding options granted to each director of the Company are as follows:

	Number						
	At 1 May 2006	Granted in year	Exercised	Waived	At 30 April 2007	Exercise price	Dates of exercise
Nick Bray	–	11,130	–	–	**11,130**	84.0p	15 August 2009 to 15 February 2010
Mike Shinya	–	11,130	–	–	**11,130**	84.0p	15 August 2009 to 15 February 2010
Total	**–**	**22,260**	**–**	**–**	**22,260**		

These options are not subject to performance conditions since these do not apply to this all-employee share scheme.

Share option schemes

Details of the Company's share option schemes are given in note 24 of the financial statements.

The mid-market price of the shares at 30 April 2007 was 257 pence and during the year the price varied between 83 pence and 261 pence.

On behalf of the board,

Kevin Loosemore Chairman of the remuneration committee

31 July 2007

Statement of directors' responsibilities in respect of the annual report, the directors' remuneration report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, and the parent company financial statements and the directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the Group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements and the directors' remuneration report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the board

Jane Smithard Company Secretary
31 July 2007

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

We have audited the Group financial statements of Micro Focus International plc for the year ended 30 April 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated cash flow statement and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Micro Focus International plc for the year ended 30 April 2007 and on the information in the directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the Group financial statements. The information given in the directors' report includes that specific information given in the Chief Executive Officer's statement, the finance review and the other "focus" sections that are cross referred from the review of business and future developments, research and development and post balance sheet events sections of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's statement, the Chief Executive Officer's statement, the finance review and the other "focus" sections, the directors' report, the corporate governance statement and the statement of corporate and social responsibility and the unaudited part of the remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 April 2007 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP Chartered Accountants and Registered Auditors
Reading
31 July 2007

Consolidated income statement

for the year ended 30 April 2007

	Notes	2007 $'000	2006 $'000
Revenue	1,2	**171,590**	143,688
Cost of sales		**(18,148)**	(17,552)*
Gross profit		**153,442**	126,136
Selling and distribution costs		**(45,592)**	(48,500)
Research and development expense		**(23,051)**	(21,714)*
Administrative expenses		**(27,532)**	(33,189)*
Operating profit		**57,267**	22,733
Analysed as:			
Operating profit before exceptional items		**62,977**	36,946
Exceptional items	3	**(5,710)**	(14,213)
Operating profit		**57,267**	22,733
Finance costs	5	**(70)**	(1,137)
Finance income	5	**2,810**	962
Profit before tax	1,3	**60,007**	22,558
Taxation	6	**(16,143)**	(6,332)
Profit after tax		**43,864**	16,226
Earnings per share expressed in cents per share	8		
— basic		**21.96**	8.25
— diluted		**21.37**	8.17
Earnings per share expressed in pence per share	8		
— basic		**11.49**	4.68
— diluted		**11.18**	4.63

* Certain costs have been reclassified between cost of sales, research and development and administrative expenses as disclosed in note 1S.

All results are from continuing operations.

The notes on pages 38 to 61 are an integral part of these consolidated financial statements.

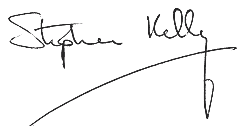
Consolidated balance sheet

as at 30 April 2007

	Notes	2007 $'000	2006 $'000
Assets			
Non-current assets			
Goodwill	9	**42,533**	42,404
Other intangible assets	10	**18,245**	7,637
Property, plant and equipment	11	**2,543**	2,386
Deferred tax assets	20	**10,813**	7,718
		74,134	60,145
Current assets			
Inventories	12	**255**	331
Trade and other receivables	13	**44,031**	37,629
Cash and cash equivalents	14	**84,971**	56,066
		129,257	94,026
Total assets		**203,391**	154,171
Liabilities			
Current liabilities			
Trade and other payables	15	**76,612**	70,516
Current tax liabilities	16	**17,023**	10,777
Financial liabilities – borrowings	17	**72**	117
		93,707	81,410
Non-current liabilities			
Non-current deferred income	18	**7,265**	6,720
Deferred tax liabilities	20	**10,873**	8,446
Financial liabilities – borrowings	17	**41**	94
		18,179	15,260
Net assets		**91,505**	57,501
Shareholders' equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	21	**36,767**	36,644
Share premium	22	**104,054**	103,641
Profit and loss deficit		**(23,394)**	(55,267)
Foreign currency translation reserve (deficit)		**1,163**	(432)
Other reserves (deficit)		**(27,085)**	(27,085)
Total shareholders' equity		**91,505**	57,501

The notes on pages 38 to 61 are an integral part of these consolidated financial statements.

The financial statements on pages 34 to 61 were approved by the board of directors on 31 July 2007 and were signed on its behalf by:



Stephen Kelly
Chief Executive Officer

Nick Bray
Chief Financial Officer

Consolidated statement of changes in shareholders' equity

for the year ended 30 April 2007

	Share capital $'000	Share premium $'000	Foreign currency translation reserve (deficit) $'000	Other reserves (deficit) $'000	Profit and loss reserve (deficit) $'000	Total $'000
Balance as at 1 May 2005	1	3,376	(169)	–	(67,869)	(64,661)
Currency translation differences	–	–	(263)	–	–	(263)
Profit for the year	–	–	–	–	16,226	16,226
Dividends	–	–	–	–	(3,987)	(3,987)
Share for share exchange	27,085	–	–	(27,085)	–	–
Issue of share capital	9,558	100,265	–	–	–	109,823
Movement in relation to share options	–	–	–	–	363	363
Balance as at 30 April 2006	36,644	103,641	(432)	(27,085)	(55,267)	57,501
Currency translation differences	–	–	1,595	–	–	1,595
Profit for the year	–	–	–	–	43,864	43,864
Dividends	–	–	–	–	(13,981)	(13,981)
Issue of share capital	123	3	–	–	–	126
Movement in relation to share options	–	410	–	–	355	765
Deferred tax on share options	–	–	–	–	1,635	1,635
Balance as at 30 April 2007	36,767	104,054	1,163	(27,085)	(23,394)	91,505

The notes on pages 38 to 61 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 30 April 2007

	Notes	2007 $'000	2006 $'000
Cash flows from operating activities			
Cash generated from operations	23	**58,170**	41,970
Interest received		**2,780**	666
Interest paid		**(70)**	(1,551)
Tax paid		**(7,316)**	(6,103)
Net cash from operating activities		**53,564**	34,982
Cash flows from investing activities			
Payments for intangible assets	10	**(5,456)**	(4,986)
Purchase of property, plant and equipment	11	**(830)**	(1,123)
Acquisition of subsidiary	28	**(4,832)**	–
Net cash acquired with subsidiary	28	**(1,218)**	–
Net cash used in investing activities		**(12,336)**	(6,109)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**125**	109,823
Repayment of borrowings		**(46)**	(111,250)
Dividends paid to shareholders	7	**(13,981)**	(3,987)
Net cash used in financing activities		**(13,902)**	(5,414)
Effects of exchange rate changes		**1,579**	(263)
Net increase in cash and cash equivalents		**28,905**	23,196
Cash and cash equivalents at 1 May 2006		**56,066**	32,870
Cash and cash equivalents at 30 April 2007	14	**84,971**	56,066

The notes on pages 38 to 61 are an integral part of these consolidated financial statements.

Summary of significant accounting policies

For the year ended 30 April 2007

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1 Group accounting policies

A Basis of preparation

The consolidated financial statements of Micro Focus International plc have been prepared in accordance with EU Endorsed International Financial Reporting Standards ("IFRS"), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

B Consolidation

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter company transactions, balances and unrealised gains on transactions between Group companies are eliminated.

C Revenue recognition

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

If the arrangement includes acceptance criteria, revenue is not recognised until the Group can objectively demonstrate that the software or service can meet the acceptance criteria, or the acceptance period lapses, whichever is earlier.

The Group recognises licence revenue derived from sales to resellers, upon delivery to resellers, provided that all other revenue recognition criteria are met, otherwise revenue is deferred and recognised upon delivery of the product to the end-user. Maintenance revenue is derived from providing technical support and software updates to customers. Maintenance revenue is recognised on a straight-line basis over the term of the contract, which in most cases is one year. Revenue from consulting and training services is recognised as the services are performed.

Amounts collected prior to satisfying the above revenue recognition criteria are included in deferred income.

D Segmental reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of components operating in other economic environments.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Group considers there to be only one business segment being the provision of enterprise application management and modernisation solutions.

E Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the liability outstanding. The corresponding rental obligations, net of finance charges, are included in financial liabilities – borrowings.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

F Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US Dollars, which is the Group's functional currency.

b) Transactions and balances

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

c) Group companies

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

i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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

G Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs incurred in the arrangement of new borrowing facilities are capitalised and netted against the capital element of the outstanding borrowing. These costs are then amortised over the life of the facility to which the costs relate on the effective interest basis.

1 Group accounting policies (continued)

H Property plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the income statement during the financial period in which they are incurred. Depreciation is calculated using the straight-line method to write-off the cost of each asset to its residual value over its estimated useful life as follows:

Leasehold improvements	Over the lease term
Furniture and fixtures	Five to seven years
Computer equipment	One to five years

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

I Intangible assets

a) Goodwill

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

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

b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives of three to five years.

c) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to the developing of new computer software programmes and significant enhancement of existing computer software programmes are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Only direct costs are capitalised which include the software development employee costs and an appropriate portion of relevant overheads. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, typically being three years.

d) Intangible assets – arising on business combinations

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of each intangible asset. Intangible assets are amortised from the date they are available for use. The estimated useful lives will vary for each category of asset acquired and to date are as follows:

Platform technology	Ten years

J Impairment of tangible and intangible assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

K Inventories

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

L Trade receivables

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

M Employee benefit costs

a) Pension obligations

Group companies operate various pension schemes. All of the major schemes are defined contribution plans for which the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Share-based compensation

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

For shares or share options granted after 7 November 2002 and vested after 1 January 2005 the fair value of the employee services received in exchange for the grant of the shares or options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or options granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

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

N Share capital, share premium and dividend distribution

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

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

O Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

P Cash and cash equivalents

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

1 Group accounting policies (continued)

Q Exceptional items

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

R Adoption of new and revised International Financial Reporting Standards

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 May 2006:

- IAS 21 (Amendment), Net investment in a foreign operation.
- IAS 39 (Amendment), Cash flow hedge accounting of forecast intragroup transactions.
- IAS 39 (Amendment), The fair value option.
- IAS 39 and IFRS 4 (Amendment), Financial guarantee contracts.
- IFRS 1, (Amendment), First-time adoption of International Financial Reporting Standards and IFRS 6, (Amendment), exploration for and evaluation of mineral resources.
- IFRS 6, Exploration for and evaluation of mineral resources.
- IFRS 7, Financial instruments: Disclosures.
- IFRIC 4, Determining whether an arrangement contains a lease.
- IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds; and
- IFRIC 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment.
- IFRIC 8, Scope of IFRS 2.
- IFRIC 9, Reassessment of embedded derivatives.
- IFRIC 10, Interim Financial Reporting and Impairment.
- IFRIC 11, IFRS 2, Group and Treasury Share transactions.
- IFRS 12, Service concession arrangements.

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

S Reclassification of expenditure

The directors have reviewed the classification of certain expenditure within the consolidated income statement and believe, to be consistent with software industry accounting practices, in order to aid comparison, it is more appropriate to classify the following costs differently than was reported in prior periods.

i) Cost of customer support – these costs were previously included within administrative expenses and have been reclassified as cost of sales. The impact of the change is to increase cost of sales by $9.2 million (2006: $10.0 million) and decrease administrative expenses by a corresponding amount.

ii) Amortisation of development costs – these costs relating to capitalised salaries were previously amortised though cost of sales. The amortisation has been reclassified as research and development expenditure. The impact of the change is to decrease cost of sales by $4.8 million (2006: $4.6 million) and increase research and development expenditure by a corresponding amount.

2 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are summarised below.

a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note J. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

c) Acquisitions

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

The Group makes judgements on specific items when applying its accounting policies. The judgement that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

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

3 Risk factors

The Group's multi-national operations expose it to a variety of financial risks that include the effects of changes in credit risks, foreign currency exchange rates, liquidity and interest rates.

a) Credit risk

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

b) Foreign currency risk

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

There were no hedging transactions in place at 30 April 2007.

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

c) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of finance leases to which the Group is lessee are fixed at inception of the lease. These leases expose the Group to fair value interest rate risk.

The Group's cash flow interest rate risk arises from cash deposits. Deposits placed at variable rates expose the Group to cash flow interest rate risk.

Notes to the financial statements

For the year ended 30 April 2007

1 Segmental reporting

Primary reporting format – geographical segments

	Year ended 30 April 2007			
	North America $'000	Europe and the Middle East $'000	Rest of the world $'000	Total $'000
Revenue	**70,634**	**71,808**	**29,148**	**171,590**
Segment result (operating profit) before exceptional items	4,684	57,273	1,020	62,977
Exceptional items	(1,726)	(3,980)	(4)	(5,710)
Segment result (operating profit)	2,958	53,293	1,016	57,267
Finance income – net				2,740
Profit before tax				**60,007**
Taxation				(16,143)
Net profit attributable to equity shareholders				**43,864**
Segment assets	66,084	95,666	12,583	174,333
Unallocated assets:				
Other intangible assets (note 10)				18,245
Deferred tax assets (note 20)				10,813
Total assets				**203,391**
Segment liabilities	29,836	47,651	6,390	83,877
Unallocated liabilities:				
Current and deferred tax liabilities				27,896
Corporate borrowings (note 17)				113
Total liabilities				**111,886**
Other segment items				
Capital expenditure (note 11)	148	668	14	830
Depreciation (note 11)	430	683	56	1,169
Amortisation of intangible assets (note 10)				5,972

	Year ended 30 April 2006			
	North America $'000	Europe and the Middle East $'000	Rest of the world $'000	Total $'000
Revenue	**68,847**	**54,038**	**20,803**	**143,688**
Segment result (operating profit) before exceptional items	4,735	31,546	665	36,946
Exceptional items	(1,683)	(12,444)	(86)	(14,213)
Segment result (operating profit)	3,052	19,102	579	22,733
Finance costs – net				(175)
Profit before tax				**22,558**
Taxation				(6,332)
Net profit attributable to equity shareholders				**16,226**
Segment assets	61,012	66,192	11,612	138,816
Unallocated assets:				
Other intangible assets (note 10)				7,637
Deferred tax assets (note 20)				7,718
Total assets				**154,171**
Segment liabilities	31,241	40,720	5,275	77,236
Unallocated liabilities:				
Current and deferred tax liabilities				19,223
Corporate borrowings (note 17)				211
Total liabilities				**96,670**
Other segment items				
Capital expenditure (note 11)	337	759	98	1,194
Depreciation (note 11)	494	459	53	1,006
Amortisation of intangible assets (note 10)				5,424

The Group is organised on a worldwide basis into three main geographical segments.

- North America
- Europe and the Middle East
- Rest of the world

There are immaterial sales between the geographical segments. The revenue analysis in the table above is based on the location of the customers where the order is received which is not materially different from the location of the assets.

Segment assets include goodwill, property, plant and equipment, stocks, debtors and operating cash and exclude other intangible assets and deferred tax assets. Segment liabilities comprise operating liabilities and exclude deferred tax liabilities and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment.

Secondary reporting format – business segment
The Group considers there is only one business segment being the provision of enterprise management and modernisation solutions.

2 Supplementary information

Set out below is an analysis of revenue recognised between the principal product categories, which the directors use to assess the future revenue flows from the current portfolio of customers.

	2007 $'000	2006 $'000
Licence	**82,652**	67,985
Maintenance	**82,056**	71,860
Consulting	**6,882**	3,843
Total	**171,590**	143,688

3 Profit before tax

Profit before tax is stated after charging:

	Note	2007 $'000	2006 $'000
Employee benefit expense	24	**68,247**	63,221
Depreciation of property, plant and equipment			
– owned assets	11	**1,038**	880
– assets under finance lease	11	**131**	126
Amortisation of intangibles	10	**5,972**	5,424
Changes in inventories of finished goods		**76**	19
Operating lease rentals payable			
– plant and machinery		**1,151**	252
– other		**4,247**	3,337

Exceptional items	2007 $'000	2006 $'000
Reorganisation costs	**4,861**	7,403
Share-based compensation charge/(credit)	**849**	(224)
IPO-related costs	**–**	6,909
Management fees	**–**	125
Exceptional items	**5,710**	14,213

Current year reorganisation costs relate to restructuring programmes carried out in the USA and at HAL KS. The prior year reorganisation costs related to a cost reduction programme including those associated with the redundancy of employees and the onerous lease cost of a building vacated as part of the programme.

The prior year IPO-related costs include termination fees of $4.7 million in respect of management charges previously paid by the Group to its shareholders prior to the IPO.

All exceptional items relate to administrative expenses.

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

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

	2007 $'000	2006 $'000
Audit services		
– Fees payable to the Company auditor for the audit of the parent company and consolidated accounts	**114**	210
Non-audit services		
Fees payable to the Company's auditor and their associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	**373**	449
– Services related to taxation	**317**	255
– Other services pursuant to legislation	**30**	47
– Other services	**30**	165
Total	**864**	1,126

The Group's auditors, PricewaterhouseCoopers LLP, provide non-audit services for the Group over and above the external audit (principally tax compliance and tax advice and due diligence work). The board of directors reviews the level of non-audit fees and believes that the Group receives particular benefit from tax advice provided by its auditors given their wide and detailed knowledge of the Group. The board is confident that the objectivity and independence of the auditors is not impaired in any way by reason of its non-audit work.

Other services include treasury advice and due diligence.

4 Reconciliation of operating profit to EBITDA

	2007 $'000	2006 $'000
Operating profit	**57,267**	22,733
Depreciation	**1,169**	1,006
Amortisation of software	**608**	806
Amortisation of purchased intangibles	**532**	–
EBITDA	**59,576**	24,545
Exceptional items		
Reorganisation costs	**4,861**	7,403
Share-based compensation charge/(credit)	**849**	(224)
IPO-related costs	**–**	6,909
Management charges	**–**	125
EBITDA before exceptional items	**65,286**	38,758

The directors use EBITDA and EBITDA before exceptional items as key performance measures of the business.

5 Interest payable/receivable and similar charges

	2007 $'000	2006 $'000
Interest expense on bank borrowings	**61**	1,126
Interest expense on finance leases	**9**	11
Total	**70**	1,137

Interest receivable relates to interest on bank deposits

6 Taxation

	2007 $'000	2006 $'000
Current tax		
Current year	**15,176**	5,159
Adjustments to tax in respect of previous years	**–**	(138)
	15,176	5,021
Deferred tax		
Current year	**1,537**	1,500
Adjustments to tax in respect of previous years	**(570)**	(189)
	967	1,311
Total	**16,143**	6,332

Deferred tax of $1,635,000 has been recognised in relation to the share options charged against equity in the year.

The taxation for the period differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as explained below.

	2007 $'000	2006 $'000
Profit before taxation	**60,007**	22,558
Tax calculated at domestic tax rates applicable to profits in the respective countries	**18,507**	7,182
Effects of:		
Adjustments to tax in respect of previous years – current tax	**–**	(138)
Adjustments to tax in respect of previous years – deferred tax	**(570)**	(189)
Expenses not deductible for tax purposes	**551**	2,746
Losses not recognised	**1,121**	247
Utilisation of unrecognised tax losses	**(377)**	–
Other	**(3,089)**	(3,516)
Total taxation	**16,143**	6,332

The movement in deferred tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is provided in note 20.

7 Dividends

Equity – ordinary	2007 $'000	2006 $'000
2006 final paid $0.04 per ordinary share	**7,983**	–
2007 interim paid $0.03 (2006: $0.02) per ordinary share	**5,998**	3,987
Total	**13,981**	3,987

Whilst the Group as a whole has a deficit in its profit and loss reserve, the directors of Micro Focus International plc have concluded that the Company had sufficient reserves to enable the payment of the final dividend relating to the year ended 30 April 2006 and the interim dividend relating to the year ended 30 April 2007. The directors are proposing a final dividend in respect of the year ended 30 April 2007 of 7 cents per share which will utilise $14 million of shareholders' funds and again the directors have concluded that the Company has sufficient reserves to pay this dividend. It has not been included as a liability in these financial statements.

8 Earnings per share

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

	2007			2006		
	Earnings $'000	Weighted average number of shares '000	Per share amount Cents	Earnings $'000	Weighted average number of shares '000	Per share amount Cents
Basic EPS						
Earnings attributable to ordinary shareholders	**43,864**	**199,744**	**21.96**	16,226	196,709	8.25
Effect of dilutive securities						
Options		**5,562**			2,002	
Diluted EPS						
Earnings attributable to ordinary shareholders	**43,864**	**205,306**	**21.37**	16,226	198,711	8.17
Supplementary EPS to exclude exceptional items						
Basic EPS	**43,864**	**199,744**	**21.96**	16,226	196,709	8.25
Exceptional items	**5,710**			14,213		
Tax relating to exceptional items	**(1,223)**			(2,154)		
Basic EPS excluding exceptional items	**48,351**	**199,744**	**24.21**	28,285	196,709	14.38
Diluted EPS	**43,864**	**205,306**	**21.37**	16,226	198,711	8.17
Exceptional items	**5,710**			14,213		
Tax relating to exceptional items	**(1,223)**			(2,154)		
Diluted EPS excluding exceptional items	**48,351**	**205,306**	**23.55**	28,285	198,711	14.23

Earnings per share expressed in pence has used the exchange rate of $1.91 to £1 (2006: $1.76 to £1).

9 Goodwill

	2007 $'000	2006 $'000
Cost and net book amount		
At 1 May 2006	**42,404**	42,404
Acquisition	**129**	–
At 30 April 2007	**42,533**	42,404

A segment-level summary of the goodwill allocation is presented below:

	2007 $'000	2006 $'000
North America	**24,200**	24,200
Europe and the Middle East	**14,894**	14,765
Rest of the world	**3,439**	3,439
At 30 April 2007	**42,533**	42,404

Details of the acquisition in the year are shown in note 28.

The recoverable amount of a cash-generating unit ("CGU") is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the geography in which the CGU operates.

For the purpose of the analysis of each CGU within the business segment it has been assumed that the levels of turnover, operating profit and cash flows for the year ended 30 April 2007 will be maintained.

The cash flows were discounted using a pre-tax discount rate of 8.9% and reflect specific risks relating to the relevant segments.

10 Other intangible assets

	Software $'000	Development costs $'000	Purchased intangibles $'000	Total $'000
Cost				
At 1 May 2006	3,894	21,112	–	25,006
Exchange adjustments	272	–	–	272
Additions	142	5,314	–	5,456
Acquisition	25	–	10,904	10,929
At 30 April 2007	**4,333**	**26,426**	**10,904**	**41,663**
Aggregate amortisation and impairment				
At 1 May 2006	3,422	13,947	–	17,369
Exchange adjustments	77	–	–	77
Charge for the year	608	4,832	532	5,972
At 30 April 2007	**4,107**	**18,779**	**532**	**23,418**
Net book amount at 30 April 2007	**226**	**7,647**	**10,372**	**18,245**
Net book amount at 1 May 2006	472	7,165	–	7,637

Purchased intangibles arose on the acquisition of HAL Knowledge Solutions SpA on 4 November 2006 and comprise:

Acquired platform technology – being amortised over ten years using the straight-line method

	Software $'000	Development costs $'000	Purchased intangibles $'000	Total $'000
Cost				
At 1 May 2005	4,052	16,017	–	20,069
Exchange adjustments	(246)	–	–	(246)
Additions	88	5,095	–	5,183
At 30 April 2006	**3,894**	**21,112**	**–**	**25,006**
Aggregate amortisation and impairment				
At 1 May 2005	2,664	9,321	–	11,985
Exchange adjustments	(40)	–	–	(40)
Charge for the year	798	4,626	–	5,424
At 30 April 2006	**3,422**	**13,947**	**–**	**17,369**
Net book amount at 30 April 2006	**472**	**7,165**	**–**	**7,637**
Net book amount at 1 May 2005	1,388	6,696	–	8,084

11 Property, plant and equipment

	Leasehold improvements $'000	Computer equipment $'000	Fixtures and fittings $'000	Total $'000
Cost				
At 1 May 2006	1,232	5,235	1,210	7,677
Exchange adjustments	68	337	105	510
Additions	288	349	193	830
Acquisition	149	–	207	356
Disposals	(32)	(216)	(35)	(283)
At 30 April 2007	**1,705**	**5,705**	**1,680**	**9,090**
Depreciation				
At 1 May 2006	471	3,992	828	5,291
Exchange adjustments	18	273	53	344
Charge for the year	273	665	231	1,169
Disposals	(10)	(213)	(34)	(257)
At 30 April 2007	**752**	**4,717**	**1,078**	**6,547**
Net book amount at 30 April 2007	**953**	**988**	**602**	**2,543**
Net book amount at 1 May 2006	761	1,243	382	2,386

11 Property, plant and equipment (continued)

Assets held under finance leases, capitalised and included in computer equipment:

	2007 $'000	2006 $'000
Cost	**368**	368
Aggregate depreciation	**(292)**	(161)
Net book amount	**76**	207

	Leasehold improvements $'000	Computer equipment $'000	Fixtures and fittings $'000	Total $'000
Cost				
At 1 May 2005	867	4,883	1,064	6,814
Exchange adjustments	(19)	(111)	(36)	(166)
Additions	384	627	183	1,194
Disposals	–	(164)	(1)	(165)
At 30 April 2006	**1,232**	**5,235**	**1,210**	**7,677**
Depreciation				
At 1 May 2005	265	3,524	748	4,537
Exchange adjustments	3	(83)	(24)	(104)
Charge for the year	203	699	104	1,006
Disposals	–	(148)	–	(148)
At 30 April 2006	**471**	**3,992**	**828**	**5,291**
Net book amount at 30 April 2006	**761**	**1,243**	**382**	**2,386**
Net book amount at 1 May 2005	602	1,359	316	2,277

12 Inventories

	2007 $'000	2006 $'000
Finished goods	**255**	331

13 Trade and other receivables

	2007 $'000	2006 $'000
Trade receivables	**35,634**	29,377
Less: provision for impairment of trade receivables	**(242)**	(338)
Trade receivables net	**35,392**	29,039
Prepayments	**4,581**	3,959
Accrued income	**4,058**	4,631
Total	**44,031**	37,629

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Due to this, management believe there is no further credit risk provision required in excess of the normal provision for doubtful receivables.

14 Cash and cash equivalents

	2007 $'000	2006 $'000
Cash at bank and in hand	**13,521**	15,182
Short-term bank deposits	**71,450**	40,884
Total	**84,971**	56,066

The effective interest rate on short-term deposits was 4.6% (2006: 3.8%) and these deposits have an average maturity of four days (2006: 13 days).

15 Trade and other payables – current

	2007 $'000	2006 $'000
Trade payables	**4,374**	1,944
Other tax and social security payable	**185**	2,468
Accruals	**21,750**	20,511
Deferred income	**50,303**	45,593
Total	**76,612**	70,516

16 Current tax liabilities

	2007 $'000	2006 $'000
Corporation tax	**17,023**	10,777

17 Financial liabilities – borrowings

	2007 $'000	2006 $'000
Due within one year		
Finance lease obligations	**72**	117
Total	**72**	117

	2007 $'000	2006 $'000
Due after more than one year		
Finance lease obligations	**41**	94
Total	**41**	94

17 Financial liabilities – borrowings (continued)

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

	2007 $'000	2006 $'000
Finance lease liabilities – minimum lease payments:		
Not later than one year	**82**	134
More than one year, but not more than two years	**48**	109
	130	243
Future finance charges on finance leases	**(17)**	(32)
Present value of finance lease liabilities	**113**	211

18 Other non-current liabilities

	2007 $'000	2006 $'000
Deferred income	**7,265**	6,720

19 Financial instruments

Fair value of non-current borrowings

Fair value is the amount at which a financial instrument could be exchanged in an arm's-length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. The Group's financial liabilities at 30 April 2007 are deemed to be equal to their fair value at that date.

Maturity of non-current borrowings

The maturity profile of non-current borrowings is as follows:

	2007 $'000	2006 $'000
Between one and two years	**41**	94
Total	**41**	94

The effective interest rates at the balance sheet date were as follows:

	2007	2006
Finance lease obligations	**8.5%**	8.5%

20 Deferred tax

	2007 $'000	2006 $'000
Net deferred tax asset/(liability)		
Beginning of the year	**(728)**	583
Income statement credit/(charge)	**668**	(1,311)
End of the year	**(60)**	(728)

	Tax losses $'000	Other timing differences $'000	Total $'000
Deferred tax assets			
At 1 May 2006	6,372	1,346	7,718
Credited to income statement	(1,946)	5,041	3,095
At 30 April 2007	**4,426**	**6,387**	**10,813**

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

	Accelerated tax depreciation $'000	Total $'000
Deferred tax liabilities		
At 1 May 2006	8,446	8,446
Charged to income statement	2,427	2,427
At 30 April 2007	**10,873**	**10,873**

21 Called up share capital

	2007 $	2006 $
Authorised		
2,499,500,000 ordinary shares of £0.10 each	**476,674,646**	476,674,646
50,000 redeemable preference shares of £1.00 each	**95,354**	95,354
Total authorised share capital	**476,770,000**	476,770,000

	2007		2006	
	Number	$	Number	$
Issued and fully paid				
Ordinary shares of £0.10 each	**200,068,405**	**36,767,042**	199,402,745	36,644,393
Total allotted, called up and fully paid share capital	**200,068,405**	**36,767,042**	199,402,745	36,644,393

Potential issues of ordinary shares

Certain employees hold options to subscribe for shares in the Company at prices ranging from 1 pence to 251.5 pence under the share option schemes approved by shareholders in 2001, the Long-Term Incentive Plan 2005, Sharesave and ESPP. The number of shares subject to options at 30 April 2007 was 6,946,407 (2006: 3,552,845). Further information on these options is disclosed in note 24.

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

Notes to the financial statements

For the year ended 30 April 2007

22 Share premium account

	2007 $'000	2006 $'000
Beginning of year	**103,641**	3,376
Issue of share capital	**–**	100,265
Adjustment to premium on shares issued during prior year	**3**	–
Movement in relation to share options	**410**	–
End of the year	**104,054**	103,641

23 Cash generated from operations

	Note	2007 $'000	2006 $'000
Continuing operations			
Net profit		**43,864**	16,226
Adjustments for:			
Net interest		**(2,740)**	175
Taxation	6	**16,143**	6,332
Depreciation	11	**1,169**	1,006
Loss on disposal of property, plant and equipment		**26**	17
Amortisation of intangibles	10	**5,972**	5,433
Share-based compensation		**849**	(224)
Changes in working capital:			
Inventories		**76**	19
Trade and other receivables		**(5,532)**	12,615
Payables and other non-current liabilities		**(1,657)**	371
Cash generated from continuing operations		**58,170**	41,970

24 Employees and directors

	2007 $'000	2006 $'000
Staff costs		
Wages and salaries	**58,641**	56,026
Social security costs	**6,713**	5,538
Other pension costs (note 25)	**2,044**	1,881
Cost of employee share schemes	**849**	(224)
Total	**68,247**	63,221

	2007	2006
Average monthly number of people (including executive directors) employed by business group:		
Sales and distribution	**182**	193
Research and development	**141**	147
General and administration	**144**	162
Total	**467**	502

	2007 $'000	2006 $'000
Key management compensation		
Salaries and short-term employee benefits	**4,980**	2,988
Post-employment benefits	**92**	68
Share-based payments	**513**	56
Total	**5,585**	3,112

The key management figures above include directors.

Share-based payments

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

Share Purchase and Option Plan 2001

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

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

				Weighted average remaining life (years):	
	Options	Range of exercise prices Pence	Weighted average exercise price Pence	**2007 Expected**	2006 Expected
At 1 May 2006	2,090,497	0.01p – 0.29p	9p	**–**	–
Exercised	(636,493)	4p			
Forfeited	(124,099)	6p			
At 30 April 2007	1,329,905	0.01p – 0.29p	8p	**0.0**	0.0

The weighted average share price for options exercised during the period was £1.52.

No amount was charged through the income statement (2006: nil).

24 Employees and directors (continued)

Incentive Plan 2005

On 27 April 2005 the remuneration committee approved the rules of the Incentive Plan 2005 ("LTIP") which will permit the granting of share options to executive directors and senior management. The total number of options they will receive is determined by the Company's aggregate earnings per share (EPS) growth, exceeding inflation (RPI), over a three-year period commencing from the date of the grant.

	Options	Range of exercise prices Pence	Weighted average exercise price Pence	Weighted average remaining life (years): 2007 Expected	2006 Expected
At 1 May 2006	1,662,348	10p – 123.5p	38p		
Forfeited	(606,521)		23p		
Exercised	(29,167)		10p		
Granted	3,636,920		122p		
At 30 April 2007	4,663,580	10p – 251.5p	89p	**2.6**	3.0

The weighted average share price for options exercised during the period was 91p.

The amount charged to the income statement in respect of the scheme was $749,000 (2006: $363,000).

All options are valued using the Black-Scholes option pricing model. The following assumptions have been used in the option pricing models:

Grant date	29 June 2005	11 January 2006	17 July 2006	25 July 2006	30 October 2006
Shares under option	75,000	1,034,818	2,070,166	956,937	84,000
Share price at grant date	156.7p	123.5p	104p	104.5p	144p
Exercise price	10p	10p – 123.5p	10p – 104p	10p – 104.5p	144p
Expected volatility	33%	33%	33%	33%	34%
Expected option life (years)	3	3	3	3	3
Expected dividend yield	3%	3%	3%	3%	2%
Risk-free interest rate	4.25%	4.25%	4.25%	4.25%	5.09%
Fair value per option	143.2p	27.1p – 103.1p	22.8p – 95p	22.9p – 95.5p	36.4p

Grant date	13 December 2006	21 December 2006	22 January 2007	21 February 2007
Shares under option	224,659	46,000	125,000	47,000
Share price at grant date	198p	211p	204p	251.5p
Exercise price	10p – 198p	211p	10p	251.5p
Expected volatility	34%	34%	34%	34%
Expected option life (years)	3	3	3	3
Expected dividend yield	2%	2%	2%	2%
Risk-free interest rate	5.09%	5.09%	5.09%	5.09%
Fair value per option	36.4p – 186.5p	53.3p	192.1p	63.5p

Sharesave and Employee Stock Purchase Plan 2006

During the year, the Micro Focus Employee Stock Purchase Plan 2006 was introduced, approved by members on 25 July 2006. There are two plans; the Sharesave Plan ("Sharesave") primarily for UK employees and the Employee Stock Purchase Plan ("ESPP") for employees in the USA. The Sharesave and ESPP provide for an annual award of options at a discount to the market price and are eligible to all Group employees.

A summary of grants made during the year are as follows:

	Date of grant	Exercise price per share Pence	Exercise period	2007 Number	2006 Number
Sharesave	15 August 2006	84p	15 August 2009 – 14 February 2010	**733,240**	0
ESPP	1 October 2006	97p	1 October 2008 – 31 March 2009	**219,682**	0
Total				**952,922**	0

The amount charged to the income statement in respect of the schemes was $100,000 (2006: nil).

All options are valued using the Black-Scholes option pricing model . The following assumptions have been used in the option pricing models:

Grant date	15 August 2006	1 October 2006
Shares under option	733,240	219,682
Share price at grant date	105p	114.5p
Exercise price	84p	97p
Expected volatility	33%	33%
Expected option life (years)	3	3
Expected dividend yield	3%	3%
Risk-free interest rate	4.25%	4.25%
Fair value per option	31.6p	28.7p

25 Pension commitments

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

Pension costs for defined contributions schemes are as follows:

	2007 $'000	2006 $'000
Defined contribution schemes	**2,044**	1,881

26 Operating lease commitments – minimum lease payments

At 30 April 2007 the Group has total lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years.

	2007 $'000	2006 $'000
Commitments under non-cancellable operating leases expiring:		
Within one year	**1,023**	526
Later than one year and less than five years	**7,567**	4,060
After five years	**14,770**	16,582
Total	**23,360**	21,168

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

27 Capital commitments and contingent liabilities

The Group had no capital commitments or contingent liabilities at 30 April 2007 (2006: nil).

28 Business combinations

On 2 November 2006, the Group acquired 100% of the share capital of HAL Knowledge Solutions SpA, for a consideration of $4.8 million (inclusive of $1.3 million related costs). The fair values of net assets are based on provisional assessments pending final determination of some assets and liabilities.

The acquired business contributed revenues of $4.0 million to the Group from the date of acquisition to 30 April 2007. The business made an EBITDA loss in the same period.

All intangible assets were recognised at their respective fair values with the resulting excess over the net assets acquired recognised as goodwill.

	Carrying value at acquisition $'000	Provisional fair value $'000
Intangible assets	1,547	10,929
Property, plant and equipment	356	356
Trade and other receivables	4,355	4,355
Cash and cash equivalents	377	377
Trade and other payables	(9,567)	(9,718)
Borrowings	(1,596)	(1,596)
Net (liabilities)/assets	(4,528)	4,703
Goodwill		129
Consideration		4,832
Consideration satisfied by:		
Cash		4,832

The fair value adjustments contain some provisional amounts which will be finalised in the 2008 accounts.

Goodwill includes non-identified intangible assets which do not meet the separable and reliably measurable criteria including business processes, know-how and work force related industry specific knowledge and technical skills.

The outflow of cash and cash equivalents on the acquisition is calculated as follows:

Cash consideration	3,472
Acquisition costs	1,360
Cash acquired	(377)
Total	4,455

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

Software	25
Platform technology	10,904
Total	10,929

29 Related party transactions

The Group has taken advantage of the exemption available under IAS 24, "Related Party Disclosures", not to disclose details of transactions with subsidiary undertakings.

As described in the remuneration report, the non-executive directors David Dominik and Prescott Ashe are directors in Golden Gate Capital who held 35% of the Company's issued share capital at 31 July 2007. There were no related party transactions with this company during the year ended 30 April 2007 or with any other third party.

30 Events after the balance sheet date

On 4 May 2007, Micro Focus announced that it had agreed to acquire Acucorp, Inc ("Acucorp") for a total cash consideration of $40.7 million paid in full on completion plus a working capital adjustment of $0.3 million.

In the year to 31 December 2006, Acucorp generated an operating profit of $3.0 million and its gross assets at that date were $13.1 million. Following the acquisition, Micro Focus plans to restructure the business and aims to increase margins over time to a level consistent with Micro Focus' existing business.

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

We have audited the parent company financial statements of Micro Focus International plc for the year ended 30 April 2007 which comprise the Company balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Micro Focus International plc for the year ended 30 April 2007.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report, the directors' remuneration report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the parent company financial statements. The information given in the directors' report includes that specific information given in the Chief Executive Officer's statement, the finance review and the "focus" sections that are cross referred from the review of business and future developments, research and development and post balance sheet events sections of the directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Statement, the Chief Executive Officer's statement, the finance review, the "focus" sections, the directors' report, the corporate governance statement, the statement of corporate and social responsibility and the unaudited part of the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the directors' remuneration report to be audited.

Opinion
In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 April 2007;
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the parent company financial statements.

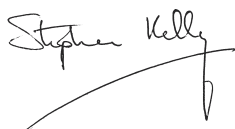
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading
31 July 2007

Company balance sheet

As at 30 April 2007

	Notes	2007 $'000	2006 $'000
Fixed assets			
Investments in subsidiary undertakings	V	**27,086**	27,086
		27,086	27,086
Current assets			
Deferred tax assets		**760**	–
Debtors	VI	**130,049**	114,177
Cash at bank		**4,983**	10,652
		135,792	124,829
Creditors: amounts falling due within one year	VII	**5,513**	6,173
Net current assets		**130,279**	118,656
Net assets		**157,365**	145,742
Shareholders' equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	VIII	**36,767**	36,644
Share premium	IX	**100,678**	100,265
Profit and loss account	X	**19,920**	8,833
Equity shareholders' funds		**157,365**	145,742

The Company financial statements on pages 64 to 68 were approved by the board of directors on 31 July 2007 and were signed on its behalf by:



Stephen Kelly
Chief Executive Officer

Nick Bray
Chief Financial Officer

Notes to the Company financial statements

For the year ended 30 April 2007

I Summary of significant accounting policies

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

A Basis of preparation

The Company financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and all applicable UK accounting standards.

B Foreign currency translation

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

C Investments in subsidiaries

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

D Share capital, share premium and dividend distribution

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

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

E Taxation

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

F Employee benefit costs

a) Pension obligations

The Company operates a defined contribution plan for which it pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Share-based compensation

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

No expense is recognised in respect of share options granted before 7 November 2002 and vested before 1 January 2005. For shares or share options granted after 7 November 2002 and vested after 1 January 2005 the fair value of the employee services received in exchange for the grant of the shares or options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or options granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

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

II Profit attributable to the Company

As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the Company. The profit for the financial year for the Company was $11.1 million (2006: profit $8.8 million).

Notes to the Company financial statements

For the year ended 30 April 2007

III Employees and directors

Staff costs for the Company during the year

	2007 $'000	2006 $'000
Wages and salaries	**2,448**	725
Social security costs	**440**	84
Other pension costs	**66**	4
Cost of employee share schemes	**849**	762
Total	**3,803**	1,575

The average monthly number of employees, including remunerated directors, during the year was seven (2006: five). For further information on the directors of the Company please refer to the remuneration report on pages 26 to 31.

IV Dividends

A final dividend in respect of the year ended 30 April 2006 of 4 cents per share was proposed and paid during the year ($8.0 million in total). In addition, an interim dividend in respect of the year ended 30 April 2007 of 3 cents per share ($6.0 million in total) was proposed and paid during the year.

The directors are proposing a final dividend in respect of the year ended 30 April 2007 of 7 cents per share, which would reduce shareholders' funds by $14.0 million. The proposed dividend is subject to approval at the AGM on 26 September 2007.

V Investments in subsidiary undertakings

	2007 $'000	2006 $'000
Investments in subsidiary undertakings	**27,086**	27,086

The following principal subsidiary undertakings, which are all wholly owned, have been included in the Company financial statements. Only Micro Focus Holdings Limited is directly owned by the Company with all other subsidiaries being indirectly owned.

Company name	Country of incorporation	Principal activities
Micro Focus AG	Switzerland	Sale and support of software
Micro Focus APM Solutions EOOD	Bulgaria	Development and support of software
Micro Focus APM Solutions SL	Spain	Sale and support of software
Micro Focus APM Solutions SpA	Italy	Holding company, sale and support of software
Micro Focus AS	Norway	Sale and support of software
Micro Focus (Canada) Limited	Canada	Sale and support of software
Micro Focus GmbH	Germany	Sale and support of software
Micro Focus Group Holdings Unlimited	Ireland	Holding company
Micro Focus Holdings Limited	UK	Holding company
Micro Focus International Limited	Cayman Islands	Holding company
Micro Focus International Holdings Limited	Ireland	Sale and support of software
Micro Focus (IP) Limited	UK	Sale and support of software
Micro Focus KK	Japan	Sale and support of software
Micro Focus Limited	UK	Development, sale and support of software
Micro Focus NV (Belgium)	Belgium	Sale and support of software
Micro Focus NV (Holland)	The Netherlands	Sale and support of software
Micro Focus Pty Limited	Australia	Sale and support of software
Micro Focus SAS	France	Sale and support of software
Micro Focus Srl	Italy	Sale and support of software
Micro Focus (US) Inc	USA	Development, sale and support of software

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

VI Debtors

	2007 $'000	2006 $'000
Amounts due from Group companies	**127,779**	114,155
Group relief debtor	**2,228**	–
Prepayments	**42**	22
Total	**130,049**	114,177

The amounts due from Group companies are unsecured, interest free and repayable on demand.

VII Creditors: amounts falling due within one year

	2007 $'000	2006 $'000
Trade payables	**16**	58
Amounts payable to Group undertakings	**1,498**	265
Accruals	**3,999**	5,850
Total	**5,513**	6,173

The amounts payable to Group companies are unsecured, interest free and repayable on demand.

VIII Called up share capital

	2007 $	2006 $
Authorised		
2,499,500,000 ordinary shares of £0.10 each	**476,674,646**	476,674,646
50,000 redeemable preference shares of £1 each	**95,354**	95,354
Total authorised share capital	**476,770,000**	476,770,000

	2007		2006	
	Number	**$**	Number	$
Issued and fully paid				
Ordinary shares of £0.10 each	**200,068,405**	**36,767,042**	199,402,745	36,644,393
Total allotted, called up and fully paid share capital	**200,068,405**	**36,767,042**	199,402,745	36,644,393

Further information on share capital is provided in note 21 and 24 of the Group accounts.

Notes to the Company financial statements

For the year ended 30 April 2007

IX Share premium account

	2007 $'000	2006 $'000
Beginning of year	**100,265**	–
Issue of share capital	**–**	100,265
Adjustment to premium on shares issued during prior year	**3**	–
Movement in relation to share options	**410**	–
End of the year	**100,678**	100,265

X Company statement of changes in shareholder's equity

	Share capital $'000	Share premium $'000	Profit and loss account $'000	Total $'000
Balance as at 1 May 2005	95	–	–	95
Profit for the year	–	–	12,457	12,457
Dividends	–	–	(3,987)	(3,987)
Share-for-share exchange	26,991	–	–	26,991
Issue of share capital	9,558	100,265	–	109,823
Movement in relation to share options	–	–	363	363
Total changes in shareholders' equity	36,549	100,265	8,833	145,647
Balance as at 30 April 2006	36,644	100,265	8,833	145,742
Profit for the year	–	–	23,953	23,953
Dividends	–	–	(13,981)	(13,981)
Issue of share capital	123	3	–	126
Movement in relation to share options	–	410	355	765
Deferred tax on share options	–	–	760	760
Total changes in shareholders' equity	123	413	11,087	11,623
Balance as at 30 April 2007	**36,767**	**100,678**	**19,920**	**157,365**

XI Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at 30 April 2007 (2006: nil).

XII Related party transactions

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

Directors, Secretary, registered office and advisers

Directors
Kevin Loosemore (Non-executive Chairman)
Stephen Kelly (Chief Executive Officer)
Nick Bray (Chief Financial Officer)
Mike Shinya (Chief Operating Officer)
David Maloney (Non-executive director)
David Dominik (Non-executive director)
Prescott Ashe (Non-executive director)
Tom Skelton (Non-executive director)
Paul Pester (Non-executive director)

Company Secretary, registered and head office
Jane Smithard
The Lawn
22-30 Old Bath Road
Newbury
Berkshire RG14 1QN
United Kingdom
www.microfocus.com

Legal advisers
Linklaters
One Silk Street
London EC2Y 8HQ
United Kingdom

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

Registrars
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
United Kingdom
www.shareview.co.uk

Brokers
UBS
2 Finsbury Square
London EC2 2PP
United Kingdom

Offices

Australia
Melbourne
Suite 109
566 St Kilda Road
Melbourne, Victoria 3004
T: +61 (0) 3953 32943
F: +61 (0) 3951 02822

Sydney
Level 1, 845 Pacific Highway
Chatswood, Sydney
New South Wales 2067
T: +61 (0) 2990 46111
F: +61 (0) 2990 46007

Belgium
Antwerp
Uitbreidingstraat 84/3
2600 Berchem
Antwerp
T: +32 (0) 3218 2126
F: +32 (0) 3218 2229

Bulgaria
Sofia
76 James Bautcher Blvd
Lozenetz, Sofia, 1407 Bulgaria
T: + 359 (0) 888 745 026

Canada
Montreal
Suite 228
750 Marcel Laurin Boulevard
Montreal, Quebec H4M 2M4
T: +1 800 280 9487
F: +1 514 855 9853

France
Paris
Tour Atlantique
La Defense 9
1 Place de la Pyramide
92911 La Defense Cedex
Paris
T: +33 (0) 1557 03013
F: +33 (0) 1557 03113

Germany
Dortmund
NL Dortmund
Emil-Figge Strasse 85
44227 Dortmund
T: +49 (0) 2317 5850
F: +49 (0) 2317 585555

Ismaning
Carl Zeiss Ring 5
D-85737 Ismaning
T: +49 (0) 8942 0940
F: +49 (0) 8942 094444

Ireland
Dublin
Office 104
Unit 3013 Lake Drive
Citywest Business Campus
Dublin 24
T: +353 (0) 1469 3100
F: +353 (0) 1469 3115

Italy
Milan
Via Ugo Bassi 8/a
20159 Milan
T: +39 0269 43401
F: +39 0269 434034

Milan (APM)
Via Vida 11
Milan
Italy
T: + 39 0228 0161
F: + 39 02280 16400

Rome
Via Caterina Troiani 71/79
00144 Rome
T: +39 0652 62191
F: +39 0652 621935

Japan
Tokyo
6th Floor Sumitomo Fudsan
Takanawa Park Tower
20-14 Higashi Gotanda
Shinagawa-Ku
Tokyo 141-0022
T: +81 (0) 3 5793 8550
F: +81 (0) 3 5793 8548

The Netherlands
Amsterdam
Regus Schipol Tetra
Suite 1-3
Siriusdreef 17-27
WT, Hoofddorp 2132
Amsterdam
T: +31 (0) 2356 89138
F: +31 (0) 2356 89444

Norway
Oslo
Christiania Kontorsenter
Dronningens Gate 6
N-0152, Oslo
T: +47 (0) 2291 0720
F: +47 (0) 2291 0721

Spain
Madrid
C/Capitan haya -K
28020 Madrid
T: +34 (9) 1294 8072
F: +34 (9) 1294 8767

Switzerland
Wallisellen – APM
Glatt Tower
Postfach 1544
8301 Glattzentrum Wallisellen
T: +41 (0) 432 333 111

UK
Newbury
The Lawn
22-30 Old Bath Road
Newbury, Berkshire
RG14 1QN
T: +44 (0) 1635 32646
F: +44 (0) 1635 33966

Newbury
Units 1-4 Riverpark Ind Estate
Ampere Road
Riverpark Ind Estate
Newbury, Berkshire
RG14 2DQ
T: +44 (0) 1635 565399
F: +44 (0) 1635 528997

USA
Beaverton
15220 NW Greenbrier Parkway
Suite 340
Beaverton
Oregon 97006
T: +1 503 716 1100
F: +1 503 614 1862

Chicago
Suite 819
Presidents Plaza
8700 West Bryn Mawr
Chicago
IL 60631
T: +1 773 714 5075

Durham
Suite 230
4825 Creekstone Drive
Durham, North Carolina 27703
T: +1 919 998 5260
F: +1 919 998 5261

Irving
1431 Greenway Drive
Suite 850
Irving, TX 75038
T: +1 972 815 2367
F: +1 972 815 2369

Rockville
9420 Key West Avenue
Rockville, Maryland 20850
T: +1 800 872 6265
+1301 838 5000
F: +1 301 838 5314

Sunnyvale
1001 West Maude Avenue
Sunnyvale, California 94085
T: +1 408 222 0300
F: +1 408 222 0303

Wayne
480 East Swedesford Road
Suite 100
Wayne, Pennsylvania 19087
T: +1 610 263 3400
F: +1 610 263 3700

Acucorp, Inc
San Diego
8515 Miralani Drive
San Diego, CA 92126
T: +1 858 689 4500
F: +1 858 689 4550

Historical summary

	UK GAAP*		IFRS		
	Year to 30 April 2003 $'000	Year to 30 April 2004 $'000	Year to 30 April 2005 $'000	Year to 30 April 2006 $'000	**Year to 30 April 2007 $'000**
Results					
Revenue	114,913	126,268	150,645	143,688	**171,590**
Operating profit before exceptional items	27,760	31,048	47,889	36,946	**62,977**
Exceptional items	(1,230)	(2,040)	(6,975)	(14,213)	**(5,710)**
Operating profit	26,530	29,008	40,914	22,733	**57,267**
Profit before tax	19,926	25,775	32,640	22,558	**60,007**
Earnings per share*					
Basic (cents)	9.84	12.37	14.28	8.25	**21.96**
Diluted (cents)	9.63	12.00	13.98	8.17	**21.37**

* The amounts disclosed for the year ended 30 April 2004 and earlier periods are stated on the basis of UK GAAP, with the exception of the exclusion of goodwill amortisation, because it is not practicable to restate amounts for periods prior to the date of transition to IFRS.

Forward-looking statements

Certain statements contained in this annual report, including those under the captions entitled "focus", Chairman's statement, Chief Executive Officer's statement, finance review, directors' report, corporate governance and remuneration report constitute "forward-looking statements". All statements other than statements of historical facts included in this annual report, including, without limitation, those regarding the Company's financial condition, business strategy, plans and objectives, are forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may" "will" or "should" or, in each case, their negative or other variations or comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Such risks, uncertainties and other factors include, among others: the level of expenditure committed to development and deployment applications by organisations; the level of deployment-related turnover expected by the Company; the degree to which organisations adopt web-enabled services; the rate at which large organisations migrate applications from the mainframe environment; the continued use and necessity of the mainframe for business critical applications; the degree of competition faced by Micro Focus; growth in the information technology services market; general economic and business conditions, particularly in the United States; changes in technology and competition; and the Company's ability to attract and retain qualified personnel. These forward-looking statements speak only as at the date of this annual report. Except as required by the FSA, or by law, the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

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Micro Focus International plc

The Lawn

22-30 Old Bath Road

Newbury

Berkshire RG14 1QN

United Kingdom

Tel: + 44 (0) 1635 32646

Fax: +44 (0) 1635 33966

Registered No. 5134647

www.microfocus.com