Annual report 2008

Keeping our world working

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Micro Focus – the world leader in modernising the applications that keep our world working every day

1. Moving 72,000 containers
2. Caring for 60 million patients
3. At the heart of Fortune 500 business operations
4. Maintaining local government infrastructure
5. Processing 80% of point of sale transactions
6. Reducing government costs and risks
7. Making information accessible
8. Minimising the impact of flight delays
9. Connecting 500 million mobile phone users

Taking our customers into tomorrow

Micro Focus is an expanding software company. Operating from 32 offices in 17 countries, it enables its 15,000 customers – which include 70% of the Fortune 100 – to meet their business objectives by modernising their core IT systems, quickly and cost effectively. Our ability to provide the most appropriate solutions is resulting in an increasing number of companies – large and small – turning to us to harness their existing IT strengths.

Our strategy

Our commitment to a profitable growth strategy is driven by the technology modernisation needs of our increasing number of customers. We will continue to offer leading application management solutions, and to develop and acquire complementary technology to meet a broadening range of customer requirements.

Growth

Strong organic growth in the 12 months to 30 April 2008, supplemented by the acquisition of Acucorp. Since then Micro Focus has made two further shrewd acquisitions (NetManage Inc and Liant Software Corporation).

Solutions

During the year, Micro Focus launched significant solutions and upgrades across its three operating areas – application development, application modernisation and application portfolio management.

Highlights of the year

Key highlights

- Revenue up 33% to $228.2 million (2007: $171.6 million)
  - 15% organic revenue growth at constant currencies for the full year
- Adjusted EBITDA* up 36% to $88.5 million (2007: $65.3 million)†
  - 38.8% Adjusted EBITDA margin, up from 38.0% last year
- Adjusted operating profit* up 36% to $86.6 million (2007: $63.5 million)
- Adjusted profit before tax* up 34% to $88.6 million (2007: $66.2 million)
- Adjusted earnings per share* up 32% to 32.08 cents (2007: 24.38 cents)‡
- Cash generated from continuing operations $96.2 million (2007: $58.2 million)
- Cash balance as at 30 April 2008 of $92.4 million (30 April 2007: $85.0 million)
- Final proposed dividend of 9.4 cents per share; total dividend for the year up 30% to 13 cents per share (2007: 10 cents per share)

Statutory results

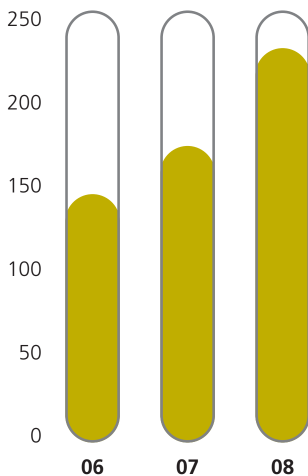
- EBITDA† $80.7 million (2007: $59.6 million)
- Operating profit $74.8 million (2007: $57.3 million)
- Profit before tax $76.8 million (2007: $60.0 million)
- Basic earnings per share 27.67 cents (2007: 21.96 cents)‡

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

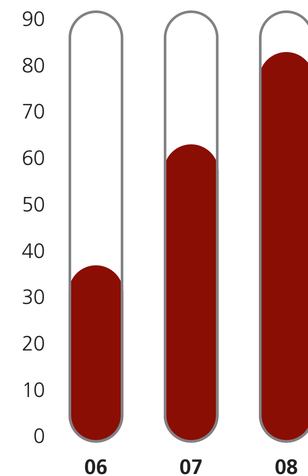
† EBITDA and Adjusted EBITDA are reconciled to operating profit in note 4.

‡ Earnings per share and Adjusted earnings per share are detailed in note 8.

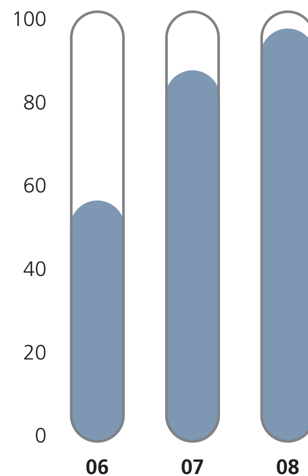
Revenue
$million



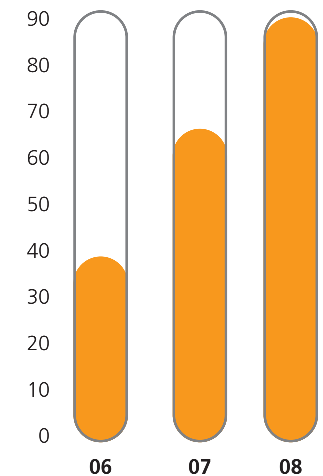
Adjusted operating profit
$million



Net cash balance
$million



Adjusted EBITDA
$million



New customer wins

TESCO

Tesco – A platform-independent common operating model

Micro Focus' modernisation expertise is helping Tesco maintain momentum behind its strategic IT project, as well as playing a key role in the development of its presence in the US. For the full story, see page 15.

CSC Financial Services Group – A new solution at lower cost

Micro Focus Mainframe Express enables thousands of programmes that would normally run on a mainframe environment to run in a lower-cost Windows server environment, allowing CSC to deliver more system capability to its clients. For the full story, see page 16.

Miller Brewing Company – Speeding application development and testing environment, reducing mainframe expense

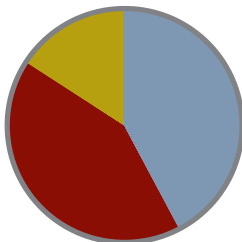
By assisting the Miller Brewing Company in moving its reliance from the mainframe into a server-based and workstation environment, Micro Focus is helping the company to achieve maximum competitive advantage, while at the same time reducing risk and cost. For the full story, see page 19.

VOLKSWAGEN FINANCIAL SERVICES
AKTIENGESELLSCHAFT

Volkswagen Financial Services (VW) – Increasing productivity and gaining a complete view of their COBOL applications

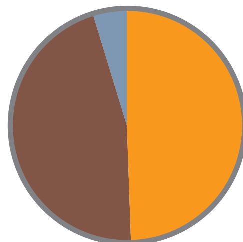
Micro Focus Revolve provides complete transparency for Volkswagen Financial Services' 1,600 COBOL and 1,900 assembler programmes, improving application speed and enhancing customer service and business responsiveness. For the full story, see page 20.

Revenue by geographic sector – 2008
$million



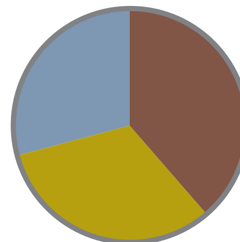
- North America **96.5**
- Europe and Middle East **96.0**
- Rest of World **35.7**

Revenue by type – 2008
$million



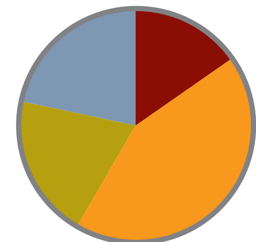
- Licence fees **113.3**
- Maintenance fees **104.2**
- Consultancy fees **10.7**

Employees by function – 2008
Number



- Sales and distribution **229**
- Research and development **190**
- General and administration **172**

Cost breakdown (pre exceptionals) – 2008
$million



- Cost of sales **22.6**
- Selling and distribution **63.2**
- Research and development **29.5**
- Administrative expenses **31.6**

Chairman's statement

Micro Focus has delivered another year of strong financial results, achieving significant organic revenue growth whilst improving our profit margins. Our acquisition also delivered very positive results. We successfully integrated Acucorp, Inc., a company acquired in May 2007. Revenue and profits from this acquisition were both ahead of our initial expectations. On 18 June 2008, we completed the acquisition of NetManage, Inc.

Our ambition is to maintain double digit organic revenue growth, at constant currencies, over the long term. We will complement our organic growth plan with compelling acquisitions that provide a positive impact on shareholder value when the right opportunities arise.

The performance achieved over the past year continues to reflect well on the entire Micro Focus team and highlights the strong fundamentals of the business. We have first rate technology solutions, a loyal and satisfied customer base and a leading position in a substantial, sustainable and growing market place.

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus and I am pleased to announce a proposed final dividend of 9.4 cents per share, giving a full year dividend of 13.0 cents per share. This represents a 30% increase when compared to a full year dividend of 10.0 cents last year.

We finished the year with cash of $92.4 million, and generated $96.2 million of cash from continuing operations during the year. Our business model has low ongoing capital requirements and delivers strong cash generation. During the year, $47.4 million of cash was used to fund the acquisition and restructuring of Acucorp. Since the year end we have announced the acquisition of NetManage for $73.3 million. NetManage's cash balance immediately prior to closing was $27.9 million. In addition, we announced on 11 July 2008 the acquisition of Liant Software Corporation for $5 million.

The board would like to thank all of our employees for their continued hard work and commitment throughout the year. Our foundations are well established and we continue to build for the future.

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. Micro Focus is well positioned for the future and we look forward to the year ahead with confidence.

Kevin Loosemore Chairman

What we do

Micro Focus – a world leader in modernisation

Today's tighter economic environment is driving business leaders to consider their choices carefully when investing in technology. Across all industry sectors, the appetite for expensive IT packages and technology "rewrites" is disappearing as Boards increasingly recognise the rationale behind a well-planned modernisation of their organisation's core systems. The clear advantage of lower costs, reduced risks and the preservation of competitive intelligence is resulting in a substantial increase in demand for Micro Focus solutions.

What we do

At Micro Focus we believe in providing an evolutionary IT journey

Micro Focus' Application Portfolio Management ("APM") solution enables the CIO to align IT spend with business strategy, by providing factual business intelligence for informed decision making, taking the risk out of change.

- Make fact-based IT decisions
- Save up to 30% of maintenance budgets
- Grow innovation capacity by over 25%

APM enables IT organisations to **fully realise the value of existing assets** while delivering the innovation the business needs to compete and grow.

Micro Focus' Application Modernisation is all about extracting value from existing systems in more efficient ways and provides the opportunity to utilise existing business processes with greater flexibility. Armed with the appropriate understanding and information, IT leaders can quickly see what strategies make sense on an application by application basis and, in many cases; the most rational approach is to build on the strengths of existing applications while addressing the issues that are truly preventing IT from delivering projects that add value to the business. Utilising Micro Focus modernisation tools, companies are able to modernise existing applications and deliver significantly higher return on investment, improving operational efficiency through re-use of proven business logic.

- Enables developers to deliver up to 40% faster
- Reduces costs by moving workload to lower-cost platforms
- Frees up resources to deliver on new high-impact projects

Modernisation is not throwing out the old and bringing in the new: old IT is not necessarily bad; new IT is not necessarily good. Successful modernisation evolves the old and blends it with the best of the new.

It protects existing application, data and skills investments, while enabling organisations to respond to business requirements faster, to reduce infrastructure costs and to improve operational efficiencies.

Micro Focus' Application Development solution provides contemporary and highly productive development environments for the creation, maintenance and extension of enterprise applications.

- Minimises cost and time to market through enhanced developer productivity
- Reduces risk by promoting high quality software development and testing
- Increases ROI by exploiting the potential of existing enterprise applications

"**IT modernization** represents the changes that every IT organization must face as the generations of technology, skills and expectations are inevitably replaced by the next ones. Every enterprise must begin to prepare for the inevitable impact this will have."

Dale Vecchio, Gartner Inc., *IT Modernization: The Changing of the Guard,* 28 May 2008

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What we do

Micro Focus is the leading vendor of software for the assessment, modernisation, and management of business critical applications. Software written in the COBOL programming language – 80% of the world's currently active computer code – presents us with a substantial market opportunity.

Quantifying the value of IT assets

INSEAD research, sponsored by Micro Focus, revealed that a third of respondents did not know how much they invest in their software assets. In the current economic climate, it is surprising that many of the world's leading companies are overlooking the value of these assets when other corporate assets, such as cash, brand, property and intellectual property, are measured regularly.

In the resulting report, written by Professor Soumitra Dutta, INSEAD's Chair of Business & Technology, software was identified as being critical to business strategy, and conjoint analysis* as the best approach for measuring its value. Micro Focus solutions are at the heart of companies' efforts to evaluate, manage and modernise their IT assets and, in a reaction to the report, Micro Focus called for a radical shift in the management and valuation of IT assets at organisations, worldwide.

* Conjoint analysis methodology requires companies to make trade-offs across different business outcomes associated with the software asset. If organisations analyse the conversion of real business outcome attributes generated by core IT systems into measures of business value, then there is a strong opportunity to calculate the real financial value of core software assets to the business.

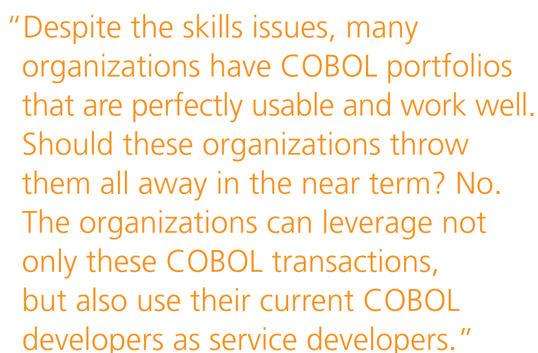
Keeping core IT assets running

Micro Focus recognises the challenges of maintaining core IT systems. They are at the heart of companies' day-to-day operations and hold vital information linked to competitive advantage. Because sourcing the experienced and highly-trained people needed to manage these critical assets is increasingly difficult, in 2007, Micro Focus launched its Academic Connections ("ACTION") Programme. This gives universities around the globe free access to the latest technology and teaching tools for enterprise application development.

Safeguarding your IT assets (future proofing)

More than 65 academic institutions from around the world have joined the Micro Focus ACTION Programme, with the result that core COBOL skills are being taught in 12 countries across four continents, and more than 5,000 students a year are graduating from ACTION-assisted courses.

In addition, Micro Focus has formed a partnership with the UK's Employer Strategy Forum ("ESF"), to address growing concerns about declining IT skills in business.



"Despite the skills issues, many organizations have COBOL portfolios that are perfectly usable and work well. Should these organizations throw them all away in the near term? No. The organizations can leverage not only these COBOL transactions, but also use their current COBOL developers as service developers."

Dale Vecchio/Susan Landry, Gartner Inc., *How Today's Application Development Organizations Can Manage Retiring IT Skills,* July 2008

Moving our markets forward

> "The historical answer to legacy modernization has been for CIOs to buy into the next technology hype cycle and allocate large sums of money in the belief that newer is better. The days when one-size-fits-all technology solutions were successful are largely over; IT needs more of a surgical-precision approach, which requires application triage information."
>
> The Application Management Continuum Offers CIOs A Contemporary Approach to Modernization, Forrester Research, Inc. July 2008

> "Firms on smaller mainframes – in the 1,000 MIPS range and below – are seeing huge reductions in third-party software costs by moving COBOL applications to UNIX and Wintel platforms."
>
> The Application Management Continuum Offers CIOs A Contemporary Approach to Modernization, Forrester Research, Inc. July 2008

Global 2000 accounts

During the past year Micro Focus has continued to increase the number of large deals it has secured in the global 2000 sector. This results from a solid, go-to-market focus on a segment, the complex infrastructures of which hold challenges and opportunities for business innovation. Combined with organic growth, our acquisition strategy, which began extending our portfolio management capabilities last year, is also bringing increased relevance to these customers as improved application development and SOA (Service Oriented Architecture) solutions are added to the Micro Focus family.

Systems integrators and outsourcers

Micro Focus has historically offered a strong commercial proposition to its systems integrator and outsource partners. This continues to be the case as companies strive to improve the business value of their existing application assets, rather than engage in high-risk replacement strategies. Our portfolio management solution, which continues to gather momentum, already supports many global providers. It combines well with the only modernisation toolset positioned to provide support for a diverse range of modernisation strategies, from platform migration to extension, from .NET to Java and Web 2.0.

ISVs (Independent Software Vendors)

Micro Focus continues to earn strong revenues from its application provider community across all industry sectors. There is particular growth in deployment revenues, as applications find increasingly large audiences, not least through deployment to internet-based end user models. The acquisition of Acucorp at the start of the year has driven even greater innovation and impetus into this community.

Small and mid-sized enterprises

Micro Focus has recorded good growth in this area of its customer base by continuing to provide core functionality to support existing applications. In much the same way as with our global 2000 customers, our solid organic growth in this sector continues to be enhanced by relevant acquisitions. Companies' increasing uptake of SOA, combined with the need to mitigate risk in times of heightened economic uncertainty, is driving an increasing number of them to focus on modernising their core systems.

Maximising value according to industry analysts

More than 20% of revenue generated from the top 2,000 US and European companies now comes from alliances, with more expected soon.

These companies **earn higher ROIs** on their alliances than they do from their core businesses.

Leading-edge companies are grouping alliances to create a string of interconnected relationships to enable them to overpower the competition.

These associations enable companies to **break into related markets** while, at the same time, enabling them to minimise risk and maintain the integrity of their core competencies.

Strategic partnerships

Micro Focus enjoys partnerships with many blue chip IT companies, including Accenture, CSC, EDS, HP, IBM, Intel, Lawson, Microsoft, Oracle and Sun Microsystems. Micro Focus is also a member of the Web Service Interoperability ("WS-I") Group.

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 System Integrators and Software Vendor relationships, through our consortium of partners, each of which has its own particular skills and area of specialisation.

Key performance indicators ("KPIs")

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

Description	Metrics	Performance
Revenue growth	**08** 33.0% **07** 19.4%	Revenue comprises total revenues including the contribution of acquisitions and is compared with the prior year. The board aims to maintain double digit organic revenue growth, supplemented with further growth from compelling acquisitions.
Adjusted EBITDA margin	**08** 38.8% **07** 38.0%	Earnings before interest, tax, depreciation and amortisation of intangible fixed assets, exceptional items and share-based compensation charge. The adjusted EBITDA margin represents adjusted EBITDA divided by revenue for the year. The Company targets to maintain margins at this level. The current year included the results of the Acucorp acquisition from May 2007 which contributed to the increased margin.
Cash generation from operations	**08** 108.7% **07** 89.1%	This measure is calculated using the cash flows generated from continuing operations divided by adjusted EBITDA – the result indicates that the Group is generating cash from its on-going business which can be used to reinvest in the development of the business including financing acquisitions, fund liabilities and pay dividends to shareholders.
Adjusted EPS	**08** 32.08 cents **07** 24.38 cents	Adjusted EPS is calculated by taking income for the financial year, prior to exceptional items, amortisation of purchased intangibles and share-based compensation, divided by the weighted average number of ordinary shares in issue during the year. This measure indicates the ability of the Company to continue to adopt a progressive dividend policy.

Chief Executive Officer's statement

For over 30 years, Micro Focus has influenced and innovated in the Enterprise Applications market and we have built up a leading position in the Application Modernisation market. Major corporations are increasingly becoming aware that it is possible to obtain all of the required business benefits through modernising existing applications, as opposed to implementing the high risk and costly alternative of rewriting these applications or replacing them with a packaged solution with little additional business benefit.

Micro Focus technologies and solutions are a driving force behind the day-to-day business success of many of the largest companies in the world, helping these organisations achieve competitive differentiation through modern, efficient and low cost platforms. This proposition is particularly relevant against the backdrop of the uncertain economic outlook.

Execution

Over the past year, we delivered a strong set of financial results and made another acquisition to further our strategic aims. We have successfully executed ahead of our initial expectations.

Since the year end, the management team has been further strengthened with the appointment of Paul Rodgers as Worldwide Human Resources Director in May 2008 and Marc Andrews as Executive Vice President, Sales and Marketing in June 2008. Both individuals are highly experienced in the software industry.

The sales team has been further strengthened and we will continue to invest to drive the business forward. It has been particularly encouraging to see the improved performance in our North American operation as well as continued excellent performances from our Europe and Rest of World operations.

We continue to refine our marketing and delivery capabilities with a firm focus on developing senior level contacts within our target customers. With significant momentum building around the "modernisation message" it has been encouraging to see the Company establish itself as a thought leader in this area.

While organic revenue growth is our primary focus, our strategy review, carried out in the six months to October 2006, highlighted the potential for further profitable revenue growth through acquisitions. On 4 May 2007, we acquired Acucorp for $40.9 million. Acucorp 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 the small and medium-sized enterprise ("SME") markets.

On 18 June 2008 we acquired NetManage, a software provider of technologies to transform core applications into new web-based business solutions. Combining the businesses of Micro Focus and NetManage will further strengthen Micro Focus'

Chief Executive Officer's statement

position as a leading player in the growing Application Modernisation market and provide the enlarged Group with further opportunities for growth through a more comprehensive and broader product offering. Due to the complementary nature of the two businesses from a market, product and financial perspective, we are well placed to deliver value from this acquisition and look forward to implementing the integration of the NetManage business.

We continue to invest in expanding our solution set as well as extending our partnerships with other technology companies, system integrators and outsourcers to take advantage of the considerable market opportunity open to us.

Summary and outlook

We are encouraged by the progress made over the past year reflecting the strong fundamentals of the business.

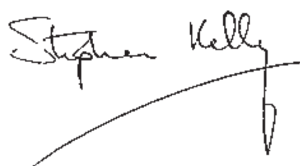
Micro Focus benefits from having a business model with a high proportion of predictable and recurring revenue. Of licence revenues, which made up 49.7% of Group revenues in the year, the majority comes from high volume, low value transactions which are supplemented by larger value transactions, the size and volume of which we are seeing increase. Approximately one third of licence revenues come from royalties from other software companies, which provides additional predictability.

Maintenance revenues, which made up 45.6% of Group revenues in the year, are secure and robust. Maintenance revenue 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 in the year provides high levels of revenue visibility going forward. The smallest proportion of our revenue is derived from our consultancy services and it is intended that this revenue will remain a similar proportion of total revenue in the coming year.

Continued future revenue growth is largely dependent on driving licence sales. Our strategy review, undertaken in the six months to October 2006, identified the major growth opportunity around larger value licence fee transactions into the Global 2000 ("G2000") companies. It was encouraging that we again signed a number of these transactions in the year, including Boeing, Wal-Mart and RBS, carrying on from our success last year.

Our solutions reduce cost, lower risk, and provide clear and compelling returns on investment for our customers. Whilst we recognise the current uncertain macro economic conditions, the defensive characteristics of our business model, combined with the relevance and compelling nature of our solutions, lead us to view the current year with confidence. Our ambition is to achieve double digit organic growth, at constant currencies, over the longer term whilst maintaining our EBITDA margin.

A robust and sustainable market exists to support our growth strategy. Our key focus remains on organic growth although we continue to review the potential for further acquisitions to enhance the value of our business, as evidenced by the recent acquisition of NetManage in June 2008 and Liant Software Corporation in July 2008.



Stephen Kelly Chief Executive Officer

Penetrating international markets with a ground-breaking application strategy

Tesco's competitiveness in retail depends in no small part on its highly effective IT systems. This is especially true for its innovative Continuous Replenishment ("CR") system, which drives store ordering. This highly sophisticated system resides on an IBM z/OS mainframe in the UK and Tesco needed to make it available to the rest of its group.

TESCO

A platform-independent common operating model (Retail)

Micro Focus Application Migration and Modernisation offering was chosen to port the CR application to the IBM System p server running the AIX operating system and integrate it with the existing Oracle Retail solution. Elements of Tesco's Common Operating Model are already in place and benefiting some of its businesses. Micro Focus modernisation expertise is not only helping Tesco maintain the momentum behind this strategic IT project, but is also playing a key role in the development of its presence in the United States.

Product solution
Micro Focus Application Migration and Modernisation
Micro Focus Studio
Micro Focus Server

Extracting more value from legacy assets

CSC's Financial Services Group wanted to create a new, economical package to help its financial services customers run critical mainframe-based applications on a lower-cost environment, such as a desktop or server. It was already providing Micro Focus Mainframe Express, Enterprise Edition, to those customers using its VANTAGE-ONE® solutions who wanted to do their own development work. To create the new package it supplemented this with Micro Focus Server to enable deployment to new platforms.

A new solution at lower cost (Finance)

The new solution enables thousands of programmes that would normally run on a mainframe environment under CICS and JCL to run in a lower-cost Windows server environment. The server-based solution reduces deployment charges and increases runtime. Clients are impressed to see an industrial strength application running so quickly with the server-based solution. Micro Focus Mainframe Express enables CSC to deliver more system capability to its clients. It also saves the Company cost and improves its own productivity. It estimates overall cost savings from improved productivity to be 40%.

Product solution
Micro Focus Mainframe Express Edition
Micro Focus Server

Finance review

Revenue for the year increased by 33% to $228.2 million, adjusted operating profit increased by 36% to $86.6 million, adjusted profit before tax increased by 34% to $88.6 million and adjusted earnings per share increased by 32% to 32.08 cents per share.

In the report below we have provided detail of total revenue at actual exchange rates by both geography and revenue category. In addition, to facilitate comparison on a like-for-like basis we have also excluded the impact of exchange rate movements on revenue and the impact of current and prior year acquisitions.

All areas showed solid improvement driven by both organic growth and the impact of acquisitions. Revenue by geographic region at actual reported $ was as follows:

	2008		2007	
	$m	**%**	$m	%
North America	**96.5**	**42.3**	70.6	41.1
Europe and the Middle East	**96.0**	**42.1**	71.8	41.8
Rest of the World	**35.7**	**15.6**	29.2	17.1
Total revenue	**228.2**	**100.0**	171.6	100.0

Excluding the impact of exchange rate movements on revenue and the impact of current and prior year acquisitions, all geographic regions achieved solid growth as shown in the table top right.

The new North American leadership team established in February 2007 has quickly developed credibility and delivered strong results with growth of 20.4%. Revenue from Europe and the Middle East increased by 13.4% and Rest of the World revenues increased 9.1%. With solid sales execution in our two largest territories, our focus now turns to the relatively untapped markets in our Rest of the World region, initially assessing opportunities in India and China.

	2008 $m	2007 $m	Growth %
North America	**85.7**	71.2	20.4
Europe and the Middle East	**82.8**	73.0	13.4
Rest of the World	**33.5**	30.7	9.1
Total revenue (Pre-acquisition and pre-currency)	**202.0**	174.9	15.5
Acquisitions	**26.2**	4.6	
Currency	**–**	(7.9)	
Total revenue	**228.2**	171.6	33.0

The leadership and execution capability of the "go to market" team has been continually strengthened. During the year we have put in place a new Country General Manager to run our German, Austrian and Swiss ("DACH") region. In addition, Marc Andrews joined in June 2008 as Executive Vice President, Sales and Marketing.

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

	2008		2007	
	$m	**%**	$m	%
Licence fees	**113.3**	**49.6**	82.6	48.2
Maintenance fees	**104.2**	**45.7**	82.1	47.8
Consultancy fees	**10.7**	**4.7**	6.9	4.0
Total revenue	**228.2**	**100.0**	171.6	100.0

All revenue categories increased through both organic growth and acquisition. Excluding the beneficial impact of exchange rate movements and acquisitions, the Group's organic revenue growth at constant currency was 15.5% as shown in the table below.

	2008 $m	2007 $m	Growth %
Licence	**100.4**	84.5	18.8
Maintenance	**93.1**	84.5	10.1
Consulting	**8.5**	5.9	44.1
Total revenue (Pre-acquisition and pre-currency)	**202.0**	174.9	15.5
Acquisitions	**26.2**	4.6	
Currency	**–**	(7.9)	
Total revenue	**228.2**	171.6	33.0

Finance review

Organic licence fee revenue growth at constant currency was 18.8% driven by growth in our low value, high volume run rate business combined with improved sales of larger value transactions to larger enterprise customers. We define larger value transactions as those in excess of $0.5 million. It is encouraging to see both the number and average value of these larger value transactions increasing year on year.

Organic maintenance revenue growth at constant currency was 10.1% reflecting the impact of solid licence fee sales combined with inflationary price increases.

Organic consulting revenue growth at constant currency showed a positive improvement against the prior year driven by improved sales of higher value transactions to larger enterprise customers.

The recent acquisition of Hal and Acucorp added $26.2 million of revenues in the year. Approximately half was from predictable and secure maintenance. As with our core business the substantial majority of the remaining revenue was from licence fee transactions, typically high volume, low value, robust and sustainable business predominantly from royalties from other software companies.

Costs

All comments below relate to costs at actual reported US$.

Cost of sales for the year increased by 24% to $22.6 million. The costs in this category predominantly relate to our consulting and helpline support operations.

Selling and distribution costs increased by 39% to $63.2 million. We have made significant investments in the sales and marketing functions to support growth and will continue to do so. This cost category represents approximately 28% of revenue and is expected to remain at a similar percentage of revenue for the year ahead.

Research and development expenses increased by 28% to $29.5 million. We expect to maintain this cost category at approximately 13% of total revenue as we continue to enhance and expand our solution set to take advantage of the considerable market opportunity.

Excluding restructuring charges of $6.5 million, administrative expenses increased by 39% to $31.6 million. The increase in costs includes costs of the acquired businesses as well as expanding the Group's support functions to facilitate current and future growth. As the Group expands, our aim is reduce the cost of this function as a percentage of revenue as we leverage efficiencies of scale.

Currency impact

An analysis of both revenue and costs as a percentage of the total by US$ and other currencies is shown below. As the Euro has strengthened against the Dollar our revenue has improved as compared to the prior year. However with a higher percentage of costs in non-Dollar denominated currencies than revenues, as the Dollar has weakened in the year, our expenses have increased proportionately faster than revenues. As a result, adjusted operating profit as reported in US$ was not materially different pre or post currency adjustments.

	Revenue analysis by major currency %	Cost analysis by major currency %
US$	49.5	29.8
Other	50.5	70.2
Total revenue	100.0	100.0

Operating profit

Operating profit for the year was $74.8 million (2007: $57.3 million). Adjusted operating profit increased by 36% to $86.6 million (2007: $63.5 million), the improvement being driven by increased revenue and an improvement in margins.

Adjusted EBITDA

Adjusted EBITDA increased by 36% to $88.5 million (2007: $65.3 million) as a result of increased revenue and improved margins.

Net finance income

Net finance income was 26% lower than for the previous year at $2.0 million (2007: $2.7 million). At the start of the year we reduced our cash balance through the purchase of Acucorp. As a result, whilst our closing cash balance was higher than that of the prior year, our average cash balance for the year was lower than the prior year.

Brewing success in the US

The mainframe at the Miller Brewing Company features 40,000 programs and COBOL applications, which are managed by its proprietary, Production Installation Transfer System ("PITS") and PANVALET. PITS is Miller's process of moving mainframe jobs, programmes, and copybooks into production. The flexibility of our Mainframe Express enabled Miller to integrate it into their existing business process. For a number of business reasons, Miller sought a solution to help transition the Company's reliance from the mainframe into a server-based and workstation environment.

Speeding application development and testing environment, reducing mainframe expense (Retail)

The implementation of Mainframe Express Enterprise Edition signified the beginning of Miller's mainframe modernisation strategy. By moving to a server environment, Miller expects to realise cost savings as it expands its modernisation over the next few years. Mainframe Express, Enterprise Edition, enables COBOL programmers to extend mainframe application development quickly and easily into J2EE, .NET or Web services, without changing the original code, or having to learn new architectures. Micro Focus is playing an important role in helping Miller to achieve maximum competitive advantage through innovative and effective technologies, while at the same time reducing risk and cost, and improving business agility.

Product solution
Micro Focus Mainframe Express, Enterprise Edition ("MFEEE")

Analysing applications with Micro Focus Revolve

Volkswagen Financial Services ("VFS") offers retail insurance policies – all run on a comprehensive COBOL application – to millions of customers throughout Europe and Asia Pacific. Technical processes are executed on 1,600 COBOL and 1,900 assembler programmes, which require 4,500 daily, individual batch jobs and cover a total of around 6 million lines of code. Micro Focus Revolve provides complete transparency of the programmes, improves application speed and enhances customer service and business responsiveness. It ensures that overnight batch transactions are completed before opening for business, eliminating the risk of downtime in working hours and potential loss of revenue.

VOLKSWAGEN FINANCIAL SERVICES
AKTIENGESELLSCHAFT

Increasing productivity and gaining a complete view of COBOL application (Finance)

Since using Revolve, VFS has had a comprehensive view of its COBOL application, enabling it to estimate costs more precisely and protect itself from "unpleasant surprises". It has also been possible to reduce the errors substantially. The range of functions offered by Micro Focus Revolve has enabled VFS's IT department to adapt to the constant changes in products, customers, etc cost-effectively and without risk. Micro Focus Revolve automates all processes, removing the possibility of human error from manual methods. Since it shows the structures of the application in a clear, visual display, new developers need little training.

Product solution
Micro Focus Revolve

Finance review

Taxation
Tax for the year was $21.4 million (2007: $16.1 million) based on increased profits. The Group's effective tax rate is 27.9% (2007: 26.9%). The effective tax rate has increased marginally from last year due to a higher proportion of profits being earned and taxed in the United States. Our medium term effective tax rate is expected to be maintained at approximately 28%.

Profit after tax
Profit after tax increased by 26% to $55.4 million (2007: $43.9 million). The growth in post tax profits was slightly lower than the growth in revenue due to the marginally higher tax rate in the current year and the higher level of exceptional items arising on the restructure and integration of the Acucorp business acquired in May 2007.

Cash flow
At 30 April 2008, the Company's cash balance was $92.4 million (2007: $85.0 million). The Group generated a net cash inflow from continuing operating activities of $96.2 million which was offset by outflows of $47.4 million in respect of the acquisition and restructuring of Acucorp as well as corporation tax payments of $18.2 million and dividends of $21.2 million.

Dividend
The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus with a level of dividend cover for the financial year ending 30 April 2008 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 full year to 30 April 2008 of 9.4 cents per share providing for total dividends in the year of 13 cents per share, an increase of 30% above the total dividends of 10 cents per share for the full year to 30 April 2007. The dividend will be paid on 29 September 2008 to shareholders on the register on 5 September 2008. 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 £ = $1.99, equivalent to 4.72 pence per share, being the rate applicable on 26 June 2008, the date of recommendation of the dividend by the board.

Acquisition of Acucorp
On 4 May 2007, the Group acquired Acucorp for a total cash consideration of $40.9 million.

Revenue for the year to 30 April 2008 was originally anticipated to be approximately $17.0 million and our aim was to restructure the business and increase margins over time to a level consistent or better than our existing business. We exceeded both aims. The consequent restructuring charge was initially expected to be approximately $8.0 million in the year to 30 April 2008. The actual restructure charge was $6.5 million.

Acquisition of NetManage and Liant Software
On 18 June 2008, Micro Focus announced that it had acquired NetManage for a total cash consideration of $73.3 million, paid in full on completion. On close, NetManage had $27.9 million of cash providing for a net cash outflow of $45.4 million.

In the year to December 2007, NetManage generated revenue of $36.0 million and recorded an operating loss of $2.1 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 $10.0 million in the year to 30 April 2009 and will be reported as an exceptional item.

In addition, the Company announced on 11 July 2008 that it had acquired Liant Software Corporation for $5 million. Following the acquisition, the Group plans to restructure the business and the consequent restructuring charge is expected to be approximately $2 million and again will be reported as an exceptional item.

Nick Bray Chief Financial Officer

Risk factors

Group risk factors

The Group in common with all businesses could be affected by risks not completely within its control which could have a material effect on its short and longer term financial performance. These risks could cause actual results to differ materially from forecasts or historic results.

The following are the key risks that are relevant to the Group as a provider of enterprise application management solutions. Please also refer to the section on internal controls within the corporate governance report on page 33.

Employees

The retention and recruitment of highly skilled and motivated employees is critical to the success and future growth of the Group in all countries in which it currently operates and in which it is likely to expand into in the future. The Group has policies in place to help achieve these objectives and ensure that it is able to attract and retain employees with the required skills.

Timing of concluding contracts

In common with other software companies, the recognition of revenue is dependent upon obtaining signed contracts from customers and delivery of product. With a high proportion of costs being fixed, mainly people related, failure to conclude sales contracts at the end of the year could result in a material decrease in margin. However, the Group has a growing diverse mix of customers with a high proportion of predictable and recurring revenue which reduces this exposure.

Acquisitions

As set out in the Chief Executive Officer's statement, acquisitions could provide profitable revenue growth. Concluding further acquisitions is dependent on a number of factors such as the global economic position, the availability of finance and suitable target companies. There are also risks associated with successfully integrating future acquisitions; for example the loss of key personnel, system integration issues and other problems not identified prior to acquisition.

Research and development

The Group has expanded its various R&D facilities through organic growth and through acquisitions. The success of the R&D function in enhancing existing products and developing new products, which are relevant to customer requirements is critical to the ongoing success of the Group. If new products or enhancements do not meet customer requirements, or competitors introduce products which better meet the requirements of customers, this may have a material impact on revenues and profits. The successful integration of the R&D functions of acquired companies together with the effective management of existing facilities is key to mitigating these risks.

Foreign exchange and treasury

The Group is not exposed to significant foreign exchange transactional exposure as generally its subsidiaries trade in their own currency. The Group's principal exposure to foreign currency is the translation of overseas profits into US$. Due to its limited exposure, the Group does not hold any financial instruments such as derivatives.

The Group is also exposed to foreign currency translation risk on the translation of its net investment overseas into US$ where the functional currency of those subsidiaries is not the US$. This is partially mitigated by the overseas subsidiaries incurring costs denominated in their local currency.

Note 3 to the summary of significant accounting policies gives additional information on additional financial risks that the Group could be exposed to.

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. The Company is a member company of the FTSE4Good Index Series. This index identifies companies that meet globally recognised corporate responsibility standards.

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 second 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 in compliance with applicable legislation and best practice.

Environment

Micro Focus complies with applicable 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 but there are areas in which the Company does have an 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.

Board of directors

Kevin Loosemore, 49
(Non-executive Chairman) †‡
Kevin is Executive Chairman of Morse Plc and director of Farnham Castle. He was previously the Chief Operating Officer of Cable & Wireless plc, President of Motorola Europe, Middle East and Africa and, before that, was Chief Executive of IBM UK. He has a degree in politics and economics from Oxford University.

Stephen Kelly, 46
(Executive director and Chief Executive Officer)
Stephen served as Chief Executive Officer of Chordiant from January 2002 until 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.

* Audit committee † Remuneration committee
‡ Nomination committee

Nick Bray, 43
(Executive director and Chief Financial Officer)
Nick was previously Group Finance Director of Fibernet Group plc, having joined that 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.

David Dominik, 52
(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).

From left to right:
Kevin Loosemore, Stephen Kelly, Nick Bray, David Dominik, Prescott Ashe, Paul Pester, David Maloney and Tom Skelton

Prescott Ashe, 41
(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 sciences degree in business administration from the University of California at Berkeley.

Paul Pester, 44
(Non-executive director) *†
Paul was appointed a non-executive director in June 2007; he is currently an independent consultant working in the banking and financial services industry. His most recent executive role was as Chief Executive Officer of Moneyfacts Group plc. Previously he was Managing Director of Consumer Banking at Lloyds TSB Group, Chairman of the British Bankers' Association ("BBA") Retail Committee, a director at VISA International and Chairman of the Travellers Cheque Association. Paul holds a first class honours degree in physics from Manchester University and a doctorate in mathematical physics from Oxford University.

David Maloney, 52
(Non-executive director) *†‡
David is Chairman of Hoseasons Holdings Ltd and a non-executive director of Ludorum plc, Cineworld Group plc, Carillion plc and Enterprise Inns plc. He is also Chairman of the Board of Trustees of Make-a-Wish Foundation (UK). 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.

Tom Skelton, 46
(Non-executive director) *†
Tom is a founding member of Confluence Medical Systems, a healthcare and technology consulting company. In his most recent executive role, he served as Chief Executive Officer for Misys Healthcare Systems from January 2002 until March 2007 and as a director of Misys plc. Prior to that, he was Chief Executive Officer, Medic Computer Systems, a US-based software company focused on the healthcare information technology market. He earned his BSBA from Robert Morris University, Pittsburgh, Pa.

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 2008.

Principal activities

The principal activity of the Group during the year was 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 13 to 14 and the finance review on pages 17 and 21 and is incorporated in this Directors' report by reference. Risk factors are set out on page 22 and key performance indicators ("KPIs") are on page 12.

Dividends

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus with a level of dividend cover for the financial year ended 30 April 2008 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 2008 of 9.4 cents per share, which, taken together with the interim dividend of 3.6 cents per share paid in January 2008, gives a total dividend in respect of 2008 of 13 cents per share. Subject to shareholder approval, the final dividend will be paid on 29 September 2008 to shareholders on the register on 5 September 2008. Dividends will be paid in Sterling based on an exchange rate of 1.99 $/£, equivalent to approximately 4.72 pence per share, being the rate applicable on 26 June 2008, the date of recommendation of the dividend by the board.

Research and development

The Group expensed $29.5 million relating to research and development during the year to 30 April 2008 (2007: $23.1 million). In addition the Group capitalised $5.4 million of qualifying expenditure (2007: $5.3 million). 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 (2007: nil). During the year, the Group made charitable donations of $31,000 to a number of local and national charities (2007: $16,000). This included $6,500 to Street Child Africa, $2,800 to NCH and $2,700 to Great Ormond Street Hospital. The Company has a matching gift programme that matches employee donations to charitable organisations. It also has a policy in place to encourage employees to volunteer a certain number of hours to assist local charitable organisations.

Post balance sheet events

On 18 June 2008, the Company announced that it had acquired NetManage, Inc. for a total cash consideration of $73.3 million paid in full on completion. On close, NetManage had $27.9 million of cash providing for a net cash outflow of $45.4 million. The Company announced on 11 July 2008 that it had acquired Liant Software Corporation for a total cash consideration of $5.0 million. Further information on the acquisitions is to be found 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	(resigned 7 January 2008)
Non-executive	
Kevin Loosemore	(Chairman)
Prescott Ashe	
David Dominik	
David Maloney	
Tom Skelton	
Paul Pester	(appointed 27 June 2007)

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 35 to 41.

None of the directors had a material interest in any contract of significance to which the parent company or a subsidiary was a party during the financial year, except 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. Copies of these indemnities are available for review at the registered office of the Company.

Employment policy

Equal opportunities

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

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 2008 for the Group was 28 days (2007: 35 days).

Financial instruments

The exposure of the Group to financial risks, including the use of financial instruments and policies for hedging and the exposure to price, credit, cash flow and liquidity risk, can be found in note 19 to the financial statements.

Substantial shareholding

In accordance with the Disclosure and Transparency Rules of the Financial Services Authority, at 25 July 2008, 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%
Standard Life Investments Limited	17,872,249	8.92%
Majedie Asset Management Limited	16,330,461	8.17%
Legal and General Group Plc	7,996,159	3.98%
Fidelity International Limited	6,605,572	3.30%

Additional information for shareholders

Following the implementation of the EU Takeover Directive into UK law, the following description provides the required information for shareholders where not already provided elsewhere in this report. This summary is based on the Company's current Articles of Association ("Current Articles") but please note that it is proposed that the Company will adopt new articles of association ("New Articles") with effect from 1 October 2008, brief details of which are set out in the notice of AGM accompanying this report.

Directors' report

Share capital
The Company has a single class of share capital which is divided into ordinary shares of 10 pence each.

Rights and obligations attaching to shares
Voting – in a general meeting of the Company, subject to the provisions of the Current Articles and to any special rights or restrictions as to voting attached to any class of shares in the Company (of which there are none):

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

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

Deadlines for voting rights
Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM to be held on 25 September 2008 are set out in the Notice of Meeting which accompanies this report.

Dividends and distributions
Subject to the provisions of the Companies Act 1985 and the Companies Act 2006 ("the Companies Acts"), the Company may, by ordinary resolution, declare a dividend to be paid to members, but no dividend shall exceed the amount recommended by the board. The board may pay interim dividends, and also any fixed rate dividend, whenever the profits of the Company, in the opinion of the board, justifies its payment. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares.

Liquidation
Under the Current Articles, if the Company is in liquidation, the liquidator may, with the authority of an extraordinary resolution of the Company:

- Divide among the members in specie the whole or any part of the assets of the Company: or
- Vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit.

Transfer of shares
Subject to the Current Articles, any member may transfer all or any of his or her certified shares in writing by an instrument of transfer in any usual form or in any other form which the board may approve. The board may, in its absolute discretion and without giving any reasons, decline to register any instrument of transfer of a certified share which is not a fully paid share provided that, where any such shares are admitted to the official list maintained by the UK Listing Authority, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The board may decline to recognise any instrument of transfer relating to shares in certificated form unless it is in respect of only one class of share and is lodged (duly stamped if required) at the Transfer Office accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do). In the case of a transfer of shares in certificated form by a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange the lodgement of share certificates will only be necessary if and to the extent that certificates have been issued in respect of the shares in question. The directors may also refuse to register an allotment or transfer of shares (whether fully-paid or not) in favour of more than four persons jointly. Subject to the Current Articles and the rules (as defined in the CREST Regulations), and apart from any class of wholly dematerialised security, the board may permit any class of shares in the Company to be held in uncertificated form and, subject to the Current Articles, title to uncertificated shares to be transferred by means of a relevant system.

Repurchase of shares
The Company obtained shareholder authority at the last AGM (held on 26 September 2007) to buy back up to 20,017,543 ordinary shares, which remains outstanding until the conclusion of the next AGM on 25 September 2008. The minimum price which must be paid for such shares is 10 pence and the maximum price payable is the higher of 5% above the average of the mid-market price of the ordinary shares of the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately before the purchase is made and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of expenses).

Amendment to the Current Articles
Any amendments to the Current Articles may be made in accordance with the provisions of the Companies Act 1985 by way of special resolution.

Appointment and replacement of directors

Directors shall be no less than three and no more than 11 in number. Directors may be appointed by the Company by ordinary resolution or by the board. A director appointed by the board holds office only until the next AGM and is then eligible for election by the shareholders and thereafter at least every three years. The board may from time to time appoint one or more directors to hold employment or executive office for such period (subject to the Companies Acts) and on such terms as they may determine and may revoke or terminate any such employment.

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

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

Powers of the directors

The business of the Company will be managed by the board who may exercise all the powers of the Company, subject to the provisions of the Company's memorandum of association, the Current Articles, the Companies Acts and any ordinary resolution of the Company.

Shares held in the Employee Benefit Trust

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

Significant agreements

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

On 13 May 2008 the Company entered into a $40 million credit facility with HSBC Bank Plc and Lloyds TSB Bank Plc for general corporate purposes. On a change of control, the lenders may give not less than five days notice to the Company and cancel the facility and require repayment of any outstanding loans and interest.

Branch

The Group continues to operate overseas branches in Hong Kong and Sweden.

Annual General Meeting ("AGM")

The notice convening the AGM 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 25 September 2008 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 2008

Corporate governance

Introduction

The principal corporate governance guidance that applies to companies listed with the UK Listing Authority that applies to the year is contained in the 2006 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 (2006).

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.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 such non-executive directors not regarded as independent, the Company did not comply with this rule during the year ended 30 April 2008.

- B.2.1 – remuneration committee – The Company is aware that the Chairman is not regarded as independent for purposes of the Combined Code. The Code states that the remuneration committee must comprise at least three independent non-executive directors. Kevin Loosemore resigned as Chairman of the committee on 6 February 2008 and was replaced by Paul Pester. The Company is now 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 on 27 June 2007, 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 35 to 41) 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 2008, the board comprised eight directors:

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

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 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, 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. Tom Skelton and Paul Pester were elected at the AGM 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 retired voluntarily and were re-elected by the shareholders at the Company's AGM in September 2007. Prescott Ashe will be retiring voluntarily and submitting himself for re-election by the shareholders at the AGM of the Company on 25 September 2008. The non-executive directors are appointed for specific terms. Full terms of their appointment are to be found in the remuneration report.

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.

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 2009, the board will schedule meetings 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.

In the year under review, the board met on 15 occasions, six such meetings being scheduled formal board meetings with a further nine additional meetings of the board called at short notice and held by telephone to consider board issues.

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 together with executives responsible for sales and marketing, 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 led by the Senior Independent Director.

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

Corporate governance

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 the purposes of the Combined Code.

Audit committee

The audit committee is comprised entirely of non-executive directors of the Company. It is chaired by David Maloney, who the Board considers has recent and relevant financial experience. The other members are, Tom Skelton and Paul Pester.

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

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

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

The audit committee 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 35 to 41.

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 level of review depends on the size and complexity of the contracts and associated risks. There are formal limits above which the review level is escalated;
- Reconciliations are performed on a timely basis for all major accounts; and
- 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.

Corporate governance

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

Announcements

All major announcements are approved by the Chairman and the 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 brokers to ensure that the policies are appropriate to the Group's activities and exposures.

Attendance at meetings

The number of board meetings and committee meetings attended by each director in the year to 30 April 2008 was as follows:

	Board		Audit committee		Remuneration committee		Nomination committee	
	Held*	Attended	Held*	Attended	Held*	Attended	Held*	Attended
Kevin Loosemore	15	15	1	1	6	6	3	3
Stephen Kelly	15	15	–	–	–	–	–	–
Nick Bray	15	15	–	–	–	–	–	–
Mike Shinya	9	7	–	–	–	–	–	–
David Maloney	15	14	6	6	6	6	3	3
David Dominik	15	14	–	–	–	–	3	3
Prescott Ashe	15	10	–	–	–	–	–	–
Tom Skelton	15	13	6	6	6	6	–	–
Paul Pester	14	13	5	5	6	6	–	–

* During period of appointment.

Note:
Paul Pester was appointed on 27 June 2007.
Kevin Loosemore resigned from the audit committee on 27 June 2007.
Mike Shinya resigned on 7 January 2008.

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 also publishes 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 ("AGM")

The Company's AGM, which will be held on 25 September 2008 at 3pm 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.

Remuneration report

Introduction

This is the Company's remuneration report in respect of the year to 30 April 2008 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 2006 Combined Code on corporate governance relating to directors' remuneration as published by the London Stock Exchange 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 2006 (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 2006, a resolution to approve the remuneration report will be proposed at the Company's AGM on 25 September 2008. 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 has met six times during the financial year. The committee is responsible for reviewing remuneration arrangements for members of the board and for providing general guidance on aspects of remuneration policy throughout the Group. 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 benefit structures throughout the Company or Group; and

- To review the ongoing appropriateness and relevance of the remuneration policy;

Paul Pester replaced Kevin Loosemore as the Chairman of the committee with effect from 6 February 2008. The remuneration committee therefore comprises Paul Pester as Chairman with David Maloney, Tom Skelton and Kevin Loosemore as its other members. 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. 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 advisors to the committee, and which became part of Hewitt Associates Limited during the year), in providing remuneration advice, by Steen and Co, solicitors, by the Company Secretary and by Linklaters, solicitors. Hewitt Associates Limited, trading as Hewitt New Bridge Street provided no other services to the Group. During the year the Chief Executive Officer and Vice President of HR attended some of the meetings by invitation of the committee on specific items, however they did not participate in discussions relating to their own remuneration.

The terms of reference of the committee are available from the Company Secretary.

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 packages of each executive director is determined by the committee.

Remuneration report

No executive director or employee participates in discussions relating to the setting of their own remuneration.

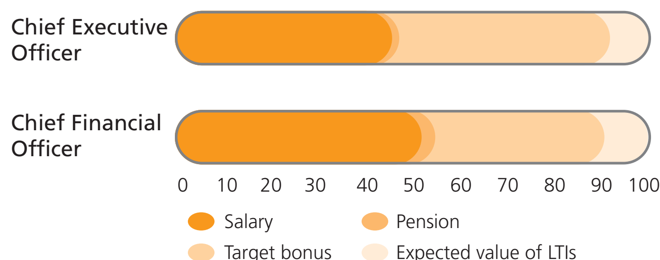
The objective of the Group's remuneration policies is that all employees, including executive directors, should receive appropriate remuneration for their performance, responsibility, skills and experience. Remuneration packages are designed to enable the Group to attract and retain key employees by 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 considers 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.

The chart below shows the relative mix of the remuneration package at "target" for the executive directors (ie assuming they earn a target bonus and their share option grants have an expected value of approximately 20% of their face value).



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.

With regard to the executive director, Mike Shinya, who resigned during the year, the service contract dated 24 July 2006 and amending deed dated 26 February 2007 provided for a base salary of £250,000 and required the Company to give six months' notice of termination. Mike Shinya was required to give six months' notice of termination of his employment.

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 does not serve as a non-executive director for any company. The executive directors may not 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 re-appointment letters with the Company which became effective on 4 April 2008. Prescott Ashe and David Dominik are non-independent directors of the Company and signed re-appointment letters with the Company on 12 April 2008 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. Tom Skelton and Paul Pester were elected at the AGM 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, David Maloney and David Dominik retired voluntarily and were re-elected at the Company's AGM in September 2007. Prescott Ashe will be retiring voluntarily and submitting himself for re-election by the shareholders at the AGM of the Company on 25 September 2008. 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 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 Hewitt New Bridge Street in making these comparisons.

With effect from 1 July 2008, the salaries of the executive directors are as follows:

- Stephen Kelly £330,000*
- Nick Bray £220,000*

* With effect from 1 July 2008, the committee agreed to increase each of the executive directors' salaries by 10% (from £300,000 to £330,000 for Stephen Kelly and from £200,000 to £220,000 for Nick Bray) reflecting both the increased scale of the roles in line with the growth of the Company and current market salaries.

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 target.

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 2008 are detailed in the remuneration tables on page 39. Bonuses are awarded wholly in cash. The performance targets for Stephen Kelly were substantially met, resulting in a bonus of 105% of salary. The performance targets for Nick Bray were also substantially met, resulting in a bonus of 73% of salary. In respect of the year 2008/2009 the cap on bonuses payable to Stephen Kelly remain at 150% of salary and 100% of salary for Nick Bray.

Remuneration report

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 to the London Stock Exchange in 2005. This is intended to provide a flexible framework to allow the Company to make awards of free shares in the form of nil-cost options, conditional awards or forfeitable shares, or to grant market value options ("awards"). Currently, the Company's on-going policy is to make awards of market value options, to the executive directors and market value options or nil cost options to other senior and key employees.

The targets for market value option awards made to the executive directors during the year ended 30 April 2008 have been reviewed by the committee. These 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.

Previously, market value options granted to executive directors were subject to a performance condition measuring the Company's earnings per share ("EPS") growth and revenue growth over three financial years. The performance condition applying to awards granted in the 12 months to 30 April 2007 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 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%.

In addition the targets for market value option awards made to the executive directors on 3 July 2008 have been reviewed by the committee. These 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 the award or, in the case of market value options, 50% of the market value of the shares under option at the time of the award. This limit may be exceeded only where the committee determines that there are exceptional circumstances.

During the previous 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.

All-employee share incentives

Executive directors are entitled to participate in the Company Sharesave scheme. Under the Sharesave scheme UK employees are eligible to acquire shares in the Company at a discount of up to 20% of the market value at grant if they agree to enter into a savings contract for a period. Consistent with the relevant legislation, no performance conditions apply.

Pension contributions

All employees, including executive directors, are invited to participate in a Group Personal Pension Plan. All major schemes are money purchase in nature and have no defined benefits. 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.

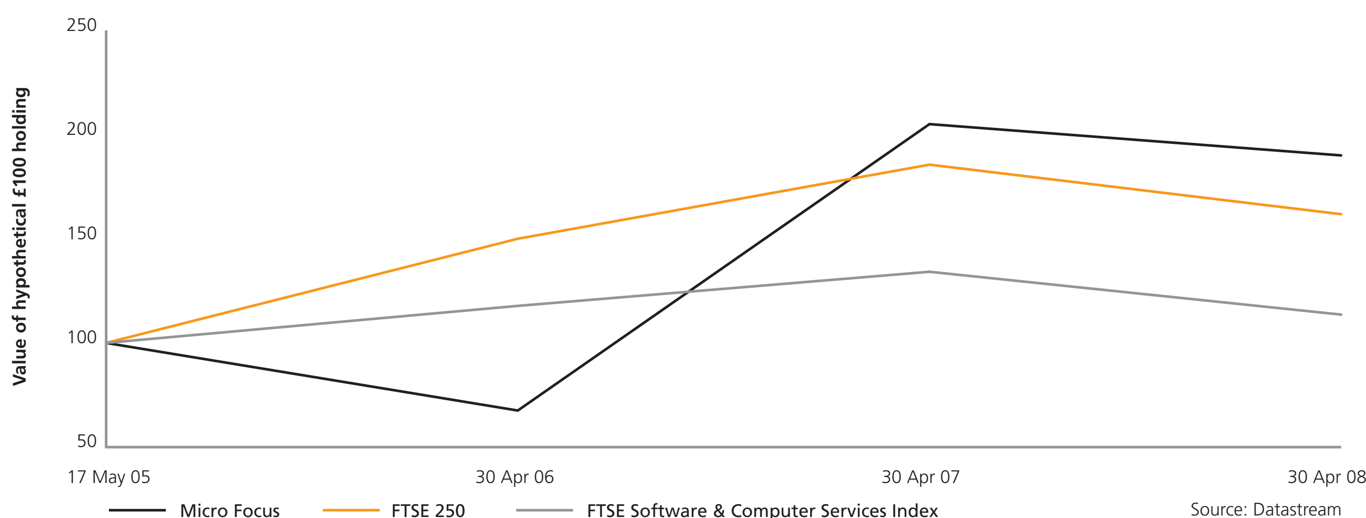
The Company contributions for the executive directors are 5% of salary.

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.

Total shareholder return



This graph shows the value, by 30 April 2008, 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. The graph above shows the performance of the Company relative to the FTSE 250 and the FTSE Software & Computer Services indices which have been chosen as they are considered to be the most relevant indices for the Company.

Audited information

Detailed emoluments of the directors of the Group

The aggregate remuneration paid to directors during the year ending 30 April 2008 was as follows:

	Base salary and fees £'000	Bonus £'000	Benefits in kind £'000	Pensions £'000	Compensation for loss of office £'000	Total 2008 £'000	Total 2007 £'000
Executive directors							
Stephen Kelly	**300**	**315**	**21**	**15**	**–**	**651**	769
Nick Bray	**197**	**146**	**13**	**10**	**–**	**366**	377
Mike Shinya (resigned 7 January 2008)	**179**	**–**	**15**	**8**	**112**	**314**	93
Total	**676**	**461**	**49**	**33**	**112**	**1,331**	1,239
Non-executive directors							
Kevin Loosemore	**146**	**–**	**–**	**–**	**–**	**146**	152
David Maloney	**60**	**–**	**–**	**–**	**–**	**60**	60
Tom Skelton	**38**	**–**	**–**	**–**	**–**	**38**	16
Paul Pester (appointed 26 June 2007)	**38**	**–**	**–**	**–**	**–**	**38**	–
John Browett (resigned 27 September 2006)	**–**	**–**	**–**	**–**	**–**	**–**	20
Total	**282**	**–**	**–**	**–**	**–**	**282**	248

In the year ended 30 April 2007, £27,000 was paid to Mr Loosemore as additional remuneration when acting as interim Chief Executive Officer.

The compensation for loss of office payment to Mike Shinya was made in accordance with the terms of his service contract.

Non-executive director fees for the year were £150,000 for the Chairman, Kevin Loosemore, effective 1 July 2007 (2007: £125,000); £60,000 for the Senior Independent Director, David Maloney (2007: £60,000), £40,000 for each of Tom Skelton (2007: £30,000 pro-rated) and Paul Pester (pro-rated). Paul Pester's fees were increased to £45,000, effective 6 February 2008, to reflect his appointment as Chairman of the remuneration committee. Non-executive fees are subject to periodic review. David Maloney's fees were increased to £65,000 effective 1 July 2008.

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 2008 (2007: nil). David Dominik and Prescott Ashe are directors of Golden Gate Capital.

Remuneration report

Directors' interests in share capital

At 30 April 2008 the directors owned the following shares in the Company including interests held by their connected persons were:

Director	At 30 April 2008	At 30 April 2007 or date of appointment if later
Kevin Loosemore	**500,000**	450,000
Stephen Kelly	**125,000**	125,000
Nick Bray	**57,770**	77,770
David Maloney	**50,000**	50,000
David Dominik	**–**	–
Prescott Ashe	**–**	–
Tom Skelton	**–**	–
Paul Pester	**–**	–

As at 31 July 2008 there had been no changes to these interests except for 200,000 shares held by a connected person of Kevin Loosemore which were sold on 18 July 2008.

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

The following grants made to the executive directors under the terms of the Plan are as follows:

	Number						
	At 1 May 2007	Granted in year	Exercised in year	Lapsed in year	At 30 April 2008	Exercise price	Dates of exercise
Stephen Kelly[2]	1,153,846	–	–	–	**1,153,846**	104.0p	17 July 2009 to 16 July 2016
Stephen Kelly[3]	–	169,332	–	–	**169,332**	265.75p	12 July 2010 to 11 July 2017
Nick Bray[1]	412,955	–	–	–	**412,955**	123.5p	11 January 2009 to 10 January 2016
Nick Bray[2]	100,000	–	–	–	**100,000**	104.0p	17 July 2009 to 16 July 2016
Nick Bray[3]	–	75,258	–	–	**75,258**	265.75p	12 July 2010 to 11 July 2017
Mike Shinya[2]	717,703	–	–	(717,703)	**–**		
Total	**2,384,504**	**244,590**	**–**	**(717,703)**	**1,911,391**		

1 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%.

2 The performance condition applying to awards granted in the 12 months to 30 April 2007 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%. Mike Shinya's LTIP options lapsed upon his resignation on 7 January 2008.

3 The performance conditions applying to awards granted in the 12 months to 30 April 2008 require that, for any shares to vest, 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.

On 3 July 2008 market value option awards were granted to Stephen Kelly over 134,831 shares and Nick Bray over 89,888 shares, in each case at an exercise price of 244.75 pence. Dates of exercise are from 3 July 2011 to 2 July 2018. The targets for these awards 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.

LTIP – Matching Share Scheme

During the prior year the following grants were made to the executive directors in accordance with the terms of the Plan:

	Number				
	At 1 May 2007	Lapsed in year	**At 30 April 2008**	Exercise price	Vesting date
Stephen Kelly	125,000	–	**125,000**	10p	11 January 2010
Nick Bray	20,000	(20,000)	**–**	10p	
Nick Bray	57,659	–	**57,659**	10p	17 October 2009
Mike Shinya	239,234	(239,234)	**–**	10p	
Total	**441,893**	**(259,234)**	**182,659**		

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. Mike Shinya's matching shares lapsed upon his resignation on 7 January 2008. 20,000 of Nick Bray's matching shares lapsed on 3 September 2007 following disposal by him of 20,000 of the linked purchase shares.

Sharesave

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

	Number					
	At 1 May 2007	Granted in year	Lapsed in year	**At 30 April 2008**	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)	**–**		
Total	**22,260**	**–**	**(11,130)**	**11,130**		

These options are not subject to performance conditions since performance conditions do not apply to this all-employee share scheme. Mike Shinya's Sharesave options lapsed upon his resignation on 7 January 2008.

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 2008 was 233.75 pence and during the year the price varied between 171.25 pence and 355.50 pence.

On behalf of the board,

Paul Pester Chairman of the remuneration committee
31 July 2008

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 (IFRS) 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 IFRS 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; and
- 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 2008

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 2008 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 2008 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 ("IFRS") 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 presented in the Chief Executive Officer's statement and the Finance review that is cross referenced in the review of business and future developments section 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 (2006) 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 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 judgments 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 2008 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 2008

Consolidated income statement

for the year ended 30 April 2008

	Notes	**2008 $'000**	2007 $'000
Revenue	1,2	**228,196**	171,590
Cost of sales		**(22,582)**	(18,148)
Gross profit		**205,614**	153,442
Selling and distribution costs		**(63,233)**	(45,592)
Research and development expense		**(29,484)**	(23,051)
Administrative expenses		**(38,105)**	(27,532)
Operating profit		**74,792**	57,267
Analysed as:			
Operating profit before exceptional items		**81,294**	62,128
Exceptional items	3	**(6,502)**	(4,861)*
Operating profit		**74,792**	57,267
Finance costs	5	**(12)**	(70)
Finance income	5	**2,043**	2,810
Profit before tax	1,3	**76,823**	60,007
Taxation	6	**(21,404)**	(16,143)
Profit after tax		**55,419**	43,864
Earnings per share expressed in cents per share			
– basic	8	**27.67**	21.96
– diluted	8	**26.97**	21.37
Earnings per share expressed in pence per share			
– basic	8	**13.79**	11.49
– diluted	8	**13.44**	11.18

* Stock-based compensation has been reclassified from exceptional to non-exceptional items as disclosed in note 3.

All results are from continuing operations.

The notes on pages 48 to 73 are an integral part of these consolidated financial statements.

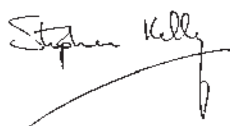
Consolidated balance sheet

as at 30 April 2008

	Notes	2008 $'000	2007 $'000
Assets			
Non-current assets			
Goodwill	9	**65,784**	42,533
Other intangible assets	10	**35,282**	18,245
Property, plant and equipment	11	**4,359**	2,543
Deferred tax assets	20	**15,577**	10,813
		121,002	74,134
Current assets			
Inventories	12	**192**	255
Trade and other receivables	13	**59,205**	44,031
Cash and cash equivalents	14	**92,405**	84,971
		151,802	129,257
Total assets		**272,804**	203,391
Liabilities			
Current liabilities			
Trade and other payables	15	**103,859**	76,612
Current tax liabilities	16	**19,245**	17,023
Financial liabilities – borrowings	17	**–**	72
		123,104	93,707
Non-current liabilities			
Non-current deferred income	18	**6,518**	7,265
Deferred tax liabilities	20	**16,660**	10,873
Financial liabilities – borrowings	17	**–**	41
		23,178	18,179
Net assets		**126,522**	91,505
Shareholders' equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	21	**36,837**	36,767
Share premium	22	**103,904**	104,054
Profit and loss reserve (deficit)		**12,679**	(23,394)
Foreign currency translation reserve		**187**	1,163
Other reserves (deficit)		**(27,085)**	(27,085)
Total shareholders' equity		**126,522**	91,505

The notes on pages 48 to 73 are an integral part of these consolidated financial statements.

The financial statements on pages 44 to 73 were approved by the board of directors on 31 July 2008 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 2008

	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 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
Currency translation differences	–	–	(976)	–	–	(976)
Profit for the year	–	–	–	–	55,419	55,419
Dividends	–	–	–	–	(21,229)	(21,229)
Issue of share capital	70	–	–	–	–	70
Movement in relation to share options	–	(150)	–	–	1,487	1,337
Deferred tax on share options	–	–	–	–	396	396
Balance as at 30 April 2008	**36,837**	**103,904**	**187**	**(27,085)**	**12,679**	**126,522**

The notes on pages 48 to 73 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 30 April 2008

	Notes	2008 $'000	2007 $'000
Cash flows from operating activities			
Cash generated from operations	23	**96,188**	58,170
Interest received		**2,051**	2,780
Interest paid		**(12)**	(70)
Tax paid		**(18,193)**	(7,316)
Net cash from operating activities		**80,034**	53,564
Cash flows from investing activities			
Payments for intangible assets	10	**(6,272)**	(5,456)
Purchase of property, plant and equipment	11	**(3,183)**	(830)
Acquisition of subsidiary	28	**(41,576)**	(4,832)
Net cash acquired with subsidiary	28	**678**	(1,218)
Net cash used in investing activities		**(50,353)**	(12,336)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**71**	125
Repayment of borrowings		**(113)**	(46)
Dividends paid to shareholders	7	**(21,229)**	(13,981)
Net cash used in financing activities		**(21,271)**	(13,902)
Effects of exchange rate changes		**(976)**	1,579
Net increase in cash and cash equivalents		**7,434**	28,905
Cash and cash equivalents at 1 May 2007		**84,971**	56,066
Cash and cash equivalents at 30 April 2008	14	**92,405**	84,971

The notes on pages 48 to 73 are an integral part of these consolidated financial statements.

Summary of significant accounting policies

for the year ended 30 April 2008

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 as modified by the share options at fair value through the income statement.

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, critical accounting estimates and assumptions.

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.

Summary of significant accounting policies

for the year ended 30 April 2008

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

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:

Trade names	Three years
Technology	Seven to ten years
Customer relationships	Two to ten years
Non-compete agreements	Five 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.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

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.

Summary of significant accounting policies

for the year ended 30 April 2008

1 Group accounting policies (continued)

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.

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 Financial instruments and hedge accounting

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

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

S Adoption of new and revised International Financial Reporting Standards

At the date of approval of these financial statements, the following standards, amendments and interpretations were issued but not yet mandatory effective for the Group:

International Financial Reporting Standards "IFRS"

- IFRS 8, Operating Segments – 1 January 2009

International Financial Reporting Interpretations Committee ("IFRIC") interpretations:

- IFRIC 12, Service Concession arrangements – 1 January 2008
- IFRIC 13, Customer Loyalty Programmes – 1 July 2008
- IFRIC 14, IAS19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – 1 January 2009

Amendments to existing standards:

- Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures – 1 January 2009
- Amendment to IAS 23, Borrowing Costs – 1 January 2009
- Amendment to IAS 27, Consolidated and Separate Financial Statements – 1 January 2010
- Amendment to IFRS 2, Share-based Payment – Vesting Conditions and Cancellations – 1 January 2009
- Amendment to IFRS 3, Business Combinations – 1 January 2010

All the IFRS, IFRIC interpretations and amendments to existing standards had been adopted by the EU at the date of approval of these consolidated statements with the exception of: IFRS 8, IFRIC 12, IFRIC 13, IFRIC 14, IAS 23 (revised), IFRS 2 (revised) and IFRS 3 (revised).

The implementation date for the above will be the annual period beginning on or after the date shown.

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

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 I. 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 and other intangibles is tested annually or whenever there are changes in circumstances indicating that the carrying amounts may not be recoverable. These tests require the use of estimates.

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 Ic). 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 Financial risk factors

The Group's multi-national operations expose it to a variety of financial risks that include the effects of changes in credit 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 2008.

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 2008

1 Segmental reporting

Primary reporting format – geographical segments

	Year ended 30 April 2008			
	North America $'000	Europe and the Middle East $'000	Rest of the world $'000	Total $'000
Revenue	**96,482**	**96,018**	**35,696**	**228,196**
Segment result (operating profit) before exceptional items	12,384	68,154	756	81,294
Exceptional items	(3,094)	(3,408)	–	(6,502)
Segment result (operating profit)	9,290	64,746	756	74,792
Finance income – net				2,031
Profit before tax				**76,823**
Taxation				(21,404)
Net profit attributable to equity shareholders				**55,419**
Segment assets	74,992	135,979	10,974	221,945
Unallocated assets:				
Other intangible assets (note 10)				35,282
Deferred tax assets (note 20)				15,577
Total assets				**272,804**
Segment liabilities	71,455	26,004	12,918	110,377
Unallocated liabilities:				
Current and deferred tax liabilities				35,905
Total liabilities				**146,282**
Other segment items				
Capital expenditure (note 11)	1,275	1,850	58	3,183
Depreciation (note 11)	460	1,085	58	1,603
Share-based compensation	167	1,143	27	1,337
Amortisation of intangible assets (note 10)				9,590

	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	56,424	1,020	62,128
Exceptional items	(1,726)	(3,131)	(4)	(4,861)
Segment result (operating profit)	2,958	53,293	1,016	57,267
Finance costs – 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
Share-based compensation	96	737	16	849
Amortisation of intangible assets (note 10)				5,972

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.

Notes to the financial statements

for the year ended 30 April 2008

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.

	2008 $'000	2007 $'000
Licence	**113,314**	82,652
Maintenance	**104,144**	82,056
Consulting	**10,738**	6,882
Total	**228,196**	171,590

3 Profit before tax

Profit before tax is stated after charging:

	Note	2008 $'000	2007 $'000
Staff costs	24	**89,581**	68,247
Depreciation of property, plant and equipment			
– owned assets	11	**1,593**	1,038
– assets under finance lease	11	**10**	131
Amortisation of intangibles	10	**9,590**	5,972
Changes in inventories of finished goods		**63**	76
Operating lease rentals payable			
– plant and machinery		**1,366**	1,151
– other		**4,908**	4,247

Exceptional items

	2008 $'000	2007 $'000
Reorganisation costs	**6,502**	4,861

Current year reorganisation costs relate to restructuring programmes carried out in Europe and the USA resulting from the acquisition of Acucorp, Inc. The prior year reorganisation costs relate to restructuring programmes carried out in Europe, the USA and at HAL Knowledge Solutions SpA.

Severance costs included within reorganisation costs are not included within staff costs disclosed in note 24.

In prior periods, the directors considered share-based compensation to be of an exceptional nature due to the accelerated payments made at the time of the Company's flotation. The directors have reviewed the classification and believe that on an on-going basis these costs are no longer exceptional in nature and have reclassified the expenditure accordingly. The impact is to reduce exceptional items by $1.3 million (2007: $0.8 million).

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:

	2008 $'000	2007 $'000
Audit services		
– Fees payable to the Company auditor for the audit of the parent Company and consolidated accounts	**98**	114
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	**314**	373
– Services related to taxation	**828**	317
– Other services pursuant to legislation	**34**	30
– Other services	**302**	30
Total	**1,576**	864

The Group's auditors, PricewaterhouseCoopers LLP, provide non-audit services for the Group over and above the external audit (principally tax compliance, tax advice and due diligence work). The board of directors reviews the level of non-audit fees and 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 relate to due diligence.

4 Reconciliation of operating profit to EBITDA

	2008 $'000	2007 $'000
Operating profit	**74,792**	57,267
Exceptional items – reorganisation costs	**6,502**	4,861
Share-based compensation charge	**1,337**	849
Amortisation of purchased intangibles	**3,946**	532
Adjusted operating profit	**86,577**	63,509
Depreciation	**1,603**	1,169
Amortisation of software	**337**	608
Adjusted EBITDA	**88,517**	65,286
EBITDA	**80,678**	59,576
Exceptional items – reorganisation costs	**6,502**	4,861
Share-based compensation charge	**1,337**	849
Adjusted EBITDA	**88,517**	65,286

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

Notes to the financial statements

for the year ended 30 April 2008

5 Interest payable/receivable and similar charges

	2008 $'000	2007 $'000
Finance costs		
Interest expense on bank borrowings	**11**	61
Interest expense on finance leases	**1**	9
Total	**12**	70

Finance income

Finance income consists of interest receivable, which relates to interest on bank deposits.

6 Taxation

	2008 $'000	2007 $'000
Current tax		
Current year	**21,574**	15,176
Adjustments to tax in respect of previous years	**(1,569)**	–
	20,005	15,176
Deferred tax		
Current year	**1,329**	1,537
Adjustments to tax in respect of previous years	**70**	(570)
	1,399	967
Total	**21,404**	16,143

Deferred tax of $0.4 million (2007: $1.6 million) 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.

	2008 $'000	2007 $'000
Profit before taxation	**76,823**	60,007
Tax calculated at domestic tax rates applicable to profits in the respective countries	**23,047**	18,507
Effects of:		
Adjustments to tax in respect of previous years – current tax	**(1,569)**	–
Adjustments to tax in respect of previous years – deferred tax	**70**	(570)
Expenses not deductible for tax purposes	**1,891**	551
Losses not recognised	**–**	1,121
Utilisation of unrecognised tax losses	**(844)**	(377)
Other	**(1,191)**	(3,089)
Total taxation	**21,404**	16,143

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

	2008 $'000	2007 $'000
2007 final paid 7 cents (2006: 4 cents) per ordinary share	**14,016**	7,983
2008 interim paid 3.6 cents (2007: 3 cents) per ordinary share	**7,213**	5,998
	21,229	13,981

Whilst the Group as a whole had a deficit in its profit and loss reserve at 30 April 2007 and throughout most of the year to 30 April 2008, 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 2007 and the interim dividend relating to the year ended 30 April 2008. The directors are proposing a final dividend in respect of the year ended 30 April 2008 of 9.4 cents per share which will utilise $18.8 million of shareholders' funds. 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.

	2008			2007		
	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	**55,419**	**200,268**	**27.67**	43,864	199,744	21.96
Effect of dilutive securities						
Options		**5,216**			5,562	
Diluted EPS						
Earnings attributable to ordinary shareholders	**55,419**	**205,484**	**26.97**	43,864	205,306	21.37
Supplementary EPS to exclude exceptional items						
Basic EPS	**55,419**	**200,268**	**27.67**	43,864	199,744	21.96
Adjusted items[1]	**11,785**			6,242		
Tax relating to above items	**(2,954)**			(1,402)		
Basic EPS – adjusted	**64,250**	**200,268**	**32.08**	48,704	199,744	24.38
Diluted EPS	**55,419**	**205,484**	**26.97**	43,864	205,306	21.37
Adjusted items[1]	**11,785**			6,242		
Tax relating to above items	**(2,954)**			(1,402)		
Diluted EPS – adjusted	**64,250**	**205,484**	**31.27**	48,704	205,306	23.72

1 Adjusted items comprise amortisation of acquired intangibles, share-based compensation and exceptional costs.

Earnings per share expressed in pence has used the exchange rate of $2.01 to £1 (2007: $1.91 to £1).

Notes to the financial statements

for the year ended 30 April 2008

9 Goodwill

	2008 $'000	2007 $'000
Cost and net book amount		
At 1 May 2007	42,533	42,404
Acquisition (note 28)	23,321	129
Adjustment relating to prior years	(70)	–
At 30 April 2008	**65,784**	42,533

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

	2008 $'000	2007 $'000
North America	**47,521**	24,200
Europe and the Middle East	**14,824**	14,894
Rest of the world	**3,439**	3,439
At 30 April 2008	**65,784**	42,533

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

Goodwill is allocated to the Group's cash generating units (CGUs) which represent the operations of a country or, in more material operations, divisions within a country. For each CGU the Group has determined its recoverable amount. The recoverable amount is determined based on value-in-use calculations. No impairment charge was required in the year (2007: $Nil) and the cumulative impairment charge recognised to date is $Nil (2007: $Nil).

The key assumption used in the impairment calculations is the forecast operating cash flows for the next five years based on approved budgets and plans. These budgets and plans are based on past performance and expectations for the market development of the CGU. In the case of the business relating to the acquisition of HAL Knowledge Solutions SpA in the prior financial year cash flows beyond the five-year period are extrapolated using an estimated growth rate of 20%, which does not exceed the long-term estimate for the business in which the CGU operates.

The resulting cash flows were discounted using a post-tax discount rate of 8.9% (2007: 8.9%).

Sensitivity analysis as at 30 April 2008 has indicated that no reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recorded in the financial statements.

10 Other intangible assets

	Purchased software $'000	Development costs $'000	Technology $'000	Trade names $'000	Customer relationships $'000	Non-compete agreements $'000	Total $'000
Cost							
At 1 May 2007	4,333	26,426	10,904	–	–	–	41,663
Exchange adjustments	110	–	–	–	–	–	110
Additions	884	5,388	–	–	–	–	6,272
Acquisition (note 28)	–	–	7,818	1,175	10,960	292	20,245
Disposals	(6)	–	–	–	–	–	(6)
At 30 April 2008	**5,321**	**31,814**	**18,722**	**1,175**	**10,960**	**292**	**68,284**
Aggregate amortisation and impairment							
At 1 May 2007	4,107	18,779	532	–	–	–	23,418
Exchange adjustments	–	–	–	–	–	–	–
Charge for the year	338	5,306	2,181	392	1,314	59	9,590
Disposals	(6)	–	–	–	–	–	(6)
At 30 April 2008	**4,439**	**24,085**	**2,713**	**392**	**1,314**	**59**	**33,002**
Net book amount at 30 April 2008	**882**	**7,729**	**16,009**	**783**	**9,646**	**233**	**35,282**
Net book amount at 1 May 2007	226	7,647	10,372	–	–	–	18,245

	Purchased software $'000	Development costs $'000	Technology $'000	Trade names $'000	Customer relationships $'000	Non-compete agreements $'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

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

11 Property, plant and equipment

	Leasehold improvements $'000	Computer equipment $'000	Fixtures and fittings $'000	Total $'000
Cost				
At 1 May 2007	1,705	5,705	1,680	9,090
Exchange adjustments	83	61	76	220
Additions	1,087	1,659	437	3,183
Acquisition	20	296	129	445
Disposals	(22)	(727)	(191)	(940)
At 30 April 2008	**2,873**	**6,994**	**2,131**	**11,998**
Depreciation				
At 1 May 2007	752	4,717	1,078	6,547
Exchange adjustments	25	56	33	114
Charge for the year	440	920	243	1,603
Disposals	(22)	(574)	(29)	(625)
At 30 April 2008	**1,195**	**5,119**	**1,325**	**7,639**
Net book amount at 30 April 2008	**1,678**	**1,875**	**806**	**4,359**
Net book amount at 1 May 2007	953	988	602	2,543

Notes to the financial statements

for the year ended 30 April 2008

11 Property, plant and equipment continued

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

	2008 $'000	2007 $'000
Cost	–	368
Aggregate depreciation	–	(292)
Net book amount	**–**	76

	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

12 Inventories

	2008 $'000	2007 $'000
Finished goods	**192**	255

13 Trade and other receivables

	2008 $'000	2007 $'000
Trade receivables	**52,676**	35,634
Less: provision for impairment of trade receivables	**(1,217)**	(242)
Trade receivables net	**51,459**	35,392
Prepayments	**3,659**	4,581
Accrued income	**4,087**	4,058
Total	**59,205**	44,031

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. In determining the recoverability of a trade receivable, the Group considers the ageing of each debtor and any change in the circumstances of the individual debtor. Due to this, management believe there is no further credit risk provision required in excess of the normal provision for doubtful receivables. At 30 April 2008, the carrying amount approximates the fair value of the instrument due to the short-term nature of the instrument.

At 30 April 2008, trade receivables of $7.8 million (2007: $8.9 million) were past due but not impaired. These relate to a large number of independent companies for whom there is no recent history of default. The amounts are regarded as recoverable. The average age of these receivables was 32 days in excess of due date (2007: 34 days).

As at 30 April 2008, trade receivables of $1.1 million (2007: $0.4 million) were either partially or fully impaired. The amount of the provision was $1.2 million (2007: $0.2 million). The ageing of these receivables is as follows:

	2008 $'000	2007 $'000
Three to four months	**434**	135
Over four months	**692**	223
Total	**1,126**	358

14 Cash and cash equivalents

	2008 $'000	2007 $'000
Cash at bank and in hand	**25,626**	13,521
Short-term bank deposits	**66,779**	71,450
Total	**92,405**	84,971

The effective interest rate on short-term deposits was 2.8% (2007: 4.6%) and these deposits have an average maturity of three days (2007: four days).

At 30 April 2008, the carrying amount approximates the fair value of the instrument due to the instrument bearing interest at market rates and/or the short-term nature of the instrument.

Notes to the financial statements

for the year ended 30 April 2008

15 Trade and other payables – current

	2008 $'000	2007 $'000
Trade payables	**4,964**	4,374
Other tax and social security payable	**4,477**	185
Accruals	**26,053**	21,750
Deferred income	**68,365**	50,303
Total	**103,859**	76,612

At 30 April 2008, the carrying amount approximates to fair value of the instrument due to the short-term nature of the instrument.

16 Current tax liabilities

	2008 $'000	2007 $'000
Corporation tax	**19,245**	17,023

17 Financial liabilities – borrowings

	2008 $'000	2007 $'000
Due within one year		
Finance lease obligations	**–**	72
Total	**–**	72

	2008 $'000	2007 $'000
Due after more than one year		
Finance lease obligations	**–**	41
Total	**–**	41

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

	2008 $'000	2007 $'000
Finance lease liabilities – minimum lease payments:		
Not later than one year	**–**	82
More than one year, but not more than two years	**–**	48
	–	130
Future finance charges on finance leases	**–**	(17)
Present value of finance lease liabilities	**–**	113

The Group did not have any finance lease liabilities at 30 April 2008.

18 Other non-current liabilities

	2008 $'000	2007 $'000
Deferred income	**6,518**	7,265

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 2008 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:

	2008 $'000	2007 $'000
Between one and two years	–	41
	–	41

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

	2008	2007
Finance lease obligations	–	8.5%

The Group's other currency exposures comprise only those that give rise to net currency gains and losses to be recognised in the income statement. Such exposures reflect the monetary assets and liabilities of the Group that are not denominated in the operating or functional currency of the operating unit involved. At 30 April 2008 and 30 April 2007, these exposures are immaterial to the Group.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity", as shown in the consolidated balance sheet, plus net debt.

At 30 April 2008, the Group did not have net debt and therefore no gearing. As outlined in note 30, borrowing facilities, the Company entered into a $40 million credit facility on 13 May 2008 which can be used for general corporate purposes.

Notes to the financial statements

for the year ended 30 April 2008

20 Deferred tax

	2008 $'000	2007 $'000
Net deferred tax liability		
Beginning of the year	(60)	(728)
Charged to income statement	(1,399)	(967)
Credited directly to equity	396	1,635
Acquisition of subsidiary	(20)	–
End of the year	**(1,083)**	(60)

	Tax losses $'000	Other temporary differences $'000	Total $'000
Deferred tax assets			
At 1 May 2007	4,426	6,387	10,813
Charged to income statement	(46)	(1,235)	(1,281)
Credited directly to equity	–	396	396
Acquisition of subsidiary	3,974	1,675	5,649
At 30 April 2008	**8,354**	**7,223**	**15,577**

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.

	Other temporary differences $'000	Total $'000
Deferred tax liabilities		
At 1 May 2007	10,873	10,873
Charged to income statement	118	118
Acquisition of subsidiary	5,669	5,669
At 30 April 2008	**16,660**	**16,660**

21 Called up share capital

	2008 $	2007 $
Authorised		
2,500,000,000 ordinary shares of £0.10 each	**476,770,000**	476,770,000
Total authorised share capital	**476,770,000**	476,770,000

	2008		2007	
	Number	**$**	Number	$
Issued and fully paid				
Ordinary shares of £0.10 each	**200,430,656**	**36,836,791**	200,068,405	36,767,042
Total allotted, called up and fully paid share capital	**200,430,656**	**36,836,791**	200,068,405	36,767,042

Potential issues of ordinary shares

Certain employees hold options to subscribe for shares in the Company at prices ranging from 1 pence to 292.25 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 2008 was 6,369,627 (2007: 6,946,407). 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.

22 Share premium account

	2008 $'000	2007 $'000
Beginning of year	104,054	103,641
Adjustment to premium on shares issued during prior year	–	3
Movement in relation to share options	(150)	410
End of the year	**103,904**	104,054

23 Cash generated from operations

	Note	2008 $'000	2007 $'000
Continuing operations			
Net profit		**55,419**	43,864
Adjustments for:			
Net interest		**(2,031)**	(2,740)
Taxation	6	**21,404**	16,143
Depreciation	11	**1,603**	1,169
Loss on disposal of property, plant and equipment		**9**	26
Amortisation of intangibles	10	**9,590**	5,972
Share-based compensation		**1,337**	849
Changes in working capital:			
Inventories		**118**	76
Trade and other receivables		**(9,469)**	(5,532)
Payables and other non-current liabilities		**18,208**	(1,657)
Cash generated from continuing operations		**96,188**	58,170

Notes to the financial statements

for the year ended 30 April 2008

24 Employees and directors

	2008 $'000	2007 $'000
Staff costs		
Wages and salaries	**75,789**	58,641
Social security costs	**9,859**	6,713
Other pension costs (note 25)	**2,596**	2,044
Cost of employee share schemes	**1,337**	849
Total	**89,581**	68,247

	2008	2007
Average monthly number of people (including executive directors) employed by business group:		
Sales and distribution	**229**	182
Research and development	**190**	141
General and administration	**172**	144
Total	**591**	467

	2008 $'000	2007 $'000
Key management compensation		
Salaries and short-term employee benefits	**5,629**	4,980
Post-employment benefits	**121**	92
Share-based payments	**667**	513
Total	**6,417**	5,585

The key management figures above include the executive management team and 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	2008 Expected	2007 Expected
At 1 May 2007	1,329,905	1p – 29p	8p		
Exercised	(362,251)		6p		
Forfeited	(63,572)		6p		
At 30 April 2008	**904,082**	**1p – 29p**	**7p**	**0.0**	**0.0**

The weighted average share price for options exercised during the period was 273 pence.

No amount was charged through the income statement (2007: 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): 2008 Expected	2007 Expected
At 1 May 2007	4,663,580	10p – 251.5p	89p		
Forfeited	(1,430,515)		101p		
Granted	1,329,154		244p		
At 30 April 2008	**4,562,219**	**10p – 292.25p**	**131p**	**1.4**	**2.6**

The amount charged to the income statement in respect of the scheme was $1.2 million (2007: $0.7 million).

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	30 October 2006	13 December 2006
Shares under option	50,000	944,129	1,923,850	84,000	209,659
Share price at grant date	156.7p	123.5p	104p	144p	198p
Exercise price	10p	10p – 123.5p	104p	144p	10p – 198p
Expected volatility	33%	33%	33%	34%	34%
Expected option life (years)	3	3	3	3	3
Expected dividend yield	3%	3%	3%	2%	2%
Risk-free interest rate	4.25%	4.25%	4.25%	5.09%	5.09%
Fair value per option	143.2p	27.1p – 103.1p	22.8p	36.4p	50.0p – 186.5p

Grant date	21 December 2006	22 January 2007	21 February 2007	12 July 2007	17 August 2007	11 October 2007
Shares under option	46,000	125,000	47,000	842,090	20,000	2,500
Share price at grant date	211p	204p	251.5p	265.8p	271.5p	292.3p
Exercise price	211p	10p	251.5p	265.8p	271.5p	292.3p
Expected volatility	34%	34%	34%	54%	54%	54%
Expected option life (years)	3	3	3	3	3	3
Expected dividend yield	2%	2%	2%	1.8%	1.8%	1.8%
Risk-free interest rate	5.09%	5.09%	5.09%	4.93%	4.93%	4.93%
Fair value per option	53.3p	192.1p	63.5p	97.5p	99.6p	107.2p

Grant date	18 October 2007	5 March 2008	27 March 2008	15 April 2008	21 April 2008
Shares under option	107,500	86,206	14,285	50,000	10,000
Share price at grant date	281.4p	203p	180.0p	198.5p	216p
Exercise price	281.4p	10p	10p	198.5p	216p
Expected volatility	54%	54%	54%	54%	54%
Expected option life (years)	3	3	3	3	3
Expected dividend yield	1.8%	1.8%	1.8%	1.8%	1.8%
Risk-free interest rate	4.93%	4.93%	4.93%	4.93%	4.93%
Fair value per option	107.2p	192.3p	170.5p	72.8p	79.3p

Notes to the financial statements

for the year ended 30 April 2008

24 Employees and directors (continued)

Sharesave and Employee Stock Purchase Plan 2006

In August 2006, the Company introduced the Micro Focus Employee Stock Purchase Plan 2006, approved by members on 25 July 2006. There are two plans; the Sharesave Plan ("Sharesave") primarily for UK employees, and the Employee Stock Purchase Plan ("ESPP") for employees in the USA and Canada. The Sharesave and ESPP provide for an annual award of options at a discount to the market price and are open to all eligible Group employees. Further Sharesave and ESPP grants were made during the year to 30 April 2008.

	Date of grant	Exercise price per share pence	Exercise period	**2008 number**	2007 number
Sharesave	15 August 2006	84p	15 August 2009 – 14 February 2010	**647,539**	733,240
	17 August 2007	239.3p	17 August 2010 – 16 February 2011	**93,736**	–
ESPP	1 October 2006	97p	1 October 2008 – 31 March 2009	**162,051**	219,682
	1 October 2007	242.8p	1 October 2009 – 31 March 2010	**30,311**	–
Total				**933,637**	952,922

The amount charged to the income statement in respect of the schemes was $185,000 (2007: $100,000).

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

Grant date	15 August 2006	1 October 2006	17 August 2007	1 October 2007
Shares under option	647,539	162,051	93,736	30,311
Share price at grant date	105p	114.5p	270p	300p
Exercise price	84p	97p	239.3p	242.8p
Expected volatility	33%	33%	54%	54%
Expected option life (years)	3	2	3	2
Expected dividend yield	3%	3%	1.8%	1.8%
Risk-free interest rate	4.25%	4.25%	4.93%	4.93%
Fair value per option	31.6p	28.7p	109p	129.4p

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:

	2008 $'000	2007 $'000
Defined contribution schemes	**2,596**	2,044

26 Operating lease commitments – minimum lease payments

At 30 April 2008 the Group has total lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years.

	2008 $'000	2007 $'000
Commitments under non-cancellable operating leases expiring:		
Within one year	**2,463**	1,023
Later than one year and less than five years	**9,017**	7,567
After five years	**14,771**	14,770
Total	**26,251**	23,360

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 2008 (2007: nil).

Notes to the financial statements

for the year ended 30 April 2008

28 Business combinations

A Acquisition of Acucorp, Inc

On 4 May 2007, the Group acquired 100% of the share capital of Acucorp, Inc. for $41.6 million, inclusive of $0.7 million related costs.

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

The acquired business contributed revenues of $21.4 million and a profit of $4.1 million (after exceptional costs of $6.5 million) to the Group for the period from acquisition, 4 May 2007 to 30 April 2008.

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

	Carrying value at acquisition $'000	Fair value $'000
Intangible fixed assets	70	20,245
Property, plant and equipment	445	445
Inventories	55	55
Trade and other receivables	4,517	4,517
Cash and cash equivalents	678	678
Tax receivable	1,188	1,188
Trade and other payables	(8,371)	(8,371)
Net deferred tax assets/(liabilities)	262	(431)
Net (liabilities)/assets	(1,156)	18,326
Goodwill		23,321
Consideration		41,647
Consideration satisfied by:		
Cash		41,647
Outflow of cash to acquire business, net of cash acquired:		
Cash consideration		40,928
Acquisition costs		719
Cash acquired		(678)
		40,969

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

Trade name	1,175
Software	7,818
Customer relationships	10,960
Non-compete agreements	292
Total	**20,245**

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.

28 Business combinations (continued)

B Analysis of outflow of cash in respect of acquisitions

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

	$'000
Acucorp, Inc	41,647
Refund in respect of prior years' acquisition	(71)
Net cash outflow	**41,576**

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 2008. There were no related party transactions with this company during the year ended 30 April 2008 or with any other third party.

30 Borrowing facilities

On 13 May 2008 the Company entered into a $40 million credit facility with HSBC Bank Plc and Lloyds TSB Bank Plc for general corporate purposes. The facility expires in May 2009 and incurs facility fees at market rates.

31 Events after the balance sheet date

On 18 June 2008, the Company announced that it had acquired NetManage, Inc for a total cash consideration of $73.3 million, paid in full on completion. On close, NetManage had $27.9 million of cash providing for a cash outflow of $45.4 million. In the year to 31 December 2007, NetManage generated revenue of $36.0 million and recorded an operating loss of $2.1 million.

The Company announced on 11 July 2008 that it had acquired Liant Software Corporation for a total consideration of $5 million.

In accordance with IFRS 3, the directors will assess the fair value of the net assets acquired as further information becomes available in respect of both acquisitions.

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 2008 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 2008.

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 presented in the Chief Executive Officer's statement and the Finance review that is cross referenced in the review of business and future developments section of the directors' report.

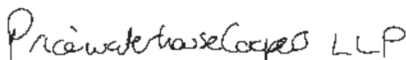
In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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 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 2008;
- 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.



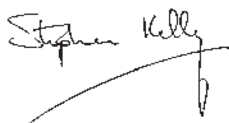
PricewaterhouseCoopers LLP Chartered Accountants and Registered Auditors
Reading
31 July 2008

Company balance sheet

as at 30 April 2008

	Note	2008 $'000	2007 $'000
Fixed assets			
Investments in subsidiary undertakings	V	**27,873**	27,086
		27,873	27,086
Current assets			
Deferred tax assets		**322**	760
Debtors	VI	**130,676**	130,049
Cash at bank		**3,382**	4,983
		134,380	135,792
Creditors: amounts falling due within one year	VII	**5,113**	5,513
Net current assets		**129,267**	130,279
Net assets		**157,140**	157,365
Shareholders' equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	VIII	**36,837**	36,767
Share premium	IX	**100,528**	100,678
Profit and loss account	X	**19,775**	19,920
Equity shareholders' funds		**157,140**	157,365

The Company financial statements on pages 75 to 80 were approved by the board of directors on 31 July 2008 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 2008

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 as modified by the share options at fair value through the income statement 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 before dividends for the Company was $19.4 million (2007: profit $23.9 million).

III Employees and directors

Staff costs for the Company during the year

	2008 $'000	2007 $'000
Wages and salaries	3,536	2,448
Social security costs	360	440
Other pension costs	67	66
Cost of employee share schemes	550	849
Total salary costs	**4,513**	3,803

The average monthly number of employees, including remunerated directors, during the year was eight (2007: seven). For further information on the directors of the Company please refer to the remuneration report on pages 35 to 41.

IV Dividends

A final dividend in respect of the year ended 30 April 2007 of 7 cents per share was proposed and paid during the year ($14.0 million in total). In addition, an interim dividend in respect of the year ended 30 April 2008 of 3.6 cents per share ($7.2 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 2008 of 9.4 cents per share, which would reduce shareholders' funds by $18.8 million. The proposed dividend is subject to approval at the AGM on 25 September 2008.

V Investments in subsidiary undertakings

	2008 $'000
At 1 May 2007	27,086
Additions	787
At 30 April 2008	**27,873**

Notes to the Company financial statements

for the year ended 30 April 2008

V Investments in subsidiary undertakings continued

At 30 April 2008, the Company held directly or indirectly 100% of the ordinary share capital of the following principal subsidiary undertakings. 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
Acucorp, Inc	USA	Holding company, sale and support of software
Acucorp BV	Netherlands	Sale and support of software
Acucorp GmbH	Germany	Sale and support of software
Acucorp Limited	UK	Sale and support of software
Acucorp Sarl	France	Sale and support of software
Acucorp Srl	Italy	Sale and support of software
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 India Private Limited	India	Sale and support of software
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)	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	Holding company, development, sale and support of software

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

VI Debtors

	2008 $'000	2007 $'000
Amounts due from Group companies	**130,493**	130,007
Other debtors	**139**	–
Prepayments	**44**	42
Total	**130,676**	130,049

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

VII Creditors: amounts falling due within one year

	2008 $'000	2007 $'000
Trade payables	**562**	16
Taxation and social security	**89**	–
Amounts payable to Group undertakings	**230**	1,498
Accruals	**4,232**	3,999
Total	**5,113**	5,513

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

VIII Called up share capital

	2008 $'000	2007 $'000
Authorised		
2,500,000,000 ordinary shares of £0.10 each	**476,770,000**	476,770,000
Total authorised share capital	**476,770,000**	476,770,000

	2008		2007	
	Number	**$**	Number	$
Issued and fully paid				
Ordinary shares at £0.10 each	**200,430,656**	**36,836,791**	200,068,405	36,767,042
Total allotted, called up and fully paid share capital	**200,430,656**	**36,836,791**	200,068,405	36,767,042

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

IX Share premium account

	2008 $'000	2007 $'000
Beginning of year	100,678	100,265
Adjustment to premium on shares issued during prior year	–	3
Movement in relation to share options	(150)	410
End of the year	**100,528**	100,678

Notes to the Company financial statements

for the year ended 30 April 2008

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 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
Profit for the year	–	–	19,434	19,434
Dividends	–	–	(21,229)	(21,229)
Issue of share capital	70	–	–	70
Movement in relation to share options	–	(150)	1,487	1,337
Deferred tax on share options	–	–	163	163
Total changes in shareholders' equity	70	(150)	(145)	(225)
Balance as at 30 April 2008	**36,837**	**100,528**	**19,775**	**157,140**

XI Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at 30 April 2008 (2007: 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 are no related party transactions or other external related parties.

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Historical summary

	UK GAAP*	IFRS			
	year to 30 April 2004 $'000	Year to 30 April 2005 $'000	Year to 30 April 2006 $'000	Year to 30 April 2007 $'000	**Year to 30 April 2008 $'000**
Results					
Revenue	126,268	150,645	143,688	171,590	**228,196**
Operating profit before exceptional items	30,208	44,308	37,167	62,128	**81,294**
Exceptional items	(1,200)	(3,394)	(14,434)	(4,861)	**(6,502)**
Operating profit	29,008	40,914	22,733	57,267	**74,792**
Profit before tax	25,775	32,640	22,558	60,007	**76,823**
Earnings per share*					
Basic (cents)	12.37	14.28	8.25	21.96	**27.67**
Diluted (cents)	12.00	13.98	8.17	21.37	**26.97**

* The amounts disclosed for the year ended 30 April 2004 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.

Directors, Secretary, registered office and advisers

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

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Forward-looking statements
Certain statements contained in this annual report, including those under the captions entitled 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 revenue expected by the Company; the degree to which organisations adopt web-enabled services; the rate at which large organisations migrate applications from the mainframe environment; the continued use and necessity of the mainframe for business critical applications; the degree of competition faced by Micro Focus; growth in the information technology services market; general economic and business conditions, particularly in the United States; changes in technology and competition; and the Company's ability to attract and retain qualified personnel. These forward-looking statements 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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