ONE FOCUS

Micro Focus International plc
Annual Report and Accounts 2010

KEY HIGHLIGHTS 2010

Revenue
$m

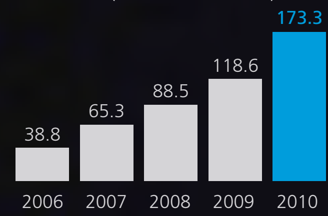
$432.6m

+57% (2009: $274.7m)

Adjusted EBITDA*
$m

$173.3m

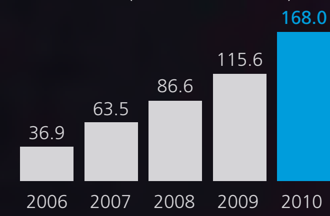
+46% (2009: $118.6m)**



Adjusted operating profit*
$m

$168.0m

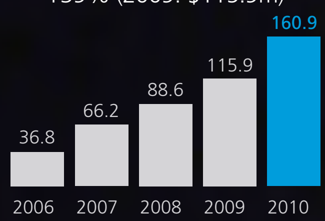
+45% (2009: $115.6m)



Adjusted profit before tax*
$m

$160.9m

+39% (2009: $115.9m)



Adjusted earnings per share*
cents

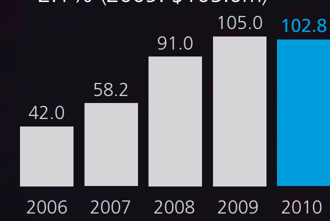
57.26c

+38% (2009: 41.51c)***

Cash generated from continuing operations
$m

$102.8m

-2.1% (2009: $105.0m)****



* 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.
** Adjusted EBITDA is also used and is reconciled to operating profit in note 4.
*** Earnings per share and Adjusted earnings per share are detailed in note 8.
**** After exceptional cash costs of $38.6 million.

CONTENTS

Micro Focus provides the leading modernization solutions for enterprise applications in an addressable market of $6.4 billion.

The Group's three interlinked software product categories meet business requirements to reduce costs and improve productivity.

Increasing demand from a large and expanding global customer base provides a platform for sustainable and profitable revenue growth to drive superior total shareholder returns going forward.

WE SAVE GLOBAL ORGANISATIONS MONEY AND IMPROVE THEIR PRODUCTIVITY

1

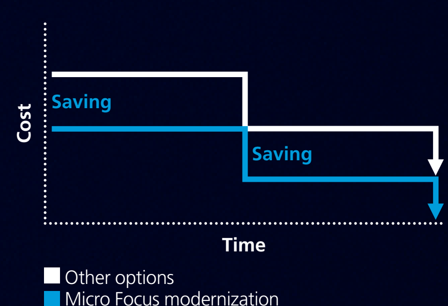
Understanding the market

Four considerations:
Cost
Quality
Risk
Agility

Four options to refresh enterprise applications:
Replace with package solutions
Rewrite
Do nothing
Reuse & modernize

The benefits of modernization:
Reuse and modernize with Micro Focus to reduce costs quickly AND gain operational benefits more immediately than alternative package or rewrite options

The CIO agenda:
1 Reductions in operating costs
2 New products delivered faster
3 IT aligned with business goals



Transformational improvement

Micro Focus migrates business critical applications from proprietary platforms to lower cost, flexible operating systems, such as cloud computing, where they can be modernized more easily to meet business and user requirements.

Modernization & Migration solutions delivered thanks to 34 years of Micro Focus experience in software development and deployment. Software application expertise that replicates mainframe infrastructure and functionality, provided through software licences, consulting services and ongoing maintenance.

Modernization is not a choice – it is essential. A growing trend.

Transformational improvement – more than 400 migrations to date

-69%
Leading national postal service
69% reduction in cost vs adding capacity to existing operating system

+100%
Leading healthcare distributor
100% more capacity for technology R&D, and four times faster processing of customer orders thanks to effective application modernization

3>1 year
Top five global retailer
Reduced operational time to expansion into new markets from three years to one year by migrating its stock replenishment application onto flexible and lower cost operating system

-59%
Leading financial services corporation
59% cost reduction in one year by migrating 20 acquired company applications onto lower cost operating system

2
Offering two approaches to modernization

3
Saving global organisations money and boosting productivity

Continuous improvement

Improve the effectiveness of enterprise applications and business users. The full breadth of the software development life cycle, from application analysis and portfolio management to development, deployment, testing and quality management.

'Off mainframe' efficiency and effectiveness, in the form of development and deployment licences and ongoing maintenance.

Continuously improving enterprise applications – embracing hybrid cloud solutions to bridge from today to tomorrow.

Continuous improvement – global case studies

+33%
Global insurance corporation
Improved productivity by 33% in claims processing as a result of an enhanced user interface

+400%
Leading financial services multinational
Released resources from maintenance work through effective application analysis and portfolio management tools to increase allocation of time to innovation projects by 400%

+98%
International telecoms equipment provider
Achieved a 98% reduction in application testing time, improving overall software quality measures and shortened time to market for a key product line

+35%
Global bank
Improved mainframe developer productivity by 35%, each developer more productive by 30 days per year

2010: OPERATING IN THREE INTERLINKED GROWTH MARKETS

We operate in a growing, global market worth over
$6.4bn

COBOL Development
$204m
FY2010 revenue*
Total market: $700m

Application Management & Quality
$137m
FY2010 revenue*
(run rate: $164m**)
Total market: $4bn

Modernization & Migration
$92m
FY2010 revenue*
Total market: $1.7bn

COBOL Development
Micro Focus revenues

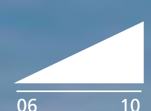
Micro Focus opportunity
Leading global provider of 'off mainframe' COBOL Development.

Technology at the heart of customers' operations.

High maintenance renewal rates.

Recurring revenue streams, resilient business model.

Modernization & Migration
Micro Focus revenues



Micro Focus opportunity
Grown from minimal revenues in 2006.

Global trend to reuse & modernize versus rip & replace.

Good growth rates.

Larger transaction sizes, driven by cost reduction and productivity imperatives.

Application Management & Quality
Micro Focus revenues

Micro Focus opportunity
New market for Micro Focus thanks to FY2010 acquisitions.

Viable market for strong challenger brand.

Logical extension to existing Micro Focus solutions.

Differentiated proposition thanks to migration solutions.

More complex application architectures driving increasing needs for Application Management & Quality expertise including hybrid cloud solutions.

* Management's estimates
** Run rate is 2xH2 revenues

RESPONDING TO BUSINESS NEEDS THROUGHOUT THE CUSTOMER ORGANISATION

CFO/CIO
Deliver significant cost reduction and rapid return on investment, understand changing business needs and provide application management choices, improve time-to-market and increase business value.

▼

Technical leaders
Provide solutions that increase productivity, enable product innovation and reduce delivery cycles, enabling clear paths to modern architectures, such as cloud computing.

▼

Technical teams
Produce modern and stimulating development, testing and deployment tools that promote fast delivery of quality products.

▼

Employees
Improve efficiency as a result of integrated, effective deployments of business critical applications across the customer organisation.

48
48 offices in 24 countries

$14,000
Average sales price in FY2006 was $5,000, in FY2010 it was $14,000

30m+
More than 30 million end users

34
34 years' software expertise and leadership

18,000+
More than 18,000 current customers, including 91 out of the Fortune 100

2m+
In excess of two million licenced users

CHAIRMAN'S STATEMENT

Kevin Loosemore
Chairman

1976-2010
Building a $6.4bn market opportunity

Founded 1976

FY2007
$171.6m revenues

Acquired HAL for $4.8m

FY2008
$228.2m revenues

Acquired Acucorp for $41.6m

FY2009
$274.7m revenues

Acquired NetManage for $76.2m

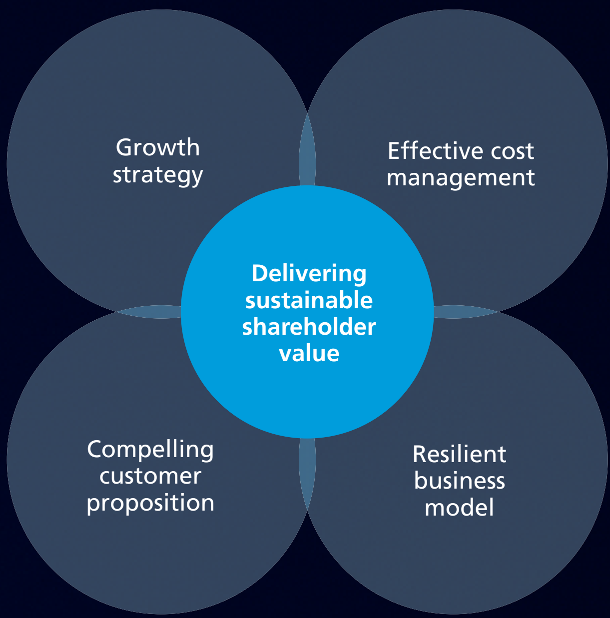
Acquired Liant for $5.0m

Acquired Relativity for $10.9m

FY2010
$432.6m revenues

Acquired Borland Software Corporation for $120.1m

Acquired AMQ Compuware for $65.1m



2010 was a significant year for the Group. Micro Focus is now a very different business to the one that announced a public listing in 2005.

In the year to April 2006, the Group generated $144 million in revenues and $39 million in adjusted EBITDA. The Group employed 502 employees and served customers directly from offices in a handful of countries. The customer proposition was a strong 'off mainframe' COBOL product offering that gave the business the leading position in a mature market space of approximately $620 million per annum. Group operations were simple and the Company culture was technically oriented.

In the year to April 2010, despite challenging economic conditions, the Group reported revenues of $433 million and adjusted EBITDA of $173 million. Total revenues are up 57% on the prior year including the beneficial impact of acquisitions and have increased 5% on a comparable like for like basis.

Micro Focus completed the acquisition of the Application Management & Quality (AMQ) business of Compuware for a gross consideration of $80 million on 29 May 2009, and Borland was acquired for a gross consideration of approximately $112 million on 27 July 2009. The acquisitions and integrations were funded by a three year revolving credit facility of $215 million, established in May 2009. We drew down $164 million from this facility and due to strong cash generation from continuing operations net debt at the end of April was $68 million. We expect to be net cash positive by the end of this financial year 2011.

The Borland and AMQ business of Compuware transactions were the sixth and seventh acquisitions by Micro Focus in the last four years. During the last two years we have started new direct operations in Brazil, India, Singapore, Spain, Portugal and Mexico and now the Group has more than 1,400 employees working out of 48 offices in 24 countries.

Going into the 2011 financial year, the Group has a broad portfolio of products and services to address a significant market opportunity of approximately $6.4 billion per annum, over ten times the value of Micro Focus' addressable market in 2006. Micro Focus now operates in three interlinked markets – (i) an established and leading position in COBOL Development, (ii) an application Modernization & Migration business, and (iii) the AMQ market. This customer proposition has been developed through 34 years of organic growth, supplemented by seven acquisitions in logically adjacent markets in the last four years. The Group is well positioned for future organic growth and will continue to look at inorganic expansion into existing and related markets, applying strategic and strict financial criteria to any potential acquisition opportunities.

Following a year of substantial business, organisational and management change the executive team has identified a number of areas that need strengthening, both in terms of creating a more joined up business and where stronger management skills will be needed.

On 23 June 2010, Nick Bray, Chief Financial Officer, left the Company and Stephen Kelly, Chief Executive Officer, left the Company earlier in the financial year. We would like to thank Stephen and Nick for their commitment and achievements since 2006 in helping to grow the business. Whilst the board is disappointed that they both decided to leave before delivering on the full potential of the Company we wish them well in their future endeavours.

On 31 March 2010, we announced the appointment of Nigel Clifford as CEO, who subsequently joined Micro Focus on 1 May 2010. Nigel brings a wealth of leadership experience as CEO of international software companies and his track record ideally equips him to help the Group scale its operations in the next phase of sustainable and profitable growth. Nigel's immediate challenge will be to build a leadership team that can accelerate and complete the re-engineering of the business to deliver on its potential.

We are delighted that Karen Slatford was appointed as a non-executive director on 5 July 2010. I would like to welcome Karen who brings with her valuable experience from 20 years leading global sales and marketing teams at Hewlett Packard.

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of the Group and I am pleased to announce a proposed final dividend of 16.2 cents per share, giving a full year dividend of 21.8 cents per share. This represents a 40% increase when compared to a full year dividend of 15.6 cents last year and reflects the board's continued confidence in the future for Micro Focus.

I am confident in the Group's ability to continue to deliver value to all of its stakeholders through our growth strategy, compelling customer propositions and the resilient underlying business model. Through both dividend and capital growth we aim to deliver superior total shareholder returns.

The board would like to thank all of our employees for their continued hard work throughout the year and their commitment to the future growth of the Group.

Kevin Loosemore
Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

Nigel Clifford
Chief Executive Officer

How we intend to maximise the opportunities in our three interlinked markets

The best people → Leading technology solutions → Large and growing customer base → Serving our customers effectively → Total addressable market $6.4bn

Performance review

Micro Focus has a very attractive market opportunity. The Group has leading products and services, highly skilled employees and a large and growing customer base. The financial model is compelling thanks to a relevant product offering and robust business in three growing markets. We will focus on further strengthening the operations of the enlarged Group in delivering the next phase in Micro Focus' development.

Our marketplace

Business leaders face the twin challenges of reducing operating costs and the need to improve operational capabilities to ensure competitiveness and access to new market opportunities. Such pressures have intensified in the recent uncertain economic climate. This has led many to rethink their historic approach to applications, infrastructure and hardware. However, any rethink must achieve a number of goals: productivity improvements, risk mitigation, flexibility to innovate and preservation of unique IP that creates company competitive advantage. Micro Focus is uniquely placed to meet these needs and is addressing a growing market opportunity, valued at $6.4 billion.

Our products and portfolio

To meet these customer needs and capitalise on the $6.4 billion market opportunity, the Group has assembled a set of application management and modernization solutions across three key areas as noted above: COBOL Development products, Modernization & Migration, and AMQ. For the financial year 2010, Modernization & Migration revenues and AMQ contributed more than half of total Group revenues. The three interlinked lines of business combine to offer CIOs a compelling proposition and a clear path to address future business needs, including the opportunity to benefit from cloud computing architectures.

The Group's long-standing leading 'off mainframe' COBOL Development products exhibit resilient qualities and cash flow strength throughout the economic cycle. The second line of business is Micro Focus' fast growing Modernization & Migration solutions which meet the demand from an increasing number of customers to move from expensive proprietary operating environments to more cost effective and flexible 'open systems'. This line of revenues is increasingly material to the Group both in terms of size and growth potential. It is an early stage market characterised by early adopters and low penetration rates. However, more and more business leaders understand the business logic of retaining their business critical applications, rather than 'rip & replace' or rewrite strategies.

During the 12 months to the end of April 2010, the acquisitions of Borland and the Application Management & Quality business of Compuware, which closed at the start of the financial year in the summer of 2009, were integrated with Borland becoming a Group company. These acquisitions were a logical and complementary extension to our portfolio and now provide the enlarged Group access to an additional growing market space and a third revenue stream, which has higher growth potential than the COBOL Development revenues. Customer feedback to the roadmap for the Borland and Compuware product lines has been very positive. The Group's AMQ offering is becoming a strong challenger proposition in the marketplace, helping customers to test and manage the quality, functionality and security of the applications that run their businesses. With a current 12 month revenue run rate of approximately $164 million, the AMQ solutions are a significant portion of Group revenues. The Group repeated its successful track record of bringing acquisitions quickly into the Micro Focus business model, with minimal disruption to operations. Margins at these operations are in line with levels at the rest of the Group, significantly ahead of initial expectations. We will focus on turning these previously declining products to growth in the year ahead.

Our revenues

Licence fees account for more than 42% of total revenues and are an important growth driver for the future. The larger value transactions of more than $500,000 represent 24% of total licence fees from COBOL Development and Modernization & Migration. Within the licence fees segment of our COBOL Development and Modernization & Migration business, we saw 22% generated through independent software vendors ('ISVs') which have Micro Focus COBOL embedded in the package solutions they offer their customers. This is a royalty revenue stream based on sales of our customers own applications. The contribution from ISVs was a lower percentage of total licence revenues in 2010 compared to 2009, in line with the general economic challenges affecting the broader sales of technology package solutions. Lastly, 54% of our COBOL Development and Modernization & Migration businesses came from high volume low value orders in the 2010 financial year. This is largely linked to our well-established 'off mainframe' Micro Focus COBOL business and consists of multiple customer orders for additional development and deployment licences in existing customer sites. AMQ licence revenues from the two acquisitions stabilised in the financial year 2010 as planned, from a position of declining revenues at the time of acquisition, and we expect modest growth in the coming year.

The Group continues to benefit from resilient and recurring maintenance revenues which account for approximately half the total Group revenues. 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. This provides high levels of revenue visibility going forward as maintenance fees are charged at approximately 20% of licence fees sold, and the vast majority of maintenance contracts are renewed annually. Maintenance revenues in the COBOL Development and Modernization & Migration businesses enjoy particularly low levels of churn, and we continue to enjoy renewal rates towards 90%. Existing maintenance renewal rates in the AMQ business are lower, as expected at the time of the acquisitions. A series of measures are in place to bring the AMQ renewal rates up to Group levels over time.

Consulting revenues account for the remaining 7% of revenue and will continue to be a small contribution to total revenues. Consulting revenues are predominantly derived from services linked to the larger Modernization & Migration projects.

A focus on execution

The Group has created the portfolio to access an outstanding market opportunity. We are very focused on executing against this opportunity. An experienced executive team works closely to ensure we deliver an excellent experience to our prospective and current customers. The executive and wider management team is necessarily being selectively strengthened as we are now leading and developing a substantially larger business for the future. In late financial year 2010 we welcomed a new leader to manage our global development team and we have in early financial year 2011 searched, selected and appointed three experienced and proven executives to drive a step change in our sales, professional services and marketing efforts.

Micro Focus delivers a broad range of products and services to customers across its three lines of business, organised across three international regions. This portfolio has been prioritised, through extensive research into each addressable market to allocate investment and resources with a strong focus on future customer needs such as applications management on cloud-based platforms. In addition, the Group has clearly segmented the market to support effective sales and marketing strategies depending on the nature and scale of the opportunity

As a result of this work, our sales force is increasingly able to convince senior decision makers at customer organisations to consider the very significant benefits of application Modernization & Migration, drawing on successful customer examples to demonstrate clear productivity and cost reduction benefits. At the same time, we remain closely connected to developer communities in IT teams at customer organisations through a number of channels.

Our partner strategy continues to be an important element of our business and we continue to deepen our working relationships with organisations such as Accenture, IBM, HP, Microsoft and Oracle. The Micro Focus brand is strengthened by strong partnerships with these well-known international technology leaders who provide the Group with important additional reach and access to prospective customers.

Summary and outlook

Micro Focus' three interlinked lines of business address a $6.4 billion market opportunity and are growing, with the Modernization & Migration business growing at double digit levels and becoming increasingly material at the Group level.

Micro Focus' performance in the 12 months to the end of April 2010 has been driven by a combination of organic and acquired revenue and EBITDA growth. While our current primary focus is on organic growth, the Group will continue to review acquisition opportunities that have a strong complementary fit to our stated strategy and which pass our strict financial criteria.

Underpinning a successful 2011 financial year is a focus on flawless execution, to scale the Group for maximum sales productivity and organisational efficiency. Since reporting the preliminary results on 24 June 2010, the management team has been strengthened with the appointments of Malcolm Collins as President of Sales, Jim Cassidy as Chief Marketing Officer, and Adrian Saunders as Head of Professional Services to provide additional talent and experience. Micro Focus has grown fast in the last four years to establish a significant market opportunity, a broad range of leading software solutions, great people and a loyal and substantial customer base. These attributes, coupled with compelling financials from a resilient business model, position the Group for future success.

The best people

A growing Company – growing talent

Micro Focus' strong position in its marketplace is a result of leading technology solutions developed and supported by the best technology brains in their fields. No other company can offer the same application management and modernization skills.

The strong technology heritage of long-standing Micro Focus employees has been supplemented by new colleagues from other leading technology companies acquired and integrated during the last four years. The Micro Focus workforce has more than doubled in size in two years and in the last 12 months has grown from approximately 860 employees at the end of April 2009 to almost 1,500 in April 2010. Retaining the best development skills from our acquired companies has broadened the Micro Focus solution set and given the Company unmatched opportunities in growing markets.

A focus on sales and marketing during the last year is supplementing our technology foundations with an outward facing, market orientation. This knowledge and market insight is being channelled into product development prioritisation and 'go to market' investments to drive an improved customer-focused culture.

Training and development focus

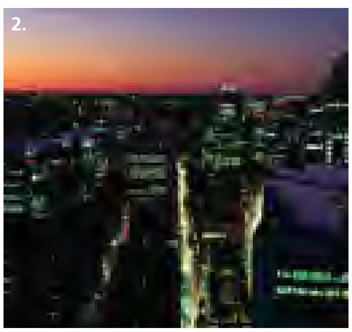
Seven acquisitions over the last four years have been supported by extensive integration programmes to instil a common culture and consistent corporate values across all operations. Many new recruits from acquired companies have been presented with broader career opportunities, by joining a larger, successful international software group, than was offered by their prior company.

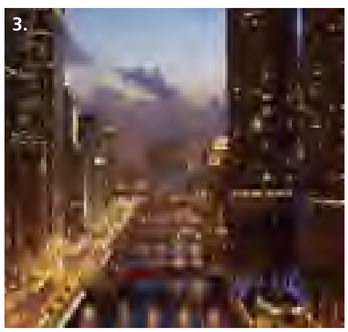
With 48 offices in 24 countries, international operations have scaled significantly over the last four years. Local country managers are growing into larger roles and responsibilities to motivate and support larger teams with more challenging performance goals. The Company is investing in a progressive and comprehensive leadership and talent development programme which was recently ranked fifth in Europe in the Global Fortune Top Companies for Leaders listings. The programme identifies future leaders in the Company and provides tailored development courses to help these individuals meet their potential and support the further growth of Micro Focus.

A rewarding working environment

Micro Focus understands that employees want to be in a challenging, satisfying and enjoyable working environment. Corporate trust and strong ethics underpin a culture that strives to achieve a balance between hard work and a rewarding and pleasant workplace. Community support is encouraged and backed strongly by employees. Offices actively engage with local groups such as sports clubs, and importantly, charity initiatives for worthy causes are also well supported by employees. This community support extends to global campaigns. In May 2010, following fundraising efforts around the world, Micro Focus matched employee donations on a like-for-like basis and presented a cheque for £50,000 to the British Red Cross to help fund its work in Haiti following the natural disaster there earlier this year.

The best people
The Micro Focus workforce has more than doubled in size in the last two years to almost 1,500 in April 2010.





1. Japan
Ninth consecutive year of revenue growth, more than 40% increase on FY2009.

2. Australia
Micro Focus doubled its revenues in Australia in FY2010, increasing licence revenues nearly 70%.

3. North America
In North America in FY2010 Micro Focus generated approximately $20 million in revenues from larger value Modernization & Migration transactions. Larger value transactions are each in excess of $500,000.

Leading technology solutions

Solid foundations for growth and innovation

The influence of technology on business success continues to grow. The economic and competitive environment continues to force companies to look deeper into reserves of ingenuity, seeking out new and better ways to perform. CIOs continue to wrestle with the balancing act of keeping the lights on and driving the type of innovation that benefits the business.

As a technology provider, our customers have been looking to Micro Focus for more than 30 years to help them manage and control these forces to their advantage. Over time, we have done so by building on solid foundations of existing products, and through shrewd, carefully considered acquisitions of new technology. Micro Focus is the world's leading provider of enterprise application solutions helping approximately 18,000 customers to manage and modernize the IT systems that lie at the nerve centre of their business operations.

An expanded portfolio

Throughout last year, Micro Focus has been absorbing new assets from Borland and Compuware. We have talked to customers to understand the elements of each product set that they especially value, and have built a combined offering representing the best of both worlds and, importantly, an offering which blends well into the overall Micro Focus goal of supporting transformational and continuous improvement of companies' IT and business assets.

Beyond the integration, we have continued to extend our solutions, bringing in more capabilities through partnerships and organic development. Examples include SilkPerformer Diagnostics, combining performance testing and root cause diagnostics to accelerate the analysis of performance issues, and SilkPerformer Cloudburst, which extends SilkPerformer's on-premise model with cloud load-generation technology, providing the flexibility to drive load from either on-premise or in the cloud or both at the same time.

As a premier Microsoft partner, we were heavily involved in the launch of Visual Studio 2010, simultaneously releasing four closely integrated products, showcasing them around the world at Microsoft launch events. These products included Micro Focus Visual COBOL, our latest version of the world's leading business language, further enhancing companies' abilities to leverage their existing IT assets within a .NET framework.

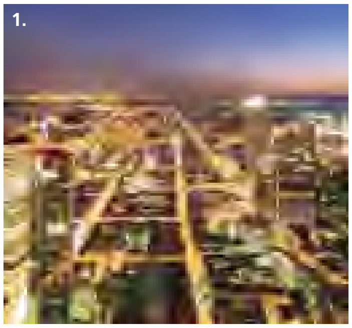
Modernization continues to be top priority for CIOs. Bloated application portfolios are absorbing time, money and effort from IT departments, severely affecting their ability to deliver real change in the way things are done, and fuelling the need for consolidation and rationalisation of the estate they must manage.

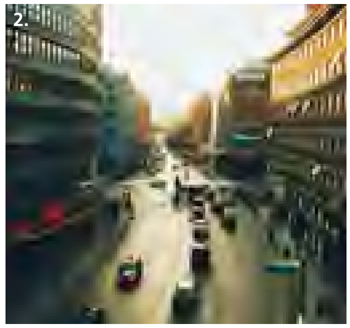
Funding such improvement is hard. Investment must come from savings made elsewhere. And Micro Focus products are focused on helping companies achieve this. Products such as Micro Focus Server Enterprise Edition for .NET, enables transformational improvement by extending established mainframe migration capabilities, delivering CICS® support as a managed .NET component for the Microsoft Application Platform including Azure™.

Making customers' lives simpler

We aim to provide products which make the lives of our customers easier. To help them build and run better applications more efficiently on the platforms that make most business sense for them. Driving process improvement all the way along the delivery life cycle, through requirements, change management, development and testing. We do this by building on what we have and adding wisely. And in doing so, enable our customers to do the same.


The best people
Leading technology solutions
Leading technology solutions
We have continued to extend our solutions, bringing in more capabilities through partnerships and organic development.
Large and growing customer base
Serving our customers effectively





1. Germany
Revenues in Germany more than doubled in FY2010, with a quadrupling of licence revenues.

2. Nordics
Micro Focus operations in Denmark, Finland, Norway and Sweden increased revenues by 40% in FY2010.

Large and growing customer base

Micro Focus serves approximately 18,000 customers around the world and has supported organisations' application management requirements for more than 30 years. Serving customers across a wide range of industries and in the public sector, the Company has developed deep working relationships at multiple levels in customer organisations.

Leadership in COBOL Development

Extensive experience in COBOL Development technologies has established Micro Focus as the leading partner in meeting its customers' business needs for effective 'off mainframe' application development, management and deployment. No other software company is able to replicate Micro Focus' expertise in this area and this has contributed to strong customer loyalty and high maintenance renewal rates of approximately 90%. Business critical COBOL applications exist in many organisations' IT systems, representing years of accumulated business intelligence that enable these companies to operate effectively and serve their customer needs. Today, there are more lines of COBOL code written every day than are retired, and organisations continue to recognise the need for the ongoing management of these business critical applications. Micro Focus is the best equipped software player in the market to address these needs.

New customers in AMQ

The recent acquisitions of Borland and AMQ Compuware have brought new customers that increasingly recognise the benefits of end to end application management. AMQ solutions are an important part of every CIO's business imperatives and Micro Focus has positioned itself well to address a greater breadth of customers' technology and business needs. Customers in this area have received regular updates from Micro Focus since the acquisitions were announced to reassure them that their technology investments are safe and that there is a robust, combined, Borland and Compuware AMQ solution portfolio to better meet their needs. The strong technology capabilities of the Borland solutions have been integrated with the popular Compuware 'front end' user interface to deliver a well-received product set. This AMQ solution set will develop significantly in the coming months of FY2011 to provide a clear path for customers' Testing and AMQ challenges across multiple computer language codes, and multiple platforms from mainframe to open systems to the cloud.

Market trends towards Modernization & Migration

Micro Focus' customer relationships for its leading COBOL Development and AMQ solutions have more recently been supplemented by new contacts at higher decision levels for larger Application Modernization & Migration projects. During the last four years, Micro Focus has served an increasing number of senior CIOs and CFOs as these business leaders recognise the compelling cost reduction and enhanced productivity benefits available from migrations to open systems from proprietary operating platforms. In 2006, Micro Focus revenues consisted of an average sales price of approximately $5,000, and there were no transactions above $500,000. During FY2010, Modernization & Migration projects were part of an average sales price of approximately $14,000, and there were more individual customer transactions of greater value than $500,000 than during FY2009.

More CIOs see the business logic behind migration projects, saving cost by moving platform at the same time as retaining all the home grown intellectual property in the applications. In addition, these same customers are achieving greater productivity thanks to more flexible and user friendly applications on new operating systems, such as cloud computing, that are now ready for rapid scaling and deployment to new employees, offices or stores, or into a web or cloud environment. Micro Focus customers in this Modernization & Migration area are across many industry sectors, from financial services to retail, and from telecoms to healthcare.

Case study – Owens & Minor

Corporate Profile:

$8 billion revenue in FY2009.

Founded in 1882, headquartered in Richmond, Virginia, US.

4,800 employees.

Market leader in the sales & distribution of medical and surgical supplies to hospitals.

4,600 healthcare provider customers.

Business Challenge:

Custom ERP system running on mainframe.

Decades of Owens & Minor's business processes in applications containing 10 million lines of COBOL code.

Escalating annual operating costs.

Scarce capacity for technology R&D.

Modernization & Migration:

Preserve Owens & Minor custom systems and business rules.

Estimated $150 million cost estimate for alternative package or rewrite options.

10 million lines of COBOL code moved easily with Micro Focus solutions.

Significant, ongoing operating expense savings from the new platform; savings fund modernization of user interfaces and data.

100% more capacity for technology R&D.

4x faster processing of orders.

Significant increases in developer productivity and data more available to all employees for quicker response times to customers.

Faster to market with new services and technology.

Support to Owens & Minor company growth without additional IT operating expense.


The best people
Leading technology solutions
Large and growing customer base
The recent acquisitions of Borland and AMQ Compuware have brought new customers that increasingly recognise the benefits of end to end application management.
Large and growing customer base
Serving our customers effectively

1. India
Micro Focus opened its Indian operations only recently and saw significant growth in this new market, generating revenues in excess of $5 million in FY2010.

2. Iberia
Despite a very strong year in FY2009 in Spain and Portugal, Micro Focus doubled its revenues in the region in FY2010.

Serving our customers effectively

Four years ago, Micro Focus served a $620 million market opportunity. To address its current $6.4 billion market opportunity across three lines of business, Micro Focus is changing the way it attracts and serves its customers.

Product prioritisation

In response to customer demand and market research, Micro Focus' 250 products have been placed in nine categories to support the three main sources of Company revenues – COBOL Development, Modernization & Migration and AMQ. This work has been done following detailed reviews of market and revenue growth opportunities, and analysis of the competitive landscape at a technology and geographic basis. Customer support spans the breadth of application management and modernization, helping organisations address the business challenges they face today, but also offering clear paths to benefit from future trends such as cloud based solutions.

In addition, the Group is developing effective customer and prospect segmentation work to improve go to market strategies, identifying six customer sets across the nine product lines.

Micro Focus appreciates the enduring customer relationships in its long-standing COBOL Development line of business. We will maintain technology leadership and a deep understanding of application development and deployment requirements and continue to be the best placed software partner for their needs.

The go to market teams are structured under three geographic regions – North America, APAC and International – with the separate AMQ sales division working closely alongside the three regional teams. An increasing number of customers are interested in the full breadth of Micro Focus portfolio including AMQ offerings.

New sales channels

To reach more customers through multiple product offerings, the Company is developing new routes to market.

Telesales have been reintroduced as a logical response to effectively and efficiently provide lower value product offerings. We now have over 100 telesales representatives and we will continue to invest in this route to market for a number of its COBOL Development and AMQ products, following good progress in the early stages of this initiative.

During FY2011, Micro Focus will also develop a web sales channel. As a result of the Borland and AMQ Compuware acquisitions, the Company has inherited a number of lower cost products that are ideally covered by an online sales channel to supplement existing routes to market.

The growing Modernization & Migration business line can benefit from a specialist approach with strategic customer interaction. Micro Focus is drawing on its success in this area to identify rapid response teams, including presales and technology specialists, to provide relevant and strategic insights to new opportunities in this area. A focused customer reference programme is also a powerful reassurance to help those CIOs considering this route.

Independent software vendors

ISVs account for approximately a quarter of all licence fee sales. Working with approximately 750 ISVs, from large companies like Oracle to smaller local players, Micro Focus will continue to help these companies modernize the COBOL-rich packages they offer their end customers. Key initiatives in FY2011 will focus on helping these ISVs to maximise their revenue opportunities in continuing tough economic conditions thanks to new business models, such as those offered through cloud based services. For example, Micro Focus Enterprise Cloud Services has enabled North American based ISV Data Strategies to manage its customers' data for compliance, risk management and records management on a low-cost cloud platform.

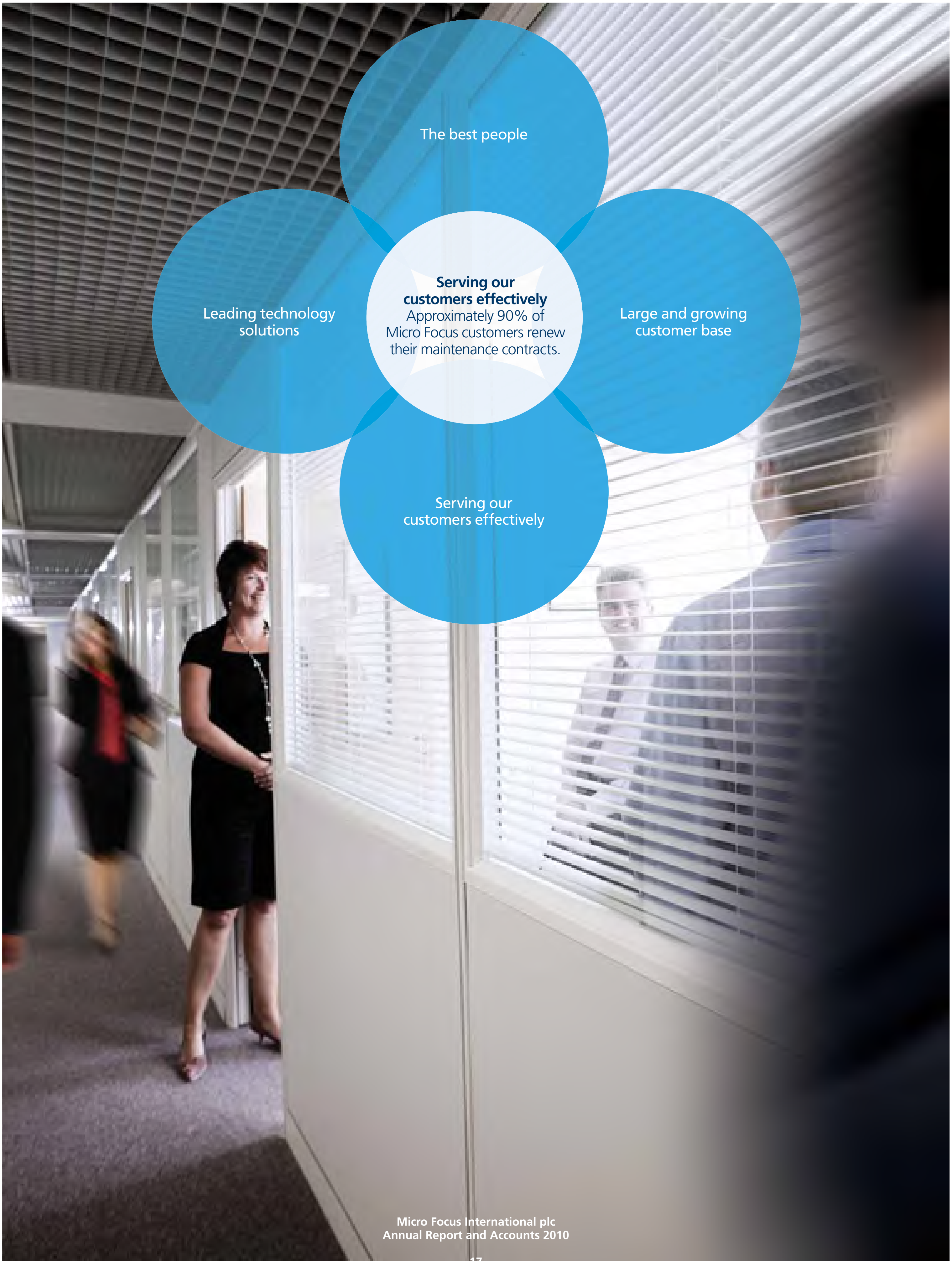
Strengthened professional services

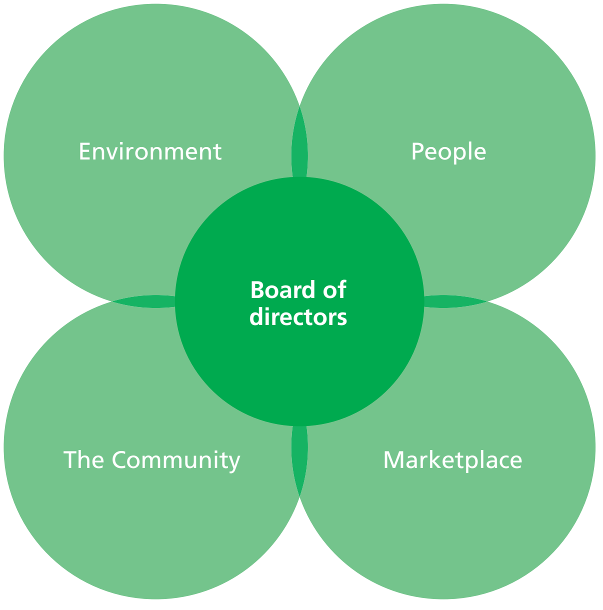
Aligned to the Modernization & Migration business is a need for effective professional services. These transformation projects are more involved than lower cost product offerings and require senior level expertise and professional project management for the customer. Micro Focus has offered consulting services for a number of years, however this group is being strengthened to support Modernization & Migration growth.

Micro Focus' Modernization & Migration projects are increasingly progressed alongside partners, such as Accenture. These partnerships, as well as effective working relationships with leading technology players such as HP, IBM, Microsoft and Oracle will continue to drive customer opportunities and brand awareness moving forward.

Serving our customers

Approximately 90% of Micro Focus customers renew their maintenance contracts. Our work with organisations around the world relates to the technology that runs their operations. We understand the responsibilities of our role and act in partnership with customers to monitor and maintain first class software that helps them to be successful today and tomorrow.


The best people
Leading technology solutions
Serving our customers effectively
Approximately 90% of Micro Focus customers renew their maintenance contracts.
Large and growing customer base
Serving our customers effectively



Introduction

Micro Focus is a growing international company with an increasing responsibility to address its corporate and social responsibilities. The Micro Focus board is committed to running the Company in accordance with best practice in corporate social responsibilities ('CSR') as part of a broader commitment to effective corporate governance for the Group. In this context, Micro Focus seeks to integrate CSR considerations into all aspects of 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.

CSR policies at Micro Focus are set and monitored at board level, but the implementation of these policies touch all employees and the way they work with each other, customers, partners and the communities they work within. Examples are the way we support our local communities, develop our staff, find 'greener' ways to do business, or help our customers and partners to lower their carbon footprint.

The CSR Policy at Micro Focus covers four areas – the environment, people, community and the marketplace. A summary and some examples can be found here.

1. Environment

Climate change is on the agenda at Micro Focus. Our stakeholders have confirmed that they consider climate change to be a major issue facing society. As a member of the IT sector, we believe that we can directly impact climate change for the better. It is acknowledged that the IT industry contributes a small percentage of the global carbon footprint, but the sector can have a high impact on the solutions to reduce the footprint going forward. We recognise that our products and services can impact many other IT dependent organisations by helping them to manage their IT infrastructure in a more efficient and environmentally friendly way.

Micro Focus is working to reduce its carbon footprint and is working with industry professionals to help the Company record, monitor and achieve this. As an example, in 2009 Micro Focus pioneered a carbon-friendly user 'conference' by hosting the entire event online. Micro Focus World, May 2009, was set up as an online event to completely remove the carbon impact of a major industry conference.

The Company has introduced a number of automated processes to reduce the quantity of paper and packaging that is used in the business. Micro Focus has invested in video conferencing facilities in key locations and employees are encouraged to maximise use of this resource in place of travel where appropriate.

With offices in 24 countries worldwide, Micro Focus 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.

Internationally Micro Focus complies with both the EU Decreto Legislativo 152 year 2006 and US state and federal waste management policies and legislation. Examples of managing waste effectively and constantly improving energy efficiency are:

- Waste and recycling constitutes 0.31% of total overhead costs
- All packaging is both biodegradable and recyclable and adorned with the Universal symbol for recycling
- Recycling bins are situated throughout global offices
- All packaging and products are labelled with aqueous inks; therefore a greater proportion of material is biodegradable and recyclable
- Hard case plastic has been replaced by softer 'DVD' cases which have a shorter life cycle and are more biodegradable
- Over 70% of product deliveries are now electronic as opposed to physically packaged and delivered

2. People

Micro Focus has grown its workforce significantly in the past year, integrating acquisitions and focusing on increased communication, leadership and talent development to build a unified team across the Company. Clear communication during a year of change has been focused on employee understanding and engagement. After seven acquisitions in four years, Micro Focus is committed to building consistent corporate values across all operations and is actively developing strengthened channels for employee feedback to build a winning culture and further drive success going forward. Since the financial year end, the Company has conducted an employee survey across all locations to better understand employee views and channel future initiatives effectively. The Company understands the considerable efforts made by its employees to drive the success of the organisation and is committed to providing a rewarding and enjoyable working environment within effective corporate governance guidelines.

Social

The health, welfare and development of Micro Focus' employees remain a priority. Employees are recognised as key to the business with individual skills and experience being valued and developed.

Micro Focus employs approximately 1,500 employees across 24 different countries: 48% are based in NA, 42% in EMEA and 10% in APAC. With the intent of attracting, recruiting, developing and retaining valuable employees, Micro Focus employs an equal opportunities policy approved by ACAS that is followed across all Group operations.

A corporate intranet resource is supported by country level all employee meetings on a regular basis and frequent team and individual meetings to discuss corporate progress and priorities.

Employee development is encouraged through appropriate review processes and training. Staff are supported to achieve and maintain a high standard of performance in their work, and appropriate training is provided to meet these standards. Where performance is not met, Micro Focus operates a fair and systematic approach to dismissals and disciplinary measures.

Micro Focus' directors actively encourage employee equity participation. The Company has introduced a Sharesave and US ESPP scheme subject to compliance with the Group's share dealing policy and model code.

Health and Safety

High standards of health and safety are an integral part of Micro Focus' business performance and apply to all business locations. All policies are reviewed on a regular basis according to current and local legislation and employees are involved in the decision making policy with a dedicated health and safety committee represented by members from all departments throughout the organisation. Employees are made aware of policies and any individuals whose job description involves activity requiring more than the basic requirements or knowledge receive relevant training from a qualified external organisation.

Business Ethics

Micro Focus is committed to maintaining a high standard of business conduct and ethics throughout the Micro Focus Group and a Code of Business Conduct and Ethics reflects the business practices and principles of behaviour that support this commitment. The Company expects every employee to read and comply with the Code.

IT security policies are designed to protect the Company's investment made in research and development programmes and commercialisation activities. Up-to-date security systems are in place to protect the Company's IT systems and intellectual property is protected through appropriate trademark registration and a patenting programme. Micro Focus respects rights to privacy and local legislation whether customer, associate or employee and any data or information held by Micro Focus is held securely and only authorised staff can gain access.

3. The community and charity work

Micro Focus encourages employees to work within the community and allocates an annual budget for its employees to be used on a funds-matching basis, plus a number of man-days per month to be used for activities which directly benefit a charity. Employees have always supported a wide range of charities and community organisations at a local level. Micro Focus also works with the community by sponsoring sports and music clubs and school teams within the local area. The Micro Focus Charity Committee makes an active contribution towards the development of the communities in which we are based, through Company and employee participation in charitable causes.

During FY2010, Micro Focus supported its first global fundraising initiative in support of the British Red Cross and its Haiti appeal to aid recovery after the natural disaster there earlier this year. Following a range of fundraising activities across many countries, Micro Focus presented £50,000 to the British Red Cross in May 2010.

At the regional level, community and charity support is led by employees in local teams to support causes in a range of areas.

In FY2010, the UK team was shortlisted for the 2010 Business Charity Awards for best challenge team in association with Action for Children.

Haiti disaster fund

Micro Focus supported its first global fundraising initiative in support of the British Red Cross and its Haiti appeal to aid recovery after the natural disaster there earlier this year.
Images: ©Talia Frenkel/American Red Cross

In addition to community and charitable work, Micro Focus runs the **A**cademic **C**onnec**TION**s Program to support Enterprise IT skills development in academic institutions. The technology industry is one of the fastest growing industries in the world, and Micro Focus recognises the value in nurturing and encouraging the skills required to sustain the pace and breadth of the growing technology industry. The ACTION program is designed to promote the teaching of COBOL and modernization technologies in universities worldwide with free software downloads for students and the provision of materials to help colleges develop relevant courses in application modernization technologies.

4. Marketplace (customers and supply chain)

As companies face the prospect of carbon regulation worldwide they are looking for innovative ways to help them solve these challenges. One such opportunity is to review their enterprise software assets in new ways to make dramatic improvements which satisfy these requirements and at the same time improve productivity and innovation while protecting business intelligence. Micro Focus is a leader in Enterprise Application Management & Modernization and its solutions enable customers to quickly and cost-effectively transform proprietary IT infrastructures to more nimble, modern and cost-efficient environments.

By providing innovative technology that allows clients to operate their IT systems on lower cost and energy models, we are enabling a newer and greener generation of corporate behaviour both at the day-to-day operational level and also by removing the energy impacts inherent in the purchase of the new systems and equipment required by organisations pursuing a 'rip & replace' IT strategy.

Furthermore, Micro Focus already offers almost all of its products in a downloadable format via the web, removing costly and carbon footprint impacting packaging and shipping requirements from the transaction. Customers consume less energy and dramatically improve internal processes. Our logistic dependent customers have achieved improvements in their operational efficiency, consuming less resource and less energy. Micro Focus provides solutions that boost efficiencies to a number of vertical industries including financial services, retail, utilities, transportation, automotive, pharmaceuticals, telecoms and government; all of which have their own rigorous carbon responsibilities. For example, in our work with retail customers, we have improved stock replenishment systems which in turn have improved waste management levels at these organisations.

In the supply chain we support suppliers' CSR commitments and also set our own requirements for those who wish to do business with Micro Focus. We ensure partners and suppliers understand our own CSR standards and encourage them to meet the same level of best practice.

PRINCIPAL RISKS AND UNCERTAINTIES

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. Where possible, the Group seeks to mitigate these risks through its system of internal controls but this can only provide reasonable assurance and not absolute assurance against material losses.

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.

How we manage risk:

Risk

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.

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.

Acquisitions
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.

Bank loan facility
The $215 million loan facility agreement, to the extent drawn down by the Group may limit the operational and financial flexibility of the Group and may increase the exposure of the Group to interest rate fluctuations.

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.

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$.

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$.

Economic risks
The Group's business may be subject to inherent risks arising from the general and sector specific economic conditions in the markets in which they operate.

Intellectual property
The Group relies on patent, trade secret, trade mark and copyright law to protect its intellectual property. The Group possesses a number of patents and patent applications and regularly reviews its patent application and enforcement programme. The Group registers copyrights where appropriate. The Group's intellectual property also includes trade secrets and other know-how that is not considered patentable.

Potential impact	Mitigation
Failure to retain and develop skill sets, particularly in R&D and sales management may hinder the Group's expansion plans.	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. These policies include training, career development and long-term financial incentives. Leadership training schemes are in place to support succession plans.
With a high proportion of costs being fixed, mainly people related, failure to conclude sales contracts could result in a material decrease in margin. Failure to conclude at any time would have the same impact.	The Group has a growing diverse mix of customers with a high proportion of predictable and recurring revenue which reduces this exposure. Regular reviews are made on sales prospects to progress the conclusion of contracts at key periods in the financial year.
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.	The Group has strengthened its management team and internal procedures to enable acquisitions to be integrated successfully into its business model. It has in place a three year revolving $215 million loan facility agreement, expiring on 6 May 2012, to fund the acquisitions and associated integration costs concluded in the year to 30 April 2010 and any future acquisitions.
The loan facility agreement contains covenants which may negatively impact the Group's ability to operate and grow its business. To the extent drawn down, the loan facility agreement will create an amount of indebtedness for the Group which may impair the operational and financial flexibility of the Group.	The directors believe that the strength of the business means that funds drawn down to fund acquisitions will be repaid together with any accrued interest within the three year term of the loan facility agreement minimising the effect of any restrictive covenants contained therein.
If new products or enhancements do not meet customer requirements, or competitors introduce products which better meet the requirements of customers, this may have a material impact on revenues and profits.	The successful integration of the R&D functions of acquired companies together with the effective management of existing facilities is key to mitigating these risks. In addition, extensive research has been made in each of the Group's addressable markets to allocate investment and resources with a strong focus on future customer needs.
The accounting profits of the Group and the book value of assets and liabilities are subject to changes in foreign currency rates. The conversion of foreign currency denominated surplus cash into US$ will also be affected by fluctuations in foreign currency rates.	The overseas subsidiaries generally trade in their own currencies, which acts as a natural hedge against currency movements. Due to its limited exposure, the Group does not hold any financial instruments such as derivatives.
The performance of the Group may be affected by changes in economic or market conditions. The growth and development of the markets in which the Group operates depend on numerous factors many of which are beyond their control and the exact effect of which cannot accurately be predicted. Such factors include general economic and political activities including the extent of any governmental regulation, legislation and taxation.	The Group has demonstrated that it can grow and perform well in the current economic cycle. The relevance of the customer proposition and resilience of the Group business model continues to encourage that the outlook is positive. The Group benefits from having a business model with a high proportion of predictable and recurring revenue.
The Group seeks to protect its proprietary information and trade secrets that may not be patented or patentable and to secure its rights to copyright and patentable inventions by confidentiality agreements with it's customers, partners and employees and, if applicable, through inventors' rights agreements.	Some of the Group's intellectual property includes technologies and processes that may be similar to the technologies and processes of third parties that are protected by patent, copyright or trade secret law and the Group could become subject to litigation in which it is alleged that it has infringed the intellectual property rights of others. The Group takes steps to enforce its intellectual property rights particularly in international markets including litigation where appropriate.

Revenue for the year increased by 57.5% to $432.6 million, adjusted operating profit increased by 45.2% to $168.0 million, adjusted profit before tax increased by 38.8% to $160.9 million and adjusted earnings per share increased by 37.9% to 57.26 cents per share.

In the tables below we have provided detail of total revenue at actual exchange rates by both geography and by type. In addition, to facilitate comparison on a like-for-like basis we have also shown the impact of exchange rate movements on revenue and the impact of acquisitions.

Table 1 below shows revenue by geographic region at actual reported $ as follows:

Table 1:

	2010		2009	
	$m	%	$m	%
North America	**200.9**	**46.4**	124.0	45.1
Europe, the Middle East, Latin America and India	**166.7**	**38.5**	113.1	41.2
Rest of the World	**65.0**	**15.1**	37.6	13.7
Total revenue	**432.6**	**100.0**	274.7	100.0

Table 2 below shows the impact of currency and acquisitions on the year on year revenue growth. The Micro Focus organic revenue growth on a comparable like-for-like basis at constant currency was 4.7%. Total organic growth was 7.7%.

Revenues from acquisitions added $137.1 million of revenue in the year.

We have been encouraged by the growth in new direct territories including Spain, Portugal and India, which assisted in helping our Europe, Middle East, Latin America and India geographies increase by 9.2%.

Table 2:

	2010 $m	2009 $m	Growth %
North America	**127.4**	124.0	2.8
Europe, the Middle East, Latin America and India	**123.3**	112.9	9.2
Rest of the World	**36.5**	37.5	(2.7)
Comparable like for like organic	**287.2**	274.4	4.7
Impact of 2009 acquisitions*	**8.3**	–	
Total COBOL Development/ Modernization & Migration	**295.5**	274.4	7.7
Borland & Compuware AMQ	**137.1**	–	
Total revenue pre currency impact	**432.6**	274.4	57.7
Currency	**–**	0.3	
Total reported revenue	**432.6**	274.7	57.5

* This includes the revenue for the periods in 2010 for which we did not have comparatives for in 2009 from the acquisitions made in 2009 of Relativity, NetManage and Liant.

The leadership and execution capability of the 'go to market' team has been continually strengthened. The number of direct quota carrying sales executives has increased by approximately 60%.

Table 3 below shows revenue for the year by category at actual reported $:

Table 3:

	2010		2009	
	$m	%	$m	%
Licence	**183.7**	**42.5**	130.8	47.6
Maintenance	**219.1**	**50.6**	132.3	48.2
Consultancy	**29.8**	**6.9**	11.6	4.2
Total revenue	**432.6**	**100.0**	274.7	100.0

Table 4 below shows licence and maintenance growth in the COBOL Development and Modernization & Migration business was 0.7% and 6.9% respectively on a like for like basis. Consulting revenues increased by 24.1%, predominantly driven by the increase in the larger value Modernization & Migration deals.

Table 4:

	2010 $m	2009 $m	Growth %
Licence	**131.2**	130.3	0.7
Maintenance	**141.6**	132.5	6.9
Consulting	**14.4**	11.6	24.1
Comparable like for like organic	**287.2**	274.4	4.7
Impact of 2009 acquisitions	**8.3**	–	
Total COBOL Development/ Modernization & Migration	**295.5**	274.4	7.7
Borland & Compuware AMQ	**137.1**	–	
Total revenue pre currency impact	**432.6**	274.4	57.7
Currency	**–**	0.3	
Total reported revenue	**432.6**	274.7	57.5

Organic licence fee revenue growth from the COBOL Development and Modernization & Migration businesses at constant currency was driven by our improved sales of larger value transactions to enterprise customers. We define larger value transactions as those in excess of $0.5 million. Both the number and value of these larger value transactions increased year on year.

Organic maintenance revenue growth from the core business at constant currency was 6.9% reflecting the impact of good renewal rates, solid licence fee sales in the second half of financial year 2009 combined with inflationary price increases.

Organic consulting revenue growth at constant currency showed an increase against the prior year as a result of an increase in the number of larger value transactions linked to migration projects.

The acquisitions made in the year comprising Borland and Compuware's AMQ business added $137.1 million of revenues. Both businesses were experiencing declining revenues at the time of acquisition. Since acquisition, revenue declines have been arrested and the AMQ revenues have stabilised at a run rate of approximately $164 million.

With an increased market opportunity and an expanding product set we are now moving towards an additional focus in our business on three key product areas; COBOL Development, Modernization & Migration and AMQ. Our primary focus and day-to-day running of the business continues to be managed by geography. In introducing the three product areas we aim to provide greater understanding of the business, market characteristics and growth drivers. In the year ahead we will look to provide greater clarity and detail in these areas.

In the above analysis, the AMQ revenues are clearly identified as $137 million. The COBOL Development revenues are approximately $204 million and the Modernization & Migration revenues are approximately $92 million providing for total revenues of $433 million.

Costs

All comments below relate to costs at actual reported $.

Cost of sales for the year increased by 133.5% to $52.2 million. The costs in this category predominantly relate to our consulting and helpline support operations and the majority of the cost growth related to Borland and Compuware AMQ revenue.

Selling and distribution costs increased by 64.0% to $128.1 million. We will continue to make significant investments in the sales and marketing functions to support growth. This cost category represents approximately 30% of revenue (2009: 28%) and is expected to remain at a similar percentage of revenue for the year ahead.

Research and development expenses increased by 66.4% to $56.8 million, representing 13% of revenue (2009: 12%). We have significantly expanded the development capability through our cost effective offshore development facilities and the additional capability from the recent acquisitions. Costs incurred on development projects relating to new computer software are capitalised and amortised over three years and this has resulted in an asset in this financial year of $7.6 million (2009: $2.3 million).

Excluding restructuring charges of $45.1 million (2009: $14.9 million), administrative expenses increased by 32.2% to $44.9 million, representing 10% of revenue (2009: 12%). 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. We continue to leverage our back office function to drive margin improvements as we expand the Group.

Currency impact

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

Table 5:

	Revenue analysis by major currency %	Cost analysis by major currency %
US$	49.2	40.8
Other	50.8	59.2
Total	**100.0**	**100.0**

Operating profit

Operating profit for the year was $105.4 million (2009: $91.2 million). Adjusted operating profit increased by 45.2% to $168.0 million (2009: $115.6 million), the improvement being driven by growth in revenue.

Adjusted EBITDA

Adjusted EBITDA increased by 46.2% to $173.3 million (2009: $118.6 million).

Net finance expense

Net finance expense of $7.1 million (2009: income $0.2 million) included amortisation of bank fees of $3.9 million and interest paid of $3.8 million on the bank loan drawn down to partly finance the acquisitions made in the year. These expenses were offset by interest received of $0.6 million (2009: $1.0 million) on lower average cash balances and lower interest rates.

Taxation

Tax for the year was $22.0 million (2009: $25.4 million). The Group's effective tax rate is 22.3% being lower than the prior year (2009: 27.8%) and lower than expected in future years due to some one-off credits. Our medium term effective tax rate is expected to be maintained at approximately 26%.

Profit after tax

Profit after tax increased by 15.6% to $76.4 million (2009: $66.0 million).

Cash flow

At 30 April 2010, the Company's net debt was $68.2 million (2009: cash $71.6 million). The Group generated a net cash inflow from continuing operating activities of $102.8 million which was offset by outflows of $199.2 million in respect of the acquisition and restructuring of Borland and Compuware's AMQ business net of cash acquired, a bank loan of $163.5 million, as well as corporation tax payments of $20.9 million and dividends paid of $33.6 million. The Group expects to be net cash positive by the end of the 2011 financial year, ahead of schedule.

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 2010 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 2010 of 16.2 cents per share providing for total dividends in the year of 21.8 cents per share, an increase of 40% above the total dividends of 15.6 cents per share for the full year to 30 April 2009. The dividend will be paid on 28 September 2010 to shareholders on the register on 3 September 2010. The directors of Micro Focus International plc consider 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 £ = $1.48, equivalent to 10.95 pence per share, being the rate applicable on 23 June 2010, the date of recommendation of the dividend by the board.

Acquisitions made in the year

During the year, we made two acquisitions, the AMQ business of Compuware in May 2009 and Borland in July 2009. These two acquisitions added $137.1 million of revenues to the current year results and margins were in line with Group levels by the end of April 2010.

To finance the above acquisitions, we arranged a three year revolving credit facility of $215 million through a syndicated loan consortium comprising Barclays, HSBC, Lloyds TSB and RBS, established in May 2009. We drew down $164 million from this facility and due to strong cash generation from continuing operations net debt at the end of April was $68.2 million. We expect to be net cash positive by the end of this financial year 2011.

BOARD OF DIRECTORS

01.

02.

03.

04.

05.

06.

01. Kevin Loosemore, 51

(Non-executive Chairman) †‡

Kevin is a director of Farnham Castle and until recently was non-executive Chairman of Morse plc and a non-executive director of Nationwide Building Society. 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 Limited. He has a degree in politics and economics from Oxford University.

02. Nigel Clifford, 50

(Executive director and Chief Executive Officer) ‡

From June 2005, Nigel served as Chief Executive Officer of Symbian Limited, which became wholly owned by Nokia in 2008. Prior to Symbian, from 2000 he was Chief Executive Officer of Tertio Telecoms Limited, a software product and services company. Earlier roles include five years as Chief Executive Officer of the Glasgow Royal Infirmary University NHS Trust with responsibility for 5,000 staff across five teaching hospitals. Nigel started his career at BT, and also worked for international telecommunications company Cable & Wireless where he was Senior Vice President, Service Delivery. He is a non-executive director of Anite plc. In addition to an MA in Geography from Cambridge University, Nigel holds an MBA from Strathclyde University.

03. David Maloney, 54

(Non-executive director) *†‡

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

* Audit committee
† Remuneration committee
‡ Nomination committee

04. Paul Pester, 46

(Non-executive director) *†

Paul has recently been appointed Managing Director of Consumer Banking and Payments at Lloyds Banking Group plc with responsibility for the core retail banking products and marketing for the Lloyds TSB, HBOS and other group brands. Until recently Paul was Managing Director at Santander UK plc responsible for Bradford & Bingley, and its integration into Santander, and for Premium Banking. Previously he was Chief Executive Officer of Moneyfacts Group plc, Managing Director of Consumer Banking at Lloyds TSB Group plc, Chairman of the British Bankers' Association Retail Committee, a director at VISA International, Chairman of the Travellers Cheque Association and Chief Executive Officer at Virgin Money Group. Paul holds a first class honours degree in physics from Manchester University and a doctorate in mathematical physics from Oxford University.

05. Tom Skelton, 49

(Non-executive director) *†

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

Karen Slatford, 53

(Non-executive director) *†

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

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 2010.

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.

Business review

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

The Chief Executive Officer's statement on pages 8 to 17, the financial review on pages 22 and 23 which include details of the Group's activity and the future development of the Group, the principal risks and uncertainties set out on pages 20 and 21, the statement on corporate and social responsibility set out on pages 18 and 19 and the key performance indicators ('KPIs') on page 44 which are incorporated in this directors' report by reference.

Corporate governance

The Group is required to produce a corporate governance statement pursuant to the FSA's Disclosure and Transparency Rules. The information that fulfils this requirement can be found in this directors' report and in the corporate governance section on pages 30 to 35 which are incorporated in this directors' report by reference.

Dividends

The board continues to adopt a progressive dividend policy reflecting the long-term earnings and cash flow potential of Micro Focus with a level of dividend cover for the financial year ended 30 April 2010 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 financial year ended 30 April 2010 of 16.2 cents per share, which, taken together with the interim dividend of 5.6 cents per share paid in January 2010, gives a total dividend in respect of 2010 of 21.8 cents per share. Subject to shareholder approval, the final dividend will be paid on 28 September 2010 to shareholders on the register on 3 September 2010. Dividends will be paid in sterling based on an exchange rate of £1 = $1.48, equivalent to approximately 10.95 pence per share, being the rate applicable on 23 June 2010, the date of recommendation of the dividend by the board.

Research and development

The Group expensed $56.8 million relating to research and development during the year to 30 April 2010 (2009: $34.1 million). In addition, the Group capitalised $15.5 million of qualifying expenditure (2009: $7.7 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 or contributions to political parties (2009: nil). During the year reported on, the Group made charitable donations of $74,000 to a number of local and national charities and other local organisations (2009: $27,000). This included $39,000 to the British Red Cross Haiti Appeal, $9,900 to Action for Children and $4,000 to Swings and Smiles, Newbury. The Company has a gift programme that matches employee donations. It also has a policy in place to encourage employees to volunteer a certain number of hours to assist local organisations.

Post balance sheet events

Details concerning the appointment and resignation of certain directors of the Company are described below.

Directors and their interests

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

Executive	
Stephen Kelly	(resigned 8 September 2009)
Nick Bray	(resigned 23 June 2010)
Non-executive	
Kevin Loosemore	(Chairman)
David Maloney	
Paul Pester	
Tom Skelton	

Nigel Clifford was appointed as Chief Executive Officer effective 1 May 2010 and Karen Slatford was appointed as a non-executive director effective 5 July 2010.

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 41 to 43.

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, as disclosed in note 30, related party transactions.

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

During the financial year reported on and as at the date of this report indemnities are in force under which the Company has agreed to indemnify the directors to the extent permitted by law and by the Articles of Association of the Company against liabilities they may incur in the execution of their duties as directors of the Company. 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 the objectives which are in place to assist them to focus on working towards these goals. Communications at the time of key announcements, including presentations by directors to all employees, together with briefings throughout the year, are part of the communication and consultation programme. In addition, regular meetings are held with staff and managers, both to raise issues and to assist with the two-way flow of information. The Company has also introduced an online all-employee survey which enables employees to express views and raise issues anonymously.

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.

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

The board has undertaken a formal and rigorous process for the evaluation of its own performance and that of its committees and individual directors. Following an independent review of the board and committee performance in 2009, this year's evaluation was conducted in the form of online surveys and included an evaluation of the training and development of directors. The results of these surveys have been reviewed by the board and each committee and the resulting recommendations are being implemented.

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 25.

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. 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 its 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 2010 for the Group was 37 days (2009: 28 days), based on the Group's trade creditors at the end of the year to the amounts invoiced during the year by the Group's trade creditors.

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 20 to the financial statements.

Substantial shareholding

In accordance with the Disclosure and Transparency Rules of the Financial Services Authority, at 11 August 2010, 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
BlackRock, Inc	34,564,575	16.84%
Standard Life Investments Limited	21,144,419	10.31%
Majedie Asset Management Limited	20,073,537	9.91%
GAM International Management Limited	11,717,270	5.84%
Ameriprise Financial, Inc	10,288,657	5.02%
Ignis Investment Services Limited	10,270,001	5.01%
JP Morgan Chase & Co	9,963,590	4.96%
Legal and General Group Plc	7,835,219	3.88%
Fidelity International Limited	6,605,572	3.30%

Future developments

Further information regarding the Group's future developments can be found in the Chief Executive Officer's statement on pages 8 to 17 and the financial review on pages 22 and 23.

Additional information for shareholders

Following the implementation of the EU Takeover Directive into English law, the following description provides the required information for shareholders where not already provided elsewhere in this report. This summary is based on the Company's Articles of Association (the 'Articles') which came into effect on 1 October 2008.

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:

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

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

Deadlines for voting rights
Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM to be held on 23 September 2010 are set out in the Notice of Meeting which accompanies this report.

Dividends and distributions
Subject to the provisions of the Companies Act 2006, the Company may, by ordinary resolution, declare a dividend to be paid to members, but no dividend shall exceed the amount recommended by the board. The board may pay interim dividends, and 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 Articles, if the Company is in liquidation, the liquidator may, with the authority of an ordinary 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 Articles, any member may transfer all or any of his or her certified shares in writing by an instrument of transfer in any usual form or in any other form which the board may approve. The board may, in its absolute discretion and without giving any reasons, decline to register any instrument of transfer of a certified share which is not a fully paid share provided that, where any such shares are admitted to the Official List maintained by the UK Listing Authority, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The board may decline to recognise any instrument of transfer relating to shares in certificated form unless it is in respect of only one class of share and is lodged (duly stamped if required) at the Transfer Office accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transfer or to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do). In the case of a transfer of shares in certificated form by a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange the lodgement of share certificates will only be necessary if and to the extent that certificates have been issued in respect of the shares in question. The directors may also refuse to register an allotment or transfer of shares (whether fully-paid or not) in favour of more than four persons jointly. Subject to the Articles and the CREST Rules (as defined in the Uncertificated Securities Regulations, as amended), and apart from any class of wholly dematerialised security, the board may permit any class of shares in the Company to be held in uncertificated form and, subject to the Articles, title to uncertificated shares to be transferred by means of a relevant system.

Repurchase of shares
The Company obtained shareholder authority at the last AGM (held on 24 September 2009) to buy back up to 20,250,682 ordinary shares, which remains outstanding until the conclusion of the next AGM on 23 September 2010. 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 Articles
Any amendments to the Articles may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

Appointment and replacement of directors
Directors shall be no less than three and no more than 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. In accordance with the Financial Reporting Council's UK Corporate Governance Code, the board proposes that, at the AGM to be held on 23 September 2010, shareholders approve a resolution to amend the Company's Articles of Association so that all director appointments will be subsequently subject to re-election by the shareholders on an annual basis.

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

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

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

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

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

On 6 May 2009, the Company entered into a $175 million credit facility provided through a syndicated loan consortium comprising Barclays Bank PLC, HSBC Bank plc, Lloyds TSB Bank plc and The Royal Bank of Scotland plc to assist with the funding of acquisitions and for general corporate purposes. On 12 June 2009, the Company entered into a supplemental agreement for an additional $40 million to assist with the acquisition of Borland Software Corporation at an increased offer price. On a change of control, all such credit facilities become immediately due and payable.

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

Branches
The Group continues to operate overseas branches in Denmark, Finland, Hong Kong, Mexico, Portugal and Sweden. Following the acquisition of Borland Software Corporation on 27 July 2009, the Group also now operates overseas branches in the People's Republic of China, Spain and Russia.

Annual General Meeting ('AGM')
The notice convening the AGM of the Company together with the explanatory notes on the resolutions proposed at the AGM accompanies this report. The meeting will be held at The Lawn, 22-30 Old Bath Road, Newbury, Berkshire RG14 1QN on 23 September 2010 at 3pm (UK time).

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
11 August 2010

CORPORATE GOVERNANCE

Introduction

The principal corporate governance guidance that applies to companies listed with the UK Listing Authority during the year reported on is contained in the Financial Reporting Council's Combined Code 2008 (the 'Combined Code'). The Combined Code, which operates on a 'comply or explain' basis, incorporates, among 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 limited exception 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.

On 28 May 2010 the Financial Reporting Council published the new UK Corporate Governance Code, formerly known as the Combined Code. The UK Corporate Governance Code applies to reporting periods beginning on or after 29 June 2010 and consequently will apply to the Company with effect from 1 May 2011. Although largely restating the Combined Code, the UK Corporate Governance Code introduces a number of structural changes and new requirements aimed at improving the governance of listed companies. One of the more significant changes is the recommendation that all directors stand for re-election at each annual general meeting and this is discussed in more detail below.

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.

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

A.4.1 – nomination committee – The Combined Code requires that a majority of members of the nomination committee should be independent non-executive directors. During the year, the nomination committee comprised the Chairman, David Maloney (non-executive senior independent director) and Stephen Kelly (executive director) until Mr Kelly's resignation on 8 September 2009. Nigel Clifford (executive director) was appointed a member of the nomination committee on 1 May 2010. The Company is aware that the Chairman is not regarded as independent for purposes of the Combined Code. 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 judgment.

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 36 to 43) the following section sets out how the board has applied these principles. The Combined Code can be accessed at www.frc.org.uk/corporate/combinedcode.cfm.

The board

The Group is controlled by the board, which is responsible for the Group's system of corporate governance. As at 30 April 2010, the board comprised five directors:

Kevin Loosemore	Non-executive Chairman
Nick Bray	Chief Financial Officer
David Maloney	Non-executive senior independent director
Paul Pester	Non-executive independent director
Tom Skelton	Non-executive independent director

Stephen Kelly resigned from the board as Chief Executive Officer on 8 September 2009. Nigel Clifford was appointed to the board as Chief Executive Officer on 1 May 2010. Nick Bray resigned from the board as Chief Financial Officer on 23 June 2010. Karen Slatford was appointed as an independent non-executive director on 5 July 2010.

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

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

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 judgment.

David Maloney, the non-executive senior independent director, Paul Pester, Tom Skelton and Karen Slatford, each a non-executive director, are considered by the board to be independent.

In accordance with the Combined Code, all directors will be subject to election by the shareholders at the first Annual General Meeting ('AGM') of the Company after their appointment, and, thereafter, at least every three years. David Maloney, Tom Skelton and Paul Pester will retire by rotation at the forthcoming AGM and, being eligible will stand for re-election and Nigel Clifford and Karen Slatford will also retire at the forthcoming AGM and being eligible will stand for election. The non-executive directors are appointed for specific terms. Full terms of their appointment are to be found in the remuneration report.

The Financial Reporting Council's UK Corporate Governance Code, which applies to the Company from 1 May 2011, recommends that, in the interests of greater accountability, all directors should be subject to election by shareholders at the first AGM of the Company after their appointment and thereafter subject to re-election annually. Consequently, the board recommends to shareholders at the forthcoming annual general meeting that a resolution to approve changes to the Company's Articles of Association to require annual elections for all directors be approved with effect from the AGM in 2011.

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 between board members, between the board and its committees and between non-executive directors and senior management. Any new director receives a comprehensive, formal and tailored induction into the Company's operations. 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 2011, the board has scheduled meetings on a regular basis approximately every one to two months, with additional meetings when circumstances and business dictate. In months in which the board does not meet update calls are scheduled to review progress. All directors receive an agenda and board papers in advance of meetings to help them make an effective contribution at the meetings. In addition, the executive directors from time to time 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 23 occasions, nine such meetings being scheduled formal board meetings with a further 14 additional meetings of the board called at short notice 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 task teams, comprising the executive directors together with executives responsible for the relevant tasks who meet regularly.

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; and
- Investor relations.

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. Following an independent review of the board and committee performance in 2009, this year's evaluation has been conducted in the form of online surveys completed by members of the board with respect to the performance of the board and each of its committees, as well as individual director surveys. These surveys were provided by Lintstock Limited, a corporate advisory firm that provides objective and independent counsel to leading European companies. The results of these surveys have been reviewed by the board and each committee and the resulting recommendations are being implemented, including the appointment of Karen Slatford, an additional independent non-executive director, on 5 July 2010.

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

Conflicts of interest

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

Board committees

In accordance with best practice, the Company has established audit, nomination and remuneration committees, with written terms of reference for each that deal with their respective authorities and duties. The full terms of reference of all the committees are available from the Company Secretary or can be viewed on the Company's website. 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, Paul Pester and Karen Slatford.

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

The audit committee is responsible for reviewing the Group's annual accounts and interim reports prior to submission for approval to the full board. The committee also monitors the Group's accounting policies, internal financial control systems and financial reporting procedures. The audit committee provides a forum through which the Group's external and internal auditors report to the board. The auditors are invited to attend meetings of the committee on a regular basis and have the opportunity to meet privately with committee members in the absence of executive management. The audit committee oversees the relationship with the auditor, including the independence and objectivity of the auditor (taking into account UK professional and regulatory requirements and the relationship with the audit firm as a whole) and the consideration of audit fees and fees for 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 it 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 to be completed during the year was reviewed and approved by the audit committee and the reports of results of completed audits received and responses of executive management were considered. The plan set out at the beginning of the year was achieved and the outcome of the work was in line with expectations.

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

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

- To report to the board, 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;
- To oversee the relationship with the Company's auditors, ensuring the independence and objectivity of the auditor and considering audit fees and fees for non-audit work; and
- To consider and make recommendations to the board in relation to the appointment, reappointment and removal of the Company's external auditor.

During the year, the committee's business included consideration of the following:

- The effectiveness of internal control procedures;
- The annual financial statements, full year results announcement, half year results and other stock exchange announcements;
- The annual review of the performance and effectiveness of both the internal and external auditors;
- Responses to a questionnaire on the audit committee's performance and effectiveness;
- A strategic risk assessment exercise to identify and assess the Group's key risks and the controls in place to manage and mitigate against these risks;
- Review of the internal audit reports issued during the year and the risk based internal audit programme for 2011;
- Review of the external audit plan;
- Review of the external auditor's performance by means of completion of an online questionnaire by members of the board and the Company's financial management as a result of which the board is recommending that shareholders approve the reappointment of PricewaterhouseCoopers LLP as external auditor for 2011 at the forthcoming AGM on 23 September 2010. The questionnaire was supplied by Lintstock Limited, the independent corporate advisory firm that provides objective and independent counsel to leading European companies. PricewaterhouseCoopers LLP have been the external auditor to the Group since the Company's initial public offering in 2005. There are no contractual restrictions on the Company on the choice of external auditor;
- An updated policy on market abuse and insider dealing; and
- The management of corporate fraud risks.

Nomination committee

The nomination committee is comprised of Kevin Loosemore (who chairs the committee), David Maloney (non-executive senior independent director) and, following his appointment on 1 May 2010, Nigel Clifford (Chief Executive Officer). Stephen Kelly resigned as a director and from the committee on 8 September 2009. The committee has met five times during the financial year. The nomination committee will meet at least twice during the coming financial year.

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

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

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

Following the resignation of Stephen Kelly, the nomination committee oversaw the search and selection process of the new Chief Executive Officer. The committee appointed external independent professional advisers, Russell Reynolds, to assist and a shortlist of candidates was recommended to the committee to be interviewed and considered by the board. This process culminated in the appointment of Nigel Clifford as the Group's new Chief Executive Officer with effect from 1 May 2010.

Remuneration committee

Details of the remuneration committee are described in the remuneration report on pages 36 to 43.

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 and it is regularly reviewed by the board and accords with the Turnbull guidance.

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

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

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

Risk management

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

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

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

Financial reporting

In addition to the general internal controls and risk management processes described above, the Group also has specific internal controls and risk management systems to govern the financial reporting process:

- There are Group policies covering what is reported in monthly reporting to the board and senior management team. The Group's financial reporting system has been guided by the requirement to ensure consistency and visibility of management information to enable the board and senior management to review the Group's worldwide operations effectively;
- Cash flows are produced twice monthly by all operations. These are reviewed by the Group treasury function to ensure effective cash management by the Group and to enable its bank funding to be repaid as soon as possible;
- Management representations covering compliance with Group policies and the accuracy of financial information are collated on a quarterly basis; and
- All the major trading entities completed a self assessment on the effectiveness of their internal control environment.

Consolidation reporting

- The consolidation process entails the combining and adjusting of financial information from the individual financial statements of Micro Focus International plc and its subsidiary undertakings to prepare consolidated financial statements that present financial information for the Group as a single economic entity. Note 1, Group accounting policies, sets out the basis of preparation and consolidation, including the elimination of inter-company transactions, balances and unrealised gains between Group companies;
- Financial information from subsidiaries is reviewed for accuracy by either external audit or by internal review where a formal audit is not required; and
- The consolidated financial statements are completed in accordance with EU endorsed International Financial Reporting Standards, IFRIC interpretations, and the Companies Act 2006.

Human resources

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

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

Announcements

All major announcements are approved by the 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.

Budgetary process

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

Insurance

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

Attendance at meetings

The number of board meetings and committee meetings attended by each director in the year to 30 April 2010 was as follows:

	Board		Audit committee		Remuneration committee		Nomination committee	
	Held*	Attended	Held*	Attended	Held*	Attended	Held*	Attended
Kevin Loosemore	23	22	–	–	8	8	5	5
Stephen Kelly	12	12	–	–	–	–	0	0
Nick Bray	23	23	–	–	–	–	–	–
David Maloney	23	22	6	6	8	8	5	5
Paul Pester	23	20	6	6	8	8	–	–
Tom Skelton	23	20	6	6	8	7	–	–

* During period of appointment.

Notes:
Stephen Kelly resigned on 8 September 2009.
Nick Bray resigned on 23 June 2010.

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

Shareholder relations

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

The Company reports formally to shareholders four times a year, around June (preliminary announcement of annual results) and December (interim statement) and the Company also publishes interim management statements in or around August and February each year. The annual report is expected to be mailed to shareholders 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 and at other times. In addition to the Chief Executive Officer and Chief Financial Officer, who have regular contact with investors, Kevin Loosemore (the Chairman) and David Maloney (the senior independent non-executive 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 Company's website and new announcements are published without delay. The terms of reference of each of the board's three committees and other important corporate governance documents are available on the website and from the Company Secretary. Additionally, the Chief Executive Officer, Chief Financial Officer and Head of Investor Relations provide focal points for shareholders' enquiries and dialogue throughout the year.

Annual General Meeting ('AGM')

The Company's AGM, which will be held on 23 September 2010 at 3pm (UK time) will provide an opportunity for the board to meet with all shareholders and the participation of shareholders is encouraged. At the meeting, in addition to the statutory business, the board will be available for questions from shareholders.

In accordance with the 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 each such resolution and the number of votes withheld. A resolution will be proposed for each substantive issue and the chairs of the audit, remuneration and nomination committees will attend to answer questions.

Information on share capital and other matters

The information about share capital required to be included in this statement can be found on page 28 of the directors' report and in note 22 to the financial statements.

Introduction

This is the Company's remuneration report in respect of the financial year to 30 April 2010 and, subject to ongoing review by the remuneration committee (the 'committee') as to its appropriateness, sets out the policy in respect of the following and subsequent years.

The Company complies with the relevant provisions of the Companies Act 2006 and seeks to comply with the relevant provisions of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 (the 'Combined Code') relating to directors' remuneration up to and including 30 April 2011. From 1 May 2011 the Combined Code will be replaced with the UK Corporate Governance Code as published by the Financial Reporting Council. The Company will seek to comply with the relevant provisions of the UK Corporate Governance Code which relate to directors' remuneration from such date.

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

In accordance with the Companies Act 2006, a resolution to approve the remuneration report will be proposed at the Company's AGM on 23 September 2010. 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.

The remuneration committee

The committee has met eight times during the financial year. The attendance record of each committee member is set out on page 34. 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 four times during the coming financial year.

The terms of reference of the committee include, among other matters, 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, share options and any other share awards;
- To determine the policy for, and scope of, pension arrangements for each executive director and other senior executives;
- To approve the framework of salaries for senior managers, determine targets for any performance-related pay schemes operated by the Company and approve the total annual payments;
- To review the design of all share incentive plans for approval by the board and shareholders;
- To oversee any major changes in employee benefit structures throughout the Company or Group; and
- To review the ongoing appropriateness and relevance of the remuneration policy.

The committee comprises Paul Pester as chairman of the committee with David Maloney, Tom Skelton and Kevin Loosemore as its other members. Where appropriate the committee invites the views of each of the Chief Executive Officer, the Chief Financial Officer and the Group Human Resources Director from time to time, 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 Hewitt Associates Limited trading as Hewitt New Bridge Street ('HNBS') (who are the principal advisors to the committee), by Steen and Co, solicitors, by Linklaters LLP, solicitors, and by Lawrence Graham LLP, solicitors, who each provided advice to the committee on remuneration related issues. HNBS did not provide any other advice or services to the Group. The terms of HNBS' engagement are available from the Company Secretary. Steen and Co and Linklaters both also provided employment law advice to the Group and Lawrence Graham also provided corporate law advice to the Group. Their advice has been taken into account by the committee where appropriate. During the year the Chief Executive Officer and Group Human Resources Director 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 and are on the Company's website www.microfocus.com under 'Investor Relations'.

Remuneration policy

The Company's policy on the remuneration of executive directors and their direct reports is established by the committee and approved by the board. The individual remuneration package of each executive director is determined by the committee.

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

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

It is intended that an appropriate and significant proportion of remuneration will continue to be performance related (see details below). Performance conditions for performance-related bonuses and long-term incentives will represent challenging growth targets which are designed to increase shareholder value. The committee will review the performance conditions used to ensure that they remain demanding and appropriate.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the committee will ensure that the incentive structure for executive directors and senior management will not raise environmental, social or governance ('ESG') risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the committee which prevents it from taking into account corporate governance on ESG matters.

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 as well as a broader group of companies of a similar size to the Company and in so doing seeks to ensure that fixed rewards are no higher than market median, that an appropriately significant proportion of potential reward is performance related and that the total reward is appropriately competitive.

The committee has considered that this approach may not be attractive to executives who are not commited to delivering performance over a sustained period or who are seeking higher guaranteed short-term reward without any clawback should performance then drop off. The committee concluded that encouraging executives to take a medium to longer term view is in shareholder interests.

The committee has also reviewed the performance condition used for long-term incentive awards to ensure that these remain consistent with the Group's strategy. It concluded that earnings per share ('EPS') remains an appropriate performance measure for awards of long-term incentives. The committee will keep this measure under review to ensure it remains sufficiently challenging.

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.

Nigel Clifford was appointed as the Company's new Chief Executive Officer on 1 May 2010. His service contract dated 30 March 2010 requires the Company to give six months' notice of termination. Nigel Clifford is required to give six months' notice of the termination of his employment should he wish to leave. The service contract dated 1 May 2006 with Stephen Kelly, who resigned as Chief Executive Officer on 8 September 2009, required the Company to give 12 months' notice of termination and for Mr Kelly to give six months' notice of termination of his employment. The service contract dated 30 November 2005 with Nick Bray, who resigned on 23 June 2010, required the Company to give 12 months' notice of termination and for Mr Bray to give six months' notice of the 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 committee also has discretion to pay an executive director compensation for other contractual benefits for the unexpired period of notice.

Executive directors may not accept non-executive appointments without the consent of the board. Nigel Clifford acts in the capacity of a non-executive director at Anite plc, for which he receives remuneration of £37,000 per annum. Nigel Clifford is permitted to retain these fees as the post entails personal responsibility. Stephen Kelly, who resigned as the Chief Executive Officer on 8 September 2009, was a director of Cúram Software Limited for which he was receiving remuneration of £40,000 per annum. Nick Bray, who resigned as a director on 23 June 2010, did not serve as a non-executive director for any company.

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. Each non-executive director still serving at the end of his or her term will have his or her appointment reviewed by the board and the reappointment of that director may be agreed.

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

REMUNERATION REPORT
continued

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

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

Non-executive directors	Date of contract	Unexpired term of contract on 30 April 2010	Notice period under contract
Kevin Loosemore	4 April 2008	1 year 1 month	90 days from the company or individual
David Maloney	4 April 2008	1 year 1 month	90 days from the company or individual
Paul Pester	27 June 2007	2 months[1]	90 days from the company or individual
Tom Skelton	23 October 2009	2 years 6 months	90 days from the company or individual

1 Paul Pester's contract with the Company was renewed for a further three year term on 27 June 2010.

Karen Slatford signed an appointment letter with the Company which became effective on 5 July 2010.

All appointments are currently 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 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 2009, David Maloney retired voluntarily and was re-elected at the Company's AGM in September 2007. David Maloney, Tom Skelton and Paul Pester will be retiring voluntarily and submitting themselves for re-election by the shareholders at the AGM of the Company on 23 September 2010. Karen Slatford, together with executive director Nigel Clifford, will be offering themselves for election by the shareholders at the AGM of the Company on 23 September 2010.

In accordance with the UK Corporate Governance Code, the board proposes that, at the AGM to be held on 23 September 2010, shareholders approve a resolution to amend the Company's Articles of Association so that all director appointments subsequently will be subject to re-election by the shareholders on an annual basis.

Kevin Loosemore is a director of Farnham Castle and until 21 April 2010 was a non-executive director of Nationwide Building Society and resigned as the non-executive chairman of Morse plc on 21 June 2010.

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

Annual salary
The board approves the overall budget for employee salary increases and the committee agrees the specific increases for executive directors and certain other senior members of the management team. In doing so it seeks to ensure that the approach taken for executive directors is consistent with that used for other employees. Salaries for executive directors and other senior employees are reviewed annually with changes becoming effective from 1 July each year. In determining appropriate salary levels for each executive director and for senior employees, the committee considers both the nature and the status of the Company's operations and the responsibilities, skills, experience and performance of the executive director or employee in question. The committee compares the Group's remuneration packages for its directors and employees with those for directors and employees of similar seniority in companies whose activities and size are comparable with the Group and with which it competes for staff. The committee has used HNBS in making these comparisons.

At 30 April 2010, the salaries of the executive directors serving during all or a proportion of the financial year ending 30 April 2010 were as follows:

- Nick Bray: £242,000[1]
- Stephen Kelly: £363,000[2]

1 Nick Bray subsequently resigned as Chief Financial Officer of the Company on 23 June 2010.
2 Stephen Kelly resigned as Chief Executive Officer of the Company on 8 September 2009.

On 1 May 2010, Nigel Clifford was appointed as Chief Executive Officer of the Company at an annual salary of £410,000.

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 levels of bonus for the year to 30 April 2010 for Stephen Kelly, who resigned on 8 September 2009, and Nick Bray, who resigned on 23 June 2010, included personal objectives. The levels of bonus for the year commencing 1 May 2010 for Nigel Clifford and Nick Bray do not include personal objectives.

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

Details of bonuses paid or receivable by executive directors for the year to 30 April 2010 are detailed in the remuneration table on page 41. Bonuses are awarded wholly in cash. No bonus was paid to Stephen Kelly, who resigned on 8 September 2009. The performance targets for Nick Bray resulted in a performance bonus of 50% of salary for the year ending 30 April 2010.

As Nick Bray resigned before the annual bonus for 2010 was paid the committee has exercised its discretion to grant his bonus but has determined that it will be paid at the end of the period covering his restrictive covenants on condition that they have not been breached.

In respect of the year ending 30 April 2011 the cap on bonuses payable to Nigel Clifford will be 150% of salary.

Long-term incentives

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

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

The current policy is to grant three times basic salary of market value options each year to the Chief Executive Officer. The policy for grants to the Chief Financial Officer is under review. The performance condition for market value option awards made to Nigel Clifford on 30 June 2010 and to executive directors during the year ended 30 April 2010 were reviewed by the committee. These require that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 11% per annum (at which point 25% of awards will vest), 60% of shares will vest for cumulative EPS growth of RPI plus 13% per annum and for full vesting the cumulative EPS growth will be required to be RPI plus 15% per annum. Straight-line vesting will apply between these points. Performance against these objectives is determined by the committee based on the Company's audited results.

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

Recruitment awards to executive director

Upon the appointment of Nigel Clifford as Chief Executive Officer on 1 May 2010, the committee approved the granting of market value options, subject to the performance condition described in the preceding section, equivalent to three times annual basic salary, in line with the committee's policy for annual awards to the Chief Executive Officer. In addition, Nigel Clifford is entitled to a conditional amount of matching shares equating to such shares in the Company purchased by him during the first three months of his employment. The shares he acquired during such period will be matched at a ratio of one share for every one acquired, up to a maximum 100% of salary subject to continued employment. One third of the matching shares will vest three years after the purchase of the acquired shares, a second third will vest after four years, with the remaining shares vesting five years after the purchase of the acquired shares. As the awards relate to the recruitment of Mr Clifford as Chief Executive Officer no further performance conditions apply, the committee having determined that this warranted an exceptional grant without performance conditions applying. Details of Nigel Clifford's interests in these matching shares are shown on page 42.

Medium-term incentives

For the year ending 30 April 2010, the Company introduced a medium-term incentive specifically targeted at achieving continued core business performance together with the integration of the Compuware and Borland acquisitions for Stephen Kelly, Nick Bray and a number of key executives. At its meeting in June 2010, the committee determined that no payment would be made to Stephen Kelly or Nick Bray pursuant to this medium-term incentive, the targets having not been met and Stephen Kelly having resigned from the Company on 8 September 2009.

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% to 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

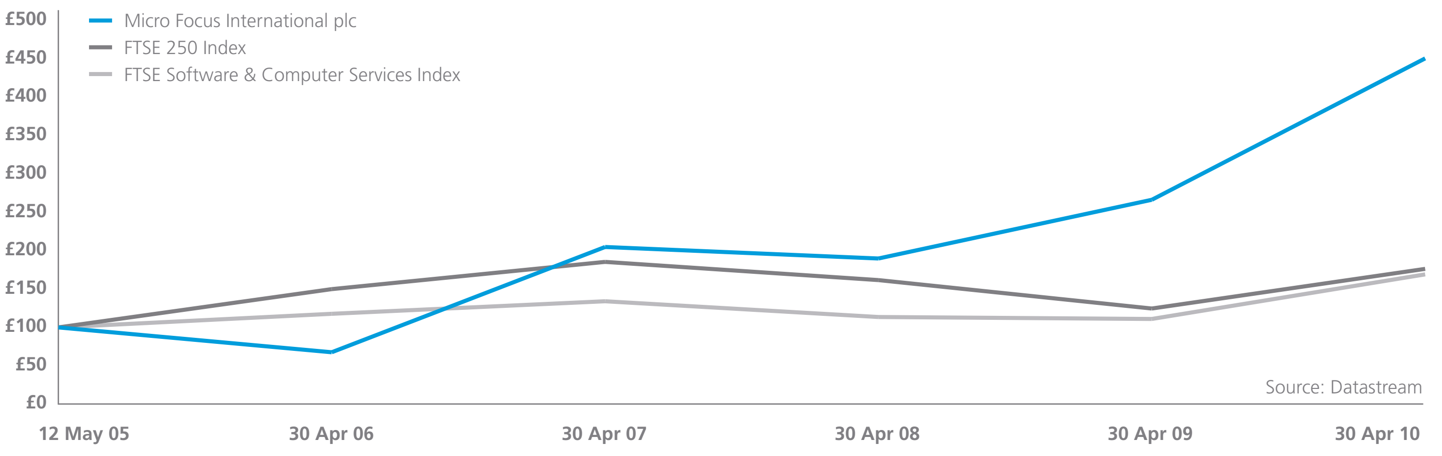
All employees, including executive directors, are invited to participate in a Group Personal Pension Plan. All major schemes are money purchase in nature and have no defined benefits. A defined benefit scheme is operated in Japan, but, given the number of members, is insignificant for Group purposes.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

The Company's contributions for executive directors are 5% of salary and 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



The graph shows the value, by 30 April 2010, of £100 invested in Micro Focus International plc on 12 May 2005 (the start of conditional trading prior to Admission on 17 May 2005) compared with the value of £100 invested in the FTSE 250 and the FTSE Software & Computer Services Indices. The intervening points are at financial year ends. The FTSE 250 and the FTSE Software & Computer Services Indices have been chosen as they are considered the most relevant indices for the Company.

Audited information

Detailed emoluments of the directors of the Company

The aggregate remuneration paid or receivable by directors of the Company during the year ending 30 April 2010 was as follows:

	Base salary and fees £'000	Bonus £'000	Benefits in kind £'000	Pensions £'000	Total 2010 £'000	Total 2009 £'000
Executive directors						
Stephen Kelly (resigned 8 September 2009)[1]	120	–	7	7	134	668
Nick Bray (resigned 23 June 2010)	238	121	14	12	385	439
Total	358	121	21	19	519	1,107
Non-executive directors						
Kevin Loosemore	179	–	–	–	179	150
David Maloney	69	–	–	–	69	64
Paul Pester	58	–	–	–	58	47
Tom Skelton	48	–	–	–	48	45
Total	354	–	–	–	354	306

1 Stephen Kelly remained an employee of the Company until 5 March 2010 and continued to be paid his base salary up until that date. Salary payments over his period of notice from 8 September 2009 to 5 March 2010 totalled £182,000. He did not receive any other remuneration in addition to that disclosed above.

Non-executive director annual fees on 30 April 2010 were £185,000 for the Chairman, Kevin Loosemore (30 April 2009: £150,000); £70,000 for the senior independent director, David Maloney (30 April 2009: £65,000); £60,000 for Paul Pester following his appointment as chairman of the remuneration committee (30 April 2009: £45,000); and £50,000 for Tom Skelton (30 April 2009: £45,000). The non-executive director annual fees for Karen Slatford, who was appointed with effect from 5 July 2010 will be £50,000 (annual non-executive director fee).

Non-executive fees are subject to periodic review. Non-executive director annual fees for Kevin Loosemore increased to £235,000 with effect from 1 July 2010. Following a review of benchmarking data, his increased responsibilities for the enlarged Group and his ongoing outstanding contribution to the Company, the committee considered that this fee level was appropriate. The fees for other non-executive directors remained unchanged.

Gains made by director on share options

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

Director	2010 £'000	2009 £'000
Nick Bray	483	708

Directors' interests in share capital

At 30 April 2010 the directors owned the following shares in the Company including interests held by their connected persons:

Director	At 30 April 2010	At 30 April 2009
Kevin Loosemore	200,000	300,000
Nick Bray (resigned 23 June 2010)	68,900	57,770
David Maloney	50,000	50,000
Tom Skelton	–	–
Paul Pester	–	–

As at 11 August 2010 there had been no changes to these interests except for 100,000 shares purchased by Kevin Loosemore on 30 June 2010, 100,000 shares purchased by a connected person of Kevin Loosemore on 1 July 2010 and 99,138 shares purchased by Nigel Clifford on 30 June 2010.

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

In respect of Stephen Kelly who resigned on 8 September 2009, the remuneration committee exercised its discretion under the rules of the Plan to allow (i) 1,153,846 share options to be exercised on 15 October 2009 while Mr Kelly remained an employee and (ii) the share options granted in 2007 and 2008 to be prorated up to the date of Mr Kelly's resignation and to vest at the end of their respective 3 year terms subject to the performance conditions being satisfied, as these share options have been held by Mr Kelly for more than 12 months. The share options granted to Mr Kelly in 2009 lapsed.

In respect of Nick Bray who resigned from the Company on 23 June 2010, the remuneration committee exercised its discretion under the rules of the Plan to allow the 75,258 share options that were due to vest on 12 July 2010 to be exercisable subject to compliance with post employment covenants. Mr Bray's remaining 295,408 share options lapsed.

The grants made to the executive directors Stephen Kelly and Nick Bray under the terms of the Plan during the financial year ended 30 April 2010 were as follows:

	Number at 1 May 2009	Number granted in financial year	Number exercised in financial year	Number lapsed in financial year	**Number at 30 April 2010**	Exercise price	Dates of exercise
Stephen Kelly[1]	1,153,846	–	(1,153,846)	–	**–**	104.0p	17 July 2009 to 16 July 2016
Stephen Kelly[2]	169,332	–	–	(51,741)	**117,591**	265.75p	12 July 2010 to 11 July 2017
Stephen Kelly[2]	134,831	–	–	(82,397)	**52,434**	244.75p	3 July 2011 to 2 July 2018
Stephen Kelly[2]	–	359,660	–	(359,660)	**–**	353.25p	10 July 2012 to 9 July 2019
Nick Bray[1]	100,000	–	(100,000)	–	**–**	104.0p	17 July 2009 to 16 July 2016
Nick Bray[2]	75,258	–	–	–	**75,258**	265.75p	12 July 2010 to 11 July 2017
Nick Bray[2]	89,888	–	–		**89,888**	244.75p	3 July 2011 to 2 July 2018
Nick Bray[2]	–	205,520	–	–	**205,520**	353.25p	10 July 2012 to 9 July 2019
Total	1,723,155	565,180	(1,253,846)	(493,798)	**540,691**		

1 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% per annum. 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 market price on the date that Stephen Kelly exercised the share option above was 365.8p. In respect of Nick Bray's exercise, the market price on the date that he exercised the share option was 379.0p.

2 The performance conditions applying to awards granted in the 12 months to 30 April 2008, 30 April 2009 and 30 April 2010, require that, for any shares to vest, cumulative EPS growth over a three year vesting period is at least equal to RPI plus 11% per annum (at which point 25% of awards will vest). 60% of shares will vest for cumulative EPS growth of RPI plus 13% per annum and for full vesting the cumulative EPS growth will be required to be RPI plus 15% per annum. Straight-line vesting will apply between these points.

On 30 June 2010 market value option awards were granted to Nigel Clifford over 306,733 shares at an exercise price of 401.6p per share. Dates of exercise are from 30 June 2013 to 29 June 2020. The targets for these awards require that cumulative EPS growth over a three year vesting period is at least equal to RPI plus 11% per annum (at which point 25% of awards will vest). 60% of shares will vest for cumulative EPS growth of RPI plus 13% per annum and for full vesting the cumulative EPS growth will be required to be RPI plus 15% per annum. Straight-line vesting will apply between these points.

LTIP – Matching Share Scheme

During the year to 30 April 2007 the following grants were made to the executive directors, Stephen Kelly, who resigned on 8 September 2009, and Nick Bray, who resigned on 23 June 2010, in accordance with the terms of the Plan:

	At 1 May 2009	Number vested in financial year	Number lapsed in financial year	**At 30 April 2010**	Exercise price	Vesting date
Stephen Kelly	125,000	(125,000)	–	**–**	10p	11 January 2010
Nick Bray	57,659	(57,659)	–	**–**	10p	17 October 2009
Total	182,659	(182,659)	–	**–**		

These conditional matching shares vested after three years to the extent that the purchased shares were held continuously by the participant until the vesting date. No further performance related criteria apply as these awards were linked to the recruitment of each individual as an executive director of the Company. The market price on the date Stephen Kelly exercised his matching share grants was 471.6p and in respect of Nick Bray's matching grants, 360.2p.

On 30 June 2010, Nigel Clifford purchased 99,138 shares at 413.6p in accordance with his matching share scheme with the Company.

Sharesave

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

	At 1 May 2009	Granted in financial year	Number exercised in financial year	Number lapsed in financial year	At 30 April 2010	Exercise price	Dates of exercise
Nick Bray	11,130	–	(11,130)	–	–	84.0p	1 October 2009 to 31 March 2010
Nick Bray		2,926	–	–	**2,926**	310.08p	1 October 2012 to 31 March 2013
Total	11,130	2,926	(11,130)	–	**2,926**		

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

Share option schemes

Details of the Company's share option schemes are given in note 25 of the financial statements.

The mid-market price of the shares at 30 April 2010 was 526p per share and during the financial year ended 30 April 2010 the price varied between 301.50p and 546.50p per share.

On behalf of the board,

Paul Pester
Chairman of the remuneration committee
11 August 2010

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	**2010** 57.5% **2009** 20.4%	Revenue comprises total revenues including the contribution of acquisitions and is compared with the prior year.
Adjusted EBITDA margin	**2010** 40.1% **2009** 43.2%	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.
Cash conversion	**2010** 82.1% **2009** 103.7%	This ratio is calculated using the cash flows generated from operating activities (after exceptional costs) divided by EBITDA – the result indicates that the Group is generating cash from its ongoing business which can be used to reinvest in the development of the business including financing acquisitions, fund liabilities and pay dividends to shareholders.
Adjusted EPS	**2010** 57.26c **2009** 41.51c	Adjusted EPS is calculated by taking profit after tax, prior to exceptional items, amortisation of purchased intangibles and share based compensation charge, and tax attributable to these charges divided by the weighted average number of ordinary shares in issue during the year. This measure indicates the ability of the Company to continue to adopt a progressive dividend policy.
Renewal rates on maintenance contracts	**2010** 87.0% **2009** 89.5%	Customer retention is an important measure as it supports the maintenance revenue streams going forward. Renewal rates are calculated as the number of maintenance contracts which were renewed in the period divided by the number of contracts which were potentially renewable in the period.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

By order of the board

Jane Smithard
Company Secretary
11 August 2010

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 2010 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 45, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 April 2010 and of its profit and cash flows for the year then ended;

- have been properly prepared in accordance with IFRSs as adopted by the European Union; and

- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

- the information given in the corporate governance statement set out on pages 30 to 35 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 29, in relation to going concern; and

- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of Micro Focus International plc for the year ended 30 April 2010 and on the information in the directors' remuneration report that is described as having been audited.

Pauline Campbell
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
11 August 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 April 2010

	Notes	2010 $'000	2009 $'000
Revenue	1,2	**432,579**	274,731
Cost of sales		**(52,244)**	(22,377)
Gross profit		**380,335**	252,354
Selling and distribution costs		**(128,137)**	(78,128)
Research and development expense		**(56,773)**	(34,127)
Administrative expenses		**(90,008)**	(48,888)
Operating profit	1	**105,417**	91,211
Analysed as:			
Operating profit before exceptional items		**150,505**	106,118
Exceptional items	3	**(45,088)**	(14,907)
Operating profit		**105,417**	91,211
Finance costs	5	**(7,726)**	(756)
Finance income	5	**634**	994
Profit before tax	3	**98,325**	91,449
Taxation	6	**(21,967)**	(25,419)
Profit after tax		**76,358**	66,030
Other comprehensive income			
Currency translation differences		**(1,980)**	(4,536)
Other comprehensive expense for the year		**(1,980)**	(4,536)
Total comprehensive income for the year		**74,378**	61,494
Profit attributable to:			
Equity holders of the Company		**74,378**	61,494
Earnings per share expressed in cents per share		**cents**	cents
– basic	8	**37.49**	32.87
– diluted	8	**36.71**	31.92
Earnings per share expressed in pence per share		**pence**	pence
– basic	8	**23.44**	19.93
– diluted	8	**22.95**	19.36

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 April 2010

	Notes	2010 $'000	2009 $'000
Non-current assets			
Goodwill	9	**279,533**	119,813
Other intangible assets	10	**116,827**	66,349
Property, plant and equipment	11	**10,385**	5,112
Deferred tax assets	21	**49,792**	17,625
		456,537	208,899
Current assets			
Inventories	12	**153**	128
Trade and other receivables	13	**126,288**	67,089
Cash and cash equivalents	14	**32,829**	71,569
		159,270	138,786
Total assets		**615,807**	347,685
Current liabilities			
Trade and other payables	15	**90,769**	41,756
Borrowings	16	**101,000**	–
Current tax liabilities	17	**24,921**	22,187
Deferred income	18	**125,652**	79,364
		342,342	143,307
Non-current liabilities			
Deferred income	19	**10,529**	7,085
Deferred tax liabilities	21	**43,530**	28,565
		54,059	35,650
Total liabilities		**396,401**	178,957
Net assets		**219,406**	168,728
Equity			
Share capital	22	**37,583**	37,092
Share premium	23	**112,700**	106,200
Retained earnings		**102,537**	56,870
Foreign currency translation (deficit)		**(6,329)**	(4,349)
Other reserves (deficit)		**(27,085)**	(27,085)
Total equity		**219,406**	168,728

The consolidated financial statements on pages 47 to 76 were approved by the board of directors on 11 August 2010 and were signed on its behalf by:

Kevin Loosemore
Chairman

Nigel Clifford
Chief Executive Officer

Registered number: 5134647

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 April 2010

	Share capital $'000	Share premium $'000	Foreign currency translation reserve (deficit) $'000	Other reserves (deficit)[1] $'000	Profit and loss reserve $'000	Total $'000
Balance as at 1 May 2008	36,837	103,904	187	(27,085)	12,679	126,522
Currency translation differences	–	–	(4,536)	–	–	(4,536)
Profit for the year	–	–	–	–	66,030	66,030
Total comprehensive income	–	–	(4,536)	–	66,030	61,494
Transactions with owners:						
Dividends	–	–	–	–	(26,077)	(26,077)
Issue of share capital	255	2,296	–	–	(1,034)	1,517
Movement in relation to share options	–	–	–	–	2,407	2,407
Current tax on share options	–	–	–	–	1,560	1,560
Deferred tax on share options	–	–	–	–	1,305	1,305
Balance as at 30 April 2009	**37,092**	**106,200**	**(4,349)**	**(27,085)**	**56,870**	**168,728**
Currency translation differences			(1,980)			(1,980)
Profit for the year					76,358	76,358
Total comprehensive income	–	–	(1,980)	–	76,358	74,378
Transactions with owners:						
Dividends	–	–	–	–	(33,599)	(33,599)
Issue of share capital	491	6,500	–	–	(2,288)	4,703
Movement in relation to share options	–	–	–	–	3,069	3,069
Current tax on share options	–	–	–	–	3,269	3,269
Deferred tax on share options	–	–	–	–	(1,142)	(1,142)
Balance as at 30 April 2010	**37,583**	**112,700**	**(6,329)**	**(27,085)**	**102,537**	**219,406**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 April 2010

	Notes	2010 $'000	2009 $'000
Cash flows from operating activities			
Cash generated from operations	24	**102,784**	105,031
Interest received		**634**	994
Interest paid		**(3,776)**	(756)
Tax paid		**(20,856)**	(19,991)
Net cash from operating activities		**78,786**	85,278
Cash flows from investing activities			
Payments for intangible assets		**(18,209)**	(8,609)
Purchase of property, plant and equipment	11	**(4,950)**	(2,650)
Disposal of property, plant and equipment		**–**	18
Acquisition of subsidiaries	29	**(185,227)**	(92,111)
Net cash acquired with subsidiaries	29	**139,635**	28,444
Repayment of Borland loan notes	29	**(114,984)**	–
Net cash used in investing activities		**(183,735)**	(74,908)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**4,703**	1,517
Bank loan costs		**(6,695)**	–
Repayment of bank borrowings		**(62,500)**	–
Proceeds from bank borrowings		**163,500**	–
Dividends paid to owners	7	**(33,599)**	(26,076)
Net cash used in financing activities		**65,409**	(24,559)
Effects of exchange rate changes		**800**	(6,647)
Net decrease in cash and cash equivalents		**(38,740)**	(20,836)
Cash and cash equivalents at 1 May		**71,569**	92,405
Cash and cash equivalents at 30 April	14	**32,829**	71,569

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 April 2010

General information
Micro Focus International plc ('the Company') and its subsidiaries (together 'the Group') is a public limited company incorporated and domiciled in the UK. The address of its registered office is, The Lawn, 22-30 Old Bath Road, Newbury RG14 1QN, UK. The Company provides innovative software to clients around the world enabling them to dramatically improve the business value of their enterprise applications. The Group has offices in 24 countries worldwide and employs in excess of 1,400 people.

The Company is listed on the London Stock Exchange.

The Group consolidated financial statements were authorised for issue by the board of directors on 11 August 2010.

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 ('IFRSs'), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by share options measured 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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below in 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 Company 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 Segment reporting
In accordance with IFRS 8, 'Operating Segments', the Group has derived the information for its operating segments using the information used by its Chief Operating Decision Maker. The Group has identified the Executive Committee as the Chief Operating Decision Maker as it is responsible for the allocation of resources to operating segments and assessing their performance. Operating segments are consistent with those used in internal management reporting and the profit measure used by the Executive Committee is the adjusted operating profit as set out in note 4. In prior years, costs were reported on a geographical basis. Resources are now managed on a global basis and accordingly the Executive Committee does not measure costs or operating profit by segment, and therefore the Group no longer reports operating profit by segment.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 April 2010
continued

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

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

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

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

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

G Foreign currency translation
a) Functional and presentation currency
The presentation currency of the Group is US dollars. Items included in the financial statements of each of the Group's entities are measured in the functional currency of each entity.

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

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

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

	2010		2009	
	Average	**Closing**	Average	Closing
£1 = $	**1.60**	**1.52**	1.65	1.47
€1 = $	**1.41**	**1.32**	1.39	1.32

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

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

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

c) Research and development

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

d) Intangible assets – arising on business combinations

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

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

I Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the 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.

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. 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 Cash and cash equivalents

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

N Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowing on an effective interest basis.

O Leases

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

P Taxation

Current and deferred tax are recognised in the income statement, except when the tax relates to items charged or credited directly to equity, in which case the tax is also dealt with directly in equity.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 April 2010
continued

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

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

Current tax is recognised based on the amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Q 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.

Interim dividends are recognised when they are paid.

R Financial instruments and hedge accounting
Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provision of the instrument. Trade receivables are non-interest bearing and are stated at their 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 for hedge accounting or trading purposes.

S Adoption of new and revised International Financial Reporting Standards
The accounting policies adopted in these consolidated financial statements are consistent with those of the annual financial statements for the year ended 30 April 2009, with the exception of the following standards, amendments to or interpretations of published standards adopted during the year:

a) The following standards, amendments to standards or interpretations effective during the year to 30 April 2010 and have been adopted by the Group:

- IFRS 8 'Operating Segments' – the standard replaces IAS 14 'Segment Reporting' and aligns operating segments reported to those reported internally to senior management. The basis for the segments under IFRS 8 is set out in note 1 below. The standard does not change the recognition, measurement or disclosure of transactions in the consolidated income statements.

- IAS 1 Revised 'Presentation of Financial Statements' – the amendment requires 'non-owner' and 'owner' changes in equity to be presented separately. Entities can also choose whether to present one or two performance statements. The Group has chosen to present one performance statement. A further impact of the amendment is that the primary statements have been renamed.

b) The following standards, amendments to standards or interpretations were effective during the year ended 30 April 2010 but had no material impact on the Group:

- Amendments issued as part of annual improvements to IFRSs (May 2008).

- Amendments to IFRS 7 'Improving Disclosures about Financial Instruments'.

- Amendments to IFRIC 9 and IAS 39 'Embedded derivatives'.

- IFRIC 13, 'Customer loyalty programmes'.

- IFRIC 15, 'Agreements for construction of real estates'.

- IFRIC 16, 'Hedges of a net investment in a foreign operation'.

- IAS 23 Revised 'Borrowing costs', the amendment requires that borrowing costs incurred in the construction and production of qualifying assets commenced after 1 January 2009 are capitalised.

- IFRS 2 (Amendment), 'Share based payment', the amendment to the standard limits vesting conditions to service conditions and performance conditions. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment, i.e. acceleration of the expense based on the grant date fair value.

c) The following standards, amendments to standards or interpretations are not yet effective and have not been adopted early by the Group:

- IFRS 3 Revised, 'Business combinations', effective for the Group from 1 May 2010. The revised standard requires that all acquisition-related costs are to be expensed to the income statement in the period incurred rather than added to the cost of the investment, that changes to contingent consideration following a business combination are shown in the statement of comprehensive income rather than changing goodwill, and that changes to deferred tax assets relating to business combinations are only reflected within goodwill if they occur within the measurement period. Furthermore, purchase accounting only applies at the point when control is achieved. The financial effect of adopting this standard can only be ascertained when any future transactions are entered into.

- IAS 27 Revised, 'Consolidated and Separate Financial Statements', effective on or after 1 July 2009.

- IAS 28, 'Investments in Associates', effective on or after 1 July 2009, amended to reflect changes in IFRS 3.

- IAS 31, 'Interests in Joint Ventures', effective on or after 1 July 2009, amended to reflect changes to IFRS 3.

- IFRIC 17, 'Distributions of non-cash assets to owners', applies for periods beginning on or after 1 July 2009, clarifies the accounting where assets other than cash are distributed to shareholders.

- IFRIC 18, 'Transfers of Assets from Customers' applies for periods beginning on or after 1 July 2009.

- IAS 39, 'Financial Instruments, Recognition and Measurement', effective on or after 1 July 2009, amended to clarify how existing principles should be applied in respect of 'a one sided risk in a hedged item' and 'inflation in a financial hedged item'. Inflation risk can only be hedged if contractually specified and it is possible to use purchased options as a hedging instrument.

- IAS 39, 'Financial Instruments, Recognition and Measurement', effective on or after 1 July 2009, amended to clarify the treatment of embedded derivatives where transactions are reclassified from Fair Value Through Profit or Loss ('FVTPL'). Where transactions are reclassified embedded derivatives may need to be separated from the host and continue to be treated as FVTPL.

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

- Amendments issued as part of annual improvements to IFRSs (April 2009).

- IFRS 9, 'Financial Instruments', effective on or after 1 January 2013.

- Amendment to IFRIC14, 'Prepayments of a Minimum Funding Requirement ', effective on or after 1 January 2011.

- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments', effective on or after 1 July 2010.

- Amendments to IFRS 2, 'Group cash-settled share based payment transactions', effective on or after 1 January 2010.

- Amendments to IFRS 1, 'Additional Exemptions for First-time Adopters', effective on or after 1 January 2010.

- Amendment to IAS 32, 'Classification of Rights Issues', effective on or after 1 February 2010.

- IAS 24 Revised, 'Related Party Disclosures', effective on or after 1 January 2011.

With the exception of the adoption of IFRS 3 Revised, as referred to above, the directors anticipate that the future introduction of those standards, amendments and interpretations listed above will not have a material impact on the consolidated financial statements.

2 Critical accounting estimates and assumptions

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

a) Impairment of goodwill

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 April 2010
continued

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

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

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

d) Development expenditure
The Group invests in the development of future products in accordance with the accounting policy 1Hc). The assessment as to whether this expenditure will achieve a complete product for which the technical feasibility is assured is a matter of judgment, as is the forecasting of how the product will generate future economic benefit. Finally, the period of time over which the economic benefit associated with the expenditure occurred will arise is also a matter of judgment. These judgments are made by evaluating the development plan prepared by the research and development department and approved by management, regularly monitoring progress by using an established set of criteria for assessing technical feasibility and benchmarking to other products.

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. Risk management is carried out by a central treasury department under policies approved by the board of directors. Group treasury identifies and evaluates financial risks alongside the Group's operating units. The board provides written principles for risk management together with specific policies covering areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments as appropriate, and investment of excess funds.

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

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

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

There were no hedging transactions in place at 30 April 2010.

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

c) Interest rate risk
The Group's income and operating cash flows are substantially independent of changes in market interest rates.

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

d) Liquidity risk
Central treasury carries out cash flow forecasting for the Group to ensure that it has sufficient cash to meet operational requirements and to allow the repayment of the bank facility drawn down to finance the acquisitions made in the year.

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

1 Segmental reporting

In accordance with IFRS 8, 'Operating Segments', the Group has derived the information for its operating segments using the information used by its Chief Operating Decision Maker. The Group has identified the Executive Committee as the Chief Operating Decision Maker as it is responsible for the allocation of resources to operating segments and assessing their performance. Operating segments are consistent with those used in internal management reporting and the profit measure used by the Executive Committee is the adjusted operating profit as set out in note 4. In prior years, costs were reported on a geographical basis. Resources are now managed on a global basis and accordingly the Executive Committee does not measure costs or operating profit by segment, and therefore the Group no longer reports operating profit by segment.

Operating segments for the year ended 30 April 2010:

	Notes	North America $'000	Europe, the Middle East, Latin America and India $'000	Rest of the World $'000	AMQ $'000	Total $'000
Total segment revenue	2	**134,083**	**125,163**	**36,256**	**137,077**	**432,579**
Operating profit						**105,417**
Exceptional items						**45,088**
Share based compensation charge						**3,069**
Amortisation of purchased intangibles						**14,399**
Adjusted operating profit	4					**167,973**
Total assets						**615,807**
Total liabilities						**396,401**

Operating segments for the year ended 30 April 2009:

	Notes	North America $'000	Europe, the Middle East, Latin America and India $'000	Rest of the World $'000	AMQ $'000	Total $'000
Total segment revenue	2	124,034	113,122	37,575	–	274,731
Operating profit						91,211
Exceptional items						14,907
Share based compensation charge						2,407
Amortisation of purchased intangibles						7,123
Adjusted operating profit	4					115,648
Total assets						347,685
Total liabilities						178,957

The Group is organised on a worldwide basis into three geographical segments for all operations in place as at 1 May 2009 and a fourth segment called AMQ as above. This segment includes the results for the year to 30 April 2010 of the AMQ business acquired from Compuware on 29 May 2009 and Borland Software Corporation acquired on 27 July 2009 – note 29.

There is no material difference between revenue by origin above and revenue by destination.

In the year to 30 April 2010, the Group had two business areas being the provision of COBOL Development/Modernization & Migration business and the AMQ business.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 April 2010
continued

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.

	COBOL Development/ Modernization & Migration $'000	AMQ $'000	Total 2010 $'000	COBOL Development/ Modernization & Migration $'000	AMQ $'000	Total 2009 $'000
Licence	135,286	48,382	183,668	130,774	–	130,774
Maintenance	144,689	74,379	219,068	132,334	–	132,334
Consultancy	15,527	14,316	29,843	11,623	–	11,623
Total	295,502	137,077	432,579	274,731	–	274,731

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

	Notes	2010 $'000	2009 $'000
Staff costs	25	176,632	110,153
Depreciation of property, plant and equipment			
– Owned assets	11	4,202	1,910
Amortisation of intangibles	10	23,631	13,729
Inventories			
– Cost of inventories recognised as an expense (included in cost of sales)	12	1,581	473
Operating lease rentals payable			
– Plant and machinery		1,967	1,672
– Other		13,371	6,413
Provision for receivables impairment	13	1,186	643
Foreign exchange gains		(2,373)	(3,416)

Exceptional items

	2010 $'000	2009 $'000
Reorganisation costs	45,088	14,907

Current year reorganisation costs relate to restructuring programmes arising from the acquisitions made during the year. Salaries and related severance costs amounted to $31.1 million, facilities costs were $4.7 million and project management costs were $9.3 million.

Severance costs included within reorganisation costs are not included within staff costs disclosed in note 25.

All exceptional items relate to administrative expenses.

3 Profit before tax continued

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:

	2010 $'000	2009 $'000
Audit services		
– Fees payable to the Company auditor for the audit of the parent Company and consolidated accounts	**86**	67
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	**605**	405
– Services related to taxation	**314**	248
– Other services	**2,076**	604
Total	**3,081**	1,324

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 services as reporting accountants and corporate advice relating to the acquisitions made in the year and relating to bank loans.

4 Reconciliation of operating profit to EBITDA

	Notes	2010 $'000	2009 $'000
Operating profit		**105,417**	91,211
Exceptional items – reorganisation costs	3	**45,088**	14,907
Share based compensation charge	25	**3,069**	2,407
Amortisation of purchased intangibles	10	**14,399**	7,123
Adjusted operating profit		**167,973**	115,648
Depreciation	11	**4,202**	1,910
Amortisation of software	10	**1,166**	1,037
Adjusted EBITDA		**173,341**	118,595
EBITDA		**125,184**	101,281
Exceptional items – reorganisation costs	3	**45,088**	14,907
Share based compensation charge	25	**3,069**	2,407
Adjusted EBITDA		**173,341**	118,595

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

5 Interest payable/receivable and similar charges

	2010 $'000	2009 $'000
Finance costs		
Finance costs on bank borrowings	**3,776**	50
Amortisation of facility costs	**3,950**	706
Total	**7,726**	756

Finance income

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

6 Taxation

	2010 $'000	2009 $'000
Current tax		
Current year	**19,732**	27,604
Adjustments to tax in respect of previous years	**(4,037)**	(3,324)
	15,695	24,280
Deferred tax		
Current year	**6,904**	2,376
Adjustments to tax in respect of previous years	**(632)**	(1,237)
	6,272	1,139
Total	**21,967**	25,419

Deferred tax charge of $1.1 million (2009: $1.3 million credit) has been recognised in relation to the share options charged against equity in the year.

The tax for the year is lower than the standard rate of corporation tax in the UK 28% (2009: 28%). The differences are explained below:

	2010 $'000	2009 $'000
Profit before taxation	**98,325**	91,449
Tax at UK corporation tax rate 28% (2009: 28%) applicable to profits in the respective countries	**27,531**	25,606
Effects of:		
Adjustments to tax in respect of previous years – current tax	**(4,037)**	(3,324)
Adjustments to tax in respect of previous years – deferred tax	**(632)**	(1,237)
Adjustment for foreign tax rates	**2,485**	2,191
Expenses not deductible for tax purposes	**211**	1,564
Tax loss utilisation	**(458)**	619
Other permanent differences	**(3,133)**	–
Total taxation	**21,967**	25,419

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 21.

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010 is expected to include legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. It is expected that the effect of these changes will have an immaterial impact on the deferred tax asset currently recognised.

7 Dividends

Equity – ordinary

	2010 $'000	2009 $'000
2009 final paid 11.1 cents (2008: 9.4 cents) per ordinary share	22,365	17,592
2010 interim paid 5.6 cents (2009: 4.5 cents) per ordinary share	11,234	8,484
Total	**33,599**	26,076

The directors are proposing a final dividend in respect of the year ended 30 April 2010 of 16.2 cents per share which will utilise approximately $33.2 million of shareholders' funds. The directors have concluded that the Company has sufficient reserves to pay the dividend. It has not been included as a liability in these financial statements.

8 Earnings per share

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

	2010			2009		
	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	76,358	203,697	37.49	66,030	200,905	32.87
Effect of dilutive securities						
Options		4,319			5,940	
Diluted EPS						
Earnings attributable to ordinary shareholders	76,358	208,016	36.71	66,030	206,845	31.92
Supplementary EPS to exclude exceptional items						
Basic EPS	76,358	203,697	37.49	66,030	200,905	32.87
Adjusted items[1]	62,556			24,437		
Tax relating to above items[1]	(22,273)			(7,069)		
Basic EPS – adjusted	116,641	203,697	57.26	83,398	200,905	41.51
Diluted EPS	76,358	208,016	36.71	66,030	206,845	31.92
Adjusted items[1]	62,556			24,437		
Tax relating to above items[1]	(22,273)			(7,069)		
Diluted EPS – adjusted	116,641	208,016	56.07	83,398	206,845	40.32

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

Earnings per share expressed in pence has used the average exchange rate for the year of $1.60 to £1 (2009: $1.65 to £1).

9 Goodwill

	2010 $'000	2009 $'000
Cost and net book amount		
At 1 May	**119,813**	65,784
Acquisitions (note 29)	**162,488**	51,686
Adjustment relating to prior years (note 29)	**(2,768)**	2,343
At 30 April	**279,533**	119,813
A segment-level summary of the goodwill allocation is presented below:		
North America	**57,746**	60,514
Europe, the Middle East, Latin America and India	**55,860**	55,860
Rest of the world	**3,439**	3,439
AMQ	**162,488**	–
At 30 April	**279,533**	119,813

Details of the acquisitions in the year are shown in note 29.

Goodwill acquired through business combinations has been allocated for impairment testing purposes to each individual cash generating unit ('CGU'). The Group conducts annual impairment tests on the carrying value of goodwill, based on the net present value on the recoverable amount of the CGU to which goodwill has been allocated. CGUs represent the operations of a country, or in more material operations, divisions within a country. It has been determined that the Group has four CGUs, the three geographical segments (North America, Europe, the Middle East, Latin America and India and the Rest of the World) and the AMQ business that arose from the acquisition of Borland and the AMQ division of Compuware. These four also form the primary reporting divisions of the Group.

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

The recoverable amounts of the CGUs are determined based on the value in use ('VIU') calculations. The determination of whether or not goodwill has been impaired requires an estimate to be made of the VIU of the CGUs to which goodwill has been allocated.

The VIU calculation includes estimates about the future financial performance of the CGUs. In all cases the approved budget for the following financial year forms the basis for the cash flow projections for a CGU. The cash flow projections in the three financial years following the budget year reflect management's expectation of the medium-term operating performance of the CGU and growth prospects in the CGU's market.

Key assumptions

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

Discount rate applied

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

	2010	2009
North America	**16.8%**	11.0%
Europe, the Middle East, Latin America and India	**15.1%**	11.0%
Rest of the World	**15.5%**	11.0%
AMQ	**15.6%**	Not applicable

9 Goodwill continued

Long-term operating margin

The long-term operating margin for each CGU is primarily based upon past performance adjusted as appropriate where management believes that past operating margins are not indicative of future operating margins. The long-term EBITDA margins applied to each CGU is 42.5% (2009: 38.6%) which is the margin applicable to each CGU.

Long-term growth rates of net operating cash flows

The long-term growth rates of net operating cash flows are assumed to be no greater than the long-term growth rate in the gross domestic product of the countries in which the CGU operates and were 2% (2009: 1.5%).

The long-term growth rates are applied consistently across all CGUs as:

- The businesses within the CGUs have similar trading characteristics;
- Future forecasts are considered to be similar across all CGUs;
- Business risks are considered to be the same across all CGUs;
- The Group is expected to have no net debt at 30 April 2011 and during the 12 months to 30 April 2011 all CGUs will be similarly impacted as the Group repays its bank loans.

Summary of results

During the year, all goodwill was tested for impairment, with no impairment charge resulting (2009: nil).

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

The directors consider that a reduction of 4% in the absolute value of long-term operating margins across all CGUs would be the limit of what could be considered to be reasonably possible on the basis that the Group's cost base is flexible and could quickly respond to market changes. The Group is spread across a range of geographies and sectors and also offers customer cost saving solutions, which help to insulate it from more significant changes. If the long-term margins used in the VIU calculations for all CGUs were 4% lower in absolute terms than management's estimates, the Group would not have any impairment charge. If the operating margins remain in perpetuity at the current year levels then there would also not be any impairment charge.

The Group bases its estimate for the long-term pre-tax discount rate on its weighted average cost of capital ('WACC') using long-term market data and industry data to derive the appropriate inputs to the calculation. The directors have assessed that a 2% change in the absolute discount rate is the maximum change that could be considered as reasonably possible and this would represent a 15% reduction in the assumption. If the estimated pre-tax discount rates applied to the discounted cash flows of all CGUs were 2% higher in absolute terms than the management's estimates, the Group would not have any impairment charge.

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

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

The medium-term operating margin for each CGU is primarily based upon past performance adjusted as appropriate where management believes that past operating margins are not indicative of future operating margins. The medium-term EBITDA margins applied to each CGU is 42.5% (2009: 38.6%). The medium-term growth rates of net operating cash flows are assumed to be 7% for each CGU (2009: 7%).

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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 2009	6,241	39,539	33,376	1,175	32,073	292	112,696
Acquisitions (note 29)	–	–	32,500	–	23,400	–	55,900
Additions	1,668	15,530	–	–	–	1,011	18,209
At 30 April 2010	**7,909**	**55,069**	**65,876**	**1,175**	**55,473**	**1,303**	**186,805**
Aggregate amortisation and impairment							
At 1 May 2009	5,092	29,654	6,307	783	4,393	118	46,347
Charge for the year	1,166	7,975	6,770	392	7,237	91	23,631
At 30 April 2010	**6,258**	**37,629**	**13,077**	**1,175**	**11,630**	**209**	**69,978**
Net book amount at 30 April 2010	**1,651**	**17,440**	**52,799**	**–**	**43,843**	**1,094**	**116,827**

	Purchased software $'000	Development costs $'000	Technology $'000	Trade names $'000	Customer relationships $'000	Non-compete agreements $'000	Total $'000
Cost							
At 1 May 2008	5,321	31,814	18,722	1,175	10,960	292	68,284
Acquisitions	488	–	14,654	–	21,113	–	36,255
Additions	884	7,725	–	–	–	–	8,609
Disposals	(201)	–	–	–	–	–	(201)
Exchange adjustments	(251)	–	–	–	–	–	(251)
At 30 April 2009	**6,241**	**39,539**	**33,376**	**1,175**	**32,073**	**292**	**112,696**
Aggregate amortisation and impairment							
At 1 May 2008	4,439	24,085	2,713	392	1,314	59	33,002
Charge for the year	1,037	5,569	3,594	391	3,079	59	13,729
Disposals	(195)	–	–	–	–	–	(195)
Exchange adjustments	(189)	–	–	–	–	–	(189)
At 30 April 2009	**5,092**	**29,654**	**6,307**	**783**	**4,393**	**118**	**46,347**
Net book amount at 30 April 2009	**1,149**	**9,885**	**27,069**	**392**	**27,680**	**174**	**66,349**

Intangible assets, with the exception of purchased software and internally generated development costs, relate to identifiable assets purchased as part of the Group's business combinations. Intangible assets are amortised on a straight-line basis over their expected useful economic life – see accounting policy 1Hd).

At 30 April 2010, the unamortised lives of technology assets were in the range of four to eight years and for customer relationships in the range of three to nine years.

11 Property, plant and equipment

	Leasehold improvements $'000	Computer equipment $'000	Fixtures and fittings $'000	Total $'000
Cost				
At 1 May 2009	2,779	6,729	1,594	11,102
Acquisitions (note 29)	1,512	2,134	1,179	4,825
Additions	2,083	1,386	1,481	4,950
Disposals	(661)	(316)	(226)	(1,203)
Exchange adjustments	85	283	274	642
At 30 April 2010	**5,798**	**10,216**	**4,302**	**20,316**
Depreciation				
At 1 May 2009	1,059	4,047	884	5,990
Charge for the year	1,345	2,124	733	4,202
Disposals	(264)	(288)	(154)	(706)
Exchange adjustments	50	141	254	445
At 30 April 2010	**2,190**	**6,024**	**1,717**	**9,931**
Net book amount at 30 April 2010	**3,608**	**4,192**	**2,585**	**10,385**

	Leasehold improvements $'000	Computer equipment $'000	Fixtures and fittings $'000	Total $'000
Cost				
At 1 May 2008	2,873	6,994	2,131	11,998
Acquisitions	395	312	318	1,025
Additions	647	1,660	343	2,650
Disposals	(678)	(971)	(700)	(2,349)
Exchange adjustments	(458)	(1,266)	(498)	(2,222)
At 30 April 2009	**2,779**	**6,729**	**1,594**	**11,102**
Depreciation				
At 1 May 2008	1,195	5,119	1,325	7,639
Charge for the year	532	975	403	1,910
Disposals	(467)	(935)	(511)	(1,913)
Exchange adjustments	(201)	(1,112)	(333)	(1,646)
At 30 April 2009	**1,059**	**4,047**	**884**	**5,990**
Net book amount at 30 April 2009	**1,720**	**2,682**	**710**	**5,112**

12 Inventories

	2010 $'000	2009 $'000
Finished goods	**153**	128

The Group utilised $1.6 million (2009: $0.5 million) of inventories included in cost of sales during the year.

13 Trade and other receivables

	2010 $'000	2009 $'000
Trade receivables	102,614	63,272
Less: provision for impairment of trade receivables	(2,225)	(1,593)
Trade receivables net	100,389	61,679
Prepayments	21,540	4,514
Accrued income	4,359	896
Total	126,288	67,089

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 believes there is no further credit risk provision required in excess of the normal provision for doubtful receivables. At 30 April 2010, the carrying amount of financial assets within trade and other receivables approximated their fair value.

At 30 April 2010, trade receivables of $25.4 million (2009: $13.1 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 38 days in excess of due date (2009: 35 days).

As at 30 April 2010, trade receivables of $2.2 million (2009: $1.6 million) were either partially or fully impaired. The amount of the provision was $2.2 million (2009: $1.6 million). The ageing of these receivables is as follows:

	2010 $'000	2009 $'000
Three to four months	–	321
Over four months	2,225	1,272
Total	2,225	1,593

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

	2010 $'000	2009 $'000
At 1 May	1,593	1,217
Provision for receivables impairment	1,186	643
Acquisition of subsidiaries	696	114
Receivables written off as uncollectable	(1,311)	(275)
Exchange adjustments	61	(106)
At 30 April	2,225	1,593

The creation and release of provision for impaired receivables have been included in selling and administrative expenses in the income statement. Amounts charged in the allowance account are generally written off when there is no expectation of recovering additional cash. The Group does not hold any collateral as security.

14 Cash and cash equivalents

	2010 $'000	2009 $'000
Cash at bank and in hand	32,237	18,267
Short-term bank deposits	592	53,302
Total	32,829	71,569

At 30 April 2010, the carrying amount of cash and cash equivalents approximated their fair value due to it bearing interest at market rates and/or the short-term nature of the instrument. The Group's credit risk on cash and cash equivalents is limited as the counterparties are well established banks with high credit ratings.

15 Trade and other payables – current

	2010 $'000	2009 $'000
Trade payables	10,744	4,477
Other tax and social security payable	7,977	3,876
Accruals	72,048	33,403
Total	**90,769**	41,756

At 30 April 2010, the carrying amount of trade and other payables approximated their fair value.

16 Borrowings

	2010 $'000	2009 $'000
Bank loan – secured	101,000	–

At 30 April 2010, the Group had a three year secured $215 million revolving credit facility in place, denominated in US dollars, which expires on 6 May 2012. Interest on the facility is payable at US Dollar LIBOR plus 2.5% until 30 April 2010 and thereafter at rates from US Dollar LIBOR plus 2.25% depending on covenant ratios. The Group incurred total issue costs of $6.7 million in respect of the facility. These costs are being amortised over the term of the facility using the effective interest method. The facility is guaranteed by principal companies within the Group.

The revolving credit facility contains certain financial covenants. These include a minimum ratio of adjusted EBITDA to net borrowings, EBIT to net finance costs and total acquisition exceptional costs. These covenants were adhered to during the year.

17 Current tax liabilities

	2010 $'000	2009 $'000
Corporation tax	24,921	22,187

18 Deferred income – current

	2010 $'000	2009 $'000
Deferred income	125,652	79,364

Revenue not recognised in the income statement under the Group's accounting policy for revenue recognition is classified as deferred revenue in the balance sheet to be recognised in the coming year.

19 Other non-current liabilities

	2010 $'000	2009 $'000
Deferred income	10,529	7,085

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

20 Financial instruments

Risk management

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

Foreign exchange risk

The Group's currency exposures comprise 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. Note 3 shows the impact of foreign exchange gains in the year.

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 statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt.

At 30 April 2010, the Group had net debt of $68.2 million and gearing of 24% (2009: nil). The Group expects to be net cash positive by the end of April 2011.

21 Deferred tax

	2010 $'000	2009 $'000
Net deferred tax asset/(liability)		
At 1 May	**(10,940)**	(1,083)
Charged to income statement	**(6,272)**	(1,139)
Credited directly to equity	**(1,142)**	1,305
Foreign exchange adjustment	**136**	(818)
Booked to goodwill	**–**	(2,343)
Acquisition of subsidiaries	**24,480**	(6,862)
At 30 April	**6,262**	(10,940)

	Tax losses $'000	**Other temporary differences $'000**	**Total $'000**
Deferred tax assets			
At 1 May 2009	10,773	6,852	17,625
Charged to income statement	(4,518)	(1,459)	(5,977)
Credited directly to equity	–	(1,142)	(1,142)
Foreign exchange adjustment	–	136	136
Reclassification	(570)	570	–
Acquisition of subsidiaries	21,025	18,125	39,150
At 30 April 2010	**26,710**	**23,082**	**49,792**

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.

21 Deferred tax continued

	Other temporary differences $'000	Total $'000
Deferred tax liabilities		
At 1 May 2009	28,565	28,565
Charged to income statement	295	295
Acquisition of subsidiaries	14,670	14,670
At 30 April 2010	**43,530**	**43,530**

No deferred tax liability was recognised in respect of unremitted earnings of overseas subsidiaries as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The deferred tax liability above relates mainly to timing differences on acquired intangibles.

22 Called up share capital

	2010 $	2009 $
Authorised		
2,500,000,000 ordinary shares of £0.10 each (historic Fx rate used £1 = $1.91)	**476,770,000**	476,770,000
Total authorised share capital	**476,770,000**	476,770,000

	2010		2009	
	Number	$	Number	$
Issued and fully paid				
Ordinary shares of £0.10 each	**205,129,460**	**37,583,412**	202,111,131	37,091,806
Total allotted, called up and fully paid share capital	**205,129,460**	**37,583,412**	202,111,131	37,091,806

Share issues in the year
During the year, 3,018,329 ordinary shares of 10p each were issued by the Company to settle exercised share options. The gross consideration received was $4.7 million (2009: $1.5 million).

Potential issues of ordinary shares
Certain employees hold options to subscribe for shares in the Company at prices ranging from 6p to 494p 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 2010 was 4,820,960 (2009: 6,773,585). Further information on these options is disclosed in note 25.

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.

23 Share premium account

	2010 $'000	2009 $'000
At 1 May	**106,200**	103,904
Movement in relation to share options exercised	**6,500**	2,296
At 30 April	**112,700**	106,200

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24 Cash generated from operations

	Notes	2010 $'000	2009 $'000
Continuing operations			
Net profit		**76,358**	66,030
Adjustments for:			
Net interest		**7,092**	(238)
Taxation	6	**21,967**	25,419
Depreciation	11	**4,202**	1,910
Loss on disposal of property, plant and equipment		**197**	418
Loss on disposal of intangible asset		**–**	7
Amortisation of intangibles	10	**23,631**	13,729
Share based compensation		**3,069**	2,407
Exchange movements		**(2,780)**	3,444
Changes in working capital:			
Inventories		**(25)**	64
Trade and other receivables		**(27,703)**	1,567
Payables and other non-current liabilities		**(3,224)**	(9,726)
Cash generated from continuing operations		**102,784**	105,031

25 Employees and directors

	2010 $'000	2009 $'000
Staff costs		
Wages and salaries	**150,995**	93,924
Social security costs	**17,929**	10,900
Other pension costs (note 26)	**4,639**	2,922
Cost of employee share schemes	**3,069**	2,407
Total	**176,632**	110,153

	2010 number	2009 number
Average monthly number of people (including executive directors) employed by business group:		
Sales and distribution	**612**	312
Research and development	**450**	241
General and administration	**369**	202
Total	**1,431**	755

	2010 $'000	2009 $'000
Key management compensation		
Salaries and short-term employee benefits	**4,425**	5,055
Post-employment benefits	**138**	147
Share based payments	**1,440**	1,266
Total	**6,003**	6,468

The key management figures above include the executive management team and directors.

25 Employees and directors continued

Share based payments

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

Share Purchase and Option Plan 2001

The Group had a share based compensation plan ('the Plan') under which employees and directors could be granted options to purchase the Company's ordinary shares. On the full listing of the Company 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:

	2010		2009	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
At 1 May	**312,302**	**7p**	904,082	7p
Exercised	**(147,235)**	**8p**	(591,780)	5p
Forfeited	**(44,250)**	**1p**	–	–
Outstanding at 30 April	**120,817**	**8p**	312,302	7p
Exercisable at 30 April	**120,817**	**8p**	312,302	7p

The weighted average remaining contractual life is 0 years (2009: 0 years). All outstanding options have exercise prices in the range '6p to 30p' (2009: '1p to 30p') – 108,817 options expire on 3 September 2010 and 12,000 expire on 9 September 2011.

The weighted average share price for options exercised in the year was 393p (2009: 293p).

No amount was charged through the income statement (2009: nil).

Incentive Plan 2005

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

	2010		2009	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
At 1 May	5,488,572	176p	4,562,219	131p
Exercised	(2,216,870)	102p	(925,619)	60p
Forfeited	(927,024)	305p	(181,445)	151p
Granted	1,807,234	364p	2,033,417	231p
Outstanding at 30 April	**4,151,912**	**270p**	5,488,572	176p
Exercisable at 30 April	**239,149**	**121p**	68,510	10p

The weighted average share price for options exercised in the year was 388p (2009: 296p).

25 Employees and directors continued

The amount charged to the income statement in respect of the scheme was $2.6 million (2009: $2.1 million).

Range of exercise prices	2010 Weighted average exercise price pence	2010 Number of shares '000	2010 Weighted average remaining contractual life years	2009 Weighted average exercise price pence	2009 Number of shares '000	2009 Weighted average remaining contractual life years
£0.10 or less	10p	222	1.1	1.4p	483	1.2
£0.11 – £1.00	–	–	–	–	–	–
£1.01 – £2.00	130.6p	279	0.2	112.8p	2,171	0.3
£2.01 – £3.00	255.5p	2,260	0.9	255.1p	2,777	1.9
£3.01 – £4.00	352.4p	1,254	1.8	310.6p	57	2.6
More than £4.00	471.8p	137	2.7	–	–	–
	270.4p	**4,152**	**1.2**	175.8p	5,488	1.2

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was £1.13 (2009: £1.13). The significant inputs into the model were weighted average share price of £3.65 (2009: £2.51) at the grant date, exercise price shown above, volatility of 48% (2009: 65%), dividend yield of 2.4% (2009: 2.5%), an expected option life of three years and an annual risk-free interest rate of 3.71% (2009: 4.23%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

Sharesave and Employee Stock Purchase Plan 2006

In August 2006, the Company introduced the Micro Focus Employee Stock Purchase Plan 2006, approved by members on 25 July 2006. 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 2010.

Sharesave	2010 Options	2010 Weighted average exercise price pence	2009 Options	2009 Weighted average exercise price pence
At 1 May	817,373	118p	741,275	104p
Exercised	(624,610)	85p	(6,939)	84p
Forfeited	(33,857)	229p	(47,326)	179p
Granted	210,885	320p	130,363	219p
Outstanding at 30 April	**369,791**	**278p**	817,373	118p
Exercisable at 30 April	**–**	**–**	–	–

Date of grant	Exercise price per share pence	Exercise period
15 August 2006	84p	1 October 2009 – 31 March 2010
17 August 2007	239.3p	1 October 2010 – 31 March 2011
4 August 2008	202p	1 October 2011 – 31 March 2012
19 February 2009	244p	1 April 2012 – 30 September 2012
8 September 2009	310.08p	1 October 2012 – 31 March 2013
11 March 2010	377.12p	1 April 2013 – 30 September 2013

25 Employees and directors continued

ESPP	2010 Options	2010 Weighted average exercise price pence	2009 Options	2009 Weighted average exercise price pence
At 1 May	155,338	251p	192,362	120p
Exercised	(29,614)	243p	(156,137)	97p
Forfeited	(18,242)	248p	(15,255)	190p
Granted	70,958	396p	134,368	253p
Outstanding at 30 April	**178,440**	**310p**	155,338	251p
Exercisable at 30 April	**–**	**–**	–	–

Date of grant	Exercise price per share pence	Exercise period
1 October 2007	242.8p	1 October 2009 – 31 March 2010
1 October 2008	252.7p	1 October 2010 – 31 March 2011
1 April 2009	252.9p	1 April 2011 – 30 September 2011
1 October 2009	321.3p	1 October 2011 – 31 March 2012
1 April 2010	438.6p	1 April 2012 – 30 September 2012

The amount charged to the income statement in respect of the Sharesave and ESPP schemes was $404,000 (2009: $284,000).

The weighted average fair value of options granted in the Sharesave and ESPP schemes during the year determined using the Black-Scholes valuation model was £1.31 (2009: £1.20). The significant inputs into the model were weighted average share price of £3.95 (2009: £2.81) at the grant date, exercise price shown above, volatility of 48% (2009: 65%), dividend yield of 2.4% (2009: 2.5%), an expected option life of two or three years and an annual risk-free interest rate of 3.71% (2009: 4.23). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

26 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:

	2010 $'000	2009 $'000
Defined contribution schemes	**4,639**	2,922

27 Operating lease commitments – minimum lease payments

At 30 April 2010, the Group has total lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years.

	2010 $'000	2009 $'000
Commitments under non-cancellable operating leases expiring:		
Within one year	**1,864**	2,797
Later than one year and less than five years	**19,321**	10,009
After five years	**39,492**	8,343
Total	**60,677**	21,149

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.

28 Capital commitments and contingent liabilities

The Group had capital commitments of $178,000 (2009: nil) at 30 April 2010. There were no contingent liabilities at 30 April 2010 (2009: nil).

29 Business combinations

A AMQ business acquired from Compuware Corporation

On 29 May 2009, the Group acquired from Compuware Corporation, its AMQ division for $65.1 million, inclusive of $2.6 million related costs, paid in full on completion.

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

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

	Carrying value at acquisition $'000	Fair value $'000
Intangible fixed assets	–	14,100
Property, plant and equipment	344	344
Trade and other receivables	390	390
Deferred Income	(19,099)	(18,295)
Net liabilities	(18,365)	(3,461)
Goodwill		68,605
Consideration		65,144

Consideration satisfied by:	
Cash	65,144
Outflow of cash to acquire business, net of cash acquired:	
Cash consideration	62,508
Acquisition costs	2,636
	65,144

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

	Fair value $'000
Software	7,200
Customer relationships	6,900
Total	**14,100**

The value of goodwill represents the value of the assembled workforce at the time of acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits expected to accrue from enhancing the portfolio of products and services available to the Company's existing customer base with those of the acquired business.

29 Business combinations continued

B Borland Software Corporation

On 27 July 2009, the Group acquired 100% of the share capital of Borland Software Corporation for $120.1 million, inclusive of $8.4 million related costs, paid in full on completion.

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

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

	Carrying value at acquisition $'000	Fair value $'000
Intangible fixed assets	20,148	41,800
Property, plant and equipment	6,996	4,481
Receivables	34,670	31,105
Cash and cash equivalents	139,635	139,635
Payables	(51,536)	(64,711)
Deferred income	(39,518)	(35,606)
Convertible bonds	(114,984)	(114,984)
Deferred tax asset	–	24,480
Net assets/(liabilities)	(4,589)	26,200
Goodwill		93,883
Consideration		120,083

Consideration satisfied by:	
Cash	120,083
Outflow of cash to acquire business, net of cash acquired:	
Cash consideration	111,703
Acquisition costs	8,380
Cash acquired	(139,635)
	(19,552)

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

Software	25,300
Customer relationships	16,500
Total	**41,800**

The value of goodwill represents the value of the assembled workforce at the time of acquisition with specific knowledge and technical skills. It also represents the prospective future economic benefits expected to accrue from enhancing the portfolio of products and services available to the Company's existing customer base with those of the acquired business.

C Contribution from acquisitions

From the date of acquisition to 30 April 2010, the acquired businesses contributed $137.1 million to revenue. If the businesses had been acquired from the start of the period, they would have contributed $169.4 million to revenue.

The acquired businesses operations have been restructured and largely integrated into existing Micro Focus companies and therefore it is not practicable to ascertain the profits of these businesses for the period from date of acquisition to 30 April 2010.

29 Business combinations continued

D Analysis of outflow of cash in respect of acquisitions

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

	$'000
AMQ division acquired from Compuware	65,144
Borland Software Corporation	120,083
Net cash outflow	**185,227**

The interim results for the half year to 31 October 2009 included provisional fair values for these acquisitions. These fair values have been further reviewed as above.

E Analysis of goodwill

	$'000
AMQ Division acquired from Compuware	68,605
Borland Software Corporation	93,883
Adjustments relating to prior years acquisitions	(2,768)
Net movement in goodwill on acquisitions	**159,720**

During the year to 30 April 2010 adjustments were made in respect of goodwill on prior year acquisitions of $2.8 million, following a revision of the valuation of realisable tax losses.

30 Related party transactions

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

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 2010 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 45, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 April 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Micro Focus International plc for the year ended 30 April 2010.

Pauline Campbell
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
11 August 2010

COMPANY BALANCE SHEET
as at 30 April 2010

	Note	2010 $'000	2009 $'000
Fixed assets			
Investments in subsidiary undertakings	V	**56,619**	54,111
		56,619	54,111
Current assets			
Deferred tax assets		**104**	373
Debtors	VI	**168,193**	128,126
Cash at bank		**103**	5,619
		168,400	134,118
Creditors: amounts falling due within one year	VII	**24,410**	4,420
Net current assets		**143,990**	129,698
Net assets		**200,609**	183,809
EQUITY			
Share capital	VIII	**37,583**	37,092
Share premium	IX	**109,325**	102,825
Profit and loss account	X	**53,701**	43,892
Equity shareholders' funds		**200,609**	183,809

The Company financial statements on pages 78 to 84 were approved by the board of directors on 11 August 2010 and were signed on its behalf by:

Kevin Loosemore
Chairman

Nigel Clifford
Chief Executive Officer

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 30 April 2010

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 profit and loss account and in accordance with the Companies Act 2006 and all applicable UK accounting standards.

B Foreign currency translation
The functional currency of the Company is 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 profit and loss account.

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 Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

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

Deferred tax is recognised to take account of timing differences between the treatment of transactions for financial reporting purposes and their treatment for tax purposes. A deferred tax asset is only recognised when it is regarded as more likely than not that there will be a suitable taxable profit from which the future reversal of the underlying timing differences can be deducted.

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

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

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

No expense is recognised in respect of share options granted before 7 November 2002 and vested before 1 January 2005. For shares or share options granted after 7 November 2002 and vested after 1 January 2005 the fair value of the employee services received in exchange for the grant of the shares or options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or options granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the 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 profit and loss account, 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 30 April 2010
continued

II Profit attributable to the Company
As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the Company.

The profit for the financial year before dividends for the Company was $42.6 million (2009: profit $46.3 million).

III Employees and directors
Staff costs for the Company during the year

	2010 $'000	2009 $'000
Wages and salaries	**2,570**	2,927
Social security costs	**211**	440
Other pension costs	**31**	45
Cost of employee share schemes	**562**	682
Total	**3,374**	4,094

The average monthly number of employees of the Company, including remunerated directors, during the year was five (2009: six). For further information on the directors of the Company refer to the remuneration report on pages 36 to 43.

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

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

	2010		2009	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
At 1 May	1,905,814	132p	2,094,050	119p
Exercised	(1,436,505)	91p	(412,955)	123p
Forfeited	(493,798)	326p	–	–
Granted	565,180	353p	224,719	244p
Outstanding at 30 April	**540,691**	**293p**	1,905,814	132p
Exercisable at 30 April	**–**	**–**	–	–

The weighted average share price for options exercised in the year was 376p (2009: 295p)

The amount charged to the income statement in respect of the scheme was $0.6 million (2009: $0.7 million).

	2010			2009		
Range of exercise prices	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years	Weighted average exercise price pence	Number of shares '000	Weighted average remaining contractual life years
£0.10 or less	–	–	–	10p	183	0.6
£0.11 – £1.00	–	–	–	–	–	–
£1.01 – £2.00	–	–	–	104p	1,254	0.2
£2.01 – £3.00	256.8p	335	0.6	255.7p	469	1.7
£3.01 – £4.00	353.3p	206	2.2	–	–	–
	293.5p	**541**	**1.2**	132.4p	1,906	0.3

III Employees and directors continued

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was £1.09 (2009: £1.00). The significant inputs into the model were weighted average share price of £3.53 (2009: £2.45) at the grant date, exercise price shown above, volatility of 48% (2009: 65%), dividend yield of 2.4% (2009: 2.5%), an expected option life of three years and an annual risk-free interest rate of 3.71% (2009: 4.23%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

Sharesave 2006

In August 2006, the Company introduced the Micro Focus Employee Stock Purchase Plan 2006, approved by members on 25 July 2006. The Sharesave Plan ('Sharesave') is primarily for UK employees and provides for an annual award of options at a discount to the market price and are open to all eligible Group employees. Further Sharesave grants were made during the three years to 30 April 2010. The interests of the executive directors in Sharesave were:

	2010		2009	
	Options	Weighted average exercise price pence	Options	Weighted average exercise price pence
At 1 May	11,130	84.0p	11,130	84.0p
Exercised	(11,130)	84.0p	–	–
Granted	2,926	310.08p	–	–
Outstanding at 30 April	**2,926**	**310.08p**	11,130	84.0p
Exercisable at 30 April	**–**	**–**	–	–

Date of grant	Exercise price per share pence	Exercise period
15 August 2006	84.0p	1 October 2009 – 31 March 2010
8 September 2009	310.08p	1 October 2012 – 31 March 2013

The amount charged to the income statement in respect of the schemes was $2,000 (2009: $2,000).

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was £1.23. The significant inputs into the model were weighted average share price of £3.52 at the grant date, exercise price shown above, volatility of 48% (2009: 65%), dividend yield of 2.4% (2009: 2.5%), an expected option life of three years and an annual risk-free interest rate of 3.71% (2009: 4.23%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical daily share prices over the last three years.

IV Dividends

A final dividend in respect of the year ended 30 April 2009 of 11.1 cents per share was proposed and paid during the year ($22.4 million in total). In addition, an interim dividend in respect of the year ended 30 April 2010 of 5.6 cents per share ($11.2 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 2010 of 16.2 cents per share, which would reduce shareholders' funds by approximately $33.2 million. The proposed dividend is subject to approval at the AGM on 23 September 2010.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 30 April 2010
continued

V Investments in subsidiary undertakings

	2010 $'000
At 1 May 2009	54,111
Additions	2,508
At 30 April 2010	**56,619**

At 30 April 2010, the Company held directly or indirectly 100% of the ordinary share capital of the following subsidiary undertakings which in the opinion of the directors principally affect the amount of profit or the amount of the assets of the Group. Only Micro Focus Holdings Limited is directly owned by the Company with all other subsidiaries being indirectly owned.

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

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

VI Debtors

	2010 $'000	2009 $'000
Amounts due from Group undertakings	167,888	127,726
Other debtors	264	213
Prepayments	41	187
Total	**168,193**	128,126

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

VII Creditors: amounts falling due within one year

	2010 $'000	2009 $'000
Trade payables	**313**	366
Taxation and social security	**47**	72
Amounts payable to Group undertakings	**23,019**	2,256
Accruals	**1,031**	1,726
Total	**24,410**	4,420

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

VIII Called up share capital

	2010 $	2009 $
Authorised		
2,500,000,000 ordinary shares of £0.10 each (historic Fx rate used £1 = $1.91)	**476,770,000**	476,770,000
Total authorised share capital	**476,770,000**	476,770,000

	2010 Number	2010 $	2009 Number	2009 $
Issued and fully paid				
Ordinary shares of £0.10 each	**205,129,460**	**37,583,412**	202,111,131	37,091,806
Total allotted, called up and fully paid share capital	**205,129,460**	**37,583,412**	202,111,131	37,091,806

Further information on share capital is provided in note 22 and 25 of the Group accounts.

IX Share premium account

	2010 $'000	2009 $'000
At 1 May	**102,825**	100,528
Movement in relation to share options exercised	**6,500**	2,297
At 30 April	**109,325**	102,825

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 30 April 2010
continued

X Company statement of changes in shareholders' equity

	Share capital $'000	Share premium $'000	Profit and loss account $'000	Total $'000
Balance as at 1 May 2008	**36,837**	**100,528**	**22,082**	**159,447**
Profit for the year	–	–	46,342	46,342
Dividends	–	–	(26,076)	(26,076)
Issue of share capital	255	2,297	(1,034)	1,518
Movement in relation to share options	–	–	2,407	2,407
Deferred tax on share options	–	–	171	171
Total changes in shareholders' equity	255	2,297	21,810	24,362
Balance as at 30 April 2009	**37,092**	**102,825**	**43,892**	**183,809**
Profit for the year	–	–	42,627	42,627
Dividends	–	–	(33,599)	(33,599)
Issue of share capital	491	6,500	(2,288)	4,703
Movement in relation to share options	–	–	3,069	3,069
Total changes in shareholders' equity	491	6,500	9,809	16,800
Balance as at 30 April 2010	**37,583**	**109,325**	**53,701**	**200,609**

XI Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at 30 April 2010 (2009: nil). The Company has guaranteed certain contracts in the normal course of business and bank borrowings of its subsidiaries.

XII Related party transactions

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

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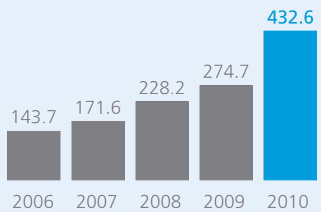
HISTORICAL SUMMARY

Revenue
$m

$432.6m

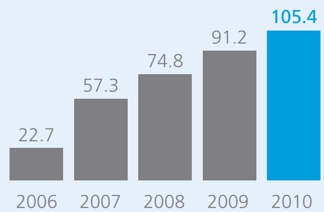
+57.5% (2009: $274.7m)



Operating profit
$m

$105.4m

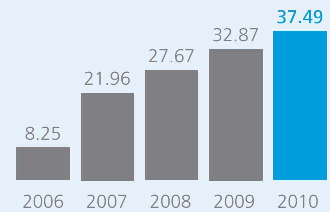
+15.5% (2009: $91.2m)



Earnings per share basic
cents

37.49c

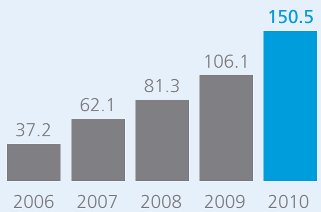
+14.0% (2009: 32.87c)



Operating profit before exceptional items
$m

$150.5m

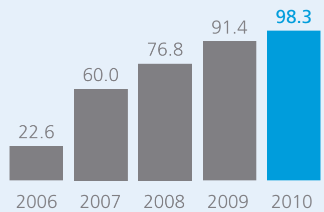
+41.8% (2009: $106.1m)



Profit before tax
$m

$98.3m

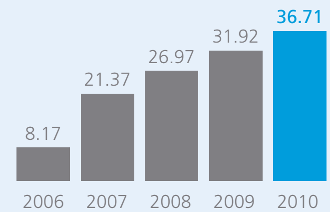
+7.5% (2009: $91.4m)



Earnings per share diluted
cents

36.71c

+15% (2009: 31.92c)



Summarised Group income statement for the year ended 30 April

	2006 $'000	2007 $'000	2008 $'000	2009 $'000	**2010 $'000**
Revenue	143,688	171,590	228,196	274,731	**432,579**
Operating profit before exceptional items	37,167	62,128	81,294	106,118	**150,505**
Exceptional items	(14,434)	(4,861)	(6,502)	(14,907)	**(45,088)**
Operating profit	22,733	57,267	74,792	91,211	**105,417**
Profit before tax	22,558	60,007	76,823	91,449	**98,325**
Earnings per share					
Basic (cents)	8.25	21.96	27.67	32.87	**37.49**
Diluted (cents)	8.17	21.37	26.97	31.92	**36.71**

Summarised Group balance sheet as at 30 April

	2006 $'000	2007 $'000	2008 $'000	2009 $'000	**2010 $'000**
Non-current assets	60,145	74,134	121,002	208,899	**456,537**
Current assets	94,026	129,257	151,802	138,786	**159,270**
Current liabilities	(81,410)	(93,707)	(123,104)	(143,307)	**(342,342)**
Non-current liabilities	(15,260)	(18,179)	(23,178)	(35,650)	**(54,059)**
Total equity	57,501	91,505	126,522	168,728	**219,406**

KEY DATES AND SHARE MANAGEMENT

Key dates for 2011

Annual General Meeting	23 September 2010
Dividend Payments	
Final payable – year ended 30 April 2010	28 September 2010
Interim payable – period ending 31 October 2010	January 2011
Results announcements	
Interim results – period ending 31 October 2010	8 December 2010
Final results – year ending 30 April 2011	23 June 2011

Managing your shares

Share dealing services

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

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

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

ShareGift

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

Shareholder enquiries

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

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

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

Textphone for shareholders with hearing difficulties 0871 384 2255*

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

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

COMPANY INFORMATION

Directors, Secretary, registered office and advisers

Directors

Kevin Loosemore
(Non-executive Chairman)

Nigel Clifford
(Chief Executive Officer)

David Maloney
(Non-executive senior independent director)

Paul Pester
(Non-executive director)

Tom Skelton
(Non-executive director)

Karen Slatford
(Non-executive director)

Company Secretary, Registered and Head Office

Jane Smithard
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22-30 Old Bath Road
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Berkshire RG14 1QN
United Kingdom
www.microfocus.com
Registered in England number 5134647

Legal advisers

Field Fisher Waterhouse LLP
35 Vine Street
London
EC3N 2PX
United Kingdom

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

Auditors

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

Registrars

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West Sussex BN99 6DA
United Kingdom
www.shareview.co.uk

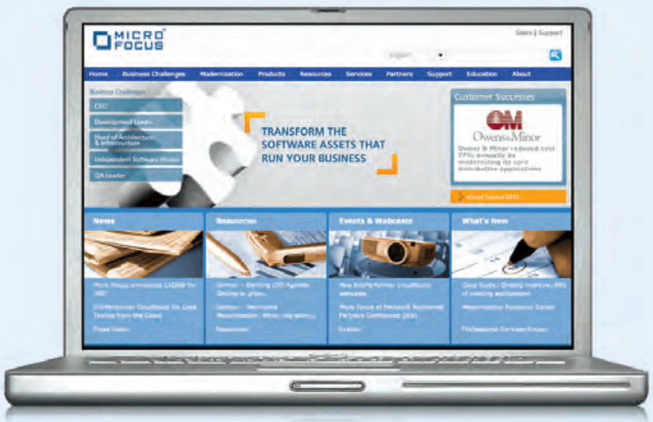
Brokers

UBS Limited
2 Finsbury Square
London EC2 2PP
United Kingdom

Forward-looking statements

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

FIND OUT MORE ONLINE



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Video presentations
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